

2006 Review

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Economic & Financial Market Review and Outlook

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Executive Summary

GDP

Gross Domestic Product (GDP) valued at current market prices stood at N18.07trillion in December 2006 against N14.57trillion recorded in the preceding year. Real GDP growth rate was 5.63% for the year against 6.51% recorded in the preceding year. Non-oil GDP recorded a growth rate of 8.93% against 8.59% recorded in the preceding year while oil sector GDP growth rate declined by 4.67% as a result of the crisis in the Niger Delta. The Non-oil GDP growth was driven by growth in the agriculture, telecommunications and manufacturing sectors.

Inflation

The year-on-year inflation figure stood at 8.50% while the 12-month average stood at 8.20% as at December, 2006. The economy was able to achieve the single digit inflation figure projected for the year. Better management of fiscal and monetary measures, stability in the pieces of petroleum products in the local market, and the relative decrease in the prices of food items coupled with the favourable exchange rates of the Naira against other vehicle currencies, contributed to the attainment of the single digit inflation figure.

External & Domestic Debts

Following the exit from the Paris Club of Creditors Debt during the year and the debt deal sealed with the London Club of Creditors, the country's external debt stock stood at US\$3.54billion as at December, 2006, representing a significant drop from US\$21.22billion as at December, 2005. There are indications that the country may be free from external debt burden before the end of the first quarter of 2007. On the local scene, the outstanding domestic debt stood at N1.80trillion up from N1.53trillion as at December, 2005. The FG bonds and Treasury bills issued during the year accounted for the increase.

External Reserves

Available figures from the Central Bank of Nigeria (CBN) as at October 2006 indicate that foreign reserves stood at US\$41.39billion against US\$28.29billion as at December, 2005. Favorable oil prices in the international market and fiscal prudence accounted for the increase. At the current rate of foreign exchange commitments, the level of reserves could finance about 22.4months of current foreign exchange disbursement, compared with 18 months in December, 2005. Meanwhile, the CBN has appointed 7 external fund managers to manage part of the country's foreign reserves in partnership with some Nigerian banks.

FG Bonds

FG Bonds issued during the year continued to enjoy high level of subscription from both local and foreign investors. This was principally due to the attractive coupon rate on the Bonds and the reform in that segment of the financial market. A total of N402.65billion was issued; N775.59billion was subscribed representing 192.62% subscription level while N444.72billion was allotted. The highest coupon rate was 16.00% while the lowest coupon rate was 10.98%.

Money Market

The CBN introduced a new framework for monetary policy with effect from December 11, 2006. The new policy will use short term interest rate as its "operating target". The ultimate goal of the new framework is to achieve a stable value for the domestic currency through stability in short-term interest rates around an operating target. The interest rate otherwise called the Monetary Policy Rate (MPR) which replaces the Minimum Rediscount Rate (MRR) is set at 10% and serves as an indicative rate for transactions in the inter-bank money market as well as other interest rates.

After the recapitalization exercise in the banking industry, 25 banks emerged out of the 89 banks as at December, 2005.

The CBN governor said the recapitalization exercise had removed marginal and unsound banks from the system.

Inter-bank interest rates were generally lower in 2006 when compared with the preceding year. Although still at a wide spread of 7.89% the gap between the average lending rate and the average deposit rate was lower than the preceding year.

Foreign Exchange Market

The CBN introduced 3 main policies in the foreign exchange management during the year. The effect of these policies led to the appreciation in the value of naira in all the segment of the markets. It also helped to limit the premium on the parallel market rate over the official market rate to 4.00% against about 10% recorded previously.

Stock Market

The stock market performance improved during the year on the strength of good corporate results, increased interest by foreign portfolio investors and the commencement of the investment of the pension contributions. The All Share Index gained **37.80%** in NGN and **39.35%** in USD. The market capitalization also appreciated by **67.51%** in NGN and **69.08%** in USD.

2007 Outlook

Economy

- We expect the 2007 general elections to take place as scheduled and that there would be a relatively smooth transition and hand-over of power to a new government.
- We expect the price of crude oil in the international market to drop to a range of US\$50-US\$53 p/b as a result of supply/demand imbalances globally. This will affect the country's earnings from crude oil.
- Major foreign direct investment in the Nigerian economy may reduce

until after general elections. In view of the foregoing, we project that the GDP growth rate in 2007 will be in the region of **6.5%-8.5%**.

- Low foreign exchange outflow from the economy and the favourable external reserves position are expected to lower demand pressure for foreign exchange. We therefore project that the exchange rate will end the year in the region of **N124-N125/US\$1**.
- Stability in the prices of petroleum products, drop in the crude oil prices in the international market, and increased agricultural production will contribute to a drop in the inflation rate to about **6.20%**. If this is achieved, the CBN may lower the MPR by about 150 basis points. This will lead to a further reduction in interest rates and rising Bond prices.

Stock Market

- We project a growth rate of between **15%-20%** in the NSE All Share Index for the first half of the year and between **45%- 50%** to close the year. We expect these trading ranges as a result of good corporate earnings which will lead to declaration of good cash dividends and scrip, inflows from pension contributions, increased Unit Trust Investments, more participation of the foreign investors and expected drop in lending rate.

Forecast for 2007

Indicators	Projections
GDP Growth Rate (%)	6.5-8.5
Inflation Rate (%)	6.2
External Debt (US\$)	0.00
Domestic Debt (N'tri)	2
External Reserves (US\$bn)	55
Crude Oil Price (US\$p/b)	50-53
FX Rate (N/US\$1)	124-125
MPR (%)	8.50
NSE All Share Index. HY	15-20
NSE All Share Index. FY	45-50

HY: Half Year. FY: Full Year

INDICATORS	2006	2005	2004	2003	2002
GDP at Current Market Price (N'tri)	18.07	14.57	11.41	9.91	7.80
Real GDP Growth Rate(%)	5.63	6.51	6.58	9.57	4.63
Oil Sector GDP Growth Rate (%)	(4.67)	0.50	3.37	23.70	(5.61)
Non-Oil Sector GDP Growth Rate (%)	8.93	8.59	7.50	4.44	7.96
National Disposable Income Growth Rate (%)	N/A	6.05	6.68	11.91	26.60
Inflation Rate (Year-on-Year) %	8.50	11.60	10.00	23.80	12.20
Inflation Rate (12 Months Average) %	8.20	17.90	15.00	14.00	12.90
Crude Oil Produced (billion barrels)	0.87*	0.92	0.91	0.84	0.73
Crude Oil Exported (billion barrels)	0.74*	0.84	0.87	0.79	0.66
External Debt Stock (US\$bn)	3.54	21.22	35.94	32.92	30.99
Interest Paid on External Debt (N'bn)	122.11	193.70	193.70	193.9	33.30
Domestic Debt Stock (N'tri)	1.80	1.53	1.37	1.33	1.17
Interest Paid on Domestic Debt (N'bn)	212.00	200.3	203.60	169.70	170.60
External Reserves (US\$bn)	41.39 ¹	28.29	16.96	7.47	7.68
Exchange Rate (N/US\$1), DAS & WDAS	127.00	131.60	133.3	129.40	120.50
Appreciation (Depreciation), N/US\$, (%)	1.57	2.90	3.03	(7.96)	(12.85)
Exchange Rate (N/US\$1), BDCs	129.00	142.60	140.80	141.40	126.80
Time Deposit (Over 12months) %	9.87	6.10	12.71	12.30	12.60
Lending Rate (%)	17.76	17.8	18.91	19.60	20.60
Monetary Policy Rate (MPR) (%)	10.00	13.00	15.00	15.00	16.50
NSE All Share Index Growth Rate (%) NGN	37.80	1.01	18.46	65.84	10.71
NSE All Share Index Growth Rate (%) US\$	39.35	3.91	21.49	57.88	(2.14)
91-day T-Bill Rate (Year End) %	7.25	11.89	14.50	14.50	14.00
182-day T-Bill Rate (Year End) %	9.99	14.50	16.00	N/A	N/A
365-day T-Bill Rate (Year End) %	9.23	17.00	N/A	N/A	N/A
Unemployment Rate (%)	5.30	11.90	11.80	14.80	12.20
Total Working Population (million)	N/A	63.93	47.99	46.80	12.22
Capacity Utilization in Industries & Business (%)	N/A	60.12	60.10	61.56	57.59
Total Population (million)	140	134	129	126	122

Sources: NBS, CBN, NSE, NPC, DMO, MMAN, FSDH Research

N/A: Not Available * Estimate ¹ As at October, 2006

1.1 Socio-Political Highlights of 2006

Nigeria Handed Over the Oil Rich Bakassi-Peninsula to Cameroun

Nigeria finally handed over the oil rich Bakassi-Peninsula to the government of Cameroun as agreed by the joint commission set up by the United Nations (UN) to implement the 2002 International Court of Justice (ICJ) ruling on the common border. Britain noted that the ruling represents significant progress between the two governments and demonstrates to Africa and the world that territorial disputes can be peacefully resolved according to international law.

Nigeria Receives Clean Bill

The commitment of the President Obasanjo led Administration to transparency and integrity received another commendation as the Financial Action Task Force (FATF) expunged Nigeria's name from its list of non-cooperating countries and terrorist in the fight against money laundering and other financial crimes. FATF is the investigative arm of the Organisation for Economic Cooperation and Development (OECD) based in France. It would be recalled that Nigeria was placed on the FATF list of non-cooperating countries in July 2001, having been adjudged to be in substantial breach of efforts aimed at checking money laundering and drug trafficking.

Constitution Amendment Suspended

The National Assembly suspended the controversial debate on the amendment of the 1999 Constitution of the Federal Republic of Nigeria. We recall that a committee led by the Deputy Senate President, Senator Ibrahim Mantu, was set up to review and amend the 1999 Constitution of the Federal Republic of Nigeria. Notable among the recommendations of the Mantu Committee are: the review of the derivation formula from 13% to 18%, the extension of the tenure of the President from two terms of four years to three terms of four years. The National Assembly however postponed the debate on the constitution amendments to another National Assembly session.

Gubernatorial Candidates Assassinated

Two candidates seeking gubernatorial nomination under the auspices of the People's Democratic Party (PDP) were assassinated during the year. They were: Funsho Williams and Ayodeji Daramola. Funsho Williams, who was seeking nomination in Lagos State, was killed in his house. Ayodeji Daramola, who was seeking nomination for the same position in Ekiti State, was also assassinated in his home town in the state, after he addressed a rally. Meanwhile, the Nigerian Police continues to assure all Nigerians especially those seeking political offices, adequate security before, during and after the conduct of the 2007 elections.

Sovereign Rating on Nigeria to Improve

Nigeria obtained a sovereign rating of BB-in the year 2006. Meanwhile, the Governor of the Central Bank of Nigeria (CBN) has said the Sovereign rating on Nigeria will improve in 2007 given all the impressive performance indices of the Nigerian economy. The rating described the Nigeria economy as "stable" and noted the government's improving fiscal management. This rating will provide the private sector with efficient access to international capital markets.

1.2 Socio-Economic Highlights of 2006

Ban on Importation of Textiles Remains

President Olusegun Obasanjo re-emphasised the decision of his administration not to remove the ban placed on the importation of textiles into the country. The President said the decision is part of the efforts of his administration to enhance growth, generate more employments and create wealth in the country. The President disclosed this in a meeting with the Nigerian Textiles Manufacturers Association in the State House, Abuja, Nigeria. He said other initiatives being taken by the administration included a Textile Revival Fund and diplomatic consultations to help curb smuggling, counterfeiting and dumping in the sector.

New Capital Base for Airline Operators

In a bid to salvage the airline sector of the Nigerian economy, the Ministry of Aviation announced a new capital base for all the airline operators in the country. Operators on the local routes were required to increase their capital base to N500million. Operators on the regional routes (operating within Africa) were required to increase the capital base to N1billion while the operators in the international routes were required to increase their capital base to N2billion. The deadline for the recapitalisation exercise was set at May 31, 2007. The new capital base is expected to produce operators with stronger, efficient and reliable airlines that can meet international standards. Within the last two years, the country recorded up to four plane crashes in which about 300 people lost their lives.

Crisis in Niger Delta Under Control

President Olusegun Obasanjo said that the crisis in the Niger Delta area of Nigeria was under control. The President described the hostage-taking and the death of an expatriate in the region as unfortunate. Obasanjo told members of the Honorary International Investors Council (HIIC) during a visit to the Presidential Villa, Abuja, that the establishment of the Niger Delta Development Commission (NDDC) and the quarterly meetings of All-Stakeholder Council on the Socio-Economic Development of the Niger Delta have opened new ways of doing things in the region. Obasanjo, who admitted the collective guilt of the individuals, communities, oil companies, local, states and federal administrations, said the problem of the region is attributable to accumulated neglect of the past. He assured all stakeholders that his administration is making frantic efforts to tackle the long neglect of the area.

N217billion Spent on Petroleum Subsidy

The Federal Government announced that the Nigerian National Petroleum Corporation (NNPC) and the petroleum marketing companies incurred the sum of N217billion on fuel subsidy between January and October 2006. This amount was spent on the importation of premium motor spirit (petrol) and household kerosene into the country to complement domestic production of these products. The Federal Government had planned to spend a total of N150billion in the 2006 fiscal year to stabilise the domestic prices of petroleum products and mitigate the impact of upward movement in crude oil prices in the international market on the domestic market. In order to achieve this, the Federal Government established a Petroleum Support Fund (PSF) effective January 2006 to stabilise the domestic prices of petroleum products against volatility in international crude and products prices. The oil marketers incurred the extra amount over the amount approved in the 2006 budget as a result of high crude oil prices in the international market.

Long Queues Return to Filling Stations

Long queues returned to the filling stations nationwide towards the end of 2006 as a result of the shortage of petroleum products. NNPC attributed the shortage to the vandalism activities of some group of individuals. However certain quarters were of the opinion that the shortage was as a result of hoarding activities of some oil marketers in anticipation of price increase in the petroleum products.

FG May Reserve N360 bn for Petroleum Subsidy in 2007

The Federal Government may set aside the sum of N360billion in the 2007 fiscal year as petroleum subsidy. This was the recommendation of the sub-committee of the Federation Account Allocation Committee [FAAC]. The N360billion subsidy, if approved, will come from domestic crude oil excess proceeds and will be transferred to the Petroleum Support Fund (PSF) account after due verification by an appointed independent auditor. The Accountant-General of the Federation, Ibrahim Dankwambo, said the amount would be broken down and N30billion transferred monthly throughout 2007.

Nigeria's Population Hits 140million

Provisional figures released by the National Population Commission (NPC) establish Nigeria's population at 140million as against 88.99million in 1991 population census. The figure shows that the population growth rate in Nigeria is 3.2% an increase over 2.9% in 1991. The sex distribution of the figures shows 51.22% of male and 48.78% female which is similar to the 50.04% of male and 49.96% of female in 1991. It however put Kano State as the most populous state in Nigeria at 9.38million closely followed by Lagos State at 9.01million. At 1.7million, Bayelsa was the least populated state while the Federal Capital Territory, Abuja has a population of 1.4million.

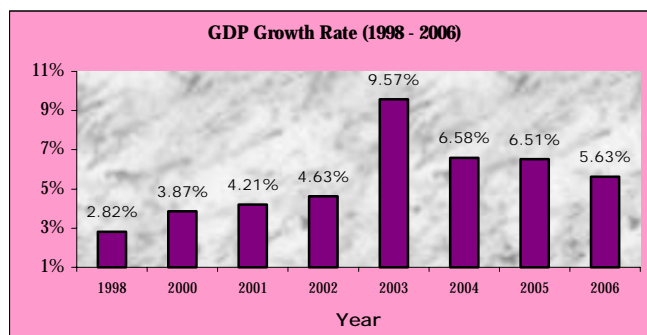
Increased Investments in Power Sector

Following the enactment of the Electricity Power Reform Act in 2006, the power sector in the Nigerian economy has attained far-reaching institutional changes. These include the unbundling of National Electric Power Authority (NEPA), deregulation of the sector to admit participation by other tiers of the government and private sector, and the establishment of the Nigerian Electricity Regulatory Commission and the Rural Electrification Agency. In the last quarter of the year, the procurement process of the 2,600 Mega Watts Mambilla Hydro Power Station was completed and all contracts for the procurement process are expected to be finalised soon.

2.0 Review of the Nigerian Economy

2.1 Gross Domestic Product (GDP)

Available data from the National Bureau of Statistics (NBS) indicates that the GDP (valued at current market prices) as at the end of 2006 stood at N18.07trillion. This translates to a Real GDP growth rate of 5.63% for the year 2006 as against a growth rate of 6.51% recorded in 2005. The social disruption in the Niger Delta caused by the militants in the area, resulted

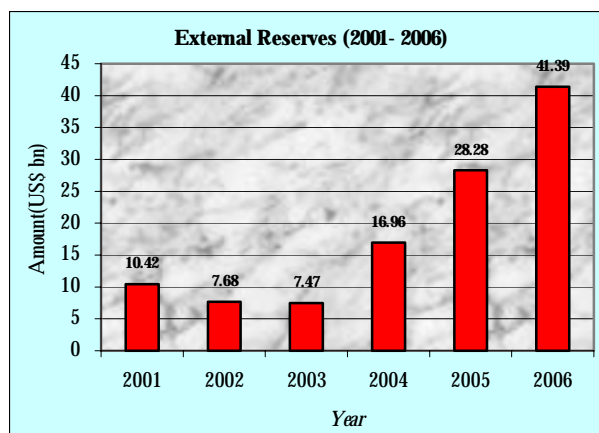


to a 4.67% decline in Oil GDP growth rate while the Non-oil Growth rate stood at 8.93% an improvement over the 8.59% recorded in 2005. The Non-oil growth was essentially driven by Agriculture, Manufacturing, Telecommunication, Banking & Finance and Wholesales & Retail.

2.2 External Reserve

Available data from the CBN shows that Nigeria's gross aggregate reserves at the end of October 2006 stood at US\$41.39billion representing an increase of 46.36% over US\$28.28billion as at December 2005. At the current rate of foreign exchange commitments, the level of reserves could finance about 22.4months of current foreign exchange disbursement, compared with 18 months in December, 2005. Favourable oil prices at the international market coupled with fiscal prudence on the part of the economic managers, accounted for the robust external reserves position. Meanwhile, the CBN has appointed 7 external fund managers to manage part of the country's foreign reserves in partnership with some Nigerian banks. According to the CBN, the arrangement will enable the acquisition of requisite skills and technology for the local banks in order to transform them to global players which in turn will provide innovative financial services to the domestic market. The CBN awarded US\$7billion to each of the 14 reputable Global Asset Managers. In fulfilment of its promises, the CBN awarded deposit placement of US\$50million each to the first bank to consolidate, United Bank for Africa, and the bank with the largest members, Unity bank.

Sectorial Non-Oil GDP Growth Rate Q1-Q4, 2006 (%)				
Sector	Q1	Q2	Q3	Q4
Agriculture	6.88	7.10	7.20	7.36
Solid Mineral	9.58	9.55	9.56	9.50
Manufacturing	9.17	9.04	9.83	10.02
Telecommunication & Post	31.49	31.64	31.81	32.58
Finance & Insurance	3.12	3.13	3.14	3.15
Wholesales	12.52	13.93	14.21	14.33
Building & Construction	12.07	12.17	11.83	12.43
Others	7.67	7.70	7.72	7.69



2.3 External Debt

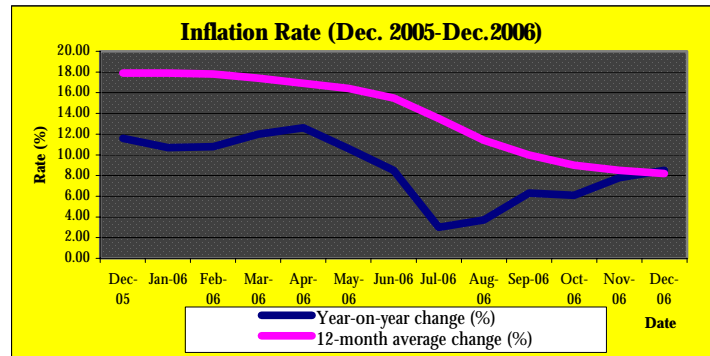
Provisional figures obtained from the Debt Management Office (DMO) show that the Total External Debt Stock at the end of December 2006, stood at US\$3.54billion. The break-down of the figure shows that US\$101.10million is owed to Commercial Creditors, US\$509million in Promissory Notes and US\$326.08million to the Non-Paris Club. US\$2.608billion is owed to Multilateral Creditors. The efforts of the present administration to get Nigeria free from the huge external debt will help the economy both in the short term and in the long term by freeing additional resources for the domestic



economy to promote growth and development. At the end of December 2005, Nigerian External Debt Stock stood at US\$21.22billion.

2.4 Inflation

The figures released by The NBS illustrate that the Consumer Price Index (CPI) in Nigeria, which is the most widely used measure of inflation was 8.50% on a year-on-year basis as at end December 2006, while the 12 month average in the same period was 8.20%. The inflation figure was at its lowest position of 3.00% in July 2006. The inflation trend from the beginning of the year till the end of December showed that the economy achieved its target of a single digit inflation rate for most of the year.



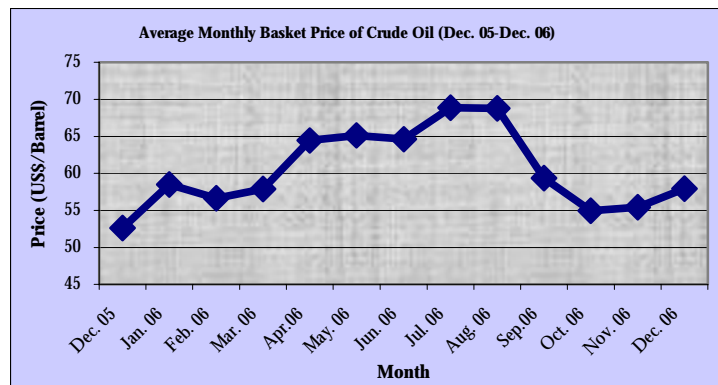
Better management of fiscal and monetary measures, stability in the prices of petroleum products in the local market, and the relative decrease in the prices of food items coupled with the favourable exchange rates of the Naira against other vehicle currencies, contributed to the attainment of the single digit inflation figure.

2.5 Unemployment

Available data from the CBN indicates that unemployment rate in Nigeria, between the age bracket 15-64years, stood at 5.30% at the end of 2006 an improvement over the 11.90% recorded in the 2005. Youth employment, between the age brackets of 15-24years was 14%. Under-employment rate, between 15-64years however stood at 20.2%.

2.6 OPEC Cuts Oil Production

At a Consultative Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened in Doha, Qatar, on 19th and 20th October, 2006, the conference reflected on the oil market situation and decided to reduce production by an amount of 1.2 mb/d, from production of about 27.5 mb/d, to 26.3 mb/d, effective 1st November 2006.



According to OPEC, the decision is to ensure market stability. The Heads of Delegation noted with concern that crude oil supplies are well in excess of actual demand, as the above-average level of crude stocks in Organisation for Economic Co-operative and Development (OECD) countries demonstrates. OPEC also noted that the over-supply situation and imbalance in supply/demand fundamentals have destabilized the market. Also in a communiqué issued at the end of the 143rd Extra-Ordinary Meeting of the organization held in Abuja, Nigeria, OPEC observed that market fundamentals indicate ample crude oil supply, high stock levels and increasing spare capacity. In view of the above, the Conference decided to reduce OPEC production by another 500,000 b/d with effect from February 1, 2007, in order to balance supply and demand.

2.7 Telecommunication Industry

At the growth rate of 31.98% telecommunications industry was the fastest growing sector in the Nigerian economy. The same trend was recorded in 2005 when the sector recorded a growth rate of 29.61%. The industry is made up of different classes of operators rendering different services in order to tap the abundant opportunities in the sectors. Since the liberalization policy in the industry, the Nigerian Communications Commission (NCC), the regulatory body in the communications sector, has promoted innovation and competition among the operators in the country. As at August 2006, the number of telephone lines in Nigeria stood at 27.95million representing an increase of 48.11% over the figure recorded in December, 2005. In a similar development the teledensity, which measures the proportion of telephone lines in relation to the population in the country, stood at 19.96%.

In spite of the growth rate the industry recorded in the last two years, we still hold that there exist a lot of untapped opportunities in the industry given the Nigerian population of 140million.

Fixed and Mobile Telephone Data						
Category	2001	2002	2003	2004	2005	2006*
Fixed (m)	0.60	0.70	0.87	1.03	1.21	1.59
Mobile (m)	0.27	1.57	3.15	9.15	17.66	26.36
Total (m)	0.87	2.27	4.02	10.20	18.87	27.95
Teledensity (%)	0.62	1.62	2.87	7.29	13.48	19.96

Distribution of Fixed Network						
Operators	2001	2002	2003	2004	2005	2006*
NITEL(m)	0.54	0.56	0.54	0.51	0.45	0.44
PTOs**(m)	0.06	0.15	0.33	0.52	0.78	1.15
Total(m)	0.60	0.70	0.87	1.03	1.22	1.59

Source: NCC

*As at Aug 2006

**Private Telephone Operators

Teledensity Based on Population of 140million

3.0 Agricultural Credit Support Scheme (ACSS)

The efforts of the Federal Government to diversify the Nigerian economic revenue base beyond oil, received another major boost during the year with the commencement of Agricultural Credit Support Scheme (ACSS). The scheme was established through the initiative of the Federal Government and the Central Bank of Nigeria (CBN) with the active support of the Bankers' Committee.

The scheme is funded with N50billion. The 25 consolidated banks contributed N30billion (N1billion each from the 25 banks and additional N1billion each from First Bank of Nigeria Plc, Union Bank Nig. Plc, United Bank for Africa Plc, Zenith Bank Plc and Guaranty Trust Bank Plc). The balance of N20billion was contributed by various Federal Government agencies and the thirty six state governments.

The purpose of the scheme is to develop the agricultural sector of the Nigerian economy by providing credit facilities to farmers at a single digit interest rate. This is

to enable farmers exploit the untapped opportunities in the sector with a view to reduce the cost of agricultural production and increase output on a sustainable basis.

According to the guidelines issued by the CBN on the operations of the scheme, the agricultural activities covered under the scheme include: establishment of or management of plantations, the cultivation or production of crops, livestock (animal husbandry, poultry, fishery etc), farm machinery and hire purchase services. Credit facilities will be granted to farmers by banks for activities stated above at an interest rate of 14%. Borrowers who make timely repayment will be granted a rebate of 6% therefore reducing the effective interest rate to be paid by the farmers to 8%. The CBN shall pay the 6% support to the lending banks. Our review of the scheme shows that it is targeted at the right sector of the Nigerian economy.

4.0 Financial Market Review

Activities in the financial sector in 2006 were dominated largely by the post consolidation integration of the 25 banks that met the recapitalisation deadline of the CBN, the commencement of the activities of the Pension Fund Administrators (PFAs), and recapitalisation of the Insurance firms. The Apex Bank introduced a number of measures and incentives to ensure the success of the consolidation exercise in the banking industry and to manage the macro-economic variables in order to attain price stability.

4.1 Reform Programme for Insurance Companies

In a bid to achieve the new capital base required for the varying insurance companies, the insurance operators adopted a number of measures to raise additional funds in the capital market. Insurance operators raised additional funds through Private Placements, Public Offers, Right Issues and Initial Public Offerings.

In addition, a number of insurance companies have signed a Memorandum of Understanding (MoU) to merge with other companies in order to meet the February 28, 2007 deadline. National Insurance Commission (NAICOM) had in 2005, 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 Commissioner for Insurance and Chief Executive, NAICOM, Chief Emmanuel Chukwulozie, said the operators in the insurance industry in Nigeria are losing about N70billion in premium income per annum to capital flight in the oil and gas sector of the economy through the insurance of risks abroad by oil multinationals.

The NAICOM chief said the federal government's local content policy in the energy sector will enable the insurance industry to progressively underwrite oil & gas business in Nigeria from 45% in 2007 to 70% in 2010. He also noted that the policy will boost the growth and development of the Nigerian insurance industry. According to him, the ongoing consolidation exercise in the industry will gradually boost the local retention capacity especially in the oil and gas sector as well as marine and aviation insurance businesses amongst other classes of insurance. He added that the assurance that domestic insurers have the capacity to underwrite high profile risks in the oil and gas industry can only be provided by adequate and progressive capitalization and consolidation of the insurance industry.

4.2 Bond Market

In its efforts to create and develop a vibrant and liquid bond market in Nigeria, the Debt Management Office (DMO) granted licenses to 15 Primary Dealers and Market Makers (PDMMs) in Federal Government Bonds. The operators which comprise ten Banks and five Discount Houses in Nigeria are expected to provide an active and liquid market where there are always buyers and sellers. Activities in the secondary segment of the FG bond market increased during the year under review. The new FG bonds issues during the year received high level of subscription from domestic institutional and foreign investors.

The break-down of FG Bonds issued during the year shows that a total of N402.65billion was issued; N775.59billion was subscribed representing 192.62% subscription level while N444.72billion was allotted. The highest coupon rate was 16.00% while the lowest coupon rate was 10.98%.

Issue Date	Tenor (Years)	Amount (N'bn)	Total Subscription (N'bn)	Subscription Level (%)	Amount Allotted (N'bn)	Marginal Rate (%)
Jan. 26, 2006	3	20.00	73.15	365.75	36.70	15.00
Feb. 20, 2006	3	10.00	29.45	294.50	12.61	12.50
Feb. 20, 2006	5	20.00	45.59	227.95	23.48	14.50
Mar. 27, 2006	3	10.00	15.78	157.80	8.16	12.50
Mar. 27, 2006	5	20.00	13.39	66.95	8.09	14.50
Apr. 24, 2006	3	10.00	34.34	343.40	15.41	12.00
Apr. 24, 2006	5	20.00	43.85	219.25	26.91	13.50
May. 22, 2006	5	10.00	33.96	339.60	12.51	12.00
May. 22, 2006	7	10.00	16.58	165.80	10.36	15.00
Jun. 26, 2006	7	20.00	28.94	144.70	21.69	16.00
Jul. 24, 2006	3	20.00	45.85	229.25	20.01	12.50
Jul. 31, 2006*	3	75.00	75.00	100.00	75.00	12.50
Aug. 21, 2006	3	20.00	53.90	269.50	29.28	12.00
Sep. 12, 2006**	5	87.65	87.65	100.00	87.65	13.50
Sep. 27, 2006	5	20.00	64.69	323.45	26.86	12.99
Oct. 27, 2006	7	10.00	41.50	415.00	10.00	12.74
Nov. 20, 2006	7	10.00	43.03	430.30	10.00	10.98
Dec. 22, 2006	7	10.00	28.94	289.40	10.00	11.99
Total		402.65	775.59	192.62	444.72	
<i>*Issued to Settle Pension Arrears</i>			<i>** Issued to Local Contractors</i>			

4.3 Money Market

In order to execute its mandate of attaining banking soundness and effective liquidity management in Nigeria, CBN introduced a new framework for monetary policy, with effect from December 11, 2006. According to the Governor of CBN, Prof. Chukwuma C. Soludo, the new framework for monetary policy implementation will use short term interest rate as its "operating target".

The ultimate goal of the new framework is to achieve a stable value for the domestic currency through stability in short-term interest rate around an operating target. The interest rate otherwise called the Monetary Policy Rate (MPR) which replaces the Minimum Rediscount Rate (MRR) is set at 10% and serves as an indicative rate for transactions in the inter-bank money market as well as other interest rates.

There is a spread of 600 basis points around the MPR that is 300 basis points below and 300 basis points above. This translates to upper limit of 13% which will be the

repurchase rate and a lower limit of 7% representing the rate at which the CBN will take deposits from the banks.

Since the commencement of the MPR, the discount rate on the Treasury bill has moved up to the region of 7% and volatility in the inter-bank interest rates has been reduced drastically.

4.4 Consolidation in the Banking Industry

Twenty five strong banks emerged from the consolidation exercise in the banking industry. The table below shows the list of the banks and their composition. Immediate challenges after the recapitalisation exercise were process and human capital integration amongst the merging parties. These challenges have however been resolved considerably.

4.45 Score Card of Banking Consolidation

According to the CBN, some of the score cards of the banking consolidation so far include:

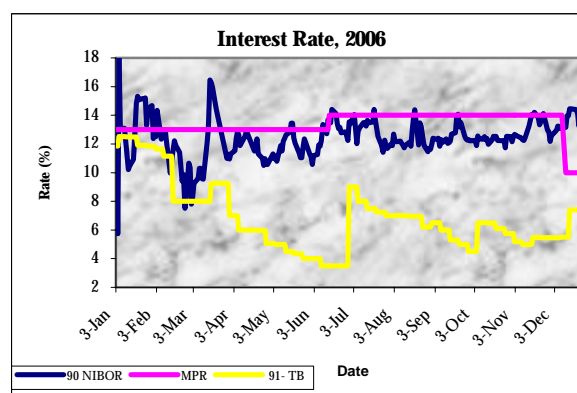
- Increase in the banks' total assets from N3,209billion in June 2004 to N6,555billion as at the end of September, 2006.
- Capital and Reserves of N957billion as against N327billion in June 2004 representing an increase of 192%.
- More commercial banks branches than the pre-consolidation
- Industry capital adequacy ratio of 21.64%, which was above the statutory minimum ratio of 10% compared to 15.18% in June, 2004.
- The industry ratio of non-performing credit to total credits of 9.5% compared to 19.8% in June 2004.
- 20 out of 25 Nigerian banks in top 100 banks in Africa, 17 out of top 40; and 4 out of top 10.
- About 17 out of 25 Nigerian banks in top 1000 banks in the world by end of 2006.

Banks Grouping

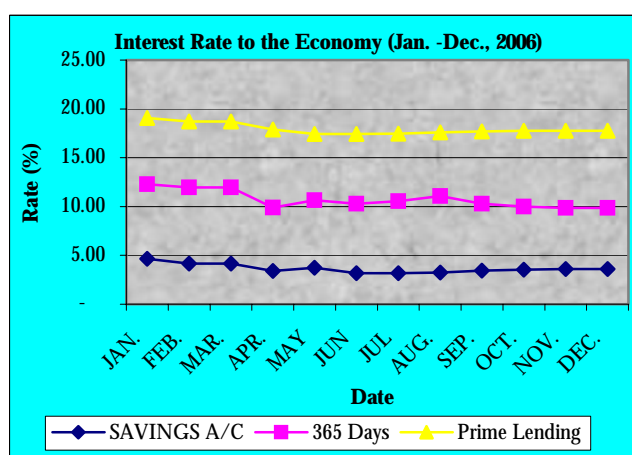
Bank Name	Members	Bank Name	Members	Bank Name	Members of the Group
Access Bank Plc	Access Bank	GT Bank	GT Bank	Stanbic Bank	Stanbic Bank
	Capital Bank International				
	Marina Bank	IBTC-Chartered	Chartered Bank	Standard Chartered	Standard Chartered
			Investment Banking & Trust Company		
Afribank Plc	Afribank Plc		Regent Bank	Sterling Bank	INMB
	Afrimerchant Bank				Magnum Trust Bank
		Intercontinental Bank	Equity Bank		NAL Bank
Diamond Bank	African International Bank		Gateway Bank		NBM Bank
	Diamond Bank		Global Bank		Trust Bank of Africa
	Lion Bank		Intercontinental Bank		
				UBA Plc	Continental Trust Bank
Ecobank	Ecobank	Nigeria International Bank	Nigeria International Bank		Standard Trust Bank
					United Bank for Africa(UBA)
Equitoria Trust Bank	Devcom Bank	Oceanic Bank	Oceanic Bank		
	Equitorial Trust Bank		In't Trust Bank	Union Bank	Broad Bank
					Union Bank
First City Monument Bank	Co-operative Bank	Platinum-Habib Bank	Platinum Bank		Union Merchant Bank
	First City Monument Bank		Habib Bank		Universal Trust Bank
	Nig-American Merchant Bank				
	Midas Bank	Skye Bank Plc	Bond Bank	Unity Bank	Bank of the North
			Cooperative Bank		Centre-Point Bank
Fidelity Bank Plc	Fidelity Bank		EIB International Bank		First Intertate Bank
	FSB International Bank		Prudent Bank		Intercity Bank
	Manny Bank		Reliance Bank		New Africa Bank
					New Nigerian Bank
First Bank	First Bank	Springbank Plc	ACB		Pacific Bank
	FBN Merchants Bank		Citizen Bank		Societe Bancaire
	MBC		Fountain Trust Bank		Tropical Commercial Bank
			Guardian Bank		
Firstinland Bank	First Atlantic Bank		Omega Bank	Wema Bank	Wema Bank
FSDH Research	IMB		Trans International Bank		National Bank
	Inland Bank				10
	NUB			Zenith Bank	Zenith Bank

4.5 Interest Rates

Inter-bank interest rates were largely influenced by the statutory allocations and the release of the excess crude oil receipt to the banking system in the year under review. Expectedly, this resulted to short-term volatility in inter-bank rates. In reaction to the volatility experienced during the year, the CBN adopted some measures. Notable among these were cash swap for foreign exchange, and the introduction of a new monetary policy framework, MPR to replace the MRR. In addition, the CBN increased the discount rate on the Treasury Bills to end the first half of the year in order to mop up excess funds from the banking system.



- During the year under review, inter-bank rates were lower when compared with the preceding year. The average 7-day Nigerian Inter-Bank Offered Rate(NIBOR) in 2006 was 7.26% against 10.66% in 2005 while the average 90-day NIBOR in 2006 was 12.48% as against 13.42% in 2005. 7-day NIBOR recorded the lowest figure of 1.53% in 2006 as against 2.00% in the preceding year. The 90-day NIBOR recorded the lowest value of 5.75% in 2006 as against 7.71% in 2005 while the highest figure recorded for 90-day NIBOR in 2006 was 17.96% as against 22.17% recorded in 2005.
- The average discount rate on the 91-day TB in 2006 was 6.82% while it was 7.40% in the preceding year, the lowest and the highest rates were 3.50% and 12.50% as against 3.00% and 14.50% recorded respectively in 2005.
- The average discount rate on the 182-day TB in 2006 was 9.18% while it was 9.49% in the preceding year while the lowest and the highest rates were 6.10% and 14.99% as against 4.50% and 16.00% recorded respectively in 2005.
- The average discount rate on the 365-day TB in 2006 was 11.03% while it was 10.42% in the preceding year, while the lowest and the highest rates were 8.75% and 17.00% as against 6.90% and 17.00% recorded in 2005. We recall that the CBN introduced the 365-day TB in 2005 as part of its measures to restructure the short term domestic debt to longer tenor.
- Available data from the Money Market Association of Nigeria (MMAN) indicates that the Average Prime Lending rate to the economy stood at 17.76% as at December 2006, an improvement over the 19.06% in January 2006. Average interest rate on Time Deposit (12 months) stood at 9.87% down from 12.27% in January 2006. At 7.89% spread, the gap between the average lending rate and the average deposit rate is still wide. We note that the competition



among the operators in the baking industry and the drop in the inflation rate have helped to lower the lending rate.

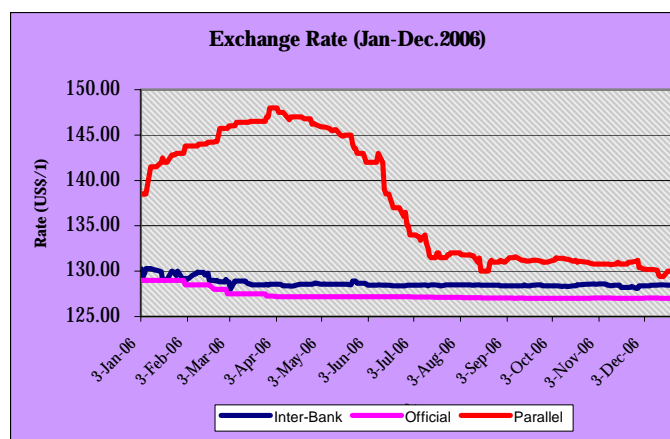
4.6 Foreign Exchange Market

4.61 Policy Measures

- Introduction of the Wholesale Dutch Auction System (WDAS)
- Liberalization of the Foreign Exchange Market
- Intervention through Cash Swaps

The Central Bank of Nigeria (CBN) adopted three new measures in the foreign exchange management in order to enhance efficiency and effectiveness in the market.

It graduated the special intervention introduced in 2005 in the sales of foreign exchange, to Wholesale Dutch Auction System (WDAS).

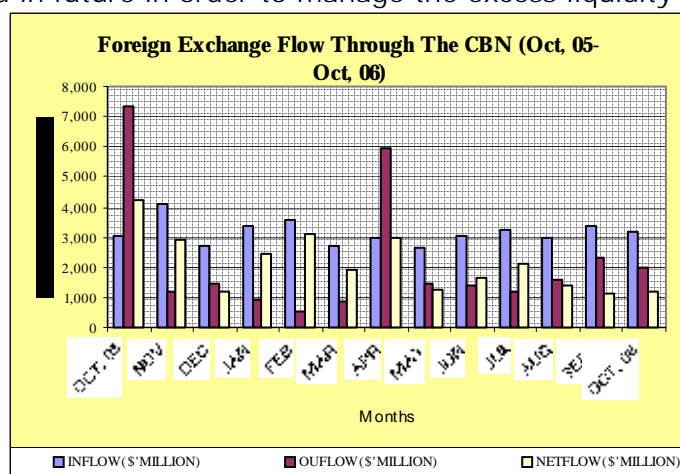


The CBN also embarked on the liberalization of the market. According to the CBN Governor, Prof. Soludo "the strategy is to ensure increased supply of foreign exchange to all markets and also reduce the demand pressure in the parallel market by reviewing or eliminating many of the restrictions imposed on the users of official market. The liberalisation policy allowed the Bureau de Change (BDCs) to serve as brokers within the inter-bank market framework. BDCs were since allowed to buy foreign exchange from the official market (from and through the commercial banks). They are allowed to effect transfer of foreign exchange through their domiciliary accounts with commercial banks. Commercial banks, Travelex and other authorized dealers are also allowed to import foreign exchange and supply to the market subject to statutory guidelines.

The CBN also introduced cash swaps system where it sold foreign exchange to some designated banks to be repurchased in future in order to manage the excess liquidity in the banking industry.

4.62 Effects

The cumulative effect of all these measures, in addition to Nigeria's favourable foreign reserves, led to the appreciation in the value of the local currency in parity to other vehicle currencies. These measures also led to the convergence of the exchange rates between parallel market and the official market. It is important to note that the premium between the parallel



market rate and the official market rate is now within 4% against 10% before the measures were adopted.

Specifically, in the official market, Naira appreciated against the US\$ by 1.55% to close the year at N127.00/US\$1 from N129.00/US\$1 in the preceding year. In the inter-bank market, it appreciated by 1.57% to close the year at N128.45/US\$1 from N130.50/US\$1 in the preceding year. In a similar development, it appreciated by 6.28% in the parallel market to close the year at N129.80/US\$1 from N138.50/US\$1.

Analysis of the WDAS shows that US\$8,630million was offered for sale in 2006 representing a decrease of 27.72% over the US\$11,940million offered for sale in the preceding year and a total amount of US\$9,609.75million was sold representing 11.81% decrease over the US\$10,896.37million sold in 2005. The CBN had stopped the release of the demand figure for the foreign exchange since the introduction of the WDAS. Meanwhile, the amount of foreign exchange sold in 2006 was 11.35% higher than the amount that was offered. This was in reaction to the commitment of the CBN to meet all genuine demands for foreign exchange.

We note that there were several occasions during the year when oil companies sold foreign exchange directly to the authorised dealers. These transactions increased the supply end of the foreign exchange market, thereby contributing to the appreciation in the value of Naira.

4.7 External Sector Developments

Total foreign exchange inflow and outflow through the CBN as at October, 2006 stood at \$49.33billion and \$18.48billion respectively, resulting in a total net inflow of \$30.85billion. The sharp rise in the outflow in the month of October, 2005 and April 2006 was attributed to the payment of the first and second tranches of the Paris Club of Creditors' Debt. Oil sector receipt accounted for about 57.00% of the total inflow into the economy between January and October, 2006.

5.0 Capital Market

5.1 Primary Market

In 2006 The Nigerian Stock Exchange (NSE) approved 62 applications for both new issues and mergers & acquisitions valued at N1.41trillion as against 52 applications valued at N730.54bn in 2005. Non-bank institutions accounted for 48% of the new issue approved in 2006 valued at N678.54billion while the banking sectors accounted for 41% valued at N577billion. FG Bonds issued accounted for N155billion or 11% of the amount approved during the year.

5.11 New Listing

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

Equities Market Statistics

	2006	2005
Turnover (Volume)	36.74 billion	26.7 billion
Turnover (Value)	₦477.38billion	₦262.937billion
Closing NSE All-Share Index	33,189.30	24,085.76
Change in NSE All-Share Index	37.80%	1.01%
Closing Market Capitalisation	₦ 4,227.13billion	₦ 2,523.49billion
Listed Equities	202	214
Change in FSDH 40 NEMI	35.77%	11.31%
Change in FSDH 20 NEGI	27.41%	9.69%
Change in FSDH Mfg. Index	18.30%	5.61%
Change in FSDH Banking Index	70.83%	31.61%
Change in FSDH Pet. Mkg. Index	(7.04%)	(16.57%)
Change in FSDH Insurance Index	(13.90%)	48.03%

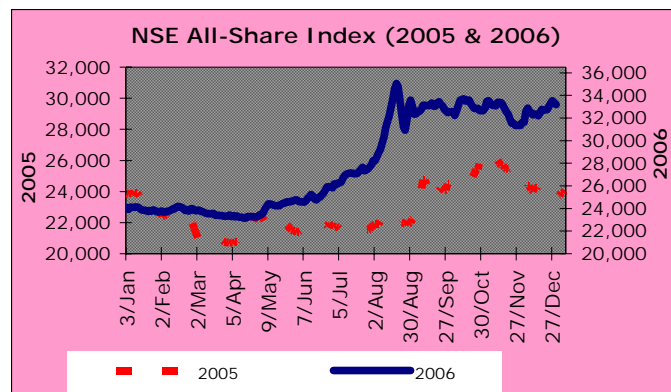
Equity

- ✓ National Aviation Handling Company Plc
- ✓ Unity Bank Plc
- ✓ Eco bank Nigeria Plc
- ✓ Skye Bank Plc
- ✓ Sterling bank Plc
- ✓ Spring Bank Plc
- ✓ Transnational Corporation Of Nigeria Plc
- ✓ NFI Insurance Plc
- ✓ Sovereign Trust Insurance Plc
- ✓ Union Homes Savings and Loans plc
- ✓ Associated Bus Company Plc
- ✓ Ecobank Transnational Incorporated

5.2 Secondary Market

The **Nigerian Stock Exchange All-Share Index** ended the year with a return of **37.80%** in naira terms and a return of **39.35%** in US\$ terms making the market to record its best performance in the last three years. The performance in the market was attributable to a number of factors which include: The conclusion of the re-capitalisation exercise in the banking industry. Banks and their subsidiaries were able to take short term positions in the market. They were equally able to extend facilities to the operators in the capital market to trade in the market. The commencement of the Pension Reform Act 2004 which permitted a maximum investment of 25% of pension contributions to be investment in the market also helped the activity level in the market. A number of new managed funds that were floated during the course of the year also invested in the market. Lastly, the improvement in the macro-economic environment in the country attracted foreign investors into the market and thus increased the activity level.

Market capitalisation increased by **67.51%** to close the year at **N4,227,134,193,754.80** as against the appreciation of 31.03% in the preceding year. The banking sub-sector accounted for about 53.05% of the total market capitalisation at the end of the year. The total turnover for the year under review was 36,738,367,901 an increase of 36.88% over the preceding year. Access bank emerged the most actively traded stock on the floor of The Nigerian Stock Exchange in the year under review with a total volume of 3.58billion. This was followed by Fidelity bank with a total volume of 2.59billion. Meanwhile the market closed the year with a value of **N477,382,328,850.90** an increase of 81.01% over the preceding week. The banking sub-sector accounted for 72.77% of the total market volume in the year under review. The sub-sector accounted for 70.14% of the entire volume in the market in 2005.



Poor performance particularly in the share prices of **Conoil** (29.62%), **Oando** (24.48%) contributed to the dismal performance in the value of the **CTSL Petroleum Marketing Index** which declined by 7.04%. The general decline in share prices of the oil marketing companies is attributable to the unimpressive results declaration by some of the oil marketing companies.

Stock Market Returns

25 Top Performers¹

S/N		Price 30-Dec- 05	Price 29-Dec- 06	Cash Dividend (=N=)	Bonus Ratio	Change in Price (%)	Total Return (%)	Volume Traded
1	INCAR NIGERIA PLC	1.02	6.88			574.51	574.51	26,317,220
2	BENUCE CEMENT COMPANY PLC	6.50	37.00			469.23	469.23	246,288,705
3	FLOUR MILLS NIG. PLC	25.00	64.85	0.85	1 for 3	159.40	249.27	205,783,011
4	FOOTWEAR AND ACCESSORIES	0.28	0.96			242.86	242.86	15,559,634
5	W.A. PORTLAND COMP. PLC.	17.30	53.99	0.3		212.08	213.82	669,402,614
6	CAP PLC	9.00	25.00	1.20		177.78	191.11	15,618,991
7	TRIPPLE GEE AND COMPANY PLC	0.51	1.42	0.03		178.43	184.31	16,357,540
8	LONGMAN NIGERIA PLC	3.04	6.93	0.30	1 for 5	127.96	183.42	5,317,792
9	CEMENT CO. OF NORTH NIG. PLC	7.95	21.57	0.10		171.32	172.58	237,890,864
10	NAMPAK NIGERIA PLC	1.64	4.00	0.08		143.90	148.48	11,942,999
11	EKOCORP PLC	0.82	1.59		1 for 4	93.90	142.38	29,547,416
12	ACEN INSURANCE PLC	0.52	0.95	0.10	1 for 5	82.69	138.46	3,026,828
13	UNIVERSITY PRESS PLC	1.45	3.20	0.25		120.69	137.93	36,551,284
14	OCEANIC BANK NIG. PLC	6.49	15.39			137.13	137.13	1,579,836,937
15	ACCESS BANK NIGERIA PLC	2.99	6.96			132.78	132.78	3,586,778,026
16	NCR (NIGERIA) PLC	1.21	2.75	0.05		127.27	131.40	3,204,179
17	JULIUS BERGER NIG PLC	21.74	46.83	0.7		115.41	118.63	11,550,801
18	POLY PRODUCTS (NIG) PLC	0.56	1.20			114.29	114.29	12,992,962
19	FIRST BANK OF NIG. PLC	32.00	33.50	1	1 for 1	4.69	112.50	1,470,700,183
20	R T BRISCOE PLC	7.30	14.89	0.35		103.97	108.77	44,067,977
21	CHELLARAMS PLC	0.83	1.59	0.1		91.57	103.61	1,110,590
22	GUARANTY TRUST BANK PLC	12.40	18.15	0.95	1 for 3	46.37	102.82	1,620,174,555
23	OKOMU OIL PALM PLC	17.80	34.05	1		91.29	96.91	37,847,797
24	UNITED BANK FOR AFRICA PLC	13.00	25.31			94.69	94.69	1,879,043,016
25	THOMAS WYATT NIG. PLC	0.39	0.75			92.31	92.31	2,489,507

25 Worst Performers ¹

S/N		Price 30-Dec- 05	Price 29-Dec- 06	Cash Dividend (=N=)	Bonus Ratio	Change in Price (%)	Total Return (%)	Volume Traded
1	LIVESTOCK FEEDS PLC	2.83	0.95			(66.43)	(66.43)	1,600,348
2	UNITED NIGERIA TEXTILES PLC	2.3	0.91			(60.43)	(60.43)	37,735,749
3	CADBURY NIGERIA PLC	65.52	32.46	1.30		(50.46)	(48.47)	101,423,813
4	NIG. BOTTLING CO. PLC	65.36	36	0.60		(44.92)	(44.00)	61,112,121
5	CORNERSTONE INSURANCE COMPANY	1.51	0.90			(40.40)	(40.40)	225,211,619
6	BETA GLASS CO PLC	7.14	4.23	0.10		(40.76)	(39.36)	24,031,237
7	CAPPA & D'ALBERTO PLC	15.35	9.07	0.30		(40.91)	(38.96)	1,654,764
8	C.F.A.O. NIG. PLC	4.53	2.79			(38.41)	(38.41)	34,747,757
9	UNIVERSAL TRUST BANK	0.75	0.48			(36.00)	(36.00)	9,212,977
10	GREIF NIGERIA PLC	1.79	1.21			(32.40)	(32.40)	3,297,245
11	CONOIL PLC	98.75	67.00	2.50		(32.15)	(29.62)	28,873,378
12	PHARMA - DEKO PLC	4.14	2.97			(28.26)	(28.26)	16,354,187
13	OANDO PLC	96.00	70.00	2.50		(27.08)	(24.48)	63,976,676
14	UNILEVER NIG. PLC	20.51	12.5		1 for 4	(39.05)	(23.82)	274,769,401
15	FIDELITY BANK PLC	2.93	2.15	0.11		(26.62)	(22.87)	2,596,039,772
16	LINKAGE ASSURANCE PLC	1.45	1.14			(21.38)	(21.38)	6,538,838
17	AFROIL PLC	0.43	0.34			(20.93)	(20.93)	18,328,814
18	ALUMINIUM MAN. OF NIG PLC	1.24	1			(19.35)	(19.35)	1,703,322
19	FIRST CITY MONUMENT BANK PLC	5.11	4.05	0.13		(20.74)	(18.20)	1,048,661,958
20	JOHN HOLT PLC	1.47	1.21			(17.69)	(17.69)	12,776,311
21	FIRST ALUMINIUM NIGERIA PLC	0.75	0.63			(16.00)	(16.00)	37,666,451
22	WEMA BANK PLC	3.74	3.2			(14.44)	(14.44)	1,210,030,519
23	JOS INT. BREWERIES PLC.	3.80	3.26			(14.21)	(14.21)	1,285,842
24	ALUMINIUM EXTRUSION IND.PLC	2.18	1.89			(13.30)	(13.30)	873,715
25	IPWA PLC	0.38	0.33			(13.16)	(13.16)	3,054,699

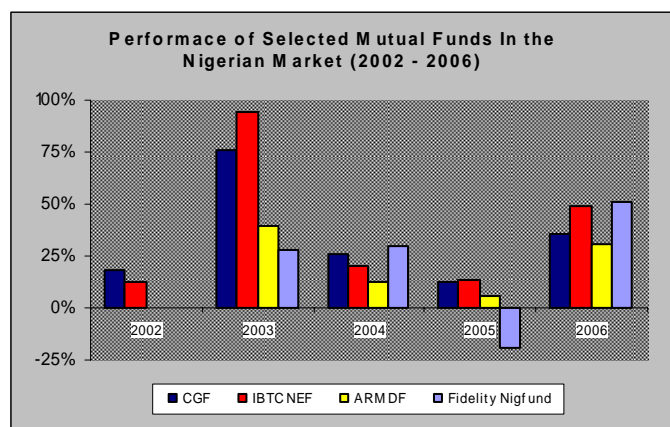
¹ Please contact FSDH Research for a comprehensive list of returns in 2006

25 Most Capitalised Stocks

S/N	Company	Market Capitalisation as at 29-Dec-2006 (=N=)	% of Total Market Capitalisation
1	FIRST BANK OF NIG. PLC	350,990,848,996.00	8.30%
2	NIGERIAN BREW PLC.	281,705,447,165.00	6.66%
3	ZENITH BANK PLC	226,078,792,920.00	5.35%
4	UNION BANK NIG. PLC	221,077,020,659.71	5.23%
5	TRANSNATIONAL CORPORATION OF NIGERIA PLC	180,158,422,657.46	4.26%
6	U.B.A PLC.	178,688,600,000.00	4.23%
7	W.A. PORTLAND COMP. PLC.	162,056,384,215.96	3.83%
8	GUINNESS NIG PLC	159,277,206,769.81	3.77%
9	ECOBANK TRANSNATIONAL INCORPORATED	156,649,089,636.24	3.71%
10	INTERCONTINENTAL BANK PLC	145,857,100,888.00	3.45%
11	GUARANTY TRUST BANK PLC	145,200,000,000.00	3.43%
12	OCEANIC	143,336,385,567.00	3.39%
13	NESTLE FOODS NIGERIA PLC	124,182,812,500.00	2.94%
14	ECOBANK PLC	108,487,676,899.26	2.57%
15	FLOUR MILLS NIG. PLC	100,716,373,333.33	2.38%
16	BENUE CEMENT COMPANY PLC	91,575,000,000.00	2.17%
17	IBTC CHARTERED BANK PLC	88,125,000,000.00	2.08%
18	SPRING BANK PLC	81,059,385,763.08	1.92%
19	ASHAKA CEM. PLC	80,437,500,000.00	1.90%
20	P.Z. INDUSTRIES PLC	66,017,915,927.82	1.56%
21	TOTAL NIGERIA PLC	62,818,330,281.74	1.49%
22	PLATINUMHABIB BANK PLC	60,231,833,376.00	1.42%
23	AFRIBANK NIGERIA PLC	58,798,067,651.32	1.39%
24	DIAMOND BANK NIGERIA PLC	56,798,912,281.05	1.34%
25	ACCESS BANK NIGERIA PLC	48,567,999,599.52	1.15%
	TOTAL	3,426,183,310,197.68	81.05%

6.0 Mutual Funds

As at December 29, 2006 there were fourteen Unit Trust/ Mutual Funds with memorandum listing on The Nigerian Stock Exchange (NSE), compared to the ten funds in 2005. The funds are: The Coral Growth Fund, Coral Ethical Fund, Coral Income Fund, Paramount Equity Fund, Centre-Point Unit Trust, Continental Unit Trust, First Interstate Unit Fund, The IBTC Nigerian Equity Fund, The IBTC Ethical Fund, The Discovery Fund, Fidelity Nigfund, The Frontier Fund, A-Z Mutual Investments Fund and Legacy Fund.



7.0 Fiscal Projections for 2007

As with the Federal Government budgets over the last three years, the 2007 budget was prepared against the background of a medium expenditure framework, which takes account of forecast revenue and expenditure over the next three years.

N2.3trillion budget was approved for 2007 as against N1.9trillion in 2006. N102billion was approved for Transfers, N326billion for debt payments, and N1.05trillion for recurrent (non-debt) expenditure and N781.5billion for capital expenditure.

7.1 Key Assumptions and Targets of the Budget 2007

- Oil price of US\$40 per barrel- (US\$35 in 2006).
- Crude oil production of 2.5 million b/d (2.4 million b/d 2006).
- Joint Venture Cash Calls US\$4.5billion –(US\$4.2in 2006)
- GDP growth rate of 10% (7% in 2006). Agriculture, solid mineral and telecommunications are expected to drive the GDP growth rate.
- Inflation rate at 9%-(10% in 2006)
- Exchange rate of N126 to US\$1- (N129 to US\$1 in 2006).
- An estimate of total revenue available to the 2007 budget is N1.8trillion. This is made up of N1.7trillion share of the Federation Account and N0.1trillion of Independent Revenue.
- Given the estimated revenue N1.8trillion available to fund the N2.3trillion, the budget presents a fiscal deficit of about N0.5trillion or 2.9% of the GDP.
- The deficit will be financed from the proceeds of the sales of government properties and domestic borrowing.

Expenses Head	2007	2006	% Change
Statutory Transfers	102.30	91.20	12.17
Debt Service	326.00	290.00	12.41
Recurrent (non-debt) Expenditure	1,056.56	934.62	13.05
Capital Expenditure	781.53	567.00	37.84
Total	2,266.39	1,882.82	20.37

Composition of Oil Revenue	Amount (N'tri)
Crude Oil	1.6
Petroleum Profit Tax	1.1
Royalties & Others	0.532
	3.232
% of Oil Revenue to Total Revenue (%)	75.16

Composition of Non-Oil Revenue	Amount (N'tri)
Company Income Tax	0.299
Value Added Tax	0.53
Customs & Excise Duties	0.23
	1.059
% of Non- Oil Revenue to Total Revenue (%)	24.63

2007 Budget Parameters	2007	2006	Change (%)
Bench Mark Oil Price (US\$ p/b)	40.00	35.00	14.29
Crude Oil Production (million b/d)	2.50	2.40	4.17
Joint Oil Venture Cash Calls (US\$b)	4.50	4.20	7.14
GDP Growth Rate (%)	10.00	7.00	42.86
Exchange Rate NGN/USD	126.00	129.00	(2.33)

8.0 Outlook for 2007

8.1 The Economy

- We expect that the 2007 general elections will take place as scheduled and that there would be relatively smooth transition and hand-over of power to a new government.
- We expect the implementation of the budget 2007 especially in the areas of investment in key infrastructure, to provide the enabling environment for the private sector to drive the growth and development of the economy. Specifically, telecommunications, agriculture, and manufacturing would be the drivers of the

economy. The reform programme and investment in the power sector will help boost the economy.

- We expect the price of crude oil in the international market to drop to a range of **US\$50-US\$53 p/b** as a result of supply/demand imbalances globally. This will affect the country's earnings from crude oil.
- Major foreign direct investment in the Nigerian economy may wait until after general elections. In view of the foregoing, we project that the GDP growth rate in 2007 will be in the region of **6.5%-8.5%**.
- We do not expect major foreign exchange outflow in 2007 as a result of the low external debt commitment when compared with the preceding year. We note that Nigeria is in a good favourable external reserves position. The combination of the two factors will reduce demand pressure on foreign exchange, therefore leading to appreciation in the value of naira in parity to other major international currencies. We therefore project that the exchange rate in the year will be in the region of **N124-N125/US\$1**.
- We expect that the inflation rate(year-on-year)will decline further in 2007 to about **6.2%** if the following measures are maintained: implementation of the Agricultural Credit Support Scheme (ACSS) in order to boost food production; better co-ordination between the monetary and the fiscal policies, stable appreciation in the value of Naira; that the nation continues to save the excess crude oil revenue above the budgeted figure of US\$40p/b and government's commitment to subsidise the local prices of petroleum products.
- We expect that the micro-finance banks will impact more on the low income end of the economy and subsequently create more self-employed jobs.

8.2 Outlook for the Fixed Income Market

- We expect that there would be more activities in the fixed income securities, especially FGN Bonds as such investments now provide real positive returns to investors. This is premised on a single digit inflation rate that we expect in 2007.
- If inflation rate of 6.2% as projected is achieved, the CBN may lower the MPR by about 150 basis points. This will lead to a further reduction in interest rates and rising Bond prices.
- The activities of the PDMMs will also produce enough liquidity in the market for any investor to quickly terminate his investment.
- We expect the corporate bond market to begin to develop from the achievements made so far in the FGN bonds market development.
- We expect to see more stability in interest rate especially in the inter-bank market as a result of the implementation of the New Monetary Policy Framework, the MPR. Meanwhile we note that the CBN may review the MPR as inflation rate dictates.
- The ongoing reforms in the power sector of the Nigerian economy may help lower the cost of doing business in Nigeria. This will further help inflation to maintain a downward trend and subsequently lending rate to the real sector may go down.

- We expect that the banking system will develop more customer products to take care of the retail segment of the market.

8.3 Outlook for the Equities Market

- With a return of 37.8% growth in the stock market last year, the key question is whether the bulls will be sustained in 2007 bearing in mind the general elections. Undoubtedly, the nation may experience some anxiety and tension as we draw closer to the election scheduled for April this year. Looking at the polity we expect that the general elections will hold as scheduled. However, we believe that money may exit the market in the first quarter to fund the election. In our view, efforts must be directed at addressing the trend of undesired events in order to avoid a crisis of confidence for investors particularly in the stock market.
- The following factors will lift the equities market in 2007: Good corporate earnings which will lead to declaration of good cash and scrip dividends; the proposed plan to stop the importation of cements into Nigeria with effect from December, 2007 and anticipated drop in inflation rate and interest rate as a result of good outlook for the economy.
- Furthermore, the influx of funds from additional foreign portfolio managers and local fund managers whose asset allocation is skewed in favour of the equities market will boost the level of activity in the market.
- The ongoing re-capitalization exercise in the insurance industry which is scheduled to lapse by February 28, 2007 will usher in a new era for the quoted insurance stocks. Prior to now, the sub sector has been trailed with the challenge of illiquidity. It is expected that post-consolidation, the problem of illiquidity will be a thing of the past.
- In view of the aforementioned development therefore, we project a growth rate of between **15% -20%** in the NSE All Share Index for the first half of the year and possible between **45% - 50%** to close the year.
- With the recent significant improvement in appreciation in the share prices in the banking sector, the average P/E ratio for the sector remains high at 20x. Meanwhile we note that some banks within the sector had share capital reconstruction in 2006 as a means of reducing their outstanding number of shares in issue which arose primarily from the consolidation exercise embarked upon in 2005. We are particularly bothered about the fact that some banks have indicated their interest to raise additional funds from the primary market. This move may have dwindling effect on corporate earnings and benefits such as cash dividends and bonus declarations as a result of huge number of shares. Albeit, we anticipate that some banks may increase their shares outstanding and still post impressive results to justify investors' stake in the business.

Recommended Asset Allocation

	Q1, 2007	Q2, 2007	Q3, 2007	Q4, 2007
Equities	65%	45%	60%	70%
Fixed Income	35%	55%	40%	30%

Equity Portfolio Model for the First Half of 2007

Sector	Sectoral Allocation	Expected Average Return (%)	Recommended Weight	Weighted Return (%)**
Banking	35.00	59.58	0.16	9.36
Breweries	7.50	25.64	0.07	1.73
Building	20.00	52.14	0.14	7.17
Conglomerate	5.00	32.04	0.08	0.00
Food and Beverages	20.00	23.72	0.06	1.48
Health Care	2.50	41.63	0.11	4.57
Insurance	4.00	67.41	0.18	11.98
Petroleum	4.00	30.59	0.08	2.47
Real Estate	2.00	46.52	0.12	5.71
TOTAL	100.00	379.27	1.00	44.47

Total return of 44.47% is expected for the first half of 2007. The return is annualised to 88.94%.

** The return is calculated for half year.

Recommended Stocks in each Sector for the First Half of 2007

SECTOR	COMPANY	Projected Price
Banking	Diamond Bank	13.20
	First Bank	45.00
	Fidelity Bank	3.90
	First City Monument Bank	8.10
	Guaranty Trust Bank	30.00
	IBTC Chartered	12.00
	Oceanic Bank	18.00
	Zenith Bank	35.12
Breweries	Guinness	140.00
	Nigerian Breweries	42.00
Building Materials	Ashakacem	85.00
	BCC	52.5
	WAPCO	87.00
Conglomerate	UACN	35.00
	PZ	30.00
Food & Beverages	7-Up	55.00
	Flour Mills of Nigeria Plc	83.00
	Nestle Plc	260.00
Healthcare	Evans Medical	8.43
	GlaxoSmithkline	21.10
Insurance	Crusader Insurance	5.10
	Niger Insurance	4.50
	WAPIC	6.50
Petroleum	Conoil	92.50
	Oando	95.00
	Mobil	200.00
Real Estate	UAC- Prop	20.00

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

World Stock Market Indices in 2006

North/Latin America	YTD CHANGE %
Dow Jones Industrial Average	16.29
S&P 500 Index	13.62
NASDAQ	9.52
Brazil Stock Market Index	35.65
Europe	
FTSE 100 Index (UK)	15.85
MSI Index (Spain)	10.71
SMI Index (Switzerland)	17.53
CAC 40 Index (French)	21.98
DAX Index (Germany)	34.49
Africa	
NSE All-Share Index	37.80
JSE All-Share Index (S/A)	38.07
GSE all-Share Index (Ghana)	4.97
Cairo SE Gen (Egypt)	6.34
Asia/Pacific*	
NIKKEI 225 Index (Japan)	6.92
Hang Seng Index (Hong Kong)	46.70
BSE 30 Index (India)	34.20

Source: Bloomberg, FSDH Research, Yahoo Finance

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