FMDQ SPOTLIGHT

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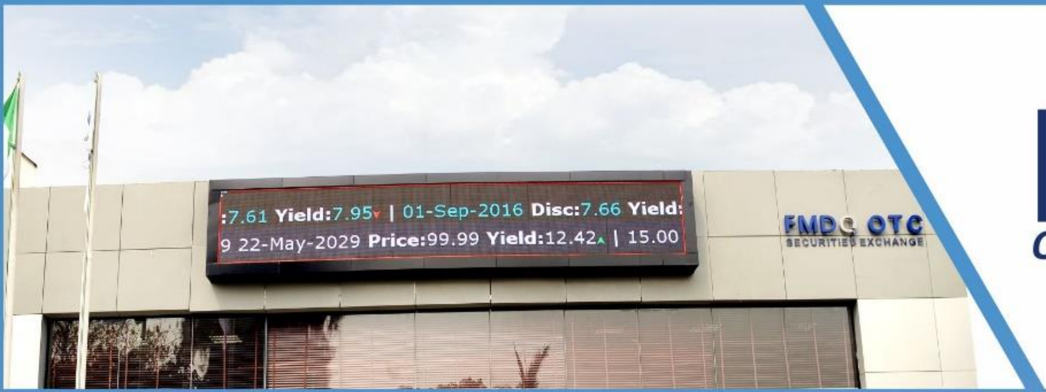
FMDQ
OTC Securities Exchange



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NEW STORIES

22nd OTC FX Futures Contract Matures and Settles on FMDQ

The Central Bank of Nigeria (CBN) has remained a strong force with supporting the operations of the Naira-settled OTC FX Futures market from inception, consistently offering quotes for the contracts over the past twenty-one (21) maturities to ensure sustainability of a market that has contributed phenomenally to the stability of the Nigerian FX market. With the maturity of the NGUS APR 25 2018 contract (notional amount, $660.49), the total value of contracts so far matured and settled on FMDQ, stands at $9.13bn. A total of c. $12.03bn worth of OTC FX Futures contracts have been traded so far.

As with the other maturities, and in line with standards stipulated in the FMDQ OTC FX Futures Market Operational Standards, the contract stopped trading eight (8) days before its maturity and was valued against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference Spot FX rate published on Wednesday, April 25, 2018. The associated clearing/settlement activities were effected accordingly.

This matured contract was replaced by the CBN with a new contract, NGUS APR 24 2019 for $1.00 billion at $/₦362.44. Quotes on the existing 1- to 11-month contracts were also updated and are published daily on FMDQ's website at www.fmdqotc.com, as well as on the FMDQ Twitter page @FMDQOTCExchange.

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FMDQ Admits the Pioneer Federal Government of Nigeria Roads Sukuk to its Platform

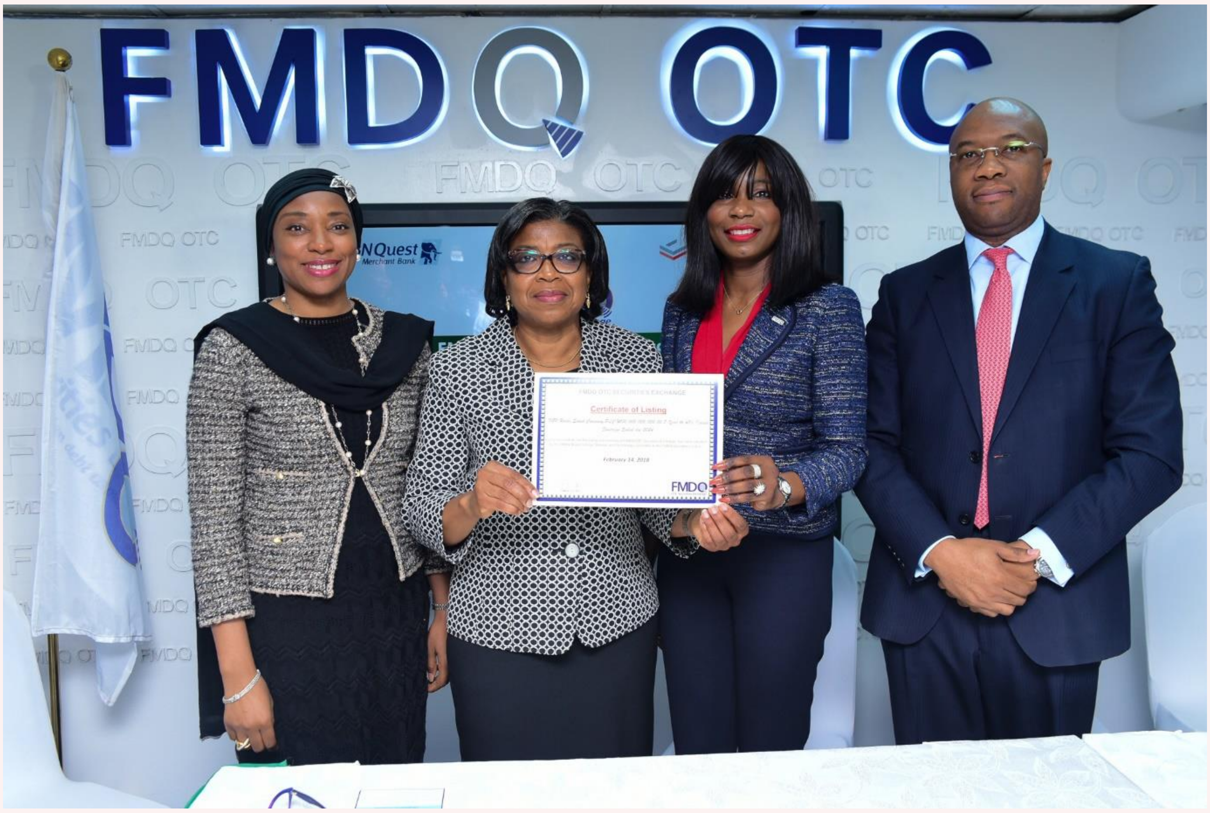
In acknowledging the crucial role infrastructure plays in enabling sustainable development and enhancing quality of life and business activities, the Federal Government of Nigeria (FGN), through the Ministry of Finance (MoF) and the Debt Management Office (DMO), again demonstrated its unrelenting commitment to the development of Nigeria's infrastructure sectors via the Nigerian debt capital markets (DCM), by listing the first sovereign Sukuk in the Nigerian DCM, the ₦100.00bn Federal Roads Sukuk Company 1 PLC 7-Year 16.47% Ijarah Sukuk due 2024 on FMDQ. The proceeds from the issuance of this Sukuk will be used to construct and rehabilitate ear-marked roads across the six (6) geopolitical zones of Nigeria. This is yet another commendable feat for the FGN, with the MoF and DMO, in their respective roles, championing development in the Nigerian DCM. Being the pioneer sovereign Sukuk, this issuance will set the pace for other arms of government and the private sector planning to issue non-interest-bearing securities.

To formally welcome the listing of the pioneer Sukuk to its platform, the OTC exchange held an impressive and memorable Ceremony to commemorate and honor the issuer, the FGN, represented by the Director-General of the DMO, Ms. Patience Oniha, along with key representatives from the DMO. Also present at the Ceremony were the co-sponsors to the issue on FMDQ and Registration Members of the OTC Exchange, FBNQuest Merchant Bank Limited, represented by its Managing Director/CEO, Mr. Kayode Akinkugbe and Lotus Financial Services Limited, represented by Mrs. Hajara Adeola, Managing Director/CEO, and other parties to the issue.

Welcoming the guests to the Ceremony, Mr. Emmanuel Etaderhi, Senior Vice President, Economic Development Division, FMDQ, congratulated the issuer and co-sponsors to the issue, stating that the issuance will further deepen the domestic DCM and increase the range of investible debt securities in the markets, invariably contributing to the development of the nation. He further commented that listing the Sukuk on FMDQ would rightly position the nation to continue to maximise its potential via the Nigerian DCM. He reiterated the OTC Exchange's commitment to continue to support the initiatives of the DMO towards the development of a highly liquid, deep and well-developed DCM in Nigeria.

Ms. Patience Oniha, Director-General of the DMO, during the issuer's special address, stated, "the DMO in pursuit of its objectives to diversify the sources of government funding and deepen the domestic capital market, successfully issued the debut ₦100.00bn 7-Year Sovereign Sukuk on September 26, 2017. The purpose of the Sukuk is to integrate ethical investors into the domestic securities market, establish benchmark for pricing of Sukuk by other domestic issuers and offer investors the opportunity to earn returns while contributing to the infrastructure development of the country.

The proceeds are being deployed for the construction and rehabilitation of twenty-five key economic roads projects across Nigeria's six geopolitical zones. The listing of the sovereign Sukuk on FMDQ will provide investors with the much needed transparent and efficient platform for price determination and liquidity."



Delivering the Registration Member (Listings) remarks, Mr. Kayode Akinkugbe, highlighted, "we are pleased to have advised the FGN on its ₦100.00bn debut Sukuk issuance, and despite fairly volatile market conditions, we leveraged FBNQuest Merchant Bank's superb distribution platform to successfully distribute about 65% of the offer. The ₦100.00bn Sukuk issuance is the first attempt by the Federal Government to raise funds through non-interest instrument in the capital markets for infrastructure development. This is also expected to deepen the Nigerian capital markets and diversify the government funding sources. Listing the FGN Sukuk on FMDQ, will provide investors with a transparent and efficient platform for price determination, liquidity and execution of trades."

Similarly, co-sponsor and Registration Member (Listings), Lotus Financial Services Limited, represented by Mrs. Hajara Adeola, during her remarks stated, "the FGN ₦100.00bn Sukuk has been instrumental in financing road projects, while ensuring socio-economic development and financial inclusion. With this listing, the Sukuk will trade like other FGN securities through registered brokers and dealers on the Exchanges. Investors who were unable to purchase Sukuk during the offer can now do so at the secondary market, while others who require liquidity can sell their Sukuk. We applaud the efforts of all the stakeholders including the FGN, MoF, Ministry of Power, Works and Housing, DMO, the transaction parties and the Exchanges for their tireless efforts to bring diversity to the Nigerian DCM."

Ms. Tumi Sekoni, Associate Executive Director, Capital Markets, FMDQ, whilst giving the closing remarks, applauded the issuer for achieving this milestone, stating that this was another highly laudable step by the Sovereign, through the DMO towards supporting the growth and development of the nation’s DCM. She also commended the co-sponsors to the issue and Registration Members of FMDQ for their concerted efforts towards ensuring the success of the issuance. According to Ms. Sekoni, the issuance will pave the way and encourage non-sovereign issuers to explore the issuance of non-interest-bearing securities, thereby adding to the depth and breadth of the domestic capital markets. She further commented that the listing of the pioneer sovereign Sukuk on FMDQ will serve as a benchmark for the pricing of subsequent Sukuk issuances. She highlighted that the OTC Exchange, recognising the extraordinary opportunities non-interest finance provides in the DCM, will remain steadfast in its commitment towards the development of all facets of the Nigerian DCM, and by extension, the economy at large.”

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Coronation Merchant Bank Limited Registers ₦100.00 billion Commercial Paper Programme on FMDQ

The Board Listings, Markets and Technology Committee of FMDQ approved the Registration of the Coronation Merchant Bank Limited ₦100.00 billion Commercial Paper (CP) Programme on the platform of the OTC Exchange in April 2018. This CP Programme registration positions Coronation Merchant Bank Limited to raise finance for a tenor up to two-hundred and seventy (270) days from the debt market at a time in the future it deems suitable.

The short-term finance will be raised via CP issues within the approved CP Programme limit and quoted on FMDQ for visibility of the issue and issuer, and the desired transparency for investors. The OTC Exchange avails a unique and credible platform for the registration, listing, quotation, trading and valuation of debt securities. CPs quoted on FMDQ benefit from the commendable and considerably efficient CP registration process, in addition to continuous provision of invaluable information and proce formation as part of the OTC Exchange's commitment to organise, govern and enforce transparency in the Nigerian fixed income market space.

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)), Commercial Papers and Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). These figures exclude primary market auctions in T.bills and Bonds.

The data, collated from the weekly trade data submissions by FMDQ Dealing Member (Banks), represents trades executed amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ OTC Market Turnover (January - March 2018)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	9,693,286	28,858
Foreign Exchange Derivatives	4,975,079	14,826
Treasury Bills	15,765,236	46,931
FGN Bonds	2,580,662	7,688
Other Bonds*	41,569	124
Eurobonds	14,248	42
Repurchase Agreements/Buy-Backs	6,509,562	19,386
Unsecured Placements/Takings	350,284	1,043
Money Market Derivatives	-	-
Commercial Papers	-	-
Total	**39,929,926**	**118,898**

No. of Business Days	63	63
Average Daily Turnover	**633,808**	**1,887**

Average YTD $/₦ @ 336.08
mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks) (DMBs)
Source: FMDQ Data Portal as @ April 6, 2018; Figures reported by DMBs on a week-ending basis.

FMDQ OTC Securities Exchange

The total turnover for the January to March 2018 period amounted to ₦39.93trn. Trading activities in T.bills contributed the largest to overall turnover, accounting for 39.48% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 36.74% whilst Repurchase Agreements (Repos)/Buy-Backs product categories (Repos/Buy-backs) accounted for 16.30%, and Bonds and Unsecured Placements & Takings representing 6.60% and 0.88% respectively, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - March 2018)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ Markets

RANK	DEALING MEMBER (BANKS)
1	STANBIC IBTC BANK PLC
2	ACCESS BANK PLC
3	UNITED BANK FOR AFRICA PLC
4	STANDARD CHARTERED BANK NIGERIA LIMITED
5	ECOBANK NIGERIA LIMITED
6	UNION BANK OF NIGERIA PLC
7	ZENITH BANK PLC
8	FIRST BANK OF NIGERIA LIMITED
9	CITIBANK NIGERIA LIMITED
10	CORONATION MERCHANT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 75.08% (₦29.98trn) of the overall turnover in the market, with the top three (3) accounting for 59.69% (₦17.89trn) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

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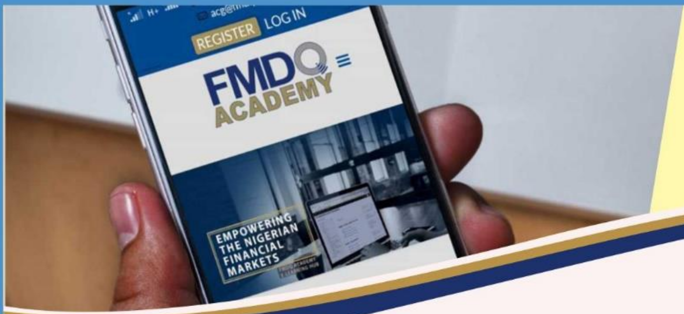

Introduction to Asset-Backed Securities

The March 2018 edition of FMDQ Spotlight explored the fundamentals of Securitisation, the pooling and repackaging of similar financial assets, which on their own may be illiquid (i.e. difficult to trade) into a new (consolidated) financial security, which is subsequently sold to investors. In essence, assets with a stable cash flow such as corporate and sovereign loans, mortgage loans, consumer credit, project finance, lease/trade receivables, individualised lending agreements etc., can be securitised. Securitised assets are generally classified based on the underlying components. These are generally categorised into Asset-Backed Securities (ABS) and Mortgage-backed Securities (MBS). This edition of FMDQ Learning focuses on the fundamentals of ABS, including their features, credit enhancements and benefits.

Overview

ABS are investible securities, backed by financial assets which are not mortgage-based but typically receivables-based. Examples of assets that can be used to create ABS include, but not limited to, credit card receivables, bank loans (business, automobile etc.) and leases. In creating ABS, financial institutions that originate loans (such as banks, credit card providers, automobile finance companies and consumer finance companies) convert their pools of loan receivables into credit-enhanced financial securities which are sold to investors in the debt capital markets. Technically, these loan originators are generating more cash for their businesses while providing investors the opportunity to invest in a wide variety of income-generating assets.

As an example, consider a financial institution, 'XYZ PLC', that provides automobile loans to middle and high-income clients. Assume that these automobile loans have a maximum maturity of twelve (12) months within which the borrower is expected to repay the principal amount and interest. XYZ PLC can pool its bouquet of automobile loans and sell this pool as a financial security to an investor, "ABC Investments", in exchange for an agreed cash sum. Subsequently, XYZ PLC will transfer the automobile loans from its balance sheet and same will be featured on ABC Investments' balance sheet. Based on a given criteria, for instance, perceived default risk, ABC Investments can group the automobile loans into tranches. These tranches (usually senior and subordinated tranches) are offered to investors as "Asset-Backed Securities". Subsequently, investors in these securities receive periodic principal and interest payments on their ABS investments, from the loan repayments which accrue to ABC Investments from the initial borrowers. Where the ABS satisfy all requirements of the capital market regulator, it may be listed on an organised securities exchange such as FMDQ, where it can be traded.

Features of ABS

ABS are typically structured such that the loans, including the rights attached to their collateral, are sold by the loan originator to the issuer; thus, ensuring that in the event of a default, the ABS investors are protected, with the issuer being able to exercise rights to the underlying loan collateral. In addition, owing to its credit enhancement feature (as mortgage-backed securities generally have higher credit quality), ABS are an attractive investment asset class which allow/provide investors additional default risk protection.

Simply put, credit enhancement implies an improvement in the credit quality of a security, to rate above that of the sponsor (i.e. the asset/loan originator), or the underlying asset pool. Enhancements can be either internal or external, depending on the unique characteristics of the asset pool and/or issuer's preferences. Some of the internal and external enhancements which are often associated with ABS are summarised in the table below:

Enhancement Type		Description
Internal Credit Enhancement	Over-collateralisation	This occurs when the face value of the ABS collateral far exceeds that of the ABS. In essence, the loan collateral more than offsets the ABS in the event of a default, hence providing extra comfort to the investors.
	Senior/Subordinate Structure	This involves the classification of the asset pool into senior and subordinated tranches (also referred to as 'A' and 'B' tranches) to create an additional credit enhancement. The subordinated ABS tranche consists of those assets with lower credit quality and higher yield. They act as a protective layer for the senior tranche which consists of the assets that have high credit quality and lower yield; such that If a loan in the pool defaults, any loss thus incurred is absorbed by the subordinated tranche before the senior tranche.
	Surety Bonds	A surety bond is an insurance policy provided by a credit-rated and regulated insurance company to reimburse the issuer of the ABS for any losses incurred from a loan default. Essentially, the insurance company guarantees the timely payments of interests and principal on the ABS.
		This entails guarantees from a third-party, such as the parent company of an issuer, a commercial bank or an insurance company, with a promise to reimburse the ABS issuer for losses up to a stated maximum amount. For instance, an arrangement

External Credit Enhancement	Third-Party or Parental Guarantees	could be reached with a commercial bank to provide stand-by cash to reimburse the ABS issuer of any losses incurred on the underlying assets, up to the required/specified credit-enhancement amount.
	Cash Collateral Account (CCA)	In CCA, the ABS issuer approaches a commercial bank to borrow the required credit-enhancement amount. The issuer then invests same in the highest-rated short-term (say one-month) commercial paper or similar security, which is intended to provide stand-by liquidity cover for the ABS investors should a default crystallise.

Investors in ABS are mostly institutional investors with the required capital and technical capacity. These investors are expected to analyse the 'expected' cash flows from ABS obligations for valuation purposes, rather than rely only on the current market prices, the reputation of a sponsor, or the presence of an investment grade rating.

Benefits of ABS

ABS offer benefits to both issuers and investors, with ABS enabling issuers securitise assets, which are usually illiquid, providing them with an alternative source of funding; freeing up capital when assets are removed from companies' balance sheets; lowering a company's weighted average cost of capital; and facilitating the issuance of higher rated debt by issuers with credit ratings below investment grade. The unique benefits of ABS to investors, on the other hand, include, but are not limited to:

1. **Attractive yields**: Owing to the associated credit risk, ABS offer attractive yields relative to other fixed income securities with comparable maturities and credit quality
2. **High credit quality:** ABS are secured by collateral and credit enhancements using internal structural features and/or external protections, to ensure that payment obligations to investors are met, thereby reducing the credit risk of an ABS investment considerably
3. **Investment diversification**: The pool of ABS is often constituted from different sectors and/or business interests - from credit card receivables to automobile loans, equipment leases to small business loans, etc. – thus, creating a diverse pool of securities and effectively spreading the risks involved in investing in any single security. Similarly, ABS offer investors the ability to diversify their fixed income portfolios away from more traditional concentrations in money market, government and corporate debt securities.
4. **Predictable cash flow:** The nature of most classes of ABS is such that investors can buy these securities with confidence that the timing of payments (interests and principal) will occur as expected

ABS, in the global markets, have become a well-established mechanism used by some corporate institutions for their funding requirements and investors are always in search of alternative investment products that offer higher risk-adjusted return, especially in an environment with declining yields. ABS potentially offer such alternative investments with relatively attractive yields compared to other conventional fixed income securities. Whilst the default risk inherent in ABS are considerably compressed by the credit enhancements typically built into the transaction, it is important for investors to conduct thorough analysis on the underlying pool of assets, the sponsor and the structure of the ABS securitisation transaction before investing in these. Investors should also be aware that with ABS, their investments also exposed to other risks such as interest rate, pre-payment and early amortisation risks, and as a result, should include additional safeguards to mitigate or reduce these risks when investing in ABS.

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