



2011 Market Review & Outlook for 2012

INTRODUCTION

The *Nigerian Stock Exchange* (NSE) rang the final closing bell for the 2011 year at 2:30pm on December 30th, 2011, bringing to a close an eventful year for the Nigerian capital market. In line with global markets, our market struggled throughout 2011. While investors and market operators grappled with difficult local conditions, the market proved it was and is not isolated from events affecting local and global financial markets and economies. This trend, however, was counterbalanced by the NSE's delivery of key initiatives for the development of the capital market. Throughout the year, the NSE maintained focus on transforming the Exchange and reforming the market to be more efficient and innovative.

I. Economic Overview

In 2011, the Nigerian economy sustained a notable growth trend. GDP in Q1 and Q2 was reported at 7.69% and 7.72%, respectively, but by the third quarter had fallen to 7.4%, slightly down from 7.86% for the same period in 2010, recording a total of N26.59 trillion (\$175.15 billion) through Q3 2011. The non-oil sector was the major driver of the economy with a total contribution of 85.73% of total GDP (in Q3), accounting for 8.81% growth in real terms. Agriculture led the pack with 43.64% of real GDP with wholesale and retail trade generating 18.29% of real GDP. Oil & Gas contributed 14.27%, but recorded a -0.34% growth in real terms.

While inflation ended the year in double-digit territory (after achieving single-digit status in the third quarter), the 10.3% inflation rate reported for December 2011 was an improvement over the 11.8% rate recorded for the same period in 2010. Consequently, inflation averaged 10.9% in 2011, compared with 13.8% in 2010.

A liquidity squeeze, triggered by a tight monetary policy designed to fight inflation, put added pressure on the real sector. The *Central Bank of Nigeria* (CBN) revised the Monetary Policy Rate (MPR) upward six times during the year, driving it from 6.25% in January to 12% in November. But the real squeeze came in the form of banking reforms, as banks were mandated to maintain a cash reserve requirement (CRR) of 8% (up from 1% in January), and maintain a liquidity ratio of 30%, among others. Despite



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these challenges, credit to the private sector grew 30% (month-on-month) during 2011, from N9.4 trillion (\$61.9 billion) to N12.93 trillion (\$85.17 billion), notwithstanding increases in the prime and maximum lending rates – from 15.73% and 21.75%, respectively, in January to 16.75% and 23.21%, respectively, in December.

In 2011, a fiscal deficit, the naira and an unstable banking system looked to the nation's foreign reserves for salvation. As the price of crude remained steady throughout the year, the impact on reserves was minimal. Reserves, at the end of the year, stood at \$32.92 billion, slightly higher than the amount recorded on December 31st, 2010 – \$32.35 billion. The naira, however, struggled to maintain its value against the dollar, closing the year at N156.70¹ to \$1 – down N8.03 from N148.67 to \$1 at the end of 2010. The naira was under intense pressure throughout the year as total demand outweighed supply – i.e., demand for US dollars was a healthy \$37.62 billion, while CBN could only accommodate \$29.76 billion, or 79% of total demand.

While the *National Bureau of Statistics* (NBS) placed the national unemployment rate for 2011 at 23.9% (compared to 21.1% in 2010 and 19.7% in 2009), others reported the number to be as high as 41.6%. The NBS reported that youth, aged 15-24, comprise the largest unemployed group at 37.7% of total unemployment.

On December 29th, 2011, *Standard and Poor's* (S&P) raised its outlook on Nigeria's credit rating to 'Positive' from 'Stable'. The nation's transfer and convertibility (T&C) assessment remained unchanged at 'B+', while the long- and short-term issuer credit rating was raised to 'B+/B'.

Nigeria is not only under pressure to address the increase in violence in parts of the nation, but is also under pressure to reform the nation's governing and legal systems, to meet acceptable global standards, as well as Vision 20:2020 objectives. In August 2011, the *World Economic Forum* (WEF) ranked Nigeria 127 of 139 countries on the 2010-2011 *Global Competitive Index*. A low level of development, infrastructure shortfalls, and inconsistent external reporting are typically the cause for such rankings.

¹ Daily exchange rates provided by CBN. Figure based on published selling rate. Figure does not include 1% commission fee charged by banks.



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In the area of corporate governance, a component of the competitive index ranking, Nigeria ranked 125 in the ethical behavior of firms.

Nigeria's fiscal policy remained unchanged in 2011, albeit a newly-elected president. The fiscal policy was criticized for supporting the high cost of government, specifically recurrent expenditures that account for over half of government spending, and that also contribute to budget overruns, and impede planned capital expenditure. Critics advocated a leaner government structure, and a non-oil (price) based fiscal policy that includes economic growth and development from a policy perspective. The 24-member *Economic Management Team* (EMT) tasked with the nation's economic policy was faulted for being too large and for lacking a quantifiable mission and objective.

While the government offered no clear policy in 2011 on uplifting the capital market, it successfully tightened its monetary stance, kicked-off reforms in various sectors of the economy, and is looking to build stronger buffers against the nation's dependence on oil revenue.

II. Market Review

In 2011, the Nigerian capital market was gripped by turbulence and volatility. Despite the many reforms embarked upon by the NSE and the *Securities and Exchange Commission* (SEC), other financial market events (e.g., interest rates, banking reforms and challenges resulting from the Eurozone debt crisis) marred investors' appetite for shares. The market saw no noteworthy rally throughout the year, as many funds and asset managers continued to cut their equity exposure and/or sell down to cover deteriorating positions in the US and Eurozone.

Market Snapshot

(Refer to **TABLE 1** on page 4 for the 2011 'Market Snapshot.')



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TABLE 1 – 2011 MARKET SNAPSHOT

	2010	2011	% Change
Total Market Capitalization	N10.33 trillion \$69.65 billion	N10.28 trillion \$67.71 billion	-0.48
Market Capitalization (Equities)	N7.92 trillion [§] \$53.40 billion	N6.54 trillion [†] \$43.06 billion	-17.42
<i>NSE All Share Index</i>	24,770.52	20,730.63	-17.07 [‡]
<i>Bloomberg NSE 30 Index</i>	1,081.95	923.77	-14.92 [‡]
<i>Bloomberg NSE Food/Beverage Index</i> [‡]	778.47	589.60	-26.70 [‡]
<i>Bloomberg NSE Banking Index</i>	399.08	274.26	-34.69 [‡]
<i>Bloomberg NSE Insurance Index</i>	168.34	143.54	-14.67 [‡]
<i>Bloomberg NSE Oil/Gas Index</i>	338.85	220.11	-42.03 [‡]
Total Volume (units)	93.34 billion	89.58 billion ^{††}	-4.03
Total Value	N797.55 billion \$5.38 billion	N634.92 billion ^{†††} \$4.18 billion	-20.39
Avg. Daily Volume (units)	377.87 million	364.15 million	-3.63
Avg. Daily Value	N3.23 billion \$21.78 million	N2.58 billion \$16.99 million	-20.12
Turnover Ratio	12.51	8.36	-33.17
No. of New Issues (Approved)	31	34	+12.90
Value of New Issues (Approved)	N2.44 trillion \$16.45 billion	N2.03 trillion \$13.37 billion	-16.80
No. of Listed Companies	217	198	-8.76
No. of Listed Equities	220 [*]	201	-8.64
No. of Listed Bonds	44	48	+9.09
No. of Listed ETFs	0	1	-
No. of Listed Securities	264	250	-5.30
No. of Trading Days	247	246	-
Avg. Exchange Rate (Naira:USD) ^{§§}	148.31	151.82	-

[§] Prior to 2011, figure comprised equities listed on the *Main Board* only – i.e., shares listed on the Emerging Markets board (now *ASeM*) were not included in the market capitalization calculation.

[†] Figure includes shares listed on *ASeM* (N4.07 billion market cap) and preference shares listed on the *Main Board* (N16.29 billion market cap) in 2011.

[‡] Performance of each index is calculated using the percentage change in the index value on a daily (day-by-day) basis, not year-on-year. This represents the actual movement of the index within the specified year (i.e., 2011).

[‡] The official name of the *Bloomberg NSE Food/Beverage Index* will be changing to the *Bloomberg NSE Consumer Goods Index* to accommodate companies listed in the Consumer Goods sector.

^{††} Figure includes units of ETFs traded in 2011.

^{†††} Figure includes the value of ETFs traded in 2011.

^{*} Figure revised to include preference shares moved to the *Main Board* (3 preference shares) in 2011.

^{§§} Daily exchange rates provided by CBN. Figures based on mean central rate. Figures do not include 1% commission charged by banks.



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Market Capitalization

2010 closed with a total market capitalization of N10.33 trillion (\$69.62 billion), and as at December 30th, 2011, total market capitalization experienced a drop to N10.28 trillion (\$67.68 billion). New equity listings, the introduction of the *NewGold Exchange Traded Fund (ETF)*, and increases in state and corporate bond issues held up market capitalization. However, market capitalization of listed equities suffered a slightly different fate. At year-end 2010, the equities market capitalization was a healthier N7.92 trillion (\$53.40 billion), but by December 30th, 2011, had dropped to N6.54 trillion (\$43.06 billion) – a 17.42% decline. At year-end, the market capitalization of all 2011 listed equities – 198 stocks and 3 preference stocks – accounted for 63.62% of total market capitalization, while in 2010, 217 listed equities accounted for 76.67% of the total market capitalization.

Market Activity

A total of 89.58 billion units worth N634.92 billion (\$4.18 billion) exchanged hands in 2011, compared to 93.34 billion shares worth N797.55 billion (\$5.38 billion) for the same period in 2010. While this translates into a minor decline in trading volume (4.03%), the 20.39% decline in the value of units traded is a slightly more significant event. (In 2010, total volume traded fell 9.25%, while total value traded jumped 16.31% from the preceding year.) The average daily volume for 2011 was 364.15 million units with an average value of N2.58 billion (\$16.99 million), compared to 377.87 million shares and N3.23 billion (\$21.78 million), respectively, in 2010.

2011 'Top 20' Stocks²

While 181 stocks saw transaction activity in 2011, the Financial Services sector dominated the 'top 20' list of companies recording the highest trading volumes – 18 of the 20. 39.29 billion Banking shares valued at N353.19 billion (\$2.33 billion) were traded, representing 43.86% of the total equities volume and 55.63% of total value of equities traded. Insurance stocks on this list were a distant second with 11.19 billion shares traded, valued at N17.48 billion (\$115.15 million). Also represented were the

² 'Top 20' Stocks analysis is based on equities-only data – volume traded, value traded, number of transactions (deals). This analysis does not include companies that were delisted in 2011. See page 12 (III. Listings) for more information about delisted companies.



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Services and Oil & Gas sectors. (Refer to **TABLE 2** on page 7 for the list of 2011 'Top 20' Stocks by Volume).

On the 'top 20' by turnover value list, five (5) sectors – Financial Services, Consumer Goods, Industrial Goods, Oil & Gas and Services – were represented. Financial Services saw 56.52% of the total value of equities traded (N358.87 billion or \$2.36 billion), Consumer Goods recorded a respectable 15.52% of total value traded (N98.54 billion or \$649.03 million), and Industrial Goods and Oil & Gas both accounted for 5.46% and 4.11%, respectfully, of total value traded. (Refer to **TABLE 3** on page 8 for the list of 2011 'Top 20' Stocks by Turnover Value).

On the 'top 20' by number of transactions (deals) list, the sector spread comprised stocks from the Financial Services, Consumer Goods, Oil & Gas, Industrial Goods and Conglomerates sectors. Financial Services stocks led with 574,153 transactions (46.65% of the year's total transactions), with 35.49 billion shares valued at N341.56 billion (\$2.28 billion). Consumer Goods stocks held their own in 125,684 deals (10.21% of total), with 2.06 billion shares valued at N91.69 billion (\$603.94 million); and there were 58,652 deals in two Oil & Gas stocks (4.77% of total), with 1.70 billion shares valued at N27.56 billion (\$181.53 million). (Refer to **TABLE 4** on page 9 for the list of 2011 'Top 20' Stocks by Transactions).

The secondary market for government bonds was dormant during the year, however, in the OTC market, transaction volume reached 9.20 billion units, valued at N8.20 trillion (\$54.01 billion).

Index Performance

The *NSE All Share Index (ASI)*, which ended 2010 at 24,770.52 retracted to 20,730.63 by the end of December 2011. Throughout the year the NSE ASI struggled. It was down 0.30% in the first quarter, bounced back 1.51% in the second quarter, retracted a full 20.15% in the third quarter, and regained some ground (1.86%) in the fourth quarter,



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TABLE 2 – 2011 ‘TOP 20’ STOCKS BY VOLUME³

	Company	Sector	Transactions/ Deals	Volume Traded (shares)	Value of Shares Traded	% of Total Volume Traded
1	TRANSNATIONAL CORP. OF NIGERIA PLC	Services	13,027	8,239,897,390	10,826,553,447.15	9.199%
2	ZENITH BANK PLC	Financial Services	81,953	7,760,868,460	111,322,964,207.82	8.664%
3	GUARANTY TRUST ASSURANCE PLC	Financial Services	3,575	7,597,149,143	13,081,978,227.93	8.481%
4	FIRST BANK OF NIG. PLC	Financial Services	150,793	5,982,826,479	73,693,502,948.14	6.679%
5	U B A PLC	Financial Services	59,943	5,216,284,445	28,757,401,349.13	5.823%
6	GUARANTY TRUST BANK PLC.	Financial Services	126,458	4,446,833,636	68,870,626,311.38	4.964%
7	ACCESS BANK PLC	Financial Services	41,647	3,334,240,326	23,915,079,290.72	3.722%
8	DIAMOND BANK PLC	Financial Services	17,673	2,715,749,521	14,463,220,233.74	3.032%
9	FIDELITY BANK PLC	Financial Services	27,389	2,664,860,136	6,029,548,191.99	2.975%
10	SKYE BANK PLC	Financial Services	26,961	1,487,346,225	10,550,130,089.69	1.660%
11	UNITY BANK PLC	Financial Services	9,233	1,462,403,179	1,585,331,113.86	1.633%
12	FIRST CITY MONUMENT BANK PLC	Financial Services	11,923	1,113,535,120	7,107,110,299.26	1.243%
13	JAPPAUL OIL & MARITIME SERVICES PLC	Oil & Gas	20,689	1,111,399,326	1,442,990,591.93	1.241%
14	STERLING BANK PLC.	Financial Services	10,550	1,097,699,859	2,251,888,488.47	1.225%
15	N.E.M INSURANCE CO (NIG) PLC	Financial Services	5,094	1,066,988,483	560,346,915.14	1.191%
16	UNION BANK NIG. PLC	Financial Services	20,575	1,030,800,516	3,474,293,740.52	1.151%
17	WEMA BANK PLC	Financial Services	9,326	974,975,883	1,168,987,845.85	1.088%
18	CUSTODIAN AND ALLIED INSURANCE PLC	Financial Services	3,180	848,129,592	2,289,319,501.52	0.947%
19	AIICO INSURANCE PLC	Financial Services	20,761	847,265,326	682,547,319.96	0.946%
20	CONTINENTAL REINSURANCE PLC	Financial Services	2,044	830,433,014	867,707,026.85	0.927%
	SUB-TOTAL			59,829,686,059		66.792%
21	ALL OTHER COMPANIES			29,746,916,132		33.208%
	TOTAL			89,576,602,191		100.000%

³ This list does not include companies that were delisted in 2011. Companies that were delisted are not included in the calculations – totals and percentages. Delisted companies that would have qualified for this list ('Top 20' Stocks by Volume) are FINBANK PLC (2,524,423,486), OCEANIC BANK PLC (1,657,827,161), INTERCONTINENTAL BANK PLC (1,370,350,655) and BANK PHB PLC (1,115,047,299).



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TABLE 3 – 2011 'TOP 20' STOCK BY TURNOVER VALUE⁴

	Company	Sector	Transactions/ Deals	Volume Traded (shares)	Value of Shares Traded	% of Total Turnover Value
1	ZENITH BANK PLC	Financial Services	81,953	7,760,868,460	111,322,964,207.82	17.534%
2	FIRST BANK OF NIG. PLC	Financial Services	150,793	5,982,826,479	73,693,502,948.14	11.607%
3	GUARANTY TRUST BANK PLC	Financial Services	126,458	4,446,833,636	68,870,626,311.38	10.847%
4	NIGERIAN BREWERIES PLC	Consumer Goods	35,883	430,294,061	36,973,806,096.11	5.824%
5	U B A PLC	Financial Services	59,943	5,216,284,445	28,757,401,349.13	4.529%
6	OANDO PLC	Oil & Gas	37,963	586,023,606	26,116,036,471.78	4.113%
7	ACCESS BANK PLC	Financial Services	41,647	3,334,240,326	23,915,079,290.72	3.767%
8	GUINNESS NIG PLC	Consumer Goods	16,168	92,493,022	20,174,801,132.15	3.178%
9	NESTLE NIGERIA PLC	Consumer Goods	11,634	40,317,036	16,532,776,728.34	2.604%
10	FLOUR MILLS NIG. PLC	Consumer Goods	15,691	201,303,096	15,833,967,328.33	2.494%
11	DIAMOND BANK PLC	Financial Services	17,673	2,715,749,521	14,463,220,233.74	2.278%
12	DANGOTE CEMENT PLC	Industrial Goods	7,187	123,088,650	14,080,122,810.18	2.218%
13	GUARANTY TRUST ASSURANCE PLC	Financial Services	3,575	7,597,149,143	13,081,978,227.93	2.060%
14	LAFARGE WAPCO PLC.	Industrial Goods	9,288	256,746,141	10,892,324,488.60	1.716%
15	TRANSNATIONAL CORP. OF NIGERIA PLC	Services	13,027	8,239,897,390	10,826,553,447.15	1.705%
16	SKYE BANK PLC	Financial Services	26,961	1,487,346,225	10,550,130,089.69	1.662%
17	ASHAKA CEMENT PLC	Industrial Goods	12,711	404,748,906	9,659,452,769.49	1.521%
18	DANGOTE SUGAR REFINERY PLC	Consumer Goods	19,380	801,302,831	9,021,115,407.41	1.421%
19	FIRST CITY MONUMENT BANK PLC	Financial Services	11,923	1,113,535,120	7,107,110,299.26	1.119%
20	STANBIC IBTC BANK PLC	Financial Services	11,508	752,684,708	7,106,313,947.11	1.119%
	SUB-TOTAL				528,979,283,584.46	83.317%
21	ALL OTHER COMPANIES				105,920,545,145.49	16.683%
	TOTAL				634,899,828,729.95	100.000%

⁴ This list does not include companies that were delisted in 2011. Companies that were delisted are not included in the calculations – totals and percentages. No delisted company would have qualified for this list ('Top 20' Stocks by Turnover Value).



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TABLE 4 – 2011 'TOP 20' STOCKS BY TRANSACTIONS⁵

	Company	Sector	Transactions/ Deals	Volume Traded (shares)	Value of Shares Traded	% of Total Transactions
1	FIRST BANK OF NIG. PLC	Financial Services	150,793	5,982,826,479	73,693,502,948.14	12.252%
2	GUARANTY TRUST BANK PLC	Financial Services	126,458	4,446,833,636	68,870,626,311.38	10.275%
3	ZENITH BANK PLC	Financial Services	81,953	7,760,868,460	111,322,964,207.82	6.659%
4	U B A PLC	Financial Services	59,943	5,216,284,445	28,757,401,349.13	4.870%
5	NIGERIAN BAGS MANUFACTURING CO PLC	Industrial Goods	55,028	491,956,446	1,248,523,177.29	4.471%
6	ACCESS BANK PLC	Financial Services	41,647	3,334,240,326	23,915,079,290.72	3.384%
7	OANDO PLC	Oil & Gas	37,963	586,023,606	26,116,036,471.78	3.085%
8	NIGERIAN BREWERIES PLC	Consumer Goods	35,883	430,294,061	36,973,806,096.11	2.916%
9	FIDELITY BANK PLC	Financial Services	27,389	2,664,860,136	6,029,548,191.99	2.225%
10	SKYE BANK PLC	Financial Services	26,961	1,487,346,225	10,550,130,089.69	2.191%
11	DANGOTE FLOUR MILLS PLC	Consumer Goods	24,801	337,459,323	4,309,632,183.46	2.015%
12	AIICO INSURANCE PLC	Financial Services	20,761	847,265,326	682,547,319.96	1.687%
13	JAPPAUL OIL & MARITIME SVCS PLC	Oil & Gas	20,689	1,111,399,326	1,442,990,591.93	1.681%
14	UNION BANK NIG. PLC	Financial Services	20,575	1,030,800,516	3,474,293,740.52	1.672%
15	DANGOTE SUGAR REFINERY PLC	Consumer Goods	19,380	801,302,831	9,021,115,407.41	1.575%
16	DIAMOND BANK PLC	Financial Services	17,673	2,715,749,521	14,463,220,233.74	1.436%
17	GUINNESS NIG PLC	Consumer Goods	16,168	92,493,022	20,174,801,132.15	1.314%
18	FLOUR MILLS NIG. PLC	Consumer Goods	15,691	201,303,096	15,833,967,328.33	1.275%
19	UNILEVER NIGERIA PLC	Consumer Goods	13,761	199,071,923	5,379,893,162.01	1.118%
20	U A C N PLC	Conglomerates	13,723	191,540,055	6,946,335,973.28	1.115%
	SUB-TOTAL		827,240			67.214%
21	ALL OTHER COMPANIES		403,514			32.786%
	TOTAL		1,230,754			100.000%

⁵ This list does not include companies that were delisted in 2011. Companies that were delisted are not included in the calculations – totals and percentages. Delisted companies that would have qualified for this list ('Top 20' Stocks by Transactions) are OCEANIC BANK PLC (20,629), FINBANK PLC (14,595) and INTERCONTINENTAL BANK PLC (14,595).



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ending the year 4,039.89 points or 17.07% lower.⁶ While investors were rewarded with market growth in the first half of the year, this expansion was halted in the second half of the year, mimicking the performance of 45 other nations represented in the *MSCI All-Country World Index*.

The NSE ASI's performance reflects fluctuations in prices of listed equities throughout the year. This was also reflected in the performance of the *Bloomberg NSE-30 Index* which closed 2011 at 923.77 points – shedding 158.18 points or down 14.92%,⁷ in contrast to the index's 2010 performance which, gained 253.96 points or rose 30.67%, to close at 1,081.95.

By year-end, all four sector indices had suffered a similar fate. Where three-of-the-four indices saw appreciations in 2010, in 2011, their performance imitated the price performance of their individual constituents. The *Bloomberg NSE Insurance Index* dropped 24.8 points (or 14.67%) to close at 143.54; the *Bloomberg NSE Food/Beverage Index* fell 188.87 points (or 26.70%) to close at 589.60; the *Bloomberg NSE Banking Index* lost 124.82 points (or 34.69%) to close at 274.26; and the *Bloomberg NSE Oil & Gas Index* retreated 118.74 points (or 42.03%) to close at 220.11.⁸

Market Capitalization by Sector

The NSE remains a predominantly equities-driven market with certain sectors dominating market capitalization. On the *Main Board*, the Financial Services sector led the pack with 30.82% of the board's total market capitalization; Consumer Goods was a close-second with 30.64%, and Industrial Goods took 29.27%. In the *Alternative Securities Market (ASeM)*, Oil & Gas held on to the lead with 73.69% of the board's total market capitalization, while Services accounted for 13.73; Consumer Goods and Industrial Goods respectfully hung on to 5.79% and 5.25%, respectively. (Refer to **TABLE 5** for the comprehensive list of market capitalization by sector and assets under management—AUM.)

⁶ Quarterly and year-end performance of the *NSE ASI* is calculated using the percentage change in the index value on a daily (day-by-day) basis.

⁷ Performance of the *Bloomberg NSE 30* is calculated using the percentage change in the index value on a daily (day-by-day) basis.

⁸ Performance of the *Bloomberg NSE sector indices* is calculated using the percentage change in each index's value on a daily (day-by-day) basis.



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ETF Assets Under Management (AUM)

On December 19th, 2011, the NSE admitted its first ETF to the ETFs board. Investors showed enthusiasm with 6,710 units exchanging hands in the eight (8) days leading up to the end of the year. Total AUM on December 31st was N988 million (\$6.51 million).

TABLE 5 – 2011 MARKET CAPITALIZATION BY SECTOR

Securities/Boards	Market Capitalization	Sector Breakdown (%)
EQUITIES		
MAIN BOARD		
<i>Sector</i>		
AGRICULTURE	22,162,860,080.96	0.339%
CONGLOMERATES	64,089,327,366.82	0.981%
CONSTRUCTION/REAL ESTATE	129,352,427,900.82	1.980%
CONSUMER GOODS	2,001,395,869,070.48	30.637%
FINANCIAL SERVICES	2,013,252,151,835.69	30.819%
HEALTHCARE	33,677,670,369.66	0.516%
INFORMATION & COMMUNICATION TECH. (ICT)	62,009,178,292.88	0.949%
INDUSTRIAL GOODS	1,912,341,706,020.22	29.274%
NATURAL RESOURCES	8,326,882,122.75	0.127%
OIL & GAS	217,464,195,017.18	3.329%
SERVICES	68,511,321,260.42	1.049%
Sub-Total	6,532,583,589,337.88	100.000%
ALTERNATIVE SECURITIES MARKET (ASeM)		
<i>Sector</i>		
CONSTRUCTION/REAL ESTATE	46,800,000.00	1.149%
CONSUMER GOODS	235,923,042.72	5.794%
HEALTHCARE	12,449,425.00	0.306%
INDUSTRIAL GOODS	213,758,977.50	5.249%
NATURAL RESOURCES	3,325,000.00	0.082%
OIL & GAS	3,000,617,717.54	73.687%
SERVICES	559,262,811.04	13.734%
Sub-Total	4,072,136,973.80	100.000%
EQUITIES TOTAL	6,536,655,726,311.68	
ETFs		
ETF	988,000,000.00	100.000%
ETFs TOTAL (AUM)	988,000,000.00	100.000%
BONDS		
GOVERNMENT BONDS--FEDERAL	2,089,156,222,400.00	55.894%
GOVERNMENT BOND--STATE & LOCAL	308,000,000,000.00	8.240%
CORPORATE BONDS/DEBENTURES	1,340,544,815,157.00	35.865%
BONDS TOTAL	3,737,701,037,557.00	100.000%
TOTAL MARKET CAPITALISATION	10,275,344,763,868.70	



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III. Listings

In an effort to enhance the quality of our listed companies, the NSE delisted a handful of companies in 2011, bringing the total number of listed companies to 198 at year-end – from 217 in December 2010. Eleven (11) companies⁹ were delisted on March 8th, 2011 for being unable to meet the NSE’s post-listing requirements; on September 5th, three (3) banks that were nationalized¹⁰ were also delisted. This was followed by the voluntary delisting of *NAMPAK Plc* on September 6th, the delisting of three acquired banks¹¹ in October, and the voluntary delisting of *Nigerian Bottling Company Plc* and *United Nigerian Textile Mills Plc* on November 14th, 2011.

In contrast, the primary market was less active in 2011. Notwithstanding erosion of investor confidence, tough market conditions played a major role in deterring retail investors from entering the market, and committed long-term retail and institutional players looked to other investment choices for diversification and liquidity, specifically short- and long-term government paper. As prospective issuers also delayed bringing new instruments to market (i.e., IPOs), investors settled for incentives such as dividends, and bonus and rights issues. In total, the Exchange considered 41 applications in 2011 and approved 34 issues valued at N2.03 trillion (\$13.37 billion), against 31 new issues valued at N2.44 trillion (\$16.45 billion) in 2010. (Refer to **TABLE 6** for the 2011 ‘Top Issues’.)

TABLE 6 – 2011 TOP ISSUES

	Issuer	Amount (N)	Amount (\$)	Type of Issue
1	AMCON	1,675.29 billion	11,034.71 million	Bond
2	DELTA STATE GOVERNMENT	50.00 billion	329.34 million	Bond
3	UBA PLC	35.00 billion	230.54 million	Corporate Bond
4	FLOURMILLS OF NIG. PLC	28.25 billion	186.08 million	Rights Issue
5	ONDO STATE GOVERNMENT	27.00 billion	177.84 million	Bond

⁹ Companies delisted from the *Main Board* were Albarka Air Plc, Daily Times Plc, First Capital Investment Trust Plc, Foremost Dairies Plc, Nigercem Plc, Okitipupa Oil Palm Plc and Wiggins Teape Nigeria Plc. Companies delisted from *ASeM* were Flexible Packaging Plc, Krabo Nigeria Plc, Newpak Plc and Tropical Petroleum Plc.

¹⁰ Nationalized banks that were delisted were Afribank Plc (now Mainstreet Bank), Bank PHB Plc (now Keystone Bank) and Spring Bank Plc (now Enterprise Bank).

¹¹ Acquired banks that were delisted were Oceanic Bank Plc on October 11th (acquired by Ecobank Transnational Inc.), Intercontinental Bank Plc on October 13th (acquired by Access Bank Plc) and FinBank Plc on October 21st (acquired by FCMB Plc).



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IV. Foreign Portfolio Investment¹²

At the time of this report, foreign portfolio investment (FPI) for 2011 was estimated at N511.72 billion (\$3.37 billion), up 34.19% from N381.34 billion (\$2.57 billion) in 2010. FPI accounted for over 80% of total purchases (inflows) and was driven primarily by investments from the UK and the US, as well as from Hong Kong, Luxemburg, South Africa and Germany, among others. Total sales (outflows) during the year were estimated at N334.64 billion (\$2.20 billion), bringing net flows to roughly N177.08 billion (\$1.17 billion), a 3.53% increase from the previous year's N171.04 billion (\$1.15 billion).

V. Major Achievements in 2011

Despite recent challenges, the capital market remains an indispensable vehicle to ensure Nigeria's continued development. In 2011, the NSE set a broad objective to create an African institution that competes effectively in the global marketplace, and took the following steps to lay the foundation for achieving this goal:

New Leadership

The NSE welcomed its new CEO, Mr. Oscar Onyema, on April 4th, 2011, the Executive Director of the *Market Operations and Technology (MOT)* Division, Mr. Adeolu Bajomo, on May 3rd, 2011, and the Head of the *Corporate* Division, Mr. Bola Adeeko, on July 4th, 2011. Since joining the Exchange, the team has worked tirelessly to lay the right foundation for the growth and development of the NSE and the capital market.

The Council (Board)

In May 2011, the National Council of the NSE welcomed a handful of new members while, later in the year, it accepted the resignation of two other members. Between May and July the Council Committee structure was reconstituted and the following Council Committees were formed to guide the management of the Exchange:

- The *Audit and Risk Management Committee*,
- The *Demutualization Committee*,

¹² At the time of this report, FPI data was still being compiled by brokerage firms servicing international clients. Information will be made public once all data has been received by the NSE.



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- The *Disciplinary Committee*,
- The *Finance and General Purpose Committee*,
- The *Rules and Adjudication Committee*, and
- The *Technology Committee*.

Regulation

Broker-Dealers

In 2011, the NSE enforced the minimum capital requirement for broker-dealers, with more than 30 firms successfully meeting/exceeding the N70 million (>\$450K) minimum capital requirement. In accordance with the NSE's 'Zero Tolerance' policy, the Exchange reconstituted its in-house *Investigation Panel* and revised the panel's Terms of Reference and Code of Conduct to guide the operations and conduct of its members. To encourage the highest level of compliance, the Exchange introduced penalties for seven (7) violations previously lacking penalties in the exchange's rules: *Unauthorized sale of shares*; *Fraudulent verification of share certificates*; *Misappropriation of funds*; *False third party transactions*; *Failure to maintain separate client accounts*; *Failure to appoint a licensed Compliance Officer*, and *Failure to submit financial statements*.

By year's end, the NSE recorded 80% resolution of all complaints received; completed inspections of 50% of all broker-dealer firms; reported approximately 90% compliance for submissions of financial accounts from broker-dealer firms (from 5% earlier in the year); conducted monthly meetings with broker-dealer firms; engaged brokers on a monthly basis with '*Floor*' Meetings; held the first quarterly meeting with compliance officers of broker-dealer firms; and successfully executed the first '*Six Module*' learning program for compliance officers of broker-dealer firms, with 160 participants.

Issuers

Also guided by the NSE's 'Zero Tolerance' policy, the Exchange successfully pushed for a higher level of compliance by issuers in 2011. During the year, the NSE reported a 96.81% compliance rate¹³ for the submission of 2010 annual accounts (financial statements) by listed companies; and for companies with fiscal years ending January-to-

¹³ Firms on full suspension are not included in this calculation.



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September 2011, the recorded compliance rate for 2011 reporting was 75.47%. To support this higher level of compliance, the Exchange revised issuer rules, assigning stiffer penalties to the following violations: *Late and non-submission of quarterly and annual financial statements*; and *Failure to notify the Exchange of Board changes*. During the period under review, the Exchange suspended a total of 49 companies¹⁴ for late reporting of financial performance (i.e., submission of annual accounts) and initiated proactive measures to assist companies meet their reporting deadlines. In December 2011, the NSE successfully completed its first *Company Secretaries Forum*, designed to ensure blanket awareness of reforms, and to foster compliance of existing rules.

2011 Key Initiatives

In 2011, the Exchange identified the following eight (8) key initiatives to be delivered near-term, all aimed at addressing the two major issues that the capital market continues to grapple with, i.e., lack of investor confidence and lack of liquidity and depth in the market:

1. Market Segmentation – Launched
2. Introduction of Exchange Traded Funds (ETFs) – Launched
3. Revised Share Buy-Back Policy – Launched
4. New Web Site – ‘Soft’ Launch
5. Introduction of Market Making
6. Introduction of Securities Lending
7. Revised Listing Requirements
8. Investor Clinics

Rules

The following rules, requirements and guidelines (now pending SEC approval) were approved by the Council:

- Securities Lending Guidelines
- Market Making Rules

¹⁴ At the time of this report, 10 companies were still on suspension.



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- Short Selling Rules
- Revised Listing Requirements
- Suspended Broker Dealer Rule

Market Segmentation

On November 1st, 2011, the NSE rebranded the exchange's markets and boards, and consolidated thirty-three (33) industry sectors into twelve (12) sectors that better reflect the Nigerian economy, and are better aligned with international industrial classifications. All listed companies were reclassified into the new sectors, removing restrictions that previously deterred prospective issuers. *Market Capitalization and Growth/Income* classifications of stocks were simultaneously implemented to increase understanding of listed companies, and to provide input into investor education efforts.

New Products

In 2011, the Exchange launched two (2) new products as a market development strategy to address low investor confidence and liquidity. The second closed-end fund, the *Sim Capital Alliance Value Fund*, was admitted to the Main Board in August, giving investors the opportunity to own shares in a collective investment scheme that holds equities and non-equities based assets, providing access to a specialized fund that trades on the floor of the exchange.

To close out the year on a high note, the first *ETF*, the *ABSA NewGold ETF*, was launched in December, providing investors direct access to an efficient and cost-effective way to invest in gold, and an opportunity to hedge currency.

Share Buy Back

The Exchange's share buy back guidelines, which comply with the *Companies and Allied Matters Act (CAMA)* and the *Investment Securities Act (ISA)*, have been approved by the regulator. Companies are now allowed to buy back up-to-15% of their shares which must be retired. Companies may not issue the same types of securities for a period of one year.



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Technology

In 2011, the Exchange performed an audit on its technology infrastructure – specifically network bandwidth, availability, up-time and processing capabilities – to identify opportunities for improving access to the NSE’s network. The Exchange successfully cut unnecessary wastage across the board, resulting in reduced latency, faster communication with trading systems, a higher level of reliability, improved processing times, and 99.9% availability of Web and mail services.

Stakeholder Engagement

In 2011, the Exchange ramped up stakeholder engagement efforts, by directly engaging with listed companies, major global institutional investors (local and foreign), business news outlets, regulators and market operators. The NSE introduced a formal bell-ringing program as a platform for celebrating capital market and listed company milestones, and the management team participated in several capital market/financial services seminars and workshops, including one-on-one meetings with institutional investors. These forums were (and continue to be) a platform to provide our stakeholders with additional insight into our market reform efforts. Few examples of such initiatives include:

- First-ever NSE-hosted interactive dinner event for CEOs of listed companies;
- ETF product training sessions to prepare market operators for the launch of the *ABSA NewGold ETF*;
- Opening bell ceremony with the President of the Federal Republic of Nigeria (represented by the Vice President) to commemorate 50 years of capital market regulation;
- Participation in the SEC-hosted *Capital Market Retreat* highlighting 2011 capital market challenges and the prospects for 2012; and
- First-ever journalist training program aimed at improving journalists’ awareness of capital market developments.



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VI. 2012 Outlook

Coming into 2012, the Nigerian Stock Exchange has emerged stronger, leaner and more focused. The Council and the management team will carry on with market reforms, to champion the acceleration of Nigeria's and Africa's economic development.

On the global stage, the Eurozone debt crisis remains a key risk to the world economy and concerns now surround sovereign debt sustainability. Market reforms abound, certain regions continue to experience political and economic challenges that impact the global markets. Reports point to OECD countries grappling with slower growth in 2012 – including slow growth in the US and a mild recession in the Eurozone – and to non-OECD countries (i.e., Africa and other emerging economies) sustaining world growth. Nigeria is seizing this opportunity.

One momentous change to fiscal policy, the deregulation of the downstream Oil & Gas sector presents opportunities for free-market transformation, which should translate into positive returns for Oil & Gas stocks. This government initiative could trigger the passage of a revised Petroleum Industry Bill (PIB), and overall, reforms in the Oil & Gas sector should lead to privatization and the potential listing of key organizations. The enhanced corporate governance standards, transparency, ownership diversification and disclosure requirements of the Exchange, would help drive value and efficiency in the industry. If the reform effort is properly managed and proceeds directed towards boosting the economy and savings, it should provide significant private sector incentives and additional funding for critical infrastructure projects – power plants, road and others – presenting additional opportunity for capital market participation.

These are undoubtedly exciting times for Nigeria's economy and the Nigerian capital market. Anticipation of continued reforms, initiatives that support economic growth, employment, a tighter budget for 2012, an operational sovereign wealth fund (managed by the *Nigeria Sovereign Investment Authority*), coupled with strong domestic demand, are important components for higher disposable income, lower cost of doing business, and lower exchange and interest rates.



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2012 Key Initiatives

In 2012, the NSE will continue evolving the market. The Exchange has identified key initiatives for the mid-to-long term which will guide priorities in the New Year.

Business Development

In 2011, the Exchange spent considerable resources building a pipeline of companies for listing on both its equities *Main Board* and *ASeM*. In 2012, we will work with issuers to list a number of these companies. While the NSE will target key industries that are crucial to the economy but under-represented in the market – Agriculture, Oil & Gas, Telecommunications and the Utilities sectors – we will continue to welcome companies in other sectors wishing to become quoted.

Value-Added Services

In 2012, the Exchange will begin offering listed companies value-added services aimed at ensuring all companies realize the value of a listing. All the value-added services are geared towards providing more transparency for investors, and helping companies maximize value for shareholders. These include services in the areas of:

- Corporate Governance,
- Investor Relations,
- Institutional Services,
- Analyst Coverage, and
- Corporate Access.

Five Products in Five Years

The NSE currently lists equities, bonds and ETFs, but the market is dominated by equities. In 2012, the Exchange will focus on building liquidity and depth in these product categories. Market structure enhancements, introduction of a viable bond trading platform, development of tradable indices, and the rollout of more ETFs are some of the product initiatives for 2012.



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Technology Upgrade

The NSE will begin development of its new trading platform and supporting technology infrastructure in 2012. Implementation of the *NASDAQ OMX X-stream* market management solution will improve operator and investor experiences in dealing with the Exchange, and provide the foundation for future market development.

In the first quarter of 2012, the Exchange will launch its low-latency, high-performance, high-capacity, low-cost broker virtual private network (VPN). This supports the NSE's strategy of enabling cost effective and efficient execution of trades from broker-dealer offices; it will form a major backbone of the ongoing technology transformation program.

In 2012, the Exchange will also define and implement approaches to monetizing its market data outputs, as well as the provision of other relevant high-quality services to the broker-dealer community and wider eco-system.

Advocacy

The Exchange will intensify advocacy efforts around public policy formulation that affects investors, listed companies, the broker-dealer community, and other stakeholders in the capital market at large. Increased collaboration with relevant government agencies will facilitate alignment between the needs of the capital market and existing (and future) policy that can propel market growth, especially in terms of local institutional participation and prospective issuer incentives.

Financial Literacy

As the pressure mounts for faster and deeper reforms, liquidity and local investor participation remain key areas of focus. With foreign investors carrying the market, volatility is a lingering concern. Despite the relatively low prices of shares, lack of investor participation continues to impede market recovery. The Exchange will embark on a massive investor education effort that is anchored on our investor education program. The first event is scheduled for February 2012 in Lagos, and



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subsequent events will be held around the country. The NSE will also push programs designed to increase 'financial literacy' among retail investors. Notwithstanding addressing investor trepidation, the Exchange will engage brokerage firms to pick up (and improve) the advisory services arms of their businesses, to align with international best practices.

Other – IFRS, Dematerialization, Demutualization

In 2012, the NSE will begin its implementation of *IFRS* accounting standards, and will support the efforts of listed companies and broker-dealer firms to meet the *SEC*'s directive for market-wide compliance in 2012.

The Exchange will accelerate its push for complete dematerialization of share certificates, by engaging the *SEC* and other market operators to conclude the market-advancing process. Achieving dematerialization and direct trade settlement into investor accounts will be key delivery focus areas.

And finally, the Exchange will continue with the demutualization efforts it began in 2011.

CONCLUSION

The *new* Nigerian Stock Exchange provides a vehicle for long-term 'saving' and 'borrowing', and hence, efficient use of financial resources. In terms of global exchange trends, this cyclical market cycle presents incredible opportunity for investors. As the reforms continue, we remain confident that by year's end, the market will be well on its way to recovering its vibrancy.