

ACM-INSIGHT!

Into The African Banking, Insurance And Capital Markets

A SPECIAL COMMEMORATIVE EDITION BY APPLIED CAPITAL MARKETS LTD (ACM)

SEPT – DEC 2011

NIGERIA'S CAPITAL MARKETS @ 50

The Regulator

HISTORY AND ROLE OF THE SECURITIES AND EXCHANGE COMMISSION

The Exchange

HISTORY AND ROLE OF THE NIGERIAN STOCK EXCHANGE

The Players

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OSCAR ONYEMA

AND Exclusive Interviews

WITH KEY MARKET PLAYERS:

OSCAR ONYEMA, WALE ABE,
KONYINSOLA AJAYI, SOLA DAVID-BORHA,
KAYODE FALOWO, AIGHOJE HIGO AND
ALBERT OKUMAGBA

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Welcome back to *ACM-Insight!* your periodic magazine on the **African Banking, Insurance and Capital Markets** containing analyses, educational materials, academic articles, capital market updates and lots more. This is brought to you courtesy of *Applied Capital Markets Limited (ACM)* – risk management consultants with expertise in cutting-edge solutions and general business advisory services.

In this **special** edition of *ACM-Insight!*, we have a special **commemorative focus** on Nigeria's capital market sector as it celebrates 50 years of existence. Both the Securities and Exchange Commission and the Nigerian Stock Exchange celebrate half-a-century of activity.

And that's not all....in this special edition, we have a truly special treat for you, our readers: not one, not two but **SEVEN EXCLUSIVE INTERVIEWS** with key senior players in the market. They are: **MR WALE ABE** (Executive Secretary/CEO of the Financial Markets Dealers Association of Nigeria), **DR KONYNSOLA AJAYI** (Managing Partner at Olaniwun Ajayi LP), **MRS SOLA DAVID-BORHA** (CEO of Stanbic-IBTC), **MR KAYODE FALOWO** (MD/CEO of Greenwich Trust Limited), **MR AIGHOJE HIGO** (MD of Capital Bancorp Limited), **MR ALBERT OKUMAGBA** (Group MD/CEO of BGL Plc) and **MR OSCAR ONYEMA** (CEO of Nigerian Stock Exchange).

As usual, we provide you with timely updates on African Capital Markets.

As you know, we publish three editions a year: January-April; May-August; and September-December. This publication is therefore the third and final edition this year, that is, the September-December 2011 edition. Please forward to all your colleagues who may be interested in this publication.

Watch out for the next edition in January 2012 which will have a special focus on innovative capital market products. It will feature in-depth educational pieces on key areas in which Africa's capital markets need rapid development if they are to play vital economic roles.

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ACM'S EXPERT COMMENTARY IN THE MEDIA

ACM actively provides expert and insightful commentary in the media. Below, you will find links to a selection of these:

- [Corporate Bonds from issuers' perspective](#), BusinessDay
- [Systemic risk in Nigeria's financial sector: The margin loans crisis](#), BusinessDay
- [Margin Loans: Nigeria's Own "Subprime" Lending Crisis](#), Risk Professional Magazine – June 2010 Edition.



50 YEARS OF Nigeria's CAPITAL MARKETS

Introduction

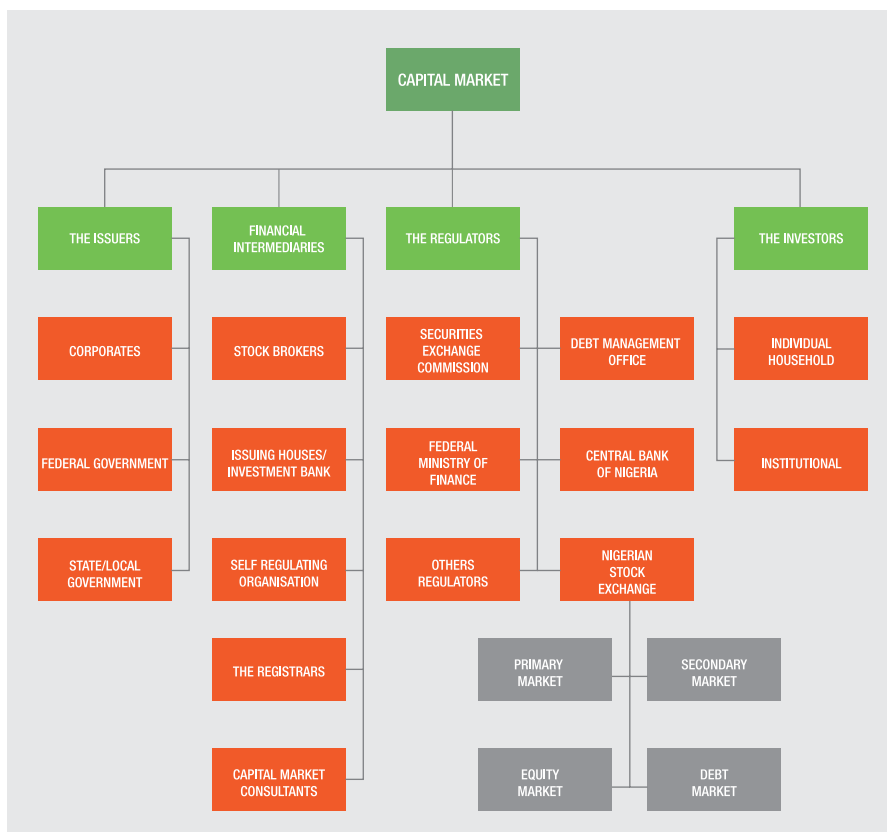
The capital market is one of the key components of the engine of a modern economy, as it mobilises and pools savings from the public and efficiently channels them into business investments. It also helps firms and individuals to manage risks and provides incentives for companies to improve their performance. Capital markets complement other sectors of the financial system, such as banks and insurance firms; thus expanding the range of funding sources available (such as public equity markets, private equity, and the issuance of debt securities) and creating alternative investible assets for investors.

Capital markets are marketplaces for raising long-term funding. Broadly speaking, the markets consist of financial instruments of maturity period exceeding one year, hence they differ from the money markets in terms of maturity period and liquidity. Generally, businesses need two kinds of finance: **short-term** funds for working capital requirements and **long-term** funds for purchasing fixed assets. Therefore, the working capital needs of large businesses are met by the money market, while the long term requirements of the funds to the corporate sector are supplied by the capital market.

Below are some of the important roles of the capital market in the development of an economy:

- Providing opportunities for companies to raise funds for expansion of operations – leading to increased production, employment and economic growth.
- Creating opportunities for governments to finance projects.
- Promoting capital formation by providing the platform for savings to be efficiently mobilised for

The Nigerian Capital Market Structure



Source: Applied Capital Markets Limited (ACM)

productive investments; hence ensuring an efficient and effective distribution of scarce financial resources.

- Encouraging inflow of foreign capital when foreign companies or investors invest in domestic securities.
- Promoting transparency and good accounting/management practices through adequate disclosure by companies.
- Reducing the over-reliance of the corporate sector on short-term financing for long-term projects.

Structure of the Nigerian Capital Market

The structure of the capital market has undergone vast changes in recent

years. The Nigerian capital market has transformed into a new appearance over the last decade. Usually, capital markets are classified on the basis of: a) issuer¹ and b) instruments².

The first attempt at the modern concept of the capital market in Nigeria was the flotation of a local loan by the Government in 1946, under the Nigeria (10 year Plan) Local Loan Ordinance, 1946. The total issue was £300,000 (equivalent to N600,000 then), with coupon rates of 3.25% and maturity of 10 to 15 years. However, the institutional facilities for the operation were absent and did not commence until fifteen years later, when the Lagos Stock Exchange was established in 1961.

The box above illustrates the Nigerian capital market structure.

¹ On the basis of issuer the capital market can be classified again two types:-a) Corporate securities market, b) Government securities market

² On the basis of financial instruments the capital markets are classified into two kinds:-a) Equity market and b) Debt market.

THE REGULATOR

THE NIGERIAN SECURITIES & EXCHANGE COMMISSION



The Securities and Exchange Commission is the regulator of Nigeria's capital markets.

History

The origin of Nigeria's Securities and Exchange Commission (SEC) dates back to a consultative and advisory body, known as the Capital Issues Committee, which was established under the aegis of the Central Bank of Nigeria (CBN) in 1962. The Committee's role was to examine

applications from companies seeking to raise capital from the stock market.

In the 1970s, the federal government established the Financial System Review Committee to review capital market activities and make recommendations for developing the market. The recommendations of this Committee, in 1976, led to the promulgation of the Securities and Exchange Commission Decree No. 71 of 1979 which established the SEC¹.

In 1996, a review of the capital market was carried out by a seven-man panel headed by Dennis Odife. On the back of the panel's recommendations, a new Act known as "The Investment and Securities Act" was enacted on 26 May 1999. This Act was repealed and replaced by the Investment and Securities Act 2007 (ISA 29 of 2007).

The SEC currently derives its powers from the ISA 29 of 2007.

¹ The SEC replaced the Capital Issues Commission (CIC) which was established by the Capital Issues Degree 1973.

50 years of securities regulation in Nigeria

The SEC is gearing up for its landmark “Project 50” series of events. Project 50 is the SEC’s code-name for commemorative activities for celebrating 50 years of regulating the Nigerian capital market. Planned events range from a formal Launch Event and an Investment Forum to a sponsored special investor education movie, “Breeze” through which the SEC, in partnership with **Nollywood**, intends to encourage a savings and investment culture in Nigeria.

“It is imperative that...insider dealing and market manipulation...are kept to the very minimum. The SEC has not done a sufficiently-good job in this regard.”

Role of the SEC

The ISA 29 of 2007 established the SEC as the apex regulatory authority for the Nigerian capital market, entrusted with the regulation of investments and securities business in Nigeria. The aim is to ensure the protection of investors; maintain fair, efficient and transparent markets; and the reduction of systemic risk and related matters.

Market Regulation & Supervision²

Regulation is carried out through deployment of the following tools:

- **Registration** of securities and market intermediaries to ensure that only fit and proper persons / institutions are allowed to operate in the market. Instruments and persons registered in the market are:
 - Securities/Commodity Exchanges/Capital Trade Points
 - Futures, Options and Derivatives Exchanges
 - Depository, Clearing and Settlement agencies
 - Capital Market Operators:
 - Issuing Houses

- Securities dealers/Stock brokers/ Sub- brokers
- Registrars/Transfer agents
- Trustees
- Reporting Accountants
- Solicitors
- Investment Advisers etc. Securities:
 - Equities
 - Debentures
 - Debt instruments
- Collective investment schemes
- **Inspection** either done “onsite” or “off-site”. The SEC, at regular intervals, calls for information from capital market operators. It also undertakes and conducts inquiries and audits of any participant in the market whenever necessary.
- **Surveillance** is carried out over exchanges and trading systems to forestall breaches of market rules as well as deter and detect manipulations and trading practices which are capable of causing market disruption.
- **Investigation** of alleged breaches of the laws and regulations governing the capital market and enforcement of sanctions where appropriate.
- **Enforcement** actions are taken against market operators who are found wanting after investigation is carried out, in minor cases, an all parties meeting is convened by the SEC where it mediates between parties involved in a dispute. However, if the case is serious or where no resolution is reached or a party fails to comply with a directive given at the all parties meeting, the defaulting party will be called before the Administrative Proceedings Committee (APC), which is a quasi judicial court, with only civil jurisdiction.

Appeals against decisions of the APC are usually made at the Investment and Securities Tribunal (IST). Enforcement action may be in the form of payment of fine, ban, suspension or even forwarding the case to the Nigeria Police Force (NPF), Economic and Financial Crimes Commission (EFCC) or the Attorney - General of the Federation (AGF) where allegations are found to be criminal in nature.

- **Rule making** by the SEC as developments occur. This is to ensure that the SEC meets up with international best practices.

Market Integrity

One of the fundamental tasks of the SEC is ensuring capital market integrity. That is, the SEC has a duty to ensure that markets operate fairly and transparently in order to maintain investor confidence. Investor confidence is, after all, one of the key drivers of high levels of savings and investments. Therefore, sound regulation of capital markets must focus on issues such as the integrity of price formation and ensuring appropriate information dissemination to holders of listed securities.

It is imperative that the incidence of insider dealing and market manipulation, whilst impossible to eradicate completely, are kept to the very minimum. The SEC has not done a sufficiently-good job in this regard. The detection, prosecution and punishment of insider dealing, by the SEC, is of utmost importance, and, so, adequate resources and expertise needs to be directed into this important area.

The need for the proper regulation of the relationship between companies and their shareholders arises almost innately out of the need for the law to protect modern shareholders against possible malpractice by their company’s directors. This is important because of the increasing tendency of shareholding in large corporations, as a short-term investment mechanism³.

Such short-termism means that shareholders are detached from the day-to-day running of their company and so have little control over the movement of the business or of the manner in which their investment is being utilised. The fact that such interim investments are in vogue necessitates that such vulnerable members of a listed public company are adequately insulated with robust regulation and enforcement by the SEC.

² The information on the 6 tools for regulation was sourced from the SEC’s website: <http://www.sec.gov.ng/what-we-do.html>

³ Olu Omoyele, (2005) “Disclosure, financial misconduct and listed companies: a critical analysis of the UKLA’s continuing obligations regime”, Journal of Financial Crime, Vol. 12 Issue: 4, pp.310 - 326

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EXCLUSIVE INTERVIEW

ACM-Insight! has the pleasure of bringing you an exclusive interview with the Executive Secretary/CEO of the *Financial Markets Dealers Association of Nigeria (FMDA)*, **Mr Wale Abe**.



WALE ABE

B.Sc, MLS, MBA, MNIM, ANIMN

Mr Wale Abe was appointed Exec. Sec / CEO, of Financial Markets Dealers Association in May 2007. An astute manager of resources, 'Wale is an accredited trainer; Member, Nigerian Institute of Management; Associate of the National Institute of Marketing of Nigeria. Member of the CBN's FSS2020 Team on Strategy Documentation and Implementation.

He is also a public commentator on Banking Finance and Economic issues and policies as well as monetary policy issues. With a rich banking experience covering Credit Marketing & Administration, Risk Management, Corporate Planning, Treasury Dealing, Operations & Marketing; and General Management, he joined B. Adedipe Associates in August 2001 as a Senior Consultant. He was a member of the BAA faculty, with strong skills in **General & Strategic Management, Marketing** and **Relationship Management, Treasury / Investment Analysis** as well as **Risk Analysis and Management**.

A 1982 graduate of Geography/Economics of the University of Ife (now Obafemi Awolowo University), Ile-Ife, 1984 graduate of Master of Library Studies (University of Ibadan), He was also at University of Lagos MBA programme; (1992-1995) and MBA (Banking & Finance) of the Federal University of Technology, Akure, (1999-2001).

ACM-Insight!: As the Executive Secretary/CEO of the Nigerian Financial Markets Dealers Association (FMDA), please tell our readers what FMDA does - what is its mandate, its aims and objectives, and any major recent or upcoming events?

Mr Wale Abe: FMDA is a self regulating organization charged with the following objects:

- To provide a meeting forum for members dealing in the money and foreign exchange market in the promotion and protection of the interest of members of the Association in the exercise of their business in the money market.
- To formulate and maintain standards of conduct for members and to encourage ethical and professional practice in money and foreign exchange market dealings.
- To provide facilities for the flow of information among members, engage in research into money and foreign exchange market operations and related problems, and to disseminate the results in such manner as may be thought fit.
- To increase awareness of the money and foreign exchange market through seminars, lectures and other forms of human capital development initiatives and espouse the view of its members through evidence based policy advocacy.
- To collaborate as appropriate with Government and other regulatory bodies in formulating policies on monetary issues, and in carrying out money and foreign exchange market functions as part of banking activities; and finally to do all such other things as are incidental or conducive to the attainment of the above objects.

The Association in the month of June 2011 entered into collaboration with ICAP of South Africa to commence an electronic trading platform including an Inter Dealer Broker Service. FMDA was to provide the Post-Trade Middleware System to link with CSCS for the automation of settlement (straight through processing).

This service will commence as soon as the Securities and Exchange Commission issues a license to ICAP.

In the first quarter of 2012, the Association will hold its Senior Treasurers/Management Retreat. This event will provide opportunities for social and intellectual interactions, debate and discourse between regulators and operators by way of identifying monetary policy challenges as well as ethical and professional practice issues with a view to proffer solutions to the identified concerns militating against the smooth running of our markets vis-a-vis international best practices.

ACM-Insight!: In your opinion, how have the recent reforms in the Financial Services Sector in Nigeria enhanced the money and capital markets in Nigeria?

Mr Wale Abe: The objective of Sanusi's reforms is to sanitize, strengthen and stabilize the banks and the financial system by way of promoting the following:

- a. Sound risk management
- b. Good corporate governance
- c. Accountability, transparency and disclosure

The sanitization started with the conduct of banks' stress tests, balance sheet clean ups; including the establishment of AMCON, enforcement of code of corporate governance which entail holding directors accountable for the management of their institutions.

The pursuit of these goals are still on-going, with new policies aimed at achieving the medium and long term goals of enthroning financial system stability. In addition, the reforms have seen the CBN introduce initiatives aimed at developing legal and financial services framework and appropriate strategy for the financial market's development. There is no doubt that the reforms have resulted in some salutary developments in the markets and the Nigerian economy which have impacted positively on the stability of banks, quality of loan portfolios and the better management of financial institutions.

It is understood that macroeconomic stability is one of the fundamental conditions for the development of all financial markets, therefore, uncertainties about inflation, interest rates and the exchange rate must be reduced to reasonable levels. Regulators must therefore apply caution in carrying out their supervisory surveillance to avoid excessive intervention in product design and creativity which actually assists to grow and deepen the market.

ACM-Insight!: One of the lessons learnt from the financial crisis was the need to further enlighten money and capital markets professionals (brokers, dealers, and investors etc) through capacity building programmes, what is your view about the current level of skills and expertise in the Nigerian money and capital markets?

Mr Wale Abe: One of the major areas in financial markets that require intervention is human capital development. There is no doubt regarding the existence of serious knowledge gap and dearth of skills across the whole spectrum of the markets in Nigeria. The FSS 2020 of CBN also identified this challenge. It had been observed that one of the initiatives of solving this challenge is to identify Nigerians in Diaspora and offer them incentives to work in the Nigerian financial services industry. Regulators also had taken a cue from this. This indeed is a short term measure. However, in solving this challenge on a medium to long term basis, investment in human capital development is imperative.

FMDA has played and will continue to play a major role in training and retraining its members however, non member institutions and individuals who wish to take advantage of these capacity building programmes are accommodated. Regarding the global nature of capital, FMDA collaborates with international training institutions such as ICAP of South Africa, the Beta Group of UK and ACI, Financial Markets Association, towards fulfilling this goal among others. Also, we partner with a few specialized

certification organizations {such as ACI, Financial Markets Association based in Paris, France} which offer our members opportunity for international knowledge exposure. In addition to these measures, some of our institutional members have leveraged on their parent financial institutions to offer free training by way of seminars, workshops and the like to further help to deepen knowledge in our market.

ACM-Insight!: FMDA established the Money, Macroeconomic and Finance Research Group (MMFG) so as to bridge the gap between practitioners in the Nigerian money market and researchers on monetary economics/finance. To what extent has this group achieved its objective?

Mr Wale Abe: The MMFG was vibrant until about 5 years ago. At present, it is moribund, however the group achieved its objective at that time, given the kind of inputs it had to monetary policy initiative and monetary research. To that extent, it is our belief that it served its purpose. The Association had since reviewed its constitution and changed the name from Money Market Association of Nigeria to Financial Markets Dealers Association. This umbrella body comprises four Workgroups, created on the basis of products and/ or instruments. This clearly indicates the priorities of the associations. Greater efforts are now concentrated on market research, product development, market deepening, as well as infrastructural development.

ACM-Insight!: For the benefit of our readers, please tell us the difference between Money Markets and Capital Markets?

Mr Wale Abe: On a general note, the financial markets assist to mobilize financial resources and from the viewpoint of modern finance, they additionally allow for risk pooling and sharing among market participants, allow for price discovery, promote efficient governance and control, facilitate international capital inflows, as well as enhance contractual efficiency, and regulatory efficiency. It is therefore

a sine-qua-non for influencing savings and investment and facilitating the achievement of the growth objective of economic policy.

The money market is where short term instruments are traded with the CBN acting as the apex regulatory body. The money market is the short end of the financial market; the instruments created and traded are of short tenor of not more than one year. It is a wholesale market for low risk, highly liquid, short term debts. It is a mechanism for large institutions and governments to manage their short term cash needs. It helps to bring those with large surpluses together with those with large deficits, thus creating a balance. Individuals only have access to the market only through dealing members or traders who create liquidity by buying or selling a variety of securities. The securities are largely issued by government and large corporations, and could be very liquid and safe. However, the credit risk and liquidity risk of the instruments differ substantially, as in t/bills and interbank deposits.

The capital market on the other hand is the longer end of the financial market, in which long-term assets and liabilities are created and traded. The instruments created are of tenor ranging from one year and above. This market helps to raise long-term funds, either as equities which confers ownership rights or as debt instruments, that is, funds borrowed and due for repayment on specific future date. The market helps to invest long-term, that is, commit funds that otherwise would have been idle into long term rewarding venture.

ACM-Insight!: What instruments are traded on FMDA's platform and what is the level of liquidity?

Mr Wale Abe: The instruments traded by FMDA include all short term instruments available at the secondary market segment, such as Foreign Exchange, Treasury bills, Bonds, Repos and Derivatives. However, most of the trading is still being manually done, using information systems and the two way quote mechanism for

product pricing. Notwithstanding, the level of liquidity in the market is very high. Indeed, with the collapse of the stock market, that's where the volumes are, especially given the size of the bond market. To improve efficiency, transparency and price discovery in the market, the Association has since entered into an agreement with ICAP of South Africa to introduce a platform known as Electronic Trading Community for trading bonds; this is to be complemented by the Inter Dealer Broker Service. To solve some of the risks associated with settlement, the Association has purchased a software that will enable the trades consummated be settled via a straight through processing that is linked with the CSCS directly, and ultimately the CBN's RTGS.

In addition, the Association registered a company: FMDQ OTC Plc which will provide a platform for trading all Over-The-Counter Instruments both basic and derivatives. The Company has applied to SEC for its license in this regard.

ACM-Insight!: Money market development can create the impetus for a vibrant corporate bond market, what would you think is the major hindrance to the development of a more vibrant corporate bond market in Nigeria?

Mr Wale Abe: There is a need to deepen and diversify the Nigerian capital markets. The Debt Management Office assists to broaden the focus of the financial sector through the development of the Nigerian bond market. The last six years witnessed significant growth of the bond market. It is now one of the most liquid and active local debt markets in Sub-Saharan Africa. The implementation of a frequent benchmark issuance programme for FGN bonds has led to a deepening of the local bond market.

In terms of liquidity, trading of the instrument in the secondary market has been very active across the curve with the bulk of activity concentrated in the short-term maturities of 3 and 5 year tenors. The issuance of instruments of longer tenors has also assisted to build a longer, more liquid yield curve.

The issuance and success of the USD Sovereign bond yield curve, issued by DMO in December 2010 further deepened the market and improved the environment for corporate issuers and may indeed signpost the entry of corporate bond in terms of pricing of corporate bond.

The challenges / hindrances regarding developing the corporate bond market include among others; inability to get information regarding activities in both primary and secondary markets, and this can sometimes be challenging to end-users. This calls for a free flow of market information with prompt provision of bond prices on demand. Also there is a need for collaboration with regulators and other stakeholders to develop corporate and state bonds. Also, one must mention the high Money Market Interest rates, historically, the positive spread between money market yields and bond/t-bill coupons have made investment in fixed income unattractive to some investors. It is believed that the introduction of Inflation linked bonds might help solve this problem.

ACM-Insight!: Given the prominence of settlement risk in money and capital markets deals, to what extent can this risk be mitigated or reduced?

Mr Wale Abe: Without developing the settlement infrastructure, little could be done to reduce settlement risk. Meanwhile, this has not developed at the same pace as other areas in the capital market. The settlement mechanism is majorly manual and segmented based on trading instruments. These shortcomings are limiting and enhance the systemic risks faced by all market participants and therefore a serious obstacle for market development.

However, it must be mentioned that the current reforms in the industry is holistically addressing the challenges posed by settlement risk. The initiatives are aimed at automating settlement across the broad spectrum of market segments. The Central Bank of Nigeria, the CSCS, FMDA and other market participants are working together to

mitigate settlement risk in money and capital market deals. FMDA is also working to enable a straight-through-processing including settlement of transactions with CSCS and CBN, as part of its automating bond trading activities.

ACM-Insight!: In your view, what are the key areas requiring improvement in order for the Nigerian money and capital markets to attain their full potential?

Mr Wale Abe: In promoting strong financial markets, there is a need for both social and economic infrastructure. This must include strong institutions that will put in place clear and consistently applied regulatory frameworks and maintain financial supervision, while reducing unnecessary legal and regulatory impediments to the smooth functioning of these markets. Clearly, one of the fundamental conditions for the development of the money and capital markets would be the development and management of an efficient payment and settlement system. Also important is facilitating the effectiveness of monetary policy macroeconomic stability, a situation where uncertainties about inflation, interest rates, and the exchange rate are removed, unlike what we are witnessing now. All these challenges must be adequately addressed before we can fully harness the opportunities offered by our markets.

ACM-Insight!: Do you think the Nigerian capital market is ripe for financial derivatives? If yes, can you highlight some of the fundamental pre-requisites for creating a robust derivatives market?

Mr Wale Abe: My answer here would be Yes and No. Please, do not be surprised by this answer. 'Yes', because I feel the market is ripe and we are developing the infrastructure and institutions for basic derivatives, such as interest rate derivatives and forwards. I strongly believe that this would further help to deepen the market and create liquidity as well. The derivatives markets can make an important contribution to risk

management and risk diversification. As at now, the existing market infrastructure is not one that can ensure efficient, safe and sound derivatives market.

I would also say 'No' because given the types and use of sophisticated derivative instruments, that we saw in the matured markets, during the global crisis whereby traders and their institutions had little or no understanding of the underlying transaction risks they were exposed to, I do not think we are ripe for it. Our institutions, trading and settlement infrastructure as well as knowledge, skills and competencies required for derivatives are not yet available in the right compliment.

In addition to what I said earlier, and as part of requirements for creating a robust derivatives market, there must be free flow of information, increased market disclosures, transparency and good corporate governance in addition to the strengthening of institutional, regulatory and legal frameworks, as well as improvements in accounting rules and disclosure requirements. All these usually boost the confidence of investors and financial institutions in using derivatives. These are the key areas requiring improvement in order for the Nigerian money and capital markets to attain their full potential.

ACM-Insight!: Inflation has become a concern. Do you expect the CBN to raise interest rates between now and the end of the year 2011? If so, what would be the margin of comfort for lenders? What if the CBN does not hike rates?

Mr Wale Abe: All through year 2010, inflation was a major challenge, but that was understandable as the policy of monetary easing continued most of that year until towards the end of the third quarter when CBN commenced its tightening policy. Given the electioneering year, it was understandable that politicians would spend massively. The regulatory authority was proactive enough and by the second quarter, we saw the effectiveness of monetary tools aimed majorly at rein in on inflation. This led

to introducing measures that has led to consistent hike in interest rates.

It is not unlikely that CBN may still hike rates, though this will be marginal, or at best keep the rates at the current high levels which may result from increased fiscal spending. If this happens, we are not likely to see any margin of comfort for borrowers. For the lenders, the high cost will simply be passed on to the very few that can borrow and repay. Already this has been the pattern and one of the main reasons the credit to the private sector has been declining, in the last three quarters of this year. Lending to the public sector as a result of its safety and good returns has offered better attraction. One could also see here the usual trade-off between the pursuit of policy goals of growth and that of moderate inflation. For now, CBN has chosen to attack inflation; so we may just have to live with its consequences of reduced growth and unemployment, until the fiscal policy environment improves.

ACM-Insight!: Are banks likely to overcome their aversion to lending anytime soon? If lending improves next year, do you see them looking in the direction of the real sector?

Mr Wale Abe: Access to credit may not come so soon, there would still be the need for the banks to restructure their balance sheets, make them more liquid and healthier before lending again. Increased stability is required especially in the financial institutions that will be required to merge following transaction agreements recently entered into by them.

It must be noted that the sector is being reformed shortly after banking consolidation exercise, largely because; the banks failed to identify risks that could undermine their capacity to grow, did not take the necessary steps to mitigate risks and operated within the regime of poor corporate governance. The CBN under Sanusi responded by way of reforms to get institutions to be aware of these risks and take steps to minimize them and also prevent future recurrence.

Notwithstanding, the banking sector will continue to face strains emanating

from problem loans by being more risk averse. As a result, most banks will avoid major areas of risk given the risky nature of domestic demand for loans and limited foreign credit lines arising from the widespread risk aversion in global credit markets.

As regards lending to the real sector, we are not likely to see much improvement because the sector is constrained by persistent power shortages and weak infrastructure amongst other factors. Banks will still be wary of investing their money in a distressed sector that is hemmed in by a hostile business environment. The high interest rate and unfavourable exchange rate will drive up costs and inability to compete for funding. The main thrust of lending to that sector may come majorly from quasi fiscal funds set up by CBN to revamp some of the critical sectors, such as Manufacturing, SMEs, Textile and Aviation.

ACM-Insight!: How do you see Nigeria's economy developing over the next 3 to 5 years?

Mr Wale Abe: The development of the economy over the next 3 to 5 years will be driven largely by whatever happens in the next 2 years. Without having to sound pessimistic, until a solid foundation is laid for future growth and development, we may still continue to grope in the dark, and be going round in cycles. In other words, the vicious cycle may continue. The macro economic conditions in Nigeria have been threatened by the impact of global crisis and current slowdown in developed economies. The pace of reforms has slowed considerably; major obstructions to reforms remain in place, such as alleged pervasive corruption and ineffectual public institutions. With no clear vision in place, progress in enhancing public financial management has slowed, particularly at the federal level. Meanwhile, monetary policy remains constrained by fiscal dominance and institutional capacity weaknesses.

The strength of every economy is dependent on its social and developmental/ capital infrastructure. This is utterly weak in Nigeria.

Our economy is geared towards consumption as against production and simply exploiting what nature has deposited and not value adding.

For all these to change, our mind set and mental state will have to change, leadership and followership must change and our value system and orientation must change, all the challenges about the dis-enabling business environment, corruption, lack of competitiveness etc must give way. If these happen, then we can talk of development in the next 3 to 5 years and beyond otherwise we should stop talking about it and just live by the day.

ACM-Insight!: In your view, do you think Nigeria can be one of the 20 largest economies in the world by 2020?

Mr Wale Abe: In my opinion, yes this is possible. However, given the current pace at which Nigeria is growing, we cannot get there, unless something dramatic is done. It was the unprecedented achievements of the government at that time, coupled with strong commitment to the ideals of democracy, reforms and macro-economic stability that informed Goldman Sach remarks on Nigeria as one of the fastest growing economies in the world; with likelihood of being among the 20 economies in year 2020. Nigeria was asserted to have almost all the features of the BRIC – Brazil, Russia, India and China. That same report went on to say that any nation that does not have Nigeria plan in his Development and Business strategies would be doomed economically by year 2020, as Nigeria will be the destination for investment opportunities. That was conceived about 6 years ago, given the consistent growth rate then and the changes that were being initiated by the government, all aimed at promoting the investment climate and competitiveness of Nigeria among its peers. Then, it was believed that the nation's GDP would have to grow consistently at a yearly average of about 13.9% (the highest recorded was 8.5% during the planning years) over a period of 10years for Nigeria to be one of the 20 largest economies in the world by 2020.

However, both the reforms and GDP growth rate have since slowed down, so also is the commitment to the vision; which at best, can now be described as hazy! It would therefore take more than an idea of a dramatic leap or should I say a miracle to achieve this vision as originally conceived by Goldman Sachs!

ACM-Insight!: What do you do in your spare time (when not busy managing FMDA)?

Mr Wale Abe: Anytime, I am on holiday, you won't find me in the Cities. I love to tune off work, and remain in quiet and serene environment that is very close to nature. I love travelling but I have slowed down because of the cost and risks involved. Geography is of particular interest to me, so where I cannot get to, the internet serves as a tool that assists to see the wonders that nature offers, hence, my passion for the Geographic Channels, and Documentaries. I also love sports, football in particular.

ACM-Insight!: On a personal note, what are your ambitions/plans that you would like to accomplish in future?

Mr Wale Abe: I hope to still continue to make my services available as an informed stakeholder, in helping to initiate and shape policies that will support the growth of financial markets. I am also passionate about facilitating and developing entrepreneurship, as regards building capacity and improving managerial skills in Small and Micro Enterprises. Inability to manage and organize such businesses has been partly responsible for the non-development of that sector, apart from the hostile and stifling business environment occasioned by lack of infrastructure and policy support by the government and its agencies.

I would therefore like to bring my knowledge to bear on developing skills and competencies by either collaborating with existing non-governmental organizations or establishing an NGO that will provide support service.

ACM-Insight!: Thank you very much for granting this interview.

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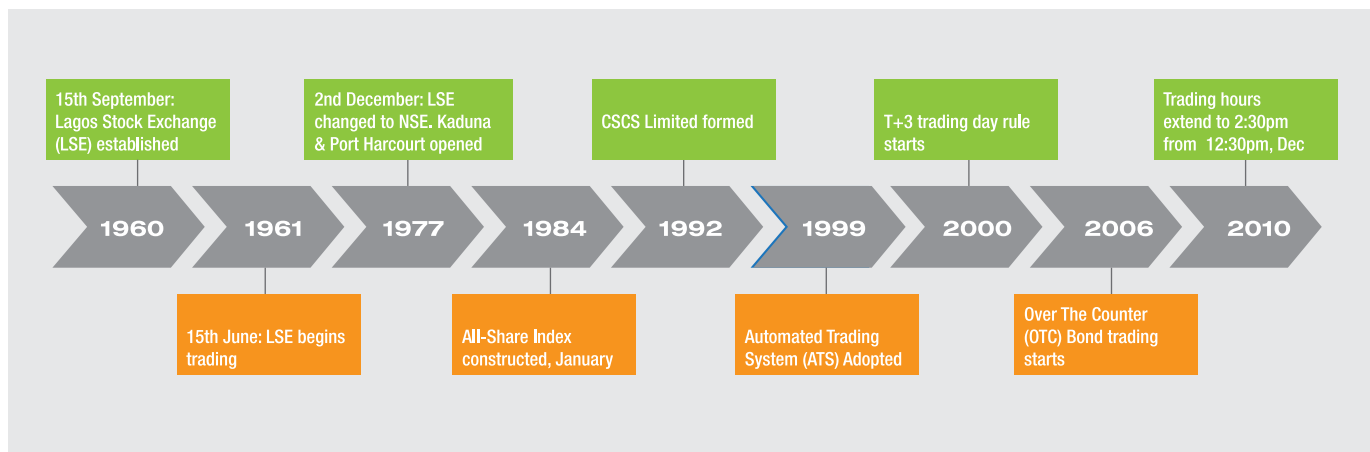
THE EXCHANGE

THE NIGERIAN STOCK EXCHANGE



The Nigerian Stock Exchange is the main securities exchange in Nigeria.

Evolution of the Nigerian Stock Exchange



History

The Nigerian Stock Exchange (NSE) has its origin in the creation, in 1960, of the Lagos Stock Exchange¹. In December 1977, the Lagos Stock Exchange became the Nigerian Stock Exchange. There are seven branches of the NSE, each with a trading floor. The head office of the NSE is in Lagos and there are branches in Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Abuja and Yola.

The NSE began operations in 1961 with 19 securities listed for trading. Today there are a whopping 264 securities listed on The Exchange.

The NSE is regulated by the Securities and Exchange Commission (SEC).

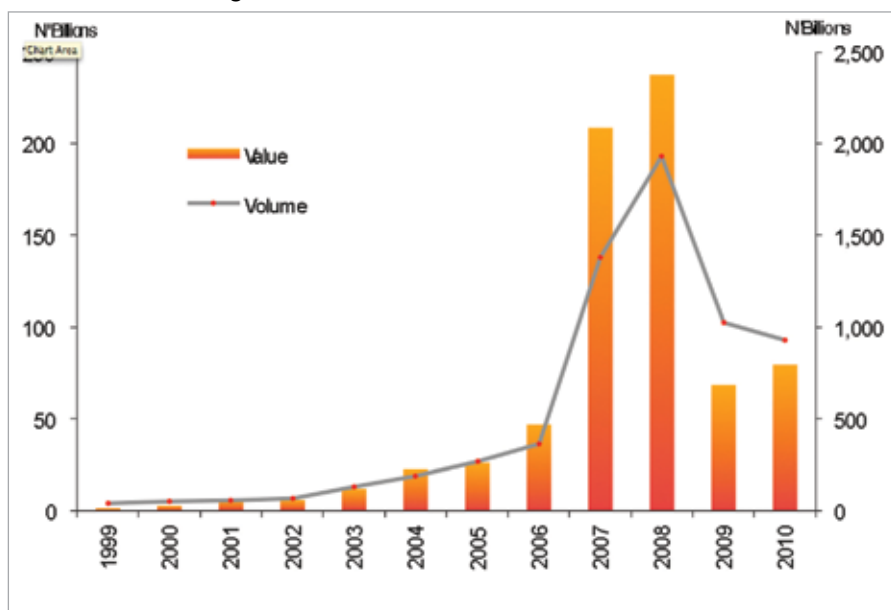
Trading

Though, like other exchanges historically, the NSE previously operated a call over system, it now has an Automated Trading System (ATS) with bids and offers now matched by stockbrokers on the Trading Floors of the NSE, via a network of computers. Trading hours are 9.30am to 2:30pm (the market previously closed at 12:30pm but this was changed in 2010 to enable greater trading and boost liquidity). Transactions on the exchange are regulated by the NSE and the SEC.

Clearing and Settlement

The Clearing, Settlement and Delivery of transactions on the NSE are done electronically by the Central Securities Clearing System Limited (CSCS). The CSCS, which is a subsidiary of the NSE, was incorporated in 1992, as part of the moves to improve the efficiency of the stock market.

Chart 1: The Trading Volume and Value on NSE



Source: The Nigerian Stock Exchange Annual Report

The CSCS operates a computerized depository, clearing settlement and delivery system for transactions in shares listed on the NSE. It facilitates the delivery (transfer of shares from seller to buyer) and settlement (payment for shares purchased) of securities transacted on the floors of the NSE. This means that stocks can be processed in an electronic book-entry form thereby reducing transaction time.

The CSCS helps to reduce cost of maintaining register of shareholders, increase liquidity of stock and raises investors' confidence in the market.

Liquidity

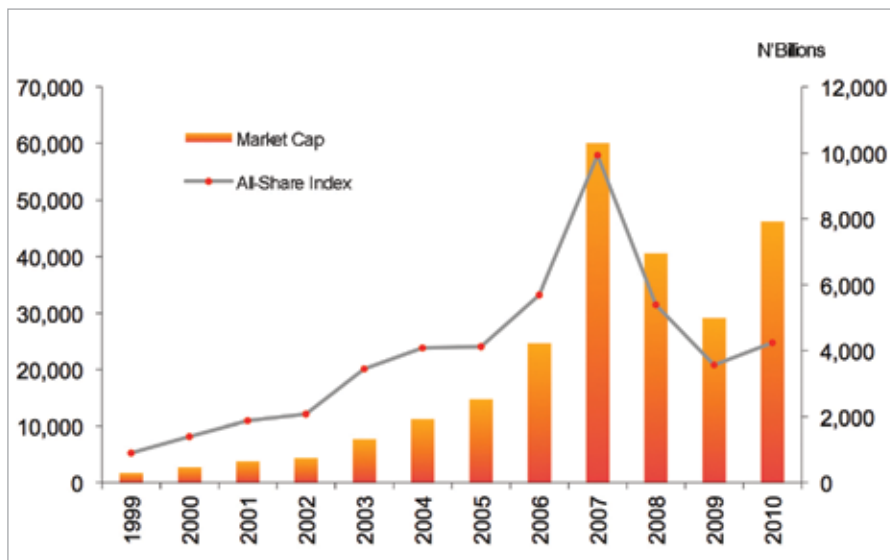
The concept of liquidity is central to a stock market. Liquidity refers to the ease with which securities can be converted into cash; and,

so, a key feature of stock markets is their ability to absorb large volumes of transactions without significant changes in prices. The level of activity in a given stock market is usually influenced by the number and quality of listed securities, the size of a market's outstanding shares and the efficiency of the clearing and settlement system.

Nigeria's equities market, despite being one of the more liquid markets in Africa behind Egypt and South Africa, has continued to struggle in terms of performance and trading volumes over the past few years. For instance, the aggregate stock market turnover between January and December 2010 was 93.3bn shares valued at NGN 797.6bn, accounted for 3.2% of GDP. Whereas turnover

¹ Based on the recommendation of the Professor R.H. Barback-led Committee constituted by the Federal Minister of Commerce and Industry in May 1958.

Chart 2: Equity Market Cap (N'Billion) & All Share Index (NSE-ALSI)



Source: The Nigerian Stock Exchange Annual Report

“The liquidity problem is compounded by the domination of the NSE by financial institutions especially since the financial sector as a whole has suffered both from the global financial crisis and the bursting of a local stock bubble.”

between January and December 2009 was 102.8bn valued at NGN 685.7bn, contributed 2.9% of GDP.

The liquidity problem is compounded by the domination of the NSE by financial institutions especially since the financial sector as a whole has suffered both from the global financial crisis and the bursting of a local stock bubble. However, the listing of Dangote Cement on the NSE should help to boost liquidity and it also serves to dilute the financial sector's dominance of the exchange. The NSE should encourage more large corporates such as industrial, energy and telecommunications companies to list on the NSE.

The financial sector accounted for 16 of the top 20 companies by turnover volume in 2010.

Performance

Although the NSE has been around for 50 years, market capitalization was very small historically. However, in 2005, market capitalisation received a significant boost with the listing of many banks in response to the increase in the minimum capital base requirement, by the CBN, to N25bn.

The NSE ALSI crossed the 60,000 points mark on 05 Feb 2008, and a

month later, it hit an all time high of 66,371.20. The market has however lost close to 69% of its value since that all time high closing at 20,373.00 as at Friday, September 30 2011.

Relations with the SEC

The relationship between the SEC and the NSE is not always a smooth one. For example, in August 2010, the SEC made the decision to sack the then Director-General of the NSE, Professor Ndidi Okereke-Onyiuke. The unceremonious nature of her removal created considerable controversy. Okereke-Onyiuke later instituted legal proceedings against the SEC for her removal and, in May 2011, a Federal High Court in Lagos found for her and awarded her N500 million (approx \$3m) in damages. The judge held that: “SEC acted in breach of Section 308 of the Investment and Security Act and, therefore, the removal of the plaintiff based on that section is a nullity”. Subsequently, the SEC indicated that it would appeal the court's decision.

Road to demutualisation

There have been calls for the NSE to demutualise.

Demutualisation is a process by which a member-owned exchange is converted to a shareholder-owned exchange. Demutualisation is expected to lead to better corporate governance, enhanced efficiency and transparency associated with publicly quoted companies. The NSE has plans for demutualisation, the intention being to turn it into a listed company, thereby making it more competitive and giving it a greater incentive to be innovative. However, plans for demutualisation have created some tension amongst stakeholders with many faulting the role of the SEC.

ACM-Insight! believes that it is extremely important that the process of demutualisation takes place in a transparent manner.

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EXCLUSIVE INTERVIEW

ACM-Insight! has the pleasure of bringing you an exclusive interview with the CEO of *The Nigerian Stock Exchange (NSE)*, **Mr Oscar Onyema**.



OSCAR ONYEMA

Oscar Onyema is the Chief Executive Officer of The Nigerian Stock Exchange. Prior to this role, he served for about 15 years in United States financial markets managing market structure initiatives, products and securities exchange businesses. He served for four years in the Nigerian information technology sector before moving to the US. Mr. Onyema is also the Chairman of Central Securities Clearing System (CSCS) Limited, which is the Clearing House of the Nigerian Stock market. He is a council member of the Chartered Institute of Stockbrokers of Nigeria.

In 2009, Mr. Onyema founded Market Strategists LLC and consulted under the Gerson Lehrman Group platform in the United States. He successfully completed consultations enabling decision-makers at investment firms and corporations better understand products, services, companies, and issues in global financial markets. He has served as the first black Senior Vice President and Chief Administrative Officer of American Stock Exchange (Amex), which he joined in 2001. He was instrumental in integrating Amex equity business into NYSE Euronext after it acquired Amex in 2008. He then managed NYSE Amex equity trading business, which he helped position as a premier market for small and mid cap securities.

Mr. Onyema holds an MBA in Finance and Investments from Baruch College, New York City. He received his bachelor degree in Computer Engineering from Obafemi Awolowo University, Ile-Ife, Nigeria.

ACM-Insight!: As the CEO of the Nigerian Stock Exchange (NSE), please tell our readers what your main aims and objectives are and any major recent or upcoming developments?

Mr Oscar Onyema: As the CEO, my aims and objectives are subsumed in that of The Nigerian Stock Exchange. The vision of The NSE is to be the leading Stock Exchange in the African region for capital formation, driven by transparency, innovation, efficiency and liquidity. The Exchange is equally targeting becoming the gateway to African Markets. We are targeting growing the market capitalisation to \$1 trillion in the next five years.

ACM-Insight!: It's been 50 years since the exchange started operations, how would you rate the past 50 years and what are your immediate, mid-term and long term strategies for the next 50 years?

Mr Oscar Onyema: I can say that The Exchange has tried in the circumstances it found itself. It has gone through a series of transformations. It started with manual (call over) trading in 1961 and by 1999 it transited to Automated Trading System (ATS) which has impacted greatly on efficiency, increased volume and value of transactions. Also, it has contributed to the growth and development of the nation's economy and corporate organisations and governments have benefitted tremendously from its establishment. It has created wealth for many in the society. The downturn of 2008 has been deeper than expected and the ensuing issues in 2010 but we are now looking forward to rebuilding the Exchange, deepening existing products and offering more products than at any other point in its history based on the values of integrity, market leadership and wealth creation.

ACM-Insight!: You are relatively new to the NSE, having joined in April 2011. How have you found your first six months in the job? What are your biggest achievements and challenges to date?

Mr Oscar Onyema: It is exciting coming back home to contribute my quota to the growth and development of the country. It has been challenging, expectedly though, because the expectation of all market stakeholders in the new management I lead were high due to the challenges the market was going through. We have been able to impress it on all market stakeholders that we would be fair and firm with our regulations. We were able to sound it very loudly to all that nobody would be above the laws and regulations that guide the operations and integrity of The Exchange. We are cognisant of the fact that the main means of getting back investors' confidence, which had been greatly eroded in the market place, is for all stakeholders to play by the rule. The confidence is coming back gradually and I think this a major achievement we have made.

ACM-Insight!: One company, Dangote Cement Plc, accounts for about 25% of total market capitalisation on the NSE. Do you have any concerns about this? And how do you plan to entice other major companies to list on the NSE?

Mr Oscar Onyema: I have come across such a sentiment in the media. This is based on the fear that whatever happens to a company that is controlling a significant portion of our market capitalisation would have impact on the market as a whole. If the stock is down, the market is down, if it goes up the market goes up. There is no doubt that whatever happens to it would affect the market. Instead of being concerned about the possible negative impact, we have taken as a challenge to work harder at attracting other highly capitalised companies to come and list on The Exchange. We have established four Divisions to re-position The Exchange as a commercial entity and ensuring that we grow the market capitalisation to \$1 trillion in the next five years. One of the new departments in our Business Development Division is the

Listing Sales/Retention Department with the mandate to prospect quotable companies as well as ensure that they are retained on The Exchange. Also, we are reviewing our listing requirements to attract more companies to The Exchange. But, I will like to emphasise here that we need government's support to see that Up-stream oil companies, companies in telecom industry as well as others in the energy sector are encouraged to list a portion of (or all) their shares on The NSE.

ACM-Insight!: Please tell our readers about your plans for demutualisation, what this means exactly and the timelines for achieving it?

Mr Oscar Onyema: The planned demutualisation of The Exchange is on course. We have set up the Demutualisation Committee of the Council. As you might be aware, SEC recently announced a composition of a committee on demutualisation. Many things are involved in the process and it is not something we can rush. Demutualisation is important to us if we want to run The Exchange like a business. We know that it is the right thing to do and that is why we are on it. It is a self-imposed thing; no organisation is imposing it on us. We decided for it because we know that there are benefits for all in it. Let me add that there are several issues to be addressed to see the process through.

ACM-Insight!: After demutualisation, do you plan to list the NSE's shares on the NSE? If yes, do you foresee any potential problems with this?

Mr Oscar Onyema: We will determine that when the time comes. I don't foresee any potential problems. Even if there is any, I don't see any problem that does not have a solution.

ACM-Insight!: What is the nature of the relationship between the NSE and the Securities and Exchange Commission (SEC)? And do you see this changing as a result of demutualisation?

Mr Oscar Onyema: I will say that the relationship between The Nigerian Stock Exchange and Securities and Exchange Commission is a partnership to grow the Exchange and ensure integrity and market leadership. We both are needed for the market to

run smoothly. We relate with mutual respect, in a collegiate manner. This relationship is critical for the Nigerian Capital Market to realise its full potential.

ACM-Insight!: Controversy has dogged the NSE in recent years; how do you intend to clean up the NSE's reputation and win back the confidence of the capital market?

Mr Oscar Onyema: We are forward looking people. We don't want to dwell on the past. There is so much to do in developing the market and recovering the lost ground of the past few years. We have realised that dwelling on the past cannot get us to where we are going. The confidence of investors will come back when the rules and regulations that govern the operations of The Exchange are adhered to by all, with The Exchange, providing the required leadership.

ACM-Insight!: How would you compare the quality of corporate governance of the NSE versus that found on the boards of listed companies?

Mr Oscar Onyema: Corporate governance is to ensure that organisations are run well by adhering strictly to best corporate practices. So, whether at The NSE or listed companies, it does not matter. We are instituting sound Corporate Governance processes throughout the organisation.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the NSE's All Share Index, erosion of bank shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policymakers – such as the SEC and the Ministry of Finance – should be doing to restore confidence?

Mr Oscar Onyema: There is the need for massive investor education. The understanding of majority of investors in the market, especially retail investors, is very low. Many people are buying shares without fully understanding the risk and reward profile of their investments. Many do not know that the market is cyclic; it goes up and comes down.

There is also a need for a lot of education at every level of the capital market in terms of the risk-reward that is associated with trading on equities. So, the first thing that should be done by policy makers is assisting in investor education. On our part, we are gearing up an investor education programme that will deepen knowledge and assist with portfolio diversification. The policy thrust of the government too should be the one that will encourage investment in the market.

ACM-Insight!: What are your views on the recent margin lending crisis in the banking sector and its impact on market capitalisation on the NSE?

Mr Oscar Onyema: It is a fact that margin lending contributed a great deal to what the market is witnessing today and it was an unfortunate situation. It happened in a situation where the market was ahead of the regulator. Investors' as well as operators' fingers were burnt in the process. It is unfortunate situation and we all have learnt our lessons from it as investors, regulators, operators and the banks themselves. I am looking forward to the banks taking up the learnings and providing liquidity to market participants through more robust margin lending operations.

ACM-Insight!: You recently announced the introduction of securities lending and short-selling in Nigeria. Whilst these will be beneficial to the operation of the markets, what measures are you putting in place to address the risks that they might create (e.g. market manipulation in the case of short selling)?

Mr Oscar Onyema: Yes, introduction of securities lending and short-selling are some of the things we are introducing to the market. We can assure you that manipulations would not be condoned in today's Nigerian Stock Exchange. We are fine tuning our rules and based on our experience we will work on all identified possible loop holes. For instance, we will not allow naked short-selling. You can only short-sell the shares you have, not what you don't have. Naked short-selling could be abused, and that is why we will not allow it here.

ACM-Insight!: Do you think the Nigerian capital market is ripe for financial derivatives? If yes, can you highlight some of the fundamental pre-requisites for creating a robust derivatives market?

Mr Oscar Onyema: I will answer in affirmative that The Nigerian market is ripe for financial derivatives. Today, our market is dominated by equities and there is the need for product diversifications to really grow the market. Financial derivatives will be some of the products that we would introduce to deepen the market as investors desire more investment options. Having said that, we know there is the need to engage more in investor education.

ACM-Insight!: One of the lessons learnt from the financial crisis was the need to further enlighten capital markets professionals (traders, brokers, dealers, and investors etc) through capacity building programmes, what is your view about the current level of skills and expertise in the capital market, and in the NSE in particular?

Mr Oscar Onyema: I agree absolutely that there is need for capacity building for all stakeholders in the market. The capital market is highly dynamic. New products and concepts are always evolving, hence the need to continuously engage all stakeholders in capacity building. The Exchange has established a training department which will support the enlightenment efforts. This is done because we attach importance to capacity building.

ACM-Insight!: You are the Chairman of the Central Securities Clearing System (CSCS) Limited. How has the creation of CSCS enhanced clearing and settlement of shares in Nigeria? What else needs to be done to reduce/mitigate settlement risk?

Mr Oscar Onyema: The establishment of the Central Securities Clearing Systems (CSCS) Limited has brought a lot of improvements on market transactions on The Nigerian capital market as whole. Central Securities Depository (CSD) goes with Automated Trading System (ATS). The CSCS was established in 1977 and became operational in 1999 when the NSE

started ATS. Today, the 3-day Settlement Cycle of The Nigerian Stock Exchange is made possible by the introduction of CSCS. Before, settlement could take weeks even in some cases, months. CSCS has really transformed the market in many ways. We are also revamping the rules on the trade guarantee fund.

ACM-Insight!: What do you think is the major hindrance to the development of a vibrant corporate bond market in Nigeria?

Mr Oscar Onyema: I think the major hindrance to vibrancy of corporate bond in the nation today is lack of understanding of its importance by business promoters and their advisers. Equity option is the focus of most companies. Reverse was the case initially as many companies had earlier embraced debenture stock. There is also the need to expand the market to retail investors.

ACM-Insight!: How realistic is Nigeria's aim to be a regional hub for financial services?

Mr Oscar Onyema: It is very possible. We have all it takes as a nation to be the best, not only in Africa, but in the comity of nations. We have the resources. All we need is the will power and the determination to do the right things and all other things will fall in place for Nigeria. All the reorganisations that we have embarked upon since the inception of this administration would achieve that and much more for us.

ACM-Insight!: What would you like your legacy at the NSE to be?

Mr Oscar Onyema: To achieve the vision that we have set out as a management team and position the Nigerian Capital Market as a truly world-class organisation.

ACM-Insight!: What do you do in your spare time (when not busy managing the NSE)?

Mr Oscar Onyema: I do enjoy listening to music. I have a large music collection on my MP3 player. I also enjoy going out with friends.

ACM-Insight!: Thank you very much for granting this interview.

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EXCLUSIVE INTERVIEW

ACM-Insight! has the pleasure of bringing you an exclusive interview with the Group Managing Director/CEO of *BGL Plc*, **Mr Albert Okumagba**.



ALBERT OKUMAGBA

Mr. Okumagba is the Group Managing Director / CEO of BGL PLC. Prior to joining the company, Mr. Okumagba was Manager and Head of Mergers and Acquisitions at Centre-Point Merchant Bank Limited. During his career at Centre-Point, Mr. Okumagba managed portfolios in Corporate Banking, Multilateral Agency Credits and traded on the floors of the Nigerian Stock Exchange on behalf of Centre-Point's stock broking affiliate, Centre-Point Investment Limited.

Mr. Okumagba holds a Bachelor of Science Degree in Economics from the University of Ibadan and a Master of Science Degree in Economics specializing in Monetary Economics from the University of Lagos.

ACM-Insight!: As the CEO and Managing Director of BGL Group, please tell our readers what your firm does – which areas of financial services are you engaged in, what category of clientele do you service and any major recent or upcoming transactions?

Mr Okumagba: Since incorporation BGL has built a reputation for passionately and professionally executing briefs to deliver the best value to its clients and shareholders. In so doing, we have emerged as a proven leader in Nigeria's Investment Banking industry.

- Over the last 15 years, BGL has emerged as a market leader in Capital Raising, Securities Trading, Mergers and Acquisitions and Asset Management.
- In 2006, we emerged the leader in total volume and value of public offers.
- In 2005 and 2006, we emerged as the undisputable M&A leader (having participated in over half of the M&As completed in the banking industry).
- We emerged winner of the three awards available in the 2006 edition of the Nigerian Issuing Houses League awards:
 - Best Issuing House,
 - Mergers & Acquisitions Award, and
 - Overall Best Performing House
- We are one of the 5 top investment companies and pride ourselves as the biggest independent investment banking outfit in the country.
- We were the first investment house in the country to unbundle its services to three subsidiaries: BGL Securities, BGL Private Equity and BGL Asset Management
- Between 1998 and 2006, BGL raised over N400 billion (Four Hundred Billion Naira or approximately US\$3.1 Billion) for various companies and Government establishments in Nigeria.
- BGL has built a vast network of individual and institutional investors with considerable placing power to take

advantage of investments in emerging opportunities. BGL has been able to leverage on its past experience of corporate recapitalization/restructuring to build a pool of strategic investors.

- BGL has developed a very cordial relationship with various regulatory authorities, and this is utilized effectively in ensuring timely completion of transactions.
- In 2006, BGL issued the largest volume of securities by way of Public Offers, recording 15.94% of the total issue volume in 7 mandates. BGL also emerged 1st by value of Private Placement transactions estimated at 15.01% of the total market value of transactions in 2006. BGL Securities Limited (a subsidiary of BGL Plc) has consistently ranked in the top 5 on the floor of the Nigerian Stock Exchange in terms of volume and value of traded securities from 2001 till date. BGL Securities Limited also ranked number one by volume traded on the NSE in 2006, trading over 3.22 billion units of securities.

ACM-Insight!: What are BGL's competitive advantages and challenges?

Mr Okumagba: Our competitive advantages are a strong, fiercely dedicated and well-trained workforce, an unmatched distribution channel and experience in providing tailored solutions to meet our clients' problems. Our challenges however, are not idiosyncratic, it's an industry challenge, and similar to every other competitor. We are faced with an economy undergoing several reforms and very volatile markets. Nonetheless, we won't shy away from any challenges and will continue to tackle them head on.

ACM-Insight!: BGL is one of the more vibrant investment banking groups in Nigeria. What is your assessment of the sophistication of the investment banking environment in Nigeria?

Mr Okumagba: Investment banking in Nigeria is improving in my opinion, given the level of syndications and investment vehicles you see these days. Structured products such as

Asset-Backed Securities, REITS and sub-national bonds are relatively familiar. I think the Nigerian Eurobond would also help more issuers explore the debt market as an option to capital raising, because it sets a useful benchmark to yield discovery.

ACM-Insight!: Your wealth management division offers solutions to institutional and high net worth clients. How do you manage to achieve favourable returns given the limited number of asset classes in Nigeria's financial markets?

Mr Okumagba: Diversification has proved to be very useful in ensuring good returns over the years. We also try as much as we can to predict sectoral trends using key indicators and historical data, in order to gain an advantage on the market by picking up yields on bonds, and returns on various equities.

ACM-Insight!: As a dealer on the Nigerian Stock Exchange (NSE), how do you rate the efficiency and user-friendliness of the NSE's trading platforms?

Mr Okumagba: Trading efficiency has improved, platforms are user-friendly and workable. Also, I'm aware the new leadership of the exchange is working very hard to bring it up to the standards you have in developed markets such as the United States, United Kingdom and Europe, so we should expect a lot of developments in the technology and infrastructure space of our market.

ACM-Insight!: Controversy has dogged the NSE in recent years; do you have confidence in the ability of new management of the exchange to modernise it? What further changes would you like to see?

Mr Okumagba: Absolutely, I always welcome fresh ideas and inputs, even more so as the NSE at some point appeared to be dogged by distractions which affected normal business activities. I feel very optimistic about the new management's ability to help the exchange forge ahead especially in the areas of knowledge transfer, technology application, adoption of sophisticated instruments such as derivatives and so forth.

They have my full support and I hope they have the backing of all stakeholders.

ACM-Insight!: BGL has a dedicated Investment Research unit; do you think that investment professionals in Nigeria make adequate use of research and data, and if not what can be done to change this?

Mr Okumagba: Information is power, and investors who appreciate research consistently make better investment decisions. The local market is yet to fully appreciate this fact, but at BGL we always provide this service for our clients. This helps them understand the nature of investments they make and gives all parties a level of comfort. I think awareness and guidance would go a long way in ensuring investors warm up to investment research.

ACM-Insight!: You recently launched the Nubian Fund and the Sapphire Fund. How are they performing and how is the fund management industry in Nigeria faring generally?

Mr Okumagba: Yes we did, in the last quarter of 2010. We were fully aware of investor apathy after the 2008 downturn in the market, however identifying the huge opportunities in both the equity and fixed income markets, we decided to come up with funds that would appeal to investors with diverse appetites for risk. Performances of the funds are as expected with controlled volatility in NAVs.

The fund management industry faces several challenges such as intense competition and asset class constraints to name a few

ACM-Insight!: Following the abolition of universal banking by the CBN, many banks are disposing of non-bank subsidiaries – do you have any plans for expansion via acquisitions?

Mr Okumagba: We currently don't have any expansion plans, certainly not by acquisition. The cancellation of universal banking licences has induced re-structuring within the banking industry which has led about 8 banks to announce sale of non-bank subsidiaries and 5 banks to adopt a Hold-Co structure.

“Despite crude oil and natural gas sales accounting for over 90 percent of the Federal Government annual revenues for over 20 years, there are no upstream petroleum companies listed on the Nigerian bourse. This is a clear indication of the dearth of depth in the Nigerian bourse.”

However, because of the nationalization process and mergers/acquisitions currently taking place in the market we are still awaiting further announcements.

ACM-Insight!: In your opinion, how prevalent is insider dealing and market manipulation in Nigeria's equity markets and what should the authorities be doing about it?

Mr Okumagba: I feel it's currently minimal, the DG of the Securities & Exchange Commission has indicated zero tolerance on this sort of activity, and many houses have so far adhered to the guidelines of the commission. I think this has been very useful in fostering investor confidence both locally and internationally.

ACM-Insight!: Functional market makers are still largely absent in the Nigerian stock market, despite SEC's approval of market makers of over three years. Why do you think this is and any plans of BGL Group to be a market maker?

Mr Okumagba: The capital market is in need of market makers that would help to deepen it and improve liquidity. Market makers are wholesale operators who create liquidity in the stock market by either buying shares when there is a glut or selling shares when there is scarcity.

Data indicates 20% of the top securities account for about 80% of market activity, and creation of an environment allowing market makers play their role effectively would address the stifling growth and efficiency of the Nigerian capital market. In 2008, The Securities and Exchange Commission (SEC) approved five brokerage houses to act as market makers; these included Vetiva Capital Limited, Value Capital Limited, Afrinvest Plc, Diamond Capital, Financial Market Limited, and Chapel Hill Denham. Since then, there has been no impact due to the market downturn and the absence of clear operational guidelines.

However, the issue of market maker status is a business decision that firms that have the capacity would have to make on their own; it is not enough for SEC to appoint firms as market makers without the enabling capacity

to perform that role. For this market to develop it needs market makers but they need funds. It is a business decision you have to take; nobody can force you to be a market maker. BGL would certainly consider that option and if it's good for the business, I'm sure we would.

ACM-Insight!: What do you think is the major hindrance to the development of a more vibrant corporate bond market in Nigeria?

Mr Okumagba: A dearth of credible rating agencies, competition from Federal Government borrowing, frequently delayed financial and management disclosures by firms and investor unsophistication have been responsible for a slow corporate bond market. However, a lot of attention is presently given to these issues, which should lead to increased activity in this market.

ACM-Insight!: In your view, what are the key areas requiring improvement in order for the Nigerian financial markets to attain their full potential?

Mr Okumagba: Despite crude oil and natural gas sales accounting for over 90 percent of the Federal Government annual revenues for over 20 years, there are no upstream petroleum companies listed on the Nigerian bourse. This is a clear indication of the dearth of depth in the Nigerian bourse. In addition, the Nigerian capital market has no utilities company listed on it or accessing other capital market funding sources thus denying the market of their defensive capacity.

Furthermore, none of the GSM telecoms companies is listed on the exchange. Thus, the 21 listed banks and Dangote Cement constantly account for over 50% of the total market capitalization while companies in the agricultural sector which still accounts for over 40 percent of Nigeria's GDP represents less than 1 percent of the total market capitalization. These are obvious pointers to the shallowness of the market and the need for its deepening. We advocate for the adoption of listing incentives to encourage companies in these major economic sectors to seek listing.

Facilitating Infrastructure Development

Niger State Government
₦9.0bn
 Bond Offer
 Lead Issuing House
 Financial Adviser
 Lead Stock Broker
 Sole Underwriter
 2011

Imo State Government
₦18.5bn
 Bond Offer
 Joint Issuing House
 Joint Stock Broker
 2009

Niger State Government
₦6.0bn
 Bond Offer
 Joint Issuing House
 Joint Underwriter
 Joint Stock Broker
 2009

Kwara State Government
₦17.0bn
 Bond Offer
 Joint Issuing House
 Joint Underwriter
 2009

Bayelsa State Government
₦50.0bn
 Bond Offer
 Joint Issuing House
 Joint Underwriter
 Joint Stock Broker
 2010

Kaduna State Government
₦8.5bn
 Bond Offer
 Financial Adviser
 Lead Issuing House
 Lead Underwriter
 Lead Stock Broker
 2010

Edo State Government
₦25.0bn
 Bond Offer
 Joint Stockbroker
 2010

State Government Bonds

Ebonyi State Government
₦16.5bn
 Bond Offer
 Joint Issuing House
 Joint Underwriter
 Joint Stock Broker
 2010

Delta State Government
₦50.0bn
 Bond Offer
 Joint Issuing House
 Financial Adviser
 Joint Stock Broker
 2011

Delta State Government
₦5.0bn
 Bond Offer
 Joint Issuing House
 Joint Underwriter
 Joint Stock Broker
 2000

Selected Public Sector Advisory Transactions

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Bringing it all together

“Yes we are very well prepared for financial derivatives, in my opinion the Nigerian market has been prepared for a while. There are a few necessities though, first of all I believe transactions should be reserved initially on an exchange to reduce counterparty risk...”

ACM-Insight!: How can capital market innovation (e.g. infrastructural bonds) help in addressing the significant infrastructural deficit in Nigeria?

Mr Okumagba: Financial innovation is key to development as we have observed in many emerging economies; the landscape for infrastructure investments is rapidly changing all over the world. Today, it is not uncommon to see fund managers allocating 5-10% of their investment portfolio to infrastructure, and this proportion is expected to grow. Stakeholders in Nigeria recognize the value and the benefits of developing deep and liquid capital markets for infrastructure financing. We believe that Real Estate Investment Trusts (REITs), Institutional and Pension funds will help to develop our infrastructure capital markets. Infrastructural bonds for example would provide long-term, low cost capital required to meet the present gap in infrastructure, this is an ideal substitute for the time mismatch in funding that we currently have in the country today. Also, similar products tailored to meet different infrastructure needs may be set-up, which eventually would ease the budgetary burden on government to provide essential infrastructure.

ACM-Insight!: Given the recent pension reforms, do you think the capital market has capitalized enough on these in terms of setting up relevant investible funds for pension funds?

Mr Okumagba: I don't think so, I feel the commendable growth in contributions witnessed in the pension industry since the reforms haven't successfully been channelled into the capital markets, as a major part of trades are focused purely on traditional investible assets i.e. equities and fixed income instruments. PENCOM is doing all it can however to expand allowable classes for pension investments, but we have to be aware of the compulsory high risk aversion future savings plans must have, nonetheless proper usage of these funds would improve liquidity in the market and nurture growth.

ACM-Insight!: Do you think the Nigerian capital market is ripe for financial derivatives? If yes, can you highlight some of the fundamental pre-requisites for creating a robust derivatives market?

Mr Okumagba: Yes we are very well prepared for financial derivatives, in my opinion the Nigerian market has been prepared for a while. There are a few necessities though, first of all I believe transactions should be reserved initially on an exchange to reduce counterparty risk, secondly continued education and awareness of such products must be made. Lastly, regulatory authorities should have hands-on knowledge on these products, fully understanding inherent risks involved in order to prevent avoidable distortions in the market place.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the Nigerian Stock Exchange, erosion of bank shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policy makers, in particular, the Securities & Exchange Commission (SEC) should be doing to restore confidence?

Mr Okumagba: The SEC should enforce strict compliance of policies aimed at timely and full disclosure of financial and relevant non-financial information of listed companies. This would increase credibility of firms on the exchange. Market manipulation and insider trading played a great part in the erosion of banks' shareholder value, hence efforts should be made to prevent this from reoccurring.

ACM-Insight!: What do you do in your spare time (when not busy managing BGL Group)?

Mr Okumagba: I help inspire the next generation by working with young people through NGO's and foundations.

ACM-Insight!: Thank you very much for granting this interview.



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THE PLAYERS





Introduction

Since the commencement of its operations in 1961, the NSE has hugely driven the Nigerian Capital Market in terms of providing a marketplace for raising debt and equity finance. Over the years, the NSE has, of course, witnessed its fair share of ups and downs; and it is currently going through much needed transformation.

Trading on the NSE

As part of the ongoing reform agenda of the NSE's relatively new CEO, Oscar Onyema, the NSE plans to deepen the market by further enabling the platform to accommodate the trading of equity options. This move should be welcomed by member traders of the NSE and the listed companies.

The ability of traders to operate the rights to buy and sell the underlying driver of any such equity rather than the equity itself is sure to stimulate the market further and provide cutting edge risk management and hedging solutions.

Of course, in order to introduce a new product, there needs to be in place an appropriate market structure, the necessary technology, robust rules and regulation, a pricing structure that works, we need to educate the investor class – both institutional and retail investors – about how to use these assets to .

We, at **ACM-Insight!**, encourage this move toward diversification of the market; and, so, to help with investor education, we shall provide in the next edition of **ACM-Insight!** detailed educational analyses of derivatives generally as well as corporate bonds.

Stockbrokers

Stockbrokers are trained advisors with the responsibility to guide investors and process investments. Typically they help ensure fair dealing, transparency & disclosure, facilitate trading authorisation, make recommendation and overall supervision of the process.

Stockbrokers, like issuers, are very important to the smooth operation of the capital market. As a result, it is important that they are subject to adequate regulation. Earlier in 2011, the SEC suspended 57 stockbroking firms for not complying with the required capital adequacy requirements.

There is undoubtedly a need for the SEC to further develop capacity building programmes for brokers and other capital market participants and to ensure ongoing validation of skills.

Chartered Institute of Brokers

The Nigerian Chartered Institute of Stockbroker (CIS) was established in 1992 with the mission to encourage and protect the interests of the securities and investment profession by adhering to the highest standards of service and integrity. In empowering the capabilities of its members about capital market, it conducts qualifying examinations into stockbroking profession and also regulates the activities of these members. Within the CIS membership, there are five categories i.e. Student, Graduate, Associate, Honorary Fellow and Fellow.

Capital Market Consultants

In the Nigerian capital market, capital market consultants' activities are covered by the Investment and Securities Act 1999 – the legislation governing the Nigerian capital market. These consultants include lawyers, accountants, estate valuers, engineers and other capital market professionals etc who provide flexible and yet dynamic services including but not limited to the following:

- Strategies for raising a company's profile within the market
- Investment advice for investors given current market fundamentals
- Administration of Securitization of shares process
- Mergers and Acquisitions advisory
- Setting up of a publicly listed company
- Support of Initial Public Offerings (IPO)
- Liaison with investment firms and stockbrokers

Credit Rating Agencies

Credit rating agencies are very critical to any financial system because of their ability to measure the relatively credit risk exposure of financial institutions and sovereigns. This process serves as early warning signals to markets in general and thus provide information about the ease or access to liquidity in the market place as well as the likelihood of an entity defaulting² (**Default risk** is the uncertainty surrounding a firm's ability to service its debts and obligations). Nigeria's capital market has undergone, in recent times, and continues to experience, significant reforms. However, it is clear that the Nigerian capital market architecture needs further strengthening in terms

of holistically identifying risks (such as market, credit and liquidity) in the different areas of the Nigerian economy and managing these risks (through hedging etc) locally within the market.

In 1992, the SEC licensed Agosto & Co as the first credit rating agency in Nigeria with the mandate to provide credit rating, research and credit risk management functions. Some of the merits of having such an agency or agencies providing such services, in addition to adherence to risk management at large, are:

- Determination of creditworthiness of firms.
- Enhance understanding between lenders and borrowers;.
- Capital Adequacy i.e. Understanding of the need to and when the recapitalise.
- Benchmark i.e. Comparison between firm's internal models and say for instance, government bond yield curve.
- Data generation/collation for statistical/rating purposes etc.

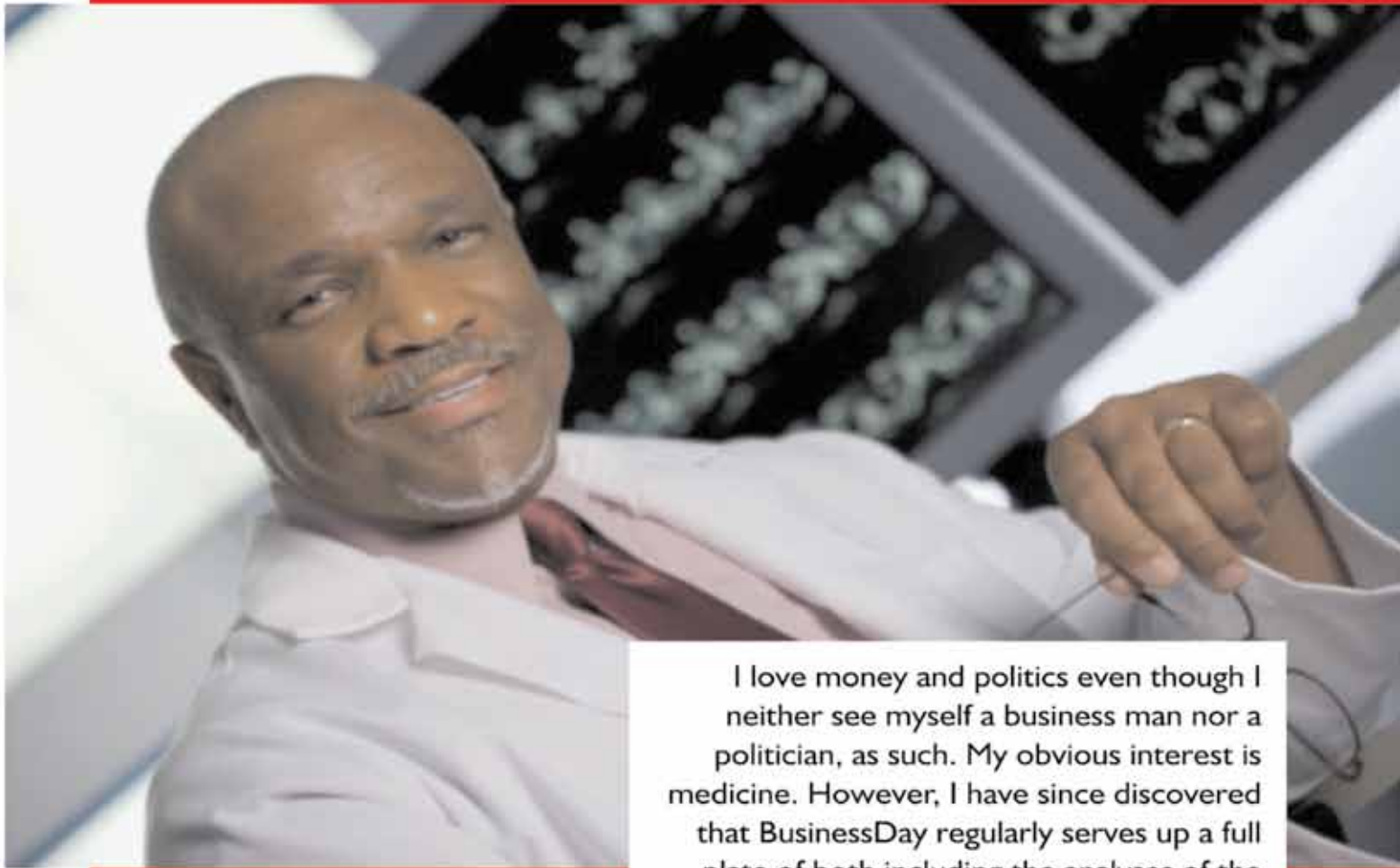
Credit rating agencies make no recommendations about buying, selling or holding a particular security or about suitability for a particular investor; hence their ratings express nothing more than informed opinions about creditworthiness. Investors base their investment decisions on whether to buy or sell partly on these ratings. For borrowers, credit ratings are critical because they affect their access to markets and the cost of their borrowings in capital market. Also, credit ratings are one of key drivers in determining the minimum regulatory capital charge for financial and capital market players under risk-based, risk-sensitive regulatory frameworks.

Consequently, the SEC should ensure that the credit rating agencies' opinions are independent, objective, and are produced through a transparent and high-quality analytical process. Finally, in order to minimise the risk of intellectual capture, and ensure diversity and competition in the market for credit ratings, it is important that the SEC encourages the establishment of other credible rating agencies in Nigeria.

¹ See ACM-Insight article at: http://www.acm-consult.com/news_files/098r2pks7u91275945532.pdf

² *ACM-Insight!* article on Quantification of Corporate Default Risk – April 2009.

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EXCLUSIVE INTERVIEW

ACM-Insight! has the pleasure of bringing you an exclusive interview with the Managing Partner of *Olaniwun Ajayi LP*, **Dr Konyinsola Ajayi (SAN)**.



Dr. KONYINSOLA AJAYI (SAN)

Dr Ajayi is the managing partner in the law firm of Olaniwun Ajayi LP, Lagos, Nigeria and has over twenty-six years legal expertise in the areas of Energy & Natural Resource, Project Finance, International Business Transactions, Banking & Capital markets, Telecommunications, Construction & Engineering, privatisation - as well as litigation and arbitration. Konyin is the vice president of the Worldwide Alumni Association of the Harvard Law School and an associate fellow of the Institute of Advanced Legal Studies, England. He is also a director of the Nigerian Economic Summit Group. He has authored and co-authored over 120 legal writings under the heads of Energy and Natural Resources Law, Banking Law, Commercial Law, Project Finance and International Capital markets.

He holds honours degree in law from the University of Ife in 1975, an LL.M from Harvard University in 1982 and a PhD on International Capital Markets from University of Cambridge in 1990. He is of the Middle Temple, England and Wales and was called to the Nigerian Bar in 1980. In 2000 he took silk in Nigeria, the Legal Practitioners Privileges Committee having preferred him as a Senior Advocate of Nigeria.

ACM-Insight!: As the Managing Partner of one of the pre-eminent corporate & commercial law firms in Nigeria, please tell our readers which areas of law your practice covers, who are your major clients etc?

Dr Ajayi: Olaniwun Ajayi LP is a full service commercial law firm with experience and expertise cutting across broad areas of the law, including financial, banking, capital markets, corporate, energy & natural resources, telecoms, power, infrastructure and regulatory advisory practice. The practice is segmented along four practice areas, being: Specialised Transactions Practice, Enterprise Practice, Banking & Finance Practice and Dispute Resolution Practice.

Olaniwun Ajayi LP provides legal advisory services to diverse sectors of the Nigerian economy including, Energy, Natural Resources, Telecommunications, Banking and Finance, Insurance, Capital Markets, Power, etc. We have been opportuned to work on some of the largest and most complex transactions within sub-Saharan Africa and have advised on various transactions covering diverse aspects of the law, viz, Structured Finance, Infrastructure Finance, Project Finance, Infrastructure Development and Construction, Corporate Finance, Capital Markets, Insolvency, Taxation, Corporate Restructuring, Intellectual Property, Litigation, Arbitration and Mediation amongst others.

We have in the past provided and do continue to provide legal support services to some of the biggest corporations and multinationals, both locally and internationally and also the public sector. We are grateful to God for the opportunities that have come our way and for the unrivalled testament we leave behind in every transaction we are involved in.

ACM-Insight!: What is the most exciting deal/case that you have worked on and why?

Dr Ajayi: Perhaps the point to first make is that here we are motivated by none other than our esteem which we get from the success of our clients, the new compositions we make and the leadership role we are privileged to play in society through the law. The firm prides its self on going behind the veil to provide solutions to seemingly intractable problems. It

is on this canvass that we can paint the picture that you seek to see.

The last couple of years has been a very interesting one in the history of the finance sector of the Nigerian economy and Olaniwun Ajayi LP has been opportuned to once again be at the cutting edge of some of the most sophisticated and ground breaking transactions that have been witnessed in the sector.

In talking about the most exciting deal I have worked on, many deals come to mind. As such, I may not be able to mention on, but I would mention a few.

The history-making listing of the shares of Dangote Cement Plc, which not only added about N2.1 trillion (USD 14Billion) to the market capitalization on the Nigerian Stock Exchange, but also constituted 25% of the entire market capitalization. A product of the merger between Dangote Cement Plc and Benue Cement Company Plc, it was undoubtedly the largest in terms of market capitalisation and facilitated the restoring of confidence in the Nigerian Capital Market, particularly after the bearish period.

Another transaction worthy of mention is the reform of the Nigerian Banking sector, which has witnessed a lot of activities which have been described as revolutionary and hitherto unprecedented in the history of the Nigerian financial sector. These include the exercise of the powers of the Central Bank of Nigeria (CBN) under the Banking & Other Financial Institutions Act ("BOFIA") in relation to its intervention in and rescue of the failing banks; the establishment of the Asset Management Corporation of Nigeria whose statutory obligation is to acquire and manage the non-performing loan assets of banks, which played a great part in the Nigerian banking crisis; and, the exercise by the Nigeria Deposit Insurance Corporation of its bridging powers under the Nigeria Deposit Insurance Corporation Act.

In terms of litigation and arbitration we are glad to have been afforded the opportunity of playing key roles in shaping financial crime litigation; power arbitration and banking supervision and regulation as well as banking and insolvency – to mention a few.

ACM-Insight!: What do you see as the role of Law in the proper functioning of capital markets?

Dr Ajayi: Capital markets are markets of confidence pivoted on the theory of efficient markets. Transparency is thus key, as is the need for certainty and speed in dispute resolution. No man invests where he is in doubt. The law is the anchor of such assurance. Indeed the law exist to ensure man can be fruitful and multiply in peace and tranquillity.

In an economy such as ours in dire need of long term funds, the only true avenue is the domestic capital market, and not really foreign investments or the debt markets. The capital market thus plays an important role in the flourishing of any economy, be it emerging or advanced, and Nigeria is no different.

The role of the capital market in the development and advancement of any economy is a crucial one and the law no doubt plays a very crucial role in shaping the direction of the market to ensure that the players and operators therein operate within a strict boundary of acceptable business practices and conduct. The law in the proper functioning of the capital market is all encompassing as it regulates the market to prevent the abuse by capital market operators. The law also protects the public while providing penalties for infractions of laid down rules, and ensuring compliance with regulatory framework.

It should be stressed that the capital market is dynamic and products keep coming up which the Nigerian capital market may not be familiar with, it is thus essential that the laws regulating the capital market are developed in line with the market dynamics. Today we talk about Derivative Products, we talk about Eurobonds, Global Depository Receipts, stapled instruments, etc. it is important that our laws are revised such that there are clear rules for the issuers of these products and a regulated trading environment.

ACM-Insight!: What role have lawyers played in the major IPOs and other transactions that have taken place in Nigeria's capital markets in the past 10 years?

Dr Ajayi: IPOs have played a major role in the capital raising exercise of many a corporate institution. Indeed, it is the first step to raising equity capital from the public and many organisations have accessed the capital markets for the first time in a bid to tap into the burgeoning equities market to raise money.

An IPO has wide legal and regulatory ramifications, and the Securities and Exchange Commission requires that an issuer of securities engages a number of advisers, not least of all, a solicitor to the issue, as well as a solicitor to the Company. It is apparent from the growth and sophistication in our equity capital markets over the years, which the role of legal advisers in an IPO process cannot be overemphasised.

Often times, the company coming into the market to raise capital would have hitherto been a private company, or an unquoted public company. As with any capital raising exercise, it is imperative that the books of the company is properly kept, regulatory filings are upto date and the company is well organised. The corporate governance structure of the entity cannot be underscored.

As such, there would typically be a need for a legal audit to be conducted and the legal adviser more or less holds the hand of the company, while guiding it through any minefield that may exist. The role of lawyers has not only been with respect to the companies raising equity capital from the capital market, it has also extended to the regulator. The last 10 years has witness a number of regulatory reforms in the capital markets and for each one, lawyers have played an important role in advising the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE).

This is however not to say that there is still no need for further review and reform, indeed, there is currently a committee set up by the Federal Government of Nigeria to review the Investments and Securities Act, 2007 with a view to addressing certain challenges that have been observed in implementing some of the provisions. All these form part of the on-going reform work of lawyers.

“The major players in Nigeria’s financial sector have, like the Nigerian capital market and economy, evolved and become more sophisticated over the years. As such, marked improvements can be seen in all spheres of the financial sector...”

ACM-Insight!: In June 2010, the Federal Government of Nigeria set up a committee to review the Investment and Securities Act (ISA) 2007 and you were appointed the Chairman of this committee. What is the status of the review?

Dr Ajayi: The review is ongoing and the committee has been able to identify a number of provisions of the ISA that require amendments particularly in the light of recent developments in the market. In the middle of the 400 metres sprint relay batons changed, and have changed again. We hope, as a committee, to engage, our defacto prime minister, so as to take the work forward. In truth though passage of time has allowed for greater reflection which may result in emendations to the great work done thus far to deal with emerging trends and likely outcomes.

ACM-Insight!: You are a non-executive director of Dangote Sugar and Leadway Assurance. What do you think lawyers can bring to the table in helping to shape the strategies of large corporations?

Dr Ajayi: Strategy is as old as the history of man, just as I will say the law is. It will thus be correct to say that these two branches of study are inexorably tied by the heap. Lawyers shape society, and bring clarity and direction in a sea of confusion and uncertainty. The trained mind of a lawyer is to walk by sight and by faith, and in this way see into the future. Uppermost in the good lawyer’s mind is risk; risk; risk. Identification, allocation, mitigation and elimination of these is what the lawyer does best. Lawyers are custodians of the law, and guardians of the soul of entities in their trust. Thus to the table the lawyer brings foresight and planning – which are key to go strategy.

Beyond these I will say that at the heart of the operation of any corporation is the board of directors. This group of people have been imposed with a number of duties and functions under the Companies and Allied Matters Act, and the presence of lawyers on any board of directors assists the board in keeping within the ambit of the law. Lawyers bring a fresh bent with ideas

informed by the practical issues they have had to advise on, they are able to provide a neutral and impartial perspective to problem solving and organisational strategy. They are able to constructively challenge and contribute to the development of strategy and scrutinise organisational performance against agreed goals and objectives. While ensuring that all is done within the ambit of the law and the rules of corporate governance are not breached.

ACM-Insight!: You have provided legal advice on numerous banking and capital market transactions over the years, how do you rate the sophistication of the major players in Nigeria’s financial sector?

Dr Ajayi: The major players in Nigeria’s financial sector have, like the Nigerian capital market and economy, evolved and become more sophisticated over the years. As such, marked improvements can be seen in all spheres of the financial sector evidenced by increased risk appetite and a myriad of more complex transactions being undertaken. The depth of the capital market however, remains a mitigating factor to the development of market and its players, though this is improving. I have worked with some of the best minds in the world and these have been from Nigeria. Professionals like Dan Agbor, Femi Akinsanya, Gbenga Oyeboode, Bolaji Balogun, Fidelis Oditah QC, SAN, Gbolahan Elias SAN, Yewande Sadiku, Tominiyi Owolabi, Seye Opasanya, Angela Omodare, Chuka Eseka, Kunle Elebute, Sonny Ayere and too many others to mention.

ACM-Insight!: You were recently involved in the establishment of the Asset Management Company of Nigeria (AMCON) and in its N3 trillion (USD20billion) debt issuance programme, what were the key legal and practical challenges that you faced?

Dr Ajayi: The key practical challenge that we faced bordered on the novelty of the idea of AMCON and its attendant functions. The creation of this statutory body armed with wide ranging powers took quite a number of people by

surprise and because the Corporation was charged with powers which many saw as far-reaching, there was a lot of hue and cry against the Corporation and its purpose. The Corporation was new and a lot of people had not familiarised themselves with the provisions of the Act establishing it, as such, there was a need to educate the deposit money banks, the non-performing loans of whom were to be bought by the Corporation. There was also the issue of the nature of the instrument to be issued and the applicability of the regulations with respect to debt raising exercises by states and statutory bodies.

The critical point is that AMCON started off with a great and cohesive team, engaged outstanding professionals, had a very cooperative and forward thinking SEC, and had the backing of its regulator CBN. Thus, in terms of legal challenges, I would say much relief was provided by this confluence of factors and actors.

Tangentially, I guess it can be said that having been instrumental to the drafting of the statute establishing the Asset Management Corporation of Nigeria, and based on our the experience I had garnered working on various forms of debt capital raising, though there were challenges, it was not insurmountable as much of the challenge had to do with establishing the applicability or otherwise of a number of regulatory provisions to the issuance by the Corporation.

ACM-Insight!: You have been advising the Central Bank of Nigeria (CBN) in respect of measures to deal with systemic risk in the banking sector. What have been the key achievements of policymakers in ensuring financial stability?

Dr Ajayi: Financial stability maintained in a whirlwind of global change, tough political climate and pressure that comes to the fore with change for good in developing markets. The ability to hold the hydra headed monster of depositor loss at bay by a handicapped agency of State in an environment not used to confronting the dragon is perhaps the most outstanding achievement. At a time of pessimism on the ability of government to bring

succour to the distress in a market littered with the debris of insolvent enterprises, to have been able to slay the dragon, drag its principalities by the hair to criminal courts, and have the courage and boldness to inject cash into the system speaks volumes.

Five of the nine distressed banks are en route to being fully capitalized by the deadline of September 30, 2011 stipulated by the CBN. In addition, the recent intervention of the Nigerian Deposit Insurance Corporation in bridging three (3) Nigerian banks, which led to the revocation by the CBN of the licenses of those banks has effectively helped to secure depositors funds and employees jobs which would have been substantially affected were these banks to be put into liquidation. This development has resulted in increased investor confidence in the banks and there are more investors willing to participate in the recapitalisation of these banks.

Further, the CBN has been able to improve the corporate governance structure of banks with a number of regulations, including the one on tenor of directors and the reversal of universal banking. From the review of the factors resulting in the near collapse of the affected banks, it was discovered that a lot of corporate governance abuses were perpetrated and went unchecked as the directors of these banks cleverly covered up their tracks.

Further, the promulgation of the Asset Management Corporation of Nigeria Act which established the Asset Management Corporation of Nigeria which purpose is to sanitise the banking and financial sector, by purchasing non-performing loans of banks in consideration of debt instruments issued by the Corporation and fully guaranteed by the Federal Government, has also helped in cleaning up the balance sheet of banks and to restore financial stability.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the Nigerian Stock Exchange, erosion of shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policymakers

– such as the Securities & Exchange Commission (SEC) and the Ministry of Finance – should be doing to restore confidence?

Dr Ajayi: The global financial crisis is not peculiar to the Nigerian Financial Market alone and it has no doubt had a huge impact on the Nigerian Stock market. As such, policymakers must ensure that stringent regulatory controls are put in place and not only that, there must be clear monitoring of the activities of quoted institutions, brokers and their agents on the floor of the exchange. Also, the SEC needs to look into the activities of manipulators of the market which created a bubble on the Nigerian capital market which finally busted, thus resulting in the erosion of shareholder value. It is also important that the FSRCC ensures a more effective coordination and collaboration to ensure that there is adequate monitoring and infractions are properly dealt with in accordance with the relevant statutory provisions. Perhaps more critically MoF should consider the possibility of a government guarantee for SME funding. We all know the multiplier effects a growing SME market has on any economy. SEC needs to deepen the debt market, reduce fees, increase speed, take away red tape in the law, while biting hard any offenders. SEC must not spare the rod, while MoF must give us more incentives. It needs to look at taking out our domestic debt by a possible swap of some of the NPLs due to government obligations. This however is a matter beyond the narrow compass of this interview.

ACM-Insight!: How would you rate the compliance culture in Nigeria's financial sector?

Dr Ajayi: I am bewildered. I have seen too much for me not to have a terrible migraine and blurred sight! The picture hitherto was one that showed that the compliance culture in Nigeria's financial sector was sadly below par. Though things are improving, the naughty boys and girls are still out there. The culture of impunity still reigns and until we get right our rule of law only non cancerous tumors will be treated. We need aggressive surgery, chemotherapy and



KNOWLEDGE EXCHANGE & ROUNDTABLE ON GLOBAL TRENDS IN FINANCIAL STABILITY

Date and Venue | March 2012, Lagos, Nigeria

Essence | To review the role of systemic important institutions in the recent financial crisis

Facilitators | Olaniwun Ajayi LP

Speakers | International speakers of repute in the public and private finance and capital market sector



radiography by the law to cure this contumelious behaviour.

There is a lot of room for evasion of the strict provisions of the law and getting away with infractions as there does not appear to be adequate measures in place for dealing with capital market infractions and other financial sector crimes. The issues of insider trading/dealing; non-compliance with filing obligations; lack of monitoring and scrutiny of capital market operators and their activities; accounting fraud, are just a few of the issues that make a mockery of the supposed legal and regulatory framework we have in place.

An examination of what obtains in developed markets shows that a well-established compliance culture is bolstered by the severe approach taken by the regulators in terms of compliance and enforcement. Market infractions are heavily penalized and random spot checks are carried out to ensure compliance with laws and policies. In order to craft a well-established compliance culture, there must be a structure in place starting with the organizations to be regulated.

To this end, each organization must be mandated to establish the office of a Chief Compliance Officer (CCO) whose responsibility would be focusing on all compliance issues and who would ensure that there is an internal compliance mechanism in place to ensure that breaches or infractions are prevented or curbed before they become major issues that can threaten the integrity of the organization or the entire capital market as a whole.

ACM-Insight!: How do you see Nigeria's economy developing over the next 3 to 5 years?

Dr Ajayi: The Nigerian economy has the potential to grow exponentially given the combination of: our population, where the bulk of the consumer market lies, the hopeful large influx of Foreign Direct Investment – especially in the areas of Infrastructure, Telecommunications, Energy and Power; the on-going sanitization of the banking and finance sector and the increasingly stabilized democratic system of government in place. A lot of areas of the economy which had been previously neglected are being

explored and we are set to witness an improvement in infrastructure development which is crucial to growth. Also, agricultural export is set to improve and once the issue of power supply is resolved, Nigeria's economy would definitely experience a boost in manufacturing and production which are essential to growth.

ACM-Insight!: Do you think Nigeria can be one of the 20 largest economies in the world by 2020?

Dr Ajayi: Tough one. We are currently held by the sliver of our buttocks on that fence that has on one side the bottomless abyss where Somalia is, or where India and Brazil are. I will not take pride in climbing on the carcass of any economy, or assume that the West is about to fail given its current confluence of problems. If we get it right and the government delivers only half its promise on corruption, economic reform and social change, we no doubt will make it.

It is arguable that Nigeria is at the cusp of a revolution in terms of world relevance and recognition. As an emerging economy, there is increased interest in Nigeria and we are told a lot of foreign direct investments will be channelled into the region in the areas of Energy and Power, Telecommunications and Infrastructure.

A lot of foreign private equity firms are now hovering over the African border and indeed that of Nigeria testing out the waters having been buoyed by the stunning results seen in the Telecommunications and Energy Sectors in recent years. I believe that given the right leadership and committed hands dedicated to seeing a change, Nigeria's economy has the ability to grow exponentially and rival some of the largest economies in the world in the next ten (10) years.

ACM-Insight!: What is the greatest risk you have taken (either personal or professional)?

Dr Ajayi: The greatest risk I have taken is taking this interview!

ACM-Insight!: What do you do in your spare time (when not busy managing your firm)?

Dr Ajayi: My spare time is spent with on my ministry as a man called to holy orders, my family and close friends, and also enjoy travelling and nature.

ACM-Insight!: On a personal note, what are your ambitions/plans that you would like to accomplish in future?

Dr Ajayi: To help to build tents that will be incorruptible. To make everyman within my sphere of influence to be a better person.

ACM-Insight!: What has been your proudest achievement to date and how would you like to be remembered?

Dr Ajayi: My proudest achievement to date has been raising my two beautiful kids and seeing them turn out into fine responsible and God-fearing individuals with a lot to offer to the development of their society. I would like to be remembered as a humble man.

ACM-Insight!: Thank you very much for granting this interview.

THE ISSUERS



Introduction

They are two primary users of capital markets: lenders and borrowers. The source of lenders' funds is, to a large extent, the household sector made up of personal savings and those acting as their investment managers such as life insurance companies and pension funds. The borrowers are made up of the national governments, state/local governments and corporates.

Like most capital markets around the world, the Nigerian capital market consists of equity and debt markets. The equity market comprises shares of Nigerian public companies and some foreign companies, whilst the debt market consists of government and corporate bonds, notes, debentures and their derivatives, Treasury Bills, Treasury Certificates and other debt instruments. The market is principally regulated by the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE).

There are currently 28 issuing houses registered with the NSE with the mandate to facilitate all forms of capital market services including but not limited to the identification and processing of securities, general financial advisory services and strict adherence to the regulatory framework of the SEC.

When a firm wish to raise capital via a primary market public offering, the firm requires listing or quoting on NSE, in accordance with the provisions of the rules governing listing on the NSE. The NSE's Listing Rules provide, among other things, conditions for the listing of securities of companies having part of their capital already listed and the listing of securities of companies without listed capital. (See the Table

on the next page for the detailed listing requirements)¹.

As at 31 December 2010, there were 264 securities listed on the NSE, of which 40 are Federal and State Government Bonds with market cap of N1, 940 billion and 7 are industrial loans (debentures and preference shares) with market cap of N56.4 billion.

The Equity Issuers

Shares are issued by companies in order to raise long-term capital. Investors who buy shares are called shareholders. Ordinary shareholders are otherwise called "equity shareholders" as they have an ownership stake in the company. That is, they have the right to receive a share in the company's profits, known as Dividend. Ordinary shareholders also have the right to attend and vote in company meetings on matters such as the appointment (and removal) of directors, approving the financial statements or agreeing to a takeover or merger. Shares are described with a "nominal" (or "face" or "par") value. The nominal value is shown on the face of the share certificates. It represents the worth of shareholding in the company.

As result of banking and insurance consolidation exercises between 2004 and 2007, most banks and insurances raised fresh capital to meet the new minimum regulatory share capital requirement. In this period the recapitalising banks and insurance companies raised over \$10billion of fresh capital. This achievement encouraged companies in other sectors to also approach the capital market

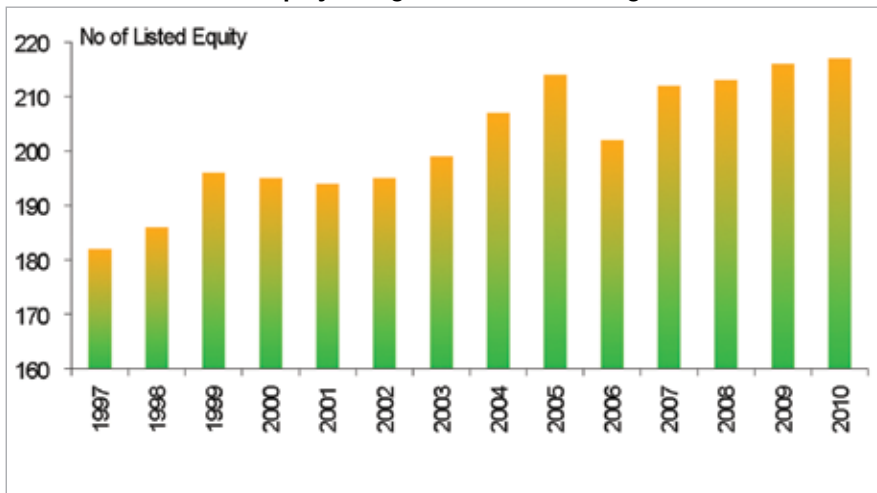
¹ Source: Nigerian Stock Exchange website.

Listing Requirements of the NSE

First-Tier Securities Market	Second-Tier Securities Market	Third-Tier Securities Market
<ul style="list-style-type: none"> ■ Company must be registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990 ■ Must submit to The Exchange financial statements/business record of past 5 years ■ Date of last audited accounts must not be more than 9 months ■ Amount of money that can be raised is unlimited depending ■ Annual quotation fees based on market capitalization ■ At least 25% of share capital must be offered to the public ■ Number of shareholders must not be less than 300 ■ After listing, company must submit quarterly, half-yearly and annual accounts ■ Securities must be fully paid up at time of allotment ■ Un-allotted securities must be sold on NSE Trading floors ■ Provision for issue of mergers, acquisitions, unit trust and mutual funds 	<ul style="list-style-type: none"> ■ Company must be registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990 ■ Must submit to The Exchange financial statements/business record of past 3 years ■ Date of last audited accounts must not be more than 9 months ■ Amount of money that can be raised may not exceed N100 million ■ Annual quotation fees is a flat rate of N30, 000.00 ■ At least 15% of share capital must be offered to the public ■ Number of shareholders must not be less than 100 ■ After listing, company must submit half-yearly and annual accounts ■ Securities must be fully paid up at time of allotment ■ Un-allotted securities must be sold on NSE Trading floors 	<ul style="list-style-type: none"> ■ Company must be wholly indigenously promoted & registered as a Public Limited Liability Co. under the provisions of the companies & Allied Matters decree 1990 ■ Must submit to The Exchange financial statements/business record of past 2 years ■ Date of last audited accounts must not be more than 9 months ■ Amount of money that can be raised may not exceed N100 million ■ Annual quotation fees is Nil ■ At least 15% of share capital must be offered to the public ■ Number of shareholders must not be less than 50 ■ After listing, company must submit half-yearly and annual accounts ■ Securities must be fully paid up at time of allotment ■ Un-allotted securities must be sold on NSE Trading floors ■ Full listing to Emerging market must be within 6—18months of listing

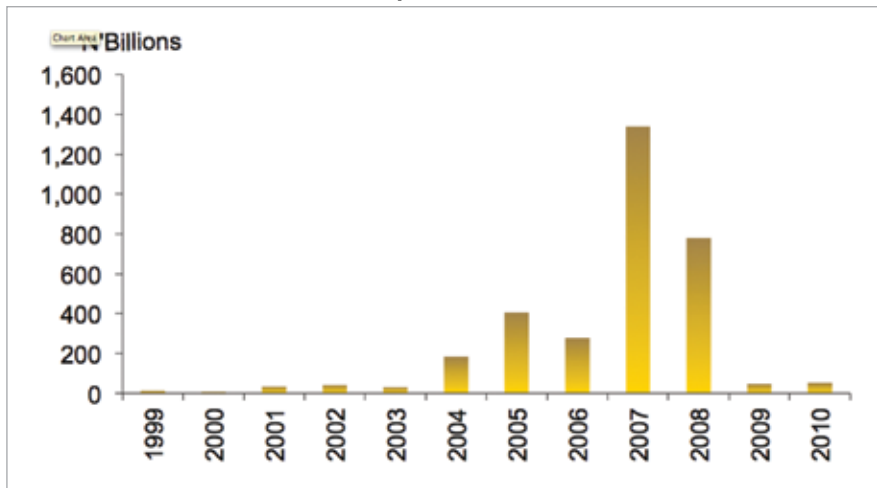
Source: Nigerian Stock Exchange website

Chart 1: No. of Listed Equity at Nigerian Stock Exchange



Source: Nigerian Stock Exchange Annual Report

Chart 2: Value of New Issues of Equities/Preferential Share



Source: Nigerian Stock Exchange Annual Report

to raise equity to fund the growth and expansion of their businesses.

Chart 1 shows the growth of listed companies on the NSE. Over the years, there has been gradual increase in number of listed equities. The drop in number of listed companies between 2005 and 2006 was as a result of the recapitalisation deadline of 2006, and the eventual delisting of banks, which were not able to recapitalise or consolidate.

During the recapitalization exercise of Nigerian banks and insurance companies between 2005 and 2007, over N2,203 billion was raised from the capital market, while value of new equity issued in 2007 only is valued at N1,338 billion (see Chart 2).

The Nigerian equity market is not well diversified as a small number of companies account for almost 75% of the market by market capitalization. The table below shows the HY11 financial statement of top 10 listed companies by market capitalization and P/E and market capitalization as at 30th September 2011.

Top 10 Companies by Market Cap: Key Financial Results Released @ HY 2011

DANGOTE CEMENT PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	112,732	99,956	12.78
Profit Before Tax	58,561	54,112	8.22
Taxation	867	1,140	-23.95
Profit or Loss After Tax	57,694	52,972	8.91
Current P/E (x): 13.91 @ 30th Sept. 2011			
Market Cap: N1,549 Billions @ 30th Sept 11			

ZENITH BANK NIGERIA PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	122,839	96,850	26.83
Profit Before Tax	35,046	25,340	38.30
Taxation	4,380	4,030	8.68
Profit or Loss After Tax	30,666	21,310	43.90
Current P/E (x): 8.329 @ 30th Sept. 2011			
Market Cap: N390 Billions @ 30th Sept 11			

GUINNESS NIGERIA PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	123663	109366	13.07
Profit Before Tax	26,176	19,988	30.96
Taxation	8,249	6,252	31.94
Profit or Loss After Tax	17,927	13,736	30.51
Current P/E (x): 17.92 @ 30th Sept. 2011			
Market Cap: N321 Billions @ 30th Sept 11			

FIRST BANK NIGERIA PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	139,698	122,282	14.24
Profit Before Tax	35,730	31,687	12.76
Taxation	4,466	6,337	-29.53
Profit or Loss After Tax	31,264	25,350	23.33
Current P/E (x): 8.074 @ 30th Sept. 2011			
Market Cap: N319 Billions @ 30th Sept 11			

LAFARGE WAPCO PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	29,496	23,048	27.98
Profit Before Tax	4,641	6,378	-27.23
Taxation	1,447	2,359	-38.66
Profit or Loss After Tax	3194	4019	-20.50
Current P/E (x): 45.99 @ 30th Sept. 2011			
Market Cap: N120 Billions @ 30th Sept 11			

NIGERIAN BREWERIES PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	110,202	88,444	24.60
Profit Before Tax	27,605	23,280	18.58
Taxation	8,883	7,401	20.02
Profit or Loss After Tax	18,722	15,879	17.90
Current P/E (x): 18.22 @ 30th Sept. 2011			
Market Cap: N605 Billions as at 30th Sept 11			

GURANTY TRUST BANK PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	91,843	82,963	10.70
Profit Before Tax	31,901	25,722	24.02
Taxation	6,647	7,497	-11.34
Profit or Loss After Tax	25,254	18,225	38.57
Current P/E (x): 8.34 @ 30th Sept. 2011			
Market Cap: N378 Billions @ 30th Sept 11			

NESTLE NIGERIA PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	44,913	37,761	18.94
Profit Before Tax	9,035	9,173	-1.50
Taxation	2,777	3,137	-11.48
Profit or Loss After Tax	6,258	6,036	3.68
Current P/E (x): 24.78 @ 30th Sept. 2011			
Market Cap: N318 Billions @ 30th Sept 11			

STANBIC IBTC BANK PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	32,197	28,376	13.47
Profit Before Tax	6,617	7,311	-9.49
Taxation	1,885	2,017	-6.54
Profit or Loss After Tax	4732	5294	-10.62
Current P/E (x): 19.60 @ 30th Sept. 2011			
Market Cap: N173 Billions @ 30th Sept 11			

UNITED BANK FOR AFRICA PLC Q2'11			
N' Millions	Q2'11	Q2'10	Δ %
Turnover	87,663	93,656	-6.40
Profit Before Tax	10,111	8,636	17.08
Taxation	1,995	3,789	-47.35
Profit or Loss After Tax	8116	4847	67.44
Current P/E (x): 43.00 @ 30th Sept. 2011			
Market Cap: N125 Billions @ 30th Sept 11			

Source: Applied Capital Markets Limited (ACM), using data from the public accounts of the companies mentioned.

The Debt Issuers

The Debt Market comprises bonds issued by the Federal Government and State Governments and some few public companies.

The Nigerian Sovereign Bonds have been in existence since the 1970s. However, the Bond Market became active in 2003 when the Debt Management Office (DMO) launched four Federal Government

bonds of maturities ranging from three years to ten years. Approximately 37 Federal Government and State Government bonds have been issued since 2003 with the most recent being the Lagos, Imo and Kwara

State Government bonds issued in 2009 and Bayelsa, Kaduna, Niger and Ebony State Governments in 2010 to finance infrastructural development and refinance subsisting debt arrangements.

The DMO is the statutory body authorised to administer bonds issued by the Federal Government. In the second half of 2006, the Primary Dealer Market Maker (PDMM) system was created by the DMO to ensure liquidity in Federal Government bonds; however, some sub-sovereign and corporate bodies are also using the PDMMs to create liquidity for their bonds.

In order to attract foreign investors to invest in the nation's money market instruments and debt market, the Central Bank of Nigeria (CBN) has lifted ban placed on foreign investment

in Federal Government Bond (FGBs) and Nigerian Treasury Bills (NTBs) with effect from 1 July 2011, as result of which foreign investors can now deal in government debt securities without any restrictions.

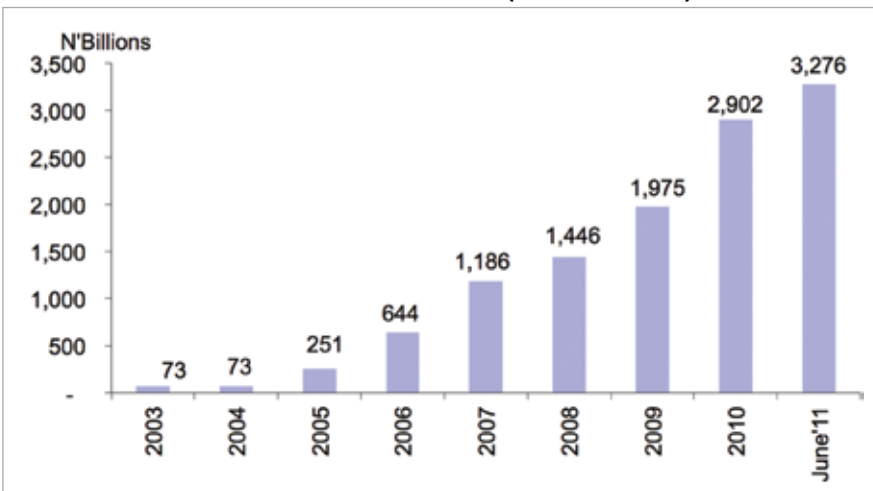
In 2010, the bond market in Nigeria witnessed increased activity as a result of large patronage and subscription. At the end of December 2010, a total of N1, 073.12 billion worth of Federal Government of Nigeria (FGN) bonds was offered, an increase of 74.65 percent over its level of N614.44 billion offered in 2009. The total subscription in 2010 was N2, 141.84 billion, up by 71.46 percent from N1, 249.16 billion subscribed in 2009. The total amount of FGN bond sold in 2010 was N1, 083.16 billion, which represented an increase of 73.05 percent over the amount of N625.94 billion sold in 2009.

The FGN Bond market has grown substantially in the past six years, from N251 billion in 2005 to N1, 974 billion in 2009, increasing to N 3,276 billion in June 2011.

The corporate bond market is also developing, and this may be attributable to the need for inexpensive long-term debt capital by companies coupled with investors' apathy to equity investments, following the impact of the global financial and economic crisis on the values of stocks. Companies including Guaranty Trust Bank Plc, UACN Property Development Company Plc, United Bank for Africa Plc and Flour Mills of Nigeria Plc have successfully issued bonds in the Nigerian capital market while a number of other corporate bond applications are awaiting sign-offs from the SEC.

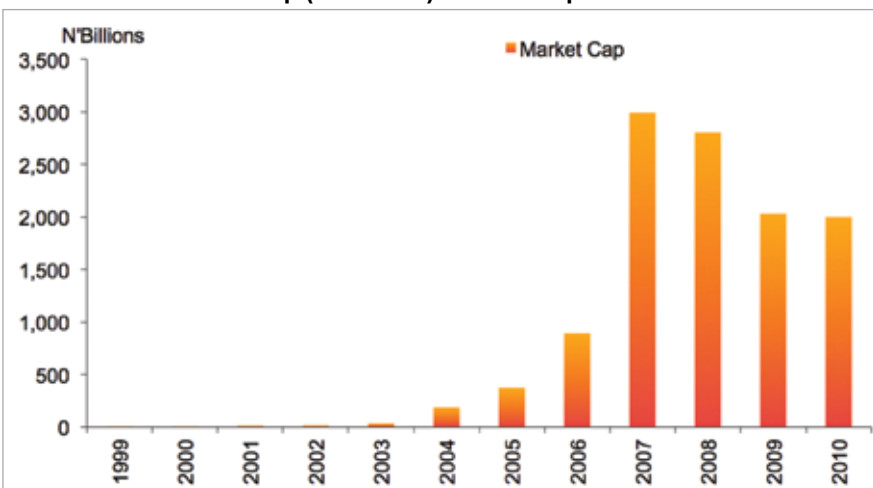
To further encourage the development of the corporate and State Government bonds as well as bond issuance by supranational institutions such as the International Development Bank, in March 2010 the Federal Government approved a waiver of taxes for these categories of bonds. Furthermore, Nigerian banks are now allowed to treat State Government Bonds as liquid assets provided such bonds meet requirements set out by the CBN.

Chart 3: Federal Government Bonds Issued (in 'Billion Naira)



Source: The Debt Management Office's website

Chart 4: Debt Market Cap (N' Billions) Govt & Corporates



Source: Nigerian Stock Exchange Annual Report

Coupon Rate (%)	DESCRIPTION OF SECURITIES	Issue Date	Maturity Date	Coupon Payment Date
Federal Government Bonds				
T.Bills+3.750	T-BILLS+3.75 SEP 30, 2013	30-Oct-03	30-Sep-13	31-MAR / 30-SEP
15	15% FGN MAY 2013	26-May-06	26-May-13	26-NOV / 26-MAY
16	16% FGN JUN 2013	30-Jun-06	30-Jun-13	30-DEC / 30-JUN
12.74	12.74% FGN OCT 2013	27-Oct-06	27-Oct-13	27-APR / 27-OCT
10.98	10.98% FGN NOV 2013	24-Nov-06	24-Nov-13	24-MAY / 24-NOV
11.99	11.99% FGN DEC 2013	22-Dec-06	22-Dec-13	22-JUN / 22-DEC
9.5	9.5% FGN FEB 2012	23-Feb-07	23-Feb-12	23-AUG / 23-Feb
10.75	10.75% FGN MAR 2014	30-Mar-07	30-Mar-14	30-SEP / 31-MAR
9.23	9.23% FGN MAY 2012	25-May-07	25-May-12	25 NOV / 25-May
9.2	9.2% FGN JUN 2014	29-Jun-07	29-Jun-14	29-DEC / 29-Jun
9.85	9.85% FGN JUL 2017	27-Jul-07	27-Jul-17	27-JAN / 27-Jul
9.5	9.5% FGN AUG 2012	31-Aug-07	31-Aug-12	31-Feb / 31-AUG
9.35	9.35% FGN AUG 2017	31-Aug-07 31	28-Aug-17	28-Feb / 31-AUG
9.25	9.25% FGN SEP 2014	28-Sep-07	28-Sep-14	28-MAR / 28-Sep
9.45	9.45% FGN JAN 2013	25-Jan-08	25-Jan-13	25-Jul / 25-JAN
10.7	10.7% FGN MAY 2018	30-May-08	30-May-18	30-NOV / 30-MAY
10.5	10.5% FGN NOV 2013	28-Nov-08	28-Nov-13	28-MAY / 28-NOV
15	15% FGN NOV 2028	28-Nov-08	28-Nov-28	28-MAY / 28-NOV
9.92	9.92% FGN JAN 2012	30-Jan-09	30-Jan-28	30-Jul / 30-JAN
10.5	10.5% FGN MAY 2012	22-May-09	22-May-12	22-NOV / 22-MAY
12.49	12.49% FGN MAY 2029	22-May-09	22-May-29	22-NOV / 22-MAY
7	7% FGN OCT 2019	23-Oct-09	23-Oct-19	23-APR / 23-Oct
8.5	8.5% FGN NOV 2029	1-Nov-09	20-Nov-29	20-May / 20-NOV
4	4% FGN APR 2015	23-APR-10	23-Apr-15	23-APR / 23-Oct
10	10% FGN JUL 2030	27-Jul-10	27-Jul-30	27-JAN / 27-JUL
State Government Bonds				
12.5	12.50% KADUNA AUG 2015	24-Aug-10	31-Aug-15	1 - Mar /1 - Sep
14	14.00% EDO DEC 2017	31-Dec-10	31-Dec-17	30 - Jun /31 - Dec
13.75	13.75% BAYELSA STATE DEVELOPMENT BOND 2017 S0	30-Jun-10	30-Jun-17	30 - Jun /30 - Jun
13.5	13.5% EBONYI STATE GOVERNMENT BOND 2015	29-Sep-10	30-Sep-15	31 - Mar /30 - Sep
15.5	15.5% IMO STATE FIXED RATE REDEEMABLE BOND 2016	30-Jun-09	30-Jun-16	31 - Dec /30 - Jun
14	14.0% KWARA STATE FIXED RATE REDEEMABLE BOND	20154-Aug-09	05-Aug-14	5 - Feb /5 - Aug
13	13.0% LAGOS STATE FIXED RATE REDEEMABLE BOND 2019	04-Feb-09	09-Feb-14	9 - Aug /9 - Feb
10	10.0% LAGOS STATE GOVERNMENT N57.5B FIXED RATE	19-Apr-10	19-Apr-17	19 - Apr /19 - Apr
14	14.0% NIGER STATE N6B FIXED RATE RED. DEV. BOND	16-Mar-10	15-Oct-14	15 - Apr /15 - Oct
Corporates Bonds				
0	AMC DEC 2013 (SR.1 TR.1)	06-Apr-11	31-Dec-13	31 - Dec /31 - Dec
0	AMC DEC 2013 (SR.1 TR.2)	6-Apr-11	31-Dec-13	31 - Dec /31 - Dec
0	AMC DEC 2013 (SR.1 TR.3)	06-Apr-11	31-Dec-13	31 - Dec /31 - Dec
10	10.00% UPD AUG 2015	08-Sep-10	17-Aug-15	17 - Feb /17 - Aug
12	12.00% FMN DEC 2015	09-Dec-10	09-Dec-15	9 - Jun /9 - DEC
13	13.00% UBA SEP 2017	28-Sep-10	30-Sep-17	28 - Sep /30 - Sep
14	14.00% CHE JAN 2016	31-Dec-10	06-Jan-16	6 - Jan /6 - Jul
13.5	1ST GTBANK N13.185B FIXED RATE SNR BOND	18-Dec-09	18-Dec-14	18 - Dec /18 - Jun
0	C & I LEASING PLC LOAN STOCK 2 014 4.75	23-Feb-10	31-Dec-14	31 - Dec /31 - Dec
12	CRUSADER NIG. PLC UNSECU CONVERT. D	30-Sep-08	30-Sep-13	30 - Mar /30 - Sep

Source: Applied Capital Markets Limited (ACM), using data from the DMO and the NSE.

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EXCLUSIVE INTERVIEW

ACM-Insight! the pleasure of bringing you an exclusive interview with the CEO of *Stanbic IBTC Bank Plc*, **Mrs Sola David-Borha**.



SOLA DAVID-BORHA

Mrs. David-Borha is the CEO of Stanbic IBTC Bank PLC. Previously, she was the Deputy CEO of Stanbic IBTC Bank PLC (Jan 2008 - April 2011) and Acting Managing Director, IBTC Chartered Bank Plc (Oct 2007 - Jan 2008). She also served in the bank as Executive Director, Corporate and Investment Banking (2006 - April 2010) and Executive Director Corporate Banking (1994 - 2005). She is a member of the Chartered Institute Of Bankers of Nigeria and the Nigerian Economic Summit Group.

Also, she is a Board Member of the Financial Institutions Training Centre, Fate Foundation and First Securities Discount House Limited

Mrs. David-Borha holds an MBA degree from Manchester Business School, United Kingdom. Her executive educational experience includes the Advanced Management Programme of the Harvard Business School.

ACM-Insight! As the CEO of one of Nigeria's vibrant banks, please tell our readers what your overall impression of Nigeria's banking sector is – from the crisis-prone 1990s, through the 2004/5 banking consolidation and the rapid growth that followed, to the global financial crisis, the large drops on the Nigerian Stock Exchange (NSE) and the CBN's ongoing intervention in a large number of banks?

Mrs. Sola David-Borha: The Nigerian banking industry has been made stronger with the different phases it has undergone in the last two decades.

ACM-Insight! How does Stanbic IBTC fit into Standard Bank Group's overall strategy?

Mrs. Sola David-Borha: The Standard Bank Group's strategy is to build and grow its Africa business franchise. The Nigeria market is very important to Standard Bank owing to the fact that the country is the second largest economy in the Sub Saharan Africa with a good investment case. Stanbic IBTC has grown from a bank with 62 branches at the time of the merger in September 2007 to a bank with 162 branches as at August 2011. The Standard Bank Group will continue to support Stanbic IBTC in its effort to gain more market share and take advantage of opportunities in the market.

ACM-Insight! In HY11 result Stanbic IBTC reported continued growth in deposit liabilities (c.33% increased compare to YE10) and maintained stable deposit mix, despite exiting expensive funding in the second quarter of the year. How did you manage to achieve that and how do you plan to sustain it?

Mrs. Sola David-Borha: The increase in deposit liabilities is an evidence of increased customer confidence in a very competitive market. This growth is a function of our increased footprint, our commitment to providing excellent service and the strength of our brand.

We increased our footprint by 71 in 2010 and the positive impact of the growth is being seen in the deposit growth. The quality of our services improved significantly as evidence by the 3rd position we received in the retail sector in the 2011 KPMG Customer Satisfaction survey.

We believe that with our ability to provide excellent service, structure products that meet customers' needs and the on-going branch expansion, the deposits will continue to grow and deposit mix will continue to show signs of improvement through growth of appropriate classes of deposits.

ACM-Insight!: Following the CBN's abolition of the universal banking licence and the introduction of three tiers of commercial banking licence, Stanbic IBTC has opted for the holding company structure. What motivated this decision and what is the timeline for completing the requisite restructuring?

Mrs. Sola David-Borha: The need to provide shareholder's good returns on investment by retaining all our existing business lines informed our decision to pursue Holding Company Structure. Our subsidiaries – Stanbic IBTC Pension Managers, Stanbic IBTC Asset Management and Stanbic IBTC Stockbrokers Ltd are market leaders in their respective businesses with significant market share.

Our wealth management division, which houses the subsidiaries, contributes over 15% of the Group's revenues. These businesses are viable and make meaningful contribution to the bottom line, hence the decision to keep the business lines.

We intend completing the restructuring around the end of first quarter 2012

ACM-Insight!: One of your ambitions is to capitalise on and maintain Stanbic IBTC market leadership in corporate finance, custody and wealth management. Please describe Stanbic IBTC's growth path and strategy.

Mrs. Sola David-Borha: The Bank is a market leader in many business lines such as investment banking, custody and wealth management to mention a few. The assets under management in our pension and asset management businesses continued to grow by 20% year-on-year, while holdings under custody continued to grow by 25% year-on-year.

We intend maintaining this market leadership by continuing to focus on providing quality service to our customers and building capacity in these business lines to ensure that we deliver value to our clients at all times.

ACM-Insight!: Have Nigerian banks overcome their aversion to lending and what areas of the economy would you increase lending to?

Mrs. Sola David-Borha: Yes. Most banks have been focusing on "in-house cleaning" in the last 2 years. They were busy putting in place good risk management and corporate governance practices to ensure that what happened pre-2009 did not repeat itself. This in-house cleaning affected business as most banks were risk averse. However, for us, it was business as usual. We grew our loan book by over 40% in 2010 and by 19% in half year 2011.

Most Banks have now started to lend. The industry lending to the private sector increased in Q2 2011. It was up 5.8% QoQ in Q2 2011. Annual private sector credit growth moved northwards for the first time this year in July at 0.6% YoY. So the aversion to lending has been overcome by banks and we believe the industry will witness a double digit growth by the end of the year.

We lend to all the sectors of the economy. We will continue to focus on growing the business banking arm of our business, which comprise the middle tier businesses. We see this sector as the engine of growth for the nation.

ACM-Insight!: Stanbic IBTC has always been seen as a development financial institution. How much of Stanbic IBTC Bank's loan growth is driven by infrastructure projects?

Mrs. Sola David-Borha: We are a universal banking group, less than 5% of the loan growth is driven by Infrastructure projects. However, the percentage contribution have been on the rise year-on-year.

ACM-Insight!: What are your views on the recent margin lending crisis in the banking sector?

Mrs. Sola David-Borha: Such events are characteristic of markets that reach a point of inflection and the existing framework is tested and found to be in need of further development. We saw the same overheating in many markets around the world. The banking system had been recapitalised and the depth and range of credit outlets for this capital had not kept pace. Large amounts of capital chasing too few outlets led to excessive

concentration of risk and more relaxed risk acceptance criteria. In such situations, a correction is almost inevitable. Stakeholders learn, the sector strengthens and moves forward which is what we are seeing now.

ACM-Insight!: The Asset Management Company of Nigeria (AMCON) was recently established to absorb toxic debts (much of which was blamed on lack of adequate risk management, compliance and governance). What are your views on the role that AMCON is playing in the banking sector?

Mrs. Sola David-Borha: As I see it, AMCON is a reflection of stakeholders learning and the sector strengthening. In the first instance, AMCON serves as a resolution vehicle for the current crisis in that it enables the problem of bad assets to be addressed comprehensively across the sector. It also allows for the banks to be recapitalised, which is essential, and it does this through a mechanism that gives opportunity to maximise taxpayer returns.

Going forward, beyond the current crisis, AMCON can serve as a pillar that strengthens the sector by enabling problems of bank balance sheet risk to be addressed before they become matters of systemic danger as we saw this time around. Having said all of this, AMCON is not a silver bullet and does not operate in isolation. It requires key stakeholders of our financial system to operate competently and responsibly in order for its benefit to be maximised.

ACM-Insight!: A steady stream of new regulations have been coming out of the CBN in recent years, what are your views on the regulatory framework for the financial sector generally?

Mrs. Sola David-Borha: The framework in existence prior to the recent crisis both in terms of structure and application was inadequate for the needs of the sector. The regulator has taken steps, in a collaborative manner with the operators, to move regulation to a place where it is more relevant for the current needs, challenges and threats that face the banking sector now and in the foreseeable future.

ACM-Insight!: Do you think Nigeria's financial sector will benefit from having a single financial regulator for the banking, securities and insurance sectors?

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Mrs. Sola David-Borha: The Financial Services Regulation Coordinating Committee (FSRCC) serves this purpose by providing a regulatory framework for all the regulators to collaborate and jointly oversee the financial sector. In addition, each regulator is currently going through changes with respect to strengthening its own specific framework.

ACM-Insight!: What, in your view, should the federal government and policymakers be doing to attract foreign direct investment (FDI) and promote private sector-led infrastructure development in Nigeria?

Mrs. Sola David-Borha: In my observation, one thing the private sector is not lacking is initiative. All they need to encourage them is a satisfactory level of transparency and equity in government frameworks and the confidence that they will be adhered to. If the rules are clear enough, investors can plan. If the rules reasonably cater for the need to make commercial gain, investors will respond. If there is confidence that disputes will be honoured through an autonomous, unbiased process, they will have greater confidence to commit capital.

Once these intentions are genuinely in place, it is easy to engage those with the technical skills and requisite experience to design policies that will be effective in this context. We must always remember that capital is finite and it has the capacity to navigate the globe looking for the most receptive home so it isn't too difficult to figure out whether or not we are getting it right.

ACM-Insight!: How can banks help to solve the big problems facing the power sector in Nigeria?

Mrs. Sola David-Borha: The banks as providers of finance cannot operate in a vacuum. Once the climate is appropriate, banks will intermediate between project sponsors and owners of capital. We have the expertise to deploy bespoke solutions that ensure that as many owners of surplus capital find outlets as possible. Banks can of course also deploy some of their own capital in this regard. In addition, banks can provide financial advisory services to ensure the appropriate financing structure is in place.

ACM-Insight!: Do you think banks should embrace long-term debt funding (such as corporate bonds) in order to be able to provide long-term lending to the economy (and better support infrastructural development) in Nigeria?

Mrs. Sola David-Borha: The beauty of a bond market is that it is open to all. It doesn't require a bank to gather the capital first and then deploy it to appropriate projects. To the extent that a bank, from its vantage point within the economy, feels that it can identify projects and mobilise capital more efficiently than the owners of those projects, it may of course access the bond markets as appropriate.

The end investor in the bond then makes an assessment of the bank issuing the bond and their ability to evaluate and price risk, charging them accordingly for the funds. However, if the project owner has the stature, such an entity may also interface directly with end investors and those investors will make an assessment of that entity's ability to execute and charge them a price accordingly. Collectively, it makes for a deeper bond market.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the Nigerian Stock Exchange, erosion of bank shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policymakers – such as the Securities & Exchange Commission (SEC), CBN and the Ministry of Finance – should be doing to restore confidence?

Mrs. Sola David-Borha: The simple answer is that if we do the right things, confidence will return. If we seek to chase confidence as an end itself, we risk pursuing short term gimmicks that do not necessarily enable the market to develop for the long term. These things include a commitment to market integrity, the pursuit of best practice with respect to technology, regulations and the like.

ACM-Insight!: In your own view, is vision 2020 achievable and realistic, given present economic status? What kind of key changes are necessary to attain this vision?

Mrs. Sola David-Borha: Today Nigeria is the 2nd largest economy in Sub

Saharan Africa. The Vision 2020 is a lofty plan aimed at moving Nigeria to the league of top 20 economies of the world by the year 2020 which is now 9 years away.

In my view this is a good plan but the question of if it is achievable lies in our collective ability to avoid distractions and tirelessly execute the laid out plans. The reality is the clock is ticking and there is a lot of work to be done in the area of bridging the infrastructural gaps and enhancing the governance systems which will foster the level of investments and private sector participation required to attain the desired economic growth and wealth creation.

This will require a new way of thinking, some reforms and structural changes, finding creative solutions to our challenges and dedication to succeed.

ACM-Insight!: Is there anything we haven't touched on that we should tell the world about Stanbic IBTC Bank?

Mrs. Sola David-Borha: At Stanbic IBTC we remain focused on meeting the diverse needs of our clients and are constantly seeking new ways to enhance our array of product offerings to meet the needs of the diverse market we operate in. Very recently we upgraded our core banking software to a more robust platform capable of optimising service delivery; we have been awarded a provisional license from the Central Bank of Nigeria to implement non-interest banking as well as a license to operate Mobile Payment services in Nigeria as we march toward a cashless society. These are just a few of the initiatives we will be progressing.

ACM-Insight!: What do you do in your spare time (when not busy managing Stanbic IBTC Bank)?

Mrs. Sola David-Borha: I spend time with my family

ACM-Insight!: On a personal note, what are your ambitions/plans that you would like to accomplish in future?

Mrs. Sola David-Borha: My focus currently is to build the Stanbic IBTC franchise in Nigeria

ACM-Insight!: Thank you very much for granting this interview.

EXTERNAL INFLUENCES





Introduction

The growth of capital markets correlates with growth in other sectors of the economy; hence its outlook depends on other key players in the financial sectors and beyond. We highlight some major players that influence the direction of Nigeria's capital markets.

The Central Bank of Nigeria (CBN)

The CBN is the regulator of the Nigerian banking sector. Since January 1999, the CBN has had autonomy from its previous supervision by the Ministry of Finance and now has the power to formulate and implement monetary and exchange rate policies¹.

The statutory mandate of the CBN encompasses ensuring monetary and price stability, the issuance of legal tender currency (naira and kobo), the maintenance of Nigeria's external reserves to safeguard the international value of the legal currency, the promotion of a sound financial system in Nigeria, and acting as both banker, economic and financial adviser to the Federal Government as well as banker and lender of last resort to commercial banks.

The CBN is also the agency of the government which maintains general surveillance over the Nigerian foreign exchange system. It licenses authorised dealers, who are licensed banks, to deal in foreign exchange².

Therefore, the wide-ranging powers conferred on the CBN in respect of the financial sector means that it can have a significant degree of influence on the capital markets. For instance, following

the margin lending crisis that occurred in Nigeria, the CBN effectively banned banks from lending on margin to stock market speculators. Further, the CBN's decision to take over several banks and its various comments in the media about certain banks had instantaneous impacts on the value of listed shares.

Nigeria Deposit Insurance Corporation (NDIC)

The NDIC, established by statute in 1988, insures all deposit liabilities of licensed banks and other financial institution operating in Nigeria. The NDIC guarantees payments to depositors in case of imminent or actual suspension of payments by insured banks or other financial institutions up to the maximum amount of N100,000.00 per depositor for Primary Mortgage Institutions and Micro Finance Banks, and N200,000.00 per depositor for Universal Banks.

The NDIC is also mandated to assist monetary authorities in the formulation and implementation of banking policy so as to ensure sound banking practice and promote fair competition among banks in Nigeria. The powers and functions of the NDIC are stated in the NDIC Act No 16 of 2006 which repealed the NDIC Decree of 1988.

Debt Management Office (DMO)

The DMO was established in October 2000 to, inter alia, prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels in line with the country's desire for economic growth and development³. In 2008, the DMO

¹ Under the purview of the Financial System Stability Directorate is the supervision of banks, and this includes off-site review and on-site examination of banks especially in relation to their financial condition, internal control systems, the reliability of information provided in the statutory returns, risk management and compliance with corporate governance codes.

² By virtue of Section 1(2) of the Forex Act, the CBN may also make regulations from time to time pertaining to foreign exchange.

³ The operations of the DMO are governed by the DMO Act 2003, which provides for a Supervisory Board chaired by the Vice-President of Nigeria and the Minister of Finance as the Vice-Chairman.

“Since its establishment in 2000, the DMO has initiated and adopted a number of measures to promote prudent debt management at the federal and state levels while at the same time promoting the development of the domestic debt securities market.”

articulated a five year medium-term debt strategy in the form of the National Debt Management Framework, 2008-2012 (“NDMF”). The NDMF is anchored on three principal areas, namely external debt, domestic debt and sub-national debt.

Since its establishment in 2000, the DMO has initiated and adopted a number of measures to promote prudent debt management at the federal and state levels while at the same time promoting the development of the domestic debt securities market.

The Investments & Securities Tribunal (IST)

The IST was established in 1999 under Section 224 of the Investment and Securities Act (ISA). It is a dedicated and fast track civil court for the resolution of disputes arising from investments and securities transactions in an accessible, flexible, transparent and cost effective manner. The Tribunal’s awards or judgments are enforced as judgments of the Federal High Court and appeals go to the Court of Appeal.

The Abuja Securities & Commodity Exchange (ASCE)

The ASCE was originally incorporated as the Abuja Stock Exchange on June 17, 1998 to provide a competing trading platform to break the monopoly of the Lagos-headquartered Nigerian Stock Exchange which under the White Paper issued by the Federal Government was to be renamed Lagos Stock Exchange⁴.

Electronic trading in securities commenced in May 2001 but was converted to a Commodity Exchange on August 8, 2001 by the Federal Government following protests by NSE against the SEC’s attempt to enforce the provisions of the White Paper on the Odife Committee Report. It is now under the supervision of the Federal Ministry of Commerce though still under the regulatory ambit of the SEC.

The National Pension Commission (PenCom)

The National Pension Commission (PenCom) was established on 25 June 2004 with the passage of the Pension Reform Act 2004 (PRA 2004). Section 14(1) of the PRA 2004 provides for the establishment of PenCom to “*regulate, supervise and ensure the effective administration of pension matters in Nigeria*”⁵.

The regulatory and supervisory functions of PenCom are categorised into issuance of guidelines and regulations for the smooth functioning of the pension industry; surveillance; compliance and enforcement activities; investments monitoring; and the maintenance of a databank on pension matters.

PenCom issued, in December 2010, the revised Regulation on Investment of Pension Fund Assets. The major objectives of the revision were to enhance the risk-return profile and investment universe for pension fund assets. The key changes are:

Introduction of new asset classes, namely, Infrastructure Bonds/Funds, Private Equity Funds and Supranational Bonds.

Direct investment in Commercial Papers of Blue Chip Companies.

Increase in portfolio limit for corporate bonds/debt securities from 30% to 35%.

Introduction of ordinary shares investment in RSA “Retiree” Funds (subject to a maximum of 10% of portfolio value).

Asset Management Corporation of Nigeria (AMCON)

AMCON was established in July 2010, when the President of the Federal Republic of Nigeria signed the AMCON Act into Law. AMCON was created to be a key stabilizing and re-vitalizing tool established to revive the financial system by efficiently resolving the

⁴ The Report of the SEC Committee on the Nigerian Capital Market - February 2009.

⁵ NATIONAL PENSION COMMISSION (PenCom) - 2010 ANNUAL REPORT.

non-performing loan assets of the banks in the Nigerian economy.

AMCON has issued significant volumes of bonds in its short life-span so far. The bonds are guaranteed by the Federal Government of Nigeria and thus will bear the full faith and credit of the Federal Government in accordance with the provisions of Section 26(l) and 27 of the AMCON Act, 2010 and Section 47 of the Fiscal Responsibility Act, 2007.

The purpose of AMCON is to acquire Eligible Bank Assets (EBAs) from Eligible Financial Institutions (EFIs) at a fair value and put these assets to economic use in a profitable manner. AMCON's acquisition will help EFIs:

- Free up resources for more profitable activities; and
- Improve capital position
- AMCON's stated mission is to assist the economy of Nigeria by;
- Complementing the recapitalization of affected Nigerian banks;
- Providing an opportunity for banks to sell off Non Performing Loans(NPLs);
- Freeing up valuable resources and enabling banks focus on their core activities; and
- To get banks lending again.

AMCON is clearly set to be a major player in Nigeria's capital markets due to the sheer size of its activity. This is in addition to the fact that shares in AMCON are held equally by the CBN and the Ministry of Finance.

National Insurance Commission (NAICOM)

NAICOM is responsible for regulating the insurance sector in Nigeria. Its stated mission is to effectively supervise the Nigerian Insurance industry to the attainment of high ethical standards, for leadership in global emerging markets.

Insurance regulation in Nigeria dates back to the report of the J.C. Obande Commission of 1961, which resulted in the establishment of the Department of

Insurance within the Federal Ministry of Trade and which was later transferred to the Ministry of Finance. The report also led to the enactment of Insurance Companies Act 1961, which came into effect on 4th May 1967. Subsequently, the Insurance Decree No 59 of 1976 constituted the first comprehensive law for the regulation and supervision of insurance business in Nigeria. In 1997, the National Insurance Supervisory Board was renamed the National Insurance Commission (NAICOM).

As insurers provide long term financing, the development of the sector is important for deepening and broadening Nigeria's capital market.

“The purpose of AMCON is to acquire Eligible Bank Assets (EBAs) from Eligible Financial Institutions (EFIs) at a fair value and put these assets to economic use in a profitable manner.”

EXCLUSIVE INTERVIEW

ACM-Insight! the pleasure of bringing you an exclusive interview with the Managing Director/CEO of *Greenwich Trust Limited*, **Mr Kayode Falowo**



KAYODE FALOWO

Mr. Kayode Falowo is the Managing Director/CEO of Greenwich Trust Limited, one of the leading Investment Banking firms in Nigeria. He is a Chartered Stockbroker with over 25 years post graduate experience and practice in Finance, Commercial and Investment Banking. He is an active member of numerous professional and industry associations. He is a distinguished Fellow of the Chartered Institute of Stockbrokers and Association of Investment Advisers and Portfolio Managers, Vice President of the Nigerian-British Chamber of Commerce and Council Member of the Nigerian-Malaysian Chamber of Commerce & Industry.

He holds a B.Sc. (Hons) in Agricultural Engineering from the University of Ife (now Obafemi Awolowo University), an MBA from the University of Benin and a Diploma in Information Management. He has attended numerous workshops and seminars, which include the Chief Executive Programme at the Lagos Business School and Financial Analysis Training at the IESE Business School, Barcelona, Spain.

ACM-Insight!: As the CEO and Managing Director of Greenwich Trust Group, please tell our readers what your firm does – which areas of financial services are you engaged in, what category of clientele do you service and any major recent or upcoming transactions?

Mr Kayode Falowo: Greenwich Trust Limited (GTL) is a leading Investment Bank focused on creating value for our various stakeholders. The firm was incorporated on 25th February 1992 and commenced business in June 1994. GTL is well capitalized with Shareholders' Funds in excess of N6 billion, with 4 functional subsidiaries having specialties across the financial sector. These subsidiaries are Greenwich Securities Limited, Greenwich Assets Management Limited, Greenwich Nominees Limited, and GTL Properties Limited.

The product/service offerings include Managed Portfolio (discretionally and non-discretionally), Structured Credits, Portfolio Administration Services, Investment Advisory, Financial Advisory/Equity and Debt Capital, Mergers & Acquisition, Balance Sheet/Corporate Restructurings, Venture Capital, Securities Trading, Margin Trading Transactions and Fixed Income Transaction.

GTL is renowned as a leading Capital Market Operator in Nigeria. It has been involved in numerous big ticket transactions and has been a major contributor to policy initiatives and development in conjunction with other Capital Market Operators and Regulators over the years.

Our business model is largely wholesale, covering both local and foreign institutions, federal and state governments, and high net worth individuals.

ACM-Insight!: What are Greenwich Trust Limited's competitive advantages and challenges?

Mr Kayode Falowo: GTL's strongest competitive advantages are our Issuing House and Research capabilities. Our challenges in recent times like most investment banks has been that of low investors' confidence brought about by the downturn in the global economy. The downturn has led to a

massive reduction in investible funds both locally and globally.

ACM-Insight!: The Securities and Exchange Commission (SEC) appointed Greenwich Trust Limited as one of a handful of Market Makers in Nigeria's financial sector. What does a market maker do and how are market makers beneficial to the functioning of financial markets?

Mr Kayode Falowo: A Market Maker is a broker-dealer firm duly registered as a member of an Exchange. The Market Making firm quotes both a buy and a sell price in a financial instrument or commodity in which the firm is "making market" in. The Market Maker accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. In other words, the Market Maker is there to provide liquidity, stability and prevent wide volatility on the price movement of stocks in the Market.

Market Makers have become very important in the modern-day Capital Markets given their roles of providing liquidity and thus ensuring that the security market is stable. The Market Maker carries the risks of holding securities overtime in order to ensure that sellers can always dispose their securities when they so wish and buyers can always buy securities when they choose. In the process of doing this, investors are assured that they cannot be unwillingly locked down in their investments, as the Market Makers easily provide exit windows. Confidence is buoyed and panic selling is eliminated.

ACM-Insight!: Do you engage in securities lending and if so what part does this activity play in financial markets especially Nigeria's?

Mr Kayode Falowo: Not at the moment. Securities Lending refers to a collateralized temporary lending transactions that involve the transfer of securities to and from one party (the lender) to another party (the borrower). Under this arrangement, the borrower is required to return the securities upon request or at the end of an agreed borrowing period. Securities lending enhances the operational effectiveness

of a market maker to ensure that it meets buyers' orders at every point in time. This ensures that they meet their liquidity provision function, even when the inventory level of the particular securities being demanded is low. In order words, securities lending is an integral part of a successful market making system, which ultimately leads to increased market efficiency and deepening of the financial market.

A vibrant securities market should necessarily provide for lending and borrowing of securities.

Securities markets all over the world, mostly, have an active market for securities lending and borrowing scheme, which besides complimenting market making in securities also enable the investors to earn returns on their idle securities. Income earned on securities lending can also be used to defray custody charges or other expenses of a pension fund and thus increase value to the pension holder.

The mandatory prerequisite for securities lending is the regulatory approval allowing short selling. The market Regulators are about to concluded arrangements to commence securities lending and short selling activities. Once that is in place, GTL will definitely engage in securities lending.

ACM-Insight!: Following the abolition of universal banking by the CBN, many banks are disposing of non-bank subsidiaries – do you have any plans for expansion via acquisitions?

Mr Kayode Falowo: GTL is considering several expansion plans, which may be via acquisition of non-bank subsidiaries or other existing firms. However, we are treading with great caution, so as to ensure that the acquisition plans fit into our overall business model and objectives.

ACM-Insight!: In your opinion, how prevalent is insider dealing and market manipulation in Nigeria's equity markets and what can be done about it?

Mr Kayode Falowo: Like most developing markets, these practices may have occurred in the past. However, the recent downturn in the Nigerian capital market and the loss

of confidence has brought to the fore the need for a tough surveillance and enforcement regime by the Securities and Exchange Commission (SEC).

Markets should be organised in a way that encourages all investors to trust that they will be treated fairly. Any appearance that the markets allow insiders to use privileged information against other investors will harm that trust and discourage participation in those markets. I commend the efforts of the SEC and NSE to discourage these undesirable practices.

Additional factors that may reduce insider trading is the free flow of information; increased transparency and disclosure of potential conflicts of interests; further promotion of corporate ethics and corporate governance practices of boards, executives and employees of operators and quoted companies; and fortification of the rules and guidelines governing the prevention and enforcement of insider trading and market manipulation.

ACM-Insight!: The global financial crisis led to various debates about short selling. What are your views on short selling?

Mr Kayode Falowo: It is noteworthy, that despite the conflicting schools of thought, securities market regulators in most countries and in particular, in all developed securities markets, recognize short selling as a legitimate investment activity. Such jurisdictions also have an active market for equity derivatives, which includes stock futures. Some of the jurisdictions even recognize the usefulness of naked short sales in certain circumstances and instead of prohibiting short sales, I would recommend that the regulators permit it to take place within a strictly regulated framework.

ACM-Insight!: In your opinion, how liquid is the Nigerian Stock Exchange?

Mr Kayode Falowo: Although Nigeria is the 2nd largest financial centre in sub-Saharan Africa after South Africa, I am of the opinion that the Nigerian stock market could be more liquid and bigger than it is presently.

“The need for a vibrant corporate bond market cannot be overemphasized. The corporate bond market will provide the opportunity to leverage equity, provide domestic capital mobilization for economic growth, ease the cost of long and medium term financing, as firms can borrow at increasingly lower costs and for longer period.”

Whereas, the total value of the world stock market is \$57.2 trillion as at January 2011, the Nigerian stock market only represents 0.10% (\$56.97 billion) of this figure as at the stated date.

The trading volume of a stock market is usually indicative of its level of activity, that is, the rate at which securities are bought and sold, as well as its liquidity, which is the ease at which securities can be converted into cash. An important attribute of a stock market is also its ability to absorb large volumes of transactions without significant changes in prices.

The level of activity is usually influenced by the number and quality of listings, the size of a market's outstanding shares and the efficiency of the delivery system (clearing, settlement, depository etc).

Regulators, operators and participants have recognized the need for a more deepened capital market and efforts are currently being channelled in that direction. Some of which are the licensing of market makers; arrangements to commence securities lending and short selling activities; efforts to introduce new products and encourage the listing of blue chip companies, especially in the telecommunications and energy sector; facilitation of collective investment schemes, etc

ACM-Insight!: In your opinion, how have recent reforms in the financial services sector enhanced the financial markets in Nigeria, if at all?

Mr Kayode Falowo: Yes. The recent reforms in the financial services sector will ultimately enhance financial markets. However, this is a very painful process in the short run, especially on the part of investors and operators in the financial markets.

ACM-Insight!: One of the lessons learnt from the financial crisis was the need to further enlighten financial markets professionals through capacity building programmes, what is your view about the current level of skills and expertise in the Nigerian financial markets?

Mr Kayode Falowo: The recent downturn in the Nigerian Capital Market has led investors to question the expertise of financial market operators. The global meltdown also led to the return of many diaspora professionals to the country. I am of the opinion that we are not there yet in terms of skills and professional expertise, when compared to our international counterparts, but I believe we are on the right path. We have seen operators and regulators in recent times, increasing the number of foreign expertise in their employ, which if combined with the peculiarities of our local terrain will add immense value to our financial markets.

ACM-Insight!: What do you think is the major hindrance to the development of a more vibrant corporate bond market in Nigeria?

Mr Kayode Falowo: The need for a vibrant corporate bond market cannot be overemphasized. The corporate bond market will provide the opportunity to leverage equity, provide domestic capital mobilization for economic growth, ease the cost of long and medium term financing, as firms can borrow at increasingly lower costs and for longer period.

However, a major mitigant to the aforementioned is the absence of liquidity in the secondary market for corporate bonds. Another hindrance is the cost of issuing bonds when compared to money market debts

ACM-Insight!: Given the prominence of counterparty credit risk in financial markets deals, to what extent can this risk be mitigated and how?

Mr Kayode Falowo: I believe one critical area where counter party credit risk can be reduced in Nigeria is through the use of standardized and specialized exchanges, who will act as intermediaries and guarantors to all transactions. Furthermore, for a growing economy like ours, it may be necessary to have standardized contracts that have been defined by these specialized exchanges. Although, I do not rule out the Over-The-Counter (OTC) markets, where more



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“The appointment of the new Finance Minister, Okonjo-Iweala is a welcome development, and I believe the implementation of the various structural reforms that have reached advanced stages and fiscal consolidation will be a major catalyst to gradually restoring investors’ confidence both locally and internationally.”

sophisticated and large institutions can play, I believe the standardized exchanges will create a level playing field for investors and further deepen our financial market. The use of risk-based pricing mechanisms, covenants and credit insurance are also other ways to mitigate credit risks.

ACM-Insight!: In your view, what are the key areas requiring improvement in order for the Nigerian financial markets to attain their full potential?

Mr Kayode Falowo: Achievement of full potential will obviously take a while, especially given the current investment terrain, where confidence is very low. I am of the opinion that if the fundamental issues are tackled at the macro level, investors’ confidence will naturally be rejuvenated, which will eventually lead to a more deepened, liquid and efficient financial market.

The appointment of the new Finance Minister, Okonjo-Iweala is a welcome development, and I believe the implementation of the various structural reforms that have reached advanced stages and fiscal consolidation will be a major catalyst to gradually restoring investors’ confidence both locally and internationally.

ACM-Insight!: Do you think the Nigerian capital market is ripe for financial derivatives? If yes, can you highlight some of the fundamental pre-requisites for creating a robust derivatives market?

Mr Kayode Falowo: Yes, we however need to start the process by creating a robust legal framework and guidelines governing the operations of derivatives, especially regarding counter party risks; development of Infrastructures to facilitate derivative trades; sensitization of market participants on the need for derivatives instruments for hedging purposes; kick starting market making activities; etc.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the Nigerian Stock Exchange, erosion of bank shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policymakers, in particular, the Securities & Exchange Commission (SEC) should be doing to restore confidence?

Mr Kayode Falowo: There is need to encourage a more robust legal framework to protect investors. Furthermore, the need for strict regulatory processes to eliminate insider trading and market manipulation practises should be encouraged, as well as capacity development on the part of regulators and operators. The aforementioned should not be carried out in isolation, as there is need to sensitize and educate investors on their rights in the capital market.

ACM-Insight!: Thank you very much for granting this interview.



REFORM OF NIGERIA'S CAPITAL MARKETS

Ensuring stability in the Nigerian financial system is of significant importance and this is evidenced by some of the actions taken over the last few years by the Federal Government, CBN, SEC, NSE and the Ministry of Finance (MoF). Notwithstanding the aims of these reforms being to enhance the market, some of the actions taken have resulted in uncertainty and other negative impacts on the system due mainly to the manner and timing of implementation.

The authorities are arguably not carrying the bulk of the market participants along on this road to reform. Nonetheless, reform has been necessary; and it is hoped that the manner and timing of reform will in future benefit from better implementation and better stakeholder management.

The CBN unveiled a new banking model with the hope to disaggregate risks and enhance financial stability, facilitate the evolution of the financial system, as well as devise strategies to encourage banks to lend to the real economy such as manufacturing and agriculture etc.

The CBN, in conjunction with the MoF (and enabling legislation by the National Assembly), established AMCON (the burden of which will be shared by the CBN and banks who have pledged 0.3% yearly into a sinking fund to help fund the vehicle's exposure in addition to its receipts from bond issues). Further, mergers and acquisitions are ongoing as some of the recently rescued banks have signed MoUs with prospective partners.

The Nigerian capital market strives to become the gateway to African markets as recently pointed out by the DG of SEC, Ms Arunma Oteh and the CEO of the NSE, Mr Oscar Onyema, at the 2nd Annual Nigerian Capital Markets Workshop in Lagos when they reassured foreign investors that Nigeria was indeed safe for investment. At the World Economic Forum on Africa which took place in South Africa, improving operational efficiencies was one of the key items identified for the NSE i.e. to enhance electronic trading and the ease of access to the capital market. This should help to direct some of the global fund flows into the Nigerian capital market. The SEC has, by September 2011, completed the first phase of its ICT upgrade project¹ (to improve service delivery) due to be fully launched by end of 2011.

¹ <http://www.sec.gov.ng/sec-nigerias-1st-phase-of-its-ict-upgrade-project-aims-for-launch-before-year-end.html>

This is part of the vision of the SEC to 'develop and regulate a capital market that is dynamic, fair, transparent and efficient, to contribute to the nation's economic development'.

Margin Lending Reform

Margin lending has become one of the most contentious and infamous subjects not only in Nigeria but also in Sub-Saharan African capital markets over the last few years. It became an unavoidable issue following the dramatic falls in market capitalization experienced on the NSE.

This has further highlighted the need for holistic risk management which would prevent the likelihood of its reoccurrence or reduce the systemic risk impact of stress events. Effective risk and compliance management can only be ensured in the Nigerian capital market with proper controls, systems and risk awareness.

Market confidence is absolutely critical to a stable financial system; hence, the reason that the maintenance of market confidence is one of the most important regulatory objectives of financial regulators and indeed one of the central justifications for the existence of financial regulation.

Though the CBN issued guidelines to banks on margin lending, the regulation of margin lending as a sub-sector within the capital market should nevertheless fall under the umbrella of the SEC. Therefore, in order for the SEC to prevent a repeat of the crash witnessed on the NSE as a result of the margin lending crisis, it needs to set in place margin lending regulatory and compliance frameworks to help curb irrational exuberance and promote market discipline. It can achieve optimal margin lending objectives by setting margin requirements (i.e. such

as minimum margin, initial margin and maintenance margin), ensure effective margin trade reporting, set broker minimum capital requirements etc.

Risk Management

Since the equity crash in 2009 partly due to the contagion effect of the sub-prime lending crisis that started in the USA but also the lack of adequate risk management in the finance sector which led to Nigeria's own sub-prime (i.e. Margin Loans) lending crisis¹, the capital market has witnessed a period of very essential transition thus moving to a more stable and steady environment. Resultantly, regulators across the board have been trying to strengthen their frameworks. In any case, the significance of governance risk and compliance has become ever more evident. The CBN's abolition of the universal bank model and the adoption of the regional model, the resurgence of the SEC in terms of rekindling of best market practices, suspension of stock broking firms with inadequate capital requirements and internal restructuring in the SEC and the NSE are some of the highlights that have occurred over the past two years or so.

However, it remains unclear what the future will pan out to be. There is the need for market participants to adopt risk management at the core of their businesses. The urgent need to further establish confidence in the market should be driven by the adoption of an Enterprise Risk Management Framework. This should not be a tick-box exercise but should be embedded within the business and be part of the way of doing business. The knock-on effect of this will inevitably trickle down the Nigerian capital market and it would be interesting to measure 50 years from now the effect of these

transmutations against those of the previous 50 years.

Market Players' Education

Some have attributed the recent crisis to market abuse, insider dealing and general lack of adequate knowledge of financial products.

The current capital market crisis has exposed the urgent need to better educate market participants and fill the knowledge gaps in the Nigerian capital market. One of the proposals recommended (by the 15-man national committee set up by the SEC to come up with solutions to transform the capital market) was for the SEC to ensure that capital market participants have the right skills set and ensure continuous development of these skills.

Nigerian Capital Market Institute

In order to better educate market players, the SEC should make better use of its subsidiary, the Nigerian Capital Market Institute (NCMI) by using it to facilitate ongoing training and certification of key market participants. In the interest of ensuring proper monitoring and regulation of capital market activities, this allows the SEC to ensure adequate knowledge on the part of capital market stakeholders through accreditation by of the NCMI.

Therefore, the SEC should make it compulsory for securities firms to register individuals employed to provide services as per financial products, sales and trading of investment products for professional accreditation. Such individuals would be required to pass the NCMI examinations covering financial market regulation and rules, code of conduct, ethics and securities (equity and fixed income) etc.



Investor Education

As one of the obligations of the SEC is to provide educational information to investors as it currently does on its website, this can be further enhanced with much more precise and much needed analyses that would better educate investors.

Provision of access to such information for investors as well as robust process will help towards preventing market manipulation in terms of and instead enhance investor market education. Activities and events such as roadshows should be conducted by the SEC to broaden investor knowledge.

Role of the Federal Government & the Ministry of Finance

The SEC regulates the Nigeria's capital market but it is accountable to the Federal Government through the Ministry of Finance. Over the past three years, the financial sector of Nigeria has suffered a severe crisis of confidence. The financial crisis has led to a slowdown in economic growth though thankfully, the country has avoided an economic recession.

The hitherto confident banking sector has seen the increasing crystallization of bad and doubtful loans which has led to greater reluctance on the part of banks to lend to the wider (real) economy. The buoyant securities sector has seen a sharp decline in

activity and energy has been sapped out of the NSE. Much has been made of the impact of "margin loans" in the creation of the crisis. However, it is not that margin loans in themselves have a corrosive effect, but the problems were caused by a lack of proper risk analysis and management by the stakeholders in the margin lending sub-sector.

Partly in response to the crisis, and partly due to the desire to make Nigeria one of the leading financial sectors in the world and Africa's financial hub, several proposals have been tabled for reforming the various parts of the financial sector (in the areas of securities, banking, insurance and pensions). The Ministry of Finance and the Federal Government have critical roles to play in this ongoing process.

Expansion of Capital Market Instruments – Products

One of the key proposals highlighted in the Nigerian Capital Market Reform recommendations is the need for market expansion through development of sophisticated financial instruments. This is key for any market to develop. The reliance of investors on the equity market meant that, during the downturn in the stock market, investors were badly affected and as a result there is an urgent need for alternative investment opportunities.

As the SEC has stated that it is determined to ensure that Nigerian capital market fulfils its objective of becoming a world class, efficient, transparent, innovative and attractive market to both local and foreign investors, it is imperative that it fosters the development of a variety of products for investors. In the interest of stimulating the capital market, there is the need to develop the derivatives market (including swaps, futures and options), debt securities and alternative assets (real estate, commodities, and structured products). The SEC should encourage stock lending and borrowing, and short selling that would facilitate liquidity, generate income, encourage better pricing and create risk management tools for investors.

Suggestions for the future

What is required now is a fundamental change of emphasis and this is twofold: first is the embracement of a **Holistic Risk Management Philosophy** which embeds robust risk management techniques into the financial culture through the introduction of relevant initiatives and reform; and second is the construction of a sound and **Innovative Financial Services Architecture** which creates the appropriate developmental incentives for participants in the financial system.

EXCLUSIVE INTERVIEW

ACM-Insight! the pleasure of bringing you an exclusive interview with the Managing Director of *Capital Bancorp Limited*, **Mr Aigboje Higo Jr.**



AIGBOJE HIGO JR

Mr Higo is the Managing Director of Capital Bancorp Limited. A seasoned Investment Banker, Stockbroker and Pension Fund Manager with over 25 years experience in the finance sector.

He holds a B.B.A in International Business from Howard University, Washington D.C, and an MBA, American University, Washington D.C, USA(1985).

ACM-Insight!: As the Managing Director of Capital Bancorp Limited, please tell our readers what your firm does – which areas of financial services are you engaged in, what categories of clientele do you service and any major recent or upcoming transactions?

Mr Higo Jr: Capital Bancorp Limited (CBL) was established in 1988. We are registered with the Securities & Exchange Commission as an Issuing House/ Broker. We are also a Dealing Member of The Nigerian Stock Exchange. We provide Stockbroking, Capital Market, Investment, Credit and Bureau de Change services to our clients who cut across Corporates, High Networth Individuals, Federal, State and Local Governments. We have handled, in the last 23 years, innovative and creative landmark transactions. Currently, we are one of the Joint Issuing Houses to the proposed Ekiti State Bond issue.

ACM-Insight!: What are Capital Bancorp Limited's competitive advantages?

Mr Higo Jr: At CBL, we are known for our intellectual depth and integrity. We are also a nimble and dynamic organisation that is very responsive to the needs and requirements of all our clients

ACM-Insight!: As an investment banking group operating in Nigeria, what is your assessment of the sophistication of the investment banking environment in Nigeria?

Mr Higo Jr: In the 23 years of our existence, the investment banking environment in Nigeria has grown in sophistication in terms of technology, product & service offerings as well as the quantity and quality of Market operators. With the imminent introduction of financial derivatives, ETF's and other products, the investment banking environment would become even more sophisticated.

ACM-Insight!: Your Capital Market Services division offers Mergers & Acquisitions advisory, how do you see the M&A environment shaping up in Nigeria in the next 3 to 5 years?

Mr Higo Jr: The general feeling is that for cultural and other reasons, the Nigerian environment is not conducive for M&A activity. In the last 10 – 15 years, we have seen M&A activity in the Banking and Insurance sectors, induced largely by regulation. We believe that over the next 5 – 10 years, M & A activity will become more common place in sectors like Banking, Insurance, Telecoms, Pension Fund and Stockbroking industry for a variety of reasons, but mainly business reasons.

ACM-Insight!: As an agency dealer in Federal Government Treasury Bills, what is your view on the sustainability of the government's domestic borrowing profile?

Mr Higo Jr: The new Finance Minister recently expressed some concerns about the Government's Domestic Borrowing. We share these concerns; however we note Government's commitment to be more financially responsible. Another major issue to be addressed by the Federal Government apart from the quantum of the borrowing is the quality of the borrowing.

ACM-Insight!: In your opinion, how prevalent is insider dealing and market manipulation in Nigeria's equity markets and what should the authorities be doing about it?

Mr Higo Jr: Like in all equity markets across the globe, I guess there was a fair amount of insider dealing and market manipulation in the Nigerian equity market particularly over the last 3 years and maybe even longer. The good news though, is that the new Management at SEC and NSE are working tirelessly to eliminate these vices. I believe that so far, they are doing a good job of it.

ACM-Insight!: The global financial crisis led to various debates about short selling. What are your views on short selling?

Mr Higo Jr: Short selling is a practice that has positive and may have negative consequences. If introduced in an orderly manner into the Nigerian Capital Market and the rules of engagement clearly stated and if the practice is well regulated, it will be a boost for the market.

ACM-Insight!: In your opinion, how deep and liquid is the Nigerian stock market?

Mr Higo Jr: Given the level of sophistication of the investing public (institutional and individual), I believe the Nigerian Capital Market is reasonably liquid and deep. If the timing is right, new offerings by blue chip companies in the Telecoms, Energy and Oil & Gas Industries and other key Industries will be easily gobbled up. New product offerings that are being proposed will further enhance the depth of the market

ACM-Insight!: Can you suggest what needs to be done to increase depth and liquidity?

Mr Higo Jr: A number of things, such as better regulation by regulators to ensure transparency and efficiency on the part of all market participants, confidence boosting measures to attract both local and foreign investors, introduction of more advanced technology for trading, clearing and settlement systems, accelerated introduction of the NASD, introduction of new products and more investor education programmes. At the macro level, better management of the economy by the Federal Government.

ACM-Insight!: What do you think is the major hindrance to the development of a more vibrant corporate bond market in Nigeria?

Mr Higo Jr: I believe that with the establishment of a yield curve for Federal Government Bonds, ongoing implementation of Pension Reform, improved knowledge and skills on the part of market operators, most of the key ingredients for the take off of the Corporate Bond Market are present.

ACM-Insight!: In your view, what are the key areas requiring improvement

in order for the Nigerian financial markets to attain their full potential?

Mr Higo Jr: Better governance and implementation of policies at the Federal, State and Local Government levels. The private sector will do the rest given the enabling environment.

ACM-Insight!: Your firm is a member of the National Association of Securities Dealers (NASD) - please tell our readers about NASD, its objectives and products offerings?

Mr Higo Jr: The NASD's main service will be the operation of a licensed over-the-counter market that will facilitate trading of unquoted securities. NASD'S trading system will facilitate price discovery and create a liquidity window for hitherto illiquid securities.

The NASD platform will also facilitate effective reporting of trades executed OTC, which will make it possible for such information to be aggregated and processed for purposes of research and price discovery. Proposed products and services will include Securities Trading, Company Listing, Capital Raising, Research Analytics & other value added services.

ACM-Insight!: Do you think Nigeria's financial sector will benefit from having a single financial regulator for the banking, securities and insurance sectors?

Mr Higo Jr: I believe that the current regulatory regime is adequate for now. What is required is better coordination between the CBN, SEC, NSE, NAICOM, PENCOM and other regulatory bodies.

ACM-Insight!: How can capital market innovation (e.g. infrastructural bonds) help in addressing the significant infrastructural deficit in Nigeria?

Mr Higo Jr: Capital Market innovation e.g., (infrastructure Bonds) will go a long way in addressing the significant infrastructural deficit in Nigeria. If the introduction of infrastructural Bonds is properly situated alongside Pension Reform, bankable infrastructural projects will have access to large amounts of pension assets through the mechanism of the Capital Market

ACM-Insight!: Do you think the Nigerian capital market is ripe for

financial derivatives? If yes, can you highlight some of the fundamental pre-requisites for creating a robust derivatives market?

Mr Higo Jr: With proper planning and meticulous execution, the Nigerian Capital Market is ripe for financial derivatives. Some of the prerequisites for creating a robust derivatives market are already present in Nigeria. Generally speaking, the supporting infrastructure will include management of order flow, price stabilization features or circuit breakers in the market, market making mechanism, settlement and clearing procedures, exchange monitoring, and control and enforcement functions. A functioning derivatives market would help in risk management, enhance liquidity and attract foreign investors into the Nigerian Capital Market.

ACM-Insight!: The global financial crisis and other issues led to a sharp decline on the Nigerian Stock Exchange, erosion of bank shareholder value and predictable loss of investor confidence (both foreign and local). What do you think policymakers; in particular, the Securities & Exchange Commission (SEC) should be doing to restore confidence?

Mr Higo Jr: Investors, both local and foreign, must perceive that the market is fair and that rules and regulations will be followed and obeyed. There should be zero tolerance for any unwholesome market activity. SEC and NSE are currently doing the right things hopefully the benefits will become apparent soon

ACM-Insight!: What do you do in your spare time (when not busy managing Capital Bancorp Limited)?

Mr Higo Jr: Resting, watching football and hanging out with my family.

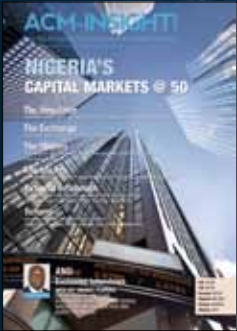
ACM-Insight!: On a personal note, what are your ambitions/plans that you would like to accomplish in future?

Mr Higo Jr: To, in some way, pass on some of my knowledge and experience in the capital market and in life generally, to the next generation

ACM-Insight!: Thank you very much for granting this interview.



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African Capital Markets Updates



The International Monetary Fund (IMF) released an update of its World Economic Outlook on 20 September, 2011. The executive summary states¹:

“The structural problems facing the crisis-hit advanced economies have proven even more intractable than expected, and the process of devising and implementing reforms even more complicated. The outlook for these economies is thus for a continuing, but weak and bumpy, expansion.

Prospects for emerging market economies have become more uncertain again, although growth is expected to remain fairly

robust, especially in economies that can counter the effect on output of weaker foreign demand with less policy tightening”.

Global capital markets witnessed a bearish return in equity, debts, commodity and metals (with an exception of Gold, with 8% return). This is as a result of the European sovereign debt crisis. Also, most African currencies depreciated against the US Dollar. The box on the next page depicts the performance of African and some developed/emerging capital markets.

¹ IMF World Economic Outlook, Sept. 2011

CHART 1: STOCK MARKET - AFRICAN EQUITY MARKET AT GLANCE

COUNTRY	INDEX	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Q4 '10	Q1 '11	Q2 '11	Q3 '11
1 NIGERIA	NSE ALL	23,051	24,766	24,621	24,980	20,372	7%	-1%	1%	-18%
3 GHANA	GSE ALL	6,836	7,224	7,789	8,588	7,934	6%	8%	10%	-8%
5 KENYA	KSE ALL	4,630	4,396	3,887	3,968	3,284	-5%	-12%	2%	-17%
7 UGANDA	USE ALSI	724	779	1,136	1,122	879	8%	46%	-1%	-22%
9 EGYPT	EGY30	1,851	1,997	1,527	1,481	1,148	8%	-24%	-3%	-22%
11 MOROCCO	MCSI	24,673	26,171	25,150	23,610	23,405	6%	-4%	-6%	-1%
13 S. AFRICA	JALSH	29,456	32,210	32,204	31,865	29,674	9%	0%	-1%	-7%
15 MAURITIUS	SEMDEX	1,761	1,952	2,006	2,096	1,901	11%	3%	5%	-9%
17 ZAMBIA	ZCCM-IH	2,807	3,322	3,678	3,919	3,823	18%	11%	7%	-2%
19 MALAWI	MASI	4,927	4,953	4,863	4,912	5,002	1%	-2%	1%	2%
21 NAMIBIA	FTN098	802	868	879	850	761	8%	1%	-3%	-10%
22 BRVB*	ICX COMP	148	159	161	154	141	8%	2%	-5%	-8%

*Mali, Burkina Faso, Benin, Guinea Bissau, Togo, Côte d'Ivoire, Senegal, Niger
Source: Bloomberg and Applied Capital Markets Ltd. (ACM)

EQUITY INDEX CHANGES IN Q4 '10, Q1 '11, Q2 '11, & Q3 '11

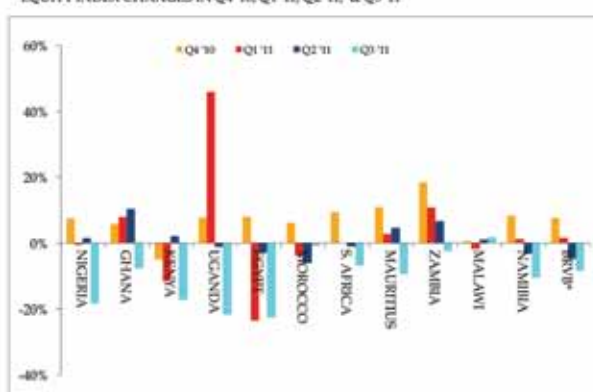


CHART 2: STOCK MARKET - WORLD MARKET AT GLANCE

COUNTRY	INDEX	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Q4 '10	Q1 '11	Q2 '11	Q3 '11
1 UK	FTSE 100	5,549	5,971	5,909	5,946	5,128	8%	-1%	1%	-14%
4 USA	SP 500	1,141	1,258	1,326	1,321	1,149	10%	5%	0%	-13%
7 EURO-ZONE	E300	1,061	1,129	1,125	1,111	918	6%	0%	-1%	-17%
10 FRANCE	CAC 40	3,715	3,851	3,989	3,982	2,982	4%	4%	0%	-25%
13 GERMANY	DAX	6,229	6,914	7,041	7,376	5,502	11%	2%	5%	-25%
16 HONG KONG	HSEG	22,358	22,996	23,528	22,398	17,562	3%	2%	-5%	-21%
19 JAPAN	NIKKEI 225	9,369	10,229	9,755	9,816	8,700	9%	-5%	1%	-11%
22 BRAZIL	IBOV	69,430	69,305	68,587	62,404	52,503	0%	-1%	-9%	-16%

Source: Bloomberg and Applied Capital Markets Ltd. (ACM)

EQUITY INDEX CHANGES IN Q4 '10, Q1 '11, Q2 '11, & Q3 '11

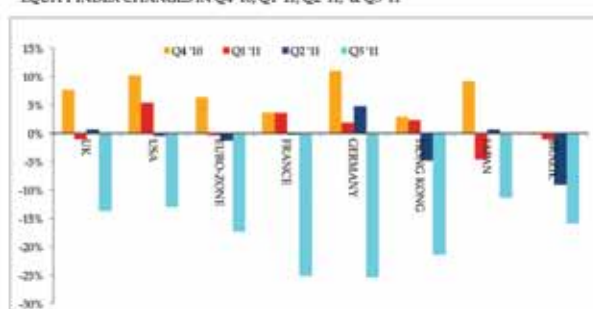


CHART 3: COMMODITY MARKET - WORLD MARKET AT GLANCE

INDEX	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Q4 '10	Q1 '11	Q2 '11	Q3 '11	
1 GOLD	GOLDS	1,308	1,405	1,432	1,500	1,620	7%	2%	5%	8%
3 SILVER	SILV	22	30	38	34.7	20.22	40%	24%	-8%	-13%
5 CRUDE OIL BRT	BRENT	82	94	118	111	107	14%	26%	-6%	-3%
7 CRUDE OIL BNY	BONNY	83	94	121	114	107	13%	28%	-6%	-6%
9 DIAMOND	PLPHGAAI	126	132	142	166	162	5%	7%	18%	-3%
11 PLATINUM	PLAT	1,057	1,748	1,788	1,720	1,520	5%	1%	-3%	-12%
13 COTTON N° 2	COTTON N2	86	99	133	119	100	16%	34%	-10%	-16%
15 COFFEE ARABIC	COFFEE AR	216	281	331	338	310	30%	18%	2%	-8%
17 COFFEE ROBUSTA	COFFEE RB	1,820	2,118	2,438	2,498	1,964	16%	15%	2%	-21%

Source: Bloomberg and Applied Capital Markets Ltd. (ACM)

COMMODITY INDEX CHANGES IN Q4 '10, Q1 '11, Q2 '11, & Q3 '11

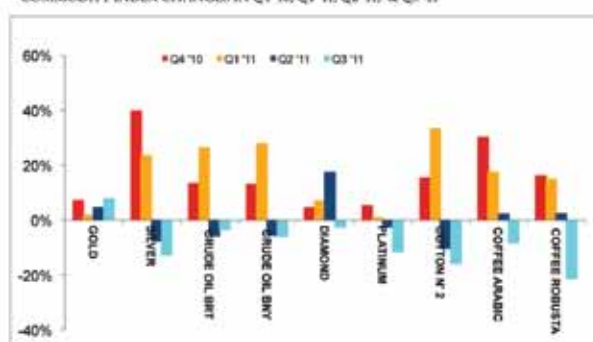
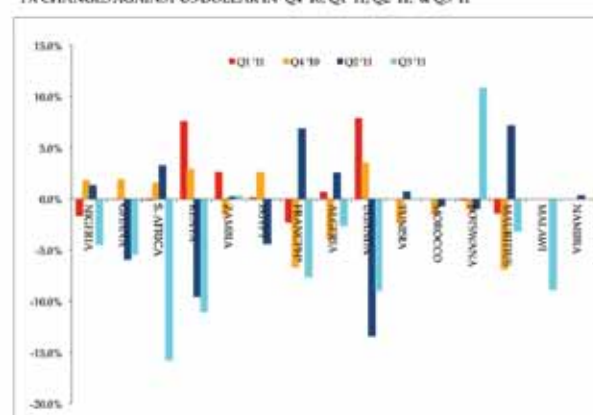


CHART 4: CURRENCY MARKET - AFRICAN MARKET AT GLANCE

COUNTRY	FX NAME	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Q4 '10	Q1 '11	Q2 '11	Q3 '11
1 NIGERIA	NAIRA	154.55	152.25	155.10	152.50	159.65	1.9%	-1.7%	1.3%	-4.5%
3 GHANA	CEDI	1.43	1.49	1.52	1.52	1.60	1.9%	0.0%	-5.9%	-5.4%
5 S. AFRICA	RAND	6.98	6.66	6.77	6.76	8.03	1.6%	-0.1%	3.3%	-15.8%
7 KENYA	SHILLING	80.75	80.65	83.00	89.30	100.40	2.9%	7.6%	-9.6%	-11.1%
9 ZAMBIA	KWACHA	4,845	4,785	4,710	4,835	4,822	-1.6%	2.7%	0.2%	0.3%
11 EGYPT	POUND	5.70	5.81	5.96	5.97	5.96	2.6%	0.2%	-4.4%	0.0%
13 FRANCIPH*	CFA FRANC	482.68	495.43	462.40	451.65	489.06	-6.7%	-2.3%	6.9%	-7.6%
16 ALGERIA	DINAR	74.10	74.70	71.73	72.23	74.19	-4.0%	0.7%	2.6%	-2.6%
17 UGANDA	SHILLING	2,243	2,318	2,400	2,590	2,845	3.5%	7.9%	-13.4%	-9.0%
19 TUNISIA	DINAR	1.42	1.44	1.41	1.41	1.41	-2.4%	0.0%	0.7%	0.0%
21 MOROCCO	DIRHAM	8.23	8.42	8.28	8.28	8.28	-1.6%	0.0%	-0.7%	0.0%
23 BOTSWANA	PULA	0.15	0.15	0.15	0.15	0.14	-1.0%	-0.1%	-1.0%	10.9%
25 MAURITIUS	RUPEE	30.01	30.50	28.40	28.00	28.93	-6.9%	-1.4%	7.2%	-3.2%
27 MALAWI	KWACHA	150.77	150.77	150.77	150.80	165.50	0.0%	0.0%	0.0%	-8.9%
34 NAMIBIA	DOLLAR	6.98	6.96	6.96	6.96	6.96	0.0%	0.0%	0.3%	0.0%

*Francophone Africa countries: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Togo, Guinea Bissau, Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Senegal and Gabon.
Source: Bloomberg and Applied Capital Markets Ltd. (ACM)

FX CHANGES AGAINST US DOLLAR IN Q4 '10, Q1 '11, Q2 '11, & Q3 '11





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