



MAKING MONEY IN THE NIGERIAN CAPITAL MARKET™



TheAnalyst™

The
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**2009 Half
Year Review**



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1. The Operating Environment

“The operating environment and landscape has changed fundamentally; tomorrow’s environment will be different, but no less rich in possibilities for those who are prepared.”

– Ian Davis, McKinsey’s Worldwide Managing Director

The above quote was from the Nigerian Capital Market 2009 Report issued in March 2009 (<http://www.proshareng.com/analyst/index.php>). This was at the height of the uncertainty that pervaded the Nigerian financial services landscape where a sequence of uncoordinated responses from leaders in the industry coupled with the uncertainty in the public arena on the how the market would recover from the downward spiral gave rise to panic.

Our conviction then, and now, was predicated on the leadership meltdown that allowed the poor regulatory environment in place and the inadequate disclosure levels from the capital market to work together in creating and sustaining the panic that enveloped the investment community; leading to a severe decline in share prices and perception of worth for firms traded on the Nigerian Stock Exchange.

This challenge this development revealed however ran deeper than that. It caused the re-appraisal of the rules of engagement and how Nigerian businesses must manage their business in a global market space.

THE POST 2008 FINANCIAL MARKET

The post-crisis Nigerian Financial Market, which reached 2006 year lows, has begun the early phases of the dramatic changes that is to come but in strategy, operations and disclosures.

The rules of engagement are right now being re-written. The drivers for the new rules can be found within the opportunities these challenge has thrown up for those players with a long term vision of the market. Here are a few:

- ❶ The Nigerian Capital Market, once thought to be immune from global developments (aka Prof Soludo, CBN Governor) has experienced a paradigm shift that impacts the very way business is thought of, conducted and regulated. The Nigerian business environment can no longer afford to ignore the impact of global developments on its

economic and financial decision-making, despite the level of maturity of our markets.

- ❶ The investor, analyst, fund manager, regulator, financial journalists, government, the exchange and its listed companies must now learn a new way to engage the market. This process may prove unsettling at first, but those who are able to raise their game to meet global standards in efficiency and effectiveness will rise to the top of their industry. Alliances and strategic partnerships will have to be undertaken to bridge the immediate gaps that exist in this quest.
- ❷ The impact of oil revenues on the overall economy, business and social life appears overbearing and makes a compelling reason for the nation to pursue diversification of its revenue base as a matter of national interest/policy. Far deeper is the incidence of the exposure of our banks to downstream petroleum activities which appear so convoluted, it would take the CBN to sort out and advice on the next line of action.
- ❸ The key challenges of instituting a regime of credible and enforceable regulation, transparency, prudent risk management and the significant reduction in the risk of financial instability is now a front and centre issue. We expect the new administration to act on this, as there appears no other option to stem a possible systemic problem owing to the exposure to the inter-bank market and quality of loan assets carried.
- ❹ The consolidation paradigm must shift towards a new order that emphasizes service brand-worth and quality of risky assets and sustainable earnings. The new era of consolidation will be driven by value based mergers & acquisitions in order to compete.
- ❺ Risk represents responsibility and this becomes a key leadership criteria/issue for organisations that seek to win. The leadership of the banks, accounting for a majority of the quoted firms, needs re-calibration. The form this would take is yet unknown but can be internally driven than regulator-led to ensure that shareholders are not short changed.
- ❻ The old rules of assessing value within the business landscape (and sectoral reviews) will no longer be based on size, spread and visibility but on values, enterprise, corporate governance, management and staff quality and brand worth/reputation.
- ❼ The leadership changes at the Securities & Exchange Commission (SEC) and the Central Bank of Nigeria (CBN) signpost a new era for re-affirming supervisory responsibility and the enthronement of a level playing field. These institutions will have to do more by making sweeping changes in its processes for handling reports sent in by the NDIC and its enforcement arm(s). Suffice to say, the CBN has more challenges than others in this regard and its management of the supervision and

enforcement function leaves much to be desired due to the perception of an era dominated by incestuous relationships between the apex regulator and the banks.

- ❶ SEC needs also to do a lot more to convince the market that it means well as its actions in denouncing the 'whistle blowing' efforts of its Executive Commissioner for enforcement, Mrr. C. A. Udora who had alerted the nation to the huge debts being carried by the banks on margin loans and even called for the necessary investigation of bank CEO's by the CBN and EFCC. SEC issued a press release denying that such a declaration was made with its consent. The next few days were dominated by a 2-page advertorial by the CBN where it denied that such exposures exist. The Erastus Akingbola led CIBN told the whole world that SEC did not know what it was saying and after all said, the matter was swept under the carpet by SEC itself. The leadership of SEC, led by its Chairman, Senator Udo Udoma and the past Director General, Musa El-faki must be made to explain what happened in the light of the high incidence of provisions now being released by the banks which analysts believe is not far reaching enough.
- ❷ Still on the SEC Chairman, it does not augur well for the country that its apex capital market regulator's chairman still retains his directorship of UACN Plc. This cannot be a way forward and the position requires someone untangled in the affairs of the companies for which it has to regulate. We cannot operate a full disclosure environment where areas of possible and apparent conflict of interest exist as in this case.
- ❸ The unfolding development still promises a lot of turns and we believe that the reward for whistle blowing must not be a removal from office or a posting to Siberia. This times calls for bold leadership and vigilance and this can only be achieved by sending all the right signals that those who take the risk to protect investors and the system will be rewarded.
- ❹ The level of outstanding shares for quoted companies in the system and its impact on the restoration and repositioning of the capital market will have to be addressed at some stage. The market downturn experienced in the Nigerian Capital Market is without precedence. The early pains have been well worn – as the level of negativity is subsiding with a health anticipation of positive information from firms/market. Our expectation for the market remains as stated in the NCM 2009 report.

Dated July 18, 2009

The Nigerian Stock Exchange All Share Index (ASI)

The stock market made an unimposing start in 2009 up till the end of Q1 (March 31, 2009) as the NSE-ASI lost by **36.88%** to close the Q1, 2009 at **19,851.89** while the market capitalization shed **35.56%** to close at **N4.48trn.**

This was partly accounted for by:

- As very few equities listed and additional shares issued by existing quoted companies via primary market segment, as well as the bearish trend during this period as most equities recorded new All-time years Low.
- the mismatch of activities on demand and supply side
- Worsened economic performance indicators, high interest rates which led to the migration from capital market instruments to money market instruments.
- Increased cost of funds due to CBN's increase in the MPR,
- weakening macroeconomic fundamentals
- exchange rate volatility
- low liquidity level in the system reflecting erosion of confidence amongst investors
- Dumping of shares with no significant reinvestment in the market
- Declaration of unimpressive benefits
- Drying up of international credit lines in the banking sector which controls more than 50% of the capital market.

But in the second quarter of Q2, 2009 the equities segment of the Nigerian financial market followed the modest performance recorded with the NSE-ASI gaining **35.17%** to close Q2, 2009 at **26,861.55** while the market capitalization gained **36.28%** to close at **N6.125trn.**

Capital markets continue to move upward, encouraged by the Oil price rally and the positive news initiated from March 31, 2009; which yielded some outstanding results.

As far as All-Share Index is concerned, it has moved up by **55.62%** since the beginning of second quarter closing at 30,924.27 on June 2, 2009. The market was in self corrective mode and since June 2, 2009 the market has lost **13.14%** closing at **26,861.55** basis points on June 30, 2009.

The March-May period may have marked a turning point in the Nigerian Capital Market.

Not in the sense that things are suddenly getting much better from a growth perspective, but merely that the rate of decline is turning in stock market's favor as the IMF is still projecting Nigeria to grow by 2.9 per cent for 2009 and 2.6 per cent for 2010

The **factors responsible for the Bullish Trend** of the Market can be attributed to:

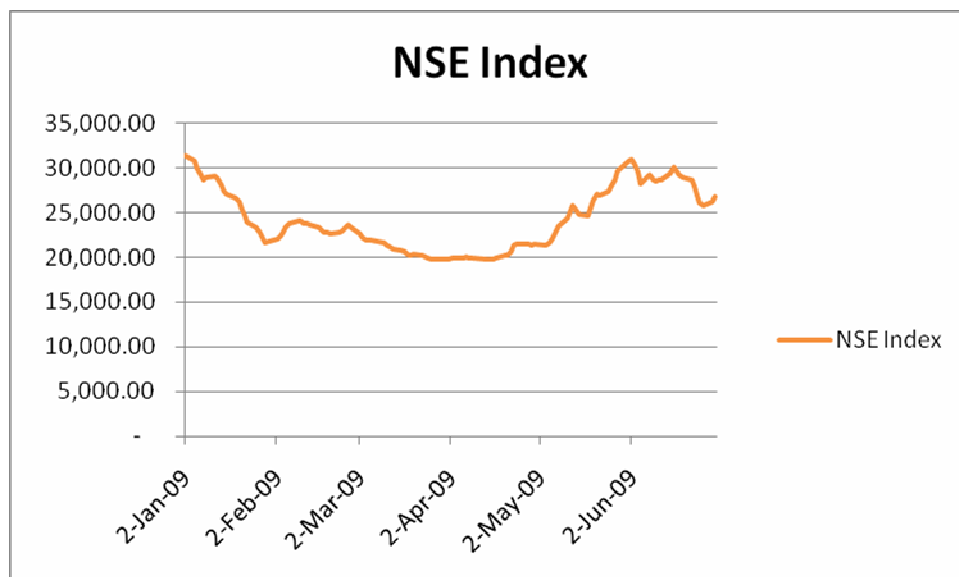
- Oil prices rise above \$70
- banks extension of loans with a cautious approach
- liquidity in the market
- positive signals from global economy
- exchange rate liberalization
- reduction in Monetary Policy Rate
- Stabilization in Commodity prices may be the promising factors for uptrend.

However, we still sense a further increase in oil prices, supply of global capital flows and direct investments, level of disclosure and transparency by the quoted companies, addition of credit to the private sector into the capital market and risk-based supervision of the banking sector are some of the reasons which would make positive trend in the

market more sensible. Furthermore, the markets have resumed a bounce back attitude as Naira has started appreciating and equities are rallying.

But overall Market performance benchmark indicators, The Nigerian Stock Exchange All-Share Index and the Total Market Capitalization of listed equities inched down to **26,861.55** points and N6.125 trillion respectively compared to **31,357.24** points and **N6.937** trillion recorded as at January 2, 2009 representing decrease of **14.34 per cent** and **11.69 percent** respectively when compared to their values at the beginning of the year.

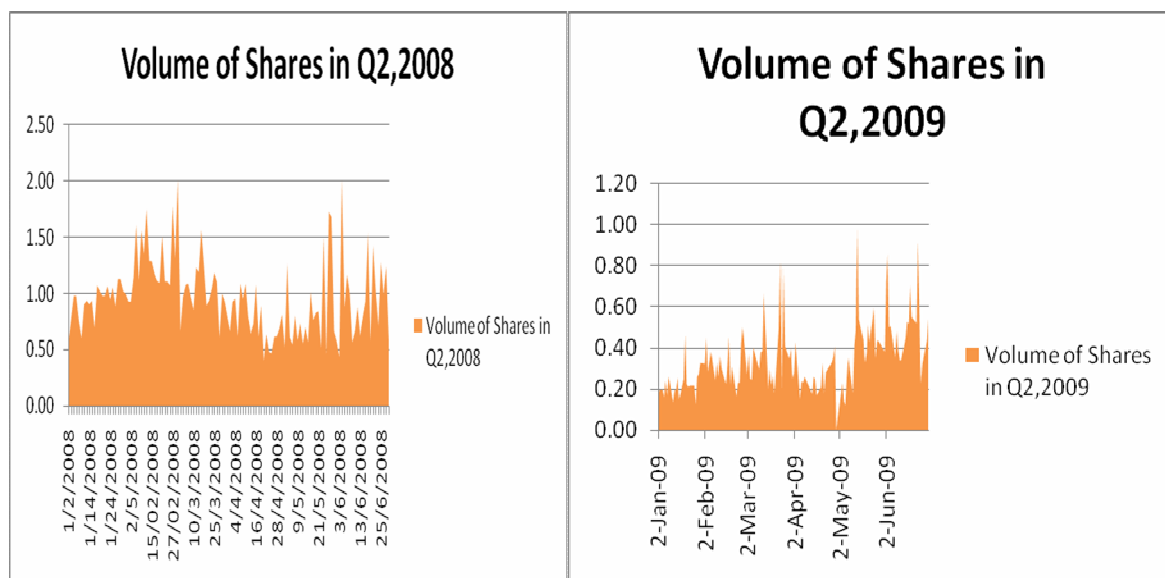
Dates	NSE ASI	Market Capitalization	
		NGN (tr)	US\$ (bn)
2-Jan-08	58,579.77	10.28	80.97
30-Jun-08	55,949.00	10.92	66.18
Returns	-4.49%	6.23%	18.27%
2-Jan-09	31,357.24	6.93	49.55
30-Jun-09	26,861.55	6.12	37.09
Returns	-14.34%	-11.69%	25.15%
Returns Jun09 Ending vs 2008 Beginning	-54.15%	-40.47%	54.20%



Market Depth and Liquidity

Average daily volume and value of trades boiled down by 62.42 percent and 80.9 percent respectively. However, this reduction in depth is not unconnected with very few listing of existing and new equities. While only 1 equity was de-listed, additional 12 new listings were recorded in Q2, 2008 with the market capitalisation of the newly issued shares, as at listing prices, was N275.62bn where as in Q2, 2009, 10 equities are delisted and only 5 new listings are recorded in Q2, 2009 with the market capitalization of N81.08bn.

Market Technicals	Q2 '08'	Q2 '09'	Change
Av. daily Volume of Stocks Traded (bn)	0.96	0.36	-62.42%
Av. daily Value of Stocks Traded (N'bn)	13.30	2.54	-80.90%
Av. daily Value of Stocks Traded (US\$m)	80.62	15.41	-80.89%
Total Volume of Stocks Traded (bn)	118.85	32.48	-72.67%
Total Value of Stocks Traded (N'bn)	1,649.56	223.89	-86.43%
Total Value of Stocks Traded (US\$m)	9.99	1.35	-86.49%



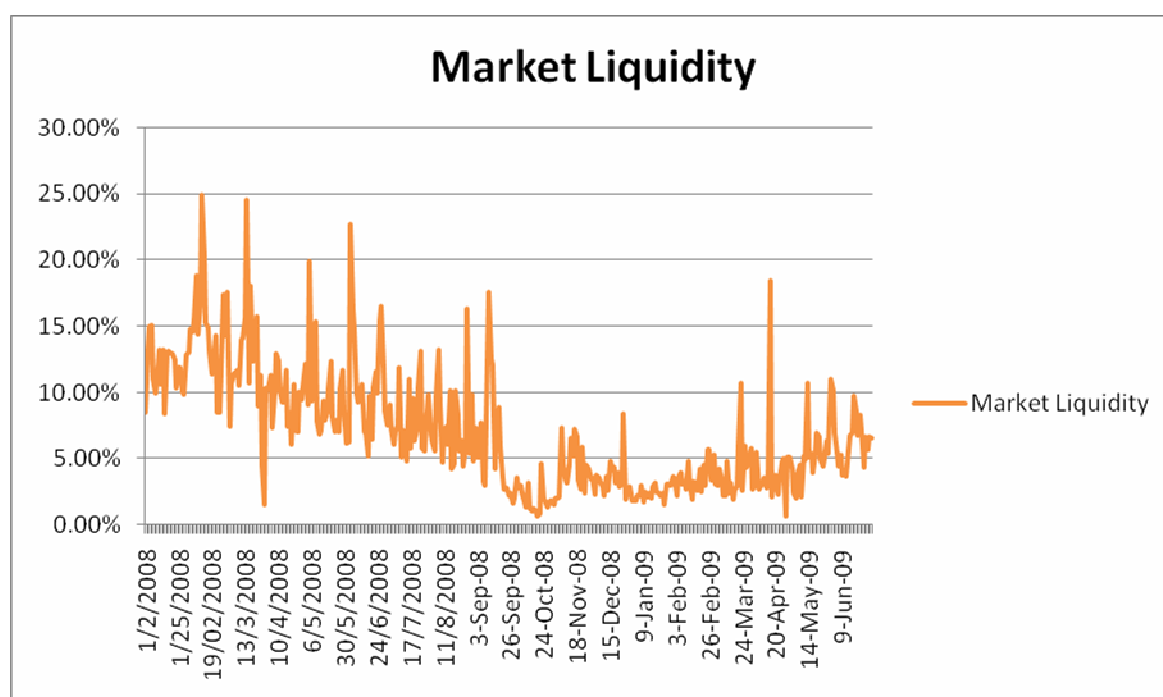
NEW LISTING				
	Company	Sector	Shares	Price
1	IHS (Nigeria) Plc	Information Communication and Telecommunication subsector	4,400,000,000	N5.00
2	Pinacle Point Group Plc	Foreign Listings subsector	4,579,782,814	N6.00
4	Courteville Investments Plc	Commercial/Services	2,960,000,000	N2.50
5	Afromedia Plc	Media	4,035,497,307	N2.92
6	MTECH Communications Plc	Information, Communication and Telecommunications	4,966,666,668	N2.50

New listing and delisting in Q2 '08'	Delisted	New Listing
Number of Equities	1	12
Market Cap (at listing price)(N'bn)	0.8406	275.62
Market Cap (at listing price)(US\$m)	6.57	2,140.00

New listing and delisting in Q2'09'	Delisted	New Listing
Number of Equities	10	5
Market Cap (at listing price)(N'bn)		81.08
Market Cap (at listing price)(US\$m)		491.39

Delisted Companies		
	Company	
1	Universal Trust Bank Plc	
2	Ferdinard Oil Mills Plc	
3	Footwear Accessories Manufacturing & Distribution Plc	
4	BCN Plc	
5	Chrislieb Plc,	
6	Epic Dynamics Plc	
7	Liz Olofin & Company Plc	
8	Oluwa Glass Company Plc	
9	Aba Textile Mills Plc	
10	Asaba Textile Mills Plc.	

The liquidity indicator in Q2, 2008 was at an average figure of 11.51% but market liquidity was extremely small in Q2, 2009 with a figure of 4.33 percent, where as the market liquidity was very low in January and February 2009 and started picking up in March 2009 and moved to figure of 6% in the end of second quarter.



Equity Performance and Return Analysis

The prolonged lull in Q1, 2009, though with some periodic rebounds, at the end of the second quarter of the year, majority of the equities did not performed well. Stocks like Access Bank (24%), Diamond Bank (21%), FCMB (38%), GTB (8%), UBN (10%), Guinness (32%) and Nigerian Breweries (23%) recorded capital appreciation while equities like Afroil (-98%) , Cappa Delbarto (-91%), Equity Assurance (-87%), MTech Communications, a newly listed company were worst performers.

Others that returned over a 50% second quarter 2009 trading year includes Benue Cement Company (128%) , PZ (73%), Cement Company of Northern Nigeria (69%) .

A total of 23 stocks gave positive return while 126 stocks returned negative.

SECTORAL ANALYSIS	
	YTD %
	Change
BUILDING MATERIALS	23.88%
HEALTHCARE	1.36%
AVIATION	0.00%
FOOTWEAR	0.0%
MACHINERY(MARKETING)	0.00%
THE FOREIGN LISTINGS	0.00%
BREWERIES	-1.09%
CONGLOMERATES	-6.27%
TEXTILES	-9.51%
PRINTING & PUBLISHING	-11.33%
PACKAGING	-11.46%
COMPUTER & OFFICE EQUIPMENT	-13.03%
BANKING	-13.57%
INDUSTRIAL/DOMESTIC PRODUCTS	-13.84%
FOOD/BEVERAGES & TOBACCO	-15.65%
MORTGAGE COMPANIES	-23.07%
OTHER FINANCIAL INSTITUTIONS	-24.14%
CHEMICAL & PAINTS	-24.79%
REAL ESTATE INVESTMENT TRUST	-25.80%
AGRICULTURE	-26.27%
MEDIA	-27.38%
INSURANCE	-28.17%
ROAD TRANSPORTATION	-30.61%
PETROLEUM(MARKETING)	-37.45%
AIRLINE SERVICES	-37.89%
REAL ESTATE	-38.70%
ENGINEERING TECHNOLOGY	-38.76%
CONSTRUCTION	-39.01%
MARITIME	-39.37%
AUTOMOBILE & TYRE	-39.93%
COMMERCIAL/SERVICES	-44.48%
INDUSTRIAL/DOMESTIC PRODUCTS	-49.23%
HOTEL & TOURISM	-59.38%
LEASING	-72.28%

DIVIDEND DECLARED	
Company	Dividend
Nestle Nigeria	N10.60
Cement Company of Northern Nigeria Plc	N0.45
Total Nigeria Plc	N9.13
UACN Property Development Company Plc	N0.75
Airline Services and Logistics Plc	N0.07
Guaranty Trust Bank Plc	N1.00
. Japaul Oil & Maritime Services Plc	N0.07
FTN Cocoa Processors Plc	N0.035
Courteville Investment Plc	N0.04
Custodian and Allied Insurance Plc	N0.095
Lafarge Cement WAPCO Plc	N0.60
AG Leventis (Nig) Plc	N0.07
Okomu Oil Palm Plc	N0.25
Berger Paints (Nig) Plc	N0.30
UACN Plc	N2.00
Longman Nigeria Plc	N0.50
Chemical & Allied Products Pl	N1.30
Multiverse Resources Plc	N0.04
Beta Glass Co. Plc	N0.30
Continental Reinsurance Plc	N0.05
Ecobank Transnational Incorporated	N0.238
BOC Gases Plc	N0.26
Nigerian Breweries Plc	N1.30
Dangote Sugar Refinery Plc	N0.35
UTC Nigeria Plc	N0.03

SUPPLEMENTARY LIST			
S. No	Company	Additional Shares	Reason
1	Longman Nigeria Plc	80,750,000.00	Placing in favour of Longman Group (Oversea Holdings) Limited.
2	Custodian and Allied Insurance Plc	4,750,000,000.00	Public Offering.
3	Longman Nigeria Plc	514,300,000.00	Bonus of 2 for 1.
4	Intercontinental Bank Plc	76,779,631.00	Conversion of part of the bank's Irredeemable Preference shares in the ratio of 1:1.
5	First Aluminium Nigeria Plc	868,138,120.00	Rights Issue
6	AIICO Insurance Plc	2,500,000,000.00	Public offering.
7	First Inland Bank Plc	5,968,863,000.00	Public and Right offerings.
8	RT Briscoe (Nig) Plc		Bonus of 1 for 5.

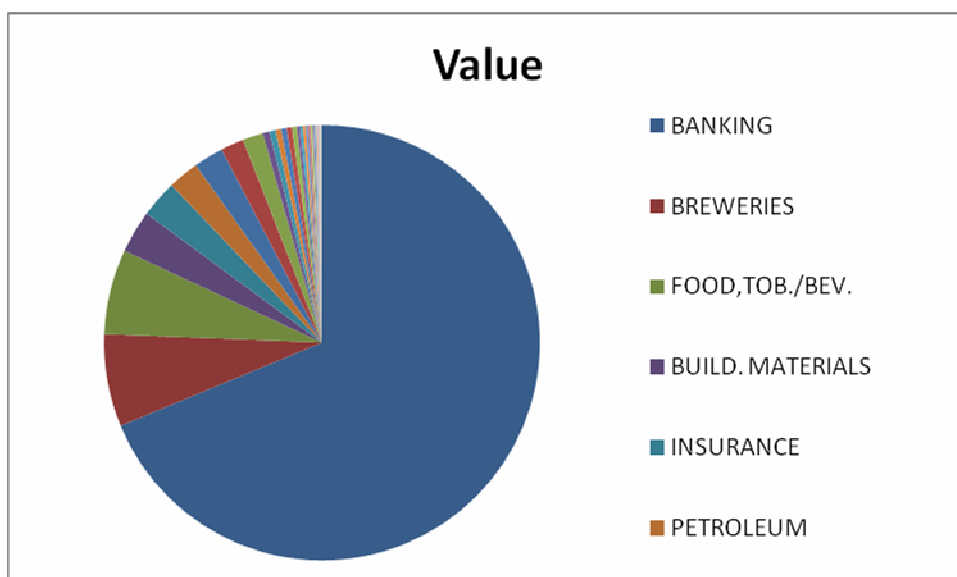
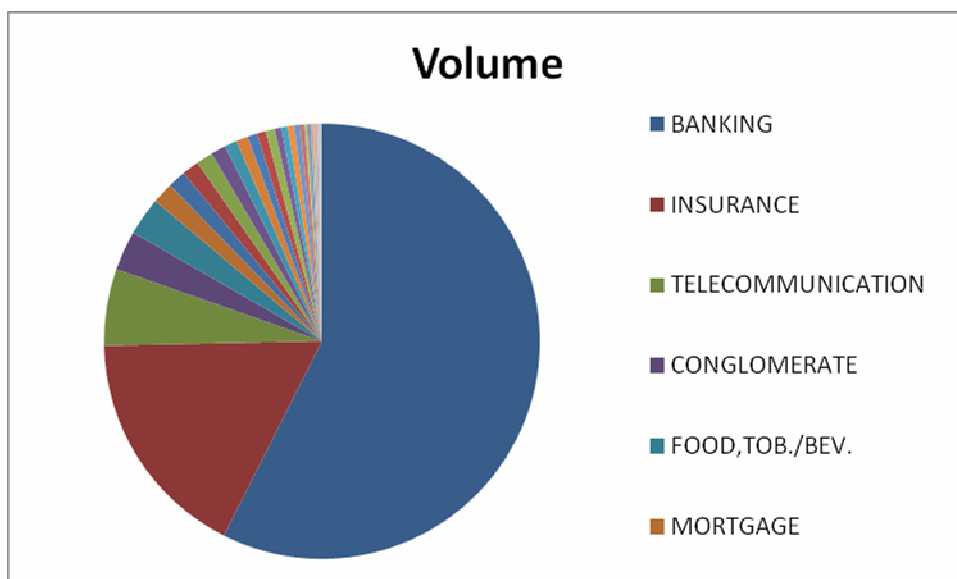
		113,460,000.00	
9	Oando Plc	200,000.00	Staff Equity Participation Share Scheme.
10	Ecobank Transnational Incorporated	1,958,675,189.00	Public offering.
11	Guaranty Trust Bank Plc	3,730,749,723.00	Bonus of 1 for 4.
12	Capital Oil Plc	5,740,000,000.00	with Proven Insight Consultants Ltd and True Bond Energy Ltd
13	First Inland Bank Plc	1,063,706,886.00	Supplementary issue from the recently concluded public offer.
14	Zenith Bank Plc	8,372,398,343.00	Interim bonus of 1 for 2.
15	Multiverse Resources Plc	1,058,989,226.00	Initial listed shares
16	First Inland Bank Plc	4,000,000,000	Public Offering.

NOTABLE GAINERS	
Company	Change
BENUE CEMENT COMPANY PLC	128%
P Z CUSSONS NIGERIA PLC.	73%
CEMENT CO. OF NORTH NIG. PLC	69%
FIRST CITY MONUMENT BANK PLC.	38%
MAY & BAKER NIGERIA PLC	36%
NORTHERN NIGERIA FLOUR MILLS PLC	33%
UNIVERSITY PRESS PLC	32%
GUINNESS NIG PLC	32%
NIGERIA ENERGY SECTOR FUND	28%
UNILEVER NIG. PLC	26%
TROPICAL PET. PRODUCTS PLC	26%
ACCESS BANK NIGERIA PLC	24%
GLAXO SMITHKLINE CONSUMER NIG. PLC	23%
NIGERIAN BREW PLC.	23%
DIAMOND BANK PLC	21%
OANDO PLC	19%
UNION BANK NIG. PLC	10%
CHAMS NIGERIA PLC	9.4%
NEIMETH INTERNATIONAL PHARM	8%
GUARANTY TRUST BANK PLC	8%

NOTABLE GAINERS	
AFROIL PLC	-98%
CAPPA & D`ALBERTO PLC	-91%
EQUITY ASSURANCE PLC.	-87%
OKITIPUPA OIL PALM PLC	79.0%
CRUSADER NIGERIA PLC.	-76%
WEMA BANK PLC	-75%
MTECH COMMUNICATIONS PLC	74.4%
C & I LEASING PLC	-72%
U T C NIG. PLC	-72%
DEAP CAPITAL MANAGEMENT & TRUST PLC	-69%
R T BRISCOE PLC	-68%
LONGMAN NIGERIA PLC	-68%
MOBIL OIL NIG PLC	-64%
CUTIX PLC	-64%
AFRICAN PETROLEUM PLC	-62%
STARCOMMS PLC	62.3%
IKEJA HOTEL PLC	-59%
AIRLINE SERVICES AND LOGISTICS PLC	-59%
IPWA PLC	-59%
AFPRINT NIGERIA PLC	58.0%

TOP TRADED SECTORS

Sector	Trades	Volume	Value
BANKING	489,310	25,794,547,555.00	200,752,905,641.91
INSURANCE	82,257	7,742,457,314.00	8,092,380,830.01
TELECOMMUNICATION	14,127	2,561,725,894.00	4,429,986,385.10
CONGLOMERATE	22,089	1,319,724,656.00	6,440,896,624.94
FOOD,TOB./BEV.	57,521	1,269,441,973.00	18,437,604,700.29
MORTGAGE	9,509	707,097,881.00	1,171,380,958.89
CONSTRUCTION	13,247	600,126,215.00	1,478,648,672.88
MARITIME	22,184	563,754,017.00	1,224,678,381.92
BREWERIES	26,609	556,709,674.00	20,037,054,026.73
BUILD. MATERIALS	19,028	501,969,245.00	9,218,032,402.76



TOP TRADED COMPANIES

Company	Trades	Volume	Value
WEMABANK	7,661	4,213,410,833.00	12,436,516,104.95
INTERCONT	22,645	2,512,424,537.00	17,312,621,226.29
ACCESS	33,654	2,093,311,416.00	14,458,694,765.11
GUARANTY	47,783	2,044,442,749.00	23,187,383,942.14
FIRSTBANK	106,270	1,702,786,982.00	31,786,783,184.75
UBA	47,584	1,647,287,001.00	20,050,777,184.94
OCEANIC	41,834	1,416,080,040.00	10,961,177,393.30
CHAMS	5,809	1,220,688,807.00	1,686,798,355.62

FIDELITYBK	18,324	1,186,895,766.00	4,338,375,096.55
DIAMONDBNK	13,513	1,090,803,696.00	7,559,863,442.83

20 MOST CAPITALIZED STOCKS AS AT JUNE 30, 2008

Company	NOSO	Market Capitalization	% of Market Capitalization
FIRSTBANK	24,863,000,000.00	547,483,260,000.00	8.94%
NB	7,563,000,000.00	370,813,890,000.00	6.05%
UBA	21,556,000,000.00	292,083,800,000.00	4.77%
ZENITHBANK	16,742,000,000.00	239,745,440,000.00	3.91%
UBN	13,510,000,000.00	229,940,200,000.00	3.75%
GUARANTY	15,109,000,000.00	211,677,090,000.00	3.46%
DANSUGAR	12,000,000,000.00	203,640,000,000.00	3.32%
ECOBANK	7,218,000,000.00	201,815,280,000.00	3.29%
GUINNESS	1,457,000,000.00	187,953,000,000.00	3.07%
OCEANIC	25,131,000,000.00	180,440,580,000.00	2.95%
INTERCONT	17,967,000,000.00	163,499,700,000.00	2.67%
FCMB	16,380,000,000.00	139,393,800,000.00	2.28%
BCC	3,132,000,000.00	134,676,000,000.00	2.20%
IBTC	18,751,000,000.00	133,694,630,000.00	2.18%
PLATINUM	20,154,000,000.00	126,365,580,000.00	2.06%
NESTLE	661,000,000.00	125,583,390,000.00	2.05%
DIAMONDBNK	14,475,000,000.00	124,340,250,000.00	2.03%
AFRIBANK	13,507,000,000.00	102,112,920,000.00	1.67%
FIDELITYBK	28,963,000,000.00	100,211,980,000.00	1.64%
ETI	6,734,000,000.00	95,420,780,000.00	1.56%

Time Line of Activities in 2009

Time	Event
January, 2009	<ul style="list-style-type: none"> ❶ Presidential Steering Committee on Global Economic Crisis, the apex of the new institutional arrangement for responding to global crisis, inaugurated to assess the impact of global economic crisis on Nigeria. ❷ Federal govt inaugurates the new economic management team as the nation's new framework for responding to the global financial crisis ❸ NSE releases criteria for listing Market Makers ❹ SEC, NSE harmonizes guidelines on market making ❺ CBN reverts to Retail Dutch Auction System
February 2009	<ul style="list-style-type: none"> ❶ Reduction of 25% fee on all capital market transactions ❷ Government ruled out bailing out capital market ❸ Government would buy shares from investors on the exchange at lowest price of the day. ❹ Determine the current state of banks ❺ Ailing banks would be bailed out and government might end up controlling shares in banks that might apt for bail out. ❻ Deregulation of Downstream sector ❼ decision by the Presidential Steering Committee on the Global Economic Crisis to set up a "group" to review policies critical to safeguarding the Nigerian financial system, most especially the banking sector ❽ Steering committee will be looking into the adoption of a common year end for commercial banks, the adoption of International Financial Reporting Standards (IFRS) by all banks in the system and the establishment of an Asset Management Company by the Federal Government in response to the credit crisis ❾ setting up of a Regulatory Financial Services Committee that shall be mandated to meet every month to monitor and review developments in the financial system ❿ Consideration of setting up an Asset Management Company will require legislation for its establishment, can deal with toxic and non-toxic assets, and can exist in perpetuity. ⓫ CBN to probe profits claimed by banks and its loan status. ⓬ Banks' foreign exchange purchase and sale differential is not be more than plus/ minus one per cent of the CBN rate. ⓭ THE Federal Government ruled out any bailout for the nation's banks and capital market operators, despite the pull-out of a staggering N812 billion worth of investments by foreign investors from the Nigerian stock market. ⓮ FG announces N70bn package for textile industry. ⓯ SEC's director-general, Mr. Musa AL-Faki, pointed out that some

	<p>bank chiefs mismanaged their respective loan portfolios, to wreak havoc on capital market operations.</p>
March 2009	<ul style="list-style-type: none"> 📌 Stock market down N50b as govt rules out bailout. 📌 NSE suspends stock broking firm, slams N0.3m fine on AP. 📌 The Central Bank of Nigeria (CBN) has fixed the deposit and lending rates at 15% and 22% respectively, in an effort to secure the country's banking system against the global financial downturn. The new rates will be applicable from April 1. The central bank is also planning to invest US\$100mn in the foreign exchange market.
April 2009	<ul style="list-style-type: none"> 📌 Bloomberg News declared Nigeria's stock market, as the biggest declines worldwide in the first quarter as bad loans to speculators pushed bank valuations to an all-time low. 📌 The report of the SEC Committee on the Nigerian Capital Market was published 📌 CBN Frees more cash to banks over failure to keep lending rate at 22%. 📌 CBN urged to monitor banks use of depositors funds as lending to real sector drops. 📌 3 Nigerians Banks break into Forbes list of World Biggest Companies. 📌 AP Shares saga: SEC slams 5 year ban on Anenih, Nove CEO. 📌 IMF expects 'slow and weak recovery and raises concern on Nigerian banks. 📌 SEC confirms Al-Faki's exit
May 2009	<ul style="list-style-type: none"> 📌 NSE meets with SEC, suspends demutualisation 📌 CIBN, CBN directive on ATMs 📌 Yar'Adua tipped Sanusi as CBN governor 📌 Transcorp's Iseghohi, others face 32- count charge of corruption 📌 SEC makes mandatory underwriting of primary offers optional 📌 EFCC quizzes Okereke- Onyiuke over N15bn Fraud at Transcorp
June 2009	<ul style="list-style-type: none"> 📌 Sanusi's selection as CBN governor 📌 Transcorp Chair: Pressure on Okereke -Onyiuke to resign 📌 SEC orders brokers to submit audit report 📌 The NSE issued a new trading rule to the stockbrokers insisting that any sell order above one million units must be accompanied by a 'contract mandate' from the owner of the shares. 📌 CBN directs banks to submit exposures to energy sector and details on CPs and Bas 📌 Sanusi to lift ban on foreign takeover of banks 📌 SEC to abolish fee on collective investment scheme 📌 TAR Report Published

The BANKING SECTOR

KEY CONCERNS IN BANKING

The key challenges facing the financial services sector can be described as follows:

- ❶ The level and extent of disclosure in the financial system;
- ❷ The lag in reliability on the financial statements produced and role of auditing and accounting firms; as well as the ability of the CBN banking supervision unit to act decisively and above board on matters of probity and accountability;
- ❸ Concerns over banking supervision and focus on risk management coupled with the leadership challenges in the banks hierarchy;
- ❹ The lack of confidence in the financial system by external parties;
- ❺ the need for a stress test to determine credibility of financial statements and going concern issues (capital adequacy);
- ❻ The need for an increase in the level of cover available to depositors in the banking sector (adjusted relative to risk in the environment) as a sign of confidence by the regulators in the banks under their supervision;
- ❼ The quality, skill set and values of management & staff; and
- ❽ The imperative for an improved corporate governance regime at the CBN.

	Price	Price	% Change	Price	% Change	% Change
	Mar 31 '08	Jan 01 '09	Jan 09 - Mar 08	Jun 17 '09	Jun 09-Mar 08	Jun 09-Jan 09
SPRINGBANK	4.21	5.59	32.78%	5.59	32.78%	0.00%
DIAMONDBNK	18.5	7.09	-61.68%	9.88	-46.59%	39.35%
FIRSTBANK	47.24	21	-55.55%	23.53	-50.19%	12.05%
UBN	43.5	15.5	-64.37%	21.00	-51.72%	35.48%
FCMB	18.5	6.15	-66.76%	8.30	-55.14%	34.96%
SKYEBANK	17.4	8.17	-53.05%	7.43	-57.30%	-9.06%
FIDELITYBK	10.7	4.69	-56.17%	4.55	-57.48%	-2.99%
ACCESS	24.01	7.3	-69.60%	9.39	-60.89%	28.63%
GUARANTY	34.99	13	-62.85%	13.45	-61.56%	3.46%
IBTC	22.33	10.36	-53.61%	8.46	-62.11%	-18.34%
AFRIBANK	26.5	9.13	-65.55%	9.99	-62.30%	9.42%
Sterling bank	7.28	2.4	-67.03%	2.66	-63.46%	10.83%
ZENITHBANK	48	20.98	-56.29%	16.85	-64.90%	-19.69%
OCEANIC	27.3	12.02	-55.97%	9.51	-65.16%	-20.88%
UNITYBNK	8.2	3	-63.41%	2.72	-66.83%	-9.33%
PLATINUM	28.8	9.99	-65.31%	8.69	-69.83%	-13.01%
UBA	50.1	13.4	-73.25%	14.99	-70.08%	11.87%
FIRSTINLND	10.8	4.4	-59.26%	3.23	-70.09%	-26.59%
INTERCONT	45.5	13.46	-70.42%	12.52	-72.48%	-6.98%
WEMABANK	15	14.29	-4.73%	3.94	-73.73%	-72.43%

Fig 1. The analysis of banking sector performance since Mar 31, 2008 to June 17, 2009

CURRENT SCENARIO AND NEED FOR A STRESS TEST

The banking sector is facing operational challenges with slowing macro growth environment, and coming to a conclusion on the affect of charging the risks and computing the impact of major market crash, oil sector problems and huge public sector defaults requires disclosure on Margin loan exposure and its treatment in the Balance Sheet, exposure in Oil and Gas and Capital Market/Financial Investments.

Bank commands more than 50% to the Market Capitalization and since sector is facing selling off by Institutional Investors, Exposure in Oil and Gas and corporate exposure in loan books, huge exposure in direct subsidiaries, lack of investors' confidence in disclosure and concerns on corporate governance is leading Nigerian stock market Index going down.

The banks are facing lending issues, margin pressures and the exposure of margin loans is still not clear which leaves room for shaky investors confidence but with the appointment of New CBN Governor and the pronouncement of the advent of IFRS adoption and adoption of common year end may give investors some degree of confidence in disclosure.

The banks are striving hard for deposits due to the common year end and they normally invest its deposits in short-term interbank market, out of which 4 banks has said that they will not participate but the names are still not known.

The banks have huge debt portfolios of oil companies for the importation of fuel as banks have huge exposures to the energy sector, including upstream, downstream, and oil service and majority of these facilities were not perfected by banks as some were not backed with the necessary collaterals.

The manpower challenges dearth of professionals in the sector is a major concern.

MARKET CAPITALIZATION

Company	NOSO	Market Capitalization	% of Market Capitalization
FIRSTBANK	24,863,000,000.00	547,483,260,000.00	8.94%
UBA	21,556,000,000.00	292,083,800,000.00	4.77%
ZENITHBANK	16,742,000,000.00	239,745,440,000.00	3.91%
UBN	13,510,000,000.00	229,940,200,000.00	3.75%
GUARANTY	15,109,000,000.00	211,677,090,000.00	3.46%
ECOBANK	7,218,000,000.00	201,815,280,000.00	3.29%
OCEANIC	25,131,000,000.00	180,440,580,000.00	2.95%
INTERCONT	17,967,000,000.00	163,499,700,000.00	2.67%
ACCESS	16,589,000,000.00	150,130,450,000.00	2.45%
FCMB	16,380,000,000.00	139,393,800,000.00	2.28%

IBTC	18,751,000,000.00	133,694,630,000.00	2.18%
PLATINUM	20,154,000,000.00	126,365,580,000.00	2.06%
DIAMONDBNK	14,475,000,000.00	124,340,250,000.00	2.03%
AFRIBANK	13,507,000,000.00	102,112,920,000.00	1.67%
FIDELITYBK	28,963,000,000.00	100,211,980,000.00	1.64%
SKYEBANK	11,585,000,000.00	78,082,900,000.00	1.27%
FIRSTINLND	15,657,000,000.00	43,839,600,000.00	0.72%
WEMABANK	10,186,000,000.00	38,299,360,000.00	0.63%
UNITYBNK	14,737,000,000.00	29,474,000,000.00	0.48%

BASIS OF THE STRESS TEST

Understanding the cost and asset base of all banks as compared with the income growth and the balance sheet structure to get the knowledge of deposit base for retail and institutional depositors, gross loans, loan loss provision is necessary.

Clear understanding of banks cost structure and how are they managing Overhead costs and pay structure has to be dealt with.

The Nigerian banking sector has made some improvements in terms of disclosure and transparency, but to assess the overall risk relating to each bank, banks information on Margin Lending, adequate information on capital adequacy, credit portfolios, asset quality, Gearing information and risk management framework.

The CBN should formulate supervisory strategies and surveillance on the activities of the banks, with the establishment of a credible data management and information sharing system. On-site examination involving regular physical examination of bank books and affairs to ascertain financial condition and compliance with prescribed rules and regulations should be checked.

Effective banking supervision in compliance with the Basle norms should be the pivot of the framework. The approach to bank supervision should include regular contact with bank management, and independent validation of supervisory information and important disclosures.

Review of the internal control system right from the Top Management competence, managing credit portfolios, identification of risks run by a bank, organizational structure with clear roles and responsibilities, appropriate segregation of duties, reliable Information system and effective audit should form the base of supervision.

NSE INVESTORS BEWARE OF A SUCKER'S RALLY

by Chuckumah Biosah.

In the June 25 article "*The Importance of Utilizing Technical Analysis in Trading the NSE*" - <http://www.proshareng.com/news/singleNews.php?id=7066>, It was noted that although the NSE all share index was still above its 50 day SMA and not yet in the bearish territory (i.e. the loss in the index has not dropped by 20% or more from its most recent high of 30924.97) I advised that investors should not take on new equity positions for the following reasons:

- The InvestIQ Banking Index was down 23% from its most recent high, signalling that the market had slipped into a bear territory.
- The short-term 9-day moving average has crossed below the 18 day moving average.
- The short-term 10-day moving average of the all share NSE index crossed below the 20-day cumulative simple moving average signaling that the long-term upward trend has hit the pause button

However, if you read some of the Nigerian newspapers published on June 29, 2009, most of the analysts were very optimistic about the NSE trend. For example highlighted below is a market forecast sent to me by a Nigerian Investment firm on June 27, 2009.

"Many traders would agree that the trading signal coming from the floor today is an indication that the market is about to witness another positive turnaround starting next week. Quite a few stocks including First Bank, Guaranty, Dangote Sugar, Union Bank, 7Up, Wapco, Access and FCMB witnessed dramatic reversal and closed the day in the green. The volume and value of trade went up by over 40 percent while the number of deals was on the high side in comparison to yesterday's trade data.

At the moment, the expectations of positive full-year results and benefits from some of the top banks and the likelihood of another price rally, in few days to come, is stronger than the pessimism generated by the recently released World Bank's report. Importantly, investors are advised to be cautious in their investment decisions, ensure that they have a well-diversified portfolio and avoid panic-selling, especially if their investment horizon is long-term".

To a neophyte investor or an investor that lacks technical trading skills, the above market summary from the brokerage firm (*which was released on Saturday June 27, 2009*) will probably encourage these investors to jump back into the market to avoid missing out on the pending rally.

Following the brokers summary, the NSE index and the entire market rallied for approximately three days (June 29th through July 2, 2009) before falling back into the bearish trend. There is no doubt that there were brisk buying noticed on June 26, 2009, but it was primarily driven by bottom fishers picking up some beaten down stocks. However, it was not enough to get back into the market because the technical indicators which were bearish did not support the trend.

Investors should be very careful not to get trapped in a sucker's rally.

A sucker's rally is usually an abbreviated upturn in stock prices that occurs during a major bear market.

These rallies occur with little fundamental information to back the movement in price and may continue long enough for the "suckers" (i.e., unsuspecting investors) to get on board, after which the market or specific stock falls. Although these occasionally surge in prices create trading opportunities, there might not be enough upward movement in price for the small investor to get in and get out with any gains. It is also pertinent for the NSE investor to understand that these occasional surges in price are not sufficient to kill some of the persistent bears.

CURRENT & NEAR TERM TREND OF THE NSE

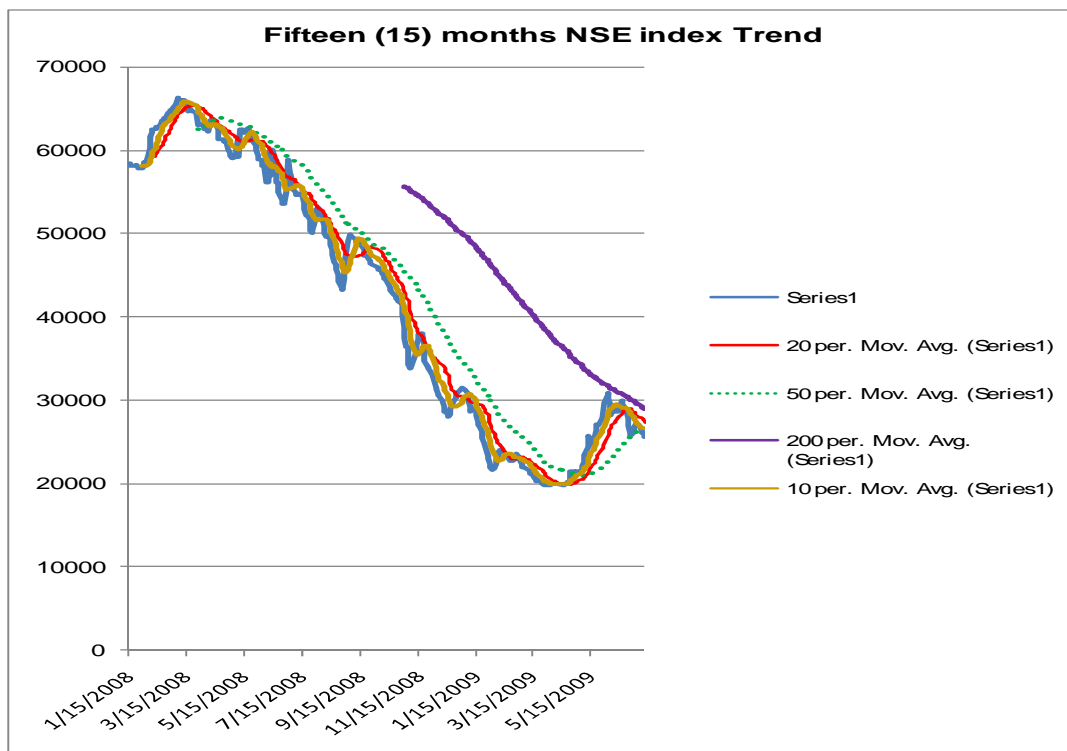
Reviewing the major indices of the NSE, it appears that the market is headed lower in the long-term with intermittent upward surges. Using the Fibonacci calculation, the NSE all share index retracements of 38% and 50% is 26,699 & 25,365 respectively. As of the market close of July 10, 2009, the NSE index of 26,100 represents a decline of 4,824.33 or 15.6% compared to 30,924.97, the 2009 high of the NSE all share index.

At the current level, the NSE index has violated its 38% retracement and is less than 2% from its 50% retracement level.

Although the index does not indicate a market in a bearish territory, other indicators reflect an index that is headed there.

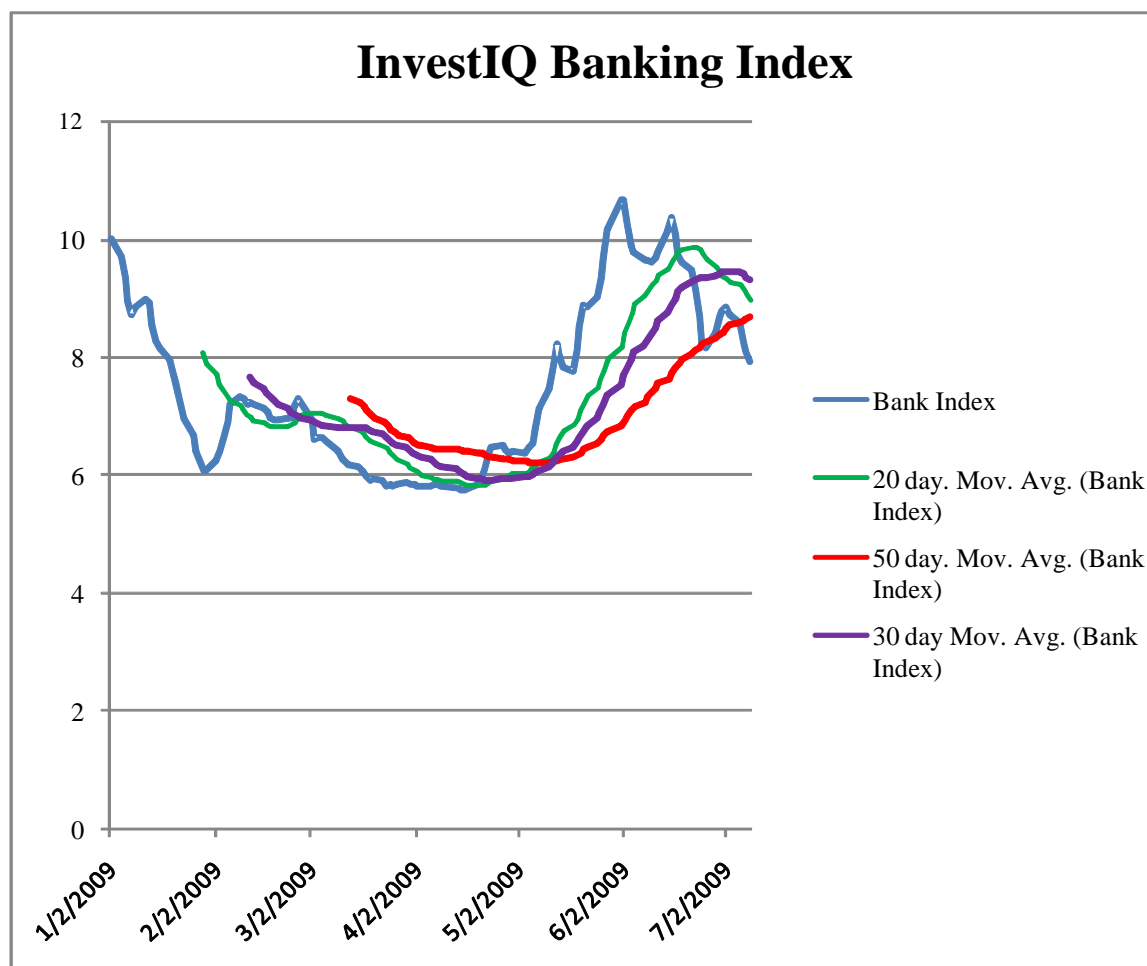
The NSE index is below its 20 day and 50 day cumulative simple moving averages of 27,395 and 26,854 respectively. Additionally, the 10 day cumulative simple moving average has crossed below the 20 day cumulative moving average as highlighted in the graph below.

These trends indicate a market that is headed lower.



As of Thursday (July 9, 2009) the *InvestIQ* Banking index of 7.9 represents a decline of 2.75 or 25.8% from its 2009 high of 10.66. The index is below its 20-day and 50-day cumulative simple averages of 8.98 and 8.70 respectively.

A review of the graph shows that the pull back after the last two rallies created a lower-low scenario. Therefore, the index points to a market in a state of flux (i.e., probably headed lower) as highlighted below:



CONCLUSION

As was noted in the aforesaid article, the recommendation is that **short-term traders** remain on the sidelines until these indicators improve. However, **long-term value investors** should start accumulating some of these stocks with lower P/Es' (Price Earnings Ratios below the industry average) that are trading at discounts to their fair value.

ACCOUNTING STANDARD – OUR PERSPECTIVE

There have been recent newspaper articles about First Bank Nigeria Plc (FBN) adopting International Financial Reporting Standards (IFRS) effective March 31, 2009 for its financial reporting. In adopting IFRS standards, FBN is joining banks like GTB, Access Bank, and ETI who currently use IFRS for the presentation of their financial statements.

Most of the newspapers noted that by adopting the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board, First Bank of Nigeria Plc has aligned with the strongest global standards of transparency in financial reporting. Additionally, the newspapers claim that the adoption of IFRS by First Bank will enhance shareholder value and bring added benefits to its business relationships with numerous overseas correspondent banks, multilateral organizations and international investors. While there is some truth, to this statement it is not absolute.

The Analysts disagree with the notion that IFRS is the strongest global standards of transparency in financial reporting. Where does this leave the Generally Accepted Accounting Principles (United States)? The IFRS and GAAP are the most widely used accounting standards. However, adopting IFRS does not mean that the financial statement is accurate. I will explain.

BRIEF BACKGROUND OF IFRS AND GAAP

The International Financial Reporting Standards (IFRS)

The International Financial Reporting Standards (IFRS) was developed by International Accounting Standard Board (IASB) as part of the standard to harmonize accounting standard worldwide. Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

This process received a significant boost in 2002 when the European Union (EU) adopted a regulation requiring public companies to convert to IFRSs beginning in 2005. The EU now accounts for more than a third of the countries that prescribe application of IASB standards. The major EU objectives in requiring the use of IFRSs' is the harmonization of accounting standards for listed companies in Europe. Since there are approximately twenty five (25) countries that make up the EU, most of the publicly traded companies reported their financial statements based on standards set in their individual countries which made interpretation of the financial statements difficult beyond their boundaries.

The primary differences in the financial statements reported by these EU countries were in recognition, valuation, and disclosure issues because they varied significantly amongst

countries. It is due to these differences in accounting reporting that the EU decided that the adoption of IASs is the best path to successful accounting harmonization for publicly traded companies in the European capital markets.

Generally Accepted Accounting Principles (United States)

The Generally Accepted Accounting Principles (**GAAPs**) are a set of principles by which all American Certified Public Accountants (CPAs) must abide. These rules were first established in 1936 by the American Institute of Accountants, and were continuously developed by various boards and associations.

The U.S. Securities and Exchange Commission (SEC) require that GAAP be followed in financial reporting by publicly-traded companies listed in the United States. Currently, the Financial Accounting Standards Board (FASB) is the highest authority in establishing generally accepted accounting principles for public and private companies, as well as non-profit entities in the US.

The US GAAP provisions differ somewhat from International Financial Reporting Standards though efforts are underway to reconcile the differences enabling the acceptance of reports created under International standards to be acceptable to the SEC for companies listed on US markets without reconciliation to US GAAP. As part of the global convergence actions, the bodies responsible for issuing US accounting standards – Financial Accounting Standards Board (**FASB**) - and the International Financial Reporting Standards - International Accounting Standards Board (**IASB**) are committed to working towards eliminating significant differences between the two sets of standards by 2009. Despite these on-going initiatives, there are significant differences between IFRS and US GAAP.

IFRS Flexibility

Several European banks, insurers, and companies constantly object to certain accounting rules of IFRS, and IASB has occasionally made amendments to existing IFRS rules if the affected companies are able to prove that the specific regulation will be detrimental to their operation. For example, banks objected to the form of special hedge accounting (IAS 39) proposed in the IASB's June 2002 exposure draft for macro-hedges of interest-rate risk. European banks frequently use macro-hedges to neutralize the interest-rate risk on their variable-rate demand deposit liabilities (DDL).

Banks opposed to this draft because they believe it creates artificial volatility in their reported equity. Following the release of the June 2002 exposure draft, many EU banks and other companies lobbied the IASB aggressively, calling for the board to revise the proposed guidance for macro-hedges to permit fair-value hedge accounting. With fair-value hedge accounting, changes in the fair values of the hedged item and the hedging instrument offset each other in net income.

In August 2003, IASB responded to the lobbying by issuing a revised exposure draft on portfolio hedging which was more favorable to the banks and other interested companies. Again in June 2002 IASB exposure draft proposed a fair-value option for companies to extend the application of fair-value measurement to financial assets and liabilities. Companies electing this option must do so at the time of initial recognition of the asset or liability, and the election is permanent.

The IASB added this option to address the mixed-measurement problem in IAS 39, whereby certain financial assets are measured at fair value but others are not. Moreover, financial liabilities, which many banks and insurers manage with the goal of maintaining a natural hedge of the interest-rate risk on their financial assets, are reported at their amortized initial amount.

This mismatching of asset and liability measurements creates artificial volatility in income. With the fair-value option, companies could report matched financial assets and liabilities at fair value and thus achieve a natural offsetting of unrealized gains and losses in income.

Although many EU banks and insurers favor the fair-value option, banking regulators such as the European Central Bank (ECB) strongly oppose it because they believe weaker banks with deteriorating credit conditions could use it to write down their liabilities, thus helping them meet statutory capital requirements. Despite the concerns, in December 2003 the IASB finalized amendments to IAS 39 that retained the fair-value option.

The two above examples illustrate that IASB works to alleviate concerns of companies when they believe it will be detrimental to their business or survival. Therefore, how does this help the average capital market investor with determining authenticity of financial statements reported by institutions using IFRS?

Conclusion

I am not stating that GAAP is superior to IFRS, but there are various differences (pros and cons) between the standards. For example, companies financial statements prepared under IFRS might reflect a different net income from companies financial statements prepared under US GAAP. Therefore, the problem for the investor is determining what financial statement to rely on for investment decision.

In a 2006 study performed by Ernst & Young on eleven (11) utilities & energy companies that prepared their financial statements under IFRS, revealed that in the United States, net income was lower by approximately 14% when the same financial statements were prepared under U.S. GAAP. However, it should be noted that the usage of US GAAP did not prevent Enron from providing falsified financial statements to the US investment community in 1999/2000. Here lies investors' dilemma.

It is pertinent to note that since 2002, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have jointly affirmed their mutual commitment to the convergence of accounting standards internationally. They also have agreed on broad tactics for achieving convergence between US GAAP and international financial reporting standards (IFRS). Both the convergence goal and related tactics were described in a memorandum called the "Norwalk Agreement" issued following that meeting.

In spite of all these collaborations between IASB and FASB, ethical and social issues exist as a result of the major differences between the International Financial Reporting Standard (IFRSs) and the U.S. GAAP.

One of the ethical issues is that companies must present their financial statement in an accurate and reliable manner regardless of the standard which the financial statements were prepared. Additionally, since the governing bodies of these accounting standards are not responsible for the source of data used for the preparation of these financial statements, the onus is still on the management of these banks or any company that utilizes either GAAP or IFRS in ascertaining that their financials are accurate.

Therefore, regardless of what standard is used, all financial statements are primarily management's "**HONEST**" representation of the company's performance and therefore it is caveat emptor. Thus my advice to investors is to do their homework, accept all financial statements with skepticisms and do not take every figure as bible, because management's allegiance is first to their company before the average investor's interest.

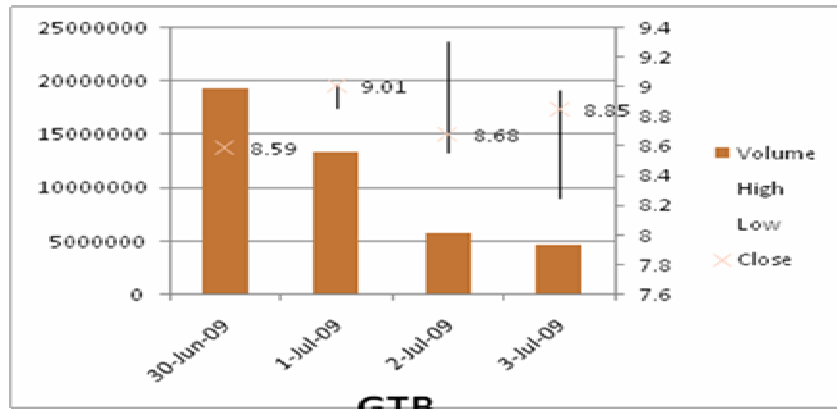
OUTLOOK FOR THE SECTOR

- If banks decide to write off margin loans, it could affect the dividend payout and other benefits as well as a result of both IFRS and the switch to a uniform financial year push for adoption of more stringent risk management and compliance protocols across Nigeria's financial industry will affect banks profits and also if banks are forced to recognize their losses, the current banks may shrink even further as some who are most stressed seek to combine in order to survive.
- The banks which have huge exposure in Oil-dependent corporate may face higher probability of default and severity into their capital calculations.
- The banks will be driven by lower net interest income, reflecting higher cost of funding and also with a new policy announced by CBN on capped lending rate at 22% and borrowing rate (through deposits) by banks to 15% in March 2009.
- Banks will show more interest in Retail Banking side due to common year end to get more deposits and there will be tougher lending criteria due to the liquidity squeeze.
- Nigerian fund managers have been switching into government debt from equities in recent months, boosting liquidity in the domestic bond market and this will have a major impact on the sector as it controls more than 50% of the market.
- Recalling of many foreign credit lines due to global financial crisis, may creating liquidity problems in local banks.
- The sectors deposit growth rate has been reduced, so banks will be focusing more on balance sheets rather than on any other thing.
- The sector may face poaching problem as well as termination in employment due the pressure of deposits targets.

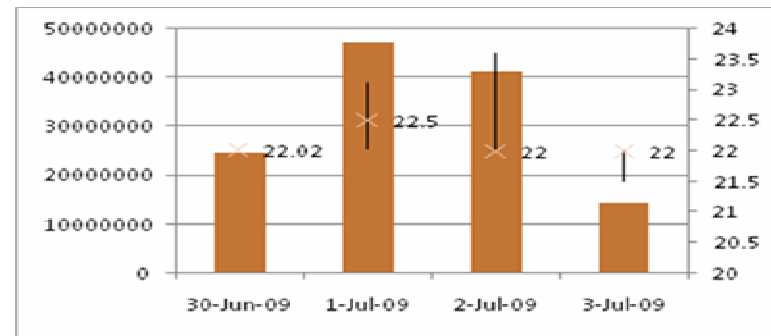
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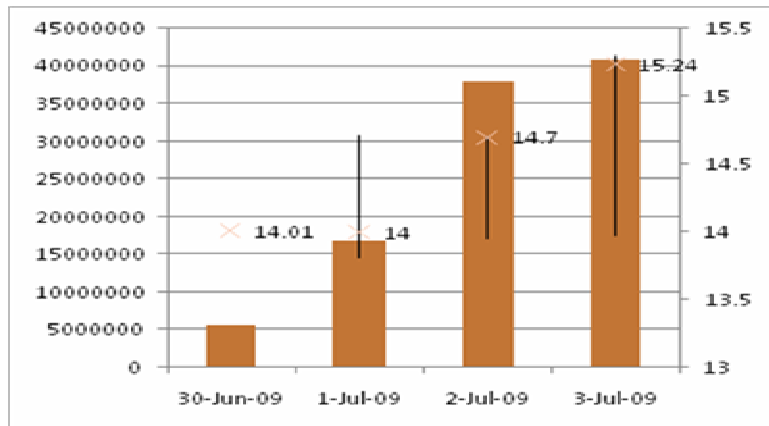
Diamond Bank



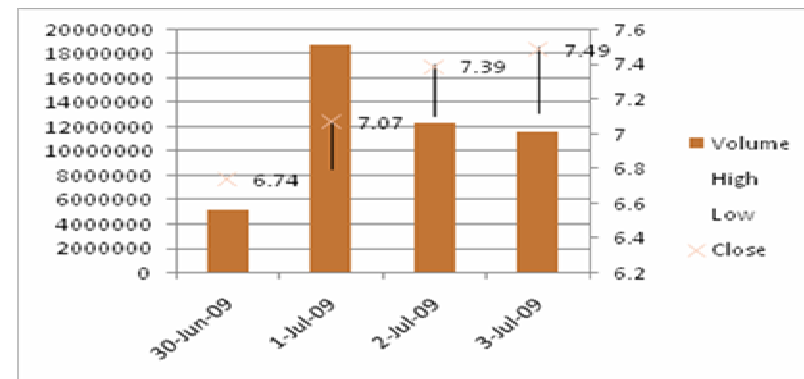
First Bank



GTB

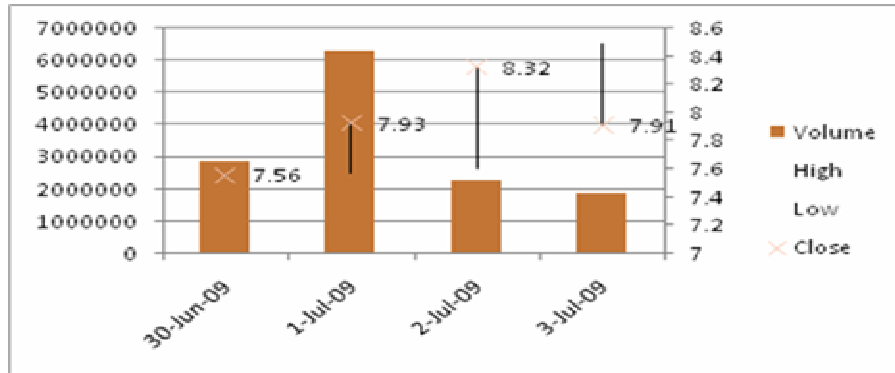


Skye Bank

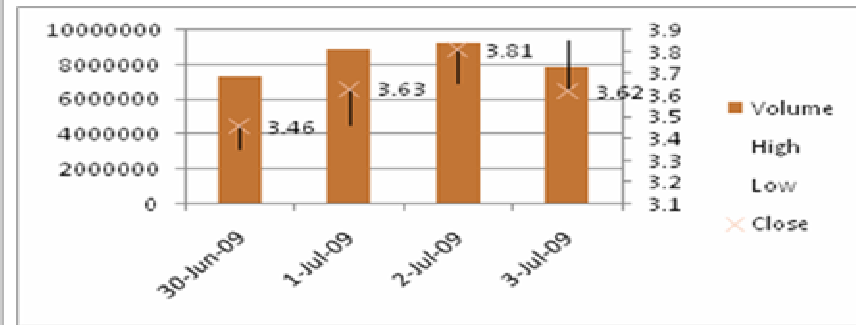


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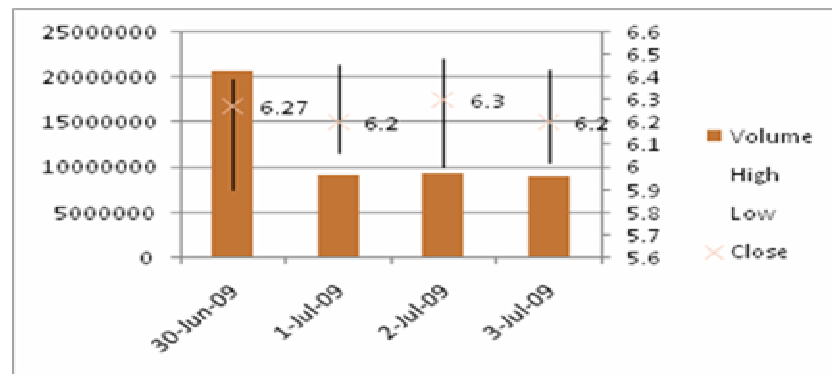
Afribank Bank



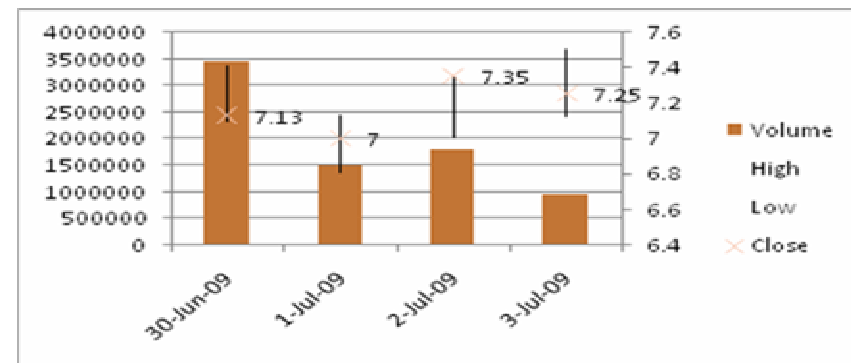
Fidelity Bank



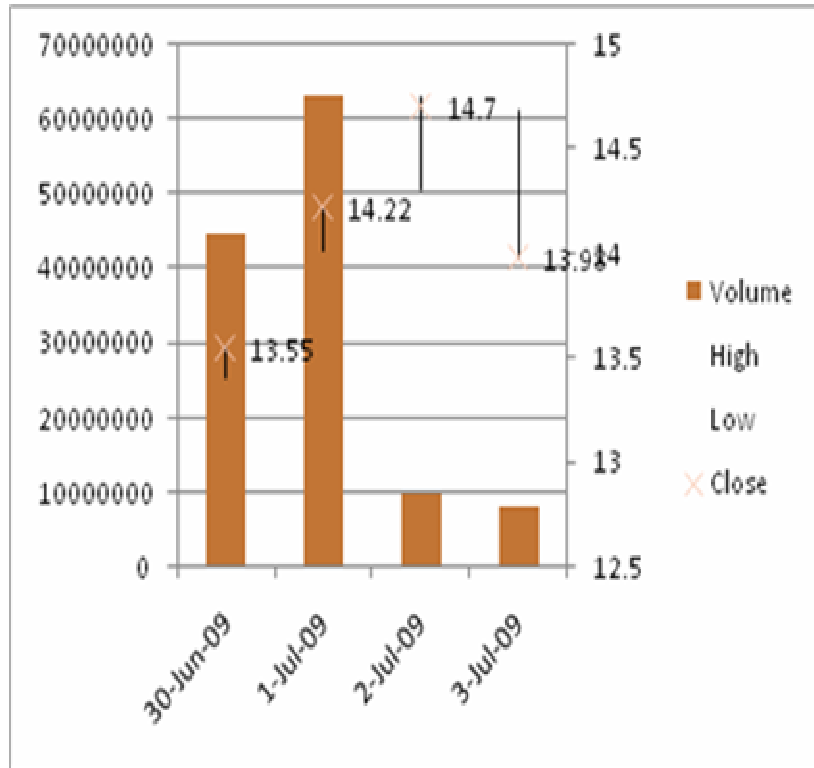
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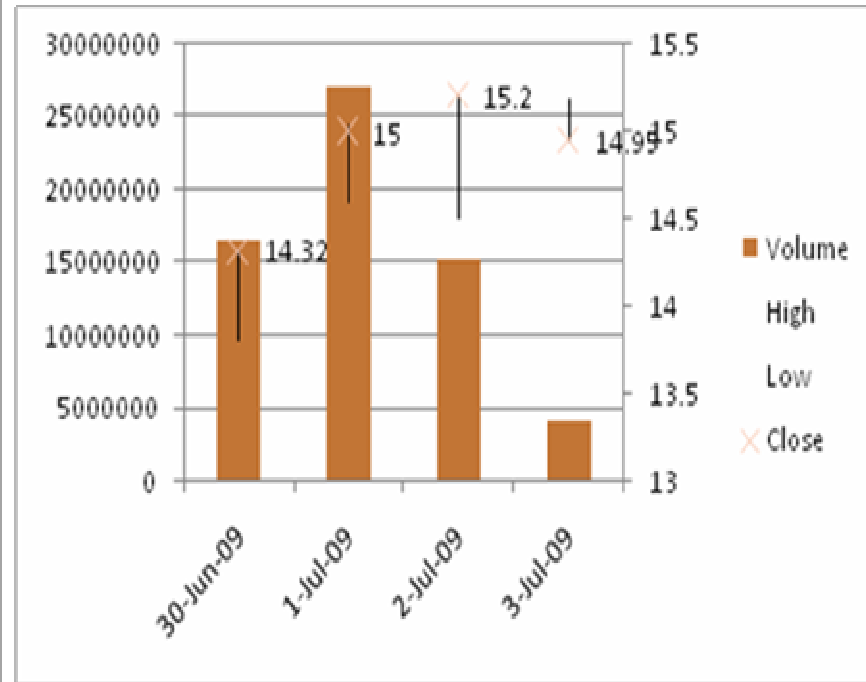
IBTC



UBA

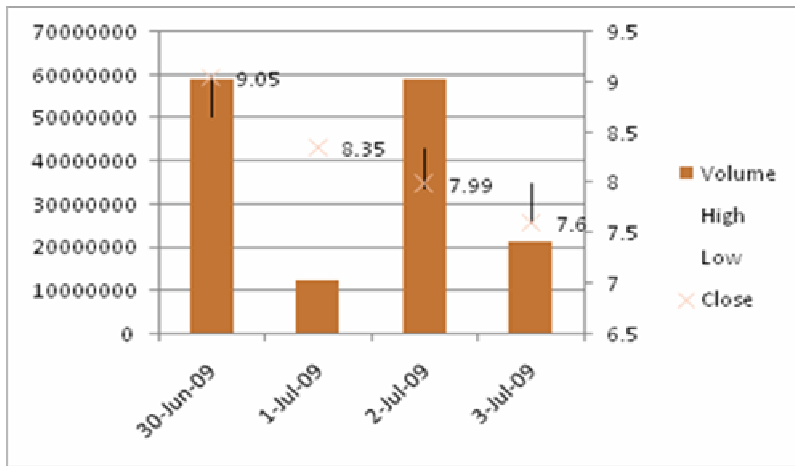


Zenith Bank

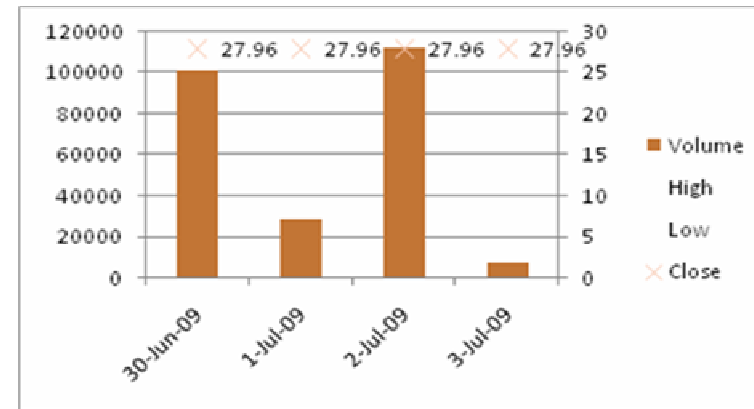


SHAKEN

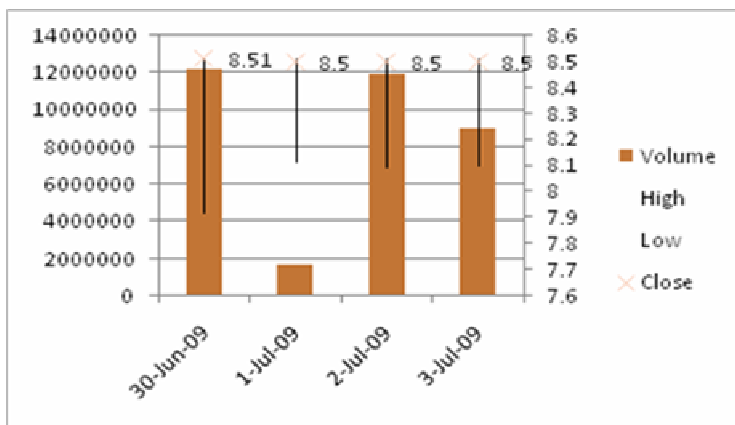
Access Bank



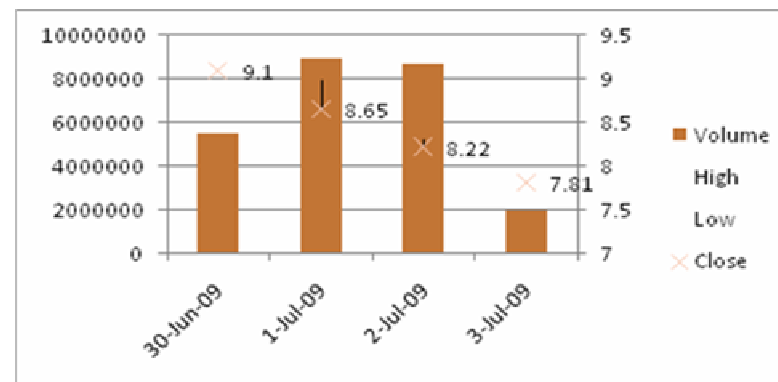
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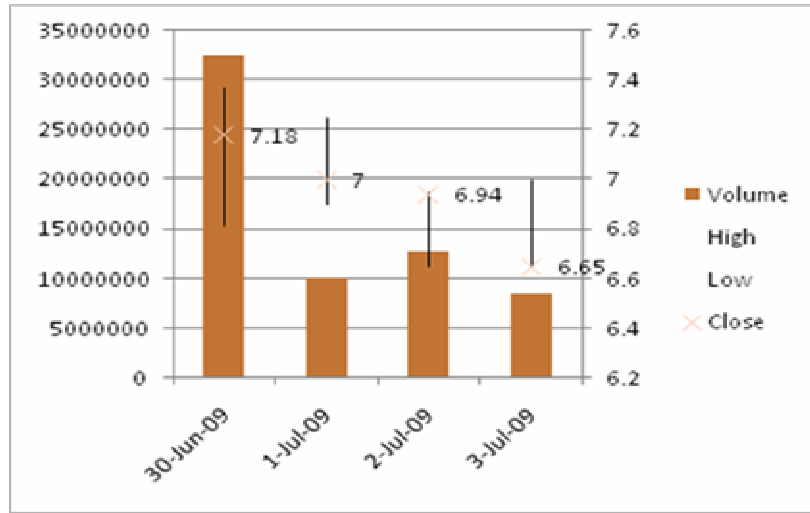
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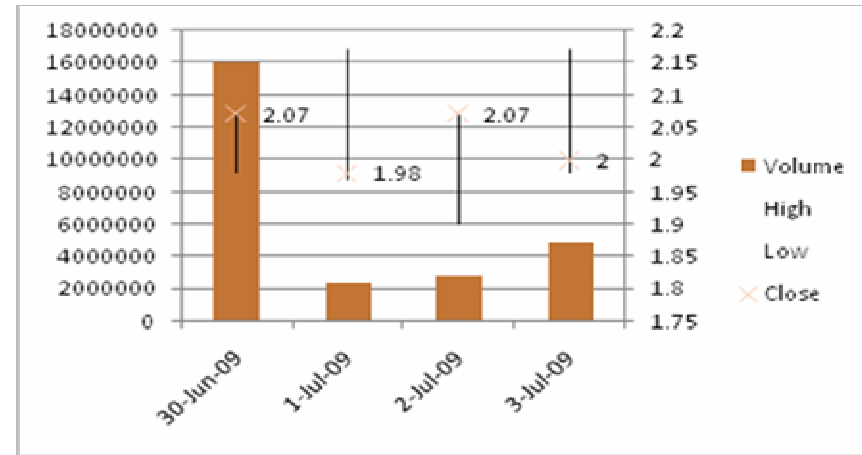
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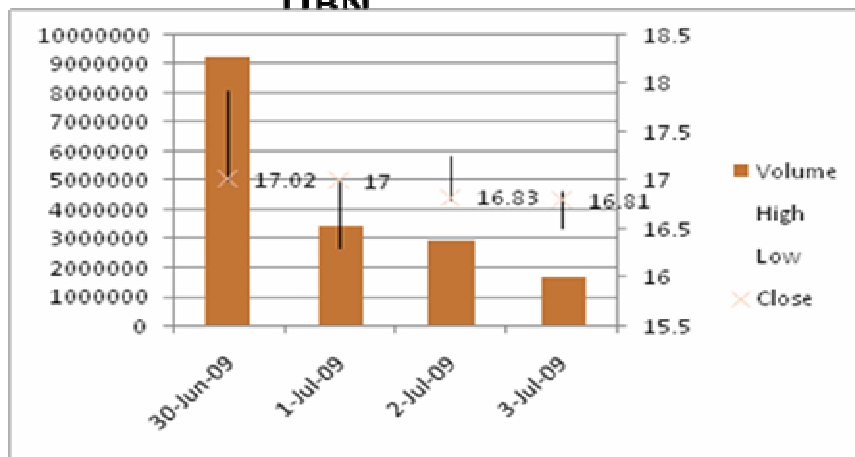
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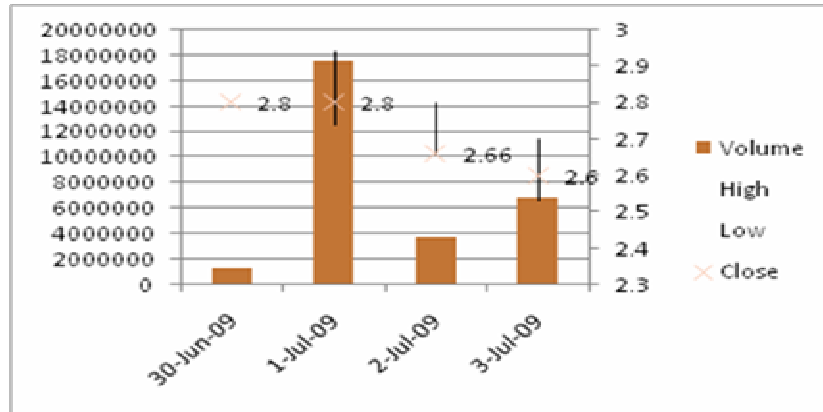


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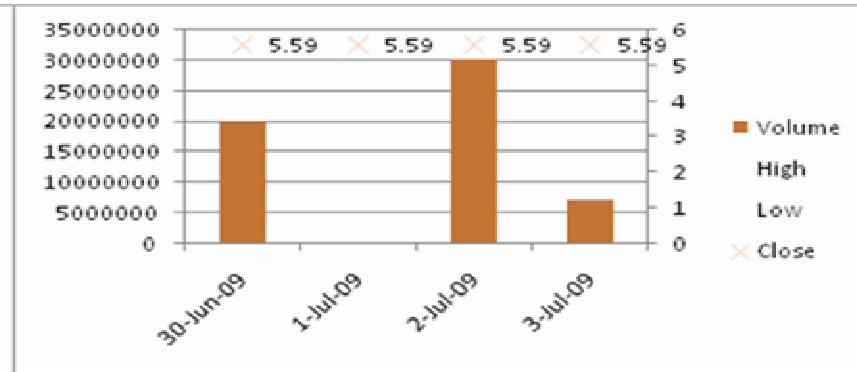


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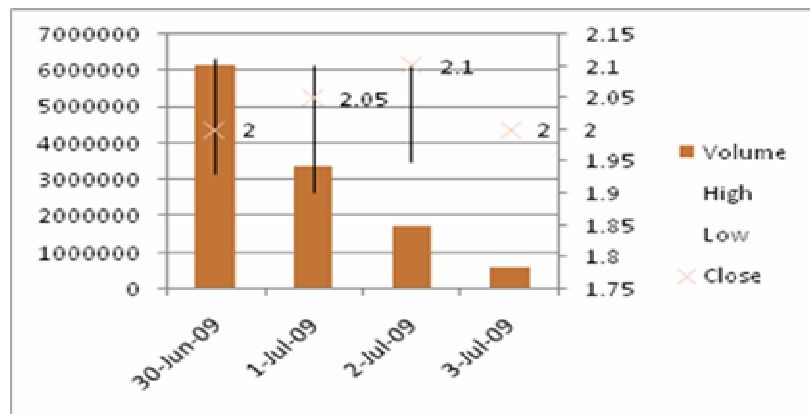
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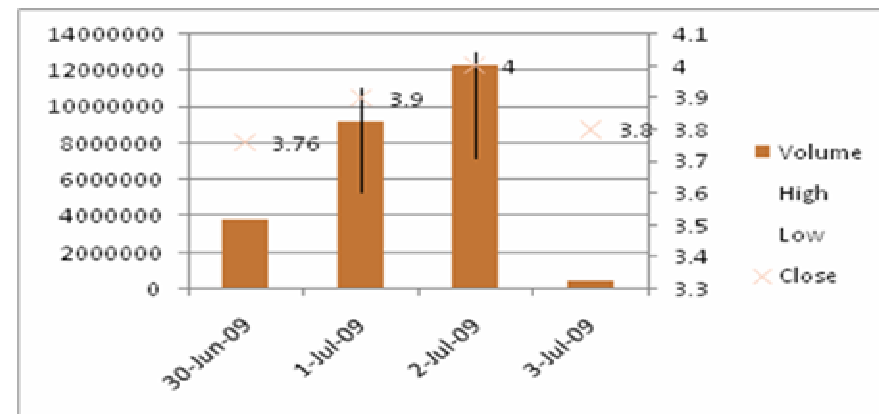
Spring bank



Unity Bank



Wema Bank



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