DEBT MANAGEMENT OFFICE
NIGERIA

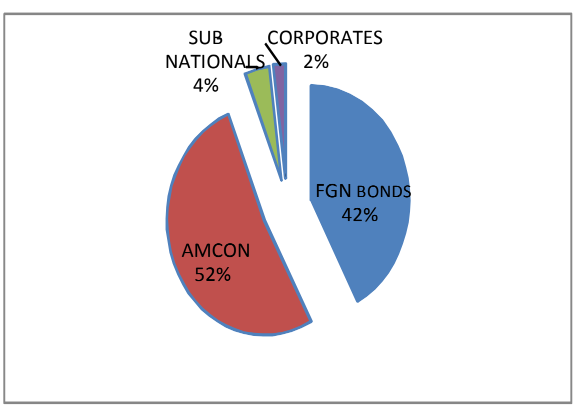
REVIEW OF THE DOMESTIC BOND MARKET JULY-DECEMBER 2011 (H2 2011)

1.0 INTRODUCTION

The total Face Value of bonds in the domestic market stood at ₦8, 411.00bn as at December 31, 2011, and comprised ₦4,357.85bn (51.82%) AMCON Bonds, ₦3,541.19bn (42.10%) FGN Bonds, ₦341.00bn (4.05%) Sub-national Bonds and ₦170.96bn (2.03%) Corporate Bonds. The size of the domestic bond market grew by about 57.19% from the ₦5,350.59bn as at end June 2011.

New bond issues in H2, 2011 amounted to ₦3,210.54bn and were made up of ₦2,657.85bn AMCON Bonds, ₦417.77bn FGN Bonds, ₦79.00bn Sub-national bonds and ₦55.92bn Corporate bonds.

Chart 1: Composition of the Domestic Bond Market as at end December 31, 2011



2.0 DEVELOPMENTS IN H2 2011

2.1 PRIMARY MARKET

2.1.1 FGN Bonds

The DMO offered ₦394.77bn FGN Bonds to the public, which was allotted in full at the respective Marginal Rates. In addition, a Special Allotment of ₦23.00bn was made in August 2011 on the basis of a non-competitive bid bringing the total of FGN Bonds issued to ₦417.77 in H2 2011. FGN Bonds received a total subscription of over 221%. Table 1 shows details of the Subscriptions and Allotments recorded in H2 2011.

Table 1: FGN Bond Auctions for H2 2011

AUCTION RESULT	10.50% FGN MAR 2014	4.00% FGN APR 2015	10.70% FGN MAY 2018	7.00% FGN OCT 2019	TOTAL
Amt. Offered (₦bn)	93.00	67.67	174.10	60.00	394.77
Subscription (₦bn)	231.10	186.84	311.94	144.23	874.11
%Subscription(₦bn)	248.49	276.10	179.17	240.38	221.42
Allotment (₦bn)	*116.0	67.67	174.10	60.00	417.77

Note: * Includes Special Allotment of ₦23.0bn
Source: DMO

All the FGN Bonds offered in H2 2011 were reopening of existing Benchmark Bonds. Out of these, the 10.70% FGN MAY 2018 and the 10.70% FGN OCT 2019 were reopened for the first time in the year and their volumes were increased to boost liquidity. Two FGN Bonds; the 10.50% FGN JUL 2011 and the 12.99% FGN SEP 2011 amounting to ₦152.68bn were redeemed in the review period.

2.1.2 Marginal Rates

Table 2: Marginal Rates (%)

MONTH	10.50% FGN MAR 2014(3yr)	4.00% FGN APR 2015(5yr)	10.70% FGN MAY 2018(7yr)	7.00% FGN OCT 2019(10yr)
July	10.24	10.70	11.49	*
August	10.75	11.19	11.39	*
September	10.50	11.25	11.49	*
October	15.50	16.30	18.00	*
November	*	*	16.50	16.50
December	*	*	15.93	15.00

Notes Source: DMO
*Bonds were not offered in the period

The Marginal Rates remained fairly stable between July and September 2011, which may be attributed in part to an unusually large cash injection from the Federation Accounts Allocation Committee in July 2011 and the fact that there was no significant change in monetary policy during this period.

However, in October 2011, an aggressive hike in the Monetary Policy Rate (MPR) and Cash Reserve Ratio by the Central Bank of Nigeria (CBN), aimed at promoting Exchange Rate Stability and moderating Inflation led to higher Marginal Rates at the Auctions.

Marginal Rates for the 3, 5 and 7 year bonds increased by 500bps, 505bps and 651bps respectively at the October 2011 Auction following the CBN's actions but was moderated slightly in November and December due to a high demand by the Pension Funds who wanted to take advantage of the higher yields.

2.1.3 Sub-national Bonds

Delta State, Niger State and Ekiti State issued Bonds of ₦50.00bn, ₦9.00bn and ₦20.00bn respectively in H2 2011, all of which were 7 year bonds. Details are provided in Table 3 below.

Table 3: State Bonds issued in H2 2011

State	Amount (bn)	Tenor	Coupon (%)	Year Of Maturity	*Rating
Delta	50	7	14	2018	A+/A+
Niger	9	7	14	2018	A-/A-
Ekiti	20	7	14.50	2018	A/A-

Notes: **Source: Securities and Exchange Commission**
:* Ratings by Agusto and Co and Global Credit Rating

The Bonds were all issued through a Book Building process. The Bonds by Delta, and Niger were 100% subscribed while Ekiti's Bond was oversubscribed by ₦300m.

No State Government Bond was redeemed in H2 2011. The total outstanding as at December 31, 2011 was ₦341.00bn compared to ₦262.0bn as at June 30, 2011.

2.1.4 Corporate Bonds

Table 4 contains details of the Corporate Bonds issued in H2 2011.

Table 4: Corporate Bonds issued in H2 2011

Corporate	Amount (bn)	Tenor	Coupon (%)	Year Of Maturity	*Rating
NAHCO	2.15	5yrs	13	2016	AA/A-
**Tower Funding	1.00 3.63	5yrs 7yrs	MPR+ 5.25 MPR+7	2018	A-
Lafarge (WAPCO)	11.88	3yrs	11.5	2014	AA-/A+
UBA	35.00	7yrs	14	2018	A/A
Crusader Insurance	2.26	**	Zero Coupon	N/A	**

Notes: Source: Securities and Exchange Commission
* Ratings by Agusto and co and Global Credit Rating
** Irredeemable but convertible and not rated since it's a Rights Issue

All the Bonds were issued through a Book Building process except Crusader's which was offered to its existing shareholders. NAHCO, Lafarge and Tower Funding were all first time issuers in the domestic bond market. Lafarge and NAHCO issued Fixed Rate Bonds while Tower Funding issued Floating Rate Bonds (See Table 4).

The Bonds issued by Lafarge and Tower Funding were largely taken up by the banks, (49% and 86% respectively) while NAHCO received a 72% subscription from Pension Funds.

2.1.5 AMCON Bonds

AMCON issued ₦2,657.85bn in H2 2011, out of which the sum of ₦736.94bn was injected through Bonds to the 3 nationalised banks in August 2011. These were Mainstream Bank (formerly Afribank), Keystone Bank (formerly Bank PHB) and Enterprise Bank (formerly Spring Bank) which received N318.63bn, ₦296.89bn, and ₦121.41bn respectively. The Bonds are all 3 year bonds with coupons of 10.50%.

2.2 SECONDARY MARKET

Table 5: Domestic Bonds Secondary Market Activity, H2, 2011

Bond	Volume (Units)	Face Value (N'bn)	No. of Deals
FGN	4,231,034,299	4,231.03	29,945
AMCON	296,229,169	296.220	100
Sub-national	26,075,599	26.075	81
Corporate	4,475,000	4.475	15
Total	**4,557,814,067**	**4,557.81**	**30,141**

Source: Central Securities Clearing System

The Volume and Number of FGN Bond Transactions in H2 2011 were 4.231bn units and 29,945 respectively and declined about 10% and 15% from their respective figures in H1 2011. This was due to volatility in the Bond Market occasioned by monetary tightening policies and actions by the CBN.

AMCON Series 1 Bonds accounted for 296. 23mn units or 6.5% of the Volume of Trades.

State Government Bonds accounted for 0.57% and 0.26% of total Volume and Number of Deals respectively. The most traded State Bonds were those of Edo, Bayelsa and Lagos State (Series 1) whose volumes in issue are relatively large to support trading. Kaduna State bond with an issue size of ₦8.5bn was the least traded. All State Government Bonds except Benue and Ekiti State bonds were traded in H2 2011.
Fifteen (15) corporate bond transactions involving 4,475,000 units were traded.

Overall, FGN Bonds accounted for 92.83%, AMCON Bonds, 6.5%, State Government Bonds, 0.57% and Corporate Bonds, 0.1% of the Total Volume of Trades in H2 2011.

3.0 OUTLOOK

In H2 2011, the primary market supply of bonds was relatively high with issues from all the segments of the domestic bond market. In terms of size, the market expanded by about 57.19% from H1 2011.

AMCON accounted for ₦2,657.85bn or 85% of the ₦3,060.41bn increase in the size of the domestic bond market in H2,2011. In 2012, it is unlikely that the market would grow in a proportion similar to H2, 2011. Firstly, AMCON who was the main source of growth in the market in 2011, seems to have completed the large scale acquisition of Non- Performing Loans of banks, while the relatively high prevailing interest rates may be a disincentive for corporate and State Governments to issue Bonds.

However, we anticipate a moderate expansion in the FGN and Sub-national bond segments, as bonds remain the most viable instrument for them for funding development projects.

DEBT MANAGEMENT OFFICE
The Presidency
NDIC Building (First Floor)
Plot 447/448 Constitution Avenue
Central Business District
P.M.B, 532, Garki, Abuja
Tel:09-6725629
Website:http://www.dmo.gov.ng
Email:enquiries@dmo.gov.ng

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