ACCESS
ECONOMIC QUARTERLY
FULL YEAR EDITION 2014

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IN THIS EDITION

ACCESS ECONOMIC QUARTERLY
FULL YEAR EDITION ACCESS QUARTERLY 2014

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1.0

GLOBAL ECONOMY

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Seven years after the onset of the global economic and financial crisis, the world economy is still struggling to gain momentum. The global economy ended the year 2014 in a fragile state, encumbered by the lingering effects of the 2008 financial crisis and grappling with a host of new challenges.

Global growth in 2014, at around 2.6%, remained uneven; while the U.S. economy advanced, the Eurozone remained weak, and China slowed. A number of key influences helped shape the global economy in 2014, notably; crumbling oil prices, an intensifying disinflationary trend and increasing divergence in monetary policies of the major central banks.

The rapid and steep decline in crude oil prices in the second half of the year, triggered by a growing supply-demand mismatch in the oil market and a strengthening United States dollar, bred mixed fortunes for oil importers and exporters. While exporters groaned under fiscal imbalance pressures, oil importers enjoyed a windfall of decreased costs and increased real income.

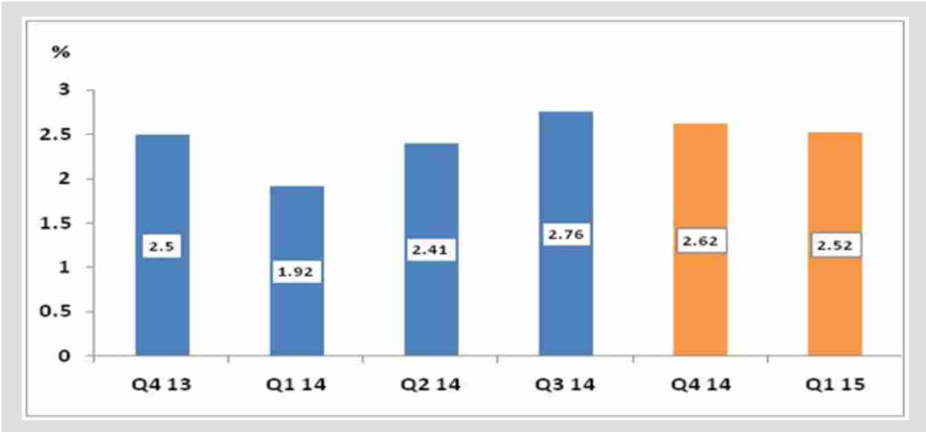
Benign oil prices have amplified the disinflationary trend in the global economy. Inflationary pressure continued to moderate in almost all the major developed economies with headline Consumer Price Inflation (CPI) readings retreating. The moderating trend in inflation in both developed and emerging markets is expected to continue during the months ahead given the outlook for oil prices.

Dissonance among major central banks became more prominent in 2014 and looks set to persist in 2015. This was exemplified in late October, when the Federal Reserve announced it was phasing out its unconventional monetary stimulus (third round of bond buying) —and, two days later, the Bank of Japan said it was ramping up its own bond purchases. Only recently, after months of speculation, the ECB announced its own Quantitative Easing program.

In its latest economic outlook, the IMF again scaled back its forecast, projecting growth of only 3.0% in 2015. This revision, underpinned by concerns about the strength and durability of global demand, represents the biggest downgrade to the IMF's forecast in three years, and casts a pall over global economic outlook.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

GLOBAL GDP GROWTH



Source:Bloomberg

1.1 UNITED STATES

Broad macroeconomic conditions in the US strengthened over the course of 2014, after an unexpectedly slow start due almost entirely to adverse weather. Gross domestic product expanded at a seasonally adjusted annual rate of 2.6% in the fourth quarter of 2014, a deceleration from a robust 5% pace in the third quarter and 4.6% in the second quarter. For all of 2014, the economy grew 2.4%, up from 2.2% in 2013.

Consumer spending, a major driver of the continuing recovery in the US economy, accelerated in 2014 buoyed by rising incomes and falling gasoline prices. In the fourth quarter, consumer spending, which accounts for 70% of economic activity, grew at 4.3%, up from 3.2% in the third quarter. It was the strongest gain for consumer spending since the first quarter of 2006.

Further evidence of underlying strength in the economy was reflected in labour market improvements. The jobless rate dipped below 6% as hiring picked up at a robust tempo. Following 353,000 job gains in November, the labour market added 252,000 jobs in December, taking the twelve-month moving average in 2014 to a robust 246,000 jobs.

The improving fundamentals also raised consumer confidence about the economy. The University of Michigan consumer sentiment index ticked up to 93.6 in December from November's reading of 88.8, its

best reading in nearly eight years, signalling growing consumer optimism after the downturn. Plunging oil prices are a big reason for the sanguine outlook of the US consumers.
Other pointers to vigour in the economy include strengthening manufacturing, improving housing market, expanding auto sales, and equities. The upbeat assessment of economic conditions in the US gave the Federal Reserve good reason to conclude its monthly asset-purchase campaign in October. The central bank however pledged to keep short-term interest rates near zero for a "considerable time." Signs of growing recovery were however tempered by evidence of lacklustre behaviour on a host of other indicators. Wage gains remained muted and millions of Americans dropped out of the labour force after searching unsuccessfully for work for 12 months or more. Inflation remains low and has sagged lower in recent months, largely because of falling oil prices. Low inflation and sagging commodities prices are a possible signal of weak underlying demand, particularly abroad.

Overall, the U.S. economic recovery is expected to accelerate in 2015, building on a self-reinforcing cycle of strengthening consumer spending, increased hiring, and expanded business investment.

1.2 EURO AREA

2014 marked yet another disappointing year for the Eurozone as it remained stuck in its low-growth, low-inflation trajectory.

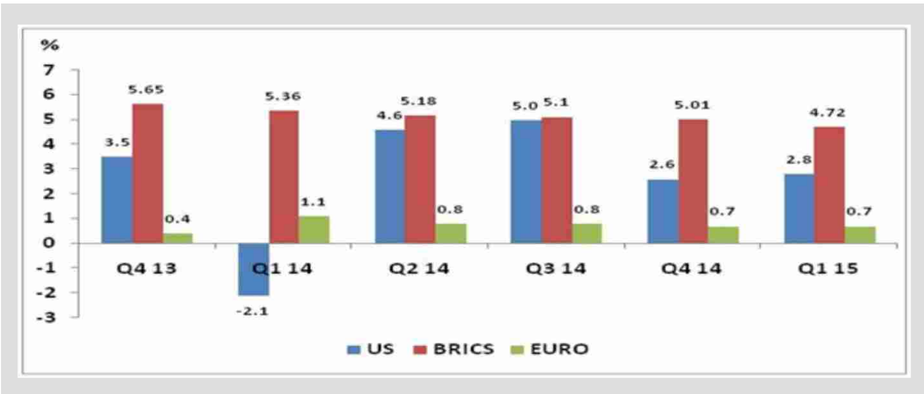
Growth-wise, the 18-member bloc logged growth rates of 1.1%, 0.8% and 0.8% in the first, second and third quarters, respectively. Unemployment remained stubbornly high at 11.4% in December, though marginally lower than 11.5% as at November. Inflation dropped deeper into negative territory in January 2015 as plummeting oil prices dragged fuel and energy prices lower. The inflation rate fell to minus 0.6% in January 2015, down from minus 0.2% in December.

In a bid to kick-start the economy and stave off the threat of deflation, the European Central Bank (ECB) unleashed a torrent of measures, namely interest rate cuts and other stimulus initiatives. Specifically, the central bank cut its benchmark interest rate to 0.05% in September following earlier cuts in June to 0.15%. The interest rate on the deposit facility was also further decreased by 10 basis points to -0.20%. The bank also made unprecedented amounts of cheap loans available to banks via its longer-term refinancing operation (LTRO) and targeted longer-term refinancing operation (TLTRO) programmes, and embarked on asset purchase programmes to pump liquidity into the financial system.

The Asset Backed Securities (ABS) and covered bond (CB) purchases, together with the ECB's previously announced targeted longer term refinancing operations (TLTRO) programmes underperformed. Purchases by the central bank asset-backed securities (ABS) scheme as at the end of December stood at just under a paltry €1 billion. For the TLTRO, out of a total eligible fund of €400 billion, total loan-take up by banks in both TLTRO operations amounted to €212 billion. The poor take-up for both the bond-purchase and the TLTRO programmes cast doubts on the ECB's stated desire of boosting its balance sheet by €1 trillion and spurred the decision to announce the commencement of full Quantitative Easing (QE) at its January meeting. The ECB plans to purchase sovereign debt from March 2015 until September 2016, releasing €60 billion a month into the economy.

While, there are some incipient signs that economic growth in the euro area may be starting to strengthen, the pace of structural reforms will be critical to how sustainable this growth will be.

GDP Growth Rate & Forecasts – Regional Comparison



Source:Bloomberg

GLOBAL ECONOMY
BRICS

The BRICS economies encountered speed bumps in 2014, as growth was constrained by a combination of adverse global developments and structural challenges within their respective economies.

China

China's GDP rose 7.4% in 2014, its slowest rate in a quarter-century and below the official growth target of 7.5%. The slowdown comes as leaders attempt to steer China toward growth based on domestic consumption instead of over-reliance on trade and investment. After years of extraordinary rates of economic growth, Chinese officials including President Xi Jinping and Premier Li Keqiang have tried to lower expectations by emphasizing that the economy has entered a "new normal."

China's rebalancing drive is most evident in the export sector. Export growth has slowed from its 2001-2008 average of 29% annually to below 10%, making foreign demand a far less critical engine of growth. In addition, manufacturing employment and output, as a share of the total, began to decline in 2013. In the first half of 2014, services accounted for more than half of total economic growth.

Fixed-asset investment, a central driving force of the Chinese economy since the 2008 eruption of the global financial crisis, fell to a 13-year low in October. Meanwhile, consumption drove 51.2% of growth in 2014, up 3 percentage points from a year earlier. Services, which are more closely correlated with consumption than with investment, grew to account for 48.2% of the economy last year, up 1.3 percentage points from 2013.

While transitioning to the "new normal," Beijing has signaled its commitment to sustaining a certain level of growth. Officials have however clarified that the growth target for 2015 set at 7.5% is a "soft" target, meaning that a dip slightly below the magic number is acceptable. Nonetheless, the surprise rate cut in November 2014, has broadened expectations China will provide further economic stimulus in 2015 to prevent growth from fading too fast.

Consumption is expected to receive a boost from the slump in global oil prices. It is however unlikely to fully offset the slowdown of investment in areas already suffering from overcapacity such as property and heavy industry.

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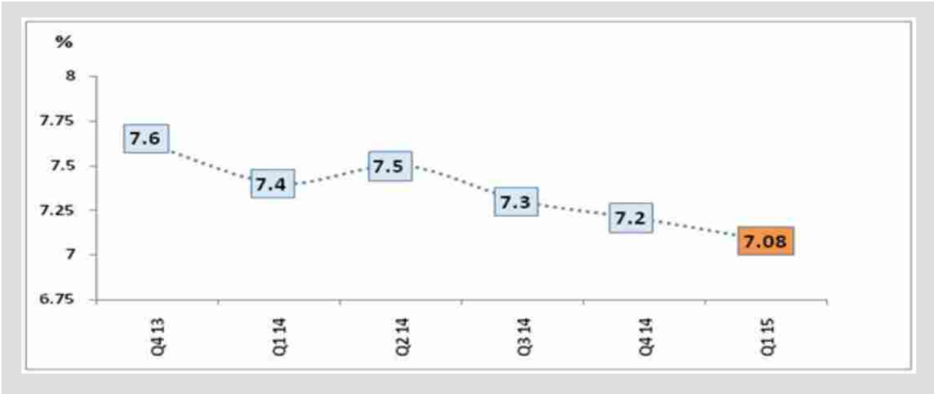
GDP Growth Rate & Forecast - China



Source:Bloomberg

India

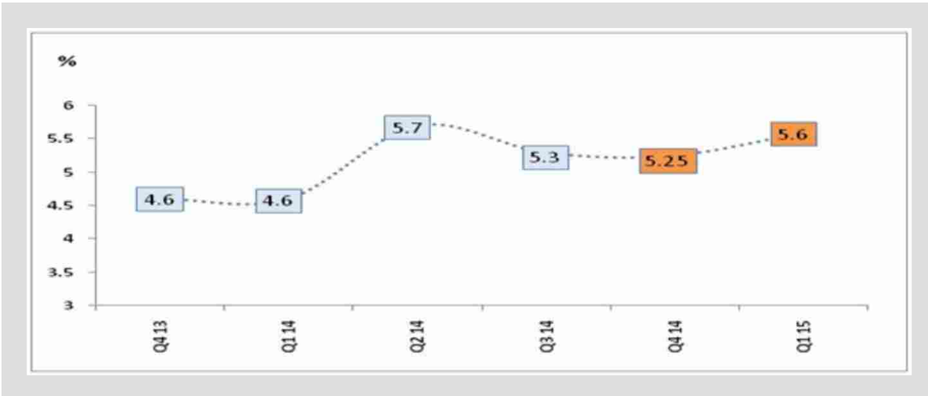
Gross domestic product grew by 5.3% during the third quarter of India's fiscal year, down from a 5.7% expansion in the previous quarter.

The decrease in third quarter GDP was led by a sharp slowdown in the manufacturing sector. India's manufacturing output grew by just 0.1% as compared to 3.5% in the previous quarter.
The agriculture sector, which accounts for 14% of India's GDP, propelled GDP, growing 3.2% in the quarter ended September, compared with 3.8% in previous quarter.
Consumer inflation, slowed to 5.2% in December from a peak of over 11% in 2013, helped by improved food supplies and an over 50% tumble in oil prices since June.

The slowdown in growth will underscore the urgency of reforms. Broad-based reforms, required to kick start the investment cycle, have been stalled by political gridlock. Prime Minister Narendra Modi has resorted to the use of ordinances to push through reforms. In late December, he used executive fiat for coal sector reforms, to amend the land acquisition laws, and to hike the foreign direct investment (FDI) ceiling in insurance from 26% to 49%. In January, it was the turn of the mining and minerals sector.

On a positive note, India – a major oil importer – is a beneficiary of the recent weakening oil prices, which will cut its current account deficit, reduce inflation and make it easier for the country to meet its budget deficit target.

Growth Rate & Forecast - India



Source:Bloomberg

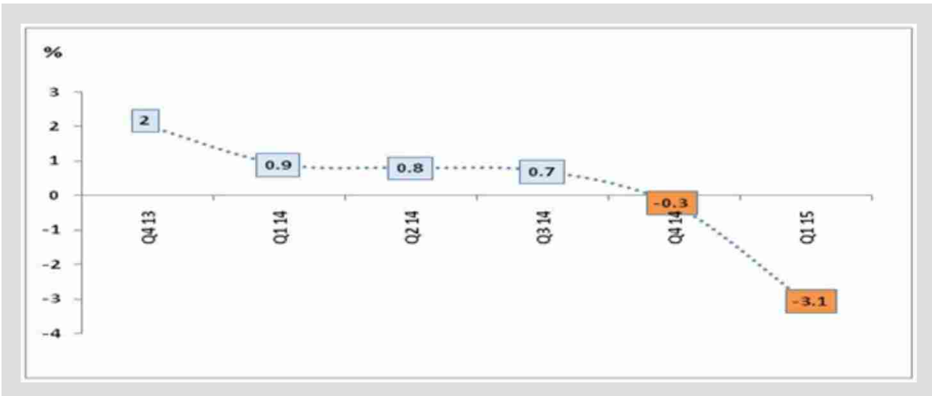
Russia

Tumbling oil prices, coupled with western sanctions over Russia's support for separatists in eastern Ukraine hit the Russia's oil-backed, consumption-led economy hard in 2014.
Russia's gross domestic product grew 0.7% in the third quarter, year-on-year, after expanding 0.8% in the previous three months.
The Ruble, which closely tracks oil prices, plummeted by more than 50% in 2014 as oil prices continued to weaken. In response to the depreciation of the Ruble, the central bank announced a drastic 6.5 percentage point rise in Russian interest rates to 17% in December.
The drop in Ruble value to record lows last year exacerbated inflationary pressure that was already on the uptick following the Russian government's restrictions on food imports in retaliation to U.S. and European sanctions over the conflict in Ukraine. Annualized inflation rose 11.4% in December compared to 9.1% in November and 6.5% a year ago.

Russia's international reserves, mostly comprising gold and foreign currency, plunged by $124.135 billion or 24.4% in 2014 to $385.46 billion as of January 1, 2015, largely due to the central banks' draw downs aimed at supporting the currency.
In January 2015, US-based credit rating agency Standard & Poor's, downgraded Russia's sovereign rating to BB+, leaving it below

investment grade for the first time in a decade. Coupled with additional downward pressure on Russia's foreign exchange reserves and more capital flight, the downgrade by S & P will force Russian companies to increasingly rely on the domestic banking market for credit, given an inability to roll-over existing facilities and service debts on pre-existing US dollar-denominated liabilities due to sanctions.
The debacle in the Crimea and the Russian government's unwillingness to soften its stance toward Ukraine could elicit more sanctions and further imperil the economy.

Growth Rate & Forecast chart for Russia



Source:Bloomberg

Brazil

Brazil's economy continued to show signs of difficulty, as industrial production declined yet again in December. Industrial production fell 2.8% year-on-year, while November figure was revised downwards to a 6.2% from an originally reported 5.8% drop

The Brazilian Gross Domestic Product (GDP) grew by a paltry 0.1% during the third quarter of 2014, lifting the country from a technical recession following a 0.6% and 0.2% contraction in the second and first quarters respectively.
While weakness in the Brazilian economy was broad-based, industrial output was the main factor for the increase in GDP in the third quarter, closely followed by the service sector which grew 0.5%. Agricultural output contracted 1.9% and family consumption fell 1.3%.

Brazil's annual inflation ended 2014 at 6.41%, higher than the 5.91% registered in the prior year but below the top end of the

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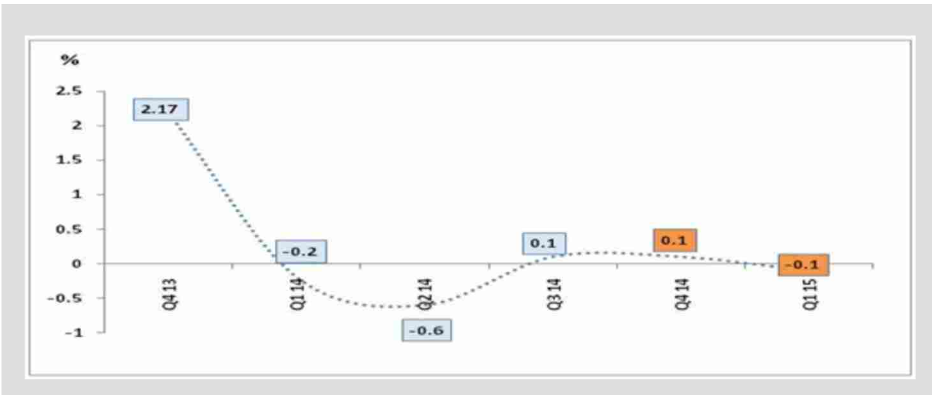
government's target of 4.5% with a tolerance margin of two percentage points. A combination of factors helped push up prices, among which include an increase in government spending, as the government tried to pump up a weakening economy that was flat in 2014 and is forecast to expand just 0.3% in 2015, according to the IMF.

In response to rising prices, the Central Bank in January 2015 raised the benchmark interest rate by half a percentage point to 12.25% after an increase of the same size in December 2014.
Standard & Poor's in March last year downgraded Brazil's credit rating to one level above junk, citing the economic slowdown and deteriorating fiscal accounts. Moody's Investors Service in September lowered its outlook on the Baa2 rating to negative. That is the second-lowest investment grade.
It remains to be seen if the World Cup gave the economy a boost. While it attracted more than a million visitors to the country boosting hotel, restaurant, retail, transportation and entertainment sectors; it also brought municipal holidays, worker absenteeism and a virtual standstill in many manufacturing and mining sectors. Brazil is expected to struggle in the light of the continuing slowdown in commodity prices.

GDP Growth Rate & Forecast – Brazil



Source:Bloomberg

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BRICS

South Africa

South Africa's real gross domestic product (GDP) advanced 1.4% year-on-year in the third quarter of 2014 compared with a revised 0.5% expansion in Q2 2014 and a decline of -1.6% in Q1 2014. Growth was mainly driven by the services sector while mining and manufacturing shrank.

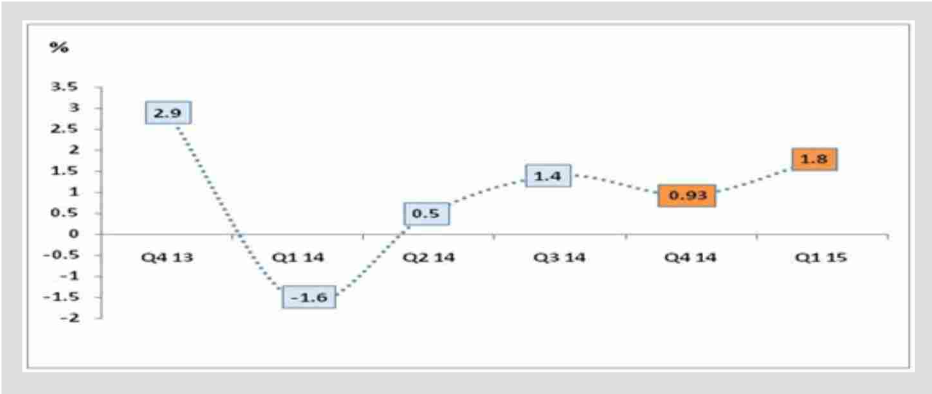
Year-on-year, general government services grew by 3.2%. Finance, real estate and business services and the transport, storage and communication industry each increased by 2.2%. Agriculture, forestry and fishing went up by 8.9%.
In contrast, the mining sector contracted 2.9%; electricity, gas and water industry decreased by 1.8% and manufacturing production contracted by 0.8%.

CPI inflation resumed its downward trajectory in December, slowing to 5.3% y-o-y from 5.8% y-o-y in November. For the 2014 period, CPI inflation averaged 6.1%. The moderation in the rate of inflation can be ascribed primarily to slower food price inflation and the contraction in fuel price inflation. Food price growth slowed to 7.4% y-o-y in November from rates above 9.0% y-o-y mid-2014, in part owing to easing price pressures earlier in the supply chain. Petrol price declined 5.5% y-o-y in November, aided by drop in global oil price.
Moody's Investors Service (Moody's), in November, downgraded South Africa's investment grade credit ratings to Baa2 from Baa1 and adjusted the outlook to stable from negative. In June, Standard & Poor's Ratings Services cut South Africa's debt one notch to BBB-, just above so-called junk-bond status, and Fitch Ratings lowered the outlook on its BBB rating to negative.

The South African economy was beset by several headwinds in 2014 which constrained growth. Among others, weak external demand and soft commodity prices contributed to South Africa's economic underperformance. Lost workdays due to the platinum miners' strike also took a toll on the economy.

The outlook for 2015 is rosier, economic recovery is expected to gain moderate momentum as production in mining and manufacturing returns to normal. Consumer confidence is expected to gradually improve off a low base. Falling oil prices will offer further tailwinds.

Growth Rate & Forecast chart for South Africa



Source:Bloomberg

access

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2.0

THE NIGERIAN ECONOMY

Below is a snapshot of the domestic economy in 2014.

2.1 GDP GROWTH

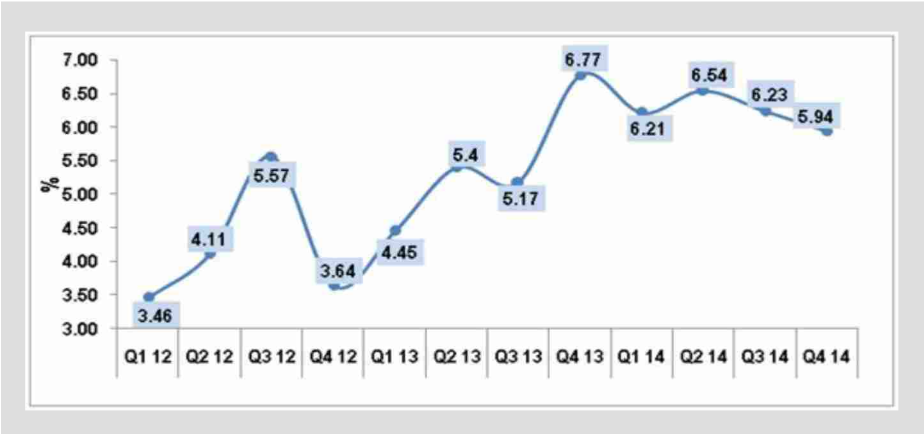
Nigeria now has the largest economy on the continent following the release of much-anticipated rebased GDP statistics. The National Bureau of Statistics (NBS) changed the base year for calculating Nigeria's GDP to 2010 from 1990 to reflect changes in the economy of Africa's most populous nation, and more accurately assess the size of its current output. The NBS now estimates Nigeria's GDP at N80.1trillion in 2013 compared to N42.4 trillion prior to the rebasing. The number of economic activities surveyed for the purposes of the calculation of GDP increased to 46 from 33 previously. The rebasing exercise has also revealed that the Nigerian economy is much better diversified than was previously thought. Better coverage (including the informal sector), the inclusion of new industries, and methodological improvements led to significant increases in the contribution of the services sector, manufacturing, and telecommunications. On the other hand, value added by the agricultural and the oil & gas sectors declined notably relative to GDP.

The agricultural sector contributed around 35% to GDP prior to rebasing, but is now only estimated to have accounted for 21% of GDP in 2013. Meanwhile, the services sector's contribution increased from 29% of GDP to 53% of GDP, with the telecommunications sector rising from 0.9% of GDP to 8.3% of GDP. The manufacturing sector is now estimated to contribute 9% to GDP, compared to just 1.9% previously, while the oil & gas sector's contribution has been revised down to 12.9% from 32.4% before rebasing. The NBS plans to rebase GDP figures every five years from now on to ensure that estimates remain up-to-date.

The most important benefit of the rebasing exercise is that it provides a more accurate estimate of the structure and value of goods produced in Nigeria. The fact that many industries are larger than previously thought may pique investors' interest, while the psychological boost of overtaking South Africa could give the country more influence on the world stage. Even so, Nigeria remains far behind South Africa when it comes to average wealth levels, quality of infrastructure, governance, and financial market development. And even though Nigeria's GDP per capita is now estimated at close to $3,000 from $1,700 previously, poverty, inequality, security risk, and the inability of a large proportion of the population to benefit from economic growth, will remain key concerns.

The NBS estimates GDP for the 2014 came in at 6.23%. Real GDP growth rate moderated in Q3 compared to the previous quarter, as another contraction in the oil sector more than offset stronger non-oil growth. According to the NBS, real GDP at factor cost increased by 6.23% y-o-y in the third quarter of 2014. While this was lower than the rate of 6.54% y-o-y achieved in Q2, it was higher than the 5.17% y-o-y registered in the corresponding period of 2013. In the second quarter of 2014, the crude oil & natural gas sector recorded its first positive contribution to real GDP growth since 2012 Q3, but it could not sustain this performance in the third quarter. Specifically, the crude oil & natural gas sector contracted by 3.6% y-o-y in Q3 2014. The NBS reported that average oil production in Q3 2014 was 2.15 million barrels per day (bpd), down 2.7% q-o-q and 4.9% y-o-y. Meanwhile, the non-oil sector expanded by 7.5% y-o-y in the third quarter. While this was higher than in the previous quarter (6.7% y-o-y), it was a slowdown from the 8.5% y-o-y registered in the corresponding period of 2013. According to the NBS, non-oil sector growth was driven by agriculture, textiles, telecommunications, and real estate.

GDP Growth Rate – Nigeria



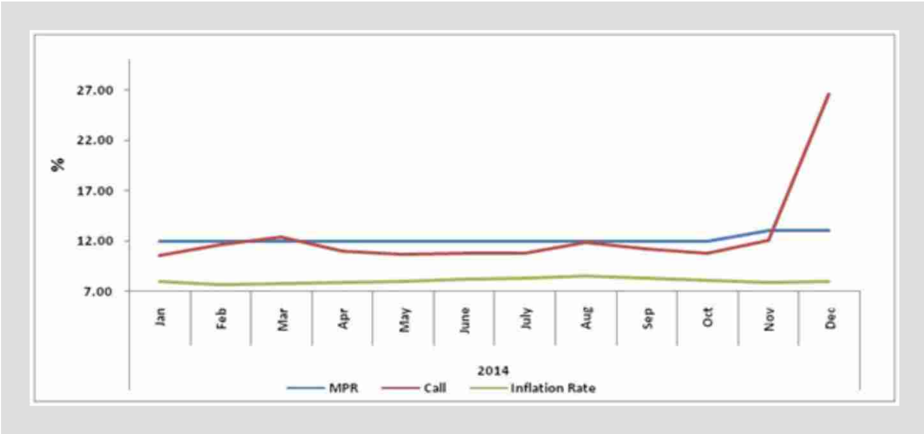
Source: NBS

2.2 INFLATION

Nigeria's consumer price index (CPI) inflation was very stable in 2014, averaging 8.06% y-o-y throughout the year (compared to 8.56% y-o-y in the corresponding period of last year), with a y-t-d peak of 8.5% y-o-y reached in August. December's inflation rate of 8% y-o-y, up marginally from November's reading of 7.9% y-o-y, marked the 24th straight month in which price increases remained in single digit territory. The higher reading was driven by a higher reading on the food (farm produce & processed food) sub-index.

The food sub-index recorded inflation of 9.2% y-o-y in December, compared to 9.1% y-o-y a month earlier. Meanwhile, the 'all items less farm produce' sub-index (so-called core CPI, which is closely tracked by the Central Bank of Nigeria) finally reflected some movement after four months of constant readings. Core CPI inflation declined to 6.2% y-o-y in December, 0.1 percentage points lower than November's reading. Although annual inflation remains within the CBN's target band of 6% - 9%, inflationary risks are to the upside and remain elevated due to election-related spending in the build up to elections in March 2015 and supply shocks arising from insurgency activities in the North Eastern region. The decision by the CBN to devalue the naira will exacerbate FX pass-through effects, especially due to the economy's high degree of import-dependence.economy's high degree of import-dependence.

Trends in MPR, Call and Inflation Rate



Source: NBS & CBN

2.3 MONETARY POLICY

The Nigerian economy ended 2014 with a tight monetary policy stance. The CBN Monetary Policy Committee (MPC), in particular, exhibited a bias towards tightening by raising the benchmark interest rate to 13% from 12% at its November 2014. This was the first change in the MPR since October 2011. It also raised the Cash Reserve Requirement (CRR) on private funds over two meetings (March and November) to 20% from 12%. It equally voted to adjust the official midpoint of the exchange rate to N168/US$ within an enlarged corridor of +/-5 percent
from 155 +/- 3%.

- A number of concerns underpinned the committees' generally hawkish outlook over the year, namely; The possibility of capital outflows in the context of monetary policy normalisation in the US;
- Falling oil output and crude oil prices;
- An upward trend in consumer price inflation; and
- Excess liquidity in the banking system, and the impact this may have on consumer prices and exchange rate stability.
- Widening gap between the official and bureau de change
- exchange rate.

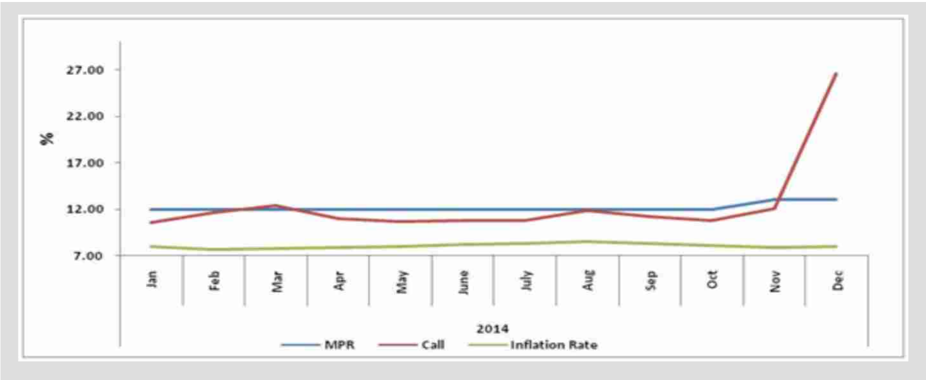
Outside of its statutory bi-monthly MPC meetings, the apex bank gave expression to its monetary thrust via a string of circulars on monetary policy.

On November 6 2014, the Central Bank of Nigeria (CBN) issued two circulars to separately address volatility in the currency and unlock money market funds to productive sectors of the economy. The aim of the first circular is to reduce pressure on FX reserves. The second circular aims to provide forward guidance on the remuneration of banks and Discount House placements at the Standing Deposit Facility to only NGN7.5 billion. Any bank or Discount House deposits in excess of NGN7.5 billion no longer qualifies for remuneration.

The November 6 circulars followed the CBN's circular of October 28 which capped the spread at NGN0.01 between the CBN's USD buy and sell rates in the interbank market. This FX circular also advised of the transfer of some funds that were previously offered via the CBN's RDAS window to the interbank market, which increased pressure on the interbank FX market.

Monetary policy is expected to remain tight given election-related fiscal risks, as well as the risks presented by capital outflows and lower oil prices. It is likely that interest rates would be raised further in order to ward off the inflationary effects of the exchange rate devaluation, while a further move in the naira's trading band cannot be ruled out, especially if oil prices remain low.

Trends in MPR, Call and Inflation Rate



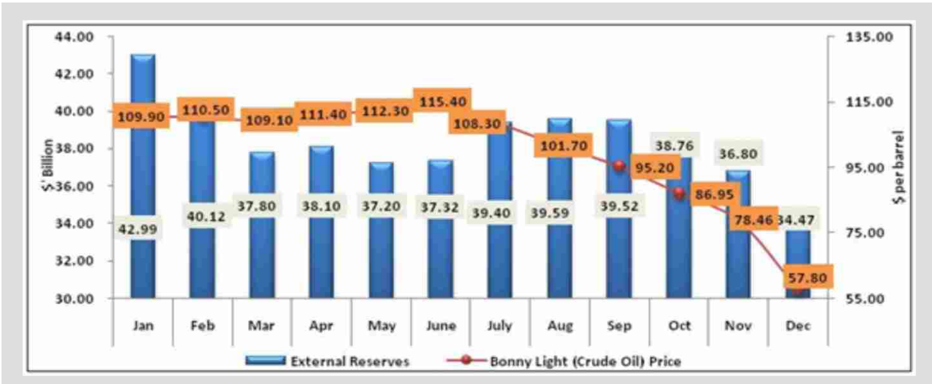
Source: NBS & CBN

2.4 EXTERNAL RESERVES

Gross external reserves fell to $34.47bn, down 20.75% y-o-y, on 31st December 2014.
Reserves declined due to capital outflows, pressure on the naira necessitating central bank intervention, and – more recently – a sharp decline in the oil price which has undermined FX inflows. The price of Bonny Light declined by a massive 50.89% between June 20 (when the price peaked at $117.7) and December 31, settling at $57.80 per barrel.

Foreign reserve depletion will continue for as long as oil prices continue to fall and USD supply to RDAS remains at current levels. The current level of external reserves is estimated to cover between 6 and 7 months of imports.

External Reserves and Crude Oil Price (Bonny Light)



Source: CBN

2.5 EXCHANGE RATE

An already under-pressure naira came under further siege in the second half of the year due to the sharp fall in crude oil prices. The central bank attempted to stem the depreciation by selling increasing amounts of foreign exchange reserves directly to banks, increasing the rate at which it sold dollars at the official window, and placing some restrictions on foreign exchange purchases. Despite these measures, the demand for foreign exchange was still unmet by a significant margin, which resulted in a sharp depreciation in the interbank exchange rate. In Q1, total demand for foreign exchange exceeded the supply thereof by a massive $5.4bn – more than the excess demand of $4bn in the whole of 2013. The surge in Q1 was partly driven by portfolio investment outflows amid the Sanusi saga. The situation cooled somewhat in April - May, and in Q2 as a whole, excess forex demand declined to $1.3bn, before picking up speed again in September.

In an attempt to quell this pressure, the central bank's MPC voted to devalue the naira as well as tighten monetary policy instruments following its meeting on November 25. All 11 members of the MPC voted to devalue the official naira exchange rate from a mid-point of N155/$ to N168/$, while the corridor was adjusted from ±3% to ±5%. This means that the new trading band is N159.6/$ - N176.4/$. Considering the upper limits of the old and new trading bands, the devaluation amounts to 10.5%.

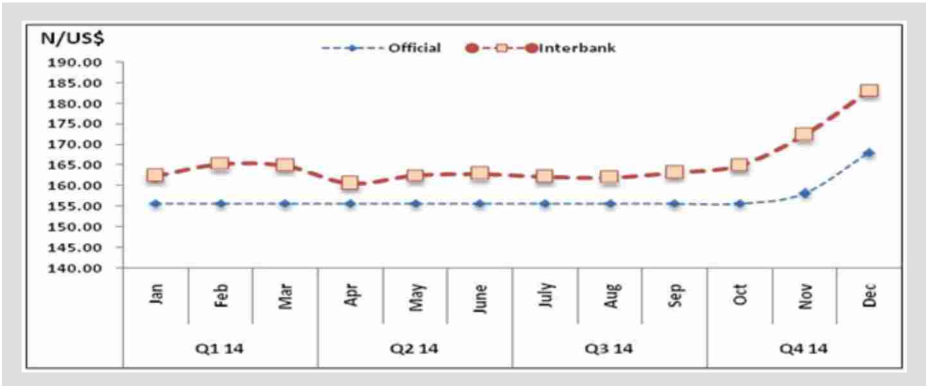
The naira remained under pressure after the devaluation, with the demand for foreign exchange still elevated, and with the oil price declining further following the Organisation of the Petroleum Exporting Nations' (OPEC's) decision not to cut output levels at its November meeting in Vienna. At the interbank market, the exchange rate closed at N184.84/US$ as at 31st December 2014, representing a depreciation of 15.67% from year-start figure of N159.79/US$.

The CBN in response to the unrelenting slide in the value of the currency issued measures to tighten foreign exchange liquidity and curb speculation. Of note is the CBN's multiple review of the net open foreign exchange trading positions banks can hold at the end of business to 0.5% (initially to 0%, then to 0.1% and finally 0.5%, from 1%) of shareholder funds and the directive that banks use foreign exchange purchased on the interbank market within 72 hours.

The CBN did however increase restrictions on who could utilize funds from the Bank's auctions and the interbank market, excluding bureau de change and other authorized buyers and increasing scrutiny of the activity of intermediaries. In some sense, these attempts arguably had an adverse impact as they created uncertainty and concern amongst international portfolio investors, resulting in JP Morgan putting Nigeria on negative index watch on its Government Bond Index (GBIEM)

Apart from lower oil prices, pressure on the naira was further driven by higher demand for foreign exchange before and during the elections, as well as the possibility of portfolio investment outflows in the context of monetary policy normalisation by the US Federal Reserve Bank.

Foreign Exchange Rate: Official and Interbank



Source: CBN & FMDA

Forex Demand and Supply ($bn)

Source: CBN

2.6 STOCK MARKET

The Nigerian bourse ended 2014 in the league of the worst performing exchanges. All performance gauges on the stock exchange closed lower, taking a negative cue from the oil price slump and heightening political risks. Specifically, NSE All Share Index sank 16.14% to close at 34,657.15, its steepest drop since June 2008.

Market capitalisation of the listed equities also nosedived, wiping out N1.74 trillion of market value to close at N11.48 trillion from year-start figure of N13.22 trillion. This is despite the listing of companies such as Caverton Offshore Support Group Plc, Seplat Petroleum Development Company Plc and Omoluabi Savings and Loans Plc, which added billions of naira to the market capitalisation.

Apart from concerns about what a lower oil price will mean for the Nigerian economy, the bourse was further pressured by disappointing earnings results, high price/earnings ratios, and gradual monetary policy normalisation in the US. According to the NSE, there were net foreign equity outflows of N154.14 billion throughout 2014. Net foreign equity outflows peaked at N70.8bn in February, and have moderated since then, before picking up again in November. The NSE will remain under pressure in the short term due to an increased perception of risk and the possibility of policy uncertainty in the run-up to the elections in March, a rebalancing of global investment portfolios, the possibility of further monetary policy tightening by the CBN, and the pressure that lower oil prices are putting on the economy. The long-term outlook for Nigeria's economy remains favourable, which along with progress being made in key reforms should support listed companies.

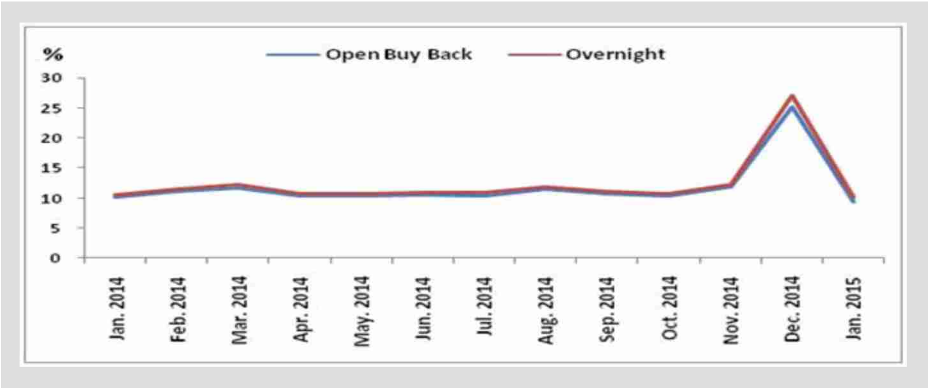
Nigerian Stock Exchange and Market Capitalization

Source: NSE

2.7 NIBOR

Open buyback and overnight rates hovered largely within the 12+/-2 band of the benchmark interest rate for the most of 2014. The movements recorded in the rates were mainly in reaction to money market operations of the financial regulator. Following the CBN's rate-setting committee's decision to hike in the CRR on private funds as well as increase benchmark interest at its November meeting, the Open Buy Back (OBB0 and Overnight (O/N) rates spiked sharply. OBB and O/N averaged 25.56% and 27.04% respectively in December compared to an average of 10.89% and 11.15% in the first 11 months of 2014, for OBB and O/N respectively.

Interbank Lending Rates



Source: Budget Office & FMDA

2.8 FINANCIAL SECTOR DEVELOPMENTS.

The year 2014 was notable for the breadth and diversity of developments, coupled with their corresponding far-reaching implications for all stakeholders – operators, the regulator and the general public. Below are a few of the most prominent of these events.

The Asset Management Company (AMCON) had an eventful year in 2014. Among others, it concluded the scheduled redemption of its Series five N976 billion zero-coupon bonds that were due October 2014, at par. The company had in December 2013, redeemed its issued Series I, II, III and IV Bonds. AMCON therefore fully retrenched a total of N1.87 trillion of all bonds issued since inception in 2014. This development put it ahead of its planned redemption schedule, as all its publicly held bonds have been redeemed before the end of its 4th full year of operations. In addition, during the year, AMCON completed its divestment from two of its banks, namely Enterprise Bank and Mainstreet Bank. While Enterprise Bank was acquired by Heritage Bank, Skye Bank acquired Mainstreet Bank and both institutions have taken full control of the acquired financial institutions. The third AMCON bank- Keystone Bank Limited is expected to be sold this year.

Another noteworthy event in 2014 was the extension of the apex bank's cashless initiative to the remaining 30 states of the federation. Following successful completion of phases 1 and 2 of the policy in six pilot states namely, Abia, Anambra, lagos, Ogun, kano, Rivers and the Federal Capital territory, the financial regulator stated that phase 3 of the policy's implementation would commence in the remaining 30 states of the federation effective from July 1, 2014.

The apex bank also announced that there would be a one-year waiver of charges on withdrawals to ensure adequate infrastructures were put in place. Again in 2014, the Central Bank in collaboration with all Nigerian Banks introduced the Bank Verification Number (BVN) scheme. The BVN entails biometric registration of customers with a view to enhancing security for a variety of financial transactions. In order to increase the tempo in the enrolment by the Deposit Money Banks (DMBs) customers on the BVN, the apex bank directed all commercial banks in the country to enrol at least 40% of their customers on or before December 31, 2014 and 70% on or before the end of the first quarter of 2015. It equally stated that the BVN will be required for all transactions valued at N100 million and above effective immediately.

Reforms introduced in the BDC segment of the foreign exchange market also dominated headlines in 2014. Specifically, the CBN increased the capital base for BDCs to N35 million. In addition, the CBN raised the mandatory caution deposit to N35 million from $20,000 per BDC, while the licensing fee was increased to N1million from N100,000. Application fee and annual renewal were also pegged at N100,000 and 250,000, respectively. The apex bank also banned ownership of multiple BDCs, and said that membership of the Association of Bureau De Change Operators of Nigeria, ABCON, would no longer be a compulsory licensing requirement. According to the apex bank, the new measures were aimed at checking the growing incidence of rent-seeking, depletion of external reserves, financing of unauthorized transactions and dollarization, among others.

The CBN also developed uniform account opening forms for customers. The CBN stated that the uniformity was part of measures to ensure that depositors in banks and other financial institutions provide necessary information for effective Know Your Customer (KYC) due diligence. With this development, individual prospective customers are required to complete account opening Form A(1), Form A(2) and Form A for accounts in tier one, two and three respectively, while legal entities are to complete Form B.

Another notable development in the year was the introduction of the Outbound Money Transfer Service (OMTS). Under the new guidelines, an individual can send up to $5000 to another individual abroad. Business organisations however cannot send money to another organisation abroad via the service. Also, the OMTS cannot be used to pay school fees of children or wards studying abroad. According to the CBN guidelines, Outbound Money Transfer services can only be provided by organisations duly licensed by international money transfer services. Such organisation must either be licensed by the CBN or in its home country to provide such services.

3.0

OUTLOOK FOR 2015

3.0 OUTLOOK FOR 2015

- Monetary policy is likely to remain less accommodative in the short-term given threats from both internal and external environments.
- Monetary Policy Rate (MPR) may likely be increased by 0.5 – 1 percentage points.
- Inflation is likely to breach the upper limit of the CBN's target band of (6% - 9%) as the decision by the CBN to devalue the naira exacerbates FX pass-through effects, especially due to the economy's high degree of import-dependence
- We expect Naira to continue to weaken against the dollar on the back of rising global risk aversion and falling oil revenue.