NIGERIA’S GROWTH PROSPECT
Navigating Challenges, Extracting Opportunities

Presented by
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Executive Director, Market Operations and Technology
for
Association of Asset Custodians

May 7, 2015
Agenda

1. The Nigerian Economy: A True Growth Story
2. Nigeria Growth Challenges
3. An Opportunity for Inclusive Growth
4. Capital Market as a Facilitator
5. NSE’s Vibrant Market
6. Enforcement at the Exchange
7. NSE Delivering on Its Strategy
8. What to Expect from the NSE
9. Outlook for Nigeria and the Capital Market
## Nigeria – Quick Overview

<table>
<thead>
<tr>
<th>Population (2013)</th>
<th>173.6m</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (2013)</td>
<td>$510,000b</td>
</tr>
<tr>
<td>% Real GDP Growth (2013)</td>
<td>7.41%</td>
</tr>
<tr>
<td>Inflation (Dec ‘14)</td>
<td>8.0%</td>
</tr>
<tr>
<td>External Reserves (Dec ‘14)</td>
<td>$36.96b</td>
</tr>
<tr>
<td>Industries</td>
<td>Agriculture, Real Estate, Manufacturing, Trade, ICT, Quarrying &amp; Mining, Services</td>
</tr>
<tr>
<td>Resources</td>
<td>Oil &amp; Gas, Coal, Forestry, Corp Production</td>
</tr>
</tbody>
</table>

### Main Stock Market (Q4 ‘14) - NSE

| Equities Mkt Cap | N11.49t | $61.72b |
| Total Mkt Cap    | N16.88t | $90.68b |

### Best Performing Sectors (Q2-Q3 ‘14)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Q2Q % growth</th>
<th>% of real GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>38.5</td>
<td>26.6</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Quarrying &amp; Mining</td>
<td>5.4</td>
<td>10.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Trade</td>
<td>3.7</td>
<td>16.0</td>
</tr>
</tbody>
</table>
Nigeria today... The largest economy in Africa and the 26th largest in the world, with GDP of $510 billion.

In stable GDP growth phase, Only 14% of GDP is from Resources, with retail and wholesale trade as the biggest drivers of GDP growth.

- Potential to achieve 7.1% annual GDP growth could make Nigeria a top-20 economy by 2030, with GDP of more than $1.6 trillion.

May 2015
Source: McKinsey Global Institute (MGI)
Nigeria has performance gaps relative to peer developing economies across major sectors. The country trails other countries on many performance metrics. In agriculture, for instance, yields are far below levels in benchmark countries, and Nigeria has one-third of India's power generating capacity per million people and less than one-tenth of China's.

### Key Metric

<table>
<thead>
<tr>
<th>Key Metric</th>
<th>Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
</tr>
<tr>
<td>Maize yield, tonnes per hectare</td>
<td>1.5 2.5 4.2 4.4 5.7</td>
</tr>
<tr>
<td><strong>Power</strong></td>
<td></td>
</tr>
<tr>
<td>Megawatt generation capacity per million people</td>
<td>58 175 592 880 670</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td></td>
</tr>
<tr>
<td>Kilometres of road per 100 square km</td>
<td>21 101 21 30 40</td>
</tr>
<tr>
<td>Kilometres of rail per 100 square km</td>
<td>0.4 1.9 0.4 1.8 0.2</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td></td>
</tr>
<tr>
<td>Houses per 100 people</td>
<td>7 19 30 17 30</td>
</tr>
</tbody>
</table>

Source: McKinsey Global Institute (MGI)
An Opportunity for Inclusive Growth

% Point Reduction in Poverty for every % of GDP growth, 1999–2010

- China and India’s poverty headcount ratios declined 78.3% and 33.81% respectively from 37.4% and 49.4% in 1996, to 9.2% and 32.7% in 2010, compared to a 9.75% decline to 62% for Nigeria in the same period.
- Other rapidly growing countries have successfully converted economic gains into lower poverty rates, Nigeria has a significant opportunity to do same.

<table>
<thead>
<tr>
<th>Country</th>
<th>Reduction in Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.52</td>
</tr>
<tr>
<td>Botswana</td>
<td>0.32</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.30</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.30</td>
</tr>
<tr>
<td>Ghana</td>
<td>0.25</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.15</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Source: McKinsey Global Institute (MGI)
Nigeria’s economy is relatively diversified when compared with other leading oil producers in developing and emerging economies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Resources</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuwait</td>
<td>39</td>
<td>61</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>Iran</td>
<td>74</td>
<td>26</td>
</tr>
<tr>
<td>Venezuela</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>Nigeria</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>Russia</td>
<td>89</td>
<td>11</td>
</tr>
<tr>
<td>Mexico</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>China</td>
<td>94</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>96</td>
<td>4</td>
</tr>
</tbody>
</table>

**Million Barrels of oil Per Day (2012)**

- Kuwait: 2.8
- Saudi Arabia: 11.7
- United Arab Emirates: 3.2
- Iran: 3.6
- Venezuela: 2.5
- Nigeria: 2.5
- Russia: 10.4
- Mexico: 3.0
- China: 4.4
- Brazil: 2.7

Source: McKinsey Global Institute (MGI)
**Nigerian GDP Breakdown Vs. Market Cap**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Post-Rebasing % of GDP</th>
<th>% of Equity Market Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>22%</td>
<td>1%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>17%</td>
<td>30%</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>ICT</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Construction/Real Estate</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>Industrial Goods</td>
<td>7%</td>
<td>31%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>3%</td>
<td>30%</td>
</tr>
<tr>
<td>All Other Sectors</td>
<td>15%</td>
<td>3%</td>
</tr>
</tbody>
</table>

- Market cap as % of GDP (PPP) from ~ 40% to ~ 20% post rebasing. South Africa at 160% of market cap-to-GDP.
- Immense gap in capital market as a reflection of the real economy.
New brooms in town

- Nigeria Lands, Housing and Urban Development (2010)
- Nigeria Agricultural Transformation Agenda (2011)
- Nigeria Railway Projects
- Nigeria Electricity Privatization Project (2013)

Change Ahead (2015)
The capital market, being an organized financial marketplace, is an agent of economic growth due to the role it plays in facilitating and mobilizing savings and investments.

- As a MINT (Mexico, Indonesia, Nigeria and Turkey) nation, Nigeria is slated to be one of the emerging market pacesetters after the BRICS (Brazil, Russia, India, China, South Africa).
- The capital market enables the creation of durable wealth with NSE listed companies providing quality employment for Nigeria’s working population.
- The capital market is a real driver of the economy; over 60% of federal domestic debt in 2014 were listed FGN bonds on the stock exchange (N4.8t).
Company Profile:

- The NSE is a self-regulatory organization (SRO), founded in 1960.
- The Exchange offers listing and trading services, licensing services, market data solutions, ancillary technology services, and more.
- The Exchange Services the largest economy in Africa, and is the first West African country to become a member of the World Federation of Exchanges (WFE).
- The NSE is championing the development of Africa’s financial markets.
• Equity market capitalization of N10.73 trillion ($53.86 billion); Fixed income capitalization of N5.52 trillion ($27.72 billion); 258 listed securities; and 3+ million investors as at the end of Q1 ‘15.

• The NSE is a full member of the World Federation of Exchanges (WFE), founding member of the African Securities Exchanges Association (ASEA), and an affiliate member of the International Organization of Securities Commissions (IOSCO).
The Nigerian capital market has undergone transformation of great proportions...

...Despite recent challenges, the market rallied for twelve (12) consecutive days in Q1 2015.
**Tradable Asset Classes**

**Equities**
- Market Cap: N11.5t ($69.3b)
- Total Symbols: 197
- Avg Daily Turnover: N5.4b ($29.0m)
- 12 industry sectors
- Market makers
- Common shares, preference shares, rights, investment trusts and closed-end funds

**ETPs**
- Market Cap: N5.4t ($29.0b)
- Symbols: 5
- Avg Daily Turnover: N1.3m ($7.1k)
- Liquidity providers
- ETFs and ETNs

**Market Indices**

**Benchmark Indices**
- **NSE 30**
- All Share Index (ASI)
- ASeM

**Sector Indices**
- NSE Banking
- NSE Consumer Goods
- NSE Industrial
- NSE Insurance
- NSE Oil & Gas

**Thematic Index**
- NSE Lotus Islamic

**Fixed Income**
- Market Cap: N5.4t ($29.0b)
- Total Symbols: 52
- Avg Daily Turnover: N1.4m ($7.5k)
- Fixed income market makers
- Corporate, state, municipal, federal government and supranational bonds

**Funds**
- Mutual funds (memorandum listings): 28

**Derivatives**
- Feasibility study completed
- Project to kick off in 2015
- CCP project team working on indicative CCP project plan

As of December 31, 2014.
## NSE Delivering on Its Strategy

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>• ASeM Re-Launch ✓</td>
<td>• Co-Hosting ✓</td>
<td>• Nigerian Depository Receipts (NDRs)</td>
</tr>
<tr>
<td>• X-Issuer Portal ✓</td>
<td>• Disaster Recovery Services ✓</td>
<td>• Competitive Fee Structure</td>
</tr>
<tr>
<td>• Delivery of X-Gen ✓</td>
<td>• Min. Standards for Market Operators ✓</td>
<td>• Premium Board</td>
</tr>
<tr>
<td>• Automation of Transaction Lifecycle ✓</td>
<td>• Direct Market Access (DMA) ✓</td>
<td>• Growth Board</td>
</tr>
<tr>
<td>• Derivatives Feasibility Study ✓</td>
<td>• Operation of the IPF ✓</td>
<td>• Data Center</td>
</tr>
<tr>
<td>• Transaction Cost Analysis ✓</td>
<td>• Risk-Based Supervision Framework ✓</td>
<td>• Market Surveillance Software and Tools</td>
</tr>
<tr>
<td>• Whistle Blowing Program ✓</td>
<td>•corp. Governance Rating Sys. (CGRS) ✓</td>
<td>• Project BROMIS</td>
</tr>
<tr>
<td></td>
<td>• Enhanced Rulebook ✓</td>
<td>• Rules Portal</td>
</tr>
</tbody>
</table>

May 2015

The Nigerian Stock Exchange

15
What to Expect from the NSE

1. Promote the Nigerian capital market as an African hub for growth companies

2. Attract more domestic flows into the market

3. Implement a more competitive price structure in conjunction with the Regulator and other market participants

4. Intensify efforts towards developing a more sustainable market.

NSE Strategic Themes for 2015
Outlook for Nigeria and the Capital Market

Diversified Economy
• Continued growth of the contribution of the ICT and Construction and Real estate sectors to Nigerian GDP.
• More growth expected in the Agricultural sector.

Improved Corporate Governance
• Adoption of the CGRS rating system, even among non listed companies.
• Effective trust enhancing regulation and enforcement processes and tools.
• Increased transparency at company board level.

Brand Stock Market
• The exchange of choice for Africa’s growth companies.
• Trading of highly liquid securities supported by a breadth of trading technology.
• Streamlined and standardized listings regulation processes.

Mega Cities
• Successful reform of the power sector.
• Sustained investments in infrastructure.
• Developed and thriving tourism sector.
The Exchange operates a zero-tolerance policy on market infractions, and in 2014, the number of dealing members suspended declined by ~50% from the previous year.

At the NSE, late submission of financial statements attract a fine of N100,000 ($644) per week. In 2014, through our market surveillance process, we effectively investigated and penalized an Issuer’s malpractice driving revenue in the segment up by 160% from the previous year.

The NSE operates an Investor Protection Fund (IPF) with a maximum payout of N400k per claim. So far, 343 claims have been verified under the rules of the fund.
## On the Road to an Emerging Market

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>FRONTIER MARKET</th>
<th>NSE’S CURRENT POSITION (as of Q1 2015)</th>
<th>EMERGING MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Openness to Foreign Ownership</td>
<td>At least some</td>
<td>Significant</td>
<td>Significant</td>
</tr>
<tr>
<td>Ease of Capital Inflow/Outflow</td>
<td>At least partial</td>
<td>Significant</td>
<td>Significant</td>
</tr>
<tr>
<td>Efficiency of the Operational Framework</td>
<td>Modest</td>
<td>Modest</td>
<td>Good &amp; Tested</td>
</tr>
<tr>
<td>Stability of Institutional Framework</td>
<td>Modest</td>
<td>Modest</td>
<td>Modest</td>
</tr>
<tr>
<td>No. of Cos. with Full Market Cap</td>
<td>2 / $516M</td>
<td>11 / $1,032M</td>
<td>3 / $1,032M</td>
</tr>
<tr>
<td>No. of Cos. with Float Market Cap</td>
<td>2 / $37M</td>
<td>13 / $516M*</td>
<td>3 / $516M</td>
</tr>
<tr>
<td>No. of Cos. with Security Liquidity</td>
<td>2 / 2.5% ATVR</td>
<td>13 / &gt;2.5% ATVR*</td>
<td>3 / 15% ATVR</td>
</tr>
<tr>
<td>Repatriation of Capital and Income</td>
<td>Modest</td>
<td>Significant</td>
<td>Significant</td>
</tr>
<tr>
<td>Foreign Ownership Restrictions</td>
<td>Modest</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Broker Competition To Ensure High Quality Services</td>
<td>Low</td>
<td>Low</td>
<td>Modest</td>
</tr>
</tbody>
</table>

- The NSE meets 7-of-the-10 criteria for an emerging mkt
- Currently 3m investor accounts (CSCS)
- 220+ broker dealer firms
- Approximately 190 listed companies
- ASI up 0.15%+ YTD
- 140m mobile phones
- 83m with Internet access
- 85m between ages of 15-64
- N4.6tr ($24.8b) in pension assets (Dec’14)
- N17.2tr ($86.7b) in exports, N7.23tr ($38.9b) in imports (2014)

*As of 2013

May 2015

The Nigerian Stock Exchange
Order Flow

The Nigerian Stock Exchange

Order Flow Diagram:
- Foreign Portfolio Investors
  - Order flow
  - Order confirmation
- Local Brokers
  - Confirm mandate execution
  - Confirm holding position
- Off-Shore Custodians
  - Order confirmation
  - Hold funds and assets in position
- Local Custodians
- Execute trades
- The NSE (Trading Platform)
- CSCS (Clearing, Settlement & Depository)
NSE’s Best in Class Technology Architecture

Market Data Feed

Trading Engine

Secure Network

CSD

Surveillance

Market Database

FIX

FIX

SDK

Traders/
Market Makers

Trader Workstation

MM/Broker OMS

Post Trade Management

New investor access channels
Financial Inclusion
Commitment to International Best Practices

High Performing Exchange

Int’l Best Practices

Effective Regulation

Sustainability

Financial Services Regulation Coordinating Committee (FSRCC) Nigeria

May 2015

The Nigerian Stock Exchange
With the spotlight brightly on Africa, if there is one destination to consider on the continent, that destination is NIGERIA.
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Questions & Answers

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