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COTE D'IVOIRE EQUITY RECOURSE NOTES (ERN): OPPORTUNITY FOR BANKS

BankNews TV Publishing Corp. has created several new payment products that have transformed the way companies do business. The current offer is an opportunity to assist banks in Cote D'Ivoire to transform local economies through this innovative financial instrument.

Message from Mark Sibthorpe, President BankNews TV

Executive Summary

Low interest rates and lack of yield in secure markets has meant opportunity for emerging markets. The result has been significant capital inflows. Recently investors have initiated a highly reported sell-off in emerging assets. Investors have several concerns, risk being the main one. Risk of currency fluctuations, questionable returns and also possible default. For African banks this risk translates into significantly higher cost of funds as outlined on page 4 of this document.

The way BankNews proposes to overcome the higher cost of funds attributed to emerging market risk is through an innovative investment vehicle known as Equity Recourse Notes (ERN). ERN are structured to work like traditional unsecured debt, however, they reduce risk for both the banks and investors as is explained in a related paper. To sum up the advantages, in the event of a shock, the debt would see interest paid out as bank shares, rather than cash. In this eventuality, the trigger would be if the institution's share price drops below a pre-determined price threshold. If the share price recovers, cash interest payments would resume, but in the meantime, banks would increase their liquidity when most needed, such as a time of major stress.

As explained in the Bulow/Klemperer paper, the conversion to equity would also automatically reduce the bank's leverage ratio and increase its regulatory capital ratio, avoiding the normal cycle of requiring banks to boost their capital at the exact time when the institution is under greatest financial distress.

The benefits of this approach would be to avoid the following situations:

1. Investors would not be subject to risks they are unaware of;
2. Banks would be able to choose assets without the bias of certain risk weighted assets;
3. Remove the incentive to manipulate regulatory measures.

Current Market Challenging Facing African Banks

Investors are willing to lend to peripheral banks but the more risk the higher the cost of funds. Several factors are also at play in emerging markets; for example, the fact that high street banks are de-leveraging and there is the impending US Tapering which will likely continue to reduce global liquidity.

The timing of this opportunity plays to the advantage of emerging economies. This is attributed to the fact that CDS spreads have tightened considerably for a number of different reasons. This means lower yields for investors who are motivated to increase their level of risk. Take Coco bonds as an example of a risk that offers more yield and has successfully attracted investors. Another factor that increases the cost of funds (yield) is lower credit quality. Essentially the aforementioned factors mean that funds cost more for African banks because investor return is generally proportional to the investment risk.

Therefore, the purpose of our approach is to overcome the factors contributing to the risk, and overcome the challenges facing African banks seeking to secure capital at a cost that is reasonable. This approach is of particular importance to Ivory Coast because of its recent turbulent history that has resulted in its defaulting on sovereign bonds (explained in the market background section that follows).

Market Background on Cote D'Ivoire and Cost of Funds for African Entities

Many countries, including Ethiopia, have recently taken measures to become rated by S&P, Fitch and Moody's. The purpose of this is to enable these entities to attract capital at competitive rates. Typically investor funds are provided in proportion to the risk rating and other economic indicators.

Table 1, Examples from Sovereign Ratings List. Source CountryEconomy.com

	Moody's ratings [+]	S&P ratings [+]	Fitch ratings [+]
Ivory Coast		B-	
South Africa	Baa1	BBB	BBB

Table 2 is a comparison between South Africa and DRC, two countries that have established credit ratings. The purpose for providing this information is to illustrate the basis for ratings and to demonstrate some of the factors that influence yield for sovereign debt in Africa.

Table 2 comparison of economic indicators for South Africa and Democratic Republic of the Congo

Ivory Coast			South Africa		
Government					
Debt [+]	2011	17,148 M.$	162,496 M.$	2012	Debt [+]
GDP [+]	2012	24,680 M.$	384,315 M.$	2012	GDP [+]
Deficit [+]	2011	-1,024 M.$	-18,420 M.$	2012	Deficit [+]
Debt Per Capita [+]	2011	851$	3,174$	2012	Debt Per Capita [+]
GDP per capita [+]	2011	1,196$	7,508$	2012	GDP per capita [+]
Debt (%GDP) [+]	2011	94.88%	42.28%	2012	Debt (%GDP) [+]
Deficit (%GDP) [+]	2011	-5.67%	-4.79%	2012	Deficit (%GDP) [+]
Corruption Index [+]	2013	27	42	2013	Corruption Index [+]
Competitiveness Ranking [+]	2014	126º	53º	2014	Competitiveness Ranking [+]
Labour					

Ivory Coast				South Africa		
				24.7%	September 2013	Unemployment [+]
Markets						
				14.9197	03/17/2014	Exchange per Euro [+]
				-0.06%	03/14/2014	Stock Exchange (YTD%) [+]
Money Market						
	7% 2012			5.50%	01/30/2014	Key rates [+]
Business						
Doing Business [+]	2014	167º		41º	2014	Doing Business [+]
Trade						
Exports [+]	2012	12,350.0 M.$		87,256.2 M.$	2012	Exports [+]
Imports [+]	2012	9,776.6 M.$		124,245.0 M.$	2012	Imports [+]
Trade balance [+]	2012	2,573.4 M.$		-36,988.8 M.$	2012	Trade balance [+]
Exports % GDP [+]	2012	50.09%		22.73%	2012	Exports % GDP [+]
Imports % GDP [+]	2012	39.66%		32.36%	2012	Imports % GDP [+]
Trade balance % GDP [+]	2012	10.44%		-9.64%	2012	Trade balance % GDP [+]
Socio-Demography						
Population [+]	2012	19,839,750		51,189,307	2012	Population [+]
HDI [+]	2012	0.432		0.629	2012	HDI [+]

Ivory Coast						South Africa
Birth Rate [+]	2012	36.67‰		21.09‰	2012	Birth Rate [+]
Fertility Rate [+]	2012	4.89		2.41	2012	Fertility Rate [+]
Crude death rate [+]	2012	14.42‰		13.24‰	2012	Crude death rate [+]
Life expectancy [+]	2012	50.37		56.27	2012	Life expectancy [+]
Number of homicides [+]	2008	10,801		15,609	2011	Number of homicides [+]
Rate Homicides per 100.000 [+]	2008	56.89		30.93	2011	Rate Homicides per 100.000 [+]

Extracts from News for Ivory Coast bonds

- Ivory Coast **dollar bonds** have returned 44 percent so far this year, the best performer and beating an average return of 6.5 percent, according to the JPMorgan Chase & Co. EMBI Global Index.
- “They’ve dealt with many of the internal issues, excluding arrears, but **market sentiment** isn’t very positive right now for bonds in general for emerging markets and that may extend some pressure on them until the euro zone issue is resolved,” Amoo- Gottfried said in a phone interview from **London** today.
- The West African nation’s economy is expected to expand by about 8 percent this year, after contracting 4.7 percent in 2011, according to the **International Monetary Fund**.
- Ivory Coast will get $5 billion in debt relief when it completes the country’s program for indebted poor nations, expected this month, the Washington-based lender said in May. Source Bloomberg
- Ivory Coast’s 2032 Eurobond has emerged as one of non-oil producing Africa’s best-performing credits after the country secured $4bn in debt relief in June 2012 under the IMF-World Bank scheme.
- Despite Ivory Coast’s chequered history — the 2032 bond was itself issued to restructure defaulted debt dating back to 2000- Samir Gadio, an emerging markets strategist at Standard Bank, expected a strong appetite for the new bond.
- Ivory Coast, the world’s top cocoa grower and French-speaking West Africa’s largest economy, recorded GDP growth of 9.8pc in 2012. The government says it will equal that growth rate this year and that the economy will expand by 9.1pc in 2014. **Source Bloomberg 2013-12-17 & 2012-06-15**

In order to monetize the importance of a sovereign credit rating on yield table 4 shows the association between yield and credit ratings.

Table 4, coupon rate comparison. Source FT 2013-12-06

Who		When	What	Yield at issue
Zambia	B+ to B	Sept 2012	10-yr, $750m	5.625 per cent
Rwanda	B to B	April 2013	10-yr, $400m	6.875 per cent
Nigeria	BB- to BB-	July 2013	10-yr, $500m	6.625 per cent
Ghana	B to B	July 2013	10-yr, $750m	8 per cent
Gabon	BB- to BB-	Dec 2013	10-yr, $1.5bn	6.375 per cent
SA	Baa1 to BBB-	Jan 2014		8.38 per cent
Ivory Coast	B-	2012	10-yr	7%

Background Summary

The return on African bonds ranges from 5.6 per cent to 8 per cent. This is significantly higher than yields from US 10 year bonds at 2.66% and 10 year Eurozone bonds at 1.54%. In the Ivory Coast market, war and other issues contributed to poor economic conditions that resulted in a default. This has since been corrected and payments have been made up. The Ivory Coast growth rate is expected to be 9.1% in 2014.

It is expected that the cost of funds for this project will be significantly lower than the above mentioned bonds. The objective is that participating banks should expect to be able to have net interest margins in excess of 2%.

Opportunity for Banks

BankNews proposes to provide a legal framework and industry outreach for banks in **specify regions/countries** to obtain funds at a highly competitive rate.

The incentives for banks to participate are as follows:

1. Reduced cost of funds;
2. Shared cost for setting up legal entities;
3. Efficient and structured methodology for rating participating banks;
4. Ability to participate in an innovative financing scheme that minimizes risk to investors, banks and regulators.

Obligations of bank:

1. Participate in shared legal costs based on size and required funds;
2. Participated in investment opportunities as per **name the housing project;**
3. Follow agreed rules for funding.

If you wish to participate in the ERN investment opportunity please contact:

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