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In 2010, the banking industry grappled with the challenges arising from the series of reforms introduced in late 2009. These reforms were introduced in order to sanitize the industry and eliminate the overhang of non-performing credits in the banking industry. Some of the reforms, even though good for the entire system as a whole, impacted adversely on the operations of discount houses. This is largely due to regulatory constraints that limit the operational latitude of discount houses to respond appropriately to the business imperatives of the reforms

One aspect of the current reforms that has had far-reaching implications on the business of discount houses is the introduction of new guidelines for the issuance of Bankers Acceptances (BAs) and Commercial Paper (CPs). The new guidelines were intended to curb abuses in the use of these instruments, given the inclination of some financial

institutions to use the instruments to disguise non-performing credits. To qualify to issue BAs and CPs under the new guidelines issuers are required to be rated by credible rating agencies, a condition that many issuers have not been enthusiastic to embrace. Rather than seek for credit ratings many credit worthy issuers have opted to borrow money by taking term loans from the banks. A majority of existing BAs and CPs have been converted to term loans. This development has effectively shut discount houses out of the business of commercial lending. Considering that this constitutes a huge part of the business of discount houses, the impact both on profitability and volumes has been considerable.

We are confident however that banks will soon realise the benefits of lending by way of investing in debt securities. This is because investing in term loans can make a bank's balance sheet illiquid thereby making it difficult for the bank

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to respond effectively during tight liquidity periods. This realisation will in turn compel banks to impress on issuers the need to obtain ratings that will enable them to securitize their borrowings through the use of BAs and CPs.

In the meantime, we have continued to make efforts to minimize the negative impact of the new guidelines on profitability. One of the strategies of dealing with the problem was the decision to grow the corporate finance business. This is aimed at not only providing more opportunity to earn fee income but also to grow commercial lending through underwriting of debt issues. Given our existing capabilities in this area, the company has been able to make appreciable progress despite the fact that investor confidence is still at a very low level.

We were able to participate in major corporate debt issues in 2010 as issuing house and/or placement agent. Furthermore, we have also been appointed as a party to several debt issues that should come to the market sometime this year. Investor apathy continues to be a major problem as many investors who took part in the public offers and private placements, that flooded the financial markets between the year 2006 and 2008, sustained huge losses and no longer have the desire or appetite to invest in the new offers. As the memory of the losses recedes and the market becomes more buoyant, we expect the level of activity in corporate finance to increase. We believe that we are well positioned to become a major player in this business segment.

We also exploited the synergies available in the various lines of business of the group. Existing linkages across the group were strengthened and through numerous collaborative efforts many segments of the business received a big boost.

Thus, despite the continued downturn in the capital markets, where our subsidiaries operate, two of them recorded appreciable growth in profitability.

Many new products were introduced in the asset management business, aimed at creating liquidity for some securities that are not publicly traded in the country. This market-making role added tremendous value to investors and issuers. It gave smaller investors access to these securities and eased the pressure on the issuers to provide exit mechanisms for existing investors who want to sell their investments. The subsidiary will continue to look for more opportunities to extend this market making role. Discussions are currently going on regarding the creation of an OTC market for corporate and state government bonds. We intend to play an active role, as we are doing in the case of FGN bonds, to ensure the creation of an OTC market in these securities.

In order to enhance the company's ability to continue to adapt to the changing operating environment, we have continued to make the investments necessary to position the company to play a dominant role in our chosen market segments. To this end, we have added another floor – the 5th floor of UAC House - to our existing offices. We now occupy the 5th, 6th, 7th and 8th floors of the building. In addition, a new ultra-modern dealing room has been provided on the 5th floor. The dealing room is equipped with all the facilities necessary to conduct trades with counterparties all over the world on an online, real time basis. These facilities are also intended to improve the process of price discovery, enable faster processing of orders and provision of timely feedback to counterparties on market conditions.



In the area of information technology, a new front end dealing system has been installed to replace our old system. The dealing system has the capability to perform critical decision-support functions including sensitivity analysis and a host of risk management calculations. This ensures that the impact of major transactions on earnings and capital can be assessed before the transactions are closed.

In 2009, we developed a new enterprise-wide risk management framework (ERM) to replace the old one. We started full implementation in 2010, by putting in place all the systems and processes required to support the framework. The Board Risk Management Committee has approved new processes recommended in the ERM while the Asset and Liability Management Committee (ALCO) has been reconstituted to make it more effective. The company is also following up with the implementation of an Asset and Liability Management system (ALM) to support the duties of the ALCO.

Since inception, the company's philosophy has been to build a structured organization that is both resilient and adaptive, because we operate in an environment that is highly challenging. The current challenges are likely to remain in 2011. We believe, however, that we have laid the foundations necessary to ensure that the company remains a dominant player in the foreseeable future in our chosen market segments. ■

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