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2005 YEAR REVIEW AND 2006 OUTLOOK REPORT

KEY ECONOMIC AND FINANCIAL INDICATORS

	2005 (%)	2004 (%)	2003 (%)
Real GDP Growth	6.0	6.0	3.5
Real GDP Growth – IMF	3.9	4.0	N/A
91-day T-bill Rate (year end)	11.89	14.50	14.50
182-day T-bill Rate (year end)	14.50	16.00	N/A
365-day T-bill Rate (year end)	17.00	N/A	N/A
Change in NSE All-Share Index	1.01	18.46	65.84
NSE ASI Range	20,682.37 - 26,221.90	20,257 - 30,703	12,140 – 21,147
Change in Exchange Rate Naira /US\$	2.90	3.03	-7.96
Inflation Rate (year-on-year)	15.10 ¹	15.00	14.00
Minimum Rediscount Rate	13.00	15.00	15.00

¹ As at November 2005

Sources: National Bureau of statistics (NBS), Central Bank of Nigeria (CBN), The Nigerian Stock Exchange (NSE)

1.1 Socio Political highlights of the year 2005

The main socio-political news in the year 2005 includes the following:

- The campaign against anti-corruption efforts started to yield fruits. Mr. Tafa Balogun, former Inspector-General of Police (IGP) was arrested by the Economic and Financial Crimes Commission (EFCC) due to allegation of money laundering and official corruption. Following Balogun's retirement, Mr Sunday Ehindero, the then Deputy Inspector General of Police (DIG) in charge of administration, was appointed Acting IGP and has since been confirmed IGP. The anti-corruption campaign also led to the arrest of two Nigerian governors abroad on allegation of money laundering. The Governors are: Governor Joshua Dariye of Plateau state and Governor Diepreye Alamiyeseigha.
- Former Senate President Adolphus Wabara resigned from office over allegation that he was a beneficiary of the N55 million Education Minister Fabian Osuji paid to some National assembly members to jerk-up the ministry's 2005 budget proposals. Wabara was under pressure from the PDP leadership and various caucuses to throw in the towel or be forced out of office. President Obasanjo however, dismissed the Minister of Education, Professor Fabian Osuji from his cabinet. The Minister of Housing and Urban Development, Mrs. Mobolaji Osomo was also sacked from office for allegedly not following due process in the sale of 207 government houses in high-brow Ikoyi area of Lagos.
- President Olusegun Obasanjo restructured the administration of the Federal Capital Territory which now runs like a state. Under this arrangement, the Ministry of Federal Capital Territory (MFCT) was abolished and in its place the territory is known and referred to only as the Federal Capital Territory.

1.2 Socio Economic highlights of the year 2005

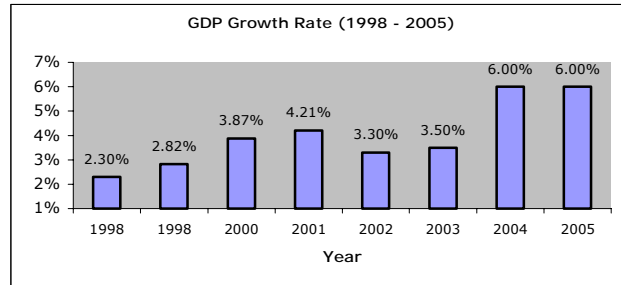
- President Olusegun Obasanjo signed into law the Electric Power Sector Reform Bill in March, 2005. The bill seeks to provide for formation of companies to take over the functions, assets, liabilities and staff of the National Electric Power Authority (NEPA), develop competitive electricity markets; establish the Nigerian Electricity Regulatory Commission; provide for the licensing and regulation of the generation, transmission, distribution and supply of electricity; enforce such matters as performance standards, consumer rights and obligation; provide for the determination of tariffs; and to provide for matters connected with or incidental to the foregoing. Consequent upon this, an Initial Holding Company (IHC) was incorporated. The shares of the IHC are held by the Ministry of Finance Incorporated and the Bureau of Public Enterprises in the name of and on behalf of the Federal Government of Nigeria. The name of the Initial Holding Company is Power Holding Company of Nigeria (PHCN) PLC. The Power Holding Company of Nigeria (PHCN) PLC took over all NEPA assets and liabilities.
- Against the threats of lives and property on the officials of the National Agency for Food and Drug Administration (NAFDAC), the agency continued to make tremendous progress in its war against fake drugs, Foods, Cosmetics, Medical Devices, Chemicals, Detergents and packaged water imported, manufactured locally and distributed in Nigeria. Specifically the Agency reported that it shut down not less than 54 bakeries that were found using the banned potassium bromate in

baking bread. The agency also reported that it had destroyed about N10billion worth of fake drugs and sub-standard products in the last four and half years.

2.0 Review of the Economy

2.1 Gross Domestic Product

- Provisional figures show that the Gross Domestic Product (GDP) growth rate in 2005 was 6.00% which was the same growth rate recorded in 2004. The growth rate recorded in the non- oil sector was 8.00% as against 7.40% in 2004. The figures show that the various



measures of the present administration to diversify the economy beyond oil to agriculture, some segments of manufacturing, services, construction and retail business are beginning to yield good results.

2.2 External Reserve

- The economy received a further boost of about N11billion in 2005 coming from excess crude oil price. This is as a result of the implementation of the oil price based fiscal rule that de-link budgeting from the oil price and therefore accumulate a fiscal surplus. This has impacted positively on the country's external reserve position. At the end of November 2005, the external reserve figure stood at US\$27.08billion. This is a 60.24% improvement over the figure of US\$16.90billion as at the end December 2004. At the level of external reserve commitment, the level of reserve could finance about 21.8months of foreign exchange disbursement compared to about 11.3months foreign exchange disbursements as at December, 2004.

2.3 External Debt

- The economy received the biggest ever debt write-off for an Africa Country in the year under review. Under the deal with Paris Club of Creditors, an estimated figure of US\$18billion would be cancelled representing about 60% of the total debt stock owed to the Paris Club of Creditors. Under the deal, Nigeria would make a total repayment of US\$12.4 billion to the Paris Club, which comprises the arrears, interest payments and the discounted payments on outstanding amounts, through a debt pay-back arrangement to secure a permanent exit from the Paris Club. One of the benefits of this debt relief is that over N100billion, which would have gone into debt servicing in 2006, would now be channelled to poverty reduction expenditures in Health, Power, Education, Agriculture, Water, Resources, Environmental, Housing and Support for women and youths to enable the country attain the Millennium Development Goals (MDGs). Already \$6.4billion has been paid in fulfilment of the agreement signed with the Paris Club of Creditors.

2.4 Inflation

- The figures released by The National Bureau of Statistics show that the Consumer Price Index (CPI), which is the most widely used measure of inflation was 15.10% on year on year change as at the end of November 2005. The CPI was 9.80% in January 2005 which is the lowest figure recorded during the year and the only month when a single digit CPI was recorded in the year. The CPI was at its peak in August at 28.20% after which it maintained a downward trend. Therefore the

single digit inflation rate could not be sustained during the period under review. The reduction in the rate of inflation towards the last quarter of the year was attributable to two major factors: the continued harvesting of agricultural produce, which moderated rising food prices and the relative stability in the prices of petroleum products. We also note that The CBN has made a commitment to bring inflation down. This it says it would achieve by inflation targeting. The CBN is putting measure to under study the Bank of England to learn from its experience on inflation targeting. Although this is a good development if well implemented with fiscal prudence, our review shows that a major threat to this is data gap that exists in Nigeria, because accurate and timely data is critical to the success of inflation targeting worldwide.

2.5 Telecommunication Industry

- Nigeria today is the fastest growing telecommunications market in Africa. The teledensity in the past four years has been growing over 100% per annum and an estimated growth rate of 70% as at 30 November, 2005 over the 2004 figure. The astronomical growth rate in the industry has brought a number of benefits in terms of Foreign Direct Investment (FDI) into the country, enhanced employment generation, and considerably reduced cost of doing business. In spite of the massive growth, our review shows that for a country of about 133million population (based on population growth rate of 2.9% on the 88.9million outcome of the 1991 population census) there are still a lot of opportunities to be tapped in the industry. Table I below shows the Telephone Data in Nigeria as at 30 November, 2005. The Nigerian Communication Commission (NCC) has indicated that it would issue a unified License for all the operators in the industry in the year 2006. This amongst other things would lead to conflict-free Information and Communication Technology (ICT) environment, enhance and encourage growth and development in the ICT sector, encourage efficient small operators to cover niche areas, in particular remote and underserved areas and lastly enhance economies of scale and greater efficiency as a result of optimum sharing of infrastructure and resources.

Fixed and Mobile Telephone Data

Table I

SERVICE CATEGORY	2001	2002	2003	2004	2005*
Fixed	600,321	702,000	872,473	1,027,519	1,209,096
Mobile	266,461	1,569,050	3,149,472	9,147,209	17,661,742
Total	866,782	2,271,050	4,021,945	10,201,728	18,870,838
Teledensity	0.73%	1.89%	3.35%	8.50%	14.45%

Number of Subscribers-Fixed Network

Operator	2001	2002	2003	2004	2005*
NITEL	540,662	555,466	539,405	507,268	447,979
PTOs**	59,659	146,534	333,068	520,251	761,117
Total	600,321	702,000	872,473	1,027,519	1,209,096

Source: NCC

* As Nov. 2005

** Private Telephone Operators

2.6 Mortgage Finance

- The Federal government launched a Home Mortgage Finance system to enable individuals purchase or build their homes through a Federal Government Guarantee of N100billion in bonds for the Federal Mortgage Bank (FMB). Over 50,000 Nigerian civil servants and others are expected to use this finance to purchase home offered for sales by the government in Abuja and Lagos.
- The CBN launched the Micro Credit Finance Policy in December 2005. The idea behind this initiative is to provide credits for financial services to the entrepreneurs who are traditionally not served by the conventional financial institutions. We noted that this initiative is a welcome development if well implemented as it would ensure that small entrepreneurs' projects can get off the ground.

2.7 Fiscal Measure in 2005

- The Federal Government began the Implementation of ECOWAS Common External Tariff (CET) on October 1 2005. By implication goods that arrive the ports or customs point from October 1 would be subjected to new tariffs. The CET brings the tariff band down from 20% to 5% as follows: 0% for necessities such as anti-retroviral drugs and machinery and equipment (*this is being implemented for a year only in first instance*), 5% for raw materials, 10% for intermediate goods, 20% for finished goods and 50% for goods in which the country has a comparative advantage for production and also for certain luxury goods. The CET has brought the weighted average tariff down from 25% to 17%. This is beneficial to both consumers and to the manufacturers. The government's imports prohibitions for certain textiles and other articles remain enforceable till 2007.

3.0 Financial Market Review

- The period under review was remarkable in the history of the Financial Market in Nigeria as various measures of the Governor of Central Bank of Nigeria (CBN), Prof. Charles Soludo continued to determine the financial landscape. The deadline given by the CBN to banks to raise their capital base to N25billion expired on 31st December, 2005 without any extension as banks had earlier advocated. The various strategies adopted by banks to meet the required capital base have increased the knowledge base, the depth of the market and brought a lot of innovations both in the capital market and the money market.

3.1 Reform Programme for Insurance Companies

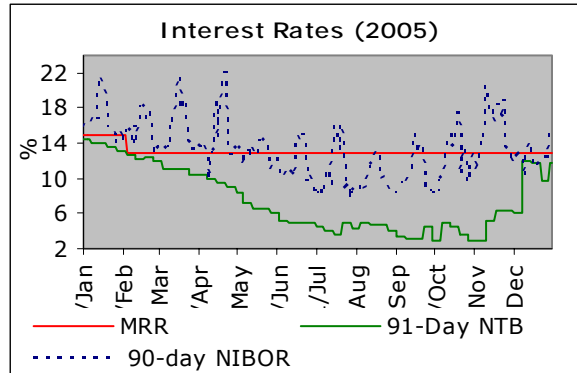
- The Federal Government announced a new capital base for the Insurance Companies operating in Nigeria. The New capital base requirements are as follows:
 - Life Insurance Business: N2billion from N150million
 - Non- Life Insurance Business: N3billion from N200million
 - Reinsurance Business: N10billion from N350million.

The new capital base is expected to provide long term financing which is important to sustainable economic development. This in turn will deepen and broaden the domestic financial services market, which generates higher savings rate and therefore greater economic development. The effective date for new companies is 1st of September 2005 while existing firms have 18months to comply with the guide lines with effect from 1st September, 2005.

3.2 Money Market Developments

3.2.1 Bank re-capitalization

- Two banks had crossed the benchmark set by the CBN before the announcement of the new capital base for banks on July 6, 2004. Other banks were able to scale through by raising additional funds through Private Placements, Initial Public Offers, Right Issues and Public Offers. While others that could not meet the required capital base opted for mergers and acquisitions. In the case of foreign banks operating in the country, fresh funds were injected from their respective parent bodies.



As at 31st December, twenty five (25) groups emerged from seventy five (75) banks while the CBN has announced the revocation of banking license of fourteen banks. The banks that meet up with the N25billion are: Access Bank, Afribank, Diamond Bank, EcoBank, Equitorial Trust Bank, First City Monument Bank, Fidelity Bank, First Bank Plc, First Inland Bank, Guaranty Trust Bank, IBTC-Chartered Bank, Intercontinental Bank, Nigeria International Bank, Oceanic Bank, Platinum Bank, Skye Bank, Spring Bank, Stanbic Bank, Standard Chartered Bank, United Bank of Africa, Sterling Bank, Union Bank, Unity Bank, Wema Bank and Zenith Bank.

Banks whose licenses have been revoked are: African Express Bank, All States Trust Bank, Assurance Bank of Nigeria, City Express Bank, Eagle Bank, Fortune International Bank, Gulf Bank, Hallmark Bank, Lead Bank, Liberty Bank, Metropolitan Bank, Societe Generale Bank, Trade Bank, Triumph Bank

- The successful banks account for about 93.50% of the deposits liabilities in the system. In the process of complying with the minimum capital requirement, N406.4billion was raised by banks from the capital market out of which N360billion was verified and accepted by the CBN. Also the process led to inflow of US\$652million and £162,000.

Other benefits of the recapitalisation exercise of the banks include the following:

- The liquidity engendered by these inflow of funds into the banks induced interest rate to fall drastically whilst an unprecedented 40% was once recorded as lending rate to the real sector
- With higher single obligor limit (75% of Shareholders Funds), banks now have greater Potential to finance big ticket transactions.
- Already, more banks now have access to credit lines from foreign banks (*one of such banks recently received \$250 million from two foreign banks*)
- Ownership of the banks has been diluted. This will in no small way tame the monster of insider and corporate governance abuse.
- With virtually all the banks now publicly quoted, there is wider regulatory oversight; with SEC and NSE joining the team. Regulatory resources would now be focused on fewer and more stable banks
- Depositors' confidence is bound to be greater and interest rates on deposit lower due to "safety in bigness" perception by depositors which the big banks had leveraged on in time past.

- The banks will of course enjoy economies of scale and consequently, pass on the benefit in the form of reduced bank charges to their customers
- The capital market deepened and consciousness about it increased significantly amongst the populace. The market has become more liquid and the total capitalization markedly increased.

3.2.2 Interest Rates

- The CBN reviewed downward the MRR from 15.00% to 13.00% while still maintaining the maximum lending rate at MRR+4.00%. This was a deliberate action of the apex bank to reduce the lending rate in the economy. In the same vein the CBN lowered the Cash Reserve Ratio (CRR) from 11.00% to 5.00% while the difference of 6.00% would be invested in special CBN instruments with tenor of 91 days at 3.00% p.a. This is a good development as a low CRR will lower the cost of funds and impact positively on interest rates.
- To further restructure the debt profile of the Federal Government, the CBN introduced a 1-year Treasury bill on July 1, 2005. The stop rate on the instrument at the first auction was 10.50%. The highest stop rate for the year was 17.00% while the lowest recorded was 6.90%. It would be recalled that the CBN introduced the 182-day Treasury bill in October 2004. The highest and the lowest stop rate of the 182-day Treasury bill in 2005 were 16.00% and 5.00% respectively while the highest and lowest rates for the 91-day Treasury Bill were 14.50% and 3.50% respectively. The average spot rate for the 91-day and 182-day Treasury bill for the year under review were 7.40% and 9.49% respectively. As against the average of 14.38% and 14.63% respectively in the preceding year.
- Interest rates in the inter-bank market were lower in 2005 when compared with the preceding year. The average Nigeria Interbank Offer Rate (NIBOR) for 7-day tenor and 90day-tenor in 2005 were 13.79% and 16.03% respectively while the rates were 18.90% and 17.03% in year 2004.
- The CBN continued with its phased withdrawal of government funds from the banking system in 2005. This was aimed at managing liquidity in the system as well as to ensure that banks look for alternative ways of deposit mobilization to reduce over dependence on government funds.

3.2.3 Foreign Exchange Rate

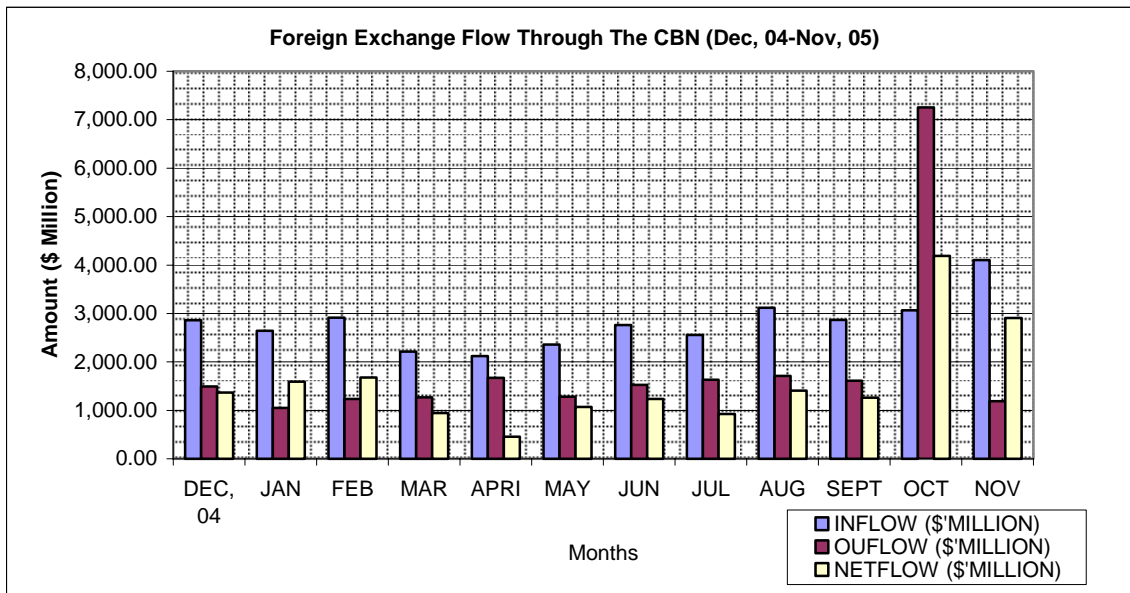
- The value of Naira was relatively stable in the year under review. At the official market, the exchange rate of the Naira in parity to the US\$ which opened the year at N132.85 per US\$ closed the year at N129.00 per US\$. Therefore the Naira appreciated by 2.90% against an appreciation of 3.03% in the preceding year. We note that this would be the second time in 5 years that the Naira would appreciate against the US\$. The average exchange rate at the official market was N131.61. The level of change in the value of Naira was within the 3.00% band the CBN allows on the local currency against the vehicle currency. The appreciation in the exchange rate was largely due to the various managed float measures adopted by the CBN coupled with the external reserve built-up during the year due to favourable oil price in the international market. Specifically the CBN introduced special auction session on Monday 22, August 2005 in order to ease the demand pressure on the exchange rate.
- At the parallel market segment of the market, the Naira depreciated marginally by 0.07% as it closed the year at N138.50 per US\$ from the opening rate of N138.40

per US\$ while the Naira appreciated by 5.34% in 2004 as the Naira closed the year at N138.40 from the opening rate of N146.20. The average exchange rate in the market was N138.43 per US\$ against N139.62 per US\$ in 2004.

- Analysis of the Dutch Auction System (DAS) shows that US\$11,940million was offered for sale in 2005 representing an increase of 33.18% over the US\$8,965million offered for sale in the preceding year. A total of US\$12,955.94million was demanded in 2005 representing an increase of 19.05% over the US\$10,883.09million demanded in the preceding year, while a total amount of US\$10,896.37million was sold representing 0.12% decrease over the US\$10,883.09million sold in 2004.

3.2.4 External Sector Developments

- Total foreign exchange inflow and outflow through the CBN as at November 2005 stood at \$30,718.30million and \$21,423.21million respectively, resulting to a total net inflow of \$9,295.09million. The payment of \$6.4billion to the Paris Club of Creditors in fulfilment of the agreement earlier reached with the Club accounted for the sharp outflow in October, 2005. The oil sector accounted for about 64% per cent of the total inflow between January-November, 2005.



3.3 Capital Market Developments

- The re-capitalization exercise in the banking industry continued to enlighten the investing public about the opportunities inherent in the capital market.

3.3.1 New Issues

There were 49 applications for new issues valued at N692.8billion in 2005 against 37 applications for new issues valued at N235.53billion in 2004. The banking sector accounted for 34 applications valued at N517.6billion representing about 74.71% of the total value while Federal Government Bond issued accounted for N140billion during the year. Five Merger applications valued at N95.5 billion were approved during the year. As at the end of the year only three mergers had been concluded.

3.3.2 New Listing

- Twelve additional securities were listed during the year, these include:

Equity

- ✓ Investment Baking & Trust Company Plc
- ✓ Japaul Oil & Maritime Services Plc
- ✓ Fidelity Bank Plc
- ✓ Diamond Bank Plc
- ✓ Great Nigeria Insurance Plc
- ✓ Prudent Bank Plc
- ✓ Platinum Bank Plc
- ✓ Guardian Express Bank Plc
- ✓ Unity Bank Plc

Bond

- ✓ 2nd FGN Bond 2008 Series 1
- ✓ 2nd FGN Bond 2007 Series 2
- ✓ 2nd FGN Bond 2008 Series 3
- ✓ 2nd FGN Bond 2007 Series 4
- ✓ 2nd FGN Bond 2008 Series 5
- ✓ 2nd FGN Bond 2007 Series 6
- ✓ 2nd FGN Bond 2008 Series 7
- ✓ N6 billion 1st Akwa Ibom State Floating Rate Redeemable Bond 2005/2007
- ✓ 1st Access Bank Plc Secured Variable Rate Redeemable Convertible Loan Stock.

Table II: New Issues in 2005

S/N	ISSUER	ISSUE TYPE	NUMBER OF SHARES	OFFER PRICE	SUBSCRIPTION LEVELS (%)
1	WAPCO	Rights	1,286,400,002	8.00	90.75
2	Wema Sec. and Fin. Plc	Private Placement	300,000,000	1.8	125
3	Union Dicon Salt Plc	Rights	200,000,000	5.00	36.17
4	Wema Bank Plc.	Subscription	5,000,000,000	3.50	95.11
5	Great Nig. Assurance Plc	Subscription	800,000,000	1.20	28.36
6	African Petroleum Plc	Private Placement	36,526,901	40.00	100
7	EIB Int'l Bank Plc	Subscription	5,500,000,000	1.80	58.06
8	FCMB Plc.	Subscription	4,000,000,000	4.00	102
9	Valucard Nig. Plc.	Private Placement	46,452,060	8.00	100
10	Wema Bank Plc	Subscription	273,267,900	3.50	95.11
11	Standard Trust Bank Plc	Subscription	2,000,000,000	7.00	101
12	Fidelity Bank Plc	Rights	562,368,030	1.25	108
13	Fidelity Bank Plc	Supplementary	2,000,000,000	1.25	100
14	Fidelity Bank Plc	Private Placement	2,492,885,149	1.25	254.65
15	Afribank Nig. Plc	Subscription	2,500,000,000	6.80	98.73
16	Incar Nigeria Plc	Rights	251,250,000	1.20	81
17	Akwa Ibom State Govt.	Bond	60,000,000	100	100
18	Vono Products Plc.	Subscription	154,933,188	1.60	107.46
19	Vono Products Plc	Rights	96,711,208	1.60	110.99
20	Access Bank Plc	Subscription	3,000,000,000	2.90	131.84
21	FlourMills Nig.	Rights	436,800,000	12.00	109.15

3.3.3 Delisting

- Six securities were delisted during the year, these are:
 - ✓ Standard Trust Bank Plc
 - ✓ M-Net Supersport
 - ✓ 19th Federal Government Development Stock 2005

- ✓ First Yobe State Floating Rate Redeemable Bond N40m
- ✓ N40m Glaxo Smithkline Beecham Nig. Plc Redeemable Debenture Stock 1995/1998
- ✓ Vono Product Products Plc Redeemable Mortgage Debenture Stock 1996/1998.

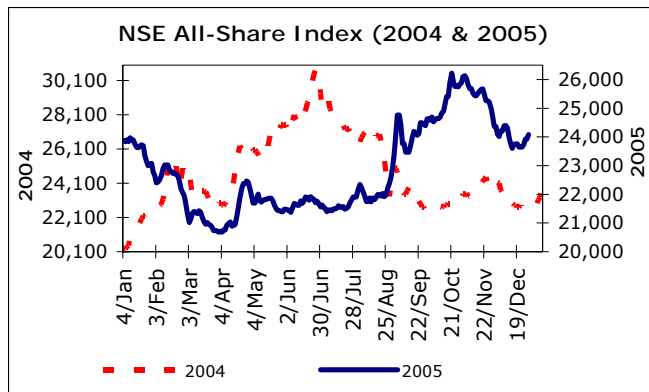
3.3.4 Secondary Market

- The Nigeria Stock Exchange All-Share Index rose marginally by 1.01% to close the year at 24,085.76. This is against the increase of 18.46% in the preceding year. At the growth rate of 1.01%, the Index recorded its lowest growth rate in the last six years. The reasons accounted for this include: the various reform programmes in the financial market especially in the banking sub-sector that shifted activities to the primary segment of the market; unimpressive companies' results which had an attendant on companies' earnings and benefits such as bonus & dividend which ordinarily would have served as major drivers, impacted negatively on the market; speculative activities by most banks were reduced to the barest minimum and phased withdrawal of funds by the CBN from the financial system.

Equities Market Statistics

	2005	2004
Turnover (Volume)	26.7 billion	19.8 billion
Turnover (Value)	₦262.937billion	₦230.44billion
Closing NSE All-Share Index	24,085.76	23,844.45
Change in NSE All-Share Index	1.01%	18.46%
Closing Market Capitalisation	₦ 2,523.49billion	₦1,925.9 billion
Listed Equities	214	207
Change in CTSL 40 NEMI	11.31%	30.63%
Change in CTSL 20 NEGI	9.69%	33.62%
Change in CTSL Mfg. Index	5.61%	22.97%
Change in CTSL Banking Index	31.61%	39.57%
Change in CTSL Pet. Mkg. Index	(16.57%)	37.29%
Change in CTSL Insurance Index	48.03%	10.39%

- Market Capitalisation increased by 31.03% during the year to close at N2, 523,493,312,544.07. The total turnover for the year under review is 26, 838, 911, 431, an increase of 35.56% over the preceding year. Meanwhile the value of the market turnover was N263, 733,831,277.92, an increase of 16.62% over the preceding year. The increase in the volume was attributed to additional shares of banks that were listed from Private Placements, Initial Public Offers, Right Issues and Public Offers. The most active stock traded by volume for the period under review was Oceanic Bank with a volume 2, 344,583,875 units. This was followed by United Bank for Africa Plc with a total volume of 1,594,775,664 units. The Banking sub-sector accounted for 70.14% of the market volume in the year under review.



3.3.5 Foreign Portfolio Investment

- Foreign portfolio investments made in the Nigeria Capital Market through the Nigerian Stock Exchange is estimated at N10 billion (representing an increase of 33.33% over the preceding year's figure) excluding the US\$652million and £162,000 strategic FDI's in the Nigerian banks. Various policy measures of the present administration to correct the macroeconomic imbalances in the country,

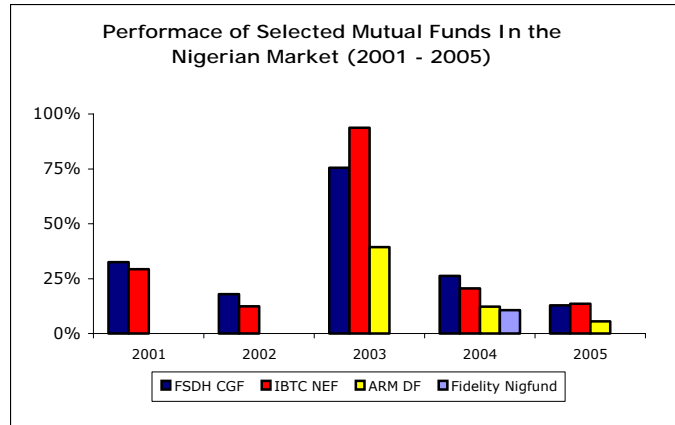
various Road Shows organized by the Nigeria Stock Exchange and the impressive performance of the Nigeria Stock Market in the recent years over the major market of the world, jointly contributed to enhance investors' confidence in the Nigerian economy.

3.3.6 Stock Market Returns

- **CAPPA & D' ALBERTO PLC** recorded the highest return for the year under review. It was able to achieve this by recording 111.72% price appreciation between 31-Dec, 2004 and 30-Dec. 2005, declaring 50k cash dividend and bonus issue of 1 for 1. Although the stock achieved the highest return in the period under review, our analysis shows that the return could not be realized by many investors because the stock was not liquid as only 1,903,847 turnover was recorded throughout the year as against its industry average of 15,926,589.
- On the other hand, **GULF BANK PLC** recorded the poorest return for the period under review. This was as a result of the depreciation in the share price of the stock from N0.89 as at 31-Dec. 2004 to N0.27 as at 30-December, 2005. The depreciation in the share price was partly caused by investors' flight to safety as a result of the insolvency the bank experienced during the year.
- The CTSL sectoral index analysis shows that the **CTSL Insurance Index** outperformed all other indices with 48.03% in the period under review. The bonus issue declared by most of these companies in the period under review accounted for this outstanding performance. The index was primarily driven by AIICO Insurance returning 163.47%, Cornerstone Insurance returning 111.73% and Niger Insurance returning 37.50%.
- The **CTSL Banking Index** recorded a 31.61% growth rate in the period under review. A combination of price appreciation and the good dividend and bonus declared by First Bank and Union Bank accounted for the growth rate. First Bank which contributed 76.27% to the index paid a dividend of N1.60 per share with a bonus issue of 1 for 4 while Union Bank which contributed 68.44%, paid a dividend of N1.40 per share and bonus issue of 1 for 3.
- The **CTSL Manufacturing Index** grew marginally by 5.61% in the period under review. Price appreciation accounted for the substantial part of the return in the sub sector. Flour Mills Nig Plc which returned 54.73% recorded 50.51% price appreciation. P.Z Industries which returned 45.62% recorded 39.18% price appreciation while Vitafoam which returned 43.71% recorded 35.14% price appreciation. The negative return (7.83%) recorded by The Nigerian Breweries which is the most capitalised quoted company in Nigeria contributed largely to the low performance in the sub sector.
- The **CTSL Petroleum Marketing Index** was the only sub-sector that recorded a decline in growth rate in the period under review. The Index which declined by 16.57% was attributable to the general decline in the share prices of most of the companies in the sub-sector. Africa Petroleum recorded a price depreciation of 48.09% but reduced this with a bonus of 1 for 5 therefore returning total loss of 37.70% on investment. In the same vein TEXACO recorded a price depreciation of 29.01% but reduced this by paying N3.00 dividend per share. The general decline in share prices of the oil marketing companies is attributable to the low margin allowed by the Petroleum Products Pricing Regulatory Agency (PPPRA) on the

importation of petroleum products. As a result, most of oil marketing companies declined importation.

- As at December 31, 2005 there were ten Unit Trust/Mutual Funds with memorandum listing on The Nigerian Stock Exchange (NSE), compared to the eight funds in 2004. The ten funds are; The Coral Growth Fund, Paramount Equity Fund, Centre-Point Unit Trust, Continental Unit Trust, First Interstate Unit Fund, The IBTC Nigerian Equity Fund, The Discovery Fund, Fidelity Nigfund, The Frontier Fund and A-Z Mutual Investments Fund.



25 Most Capitalised Stocks

	Company	Market Capitalisation as at 30-Dec-2005 (=N=)	% of Total Market Capitalisation
1	NIGERIAN BREW PLC.	293,427,418,792.00	11.63%
2	FIRST BANK OF NIG. PLC	128,044,579,500.00	5.07%
3	UNION BANK NIG. PLC	114,007,712,000.00	4.52%
4	GUINNESS NIG PLC	113,274,279,840.00	4.49%
5	ZENITH BANK PLC	99,000,000,000.00	3.92%
6	NESTLE FOODS NIGERIA PLC	98,817,812,500.00	3.92%
7	NIG. BOTTLING CO. PLC	84,920,775,962.08	3.37%
8	INTERCONTINENTAL BANK PLC	74,550,156,422.50	2.95%
9	GUARANTY TRUST BANK PLC	71,256,548,031.60	2.82%
10	CADBURY NIGERIA PLC	65,575,211,476.32	2.60%
11	TOTAL NIGERIA PLC	62,135,891,520.09	2.46%
12	UNILEVER NIG. PLC	62,076,324,849.49	2.46%
13	OCEANIC	60,445,298,397.00	2.40%
14	OANDO PLC	54,952,470,360.00	2.18%
15	ASHAKA CEM. PLC	50,017,500,000.00	1.98%
16	DIAMOND BANK NIGERIA PLC	47,082,900,920.50	1.87%
17	CONOIL	40,645,500,000.00	1.61%
18	U.B.A PLC.	39,780,000,000.00	1.58%
19	MOBIL OIL NIG PLC	39,665,478,930.00	1.57%
20	P.Z. INDUSTRIES PLC	35,285,062,293.00	1.40%
21	TEXACO (NIG) PLC	30,473,560,866.56	1.21%
22	W.A. PORTLAND COMP. PLC.	29,672,960,034.60	1.18%
23	FLOUR MILLS NIG. PLC	29,120,000,000.00	1.15%
24	PLATINUM BANK PLC	28,531,718,222.80	1.13%
25	INVESTMENT BANKING AND TRUST COMPANY	26,830,396,774.89	1.06%
	TOTAL	2,523,493,312,544.07	70.52%

Stock Market Returns 25 Top Performers¹

S/N	Security	Price 31-Dec-2004	Price 30-Dec-2005	Cash Dividend	Bonus Ratio	Change in price (%)	Total Return (%)
1	CAPPA & D` ALBERTO PLC	7.25	15.35	0.50	1 for 1	111.72	330.34
2	CUTIX PLC	1.58	3.2	0.10	1 for 1	102.53	311.39
3	CRUSADER INSURANCE PLC	0.7	1.5	0.075	1 for 3	114.2857	196.4286
4	ASHAKACEM. PLC	22.5	34.2	2.85	2 for 3	52.00	166.00
5	AIICO INSURANCE PLC	1.67	2.2		1 for 1	31.74	163.47
6	ADSWITCH PLC	0.45	1.06			135.56	135.56
7	CORNERSTONE INSURANCE COMPANY	1.25	1.51	0.13	2 for 3	20.80	111.73
8	BAICO INSURANCE PLC	0.85	1.6			88.24	88.24
9	JULIUS BERGER NIG PLC	16.4	21.74	0.25	1 for 3	32.56	78.27
10	FIRST BANK OF NIG. PLC	23.6	32	1.60	1 for 4	35.59	76.27
11	INLAND BANK (NIGERIA) PLC	1.07	1.81			69.16	69.16
12	UNION BANK NIG. PLC	21	25.48	1.40	1 for 3	21.33	68.44
13	COOPERATIVE BANK PLC	1.18	1.92	0.05		62.71	66.95
14	UNIC INSURANCE PLC	0.84	1.3	0.10		54.76	66.67
15	GLAXO SMITHKLINE CONSUMER NIGERIA PLC	7.95	10.25	0.35	1 for 5	28.93	59.12
16	NAL MERCHANT BANK PLC	1.76	2.8			59.09	59.09
17	JOHN HOLT PLC	0.99	1.47	0.10		48.48	58.59
18	BENUE CEMENT COMPANY PLC	4.1	6.5			58.54	58.54
19	BETA GLASS CO PLC	4.53	7.14			57.62	57.62
20	AVON CROWNCAPS & CONTAINER	0.69	0.98	0.09		42.03	55.07
21	FLOUR MILLS NIG. PLC	16.61	25	0.70		50.51	54.73
22	CO-OPERATIVE DEVELOPMENT BANK PLC	0.73	1.12			53.42	53.42
23	W.A. PORTLAND COMP. PLC.	11.3	17.3			53.10	53.10
24	OMEGA BANK (NIGERIA) PLC	1.34	1.91	0.12		42.54	51.49
25	ETERNA OIL & GAS PLC	1.99	3			50.75	50.75

25 Worst Performers

S/N	Security	Price 31-Dec-2004	Price 30-Dec-2005	Cash Dividend	Bonus Ratio	Change in price (%)	Total Return (%)
1	GULF BANK OF NIGERIA PLC	0.89	0.27			(69.66)	(69.66)
2	CHAMPION BREW. PLC	4.78	1.7			(64.44)	(64.44)
3	TRANS INTERNATIONAL BANK PLC	1.26	0.38		1 for 3	(69.84)	(59.79)
4	FERDINAND OIL MILLS PLC	0.97	0.49			(49.48)	(49.48)
5	TRIPPLE GEE AND COMPANY PLC	1.00	0.51			(49.00)	(49.00)
6	LIBERTY BANK PLC	0.88	0.51			(42.05)	(42.05)
7	AFRICAN PETROLEUM PLC	69	35.82		1 for 5	(48.09)	(37.70)
8	ALUMINIUM MAN. OF NIG PLC	2	1.24	0.06		(38.00)	(35.00)
9	AFROIL PLC	0.64	0.43			(32.81)	(32.81)
10	AFPRINT NIGERIA PLC	0.55	0.38			(30.91)	(30.91)
11	EKOCORP PLC	1.25	0.82	0.05		(34.40)	(30.40)
12	TEXACO (NIG) PLC	169	119.98	3.00		(29.01)	(27.23)
13	IPWA PLC	0.5	0.38			(24.00)	(24.00)
14	ALBARKA AIR PLC	0.8	0.61			(23.75)	(23.75)
15	N.E.M INSURANCE CO (NIG) PLC	0.76	0.58			(23.68)	(23.68)
16	NIGERIAN WIRE AND CABLE PLC.	0.89	0.68			(23.60)	(23.60)

¹ Please contact CTSL Research for a comprehensive list of returns in 2004

S/N	Security	Price 31-Dec-2004	Price 30-Dec-2005	Cash Dividend	Bonus Ratio	Change in price (%)	Total Return (%)
17	CONOIL PLC	131	98.75	2.00		(24.62)	(23.09)
18	FOOTWEAR AND ACCESSORIES MAN.	0.36	0.28			(22.22)	(22.22)
19	VANLEER CONTAINERS (NIG) PLC	2.29	1.79			(21.83)	(21.83)
20	INCAR NIGERIA PLC	1.3	1.02			(21.54)	(21.54)
21	ACADEMY PRESS PLC	1.95	1.5	0.05		(23.08)	(20.51)
22	BLACKWOOD HODGE (NIG) PLC	0.69	0.55			(20.29)	(20.29)
23	U T C NIG. PLC	1.15	0.92			(20.00)	(20.00)
24	PHARMA - DEKO PLC	5.42	4.14	0.20		(23.62)	(19.93)
25	MORISON INDUSTRIES PLC	1.17	0.84	0.10		(28.21)	(19.66)

4.0 Outlook for 2006

4.1 The Economy

- We expect the GDP to achieve not less than the projected 7% growth rate for the year. Growth in the economy would be elevated by: increase in crude oil price in the international market, greater stability in the foreign exchange rate, tariff reforms, the commitment toward paying contractors pension arrears and the take off of the Micro Finance Banks (MFBs).
- We expect that the inflation rate will decline if the relevant authorities work to achieve the following: to maintain a stable exchange rate in the value of naira against the US\$; continue to save the excess crude oil revenue above the budgeted figure; the implementation of the proposed N150billion Petroleum Support Fund to keep the fuel prices at the present level.
- Government's effort to lowering the cost of doing business in the country by committing more resources to the provision of more infrastructural facilities may be cut short by the proposed increase in the value Added Tax from 5% to 10%.

4.1.1 Fiscal Projections for 2006

The Federal Government Projections for the 2006 fiscal year as contained in 2006 Appropriation Bills Presented to The Joint Session of the National Assembly on December 6, 2005 are highlighted below.

- The oil price of \$33 per barrel which is higher than the \$30 per barrel in 2005 is projected for 2006. A total crude oil production of 2.5 million barrels per day which is lower than the projected 2.71million per barrel in 2005 which never materialized but higher than the actual production of 2.4million barrels per day recorded in 2005 is projected for 2006.
- GDP is projected to grow at 7%.
- The exchange rate is expected to remain stable at N129.00 per US\$. Value Added Tax is expected to be increased from 5% to 10%. Government revenue is estimated at N152trillion, while proposed aggregate expenditure is N1.88trillion

resulting to a fiscal deficit of N357billion, equivalent to 2.40% of GDP. The deficit is expected to be financed from:

- Sales of government properties
- Privatization proceeds
- Domestic borrowing

Domestic debt service would be increased by 18% from N186billion in 2005 to N220billion in 2006 due to two factors.

- Additional Treasury bills would be issued to mop up excess liquidity and curb inflation, and also a limited amount of bonds and treasury bills would be issued by the Debt Management Office to help finance the fiscal deficit.
- Bonds to be issued to contractors and pensioners to take care of the outstanding arrears.

4.2 Outlook for the Fixed Income Market

- Giving the government's commitment to stabilise the price of oil in the local market we do expect some reasonable level of decline in the inflation figures. We however note that the Federal Government's ambition to achieve single digit inflation and interest rates at the same time may be difficult to achieve.
- More Federal Government Bonds are expected in the capital market as payments to local contractors and Pensioners. This is expected to trigger activities in the capital market.
- We anticipate significant intervention of government either via direct mopping up or injection of funds to the financial system.
- We expect some banks that have scaled through the N25billion Naira huddle to have some challenges in process and human resources integration. This may impact negatively on their profitability.
- We also expect vibrant secondary market for Bonds to commence. This is expected to provide the required liquidity for the FG bonds already issued.

4.3 Outlook for the Equities Market

- We anticipate increased activities in the primary segment of the market as a result of the re-capitalization exercise in the insurance industry. We note that a number of banks would use the re-capitalization exercise to acquire substantial holding in the insurance firms. This will position the banks in a better position to practice Universal banking. In addition to this, we anticipate international firms buying heavily into the insurance firms and if not regulated it could lead to a major take-over. We therefore expect insurance companies to adopt merger and acquisition as the best option.
- Banks that have already met the N25billion capitalization may want to raise additional capital in the market in order to meet the requirement of \$1billion to manage a minimum of \$500million external reserve. Although it might be too ambitious for Nigerian banks to attempt that level of capital base at the moment,

the result may be that foreign banks taking over the Nigerian banks. This ambition may also lead to further shrinkage in the number of banks in Nigerian.

- In the secondary segment of the market, we anticipate that the market would pick up in the first half of the year as the impressive results of some blue chip companies are released. Also 20% of Pension Funds which would be invested in market would drive the prices of most of the blue chip companies, as most institutional investors, foreign portfolio managers and high net worth individuals would like to take position ahead of time.
- We anticipate a marginal decline in activities in the secondary segment of the market as from the middle of the last quarter in 2006 as a result of the general election coming up in 2007. Institutional investors and other high net worth individuals may want to offload their investments in the stock market because of the uncertainties which the election may bring. Besides other high net worth individuals who have political ambitions may need liquidity to enable them actualise their goals.
- We anticipate a low return on equity for bank's investment as a result of large number of outstanding shares in issue for these banks, coming from the listing of the various offers in the industry for the last 18 months.
- In view of the aforementioned development therefore, we project a growth rate of 15% in the NSE All Share Index for the first half of the year and a growth rate between 5% and 10% to close the year.

4.4 Recommended Asset Allocation

	Q1, 2006	Q2, 2006	Q3, 2006	Q4, 2006
Equities	70%	65%	40%	30%
Fixed Income	30%	35%	60%	70%

4.5 Equity Portfolio Model for the First Quarter of 2006

Sector	Sectoral Allocation	Expected Average Return (%)	Recommended Weight	Weighted Return (%) **
Banking	40.00	19.25	0.12	2.40
Breweries	25.00	20	0.13	2.59
Building	10.00	20	0.13	2.59
Food and Beverages	15.50	17	0.11	1.87
Health Care	1.00	17	0.11	1.87
Insurance	1.00	20	0.13	2.59
Petroleum	3.50	20	0.13	2.59
Real Estate	4.00	21	0.14	2.86
TOTAL	100.00	154.25	1.00	19.38*

*Gross return

** The return is calculated per quarter (annualised at 77.52%)

Recommended Stocks in each Sector for the First Quarter of 2006

SECTOR	COMPANY	PRICE (31-Jan-06)	TARGET ENTRY PRICE	FORECAST EXIT PRICE
Banking	First Bank of Nigeria Plc	33.12	33.50	40.20
	Intercontinental Bank Plc	8.45	8.50	10.20
	IBTC Chartered Plc	4.57	4.57	5.48
	United Bank of Africa	11.90	12.60	14.74
Breweries	Nigeria Breweries	38.00	37.00	44.40
Building Materials	Ashaka Cement	34.00	35.00	42.00
	WAPCO	16.10	16.00	19.20
Food & Beverages	Flourmills of Nigeria Plc	25.20	25.00	29.25
	Nestle Plc	190.00	180.00	210.25

SECTOR	COMPANY	PRICE (31-Jan-06)	TARGET ENTRY PRICE	FORECAST EXIT PRICE
Health Care	Glaxo Smithkline	10.00	10.00	11.70
Insurance	Cornerstone Insurance Plc	1.28	1.35	1.62
	Niger Insurance Plc	2.88	2.80	3.36
Petroleum	Total Nigeria plc	181.50	180.00	21600
Real Estate	UAC- Prop	8.70	9.00	10.80

Please note that in creating this model portfolio, we have taken the performance and liquidity of the selected stocks into consideration.

5.0 World Stock Market Indices

North/Latin America	YTD CHANGE %
Dow Jones Industrial Average	(0.61)
S&P 500 Index	3.00
NASDAQ	1.37
Brazil Stock Market Index	27.71
Europe	
FTSE 100 Index (UK)	16.71
MSI Index (Spain)	20.56
SMI Index (Switzerland)	33.21
CAC 40 Index (French)	23.40
DAX Index (Germany)	27.07
Africa	
NSE All-Share Index	1.01
JSE All-Share Index (S/A)	42.98
GSE all-Share Index (Ghana)	(29.85)
Cairo SE Gen (Egypt)	83.34
Asia/Pacific*	
NIKKEI 225 Index (Japan)	40.24
Hang Seng Index (Hong Kong)	4.54
BSE 30 Index (India)	42.33

Source: Bloomberg, FSDH/CTSL Research, Yahoo Finance