



**THE Nigerian
STOCK EXCHANGE**

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RESTORING MARKET CONFIDENCE IN AN ERA OF ECONOMIC UNCERTAINTY: CHALLENGES AND PROSPECTS

Presented by

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for

BUSINESS HALLMARK & THE NIGERIAN STOCK EXCHANGE

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Outline

- President's Transformation Agenda
- State of the Global Economy
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- Baseline Statistics and Drivers
- Market Recovery: NSE Delivery Matrix
- Market Recovery Roadmap: NSE Initiatives
- Market Recovery Roadmap: Suggested Government-Backed Initiatives
- Policy Statement on Market Recovery
- Intended Outcome



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President's Transformation Agenda

Commitment to build an inclusive society where job creation constitutes a major pillar for economic growth; provision of cheap and long-term capital for businesses; removal of barriers to increased productivity; as well as improvement on the environment for doing business.

- Capital Market's Role:
 - Finance Government's Economic Reform Agenda
 - Formation of long-term capital
 - Durable wealth creation

Recommendation:

- **Place the capital market at the forefront of policy formulation and design**

State of the Global Economy

- Euro Crisis (Euro zone accounted for 22% FPI in 2010)
 - Greece, Italy, Ireland, Spain credit crisis
 - Over-extended banking system
- US Debt Burden and Credit Downgrade
 - Debt ceiling debate went too far
 - Economy still fragile
- Chinese Growth Slow Down
 - Chinese fortunes tied to the Western world



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State of the Global Economy contd.

- Global Capital Markets' Poor Performance
 - 10 of 12 world largest economies in bear market territory

Jan 3 - Aug 31, 2011, global indices performance	
S&P 500 (-4.16%)	CAC 40 (- 18.14%)
IBrX (-18.52%)	FTSE (-19.37%)
NIKKEI 225 (-15.6%)	NASDAQ (- 3.77%)

- Impact on the Nigerian Economy
 - GDP growth rate slow down in 3Q to 6.9% from 7.72% in 2Q

State of the Nigerian Economy

- Consistent inflationary pressure
 - 10.3% in Sep 2011; back into double-digit territory
- 8-month growth trend for bank credit (Jan-Sep 2011)
 - Private sector = 14.35%; Government = 122.74%
- Gross external reserves rise to USD32.8b (31-Sep-2011)
 - 54% above 2011 budget threshold
- Tightening of MPR from 3.25 to 12%
 - MPR increased five times in 2011
- Unintended consequences
 - Investors exit the market for fixed-income products; 12% increase (Aug-Oct)
- 0.6% YTD drop of official Naira exchange rate
 - CBN met all demand for USD in Oct 2011, allowing Naira to appreciate

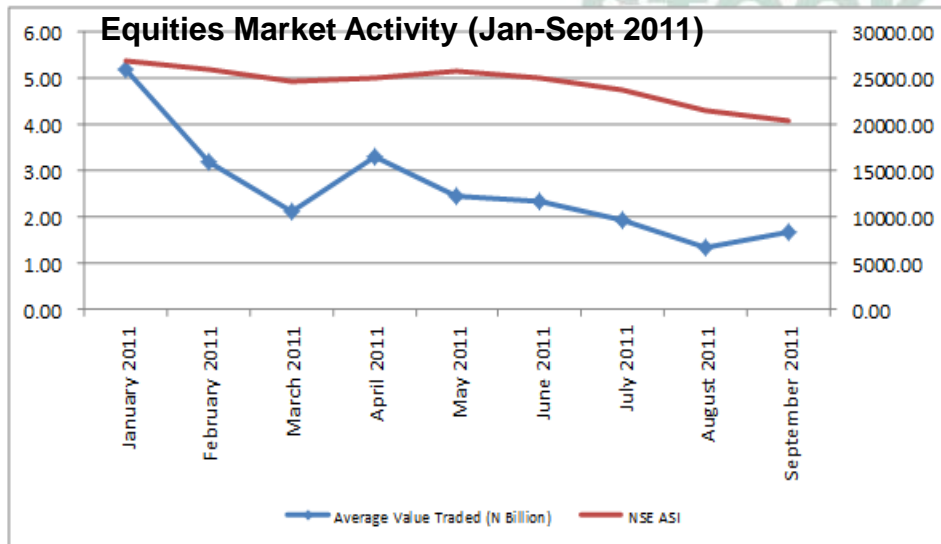
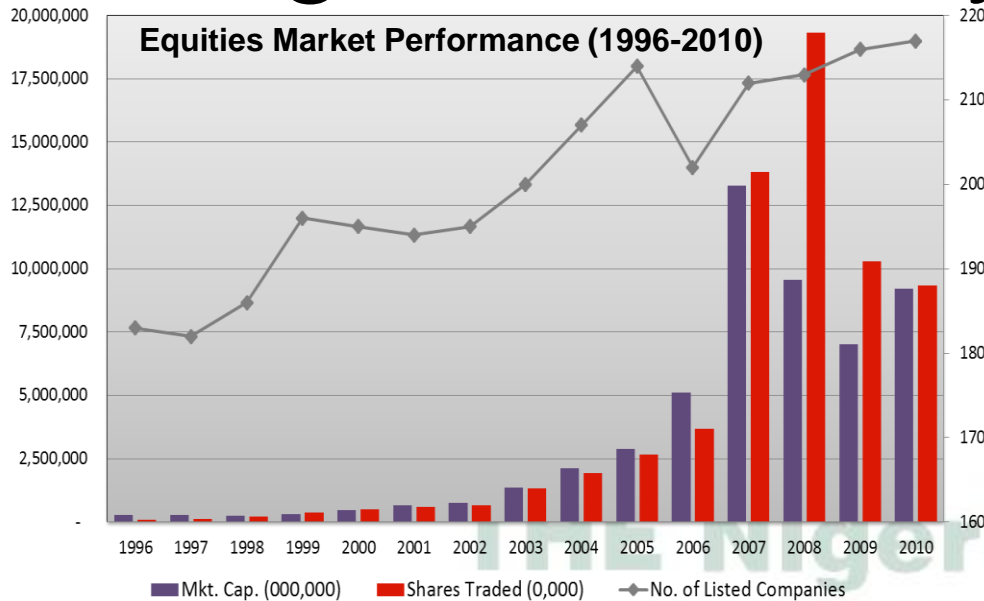
State of the Nigerian Economy contd.

- Unemployment rates
 - Estimated at 20%
 - Perhaps 10% above natural rate
 - Drag on GDP
- Country risk
 - High risk due to security concerns
 - Negative impact on FPI
- Political risk
 - Most concerns abated after May 2011 presidential elections
- Fiscal policy
 - No clear policy on uplifting the capital markets
- Low Global Competitiveness Index rating



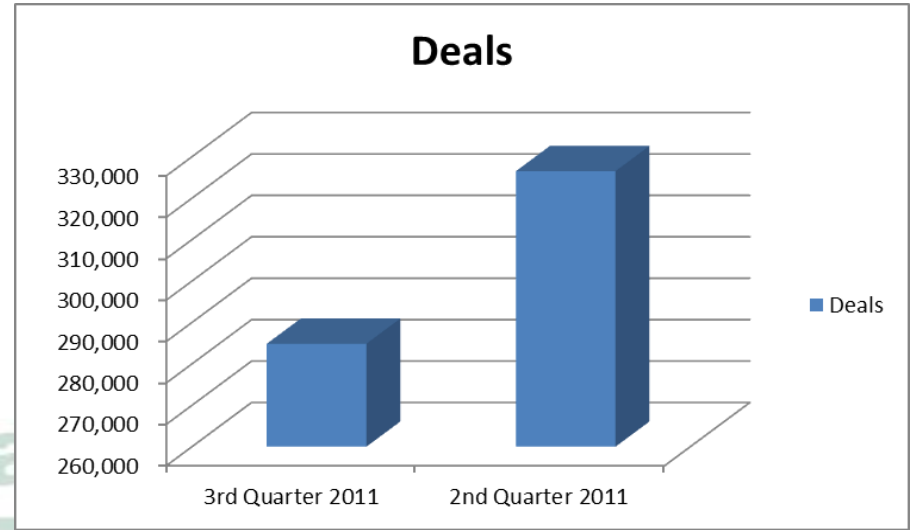
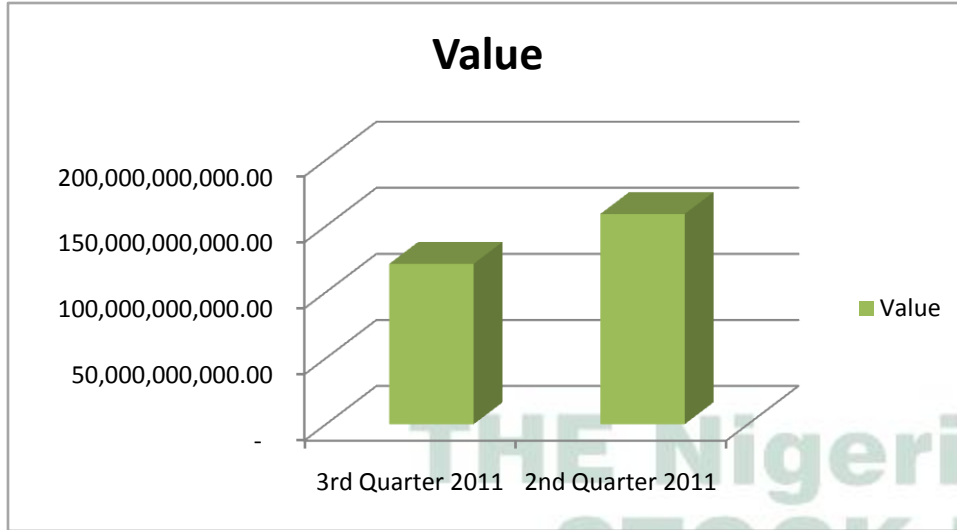
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Nigerian vs. Key African Markets

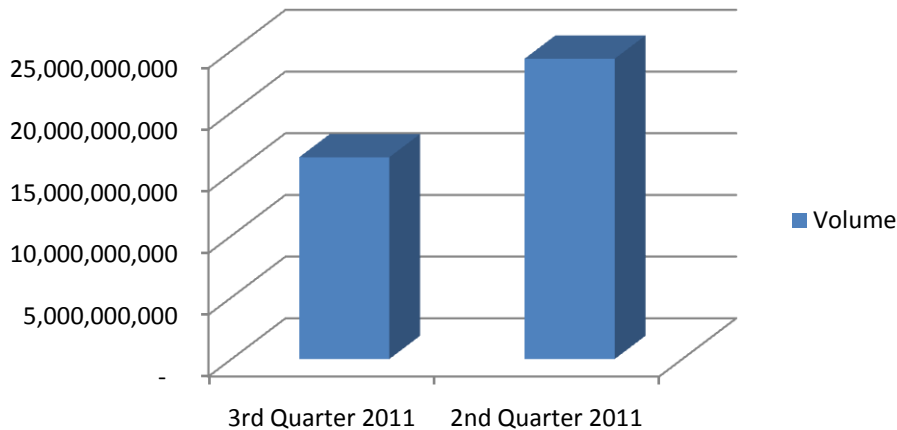


	EGX (Jan to Aug)	NSE (Feb to Aug)	JSE (Feb to Aug)
	USD	USD	USD
Total Value Traded	18,903,647,798	42,044,169,897	42,523,733,664,985
Equity Market Value Traded	13,065,091,082	5,064,996,376	246,459,145,030
Bond Market Value Traded	4,080,021,087	39,979,173,521	41,927,996,264,321
Others	1,758,535,626	0	349,278,255,637
Total Volume Traded	13,342,709,519	58,306,915,176	4,221,244,890,905
Equity Market Volume Traded	12,116,362,345	51,817,000,000	35,852,464,999
Bond Market Volume Traded	24,861,432	6,489,915,176	4,185,310,170,224
Others	1,201,485,742	0	82,265,682
Total Number of Transactions	4,119,375	851,707	14,897,380
Equity Market Number of Transactions	4,067,498	799,470	13,393,981
Bond Market Number of Transactions	1,610	52,237	265,567
Others	50,267	0	1,237,832
Market Capitalization	59,979,571,253	65,832,784,726	939,092,921,155
Number of Listed Companies	212	207	411
Number of Traded Companies	191	174	394
Number of Trading Days	128	146	124
Exchange Rate/US\$	5.96	151.9	6.99
Main Index Name	EGX 30	NSE All-Share Index	FTSE/JSE All Share
Main Index (Points)	4,639.64	21,497.61	31,005.50
Gains in Main Index (%)	-7.8	-9.78	-0.65
P/E Ratio	12.4	15.26	14.84
Dividend Yield (%)			3.4

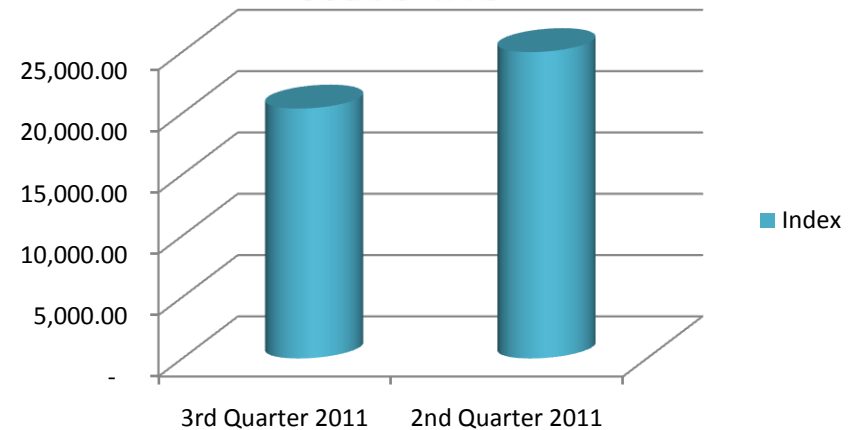
Baseline Market Statistics Q3 2011



Volume



Index



Drivers of Market Statistics

- Soft global economy and cautious foreign investors
- Low investor confidence
- Banking crisis (NSE Banking Index down 22.4%)
 - Nationalization of banks (N30b erased in 1 day)
- Rising interest rates in fall market environment
- Low broker-dealer participation rates
 - Margin loan debt overhang
 - Lack of access to financing (new prudential guidelines by CBN)
- Lack of liquidity and depth
 - Low equity issuance, no IPO in 3Q 2011
 - PFAs on the sidelines



Roadmap to Recovery: NSE Delivery Matrix

		Term
		<i>Short (2011)</i>
Span of Control	<i>Within NSE Control</i>	<ul style="list-style-type: none"> - Market Segmentation - Market Making - Securities Lending - Short Selling - Introduction of ETFs - Revised Listing Requirements - Company Share Buy-Back - NSE Web Site - Investor Clinics
	<i>Outside NSE Control</i>	<ul style="list-style-type: none"> - Government Intervention - Tax Breaks on Transaction Fees - AMCON Debt Resolution - Broker Access to Funding

Market Recovery Roadmap: NSE Initiatives 1

1. Market Segmentation: Delivered Nov 1st, 2011
 - Industry Classification, Market cap definition, Income vs. growth stocks
2. Company share buy back
 - Address demand side and enable optimal capital structure
3. Investor Clinics
 - Use market segmentation as basis for portfolio construction
4. Introduction of First ETF in Nigeria
 - To drive asset diversification while remaining in capital market

Market Recovery Roadmap: NSE Initiatives 2

5. Market Making

- Liquidity driver

6. Securities Lending/ Short selling

- Market efficiency and new trading opportunities

7. Revised Listing Requirement

- Flexible, but competitive listings destination

8. New NSE Website

- Drive transparency and branding



Market Recovery Roadmap: Proposed Government-Backed Initiatives 1

1. Review of PFA Asset Allocation Policy

- Biggest buy-side institutions in the market and biggest pool of long-term capital
- Should be channeled into capital formation

Recommendation:

- PENCOM introduction of policy compelling PFAs to build up equity baskets towards the 25% cap

2. Review of Transaction Taxation Policy

- Tax burden as high as 12%

Recommendation:

- Government reduction (or elimination) of taxes on transaction fees



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Market Recovery Roadmap: Proposed Government-Backed Initiatives 2

3. Creation of New Policy to Deepen the Capital Market
 - High capitalization companies in specialized sectors

Recommendation:

- Government policies encouraging large firms in Telecom, E&P, Power, Agriculture to come to the market for funding

4. Launch of the Sovereign Wealth Fund

- Creates a buffer for market volatility by foreign portfolio investors
- Solution to the missing major local institutional investor in our market

Recommendation:

- Aggressive Implementation of SWF

Market Recovery Roadmap: Proposed Government-Backed Initiatives 3

5. Review of Exit Strategy from Privatized Government Entities
 - Use market to address transparency, corp. governance, risk and public perception issues, while providing public opportunity to participate

Recommendation:

- Simultaneous listing of entities earmarked for privatization

6. Address Undue Focus on Dividends

- Unusual use of dividends as mark of “good performance”
- Prevents investment in fastest growing economic sectors

Recommendation:

- Revision of SEC and PENCOS rules

Market Recovery Roadmap: Proposed Government-Backed Initiatives 4

7. Enhance Capacity of Local Institutional Investors
 - Enable sustainable funds to enter and shore up the market
 - Selective direct access to the market; stronger AUM orientation

Recommendation:

- Consideration of higher minimum subscription amounts for key securities; and firmer criteria for asset management licenses

8. AMCON Forbearance of Broker-Dealer Margin Loan Debt
 - Unjustifiable Bank and B-D lapses, with broader impact on the market

Recommendation:

- Government support of proposed forbearance of B-D debt, packaged with sanctions (and incentives where applicable)

Market Recovery Roadmap: Proposed Government-Backed Initiatives 5

- Policy Statement on Capital Market Recovery
- Coordinated effort by the government, regulators and the capital market operators to address key areas impeding market growth, specifically market confidence

Intended Outcome

Implementation of the planned NSE initiatives and proposed government-backed initiatives should rekindle investor confidence and unlock the potential for financing Nigeria's vibrant economy.



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Q&A

Thank You

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