

**SAMTL**

ECONOMIC & FINANCIAL  
Q4:2017 OUTLOOK

# **NIGERIA ECONOMY: SUSTAINING GROWTH MOMENTUM**





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## Position now to take advantage of economic recovery.....

Alas! We seem to be approaching the end of the tunnel and there seems to be a tiny ray of light with the Nigerian economy expanding even if it is just a little after 5 consecutive contractive quarter. The Combined increase in crude oil prices and volume improvements drove the GDP growth thereby resulting into rising external reserves, stability in the foreign exchange market and sustained headline inflation.

Exchange rate remained stable through the third quarter while the monetary authorities retained their stance at the September meeting, with key parameters still delicately poised.

Sadly, the Hurricanes from Irma to Harvey and then Maria in the United States was to say the least devastating whilst the UK economy continues to struggle through the prolonged Brexit uncertainties, despite all these we expect global economy to grow moderately in 2017.

The equity space continued to record stellar performances during the quarter recording highest performance in August having hit 38,241.67 on August 14, representing a 42.14% ROI compared to previous close.

The yields in the fixed income state remains attractive despite the Federal government as the budget funding remains a conundrum to Nigeria and Nigerians at large.

Despite the huge leap within the equity space, we believe there is still room for further price appreciation. This will however, depend on GDP growth expansion, effective implementation of budget, FX market intervention, direction of crude oil price and ultimately performance of the full year corporate results.

The government is set to release the second tranche of the CAPEX budget and this should serve as a further stimulant for various markets as the economy is positively impacted.

In all, we advise investors to remain positive and maintain a well-diversified portfolio across multiple asset classes that will maximize their risk/return trade-off. Thanks for the privilege to be of service.

**Oluwaseun Adesoye**  
**MD/CEO**  
**Associated Asset Managers Limited**  
**E-mail: oadesoye@aamlng.com**



”

*Despite the huge leap within the equity space, we believe there is still room for further price appreciation.*

“

## OUTLOOK SCENERIO: ECONOMY

### GROSS DOMESTIC PRODUCT (GDP)

#### Assumptions

**Baseline:** Assumptions based on projections and current output growth estimates from the NBS

**Optimistic:** Improved GDP outlook as a result of the following:

- Sustained Investor & Exporter window and continuous foreign exchange intervention by apex bank.
- Sustained current fiscal spending pattern
- Maintained peaceful negotiations with the people of the Niger Delta region
- Oil Production and Prices averaging 1.90–2.20 mbpd and \$55 - \$65 per barrel respectively.
- Improved Power supply, average grid output of 4,500 - 5,000 MW to boost manufacturing activities and reduce energy costs
- Monetary authorities employ expansionary policy and fiscal authorities continue to consolidate on diversification agenda.

**Pessimistic:** Decreased GDP outlook as a result of the following:

- Declined in current fiscal authorities spending pattern
- Consumers holding back on spending, reducing frequency of purchases, spending less or going for lower priced brands as a result of rising costs.
- Further decline in Oil Production and Prices below 1.90 mbpd and \$50 per barrel respectively.
- Tight stance policy retained by the monetary authorities.
- Reduced foreign exchange intervention by the apex bank
- Resurgence of pipeline vandalism by the people of the Niger Delta region

### INFLATION

#### Assumptions

**Baseline:** Assumptions based on projections and current output growth estimates from the NBS

**Optimistic:** The case for a reduction in Inflation would occur due to the following:

- Further appreciation of Naira
- Steady power supply to effectively lower energy costs
- Speedy completion of approved road construction project will effectively lower transportation costs.
- Lowering borrowing costs
- Bumper agricultural harvest

**Pessimistic:** Inflation to spike due to the following:

- Naira depreciates further
- Low cost of borrowing effectively improve the liquidity in the system
- Improved capital importation as government removes the bottlenecks around ease of doing business.
- Rising frequency of purchases by consumers.
- Payment of outstanding salaries by all states owing.
- Rising crude oil price could lead to rise in PPM prices eventually

### EXCHANGE RATE

#### Assumptions

**Baseline:** Assumptions based on status quo situation.

**Optimistic:** The case for exchange rate appreciation is based on the following:

- Rising crude oil price and Nigeria's external reserve
- Agricultural products booms as Nigeria now exports more than it imports
- Import substitution i.e. domestic refining of oil

**Pessimistic:** The case for exchange rate depreciation is based on the following:

- Further drop in oil price and declined in Nigeria's external reserve
- CBN declines to intervene in the foreign exchange market as necessary

## OUTLOOK SCENERIO: STOCK MARKET

### Strong growth - 50% probability World Economy & Markets

### SCENARIO 1

- Hurricanes Irma, Harvey, and Maria devastation in US with a cost estimated at \$180bn, could spur World economy growth.
- Euro area activities continue to accelerate into the last quarter of 2017.
- China, India and Brazil achieved growth momentum as reform efforts continue.
- The Federal Reserve hike rates at the October/November Federal Open Market Committee (FOMC) meeting.
- Average Crude oil price above \$65pb.
- FDI inflow to Emerging Market accelerates.

#### Nigerian Economy & Markets

- Speedy implementation of 2017 budget and boost economic growth
- Release of CAPEX help to stimulate economic growth.
- Commodity prices firming up, and boosting the economy.
- Reduced Boko Haram and IPOB tensions
- Exchange rate remained stable through the year
- Accommodative monetary policy.
- Projected NSE ASI returns: 30%

### Moderate growth - 30% probability World Economy & Markets

### SCENARIO 2

- US economy progression spur world economy growth moderately
- Euro area activities accelerate into the last quarter of 2017 but moderately.
- China, India and Brazil saw growth momentum but at a moderate pace
- FED left rates unchanged at the December Federal Open Market Committee (FOMC) meeting.
- Average price trading at \$50pb.
- Geopolitical risk emerged at Q4:2017.
- FDI inflow to Emerging Markets moderate

#### Nigerian Economy & Markets

- Shortfall in FG revenue generated resulting into partial implementation of 2017 budget
- Rising tension of Boko Haram and IPOB.
- Implementation of 2017 budget fairly boosts the economy not as expected.
- Exchange rate depreciated as CBN reduced interventions.
- Tighten monetary policy continues.
- Projected NSE ASI returns: 10%

### Slow Growth - 20% probability World Economy & Markets

### SCENARIO 3

- World Economy slows.
- Euro area activities stagnate into the last quarter of 2017
- Emerging Markets such as China, India and Brazil continue to experience slow growth.
- Disequilibrium remains in the crude oil market with price trading at below \$40pb.
- FDI Inflow to Emerging Markets moderates
- Heightened Geopolitical Risks particularly Iraq, and Saudi Arabia threatens global growth

#### Nigerian Economy & Markets

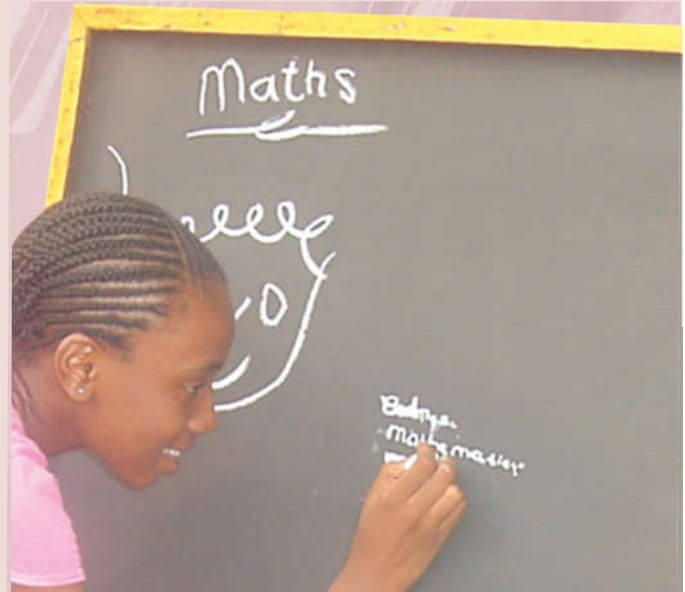
- Revenue shortfall resulting into partial implementation of 2017 budget
- Boko Haram Insurgency heightened in the North.
- Niger Delta Militants disrupts oil supply
- 2017 budget execution fails to boost the economy as expected.
- Further devaluation of the Naira above NGN 400/\$
- Lower interest rate fails to boost economy.



## SAMTL KIDS EDUCATION TRUST

This product is designed to help you set aside funds on a gradual or lump sum basis for the education of your children. Such funds are invested on behalf of the named beneficiaries. Tuition and other incidentals are paid in line with your express instructions at the appropriate time. The residue upon the completion of the Education of the beneficiaries is disbursed in line with your express instruction as well. The product is backed up with Trust Deed.

It is a unique product in that it is documented in a Trust Deed in which your wishes towards your children are stated



If you secure your children's education,  
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# Section 1

**Economic Commentaries**

# Nigeria-the nature of economic recovery

## Global Events

The third quarter in the US was dominated by news about the devastation of Hurricanes Irma, Harvey, and Maria, with a cost to the local communities that could yet turn out to be the highest in history. Current estimates from the office of the governor of Texas, one of the worst hit areas by Hurricane Harvey, put the cost at about \$180bn. The effects on the US economy are, however, expected to be insignificant, with only a small dent on Q3 growth expected.

The US economic data continue to reveal strengthening across-board so far in 2017. The third and final US GDP estimate for the second quarter, released in September, shows an upward revision of 0.1 percentage point to 3.1%, annualized rate. The estimates show the consumers, which account for about 70% of the economy, remain the primary engine growth, with an expansion of 3.3%.

President Donald Trump finally released the grandiose plan for his much touted tax reform, and as is customary of his administration, there are still many moving parts and unanswered questions. The reform proposes sweeping tax cuts for individuals and corporates, and also aims to simplify the tax code by streamlining the number of personal tax brackets from seven to three. The individual tax rates will be 12%, 25% and 35%, with a surcharge recommended for the wealthy, but the plan fails to set the applicable income levels.

As presented, the impact of the proposed cuts on middle-income families is still unclear, with the wealthy also expected to reap bountifully, despite the president saying otherwise. The battleground will now shift to the capitol where the details will be ironed out. We, however, do not expect any material economic impact in the immediacy, as the transmission might still take another year or two.

The US dollar remains under the cosh, capped by a downward sloping trend line in place since the beginning of the year. There are no indications yet that Q4 will be any kinder to the USD, although the Fed might have a say on where the pendulum swings, as monetary policy normalization continues.

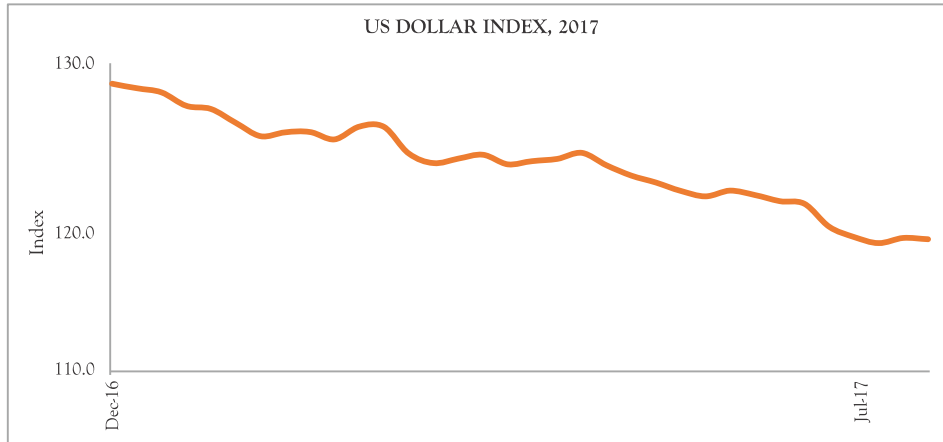
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*The US dollar remains under the cosh, capped by a downward sloping trend line in place since the beginning of the year.*

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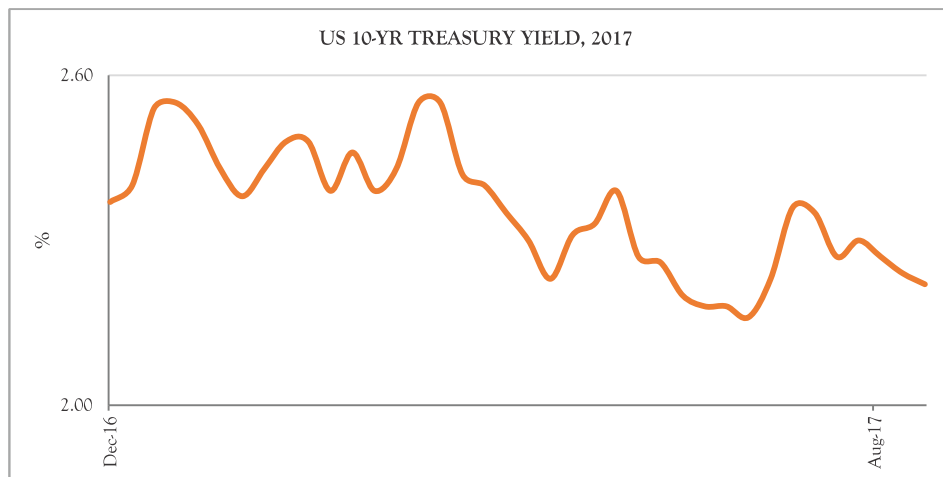
by: Olugbenga Olufeagba, PhD  
Associate Consultant, Markets Practice,  
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The current market consensus is for the Federal Reserve to hike rates at the December Federal Open Market Committee (FOMC) meeting, after announcing at the September 20<sup>th</sup> gathering that it will commence a \$10bn monthly unwind of its stimulus package the following month. In the near-term, the Fed will continue to monitor inflation figures, as its failure to return to target continues to confound monetary authorities.

”  
*High frequency data from the Euro area suggest that activity should continue to accelerate into the last quarter of 2017.*  
 “

Yellen also expects only short-term damage to the US economy from hurricanes Irma, Harvey and Maria.



The effect of QE unwind on the term premium is expected to be offset by the actions of other foreign central banks, which is likely to yield a flatter curve than presently obtains.

High frequency data from the Euro area suggest that activity should continue to accelerate into the last quarter of 2017. The projection for growth released by the IMF for the Euro area in July is also in line with this assertion, with an upward review of 0.2 percentage point from the 1.7% estimated in their April release.



Headline inflation remains the bugbear for the ECB, although it briefly touched the 2% ECB target before subsequently falling back to 1.5% y/y in September. It is expected to ease even further given the unsupportive base effects.

Core inflation, at 1.1% also remains a considerable distance from ECB target of close to 2%. Given this backdrop, it is unlikely that the ECB will embark on quantitative tightening in the near term.

IMF Projections (released July 2017)

Jurisdiction	Projections		Diff. from Apr 2017 Projections	
	2017	2018	2017	2018
World Output	3.5	3.6	0	0
Advanced Economies	2	1.9	0	-0.1
United States	2.1	2.1	-0.2	-0.4
Euro Area	1.9	1.7	0.2	0.1
Japan	1.3	0.6	0.1	0
United Kingdom	1.7	1.5	-0.3	0

”

*The Bank of England (BoE) reported that the annual consumer credit growth stayed close to 10% in August, while the office of national statistics reviewed the savings ratio higher than earlier estimated.*

“

UK growth slowed in the first half of the year, expanding by 0.3% in both quarters. The Bank of England (BoE) reported that the annual consumer credit growth stayed close to 10% in August, while the office of national statistics reviewed the savings ratio higher than earlier estimated. Contrary to expectations, households saved 5.4% of their income in Q2, an acceleration from the 3.8% recorded in Q1.

Incomes also rose faster than inflation for the first time in a year. Amidst the flurry of better-than-expected data releases, the BoE turned more hawkish, signaling its intent to raise rates in the near term if the economy continues on the current path. The BoE governor reiterated that he hasn't seen any reason to dissuade him from voting for interest rate hike in the near term. The consensus is now for policy tightening by the BoE at its November meeting.

The IMF forecast released in July shows an upward review in the 2017 growth projections for Japan by 0.1 percentage point compared to the 1.2% estimated in the April release. The Japanese economy echoed this sentiment with the recently released figures for Q2 showing an annualized growth of 2.5%. The economy has now expanded for six consecutive quarters, its longest streak in 11 years. In a positive sign for the Shinzo Abe government, spending by consumers jolted to life in Q2, contributing more to growth than trade.

Compared to the previous quarter, private consumption rose by 0.8%, 0.5 percentage points higher than the Q1 figures. At its September meeting, the

Bank of Japan (BoJ) held overnight interest rates at 0.1%, with the asset purchase program also retained. Consequently, we do not expect changes to the accommodative monetary stance over the next 15 months, given that inflation remains far from the intended target of 2%.

The Chinese economy delivered a solid growth of 6.9% in the first half of the year, but might ease slightly in the second half to reflect the waning base effect of public spending which rose by 21% between January and June 2017.

Our expectation, however, is for the 6.5% official growth projection for the year to be surpassed. The 19th National Congress of the Communist Party of China will be held in October. Up to five of the seven members of the Politburo standing committee are expected to retire, which will present an opportunity for President Xi Jinping to consolidate power midway through his 10-year term.

Following the meeting, we expect to see faster progress on economic reforms geared towards further liberalization of the Chinese markets. Inflation rose to 1.8% y/y in August, the highest rate since January, following a 1.4% increase in July. We do not expect changes to the present monetary policy stance as we anticipate only gradual price gains over the remaining course of the year.

India's second quarter real GDP data were surprisingly soft, increasing by only 5.7% y/y after a 6.1% y/y growth in the first quarter. Amidst a broad-based deceleration that included consumer and public spending, fixed investment turned out the bright spark, returning to positive territory, albeit, marginally.

We expect activity to pick up pace once the disruptive structural reforms, which are growth-supportive, take root. Although, weak economic growth will likely increase pressure on the Reserve Bank of India (RBI) to further ease monetary conditions, nevertheless, we expect the RBI's monetary policy stance to remain unchanged in the near term given the fact that inflation, at 3.4% in August, has continued to accelerate since hitting a trough of 1.5% in June.

”

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“

IMF Projections (released July 2017)

Jurisdiction	Projections		Diff. from Apr 2017 Projections	
	2017	2018	2017	2018
Emerging Markets & Developing Economies	4.6	4.8	0.1	0.0
Russia	1.4	1.4	0.0	0.0
China	6.7	6.4	0.1	0.2
India	7.2	7.7	0.0	0.0
Brazil	0.3	1.3	0.1	-0.4
Mexico	1.9	2.0	0.2	0.0
Sub-Saharan Africa	2.7	3.5	0.1	0.0
Nigeria	0.8	1.9	0.0	0.0
South Africa	1.0	1.2	0.2	-0.4

”

*Brazil economy is not out of the woods yet, with recent data indicating mixed results.*

“

Brazil economy is not out of the woods yet, with recent data indicating mixed results. While industrial production showed a material acceleration to 2.5% y/y in July from 0.5% y/y in June, GDP growth in the second quarter decelerated to 0.2% from 1% recorded in the preceding quarter.

Inflation continued on its downward trend, easing to 2.5% in August from 2.7% in July. While the downward inflation trend gives the Brazil Central Bank some latitude to cut rates in order to spur economic growth, there are a number of reforms on the front burner that might limit how low the rates can go, particularly the pension reform.

The monthly GDP proxy, which showed a disappointing -0.56% y/y contraction, suggests activity is not yet on a sound footing, after its emergence from the longest and deepest recession in history.

Brazil's growth outlook will be dependent on whether the outcome of the much needed reforms instills enough confidence in the foreign investors who are wary of the high leverage in both the private and public sectors.

## Domestic Environment

### Fiscal and Monetary Policies

The Federal Government is continuing to pile debt on its balance sheet as revenue has more or less collapsed. The conventional wisdom when a government is faced with revenue collapse, particularly with no solution in sight, is to adjust its operating expenses.

Rather than tow this path, we have continued to borrow to fund both recurrent and capital expenditures. When government analysts and the budget office put out ratios such as debt-to-GDP to signify good health of the fiscus, they are only papering over deep cracks that exist, as that ratio is only useful when you have reasonable level of tax accruing to the government.

In a country with very narrow tax net such as Nigeria, ratios such as debt-to-revenue, debt-service-to-revenue and deficit-to-revenue will be more useful parameters to measure the current health of our balance sheet.

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*The conventional wisdom when a government is faced with revenue collapse, particularly with no solution in sight, is to adjust its operating expenses.*

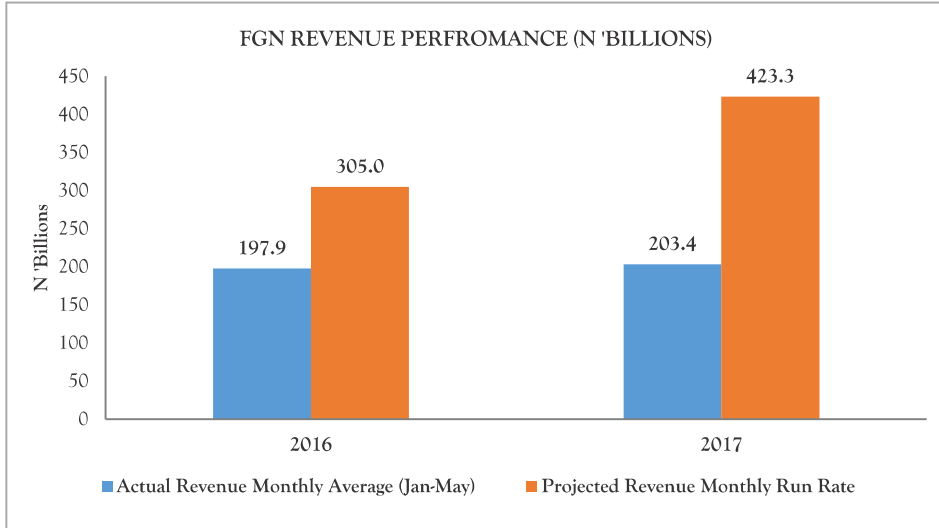
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Federal Government Expenditure and Revenue (N 'billion)			
Item/Period	2017 Proportionate Budget	Jan–Jun2016	Jan–Jun 2017
Federally collected Revenue (Gross)	5,368.55	2,396.20	3,023.49
FG Retained Revenue	2,697.57	1,305.75	1,229.86
Total Expenditure	3,875.96	2,517.21	3,435.63
Recurrent Expenditure	2,571.51	1,615.65	2,129.57
(a) Non-Debt	1,650.83	1,275.84	1,627.31
(b)Debt Service	923.67	609.52	502.26
(i) Domestic	832.73	578.81	447.57
(ii) External	87.94	30.71	54.69
Capital Expenditure	1,087.25	346.18	1,141.17
Transfers	217.21	285.67	164.89
Fiscal Balance			
Current Balance	126.07	-579.60	-899.71
Primary Balance	-257.71	-601.94	-1,703.52
Overall Balance	-1,178.39	-1,211.46	-2,505.77

In Nigeria's case, debt-to-GDP only alludes to a potential for tax collection that may never be realised. In the first half of the year, the federal government only achieved 45.6% of its projected revenue, but spent 88.6% of its projected expenditure. In the first half of the year alone, there was a revenue shortfall of N1.47trn, and a budget deficit of N2.2trn.

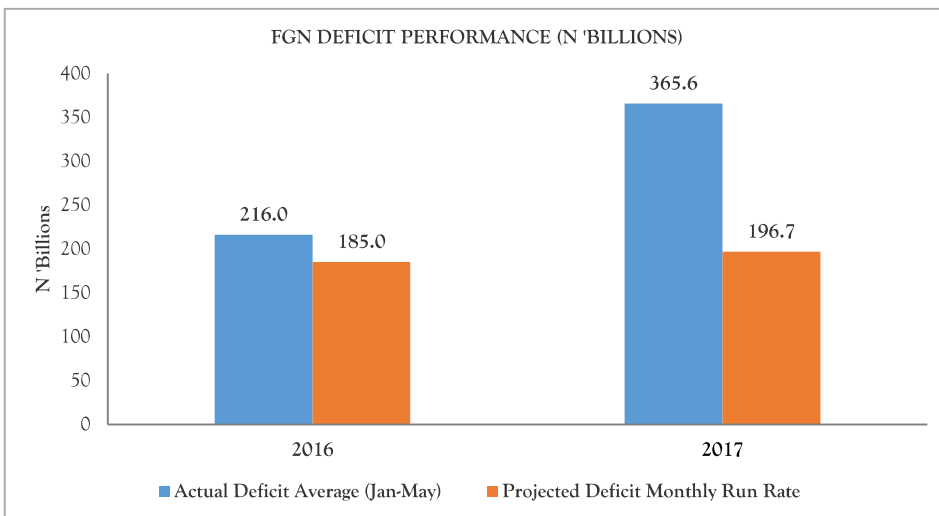
If the revenue trend obtainable in the first half of the year is sustained in the second half, then we will have a revenue shortfall of about N2.8trn and a deficit of N5.04trn in one fiscal year. If the current spending pattern is also sustained, then the deficit will be 73.3% of the 2017 budget. That is clearly unsustainable.

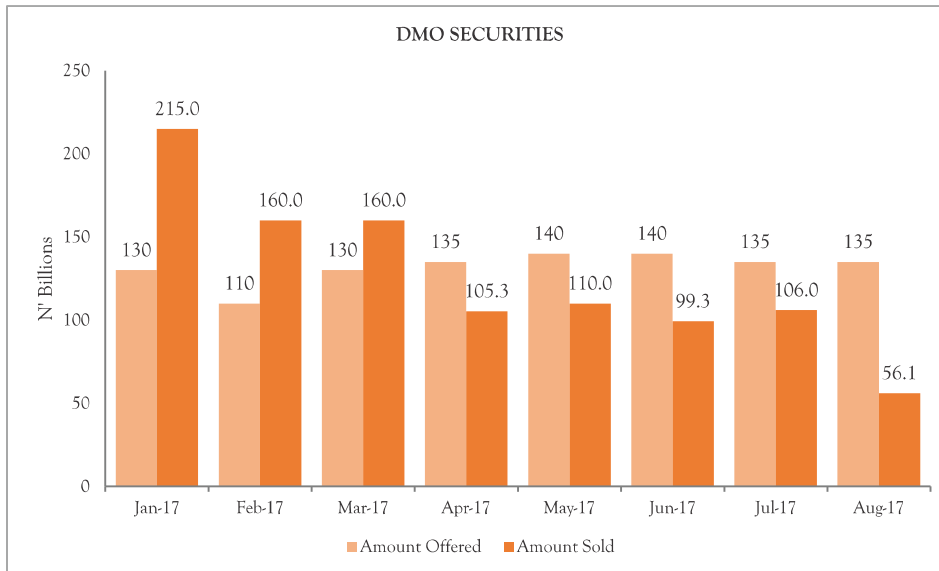
The implication of the numbers become worse at the realization that 70% of this budget is consumed by less than 3 million Nigerians captured in the recurrent expenditure.



”  
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Something needs to be done urgently, or else, we will become another Greece in no time, with worse implication for a polity that's already under pressure.





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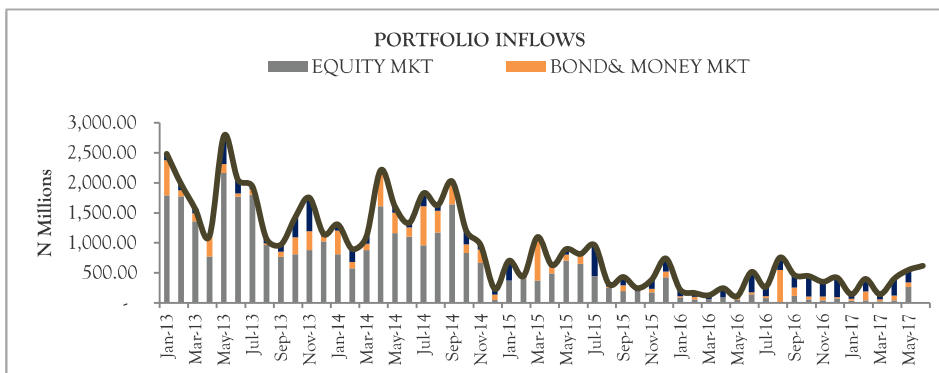
*Inflation continues to slow, with August headline inflation easing marginally from 16.05% in July to 16.01%.*

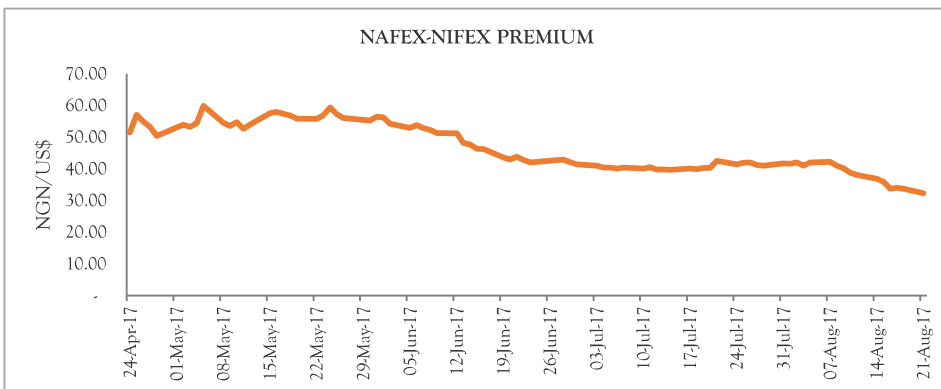
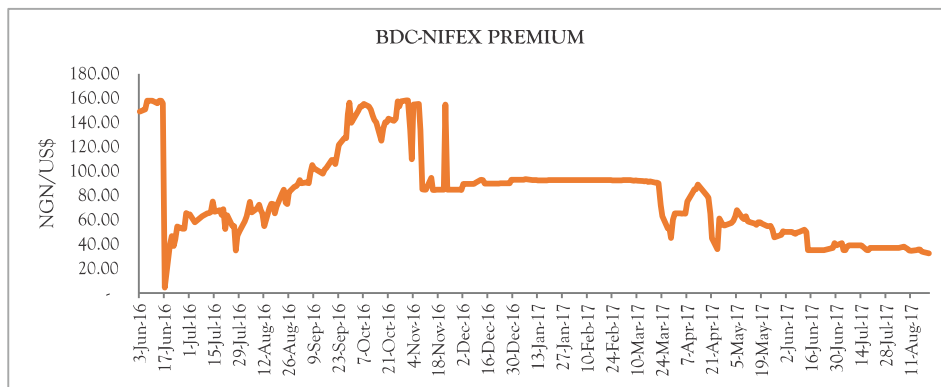
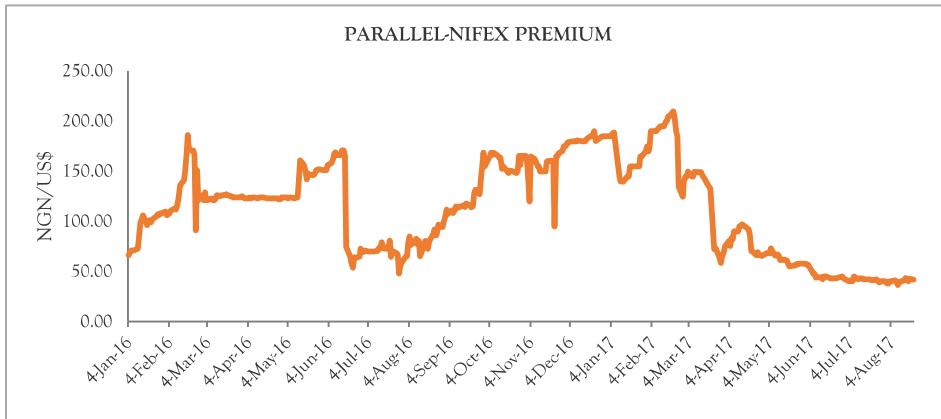
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Although, there is already some debt-burden restructuring ongoing, with the government refinancing maturing treasury bills with foreign denominated bonds and issuing promissory notes to settle contractors and pension arrears, yet the likelihood of a debt overhang is ever so present.

What the government needs is to reinvent itself for better efficiency, yield many of the sectors that are self-sustainable to the private sector and reduce its wasteful spending. No amount of debt restructuring will make the doomsday go away, it can only be postponed.

The Monetary authorities retained their tight stance at the September meeting, with parameters of interest still delicately poised. Inflation continues to slow, with August headline inflation easing marginally from 16.05% in July to 16.01%. Exchange rate has also remained steady since the introduction of the I&E window in April of 2017, with portfolio inflows improving.





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*With an election on the horizon, we do not see this happening unless oil prices collapse to sub-\$30 per barrel. Common sense and economics, however, suggest convergence is the right thing to do.*

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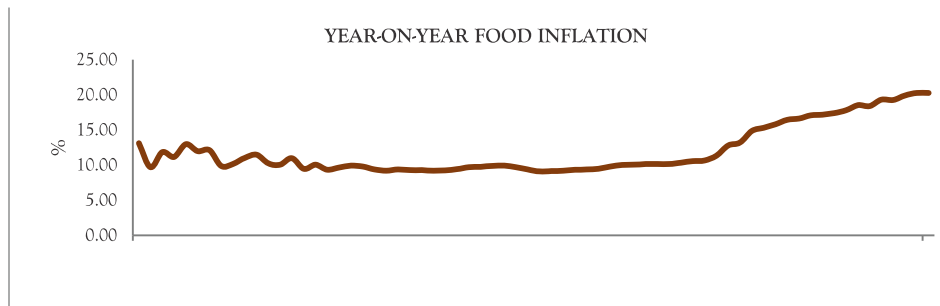
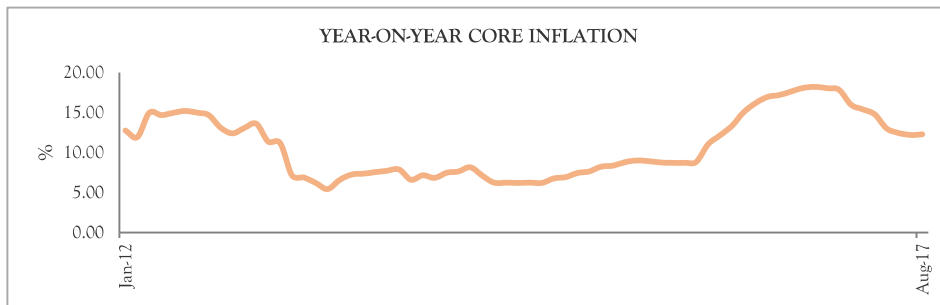
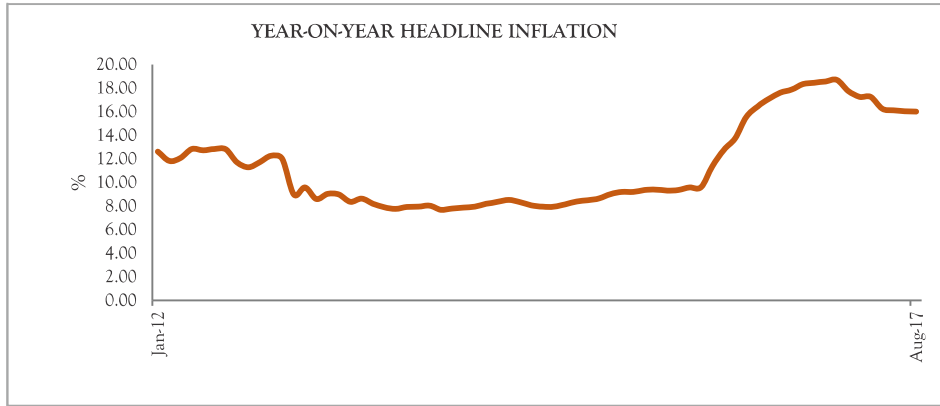
There is, however, still premium to be had between the NAFEX, BDC & Parallel markets on the one hand, and the NIFEX on the other. We believe it's about time for convergence of all the markets, but given that PMS enjoys a special window that will be closed if this convergence occurs, it might be politically suicidal, as it has implications for pump prices of fuel.

With an election on the horizon, we do not see this happening unless oil prices collapse to sub-\$30 per barrel. Common sense and economics, however, suggest convergence is the right thing to do.



**Cost**

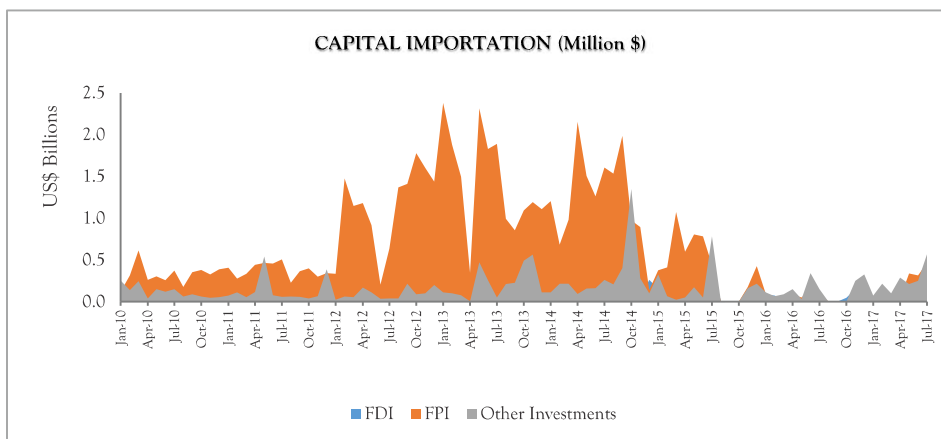
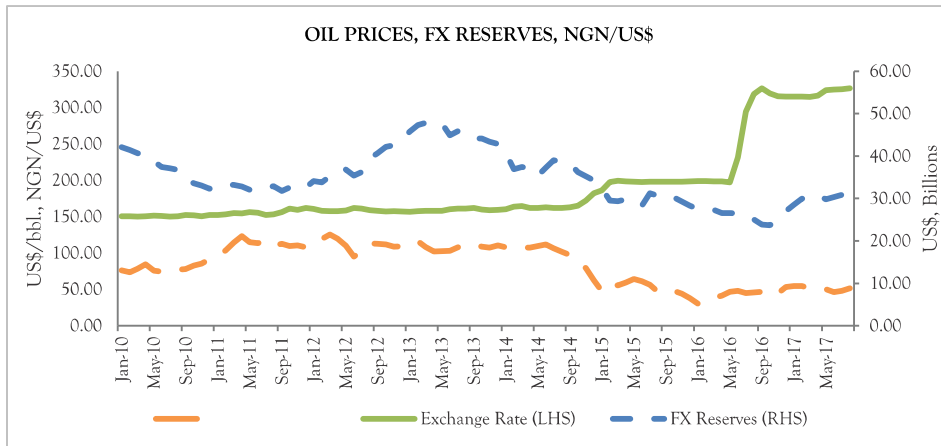
Headline inflation continues to moderate on the back of easing prices of the core component. August marked the seventh consecutive month of deceleration, with inflation printing at 16.01% from 18.72% in January.



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Exchange rate remained stable through the course of Q3, and is likely to remain so in Q4 barring any homegrown disaster of catastrophic magnitude. Oil prices and oil reserves have been supportive of the stable exchange rate as the CBN continues to intervene as necessary.



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*The spread between the savings deposit and risky lending increased to 26.86 percentage points in July,*

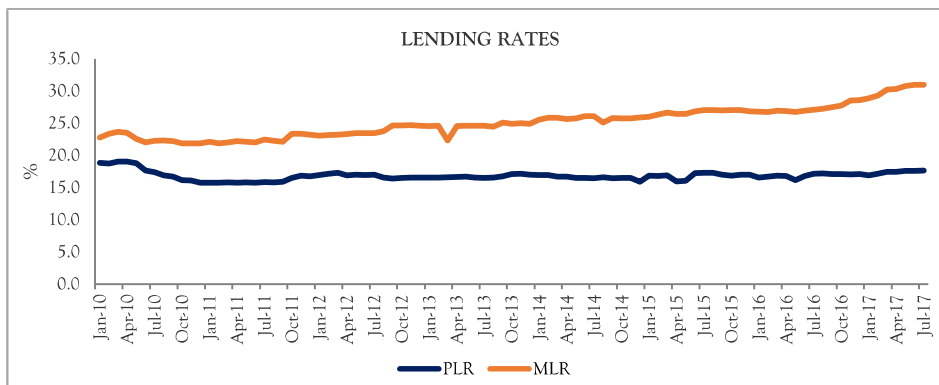
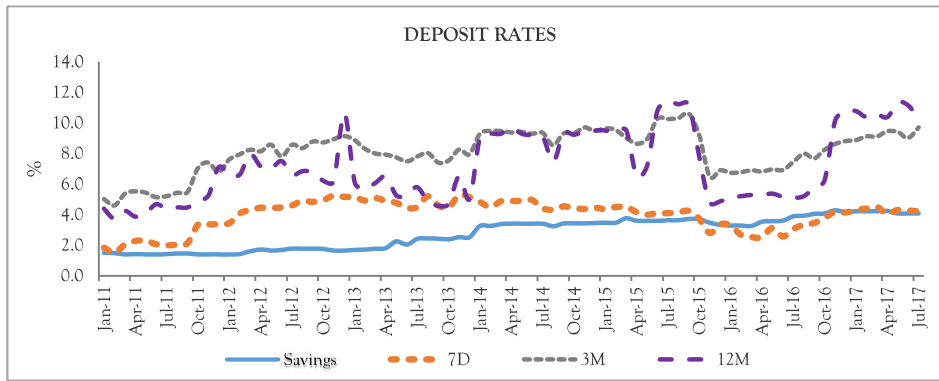
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The debt restructuring drive, which now favours foreign denominated loans to domestic is also set to improve the dollar liquidity in the system. About \$2.5bn is still expected to be raised in Eurobonds before the end of the year.

Capital importation also continues to improve, and this might be given a much needed fillip if the government follows through on its drive to remove the bottlenecks around ease of doing business and improve the general business environment. All these will be supportive of a stable exchange rate.

The spread between the savings deposit and risky lending increased to 26.86 percentage points in July, from 26.53 percentage points in the preceding three months. The cost of funds will continue to deter the risky borrowers from accessing credit, whereas, people with savings and time deposits are losing money due to erosion of value by inflation.

This has necessitated the readjustment of portfolios to higher yielding instruments by individuals, with time deposits balance reducing by N600bn since December 2015.



”

*The Nigerian economy finally emerged from five consecutive quarters of contraction to post a growth of 0.55% in the second quarter of the year.*

“

Cost of funds for prime borrowers rose by 0.11 percentage points in July over the average of the preceding three months, to now stand at 17.65%, while risky borrowers' rate at 30.94%, is 0.27 percentage points higher in July than the average of the preceding three months.

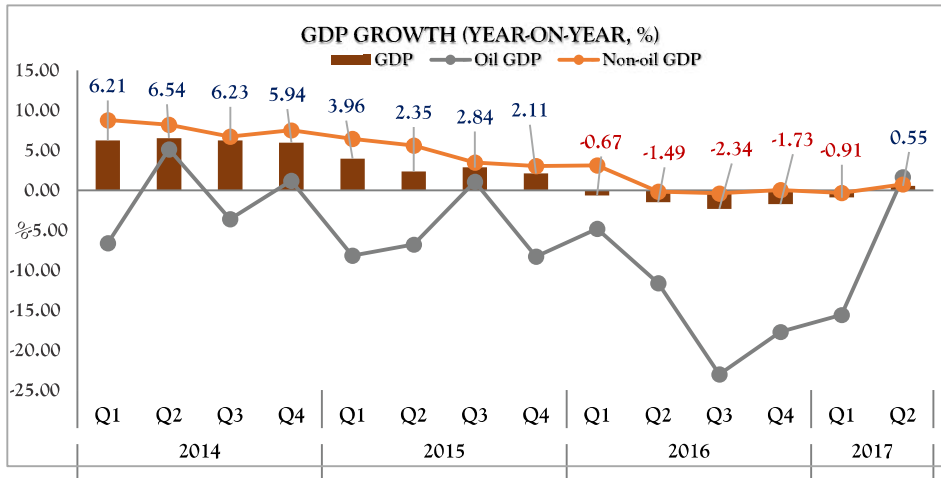
**Activity**

**GDP emerges from recession, but how strong is this recovery?**

The Nigerian economy finally emerged from five consecutive quarters of contraction to post a growth of 0.55% in the second quarter of the year.

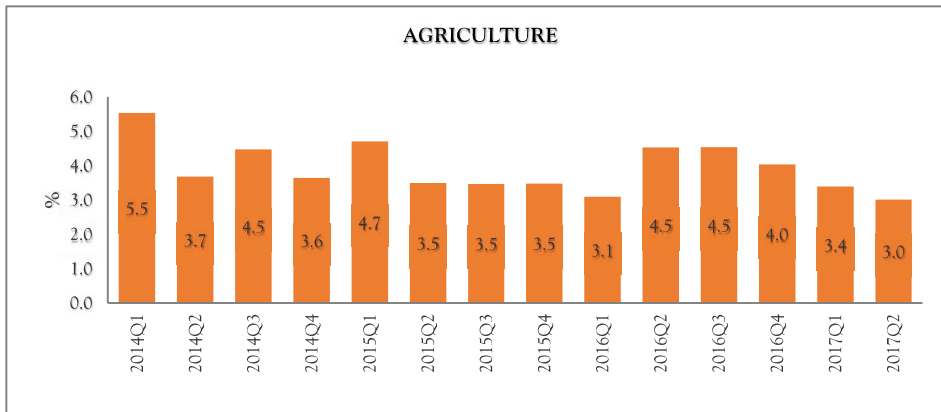
The oil sector also posted a positive growth for the first time since the third quarter of 2015. This 1.64% growth by the oil sector was enough to pull the aggregate GDP into the positive territory.

The non-oil sector remained on the positive fringes, slowing to 0.45% from the 0.72% recorded in the first quarter of the year.



The positive growth of the aggregate GDP, notwithstanding, there are still reasons for concern. The largest sector in the economy, Agriculture, contributing 22.97% to the GDP in the second quarter, decelerated for the third consecutive quarter, posting its slowest quarterly growth since the GDP rebasing.

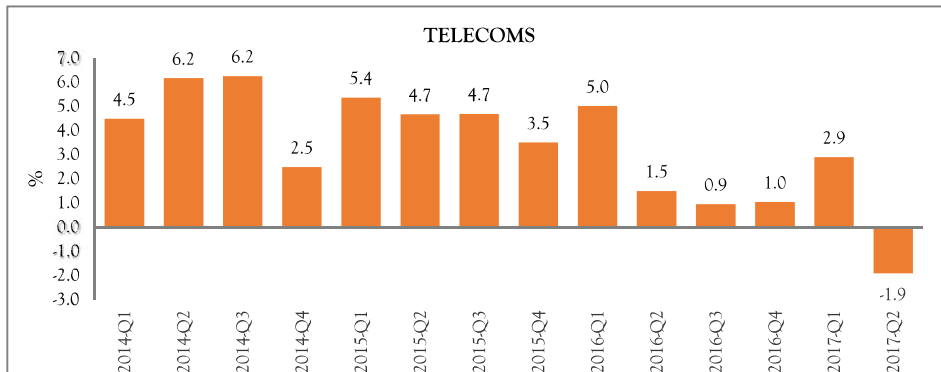
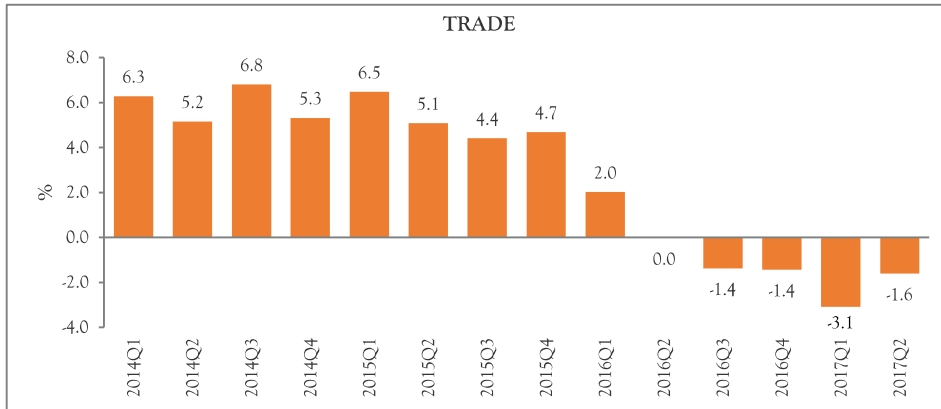
*The Trade sector, which accounted for 17.1% of GDP in Q2, continues to contract for the fifth consecutive quarter, recording a negative growth of 1.6%.*



The Trade sector, which accounted for 17.1% of GDP in Q2, continues to contract for the fifth consecutive quarter, recording a negative growth of 1.6%.

Although the rate of contraction is slower than the 3.1% contraction recorded in the preceding quarter, it is steeper than the contraction recorded in the corresponding period of the previous year.

This is a cause for concern given that oil prices and production have improved, and stability has returned to the foreign exchange market.



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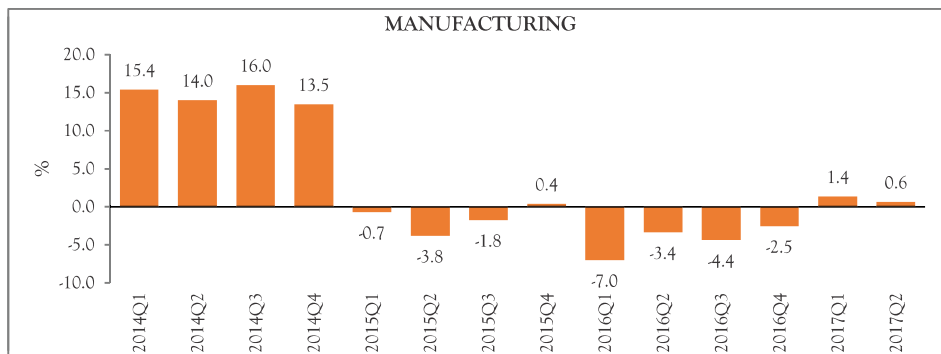
*The Telecoms sector, the former growth engine of activity, which accounted for 9.5% of GDP in the second quarter, surprisingly contracted by 1.9%.*

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The Telecoms sector, the former growth engine of activity, which accounted for 9.5% of GDP in the second quarter, surprisingly contracted by 1.9%. This may not be unconnected with challenges faced by companies in the sector, which saw one of the big four companies collapse under an unsustainable debt burden.

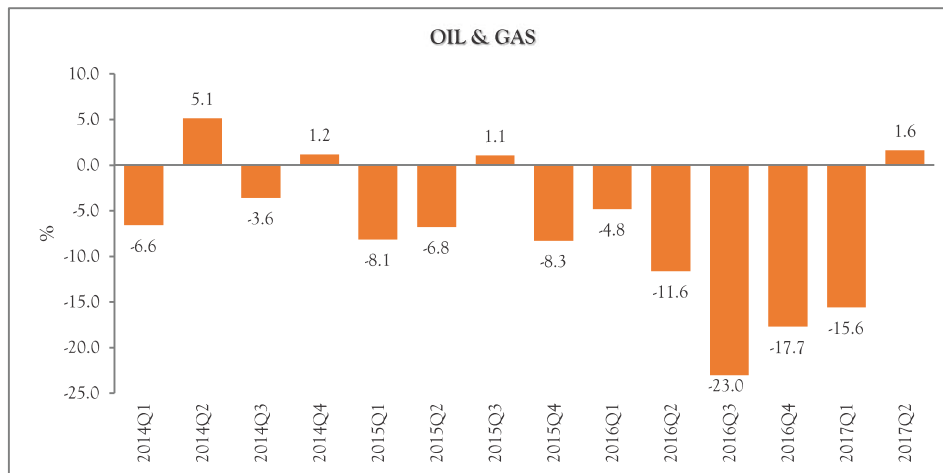
Most of the input costs are denominated in foreign currency while revenue is denominated in local currency. This mismatch was brought to the fore during the currency crisis that beset the country. Now that the exchange rate is stable, and general cost moderating, we would expect the sector to return to the growth path.

The manufacturing sector, contributing 9.38% to GDP in the second quarter, expanded by 0.6%, 0.8 percentage points slower than the growth recorded in the preceding quarter, but 4 percentage points faster than the growth realised in the corresponding quarter of last year.



The oil and gas sector which contributed 8.99% to activity in the second quarter, finally returned to the path of positive growth, accelerating by 17.2 percentage points over the preceding quarter, and 13.2 percentage points over the corresponding period in 2016.

This was expected given the improvement in oil prices and oil production numbers as the restiveness in the production region fizzled out. This leap was enough to lead the aggregate economy back to positive growth.



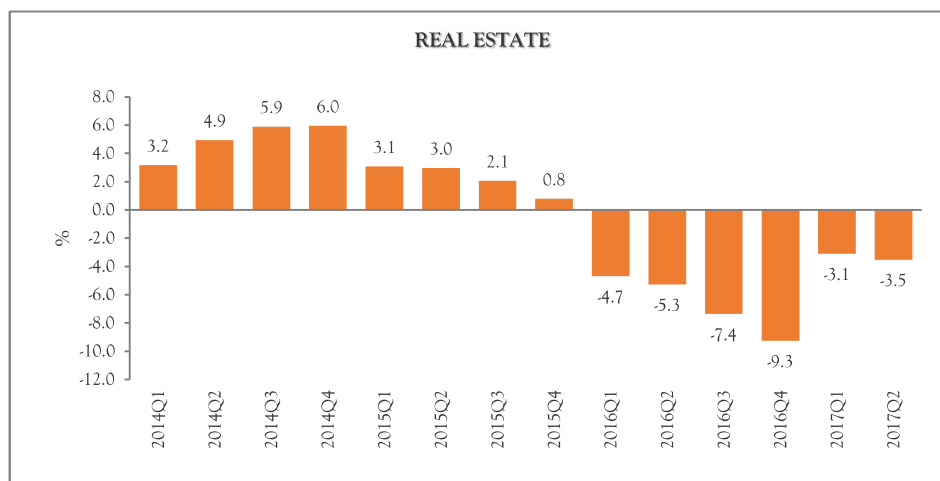
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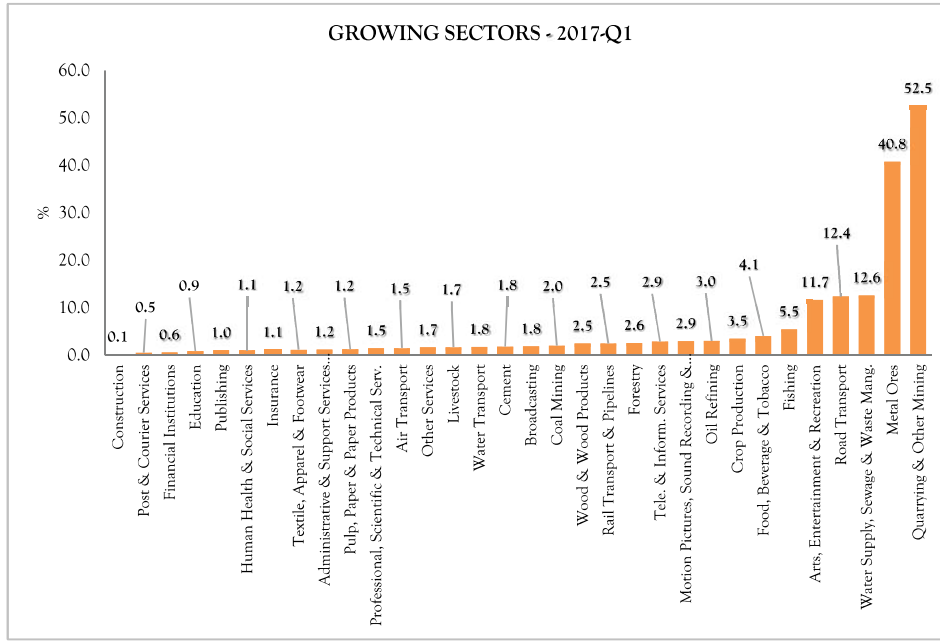
The real estate sector which accounted for 7.22% of activity in the second quarter, contracted by negative 3.5%. This is the sixth consecutive quarter of contraction, declining 0.4 percentage points more than the preceding quarter, but 1.8 percentage points slower than the corresponding quarter of 2016.

Of the big six sectors that together accounted for 75.6% of activity in the second quarter, only the oil and gas sector is positive and accelerating. This suggests there are some underlying weaknesses to the current growth we are experiencing.



In the second quarter of the year, the number of growing sectors reduced from 32 in the preceding quarter to 26, with 20 of the 46 sectors contracting.

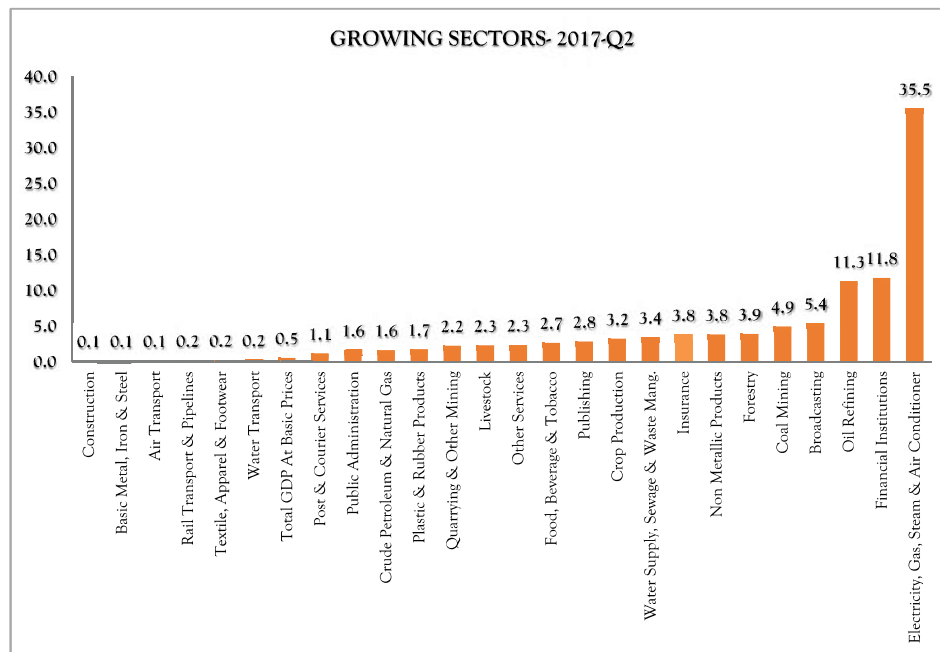
The relatively larger size of the growing sectors, in particular, the oil and gas, was what swung the aggregate economy back into positive territory.



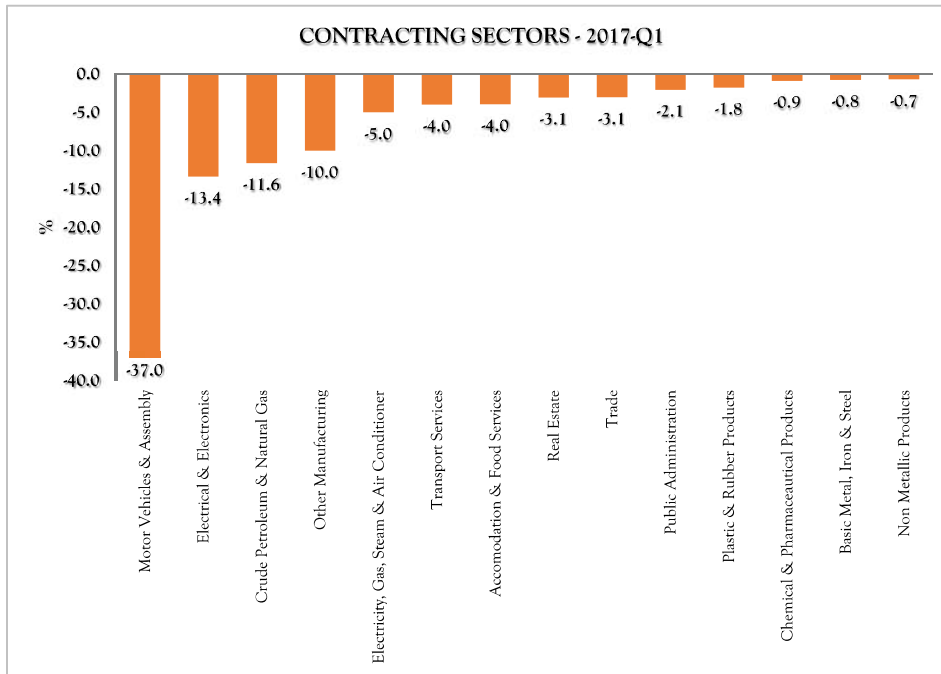
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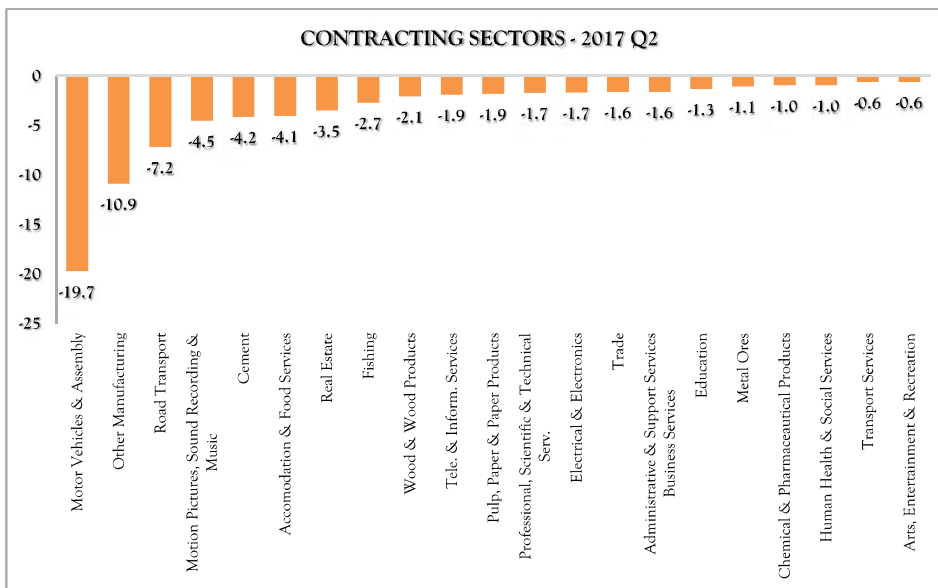




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*There is still work to be done to ensure activity continues to expand as the macroeconomic fundamentals improve.*

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There is still work to be done to ensure activity continues to expand as the macroeconomic fundamentals improve.

**Outlook**

Activity in many of the large Advanced and Emerging Economies is stabilizing, from the United States to Japan, China to Euro area and U.K. Commodity prices are also firming up, with OPEC cutback also supporting oil prices.

The geo-political tensions across the Middle East is not about to be solved anytime soon, with moments of calm followed by moments of turmoil.

The rhetoric between the presidents of North Korea and the United States is also expected to get more caustic, but the cost of a nuclear war, both human and material, should deter them from doing anything stupid.

China is expected to rein in the excesses of North Korea through trade embargos, and hopefully, this will put a lid on the aggression of North Korea.

The flight to safety as Advanced Economies embark on monetary policy normalization might see inflows slow.

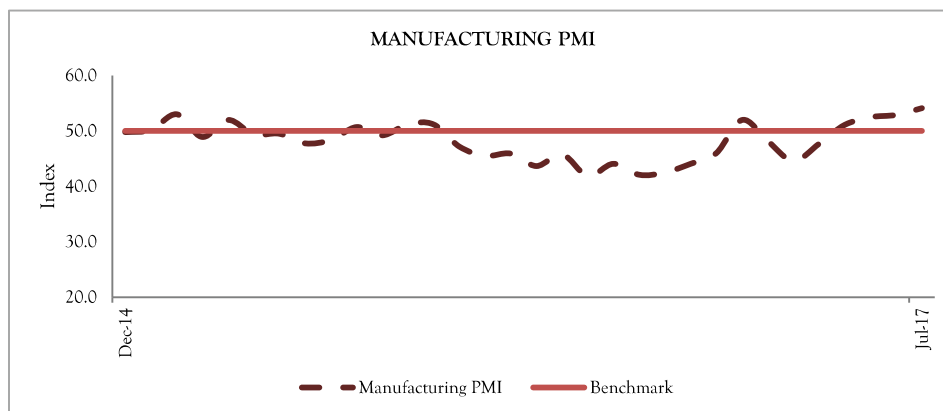
The Purchasing Managers Index (PMI), acted as a good leading indicator for the economy, and it's still in very healthy expansion territory. Indeed, both the manufacturing and non-manufacturing PMIs continue to accelerate, which suggests the GDP for the outgone quarter likely ended in positive territory.

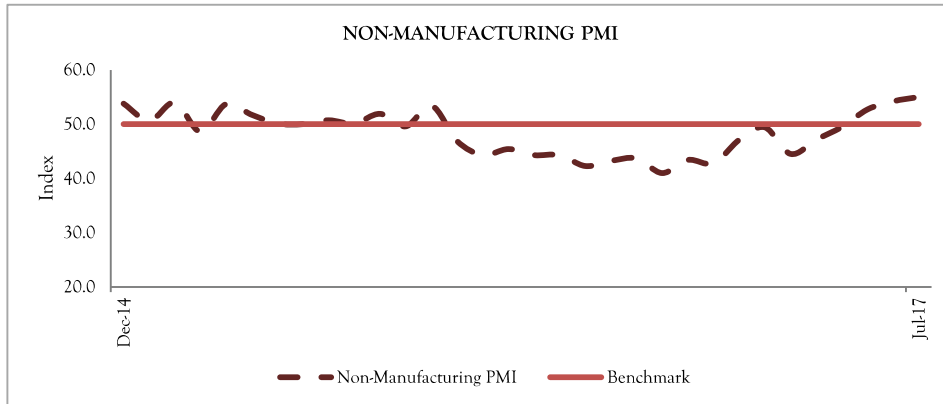
Given the sustained improvement in oil prices and production levels, and stabilization of the macroeconomic fundamentals, we expect activity in the last quarter of the year to reflect these improvements.

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*The geo-political tensions across the Middle East is not about to be solved anytime soon, with moments of calm followed by moments of turmoil.*

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With the government set to release the second tranche of the CAPEX budget, we expect this to be supportive of the economy and ease the burden on consumer wallets. Festive activities should support growth in the trade sector, although, the magnitude is dependent on how much the consumers fair in a challenging environment.

The agriculture sector continues to enjoy attention in the policy space at both the national and sub-national levels. The future path of the industry will, however, be dependent on how the opportunities are harnessed, and there are still opportunities for formalization, commercialization, trading exchanges, storage and processing facilities. The four sub-sectors in agriculture are also the most resilient, and offer safer bets for investment.

The Telecoms sector remains attractive, but will have to create new opportunities along the value chain. Construction sector will benefit from CAPEX expenditures, but the glut in the real estate industry is expected to persist.

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*The four sub-sectors in agriculture are also the most resilient, and offer safer bets for investment.*

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# Section 2

Global Financial & Economic Outlook

## GLOBAL ECONOMY: Back in business

Global economic conditions have remained relatively steady over the course of the past quarter while the outlook for the global economy has improved. Natural disasters and geopolitical events have also generated short-term headwinds. Early estimates of the direct costs of Hurricane Harvey (in Southwest Texas) on U.S. economic activity has ranged from USD\$30-200 billion.

Data for the global economy shows that growth was 3.2% annually in the second quarter, from 3.1% in the first quarter marking the best result in two years with advanced economies benefiting from favourable monetary conditions and tightening labor markets while emerging economies made the most of a recovery in commodity prices and resilient dynamics in China.

Amongst the advanced economies, Europe, Japan and the U.S. have seen improved economic activity over the second quarter of 2017. Growth in China has also edged higher over the same period. Among the major economies, the slight laggard has been the British economy which is still saddled with the uncertainty surrounding the outcome of the Brexit talks.

Monetary policy remains accommodative although policy tightening has commenced in some advanced economies and gradual tapering has been signalled in the major advanced economies. 'Quantitative Tightening' has replaced 'Quantitative Easing' as the new buzzword.

Robust economic growth in advanced economies is giving central banks some room to breathe and assess their monetary policy, while uneven recoveries in emerging market economies has several central banks on an easing cycle, including Brazil, Colombia, Russia, Ukraine and South Africa. Strong economic growth is prompting the European Central Bank (ECB) to shift to a more hawkish tone on interest rates, and analysts now expect the Bank to announce a tapering in Q4.

The Bank of England also adopted a more hawkish tone as officials seemed less concerned over the medium-term economic drag from Brexit. Unlike its peers, the Bank of Japan struck a dovish tone at its September meeting as officials reaffirmed the Bank's accommodative stance despite a backdrop of strengthening economic momentum.

Putting all these together, monetary policy is expected to remain divergent throughout the rest of the year between advanced and emerging economies.

Among the key emerging market economies, leading data for Q3 suggests that China has embarked on a downward trajectory following a strong H1 performance as efforts by authorities to rein in credit growth across all sectors dampen economic activity. India's economy also suffered in Q2.

In Brazil, although GDP expanded for the first time in over three years in Q2, the recovery remains fragile. The Russian economy has also shown incipient signs of losing some steam in Q3 after a robust Q2 performance, when growth reached a near-five year high.

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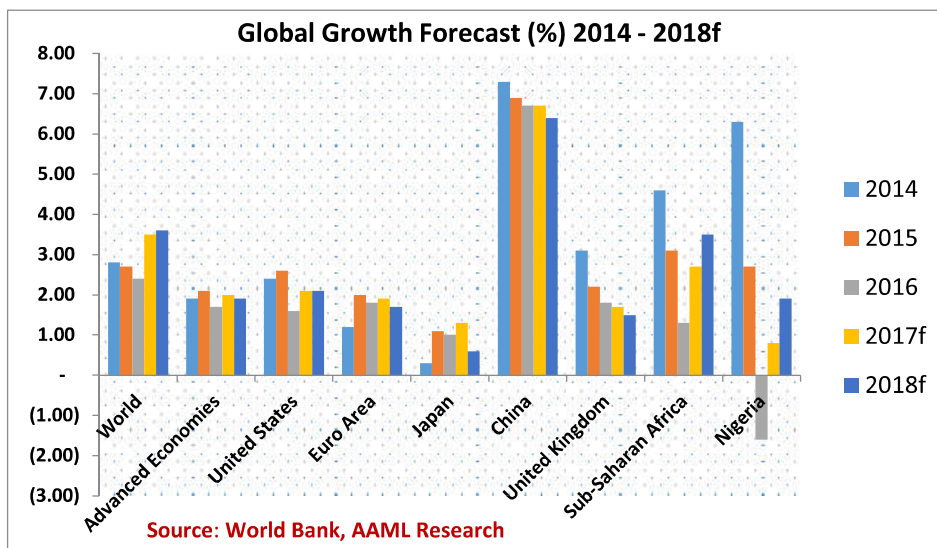
*Putting all these together, monetary policy is expected to remain divergent throughout the rest of the year between advanced and emerging economies.*

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Geopolitical tensions have increased recently after North Korea launched a ballistic missile over Japan and threatened to fire intercontinental ballistic missiles into the U.S. territory of Guam.

As a result, the United Nations Security Council unanimously passed new sanctions on North Korea which would cap the nation's oil imports, ban textile exports and end additional overseas labourer contracts.

Assuming a war were to take place, the impact would be systemic: Japan and South Korea would be the most affected, and would likely account for 1/3 of global GDP. Financial risk would increase as war efforts would drain already weak public finances. On the balance of risks analysts maintains an average forecast of global growth for 2017, rising to 3.4% in 2018.



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*Leading data has begun to show the extent of Harvey's impact, with both industrial output and retail sales recording bleak performances in August.*

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**UNITED STATES: Hurricanes to take a toll on output**

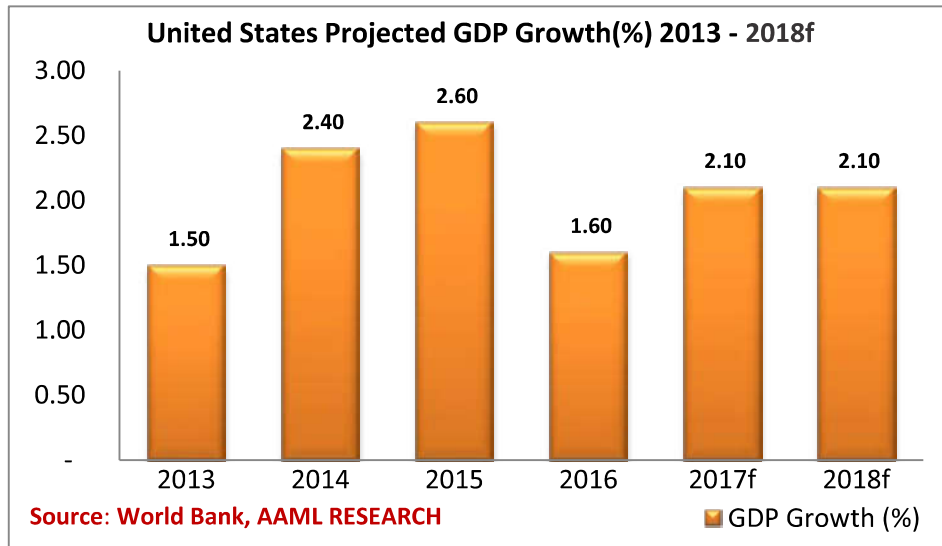
The economy is already grappling with the adverse effects of Hurricanes Harvey and Irma, which is expected to drag Q3 growth. Leading data has begun to show the extent of Harvey's impact, with both industrial output and retail sales recording bleak performances in August. However, economic growth is expected to recover next quarter as a result of rebuilding activity and new purchases made to replace lost goods, with USD 15.3 billion in hurricane relief already approved by the Senate.

In the fiscal policy arena, Congress reached a deal in early September to increase the debt ceiling and extend government funding for three months. With these short-term hurdles cleared, analysts now expect the Congress and administration to focus on tax reform, which could provide a boost to growth next year.

Growth this year will continue to benefit from steady gains in employment and a revival in non-residential investment and exports. Analysts forecast growth of 2.1% in 2017. Next year, growth is expected to come in at a slightly faster clip as a result of solid consumer spending, robust investment and renewed strength in the housing market. However, the possibility of a fiscal stimulus plan coming to fruition later this year offers a potential risk to growth.

At its September meeting, the Federal Reserve though mindful of the effects of recent hurricanes on the economy, downplayed any lasting effects as the Committee forged ahead with plans to begin unwinding the Bank's massive USD 4.5 trillion balance sheet in October.

In the final analysis, the Federal Reserve kept its projected path of interest rate hikes unchanged from June and thus a third interest rate increase is expected at the December meeting.



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*Analysts expect the Eurozone to grow by 2.1% this year as the economy fires on all cylinders.*  
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**EURO AREA: Economic momentum accelerated**

GDP data confirmed that the Eurozone's recovery continued in the second quarter of 2017, supported by both robust domestic demand and the external sector. GDP grew solidly in the first half of 2017 and the ECB upgrade its growth forecast for this year to 2.2% (previous forecast: +1.9%). Positive tailwinds from a stronger labor market, upbeat sentiment and a healthier global backdrop led to buoyant growth in the quarter.

Data shows a continuation of firm activity, rebounding Industrial production in July, rising economic sentiment to an over 10-year high in August and the composite PMI increased in September. However, the euro has appreciated notably this year and recent figures suggest that its strength could be taking a bite out of overseas sales: The trade surplus narrowed more than had been expected in July.

Analysts expect the Eurozone to grow by 2.1% this year as the economy fires on all cylinders. Next year, GDP is projected to grow at a solid, but more moderate, clip of 1.8%, which is unchanged from last month's estimate. While lower unemployment will continue to support household consumption, a strong euro could weigh on export growth.

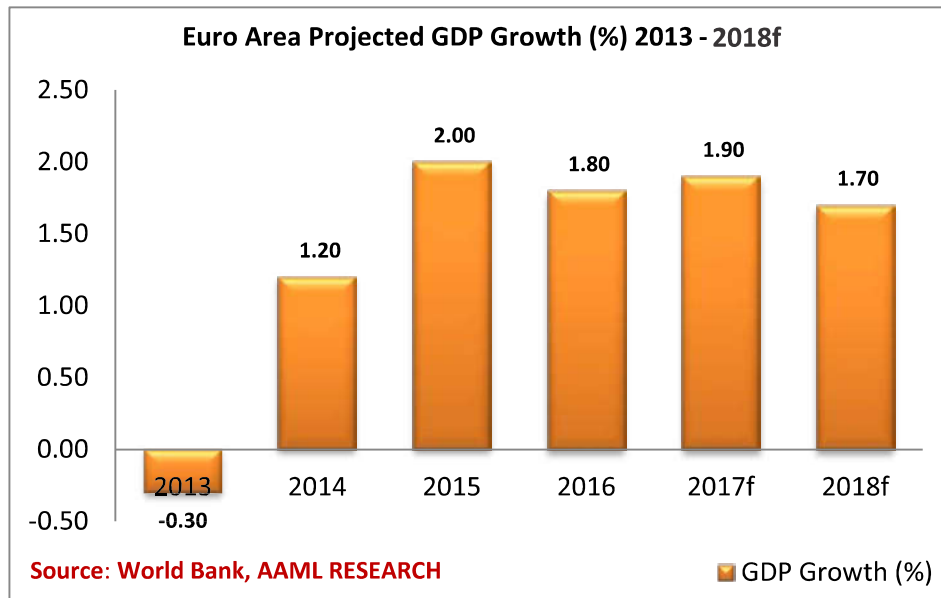
Germany elections held on 24 September 2017 revealed a fourth consecutive victory for Chancellor Angela Merkel and her Christian Democrat-led bloc but no outright majority. The main political parties –the Christian Democrats and Social Democrats -received historic-low votes as voters turned to the anti-



immigration Alternative for Germany (AfD) party in a rebuke to current immigration policy. The next step for Chancellor Merkel is to forge a coalition to govern –a process likely to take months.

The ECB's monetary policy stance still remains ultra-accommodative despite firmer activity in the Eurozone. The European Central Bank (ECB) decided to keep interest rates unchanged at its 7 September meeting and made no changes to its bond-buying program.

The refinancing rate, the marginal lending rate and the deposit facility rate remain at 0.00%, 0.25% and minus 0.40%, respectively. In addition, the Bank reiterated that it planned to continue with its monthly asset purchases of EUR 60 billion until the end of December and that no other decisions have been made on the future of the bond-buying program, postponing a likely announcement of tapering until Q4.



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*Strong economic momentum and a splintered opposition compelled Prime Minister Shinzo Abe to hold snap elections on 22 October in a bid to consolidate his grip on power.*

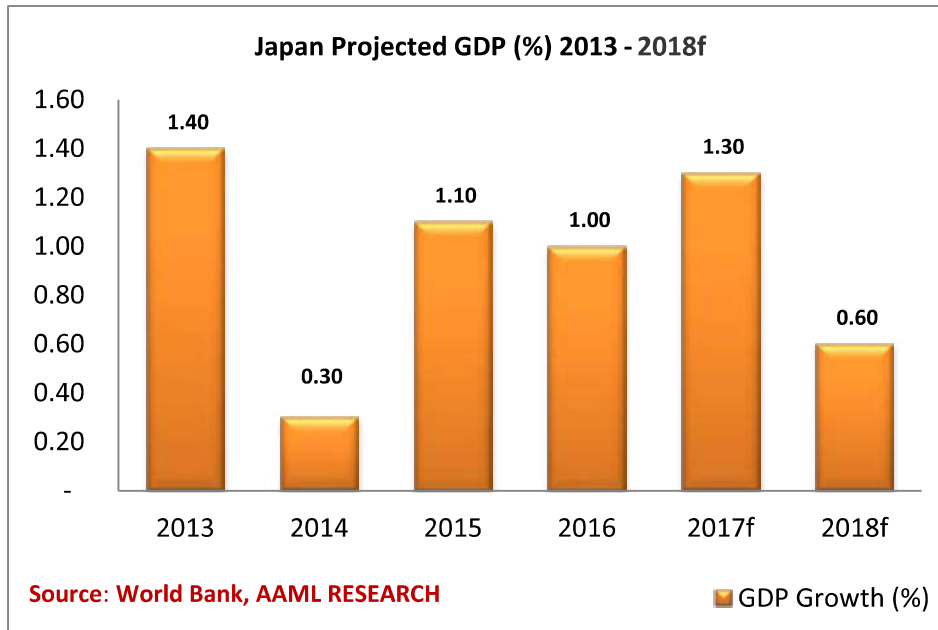
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**JAPAN: grew for a sixth consecutive quarter**

Resilient global growth and improving domestic demand are propping up Japan's economy this year. However, ongoing geopolitical tensions could lead the yen to appreciate, hurting the external sector.

Following a slowdown in private non-residential investment, growth in the second quarter was revised down to 2.5% in seasonally-adjusted annualized terms, significantly below the 4.0% figure reported in a preliminary estimate. Despite this revision, the print marked the fastest expansion since Q1 2015 and puts the economy on a steady track to recovery. The latest data suggests that healthy growth is being sustained in the third quarter.

Machinery orders rebounded in July, and exports had the fastest pace of expansion in almost four years in August. Strong economic momentum and a splintered opposition compelled Prime Minister Shinzo Abe to hold snap elections on 22 October in a bid to consolidate his grip on power.



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*A healthy labor market propelled the unemployment rate to another multi-decade low in July amid signs of a mild recovery in real wage growth.*

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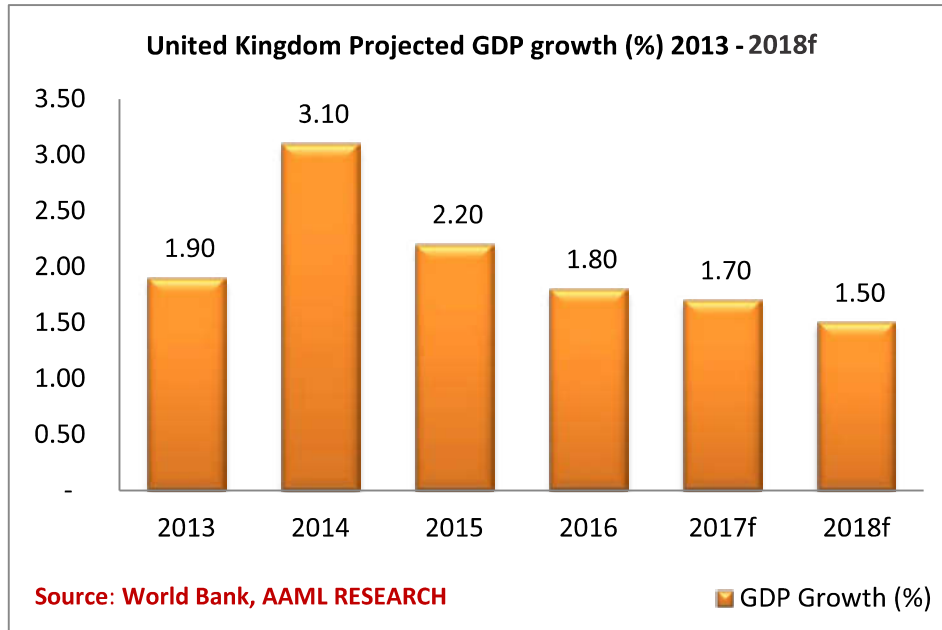
### UNITED KINGDOM: uncertainty surrounding Brexit outcomes

The economy is expected to slow this year as rising inflation erodes consumers' purchasing power. It is also expected to slow next year as prolonged Brexit uncertainties continue to deter investors. However, the Bank of England's ultra-loose monetary policy stance and resilient global demand should cushion the slowdown.

Incoming data for Q3 is mixed. On the positive side, the manufacturing sector rebounded in July, and a rise in the manufacturing PMI in August signals an acceleration in the expansion of output. A healthy labor market propelled the unemployment rate to another multi-decade low in July amid signs of a mild recovery in real wage growth. Consumer sentiment edged up in August, indicating brighter prospects for private consumption. On the downside, growth in total industrial production fell in July.

In August, the housing market cooled further and the services PMI dropped. Brexit uncertainty continues to deter investment, and Prime Minister May's speech on 22 September failed to offer sufficient clarity on the UK's desired trading relationship with the EU. Hours after the speech, Moody's downgraded the country's credit rating by a notch to Aa2 from Aa1 and changed the outlook from negative to stable, citing mounting policy challenges around the complexity of Brexit negotiations.

At its 13 September meeting, the Monetary Policy Committee (MPC) of the Bank of England (BoE) voted to leave interest rate unchanged at 0.25% to support an economy characterised by sluggish private consumption and business investment, and in light of the uncertainty faced from Brexit negotiations. The Bank also voted unanimously to continue its purchases of investment-grade corporate bonds.



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*While the incoming data suggests that growth has peaked and entered a downward trajectory in H2, the downturn is likely to be modest overall as government spending should prevent a sharp slowdown.*

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### CHINA: Financial tightening is starting to bear fruit

Recent data points to easing momentum in China's economy, following buoyant growth in the first half of the year.

In August, retail sales growth moderated, industrial production lost steam and the pace of investment cooled. In addition, the external sector's performance deteriorated as exports slumped, while import growth picked up speed.

Recently, exporters have come under strain due to the recent strengthening of the yuan.

While the incoming data suggests that growth has peaked and entered a downward trajectory in H2, the downturn is likely to be modest overall as government spending should prevent a sharp slowdown.

Meanwhile, all eyes are on the government's 19th National Congress of the Communist Party on 18 October. Five of the seven members of the standing committee are due to retire, and their replacements will help shape the future of China's policy. President Xi Jinping will also lay out the party's priorities for the next five years.



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*GDP data released across the region showed that GDP expanded in Nigeria thanks to higher oil output and positive dynamics in the agricultural sector.*

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### SUB-SAHARAN AFRICA. Returning to its normal pace of growth

Recent data confirms that the slow economic turnaround of the Sub-Saharan Africa (SSA) region continued in the second quarter.

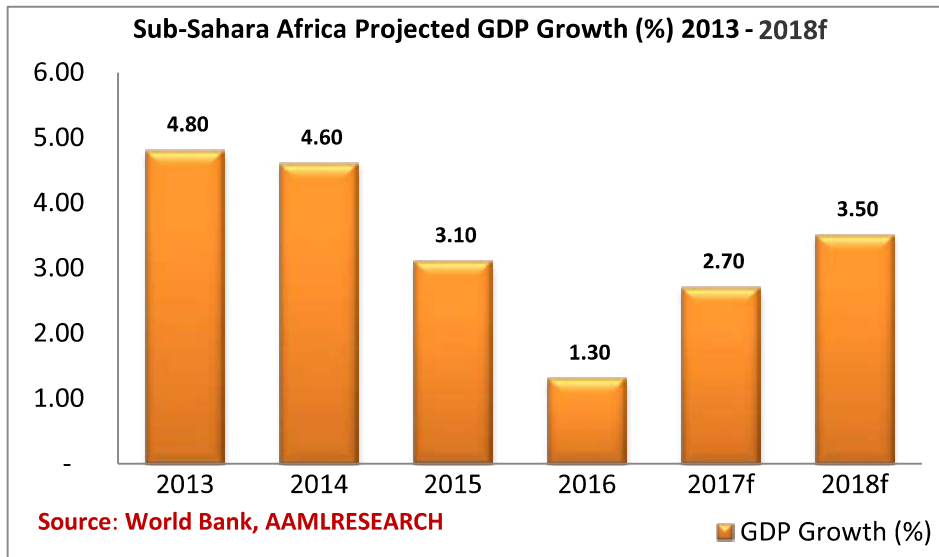
Chiefly behind the second quarter result was a recovery in Nigeria's economy. GDP data released across the region showed that GDP expanded in Nigeria thanks to higher oil output and positive dynamics in the agricultural sector.

In addition, GDP growth edged up in South Africa as improved weather conditions supported agricultural output. However, growth was still weak overall in the region's most advanced economy as political uncertainty has eroded confidence and led to credit rating downgrades. Meanwhile, growth was steady in Mozambique and edged down slightly in Cote d'Ivoire.

Kenya continues to be in the spotlight due to ongoing political limbo. On 1 September, the Supreme Court nullified a fiercely-contested August election, increasing uncertainty and inflicting damage on growth prospects as politics take precedence over policy. A repeat vote will be held on 17 October as the country continues to grapple with a devastating drought that is ravaging the north of the country.

Sub-Saharan Africa is expected to grow moderately this year, as volatile commodity prices and turbulent political scenes limit the recovery. GDP is seen expanding 2.5%. Next year, regional GDP growth is seen gaining steam as the recovery strengthens. However, the evolution of commodities prices will be key to the economy's performance in the coming months.

Cote d'Ivoire and Ethiopia are expected to be the fastest-growing economies next year, expanding 7.0% or higher. On the flip side, South Africa is expected to grow 1.3%, followed by Angola with a 2.6% increase and Nigeria with a 2.7% expansion.



### CRUDE OIL PRICE: Boosted by Hurricanes Harvey and Irma

Brent Crude Oil prices rose in recent weeks due to developments related to Hurricanes Harvey and Irma, as well as higher refinery demand in Europe and Asia.

On 8 September, Brent Crude Oil prices traded at USD 54.6 per barrel, which was up 4.5% from the same day in August and the highest level since April 2017. While the benchmark price for global crude oil markets was 1.2% lower on a year-to-date basis, it was up 10.3% from the same day last year.

Oil prices were mostly affected by developments related to Hurricane Harvey and signs that the global oil glut is slowly receding. Hurricane Harvey and the subsequent flooding knocked out more than 20% of the U.S. refining sector, reducing demand for crude oil and sending oil prices lower in the last week of August.

Oil prices, however, faced upward pressure again in September as some refineries resumed their activities in the United States. Moreover, refineries in Europe and Asia sought more crude in order to compensate for the partial shutdown in the U.S., supporting prices for the global benchmark.

Overall, there are signs that oversupply is easing. Global growth remains strong, adding upward pressure from the demand side. Russia and Saudi Arabia boosted market confidence as both key oil producers are pushing to extend the OPEC oil cut deal by three months, to June 2018.

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*Oil prices were mostly affected by developments related to Hurricane Harvey and signs that the global oil glut is slowly receding.*

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**NIGERIA ECONOMY**

**MACRO ECONOMY: POLITICAL ENVIRONMENT: 2019 positioning starts**

It is still two long years before the 2019 presidential election but the distraction of that election was so palpable last month. From now till May 2019, governance will no longer run at full capacity. Likewise, in the last few months, the case for the restructuring of Nigeria's federal system has become louder, most likely becoming a major dividing factor in the 2019 election. Although the recent Indiginous People of Biafra (IPOB) agitations has been quelled by the Nigerian Army invasion of Anambra State, we may not have heard the last of the secessionist movement.

Despite wrangling over the contentious economic recession, and the agitation of many emphasizing the need for Nigeria to focus and aggressively push for economic policies, that will guarantee the nation's exit from recession, the National Bureau of Statistics (NBS) reported that the economy has finally exited the recession. Importantly, Nigeria cannot be contented with merely growing out of recession; the economy, particularly the non-oil sectors, needs to be strengthened so that the people can become economically prosperous.

A 0.55 percent growth in the GDP is still some 2.3 percent lower than the country's population growth rate. An estimated 14,000 babies are being delivered every day but our revamped economy can take care of only under 3,000 of them. To measure up, growth must increase by an extra 2.8 percent. Unfortunately, premature 2019 election positioning threaten to derail the government from fully focusing on this, and the many other important tasks ahead.

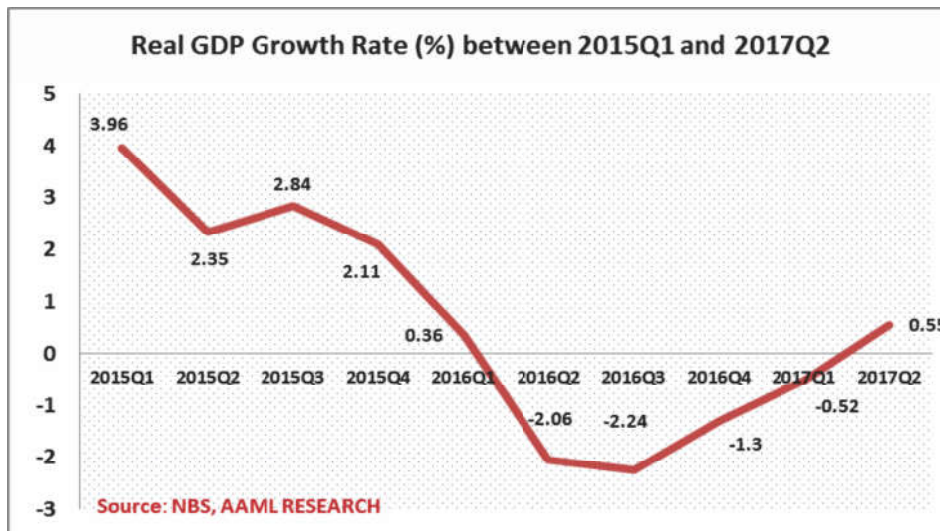
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*A 0.55 percent growth in the GDP is still some 2.3 percent lower than the country's population growth rate*

“

**GDP GROWTH: A very fragile exit from recession**

Following the release of Q2:2017 Gross Domestic Product (GDP) figures by the National Bureau of Statistics (NBS), the growth rate of 0.55% (year-on-year) was 2.04% higher than the rate recorded in the Q2:2016 (-1.49%) and higher by 1.46% points from rate recorded in Q1:2017, which was revised to -0.91% from -0.52% due to revisions to crude output for March 2017.

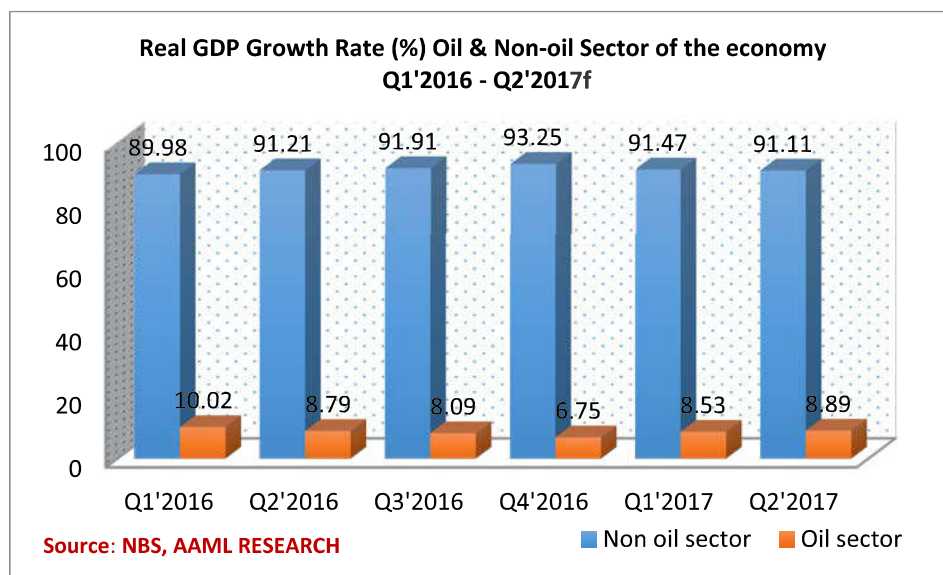




Nigeria's economic recovery was driven principally by the performance of four main economic activities comprising oil, agriculture, manufacturing and trade.

Oil GDP recovered significantly from -11.63% in Q2 2016 and -15.40% in Q1 2017 to 1.64% in Q2 2017.

Non-oil GDP only grew at 0.45%, down from 0.72% in the preceding quarter and -0.38% in the corresponding period in 2016.



”

*Even though the GDP growth news is positive, close analysis indicate it is not time to celebrate yet.*

“

Agriculture sector continued its strong and positive growth, growing by 3.01 per cent in Q2 2017, from 3.39 per cent in Q1 2017 and 4.53 per cent in Q2 2016. Manufacturing retained its positive growth for the second consecutive quarter in Q2 2017, growing at 0.64% compared to 1.36% in Q1 2017 and -3.36% in Q2 2016, while trade which has a dominant share of GDP remained negative at -1.62%, but the contraction in the sector decelerated from the -3.08% recorded in Q1 2017.

In nominal terms, Real Estate Services in Q2:2017 grew by 6.17%, higher by 4.05% points than the growth rate reported Q2:2016 and lower by -4.40% points compared to Q1:2017. Quarter-on-Quarter, the sector growth rate was 18.13%. The contribution to nominal GDP in the Q2:2017 was 7.98%, lower than the 8.62% report in Q2: 2016.

In real GDP growth recorded -3.53%, higher from growth in 2016 by 1.75% points. The sector contributed 7.22% top real GDP in Q2:2017 lower than the 7.53% in Q2:2016.

Even though the GDP growth news is positive, close analysis indicate it is not time to celebrate yet. The underlying structure of the GDP growth recorded remains weak and fragile due to its composition as only three of the largest sectors recorded strong growth- insurance (10.45%), agriculture (3.01%) and crude petroleum and natural gas (1.64%) with majority of sectors, including large ones still in recession.

In effect the exit from recession was most substantially accounted for by the significant swing from a 15.6% contraction in the crude petroleum and natural gas sector in Q1 to a 1.64% growth in Q2! But for this 17.24 percentage point change in the crude oil and gas sector, Nigeria would have remained in recession.

In effect the exit from recession was most substantially accounted for by the significant swing from a 15.6% contraction in the crude petroleum and natural gas sector in Q1 to a 1.64% growth in Q2! But for this 17.24 percentage point change in the crude oil and gas sector, Nigeria would have remained in recession in the second quarter of 2017!

The rate of growth of our aggregate non-oil economy also dropped from 0.72% in Q1 to 0.45% in Q2 confirming that the recovery is driven simply by higher oil prices and production, and -greater FX liquidity and a slowing down of non-food inflation as FX rates moderated.

Agricultural growth has trended downwards for four consecutive quarters since Q3 2016 when the sector grew by 4.54%, to 4.03%, 3.39% and 3.01% by the second quarter of 2017! Manufacturing sector worsened between Q1 and Q2 2017 from 1.36% to 0.64%; construction sector growth declined from 0.15% to 0.13%; hotels and restaurants declined further from a negative 3.96% in Q1 to -4.05% by Q2; real estate worsened from -3.10% to -3.53%.

”

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“



**INFLATION: Maintains a Downward Trend**

Despite the pressure on food prices during the year, Headline Inflation rate in the Nigerian economy has been on the decline, thus maintaining the downward trend since January 2017.

The National Bureau of Statistics (NBS) reported that inflation rate further dropped to 16.01% in August from 16.05% in July (against 18.72% in January, 2017) driven by the contraction in money supply, decline in imported food and non-food prices, favourable base effects, and the moderating effects of stable exchange rates.

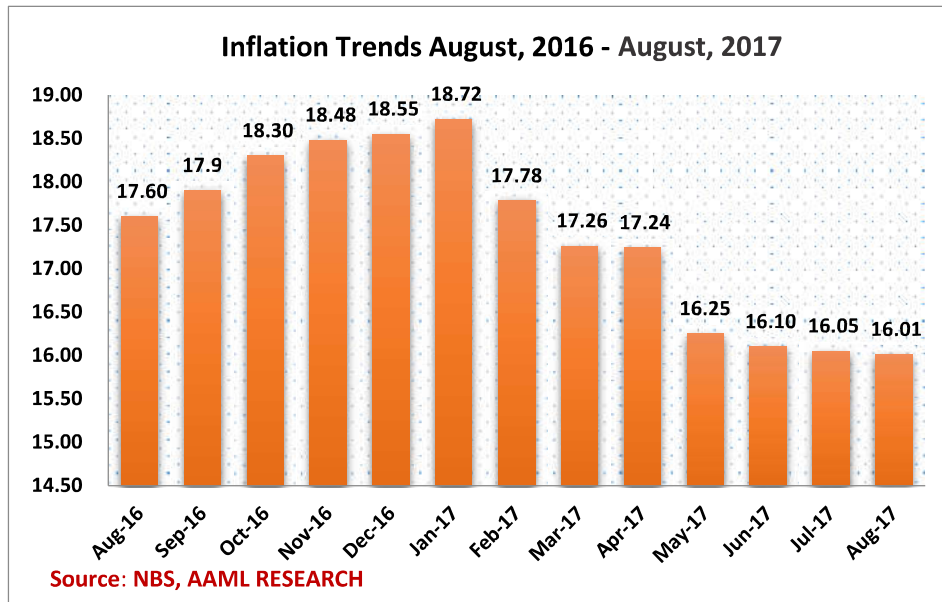
In August, food inflation declined slightly to 20.25% from 20.28% in July 2017, while core inflation increased to 12.30% in August 2017 from 12.21% in July 2017.

Going forward, we expect impact of improvement in non-oil agricultural sector reflected in GDP growth to continue to dictate core inflation and overall headline trajectory.

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*Despite the pressure on food prices during the year, Headline Inflation rate in the Nigerian economy has been on the decline, thus maintaining the downward trend since January 2017.*

“



## CRUDE OIL PRODUCTION: Improved production volume

The marked reduction in insurgency in the Niger-Delta region, alongside the resumption of the Forcados line contributed to the increased volume from an average of 1.69mbpd in Q1:2017 to 1.84mbpd in Q2:2017.

Recently, Oil prices came under pressure after the Energy Information Administration (EIA) had reported decline in US-production due to arrival of Hurricane Harvey in the month of August which led to the closure of several refineries in Texas.

Consequently, the International benchmark, Brent crude rose \$1.52, or 2.7%, to \$58.38 per barrel, surpassing the highest level of the year. However, the United States West Texas Intermediate crude remained well below its 2017 high, but topped \$51 a barrel for the first time in four months.

During the review period, OPEC and other oil exporters declined to extend their agreement to limit production in a bid to drain a global glut that has weighed on prices for three years. Meanwhile, Nigeria's oil output has climbed steadily following a respite in activity by militants demanding control of oil resources.

Average oil production including condensates, increased to 2.06 million barrels per day (mb/d) in July, from 2.05 million b/d in June, as the country continued to increase production amidst retention of output concession from the Organisation of Petroleum Exporting Countries (OPEC). Though the increase appeared marginal, it was, however, a huge jump over the 1.6 million b/d output a year ago when production facilities were hit by attacks from Niger Delta militants.

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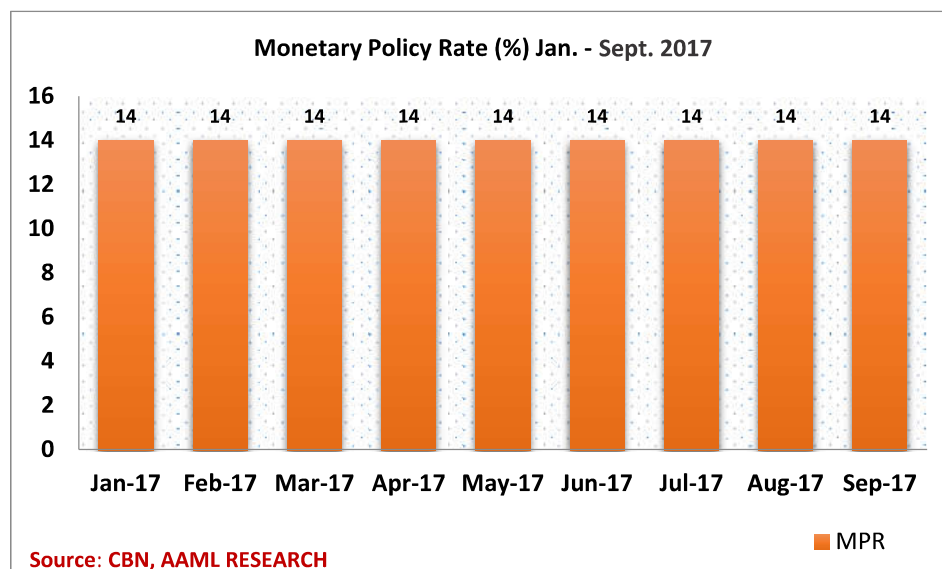
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## MONETARY POLICY: Status Quo Maintained

Despite Nigerian economy exited the recession and grew at 0.55% in Q2:2017 and Inflation rate further dropped in August by 16.01% and achieved moderate gap between parallel and official foreign exchange rate, CBN Monetary Policy remains unchanged, in September, as the CBN maintained its priorities in the direction of maintaining price stability.

Couple with the fact that the committee has been holding the rates since July 2016, the Policy maker at the end of its meeting held in September likewise retained the Monetary Policy Rate (benchmark interest rate), Cash Reserve Ratio and Liquidity Ratio at 14.00% and 30.00 respectively with a compelling argument to achieve more clarity in the evolution of key macro economy indicators, including budget implementation, economic recovery, exchange rate, inflation and employment generation.

The committee although emphasized fragile economic recovery, buttressed with the fact that the fragility of the growth makes it imperative to allow more time to make appropriate complementary policy decision to strengthening the recovery and subsequently help revive economic growth in the short to medium term and stabilize prices. In addition, we believe CBN's decision to maintain a tight policy stance reflects its desire to continue to keep a tight lid on NGN liquidity levels to reduce speculative USD demand.



”

*The dismal performance of growth in credit was primarily due to the low performance of the economy.*

### Monetary, Credit Market: Slow growth in Credit

Broad Money supply (M2) contracted by 11.06% in August 2017 annualized largely due to the contraction of 18.42% in other assets net (OAN) in August 2017, in contrast to the provisional growth benchmark of 10.29% for 2017. Also, M1 contracted by 12.25% in August 2017, annualized to -18.37%.

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Net Domestic Credit (NDC) contracted by 0.14% in August, 2017, annualized to -0.20%, driven majorly by net credit to government, which also contracted by 1.05% against the benchmark of 33.12%. Credit to the private sector grew marginally by 0.07% in August 2017 far below the programmed target of 14.88%.

The dismal performance of growth in credit was primarily due to the low performance of the economy.

### MONEY MARKET INDICATORS

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Inter-Bank Call Rate	8.15	27.46	13.11	64.58	21.29	13.46	12.28
MPR	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Treasury Bill Rate	13.95	13.75	13.60	13.58	13.50	13.50	13.46
Savings Deposit Rate	4.22	4.22	4.23	4.24	4.08	4.08	4.08
1 Month Deposit	8.58	8.24	8.58	8.87	8.73	8.65	8.85
3 Months Deposit	8.88	9.13	9.11	9.46	9.41	9.01	9.71
6 Months Deposit	10.31	10.40	10.56	10.64	10.57	10.68	11.24
12 Months Deposit	10.77	10.37	10.57	10.38	11.33	11.15	10.27
Prime Lending Rate	16.91	17.13	17.43	17.44	17.58	17.59	17.65
Maximum Lending	28.88	29.26	30.18	30.31	30.75	30.94	30.94

Source: CBN, AAML Research

### FAAC: Decline due to drastic fall in revenue from Companies Income Tax

The Federal Government, the 36 states and their local government areas have so far shared N1.4 trillion from the federation account, being revenue generated in the first quarter of 2017.

The total revenue shared in January between the federal, states and local governments was N430.16 billion, meaning that federal took N168 billion, states, N114.28 billion and local governments, N85.4 billion.

The federation grossed in N514 billion in February and Federal Government's share was N200.6 billion, states, N128.4 billion and local governments, N85.4 billion.

However, in March, revenue generation dipped lower, grossing N466.9 billion, and from it, the Federal Government got N180.5 billion, state governments, N116.5 billion and local governments, N87.5 billion.

The allocations for the month of April declined by N52.07bn to N415.73bn from the N467.8bn shared in March while a total of N462.359 bn was shared by the three tiers of government for the month of May, an increase over the N415.73 bn distributed for April.

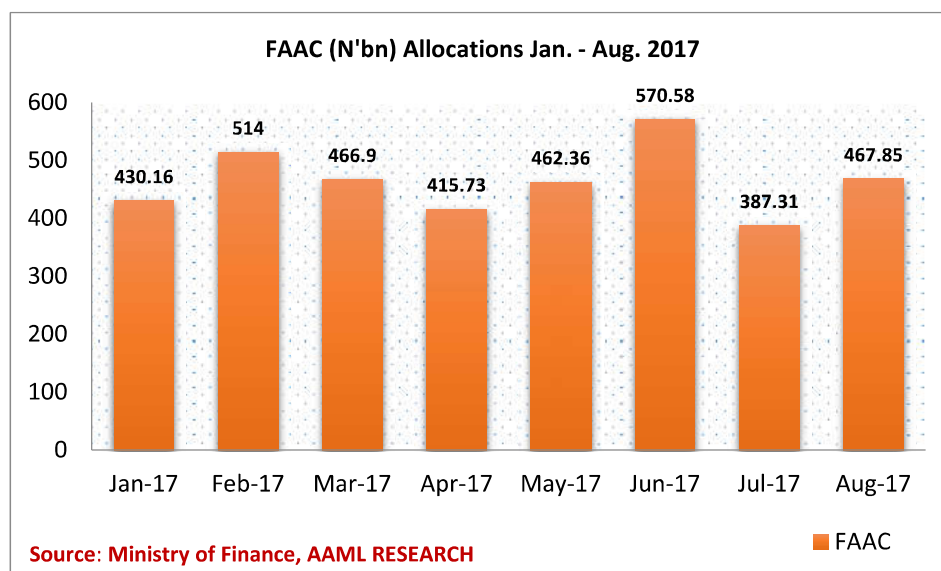
Similarly, the allocations for the month of July declined by N183.2bn to N387.31bn from the N570.58bn shared in June. Declined in revenue allocated was attributed to drastic fall in revenue from Companies Income Tax due to the expiration of deadline for filing returns.

A breakdown of the allocation for the month of July showed that the Federal Government received N193.04bn; states N130.69bn; local governments N98.01bn; while N31.59bn was given to the nine oil-producing states based on 13 per cent derivation principle. The balance was put in the Excess Crude Account at \$2.3bn.

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*Declined in revenue allocated was attributed to drastic fall in revenue from Companies Income Tax due to the expiration of deadline for filing returns.*

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**NIGERIA DEBT PROFILE: Federal Government Borrowing keep rising**

The federal government of Nigerian efforts to jump start economic growth through infrastructural development, diversification of oil sector to agriculture, mining amongst other sectors have led to borrowing to finance the deficit in the yearly budget, thus, seeing increase in our debt profile.

In September, the National Bureau of Statistic reported Nigeria's foreign debt stood at \$15.05 billion, while the domestic debt portfolio was put at N14.06 trillion as at June, 2017, representing a growth of \$3.64 billion and N0.04 trillion respectively within a six month period.

The total Federal Government debt accounted for 74% of Nigeria's total foreign debt while all states and the Federal Capital Territory, FCT, accounted for the remaining 26%.

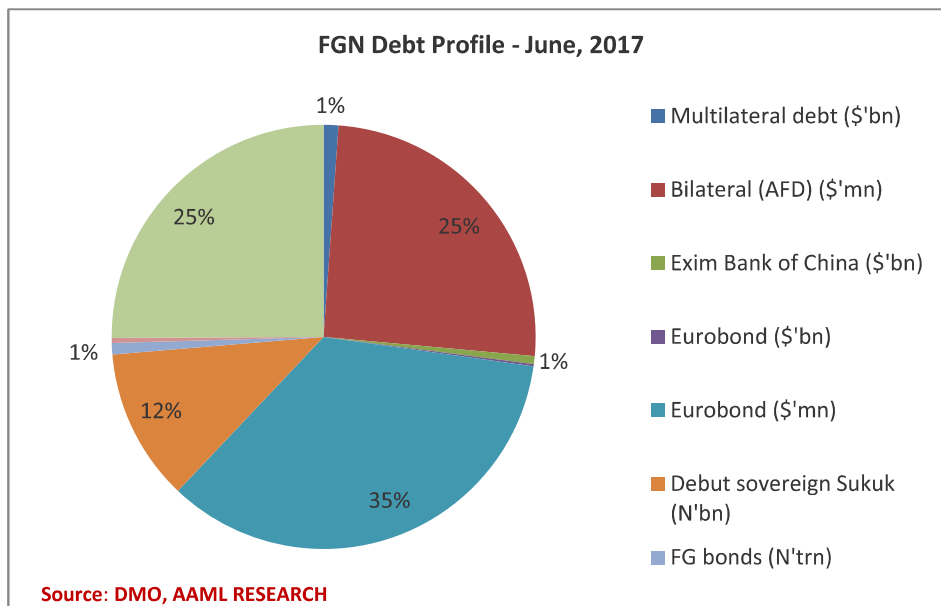
Similarly, total Federal Government's debt accounted for 78.66% of Nigeria's total domestic debt, while all states and the Federal Capital Territory, FCT, accounted for the 21.34% balance.

Meanwhile, the Federal Government is planning to sell as much as \$5.5bn of Eurobonds in the next three months to fund capital projects and replace naira-denominated debt, bringing the amount raised through Eurobond sales by the nation this year to more than \$7bn.

”

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“



**EXCHANGE RATE: Improving FX liquidity**

In the period under review, system liquidity remained moderate as the CBN continued interventions in the interbank market via OMO, T-bills and FX auctions in an effort to bridge the disparity between the parallel market and official rates.

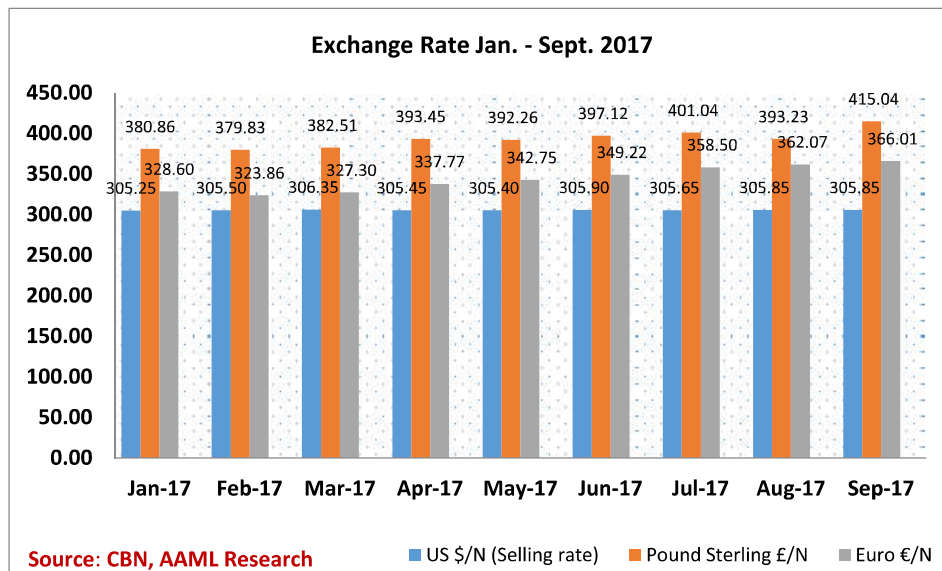
The Naira has remained relatively stable at both markets, trading within the range of N305.50/\$ and N306.65/\$ at the interbank market and N363.00/\$ and N370.00/\$ at the parallel market. However, when compared to the 18th of September, 2017, the Naira depreciated marginally by 0.05% and 0.54% at the interbank and parallel markets respectively.

The improving FX liquidity has underpinned an erosion of the wide spreads between the interbank and parallel market exchange rates.

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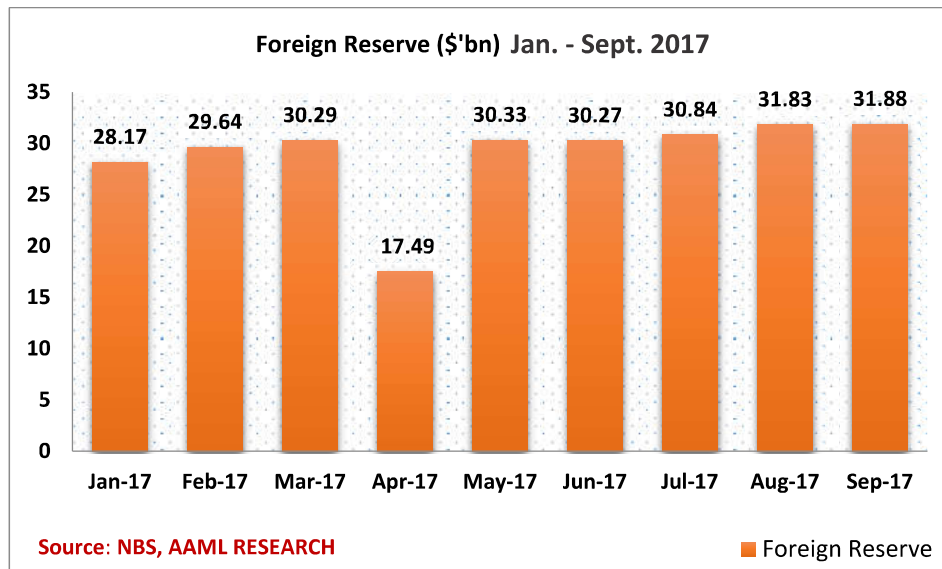
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Given the CBN continued to intervene in the market through the supply of FX to the banks, while the operations of the FX windows continued to ensure liquidity in the market. Barring any significant change in the current stance, we expect the exchange rate to remain stable in the near term.

In another development during review period, the continuing improvement in the foreign reserves position which grew to US\$32.9 billion as at the 25th of September, 2017 driven as a result of the improved production volumes coupled with the rise in global oil price in the period.





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*Money market rate remains high as government resort to the market to balance budget deficits.*  
 “

**MONEY MARKET: Interest Rate Remains High**

Activities in the fixed income space have remained bullish since last quarter as average Treasury bills and bonds rate declined by 0.83% and 0.91% to close at 18.38% and 15.53% as at the 18th of September, 2017. In the secondary market for Treasury bills, yields declined on all tenors, except for the 1M tenor which recorded a 1.55% advancement in yield.

Money market rate remains high as government resort to the market to balance budget deficits. In a bid to expand the available financing options, the Federal Government introduced its first ever Sukuk bond which went on offer on Thursday, the 14th of September, 2017 and will closed on the 20th of September, 2017.

The Seven-year Ijarah Sukuk worth NGN100bn was offered at a rental rate of 16.47%.

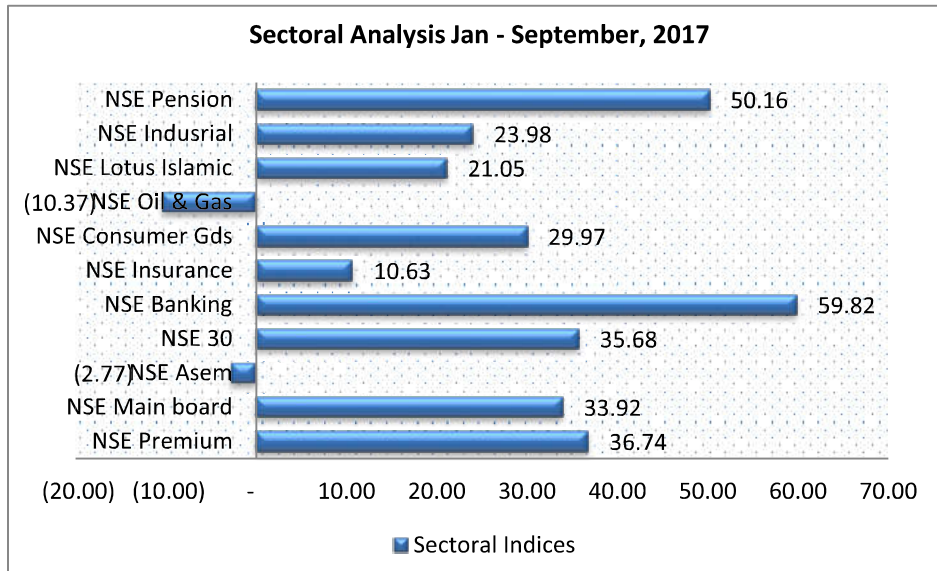
**EQUITY MARKET: Upside momentum sustained**

The Nigeria Equity market rallied from the month of April into June having commenced the year on a negative note. It recorded highest performance in the month of August with the NSE ASI and Market Capitalization appreciated by 42.14% Ytd to close at 38,198.60 points and N13.17tn, respectively.

The bullish sentiment witnessed can be attributed to the creation of special foreign exchange window for investors and exporters (Tagged: Investors & Exporters' FX Window), general improvements in the non-oil sector seen in improvement in Manufacturing PMI which stood at 53.6 index points in August 2017 compared to 54.1 in July, as well as extension of the OPEC and non-OPEC members deal to cut crude oil supply till 2018.

Also, improvement in macroeconomic data which signifies Nigeria's economy has exited recessions thereby boosting investors' confidence.

Sectoral Review



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*Relative to end-December 2016, capital market indices rose by 31.75% and 32.00%, respectively.*

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Sectoral Review

All sectoral indices closed in green zone except NSE Asem and Oil & Gas at the end the quarter, Q3:2017.

Banking Stocks, the most improved sector index up 59.82% ytd, followed by NSE Pension rose by 50.16% and others NSE Industrial (up 23.98%), NSE Lotus Islamic (up 21.05%), NSE Consumer Goods (up 11.61%), NSE Insurance (up 9.16%), NSE Main Board (Up 21.05%) and NSE Premium (Up 36.74%) respectively.

NSE Asem Index and Oil and Gas were laggard amongst the sector indices; down 1.27% and 10.37% respectively



## Domestic and Foreign Portfolio Transaction in Equity | August 2017

Period	Total	Foreign	Foreign (%)	Domestic	Domestic (%)	Foreign Inflow	Foreign Outflow	Domestic Retail	Domestic Inst.
Jan-17	95.32	44.01	46.17	51.31	53.83	22.61	21.40	20.12	31.19
Feb-17	74.11	34.54	46.61	39.57	53.39	16.10	18.44	15.22	24.35
Mar-17	285.05	132.51	46.49	152.54	53.51	23.64	108.87	23.77	128.77
Apr-17	54.90	22.45	40.89	32.45	59.11	14.54	7.91	14.20	18.25
May-17	205.61	95.19	46.30	110.42	53.70	73.15	22.04	42.47	67.95
June-17	220.27	101.53	46.09	118.74	53.91	65.93	35.60	62.40	56.34
July-17	194.15	60.50	31.16	133.65	68.84	38.44	22.06	53.75	79.90
Aug-17	396.86	208.34	52.50	188.52	47.50	165.47	42.87	39.11	149.41
2017 YTD	1,526.3	699.07	45.80	827.20	54.20	419.88	279.19	271.04	556.16
2016 YTD	832.31	369.56	44.40	462.75	55.60	179.42	190.13	213.38	249.37

Total transactions at the nation's bourse increased significantly by 104.41% from N194.15 billion recorded in July 2017 to N396.86 billion (about \$1.30 billion) in August 2017. Foreign investors outperformed domestic investors for the first time this year by 10.51%.

Total domestic transactions increased by 41.05% from N133.65 billion recorded in July 2017 to N188.52 billion in August 2017. Foreign transactions also increased by 244.36% from N60.50 billion to N208.34 billion within the same period.

Monthly foreign inflows outpaced outflows as foreign inflows increased by 330.46% from N38.44 billion in July to N165.47 billion in August 2017. Foreign outflows also increased by 94.33% from N22.06 billion in July to N42.87 billion in August 2017.

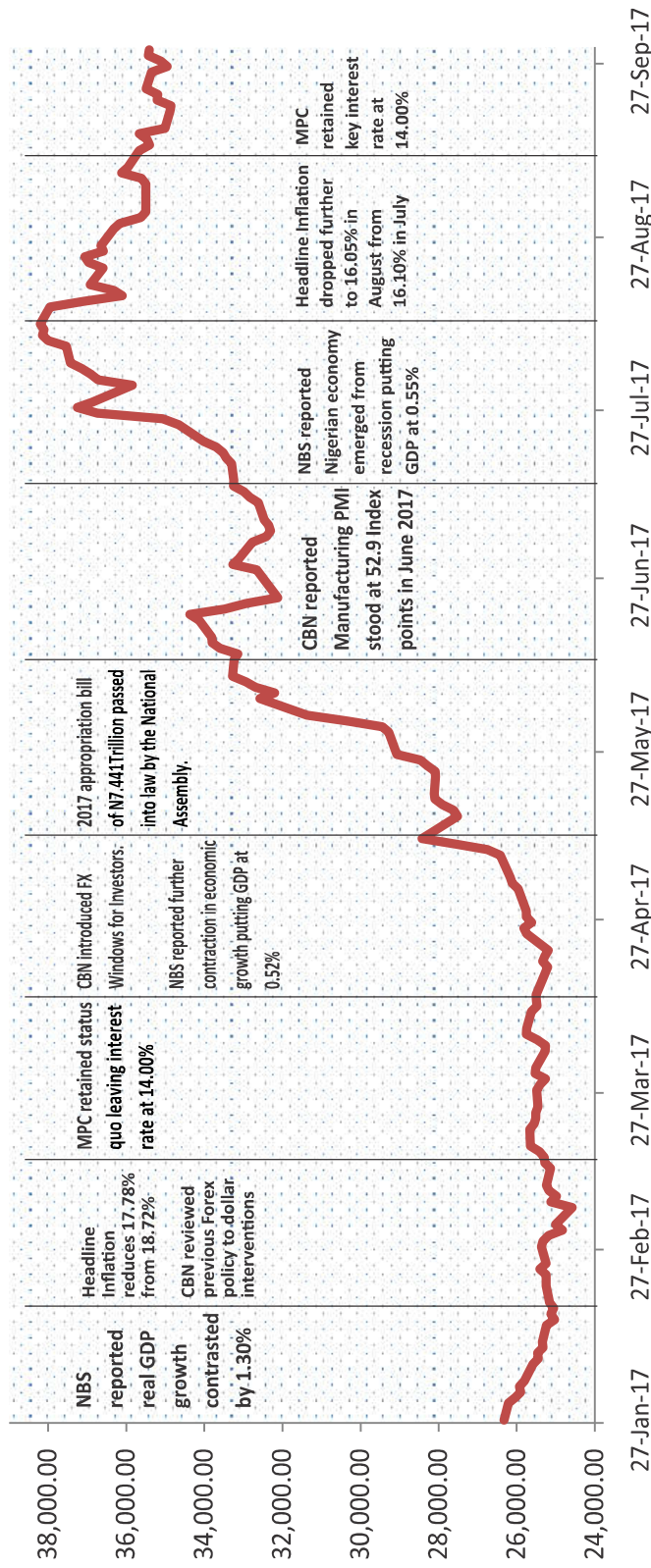
In comparison to the same period in 2016, total FPI transactions from January to August 2017 increased by 89.16% from N369.56 billion to N699.07 billion, whilst the total domestic transactions increased by 78.76% from N462.75 billion to N827.20 billion.

”

*Total domestic transactions increased by 41.05% from N133.65 billion recorded in July 2017 to N188.52 billion in August 2017.*

“

NSE ASI TREND: Jan. 2017 - Sept 2017



Source: NSE, AAML RESEARCH

## OUTLOOK FOR THE REMAINING YEAR 2017

Available data and forecast of key macroeconomic variables indicate a relatively positive outlook, predicated on existing policy initiatives including the ERGP.

GDP grew by 0.55% in Q2'2017, inflation tending downwards to 17.01% in August, naira traded fairly stable in the foreign exchange market as dollar interventions continue, industrial capacity is beginning to improve as Manufacturing PMI stood at 53.6 index points in August 2017 compared to 54.1 in July. This indicates an expansion in the manufacturing sector during the review period. Likewise, extension of crude oil supply cuts leading to increase in its' prices.

Other potential drivers of strong economic recovery are; the expected increase in government revenue arising from favorable crude oil prices, stable output, and general improvements in the non-oil sector, especially, agriculture, industry and construction.

The intervention by the CBN in the real sector is expected to continue to yield positive results in terms of output and lower consumer prices.

These improvements in macroeconomic indicators are key parameters boosting investors' confidence.

Going forward, recent momentum in oil prices (currently USD58/bbl) and stable oil production are likely to keep the current account balance positive over the rest of 2017 and into 2018.

Hurricane Harvey's disruption in Texas will continue to boost positive momentum. Disruptions to crude production from fields in the gulf of Mexico is expected to lower crude oil supply in the coming week and result in positive movement of oil price.

However, several refineries located in Texas are also expected cut purchases and lower demand in the market. We believe the decline in supply will have more impact on price.

External balances remained positive in Q2 2017, with a current account surplus of USD1.4bn in Q2 2017 which has helped drive a rebound in FX reserves to USD32.9bn.

While we see a downward sticky inflation outlook in the rest of 2017, we see an improved FX picture, on account of the rising FX inflows as driving scope for deceleration in inflation below towards 12-13% in H1 2018.

Under this environment, we see increased policy space for the CBN to embark on a modest easing stance to complement fiscal initiatives at quickening the pace of the economic recovery in 2018.

This would involve a reduction of policy rates and less aggressive liquidity mop-ups at the weekly OMO auctions leading to lower rates on government securities.

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However, there are downside risks to the overall outlook. These include; flooding which displaced farming communities and political agitations.

On the external front, the hawkish policy stance in the United States, rising geopolitical tensions and sluggish output recovery in the Euro-area and Japan, could slow-down the momentum of global output growth, with significant spillovers to emerging markets and developing countries, including Nigeria.

In all of these, we anticipate a further bullish posture in the equities market coupled with growing investors' confidence, further appreciation in Naira as CBN continues to intervene in the market, crude oil prices to trade above \$60 pb and further drop in inflation rate.

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# Section 3

Trustees

## CONCEPT OF WEALTH MANAGEMENT UNDER ISLAMIC FINANCE II



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*Islamic finance is financing activity that complies with Shari'ah (Islamic law) and its practical application through the development of Islamic economics, thus, Trust under Islamic finance should also comply with Shari'ah (Islamic law) and its practical application.*

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### INTRODUCTION

The concept of Trust has also been established under Islamic finance or sharia-compliant finance as Amanah. Islamic finance is financing activity that complies with Shari'ah (Islamic law) and its practical application through the development of Islamic economics, thus, Trust under Islamic finance should also comply with Shari'ah (Islamic law) and its practical application.

A Trust is a fiduciary relationship in which one party who is the Settlor vests on another known as the Trustee, the legal rights to hold and or manage his property or asset on behalf of a third party who is the beneficiary, thus creating a tripartite relationship between the parties.

### TRUST (AMANAH) UNDER ISLAMIC FINANCE

The concept of trusteeship (Amanah) of an appointed individual (Amin) to manage and carry out certain duties in relation to certain assets is well-known in Islamic law and shares similarities with the common law trust. However some



characteristics of the modern trust structures, such as requiring the vesting of the title of trust assets in the trustee and the roles of protectors, need consideration from the Shari'ah perspective.

Trusts afford a great deal of flexibility while staying true to the principles and spirit of Islamic law. When structuring an Islamic Trust, advisors need to take into account the individuals assets, the circumstances of his family and heirs, other instruments which he may need including Hibah (gifts inter vivos), Wasiyyah (will), debts and jointly acquired property rights, as well as the law or laws applicable to him and his assets.

Islamic teachings guide how wealth should be acquired, managed and spent. Above all, wealth is a trust itself, a responsibility and form of trial by Allah to His servants; and each person will be accountable for how he acquired and disposed of his assets in this world.

The Islamic law of succession (Faraidh) is not the only and ultimate way or outcome for an individual's assets, Islamic Trust is another aspect that can be explored. It is important for an individual to be familiar with and utilize the vehicle called trust (Amanah), available under Islamic wealth management.

The knowledge of Amanah and utilization of same will aid effective planning in carrying out his obligations as an individual during one's lifetime, making appropriate arrangements, prepare for life's eventualities, take care of your family's needs in the event of death, achieve strategic objectives, minimize costs and prevent family conflict at the time of the individual's death.

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## ISLAMIC TRUSTS: AN ALTERNATIVE OPTION

Many high net worth individuals are exploring legal options and structures that help them achieve strategic objectives and optimal arrangements in asset management, planning and distribution. They have begun to realize that it is important to have legal arrangements in place in relation to their extensive assets and that they are not limited to leaving an estate that will be distributed in accordance to Islamic inheritance rules only.

One of the challenges in Islamic wealth management is in understanding the differing vehicles for holding and distributing wealth found in civil law as well as common law structures, the Shari'ah issues raised in utilizing them in Islamic wealth management and the extent to which those vehicles could be structured to become Shari'ah compliant. A case in point is the trust, the favored device in the common law world, which is not recognized in the civil law world.

The concept of trusteeship (Amanah) of an appointed individual (Amin) to manage and carry out certain duties in relation to certain assets is well-known in Islamic law and shares similarities with the common law trust. However some

characteristics of the modern trust structures, such as requiring the vesting of the title of trust assets in the trustee and the roles of protectors, need consideration from the Shari'ah perspective.

A trust is a relationship whereby property is held by one party for the benefit of another. It is created by a settlor, who transfers some or all of his or her property to a trustee, who holds that property for the specified beneficiaries. Once created, a trust separates the property's legal ownership and control from its equitable ownership and benefits. This may be done for tax reasons or for the trustee to control the property and its benefits in the absence, incapacity or demise of the settlor. A trust is usually governed by the terms of a deed of trust which outline how the trust assets will be managed for and in the interest of the beneficiaries.

The trustee is given legal title to the trust property and has a fiduciary obligation to carry out the terms of the trust and act for the good of the beneficiaries. Trustees may be compensated and have expenses reimbursed, but otherwise must turn over all profits from the trust properties. Trustees who violate this fiduciary duty are self-dealing and the Courts can reverse self-dealing actions, order profits returned, and impose other sanctions. A trustee may be an individual, a company or a public body. There may be a single trustee or multiple co-trustees.

Trusts can be structured to be fully Shari'ah compliant with the advice and approval from a qualified Shari'ah advisor. At the outset, the Shari'ah advisor will work with other advisors to give guidance on:

- The nature of the assets eligible to become the trust assets;
- The management of the trust assets;
- The Islamic investment guidelines;
- The overall terms of the deed of trust;
- Qualified beneficiaries;
- Channeling of any impermissible amounts arising from investments; and
- Periodic Shari'ah review and Shari'ah audit for the trust, which can give comfort to beneficiaries and settlors that the income from the trust and its management are Shari'ah compliant.

Trusts, foundations and companies can be utilized to achieve one or more of the following objectives:

- Strategic objectives: allows the individual to designate who to control certain investments and assets.
- Efficient management: enables holding of all assets and investments of a family and allows the individual, his or her family members and

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*Trusts can be structured to be fully Shari'ah compliant with the advice and approval from a qualified Shari'ah advisor.*

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professional managers to manage the investments and assets. All the assets of an individual may be consolidated for ease of administration and accounting under one roof.

- Expertise: facilitates use of professional services from experienced managers, investment advisors, trustees and Shari'ah advisors.
- Succession planning: to plan the continuity and next generation of managers for a business.
- Charity: to carry out charitable objectives and benefit favored causes.
- Preservation: for families to build family governance, long-term business continuity, and ensure future beneficiaries receive benefits according to a flexible distribution arrangement, e.g. via family trusts.
- Preparation for exigencies: to provide for advanced age, ill health and disability, emergency situations, and reduce one's family's reliance on costly and time consuming probate/letters of administration applications.
- Distribution: transfer of the benefit of investments and assets to beneficiaries confidentially in such proportions and at such times and to such persons as the individual wishes.
- Minimize tax payments.

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*Islamic Unit Trusts investments are also based on specific criteria based on morality, the main criteria is to not deal in transactions which involve the paying and receiving of interest.*

## ISLAMIC UNIT TRUSTS / ETHICAL UNIT TRUSTS

A Unit Trust is an investment vehicle that allows investors to take advantage of investing in a diversified group of stocks which manages risk and exposure to one or a few stocks. It also offers the opportunity to participate in the long-term performance of the stock market. Islamic Unit Trusts add other aspects that are a screening process to remove stocks of companies deemed to be inappropriate for participating investors and cleansing or purification of a company's profits by removing any income derived from non-Shari'ah complaint sources, such as interest a company would earn on its bank accounts and donating them to charities. Therefore, Islamic unit trust schemes are required to additionally appoint a Shari'ah committee or to ensure that their operations are in accordance with Shari'ah.

A good analogy with Islamic Unit Trusts is one of ethical and green Unit Trusts. Here the universe of investable securities is limited by certain criteria based on moral and ethical considerations (muamalah.com; 2009). Ethical investments are generally made through managed funds such as unit trusts which specialty is to seek profits for investors while conforming to certain ethical criteria such as that the company is not involved in illegal or immoral activities.

Islamic Unit Trusts investments are also based on specific criteria based on morality, the main criteria is to not deal in transactions which involve the paying and receiving of interest. Islamic Unit Trusts usually runs on a transparent and modern corporate basis and up-to-date accounting and within a legal framework in conformity with the Shari'ah. The same way the decision to invest in the case

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of ethical unit trusts is made by the fund managers, based on information received from various professional bodies and specially constituted committees of reference, the decision in the case of Islamic unit trusts is conditioned by the a binding approval from the Shari'ah Boards which consist of established religious scholars who make a decision based on the interpretations of particular operations and contexts.

Under Islamic Unit Trusts, you can invest in many financial products in conventional financial markets which are not interest-based, or where the element of interest could be eliminated, such as property funds, commodities, financial options and futures and forward transactions in foreign currencies. They can also take advantage of international markets growth by giving priority to equity investments in Islamic banks and financial institutions, stock markets of Muslim countries; and companies managed under the Islamic system.

Like the conventional Unit Trust, the Islamic Unit Trusts also has a wide range of investment options based on growth and income, open-ended, redeemable, etc. Their investments can cover international equity markets, currencies and properties. A Mudarabah fund can invest in a specific business activity on the basis of profit and loss sharing; Murabahah fund invest in companies whose transactions are undertaken on a cost-plus basis; Through Musharakah the Unit Trust and the third party contribute funds in a joint venture, producing equity participation; And in Ijarah fund, the Islamic Trust finances equipment, building or entire project for a third party against an agreed rental.

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*There is no restriction of non-Muslims from investing or participating in Islamic Trust.*

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## Conclusion

There is no restriction of non-Muslims from investing or participating in Islamic Trust. The concept is open to all provided that the principles and tenets of Shari'ah are strictly adhered to and the utilization of the differing vehicles for holding and distributing wealth found in civil law as well as common law structures, when incorporated under Islamic wealth management are structured to be Shari'ah compliant.

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### RETURNS AT A GLANCE

Initial deposit of N50,000 plus N10,000 monthly contribution for a period of 5, 10, & 25 years at a glance

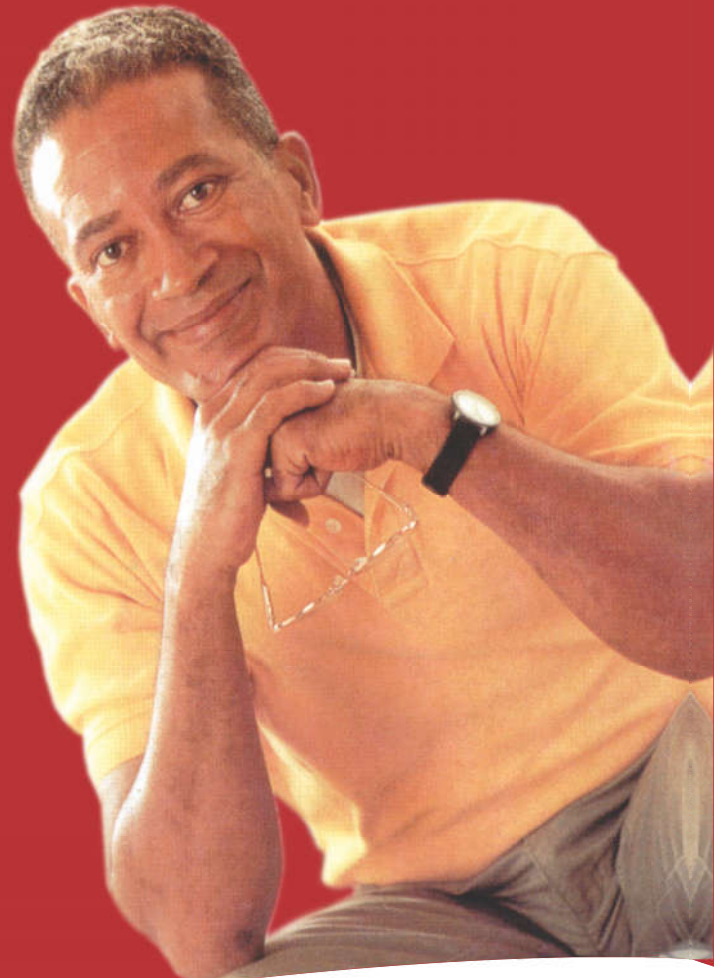
TENOR	INTEREST RATE	CONTRIBUTION FOR THE TENOR	ACCRUED INTEREST FOR THE TENOR	TOTAL PRINCIPAL + INTEREST
5 Years	13%	N640,000	N283, 525.54	N923, 525.54
10 Years	13%	N1,240,000	N1,372,495.46	N2,612,495.46
20 Years	13%	N2,440,000	N9,554,017.69	N11,994,017.69

## FEATURES

- Minimum start up contribution of N50,000.00 plus additional minimum annual contribution of N120,000.00 i.e. A minimum monthly contribution of N10,000.00 and other assets at any preferred interval
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- Payment can be made through cheques, warrants, direct debit, etc. Through Sterling Bank branches.
- Statement of account issued quarterly or bi annually.
- Access to Sterling financial advisory services.
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RETURNS AT A GLANCE				
Initial deposit of N50,000 plus N10,000 monthly contribution for a period of 5, 10, & 25 years at a glance				
TENOR	INTEREST RATE	CONTRIBUTION FOR THE TENOR	ACCRUED INTEREST FOR THE TENOR	TOTAL PRINCIPAL + INTEREST
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We all dream of the day when we can take life a little bit slower and have the chance to enjoy the things we always wanted to do. With the Sterling Optimal Retirement Trust SORT, individuals can actually achieve this goal. This Trust is directed to help a retiree top his life in retirement, thereby helping him to prepare for a rain day. SORT is largely meant for individuals, bearing in mind that in addition to what employee will do when he retires (or what he has earlier provided for himself), he will have additional support for himself.

With SORT, retirees are the beneficiary, but in case anything happens, then the benefit of the Trust will go to his spouse or children as may be directed. All these arrangements are documented in a legal document called a Trust Deed.

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