

NIGERIA



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Basic information about Nigeria:

Nigeria was a British Colonial creation. It came into being in January 1914 with the amalgamation of the colony of Lagos (first annexed in 1861), the Southern Protectorates (Established 1885 1894) and the Northern Protectorate (Pacified by 1903). Hitherto, the British had administered them as separate but vested territories. Local involvement in government was introduced as early as 1922 when Southern politicians from Lagos and Calabar, took seats in the central legislative assembly. Their northern counterparts did not have legislative experience until 1947 when a new constitution introduced the principle of regional representation. The 1954 constitution arrested fully fledged a regional government, and federal elections were held in 1959 the year before.

Nigeria was granted its independence on 1st October 1960, originally with dominion status. In 1963, Nigeria broke its direct links with the British Crown, and became a Republic within the commonwealth. The independence constitution provided for a federation of three autonomous regions Northern, Western and Eastern each with wide ranging powers, its own constitution, public service, and marketing boards. The overarching but weaker federal government had powers limited to national issues, including control of the police and army, and economic planning. The political system was derived from the Westminster model. A fourth region – the mid west was created in 1964 to satisfy the demand of the minorities.

In the early 1960s, the inherited regional structure led to a series of crises and conflicts, both within and between the 3 ethno centric regions, as competition grew for control over the federal centre. The 1964 Federal elections were marred by violence and rigging. Interparty and inter ethnic tensions continued leading ultimately to a military takeover in January 1966, led by Igbo officers. Thereafter Nigeria's post independence history was marked by a series of military interventions in politics: coups, counter coups, and a civil war (1967 70) when the Eastern Region attempted to secede as the republic of Biafra. Over 1 millions died in the conflict. Nigeria has only enjoyed 3 short periods of civilian rule – 1960 65, 1979 83, and 1999 to the present. The intervening periods, totaling 29 years, saw military government in place.

In an attempt to break up the powers of the regions, and forestall future conflict, the regional structure was dismantled in 1967, and replaced by 12 states. At the same time, the federal centre took back most of the powers to itself, and a new radical revenue sharing formula was established. The new states were later created in phases in response to demands from powerful local interest groups – in 1976 the number rose to 19, in 1989 to 21, in 1991 to 30, and in 1976 the number rose to 19 in 1989 to 21, in 1991 to 30, and in 1996 to 36. No new states have been created since then although pressures for new states are very present. A new Federal Capital Territory, at Abuja in the centre of the country, was created in 1976 but it was not fully operational until the mid 1990s.

CURRENT GDP TABLE

GDP Growth rates

YEAR	GDP real growth rate (%)
2000	2.7
2001	3.5
2002	3.5
2003	3.0
2004	7.1
2005	6.2
2006	6.9
2007	5.3
2008	6.3

GDP Real growth rate – This entry gives GDP growth on an annual basis adjusted for inflation and expressed as a percent.

Source: CIA World Fact book unless otherwise noted, this information is accurate as of January 1, 2008.

(c) 2008 index Mundi.

YEAR	GDP real growth rate	Rank	Percentage charge	Date of information
2003	3.00%	105		2002 est.
2004	7.10%	25	136.67%	2003 est.
2005	6.20%	44	12.68%	2004 est.
2006	6.90%	43	11.29%	2005 est.
2007	5.30%	90	23 19%	2006 est.
2008	6.30%	61	18.37%	2007 est.

Historical Data Graphs per year. The above information is accurate as of June 16, 2008.

Source: CIA World Factbook.

Equivalent Data from the International Monetary Fund Variable: Gross Domestic Product, constant prices.

Note: Annual Percentage Change

Source: International Monetary Fund – 2008 World Economic Outlook.

YEAR	GROSS DOMESTIC, CONSTANT PRICES	PERCENTAGE
1980	2.872	

1981	20.838	625.56%
1982	1.053	105.05%
1983	5.05	379.58%
1984	2.022	59.96%
1985	8.323	511.62%
1986	8.754	205.18%
1987	10.752	22.82%
1988	7.543	170.15%
1989	6.467	14.26%
1990	12.766	97.40%
1991	0.618	104.84%
1992	2.09	381.57%
1993	2.09	381.57%
1994	0.91	56.46%
1995	0.307	133.74%
1996	4.994	1,726.71%
1997	2.802	43.89%
1998	2.716	3.07%
1999	0.474	82.55%
2000	5.318	1,021.949
2001	8.318	1,021.94%
2002	21.777	159.39%
2003	10.335	51.20%

2004	10.585	2.42%
2005	5.393	49.05%
2006	6.211	15.17%
2007	6.352	2.27%
2008	9.072	42.82

Banking System in Nigeria:

Banks have been active in the Nigerian economy since the late 1800 when Nigeria's first bank, the African Banking Corporation, was established in 1892. In 1952, the Nigerian banking sector comprised three foreign owned banks, Bank of British West Africa, Barclays Bank, and the British and French Bank, and two local banks, National Bank of Nigeria and African Continental Bank.

The Central Bank of Nigeria (CBN), the banking regulator, began operations in 1959 following the passing of the 1958 Central Bank Act with the first legal framework within which the CBN operated and regulated established with the passing of the Banking Decree of 1969. In 1997, the independence of the regulation of Nigeria's banks and other financial institutions was impaired in 1997 when the CBN was brought under the Ministry of Finance and stripped of its autonomy. As the reinstatement of the CBN's autonomy did not occur until 1998, the modern regulatory framework within which the CBN currently operates is only over 10 years old.

Subsequently, in 2004, the CBN announced a 13 point Reform Agenda, which outlined the following key initiatives:

Increase capitalization requirements: The minimum capitalization requirement for a banking license was increased to ₦25bn from ₦1bn, previously.

Consolidation encouraged: In 2003 there were 89 universal banks operating in Nigeria and, as a result, the banking system was highly fragmented.

Adoption of a new regulatory framework: The CBN adopted a risk focused and rule based regulatory framework and took a zero tolerance approach to its implementation especially in the area of data/information rendition and reporting.

Automation: The process of rendering returns by banks and other financial institutions was automated through the use of the e FASS.

Contingency planning: The CBN introduced a contingency planning framework for systemic banking distress.

Since 2004, Nigeria’s banking industry has been transformed by the Central Bank of Nigeria’s (CBN) recapitalization program with the process reducing the number of banks from 89 to 24 currently, increasing branch penetration and growing industry balance sheets’ four fold. The banking licenses of 14 banks were also revoked.

There are currently 24 banks licensed to operate in Nigeria with 21 of the 24 banks publicly quoted with the listing of banks detailed below.

Name	Type of institution	Old name	Date licensed
Access Bank Nigeria Plc	Universal bank	Access Bank Plc	17 Jan 1990
Afribank Nigeria Plc	Universal bank	Afribank Plc	1 Mar 2006
Diamond Bank Nigeria Plc	Universal bank		31 Dec 1990
Ecobank Nigeria Plc	Universal bank		24 Apr 1989
Equitorial Trust Bank Plc	Universal bank		1 Feb 2006
Fidelity Bank Plc	Universal bank		1 Feb 2006
First Bank of Nigeria Plc	Universal bank	First Bank Plc	29 Jan 1894
First City Monument Bank Plc	Universal bank	First City Monument Bank Plc	11 Nov 1983
First Inland Bank Plc	Universal bank		1 Feb 2006
Guaranty Trust Bank Plc	Universal bank		17 Jan 1990
Intercontinental Bank plc	Universal bank	Intercontinental Bank Limited	10 Feb 1989
Nigeria International Bank Plc	Universal bank	Citibank Nigeria Limited	10 Aug 2004
Oceanic Bank International Nigeria Plc	Universal bank		20 Mar 2000
Platinum Habib Bank Plc	Universal bank		5 Feb 2001
Skye Bank Plc	Universal bank		1 Mar 2006
Spring Bank Plc	Universal bank		1 Mar 2006
Stanbic IBTC Bank Plc	Universal bank	IBTC Chartered Bank Plc	1 Feb 2006
Standard Chartered Bank Nigeria Plc	Universal bank		6 Sep 1999
Sterling Bank Plc	Universal bank	NAL Merchant Bank Ltd	25 Jan 1960
Union Bank of Nigeria Plc	Universal bank	Union Bank Plc	1 Feb 2006
United Bank For Africa Plc	Universal bank		1 Feb 2006

Unity Bank Plc	Universal bank		1 Feb 2006
Wema Bank Plc	Universal bank	Agbomagbe Bank Limited	17 Jan 1945
Zenith Bank Plc	Universal bank	Zenith International Bank Ltd	20 Jun 1990

Source: Renaissance Capital Research Report

The International Monetary Fund (IMF) typically divides Nigerian banks into four groups as follows:

- Group 1 comprises the first generation banks and the largest traditional banks that achieved the capital threshold mostly on their own. Group 1 banks therefore, have significant advantages in terms of their franchise and large resource base.
- Group 2 constitutes banks that achieved the capital threshold by merging through voluntary partnerships.
- Group 3 contains banks that achieved the capital threshold through four or more banks partnering out of necessity.
- Group 4 is made up of banks whose ownership is either majority or wholly foreign.

The breakdown per group is detailed below.

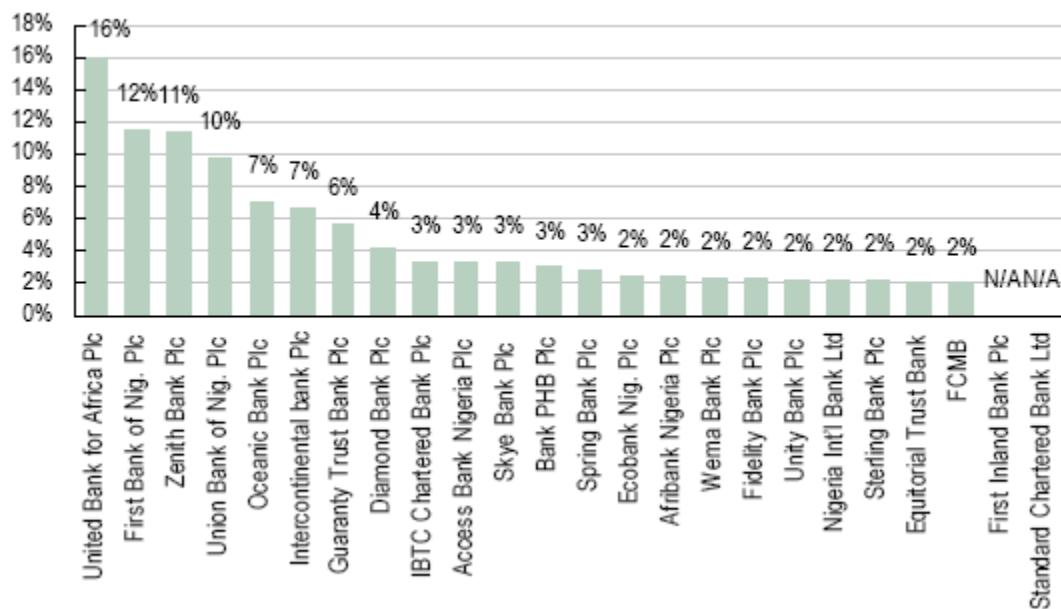
Banking Groups

Group 1	First Bank, Guaranty Trust, UBA, Union, Intercontinental, Oceanic, Zenith
Group 2	Access, Diamond, Ecobank, ETB, Fidelity, IBTC*-Chartered, Platinum-Habib, WEMA, Afribank
Group 3	FCMB, First Inland, Skye, Spring, Sterling, Unity
Group 4	NIB, Stanbic*, Standard Chartered

Source: IMF (from JPMorgan Research Report)

A graph of market share for the banks for 2006, clearly demonstrates the dominance of Group 1 banks, with this group of banks having at least 69% market share between them.

Nigerian bank asset market shares, 2006, %



Source: Central Bank of Nigeria, Renaissance Capital estimates (from Renaissance Capital Research Report)

Balance Sheet Size

The total assets of the banking sector rose by 55.37 percent to ₦10.47 trillion in 2007 from ₦6.74 trillion in 2006, a significant rise demonstrating the effects of consolidation on the banking system of the country as larger consolidated banks both sought and lent out larger sums of funds. Research carried out and data provided by the Central Bank of Nigeria (CBN) banking supervision annual report for 2007 shows that as in 2006, banks' funds were held in "cash and due from other banks".

A review of Nigerian banks balance sheets showed that advances/leases constituted the largest component of total assets and reached ₦3.80 trillion in 2007, an 83% jump from 2006 demonstrating significant increase in bank lending activities. The major components of liabilities were deposits, and total liabilities increased in 2007, with total deposits, other liabilities, and paid up capital and reserves rising by 55.81%, 86.33% and 64.36%, respectively.

The aggregate balance sheet structure of the banking industry from 2003 to 2007 is detailed below. A theme from the results (which will be highlighted often in the rest of the section) can be discerned, which is that the rate of growth in deposits failed to keep pace with the growth in lending activities of the banks.

Aggregate Balance Sheet Structure of the Banking System					
N'billion	2007	2006	2005	2004	2003
Cash & Due From banks	1,802	2,066	1,034	935	833
Call & Placements	438	135	230	102	133
Government Securities	1,584	1,048	665	573	339
Short Term Funds	491	263	238	104	82
Advances/Leases (Net)	3,802	2,081	477	1,133	915
Investments	892	430	194	105	91
Other Assets	1,006	450	368	281	241
Fixed Assets	454	265	183	160	134
TOTAL ASSETS	10,469	6,738	4,389	3,393	2,768
Liabilities:					
Total Deposits	5,363	3,442	2,546	1,797	1,409
Money at Call and Taking	254	57	70	54	65
Due to other Banks	198	689	57	47	66
Other Borrowed Funds	1	67	67	61	23
Other Liabilities	2,685	1,441	1,091	1,080	910
Long Term Loans	257	1	4	3	3
Paid-Up Capital	153	170	171	141	121
Reserves	1,558	871	383	210	171
TOTAL	10,469	6,738	4,389	3,393	2,768
Off-Balance Sheet	2,581	1,380	859	664	625

Source: CBN Supervision Report 2007

Financial and operating performance of banks

The financial performance of the sector in 2007 showed significant jumps in all key financial performance metrics from 2006. Net interest income and profit before tax rose by 202% and 288% respectively showing the resulting effects of the banking reforms as consolidated banks were able to make use of their larger balance sheets.

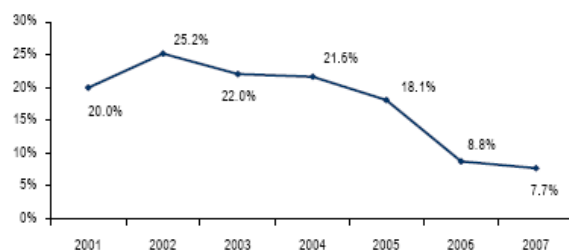
Earnings and Profitability of Banks					
N'billion	2003	2004	2005	2006	2007
Interest Income	349	412	340	339	1,178
Interest Expenses	154	188	147	135	562
Net Interest Income	195	224	193	204	616
Non-Interest Income	161	184	159	171	577
Operating Income	356	418	352	375	1,193
Operating Expenses	282	322	290	270	786
Profit Before Tax	74	96	62	105	407

Source: CBN Supervision Report 2007

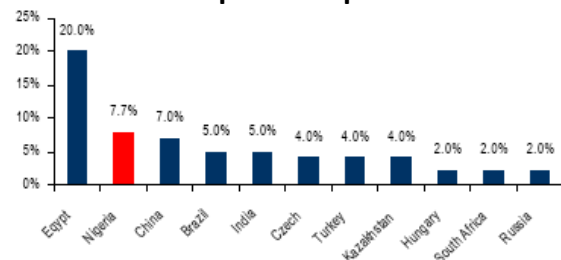
There are risks in the sector, for example, asset quality metrics in Nigeria still compare poorly with EEMEA peers. This is evident in a sector non performing loan (NPL) ratio of around 7.7%, and though admittedly, asset quality among the Group one banks is more favorable than the remaining banks, on an aggregate sector basis, it still compares poorly with other EEMEA peers.

The trend in Nigeria has been improving but still compare poorly with EEMEA peers even after making an allowance for more aggressive and varied treatment of NPLs globally.

Trend in NPLs (% of gross advances)



EEMEA peer comparative



Source: Standard & Poor's, Merrill Lynch (from Merrill Lynch Research Report)
 CBN, Fitch Ratings (from ML Report)

Source:

Foreign versus domestic ownership

The ownership of banks, apart from banks that are foreign owned, is broad based with direct and indirect government ownership limited to 10%. However, unlike in other emerging markets, foreign ownership has not reached high levels as Nigeria appears reluctant to give up pieces of its banking system. Foreign ownership currently is limited to Citigroup (Nigeria International Bank), Standard Chartered Bank of Nigeria, Stanbic IBTC and Ecobank Nigeria, a full subsidiary of Togo domiciled Ecobank Transnational Incorporated.

There are three privately held banks with two, Nigeria International Bank and Standard Chartered Bank of Nigeria, being foreign owned:

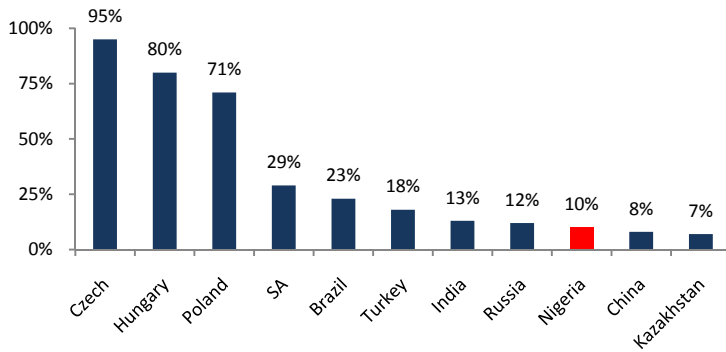
1. Equitorial Trust Bank, which is locally owned and operated;
2. Nigeria International Bank, the old Citibank Nigeria Limited, a subsidiary of Citigroup;
3. Standard Chartered Bank of Nigeria, a wholly owned subsidiary of the Standard Chartered Group.

Standard Bank of South Africa merged its Nigeria operations into IBTC Chartered creating Stanbic IBTC and acquired majority 50.1% stake in the new entity.

Name (Stock Exchange Listing)	Foreign/Domestic Ownership	Foreign Shareholder/Stake
Access Bank Nigeria Plc (Yes)	Domestic	FMO (Dutch development agency)/4%
Afribank Nigeria Plc (Yes)	Domestic	
Diamond Bank Nigeria Plc (Yes)	Domestic	Actis/19%
Ecobank Nigeria Plc (Yes)	Foreign	Ecobank Transnational Incorporated
Equitorial Trust Bank Ltd (No)	Domestic	
Fidelity Bank Plc (Yes)	Domestic	
First Bank of Nigeria Plc (Yes)	Domestic	
First City Monument Bank Plc (Yes)	Domestic	Foreign shareholders/28%
First Inland Bank Plc (Yes)	Domestic	
Guaranty Trust Bank Plc (Yes)	Domestic	Stanbic Nominees (custodian for foreign investors)/6%
Intercontinental Bank plc (Yes)	Domestic	
Nigeria International Bank (No)	Foreign	Citigroup/75%
Oceanic Bank International Nigeria Plc (Yes)	Domestic	
Platinum Habib Bank Plc (Yes)	Domestic	Habib Bank Pakistan/15.3%
Skye Bank Plc (Yes)	Domestic	
Spring Bank Plc (Yes)	Domestic	
Stanbic IBTC Bank Plc (Yes)	Foreign	Standard Bank of South Africa/50.1%
Standard Chartered Bank of Nigeria (No)	Foreign	Standard Chartered Bank/100%
Sterling Bank Plc (Yes)	Domestic	
Union Bank of Nigeria Plc (Yes)	Domestic	
United Bank For Africa Plc (Yes)	Domestic	Stanbic Nominees/16%
Unity Bank Plc (Yes)	Domestic	
Wema Bank Plc (Yes)	Domestic	
Zenith Bank Plc (Yes)	Domestic	

Currently, 10% at most of sector assets are under foreign banks control, a very low level globally.

Market share of foreign banks, % of assets



Source: Merrill Lynch Research Report

The low level of foreign ownership is unlikely to increase in the near term given recent legal amendments which put in place more onerous requirements on foreign banks entering the market. The more stringent conditions include the following:

“No single foreign individual/institutional investor can acquire more than the share of the single largest Nigerian individual/institutional investor in any bank, provided the aggregate shareholding of the foreign investors does not exceed 10% of the total capital of the bank.”

Foreign banks, particularly South African banks, have been keen to expand into Nigeria through acquisitions of local banks but these more onerous foreign ownership requirements may now act as a deterrent to further foreign participation. Therefore, the Stanbic/IBTC Chartered merger in which South Africa’s Stanbic took a majority shareholding in the merged group is likely the last of its kind in Nigeria until regulation changes. Foreign banks can still acquire or merge with a local bank existing in Nigeria but CBN policy dictates that:

The foreign bank must have operated in Nigeria for at least five years;

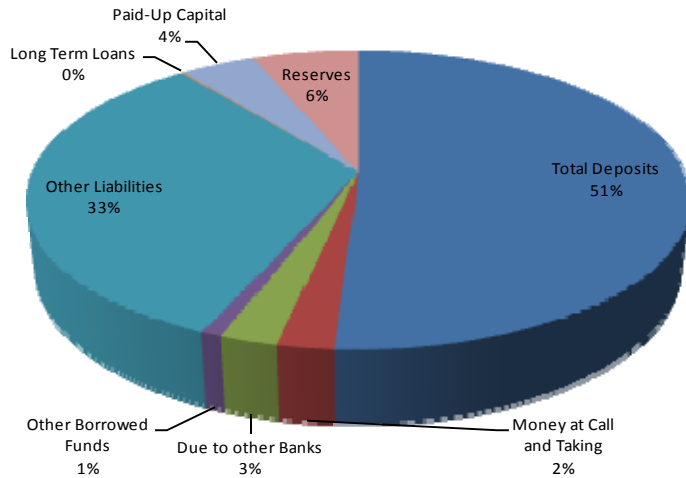
Established branches in at least two thirds of Nigerian states (excluding the state capital Abuja);

The foreign bank/investors’ shareholding from the merger/acquisition does not exceed 40% of the total capital of the resultant entity.

Source of funds

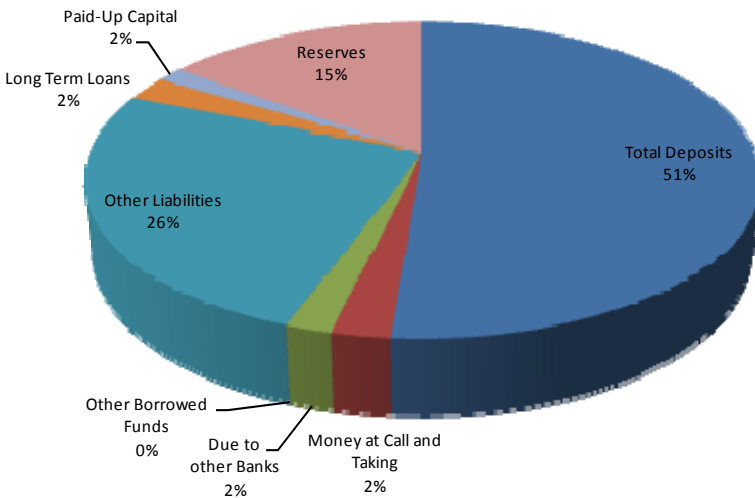
Deposits make up the largest proportion of bank liabilities in Nigeria with its share of around 51% staying consistent between 2003 and 2007. Another effect of the CBN reform program can also be seen with the increase in reserves from 2003 to 2007 of 6% to 15% respectively as a result of the increased capitalization requirements.

Composition of Liabilities 2003



Source: CBN

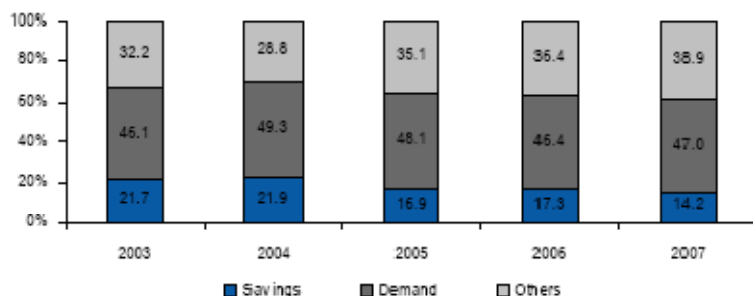
Composition of Liabilities 2007



Source: CBN

Specifically, Nigerian banks are predominantly funded via short dated demand customer deposits, which accounted for 47% of bank deposits at end 2007. The increased need to capture retail deposits as a result can also be seen in an increase in the number of alternate delivery channels, with banks investing heavily in Automated Teller Machines (ATMs), internet and mobile phone banking platforms, but notwithstanding larger retail footprints, corporate deposits still account for the majority of banking system deposits.

Composition of industry deposits

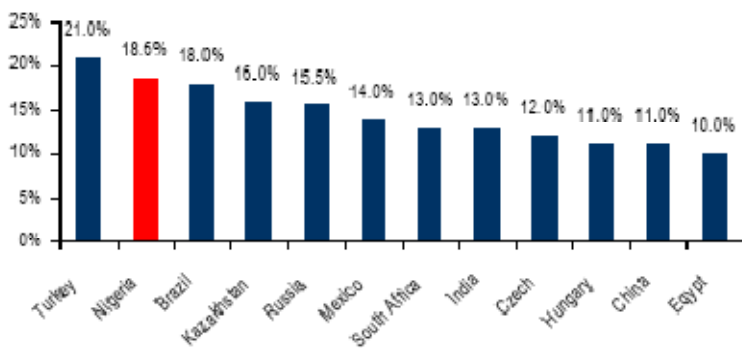


Source: CBN (from JPM Research Report)

Bank Capitalizations

Nigerian banks were able to raise a sizable amount of capital over the last 18 months (domestically and internationally) and are therefore adequately capitalized with system capital adequacy ratio of 18.6%. However, for the sector, given the still high operating risks in the system and expected future growth requirements, these levels are adequate rather than fully sufficient. The CBN mandates a 10% minimum for the total regulatory capital ratio which is viewed as low for the Nigerian banking sector by credit rating agencies such as Fitch and Standard & Poor's. Though the current level also compares favorably on a peer comparison basis globally, given the specific operating environment in the country, higher capital ratios would be welcome.

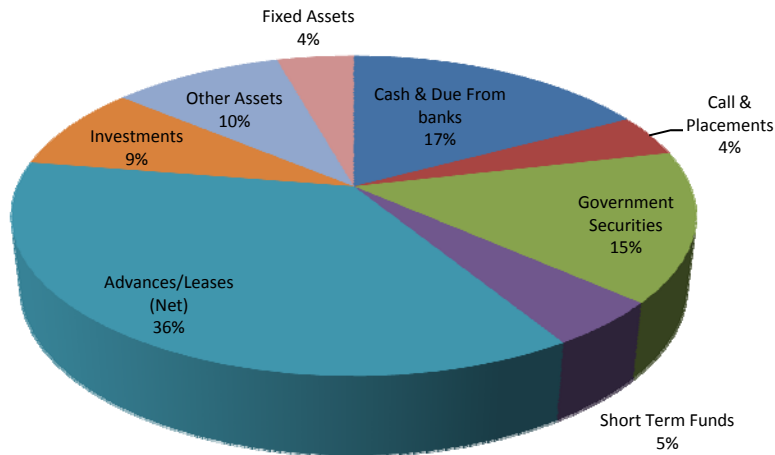
Capitalization ratios compare favorably to peers



Source: Merrill Lynch Research Report

Investment of funds

Composition of Assets 2007



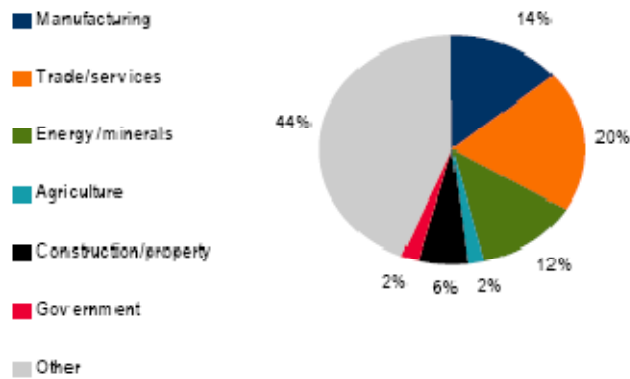
Source: CBN

Loans and advances make up the largest share of the assets of the banking sector balance sheet at 36%, slightly higher than the 33% share in 2003. Banks also deploy a considerable proportion of assets in treasury bills (Government securities). However, balance sheet structure is to an extent driven by regulation with the CBN imposing onerous liquidity requirements on the sector including 40% (of deposits) liquid asset ratio liquidity requirement. So, although liquidity risks have risen as a result of the increased concentration in shorter dated demand deposits, this is somewhat mitigated by significant liquid asset holdings, in line with the regulatory requirements.

Nigerian banks are also looking to lengthen the tenure of their deposit bases to lend into longer term projects/products. There is a considerable liquidity mismatch for the sector though, as most deposits are demand deposits, while a high proportion of lending is term lending to corporations. Therefore, while most of the big banks are positioning themselves to grow their retail business over the medium term, the corporate market still accounts for the large majority of advances.

As a result there is a high concentration of loans to the oil and gas and communication sectors. In terms of concentration risk and where banks lend to, banks' corporate loan portfolios are concentrated in the oil & gas, telecommunications, general commerce/services and construction sectors with credit exposures within the banking sector remaining predominantly shorter dated at less than 12 months highlighting the banks' relative lack of longer dated funding.

Sectoral distribution of banks' loans – end June 07

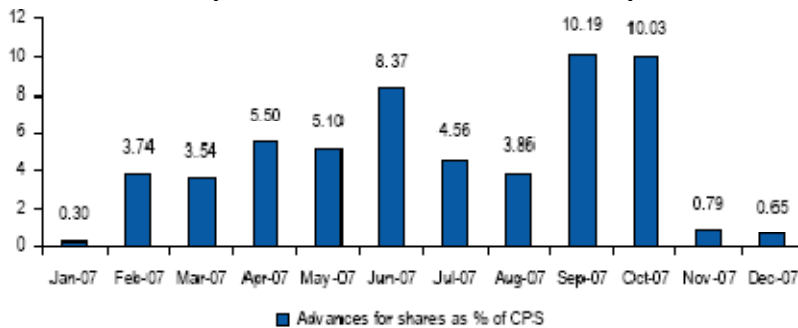


Source: IMF (from Merrill Lynch Research Report)

Margin Lending & Mortgages:

It is believed that banks have lent heavily to firms and individuals engaged in stock exchange trading. This type of lending is viewed as extremely risky, particularly in a relatively young market such as Nigeria. The CBN reported exposures at times in 2007 of over 10% of private sector lending related to share purchases, though there are indications of higher numbers for individual banks.

Loan for share purchase as % of credit to core private sector (CPS)



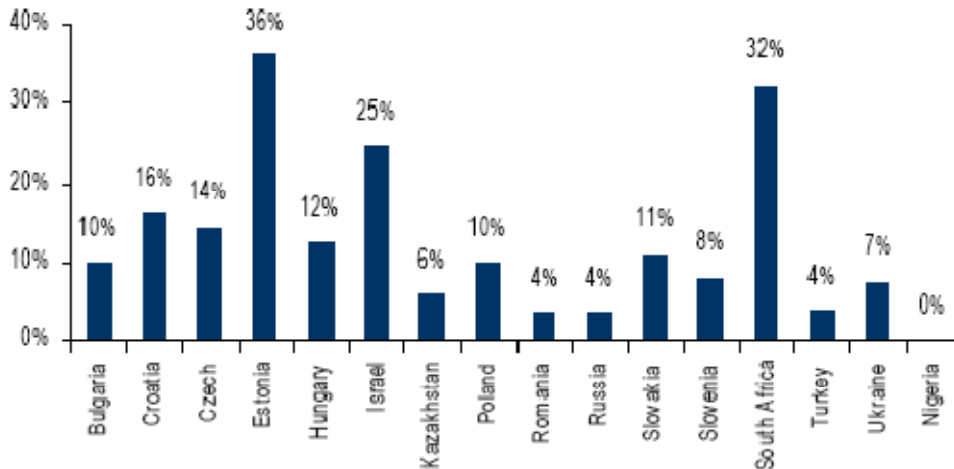
Source: CBN (from JP Morgan Research Report)

The mortgage market is very small and a future potential growth area with cross selling opportunities (Nigeria has a housing deficit of between 12m 16m units, according to a recent report by the UN Centre for Human Settlement). However, currently, mortgage penetration in Nigeria is low, 0.12% of real GDP and with no significant increases in mortgage penetration rates likely due to issues such as poor legal framework and problems related to the registration of property and the transfer of title deeds.

Another critical impediment is the lack of long term financing with banks reluctant to extend mortgages over five years. However, a promising area of the mortgage market is the upper income housing projects initiated by developers.

Real estate exposure for banks, at this stage is small, 10% of total loan portfolios.

EESA mortgage debt/GDP (%) – penetration in Nigeria is low



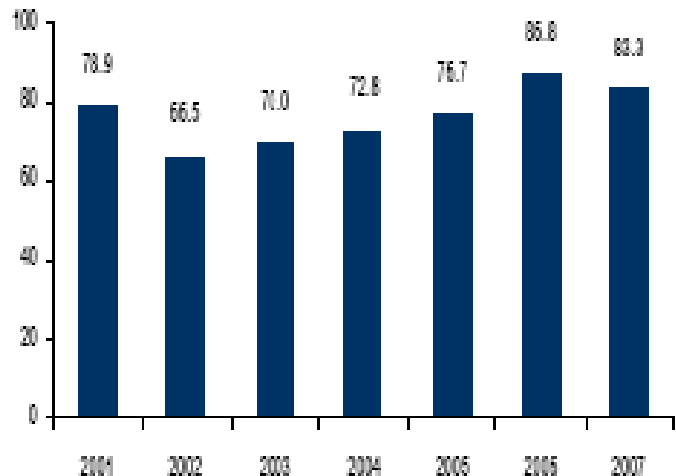
Source: IMF IFS, Central Bank Data, Merrill Lynch estimates

Loan/Deposit ratio:

The growth in deposits, CAGR of 25% over 3 year period to 2007, continues to lag increased levels of credit growth with private sector credit extension increasing 98% to 2007. This has resulted in rising loan/deposit ratios in the sector with system loan/deposit ratio at end 2007 of 83.3%, up significantly from 66.5% in 2002. Over the medium term, there is expected to be intensifying competition for deposits, especially as banks’ loan/deposit ratios push higher on strong lending growth.

Loan/deposit ratio (%)

Source: CBN (from Merrill Lynch Research Report)



Privatizations: partial versus full

The initial phase of privatization in the banking sector Nigeria was effected between 1986 and 1993 where the privatization agency, Technical Committee on Privatization and Commercialization, TCPC, scheduled a “partial” privatization” through the sale of government shares in commercial and merchant banks in which the federal government had an ownership stake. However, several banks that were originally scheduled to be privatized were not divested and it did not eliminate government ownership in the banking system.

In December 1996, there were still several banks with government interests. As a result, the government wanted to divest the balance of its equity holdings ranging from 10 to 40 percent. Subsequently, there was a second phase of privatization, this time a “full” privatization of enterprises in three sectoral groups, commercial and merchant banks, cement plants and petroleum marketing companies.

The banks that were subsequently classified as privatized included: First Bank; Union Bank; United Bank of Africa; Afribank; FSB International Bank; Inland Bank Nigeria; Intercity Bank; Afribank (Merchant); and First Atlantic Bank. In seven cases, government ownership was completely eliminated and in the other two cases, it went from 54% to 11% and from 100% to 33%, respectively.

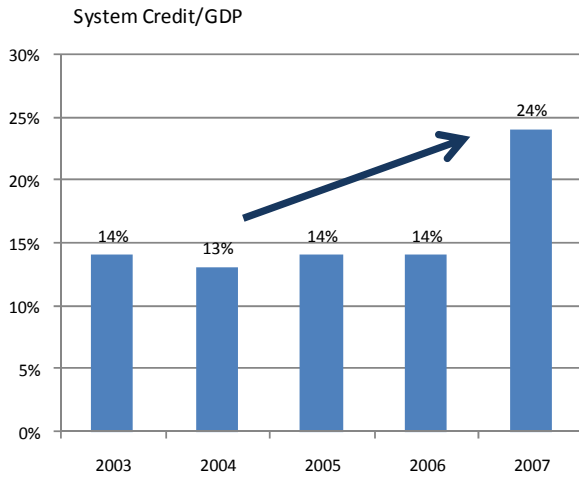
A majority of the privatizations were implemented through flotation on the stock exchange, with purchasers restricted to Nigerians and limited groups of other Africans and currently following subsequent sales, direct and indirect government ownership is now limited in the sector (< 10%).

Bank credit to the private sector:

Another result of the banking reforms has been the acceleration of growth in private sector credit extension following extremely strong rates of growth in advances with private sector credit extension up 98% in 2007 to ₦4.9 trillion.

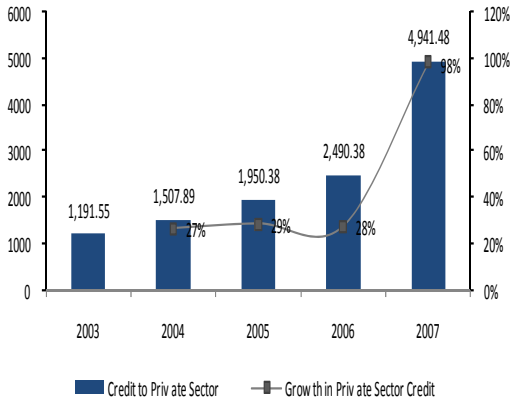
This explosion in private sector credit extension, from ₦1.2 trillion in 2003 to ₦4.9 trillion in 2007, has resulted in increased funding pressures, as growth in deposits continues to fall behind the strong levels of credit growth. In addition, credit to the private sector increased from 14% of GDP in 2003 to 24% of GDP in 2007.

Credit & bank lending penetration rates, %



Source: CBN, IMF, Renaissance Capital estimates

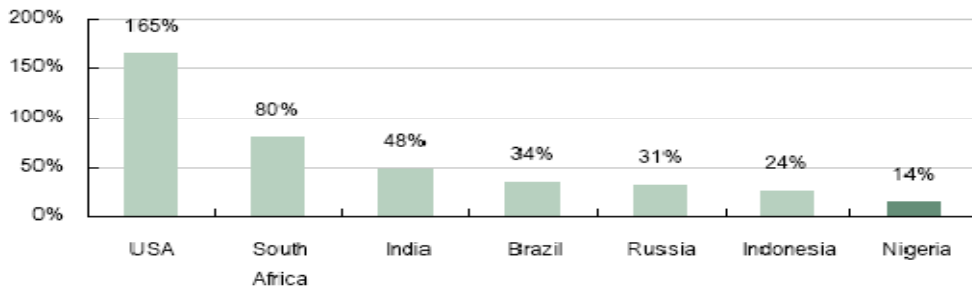
Private Sector Credit Extension



Source: CBN (from JP Morgan Research Report)

On an international basis, Nigeria’s credit penetration (credit to the private sector/GDP) measured against a natural international peer group and the US, shows that in 2006, Nigeria’s credit penetration was 14%, confirming its banking system remains significantly less penetrated than its peers. However, Nigeria’s credit penetration improved to 24% in 2007 and the reform program initiated should help to further reduce the deficit to the likes of Brazil and Russia.

Figure 53: Credit to private sector/ GDP 2006, %



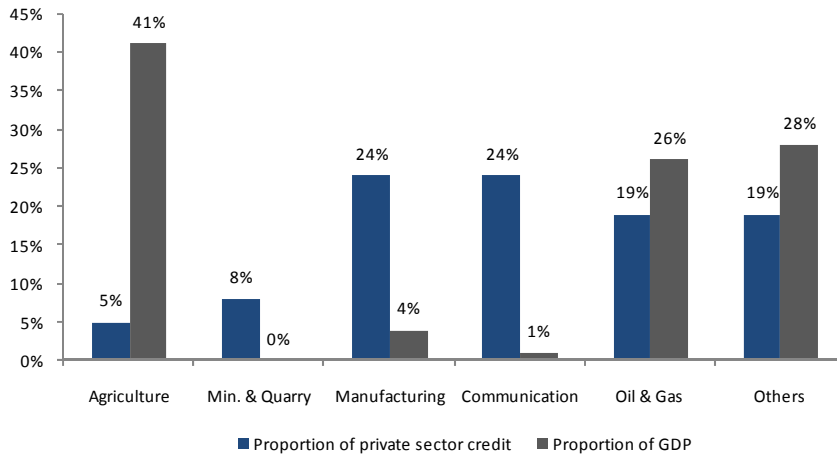
Source: IMF, Renaissance Capital estimates

Composition of credit mix:

Nigeria presently has a significant mismatch between where credit is supplied, (by sector) and the main contributors to GDP (by sector). Although agriculture is the largest contributor to Nigeria's GDP (42% of total GDP in 2007), only 3% of bank credit exposure is to the agricultural sector. A comparison can be made with the communication sector, which contributed only 2.38% of total real GDP in 2007 was supplied with 24% of total credit to the private sector. This mismatch has deteriorated over the past four years.

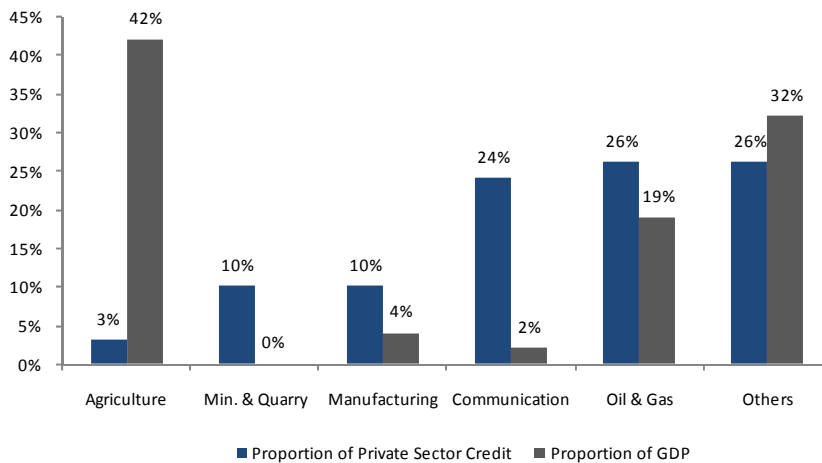
This is particularly evident in the manufacturing sector, which has seen the provision of its credit fall from 24% in 2003 to 10% in 2007, despite its contribution to total real GDP increasing to 4.0% in 2007 (from 3.6% in 2003). The resulting intense competition for corporate advances has placed pressure on interest earned from these accounts and resulted in a big bid to grow low cost retail deposits.

Credit to private sector by activity and sector contribution to GDP (2003)



Source: CBN, JPMorgan calculations

Credit to private sector by activity and sector contribution to GDP (2007)

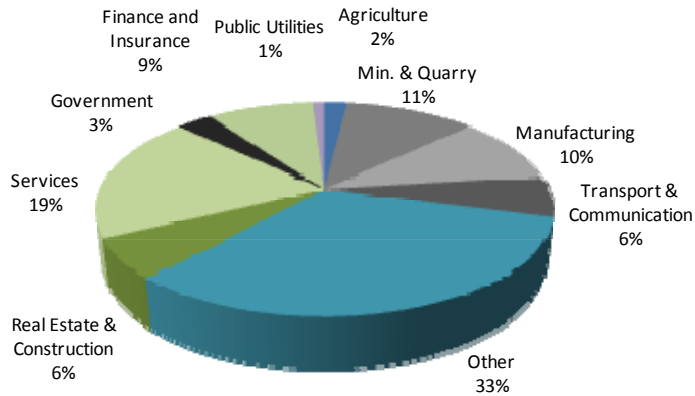


Source: CBN, JPMorgan calculations

Bank credit to the public sector

Bank credit lending to the public sector is limited based on currently available data. If public sector is defined as Government and Public Utilities, then 4% of total bank credit is to the sector as of 1st quarter 2008.

Bank lending by sector, 1Q08



Source: CBN (from Renaissance Capital Research Report)

Interest spread :

The factors discussed to date such as the increased pressure and competition to serve the limited number of large corporations, urgency to deploy capital and therefore to access low cost retail deposits have intensified greatly. These factors, in addition to large numbers of the major banks jockeying to position themselves for a second round of consolidation have started to put pressure on interest margins generated by the banks.

Efficiency of Nigerian Banks from 2003 to 2007 (Percent)					
Efficiency Measures	2003	2004	2005	2006	2007
Interest Margin	55.87	54.37	5.59	60.15	52.25
Yield on Earnings Asset	4.74	14.17	9.85	8.35	6.28

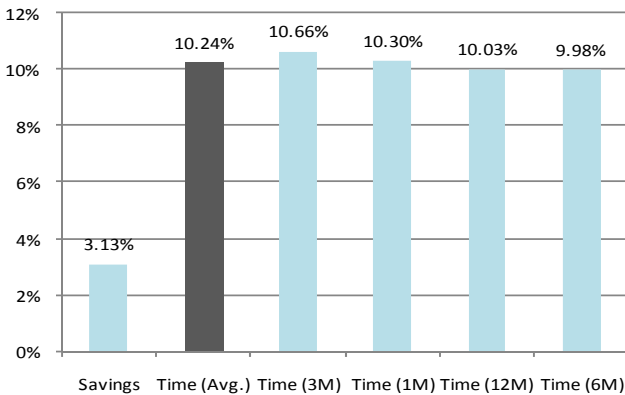
Source: CBN Supervision Report 2007

Though there has not been significant impact to date, the CBN report shows the interest margin for the sector falling to 52.25% in 2007. The continued severity of margin pressure will depend amongst other things on the banks' ability to increase the proportion of cheap retail deposits in their funding bases and therefore reduce funding costs and increase the yield on earnings assets.

The relative weakness in the growth of saving deposits has had a material impact on the cost of funding for Nigeria’s banks. The snapshot below shows the savings rate (on average) was 3.13% in March 2008, while the one month, three month, six month and 12 month rates on time deposits were 10.30%, 10.66%, 9.98% and 10.03%, respectively.

On average, the rates on time deposits was 7 percentage points higher than the rates on savings in 1st quarter 2008 and so the weakness in savings deposits indicates future margin pressure as banks have to rely less on retail deposits and more on time/term deposits.

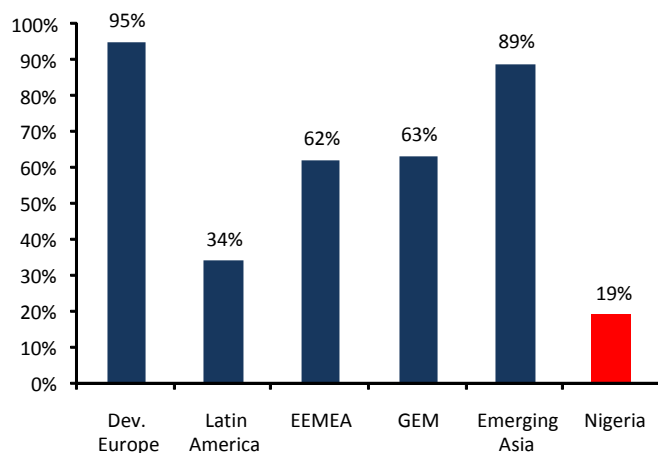
Deposit rates by product at March 2008, %



Source: CBN (from Renaissance Capital Research Report)

Also, given that Nigeria has a large informal economy and is predominantly cash based society, deposit penetration is very low at 19%, compared to 89% for Emerging Asia for example, and increases the funding (cost) pressures on banks as they access higher cost funding sources.

Deposits/GDP, 2007



Source: Merrill Lynch calculations, company reports

Deposit insurance

The Nigerian Deposit Insurance Corporation (NDIC) was established in 1988 and it is under the direct control of the CBN to carry out the supervision, examination and liquidation of banks. The practice and implementation of the Deposit Insurance Scheme (DIS) in Nigeria is based largely on the US model. Though the NDIC has the mandate to insure deposits of all deposit taking financial institutions in the country, currently, it only insures deposits in conventional banks with steps being taken to insure deposits of other financial institutions such as Mortgage Institutions.

The NDIC insures all deposit liabilities of licensed banks and other financial institutions with the insurance premium equal to a flat rate of 0.9375% or 15/16 of 1% of deposit liabilities and insures deposits up to an amount of ₦50,000 per depositor, an amount which is being reviewed upward. As a result of inflation and other macroeconomic indices and in the interest of depositors, the Corporation submitted a bill to the National Assembly for the upward review of the guaranteed amount to ₦200,000.

However, insurance does not cover deposits of insiders defined in this case to include staff and directors of the insured institutions and essentially, the Nigeria deposit insurance scheme is designed to target small savers who may not be in a privileged position to obtain or interpret technical market information relating to the soundness of a bank. The prudential guideline for banks that seeks to provide for stable well capitalized banks to ensure adequate protection of depositors is provided below.

Prudential ratios

Capital	
Capital adequacy ratio	10%
Tier 2 not to exceed Tier 1	
Minimum capital base	₦25bn (c USD190m)
Long-term equity investments	< 25% of paid up capital and statutory reserves
Liquidity	
Cash reserve requirement	8% of deposits
Liquidity requirement	40% of deposits
Maximum loan to deposit ratio	80%
Single and large exposure	
Single exposure limit	20% shareholders' funds
Large exposure	> 10% of shareholders' funds
Total large exposures	< 8x shareholders' funds

Source: Regulatory guidelines, company reports (from JPMorgan Equity Report)

Data Sources:

- (i) Nigerian banks Eyes on the prize, Equity Research, Renaissance Capital, June 6 2008
- (ii) Banking Supervision Annual Report 2007, Central Bank of Nigeria
- (iii) Nigerian banks Will they survive?, Equity Research, Renaissance Capital, December 5 2008
- (iv) Nigerian banks Consolidation, a final round?, Equity Research, Renaissance Capital, October 13 2008
- (v) Nigerian Banking Sector, Afrinvest (West Africa) Ltd, January 2008
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- (vii) Nigerian Banks A story of potential, Merrill Lynch, December 10 2008

Nigerian Insurance Industry:

It appears that another round of consolidation, similar to that in 2006, may be what the Insurance sector in Nigeria needs. Analysis suggests a second round of consolidation, with the purpose of de fragmenting the industry will help remove system limitations, specifically:

- 1) The lack of robust top tier insurers; and
- 2) The lack of concentration among Nigeria's top 10 insurers.

This would eventually yield:

- An increase in market confidence
- The emergence of a true national champion
- The diversification of distribution channels
- And the entrance of foreign players

The consolidation should be between tier one and tier two insurers, as well as between tier two insurers.

Industry profile:

The Nigerian Insurance Industry is one of the more lucrative sectors even as traded on the Nigerian Stock Exchange. Given the current average trading of listed companies close to a price to book (P/B) of 1.0x, it suggests a lot of opportunities still exists based on unlocked hidden values. Below is a Renaissance Capital analyst rating on industry participants.

Figure 1: Summary sector ratings, target prices and valuations (17 Dec 2008)

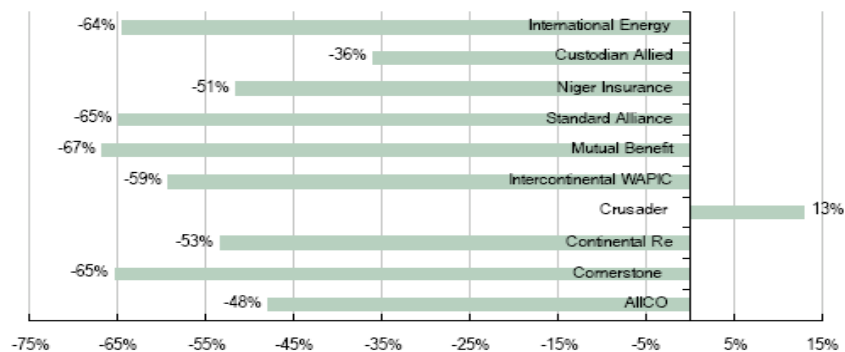
	Rating	Mkt Cap NGNbn	Prices NGN		Adj. P/B 2009E	P/E 2009E	Adj. RoAE 2009E
			Current	Target			
Composite insurers							
AllCO	BUY	5	1.63	3.75	0.77 x	6.4 x	22.6%
Cornerstone	HOLD	11	1.21	1.20	1.70 x	10.3 x	19.9%
Continental Re	BUY	16	1.57	5.95	1.17 x	5.5 x	33.4%
Crusader	SELL	24	7.35	2.95	2.79 x	25.5 x	22.1%
Intercontinental WAPIC	HOLD	17	3.99	4.30	1.80 x	11.0 x	25.0%
Mutual Benefit	HOLD	10	1.27	2.50	1.26 x	4.4 x	36.6%
Standard Alliance	BUY	4	1.23	4.10	0.42 x	4.9 x	24.0%
Niger insurance	HOLD	8	2.42	4.25	1.73 x	11.6 x	16.6%
Composite average (weighted)		95			1.75 x	12.4 x	25.5%
Non-life insurers							
Custodian Allied	BUY	12	2.60	3.85	1.28 x	8.1 x	24.1%
International Energy	BUY	11	2.06	4.30	0.79 x	6.2 x	24.8%
Non-life average (weighted)		24			1.04 x	7.2 x	24.4%
Sector (weighted average)		119			1.61 x	11.4 x	25.3%

Source: Company data, Renaissance Capital estimates

It appears that there should be more consolidation between tier one and tier two insurers, as well as between tier two insurers. This would not only help increase the number of top tier players, but also strengthen these companies.

In discussing tiers, reference is only to

Figure 2: Price performance in 2008 (17 Dec 2008)



Source: Bloomberg

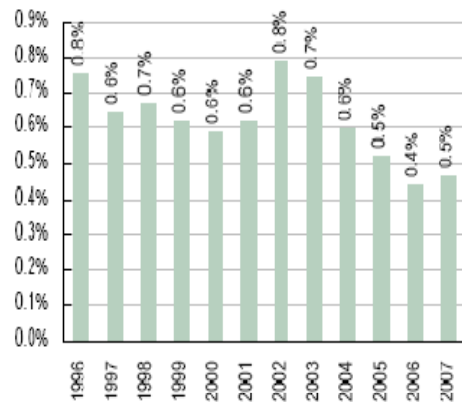
the size of respective premiums and Tiers do not reflect the quality of the insurers or their management. With valuations of insurers currently depressed, logic suggests there is no better time to consolidate. On average, analysts estimate the industry is trading on 2009 adjusted BVPS of 1.61x – down from 2.59x when the industry was initiated, in May 2008.

In the context of industry consolidation, insurers such as SA Insurance Plc and Custodian & Allied Insurance Plc in a sample coverage universe by Renaissance Capital, with companies having indicated inorganic growth strategies and have the resources to execute M&A transactions. Figure 1 (ratings) and the embedded (figure 2) earnings by Renaissance Capital estimates in light of the performance of the NSE in 2008 and recent quarterly earnings updates.

Following 2008’s regulator induced consolidation in the Nigerian insurance industry, the number of insurers in Nigeria fell significantly (to **48** from **96** in 2006). Notably, these 48 included Continental Reinsurance Plc, which was the only licensed reinsurer at YE07. However, over the past year, the number of insurers in Nigeria has increased to 50 (48 direct and two reinsurers), following the reinstatement of National Insurance Corporation of Nigeria (NICON) and Nigerian Reinsurance Corporation (Nigerian Re) by the industry’s regulator (NAICOM).

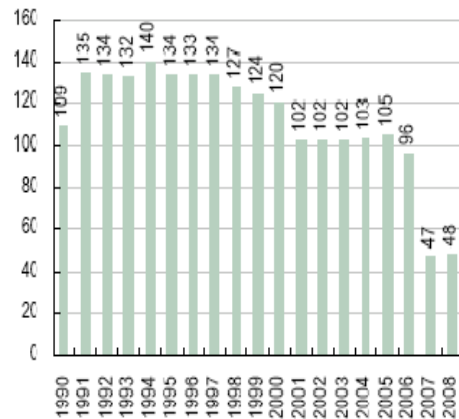
The catalyst for industry consolidation in 2006 was NAICOM’s decision to increase the industry’s minimum capital requirements. In 2005, NAICOM increased the minimum capital requirement for life, non life and composite insurers to: 1) NGN2bn from NGN150mn for life insurers; 2) to NGN3bn from NGN250mn for non life insurers; and 3) to NGN5bn from NGN350mn for composite insurers. Furthermore, the minimum capital requirement for reinsurers

Figure 3: Nigerian insurance industry - penetration



Source: Nigerian Insurance Association, Renaissance Capital estimates

Figure 4: Nigerian insurance - industry number of insurers



Source: Nigerian Insurance Association

was increased to NGN10bn, from NGN350mn.

It is observable that growth opportunities abound in the Insurance sector in the medium to long term. An analysis report from Vetiva suggests the sector will grow at a CAGR of over 32% in the next 5 years compared to a CAGR of 18% from 1997 to 2006. Nonetheless, 2008 gross premiums estimate of NGN135 bn (35% growth YOY) still translates to less than NGN950 (\$6.33) in premiums per capita in 2008, much less than a world average of \$607.7 and an Emerging Market average of \$72.8 (Swiss Re 2007).

As indicated in Figure 5 below, the rationalization of the sector in 2006 reflected the consolidation of 64 insurers into 24 groups, and the failure of 13 other insurers. Note that 23 remained independent over 2006-2007.

Figure 5: Nigerian insurers - consolidated groups

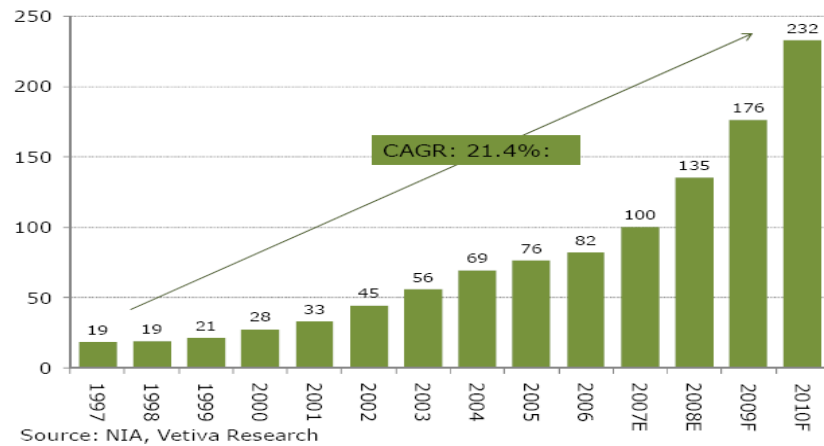
Industrial And General Insurance Plc	Industrial & General Insurance Postal Life And General Insurance Nasal Insurance	Equity Assurance Plc	Equity Indemnity Insurance First Assurance
Leadway Assurance Limited	Leadway Assurance Atlantic Insurance	Crusader Insurance Plc	Crusader Insurance Admiral Insurance Golden Insurance Refuge Insurance Royal Trust Assurance
AiCO Insurance Plc	AIICO Insurance Nfi Insurance Lamda Insurance	Investment & Allied Insurance Plc	Investment & Allied Insurance Gold Standard Insurance First Chartered
Goldlink Insurance Limited	Goldlink Insurance Lexington Insurance Lister Insurance	Sterling Assurance	Sterling Assurance Universe Insurance Newline Insurance
Royal Exchange Assurance Plc	Royal Exchange Assurance Phoenix Of Nigeria Assurance African Prudential Insurance	STACO Insurance Plc	Standard Trust Assurance Summit Insurance
Regency Alliance Insurance	Regency Alliance Insurance Nigerian Alliance Assurance Corp. Destiny Insurance Limited Capital Express Insurance Limited	Custodian & Allied Insurance	Custodian & Allied Insurance Signal Insurance Fire Equity & General Insurance
Linkage Assurance Plc	Linkage Assurance Central Insurance Limited	Mutual Benefits Assurance Plc	Mutual Benefits Assurance Worldwide Insurance
International Energy Insurance Plc	International Energy Insurance Limited Rivbank Insurance Limited	Lasaco Assurance Plc	Lasaco Assurance Elmac Assurance
Sovereign Trust Insurance Plc	Sovereign Trust Insurance Prime Trust Insurance Coral International Insurance Confidence Insurance	NICON Insurance Plc	NICON UBA Insurance
Consolidated Hallmark Insurance Plc	Consolidated Risk Insurance Hallmark Insurance	Alliance & General Insurance	Alliance & General Insurance Baico Insurance
Universal Insurance Limited	Universal Insurance United Trust Assurance African Safety Insurance	Standard Alliance Plc	Standard Alliance Perpetual Insurance
Kapital Insurance Limited	Kapital Insurance Intercontinental Assurance Global Commerce & General Assurance	Guinea Insurance Plc	Guinea Insurance Precious Trust Insurance

Source: NIA, NIAO

The low penetration of insurance (Gross premiums per GDP) in Nigeria further buttresses the point on growth opportunities mentioned above. On comparing Nigeria with other countries/regions, Nigeria's gross premium was estimated to contribute 0.6% of the country's GDP in 2007. This was below South Africa, with a penetration of 15.3%, Africa (1.23%) and other emerging markets (1.30%). Nonetheless, this does not automatically translate into super growth for the sector in the short run. The problems which encumber the sector have resulted in depressed prices on the stock exchange based on perception. However, when put in perspective, one can observe bargains in some stocks at current prices given their strong business models, competitive strategy and the growth we believe can be achieved and sustained.

INSURANCE SECTOR GROSS PREMIUMS

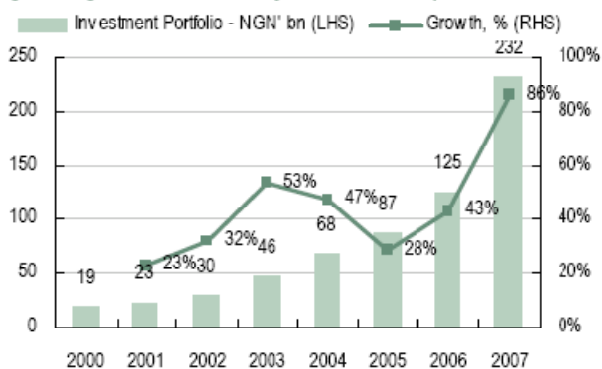
Naira 'Billions



Although we believe the pay off from the insurance industry's consolidation will be clearer by the end of the 2008 financial year, its immediate effect on the industry has been:

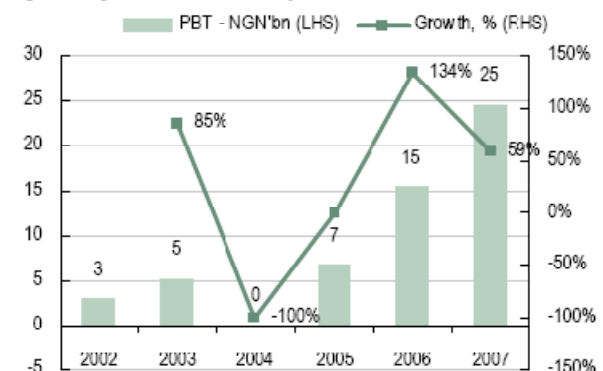
- A boost in investment portfolio and earnings (see Figure 6) over 2005-2007, with the industry investment portfolio adding 166% to NGN232bn, and earnings (PBT) up 264%, to NGN24bn, over the same period.
- A decline in combined ratios. On average, the industry's combined ratio declined to 72% from 79% over 2004-2007.

Figure 6: Nigerian insurance industry - 2007 investment portfolio, NGNbn



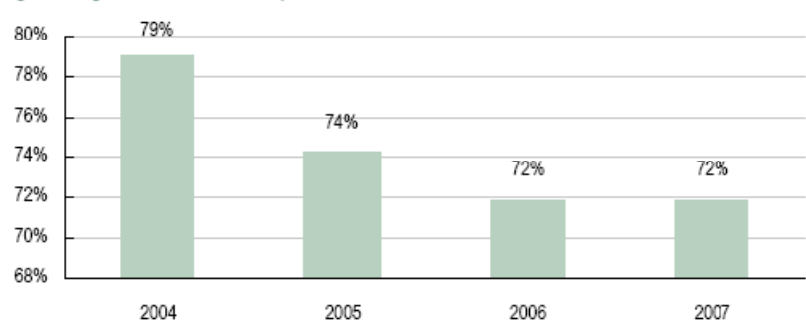
Source: Nigerian Insurance Association, Company data

Figure 7: Nigerian insurance industry - 2007 PBT, NGNbn



Source: Nigerian Insurance Association, Company data

Figure 8: Nigerian insurance industry - Combined ratio



Source: Nigerian Insurance Association, Company data

Current market structure

As indicated earlier, there were 48 insurance companies operating in Nigeria at YE08. Of these, 25 were non life insurers, 19 were composite and the remaining four were life insurers. This market structure largely reflects the dominance of nonlife insurance, which represents about 85% of the industry premium.

Notably, more than half (26) the Nigerian insurance universe was publicly quoted in 2008, with only 22 privately owned insurers. Although the bulk of the industry is quoted, the two largest insurers in Nigeria (Leadway Assurance and IGI2) are privately owned. None of the quoted insurers offers significant standalone exposure to the sector.

A further distinctive characteristic of the Nigerian insurance industry is the limited presence of foreign players. At YE07, there were only two foreign owned Nigerian insurers – New India Assurance (through Prestige Assurance Plc) and Metropolitan SA (through UBA Metropolitan Life).

The current structure of the Nigerian insurance sector highlights the infancy of the industry, in our opinion, as we would expect to see a smaller quoted universe, with significantly larger market share and greater foreign participation. However, we think the absence of these structures underscores the industry's growth potential.

Figure 9: Nigerian insurance industry - licensed insurers

	Quoted	Non-quoted	Indigenous	Foreign		Quoted	Non-quoted	Indigenous	
Life insurers									
Equity Life Insurance		√	√		The Universal Insurance Plc	√		√	
Capital Express Insurance		√	√		Unitrust Insurance		√	√	
UBA Metropolitan Life Insurance		√		√	Yankari Insurance		√	√	
UNIC Insurance Plc	√		√		Zenith Insurance		√	√	
Non-life insurers					Nigerian Agricultural Insurance Corp.				
Alliance & General Insurance		√	√		Composite insurers				
Custodian & Allied Insurance Plc	√		√		AllCO Insurance Plc	√		√	
Equity Assurance Plc	√		√		Cornerstone Insurance Plc	√		√	
International Energy Insurance Plc	√		√		Crusader (Nig) Plc	√		√	
Law Union & Rock Insurance Plc	√		√		Guaranty Trust Assurance Plc		√	√	
Anchor Insurance Company		√	√		Industrial & General Insurance Plc		√	√	
Consolidated Hallmark Insurance Plc	√		√		Leadway Assurance		√	√	
Goldlink Insurance Plc	√		√		Mutual Benefits Assurance Plc	√		√	
Guinea Insurance Plc	√		√		Niger Insurance Plc	√		√	
Insurance PHB		√	√		Royal Exchange Assurance (Nig) Plc	√		√	
Investment & Allied Assurance Plc	√		√		Standard Alliance Insurance Plc	√		√	
Kapital Insurance		√	√		Intercontinental Wapic Insurance Plc	√		√	
Linkage Assurance Plc	√		√		NICON		√	√	
NEM Insurance Plc	√		√		Union Assurance		√	√	
Oceanic Insurance		√	√		Guardian Express Assurance		√	√	
Prestige Assurance Plc	√			√	Great Nigeria Insurance Plc	√		√	
Regency Alliance Insurance Plc	√		√		ADIC Insurance Company Ltd		√	√	
Sterling Assurance		√	√		Oasis Insurance Plc	√		√	
Sovereign Trust Insurance Plc	√		√		African Alliance Insurance		√	√	
STACO Insurance Plc	√		√		Lasaco Assurance Plc	√		√	

Source: NIA

A lack of concentration among the top 10 insurers

As mentioned earlier, we believe the recent recapitalization exercise was unsuccessful in concentrating the Nigerian insurance industry, as the combined market share of the top 10 insurers has fallen since 2004 (pre consolidation). As shown in Figure 15, 16 and 18, this is true on almost all the metrics we use to compare the relative size of the industries players (gross premium, shareholders fund, investment portfolio and PBT).

- **Based on gross premium**, Nigeria's 10 largest insurers collectively shared 50% of the market in 2007, vs. 56% in 2004. This largely reflected the demise of NICON

Figure 15: Top-10 insurers - Gross premium market share, 2007 vs 2004

2007			2004		
	Insurance company	Market share		Insurance company	Market share
1	Leadway Assurance	16%	1	NICON	25%
2	IGI	7%	2	IGI	6%
3	AllCO	5%	3	Leadway	6%
4	Niger Insurance	4%	4	AllCO	5%
5	Intercontinental Wapic	4%	5	Niger Insurance	3%
6	STACO Insurance	3%	6	Royal Exchange	3%
7	Cornerstone Insurance	3%	7	Goldlink Insurance	2%
8	Custodian & Allied	3%	8	Intercontinental Wapic	2%
9	International Energy Insurance	3%	9	Cornerstone Insurance	2%
10	NEM Insurance	3%	10	Law Union & Rock	2%
	Top 10	50%		Top 10	56%

Source: NIA, Company data

(once the industry's national champion).

➤ **Based on investment portfolio**, Nigeria's top 10 insurers gained little market share post

consolidation, as combined market share among the top 10 insurers increased to 48% in 2007, from

Figure 17: Top 10 Insurers - Investment portfolio market share, 2007 vs 2004

2007		2004	
Insurance company	Market share	Insurance company	Market share
1 IGI	10%	1 Leadway Assurance	10%
2 Leadway Assurance	10%	2 AIICO	8%
3 Crusader	4%	3 IGI	7%
4 International Energy Insurance	4%	4 Royal Exchange	4%
5 Mutual Benefit Assurance	4%	5 NICON	4%
6 Cornerstone Insurance	4%	6 Linkage	3%
7 The Universal Insurance	3%	7 A&G	3%
8 Investment and Allied	3%	8 UNIC	3%
9 Niger Insurance	3%	9 Prestige	2%
10 Intercontinental Wpic	3%	10 Cornerstone	2%
Top 10	48%	Top 10	46%

Source: NIA, Company data

46% pre consolidation (2004). Nevertheless, given that the increase was marginal, and in light of the volatile nature of insurers' investment portfolios, we place less emphasis on this metric.

Conclusion: The Nigerian Insurance industry will benefit from another round of consolidation especially from a recapitalization perspective. This Industry consolidation will be triggered by the markets current high fragmentation and the presence of over capitalized players. Thus far, despite the dull atmosphere in the stock market and uncertainties about the Nigerian economy, which has impacted negatively on the performance of Nigerian insurers quoted on the NSE (9% YtD), it is expected that the sector would outperform the market in the current year. This is projected based on the belief that the market will respond to strong earnings growth in 2008, where estimated earnings is expected to grow 49% over the next three years (2008E 2010E), and 45% pa. This would be supported by the industry's recent recapitalization, improving risk awareness among Nigerians, the restructuring of the regulator (NAICOM) and the enforcement of new government policies (ie the local content oil and gas policy, pension and health care reforms aimed at boosting the industry's penetration which currently stands at 0.5% – compared to Kenya, a smaller economy compared with Nigeria, that has a penetration of 2.5%).

Sources

Institution Website

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2 Acen Insurance	www.acenico.com.ng
3 Admiral Insurance	www.admiralng.com/admiral/index.php
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5 Claims International Ltd	www.claimsinternational.net/home.php
6 Continental Reinsurance Plc	www.continentalre.com
7 Cornerstone Insurance	www.cornerstoneinsuranceplc.com
8 Crusader Insurance	www.crusaderplconline.com/index.htm
9 Greater Nigeria Insurance Plc	www.greatinsureng.com
10 Guaranty Trust Assurance	www.gtalimited.com/portal/index.pl
11 Hallmark Assurance	www.hallmarkassuranceplc.com/
12 Industrial And General Insurance	www.igiinsurers.com/
13 International Energy Insurance Company	www.ieinsuranceco.com/index.htm
14 National Insurance Commission	www.naicomonline.org
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17 NICON Insurance	www.niconinsurance.com.ng/
18 Niger Insurance Plc	www.nigeriainsurance.com/
19 Nigeria Reinsurance Corporation	www.nigeriainsuranceplc.com
20 Phoenix of Nigeria Assurance Plc	www.phoenixassuranceplc.com
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22 Sovereign Trust Insurance Plc	www.sti.com.ng/sti/index.asp
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26 UNIC Insurance Plc	www.unicinsurance.com
27 WAPIC Insurance	www.wapicinsurance.com/

CENTRAL BANK AND ITS ROLE IN THE ECONOMY:

Independence and Governance

The decree of 1991, now an Act of the National Assembly of the Federal Republic of Nigeria provides for the continuance of the CBN with a Board of Directors consisting of the Governor, four deputy governors and five non executive directors. The Act charges the Bank with the overall control and administration of the monetary and financial sector policies of the Federal Government.

The Central Bank Board of Directors is responsible for the policy and general administration of the affairs of the bank and it consists of:

- A governor who is the chairman
- Four deputy governors
- The permanent Secretary, Federal Ministry of Finance
- Five Directors
- Account General of the Federation

CBN Core Mandate

The statutory mandates of the CBN are as follows:

- To issue legal tender currency in Nigeria
- To maintain external reserves to safeguard the international value of the legal tender currency
- To safeguard the international value of the legal tender currency
- To promote monetary and price stability and a sound financial system in Nigeria
- Act as a banker and provide economic and financial advice to the Federal Government

Monetary Policy Committee

In order to facilitate the attainment of price stability and to support the economic policy of the Federal Government of Nigeria, a Committee of the Bank was set up, known as the Monetary Policy Committee (the MPC). The MPC is responsible for formulating monetary and credit policy.

The MPC consists of:

- the Governor of the Central Bank who shall be the Chairman
- the four Deputy Governors of the Bank
- two members of the Board of Directors of the Bank

- three members appointed by the President; and
- two members appointed by the Governor

Supervisory Role

The supervisory function of CBN is structured into two departments

1. Banking Supervision Department
2. Other Financial Institutions Department

Banking Supervision Department carries out the supervision of Deposit money banks and Discount houses while Other Financial Institutions Department supervises other financial institutions. The other financial institutions include Micro finance Banks (MFBs), Finance Companies (FCs), Bureaux de change (BDCs), Primary Mortgage Institutions (PMIs) and Development Finance Institutions (DFI's). The supervisory process of both departments involves both on site and off site arrangements. Read more on the supervisory framework

The Banking Supervision Department carries out the following basic functions

- Reviews and analyses the financial conditions of banks based on CAMEL parameters using prudential reports.
- Reviews and analyses statutory returns and other relevant information.
- Monitor trends and developments for the banking sector.
- Generate industry reports on a monthly and quarterly basis.
- Conduct on site assessment of banks' financial condition, internal control system, reliability of information provided by banks and compliance with corporate governance code.
- Monitor compliance with the Law, Guidelines and circulars (BOFIA, CAMA, CBN Act etc).

Interest Rates:

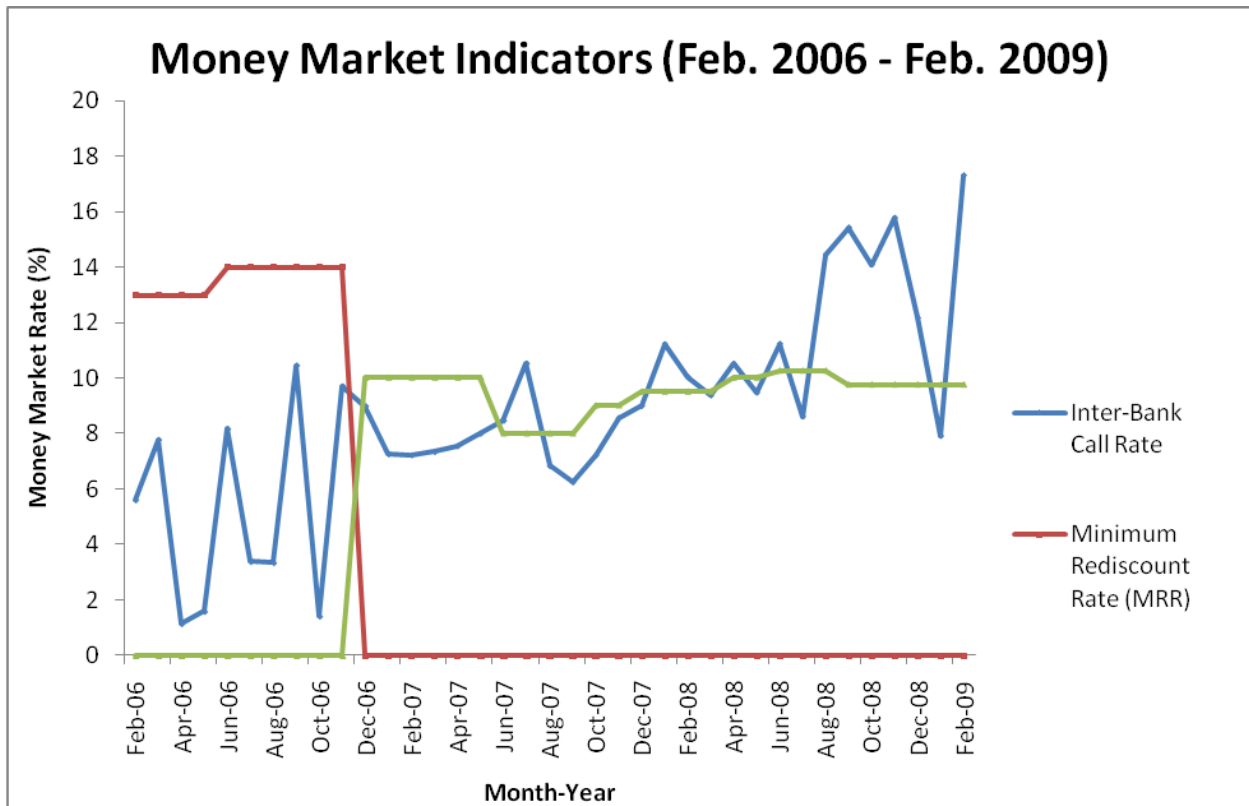
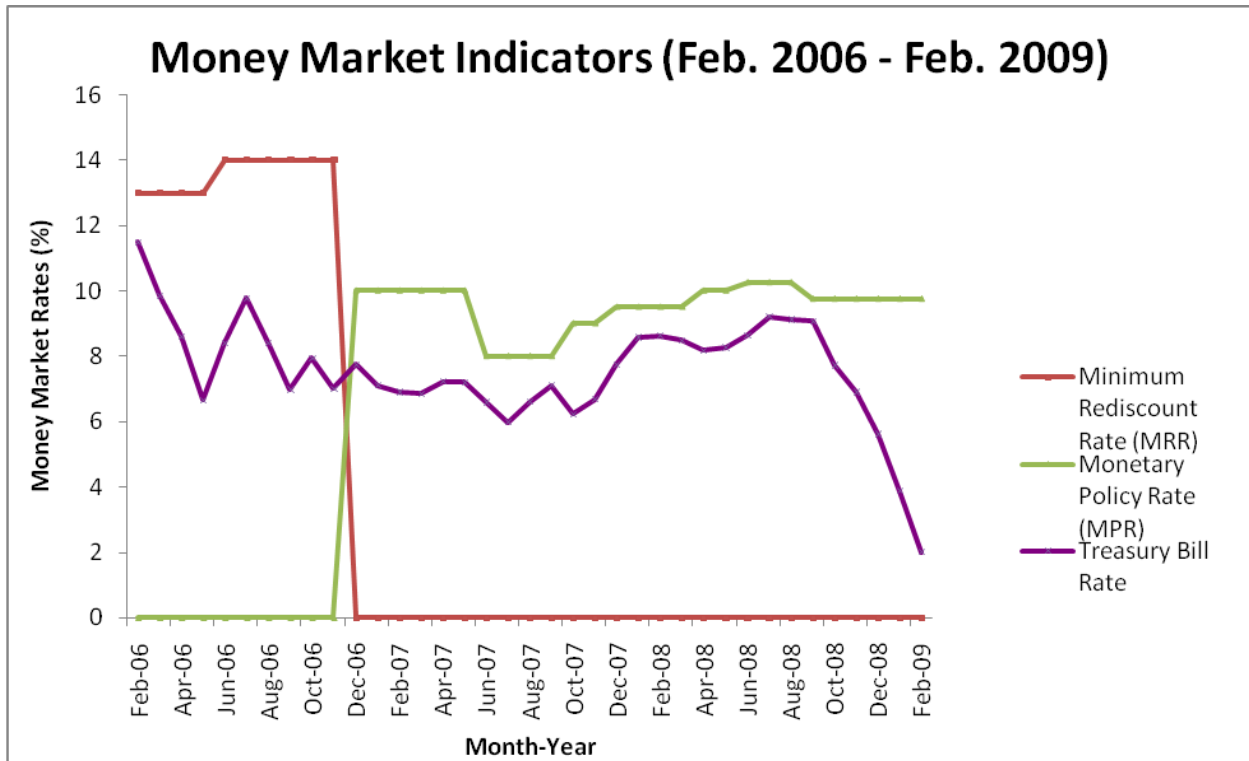
In 2006, the New Monetary Policy Framework for monetary policy implementation was introduced. The MPC meets on the first Tuesday of alternate month (once in a month) to set the interest rates called the Monetary Policy Rate (MPR). This operating target rate was introduced in 2006 to achieve a stable value of the domestic currency through stability in short term interest rates around it. The MPR serves as an indicative rate for transactions in the interbank money market as well as other interest rates in the money market transactions. The MPR, which replaced the MRR was set at 10 per cent with spread of 600 basis points around the rate, i.e. 300 basis points above and 300 basis points below. This translates into an upper limit of 13 per cent and a lower limit of 7 per cent which represents the rate at which the CBN will take deposits from the bank." Some factors considered while setting the MPR are inflation, CPI, liquidity in the financial system. At the same time, they make other decisions on the Cash Reserve Ratio and the liquidity ratio.

The main operating principle guiding the new policy is to control the supply of settlement balances of banks and motivate the banking system to target zero balances at the CBN, through an active interbank trading or transfer of balances at the CBN. This is aimed at engendering symmetric treatment of deficits and surpluses in the settlements accounts, so that for any bank, the cost of an overdraft at the Central Bank would be equal to the opportunity cost of holding a surplus with the Bank.

The Central Bank intervention in the market takes the form of a standing lending facility that which ensures orderly market operations or behavior by alternating avoidable interest volatility. The standing lending facility is available as an overnight lending to banks with deficits, at a fixed interest rate, i.e. the upper band of the CBN standing facility. The Bank stands ready to supply any amount the banks may require at the lending rate. The Central Bank also set up a standing facility that pays banks with surplus funds, a fixed interest rate in their deposit or reserves which they keep with the Bank. This arrangement allows the Bank to keep the overnight interbank interest rate in between the corridor with an upper and lower limit on interest rate.

A major advantage of the new framework is that the Central Bank is able to operate in the market daily and ensures adequate liquidity is provided to enable banks trading in the interbank market to complete settlement at interest rates around the MPR. Interbank rate is, therefore, maintained at a level between the lending and deposits rates at CBN. The maintenance of interest rates band has helped significantly to reduce volatility in the market compared to the interbank rates experienced in the past.

Appendix ... Money Market Rates (Data in “Money Market Rates.xls”)



Exchange Rate:

Exchange Rate Policy

The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favorable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability.

Foreign Exchange Market

The Nigerian foreign exchange market has witnessed tremendous changes by the Central Bank. These changes are based on developments in the foreign exchange market and the Naira. The Second tier Foreign Exchange Market (SFEM) was introduced in September, 1986, the unified official market in 1987, the autonomous Foreign Exchange Market (AFEM) in 1995, and the Interbank Foreign Exchange Market (IFEM) in 1999.

Under SFEM, the determination of the Naira exchange rate and allocation of foreign exchange were based on market forces. To enlarge the scope of the Foreign Exchange Market Bureaux de Change were introduced in 1989 for dealing in privately sourced foreign exchange. They were able to accord access to small users of foreign exchange and enlarge the officially recognized foreign exchange market. Exchange rates in the Bureaux de Change are market determined. A parallel market for foreign exchange has been in existence since the exchange control era. It has been established that scarcity in the official sector and bureaucratic procedures necessitated the growth and development of the parallel market.

The Foreign Exchange Market was liberalized in 1995 with the introduction of an Autonomous Foreign Exchange Market (AFEM) for the sale of foreign exchange to end users by the CBN through selected authorized dealers at market determined exchange rate. In addition, Bureaux de Change were once more accorded the status of authorized buyers and sellers of foreign exchange. The Foreign Exchange Market was further liberalized in October, 1999 with the introduction of an Interbank Foreign Exchange Market (IFEM).

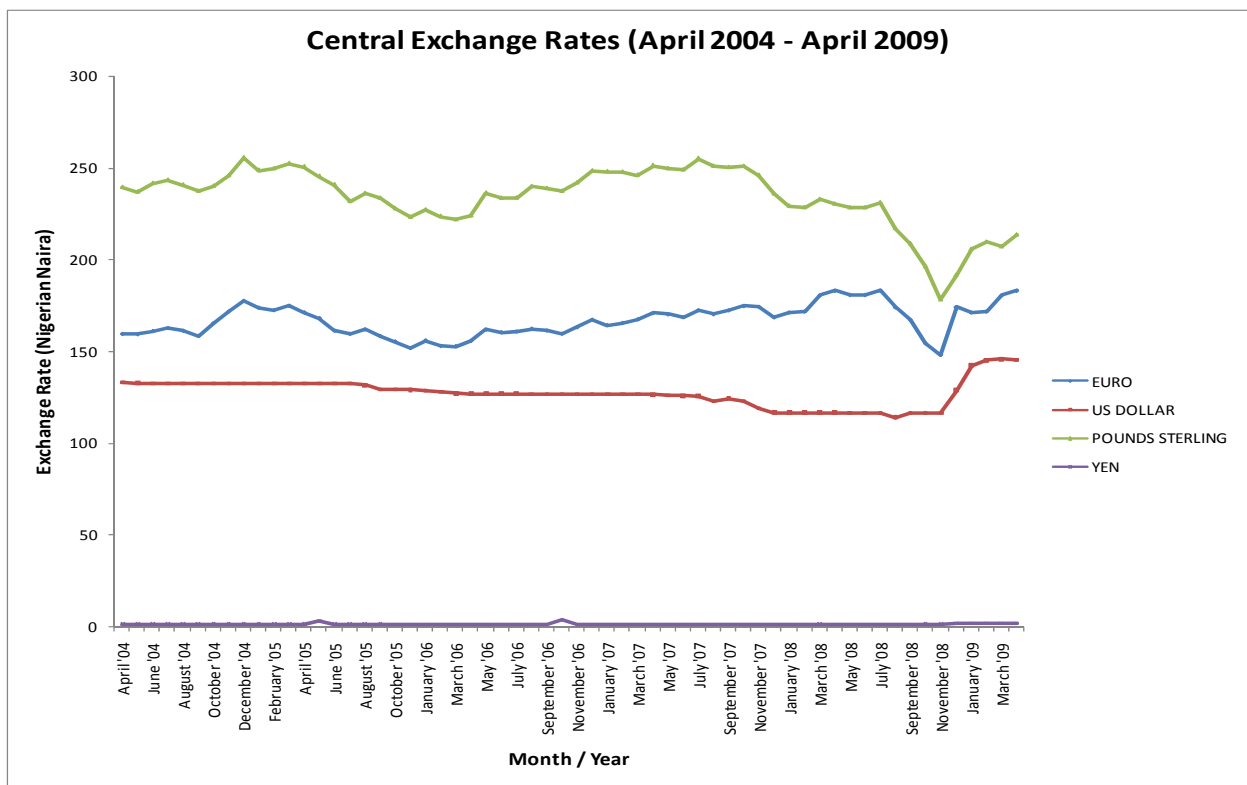
The Whole Dutch Auction System (WDAS) was introduced in February 2006 to bridge the gap between the official and parallel markets. The WDAS, which holds twice a week, is moderated by the Central Bank of Nigeria (CBN) as the official market where foreign exchange (forex) end users bid for it through their banks. Under this system, the CBN will appoint banks as authorized dealers in foreign exchange. These banks will buy foreign exchange from the CBN on wholesale on the basis of the anticipated need of their customers. Within this framework, the authorized dealer banks are required to setup a dealing room equipped with Reuters online infrastructure to enable the CBN to monitor their transactions real time

The CBN reverted back to the Retail Dutch Auction System (RDAS) with effect from Monday, January 19, 2009. Authorized dealers will submit their customer’s bids on Mondays and Wednesdays. The minimum bid amount by an Authorized Dealer is \$100,000.00 and the currencies of transaction are the Naira and United States dollar. The results are announced by CBN on Mondays and Wednesdays. Successful customers’ bids by Authorized Dealers are debited at the bid rates on Wednesdays and Fridays (T+2).

Funds purchased from CBN at the Auction are to be used for eligible transactions only. Such funds are not expected to be transferable in the interbank foreign exchange market. The CBN can also purchase foreign exchange from Authorized Dealers and other participants such as oil companies, etc at their offer rates.

It is indicated that the WDAS will be introduced at a later date in the future.

Appendix ... Central Exchange Rate (Data in “Exchange Rate till April 2009_Final.xls”)



In February 2009, the **Central Bank of Nigeria (CBN)** disseminated a set of new controls in the foreign exchange market, reversing much of the liberalization of exchange rates that had been ongoing since 1995. Foreign exchange purchased from any authorized dealer cannot be

sold on the interbank market, effectively shutting the market down. Forex from the CBN is to be used only by end customers, and any forex purchased by banks from authorized dealers that is not sold to customers for eligible transactions within five days must be sold to the CBN at no more than 1% below the official rate of the previous retail Dutch auction sale. Authorized dealers must sell forex in a +/- 1% band around the CBN's official rate, and bureaux de change sellers must sell within a +/- 2% band around the CBN rate.

With oil exports and portfolio inflows significantly reduced, the CBN has been forced to make up the shortfall in forex demand from its foreign reserves. The forex control will lead to a shortage of foreign currency in the economy, from legal vendors. This will cause a significant widening of the illegal parallel exchange rate spread over the official rate. Even if the CBN tries to meet all demand submitted by banks, we expect the parallel rate to widen as customers search for forex that can be obtained without documentation requirements. The wider the spread between the two rates, the greater the incentive for banks to buy foreign exchange at official rate and sell it on the parallel market for an arbitrage profit. Besides applying downside pressure to the official rate, such 'round tripping' can foster and deepen a culture of illegality and corruption and impede the development of a transparent banking sector.

Analysts are predicting that this new rules can be reversed again in the near future due to a change in the regime of central bank governor in April 2009 who may institute different policies, protest by Nigerian banks and Money market Association and economic imbalance may result from currency controls.

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EMIS Article – January 15 2009 Guidelines for the Operation of the Foreign Exchange Market Retail Dutch Auction System (RDAS) Source: Central Bank of Nigeria Circular

Nigerian Sovereign Debt History:

The Nigerian Sovereign debt market has been existence since the 1970's. There was a drastic increase in borrowing in the 1980's. This was done to offset the effects of falling crude oil prices. Borrowing was however not linked to future expected growth, cash flows, exports or any other relevant economic benchmarks.

External Debts:

The debts that Nigeria incurred before 1978 were mainly long term loans from multilateral and official sources such as the World Bank and the country's major trading partners. The debts were not much of a burden on the economy because the loans were obtained on soft terms. Moreover, the country had abundant revenue receipts from oil, especially during the oil boom of 1973 1976. As mentioned above, the end of the oil boom spurred a steep increase in borrowings. This was due to the fact that the production and consumption patterns that emerged during the oil boom could not be sustained in the face of declining foreign exchange earnings. Rather than address the problem of declining foreign exchange revenue both the Federal and state governments embarked on massive external borrowings from the international capital market (ICM). Huge arrears, penalties and interests accumulated over the years. In 2005, Nigeria got a debt relief package of about 60% from the Paris Club. The arrangement was to pay off the 40 percent balance through a buy back operation. The total write off was close to \$20 billion

Domestic Debt

Nigeria defines its domestic debt as its debt denominated in local currency and backed by the full faith of the Central Bank of Nigeria (CBN). Domestic debt is issued via the following instruments:

- Nigerian Treasury Bills
- Nigerian Treasury Certificates
- Federal Government Development Stocks
- Treasury Bonds
- Ways and Means Advances.

DOMESTIC DEBT STOCK OUTSTANDING AS AT 31ST DECEMBER 2008

INSTRUMENTS	AMOUNTS IN NAIRA
FGN BONDS	1,445,599,582,000
NTBs	471,929,428,000
TREASURY BONDS	402,258,150,000
DEVELOPMENT STOCKS	520,000,000

TOTAL	2,320,307,160,000
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FGN BOND STOCK OUTSTANDING AS AT 31ST DECEMBER 2008

INSTRUMENTS	AMOUNTS IN NAIRA
1st FGN BOND	4,555,482,000
2ND FGN BOND	0
3RD FGN BOND	357,082,802,000
4TH FGN BOND	682,000,141,000
5TH FGN BOND	401,961,157,000
TOTAL	1,445,599,582,000

The Debt Management Office

The Debt Management Office (DMO) was established in October, 2000 to centrally consolidate the management of Nigeria's Debt. Prior to its establishment, management of the country's debt was decentralized in an uncoordinated and inefficient manner.

- External Finance Department: responsible for all Paris Club debts and for the management of public debt statistics;
- Multilateral Institutions Department: responsible for relationships with all multilateral institutions (excluding the African Development Bank and its subsidiaries such as ADF and the NTF, which is handled by the ABER Department). It is also responsible for managing and servicing multilateral debt;
- Africa and Bilateral Economic Relations (ABER) Department: responsible for liaising with the ADB and its subsidiaries, ECOWAS, and all non Paris Club bilateral creditors;
- Treasury Department (OAGF): responsible for issuing mandate to the CBN for payment of all external debts;
- Foreign Exchange and Trade Relations Department: responsible for issuing reconfirmation for payment externalization to the CBN and for documenting repayment and servicing of external debts;

In the Central Bank of Nigeria (CBN), the following departments had some involvement with external debt management:

- Debt Management Department: responsible for the London Club debts consisting of trade debts, par bonds, and promissory notes;
- Debt Conversion Committee: responsible for managing various debt conversion options such as debt for debt, debt for equity, debt for export and debt for development;
- Various departments: responsible for processing and effecting loan repayments on behalf of all the other agencies or departments of government listed above.

This diffusion in the management of public debt created fundamental problems, including the following:

- Operational inefficiency and poor coordination;
- Inadequate debt data recording system and poor information flow across agencies with consequent inaccurate and incomplete debt records;
- Extreme difficulty in the verification of creditors' claims due to conflicting figures from the various bodies handling the debt management function;
- Complicated and inefficient debt service arrangements, which created protracted payment procedure and often led to penalties that added to the nation's debt stock;
- Inadequate manpower and poor incentive systems for the affected personnel, which affected outputs and performance;
- Lack of consistent well defined borrowing policies and debt management strategies;

The consideration of these myriad problems led government to support the establishment of a relatively autonomous debt management office, which resulted in the formation of the DMO in October 2000. The need for the creation of a separate public debt management office was therefore aimed at achieving the following advantages:

- Good debt management practices that make positive impact on economic growth and national development, particularly in reducing debt stock and cost of public debt servicing in a manner that saves resources for investment in poverty reduction programs;
- Prudently raising financing to fund government deficits at affordable costs and manageable risks in the medium and long term;
- Achieving positive impact on overall macroeconomic management, including monetary and fiscal policies;
- Consciously avoiding debt crisis and achieving an orderly growth and development of the national economy;
- Improving the nation's borrowing capacity and its ability to manage debt efficiently in promoting economic growth and national development;
- Projecting and promoting a good image of Nigeria as a disciplined and organized nation, capable of managing its assets and liabilities;
- Providing opportunity for professionalism and good practice in nation building;

In 2003 the Nigerian debt market experienced a dramatic increase in activity. This was as a result of the issuance of FGN (Federal Government of Nigeria) bond series to facilitate government projects. In the year 2004, the DMO made plans to build on the success of the 1st FGN Bonds floatation that were first issued in 2003. The DMO embarked on the arrangements to commence the issuance of bonds on a regular basis in small tranches that the market could accommodate.

The DMO commenced the smoothening and restructuring of the Treasury Bills in 2004. The restructuring entailed extending the maturities of the existing Treasury Bills by issuing tenors of 6, 12, 24, and 36 months, to refinance part of the existing 91 day Treasury Bills.

Nature of FGN bonds

- Denomination: minimum subscription of N10,000.00 + multiple of N1,000.00 thereafter
- Yield: Interest payment
 - Fixed interest rates: Most FGN bonds have fixed interest rates which are paid semi annually:
 - Floating interest rates: Some FGN bonds (e.g. 3rd & 4TH tranches of the 1st FGN bonds) have floating rates of interest which fluctuates around a reference rate(NTB rates) on the basis of specified parameters
 - There are also zero coupon bonds(not yet in issue in Nigeria) whereby both interest and principal are repaid at the final maturity date of the bond
- Tenor: Minimum of two (2) years. There are bonds with maturities of 3, 5, 7 and 10 years, in issue and for the future we may have bonds with maturities of 15, 20,30 years or more
- Default Risk: FGN bonds as a sovereign debt are the safest investment instrument. Default risk is nil. The Government always pays what is due to subscribers on the agreed date

In 2006, the Debt Management Office of Nigeria (DMO) created a secondary debt market. This was done by the creation of the Primary Dealers/Market Maker (PMDD) system. There are currently 19 PMDDs in Nigeria and their primary function is to create liquidity in the FGN Bonds through the two way market. FGN Bonds are issued in maturities ranging from 3 to 20 years and can be purchased in both the primary and secondary markets. Access Bank, as a licensed PDMM, has been playing a leading role in disseminating data about the government bond market. It launched a sovereign bond index in December, 2006, detailing price information about local currency denominated fixed rate Federal Government of Nigeria Bonds. In order to qualify for the index, a bond must be publicly issued through the DMO and traded under the PDMM trading guidelines as these are the liquid bonds that can be readily traded in the secondary market. The fifteen (15) PDMMs institutions are:

- Access Bank Plc
- Afribank Nigeria Plc
- Associated Discount House Ltd
- Citi Bank Nigeria Limited
- Consolidated Discount House Ltd
- Diamond Bank Plc
- Express Securities Discount House Ltd
- Ecobank Nigeria Plc
- Fidelity Bank Nigeria Plc
- First Bank Nigeria Plc
- First City Monument Bank Plc
- First Security Discount House Ltd
- Guaranty Trust Bank Plc
- Kakawa Discount House Ltd
- Oceanic Bank International Plc

- Platinum Habib Bank Plc
- Stanbic IBTC Bank Plc
- Standard Chartered Bank Nigeria Ltd
- Union Bank of Nigeria Plc
- United Bank of Nigeria Plc
- Zenith Bank Plc

There are no sources in the current document.

DOMESTIC DEBTS OUTSTANDING BY HOLDER TYPE AS AT 31ST DECEMBER 2008

(Amount in Billion Naira)

INSTRUMENT	CENTRAL BANK	BANKS AND DISCOUNT HOUSES	NONBANK PUBLIC	SINKING FUND	AMOUNT OUTSTANDING
FGN BOND		1,099.38	346.22		1,445.60
TREASURY BILLS (NTBs)	7.44	382.68	81.81		471.93
TREASURY BONDS	281.51			120.75	402.26
DEVELOPMENT STOCKS	0.42	0.1			0.52
TOTAL	289.37	1,482.16	428.03		2,320.31

Profile of Nigeria's Domestic Debt. 2000 – 2003 (N Billions)

Composition of Debt	2000	2001	2002	2003
Treasury Bills	465.54	584.54	733.76	825.1
Treasury Bonds	430.31	430.61	430.61	430.61
FRN Development Stocks*	2.11	1.830	1.63	1.47
FGN Bonds*				72.56
Total	897.95	1,016.98	1,166.00	1,329.72

The above table shows Nigeria's domestic debt stock as at December 2000 – 2003. In 2002, the debt stock was N1, 166.00 billion against N897.95 in 2000 representing 29.85% increase. It comprised 62.93 percent 91 day Treasury Bills, 36.93 percent Treasury Bonds (issued by the Federal Government and held by CBN to raise money at artificially low rates) and 0.14 percent Development Stocks (issued to finance various capital projects).

FGN Bond 2004 2005

Profile of Nigeria's Domestic Debt. 2000 – 2005 (N Billions)

Composition of Debt	2000	2001	2002	2003	2004	2005
Treasury Bills	465.54	584.54	733.76	825.1	871.57	854.83
Treasury Bonds	430.31	430.61	430.61	430.61	424.94	419.27
FRN Development						
Stocks	2.11	1.830	1.63	1.47	1.25	0.98
FGN Bonds				72.56	72.56	250.83
Total	897.95	1,016.98	1,166.00	1,329.72	1,370.32	1,525.91

The FGN bonds issued in 2004 marked the beginning of restructuring exercise for the 91 day Nigeria Treasury Bills (NTBs) into longer maturities. These bills had been a dominant instrument in securitizing outstanding Ways and Means Advances by the CBN. The restructuring was to help in solving problems inherent in the weekly issuance program. These were roll over and interest rate risk which engendered uncertainty about the future in the minds of investors. The successful implementation of the restructuring would reduce the volatility in the short term rate market, sustain, revive and develop a deep and liquid secondary market for bonds.

Primary Market:

The primary market is for the fresh issue of the bonds. This is done via a bidding process at auctions organized by the DMO. Auction system adopted is the Dutch auction. Investors interested in the primary auction can only bid through PDMMs. The minimum investment in FGN bonds at the auction is N10, 000 (Ten Thousand Naira) per bond maturity and the forms are available on the DMO website: (www.dmo.gov.ng).

Primary Dealers submit bids for their proprietary account and on behalf of their customers. No Primary Dealer or customer may be awarded more than 25% of any auction. However, where there is an under subscription, the Primary Dealers take up their share of the unsubscribed amount on a proportional basis.

	FGN Bond 9.92% January 30, 2012	FGN Bond 10.50% November 28, 2013	FGN Bond 15.00% November 28, 2028
Auction Date	18 Mar 09	18 Mar 09	18 Mar 09
Settlement Date	20 Mar 09	20 Mar 09	20 Mar 09
Maturity Date	30 Jan 12	28 Nov 13	28 Nov 28
Tenors	3 Years	5 Years	20 Years
Issue Amount	N20 billion	N20 billion	N10 billion

Secondary Market

The secondary market is where the already issued bonds trade. This market is fairly liquid, with large volumes traded daily. Investors can call the PDMMs to get bid and offer quotes for all the existing maturities issued after the commencement of the Primary Dealership System. Settlement is through the Delivery Versus Payment (DVP) system, on a T+ 2 working days period. The government raised over \$12bn from the market since 2003 with more issues in the pipeline. Primary Dealers are obligated to make markets in Government Securities on request, following the secondary market making rules established by the DMO in consultation with the Primary Dealers. However, dealers are not obligated to make prices to customers with whom they have not conducted due diligence enquiries.

By 2007, the secondary FGN Bond market recorded trading transactions of more than 30,000 deals, with a market turnover of over N4.1 trillion, for the period January to December 2007. Since then, the Nigerian bond market has continued to make significant progress in terms of size, depth and prospects.

Corporate Bond Market:

The Corporate bond market is still at an embryonic stage and there is very limited data on the volumes issued so far. What is needed is reliable rating agencies to rate the papers and government policy such as the acceptance of corporate bond papers as collateral from banks for utilization at the government discount window.

Nigerian Stock market:

Establishment of the stock exchange:

The Nigerian Stock Exchange (NSE) was established in 1960 as the Lagos Stock Exchange. In December 1977 it became The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country. There are now eight branches of The Nigerian Stock Exchange. Each branch has a trading floor, some of them electronic. The head office in Lagos was opened in 1961; Kaduna branch in 1978; Port Harcourt, 1980; Kano, 1989; Onitsha, February 1990; Ibadan, August 1990; Abuja Area Office, 1999; Yola, 2002; and Benin, 2005.

The NSE started operations in Lagos in 1961 with 19 securities listed for trading. Currently, there are 276 securities listed on The Exchange, made up of 17 Government Stocks, 50 Industrial Loans (Debenture/Preference) Stocks and 209 Equity/Ordinary Shares of Companies, with a total market capitalization of 2.23 trillion naira.

Many of the listed companies have foreign/multinational affiliations and represent a cross section of the economy, ranging from agriculture through manufacturing to services.

Regulation of the stock market:

Transactions on The Exchange are regulated by The Nigerian Stock Exchange, as a self regulatory organization (SRO), and the Securities & Exchange Commission (SEC), which administers the Investments & Securities Act of 1999.

Internalization of the stock market (foreign hedge funds and international institutions' roles):

In 1995, the Federal Government abrogated the Exchange Control Act of 1962 and the Nigerian Enterprise Promotion Decree of 1989. Consequently, foreigners now participate in the Nigerian capital market both as operators and investors. There are no limits to the percentage of foreign holding in any company registered in the country.

Trading hours: The trading hours are from 8am to 5pm.

Clearing, Delivery and Settlement:

Settlement and Delivery of transactions on the Exchange are done electronically by the Central Securities Clearing System Limited (CSCS), a subsidiary of The Stock Exchange. The CSCS Limited ("the Clearing House") was incorporated in 1992 as part of the effort to make the Nigerian stock market more efficient and investor friendly. Apart from clearing, settlement and delivery, the CSCS Limited offers custodian services. Transaction cycle is T + 3.

Stock Market Data and Performance:**Performance Overview):**

The Nigerian Stock Exchange (NSE) All Share Index was one of the worst performing equity markets in Sub Saharan Africa (SSA) in 2008 falling 43% in Niara (local currency and 50% in dollars. The NSE All

Share Index continued its solid 2007 momentum into 2008 and attained a record market high in March at 66,371.2 bringing a three year bull run to an end. Thereafter a series of mismanaged interventions coupled with the global market collapse in 4Q has seen the market retrace its gains to close at a level last seen back in Nov 2006. The financial sector continues to dominate the market weighting in Nigeria by both market capitalization (62%) and liquidity (78%). The twenty most active stocks are primarily banks. Please see exhibit [1]. At the end of the year, 20 companies emerged with the highest market capitalization. The 20 Most Capitalized Companies account for about 50% of the Total Market Capitalization of The Exchange. Changes in the prices of these stocks impact substantially on the Total Market Capitalization and the All Share Index.

The Index had on March 5, 2008 recorded an historic value of 66,371.20 before dropping to its yearend level. The performance of the Index reflects significant reduction in prices of most quoted equities during the year. By year end, 78 stocks recorded price appreciations and 111 stocks recorded price declines while the prices of 24 remained constant. Summary of market

performance in 2008 compared to 2007 is shown in exhibit [2]. There were twenty new listings in 2008. Please look at Exhibit [3].

The Nigerian Stock Exchange has created five new tradable indices, which would be launched in the first quarter of 2009. These indices namely:

- NSE 30 Index
- NSE Banking 10 Index
- NSE Insurance 10 Index
- NSE Food/Beverage 10 Index
- NSE Oil/Gas 5 Index

Each would be based on various criteria including liquidity and would form the platform for an array of new products. One application has been received to create an Exchange Traded Fund on The NSE 30 Index.

Market capitalization: At the end of 2008, the NSE was the fourth largest stock market in Africa with a market capitalization of \$46.7bn (third largest excluding South Africa and North Africa). Its market capitalization fell 44% in 2008 from \$82.7bn in 2007, but still dominates SSA (ex South Africa) with 60% of our target universe, albeit down on 2007 (66%). The market value of the 301 listed securities closed at N7.86 trillion, up by 4.9% from N7.5 trillion recorded in the preceding month. The increase in market capitalization can be attributed to the newly listed LASG bond and the increase in prices recorded by the highly capitalized stocks.

The total market value of 301 securities listed on The Exchange dropped by 28.1% from N13.295 trillion to stand at N9.563 trillion by year end. The decline in market capitalization resulted mainly from price depreciations by equities, the delisting of 19 companies and the maturing of outstanding bonds.

By year end, the market capitalization of the 213 listed equities accounted for N7 trillion or 73.1% of the aggregate market capitalization (2007: 212 equities accounted for N10.301 trillion or 77.5% of market capitalization).

Turnover: Total market turnover was \$19.6bn in 2008 an increase of 24% over the prior year (\$15.8bn in 2007). It remains the third largest in Africa, behind South Africa and Egypt, with 87% of the combined turnover (\$22.5bn). Average daily traded volume was \$81mn vs. \$66mn in 2007. We would note however, that market turnover was highly volatile in 2008. In line with market capitalization and market highs, volumes peaked in 1Q at in excess of \$250mn, collapsing to as low as \$6mn in October and by year end had recovered to a daily average of \$30mn.

Cross border listing:

In January 2008, Diamond Bank plc became the First West African Bank to be listed on the Professional Securities Market and the second Nigerian Company to be listed on the London

Stock Exchange (LSE). The first company to be listed on the LSE was Guaranty Trust Bank in July 2007.

Delisting of Companies:

In 2008, 19 companies were delisted on the NSE. The 19 companies had issued 2.85 billion in shares valued at 4.3 trillion Naira. Please Exhibit [4] for listing.

Exhibit [1]: Twenty Most Active Stocks

Company	Market Capitalization (N'Bn)
1) First Bank of Nigeria Plc	524.848
2) Zenith Bank Plc	368.385
3) Nigerian Breweries Plc	308.931
4) United Bank for Africa Plc	283.467
5) Ecobank Transnational Incorporated	273.396
6) Oceanic Bank International Plc	267.767
7) Intercontinental Bank Plc	243.055
8) African Petroleum Plc	231.888
9) PlatinumHabib Bank Plc	206.387
10) Stanbic IBTC Bank Plc	204.375
11) Ecobank Nigeria Plc	201.817
12) Guaranty Trust Bank Plc	194.907
13) Dangote Sugar Refinery Plc	186.000
14) Union Bank of Nigeria Plc	176.012
15) Guinness Nigeria Plc	146.755
16) Wema Bank Plc	145.562
17) Fidelity Bank Plc	135.837
18) Afribank Nigeria Plc	129.801
19) Nestle Nigeria Plc	126.455
20) Access Bank Plc	116.211

Exhibit [2]: Statistical Summary of Market Performance In 2008

Statistical Summary of Market Performance	2008	2007	% Change
Market Capitalization	N9.56 trillion	N13.295 trillion	(28.1)
The NSE All-Share Index	31,450.78	57,990.22	(45.8)
Total Turnover Volume	193.14bn shares	138.1bn shares	39.9
Total Turnover Value	N2.4 trillion	N2.1 trillion	14.3
Average Daily Volume	775.65 million Units	570.6 million Units	35.9
Average Daily Turnover	N9.55 billion	N8.62 billion	10.8
New Issues Approved	N2.2 trillion	N2.4trillion	(8.3)
Number of Listed Companies	213	212	0.5
Number of Listed Securities	301	309	(2.6)
Number of Trading Days	249	242	2.9

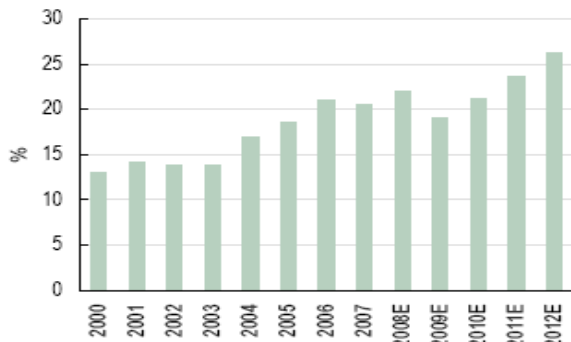
Exhibit [3]: New Listings

New Listing
1. Dangote Flour Mills Plc
2. Universal Insurance Co. Plc
3. Goldlink insurance Co. Plc
4. Consolidated Hallmark Insurance Plc
5. Skye Shelter Fund Plc
6. Nigerian Bag Manufacturing Co. Plc
7. Aso Savings & Loans Plc
8. Investment & Allied Assurance Plc
9. Regency Alliance Insurance Plc
10. Fidson Healthcare Plc
11. Omatek Ventures Plc
12. Tantalizers Plc
13. Starcomms Plc
14. FTN Cocoa Processors Plc
15. Capital Hotels Plc
16. Union Diagnostics & Clinical Services Plc
17. Chams Plc
18. DAAR Communications Plc
19. Multiverse Resources Plc
20. Abbey Building Society Plc
21. Mass Telecom Innovation Nigeria Plc

Exhibit [4]: Delisted Companies

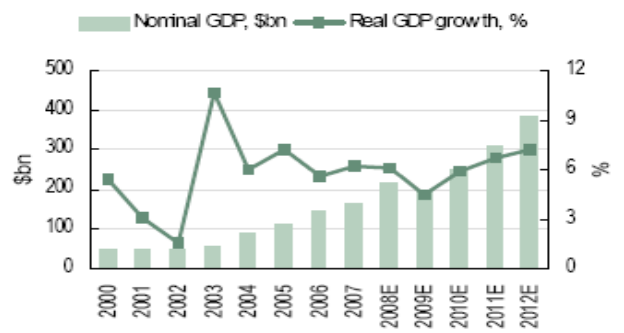
Delisted Companies
1. ACEN Insurance Plc
2. Amicable Assurance Plc
3. BAICO Insurance Plc
4. Atlas Nigeria Plc
5. Ceramics Manufacturing Plc
6. Beverages (WA) Nigeria Plc
7. Enpee Plc
8. Tate Industries Plc
9. Maureen Laboratories Plc
10. Rietzcot Nigeria Plc
11. Intra Motors Nigeria Plc
12. Aviation Development Co. Plc
13. Grommac Industries Plc
14. Onwuka Hi-Tech Industries Plc
15. Nigerian Lamps Industries Plc
16. Nigerian Yeast & Alcohol Manufacturing Plc
17. Security Assurance Plc
18. Sun Insurance Plc
19. Nigerian Textiles Mills Plc.

Figure 46: Nigeria's share in SSA output



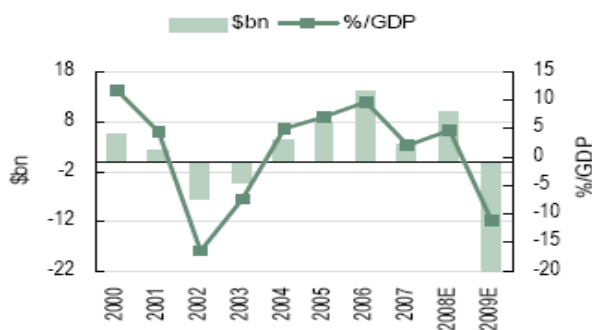
Source: IMF, Renaissance Capital estimates

Figure 47: Nigeria's nominal GDP and real growth



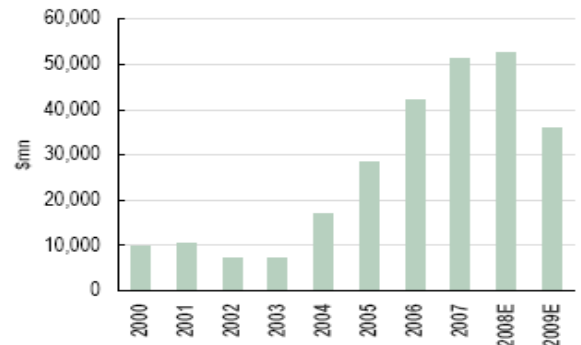
Source: IMF, Renaissance Capital estimates

Figure 48: Current account dynamics



Source: IMF, CBN, Renaissance Capital estimates

Figure 49: Foreign reserves



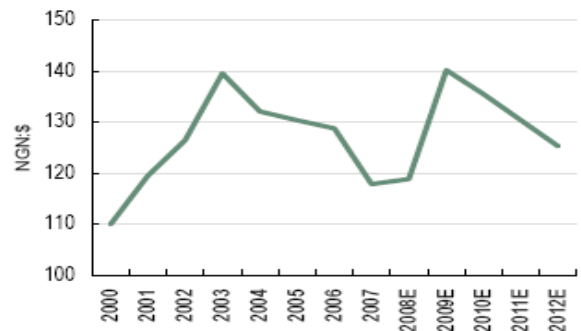
Source: IMF, CBN, Renaissance Capital estimates

Figure 50: Inflation in Nigeria



Source: IMF, Renaissance Capital estimates

Figure 51: Exchange rate (NGN/\$)



Source: Reuters, Renaissance Capital estimates

Concentration of listed companies

- Top five firms listed on Stock Exchange
- Industry representation by market capitalization
- Size of company as % of total market cap

If possible aggregate stock market returns (both in local currencies and dollars)
 Stock market indexes
 Market returns over past 10 years
 Analyses of returns

Figure 54: Local markets vs RC SSA-50 performance, since Jan 2007

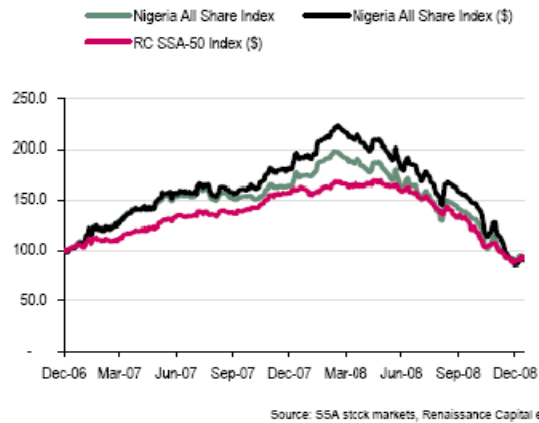


Figure 55: Market capitalisation evolution, \$bn

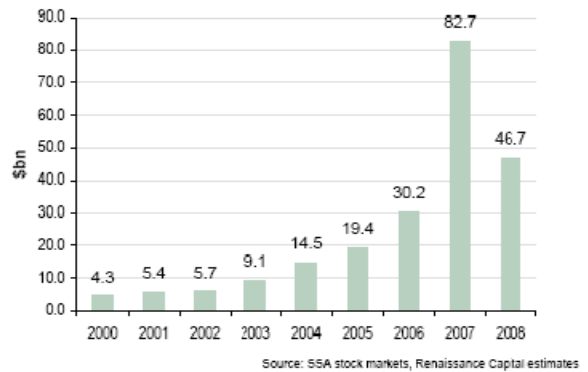


Figure 56: One-year turnover evolution

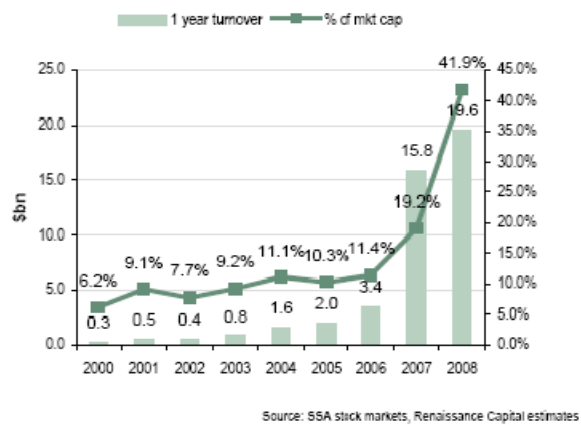
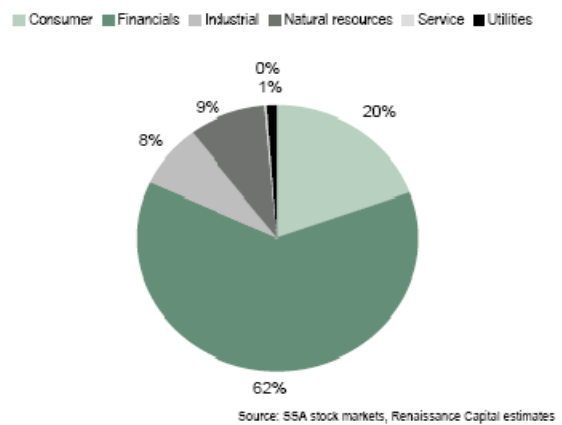


Figure 57: Sector split by market capitalisation, 2008



Privatizations through the stock market

- The push for privatization in Nigeria; projected benefits, pitfalls:
Large cross border movements of capital invested in portfolio securities — rather than “brick and mortar” direct investment — tend to accompany and fuel financial **instability** dispersing newly privatized shares geographically, preventing the concentration of shares in one or more regions. The Nigerian Stock Exchange uses regional quotas in order to allocate shares more equitably.

Prospective investors are asked to indicate their state of origin on the exchange’s application forms because the government and the NSE want a wide geographical spread, to enable as many Nigerians as possible to benefit. Government owned development finance institutions in those states that are a little behind with regards to investment are encouraged to buy shares for later sale to individuals of those states.

- **Foreign Direct Investment analysis** \$35.75B (2008 est.): (The focus of investor interest lies in the giant Nigerian Telecommunications (NITEL), followed closely by the National Electric Power Authority (NEPA) and the National Fertilizer Company (NAFCON)).

As a strategy, the government intends on floating major enterprises on stock markets in order to help develop otherwise thin markets by attracting foreign capital. This in turn encourages more indigenous companies to list. Given the large size of the enterprises slated for the second phase of Nigeria’s privatization program, such floatation could potentially deepen the country’s capital markets enough to accommodate foreign investors, thereby supplementing domestic savings.

Foreign ownership of securities and assets remains controversial. In addition, some financial experts point out, as a country integrates its financial markets more tightly with world markets, it becomes more and more susceptible to global volatility. Large cross border movements of capital invested in portfolio securities — rather than “brick and mortar” direct investment — tend to accompany and fuel financial instability.

Trading Infrastructure: Technology

The most recent mandate by the industry’s regulatory body – Securities and Exchange Commission (SEC) to make e dividend mandatory has initiated a romance between the NSE community (Management, Staff, Stockbrokers & the Investing Public) and Information and Communication Technology.

The Platform: It won’t suffice to mention just how Information Technology, hereon referred to as IT, has manifested on the floor of the NSE without expatiating on their roles in the working of the exchange. Starting with the Central Securities Clearing System Ltd (CSCS) platform, IT has had a profound impact on the stock exchange. And without IT, the phenomenal leap in the

activities of the exchange in the recent past won't just be possible. CSCS is a few years old but its effect is known even beyond the shores of Nigeria. Just as its name implies, it's a private limited company operating under the NSE. A careful look at its name also gives away its main function – acting as a clearing/settlement machine for all transactions on the floors of the exchange. It's a securities clearing system which implies that it records all transactions and acts as a bridge between the NSE and the investing public.

Once a transaction has been certified as completed by the CSCS, it cannot be disputed by any other personnel of the NSE. That is to show the level of responsibility vested in the CSCS platform. One may then ask the link between CSCS and IT and this will be explained shortly. The CSCS is hugely, if not wholly IT based. The CSCS acts like a central hub (Computer Server in a network of computers) which connects and coordinates buying and selling of stocks at the NSE. It (CSCS) makes use of computer and telecommunications infrastructures to contact or receive information from players on the market, mainly stockbrokers are stored in the CSCS database. As a result, every stockbroker registers any transaction he makes with the CSCS memory and it is then the duty of the CSCS to verify if the necessary approval has been obtained and thereafter effect the purchase or sale.

Other Innovations: As mentioned above, the NSE is IT operated via CSCS. All facilities like CSCS database, computer systems, phone networks are all IT based and they quicken transactions time.

Another area where IT is evident in the NSE is trade alert. It is a new innovation of the NSE Director General, Prof. (Mrs.) Okereke Onyiuke. Though this program met with stiff opposition when it was introduced, it has come to be the toast of investors. This phone based alert program ensures that investors know when their shares are bought or sold by sending SMS alerts to them.

Complementary Assets: With GSM phones almost everywhere (Teledensity in Nigeria is over 15% Africa Report Magazine, April/May 2008 edition), trade alert is very feasible and about the fastest mode of getting any investor (fewer people use e mail addresses). Another form IT has been witnessed in the NSE is the ease with which one gets across to any branch of the exchange.

The last evidence to show change at the NSE as a result of IT is websites that are linked to the stock market. At the moment, NSE has two official web addresses – www.nigerianstockexchange.com and www.nigerianstockexchange.biz. These websites can give any visitor any information about the operations of the exchange. Market capitalization, all share index, value & volume of stock traded and bulls & bears can all be obtained from these websites, they are the “mirrors” with which the NSE sees itself.

In a world that is becoming IT – based by the minute, these websites together with that of CSCS and stockbrokers and banks will in future play more useful roles in the operations of the stock market. The CSCS website www.cscsltd.com has structures which can enable a registered web

user to view his CSCS account online! You can learn if a stock you paid for has been bought or not. That is the power of IT in making investment on the exchange easier.

Progress: In the future – The world is becoming modernized by the day. IT drives this inexorable march towards sophistication. For the NSE, better days lie ahead if the present tempo and open minded attitude of the management to IT is sustained. Buying and selling stocks online in the near future may not be too far off. On November 9, 2007, a further automated Lagos floor was launched by President Yar'Adua (AIT Money Show Program, 10:00am November 9, 2007 & Network News of NTA 9:00pm). This shows that the journey to IT deployment on the market is a continuous one. Uyo & Ilorin were recently automated & launched.

With better IT support, CSCS can reduce the present T + 3 (trading day + 3 business days transaction time) to T + 0! It's possible to begin and complete a transaction in one business day. One may be able to access value of his investment via trade alert. E dividend is the current song of the market. Oando is leading, others will definitely follow (Vanguard Newspaper March, 2008) with IT, investment on the NSE will become increasingly hassle free.

Foreign Based Funds Investing in the Stock Market

Private equity investment in West Africa had seen a dramatic increase over the previous few years, with the volume of investments more than doubling and the number of investments increasing from 13 in 2003 to 27 in 2004. Also increasing more than twofold were investments by independent fund managers, to US\$62m in 2004. Public sector fund investments increased to US\$9.8m in 2004 from US\$0.7m in 2003. In Nigeria alone, private equity investment increased by over 54% from US\$31.1m in 2003 to US\$47.9m in 2004.^h

In 2004, approximately \$47.9m of Private Equity investments were done in Nigeria compared to over \$500m that was invested in 2007. In 2004, there were only a handful of PE companies that operated in Nigeria – Zephyr, Capital Alliance, Actis and Emerging Market Partners. In 2007, there were at least 10 foreign based PE firms and 2 local based PE firms in Nigeria. Some of the new entrants include Sabre Capital, Helios Investment Partners, Nova Capital Partners, Clarity Partners, Vectis Capital and Brisbane Investments.

The investment landscape for Private Equity firms in Nigeria is very diverse. It is challenging to value most opportunities due to lack of sophistication in the capital markets and lack of comparables. Investors rely largely on an understanding of the fundamentals (e.g. strength of management team, product or service of the business, customers, time horizon, etc.) to value investments in Nigeria. Between 2004 and 2005, PE firms invested in the banking sector, insurance sector, power generation, petroleum refining, agro chemicals (fertilizers), energy and services. Average returns on investments for PE firms in Nigeria had been high. In some cases some firms reported IRRs of over 70%.

Regional integration initiatives:

Since its foundation in 1993, the African Stock Exchanges Association (ASEA) has promoted not only the development of stock exchanges, but also cooperation among them within four main regions: East Africa, South Africa, West Africa and North Africa. West Africa, led by Nigeria, includes the Ghanaian exchanges and the Bourse Régionale des Valeurs Mobilières, the francophone regional exchange.

In West Africa, the idea of working towards further integration of stock exchanges is part of a wider push within the region toward lowering barriers to the free movement of people, goods, services and capital. This has long been a goal of the 16 member Economic Community of West African States (ECOWAS), which celebrated its 25th anniversary this year. Seven years ago, six ECOWAS members, led by Ghana and Nigeria, decided to “fast track” plans to set up a second monetary union and common currency in the sub region, this was achieved in 2003. Some analysts and local officials believe that further integration of capital markets could help reinforce such plans. Others feel that the lack of a common currency, along with the need for further harmonization of regulatory, tax and policy frameworks, will hamper any rapid regionalization of West African stock markets. While there are differences over how long it actually will take to link West Africa’s exchanges, many involved in the process agree that pooling the resources of these small and fragmented capital markets could boost their ability to mobilize local and international capital for private sector and infrastructure development.

Stock Market Development

As in previous years, The Nigerian Stock Exchange implemented certain initiatives in 2008 to broaden participation in our market, expand services, improve liquidity, and generally propel the market to greater height. These initiatives are in the important areas of capacity building, investor education, international cooperation, and new products development, including:

- (1) Development finance bonds: African stock market advocates see some scope for the continent’s exchanges to mobilize resources for development through the issuance of bonds to fund specific industrial and social projects. Nigeria officially announced the implementation of this bond offering earlier this year. In Nigeria, the Securities and Exchange Commission (SEC) is stepping up efforts to promote the bond market to state and local governments as a means of raising funds for development projects. As with equity markets, lack of public awareness has hindered development of Nigeria’s bond market. To try to counter this, the commission has held a series of public information sessions in recent months.
- (2) Launch of Nigerian Journal of Securities and Finance: The launch of the new publication titled Nigerian Journal of Securities and Finance (NJSF). The Journal is a refereed and accredited scientific half yearly publication of The Nigerian Stock Exchange. NJSF publishes theoretical, empirical and policy articles in the following disciplines (and cognate subjects): Securities Trading, Money and Capital Markets, Corporate Governance, Banking & Finance and Economics. The mission of NJSF is to publish and disseminate scientific knowledge from any

academic school of thought. Authors may prepare papers for the Journal on country specific capital market or economic issues though issues of international/cross country coverage will also be welcomed. The views expressed in articles in the Journal are personal to the Authors and do not in any way reflect the official position of The Nigerian Stock Exchange. Contributors of articles are requested to follow these guidelines to ensure speedy processing of materials for the Journal. The NJSF forwards all articles submitted to it for anonymous or blind assessment by three assessors, with at least two of these assessments required to be positive before the article will be slated for publication. Submission of an article to the NJSF presupposes that the author is committed in publishing in the journal and that the same article is not being simultaneously submitted to any other publication nor has it been published elsewhere.

(3) Market Technology & New Data Centre: NSE commenced the upgrade of the Horizon, their trading software. Expected completion of the upgrade is in early 2009. Expectedly, the upgrade to the latest version of Horizon comes with improved functionalities that would impact positively on trading on The Exchange, especially with regard to derivatives and bond trading in the years to come. During the year, The Exchange also commenced and concluded the construction of a state of the art Data Centre in our premises. The construction of the Data Centre was in consonance with The Exchange's strategy to leverage on technology to drive its businesses and continually serve stakeholders' needs. The facility was built in accordance with industry best practice and will accommodate all our IT and power equipment necessary for meeting the strategic growth objectives of The Exchange and its market. As we go into the New Year, The Exchange will leverage on this facility to serve the market better, especially with regard to the dissemination of market data (giving live feed to financial information vendors) and remote access to the Trading Engine.

(4) Expanded Branch Network: The Nigerian Stock Exchange now has 11 branches across Nigeria other than its world class trading floor in Lagos. These are: Abuja, Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Yola, Benin, Uyo, Ilorin and Abeokuta. The Ilorin Branch and its Electronic Trading Floor was commissioned on Monday January 14, 2008. The same function was performed in Abeokuta, Ogun State on Monday, November 17, 2008. Also, The Nigerian Stock Exchange on Friday, February 15, 2008 commissioned the Electronic /Automated Trading Floor of the new branch office complex donated by the Anambra State Government in Onitsha. The branch was initially commissioned in February 1990. The ceremonies were well attended. By year end, The Exchange had eleven branches across the country trading on line real time. The first quarter of the New Year shall user the expansion of our the branch network to Owerri, Imo State and Bauchi, Bauchi State. Plans are at advanced stages to open a branch in Oshogbo, Osun State.

(5) Extension of The Exchange's Working Hours: In a bid to align The Exchange's working hours with other sectors in Corporate Nigeria, The Exchange's working hours were adjusted from 8.00a.m – 4.30p.m. to 8.00a.m. – 5.00p.m. With this, The Exchange's staff would be available to attend to more inquiries from market operators.

(6) Review of The NSE Fees: At the height of the market slow down, there was a strategic meeting of financial market regulators on Tuesday, August 26, 2008 with the Federal Government of Nigeria. Participants at this meeting were Central Bank of Nigeria, Securities and Exchange Commission and The Nigerian Stock Exchange (NSE) in a combined effort to

arrest the sliding prices at the stock market. As a follow up to the meeting, The NSE announced a reduction in the Application Fee from 0.6% to 0.3% while The NSE Fees on secondary market transactions was reduced from 0.5% to 0.3%. Subsequently, the Securities and Exchange Commission (SEC) and other market operators followed suit.

(7) New Products: In 2008, work continued in the effort to deepen the Nigerian capital market by creating new products. Some of the new products considered by The Exchange include: Exchange Traded Funds, Mortgage Backed Securities, Asset Backed Securities. We listed the first Real Estate Investment Trusts (REITs) i.e. Skye Shelter Fund Plc on February 26, 2008 while Union Homes Savings and Loans Plc offered for public subscription the largest REIT investment worth N50 billion . As part of the effort to expand the product range, The Nigerian Stock Exchange has created five new tradable indices, which would be launched in the first quarter of 2009. These indices namely: NSE 30 Index, NSE Banking 10 Index, NSE Insurance 10 Index, NSE Food/Beverage 10 Index, NSE Oil/Gas 5 Index

Each would be based on various criteria including liquidity and would form the platform for an array of new products. One application has been received to create an Exchange Traded Fund on The NSE 30 Index

(8) Licensing of Market Makers: We are currently processing five applications for companies seeking to operate on The Exchange as Market Makers. 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. In essence, they are to ensure liquidity in the stock market by acting as buyers and sellers of last resort. Four of the companies have been registered by the Securities and Exchange Commission (SEC), in keeping with the requirements of The Exchange. However, they are further required to provide information on their Liquidity Providers (banks and other non bank financial institutions) and the stocks in which they plan to make market before they are licensed to operate as Market Makers. We hope they will be able to meet these regulatory conditions in January to enable them commence operation during the first quarter of 2009.

(9) Inspection of Dealing Member Firms: The Compliance Department inspected 243 dealing firms out of 248 scheduled for the year. The five firms that were not inspected were inactive. The operating performances of the firms inspected were mixed. On the average, most dealing firms performed well in terms of profitability. Eighty percent of firms inspected have completed automation of their accounting, stock broking and administrative processes. The rest have been enjoined to automate their operations during 2009. Up to twenty percent of firms inspected have capitalization in excess of N1billion.

(10) New Dealing Member Firms: Six new firms commenced operations in 2008. They were:

(11) Complaints/Infractions: In 2008, a total of 341 complaints / infractions were reported against dealing firms. Out of this, 243 cases were amicably resolved while 98 are still under investigation.

➤ Cardington Securities Limited

- Aims Asset Management Limited
- Rencap Securities Limited
- Redasel Investment Limited
- Northbridge Investment and Trust Limited
- Peace Capital Market Limited. All the new firms have capitalization in excess of N1 Billion Naira.

(12) Cross Border Listing: On January 9, 2008, Diamond Bank Plc achieved the feat of being the first West African Bank to be listed on the Professional Securities Market (PSM) of the London Stock Exchange (LSE). This was the second Nigerian company to be listed on the London Stock Exchange and the first on the Professional Securities Market.

(13) Investor Education: The Exchange sustained its investor education initiative during the year. The 9th National Essay Competition for secondary schools and tertiary institutions was organized, culminating in an award ceremony in Lagos on November 24. About 15, 000 entries were considered for the various awards. One Hundred students from secondary and tertiary institutions were specially honored at the award ceremony for their outstanding performance during the national essay competition. The event was widely publicized.

Effect of the global financial crisis:

Overall, the credit crunch and bust that flowed into 2009 had an international character, even as the crisis originated initially in the US. Subsequently, the theory of decoupling between advanced countries, and EM and developing economies, appears to have suffered a severe setback, at least for the foreseeable future.

In light of the severe economic crisis mentioned above, global demand has declined dramatically in recent months, and it's possible that this will ebb further throughout 1Q and 2Q09. Additionally, IMF projections released in Nov 2008 suggested that import volume growth in 2009 could reach 0.1% and 5.2% in the cases of advanced and developing economies, respectively, down from 1.8% and 10.9% in 2008 and 4.5% and 14.4% in 2007. In the meantime, export volume growth would drop to 1.2% and 5.3% for developed and emerging and developing nations, down from 4.1% and 5.6% a year earlier, and 5.9% and 9.6% in 2007.

The magnitude of the contraction in world trade volumes is illustrated by the collapse in oil and most commodity prices in 2H08. Indeed, oil prices fell by more than 60% as of Jan 2009, to levels below the \$50/bbl threshold, from nearly \$147/bbl in July 2008. We note that oil tested the \$30 40/bbl range in December and may have rebounded due to current tensions in the Middle East and OPEC output cuts, meaning the possibility for prices of selected commodities to retreat further in 1Q 2Q based on global fundamentals remains elevated. While

lower oil prices will definitively have a serious impact on oil exporters, it is however true that oil importing countries, both in the developed and developing world, will be positively impacted in terms of trade balance, household consumption and inflation dynamics.

A similar recessionary trend affected copper prices which are currently close to \$3,300/ton, after hitting a low of \$2,900/ton in December, and down from a high of nearly \$9,000/ton in July. This implies that copper prices contracted nearly threefold over eight months while current futures prices show little evidence of a potential upturn in 2009 and even 2010. Moreover, at such levels, there is simply no incentive for mining companies to produce (breakeven price is close to \$4,000 \$4,200/ton), so this may impact supply in the medium term and, on the upside, push ultimately copper prices up. Some global companies are already starting to cut output, a situation which should gradually offset high inventory levels. The large majority of commodities went through a downward adjustment spiral in recent months due to similar demand/supply gaps. In this regard, some soft commodities were affected by a severe downturn but their prices appear to have stabilized: for example, the price of cotton fell from a high of c85/lbs by mid June to c64/lbs at year end, the equivalent of a 25% drop in the same timeframe. The price of Thai rice, an important component of SSA imports, reached a high of \$1,050/ton by mid May, and contracted 43% to a low of \$602/ton at end November, while remaining close to that threshold since then. However, precious metals and a selected number of soft commodities did experience a recent relative upturn. Gold is seen as a hedge against the weakening dollar, which explains that prices rose recently to \$900/ounce. Cocoa prices peaked to \$3,295/ton in June 2008 before retreating below the \$2,000/ton threshold in October; however, because of supply concerns in Africa, notably in Cote d'Ivoire, they jumped to \$2,550/ton YE08. Another interesting case is the price of Kenyan tea which peaked at \$2.9/kg in early September, but collapsed to a low of \$1.7/kg by mid November before rebounding to \$2.0/kg by year end.

Overall, the Reuters Commodity Index (RTCI; 17 commodities) which excludes oil and gold dropped 37.5% in 2H08. In our view commodity prices will remain under pressure or flat in 1Q08 and even 2Q08 as the world recession deepens.

Data Sources:

- a. The Economics of privatization in Nigerian – World Bank, 2007
- b. Tanko, Muhammad The Impact of Privatization on Capital Market Development and Individual Share Ownership (October 3, 2004).
- c. Thorsten Beck, Robert Cull, Afeikhena Jerome; Bank Privatization and Performance – Empirical Evidence from Nigeria, 2005

- d. Africa's struggling Stock market – UN recovery from World Bank, Global Development Finance, 2000
- e. Central Bank of Nigeria Annual report, December 31st, 2007
- f. Ndi Okereke Onyiuke, The Nigerian Stock Exchange – A Review of Market Performance in 2008 and outlook for 2009, January 2009
- g. Afrinvest Nigeria Outlook August 2008, Afrinvest (West Africa) Ltd, August 2008
- h. "CDC Commits US\$50m to Helios, a New African Fund," CDC press release (London: November 2006)

BONDS

Federal Bond

The Nigerian Sovereign Bonds have been in existence since the 1970s. It however became very active in 2003 due to the issuance of FGN Bonds Series to facilitate government projects. Jack Delaney from the US Treasury was instrumental to the resuscitation of the bond market. He worked closely with the DMO but has recently moved on to Ghana. The DMO has the sole responsibility of issuing Federal Government bonds. However the bonds issued since 2003 have been specifically aimed at restructuring the maturity structure of government domestic debt. The proposed \$500million bond is the first bond in the last 6 years that will be tied to a development project. Federal government bonds are issued monthly.

Maturities range from 3 – 20 years currently and can be acquired at primary and secondary markets. The maturities are as follows

- 3 years
- 5 years
- 7 years
- 10 years
- 20 years

A secondary market was created in 2006 by the creation of the Primary Dealers/ Market Maker (PDMM) system by the Debt Management Office of Nigeria (DMO). There are presently 19 PDMMs and their primary function is to create liquidity in the FGN Bonds through the two way quote market.

The primary market is for the fresh issue of the bonds. This is done through a bidding process at auctions organized by the DMO. Auction system adopted is the Dutch auction. Investors interested in the primary auction can only bid through PDMMs. The minimum investment in

FGN bonds at the auction is N10, 000 (Ten Thousand Naira) per bond maturity and the forms are available on the DMO website: (www.dmo.gov.ng).

The secondary market is for trading of the already issued bonds. This market is fairly liquid, with large volumes traded daily. Investors can call the PDMMs to get bid and offer quotes for all the existing maturities issued after the commencement of the Primary Dealership System.

Settlement is through the Delivery Versus Payment (DVP) system, on a T+ 2 working days period. The government has raised over \$12bn from the market since 2003 with more issues in the pipeline.

Coupon payment is Tax Free in Nigeria.

State Bond

State bonds are not as popular as government bonds. There are only a few issued, but the most recent is the Lagos state bond which was issued to fund infrastructural development. The state plans to raise N275billion but has only issued the first tranche of N50billion which was 18% oversubscribed. Some of the states that have issued bonds are as follows:

- Cross River state issued a bond to fund the Tinapa project with United Bank for Africa as a leading bank amongst other participating institutions.
- Kwara state is planning a N30billion bond but details are yet to be made public.

States will likely raise more bonds this year as the revenue accruing to them from the federal government is expected to shrink due to lower oil prices.

Corporate Bond

The Corporate bond market is still at the embryonic stage so there is hardly enough data on the volumes issued so far. Notwithstanding, it is my opinion that there is huge potential in the market for corporate bonds particularly bonds issued by the blue chip companies. What is needed is reliable rating agencies to rate the papers and government policy such as the acceptance of corporate bond papers as collateral from banks for utilization at the government discount window.

International Naira Denominated Bond (What next?)

DERIVATIVES

There is no derivative market currently in Nigeria

Sources

- Nigeria set for its first global bond launch – Business Day Nigeria February 5, 2009

Microfinance:

Nigeria's microfinance industry has grown terrifically due largely to the growing informal business sector and the reluctance of banks and other existing financial institutions to fund these emerging small businesses. However, the Nigerian microfinance industry is still in its infancy, serving an estimated 1 million out of the estimated 40 million people the industry could be serving (Mohammed, 2008). As of 2001, there were 161 registered microfinance institutions (MFIs) with outstanding loans worth N649.6 million and savings of N99.4 million (Anyanwu, 2004).

MFIs emerged after the wildly popular informal financial sector was well established and currently co exists with this informal sector. The major providers of microfinance capital include commercial banks and development finance institutions (DFI) such as the Nigerian Industrial Development Bank (NIDB). As of June 2004, commercial banks had invested N10 billion out of a possible N24 billion that these banks have collectively set aside to invest in micro enterprises (Anyanwu, 2004). The DFIs have been largely unsuccessful due principally to the government's severe reduction in funding to these institutions.

As microfinance continues to grow as an alternative source of funding, the following challenges must be overcome (Mohammed and Hasan, 2008):

- MFIs tend to charge interest rates even higher than that of commercial banks (32.48% compared to 20.22%) which tends to discourage borrowers
- MFIs tend to aggravate the income gap by lending at rates from 30% to 100% while paying out a paltry 4.5 – 6% interest annually. In addition, lending tends to be made largely to the commercial sector at the expense of poorer individuals in the agricultural industry (majority of Nigerians)
- Nearly 65% of the population (85 million) is considered unreachable in that existing MFIs have been unable to adequately address their financial needs. The unmet need remains huge

Informal Finance

Informal microfinance systems predated the formal microfinance sector in Nigeria and remain in existence. There are several forms of informal finance in Nigeria:

Moneylender/ Pawnbroker: Individuals who extend credit, usually with excessively high interest rates. Unpaid loans may result in the surrender of land, assets, or a form of indentured servitude on behalf of the debtor

Personal Savings at Home: Informal savings where money is kept at home

Informal Savings and Credit (Esusu): These informal microfinance associations (often referred to as rotating savings and credit associations or RoSCAs) are operated by various ethnic groups both in urban and rural locations and resemble savings and loan institutions which provide benefits to members only. The association works by mandating that all members contribute to a pooled fund periodically. The pooled funds are then partially or entirely distributed to a member in rotation once the funds reach a certain amount.

RoSCAs can be traced back to 16th century Nigeria and are best thought of as a form social capital. The institution is extremely popular in Nigeria and the majority of adults belong to at least one association. As far back as 1984, an estimated 12.25 million adults were involved in esusu.¹ RoSCAs have several different tribal names. The Yoruba ethnic group refers to it as Esusu or Ajo, Igbos refer to it as Isusu or Uto and the Hausa call it Adashi’.

¹ Siebel, Hans Deter. “Upgrading indigenous microfinance institutions in Nigeria: Trials and Errors.” Pg 4.

Private Equity:

Nigeria is attractive for private equity due to its large population base; underserved markets; and vast resources. However, generation of deal flow is limited by acute information asymmetry and operational challenges of working in Nigeria among others. Some of the key challenges facing private equity investors include inability to liquidate/exit from investments, and limited access to debt funding. The Nigerian Stock Exchange has performed particularly poorly this year, and has made the IPO route less attractive. Other risks include foreign exchange risks, including currency devaluation and political instability. Firms that have been able to raise capital are relatively well positioned as valuation has declined.

A number of private equity transactions are in the financial and telecom sectors due to the underserved markets and high growth potentials. Here are some key players in the Nigerian market.

African Capital Alliance

African Capital Alliance (ACA) was established in 1997 and is headquartered in Lagos, Nigeria. Its founding partners were Richard Kramer, Okechukwu Enelamah, Tom Barry, Okechukwu

Enelamah ,Chief Ernest Shonekan, and Pascal Dozie. Two of the founding partners (Tom Barry and Okechukwu Enelamah) had previously worked together in private equity, whilst four of the founding partners (Richard Kramer, Mohammed Hayatu Deen, Chief Ernest Shonekan and Pascal Dozie) had worked together in the Nigerian Economic Summit Group, a Nigerian economic think tank that is dedicated to achieving sustainable economic development in the national interest through responsible private sector initiative. Subsequently, Afolabi Oladele and Paul Kokoricha were admitted to the Partnership.

ACA's first fund, Capital Alliance Private Equity I (CAPE I), a \$35 million fund, is fully invested with investments in telecommunications, information technology, outsourcing, transportation, media publishing and entertainment and oil and gas. CAPE I 's notable investment successes include the investment in MTN Nigeria, a subsidiary of one of leading telecommunications business in Africa, MTN International; and BusinessDay, a business focused news publication in Nigeria. According to the company, CAPE I is currently on track to return over 10 times money and 45% IRR to its investors.

ACA launched CAPE II in 2005 as a follow on fund to CAPE I and finally closed at US\$100 million. CAPE II has deployed most of its capital and has made investments in Virgin Nigeria Airways, Swift Networks Limited, a licensed broad band fixed wireless access operator; Cornerstone Insurance, one of Nigeria's life and general insurance providers; and eTranszat, an electronic payment platform.

As a result of a Federal Government initiative to promote small and medium scale enterprises (SMEs) in the economy, ACA formed SME Partnership to manage SME funds for 10 of the 25 banks in Nigeria, and has successfully deployed capital in companies such as FPF, a pressure vessel fabrication company; Falcongaz, a natural gas distributor; Vic Lawrence & Associates (VLA), the executive development and training firm; Oakwood Park Hotel and Executive Center; and a cell site installation company called Accat Nigeria.

ACA's real estate focused fund, Capital Alliance Property Investment Company (CAPIC) is targeted to close at \$200 million, with a mandate to make equity and quasi equity investments in the acquisition, development and financing of residential, commercial and hospitality real estate projects in West Africa. The fund had its first closing in March 2008 and has commenced investment activities.

ACA has raised its third fund, CAPE III, a \$500 million fund which will invest in privately negotiated equity and equity related investments in high growth target sectors in countries in West Africa, including the Gulf of Guinea countries. Target sectors include: Energy (Power, Oil & Gas local content, downstream and services); Information technology and telecommunications; financial services; and outsourcing and services.

Actis

Actis is a leading private equity investor in emerging markets and has been investing exclusively in these markets for nearly 60 years. It has raised US\$7.6 billion of funds and employs over 100 investment professionals in 11 offices throughout Africa, China, Latin America, South and South East Asia. In the last ten years, it has invested US\$3 billion in businesses in the emerging markets.

In December 2008, Actis has successfully closed its US\$2.9 billion private equity fund, Actis Emerging Markets 3 (AEM3), exceeding its target of US\$2.5 billion. This is one of the largest dedicated emerging markets private equity funds closed this year and doubles the amount raised by Actis in 2004. AEM3 will be used to build a diversified portfolio of between 30 and 40 investments across Africa, China, India, Latin America and South East Asia, typically investing a minimum of US\$50 million of equity capital in buyout and growth transactions. The new fund gives Actis the flexibility to allocate capital to the most compelling investment opportunities across the emerging markets.

Actis has an office in Lagos, Nigeria, which it opened in 2000. The firm has made a number of investments in Nigeria. In 2004, Actis invested US\$40 million in the development of a new shopping centre in Lagos. The investment was made through a joint venture company, Persianas Properties Limited, formed between Actis and Tayo Amusan, a Nigerian property developer, which developed Palms shopping centre, an international standard diversified retail mall in Nigeria, in Lagos, Nigeria. This was Actis's first deal of notable size in the country since opening its Lagos office towards the end of 2000. Actis exited out of this transaction in 2007.

In 2005, Actis made two successful investments. Actis and the AIG African Infrastructure Fund (AAIF) managed by Emerging Markets Partnership (EMP) invested US\$43.2 million to acquire a major stake in Starcomms, Nigeria's leading fixed wireless telecom operator. It also acquired a 20% stake in UAC of Nigeria plc (UACN) for US\$25 million. The stake was acquired by way of subscription for new shares in a rights issue supplemented by a private placing approved by shareholders at an EGM. UACN's core businesses are food focused. Headquartered in Lagos, UACN is one of the leading public companies quoted on the Nigerian Stock Exchange.

In 2007, Actis made a US\$134 million investment into Diamond Bank Plc, one of Nigeria's leading banks. The investment provided additional capital to the bank for its growth plans and gave Actis a 19.1% stake in the business. This transaction is one of the largest single private equity investments undertaken in Nigeria. Diamond Bank is listed currently listed on the London Stock Exchange (see Stock Exchange section).

In the same year, Actis acquired a majority stake in Mouka Limited (Mouka), manufacturers of the leading foam products brand "Mouka Foam". The Moukarim family, who founded Mouka in 1972, has been developing businesses in West Africa for over 100 years. The family will remain

partners in the business with a minority stake and a portion of the total equity in the business has been earmarked for allocation to management.

In 2008, Actis divested of two of its investments in Nigeria, which include partial divestment of its 20.5% stake in UAC of Nigeria Plc, the leading food centric conglomerate; and exit from Starcomms, the 4th largest telecommunications operator in Nigeria.

Emerging Capital Partners

Emerging Capital Partners (ECP) began investing in Africa since 2000. ECP has raised six private equity funds focused on Africa, totaling more than \$1.6 billion under management over 50 investments, 20 exits, and a strong portfolio of remaining transactions. ECP has investments in more than 40 countries, in all major regions of the African continent.

ECP invests in companies that operate in business environments characterized by limited competition, or in sectors where Africa has either a comparative advantage or an unmet need. This strategy maintains diversification within ECP's investment portfolio and provides investors with superior, risk adjusted returns that are generally uncorrelated to the U.S. and other global markets.

ECP recently opened an office in Lagos, Nigeria. It has five current investments in Nigeria: Blue Financial services, which is a microfinance institution based regionally; Continental Reinsurance, which is one of the largest local reinsurers in the country; Intercontinental Bank, one of the largest financial institution in sub Saharan Africa; Notore Chemical Industries, a fertilizer production company; and Ocean and Oil Investments, oil and gas.

Helios Investment Partners

Helios is based in London, UK, but has an office in Lagos, Nigeria. The firm was established in 2004 and led by co founding partners Tope Lawani and Babatunde Soyoye, Helios operates the Helios Investors, L.P. fund and related co investment entities, aggregating more than \$575 million in capital commitments, pursuing a full range of investment types, including business formations, growth equity investments, structured investments in listed entities and large scale leveraged acquisitions across Africa. Helios also manages the \$110 million Modern Africa Fund on behalf of a range of investors which include the U.S. government's Overseas Private Investment Corporation and several leading U.S. corporations.

In 2005, the principals of Helios founded HTN to capitalize on the strong growth in mobile telephony in Nigeria by deploying the successful tower leasing business model pioneered by US based companies such as Crown Castle International and American Tower. The tower leasing business is characterized by high operating leverage, recurring revenues underpinned by long term contracts, and high returns on invested capital. In the sub Saharan African environment, in

particular, the model exhibits the high growth characteristics of wireless communications and the defensive characteristics of a real estate business. Helios and affiliated entities have invested approximately \$12 million and hold a majority interest in the company on a fully diluted basis.

In 2007, Helios completed a \$50 million acquisition of a 16% interest in First City Monument Bank, a rapidly growing bank in Nigeria. The bank, which is listed on the Nigerian Stock Exchange, is capitalizing on the low penetration of banking services within the country, and strong underlying economic growth trends, to build a dominant position in retail banking, while maintaining its traditional leadership in corporate banking. Helios is actively supporting management's efforts in executing on the corporate strategy and in team building. Helios is represented on the Bank's board of directors and on its key committees.

Travant Capital

Travant was founded in 2007 with a primary focus on investments in West and Central Africa. Travant is headquartered in Lagos, Nigeria. Its first fund, Travant Private Equity Fund 1 (TPEF 1) achieved a first close in May 2008 at US\$107m with funds raised from both African and International investors. Travant Capital Partners is a private equity firm with offices in Lagos, Nigeria and Douala, Cameroon and an affiliated real estate business, Its fundraising efforts represents the largest fundraising from domestic investors in sub Saharan Africa outside of South Africa.

Travant's first investment is in Dorman Long Engineering, a fabrication and structural steel works company, which is expanding into other oil & gas services areas such as engineering, procurement & construction, hot dip galvanizing, facilities management and procurement.

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A push to regulate and 'modernize' the esusu tradition led to the rise of financial cooperative societies and credit unions.

Please refer to Appendix A for the results of a study of 24 Esusu across Nigeria.

Credit Unions/Societies: These operations tend to be more formal than Esusu groups but may or may not be registered in accordance with the appropriate legislation. These organizations may take deposits in addition to lending and issue capital subscriptions.

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Most Nigerians who use credit unions/societies are also involved with esusu. The preference for esusu stems from several facts chief of which is a lack of confidence in state controlled and regulated institutions.

Reciprocal Lending Arrangement: Microloans extended between family and/or friends which may consist of capital or goods such as gasoline or rice.

Burial Funds (Informal Insurance): Socially mandated contributions from friends, family, and villagers of the deceased individual used to pay for funeral expenses and the maintenance of the survivors.

Event specific Contributions: Similar to burial funds but may be collected in recognition of the birth of a child, wedding, or other celebratory event.

Due to the informal nature of these practices, their size cannot be determined.

Appendix A

The following includes the results of a study of 24 esusu across Nigeria: 20 in Anambra State, 2 in Cross River, 1 each in Imo and Lagos states²:

- Their operating period varied from 1 to 38 years, averaging 8.3 years
- The number of members varied from 6 to 97, averaging 34
- 33% were all male, 25% all female, 42% mixed; women accounted for 41% of all members
- Sources of funds were regular contributions, interest on loans, entrance fees, fines and remunerations for joint work
- Regular contributions ranged from N0.10 to N100, averaging N12.61
- 79% had monthly, 17% weekly and 4% market day contribution cycles
- Average contributions per esusu amounted to N16.23 per month or N194.77 per year
- Total annual turnover of contributions per esusu ranged from N22.80 to N33.786, averaging N5,918
- 63% had a permanent loan fund
- 46% distributed contributions in a rotating pattern; another 46% at the end of the year
- 96% kept books and records, usually held by a secretary
- Personal use of funds by the recipients was unrestricted; 32% stated investment purposes, 23% school fees, 23% consumption, 9% house building
- 28% of the members participated in another esusu, 44% in a cooperative society.

² Information taken directly from: Siebel, Hans Deter. "Upgrading Indigenous Microfinance Institutions in Nigeria: Trials and Errors." Pg 6.

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