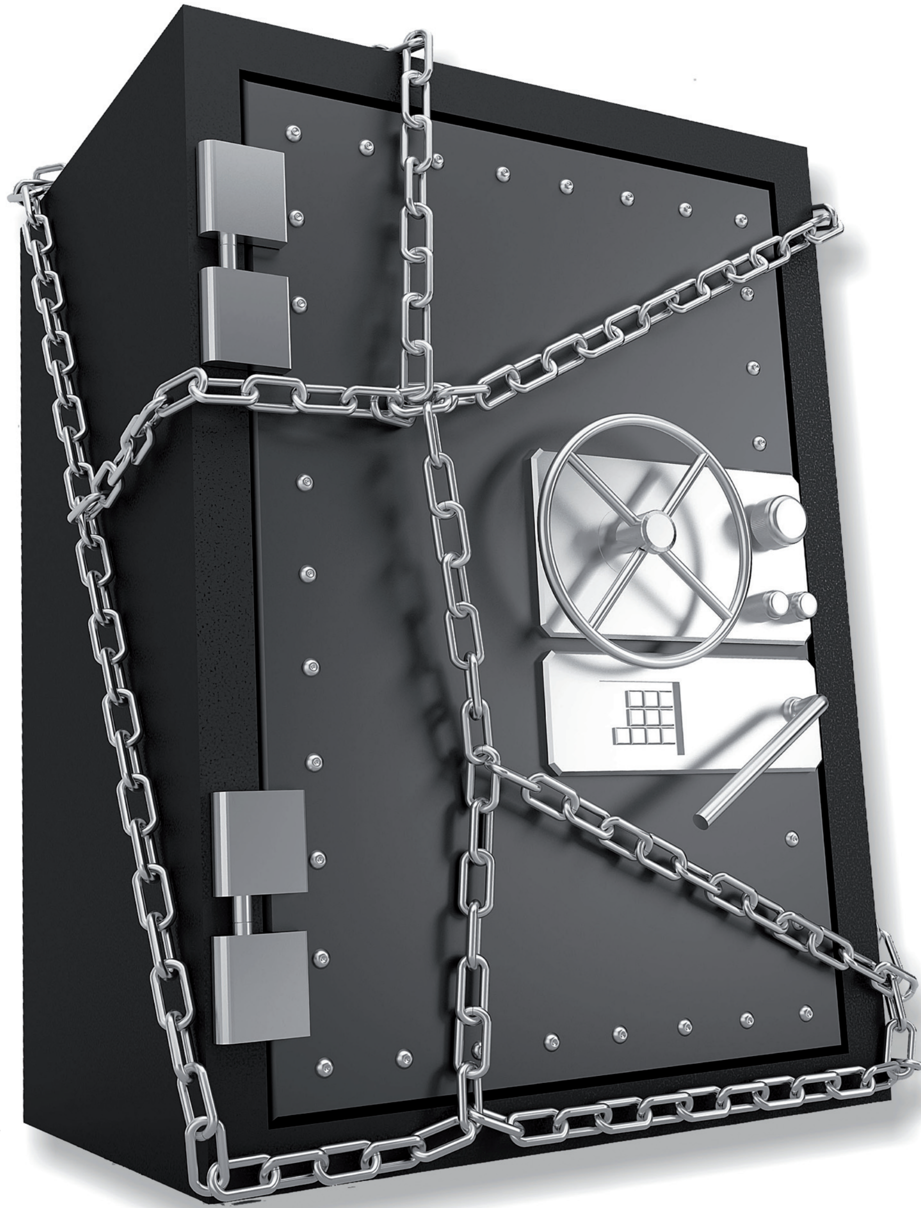

BGL Banking Report

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Executive Summary

Despite the identified challenges, Nigerian banks portend attractive opportunities for investors.

Background

The Nigerian banking industry has been strained by the detoriorating quality of its credit assets as a result of the significant dip in equity market indices, global oil prices and the sudden depreciation of the naira against global currencies. The CBN's Governor, in his 14th August 2009 intervention speech, identified the industry's significant exposure to the oil and gas and capital market sectors as the major causes of the liquidity constraints that several banks were experiencing. Indications of the 'crisis' became evident in the interbank market where activities diminished as banks responded to the perceived risk of lending to each other. Profits and returns suffered as a result of huge provisioning, while shareholder's equity was haemorhaged. The development has created liquidity and credit shortages and a crisis of confidence in the nation's financial system. The removal of the management of eight banks by the CBN was meant to bring sanity and return confidence to the banks and the banking sector in general. The injection of capital is expected to ease the liquidity squeeze and enable banks resume lending. Despite the identified challenges, Nigerian banks portend attractive opportunities for investors.

Table 1: Summary of Rating and Estimates

Report Date	04 February 2010		
Bank	Current Price	DDM Valuation	Remark
Access Bank	9.60	10.88	N
Diamond Bank	9.75	10.75	N
Ecobank	7.07	9.86	O
Fidelity Bank	2.80	4.00	U
First Bank	15.96	17.46	N
FCMB	9.45	11.85	U
GTBank	18.50	19.72	N
Skye Bank	8.09	6.73	O
Stanbic IBTC	9.43	9.73	N
Sterling Bank	1.63	3.66	U
UBA	14.40	15.35	N
Zenith Bank	16.25	19.57	N

O: Overvalued, N: Neutral,
U: Undervalued
Source: BGL Research Estimates

Global developments

The effect of the current financial crisis is not limited to Nigeria and other developing countries. Globally, banks are facing increase in non-performing loans and historical growth in loan loss provisioning. As experienced in Nigeria, banks globally are experiencing a decline in returns and profitability. Return on equity of hitherto high performing banks has declined from an average of 26% between 2000 and 2007 to 4% in 2009. However, the economic bailout by different countries provide the banks with cash and capital; hence the need to strengthen themselves for future success.

In terms of outlook for banks, analysts globally seem to agree on the factors to consider. From a survey conducted in 2009, Deloitte identified the top considerations for banks as: globalise and consolidate; reconnect with customer; promote compliance; better manage risk and adapt to demographic shifts. Accenture, in its state year 2009 report on global banking outlook noted that the post-crisis operating and business model changes will be pricing optimisation, effective risk management, effective customer management, strategic cost reduction and inorganic growth. BGL opined that the industry's key success factors will include customer service, risk management, geographical spread, effective cost control measures and balance sheet size.

Nigerian banking industry faces several challenges

By far the biggest challenge for bank regulators in Nigeria is how to get the banks to lend again. However other regulatory challenges include entrenching effective and efficient risk management framework, good corporate governance, transpar-

ency in reporting and managing the fallout of the banking sector reform so as to ensure a safe and sound financial system. For the operators, challenges include infrastructural deficiency, unreliable social data, human capital deficiency, corporate governance issues and regulatory interventions.

There are attractive opportunities for investing in the energy sector, agriculture, solid minerals, construction and real estate and even the capital market.

There are attractive opportunities for banks' investment

Interestingly, part of the solution to the identified challenges lies with the banks themselves. Infrastructure challenges would be resolved if only the banks would invest in infrastructure development and the human capital deficiencies will succumb to sufficient investment in the education sector. There are attractive opportunities for investing in the energy sector, agriculture, solid minerals, construction and real estate and even the capital market.

Getting banks to lend again

To get banks to resume lending again, the common opinion is that the financial bailout is not enough and therefore may not achieve the intended result.

While it is agreed that banks in Nigeria need to start lending again, the approach to doing this is still a contentious issue. Some analysts suggest that government should take up equity first and then buy toxic assets from the banks, while others propose only the buying of toxic assets through the proposed Asset Management Company (AMC). Each of the approaches has issues that need to be addressed like for example, the valuation method for the toxic assets and the number of banks in which government would take up equity; however the common opinion is that the financial bailout by itself is not enough and therefore may not give the intended result.

Global Banking Impulses and How They Will Affect Nigeria

Table 2: Global Banks' Assets

Country	Bank Assets US$(bn)
EU	61,999.8
United States	13,301.5
United Kingdom	12,283.8
Germany	11,840.6
France	11,549.7
China	9,139.3
Italy	5,532.1
Spain	4,836.2
Netherlands	3,352.9
Switzerland	3,100.7
Australia	2,353.2
Ireland	2,137.0
Belgium	2,025.3
Brazil	1,690.0
South Korea	1,622.4
Austria	1,604.2
Luxembourg	1,397.5
Denmark	1,265.9
Russia	1,014.4
India	929.2
Sweden	867.0
Portugal	675.5
Greece	622.1
Norway	587.3
Finland	544.9
Turkey	496.5
Singapore	495.5
Poland	373.5
South Africa	368.3
Czech Republic	231.9
Cyprus	174.1
Romania	117.3
Nigeria	107.8
Slovakia	94.3
Monaco	75.8
Croatia	75.6
Slovenia	71.4
Malta	63.0
Bulgaria	53.3
Latvia	49.2
Lithuania	38.9
Estonia	32.7
Serbia	32.6
Andorra	23.8
Azerbaijan	13.6
Albania	10.1
Montenegro	5.0
Moldova	4.0
Armenia	3.6

In 2008, a number of large U.S. based financial institutions either failed or came close to failure. This was a direct result of losses incurred related to risky home mortgages and other loans held by these firms, as well as other high-risk transactions. These firms include investment bankers Bear Stearns and Lehman Brothers, along with mortgage lenders Fannie Mae, Freddie Mac, Countrywide Financial, Indymac Bank and insurance giant American International Group (AIG). Merrill Lynch agreed to be purchased by Bank of America in order to avoid a fate similar to Lehman Brothers. There has also been speculation about the future viability of other financial institutions.

Despite these challenges, there are attractive growth opportunities for industry players and investing opportunities for potential investors. The economic bailout programmes initiated by different countries have left the banks flush with cash and capital; the banks therefore need to position themselves for future success. For banks to compete favourably they need to cope with tighter regulation, new markets, demanding customers, efficiency, and need to control reputational and operational risks.

Increased capital and huge provisioning are putting pressure on banks' returns with Return on Equity (ROE) and Return on Assets (ROA) declining significantly in 2008 from the impressive ratios recorded since the early 2000s. In the US for example, ROE which averaged 12.2% between 2003 and 2007 declined to 3.3% in 2008; ROA declined from 1.3% in 2006 to 0.3% in 2008. This decline is further corroborated by analysts at Accenture in the 2009 report on banking outlook that "ROE has plummeted from about 26% for banks Accenture classified as high performers in 2007 to about 4% in 2009". While returns in some emerging economies showed either a flat growth or a little decline, arguably because of strong economic performance in these countries, we believe that returns for 2009 in these countries will show a significant decline as the impact of the global financial crisis bites them harder.

Table 3: Return on Equity (%)

	2003	2004	2005	2006	2007	2008
Argentina	-22.7	-4.2	7.0	14.3	11.0	13.5
Australia	24.2	16.0	14.7	16.8	18.1	17.0
Brazil	21.1	22.1	29.5	27.3	28.9	20.4
Canada	14.7	16.7	14.9	20.9	16.1	28.9
Chile	16.7	16.7	17.9	18.6	16.2	18.9
China	….	13.7	15.1	14.8	19.9	….
Colombia	17.1	23.0	22.1	20.2	19.5	20.0
India	18.8	20.8	13.3	12.7	13.2	12.5
Mexico	16.1	17.2	24.4	26.2	19.9	12.8
Peru	10.7	11.6	22.2	23.9	27.9	30.6
Russia	17.8	20.3	24.2	26.3	22.7	12.1
South Africa	11.6	16.2	15.2	18.3	18.1	17.5
Spain	13.9	14.7	16.8	19.6	19.7	16.8
United States	15.0	13.2	12.7	12.3	7.8	3.3
Nigeria	26.3	25.2	16.9	15.6	17.8	16.2

Source: Global Financial Stability Report

Table 4: Return on Assets (%)

	2003	2004	2005	2006	2007	2008
Argentina	-3.0	-0.5	0.9	1.9	1.5	1.6
Australia	1.6	1.1	1.0	1.0	1.0	0.9
Brazil	1.6	1.9	2.2	2.1	2.4	1.9
Canada	0.7	0.8	0.7	1.0	0.9	1.3
Chile	1.3	1.2	1.3	1.3	1.1	1.2
China	0.3	0.5	0.6	0.7	1.0	….
Colombia	1.9	2.7	2.7	2.5	2.4	2.4
India	1.0	0.8	0.9	0.7	0.9	1.0
Mexico	4.0	1.6	1.8	2.7	3.1	2.7
Peru	1.1	1.2	2.2	2.2	2.5	2.5
Russia	2.6	2.9	3.2	3.2	3.0	1.6
South Africa	0.8	1.3	1.2	1.4	1.4	1.8
Spain	0.9	0.9	0.9	1.0	1.1	1.0
United States	1.4	1.3	1.3	1.3	0.8	0.3
Nigeria	2.9	2.6	2.3	2.3	2.6	2.8

Source: Global Financial Stability Report

While plummeting returns could be forgiven given significant accretion in capital, it is inconceivable that the decline in returns could also be due to significant provisioning. The result was contrary to the previous trend in the industry which showed considerable improvement in the ratio of non-performing loans to total loans; arguably due to effective risk management framework. Published results of banks reflected reduction in the percentage of classified loans from early 2000 until the housing crisis of 2008.

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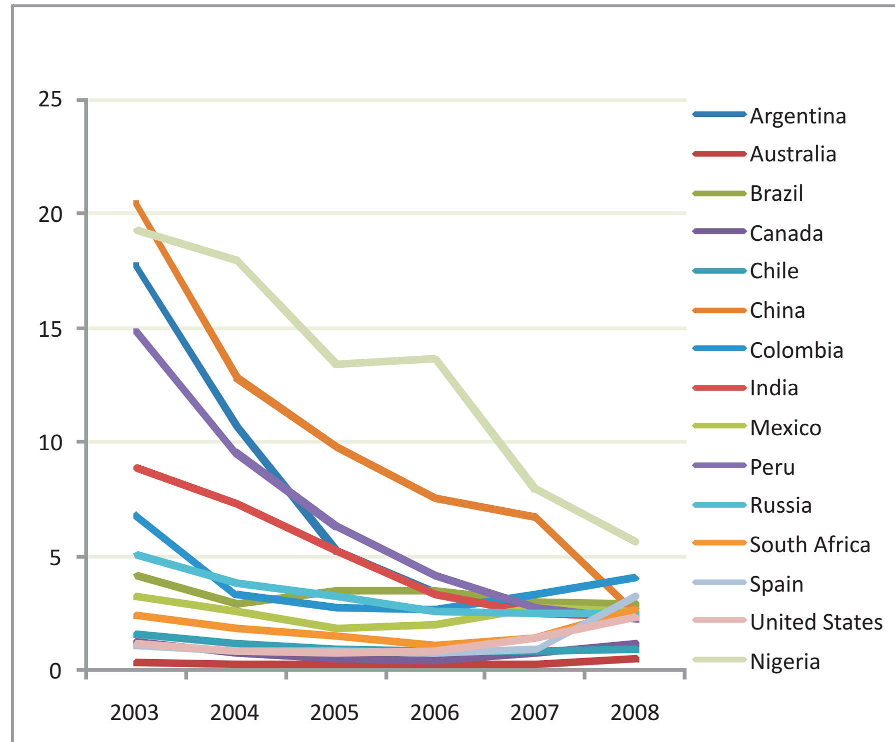
Fig. 1: Non Performing Loans to Total Loans in Selected Countries



Source: Global Financial Stability Report

In several countries, the percentage of provision to non-performing loans, hitherto above 100% fell significantly below 100%.

The provisioning was so large that several banks that were known for their conservatism because they usually make larger provisions than required by the regulators could only keep to regulatory benchmark in 2008. In several countries as shown in the table 5 below, the percentage of provision to non-performing loans, hitherto above 100% fell significantly below 100%. In Australia and Spain, the ratio fell from 183.7% and 214.6% to 87.2% and 71.9% in 2007 and 2008 respectively. Developing countries like Chile and Colombia also witnessed a decline in the NPL ratios. We anticipate 2009 to be a more daunting year for banks in some emerging economies like Nigeria.

Table 5: Bank Provision to Non-performing Loans (%)

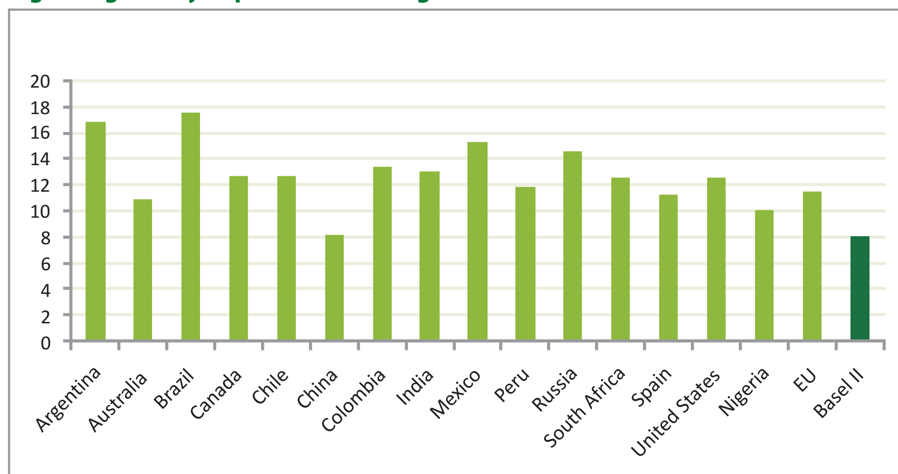
	2003	2004	2005	2006	2007	2008
Argentina	79.2	102.9	124.5	129.9	129.6	130.9
Australia	131.8	182.9	203.0	202.5	183.7	87.2
Brazil	179.3	201.6	176.6	171.4	175.3	185.5
Canada	43.5	47.7	49.3	55.3	42.1	34.7
Chile	130.9	165.5	177.6	198.5	210.4	181.6
China	19.7	14.2	24.8	34.3	39.2	115.3
Colombia	98.1	149.7	166.9	153.6	134.5	115.3
India	46.4	56.6	60.3	58.9	56.1	52.6
Mexico	167.1	201.8	232.1	207.4	169.2	184.0
Peru	67.1	68.7	80.3	100.3	131.6	146.7
Russia	118.0	139.5	156.3	159.3	144.0	140.0
South Africa	54.2	61.3	64.3		....	....
Spain	263.8	322.1	255.5	272.2	214.6	71.9
United States	140.4	168.1	155.0	135.0	93.1	84.7
Nigeria	77.7	90.4	91.2	88.8	89.9	89.1

Source: Global Financial Stability Report

The huge losses due to provisioning pose a threat to banks' capital base. Banks' balance sheets were stress-tested to determine the level of capital impairment. Some banks were further capitalised, some were totally nationalised while some US banks got help through the Troubled Assets Relief Programme (TARP). The most important stress test is the regulatory Capital Adequacy Ratio (CAR). Any bank with CAR below the regulatory minimum got some kind of help. While Basel II recommends a minimum CAR of 8%, most countries have the regulatory benchmark set higher, with ratios ranging from a low of 8.2% in China to a high of 17.5% in Brazil (Fig. 2).

Some banks were further capitalised, some were totally nationalised while some got help through the Troubled Assets Relief Programme (TARP).

Fig.2: Regulatory Capital to Risk-Weighted Assets



Source: Global Financial Stability Report

Outlook for the Industry

Important factors for the industry, going forward will be consolidation, risk management, customer management, cost reduction and size.

In terms of industry outlook, most analysts agree on the key success factors for the industry in the coming years. Deloitte, in its industry survey report lists five top issues on the banking watch list to be: globalise and consolidate; reconnect with the customer; promote compliance; better manage risk; and adapt to demographic shifts. Accenture in its reports on banking outlook described the post-crisis operating and business model changes as pricing optimisation, effective risk management, effective customer management, strategic cost reduction and inorganic growth. BGL, in its 2008 banking report is of the opinion that the industry's key success factors are customer service, risk management, balance sheet size and geographic spread, effective cost control and competitive strategies.

Globalise & Consolidate; Inorganic Growth; Geographic Spread.......

Deloitte noted the falling barriers in cross-border investment as a catalyst for banks' quest to expand abroad by acquiring or merging with banks in other countries.

Most analysts prescribe increased size and spread as a key outlook for the industry. Accenture suggested M&A, divestiture and low-cost bank creation. Deloitte noted the falling barriers in cross-border investment as a catalyst for banks' quest to expand abroad by acquiring or merging with banks in other countries. BGL believes that to bring services to the unbanked, banks will have to improve on geographical spread so as to capture all the transactions in their delineated areas. Banks are moving away from traditional outsourcing toward captive operations or a mix of captive and outsourced functions. Banks that have already squeezed excess costs from their operations are chasing double-digit growth in over-banked domestic markets. Therefore acquisition offers a way to gain entry to more attractive markets, put excess capital to work, justify high stock prices and achieve further operating efficiencies.

Reconnect with the Customer; Effective Customer Management

Accenture suggested that effective customer management will include the introduction of product innovation, marketing capability enhancement and need-based offering

The ability to identify customer needs and consequently fashion out an effective delivery process that ensure customer satisfaction, in a cost effective manner, is a critical success factor for any business enterprise. Deloitte noted that the slow growth in the existing markets will push banks to reconnect with customers through a combination of state-of-the-art technology and personal service. Accenture suggested that effective customer management will include the introduction of product innovation, marketing capability enhancement and need-based offering. BGL observes that banks' customers are more discerning and demanding; hence a carefully crafted customer service strategy needs to be in place to win and retain customers. Efficient and timely service delivery is part of the key factor to consider in customer service. According to the survey conducted by Deloitte, convenience, value and service, rather than product innovation are keys to improving customer

experience as products are rarely differentiated and quickly copied. Banks increasingly understand the need to improve customer experience to foster loyalty; hence after years of shuttering their branches, banks are opening new offices to attract, retain and cross-sell to customers.

Better Manage Risk; Effective Risk Management

Banks' risk focus has changed significantly in recent years. They have gone beyond the traditional focus on credit risk, paying increasing attention to market and liquidity risks. However, going forward, an expanded risk management framework, which includes operational and reputational risks, has become imperative. Risk management will integrate across risk types and business units while risk analytics are expected to improve predictive management of loan loss ratios. Basel II provides the framework to address operational risk issues, improving banks' ability to develop key risk indicators and quantify the risk of operational loss events. However, it is unclear how many banks will adopt the Advanced Management Approach (AMA), Basel II's most sophisticated approach to operational risk.

However, going forward, an expanded risk management framework, which includes operational and reputational risks, has become imperative

Strategic Cost Reduction; Effective Cost Control

While improving earnings is a strategic push for banks, checking rising costs has become equally necessary for better profitability. Approaches to strategic cost reduction will include direct channel push, process simplification and re-engineering, cost governance, procurement rationalisation, product rationalisation, shared services implementation and outsourcing of non-core functions.

Adapt to Demographic Shifts

An aging population will continue to drive the development of banking products and services targeted at older customers. According to Deloitte, impending demographic changes are seen as a key profit driver. The greying of much of the world's population will soon shift target customers from wealth accumulation to a lengthy retirement. At the same time, responsibility for retirement security in many markets is moving from governments and employers to individuals.

The greying of much of the world population will soon shift target customers from wealth accumulation to a lengthy retirement.

Deloitte further noted that banks in general have been slow to strengthen relationships with the baby-boomers within their existing customer base by developing protection products and advisory services. As the current wave of retirees continues for the next 20 years, and as the earlier retirees age, the need for advice and products to help retirees drawing down assets in the face of uncertainty will only grow.

Regulatory Intervention in the Financial Crisis

Faced with the worst financial crisis since the great depression of the 1930's, countries have reacted and intervened in their financial systems in differing ways depending on their financial regulatory framework. Different approaches to financial supervision were adopted by different countries; common approaches include the institutional approach adopted by China, Brazil, South Africa and Nigeria, the functional approach used mainly by Italy and France, the twin peaks approach adopted by Australia and Netherlands and the integrated approach used by UK and Germany. The United States adopts a different approach known as fragmented.

In terms of banking statistics and indicators, Nigeria compares closely to the Latin American (Brazil), Asian (China) and African (South Africa) countries; however for aspiration purpose, we will review the regulatory intervention in some developed countries of the United Kingdom, European Union and the United States of America as well (see appendix).

While individual countries had reacted in different ways as their domestic circumstances permitted, the world through the G-20 committed to some regulatory measures to strengthen the world financial system. Driven by works of the International Monetary Fund (IMF), the G-20 gathered in London in April 2009 and committed to the following regulatory measures as summarised by the World Bank (Crisis Response, June 2009).

Financial Stability Board

- Establish, as a successor to the Financial Stability Forum (FSF), a new Financial Stability Board with greater capacity, expanded participation, and a stronger mandate for promoting financial stability.

International Cooperation

- Complete the creation of supervisory colleges for significant cross-border firms in 2009.
- Implement the FSF principles for cross-border crisis management.
- Support efforts to develop an international framework for cross-border bank resolution.

Prudential Regulation

- Maintain current international standards for minimum capital levels until recovery is assured, but then strengthen them.
- Once recovery is assured, increase buffers above regulatory minimums, enhance the quality of capital, and develop guidelines for the harmonization of the definition of capital and for minimum capital levels internationally.
- Implement recommendations to mitigate procyclicality, including anticyclical buffers.

- Supplement risk-based capital requirements with an appropriate leverage ratio.
- Improve incentives for risk management of securitization.
- Progressively adopt the Basel II capital framework in all G-20 countries.
- Develop a global framework for promoting stronger liquidity buffers at financial institutions.

Scope of Regulation

- Amend regulatory systems for macro-prudential risks and develop suitable tools for controlling such risks.
- Ensure that national regulators are able to gather relevant information on all material financial institutions, markets, and instruments to assess systemic risk.
- Produce guidelines for assessing whether a financial institution, market, or instrument is systemically important.
- Require that hedge funds be registered and subject to oversight, including through disclosure to supervisors.
- Require that institutions with hedge funds as counterparties have effective risk management.
- Establish central clearing counterparties for credit derivatives that are subject to regulation.
- Regularly review boundaries of the regulatory framework and promote good international practices.

Compensation

- Endorse and ensure significant progress in implementing the FSF principles on pay and compensation in significant financial institutions by the 2009 remuneration round.
- Require supervisors to monitor firms' compensation policies and intervene where necessary.

Tax Havens and Non-cooperative Jurisdictions

- Encourage all jurisdictions to adhere to international standards on combating tax evasion, money laundering, and terrorist financing.
- Develop a toolbox of effective countermeasures for non-cooperative jurisdictions.

Accounting Standards

- Reduce the complexity of standards for financial instruments and improve standards for provisioning, off-balance-sheet exposures and valuation uncertainty.
- Strengthen accounting recognition of loan loss provisions by including more credit information.
- Achieve clarity and consistency in the application of valuation standards internationally.
- Make progress toward a single set of global accounting standards.
- Improve the involvement of stakeholders in the process of setting accounting standards.

Credit Rating Agencies

- Subject all credit rating agencies whose ratings are used for regulatory purposes to oversight that includes registration and is consistent with the International Organization of Securities Commissions (IOSCO) Code of Conduct Fundamentals.
- Ensure that national authorities enforce compliance by credit rating agencies and require changes to their practices when needed.
- Require that credit rating agencies differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions underpinning the rating process.
- Review the role of external ratings in prudential regulation and address any adverse incentives.

Nigerian Banking Sector

Borrowed from the strategic term "Continuous Improvement Process", the Nigerian banking sector could be said to be going through a "Continuous Reform Process" of its own. Since 1999 when democracy returned to the country, the financial services industry especially the banking sector has been experiencing various reforms, directed towards improving the capacity and health of the Nigerian banks. The first stage of the new CBN's reform programme the outcome of the special audit exercise conducted to assess the risk asset quality of banks resulted in the removal of the management of eight banks by the Central Bank of Nigeria (CBN) and injection of capital of over N600 billion ($4.3 billion) into the banks.

The first stage of the new CBN's reform programme which was to assess the risk asset quality of banks resulted in the removal of the management of eight banks by the Central Bank of Nigeria (CBN) and capital injection of over N600 billion ($4.3 billion) into the banks.

Some industry participants see the action as disruptive, ill-timed and even premeditated. They argue that while the need to take decisive measures within the industry was apparent, they should have been done gradually and with continuous public consultation to obviate panic or uncertainty. There remains some uncertainty about the fate of the affected banks. In addition, the CBN decision to remove the entire management of some of the banks might cause a lull in the continuity of the banks' businesses.

Other analysts strongly support the action, stressing that a sweeping sanitisation was long over-due. In their view, most of the CEOs had overstayed their entrepreneurial effectiveness and should have left on their own volition considering the risk for funding gaps (arising from poor credit/risk management) to worsen. They saw the action as a strong indication of the resolve of the CBN to sanitise the industry and protect innocent depositors.

Though the reform of the Nigerian banking sector became very popular during the era of Professor Chukwuma Soludo as the CBN Governor, the reform process actually started between 1999 and 2004, when Chief Joseph Sanusi was the Governor of the CBN. During this period CBN introduced the reform process through a phased capital increase, when it increased banks' minimum share capital from N500m to N1 billion and later to N2 billion. During the same period, the Bank carried out sweeping sanitisation of the sector principally to stem foreign exchange "round-tripping" and also revoke the licence of some banks for insolvency. The final act was the introduction of the settlement bank for clearing purposes on 1st April, 2004.

Nigerian banking reform started since early 2000s, when Joseph Sanusi was the CBN Governor.

According to a CBN source, the 2004 banking consolidation was a continuation of the phased capitalisation of banks initiated during the Joseph Sanusi era. However the Chukwuma Soludo led board of the CBN decided to alter the approach, insisting on a one-time share capital increase to N25 billion. Even within the rank and file of the CBN there was the argument of whether the magnitude of increase was justified. Observers feared banks' inability to meet the requirement; while analysts were concerned about the return pressure the capital requirement would put on banks.

Observers feared banks' inability to meet the requirement; while analysts felt concern on the return pressure the increased capital would put on banks.

The regulator would later turn around to accuse the banks of buying own shares with depositors' money and that the resultant fall in share price has created a serious impairment on the banks' shareholders' fund.

Surprisingly, not only did several banks combine and also raise capital to meet the minimum capitalisation for operation, they went further, meeting the minimum capitalisation of US$1 billion for the management of the nation's foreign reserves. Banks went on a capital raising spree, increasing the industry's Shareholders' Funds from N227 billion before the announcement in 2004 to N887.4 billion in 2006, just after the 2005 deadline. Further capital raising exercises expanded the industry's Shareholders' Funds to N2.7 trillion in 2008 with about eight banks meeting the capital requirements for the management of foreign reserves. How the capital was raised was, at this time, not a matter of concern. Although the CBN conducted a verification exercise for the first round of capital raising, the time-consuming exercise was criticised by institutional (mostly foreign) investors and thus was discontinued for the subsequent fund raising exercises. The CBN would later turn around to accuse the banks of buying own shares with depositors' money and that the resultant fall in share price has created a serious impairment on the banks' shareholders' fund. Industry analysts wonder whether the regulators would have acted the same way if the share prices had risen and the banks had declare huge profits

While the CBN was congratulating itself on achieving the noble feat of improving the capacity of the country's financial system through improved liquidity and enhanced capital base to handle large ticket transactions, analysts and other industry watchers were worried about the pressure on banks to grow returns on the newly expanded capital base and develop the risk management framework to prevent poor asset quality. The unfolding negative effect of consolidation is what industry analysts termed the unintended consequences of consolidation.

Unintended Consequences of Consolidation

The unfolding negative effect of consolidation is what industry analysts termed the unintended consequences of consolidation.

According to IBFC Agusto, a local rating company, industry returns on equity (ROE) pre-consolidation was about 40%. In order to keep this performance ratio after an accretion in capital, banks needed to grow activities significantly; thus necessitating increased risk-taking. In addition, since banks needed to keep increasing capital base to meet the minimum capitalisation for foreign reserves management, they adopted a short term profit making approach so as to keep investors and potential investors happy with dividend payments.

Increased Capital Base

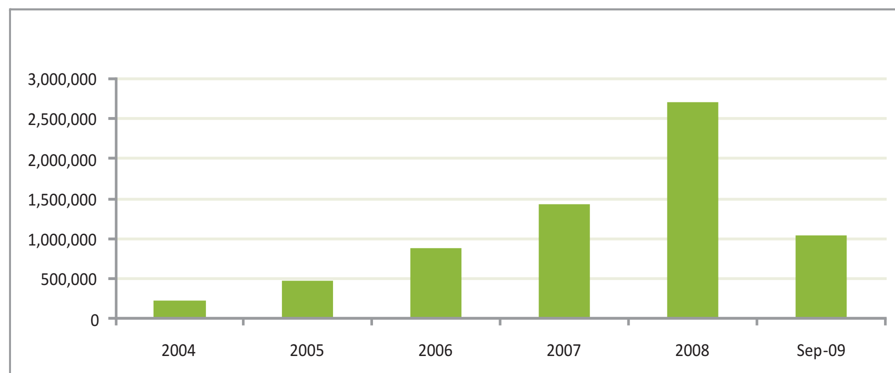
Expectedly, most banks became extremely aggressive in risk asset creation without an adequate risk management back-up.

In quantitative terms, the industry's Shareholders' Funds increased significantly. The core capital ratio (Equity/Total Assets), hitherto a concern to the CBN at 10% (one of the key reasons for consolidation) has improved to an average of 15% since consolidation in 2005. Equity to Loans and Advances improved to about 50% from less than 20% prior to consolidation. With stronger capital bases, banks had greater capacity for risk assets creation and improved investment in permanent assets. This strong capital was also expected to improve confidence in Nigerian banks, encourage greater patronage of banks by customers and reduce the amount of cash outside the banking system. Expectedly, most banks became extremely aggressive in risk asset creation without an adequate risk management back-up leading to a write-off of over N1.8 trillion against shareholders' funds in September 2009. As at September 2009 – see Fig. 3, industry shareholders' fund was N1.03 trillion but

could grow back to about N1.3 trillion by December 2009 if 20% of the doubtful loans were recovered within the period.

Adoption of a common year-end could see the industry's liquidity ratio going down to about 42% by end of 2009.

Fig 3: Industry's Shareholders Fund

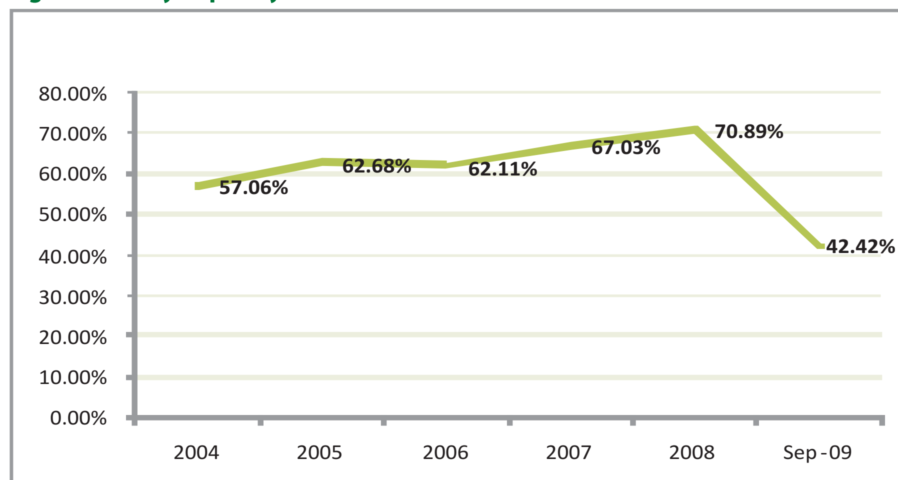


Source: Companies' Reports, BGL Research

Highly liquid industry…

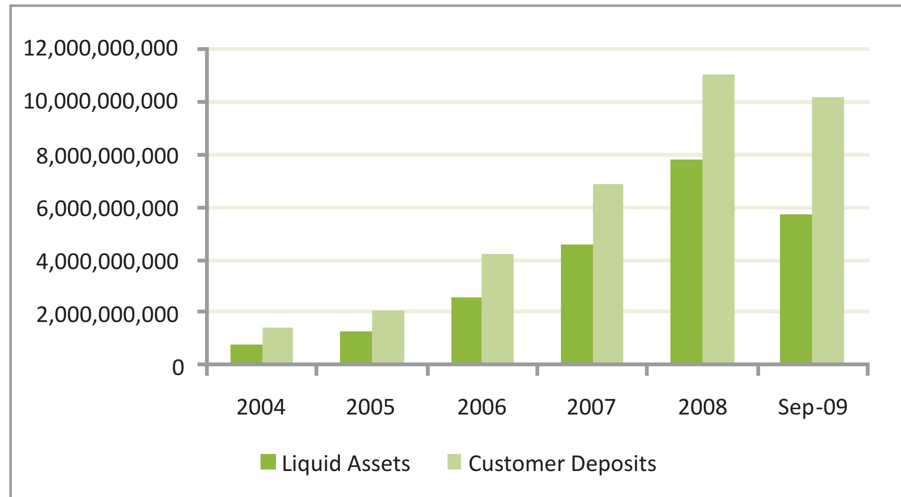
Cash and liquidity requirements as imposed by the Central Bank of Nigeria remain relatively high. Risk asset management strategies were somewhat weak resulting in relatively high exposure to risky assets as well as a large segment of unserviced clientele within the context of the demand for corporate and retail finance while numerous capital raising and aggressive deposit generating exercises have resulted in high liquidity. In 2005, the CBN estimated the total amount of cash outside the banking system at about N400 billion, which then led banks to aggressively pursue these funds through deposit generation and capital raising. From 2005 to date, liquidity ratio remains high at an average of 65%, over and above the regulatory benchmark of 40% up to September 2008, 30% up to March 2009 and 25% since then. Deposits increased by a CAGR of 71.2% while loans and advances increased by a CAGR of 62% - see fig. 5. The ratio of Loans to Total Deposits was estimated at 42% while Cash to Total Liabilities was estimated at 62.68% for the industry. Adoption of a common year-end could see the industry's liquidity ratio going down to about 42% by end of 2009 (fig. 4).

Fig. 4: Industry Liquidity Ratio



Source: Companies' Reports, BGL Research

Fig. 5: Liquid Assets/Customer Deposit

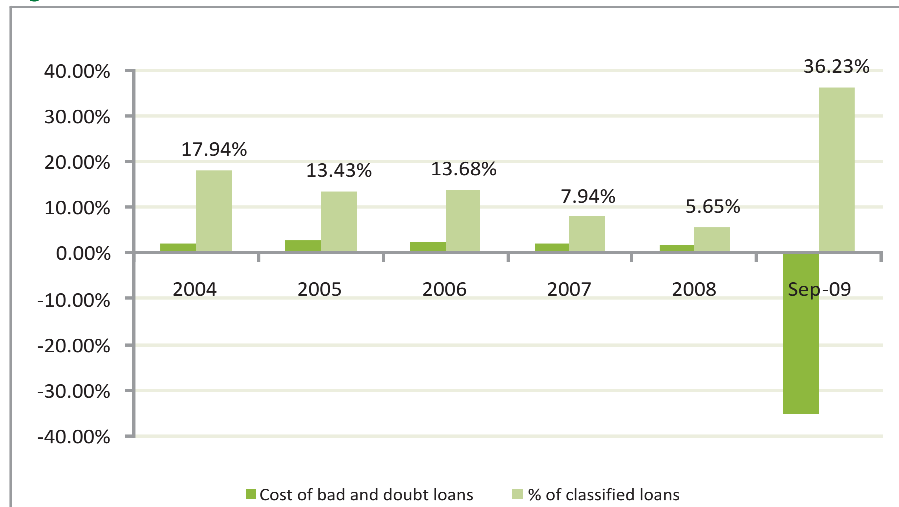


Source: Companies' Reports, BGL Research

Supposedly good asset quality…

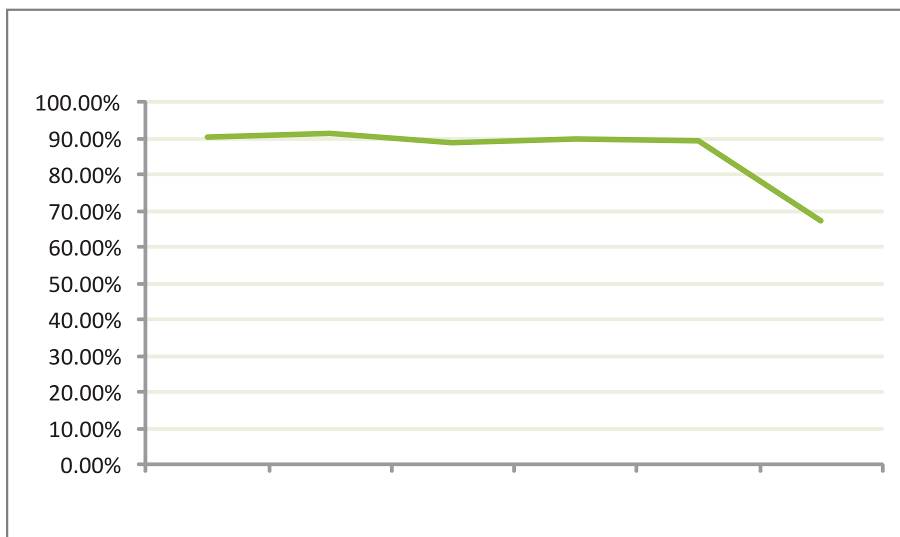
Since efficient risk management has become a key success factor in the industry; banks were thought to have put in place strong risk management and control processes to prevent loan losses and classification of assets. Stricter regulations were also expected to mandate banks to follow prudential guidelines in classification of risk assets and loan loss provisioning; hence the increase in the percentage of Loan Loss Provision as released in banks results. According to published results, the percentage of Classified Loans fell from 13.43% in 2006 to 7.95% in 2007 and arguably 5.65% in 2008 while Loan Loss Provision /Classified Loans hovered around 90% since 2005 after an increase from 77% in 2003. By September 2009, the percentage of Classified Loans rose to 36.23% while Loan Loss Provision/Classified Loans fell to 67.36% from 89.09% in 2008 (see Fig. 6 - 8 below) However, whilst the spread between average Deposit Rates and maximum Lending Rates has dropped by 20% to 10.66%, Prime Lending Rates have hovered around the same (high) levels, actually rising from 17.78% to 18.4% despite the explosion in liquidity since consolidation (with inter-bank Call Rates down from 16% in November 2005 to about 10.5% in July 2007).

Fig. 6: Cost of Bad Loans and % of Classified Loans



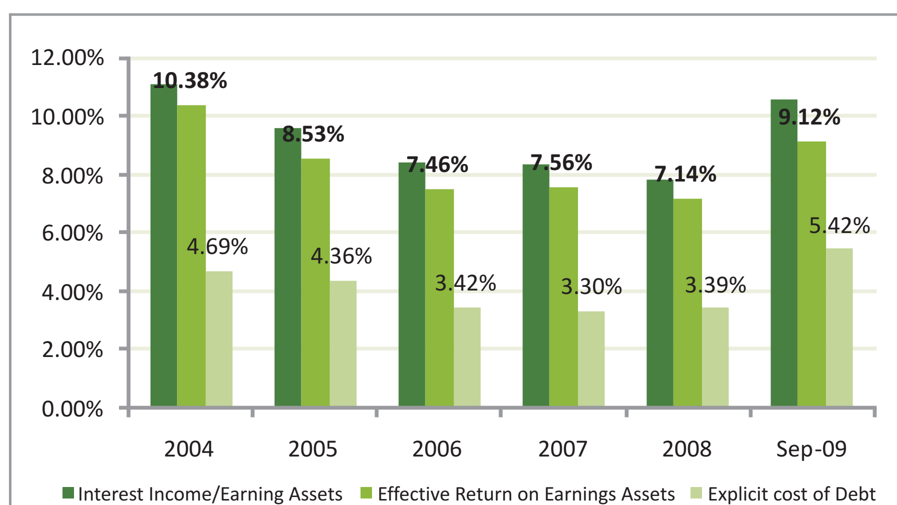
Source: Companies' Reports, BGL Research

Fig. 7: Industry Loan Loss Provision/Classified Loans



Source: Companies' Reports, BGL Research

Fig. 8: Asset Quality Ratios for the industry



Source: Companies' Reports, BGL Research

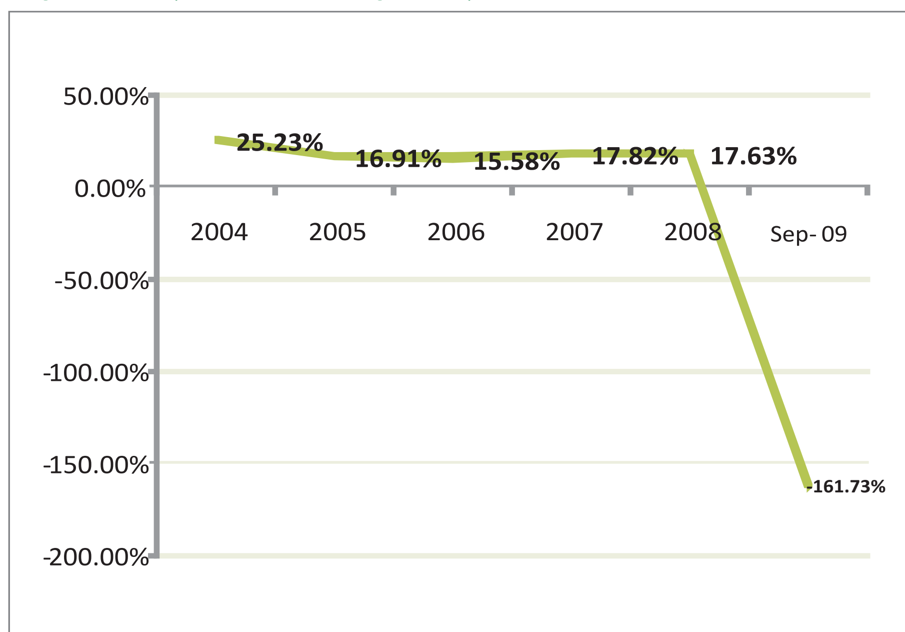
Under pressure for improved returns

As stated earlier, while the CBN was celebrating its bold initiative of capitalising the banks for global competition, banks in Nigeria were faced with the challenge of growing revenues as aggressively as they have increased capital and remaining viable within the context of stated challenges. Analysts expect that effective cost cutting and risk management strategies will become quite critical while investment in the efficient delivery of other non-lending banking services will be a useful means of generating additional business.

Having aggressively increased shareholders' funds without necessarily having use for it (observers believed they are only an ego exercise), the banks were under intense pressure to meet investors' expectations in terms of returns. The huge capital base has put downward pressure on ROAE (2004: 25.23%, 2006:15.58%) however some improvements are noticed in 2007 and 2008 when ROAE increased

to 17.82% and 16.15% respectively. Pre-tax Profit Margin also moved in tandem with ROAE, increasing to 26.02% in 2007 only after dipping to 20.77% in 2005. Due to the significant provision for bad loans by September 2009, industry ROAE fell to negative 161.73% - fig 8.

Fig. 9: Industry Return on Average Equity



Source: Companies' Reports, BGL Research

Table 6: Global Economic Bailouts and Dates

Country	Bail-out (US$billion)	Date of First Action
United State	1457.0	Sep-08
United Kingdom	950.0	Oct-08
Germany	658.0	Feb-09
China	560.0	Nov-08
France	500.0	Oct-08
Spain	134.0	Nov-08
Russia	130.0	Oct-08
South Korea	130.0	Nov-08
Norway	55.0	Dec-08
Japan	277.0	Oct-08
Portugal	112.0	Nov-08
Netherland	27.0	Dec-08
Australia	26.5	Dec-08
Canada	21.0	Oct-08
UAE	19.1	Nov-08
Singapore	13.6	Feb-09
India	20.0	Oct-08
Brazil	20.0	Nov-08
Iceland	6.0	Oct-08
Nigeria	4.3	Aug-09

Source: BGL Research

While the regulator was still suffering from the "hangover of the merry-making", the banks were getting involved in highly risky deals in order to meet short term profit targets. While the profitability reports were temporary and suspect, the regulator did not see the gambling especially when cash dividends were paid from bloated profits. 2009 might see the industry going toward negative ROAE.

The global financial meltdown and its effect on the financial markets worldwide revealed the rot in the nation's banking sector. While the country was still denying the possibility of being affected by the global financial turmoil, the capital market took the hit with its spiral-effect on the entire financial system. Rather than use financial bailout to help the financial system as was done in other countries worldwide (see Table 6), the CBN embarked upon other interventions to curb the crisis.

Regulatory Interventions to Address the Financial Crisis in Nigeria

After the initial denial about the severity of the financial crisis and its impact on the Nigerian financial system, the crash of the capital market and the credit squeeze due to weak financial system proved the policy makers wrong. Since September 2008, financial regulators in Nigeria started various reactionary measures to curb the financial crisis. The regulatory interventions were taken in two phases; the first was to stem market collapse while the second was to renew confidence in the financial sector.

The first policy reaction to the crisis by Nigeria was the reduction in transaction fees for capital market activities and the liquidity and cash reserve ratios of banks. The expansion of the discount window would follow later.

Phase 1 – Prevent Market Collapse

In their first reaction in September 2008, the capital market regulators introduced about 50% reduction in fees and taxes and also temporary reduced the price movement on the stock exchange to a daily floor of 1% from the usual 5%. The Central Bank of Nigeria reduced the Liquidity ratio and Cash Reserve ratio of banks from 40% and 4% to 30% and 2% respectively. The Monetary Policy Rate (MPR) was also reduced from 10.25% to 9.75%.

In October 2008, CBN moved to address the developments in the financial market and the liquidity crunch by expanding the tenor of repo instruments at the CBN window from 1-7 days to 1-360 days. The repo operations continued to be in Treasury Bills and government issued debt securities, providing counterparties the opportunity to obtain more stable funds from the window at rates determined by the Central Bank in view of prevailing market conditions. With the frustrating developments in the local financial system and a need to deepen the money and capital markets, the CBN decided to relax ownership rules of discount houses by expanding potential ownership to both individual and corporate interests. In addition, discount houses were allowed to undertake other financial services besides their principal role in the market subject to meeting risk-based supervisory requirements and the statutory capital as specified by the relevant regulators. This was aimed at boosting the activities of the discount houses to assist in the recovery of the capital market. Some observers believe that the rot in the banking system was actually discovered during the audit of the Discount Houses.

Again in October 2008, in a bid to ensure a robust operation of the discount window and in the process, provide effective and efficient guidance for the conduct of monetary operations, the Central Bank of Nigeria expanded its discount window operations.

The key elements of the Expanded Discount Window operations included:

- Provision of two categories of facilities, namely; the overnight standing facility and the fixed tenor repo;
- Increase in the tenor of borrowing from the window from overnight to 360 days and the acceptance of non-federal government securities as collateral.

- Widening of the base of the financial markets from which the instruments are drawn; and
- Broadening of financial innovations to support the operations of the Discount Window.

The Central Bank of Nigeria continued to implement open market operations as the primary means of effecting changes in the overall level of bank reserves and the interest rates in the inter-bank market; however the discount window was to serve as a supplementary adjustment mechanism, more importantly for institutions facing liquidity imbalances.

In December 2008, after a careful review of the developments in the foreign exchange market, the management of the Central Bank of Nigeria approved the reduction of the foreign exchange Net Open Position (NOP) of all banks from 20% to 10% of shareholders funds with effect from December 15, 2008. Also, in an attempt to provide oversight over money velocity in the country given the absence of a fool-proof means of personal identification and the need to ensure that money transfer operations in Nigeria are carried out in a transparent and safe manner, all International Money Transfer operators and their agent banks were required to put in place the following additional safeguards and communicate these to their customers:

i. Funds transferred shall only be collected in the designated town for payment and nowhere else;

ii. All the money transfer operators in Nigeria should introduce a second level in/code to be provided by the beneficiaries after confirming the availability of their transactions/funds before payment could be made;

iii. All the money transfer operators should ensure adequate information dissemination to enlighten the customers and the beneficiaries of the services; and

iv. Banks shall investigate customers' complaints within the shortest possible time before referring the beneficiary to the sender for onward complaint to the money transfer operator.

Analysts were delighted at the CBN's introduction of uniform accounting year-end for banks and discount houses in Nigeria.

In January 2009, the CBN further reduced the foreign exchange net open position of banks from 10% to 5% of shareholders funds with effect from January 19, 2009. The CBN reduced the MPR from 9.75% to 8% in March 2009 and also introduced a rate cap on lending and deposit placement in the banks: 22% and 15% respectively.

Phase 2: Renew Confidence in the Financial Sector

After the first phase of intervention aimed at preventing market collapse, the CBN moved to the second phase aimed at sanitising the banking sector and restoring the confidence of depositors, investors and creditors to the financial system. In June 2009, the CBN announced its decision to implement a December 31st uniform accounting year-end for all deposit money banks and discount houses in a bid to further enhance the level playing field in the post-consolidation era. All institutions

were advised to streamline the year ends of their subsidiaries with that of the parent company. Banks and discount houses were allowed a maximum accounting period of eighteen (18) months and a minimum accounting period of six (6) months as a full accounting year during this period of transition.

In order to bring down lending rates and stimulate economic growth, the CBN introduced guarantee for inter-bank placements in July 2009.

In July 2009, the CBN introduced guarantee for inter-bank placement and placements with banks by Pension Fund Administrators until 31st March 2010. The main objective of the Central Bank of Nigeria in its statement was to bring down lending rates and stimulate economic growth, urging banks to pass benefits of reduced funding costs to borrowing customers. In order to give effect to the decision, banks were advised to be guided as follows:

i. The pricing of the placements must reflect the credit enhancement provided by the guarantee. Thus, it is expected that overnight placements shall not be priced higher than MPR + 2%, while a maximum spread of 300, 400 and 500 basis points above the MPR shall be maintained for tenors up to 30, 60 and 90 days, respectively. Any placements priced outside these bands shall not be eligible under the programme;

ii. The guarantee shall be applicable to only inter-bank transactions by Nigerian banks that are denominated in the local currency;

iii. All transactions by banks in this regard shall be subject to the single obligor limits of the participating institutions. In other words, for the guarantee to be effective, the placement(s) by one institution with another shall not exceed its single obligor limit at any point in time;

iv. Placements by Pension Funds Administrators shall continue to be subject to the exposure limits set by the National Pension Commission (PENCOM), if any. To qualify under this arrangement, pricing must also be in line with (i) above;

v. The guarantee on all inter-bank placements that meet the above requirements shall be applicable to only those maturing not later than March 31, 2010, and it covers full payment of principal and accrued interest in the event of a default.

In a bid to inject additional liquidity into the system and deepen the inter-bank market with an outlook to correcting the disturbing trends in the market (especially the rising interest rate that has exerted upward pressure on lending rates in the economy), the CBN reviewed the guidelines for Repo transactions to allow FGN Bonds at CBN for tenors not exceeding 90 days and interbank guarantees to allow banks that have obtained funds from the CBN discount window to place such funds in the interbank market.

In a bold move, arguably unprecedented in banking history, the CBN removed the entire management of eight banks and injected a total of N620 billion.

In order to determine the extent of rot in the banking system in relation to the amount of non-performing loans, the CBN suspended the classification of Bankers Acceptances (BAs) and Commercial Papers (CPs) as off-balance sheet instruments. All maturing CPs and BA's were therefore to be either fully liquidated or treated as

on-balance sheet items. A stress-test exercise was then carried out on all the banks to determine their liquidity, capital adequacy and governance status.

The result of the audit exercise led to arguably the most audacious intervention by any country to resolve the financial crisis when the CBN removed the management of eight banks accusing them of acting in a manner that was detrimental to the interest of their depositors and creditors. CBN injected a total of N620 billion (US$4.3billion) as Convertible Tier II Debt into the eight banks and appointed interim managers and financial advisers for the banks.

Post-crisis Characteristics of the Banking Sector – Strength and Challenges

The Nigeria banking sector would see some changes in outlook and in strategy as the crisis abate. The key success factors, will include topical issues like "trust" as the main driver of business going forward. However, the strengths and challenges of the industry would remain relatively the same.

Strength of the Nigerian Banking Sector

Perhaps the most significant strength of the banking sector lies in its huge potential for growth. The banking statistics are still very low. Of the 145million people in Nigeria, banks have only 35million depositors including multiple account holders and students. This implies that less than 25% of the entire population are banked when taken individually. The number of bank depositors also amounted to about 70% of the working population indicating a high level of under-banked economy.

Table 7: Nigerian Banking Statistics, September 2009

Parameters	Figures as at September '09
Banks' Total Ass ets (Nbillion)	14,932.00
Number of Bank Branches	5,407
Number of Bank Shareholders	10,033,625
Number of Bank Depositors	34,553,000
Total Bank Deposits (Nbillion)	8,693.00
Total Bank Employees	85,591
Credit to Industrial Sector (Nbillion)	3,760.84
Credit to Agric Sector (Nbillion)	114.30
Credit to Communication Sector (Nbillion)	1,107.38
Banking Density	1:27,000

Source: Central Bank of Nigeria

In comparison with other countries, Nigeria's banking statistics are very low (Table 8). At US$108 billion, Nigeria's banks' assets are only bigger than that of Croatia (US$75 billion). Its population per bank is the highest at 6.17m while population per bank branch, at 27,372 is second only to Russia's 40,922; signifying a large unbanked/under-banked population. Banks' assets per capita, banks' loans per capita and deposits per capital are the lowest among the considered countries followed closely by India. However, Nigeria's ranking is close to those of the BRIC countries and South Africa.

Table 8: Comparisons with other Countries

Country	Banks	Branch offices	Staff	Total assets US$(bn)	Total Loans US$(bn)	Total Deposits US$(bn)	GDP 2008 US$(bn)	Population Million	Population per bank	Population per banks' branch	Banks' Assets per capita (US$)	Loans per capita US$	Deposits per capita (US$)
Developed Countries													
Switzerland	327.0	3,488.0	110,143.0	3,100.7	850.3	1,405.2	500.0	8.0	24,464.8	2,293.6	387,587.7	106,285.1	175,652.5
Denmark	154.0	1,879.0	46,844.0	1,265.9	775.9	286.8	340.0	6.0	38,961.0	3,193.2	210,981.1	129,322.6	47,798.3
United Kingdom	336.0	10,300.0	440,105.0	12,283.8	4,766.8	5,791.4	2,680.0	62.0	184,523.8	6,019.4	198,125.3	76,884.5	93,409.9
Netherlands	99.0	2,947.0	103.0	3,352.9	1,503.2	1,288.7	877.0	17.0	171,717.2	5,768.6	197,232.2	88,423.6	75,804.2
France	394.0	27,875.0	371,800.0	11,549.7	2,988.4	2,311.4	2,867.0	65.0	164,974.6	2,331.8	177,687.8	45,975.4	35,559.4
EU	7,162.0	221,759.0	2,952,302.0	61,999.8	25,705.2	22,853.2	18,388.0	423.2	59,082.7	1,908.2	146,519.7	60,747.4	54,007.2
Germany	2,169.0	39,565.0	675,000.0	11,840.6	4,841.8	4,601.8	3,673.0	82.0	37,805.4	2,072.5	144,397.9	59,046.2	56,119.0
Norway	145.0	1,330.0	20,281.0	587.3	393.6	234.5	451.0	5.0	34,482.8	3,759.4	117,461.8	78,718.2	46,898.6
Singapore	119.0	N/A	N/A	495.5	191.7	269.8	182.0	4.6	38,655.5	N/A	107,721.5	41,679.6	58,653.7
Australia	198.0	6,638.0	70,284.0	2,353.2	2,158.0	926.8	1,014.0	22.0	111,111.1	3,314.3	106,961.7	98,090.2	42,127.3
Spain	362.0	46,065.0	278,301.0	4,836.2	2,979.1	2,624.4	1,602.0	46.0	127,071.8	998.6	105,134.7	64,763.0	57,053.3
Sweden	118.0	1,987.0	40,929.0	867.0	344.9	269.4	479.0	9.0	76,271.2	4,529.4	96,333.0	38,321.6	29,933.5
Italy	799.0	34,146.0	338,589.0	5,532.1	2,967.2	2,024.2	2,314.0	60.0	75,093.9	1,757.2	92,202.3	49,452.5	33,736.2
Portugal	43.0	6,260.0	59,029.0	675.5	434.3	275.7	245.0	11.0	255,814.0	1,757.2	61,405.9	39,479.8	25,062.9
United States	8,195.0	100,000.0	2,030,000.0	13,301.5	7,625.2	9,020.6	14,441.0	308.0	37,583.9	3,080.0	43,186.5	24,757.1	29,287.7
Developing Countries													
Luxembourg	152.0	229.0	27,208.0	1,397.5	291.5	430.1	55.0	0.5	3,223.7	2,139.7	2,852,100.6	594,994.6	877,745.6
Ireland	82.0	1,205.0	41,000.0	2,137.0	999.1	463.1	268.0	5.0	60,975.6	4,149.4	427,400.7	199,815.5	92,613.0
Cyprus	163.0	922.0	12,461.0	174.1	81.7	84.0	25.0	0.8	4,846.6	856.8	220,339.5	103,380.9	106,343.3
Austria	867.0	4,251.0	68,950.0	1,604.2	651.7	492.5	415.0	8.0	9,227.2	1,881.9	200,524.2	81,459.0	61,558.8
Belgium	105.0	4,316.0	65,246.0	2,025.3	760.2	769.5	506.0	11.0	104,761.9	2,548.7	184,115.5	69,104.7	69,950.2
Finland	336.0	1,672.0	25,699.0	544.9	202.2	161.2	272.0	5.0	14,881.0	2,990.4	108,981.6	40,441.8	32,231.8
Greece	66.0	4,097.0	66,165.0	622.1	337.6	334.9	358.0	11.0	166,666.7	2,684.9	56,557.3	30,693.0	30,448.6
South Korea	37.0	4,164.0	N/A	1,622.4	915.2	821.7	929.0	48.0	1,297,297.3	11,527.4	33,800.9	19,065.7	17,119.0
Czech Republic	37.0	1,994.0	39,003.0	231.9	115.9	143.3	216.0	11.0	297,297.3	5,516.5	21,083.7	10,533.4	13,025.6
Croatia	33.0	1,252.0	21,576.0	75.6	50.3	50.5	69.0	4.0	121,212.1	3,194.9	18,904.7	12,573.4	12,635.1
Poland	649.0	14,698.0	181,295.0	373.5	213.4	177.6	528.0	38.0	58,551.6	2,585.4	9,829.1	5,616.4	4,674.7
Brazil	1,773.0	19,248.0	N/A	1,690.0	383.6	157.1	1,573.0	192.0	108,291.0	9,975.1	8,802.0	1,998.1	818.0
South Africa	35.0	N/A	N/A	368.3	314.4	322.1	277.0	49.0	1,400,000.0	N/A	7,515.3	6,417.2	6,572.5
Russia	1,058.0	3,470.0	N/A	1,014.4	719.8	531.5	1,677.0	142.0	134,215.5	40,922.2	7,143.9	5,069.3	3,742.9
Turkey	45.0	8,790.0	171,598.0	496.5	60.8	318.6	730.0	72.0	1,600,000.0	8,191.1	6,895.9	844.9	4,424.7
China	5,634.0	193,000.0	7,000,945.0	9,139.3	4,687.3	7,000.9	4,328.0	1,334.0	236,776.7	6,911.9	6,851.1	3,513.7	5,248.1
India	1,895.0	82,408.0	838,769.0	929.2	525.1	823.5	1,207.0	1,173.0	618,997.4	14,234.1	792.1	447.7	702.1
Nigeria	24.0	5,407.0	85,591.0	107.8	31.6	67.8	207.0	148.0	6,166,666.7	27,371.9	728.7	213.4	458.3

Source: CIA World Factbook, OECD, CBN, BGL Research

Challenges for the Nigerian Banking Sector

No doubt the banking industry in Nigeria is faced with daunting challenges that need to be tackled immediately. As there are challenges for operators so are there challenges for the regulators. For the regulators, the most important challenge is to get the banks to lend again after suffering untold losses due to the financial crisis. For the banks however, challenges are of infrastructure deficiency, unavailability of reliable social data, human capital deficiency, corporate governance and regulatory interventions.

Infrastructure Deficiency

Infrastructure deficiency is by far the most common challenge of every business venture in Nigeria. Epileptic power supply, unusable roads and other infrastructural problems continue to stifle bank's growth, negatively impacting profitability. Banks generate power individually at substantial costs (accounting for more than 60% of general and administrative expenses) and expend several man hours on tasks that could have been performed quite easily through technology. The aggressive pursuit of income to cover these preventable costs led to increased acquisition of troubled assets.

Unreliable Social Statistics

Using social data to devise marketing strategies has become an exercise in futility. Reliance on the population figure and its stratification gives different result on the field. Friedrich Schneider in 2002 used World Bank data to determine the size of the informal sector in Nigeria to be about 60% of the economy; hence banks' increasing focus on retail banking. The results have however not been encouraging enough to shift focus from corporate and commercial banking. Even the introduction of microfinance banks has not yielded significant results.

Infrastructure deficiency, unreliable social data and human capital deficiency are among the bane of the banks in Nigeria.

Human Capital Deficiency

The dearth of skilled staff in the Nigerian banking industry has been a topical issue since consolidation. Several banks have tried to solve this problem by recruiting Nigerian that schooled and trained abroad to fill strategic positions. The culture problem that this idea brought led these banks to alter this strategy slightly, focusing on applicants who were raised in Nigeria but went for further studies abroad. This did not yield better results. Capacity building is thus a very recurring challenge of the industry. However, industry operators are focusing on training staff for the required skills.

Corporate Governance

Perhaps the most important challenge to banks in Nigeria is corporate governance. Since consolidation, corporate governance challenges facing banks include technical incompetence of board and management, relationships among directors,

Perhaps the most important challenge to banks in Nigeria is corporate governance.

increased level of risks, ineffective integration of entities, insider-related lending, transparency and adequate disclosure of information and rendition of false returns among others. Despite the establishment of a code of corporate governance for the banks, they are still believed to be running foul of best practices.

Regulatory Interventions

Undoubtedly, a current issue facing the industry now is getting the banks to lend again.

Another important challenge is the spate of regulatory intervention in the industry. In many instances, rather than have coalesced regulatory policies for the banks, the regulator churns out several circulars on different issues which may contradict one another and allow loopholes in compliance. At times, lack of dynamic regulatory interventions leads to more problems for the industry. It is a widely held view that inadequate oversight post-consolidation added to the current crisis in the industry. It is believed that the magnitude of the financial losses would have been lower if the CBN had kept its search light on the banks' aggressive accretion in capital and risk asset creation, especially the use of depositors' money to buy own shares.

However, having taking action against the banks for recklessness in risk asset creation the regulators are now faced with the challenge of getting banks to lend again. Expectedly, all banks have cut down on lending while some have also cut down liability generation. The reason is obvious; more lending might lead to more non-performing loans and provisioning while more liability generation without any investment destination would lead to increase in cost of funds. The regulator and the federal government by extension now need to focus on encouraging bank lending.

Getting Banks to Lend Again

Undoubtedly an important issue facing the industry now is getting the banks to lend again. Interestingly, Nigeria is acting very much after several western countries have taken several steps to address the credit crunch. Therefore, learning from their respective experiences could help Nigeria to adopt the best approach or a mix of some approaches. The review of the approaches taken by different countries reflects the following:

One big lesson from Japan's experience in the 1990s is that Keynesian policy per se did not work for the financial crisis due to the collapse of asset prices.

Direct investments in banks may not work

One big lesson from Japan's experience in the 1990s is that Keynesian policy per se did not work for the financial crisis due to the collapse of asset prices. While Japan undertook huge fiscal stimulus packages repeatedly in the 1990s, the government did not pursue a serious policy effort to make banks dispose of their nonperforming loans. This experience was shared by the US in 2008 when, rather than buy up bad assets from the banks, government invested in them through several non-voting structures. The UK in its dealing with Northern Rock in 2007, took over the ownership of the bank with the bad assets. As a result, a huge amount of hidden non-performing loans swelled as the government battled to prevent systemic crisis. The essential problem was the spreading of payment uncertainty, and policies centred on public works and tax cuts in these countries were not direct enough to attack the problem, though they were temporarily effective at mitigating the severity of the economic downturn.

Developing countries that are considering economic bailout plans should ensure that monies are not just warehoused in banks but given out to circulate through the economy.

Debt restructuring, stringent asset valuation and sufficient write-offs are very necessary

Debt relief, rehabilitation of viable but debt-ridden firms and the liquidation of non-viable firms are crucially important to wipe out the payment uncertainty from the economy and restore market confidence. If non-viable firms continue in the market, uncertainty and business shrinkage will linger on. The idea of capital injections into banks is not enough; the banks should restructure existing debts and lend new monies to jump-start economic activities. Stringent and conservative valuation of the toxic assets should be the premise behind bank-capital injections and debt restructuring. Financial regulators should establish task forces for asset evaluation and push financial institutions to recalculate their asset values conservatively enough for the market to rely on their numbers.

The purchase and freezing of toxic assets is necessary to stop debt deflation. The public entities should then restructure the bad assets and sell them off gradually after the market stabilises.

Purchase of bad assets by public asset management companies may be the way to go

Freeing the balance sheet of banks of bad risk assets requires more than re-capitalising the banks. There is need to set-up asset management companies that will purchase the bad assets for subsequent disposal when the market stabilises. If bad assets are disposed of by distress selling in the market, stringent asset evaluation will result in a vicious cycle of debt deflation: distress selling causes asset prices to

decline further, which in turn accelerates the distress selling of assets.
In the Nigerian context, where there is no market structure in place for such products, additional efforts will be required to develop the market.

Need for reform of financial sector regulation

Even the most sophisticated regulatory framework now requires an overhaul. Each country should identify the drawbacks in the present regulatory regimes and indicate possible solutions.

By far the most contentious and most voluble issue triggered by the crisis is the flaw in the regulatory functions and architecture. Each country should identify the drawbacks in the present regulatory regimes and indicate possible solutions. For example, complex credit products should be properly regulated, appropriately priced and correctly reported. These should encompass among others all financial products and financial intermediaries.

Closely related to regulatory reform is the issue of risk management. The traditionally held belief that the probability of risk follows a normal distribution (the bell curve) is still valid, and our regulatory regime has continually focused on the higher probability portion of the distribution leaving out the low probability but high risk events that pose systemic risk. While, our regulators might be able to respond quickly to institutional failures, they do not appear to have competence in responding to systemic failures.
More robust regulatory regimes are required to deal with issues brought to the fore by the financial crisis.

Importance of Credit Bureaux

The presence of credit bureaux would help prevent debt layering and serial borrowing.

The implementation of appropriate policies to encourage the growth and usage of credit bureaux services will offer significant help to lenders; especially financial institutions to better evaluate the credit worthiness of prospective clients. While not de-emphasising the role of credit appraisal and due diligence; the existence of the credit bureaux should help lenders from dissipating energy on avoidable exercises. Credit bureaux help prevent debt layering and serial borrowing.

Conclusion: Getting banks to lend again

While it is agreed that banks in Nigeria need to start lending again, the approach to doing this is still a contentious issue. Several ideas to get banks to lend have been proposed. While some analysts suggest that government should take up equity first and then buy up toxic assets from the banks, others propose only the buying up of toxic assets through the Asset Management Company (AMC). Each of the approaches has issues that need to be addressed like the valuation method for the toxic assets and the number of banks in which government would take up equity; however the common opinion is that the financial bailout is not enough and therefore may not give the intended result.

Most industry observers agreed that the financial bailout is not enough; other actions need to follow to yield intended results.

Another commonly agreed upon issue is the reform of the regulator. The crisis was partly as a result of regulatory failings to detect the problem promptly and the lukewarm attitude it employed to address it when it was eventually discovered. The reform may include staff rationalisation, capacity building and the reform of banking regulations.

Key Success Factors in Nigerian Banking Sector

In its 2008 banking report, BGL opined that competition would continue to be intense in the industry going forward; operators need to be adequately prepared to be very competitive. We stated that the key success factors in the industry would include: Customer Service; Risk Management; Balance Sheet Size; Geographical Spread; Effective Cost Control Measures; and Competitive Strategy. In our review of the industry we also analyse some of the key success factors to determine their impact on the industry. However based on recent development, customer trust has become a very important success factor. Corporate Goverance and the ability to operate under strilter regulatory conditions are also very important.

Customer Trust

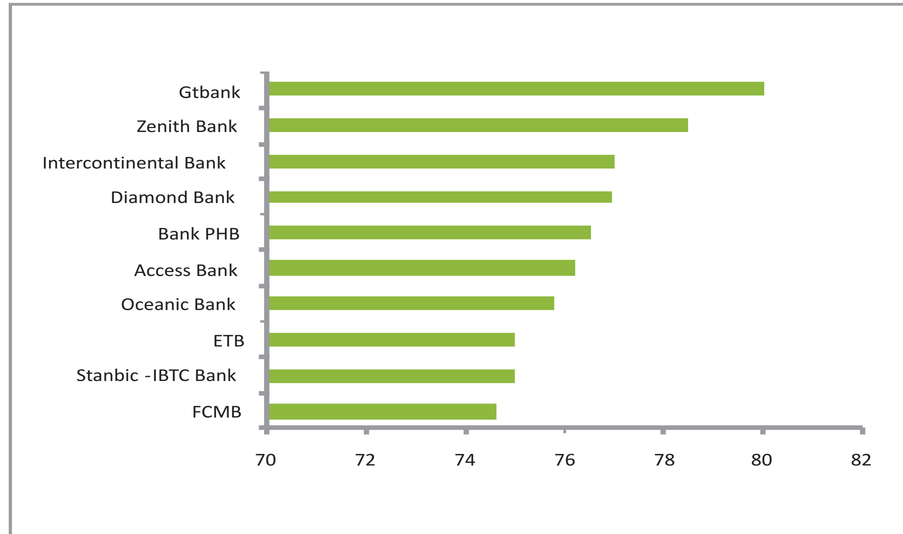
The revelation of the rot in the Nigerian banking sector has made existing and potential customers to be wary of banking relationships. Trust is at the core of every relationship. In the aftermath of the economic crisis, a common challenge in bringing business relationships out of the proverbial tank and back into the light is re-establishing a level of trust with the customers, employees, and shareholders. Trying to maximize a customer's value is roughly the equivalent of maximizing that customer's trust. And although trust is the welcome consequence of any success-ful customer relationship, it is not something to be taken for granted. At the core, it's about making offers that build trust, offers of stress-free service that really is stress free, offers of discounts that are actually discounts, offers of personal growth to employees that are made good. Each time bankers "make good" on a promise, trust is enhanced and deeper bonding occurs.

Customer Service

As customers become more aware of the importance of banks, there is an improve-ment in their attitude toward banking relationships; however at 34.56m (with several multiple accounts by individuals) the proportion of the bank depositors remains small. This is leading to very intense competition among banks to attract the discerning customers. An important competitive factor is customer service. The quicker a bank can deliver service to customers in a satisfactory manner, the more attracted customers will be to the bank.

According to a 2008 survey conducted by KPMG Nigeria, GT Bank, Zenith Bank and Diamond are the best rated banks in customer service both in retail and corporate. While GT Bank came top in retail customer service, Zenith Bank was the leader in corporate customer service. Intercontinental Bank, Bank PHB, Access Bank and Equitorial Trust Bank are among the ranking banks in retail customer service.

Fig. 10: Top Ten Customer Focused Banks: Retail



Source: KPMG Customer Survey, 2008

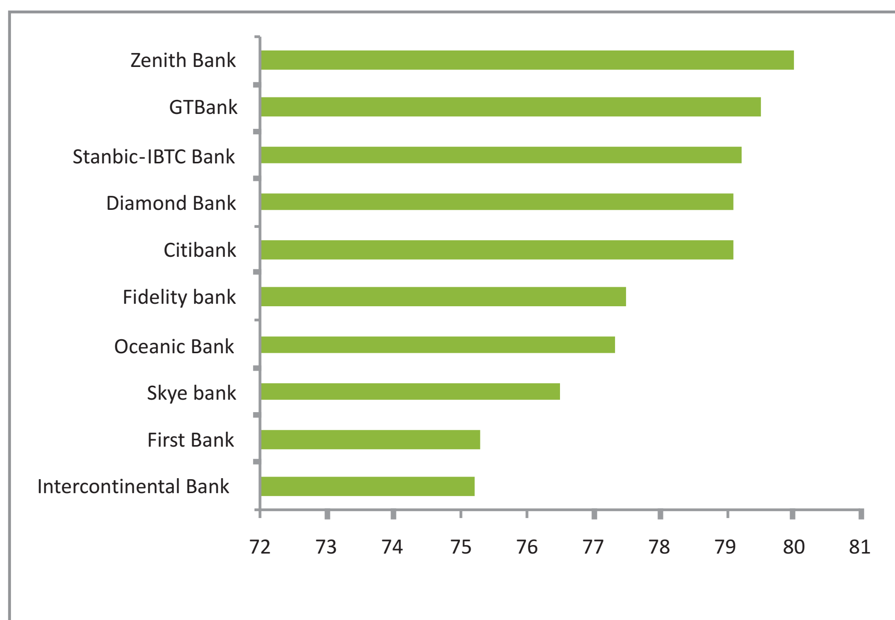
As the table below shows, for specific Customer Service Factors in retail banking, GT Bank was ahead of others in three categories while Diamond was first in one category. Zenith Bank followed GT Bank in the three categories.

Table 9: Ranking Banks by Customer Service Factors: Retail

Customer Service Factor (Retail)	1	2	3
Customer Care	GTBank	Zenith bank	Diamond Bank
Product/Service Offering	ETB	Bank PHB	Diamond Bank
Transaction Methods & Systems	GTBank	Zenith bank	Diamond Bank
Convenience	GTBank	Zenith bank	Intercontinental Bank
Pricing	Diamond Bank	GTBank	Bank PHB

Source: KPMG Customer Service Survey, 2008

Fig. 11: Top Ten Customer Focused Bank: Corporate



Source: KPMG Customer Service Survey, 2008

Zenith bank was rated best in two customer service factors and second in another two. GT Bank, Diamond Bank and Afribank were best in one factor each.

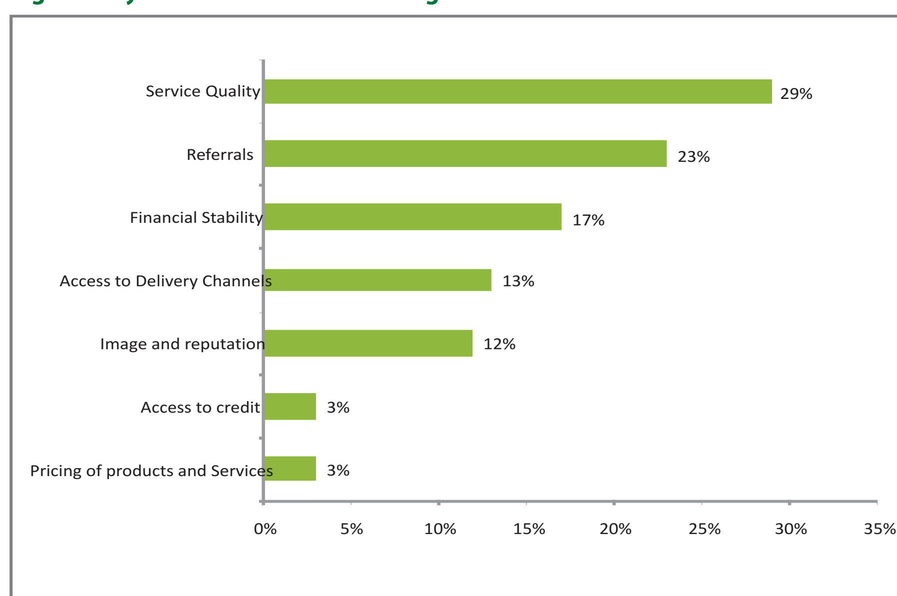
Table 10: Ranking Banks by Customer Service Factors: Corporate

Customer Service Factor (Corporate)	1	2	3
Customer Care	GTBank	Zenith Bank	Stanbic-IBTC Bank
Product/Service Offering	Diamond Bank	Zenith Bank	Citibank
Transaction Methods & Systems	Zenith Bank	GTBank	Diamond Bank
Convenience	Zenith Bank	GTBank	Diamond Bank
Pricing	AfriBank	Stanbic-IBTC Bank	Fidelity Bank

Source: KPMG Customer Service Survey, 2008

According to the survey, service quality was the most important factor considered by individuals and businesses in making a decision on the choice of banks. While financial stability; hitherto the most important factor was still considered important, it came in third after referral. The result justifies our earlier position that service is and will continue to be a key success factor in the banking industry.

Fig. 12: Key Consideration in Selecting a Bank



Source: KPMG Customer Service Survey, 2008

Risk Management

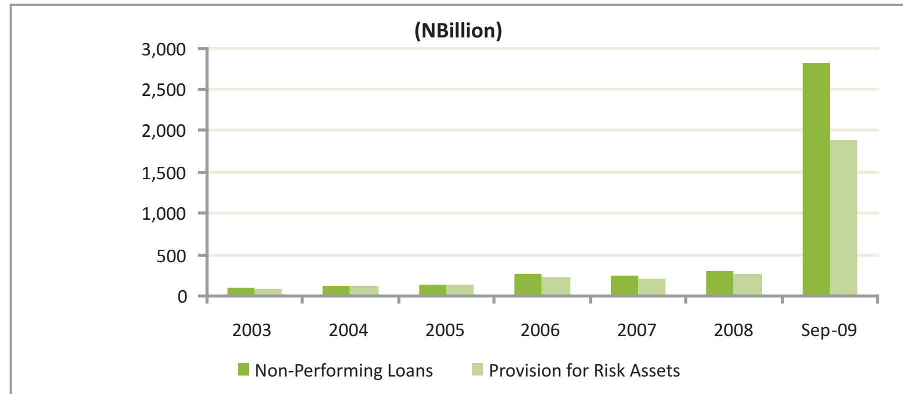
The aggressive accretion of capital means increased pressure for returns; hence banks need to invest in good quality risk assets to help profitability. The banks were therefore advised to develop strong and efficient risk management frameworks for their lending activities. The extent to which the advice was heeded reflected in the amount of non-performing loans created and the loan loss provisions made.

The regulator's stance on disclosure and adequate provisioning has seen provision for risk assets going up significantly.

The approach to banking reform taken by the new Governor of the Central Bank of Nigeria (CBN), Mallam Sanusi Lamido Sanusi has continued to put pressure on banks to make full provisions for their non-performing assets. The regulator's stance on

disclosure and adequate provisioning has seen provision for risk assets going up significantly to N1.89 trillion from N270.39 billion in 2008. Industry non-performing loans grew from N303.5 billion in 2008 to an estimated N2.82 trillion in 2009 as shown in Fig. 13 below.

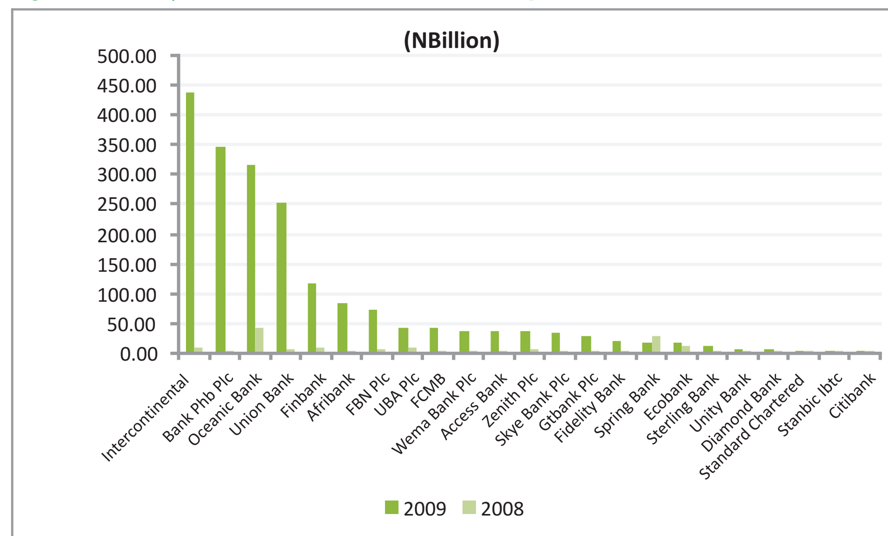
Fig. 13: Industry Non-Performing Loans and Provisions



Source: Companies' Reports, BGL Research

While the 10 banks that failed the CBN's stress test accounted for most of the provisioning (N1.63 trillion), other healthy banks made varying amounts of provisions for bad loans either as normal provisioning (usual in the line of business) or exceptional items (denoting the significant size of the amount). The amount varies from as low as N323.6m made by Citibank to a high of N73.99 billion made by Intercontinental Bank.

Fig. 14 Industry's Provision for Risk Assets – September 2009

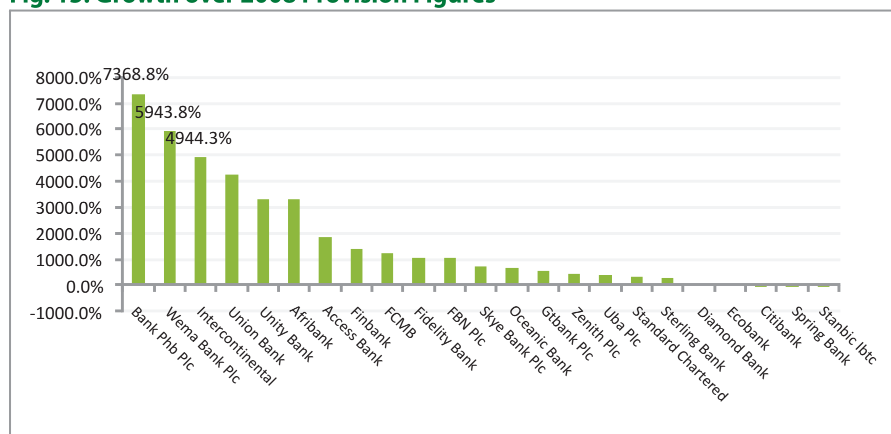


Source: Companies' Reports, BGL Research

Provisioning was at a significantly lower rate in the previous year. Total provisions were estimated at N270 billion in 2008, less than 15% of the current N1.89 trillion. However the ranking in 2008 showed Oceanic leading the pack with a significant provision of N42 billion while Unity Bank had a minimal provision of N225m.

As shown in Fig. 15, the 2009 provision amounted to a significant growth over the previous years especially for the troubled banks and some others like Access Bank and FCMB which did not have a history of huge provisions. Citibank, Spring Bank and Stanbic IBTC Bank had negative growth in provisioning.

Fig. 15: Growth over 2008 Provision Figures

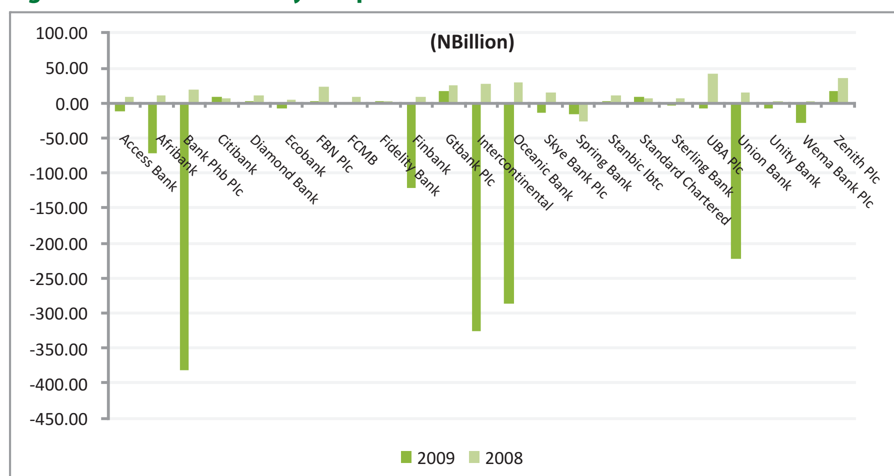


Source: Companies' Reports, BGL Research

The provisioning has caused a significant drop in profit of the banks as shown in their latest published results. Compared to the corresponding period, the Total Profits after Tax declined from N293.3 billion in 2008 to negative N1.45 trillion by September 2009. Bank's profits fell in varying degree with Bank PHB having the deepest and historical loss of N382.43 billion from a profit of N19.58 billion in 2008, representing over 2000% fall while Fidelity Bank has the least fall in profit of about 30%. Citibank and Standard Chartered Bank however grew profit by 61% and 27% respectively.

Compared to the corresponding period, the total profits after tax declined from N293.3billion in 2008 to negative N1.45trillion by September 2009.

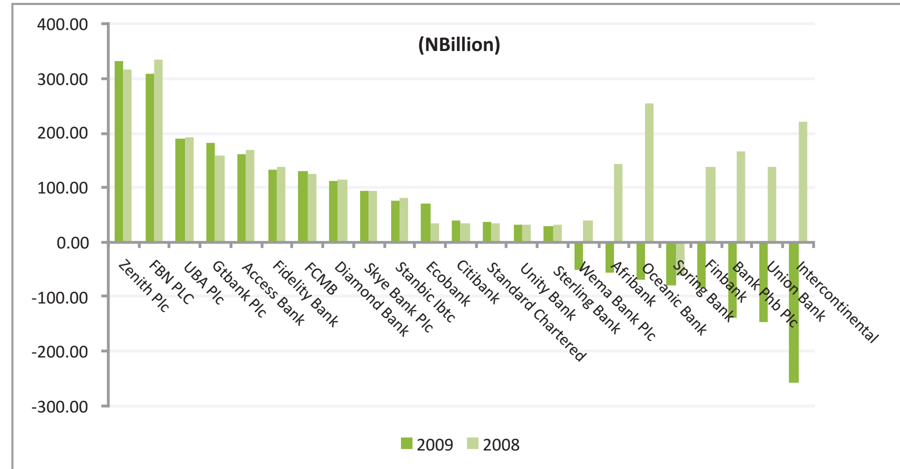
Fig. 16: Banks' Profitability – September 2009



Source: Companies' Reports, BGL Research

Shareholders' Funds have been haemorrhaged as a result of the provisioning, with total Shareholders' Funds declining significantly by about 182% from N2.93 trillion in September 2008 to N1.03 trillion in September 2009. Most banks' equities are loosing value due to the huge provisions – see fig. 17 below.

Fig. 17: Banks' Shareholders' Funds – September 2009



Source: Companies' Reports, BGL Research

We are positive that some good percentage of the provisions would be recovered before year-end in December 2009.

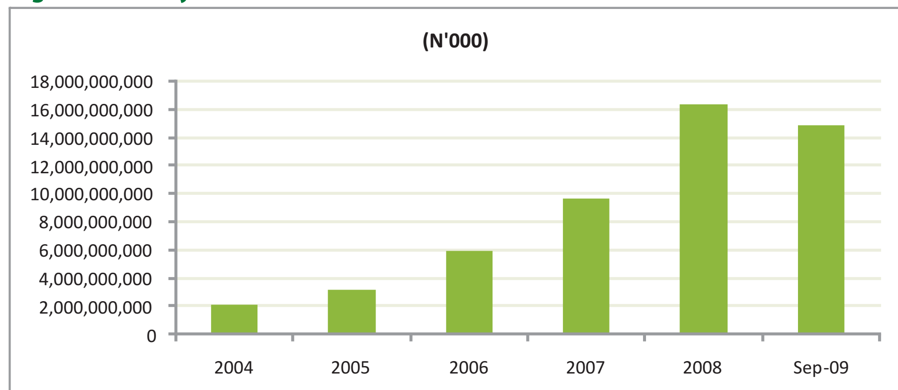
Making a projection of the 2009 year-end performance of banks may be uncertain for now, but we have been able to establish that lax risk management framework has cost the banks a fortune in provisioning. We are positive that a relevant portion of the provisions would be recovered before the year-end in December 2009. Further recovery would go into the next financial year when a significant portion of the provisions should be recovered subject to continued efforts on loan recovery by the concerned banks and the regulatory bodies. By the end of September 2009, about N170 billion had been recovered out of the N2.8 trillion total non-performing loans in the banks; representing 6.01%.

Balance Sheet Size

Size has become a very important factor in the banking industry. It is presumed that with comfortable balance sheets, banks would be able to handle large ticket transactions. Backed by banks, the private sector is expected to run the economy in the very near future, providing basic infrastructure needs. We have started to see banks coming together to finance developmental projects around the nation. The new local airport in Lagos quickly comes to mind when discussing banks developmental projects. Some banks have also been involved in financing independent power projects and the concession of some roads such as the Lekki-Epe express Lagos-Ibadan and the proposed shagamu - Benune express and 12 others accross the country, has just open banks to more of such transactions.

There will be need to build up size through further consolidation, M&A, globalisation, etc.

Fig. 18: Industry Total Assets



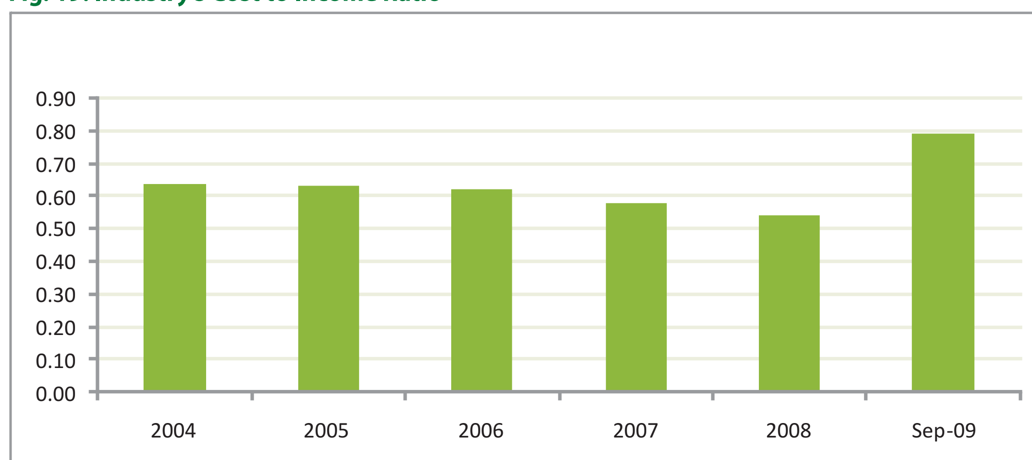
Source: Companies' Annual Reports, BGL Research

The size of bank's balance sheet in Nigeria is definitely not adequate to support the financing of anticipated infrastructured transaction for the expected transactions. There will be need to build up size through further consolidation, M&A, globalisation etc. The need to court foreign investment or online lending facilities cannot be over-emphasised.

Effective Cost Control Measures

As much as banks need to improve their earnings, a conscious check on rising costs of operation is vital. After bringing the cost to income ratio down considerably immediately after consolidation from a historical high of 0.64 in 2004 to 0.54 in 2008, the September 2009 results reveal Nigerian banks are back up to a high of 0.76 (Fig 19).

Fig. 19: Industry's Cost to Income Ratio



Source: Companies' Annual Reports, BGL Research

This trend was experienced by most banks in the industry with the exception of Citibank and Standard Chartered who saw their ratio come down further to 0.28 and 0.34 in 2009 from 0.37 and 0.39 in 2008 respectively and GT Bank which maintained a stable ratio of 0.47. The implication of this development is that banks in Nigeria need to improve on cost management in order to boost returns.

Geographical Spread

Based on the social data which put the size of the informal sector at over 60% of the economy, most Nigerian banks have adopted the retail strategy as a means of capturing large market share. According to the data, majority of the informal sector participants are either under-banked or not banked at all. Banks have therefore resolved to take services to the under-banked and provide all bankable services to the segment. The obvious approach to servicing this segment is through a large branch network to cover a wide part of the nation. Banks have grown their networks from about 4,329 in 2008 to about 4,745 in September 2009 with a possibility of reaching 5,000 by early 2010.

The obvious approach to servicing the retail segment is through large branch networks to cover a wide part of the nation.

The branch network for most banks is spread across all geo-political zones of the country, with the heaviest presence in Lagos as shown in Table 11 below.

Table 11: Banks' Branch Network by Region – September 2009

Banks	Branches							
	Lagos Zone	FCT	North East	North Central	North West	South East	South South	South West
Access Bank	36	5	5	8	5	8	13	6
AfriBank	45	11	20	21	28	30	41	30
Bank PHB	23	10	1	8	8	9	16	6
Citibank	4	1	0	0	1	1	3	0
Diamond Bank	71	17	9	17	16	32	26	13
EcoBank	61	19	7	5	22	39	60	16
Equitorial Trust Bank	38	15	4	5	5	7	17	10
FCMB Group	53	5	8	7	11	12	27	22
Fidelity Bank	52	7	5	5	9	28	25	5
First Bank	111	21	48	57	49	75	92	70
FinBank	36	16	7	9	20	18	24	9
GT Bank	57	11	9	11	17	16	19	20
Intercontinental Bank	93	21	13	15	37	40	41	38
Oceanic Bank	100	31	10	21	29	31	44	21
Skye Bank	84	13	7	10	17	19	30	68
Spring Bank	62	4	3	3	8	33	23	37
Stanbic IBTC	26	4	3	4	6	6	9	6
Standard Chartered	11	2	0	0	1	1	2	2
Sterling Bank	45	6	2	2	12	7	11	8
UBA Plc	166	21	32	52	44	73	94	54
Union Bank	74	10	40	42	43	46	48	42
Unity Bank	33	16	22	37	65	4	31	10
Wema Bank	48	5	3	4	6	4	12	62
Zenith Bank	120	28	12	18	19	28	42	16

Source: Banks' websites, BGL Research

Ten banks accounted for over 65% of the total branch network of which UBA Plc, First Bank Plc and Union Bank Plc are the most prominent. The banks also deploy the services of Automatic Teller Machines (ATMs) to cover some places where branches alone are not sufficient to attend to customers. Over 3,800 ATMs have been deployed across the country with ten banks accounting for about 80%. Oceanic Bank Plc, First Bank Plc, UBA Plc and Zenith Bank Plc have the most ATMs in Nigeria – see Table 12.

Table 12: Banks' ATMs by Region – September 2009

Banks	ATMs							
	Lagos Zone	FCT	North East	North Central	North West	South East	South South	South West
Access Bank	102	8	5	6	5	6	22	6
AfriBank	8	3	0	0	1	0	4	1
Bank PHB	40	13	2	7	10	11	24	5
Citibank	0	0	0	0	0	0	0	0
Diamond Bank	57	11	8	16	13	21	19	11
EcoBank	52	15	1	4	6	12	39	6
Equitorial Trust Bank	10	6	0	0	1	1	1	3
FCMB Group	31	1	2	3	3	8	10	9
Fidelity Bank	113	3	0	0	0	0	3	0
First Bank	183	23	24	33	32	86	95	71
FinBank	33	11	9	10	19	15	24	9
GT Bank	85	17	13	21	12	22	22	25
Intercontinental Bank	95	23	14	21	41	52	44	49
Oceanic Bank	177	3	32	40	64	58	103	80
Skye Bank	40	3	0	1	1	1	4	6
Spring Bank	0	0	0	0	0	0	0	0
Stanbic IBTC	31	6	5	0	6	4	7	9
Standard Chartered	13	5	0	0	0	0	4	0
Sterling Bank	24	8	2	2	9	5	13	9
UBA Plc	122	53	25	42	48	48	70	40
Union Bank	53	18	2	10	11	30	28	19
Unity Bank	0	0	0	0	0	0	0	0
Wema Bank	14	4	0	3	1	0	4	14
Zenith Bank	146	43	14	18	16	40	63	33

Source: Banks' website, BGL Research

Key Risks for Nigerian Banks

Banks in Nigeria face a unique set of risks in their business ventures. These risks put significant pressure on returns and industry growth. Identified risks for banks in Nigeria include risks of competition, credit default, risk political and regulatory risk, infrastructure chanllenge and acquisition risk.

Stiff competition was putting serious pressure on interest rate on deposits.

Competition Risk

The Nigerian banking sector has witnessed accelerated growth stimulated by the regulatory induced re-capitalisation of 2006. One of the most visible impacts of increased competition amongst banks is the growing intensity of advert campaigns on the media. In 2008, the 23 banks alone, accounted for 36% of total advert expenditure on print media in Nigeria. This has also intensified competition in the banking space with deposit mobilisation most affected. This put pressure on interest rate on deposits, as a result of which the CBN placed a 15% cap on deposit interest rate in March 2009.

Credit Default Risk

Nigeria's growing consumer credit business is threatened by factors such as a credible credit database, high interest rates, rising inflation and slower economic growth. Repayments of consumer credit which are often tied to remunerations from paid employments are being challenged due to growing job losses. Most banks have experienced considerable growth in consumer credit loan portfolio (to about 15% from an average of 13% in 2008) of Total Loan Portfolio (TLP); However default rates on these loans has increased to about 4.8% (from about 1.5% in 2008). The weaker credit environment could increase the rate of default. There is a need to adopt a proactive risk management approach.

Weak credit environment could increase the rate of customer defaults.

Political and Regulatory Risk

Regulatory oversight in Nigeria's financial sector has often been characterised by a flip-flop approach to policy formulation. Regulatory pronouncements are subject to sudden volte-face that places the strategic plans of industry players at risk of abandonment. This regulatory approach as well as the associated political risk often leads to a lower country rating. Credit lines to Nigerian banks by foreign banks are often at the receiving end of such negative ratings.

Credit lines to Nigerian banks by foreign banks are often at the receiving end of negative country ratings.

Macroeconomic and Infrastructure Risk

Nigeria's economic growth is largely dependent on the revenues from crude oil. With the drop in crude oil earnings and the attendant liquidity squeeze, the bank's earnings may fluctuate. Nigeria's poor and abysmal state of infrastructure has had dire effects on the macro economy. Banks like other businesses in Nigeria, will continue to bear the cost burden of providing its own infrastructural framework. However, the plausible positive conclusion of the Niger-Delta amnesty programme

The current price regime makes the banks an attractive bargain for new take-over bids and acquisitions.

could lead to increase in oil production and consequently an improvement in oil revenues assuming oil prices remain at current levels which will ease the liquidity contraction.

Acquisition Risks

The capital market meltdown in Nigeria, well into its 20th month has occasioned stocks to trade at historical lows. Most banks stocks currently trade at below book value and at a price multiple of less than 5 times. The current price regime makes the banks an attractive bargain for new take-over bids and acquisitions.

Investment Opportunities: their Drivers and Competitive Positioning

Nigerian banks have suffered record losses from the current financial crisis. According to the CBN, a significant portion of the losses arise from exposures to the capital market and oil and gas sectors. Nevertheless, there are still opportunities in these sectors for the banks to recoup some of the losses. In addition to these sectors, other sectors with huge opportunities for banks are:

Energy

Plans are underway for huge investment in the nation's power sector.

The Nigerian energy sector remains synonymous with inadequate power generation capacity (presently below 3000MW) due to non upgrade/maintenance of facilities and shortage of gas supply, and retention of ownership of petroleum refineries by the Federal Government despite current inefficiencies. Following the Federal Government's target of 6000MW by 2009 and 10000MW by 2010, plans are underway for huge investment in the nation's power sector. The planned deregulation of the oil and gas sector is also opening up space for private sector participation in petroleum refineries. Investors expect a conducive business environment, enabled by a clear legal framework (defining investors' rights & obligations) and an unambiguous policy framework from the government. They also require a vibrant economy and reputable off-takers, sustainable cash-flows, adequate tariffs, deployment of appropriate and well adapted technology, transparency and provision of enabling environment and regulators' independence and the availability of long term financing. Promoters look to the banks to provide some of the financing in seed form before approaching the capital market for longer tenured funds.

Real Estate

All observers of Nigeria's burgeoning urban real estate market unanimously project strong outlook in both size and sophistication.

The current development in the financial terrain of the country has once again proved that there is better value locked up in tangible long term assets rather than short term "volatile" assets.

Rather than the over-concentration of risk asset exposures to the volatile oil and gas and financial market sectors, a balanced portfolio (including an aggressive exposure to the real estate sector) would have presented a different picture for some of the banks. Whilst some analysts would argue that the current global financial crisis was directly precipitated by mortgage-linked credit meltdowns in the U.S, all observers of Nigeria's burgeoning urban real estate market unanimously project strong outlook in both size and sophistication. Properly valued real estate properties would have served as adequate collateral. In addition, the possibility of transferring the default risk to other investors through mortgaged backed securities (MBS) would have also prevented the turn of events in these banks. Therefore, even as the largest and most labyrinthine market for mortgage products suffers painful reverses, our uncorrelated market is at the brink of unprecedented take off.

Nigeria's housing deficit is so high that it would require the entire federal budget compounded for over 15 years to bridge. Estimated at between 12million and 14million housing units, with an upper end unit price of N5million, the cost of this deficit is put at between N20 trillion and N30trillion. To meet the housing needs of Nigerians, therefore, the sector has to witness huge levels of investment in the next few years. The basic needs of the market are affordable modern houses; hence the requirements of the market are low-income and mid-tier houses and not premium houses. The yearnings of the middle class include development of well constructed modern estates in choice locations around the country. In addition to property development, enormous opportunities exist in mortgage financing in Nigeria. However, the structure of the required financing need not be through provision of funds for purchase but through sale of houses based on instalmental repayments.

Agriculture

Agriculture is and will remain an important and vital sector of the economy. The agriculture sector in the future will be called upon to supply more food to a growing and more prosperous population and to be a foreign exchange earner. At current growth rates of 3.2% p.a., the population will grow to about 250m from the present population of 140m by 2020, with a corresponding increase in food demand. Currently, Nigeria's imported food accounts for about 13% of the total value of imports. Food imports since 1990 have increased at a yearly average of 13%.

Currently, Nigeria's imported food accounts for about 13% of the total value of imports. Food imports since 1990 have increased at a yearly average of 13%.

On the supply side, Nigerian agriculture has experienced growth in production of primary cereal and tuber crops. However, the growth in yield since 1990 has been either very low or negative. This means that most of the increase in production is coming from increases in land area cultivated for crop production and increases in yield. Nigeria has not embraced science-based agriculture and the use of fertiliser, improved seeds, and crop protection products. Land expansion is limited and without science-based agricultural inputs, agricultural production will decline. Nigeria, therefore, needs policies that encourage an agriculture sector that has a high investment/high growth rate. A key element of this strategy is an efficient and well functioning agricultural inputs market making use of the complementarities among fertiliser, improved seeds, and crop protection products.

Several opportunities abound in the industry; from fertiliser production to food processing, sugar refining, industrial starch production and cassava and wheat farming. Livestock farming including fisheries are very profitable.

Solid Minerals

Since solid minerals are synonymous to crude oil, the sector has the potential to out-perform the oil industry in revenue contribution to GDP.

Prior to the emergence of the petroleum industry, solid minerals was one of the key sectors of Nigeria's economy, largely sustaining the economy before the nation was afflicted with the Dutch Disease of mono-product dependency spanning about four decades. Since solid minerals are synonymous to crude oil, the sector has the potential to out-perform the oil industry in revenue contribution to GDP. With more than 34 mineral resources spread over 450 locations across the country, the sector is equipped to take the country out of the over-dependence on crude oil. Major mineral deposits include gold, iron ore, coal, bitumen, tin and gemstones.

Construction

Nigeria's construction industry has witnessed a lot of pitfalls, and continues to fail to give Nigerians reliable structures that will stand the test of time. These pitfalls include collapsing dams and bridges, deteriorating road conditions, dilapidating multi-storey structures leading to wastage of scarce resources and sometimes loss of lives. Although, the Murital Muhammed Airport 2 is an example of adapatance from the general experience of the industry the construction industry operatives continue to grope for hitherto anticipated benefits of banking sector reform. Consolidation brought hopes of stronger financial institutions which would possess a huge pool of credit available for lending to local contractors and investors. Contractors, however, speak of factors such as poor institutional framework, synergy problems resulting from mergers, stringent regulatory laws and poor implementation strategies for guaranteeing the effective monitoring of the reforms as persistent deterrents to proper funding from the banking sector.

Construction industry operatives continue to grope for hitherto anticipated benefits of banking sector reform.

The present focus of the federal government on road construction through concession has opened up opportunity for private sector participation. These concessionaires would require financing which some banks are already planning to provide through the issuance of bonds.

Capital Market

Despite huge losses from the capital market, the sector still portends great investment opportunities for discerning investors. While the losses experienced in the equity market might be a disincentive for several people, the bond market has flourished even during the financial meltdown. In addition, it should be noted that the current low equity prices present a very attractive investment opportunity. A case in hand is that of Goldman Sachs (GS) whose profit from trading surpassed analyst forecast by more than 20% and accounted for about 70% of its earnings. The Nigeria equity market method over 50% growth from a low of 19,803.60 on March 26, 2009 to 30,924.97 on 2nd June, 2009. The market has also experienced more than 10% growth since 1st January, 2010, hence active capital market operators are expected to record good result from trading.

Goldman Sachs' (GS) profit from trading surpassed analyst forecast by more than 20% and accounted for about 70% of earnings.

The investment opportunities are those available in build an investment case on the performance (projected) of Nigeria equities, not on GS's performance in foreign markets which could be attributed to any number of factors.

Company Profiles - Group A

- Access Bank Plc
- Citibank Limited
- Diamond Bank Plc
- Ecobank Nigeria Plc
- Fidelity Bank Plc
- First Bank of Nigeria Plc
- First City Monument Bank Plc
- Guaranty Trust Bank Plc
- Skye Bank Plc
- Stanbic IBTC Bank Plc
- Standard Chartered Bank Plc
- Sterling Bank Plc
- United Bank for Africa
- Zenith Bank Plc

Access Bank Plc

Summary and Investment Case

- **Licensed as a commercial bank by the Central Bank of Nigeria**
  Access Bank Plc was incorporated in 1989 as a private limited liability company and got listed on the Nigerian Stock Exchange in 1998. Access Bank is a full service commercial bank with a network of over 100 branches and service outlets. In 2005, it acquired Marina Bank and Capital Bank (the former Commercial Bank (Credit Lyonnais Nigeria).

- **…took the bull by the horn through recapitalisatio**n
  In 2002, the bank was fully recapitalized and came under its current leadership through a Management-Buy-In. Based on the 341% oversubscription of the bank's offer in 2007, the shareholders at its 18th Annual General Meeting (AGM) passed a resolution to transfer the sum of N10 billion from its share premium account to the statutory reserve account. With this financial muscle, the bank promises to deliver on its plan to develop a strong retail franchise and become one of the most aggressive competitors for low-cost deposits from retail customers.

- **Expansion drive…**
  Access Bank began an international expansion drive in 2007 with an approved budget of US$175m and as at May 2009, had subsidiaries in Burundi, the Democratic Republic of the Congo, The Gambia, Ivory Coast, Rwanda, Sierra Leone, United Kingdom, and Zambia. This strategy is aimed at making Access Bank the leading commercial bank in Africa by 2012.

- **International partnership…**
  IFC provided a US$15m loan in June 2006 to Access Bank Plc, one of the first banks in Africa to dedicate lines of credit to finance women-owned businesses. At that time, Access Bank also became the first bank in Nigeria to be admitted to the Global Banking Alliance for Women, a consortium of best practice banks that leverage the women's market for profit as well as social good. The bank entered into partnership with ING Group, Netherlands, one of the world's largest financial services groups, on the development of a world-class retail banking system in Nigeria. ING Directing Group is active in the fields of banking, insurance and wealth and asset management.

In its desire to bring world-class banking to customers, the bank has established strong partnerships with leading international development finance and multilateral institutions to facilitate access to medium – long term financing, primarily by the SME sector of the economy. It is one of the few banks in the country that have facilities with the Dutch multilateral agency, de Nederlandse Financierings

Table 13: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	10.88
Current Price (N)	9.60
PE	-312.82
EPS (N)	-0.02
Projected EPS	0.33
Projected PE	18.49
Projected DPS	0.08
Projected Dividend Yield	0.83%
Outstanding Shares	16,437,259,273

Source: BGL Research Estimates

Table 14: Forecast Valuation

	2010	2011
ROCE	16.38%	21.13%
ROAE	11.56%	14.85%
PE	4.88	3.55
EPS (N)	1.25	1.72
DPS (N)	0.69	0.95
Price (Forward PE Model)	10.22	14.10
Price (DDM)	10.88	15.34
Price (Gordon Growth)	29.48	14.10
Price (DCF)	34.45	19.28

Source: BGL Research Estimates

Maatschappij voor Ontwikkelingslanden N.V ("FMO"). Access Bank is also one of the select groups of Nigerian banks with collaborative relationships with international finance agencies such as African Export-Import (AFREXIM) Bank, US EXIM, and European Investment Bank ('EIB').

- **Loan portfolio… margin loan still high**
  Margin loans on its books totalled N33.4 billion of loan facilities as at the end of March 2009. The amount, which represents 8.5% of the bank's total loans, was given to financial institutions, corporations, and individuals for the sole purpose of acquiring shares. A total of N2.57 billion was non-performing as at year end and adequate provision has been made for the non-performing margin loans. Further amount became non-performing in the following months which then provided for in line with the new CBN approach to disclosure. A total provision of N35.67billion has been made up to September 2009.

- **Liquidity will improve if…**
  Institutional banking contributes 45% of its total profit. It is expected that institutional banking will continue to contribute majorly to the liquidity of the company. There are also huge potentials in retail banking which is expected to boost its liquidity within the short to medium term.

- **Repositioning to be a leading commercial bank**
  Access Bank initiated a change in the style of financial reporting in Nigeria's banking sector with the adoption of IFRS for its 2008/09 result. The Bank has demonstrated continued commitment to best practice by focusing on key areas of: corporate governance, risk management, margin loan disclosure, and has a reporting style similar to that of global financial brands. Between December 2008 and March 31st 2009, the bank paid down US$1.1 billion of its foreign currency trade facilities through internally generated liquidity from its regular deposit generation activities.

Structure of Business

The bank has expanded operations to at least eight countries and increased its presence in most major cities of Nigeria, which has contributed to its income earning capability. Consequently, income from commercial banking services and products grew 43%, from N4.9 billion in 2008 to N7.0 billion in 2009.
In addition, Access Bank has expanded beyond commercial banking into complementary non-bank financial services, operating in the investment banking and real estate sectors.

Table 15: Access Bank's subsidiaries

Banking Subsidiaries
Access Bank Cote D'ivoire
Democratic Republic Of Congo
Access Bank Gambia
Access Bank (Rwanda) Sa
Access Bank Sierra Leone
Access Bank Zambia

Access Bank Ghana
Access Bank United Kingdom
Non- Banking Subsidiaries
Access Homes And Mortgages Limited
Access Investment And Securities Limited
United Securities Limited

Sources: Company's Annual Report 2009

Key Strengths

- **Good board and Management team:** Members of the management team are strategic thinkers, have diverse backgrounds and combine business insight with technical savvy. The board comprises of 14 members of which majority are non-executive directors of independent status and a wealth of experience in various key sectors of the economy.

- **Strong in Institutional banking:** The institutional banking division contributed 45% to the total profit of the bank, participating in various capital raising exercises and executing a number of landmark deals which include the syndication of a US$1.278 billion note issuance for Dangote Group- Ibese/Sagamu syndication.

- Strong market perception as one of the leading brands in the banking sector.

Key Weaknesses

- **Slow to unwind its retail strategy:** Access Bank appears to be slow to unwind its retail strategy especially as it concerns non-cash transaction opportunities such as Debit/Credit Cards using ATM machines as a result of risk exposure. This has weakened the growth and competitiveness of Access bank in the banking sector.
- **Access bank is not perceived as big** (balance sheet size, customer base, year of incorporation) relative to top banks in the industry.

Strategy

The bank has identified key business objectives for the next three years of operations that will drive the organic growth strategy. The bank growths strategy includes:

- Started the implementation of various cost management initiatives, which resulted in a 5% fall in operating expenses between Q4, 2008 and Q1, 2009

- Engaged the services of Oliver Wyman in developing a lean and agile growth strategy focused on strategic cost management and revenue enhancement

- Limited exposure to public sector

- The bank plans to be a dominant force in deploying cash management solutions to top tier corporate bodies with strong linkage with its retail customer base

With its efforts to increase its financial base, Access Bank has been at the forefront of economic diplomacy, cultivating strategic relationships with key international financial institutions.

Ownership Structure

United Alliance Limited (Aigboje Aig-Imoukuede and Herbert Wigwe) is the largest shareholder of the bank, holding more than 5% of the issued share capital as at 31 March, 2009.

Table 16: Access Bank's Shareholder Structure

Shareholder	% Held
United Alliance Limited	9.95%
Access Bank Staff Investment Trust Scheme	6.70%
De Nederlandse Financierings Maatschappij voor Ontwikkelingsden	3.58%
Others	79.77%

Source: Access Bank Offer Prospectus of 2007 & Annual Reports, 2009

Financial Performance

Access Bank recorded Gross Earnings of N109.34 billion in 2009 representing an increase of 88.52% from 2008. Gross Earnings also reflect a 5-year CAGR of 81.74%, from N5.515 billion to N109.34 billion between 2004 and 2009.

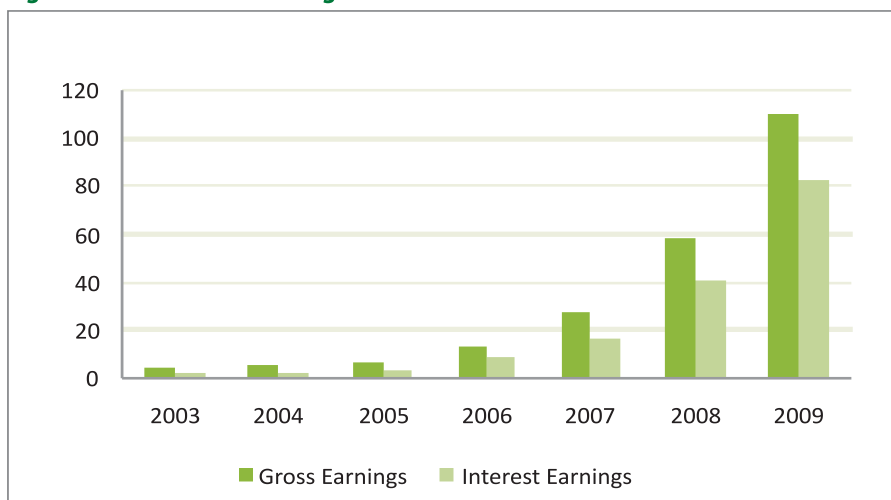
However, the bank needs to address the challenge of the relative decline in its net profit margins and pre-tax profit margins ratios which indicate a decline from 32.82% in 2008 to 24.12% in 2009 and 27.33% in 2008 to 24.12% in 2009 respectively. This drop could be attributed to a 165.53% rise in staff costs from N4.12 billion in 2008 to N10.94 billion in 2009, a 60.06% rise in other operating costs from N14.12 billion the previous year to N22.60 billion in 2009 and 116.41% growth in provisions for bad and doubtful assets in 2009.

Profit Before Tax increased by 38.55% from N19.04 billion in 2008 to N26.38 billion in 2009 while profit after tax (PAT) increased by 31.29% to N20.81 billion in 2009 from N15.85 billion in 2009. The five year PAT growth of N637.47m in 2004 to N20.81 billion in 2009 reflects an annual compounded rate of 100.80%.

Loans and Advances increased by 60% to N391.7 billion in 2009 from N244.6 billion in 2008, while the non-performing loan ratio dropped from 3.7% in 2008 to 2.2% in 2009. Bank Deposits and other accounts moved up by 15% from N351.8 billion in 2008 to N405.7 billion in 2009.

In terms of total assets and total deposits, Access Bank has grown tremendously over the past five years. Total Assets grew with a 5-year CAGR of 84.77% from N31.34 billion in 2004 to N675 billion in 2009, while Total Deposits grew from N22.72 billion to N405.70 billion over the same period, a 5-year CAGR of 77.98%. In 2009, the bank's Total Assets decreased by 35% to N676 billion, from N1.032 trillion in 2008. Access Bank's Shareholders' Funds grew 7% to N184.9 billion, against N172 billion in March 2008.

Fig. 20: Access Bank's Earnings



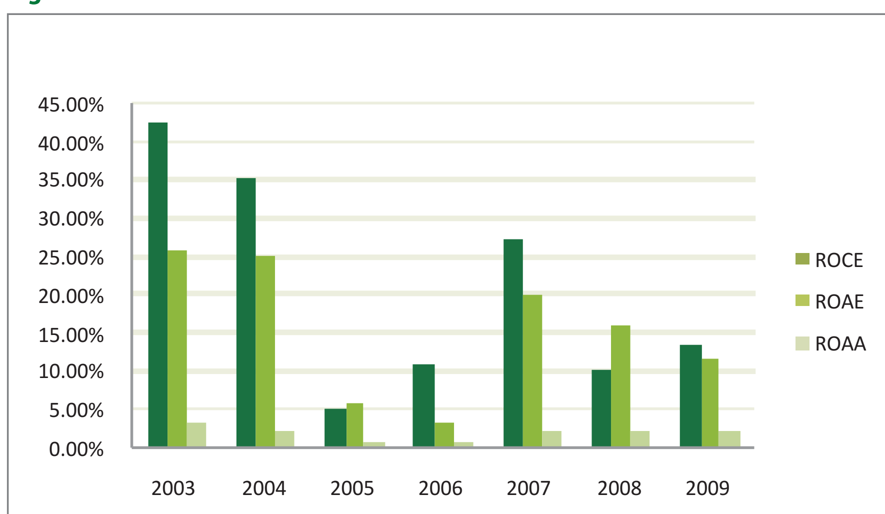
Source: Company's Reports, BGL Research

Performance Ratios

Net Profit Margin declined to 19.04% in 2009, from 27.33% in 2008 which is reflected in increased operating expense with cost-income ratio increasing from 0.47 to 0.52. Interest Expense increased as the industry experienced liquidity squeeze thus leading to a fall in Net Interest Margin. Net interest Margin fell to 41.32% in 2009 from 45.61% in the previous year. Return on Capital Employed averaged 20.82% in 5 years, far above the 13.59% recorded in 2009. The ratio of other income to gross earnings fell to 24.82% in 2009 from 29.87% in the corresponding period of last year.

Given this performance, the bank proposed a dividend payout of N0.70 per share (N0.65, 2008).

Fig. 21: Access Bank's Performance Ratios

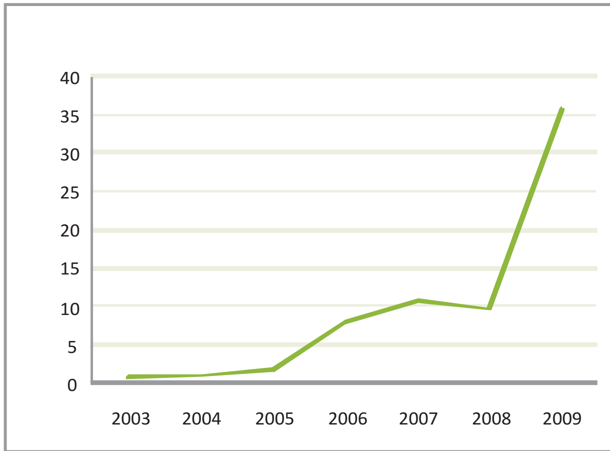


Source: Company's Reports, BGL Research

Asset Quality Ratios

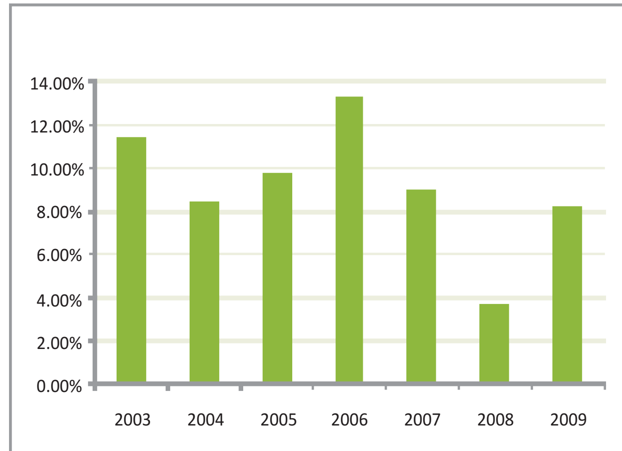
The bank's asset quality slightly dipped in 2009, as the Non-Performing Loan ratio increased by 0.84%. Loan Loss Provision as a percentage of Classified Loans stands at 150.23% in 2009, up from 117.95% in 2008. The bank's Cost of Bad and Doubtful Loans declined from 1.52% in to 1.95% in 2009. In addition, the bank has made adequate provisioning, which is 2.19 times higher than in 2008. Additional provisioning may to some extent shield it from any losses.

Fig. 22: Access Bank's Non-Performing Loan



Source: Company's Reports, BGL Research

Fig. 23: Access Bank's % of Classified Loans

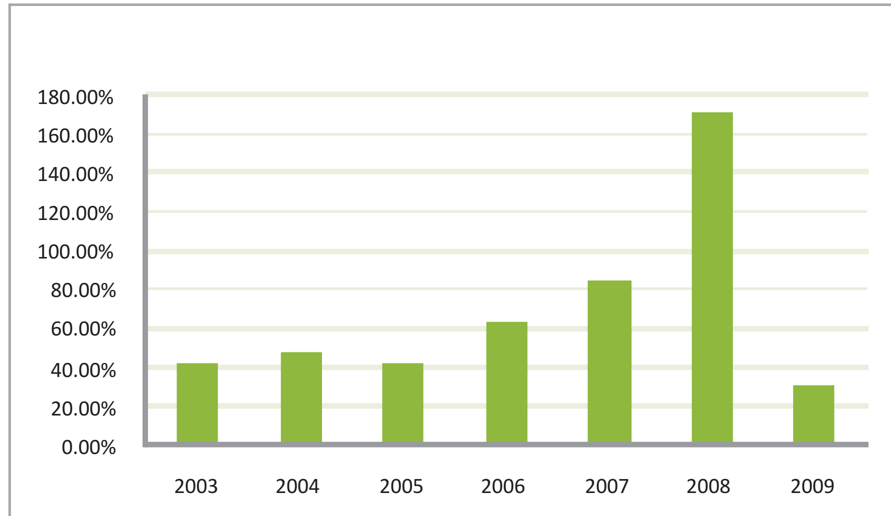


Source: Company's Reports, BGL Research

Liquidity Ratio

As a result of the financial crisis affecting the banking industry, Access Bank's seems to have been somehow affected using liquidity ratio as a criterion. The bank's liquidity ratio was 30.99% in 2009, down from 170.29% in 2008 and well below the 40% statutory benchmark at that time.

Fig. 24: Access Bank's Liquidity Ratio



Source: Company's Reports, BGL Research

Earnings

The bank's earnings performance, as measured by the returns on average assets and returns on average equity, has improved. Return on Equity (ROE) and Return on Assets (ROA) as at March 2009 stood at 11.66% and 2.37% respectively, a drop from 15.83% and 2.31% in 2008.

Table 17: Access Bank's Financial Summary

Financial Year End	March	March	March	March	March
Balance Sheet	2005	2006	2007	2008	2009
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	5,109	25,071	30,636	34,949	50,244
Due from banks in Nigeria	2,018	6,504	107,037	533,101	14,859
Due from banks outside Nigeria	4,684	14,689	20,759	17,656	87,926
Bills Discounted	0	0	0	0	0
Short Term Investments	7,991	38,242	39,011	104,701	20,185
Managed Funds	0	0	0	0	
Long Term Investments - FGN Bonds	50	5,000	3,182	49,950	57,369
Long Term Investments - Others	345	725	1,203	11,499	8,165
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	17,942	60,941	118,297	257,150	432,726
Non-Performing Loan	1,752	8,092	10,741	9,592	9,673
Loans & Advances - Net	16,183	54,111	107,751	245,836	418,194
Advances under finance lease	150	296	1,024	2,498	3,726
Other Facilities	0	1,634	3,257	5,096	5,092
Other Assets	27,214	16,611	5,521	24,811	17,846
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	3,174	5,078	9,233	15,471	24,982
Goodwill	0	6,592	0		1,738
Total Assets	**66,918**	**174,553**	**328,615**	**1,045,568**	**710,326**
Liabilities					
Deposit and Current Account	35,398	118,090	205,235	353,746	430,097
Due to other banks	0	0	6,617	69,403	30,183
Other Facilities	0	1,651	3,289	5,148	5,143
Managed Funds	0	0	0	0	0
Tax Payable	216	699	1,752	2,660	6,586
Deferred Taxation	275	281	516	625	10
Other Liabilities	16,957	24,939	82,822	427,475	44,157
Dividend Payable	0	0	0	0	0
Borrowings	0	0	0	14,652	8,961
Total Liabilities	52,846	145,660	300,230	873,708	525,138
Capital & Reserves					
Share Capital	4,056	6,978	3,489	8,071	8,107
Share Premium	8,536	20,277	20,277	146,047	146,447
Statutory Reserve	638	859	2,684	7,501	14,367
Exchange difference reserve	0	0	0	(23)	1,355
General Reserve	0	442	(2,500)	5,773	9,449
Bonus Issue Reserve	579	0	0	0	0
Reserve for SMEIS	263	337	945	945	945
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	3,489	3,489	3,489
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	56	1,029
Shareholders' Fund	**14,072**	**28,893**	**28,385**	**171,861**	**185,188**
Total Liabilities and Equity	**66,918**	**174,553**	**328,615**	**1,045,568**	**710,326**
Profit & Loss	**2005**	**2006**	**2007**	**2008**	**2009**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	7,495	13,360	27,881	57,999	109,341
Interest Earnings	3,929	8,733	16,894	40,677	82,710
Interest Expense	(1,577)	(2,472)	(4,952)	(14,223)	(37,534)
Net Interest Income	2,352	6,261	11,942	26,453	45,176
Commission and other Income	3,566	4,628	10,988	17,323	27,137
Operating Income	5,918	10,889	22,930	43,776	72,312
Staff Cost	(1,214)	(1,610)	(2,146)	(4,117)	(10,936)
Depreciation	(727)	(1,090)	(1,591)	(2,180)	(3,958)
Other Operating Expenses	(2,242)	(3,582)	(9,676)	(14,122)	(22,598)
Provision for doubtful accounts	(984)	(1,386)	(1,775)	(3,897)	(8,442)
Operating Profit	751	3,221	7,742	19,459	26,378
Exceptional Items	0	(2,102)	0	0	0
Interest on borrowings	0	0	0	(423)	0
Profit before taxation	751	1,119	7,742	19,036	26,378
Info. Tech. devt. levy	0	0	0	(190)	(192)
Current Taxation	(200)	(448)	(1,725)	(2,884)	(5,986)
Deferred taxation Expense	(49)	66	(235)	(109)	614
Profit after taxation	502	737	5,782	15,853	20,814
Extraordinary Items					
Minority Interest	0	0	0	29	220
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	502	737	5,782	15,882	21,034
Dividend Proposed	0	0	2,791	10,493	11,350
Other Information	**2005**	**2006**	**2007**	**2008**	**2009**
Outstanding Shares (million)	8,112	13,956	6,978	16,143	16,214
No. of Employees	351	484	729	1,219	1,902
No. of Branches	34	41	80	118	120

Table 18: Access Bank's Ratios and Analysis

Perfomance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	47.58%	34.64%	39.41%	29.87%	24.82%
Interest Margin	52.42%	65.37%	60.59%	70.13%	75.64%
Net Interest Margin	31.38%	46.86%	42.83%	45.61%	41.32%
Operating Expenses/Gross Earnings	55.81%	47.02%	48.11%	35.21%	34.29%
PAT/Gross Earnings	6.70%	5.52%	20.74%	27.33%	19.04%
Cost to Income Ratio	0.71	0.58	0.58	0.47	0.52
Pretax Profit Margin	10.02%	8.38%	27.77%	32.82%	24.12%
ROCE	5.34%	11.15%	27.28%	10.43%	13.59%
ROAE	5.99%	3.43%	20.19%	15.83%	11.66%
ROAA	1.02%	0.61%	2.30%	2.31%	2.37%
EPS	0.06	0.05	0.83	0.98	1.28
DPS	0.00	0.00	0.40	0.65	0.70
Operating Income per employee	17	22	31	36	38
Operating Expenses per employee	(12)	(13)	(18)	(17)	(20)
Profit per branch	22	79	97	165	220
Asset Quality Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Interest Income/Earning Assets	11.97%	6.86%	5.77%	4.19%	13.30%
Effective Return on Earnings Assets	8.97%	5.77%	5.17%	3.79%	11.94%
Explicit cost of Debt	4.46%	2.06%	2.30%	3.31%	7.91%
Cost of bad and doubt loans	5.48%	2.27%	1.50%	1.52%	1.95%
% of classified loans	9.76%	13.28%	9.08%	3.73%	2.24%
Loan loss provision/classified loans	100.40%	84.40%	98.18%	117.95%	150.23%
Liquidity Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Liquidity Ratio	42.85%	63.36%	84.90%	170.79%	30.99%
Capital Adequacy Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Equity/Loans & Advances	0.78	0.47	0.24	0.67	0.43
Debt/Equity Ratio	3.76	5.04	10.58	5.08	2.84
Equity/Total Assets	0.21	0.17	0.09	0.16	0.26

Source: Company's Annual Reports, BGL Research

Citibank Nigeria Limited

Summary and Investment Case

- **Marks 25 years of banking in Nigeria**
  Citibank commenced its Nigerian operation in 1984 as Nigeria International Bank Limited but was renamed Citibank Nigeria Limited in 2008 to fully leverage on the goodwill of the parent brand–Citi. Outside brand goodwill, Citibank Nigeria also leverages on the global Citi network and expertise, and on the back of these has been able to create a niche for itself in big ticket transactions. The Nigerian subsidiary seeks to benefit from more of Citi's global capabilities and in 2008 became the 53rd proprietary market for Citi's custody services.

- **Slimmer structure compared to global product offering**
  Citibank Nigeria offers a much smaller bouquet of financial services in Nigeria compared to its global brand. The bank adopts a more streamlined customer clientele base with a strong focus on corporates, fixed income trading and investment banking. This narrow customer base approach is responsible for the bank's modest market share. In 2008, Citibank had 1% of market share in total deposits and risk assets amongst its Nigerian peers.

- **Relatively unscathed in N1trillion toxic asset levels**
  Unlike its parent company which was badly affetced by the global financial crisis, Citibank Nigeria's highly conservative lending approach ensured it just watched from afar as other Nigerian banks raked up loan provisioning of about N1 trillion. Consequently, for the 2008 financial year, while its peers had provisions increasing by triple digits, Citibank's provison dropped by 42% from N628.7m in 2007 to N443.3m in 2008.

- **Emerges industry leader in ROEs**
  The ROEs of Nigerian banks attained post-consolidation highs of 15% in 2007. However, with the completion of the CBN audit exercise on the books of banks, profit figures have declined as a result of loan loss provisioning, leading to lower ROEs. The September 2009 interim results by banks show average industry ROE is at an all time low of 0.84%. However in a new industrial pattern which shows Western owned banks leading their peers as a result of their more conservative approach in Nigeria, Citibank has emerged as the industry leader in terms of ROE. Citibank recorded ROE of 23.40% in its September 2009 interim results followed by Standard Chartered with 21.08%, while GTBank emerged a distant third with 8.77%.

- **Impressive financial performance amidst the turmoil**
  Amidst the difficulties faced by banks in 2008, Citibank grew its Gross Earnings by 16% to N20.06 billion in 2008 relative to 2007. Net Interest Income grew by 6% in 2008 to N10.18 billion, from N9.58 billion the year before. Cost saving measures yielded a 3% savings in Operating Expenses which dropped to N6

billion in 2008. Overall the company's PAT improved by 23% to N8.53 billion in 2008 from N6.95 billion the year before.

Structure of Business

The bank's business segments are Corporate Banking, Commercial Banking and Financial Institutions. Despite its strengths in Corporate Banking, it's Financial Institutions' business contributes the bulk of its revenues. These are mainly in investment and trading securities and placements with other banks.

Financial Institutions contributed 67% to pre-tax profits in 2008, a growth of 8% over 2007, while Corporate Banking contributed 25% to pre-tax profits in 2008, a leap of 13% from 2007's contribution. The bank's commercial banking segment dipped in performance in 2008, with contribution to pre-tax profits dropping from 33% in 2007 to 11% in 2008.

Citibank Nigeria's subsidiary is NIB Nominees Limited where it has a 99.99% holding. The subsidiary was established in 2008 to hold securities purchased for the bank's custody business.

Key Strengths

- Brand Goodwill: Citibank Nigeria is well positioned to benefit from the goodwill of the Citibank global brand.

- Riding on the back of the global infrastructural platform: Citibank Nigeria has the benefit of its parent company for big ticket transactions, expertise and businesses.

- Quality of management: The board and management of Citibank Nigeria are reputed to be of great expertise and experience. We are impressed by the performance of Citibank Nigeria's management, as a result of which; the bank has consistently led the industry in terms of cost control and asset quality.

- Impressive financials

Key Weaknesses

- Weak Market Share: Citibank's 1% market share of Industry Loans and Deposits places it in a relatively insignificant position amongst its peers.

- Corporate banking performance could be better: The 25% contribution of Corporate Banking business to pre-tax profits could be deemed as unsatisfactory, given the bank's institutional banking capacity.

Strategy

- Customer Service Delivery: Citibank has placed premium customer service delivery at the top of its business strategies.

- Product innovation: One of the key ways of ensuring client retention will be through product design and innovation. The bank plans to lead the development of new products in the Nigerian market.

Ownership Structure

Citibank Overseas Investment Corporation has an 81.9% holding of Citibank Nigeria, while Directors on the Board who hold the bank's shares have a cumulative holding of 2.74%.

Table 19: Citibank's Ownership Structure

Shareholder	% Shareholding
Citibank Overseas Investment Corp.	81.90%
Directors	2.74%
Others	15.36%

Source: Company's Annual Report

Financial Performance

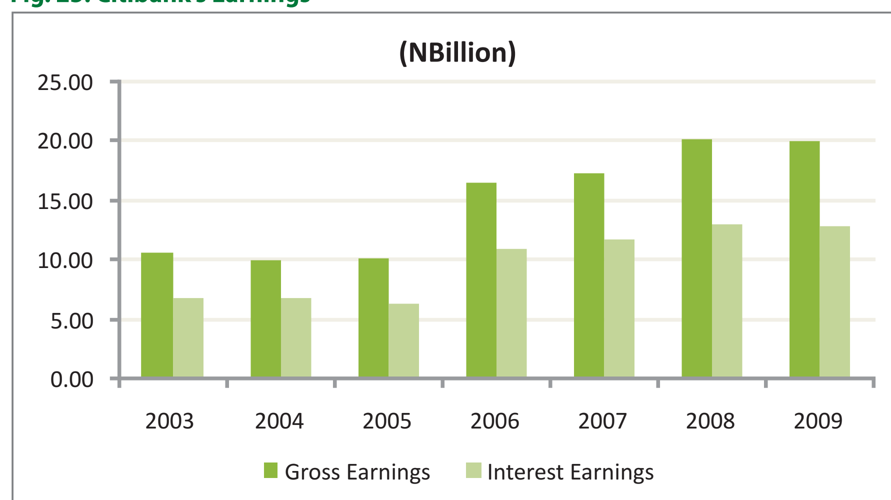
Citibank Nigeria grew its year-on-year Earnings by 16% in 2008 to N20.07 billion (N17.34 billion, 2007) and a five year CAGR growth of 15%. The bank's year-on-year Pre-tax Profits growth surpassed earnings with a 28% growth to N10.8 billion in 2008 (8.4 billion 2007) and a 5 year CAGR growth of 15%. In terms of Pre-tax Margins, Citibank Nigeria emerged the industry leader in 2009 with 54%, well above the industry average of 24% and edging out peer Standard Chartered which had 43%. In terms of Returns on Assets and Equity, Citibank and Standard Chartered hover around the same levels. While Citibank maintained ROAE of 23.46% and ROAA of 5.81% in 2008, Standard Chartered had 23.41% and 5.52% respectively. With the losses and declining profits being reported in the industry in 2009 as a result of provisioning for toxic assets, both banks are set to emerge industry leaders in terms of Equity and Assets returns'. This is reflected in the 2009 September interim results where Citibank emerged the industry leader with ROE of 23.40% and ROA of 4.53%, closely followed by Standard Chartered with 21.08% and 3.40% respectively.

Cost to Income ratio of the bank dropped 14% to 35% (41%, 2007). This was driven by a 66% drop in Administrative Expenses to N1.28 billion in 2009 (N2.13 billion, 2008). The rising costs of hiring and maintaining the right continue to put staff cost under pressure across the banking industry. Staff Costs represent 47% of entire operating expenses in 2008 (40%, 2007). Nevertheless, the increase in staff costs reflected positively on the bank's financial performance. Citibank's Operating Income per employee outstripped the Operating Expenses per employee. While per employee income had a year on year growth of 29% in 2008 (N69.59m over N54.1m in 2007), operating expenses per employee had a lower growth rate of 10% in 2008 to N24.27m over the N22m reported in 2007. The September 2009 interim results reveal a growth of 11% in operating expenses to N4.97 billion over the N4.47 billion reported in September 2008. In 2009, Citibank's cost control has only been surpassed by Unity Bank where growth in operating expenses has been kept to a single digit of 5%.

Total Assets grew by 16% in 2008 to N157.5 billion, from N135.9 billion in 2007. The growth in asset size was mainly buoyed by the 38% year on year growth in loans and

advances in 2008. The asset composition has cash and short term funds constituting the bulk with 43%, up by 10% from 2007. Current accounts domiciled outside Nigeria constitute the bulk of these cash and short term funds at 44%. Loans and advances represent 37% of the total asset size in 2008 while it represented 31% of total assets in 2007.

Fig. 25: Citibank's Earnings



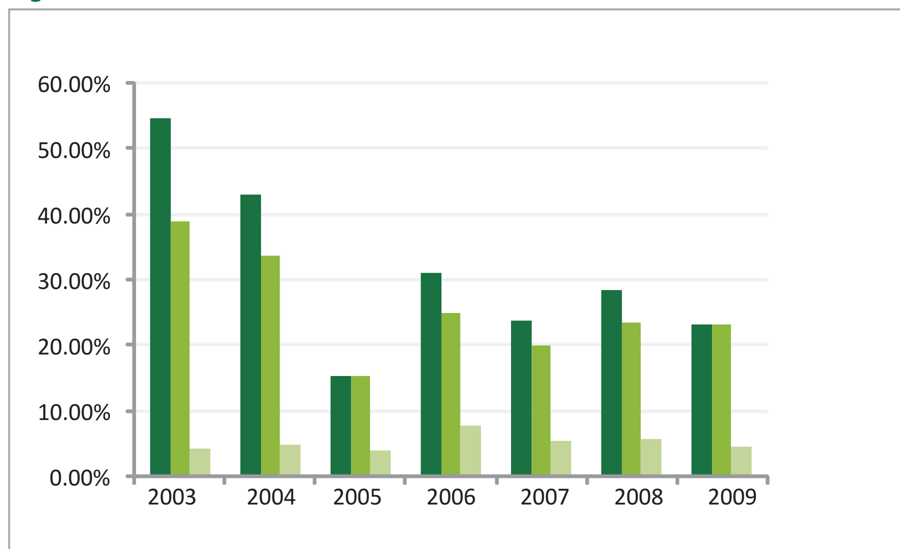
Source: Company's Annual Reports, BGL Research

Performance Ratios

Citibank Nigeria's Net Interest Income has grown by a 5 year CAGR of 13% to N10.19 billion in 2008. Performance in 2009 thus far judging by 9 months interim results surpassed these previous trends. Net interest income recognised as at September 2009 was N10.94 billion which represents a 47% growth over the corresponding period of 2008 (N7.46 billion, September 2008). This notable growth in Net interest income has been buoyed by two major factors: the 32% growth in Interest Earnings to N12.86 billion in September 2009 (N9.73 billion, September 2008) and the 15% drop in Interest Expense to N1.92 billion (N2.26 billion, September 2008). We however note that Interest Earnings growth of 32% in 2009 has been achieved on the back of a modest 4% growth in Loans while the 15% drop in Interest Expense was in spite of a 79% growth in Deposits.

Nigerian banks derive 30–40% of their revenue streams from fee-based transactions. Citibank Nigeria's fee based income in 2008 was 35% of the bank's earnings and 33% in 2007. These were principally fees earned on commissions and income from foreign exchange transactions. Interest earnings from lending provide the bulk of the bank's revenue. Citibank earned 65% of its revenues from lending in 2008, a slim 2% growth over the 63% earned in 2007. This trend continues in 2009 where fee based incomes have contributed 35.5% of earnings in September interims while interest earnings on lending constitute the balance of 64.5%.

Fig. 26: Citibank's Performance Ratios



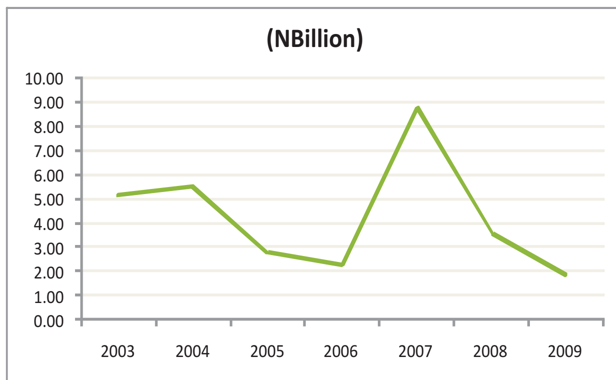
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

Citibank Nigeria grew its risk assets by 38% in 2008 to N58.3 billion from N42.4 billion in 2007. However it was still the least lending bank in 2008 with a market share of 1.20%. The bank seems to continue with its modest lending in 2009, and only outstrips its multinational counterpart–Standard Chartered. Citibank Nigeria's risk assets grew by a modest 4% to N54.5 billion in September 2009 (N52.27 billion, September 2008) whilst Standard Chartered lagged behind with N53.66 billion.
In 2008, provisions for classified loans, while an improvement over 2007 levels, still proved inadequate. The ratio of Provisions for bad and doubtful debts to Non-performing loans (NPL) was 13% in 2008 implying that the bank might have underprovided for its classified loans while in 2007 this was 7%. However these Non-Performing loans dropped by 60% in 2008, from N8.79 billion to N3.55 billion.

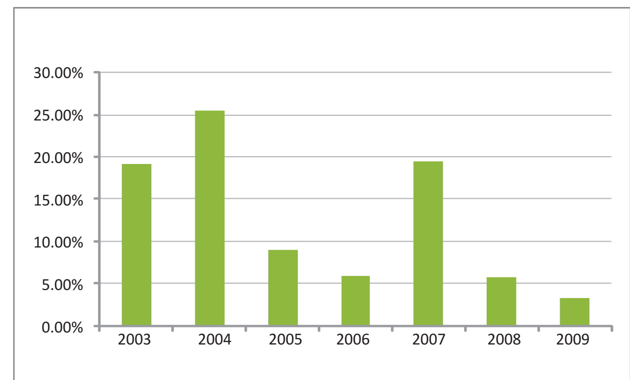
In terms of liquidity matching, while 99% of the bank's deposits have less than a 1 month maturity, only 6% of loans come under this maturity profile. Loans with 1 – 3 months maturity profiles constitute the bulk of the loan book with 42% while deposits under this category constitute less thann1% of the bank's total deposits. Citibank Nigeria's Total liabilities / Equity Ratio increased from 2.88 to 3.18, while Equity / Total Assets dropped from 0.26 to 0.24. The bank's Equity / Loans and Advances which fell from 0.78 to 0.62 was due to the 38% growth in risk assets in 2008 and the single digit growth in Shareholders Funds of 8%.

Fig. 27: Citibank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 28: Citibank's Non-Performing Loans

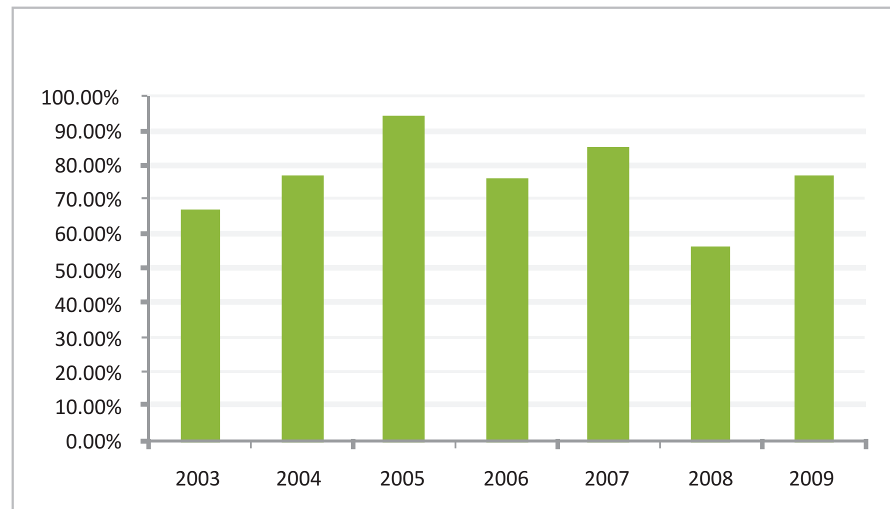


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Citibank Nigeria's Loans to Deposits ratio of 60% in 2008 shows there is greater capacity to lend which needs to be well utilised. However the ratio dropped further to 42% in September 2009 from 72% the same time in 2007. The bank's focus in 2009 on deposit mobilisation led to a 79% growth in deposits in September 2009 to N129 billion (N72.2 billion September 2008). Though Citibank's liquidity ratio declined to 56.8% in 2008 from 85.8% in 2007, it remained safely above the 40% regulatory threshold.

Fig. 29: Citibank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earning per share

Citibank Nigeria's EPS grew at a 5 year CAGR of 5% from 2004 to 2008, though there was a much higher year on year growth of 22% growth in 2008 (to N3.05 from N2.49 in 2008). The EPS based on September 2009 interim results, shows more exciting growth rates of 61%. The company's 9 months interim figures show PAT of N9.33 billion relative to N5.80 billion in the previous year. This has led to impressive ROE and ROA for the 9 months in 2009 of 23.40% and 4.53% respectively – the highest in the banking industry in 2009.

Table 20: Citibank's Financial Summary

Financial Year End Balance Sheet Assets	December 2004 N'm	December 2005 N'm	December 2006 N'm	December 2007 N'm	December 2008 N'm
Cash & Short-term funds	4,015	7,886	11,644	12,220	16,462
Due from banks in Nigeria	10,012	2,232	1,619	16,570	12,660
Due from banks outside Nigeria	14,244	12,628	24,779	16,648	38,014
Bills Discounted	0	0	0	0	0
Short Term Investments	18,238	27,236	23,758	24,118	13,886
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	0	5,094	9,639	14,957	12,428
Long Term Investments - Others	323	420	611	643	938
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	21,564	30,675	38,190	44,984	61,137
Non-Performing Loan	5,511	2,791	2,271	8,785	3,545
Loans & Advances - Net	15,940	27,588	35,490	42,386	58,303
Advances under finance lease	226	138	145	97	77
Other Facilities	1,327	1,159	885	561	331
Other Assets	882	520	1,025	4,033	917
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	1,039	2,078	2,677	3,647	3,511
Goodwill	0	0	0	0	0
Total Assets	**66,247**	**86,979**	**112,272**	**135,879**	**157,527**
Liabilities					
Deposit and Current Account	42,067	44,969	61,062	79,135	97,635
Due to other banks	0	0	0	0	0
Other Facilities	1,399	1,171	894	567	334
Managed Funds	0	0	0	0	0
Tax Payable	1,912	1,439	3,377	1,813	3,543
Deferred Taxation	0	198	64	430	218
Other Liabilities	8,497	11,082	13,063	18,902	18,102
Dividend Payable	0	0	0	0	0
Borrowings	0	0	0	0	0
Total Liabilities	**53,874**	**58,859**	**78,459**	**100,847**	**119,833**
Capital & Reserves					
Share Capital	1,500	2,763	2,794	2,794	2,794
Share Premium	0	11,365	11,644	11,644	11,644
Statutory Reserve	4,006	4,474	5,632	6,674	7,954
Exchange difference reserve	0	0	0	0	0
General Reserve	4,575	6,915	10,367	10,544	11,963
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	2,292	2,604	3,376	3,376	3,340
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	0	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	0	0
Shareholders' Fund	**12,373**	**28,120**	**33,813**	**35,032**	**37,694**
Total Liabilities and Equity	**66,247**	**86,979**	**112,272**	**135,879**	**157,527**
Profit & Loss	**2004 N'm**	**2005 N'm**	**2006 N'm**	**2007 N'm**	**2008 N'm**
Gross Earnings	9,881	10,033	16,522	17,345	20,069
Interest Earnings	6,723	6,336	10,826	11,681	12,999
Interest Expense	(1,133)	(1,007)	(1,671)	(2,096)	(2,810)
Net Interest Income	5,590	5,329	9,155	9,585	10,189
Commission and other Income	3,158	3,697	5,696	5,664	7,071
Operating Income	8,748	9,026	14,852	15,249	17,259
Staff Cost	(1,574)	(2,021)	(1,992)	(2,494)	(2,802)
Depreciation	(258)	(293)	(295)	(328)	(667)
Other Operating Expenses	(1,965)	(2,097)	(2,403)	(3,385)	(2,550)
Provision for doubtful accounts	400	(249)	394	(629)	(443)
Operating Profit	5,351	4,366	10,555	8,413	10,797
Exceptional Items					
Interest on borrowings	0	0	0	0	0
Profit before taxation	5,351	4,366	10,555	8,413	10,797
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(1,735)	(1,225)	(2,968)	(1,101)	(2,480)
Deferred taxation Expense	(38)	(21)	134	(367)	212
Profit after taxation	3,578	3,120	7,722	6,946	8,529
Extraordinary Items					
Minority Interest	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	3,578	3,120	7,722	6,946	8,529
Dividend Proposed	0	2,340	5,727	5,867	7,124
Other Information	**2004**	**2005**	**2006**	**2007**	**2008**
Outstanding Shares (million)	1,500	2,763	2,794	2,794	2,794
No. of Employees	301	290	285	282	248

Table 21: Citibank's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2004	2005	2006	2007	2008
Commissions/Gross Earnings	31.96%	36.85%	34.48%	32.66%	35.23%
Interest Margin	68.04%	63.15%	65.52%	67.34%	64.77%
Net Interest Margin	56.57%	53.12%	55.41%	55.26%	50.77%
Operating Expenses/Gross Earnings	38.42%	43.97%	28.39%	35.78%	29.99%
PAT/Gross Earnings	36.21%	31.10%	46.74%	40.05%	42.50%
Cost to Income Ratio	0.43	0.49	0.32	0.41	0.35
Pretax Profit Margin	54.16%	43.51%	63.89%	48.51%	53.80%
ROCE	43.25%	15.52%	31.22%	24.02%	28.64%
ROAE	33.81%	15.41%	24.94%	20.18%	23.46%
ROAA	4.97%	4.07%	7.75%	5.60%	5.81%
EPS	2.39	1.13	2.76	2.49	3.05
DPS	0.00	0.85	2.05	2.10	2.55
Operating Income per employee	29,062.49	31,124.73	52,110.63	54,073.95	69,594.54
Operating Expenses per employee	(12,613.23)	(15,211.23)	(16,457.14)	(22,009.65)	(24,269.08)
Asset Quality Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Interest Income/Earning Assets	10.25%	8.00%	10.93%	9.90%	9.38%
Effective Return on Earnings Assets	10.86%	7.69%	11.33%	9.37%	9.06%
Explicit cost of Debt	2.61%	2.18%	2.70%	2.63%	2.87%
Cost of bad and doubt loans	-1.86%	0.81%	-1.03%	1.40%	0.73%
% of classified loans	25.56%	9.10%	5.95%	19.53%	5.80%
Loan loss provision/classified loans	**102.03%**	**110.58%**	**118.91%**	**29.57%**	**79.94%**
Liquidity Ratios	2004	2005	2006	2007	2008
Liquidity Ratio	76.70%	94.39%	76.41%	85.76%	56.78%
Capital Adequacy Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Equity/Loans & Advances	0.57	0.92	0.89	0.78	0.62
Debt/Equity Ratio	4.35	2.09	2.32	2.88	3.18
Equity/Total Assets	0.19	0.32	0.30	0.26	0.24

Source: Company's Annual Reports, BGL Research

Diamond Bank Plc

Summary and Investment Case

- **…cutting from a rough gem to create a diamond**
  Diamond Bank Plc was incorporated on December 20, 1990 and began as a private limited liability company on March 21, 1991. In February 2001, it became a universal bank. In January 2005, following a highly successful private placement share offer which substantially raised the Bank's equity base, Diamond Bank became a public limited company. In May 2005, the Bank was listed on The Nigerian Stock Exchange and in January 2008, its Global Depositary Receipts (GDR) was listed on the Professional Securities Market of the London Stock Exchange. Diamond Bank Plc is a Primary Dealer and Market Maker (PDMM) in FGN Bonds.

Table 22: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	10.75
Current Price (N)	9.75
PE	19.88
EPS (N)	0.36
Projected EPS	0.60
Projected PE	11.75
Projected DPS	0.15
Projected Dividend Yield	1.67%
Outstanding Shares	14,475,237,125

Source: BGL Research Estimates

- **…relationship with Actis**
  In 2007, Actis, a leading private equity investor in emerging markets, led a US$134m investment in Diamond Bank Plc, giving it a 14.8% stake in the bank. The investment comprises Actis's two pan-African private equity funds (Actis Africa Fund 2 and the Canada Investment Fund for Africa which is jointly managed with Cordiant) together with additional investment from CDC, the UK government-backed private equity emerging markets fund of funds investor and an anchor investor in Actis's funds.

- **…escaped Sanusi's sledge hammer**
  Diamond Bank scaled through the stress-test of its operations carried out by the CBN. The balance sheet of the bank shows a margin loan portfolio of N20.2 billion, made up of N19.6 billion granted to individuals and stock brokers and N0.6 billion granted as facilities to other corporate bodies. Its total loan portfolio jumped to N250 billion in 2008 from N108 billion in 2007 representing an increase of 132%. Despite the growth of Gross Loans and Advances, it was able to reduce its non-performing loan ratio to 4.4% in 2008 from 7.7% in 2007.

Table 23: Forecast Valuation

	2010	2011
ROCE	21.34%	20.24%
ROAE	22.14%	24.29%
PE	5.79	4.88
EPS (N)	1.23	1.45
DPS (N)	0.67	0.80
Price (Forward PE Model)	10.06	11.93
Price (DDM)	10.75	13.10
Price (Gordon Growth)	24.46	11.93
Price (DCF)	32.20	16.14

Source: BGL Research Estimates

- **International partnership**
  The bank has on-lending facility arrangements with several international DFIs, including: International Finance Corporation (IFC); European Investment Bank (EIB); and Afrieximbank, guarantee line with USEXIM and trade finance facilities with IFC and many Export Credit Agencies (ECAs), such as USEXIMBANK, ECGD, SACE and HERMES. The bank also partners with Crown Agents Investment Management Ltd for external reserves management – currently manages US$400m. International banking partners include Citibank; HSBC Bank; ANZ Banking Group; ING BHF Bank AG; Standard Chartered Bank; Belgolaise Bank S.A; Deutsche Bank; Commerzbank; and Nordea Bank Plc.

- **…preeminent position outside its origin**
  Diamond Bank became the first African Bank to be listed on the Professional Securities Market (PSM) of the London Stock Exchange (LSE) following the official listing of its $500m Global Depositary Receipts (GDRs). The bank was also the first Nigerian financial institution to venture into Francophone West Africa with the establishment of a subsidiary in Republic of Benin.

- **West African expansion drive…leveraging on Republic of Benin franchise**
  Leveraging on Diamond Bank Benin S.A., and with the expectation of the approval from the regulators of the West African Monetary Union (WAMU) zone, the bank aimed at expanding to Cote d'Ivoire, Senegal and Togo. The strategy is to take advantage of business opportunities within the region.

- **How sustainable is the bank's liquidity?**
  The difficult operating climate, occasioned by the global meltdown, capital market crisis, among others affected the bank's liquidity. Cash and balances with Central Banks dipped to N62.8 billion in 2008 from N85.7 billion representing a decline of 26.6%, while assets due from other banks increased by 81% to N137.2 billion in 2008 as against the N26.1 billion recorded the preceding period.

- **…Subsidiaries growth still minimal**
  The subsidiaries' contribution to PBT grew to 7.1% in 2008 from 2.4% in the preceding year, while the bank currently dominates the group's performance. The contribution of the subsidiaries to the group's Gross Earnings increased to 6.3% from 3.3% for the previous year with Diamond Bank Benin (DBB), Diamond Securities Limited (DSL) and Diamond Mortgages Limited (DML) leading the others.

- **Retail banking…leveraging on the real sector**
  Its retail banking business contributed 40.3% of the bank's total deposit liabilities. Its savings account deposit is also yielding results with a growth of 42.4% while the customer base grew significantly by 52.1%. We expect the bank's retail business to continue to grow in the medium to long-term when hopefully the state of the nation's infrastructure should have experienced appreciable improvement.

Structure of Business

Diamond Bank Plc provides banking and financial products and services to corporate and individual customers in Nigeria. The bank's operation is streamlined into three distinct strategic business segments: Retail banking, Corporate Banking, and Public sector.

It also focuses on the development and management of business relationships with multinational and local large corporations in the manufacturing, oil and gas, and specialised industries. The bank offers pension custodial services; provides mortgage services; acts as broker/dealer, registrar, investment adviser/portfolio manager, and trustee; and offers life and non life insurance, as well as bancassurance services. As of May 20, 2008, it operated 162 branches and had a total of 2,889 employees.

Table 24: Diamond Bank's subsidiaries

Subsidiaries	% Holding
Diamond Bank du Benin S.A	95%
Diamond Securities Limited	80%
Diamond Pension Fund Custodian Limited	100%
Diamond Mortgages Limited	100%
ADIC Insurance Limited	95%

Source: Diamond Bank's Annual Report, 2009.

In addition to the above, Diamond Securities has a wholly owned subsidiary- DBLS Insurance Brokers Limited.

Key Strengths

- Strong risk management team: The focus on effective risk management in its 2009 financial year was a major contributory factor to its escape of the CBN's hammer, as it emerged among the five banks that scaled through the apex bank's recently concluded stress-test.

- Strong capital adequacy ratio and liquidity ratio which remain high at 19.4% and 43.7% compared to statutory minimum of 10.0% and 25.0% respectively.

- Strong market perception as one of the leading brands in the banking sector.

Key Weaknesses

- Reach/Availability: Diamond Bank appears to be lagging behind in terms of local branch expansion when compared with its peers in the banking industry.
- Slow opportunities taker: Slow to unwind its retail strategy especially in non-cash transaction opportunities surrounding Debit/Credit Cards using ATM machines, because of high default risk. This has weakened the growth and competitiveness of the bank in the banking space.

Strategy

The primary growth strategy of the bank is to continue to develop products in order to win more customers and increase the deposit base. Collaborating with customers and partners remains one of the key central policies. With their strategic expansion, the bank continues to have presence in the francophone and Anglophone countries. With targeted strategic international partnerships, the bank is leveraging on international alliances and joint ventures to facilitate access to long-term debt funding.

Ownership Structure

Actis, a leading private equity investor in emerging markets is the largest shareholder of the bank, holding more than 5% of the issued share capital as at 30 April, 2008.

Table 25: Diamond Bank's shareholder structure

Shareholder	% Shareholding
Actis Investment Corp.	14.8%
Foreign Investors	4.6%
Nigerian Investors	80.6%

Source: Diamond Bank Report

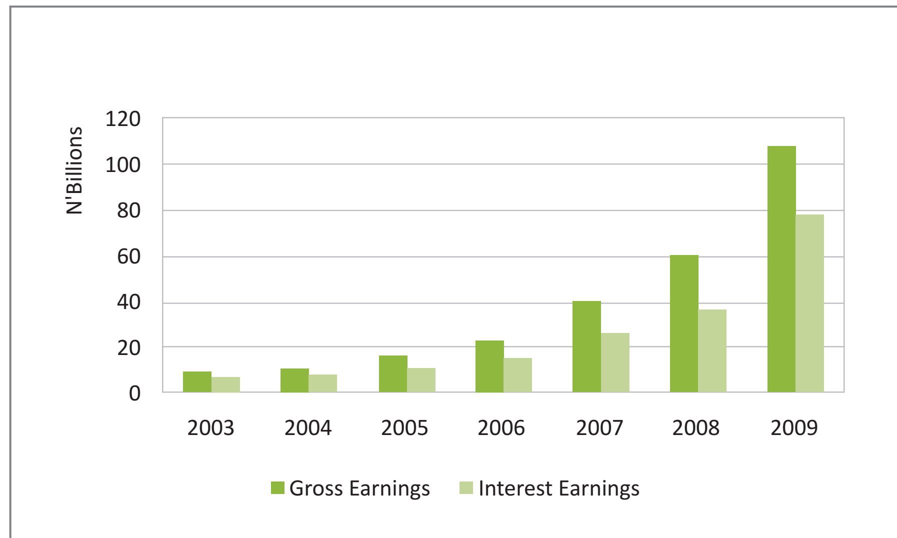
Financial Performance

Its report for the period under review indicates a 51.4% increase in Gross Earnings which hit N60.1 billion as against N39.7 billion the previous year. Profit before Tax for 2008 stood at N16.21 billion, representing growth of 112.2% over the N7.64 billion recorded in 2007. The bank's provisioning for bad and doubtful accounts for the year under review grew by 115.02% to stand at N4.80 billion. Profit after Tax increased by 122.2%.

The bank's Deposit base, which is a measure of its service delivery performance, achieved 92.8% growth, moving from N217.2 billion in 2007, to N419.7 billion in 2008, while Total Assets rose to N625.7 billion, a growth of 94.9% over last years figures. Gross Loans and Advances grew by 131.7% to N250.3 billion in 2008.

However, Interest Earnings increased from N35.72 billion in 2008 to N77.82billion in 2009 representing a growth of 117.84%. Operating Profit however declined by 63.60% to N5.90 billion in 2009 from N16.21 billion in 2008. PAT consequently dropped to N5.14 billion in 2009 from N12.75 billion in 2008 representing a decline of 59.65%.

Fig. 30: Diamond Bank's Earnings

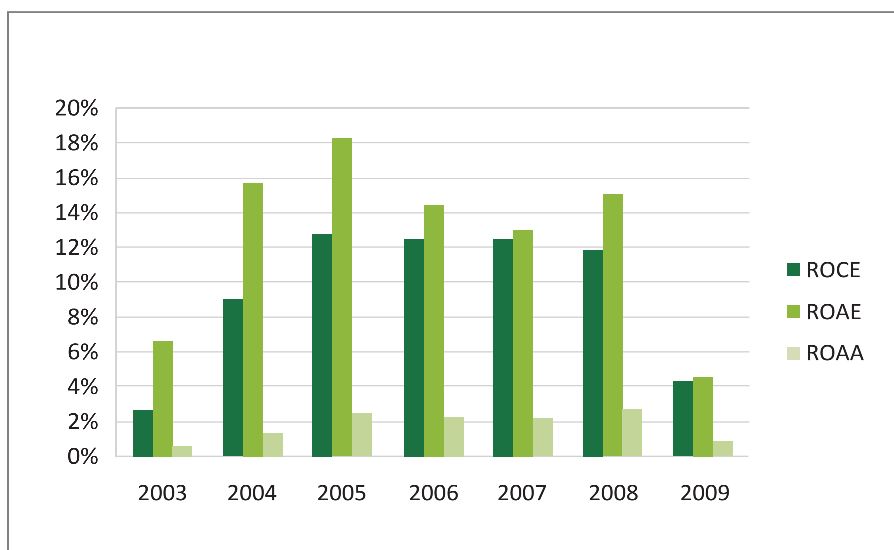


Source: Company's Annual Reports, BGL Research

Performance Ratios

Operating expenses as a percentage of gross earnings dropped showing good signs of relative cost reduction within the bank's operations, however the Cost-Income ratio remained stable in 2009 at 0.58, a little rise from 0.56 in 2008 which is its lowest figure since 2003. Interest margin escalated to 72.26% after a dip in the previous year although Net interest Margin was constant at 38.99% in 2009. The ratio of Commission to Gross Earnings fell to 27.74% in 2009 from 40.57% in 2008 due to the bank's increased ability to generate funds from its non-core lending business. The bank recorded 203 branches in 2009 with profit per branch amounting to N29.07m, a drop from the N97.08m on 106 branches recorded in 2007. The bank's earnings performance, as measured by the Returns on Average Assets (ROAA) and Returns on Average Equity (ROAE), has been dented by a significant drop in net income, a rise in total liabilities consequently raising total assets in 2009. ROAE and ROAA currently stand at 4.46% and 0.79% in 2009 compared to 15.04% and 2.71% in 2008 respectively.

Fig. 31: Diamond Bank's Performance Ratios

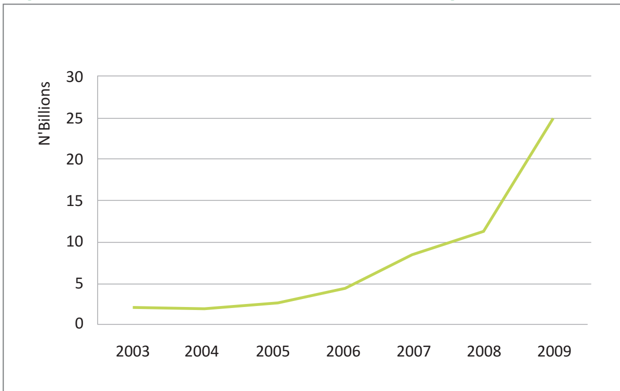


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

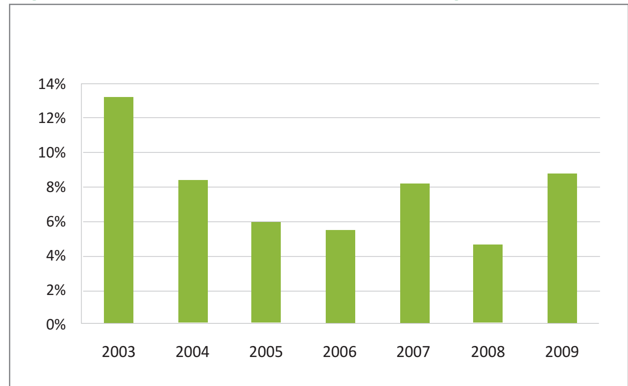
Loan Loss Provision as a percentage of Classified Loans stands at 110.19% in 2009 as against 88.72% recorded in the previous year. Its cost of bad and doubtful loans worsened from 1.92% in 2008 to 7.87% in 2009. Explicit Cost of Debt also increased to 7.18% in 2009 from 2.77% in 2008.

Fig. 32: Diamond Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 32: Diamond Bank's Non-Performing Loans

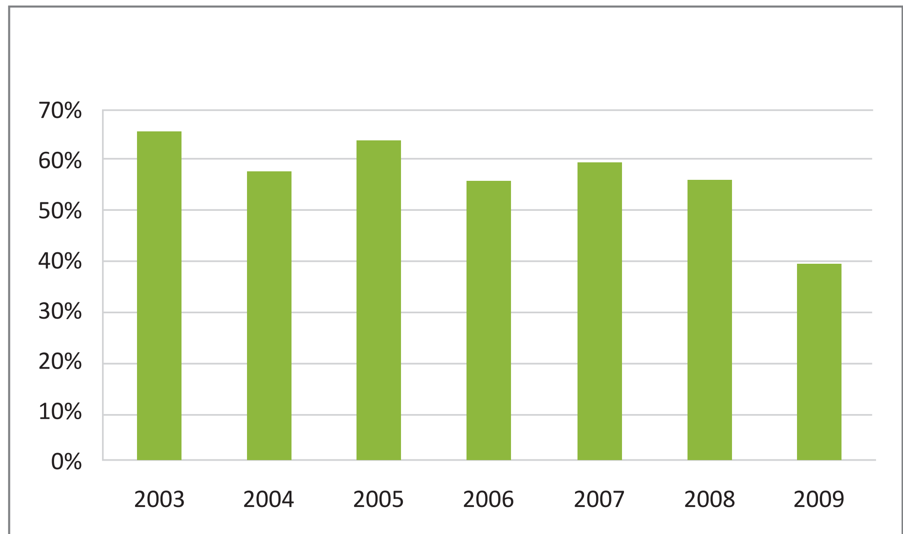


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

The bank's liquidity ratio, signifying the extent to which the bank can quickly liquidate assets to cover short-term liabilities stands at 39.50% a decline from 56.19% in 2008 however above the 25% statutory benchmark.

Fig. 32: Diamond Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

Earning per Share in 2009 was N0.36, a decline from N0.97 in 2008. This is as a result of a drop in net income from N12.82 billion in 2008 to N5.17 billion in 2009.

Table 26: Diamond Bank's Financial Summary

Financial Year End	April	April	April	April	April
Balance Sheet	**2005**	**2006**	**2007**	**2008**	**2009**
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	13,528	32,227	85,657	62,864	54,767
Due from banks in Nigeria	2,387	5,049	5,867	115,512	87,432
Due from banks outside Nigeria	9,984	16,562	20,266	21,694	50,207
Bills Discounted	0	0	0	0	0
Short Term Investments	35,486	46,565	40,640	42,059	11,502
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	250	1,330	7,615	20,195	34,100
Long Term Investments - Others	1,157	4,319	4,183	10,639	32,358
Investment/Trading Properties	0	0	833	1,320	2,651
Loans & Advances - Gross	44,411	84,018	108,018	250,326	312,858
Non-Performing Loan	2,535	4,447	8,366	11,133	24,969
Loans & Advances - Net	42,751	80,560	100,972	240,449	285,345
Advances under finance lease	2,035	4,090	8,050	11,501	6,150
Other Facilities	6,641	4,525	7,742	18,317	23,471
Other Assets	13,746	19,651	21,803	52,495	55,524
Deferred Tax Assets	0	301	451	1,102	4,416
Fixed Assets	3,376	8,473	16,870	27,523	34,156
Goodwill	0	4,182	0	0	0
Total Assets	**131,341**	**227,833**	**320,950**	**625,670**	**682,078**
Liabilities					
Deposit and Current Account	80,403	148,563	217,737	419,708	466,890
Due to other banks	0	2,755	16,307	8,531	8,558
Other Facilities	0	0	0	0	0
Managed Funds	0	0	172	642	0
Tax Payable	0	1,306	1,703	2,813	3,827
Deferred Taxation	416		1,325	2,534	3,525
Other Liabilities	22,978	30,161	22,631	55,598	60,969
Dividend Payable	0	928	0	0	164
Borrowings	6,708	8,916	7,821	18,587	23,708
Total Liabilities	**110,505**	**192,629**	**267,696**	**508,414**	**567,640**
Capital & Reserves					
Share Capital	3,038	3,802	4,700	6,580	7,238
Share Premium	11,137	20,783	36,058	89,629	89,629
Statutory Reserve	2,391	3,546	5,625	9,173	10,225
Exchange difference reserve	66	153	180	245	(247)
General Reserve	3,240	5,535	4,662	8,922	4,565
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	818	1,203	1,549	2,140	2,487
Revaluation Reserve	0	0	1	0	0
Capital Reserve	0	0	0	31	106
Investment Properties Reserve	0	0	0	0	
Minority Interests	147	183	479	535	434
Shareholders' Fund	**20,836**	**35,204**	**53,254**	**117,256**	**114,438**
Total Liabilities and Equity	**131,341**	**227,833**	**320,950**	**625,670**	**682,078**
Profit & Loss	**2005**	**2006**	**2007**	**2008**	**2009**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	15,950	22,606	39,703	60,112	107,706
Interest Earnings	10,313	14,854	25,556	35,725	77,825
Interest Expense	(3,215)	(4,612)	(9,028)	(12,379)	(35,831)
Net Interest Income	7,099	10,242	16,528	23,346	41,993
Commission and other Income	5,637	7,751	14,147	24,387	29,881
Operating Income	12,736	17,993	30,675	47,733	71,874
Staff Cost	(3,421)	(4,812)	(7,283)	(10,595)	(16,459)
Depreciation	(95)	(1,204)	(1,822)	(2,748)	(3,905)
Other Operating Expenses	(4,855)	(6,300)	(11,693)	(13,368)	(20,985)
Provision for doubtful accounts	(850)	(172)	(2,236)	(4,808)	(24,623)
Operating Profit	3,514	5,505	7,641	16,214	5,902
Exceptional Items					
Interest on borrowings	0	0	0	0	0
Profit before taxation	3,514	5,505	7,641	16,214	5,902
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(874)	(1,273)	(1,629)	(2,835)	(3,052)
Deferred taxation Expense	(130)	(195)	(241)	(558)	2,322
Profit after taxation	2,510	4,037	5,771	12,821	5,172
Extraordinary Items	0	0	0	0	0
Minority Interest	0	(17)	(32)	(72)	(28)
Amortisation of goodwill	0	0	0	0	
Profit attrib. to shareholders	2,510	4,020	5,739	12,749	5,144
Dividend Proposed	0	0	4,182	7,396	1,303
Other Information	**2005**	**2006**	**2007**	**2008**	**2009**
Outstanding Shares (million)	6,075	7,604	9,400	13,159	14,475
No. of Employees	1,054	1,759	2,521	2,889	3,414
No. of Branches	**53**	**94**	**106**	**167**	**203**

Table 27: Diamond Banks Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	35.34%	34.29%	35.63%	40.57%	27.74%
Interest Margin	64.66%	65.71%	64.37%	59.43%	72.26%
Net Interest Margin	44.50%	45.31%	41.63%	38.84%	38.99%
Operating Expenses/Gross Earnings	52.48%	54.48%	52.38%	44.44%	38.39%
PAT/Gross Earnings	15.74%	17.86%	14.53%	21.33%	4.80%
Cost to Income Ratio	0.66	0.68	0.68	0.56	0.58
Pretax Profit Margin	22.03%	24.35%	19.25%	26.97%	5.48%
ROCE	12.76%	12.48%	12.51%	11.94%	4.27%
ROAE	18.29%	14.41%	13.05%	15.04%	4.46%
ROAA	2.46%	2.25%	2.10%	2.71%	0.79%
EPS	0.41	0.53	0.61	0.97	0.36
DPS	0.00	0.00	0.44	0.56	0.09
Operating Income per employee	12,083.31	10,229.17	12,167.87	16,522.26	21,052.79
Operating Expenses per employee	(7,942.63)	(7,001.38)	(8,250.00)	(9,245.76)	(12,111.65)
Profit per branch	66,307.91	58,567.30	72,083.79	97,088.57	29,073.65
Asset Quality Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Interest Income/Earning Assets	10.19%	9.16%	12.89%	7.45%	14.80%
Effective Return on Earnings Assets	9.35%	9.06%	11.77%	6.45%	10.12%
Explicit cost of Debt	3.69%	2.88%	3.73%	2.77%	7.18%
Cost of bad and doubt loans	1.91%	0.21%	2.07%	1.92%	7.87%
% of classified loans	5.93%	5.52%	8.29%	4.63%	8.75%
Loan loss provision/classified loans	65.49%	77.75%	84.23%	88.72%	110.19%
Liquidity Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Liquidity Ratio	64.24%	56.29%	59.72%	56.19%	39.50%
Capital Adequacy Ratios	**2005**	**2006**	**2007**	**2008**	**2009**
Equity/Loans & Advances	0.47	0.42	0.49	0.47	0.37
Debt/Equity Ratio	5.30	5.47	5.03	4.34	4.96
Equity/Total Assets	0.16	0.15	0.17	0.19	0.17

Source: Company's Annual Reports, BGL Research

Ecobank Plc

Summary and Investment Case

- **Ecobank Nigeria Plc…a member of ETI**
  Ecobank Nigeria Plc was established in 1986. The bank is a member of Ecobank Transnational Incorporated (ETI) operating in several West and Central African countries. Ecobank Nigeria Plc has grown its network to 131 branches across Nigeria, with the purchase and assumption of All States Trust Bank Plc (in liquidation), Hallmark Bank and acquisition of African International Bank (AIB) through a share sale and purchase agreement.

- **Ecobank Nigeria… ETI's Achilles' Heels?**
  ETI is a bank holding company with continental spread across 27 African countries. Traditionally, Ecobank Nigeria has contributed 40-50% of the holding company's revenues. However, bad margin loans and exposure to the telecoms industry led to a N12.5 billion loan loss provision in 2008. Consequently, the Nigerian affiliate's contribution to the Group's Pre-tax Earnings dropped to 9% in 2008 from 42% in 2007. Nevertheless, ETI's abiding faith in Ecobank Nigeria is typified in its injection of N45.1 billion in fresh capital thereby increasing its stake above 70%.

- **Series of failed merger talks**
  Over a three year period, it signed three memoranda of understanding, (MOUs), with First Bank of Nigeria, Unity Bank and Sterling Bank. But the MOUs have all merely been long on ceremonies; neither ETI nor Ecobank Nigeria has been able to merge conclusively with any bank. A successful marriage between First bank and ETI would have resulted in the establishment of a mega bank with total assets in excess of over $40 billion and over 1000 branches in over 25 African countries and beyond.

- **Tight liquidity as a result of dip in retail lending**
  Ecobank has slowed down its retail lending business. The bank has slowed down on the issuance of new credit cards while existing cards are not being funded. We believe the bank will increase the credit risk management on this product to mitigate against default risks before commencement. However, the parent company's N45 billion infusion into the bank will boost liquidity in the short to medium term. The bank also received a US$25m on-lending facility from the IFC for small businesses and Ecobank's retail lending products.

- **Nine months 2009 interim results show 260% dip in earnings**
  Ecobank Nigeria's net earnings dipped by a record 260% from the same time the previous year in its 9 months interim results. The bank's Net Profit of N5.18 billion in September 2008 dropped to a Net Loss of N8.28 billion in September 2009, as a result of a N15.77 billion charge against the account as exceptional items

Table 28: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	8.49
Current Price (N)	7.07
PE	732.89
EPS (N)	0.02
Projected EPS	0.84
Projected PE	8.20
Projected DPS	0.00
Projected Dividend Yield	N/A
Outstanding Shares	7,218,075,000

Source: BGL Research Estimates

Table 29: Forecast Valuation

	2010	2011
ROCE	14.31%	17.66%
ROAE	10.23%	12.77%
PE	8.20	8.20
EPS (N)	0.93	1.30
DPS (N)	0.65	0.91
Price (Forward PE Model)	7.61	10.67
Price (DDM)	8.49	11.61
Price (Gordon Growth)	N/A	10.67
Price (DCF)	N/A	8.49

Source: BGL Research Estimates

from bad loans. However the positive of the interim results is that despite the losses, depositors' confidence in the bank grew as typified by the 63% growth in deposits over the same period last year.

Structure of Business

Ecobank Nigeria Plc operates in a competitive environment, providing a full range of universal banking services and products to governments, financial institutions, multinationals, international organisations, medium, small and micro businesses and individuals.

Ecobank Nigeria through its parent company has developed important strategic alliances with other world class institutions in specific areas such as Western Union Money Transfer, Mastercard e.t.c. designed to produce synergies and enhance value to their customers.

Key Strengths

- **Management Team:** Ecobank Nigeria has a dedicated and experienced management team. Senior management, supported by strong local teams, has been responsible for aggressive expansion of the business.

- **Brand Recognition:** The Ecobank brand is recognised as one of the leading names in the domestic market in which they operate. Its home-grown regional character as a pan-African bank distinguishes it from other multinational banks operating in the region and anchors the strong growth that has been experienced.

Key Weaknesses

- Low deposit base compared to its peers: Ecobank Nigeria is being perceived as a foreign bank due to the location of its parent company, which has negatively impacted the size of its customer base and consequently, its deposit account.

Strategy

The vision of the bank is to be the foremost financial institution in Nigeria with a thrust from its parent company to be as a pan African bank. All initiatives are geared towards positioning the brand as a symbol of convenient, accessible and reliable banking. Ecobank's strategy and actions are shaped by three key themes driving the banking industry namely profitability growth, efficiency and scale with the aim of achieving superior shareholder value. Its growth strategy is driven by the quest to tap into the un-banked and under-banked sectors of the markets and increase market share through an increased branch network.

Ownership Structure

Ecobank Transnational Inc. is the largest shareholder of the bank, holding 71% of the issued share capital as at 31 December, 2008.

Table 30: Ecobank's shareholding structure

Shareholder	Shareholding
Ecobank Transnational Inc.	71%
Nigerian Citizens and Associations	29%

Source: Ecobank Nigeria Plc Annual Reports, 2008

Financial Performance

Ecobank Nigeria announced a relatively unimpressive financial performance for the year ended December 31, 2008. The result showed a sharp drop in the bank's Profit after Tax by 71.43% or N5.319 billion, from the N7.45 billion recorded in the previous year to N2.13 billion. Gross Earnings however rose from N32.71 billion recorded in 2007 to N55.16 billion, an increase of 68.62%. The drop in profit resulted from the 778% increase in Loan Loss Provision over the N1.422 billion recorded in 2007. The N12.496 billion provision made in 2008 was in recognition of some of the loans and exposures to the capital market.

The figures for the year ended December 31, 2008 were, however, lifted into positive territory by an extraordinary item of N2.135 billion The bank's Total Assets stood at N432 billion, an increase of 39% as against N311 billion in December 2007, while its Deposits liabilities rose to N311 billion, an increase of 39.5% over the corresponding period of 2007.

Ecobank's Loans & Advances hit N144.9 billion, an increase of 24.9% over N116 billion in 2007. Shareholders' Funds dropped 8.8% to N31.7 billion, from N34.8 billion as at 2007.

Fig. 33: Ecobank's Earnings

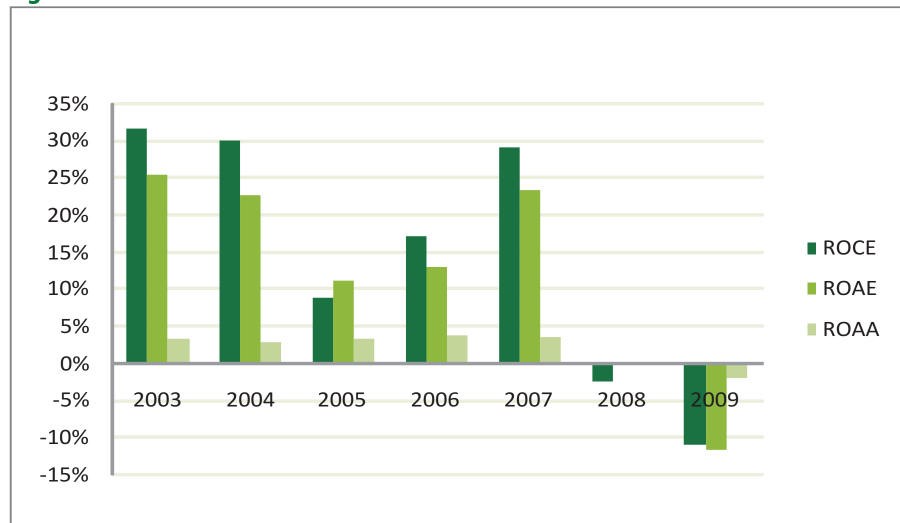
Source: Company's Annual Reports, BGL Research

Performance Ratios

The bank recorded strong Net Interest Income growth of 39% on the back of strong loan growth and efficient cost management. The bank's ROA dropped to 3.36% in 2007 from 3.56 in 2006, suggesting inefficiency in asset utilisation as the bank is not generating sufficient earnings to compensate for asset growth.

Cost-to-Income ratio stood at 0.69 in 2008 as against 0.57 in 2007. The bank's Operating Expense as a percentage of Gross Earnings decreased marginally from 47.29% in 2007 to 47.14% in 2008 with a fall in Net Interest Margin to 33.34% in 2008 from 40.53% in the corresponding year.

Fig. 34: Ecobank's Performance Ratios



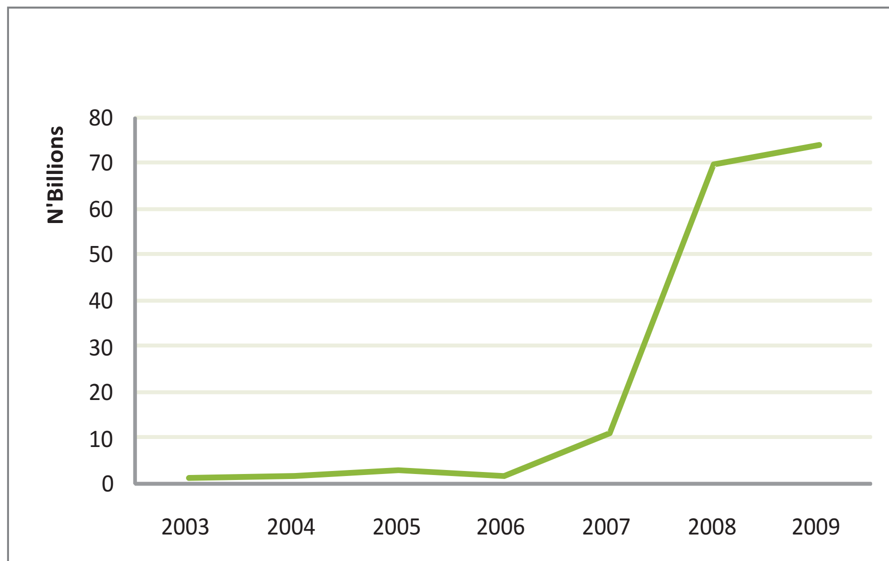
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

The bank's non-performing loans ratio is unimpressive, with a sharp increase in 2008 to 41.8% from 9.3%. This is a clear indication that its risk management processes are weak. Loan Loss Provision as a percentage of Classified Loans was 30.34% in 2008 as against 42.82% in the previous year. Explicit Cost of Debt stood at 4.60% in 2008, up from 2.47% in 2007. The bank cost of bad and doubtful loans also increase from 1.18% to 7.53% in 2008.

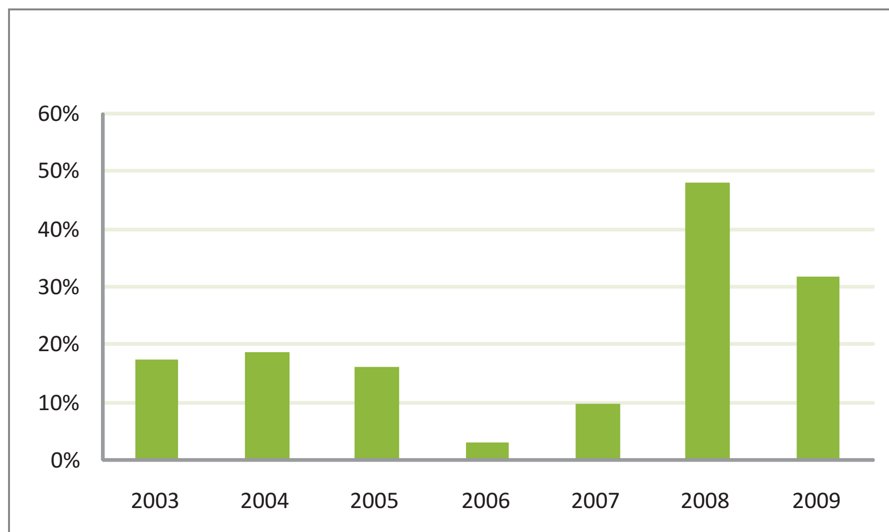
According to the September 2009 interim results, the bank grew its loan portfolio by 58% to N214 billion (N135 billion, September 2008) whilst still keeping its Loans to Deposits ratio relatively constant at 87% (89% September 2008). This implies that the bank will have to maintain deposit growth if it wants to maintain the same robust growth in lending.

Fig. 35: Ecobank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 36: Ecobank's % of Classified Loans

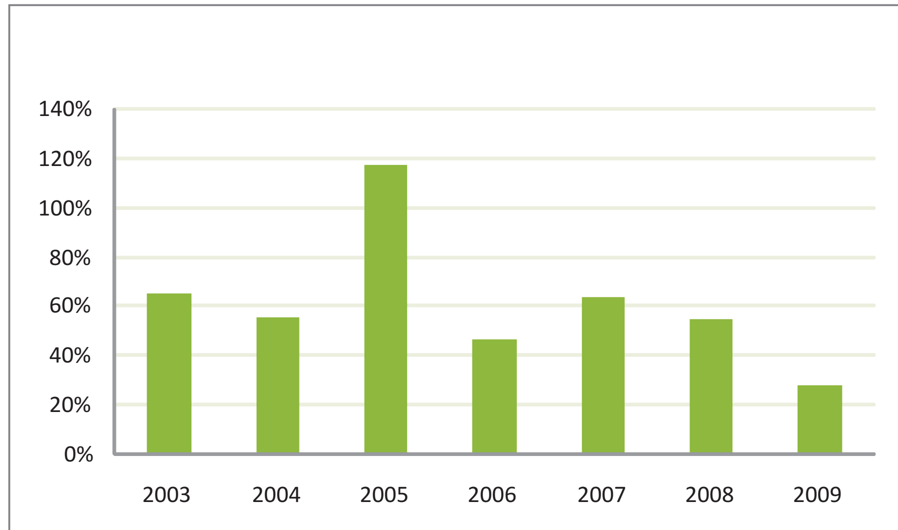


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Despite an increase in Gross Loans and Advances, Ecobank's liquidity ratio dropped from 63.46% to 54.85% in 2008. The overly aggressive accretion in risk assets without sufficient risk management framework led to an increase of 513.8% in its non-performing loan.

Fig. 37: Ecobank's Performance Liquidity Ratios



Source: Company's Annual Reports, BGL Research

Earnings

Earnings per Share (EPS) decreased from N0.34 in 2007 to N0.30 in 2008. Return on Average Equity recorded a decline from 39.45% in 2007 to 12.28% in 2008. Pre-tax Profit Margin, an indication of a company's efficiency in converting income to profit, was negative in 2008.

As a result of the 260% drop in Net Profits in September 2009, the company's EPS based on 9 month Rolling Earnings was -N1.12. The ROE and ROA also followed this southward trend at 11.74% and 2.02% respectively, (14.80% and 1.65%, September 2008).

Table 31: Ecobank's Financial Summary

Financial Year-end	December	December	December	December	December
Balance Sheet	**2004**	**2005**	**2006**	**2007**	**2008**
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	3,070	19,082	5,649	12,927	18,768
Due from banks in Nigeria	6,104	8,593	21,486	71,651	126,072
Due from banks outside Nigeria	5,032	5,691	17,275	12,491	36,395
Bills Discounted	0	0	0	0	0
Short Term Investments	6,240	9,712	8,764	47,394	21,247
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	500	500	3,055	14,928	16,003
Long Term Investments - Others	149	459	10,816	9,333	6,152
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	13,075	22,367	54,682	121,023	165,977
Non-Performing Loan	2,076	3,108	1,689	11,308	69,406
Loans & Advances - Net	11,063	19,131	52,297	116,181	144,918
Advances under finance lease	0	0	2,108	7,404	8,902
Other Facilities	0	0	0	0	0
Other Assets	2,635	981	4,272	4,835	35,192
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	2,849	3,504	6,370	14,253	18,819
Goodwill	0	0	0		
Total Assets	**37,642**	**67,653**	**132,092**	**311,396**	**432,466**
Liabilities					
Deposit and Current Account	28,643	32,452	84,041	222,885	310,714
Due to other banks	0	0	0	8,600	21,234
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	0	0
Tax Payable	263	478	1,440	1,885	752
Deferred Taxation	345	484	431	1,188	283
Other Liabilities	3,978	7,502	16,859	42,016	64,458
Dividend Payable	0	974	0	0	0
Borrowings	0	0	0	0	3,269
Total Liabilities	33,229	41,890	102,770	276,574	400,710
Capital & Reserves					
Share Capital	1,740	5,414	10,827	10,827	3,609
Share Premium	0	11,917	11,917	11,917	11,917
Statutory Reserve	1,693	2,194	3,261	5,496	6,135
Exchange difference reserve	0	0	0	0	0
General Reserve	150	177	2,167	5,433	1,727
Bonus Issue Reserve	348	5,414	0	0	0
Reserve for SMEIS	481	648	1,149	1,149	1,149
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	0	0	7,218
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	0	0
Shareholders' Fund	4,413	25,763	29,321	34,822	31,756
Total Liabilities and Equity	**37,642**	**67,653**	**132,092**	**311,396**	**432,466**
Profit & Loss	**2004**	**2005**	**2006**	**2007**	**2008**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	6,700	9,303	17,258	32,710	55,156
Interest Earnings	4,585	5,179	11,092	18,979	33,811
Interest Expense	(2,203)	(1,990)	(2,899)	(5,721)	(15,419)
Net Interest Income	2,383	3,189	8,193	13,258	18,392
Commission and other Income	2,119	4,124	6,166	13,731	19,209
Operating Income	4,502	7,313	14,359	26,989	37,601
Staff Cost	(1,198)	(1,959)	(4,292)	(8,497)	(13,907)
Depreciation	(418)	(671)	(751)	(1,100)	(2,220)
Other Operating Expenses	(1,568)	(1,828)	(4,106)	(5,872)	(9,875)
Provision for doubtful accounts	0	(590)	(198)	(1,423)	(12,497)
Operating Profit	1,317	2,265	5,012	10,096	(898)
Exceptional Items					
Interest on borrowings	0	0	0	0	0
Profit before taxation	1,317	2,265	5,012	10,096	(898)
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(245)	(457)	(1,507)	(1,889)	(12)
Deferred taxation Expense	(178)	(139)	54	(758)	905
Profit after taxation	894	1,668	3,559	7,450	(5)
Extraordinary Items	0	0	0	0	0
Minority Interest	0	0	0	0	2,135
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	894	1,668	3,559	7,450	2,130
Dividend Proposed	0	974	1,949	5,197	0
Other Information	**2004**	**2005**	**2006**	**2007**	**2008**
Outstanding Shares (million)	3,481	10,827	21,654	21,654	7,218
No. of Employees	626	680	2,070	2,449	2,865
No. of Branches	32	53	131	200	240

Table 32: Ecobank's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2004	2005	2006	2007	2008
Commissions/Gross Earnings	31.63%	44.33%	35.73%	41.98%	34.83%
Interest Margin	68.44%	55.67%	64.27%	58.02%	61.30%
Net Interest Margin	35.57%	34.28%	47.47%	40.53%	33.34%
Operating Expenses/Gross Earnings	47.54%	47.92%	53.01%	47.29%	47.14%
PAT/Gross Earnings	13.35%	17.93%	20.62%	22.78%	-0.01%
Cost to Income Ratio	0.71	0.61	0.64	0.57	0.69
Pretax Profit Margin	19.66%	24.35%	29.04%	30.87%	-1.63%
ROCE	29.84%	8.79%	17.09%	28.99%	-2.56%
ROAE	24.31%	11.62%	22.06%	39.45%	12.28%
ROAA	2.75%	3.17%	3.56%	3.36%	0.00%
EPS	0.26	0.15	0.16	0.34	0.30
DPS	0.00	0.09	0.09	0.24	0.00
Operating Income per employee	7,191.81	10,753.87	6,936.61	11,020.23	13,124.28
Operating Expenses per employee	(5,087.81)	(6,555.90)	(4,419.99)	(6,316.58)	(9,075.77)
Profit per branch	41,159.50	42,733.13	38,257.70	50,481.50	(3,740.18)
Asset Quality Ratios	2004	2005	2006	2007	2008
Interest Income/Earning Assets	14.81%	11.05%	10.33%	6.90%	9.03%
Effective Return on Earnings Assets	14.81%	9.79%	10.15%	6.39%	5.69%
Explicit cost of Debt	7.69%	6.13%	3.45%	2.47%	4.60%
Cost of bad and doubt loans	0.00%	2.64%	0.36%	1.18%	7.53%
% of classified loans	18.76%	16.25%	3.23%	9.73%	47.89%
Loan loss provision/classified loans	96.93%	104.11%	141.17%	42.82%	30.34%
Liquidity Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Liquidity Ratio	55.56%	116.75%	46.35%	63.46%	54.85%
Capital Adequacy Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Equity/Loans & Advances	0.34	1.15	0.54	0.29	0.19
Debt/Equity Ratio	7.53	1.63	3.50	7.94	12.62
Equity/Total Assets	0.12	0.38	0.22	0.11	0.07

Source: Company's Annual Reports, BGL Research

Fidelity Bank Plc

Summary and Investment Case

Merchant banking roots in 1987 prior to conversion

Fidelity Bank Plc was incorporated on November 19, 1987 as Fidelity Union Merchant Bank Limited. After more than a decade in the merchant banking business, the bank was successfully converted into a commercial bank on July 16, 1999 and changed its name to Fidelity Bank Plc, with listing on the Nigerian bourse coming on May 17, 2005. In response to the regulatory induced consolidation of 2005, Fidelity Bank Plc merged with two other commercial banks- FSB International Bank Plc and Manny Bank Plc in December 2005.

Table 33: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	4.00
Current Price (N)	2.80
PE	10.70
EPS (N)	0.20
Projected EPS	0.21
Projected PE	8.20
Projected DPS	0.06
Projected Dividend Yield	1.67%
Outstanding Shares	28,963,174,117

Source: BGL Research Estimate

New generation bank with conservative outlook

Banks established in the late 1980's and early 1990's in Nigeria were perceived as "new generation banks". This is as a result of the bullish business approach adopted by these banks. However Fidelity has adopted a more traditional style of banking which has proved quite successful. The bank has translated from a small merchant bank into a Tier II universal bank based on IMF rankings. While the conservative approach of the bank was appropriate in the past, going-forward, the bank should develop competencies to operate in the middle-tier market for unstructured corporate enterprises rather than grass root banking.

Rides on core competencies of legacy banks

Fidelity Bank leverages on the core competence of one of its legacy banks, FSB International Plc (which has strong footprints in the oil and gas and power sectors) to navigate and propel its corporate lending in the energy sector and emerging telecoms, power and real estate/mortgage sectors. The bank has successfully closed deals worth over US$100m for oil majors and prominent upcoming firms in the downstream segment of the oil and gas sector. On wholesale and commercial banking, the bank rides on the hitherto strongholds of its other two legacy banks- Fidelity and Manny Banks in the Eastern part of Nigeria and Lagos regions. The enlarged Fidelity Bank has since embarked on a media campaign to propagate its new brand image in a bid to increase its market share and play dominant roles both within and outside the confines of the Nigerian financial system.

Table 34: Forecast Valuation

	2010	2011
ROCE	13.12%	15.07%
ROAE	9.09%	10.47%
PE	4.69	3.91
EPS (N)	0.45	0.54
DPS (N)	0.27	0.33
Price (Forward PE Model)	3.71	4.44
Price (DDM)	4.00	4.95
Price (Gordon Growth)	8.57	4.44
Price (DCF)	10.93	6.20

Source: BGL Research Estimate

89% drop in net profits due to N19.8 billion provisioning

Fidelity Bank reported an 89% drop in Net Profits to N1.43 billion in June 2009 from N13.36billion in the corresponding period of 2008. This was as a result of N19.8 billion in provisions. The provisions represent 15.3% of the N129.418 billion in Shareholders Funds (136.371 billion, June 2008). Despite these write-downs, the bank has declared a DPS of N0.05 which represents a complete payout of the entire 2009 PAT. The September 2009 results show that the bank is on the path to recovery.

Though Net Profits dropped year-on-year by 25%, provisioning of N1.91 billion can be considered moderate when compared to its peers.

Structure of Business

Fidelity Bank Group is made up of Fidelity Bank Plc and its three subsidiaries; Fidelity Union Securities Limited (51%), Fidelity Pension Managers Limited (51%) and Eastline Investment Limited (99%).

Table 35: Fidelity Bank's Subsidiaries

Subsidiaries	Holding (%)	Principal Activities
Fidelity Union Securities Limited	51	Financial Services
Fidelity Pension Managers Limited	51	Pension
Eastline Investment Limited	99	Financial Services

Source: Fidelity Bank's Annual Report, 2008

Key Strengths

- Reputed for Corporate Social Responsibility (CSR): The bank was awarded the most responsible bank in Africa in 2008 by Commonwealth Business Council Award for CSR initiatives. It was named the Most Socially Responsible Company (MSRC) in Nigeria for the promotion of Arts at the 3rd Social Enterprising Reports and Awards (2009) organised by Tru-contact and the Nigerian Institute of Public Relations (NIPR). The Falomo Gardens, Lagos, is being maintained by Fidelity as part of the Bank's corporate social responsibility programmes.

- Diversified network of branches: Fidelity Bank has a diversified branch network across Nigeria (a total of 120 as at September 30 2009) which gives the bank a comparative advantage over many of its peers in deposit mobilisation. This also serves as a formidable platform to distribute the bank's products.

- Stringent risk management framework for risk asset creation: Fidelity has a stringent risk regulatory framework for its creation of risk asset. Interestingly, this was one of the factors that saved it from the recent non-performing loan epidemic that swept through the banking industry.

- Quality of management: Nigeria's banks are characterised by a one-man super structure where the bank's brand is built around an all powerful Chief executive. This trend is beginning to give way. Currently, Fidelity bank has an 11-man board with non-executive directors who have independent status.

Key Weaknesses

- Adoption of IFRS Reporting Standard: Nigerian banks are fast adopting the IFRS reporting standard. At the last count, about eight banks have disclosed plans to switch to the new reporting system. We are waiting on Fidelity bank to follow suit.

- Slow adoption of modern banking trends: Fidelity bank is perceived as a laggard amongst peers in adopting modern banking trends and practices. This has weakened its growth and competitiveness in the banking sector.

Strategy

Fidelity Bank has identified three (3) major strategic growth plans which are; to play a dominant role in retail banking via branch expansion and brand propagation; increased participation in emerging sectors to harness opportunities; and fortification of its investment banking business so as to play more active and bigger roles in the financial markets, locally and internationally. These strategic growth focuses have been mapped into three (3) distinct growth phases: Short term strategy; Mid-term strategy and Long term strategy.

The bank's current outing is, without doubt, in line with its Short-term strategies of aggressive branch expansion and total integration of operational processes and products across regions and markets and subsequent shift to growth and product differentiation. The Bank intends to leverage on its enlarged balance sheet and retained earnings to nourish its investment banking business as well as harness opportunities which abound in corporate financing and project financing in oil and gas, telecoms and power sectors.

Determined to take its well known banking tradition closer to its vast growing customer base, Fidelity Bank Plc rolled out 44 new offices across the country in the last one year. The new outlets which dot the nation's commercial landscape are located along the major arteries of the nation's economy ensuring an even spread that covers the length and breadth of the country.

The bank went into a partnership with the Nigerian-German Business Group e.V. Germany (NGBG) to play in the nation's microfinance sector. This partnership is intended to facilitate the entry of Oikocredit International, headquartered in The Netherlands into the Nigerian market to boost the productive sector of the economy by injecting funds into microfinance banks.

Ownership Structure and Corporate Governance

Fidelity Staff Trust is the major shareholder of the bank with 13.12% holding while Mr. Peter Obi ranks behind with 5.30%. Directors jointly control a 4% holding in the bank.

Table 36: Fidelity Bank's Ownership Structure

Shareholder	Shareholding (%)
Fidelity Bank Staff Trust	13.12
Obi Peter	5.30
Directors	4.00
Others	77.58

Source: Fidelity Bank's Annual Report, 2008

Financial Performance

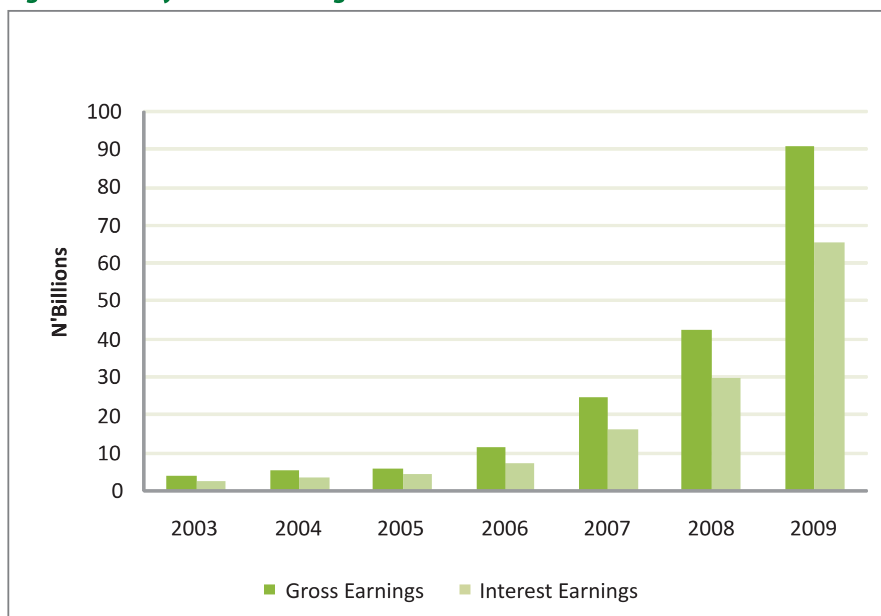
The bank's financial result for year end 2009 shows significant decline on key indices. During the year ended June 30, 2009, Profit before Tax declined 77% from N16.31billion to N3.77billion while Profit Afterafter Tax also fell 89% from N13.36billion in 2008 to N1.43billion in 2009. However, Gross Earnings grew 69% from N42.66billion to N72.27billion but Shareholders' Fund also declined by 5% from

N136.37billion to N129.42billion. Despite the huge dip in profitability, Fidelity Bank declared a dividend per share of N0.05.

The total income from all sources including interest income, fees and commissions etc for the bank grew at an average annual rate of 37.5% (CAGR), increasing from N3.2 billion in 2002 to N42.6 billion in 2006. Fidelity Bank has had an impressive gross revenue growth rate comparable to that of the high flyers in the industry. The Bank's Total Assets and Total Deposits growth averaged 69.7% and 66.0% annually over the past 5 years (CAGR). The asset mix shows that loans and advances constitute 40% of the Bank's total assets while liquid assets constitute 45.8%. Total Deposits for the Bank finance 68.8% of its total assets.

In spite of growth in PAT over the years, the bank's Return on Average Assets and Average Equity followed a downward trend. This trend is peculiar to the industry and can be attributable to poor performance of loans, increasing competition, more stringent regulations and increasing operating costs. This trend is not likely to abate in the short term as the clean up exercise of the industry by the new CBN continues.

Fig. 38: Fidelity Bank's Earnings



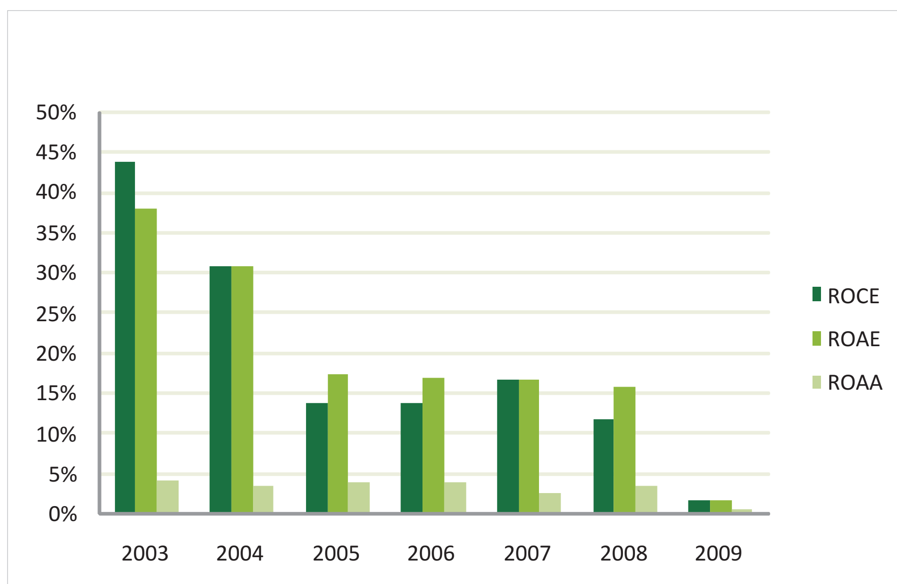
Source: Company's Annual Reports, BGL Research

Performance Ratios

A breakdown of the bank's Return on Average Equity and Return on Average Assets shows dwindling asset utilisation as the proportion of both interest and non interest income to average assets declined over the years down from 43% in 2003 to 11% in 2008. Similarly, the bank's yield which measures the difference between the interest income as a proportion of the average interest earning assets and the interest expenses as a proportion of the average interest bearing liabilities showed a consistently declining trend, moving down from 21% in 2003 to 6.0% in 2008. The bank's expenses ratio followed a flat progressing pattern, from 34.1% in 2003 to 39.0% 2008; this is consistent with the Return on Assets and Equity figures.

The declining Equity Multiplier ratio is as a result of the series of rights issues and public offers carried out by the bank to meet regulatory requirements both pre and post consolidation, The equity base of the bank, like most other banks in the industry has grown in relation to its total assets. The bank's equity multiplier reduced from 775% in 2002 to 377% in 2008.

Fig. 39: Fidelity Bank's Performance Ratios

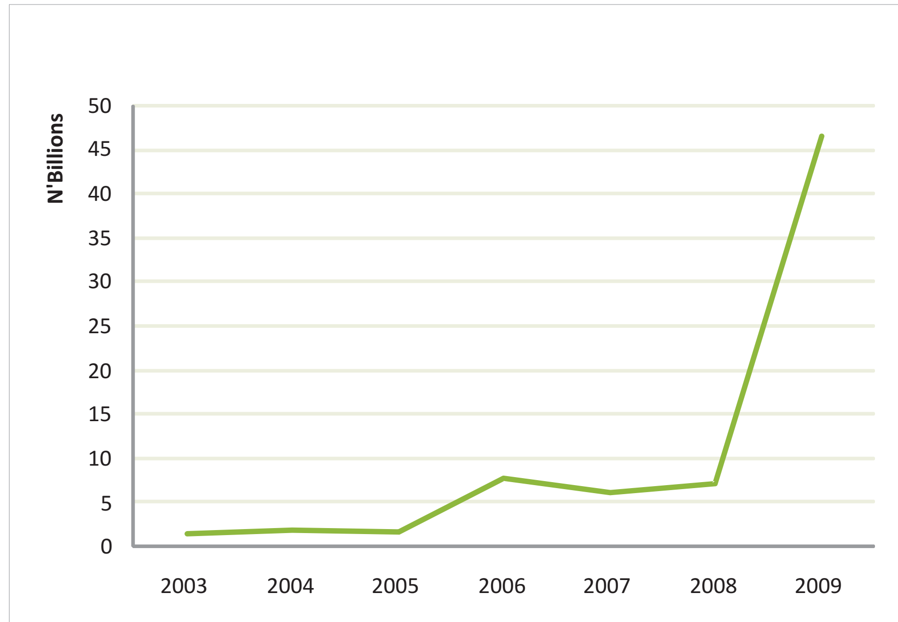


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

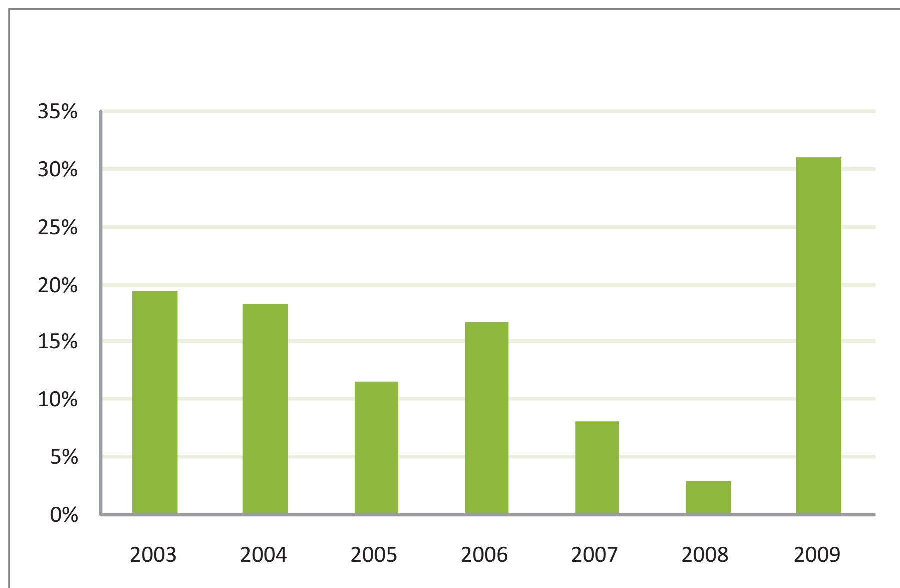
Fidelity improved the quality of its assets over the years until 2008 as shown by the various asset quality indicators. For instance, the bank's percentage of non-performing loans was brought down from 16.72% in 2006 to 3.2% in 2008. In addition the cost of bad and doubtful debt declined from 3.51% in 2007 to 0.74% in 2008. Other asset quality ratios such as Loan Loss Provision/Total Non Performing Loans, affirm proper control and management of the bank's loan portfolio in the last five years. However, the ongoing wave of record bad loan provisioning in the industry might lead to a fall in the bank's asset quality.

Fig. 40: Fidelity Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 41: Fidelity Bank's % of Classified Loans

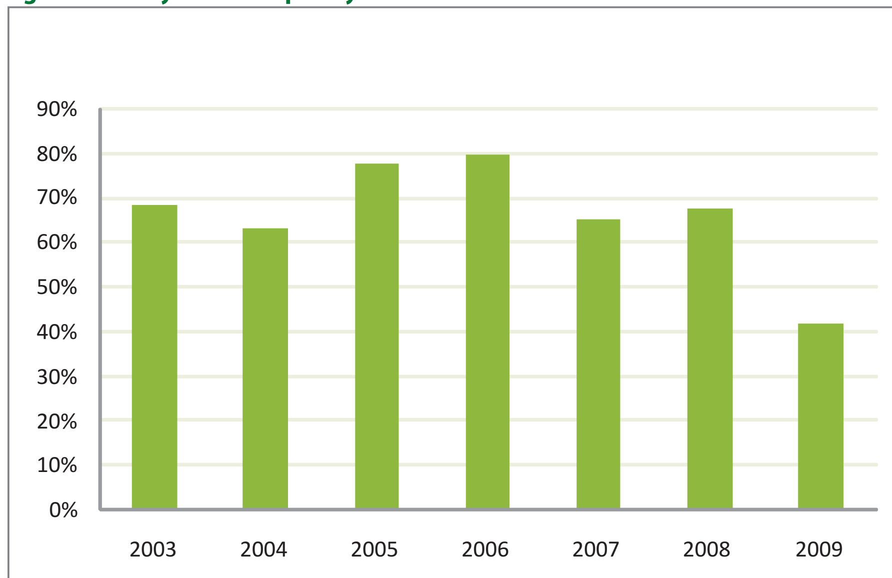


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

The liquidity position of the bank improved marginally from 62.9% in 2004 to 68% in 2008. More of the company's assets were maintained in liquid assets – cash and short term funds, treasury bills and other short term assets until recently when loans and advances surged, growing from 32% of the total asset mix in 2006 to 51% in 2008. In terms of liquidity as measured by the ratio of Liquid Assets/Total Assets, Fidelity Bank's performance has not deviated significantly from that of the industry over the past few years.

Fig. 42: Fidelity Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

Fidelity Bank's EPS declined by 89% in June 2009 as a result of the N19.8 billion provisioning, dropping to N0.05 from N0.46 in June 2008. In the September 2009 interim results, EPS declined by 25% over the corresponding period of 2008, again as a result of N1.91 billion in loan loss provisioning.

Table 37: Fidelity Bank's Financial Summary

Financial Year-End	June	June	June	June	June
Balance Sheet	**2005**	**2006**	**2007**	**2008**	**2009**
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	5,219	12,175	19,734	30,904	24,895
Due from banks in Nigeria	7,095	27,194	24,055	45,933	26,569
Due from banks outside Nigeria	1,186	7,640	11,606	9,529	19,092
Bills Discounted	0	0	0	0	0
Short Term Investments	4,427	25,285	70,954	178,660	161,066
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	0	10	0	0	0
Long Term Investments - Others	618	1,367	3,331	7,178	11,756
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	15,676	46,398	77,173	238,568	243,865
Non-Performing Loan	1,822	7,757	6,264	7,208	48,085
Loans & Advances - Net	13,892	38,661	70,318	229,156	214,922
Advances under finance lease	124	252	1,373	5,228	15,449
Other Facilities	0	0	0	0	0
Other Assets	1,221	2,587	9,690	11,599	8,598
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	1,170	4,814	7,271	17,290	23,920
Goodwill					
Total Assets	**34,953**	**119,986**	**218,332**	**535,480**	**506,267**
Liabilities					
Deposit and Current Account	20,572	78,648	176,416	378,543	355,770
Due to other banks	1,050	2,682	0	0	0
Other Facilities	0	0	0	0	
Managed Funds	0	0	0	0	
Tax Payable	249	855	463	1,368	2,504
Deferred Taxation	188	0	121	1,433	336
Other Liabilities	1,581	10,130	10,818	16,926	17,951
Dividend Payable	0	1,811	0	0	0
Borrowings					
Total Liabilities	**23,640**	**94,126**	**187,818**	**398,270**	**376,561**
Capital & Reserves					
Share Capital	4,275	8,232	8,232	14,481	14,481
Share Premium	4,329	11,441	11,178	101,370	101,272
Statutory Reserve	1,501	2,450	3,698	7,593	8,283
Exchange difference reserve	0	0	0	0	0
General Reserve	757	416	3,676	10,296	2,752
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	452	768	764	764	764
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	0	0	0
Investment Properties Reserve	0	2,554	2,554	1,867	1,867
Minority Interests			413	837	287
Shareholders' Fund	**11,313**	**25,860**	**30,514**	**137,209**	**129,706**
Total Liabilities and Equity	**34,953**	**119,986**	**218,332**	**535,480**	**506,267**

Profit & Loss	**2005**	**2006**	**2007**	**2008**	**2009**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	6,159	11,572	24,859	42,660	72,275
Interest Earnings	4,548	7,670	16,268	30,128	51,303
Interest Expense	(2,250)	(3,170)	(7,415)	(7,926)	(18,018)
Net Interest Income	2,298	4,501	8,854	22,202	33,286
Commission and other Income	1,611	3,902	8,591	12,532	20,971
Operating Income	3,909	8,402	17,444	34,734	54,257
Staff Cost	(896)	(1,959)	(4,478)	(7,677)	(14,431)
Depreciation	(276)	(536)	(657)	(1,213)	(1,989)
Other Operating Expenses	(1,018)	(2,085)	(4,259)	(7,764)	(10,591)
Provision for doubtful accounts	(155)	(235)	(2,938)	(1,774)	(23,477)
Operating Profit	1,564	3,587	5,111	.	3,768

Exceptional Items					
Interest on borrowings	0	0	0	0	
Profit before taxation	1,564	3,587	5,111	16,306	3,768
Info. Tech. devt. levy	0	0	0	0	
Current Taxation	(284)	(425)	(278)	(1,638)	(3,434)
Deferred taxation Expense	0	0	(119)	(1,312)	1,096
Profit after taxation	1,281	3,162	4,714	13,356	1,431
Extraordinary Items					
Minority Interest	0	0	(278)	(206)	403
Amortisation of goodwill	0	0	0	0	
Profit attrib. to shareholders	1,281	3,162	4,437	13,150	1,834
Dividend Proposed	0	1,811	2,634	8,689	1,448

Other Information	2005	2006	2007	2008	2009
Outstanding Shares (million)	8,520	16,464	16,464	28,963	28,963
No. of Employees	405	1,169	1,476	2,707	4,065
No. of Branches	25	80	93	109	140

Table 38: Fidelity Bank's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	26.15%	33.72%	34.56%	29.38%	29.02%
Interest Margin	73.85%	66.28%	65.44%	70.62%	70.98%
Net Interest Margin	37.31%	38.89%	35.62%	52.04%	46.05%
Operating Expenses/Gross Earnings	35.56%	39.57%	37.79%	39.04%	37.37%
PAT/Gross Earnings	20.79%	27.33%	18.96%	31.31%	1.98%
Cost to Income Ratio	0.56	0.55	0.54	0.48	0.50
Pretax Profit Margin	25.40%	31.00%	20.56%	38.22%	5.21%
ROCE	13.83%	13.87%	16.75%	11.88%	2.91%
ROAE	17.30%	17.01%	16.72%	15.93%	1.07%
ROAA	4.10%	4.08%	2.79%	3.54%	0.27%
EPS	0.15	0.19	0.29	0.46	0.05
DPS	0.00	0.11	0.16	0.30	0.05
Operating Income per employee	9,651.42	7,187.57	11,818.55	12,831.14	13,347.34
Operating Expenses per employee	(5,406.83)	(3,917.54)	(6,365.24)	(6,152.14)	(6,644.89)
Profit per branch	62,575.60	44,841.25	54,960.90	149,592.92	26,917.18

Asset Quality Ratios	2005	2006	2007	2008	2009
Interest Income/Earning Assets	15.95%	7.18%	8.79%	6.30%	11.01%
Effective Return on Earnings Assets	15.41%	6.96%	7.20%	5.93%	5.97%
Explicit cost of Debt	10.41%	3.90%	4.20%	2.09%	5.06%
Cost of bad and doubt loans	0.99%	0.51%	3.81%	0.74%	9.63%
% of classified loans	11.62%	16.72%	8.12%	3.02%	19.72%
Loan loss provision/classified loans	97.91%	99.75%	109.43%	130.58%	60.19%

Liquidity Ratios	2005	2006	2007	2008	2009
Liquidity Ratio	77.43%	79.51%	65.04%	67.49%	59.74%
Capital Adequacy Ratios	2005	2006	2007	2008	2009
Equity/Loans & Advances	0.72	0.56	0.40	0.58	0.53
Debt/Equity Ratio	2.09	3.64	6.16	2.90	2.90
Equity/Total Assets	**0.32**	**0.22**	**0.14**	**0.26**	**0.26**

Source: Company's Annual Reports, BGL Research

First Bank of Nigeria Plc

Summary and Investment Case

Table 39: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	17.46
Current Price (N)	15.96
PE	-44.96
EPS (N)	-0.31
Projected EPS	0.70
Projected PE	20.16
Projected DPS	0.50
Projected Dividend Yield	3.50%
Outstanding Shares	29,006,297,203

Source: BGL Research Estimates

- **Nigeria's pioneer bank with over 100 years of existence**
  First Bank of Nigeria Plc (FBN) was founded in 1894 as Bank for British West Africa (BBWA) and immediately absorbed African Banking Corporation which had earlier been established in 1892. In those early days, the bank performed Central Banking functions for the British Colonial Government in the West African sub-region. Along with local rival, Union Bank of Nigeria Plc (UBN), First Bank was listed on the Nigerian Stock Exchange (NSE) in 1971. Having gone through a series of name changes, the bank finally settled for the "First Bank" appellate in 1979.

- **Century II Initiative leads to positive perception of brand**
  In 1998, FBN embarked on a new business transformation initiative–Century II. At the turn of the millennium, the BIG 4 as they were then known, FBN and its peers UBN, UBA Plc and Afribank were largely perceived by the banking public as old-generation banks, a synonym for their conservatism and poor customer service. These banks were under increasing threats from competition posed by the newly established new generation banks riding on the back of modern banking trends and better customer service. Thus, FBN embarked on Century II, to counter this threat and to retain its leadership position. The Century II initiative led to the bank dropping its old-school toga and adopting modern banking methods and new investments in technology.

Table 40: Forecast Valuation

	2010	2011
ROCE	25.03%	31.09%
ROAE	20.24%	30.47%
PE	9.50	5.62
EPS (N)	1.49	2.51
DPS (N)	1.20	1.58
Price (Forward PE Model)	12.19	20.60
Price (DDM)	17.46	22.93
Price (Gordon Growth)	17.62	16.00
Price (DCF)	15.11	19.65

Source: BGL Research Estimates

- **Seeks strength and an African wide expansion through possible merger**
  FBN's leadership size has gradually been eroded by UBA riding on the back of its merger with the then Standard Trust Bank (STB) as well as its Pan-African expansion. Amidst growing investor inertia, FBN has resumed merger talks with Ecobank Transnational Inc. (ETI) (presence in 26 African countries) for the upteempth time. The bank's chances of catching up with UBA might be hinged heavily on the success of such merger plans.

- **Reduced profitability due to capital market exposures**
  FBN achieved a higher Pre-tax Profit of N53.8 billion representing 12.3% growth (N47.9 billion 2008). However, the Group's Net Profit dropped by 65.7% to N12.6 billion from N36.7 billion in 2008 as a result of the write-down of N26.11 billion from the diminution in value of funds under management of its subsidiary First Trustees Nigeria Ltd. The effect of this reduced profit and the dilutive effect of the N250 billion in fresh equity capital raised in 2007 was a lower ROE of 3.7% (10.4%, 2008).

- **Well positioned to benefit from a flight to safety**
  Recent CBN actions aimed at cleaning the stable will lead to a flight to safety by depositors. FBN stands out amongst its peers and should benefit from growing credibility fears amongst bank depositors. The bank has a strong perception for trust and deposit safety amongst the banking public. Going forward, we believe there will be greater emphasis on deposit safety than efficient client service, till the new round of reforms initiated by the CBN is fully institutionalised.

Structure of Business

FBN currently operates across three countries in two different continents – France, Nigeria and the United Kingdom with 523 branches. However, the bank's France representative office was floated by FBN Bank (UK) Limited to handle banking interests from Francophone West Africa. The bank has also received regulatory approval from the China Banking Regulatory Commission (CBRC) to open a Representative Office in Beijing, China.

FBN's Nigerian banking operations like most of its peers still remains the stronghold of the group. The Nigerian operations of the bank contributed 96% of the Group's revenues in 2009 (95%, March 2008).

FBN operates as a well diversified financial conglomerate with interests across different spheres of the financial industry. However, the banking business remains the mainstay of the bank in terms of contributions to revenue and profitability, generating 90% of the group's revenues by March 2009 (89%, March 2008) and 95% of net profits by March 2009 (80%, March 2008) while the other business segments accounted for the balance. We believe regulatory pressures from the CBN on the business activities of banks' subsidiaries will lead to more risk-averse strategies by FBN.

Table 41: FBN's Subsidiaries and Associate Companies

	Country	% Holding	Principal Activity
FBN Bank (UK) Ltd	United Kingdom	100%	Banking
FBN Bureau de Change Ltd	Nigeria	100%	Bureau de change
FBN Capital Ltd	Nigeria	100%	Asset Management
FBN Insurance Brokers Ltd	Nigeria	100%	Insurance Brokerage
FBN MicroFinance Bank Ltd	Nigeria	100%	Banking
FBN Mortgages Ltd	Nigeria	100%	Mortgage financing
First Funds Ltd	Nigeria	100%	Financial services
First Pension Custodian Ltd	Nigeria	100%	Pension custody
First Registrars Nigeria Ltd	Nigeria	100%	Secretarial services
First Trustees Nigeria Ltd	Nigeria	100%	Financial services
Kakawa Discount House Ltd	Nigeria	37.70%	Financial services

Source: Company Data

FBN has adopted a largely organic growth structure though the merger talks with ETI show the bank is open to brown field options. Outside these merger talks, FBN has pursued a largely home-based policy wherein the bank's operations have been mostly domiciled in Nigeria. It has shunned the West African rush of its peers.

Key Strengths

- Strength of brand positions FBN as safety nest for customer deposits: FBN has built a legacy of trust and this perception positions the bank to benefit from a flight to safety of deposits amongst Nigerians. Thus, in the midst of the liquidity contraction, FBN grew deposit liabilities by 70.6% to N1.2 trillion (N700.2 billion, 2008).

- Well diversified network of branches: FBN has a well diversified branch network across Nigeria (total of 523) which gives the bank a comparative advantage over its peers to mobilise cheaper demand deposits and provides a formidable platform to distribute its products.

- Renewed marketing vigour: FBN has embarked on increased marketing and growth of its brand presence to remain competitive. This renewed marketing vigour combined with the existing strength of the bank's brand will see the bank increase its market share.

- Quality of management: Banks in Nigeria have often been criticised for sliding into a one-superman oligarchy with no top-leadership succession plans. FBN has a successful track of transitions of Chief Executives, while its 15-man board which comprised of eight independent non-executive directors ensures adherence to the code of corporate governance.

- Higher Disclosure levels: Though First Bank will only be adopting IFRS accounting standards for the first time in its December 2009 accounts, we note that amongst quoted companies on the NSE, First Bank has a higher than average disclosure level in its audited accounts. The high ethical standards of the bank also increase our level of reliance on its financial statements.

Key Weaknesses

- High dividend payouts: Between 2005 and 2009, FBN had an annual average dividend payout of 92%. We note that this high payout ratio for the five years was largely distorted by the 267% payout ratio of 2009 when N1.35 DPS was paid on an EPS of N0.51, which implies that dividend was funded from the company's reserves. Prior to 2009, dividend payout was 48% of net profit. The high dividend payout in Nigeria can be attributed to high investor expectation and shareholders' activism which places high pressure on quoted companies for high dividend payouts.

- High Interest Expense: Though First Bank is renowned for its large retail numbers (4.2 million customers); its strategy of "sourcing low cost deposits by attracting small savers" has not been particularly effective. Amongst its peers, First Bank has the highest deposit costs (computed as the ratio of interest expenses to total deposits) of 4.60%, Zenith Bank (4.52%), GTBank (3.54%), and UBA (3.10%).

- Dipping shareholders' Returns on Equity: A high investor expectation for dividend payouts in Nigeria has often been at the expense of retained earnings for future business expansion and on the other hand overlooking ROE. First Bank's ROE has been on a steady decline from its five year high of 27% in 2005 to 4% in 2009. The biggest year-on-year drop in ROE occurred in 2008 when it dropped

from 22% the year before to 10%. With more CBN induced write-downs, we expect the 2009 ROE of its peers to dip in similar pattern.

Strategy

- Lower cost of deposit liability through small savers: FBN has traditionally adopted a strategy of "attracting small savers whose principal consideration is the safety of their funds at a relatively low cost". To this end, savings deposits account for 20.25% of total deposit liabilities, the highest amongst its peers, while accounting for 10.41% of interest expense. However, as earlier stated, FBN has the highest cost of deposits in 2009 at 4.60%. To fully achieve the purpose of bringing down the cost of deposits, FBN will need to mobilise more savings deposits. The common year end policy of the CBN will also mean a greater fight for deposits and a higher cost of deposits. Banks will offer higher yields to attract deposits and we believe to remain competitive, FBN may incur higher interest on deposits.

- Infrastructure funding: FBN has become very bullish in the more long-term project financing business, serving as the lead arranger in majority of the big-ticket project financing deals. The bank has signed a number of MOUs with Chinese firms and we believe this must have encouraged the desire for a representative office in China. First Capital has also benefited by providing financial advisory services for these deals.

- Upgrading its IT infrastructure and communication technology: First Bank's ability to place its entire branch network operations at the reach of its large customer base could be the cutting edge strategy that will help increase the bank's market share.

Fresh Capital Raising Plans

At the bank's 2008 Annual General Meeting, shareholders gave approval for fresh capital raising in Tier II capital of N500 billion (US$3.31 billion) in non-convertible bonds. The issue will be "in such tranches, series or proportions" as "demand requires". The lull in the primary and secondary equity markets has generated renewed excitement for corporate bonds in Nigeria. The liquidity of the bond and its trading on the NSE will determine the overall success of the offering. The bank's bullish forays into long-term infrastructure funding will be greatly enhanced by this new injection of long term funding.

In a conference call with analysts, First Bank's CEO said the bank intends to use the planned N500 billion (US$3.3 billion) bond to help fund acquisitions both in Nigeria and abroad. However, recent Fitch Ratings downgrades could reduce the appetite for the bond offering amongst international institutional investors. Fitch downgraded the individual credit rating of First Bank of Nigeria Plc to 'D/E' from 'D', reflecting "a significant deterioration in asset quality" and "increasing levels of concentrated debt risk." It however maintained the long-term issuer default rating of 'B+', with the outlook on this rating remaining "stable."

Ownership Structure

Official data from FBN states that no single shareholder of the bank owns up to 5% of the bank's issued share capital. Amongst the Board members, the Chairman, Dr. Otudeko, Ayoola Oba holds 1.94% in direct and indirect holdings and is the single largest shareholder on the board while former Chairman, Alhaji U. A. Mutallab ranks behind him with 1.17%. Altogether the company has over 1.3m shareholders and has the most diversified ownership structure amongst listed companies on the Nigerian Stock Exchange.

Financial Performance

FBN has traded at a 52 week high of N28.71 (1 September 2008) and a 52 week low of N12.70 (21 August 09). However, we recollect that the bank remains the only Nigerian company to have crossed the N1 trillion naira mark (US$84.96m) in market capitalisation (11 February 2008) when its share price reached N52.25.

Following the regulatory-induced consolidation of 2006, triple digit growth year-on-year amongst Nigerian banks became common place. However, First Bank has had a more conservative growth level, with most of its financial indices growing by double digits.

First Bank grew its year-on-year earnings by 40% in 2009 to N218.3 billion (N155.7 billion, 2008) and a five year CAGR growth of 31%. Despite the risk management policies of the bank which placed a cap of 10% of Total Loan Portfolio (TLP) on margin lending exposures, the capital market activities of the bank's subsidiary– First Trustees led to a 42% dip in pre-tax profits and a 66% dip in PAT. Nevertheless, on a five year CAGR basis, pre-tax profits grew by 10% to 2009 while PAT dipped by 1%. Prior to 2009, First Bank ranked only behind GTB in pre-tax margins. First Bank's pre-tax profits were at a five year high in 2006 at 32.37% but hit a five year low of 12.68% in 2009.

Cost to income ratio of the bank increased from 0.54 in 2008 to 0.55 in 2009 which has further declined 0.62. This was driven by a 30% rise in operating expenses to N88.4 billion in 2009 (N68 billion, 2008). Staff Costs were the major drivers of operating expenses. First Bank's Operating Expense per employee grew by 35% to N10.3m from N7.68m the year before. Staff Costs was 51.8% of total operating expense for 2009, up from 37% from the year before. The competition for skilled labour in the financial sector implies that staff costs will continue to put more pressure on operating expenses.

In Nigeria, the Total Asset Size of banks is a major ego index. First Bank has the largest asset size in the industry; this crossed the N2 trillion mark in 2009 when it hit N2.009 trillion, a 31% growth over 2008's figure (1.528 trillion). The major drivers of the growth in Total Assets were the loan books and placements with local and foreign banks. Placements with local banks increased by 49% to N452 billion (N304 billion, 2008) while placements in foreign banks grew by 21% from N256.9 billion to N312 billion.

In its half year interim results of September 2009, First Bank made an additional N29.5 billion (N3.04 billion, September 2008) provision for risk assets. This deterioration in risk asset quality reflects the effects of the aggression in risk asset creation without the corresponding improvement in the risk management framework. However, First Bank's high disclosure levels and the new information framework which aims for higher disclosures allows for the proper dissemination of information to assist investors.

Whilst maintaining a strong focus on its traditional retail and consumer banking, riding on the back of its 523 branch network, FBN's strength lies in corporate banking. As at March 2009, FBN had a Total Loan Portfolio (TLP) of N763.7 billion of which the bank has a 67% exposure to Corporates, 13% to Consumer Loans and 20% to retail businesses.

FBN is the largest lender in Nigeria with 8.8% market share of total industry loans and a 7% market share of deposits placing it in the fifth position. In September 2009, the bank improved its Loan to Deposit ratio to 72% from 103% in September 2008 through deposit growth of 41% to N1.2 trillion (N851 billion, September 2008) and a 1% drop in loans in September 2009.

Fig. 43: First Bank's Earnings

Source: Company's Annual Reports, BGL Research

Performance Ratios

First Bank emerged top along with Zenith bank amongst its peers in Interest Margin (Interest Income/Gross earnings), with its five year average of 66%. First bank recorded the highest year on year growth in interest margins in 2009 with the 8% growth to record 72%. The growth in Interest margins was spurred by the growth of the loans. First Bank's Loans grew 61% year-on-year in 2009, the highest amongst its peers to N763.7 billion (475.7 billion, 2008).

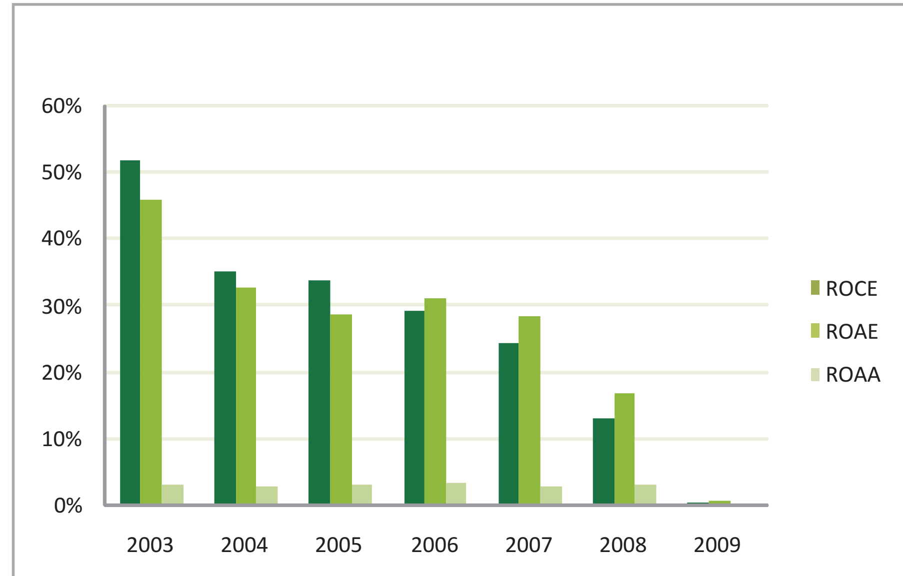
This growth in First Bank's loans impacted on the company's revenues. Interest Earnings on loans and advances in 2009 were N112.6 billion representing 72% of the bank's total interest earnings (61%, 2008). Though year-on-year comparisons of revenues from inter-bank placements with local banks grew by 10% from N21 billion

in 2008 to N23.2 billion in 2009, as a percentage of interest earnings it dropped by 6% from 21% in 2008 to 15% in 2009. This is as a result of crisis of confidence amongst peers in the banking industry during the financial year. Going forward, the CBN's guarantee of local placements with banks could improve revenue streams from inter-bank placements.

First Bank's Interest Income from its core banking operations finally crossed the 70% mark in 2009 for the time since 2003. We categorise incomes from placements with local and foreign banks, interest on loans and advances, commissions on managed funds, and income from treasury bills as income from core banking operations. Fees and commission based incomes from the bank's other business activities are classified as non-core banking operations. Nigerian banks derive 30-40% of their revenue streams from non-banking operations and we believe going forward the CBN will bring the activities of banks' subsidiaries under greater scrutiny. First Bank depends principally on income from risk assets as interest income forms the major component of gross earnings. First Bank's incomes from non-banking operations hovered between 30-40% from 2004 to 2008 but dropped to 28% in 2009 due to the growth in income from its lending activities.

Likewise, Net Interest Income/Gross Earnings grew thinly from 44.4% in 2008 to 46.7% in 2009, probably due to higher interest rates on lending.

Fig. 44: First Bank's Performance Ratios



Source: Company Annual Reports, BGL Research

Asset Quality Ratios

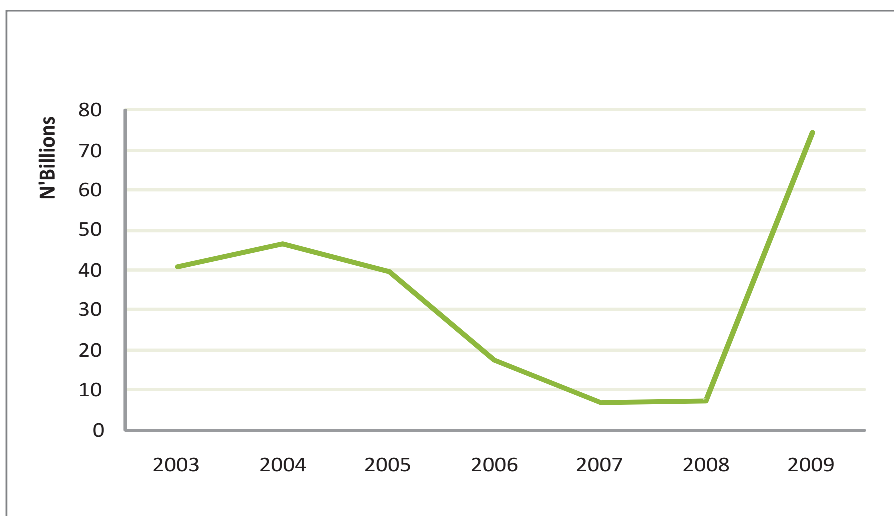
In 2009, First Bank had a 64% provisioning for classified loans. This is the first time in three years loan loss provisions for classified loans dropped below 100%. Concurrently, the bank's Non-performing loans (NPL) which had been decreasing as a proportion of the total loan portfolio since 2007, increased by 3% to 4.78% of TLP in 2009. As a result, the bank's cost of bad and doubtful debts doubled in 2009 to 2.55% (1.27%, 2008).

The bank maintains a risk management policy of not committing more than 10% of TLP to lending against shares, thus exposure secured by shares stood at N58 billion, representing 7.8% of TLP (N32.99 billion, 7.2% - 2008). The significant drop in value of quoted securities and the stock market downturn has however led to the bank freezing all capital market lending.

The bank's other Capital Adequacy ratios, although declined from previous year; still remain above the regulatory benchmark. First Bank's Debt / Equity Ratio increased from 3.34 to 4.96, while Equity / Total Assets dropped from 0.23 to 0.17. The bank's Equity / Loans and Advances which fell from 0.74 to 0.44 were due to the 61% growth in risk assets in 2009 and the 4% drop in shareholders funds due to write downs during the year.

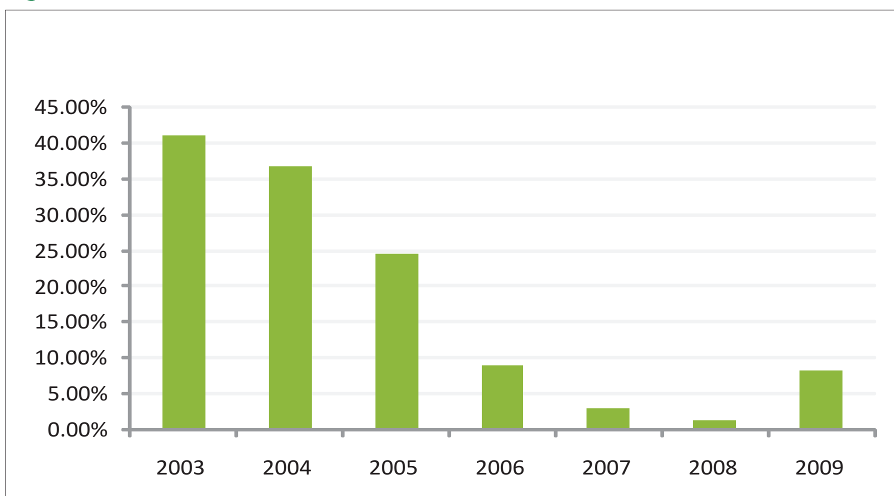
We also note the concentration risk of the bank's loan books. First Bank has over 4.5m accounts but the top 20 lenders account for 34% of the Bank's Total Loan Portfolio.

Fig. 45: First Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 46: First Bank's % of Classified Loans

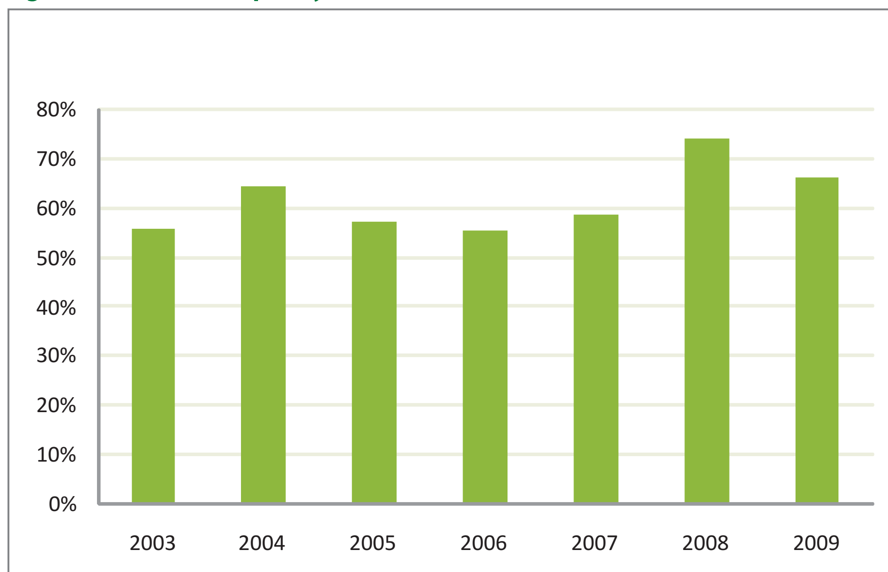


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

First Bank has Nigeria's largest Loans and Advances amounting to N763.7 billion. However, amongst the top banks, GTB has the highest Loan to Deposit ratio of 91% while First Bank has 64% (68%; 2008). Zenith and UBA are better known for their coyness in risk asset creation with both maintaining sub 40% Loan / Deposits ratio. Although First Bank's liquidity ratio dropped from 73.75% in 2008 to 56.54% in 2009, it was still safely above the 25% regulatory threshold.

Fig. 47: First Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earning per share

Prior to the 65% dip in 2009 PAT, First Bank's PAT recorded a 26% CAGR growth from 2004 to 2008. Despite this growth in PAT, the bank's EPS dipped by 11% CAGR over the same period and then dropped year on year by 73% to N0.51 in 2009. This was due to the dilutive effect of the bank's stock dividend policy. First Bank has consistently sought to meet the local investor's expectation of stock dividends which has led to the consistent increase in its outstanding shares.

Table 43: First Bank's Financial Summary

Financial Year End	March	March	March	March	March
Balance Sheet	**2005**	**2006**	**2007**	**2008**	**2009**
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	32,856	50,992	61,844	88,351	140,403
Due from banks in Nigeria	40,234	39,658	56,405	304,237	452,104
Due from banks outside Nigeria	89,047	129,922	208,000	256,642	311,944
Bills Discounted	105,624	108,316	159,832	115,480	17,697
Short Term Investments	0	0	75,847	100,665	153,347
Managed Funds	0	0	22,070	56,021	36,894
Long Term Investments - FGN Bonds	11,331	49,096	46,487	22,066	8,200
Long Term Investments - Others	10,320	11,779	10,506	32,076	39,480
Investment/Trading Properties	0	0	186	1,974	6,098
Loans & Advances - Gross	161,684	191,672	225,084	475,701	763,777
Non-Performing Loan	39,574	17,345	6,719	7,128	36,487
Loans & Advances - Net	123,739	177,303	217,995	466,096	740,397
Advances under finance lease	1,283	1,701	3,043	10,297	11,769
Other Facilities	0	0	0	0	0
Other Assets	43,716	31,851	31,664	44,275	51,888
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	12,689	14,222	17,548	30,054	39,693
Goodwill	0	0	0	0	0
Total Assets	**470,839**	**614,840**	**911,427**	**1,528,234**	**2,009,914**
Liabilities					
Deposit and Current Account	331,806	448,915	599,689	700,182	1,194,456
Due to other banks	390	323	85,664	155,109	170,410
Other Facilities	0	0	0	0	0
Managed Funds	0	0	22,070	62,514	93,296
Tax Payable	4,758	5,142	7,470	8,986	10,713
Deferred Taxation	2,089	2,746	2,657	6,743	13,634
Other Liabilities	75,666	90,183	88,149	213,432	154,958
Dividend Payable	6,325	5,238	0	0	0
Borrowings	0	0	22,101	29,414	35,042
Total Liabilities	**421,034**	**552,547**	**827,800**	**1,176,380**	**1,672,509**
Capital & Reserves					
Share Capital	1,976	2,619	5,238	9,945	12,432
Share Premium	10,076	12,644	15,858	254,524	254,524
Statutory Reserve	8,950	11,358	13,465	18,056	23,424
Exchange difference reserve	3,957	3,343	4,066	3,459	733
General Reserve	15,358	20,364	33,832	51,565	30,648
Bonus Issue Reserve	494	2,619	873	2,487	2,072
Reserve for SMEIS	5,536	6,967	7,916	9,439	11,193
Revaluation Reserve	2,379	2,379	2,379	2,379	2,379
Capital Reserve	0	0	0	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests	1,079	0	0	0	
Shareholders' Fund	49,805	62,293	83,627	351,854	337,405
Total Liabilities and Equity	470,839	614,840	911,427	1,528,234	2,009,914

Profit & Loss	**2005**	**2006**	**2007**	**2008**	**2009**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	57,255	67,440	91,163	155,725	218,287
Interest Earnings	36,455	40,743	62,579	100,703	156,932
Interest Expense	(8,555)	(10,040)	(18,357)	(31,569)	(54,908)
Net Interest Income	27,900	30,703	44,222	69,134	102,024
Commission and other Income	20,800	26,697	28,584	55,022	61,355
Operating Income	48,700	57,400	72,806	124,156	163,379
Staff Cost	(12,757)	(15,348)	(19,908)	(33,431)	(45,819)
Depreciation	(2,385)	(3,217)	(3,570)	(4,671)	(6,203)
Other Operating Expenses	(14,319)	(16,720)	(21,453)	(29,902)	(36,375)
Provision for doubtful accounts	(2,431)	(3,985)	(2,021)	(6,028)	(19,439)
Operating Profit	16,808	18,130	25,854	50,124	55,543

Exceptional Items	0	3,703	0	0	(26,113)
Interest on borrowings	0	0	0	(2,218)	(1,744)
Profit before taxation	16,808	21,833	25,854	47,906	27,686
Info. Tech. devt. levy	0	0	0	(480)	(526)
Current Taxation	(3,110)	(3,720)	(5,308)	(6,705)	(7,690)
Deferred taxation Expense	(464)	(730)	90	(4,042)	(6,901)
Profit after taxation	13,234	17,383	20,636	36,679	12,569
Extraordinary Items					
Minority Interest	(184)	0	0	0	0
Amortisation of goodwill	0	0	(1,984)	0	0
Profit attrib. to shareholders	13,234	17,383	18,652	36,679	12,569
Dividend Proposed	6,325	5,238	10,477	23,868	33,564

Other Information	2005	2006	2007	2008	2009
Outstanding Shares (million)	3,952	5,238	10,476	19,890	24,864
No. of Employees	6,988	7,132	7,593	8,856	8,557
No. of Branches	370	394	414	469	536

Table 44: First Bank's Ratios and Analysis

Perfomance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	36.33%	39.59%	31.35%	35.33%	28.11%
Interest Margin	63.67%	60.41%	68.65%	64.67%	71.89%
Net Interest Margin	48.73%	45.53%	48.51%	44.39%	46.74%
Operating Expenses/Gross Earnings	51.46%	52.32%	49.29%	43.67%	40.50%
PAT/Gross Earnings	23.11%	25.78%	22.64%	23.55%	5.76%
Cost to Income Ratio	0.60	0.61	0.62	0.55	0.54
Pretax Profit Margin	29.36%	32.37%	28.36%	30.76%	12.68%
ROCE	33.75%	29.10%	24.45%	13.15%	14.91%
ROAE	28.73%	31.01%	28.28%	16.85%	3.65%
ROAA	3.10%	3.20%	2.70%	3.01%	0.71%
EPS	3.35	3.32	1.97	1.84	0.51
DPS	1.60	1.00	1.00	1.20	1.35
Operating Income per employee	6,969.09	8,048.23	9,588.57	14,019.42	19,093.02
Operating Expenses per employee	(4,215.94)	(4,947.42)	(5,917.42)	(7,678.86)	(10,330.37)
Profit per branch	45,427.03	46,015.23	62,449.28	106,874.20	103,625.00

Asset Quality Ratios	2005	2006	2007	2008	2009
Interest Income/Earning Assets	8.91%	7.83%	8.08%	7.84%	9.13%
Effective Return on Earnings Assets	8.31%	7.06%	7.82%	7.37%	8.00%
Explicit cost of Debt	2.58%	2.23%	2.59%	3.82%	4.05%
Cost of bad and doubt loans	1.50%	2.08%	0.90%	1.27%	2.55%
% of classified loans	24.48%	9.05%	2.99%	1.50%	4.78%
Loan loss provision/classified loans	95.88%	82.84%	105.51%	134.75%	64.08%

Liquidity Ratios	2005	2006	2007	2008	2009
Liquidity Ratio	57.21%	55.22%	58.42%	73.75%	56.54%
Capital Adequacy Ratios	2005	2006	2007	2008	2009
Equity/Loans & Advances	0.31	0.32	0.37	0.74	0.44
Debt/Equity Ratio	8.45	8.87	9.90	3.34	4.96
Equity/Total Assets	0.11	0.10	0.09	0.23	0.17

Source: Company's Annual Reports, BGL Research

First City Monument Bank Plc

Summary and Investment Case

- **Starts off as a stock broking enterprise in 1977**
  First City Monument Bank (FCMB) commenced business in September 1977 as City Securities Limited, the progenitor of the entire First City Group. Afterwards, the bank was established in 1982 as "First City Merchant Bank" and began operations in August 1983 with a N2m capital base – establishing the precedence of the first wholly owned Nigerian bank without foreign technical partners at the time. Its core business activities then included issuing house, stock broking and share registration. Upon the adoption of the universal banking model in 2001, the bank had its named changed to First City Monument Bank and was subsequently listed on the Nigerian Stock Exchange in 2004. During the consolidation of 2005, the bank merged with Cooperative Development Bank Limited, Nigerian-American Bank Limited and eventually acquired Midas Bank Limited.

Table 45: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	11.85
Current Price (N)	9.45
PE	-15.51
EPS (N)	-0.46
Projected EPS	0.97
Projected PE	6.17
Projected DPS	0.52
Projected Dividend Yield	4.56%
Outstanding Shares	16,380,311,234

Source: BGL Research Estimates

- **Maintains strong Investment and corporate banking pedigree**
  FCMB has traditionally maintained a strong investment banking pedigree. The bank has identified transaction banking (trade services and cash management), investment banking (brokerage and asset management) and consumer banking as priority areas to accelerate growth. With a strong local and international distribution network, investments in people and technology, and strategic alliances and partnership to enhance consumer banking the bank seems poised to reinforce its potential for high-growth locally and internationally. The bank also innovates as necessary in order to deploy consistent cutting-edge products and services and leverage cutting edge enterprise risk management and emerging opportunities.

- **Bullish expansion of Retail Banking business**
  FCMB has identified retail banking as an outlet it wants to focus more on and is therefore expanding its retail banking capacity, by targeting retail deposits of over N130 billion by December 2009. Despite the bank's strengths in institutional banking, Retail Deposits remain the highest deposit contributor in October 2009 with 46% while Institutional Banking contributed 43%. As interest income comes under threat, FCMB seeks to focus on fee and other income opportunities in retail lending.

Table 46: Forecast Valuation

	2010	2011
ROCE	22.13%	23.09%
ROAE	15.99%	16.31%
PE	4.53	3.98
EPS (N)	1.33	1.51
DPS (N)	0.70	0.80
Price (Forward PE Model)	10.87	12.37
Price (DDM)	11.85	13.89
Price (Gordon Growth)	11.51	12.37
Price (DCF)	16.33	17.69

Source: BGL Research Estimates

- **Margin exposures and Oil and Gas Lending top N5.73 billion provisioning**
  In the October 2009 half-year interim results, FCMB made a provision of N5.73 billion, having made a recovery of N5.2 billion from the N10 billion additional provisioning recognised in July 2009. Of the N5.73 billion provision in October 2009, margin exposures contributed the bulk with 44% while oil and gas con-

tributed 18%. Overall, the bank's half year Net Profits dropped by 105% from N9.368 billion in October 2008 to a Loss after tax of N479m in 2009. This had substantial effects on ROE and ROA which fell by 105% apiece to -0.37% and -0.11% respectively.

Structure of Business

With a nationwide network of about 150 branches and several subsidiaries as well as the inclusion of 76 new ATMs and 1,000 more sales agents in the 2008 financial year, FCMB expanded its distribution network considerably.

At FCMB, business is organised into four major segments - Corporate Banking, Public Sector Banking, Small & Medium Scale Enterprise Banking, and Individual Banking.

Shareholding Structure

The bank's authorised share capital is N10 billion made up of 20 billion ordinary shares at 50k each, of which 16,271,192,202 ordinary shares have been issued.

Table 47: FCMB's Shareholding Structure

Name	Number of shares	% of Shareholding
Capital IRG Trustees Limited	1,231,556,400	7.57
Stanbic Nominees Nig. Ltd – Trading	860,561,929	5.29
Others	14,179,073,087	87.14

Source: Company's Annual Report, 2008

Key Strengths

- Strong investment banking pedigree: Having won the following awards in investment banking - ThisDay Award for the "Stock Offer of The Year" in 2005, the Reuters/SBA Research Mergers & Acquisition Award as the leader in Mergers & Acquisition in Nigeria by FCMB Capital Market, coveted trophy for the most consistent issuing house in Nigeria between 1993 and 1998, an A+/A1 rating from Global Credit Ratings, Africa's premier rating agency, Standard & Poor's (S&P) Ratings of A-/A-2 long and short-term Nigeria national scale ratings effective May 2009, Euro Money award for Excellence 2007 as Best investment Bank in Nigeria, Euro Money award for Excellence 2008 as Best Equity investment house in Nigeria, FCMB seems to have differentiated itself as a leading investment banking firm.

- Transparent Banking Activities: With the guiding principles of the FCMB code of corporate governance being all power belongs to the shareholders, effective communication and information sharing and transparency with full disclosure of accurate, adequate and timely information regarding personal interest of directors, FCMB displays how much she epitomizes transparency.

- Comprehensive Risk Management Framework: FCMB recognises that the effectiveness of a risk management function is fundamental to business. This informed the intensive roles played by the Board in the implementation of risk management, and thus the bank's low exposure to non-performing loans.

- Strong Information Technology Infrastructure: With the deployment and implementation of the current technology platform in 2008, the bank seems on course in providing a global standard for itself in meeting regulatory requirements, full banking functionality and market presence.

Key Weaknesses

- Minimal organisational presence internationally: Although the bank has significant presence in Nigeria, there seems to be no strategic plan to expand into the international domain.

- Infrastructural Inadequacies in Nigeria: This is definitely an issue since the deployment of technology for consumer use is a function of bandwidth and other infrastructural processes in plan. Although the bank seems to have positioned herself to leverage on technology, it is not certain that consumers would embrace this with the same gusto.

- Dipping Interest Margins: Higher interest rates will however be a deterrent for customers. For the bank to remain competitive it would have to find innovative ways to manage the declining interest margins while maintaining profit targets.

Strategy

FCMB's strategy revolves around three themes:

- Consumer Bankingbanking: the bank intends to differentiate itself through global partnerships, wealth management offerings, robust customer lending platforms and efficient distribution channels.

- Investment Banking: Although market capitalisation has fallen due to the economic meltdown and arguably the financial industry shakeup by the apex bank, FCMB intends to compete in the 'unfavourable weather' through its people (management and workforce), local and international distribution, strong corporate relationships with investment led product offerings, and significant balance sheet.

- Transaction Banking (Trade and Cash Management): With the sudden drive for fixed income instruments in the marketplace, FCMB intends to compete through consistent product innovation, technology, and strong and skilled workforce in order to take advantage of the current situation.

Financial Performance

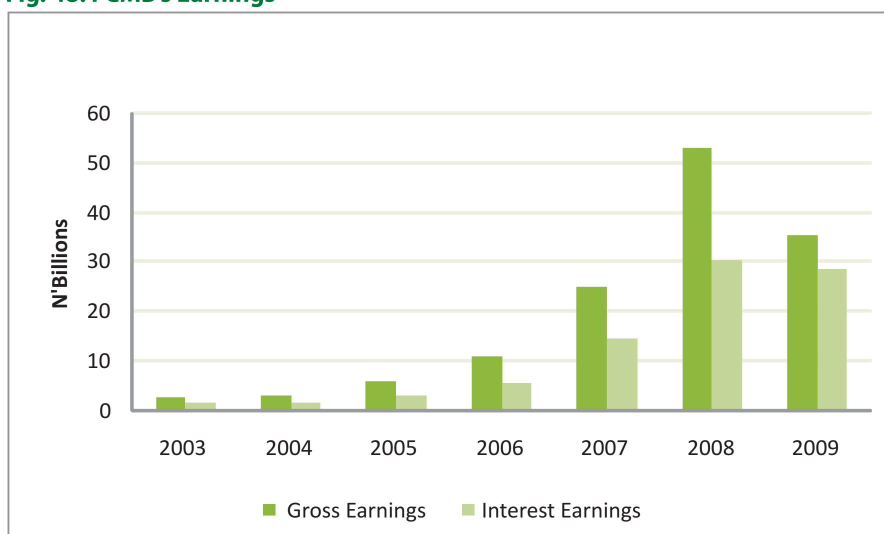
Like all banking stocks, FCMB is not left out of the heat from the bearish sentiment in the market. Although it was expected that there will be an upward thrust due to the bonus issue and 50K dividend of August 2008, the reverse was the case. The stock price has lost more than 80% since early August 2008 and arguably would have dipped more if not for the technical suspension along with the other five banks suspended by CBN. While it is generally believed that the price slump is as a result of the market situation, the inability of the market to respond to the bonus issue and dividend could be an indication of loss of confidence in the performance of the stock.

However, the bank commenced a business process re-engineering exercise in 2008, although it has become relatively difficult to evaluate and monitor the results of this due to the change in management. Like virtually all the banks in Nigeria which benefited from the industry boom of 2007, FCMB grew its Gross Earnings by 79% from about N28 billion in 2007 to about N50 billion in 2008. Low asset quality ratios like interest income per earning assets and explicit cost of debt could arguably indicate an aversion to risks, which informs low business turnover especially when one considers the high liquidity ratio – 88% of the bank.

Although earnings growth has not reached the margins posted just after consolidation in 2006 – about 405%, the 80% posted in 2007 and the 109% in 2008 arguably shows the bank is gradually taking a strategic position in the market. In an attempt to further remain competitive in the pursuit of returns to meet earnings expectations, FCMB seems to have recognised the fact that there is a need to adopt international banking standards and technologies. This perhaps informed the strategic restructuring of business processes currently being implemented.
FCMB depends principally on income from risk asset as interest income forms the major component of Gross Earnings. Interest Margins averaged 73% over the last 5 years, well above the industry average of about 60%. The bank therefore needs to increase its risk assets creation rather than keeping its earnings assets in low-yield liquid assets.

Operating income per employee, operating expenses per employee and income per branch all increased by about 35% in 2008 – which is an indication of profitability and staff relevance. Worthy of note though is that operating income per employee was about 73%, profit per branch rose by an astounding 100% and operating expenses were kept at 38.74% of Gross Earnings.

Fig. 48: FCMB's Earnings



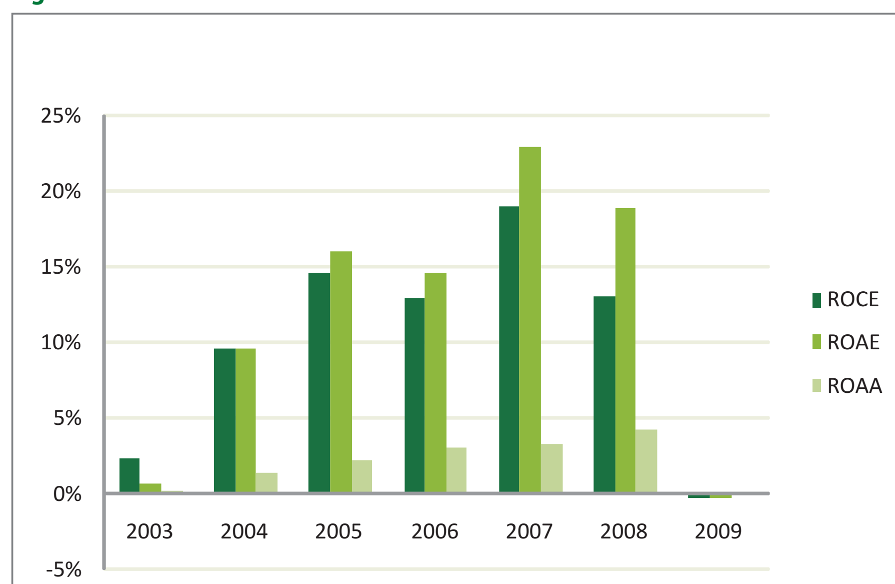
Source: Company's Annual Reports, BGL Research

Performance Ratios

All performance ratios fell in the current year compared to the previous year. FCMB's income from core operations fell from 66.38% in 2006 to 54.87% in 2007; although this increased to 62.68% in 2008, the drop reflected in the operating expenses between 2007 (43.47%) and 2008 (38.98%) are arguably clear signs of dwindling operational performance.

Also, a critical review of the bank's Net Interest margin reveals relatively no change at about 37% between 2007 and 2008 with a decrease of about 10% between 2006 and 2007. Operating Expenses as a percentage of Gross Earnings consistently decreased from 2004 to 2008 from about 63% to 38% with a slight increase between 2005 and 2006 –a result of consolidation. On the whole, the bank has been able to consistently keep operating expenditure minimal.

Fig. 49: FCMB's Performance Ratios



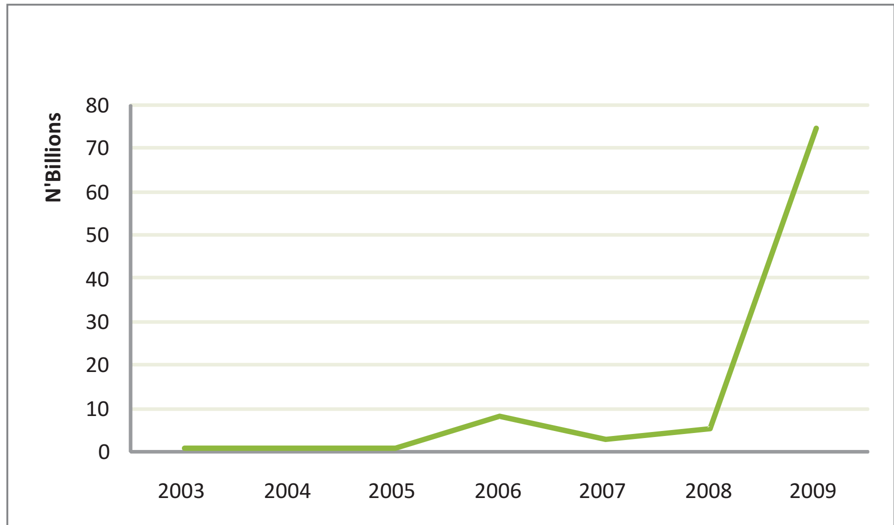
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

Interestingly, FCMB's asset quality ratios reveal improvements over the previous years with exceptions in the cost of bad and doubtful loans, classified loans and loan loss provision – apparently in a move to reduce it's exposure to bad or non-performing loans. The bank's gross returns from earning assets reduced from 12.88% in 2005 to 9.81% in 2006 while its effective return on earning assets also reduced from 12.58% in 2005 to 9.41% in 2006. Although there are a few dips in 2006, once again this is clearly the result of consolidation.

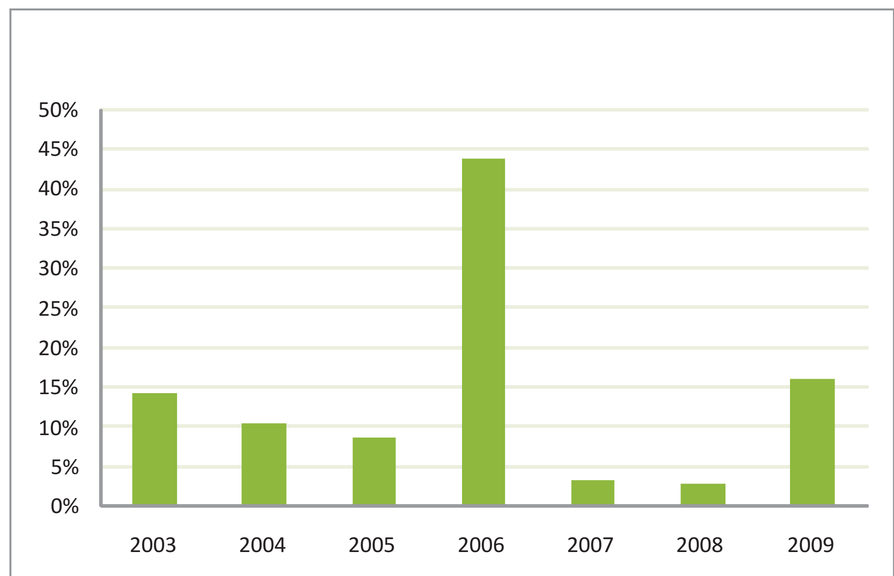
These ratios are reflective of the conservative nature of the bank's operation. By keeping its growth in risk assets creation very minimal, the bank has been able to avoid the need for huge provisioning.

Fig. 50: FCMB's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 51: FCMB's % of Classified Loans

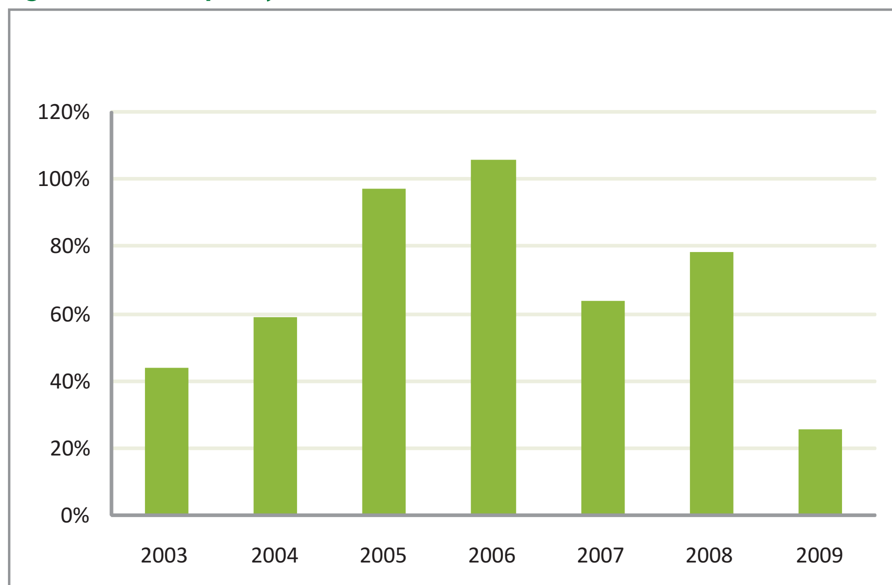


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Expectedly, since the bank did not invest in loans and advances, a significant portion of its deposit was kept in liquid form; hence the high liquidity ratio of 52%, well above the 25% benchmark in 2009.

Fig. 52: FCMB's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

Although the bank's EPS rose marginally from N1.02 in 2007 to N1.64 in 2008, a historical review reveals that between 2004 and 2005 there was a significant decrease from 0.68 to 0.02.

Table 48: FCMB's Financial Summary

Financial Year-end	April	April	April	April	April
Balance Sheet	**2005**	**2006**	**2007**	**2008**	**2009**
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	3,325	8,132	16,814	8,473	7,169
Due from banks in Nigeria	20,974	54,347	84,746	184,285	165,146
Due from banks outside Nigeria	2,469	3,264	14,927	10,463	
Bills Discounted	0	0	0	0	
Short Term Investments	2,000	12,058	22,651	22,403	4,430
Managed Funds	0	0	0	0	
Long Term Investments - FGN Bonds	0	0	5,735	1,855	2,622
Long Term Investments - Others	160	302	2,142	2,483	30,267
Investment/Trading Properties	0	0	0	0	
Loans & Advances - Gross	12,556	26,311	86,824	193,394	295,194
Non-Performing Loan	983	8,254	2,740	5,291	29,874
Loans & Advances - Net	11,436	18,887	83,393	186,634	271,103
Advances under finance lease	381	904	552	2,297	2,114
Other Facilities	0	0	8,880	0	
Other Assets	8,670	1,535	18,791	29,174	10,450
Deferred Tax Assets	0	0	0	2,639	1,300
Fixed Assets	1,903	6,938	12,775	16,630	21,001
Goodwill	0	0	0		
Total Assets	**51,318**	**106,368**	**262,535**	**467,337**	**515,602**
Liabilities					
Deposit and Current Account	26,857	70,297	187,671	251,223	321,219
Due to other banks	266	400	15,637	26,231	27,016
Other Facilities	0	0	0	0	
Managed Funds	0	0	0	0	
Tax Payable	200	893	1,484	5,290	2,584
Deferred Taxation	267	516	762	3,649	2,097
Other Liabilities	15,886	6,953	13,208	22,754	22,446
Dividend Payable	334	1,235	3,326	0	
Borrowings	250	1,396	13,144	24,539	11,184
Total Liabilities	**44,060**	**81,691**	**235,231**	**333,686**	**386,546**
Capital & Reserves					
Share Capital	2,226	4,751	4,751	8,136	8,136
Share Premium	3,295	17,111	17,111	108,369	108,369
Statutory Reserve	1,154	1,850	3,592	7,851	
Exchange difference reserve	0	0	0	0	
General Reserve	289	337	1,223	8,618	12,551
Bonus Issue Reserve	0	0	0	0	
Reserve for SMEIS	295	628	628	659	
Revaluation Reserve	0	0	0	0	
Capital Reserve	0	0	0	0	
Investment Properties Reserve	0	0	0	0	
Minority Interests	0	0	0	18	
Shareholders' Fund	7,258	24,677	27,304	133,651	129,055
Total Liabilities and Equity	**51,318**	**106,368**	**262,535**	**467,337**	**515,602**

Profit & Loss	**2005**	**2006**	**2007**	**2008**	**2009**
	N'm	**N'm**	**N'm**	**N'm**	**N'm**
Gross Earnings	6,121	11,045	24,973	52,819	71,658
Interest Earnings	3,360	5,550	14,635	30,195	43,179
Interest Expense	(1,629)	(2,769)	(4,990)	(9,242)	(12,236)
Net Interest Income	1,732	2,781	9,645	20,954	30,943
Commission and other Income	2,761	5,495	10,338	22,624	28,479
Operating Income	4,492	8,276	19,983	43,577	59,422
Staff Cost	(1,135)	(1,940)	(6,021)	(10,988)	(15,273)
Depreciation	(288)	(568)	(1,214)	(1,828)	(2,401)

Other Operating Expenses	(1,205)	(2,209)	(3,598)	(7,085)	(9,798)
Provision for doubtful accounts	(771)	(206)	(1,512)	(3,159)	(18,381)
Operating Profit	1,093	3,352	7,638	20,517	13,569
Exceptional Items					
Interest on borrowings	0	(17)	(69)	0	
Profit before taxation	1,093	3,335	7,569	20,517	13,569
Info. Tech. devt. levy	0	0	0	0	
Current Taxation	(208)	(869)	(1,375)	(5,159)	(4,342)
Deferred taxation Expense	(83)	(153)	(245)	(249)	
Profit after taxation	802	2,313	5,949	15,109	9,227
Extraordinary Items					
Minority Interest	0	0	0	(18)	
Amortisation of goodwill	0	0	0		
Profit attrib. to shareholders	802	2,313	5,949	15,091	9,227
Dividend Proposed	334	1,235	3,326	8,136	3,691

Other Information	2005	2006	2007	2008	2009
Outstanding Shares (million)	4,453	9,502	9,502	16,271	16,271
No. of Employees	521	1,363	2,112	2,385	2,363
No. of Branches	26	74	109	145	146

Table 49: FCMB's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2005	2006	2007	2008	2009
Commissions/Gross Earnings	45.10%	49.75%	41.40%	42.83%	39.74%
Interest Margin	54.90%	50.25%	58.60%	57.17%	60.26%
Net Interest Margin	28.29%	25.18%	38.62%	39.67%	43.18%
Operating Expenses/Gross Earnings	42.94%	42.71%	43.38%	37.68%	38.34%
PAT/Gross Earnings	13.10%	20.95%	23.82%	28.61%	12.88%
Cost to Income Ratio	0.59	0.57	0.54	0.46	0.46
Pretax Profit Margin	17.86%	30.19%	30.31%	38.84%	18.94%
ROCE	14.56%	12.86%	18.88%	12.97%	9.68%
ROAE	15.95%	14.49%	22.89%	18.77%	7.02%
ROAA	2.14%	2.93%	3.23%	4.14%	1.88%
EPS	0.18	0.24	0.63	0.93	0.57
DPS	0.08	0.13	0.35	0.50	0.23
Operating Income per employee	8,622.28	6,071.55	9,461.75	18,271.34	25,150.00
Operating Expenses per employee	(5,044.50)	(3,460.79)	(5,129.14)	(8,344.01)	(11,630.00)
Profit per branch	42,040.23	45,298.64	70,075.49	141,498.80	92,940.00

Asset Quality Ratios	2005	2006	2007	2008	2009
Interest Income/Earning Assets	8.76%	5.73%	6.79%	7.28%	24.77%
Effective Return on Earnings Assets	6.75%	5.52%	6.09%	6.52%	14.23%
Explicit cost of Debt	5.95%	3.86%	2.34%	3.06%	3.40%
Cost of bad and doubt loans	6.14%	0.78%	1.74%	1.63%	6.23%
% of classified loans	8.60%	43.70%	3.29%	2.83%	10.12%
Loan loss provision/classified loans	113.89%	89.93%	125.19%	127.76%	61.53%

Liquidity Ratios	2005	2006	2007	2008	2009
Liquidity Ratio	96.96%	105.43%	63.92%	78.22%	51.51%

Capital Adequacy Ratios	2005	2006	2007	2008	2009
Equity/Loans & Advances	0.58	0.94	0.31	0.69	N/A
Debt/Equity Ratio	6.07	3.31	8.62	2.50	3.00
Equity/Total Assets	0.14	0.23	0.10	0.29	0.25

Guaranty Trust Bank

Summary and Investment Case

Table 50: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	19.72
Current Price (N)	18.50
PE	9.84
EPS (N)	1.57
Projected EPS	0.84
Projected PE	8.20
Projected DPS	0.34
Projected Dividend Yield	2.04%
Outstanding Shares	18,653,748,614

Source: BGL Research Estimates

Table 51: Forecast Valuation

	2010	2011
ROCE	35.49%	42.17%
ROAE	22.71%	27.67%
PE	7.77	5.69
EPS (N)	2.05	2.79
DPS (N)	1.13	1.54
Price (Forward PE Model)	16.78	22.92
Price (DDM)	19.72	24.87
Price (Gordon Growth)	29.82	22.92
Price (DCF)	34.62	26.25

Source: BGL Research Estimates

- **Emerged as a product of Banking Reform in 1990**
  The bank was incorporated as a private limited liability company on 20 July 1990. It obtained a license to operate as a commercial bank on 1 August 1990, and commenced business on 11 February 1991. It became a public limited company on 2 April 1996, and its shares were listed on the Nigerian Stock Exchange on 9 September 1996. The bank was issued a universal banking licence by the Central Bank of Nigeria on 5 February 2001.

- **Disciplined bank; producing top earnings**
  GTBank has ascended to the top tier of banks in the country, amazingly showing a deep commitment to its reputational and fundamental beliefs. Gross Earnings rose with a CAGR of 44.26% from 2003 to December 2008, and 40.36% in the September 2009 release of unaudited results. There has been a steady well thought out expansion plan with Income per Employee rising post consolidation from N19.91m in 2007 to N27.72m in 2008, Profit per Branch also showed an increase from N165.86m to N259.42m within the same period.

- **Rewarding investors…..a bird in hand**
  With DPS increasing in the last few years from 0.75 in 2006 to 0.95 in 2007 and 1.00 in 2008, it could be inferred from generous payouts post-consolidation that the bank is tilted towards compensating investors with cash as opposed to capital gains. However this could be tested severely in the current financial year where it has made provision for risky assets to the tune of N27.87b by Q3 alone, nevertheless this seems acceptable in the industry as it remains one of the few banks to declare net gains.

Structure of Business

GTBank currently operates with 349 branches across five countries in two different continents – Gambia, Sierra Leone, Ghana, Nigeria and the United Kingdom. The bank is a strong brand, and it is steadily building its market in three other countries. The bank has a universal banking license and has diversified its businesses to cover every sphere of the financial sector. It also maintains a strong presence in Nigeria's real estate and insurance sectors through its mortgage bank and insurance firm.

Table 52: GT Bank's Subsidiaries and Associate Companies

	Country	GTBank Share (%)	Principal activity
GTB Gambia	Gambia	77.92	Banking
GTB Sierra Leone	Sierra Leone	84.30	Banking
Guaranty Trust Assurance Plc	Nigeria	73.70	Insurance
GTB Ghana	Ghana	70.00	Banking
GTB Registrars Limited	Nigeria	100.00	Secretarial services
GT Homes Limited	Nigeria	100.00	Mortgage financing
Guaranty Trust Bank (UK) Limited	United Kingdom	100.00	Banking
GT Asset Management Limited	Nigeria	100.00	Asset management
Guaranty Trust (Liberia) Limited	Liberia	100.00	Banking
BTB Finance B.V.	Netherlands	100.00	Financial services

Source: Company's Annual Report

GTBank has maintained steady growth in its operating territories and we expect this to continue. The bank plans to extend its expansion into francophone speaking West Africa and other African countries such as Angola, which is experiencing high growth propelled by increased oil revenues.

Key Strengths

- Reputed to be the most customer-friendly bank: Riding on its historical customer care culture and strong IT platform, GTBank has built a legacy of good customer service.
- Best Practice Risk Management: GTBank is reputed to have a stringent risk management framework for its creation of risk asset.
- High Level of Reporting Transparency: GTBank is the first bank in Nigeria that adopted the IFRS reporting standard that enables full disclosure in financial statements.
- Quality of Management: GTBank has a successful track of transitions of Chief Executives and its Board has a significant number of independent non-executive directors.

Key Weaknesses

- Spread & Branch Network: GTBank has about 170 branches across Nigeria. This does not position it competitively among some of its peers which have over 500 branches. Wide branch network serves as a formidable distribution platform for the bank's products.
- Weak Retail Business: Despite the bank's bullish foray into retail banking, the focus has mainly been on deposit mobilisation as against retail lending, thus the weak contribution of retail banking to the overall profit levels. In 2008, retail banking contributed 8.6% to the bank's pre-tax profits (6.6%, 2007).
- Weak contributions by ex-Nigeria operations: Outside Nigeria, GTbank has operations in four West African operations. However, the Nigerian operations continue to contribute over 95% of the bank's overall revenues. The African operations contributed 3.3% of the bank's activities in 2008, up from 0.3% in 2007.

Strategy

GTBank's strongest selling point is its quality of service and the innovative nature of its product offerings. The bank has also instituted an intelligent office system us-

ing technology to address the needs of its clientele on the African and European continents. Through its subsidiaries in West Africa (Ghana, Gambia, Nigeria, Liberia and Sierra Leone), the bank covers West Africa effectively.

GTBank has been recognised as one of Nigeria's most profitable banks with good fundamentals. It is also acclaimed to be a good and aggressive player in retail banking, which has caused the bank to churn out products and services aimed at making banking easy in the country.

Ownership Structure

As at August 2009, no individual shareholder of the bank held up to 5% of the issued share capital. Like most of its peers, its staff trust – GTB Staff Investment Trust is the largest shareholder with about 4% of the bank's shares.

Financial Performance

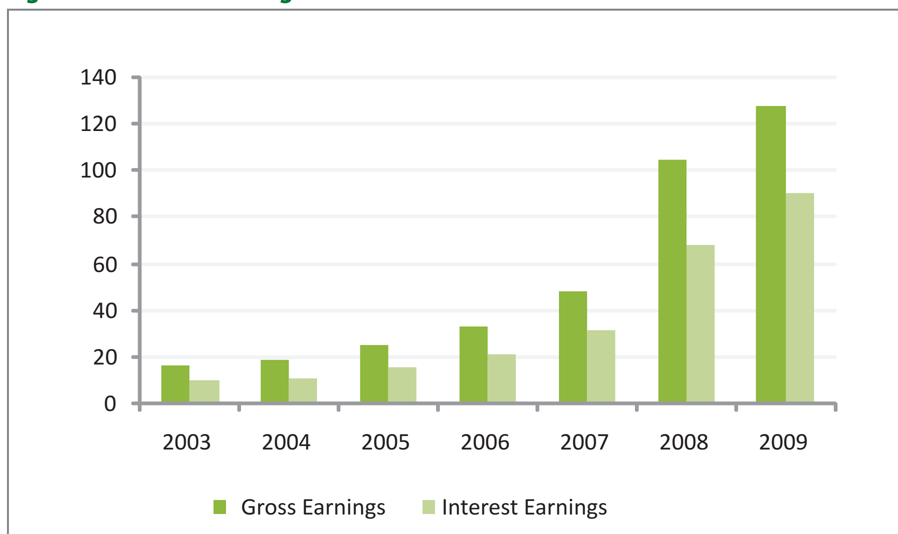
The bank changed its accounting year end from 28 February to 31 December, in compliance with the CBN's directive for a uniform accounting year end for all banks in Nigeria. The change also aligns the bank's accounting year end with that of its subsidiaries. As a result of this change, the financial statements presented for 2008 are for 10 months.

During the year, the company grew its revenues by 53.3% while earnings before tax and earnings after tax increased by 54.2% and 60.5% respectively, evidence that the company was able to manage its expenses more effectively and its effective tax rate decreased between 2007 and 2008. The result showed higher growth in profit than earnings, indicating improvement in the management of the company's resources within the period under review.

Gross Earnings for the 10 month period stood at N104.12 billion, an increase of about N22.62 billion or 27.76%, compared with the N81.49 billion reported in the 12-month period ended February 28, 2008. Profit before Tax stood at N35.177 billion, up by N7.80 billion or 28.53% from N27.368 billion, while Profit attributable to Shareholders grew by N7.14 billion or 33.75% from N21.169 billion in 2008 to N28.315 billion, which translates to Earnings Per Share of 187.4 kobo, out of which the board offered to pay 53.47%.

On an annualised basis GTBank's Gross Earnings and PAT are N7.02 billion and N15.74 billion respectively. It is hoped that the bank will sustain its culture of full year twin benefits of bonus and dividend. The combination of operating expenses, taxation and the minority interest reduced the total Net Income of N58.15 billion in 2008 to PAT (attributable to shareholders) of N20.8 billion, an increase of 60.09% from N12.99 billion recorded in 2007. The bank issued 73,588,313 units of Global Depository Receipt (GDR) at US$11.2 per GDR to both foreign and local investors in February 2007. The net proceed from the exercise was N99.52 billion and this contributed largely to the 238% growth in Shareholders Funds to N160 billion from N47.32 billion in 2007.

Fig. 53: GT Bank's Earnings

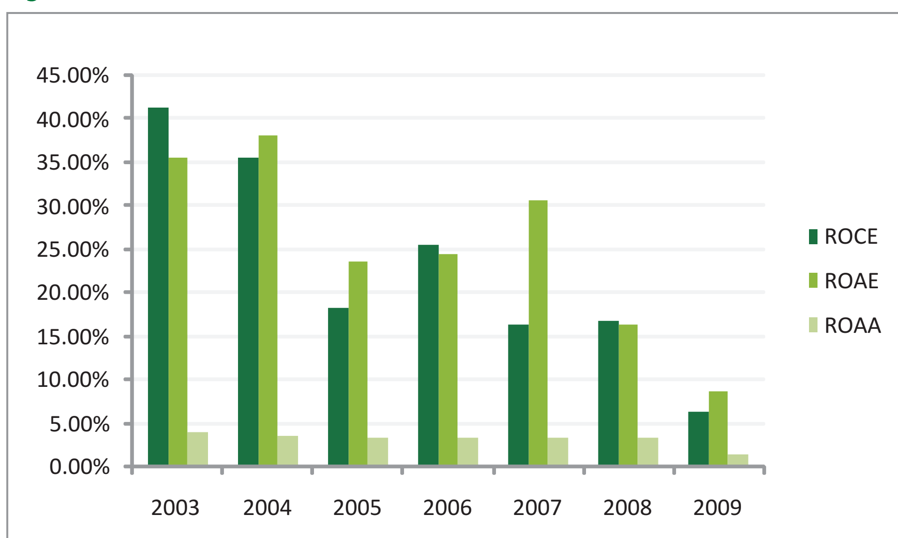


Source: Company's Annual Reports, BGL Research

Performance Ratios

GT Bank's performance ratios for 2008 are in line with its trend for the past three years. The bank's interest margin was 64.91% in 2008 almost the same as 2007 ratio of 65.91%, confirming a sustained operational performance. Operating Expense as a percentage of Gross Earnings deteriorated from 39.78% in 2007 to 45.63% in 2008 resulting in a decline in the Net Earnings Margin from 27.16% in 2007 to 25.98% in 2008.

Fig. 54: GT Bank's Performance Ratios



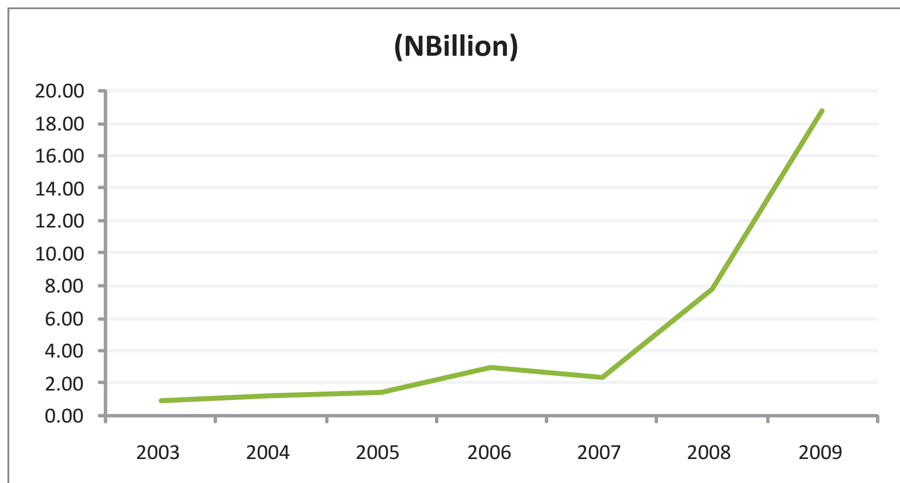
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

In line with the financial meltdown in the industry during the period, GTBank's asset quality ratios revealed a decline over the previous years. The bank's Gross Returns from Earning Assets grew marginally from 10.23% in 2007 to 10.41% in 2008 while its Effective Return on Earning Assets declined from 10.15% in 2007 to 9.63% in 2008.

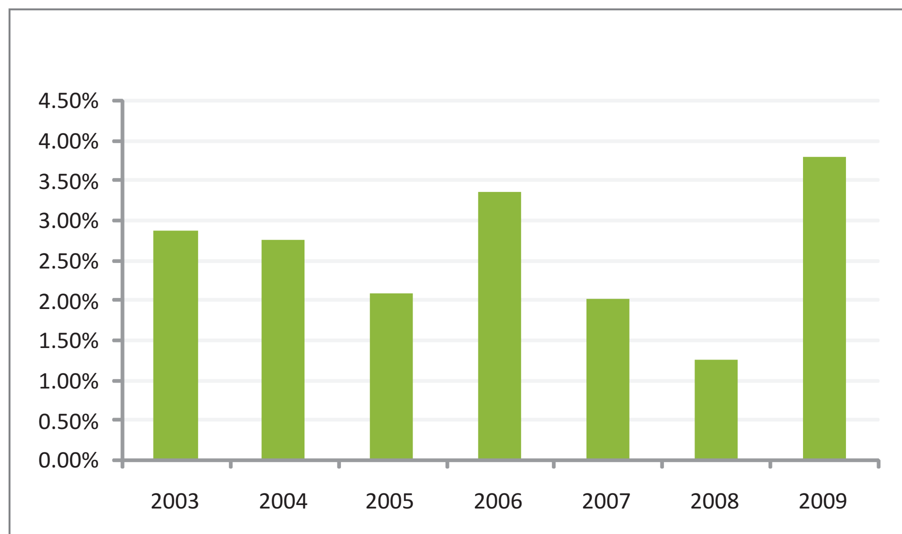
Correspondingly, its explicit cost of debt and cost of bad and doubtful loans grew from 3.72% and 0.21% in 2007 to 4.61% and 1.34% in 2008 respectively. GTBank grew its risk assets by 26% in September 2009. Lending growth has been as a result of impressive deposit growth of 61% over the corresponding period of 2008. GTBank's Loan to Deposit ratio has traditionally hovered over 90% but was down to 71% in its September 2009 interim results (91% September 2008). Amongst the top five banks, the growth in GTBank's provisioning was outstripped only by First Bank. GTBank's provisioning increased by 580% in September 2009 to N27.87 billion from N4.09 billion in the corresponding period of 2008.

Fig. 55: GT Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 56: GT Bank's % of Classified Loans

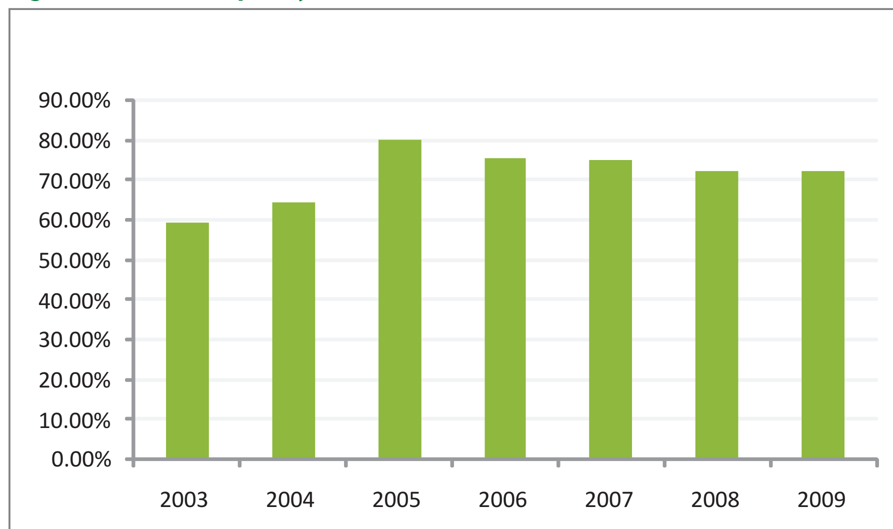


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

The bank's investment in loans and advances is relatively moderate compared to some of its peers. A significant portion of its deposits is kept in liquid form; hence the high liquidity ratio. At 69.51% in 2008, the liquidity ratio was well above the regulatory benchmark of 40%.

Fig. 57: GT Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's earnings performance, measured by the returns on average assets and returns on average equity, has declined. Return on Equity (ROE) and Return on Assets (ROA) as at December 2008 stood at 16.40% and 1.98% respectively, down from 19.85% and 3.33% in February 2008.

In the September 2009 interim results, the bank's impressive 50% growth in Interest Earnings helped mitigate the drop in net profit as a result of the N27.87 billion provisioning. Net Profits dropped by 37% to N15.98 billion in September 2009 (25.16 billion, September 2008).

Based on quarter-on-quarter rolling earnings, GTBank has an EPS of N1.03 while 2008 full-year EPS was N1.85.

Table 53: GT Bank's Financial Summary

Financial Year-end Balance Sheet	February 2005	February 2006	February 2007	February 2008	December 2008
Assets	N'm	N'm	N'm	N'm	N'm
Cash & Short-term funds	12,847	31,565	32,381	39,470	63,082
Due from banks in Nigeria	18,943	18,096	27,184	34,269	49,297
Due from banks outside Nigeria	15,682	24,841	67,816	45,467	169,963
Bills Discounted	0	0	0	0	0
Short Term Investments	44,559	104,646	162,517	179,586	141,973
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	2,110	9,065	0	151	5,955
Long Term Investments - Others	1,050	2,813	6,177	7,258	5,867
Investment/Trading Properties	0	0	0	12,063	15,086
Loans & Advances - Gross	67,762	87,771	118,817	294,390	428,003
Non-Performing Loan	1,428	2,960	2,404	3,759	7,778
Loans & Advances - Net	65,515	84,201	115,746	288,152	418,779
Advances under finance lease	1	0	0	18	24
Other Facilities	0	4,461	4,444	0	
Other Assets	16,162	16,553	49,176	95,103	52,676
Deferred Tax Assets	0	0	29	21	37
Fixed Assets	8,182	12,101	20,880	33,970	39,630
Goodwill	100,692	69	141	166	354
Total Assets	185,151	308,411	486,491	735,693	962,722
Liabilities					
Deposit and Current Account	96,515	215,774	294,501	364,641	472,271
Due to other banks	930	0	45	0	0
Other Facilities	0	4,506	4,489	0	0
Managed Funds	0	0	0	0	0
Tax Payable	2,063	2,207	3,486	5,851	9,485
Deferred Taxation	816	1,087	1,086	2,809	3,475
Other Liabilities	41,244	34,841	74,835	142,905	232,562
Dividend Payable	2,700	4,200	0	0	0
Borrowings	6,910	9,238	58,063	56,143	62,897
Total Liabilities	151,178	271,852	436,505	572,349	780,688
Capital & Reserves					
Share Capital	3,000	3,000	4,000	6,840	7,462
Share Premium	21,392	21,392	21,392	119,077	119,077
Statutory Reserve	5,600	6,902	12,843	19,290	27,712
Exchange difference reserve	(66)	(3)	(51)	(297)	(347)
General Reserve	1,461	1,137	3,942	9,179	16,925
Bonus Issue Reserve	0	1,000	1,000	622	1,865
Reserve for SMEIS	2,054	2,922	4,198	5,298	5,298
Revaluation Reserve	159	0	0	0	0
Capital Reserve	43	0	0	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests	330	208	2,662	3,335	4,042
Shareholders' Fund	33,973	36,558	49,986	163,344	182,034
Total Liabilities and Equity	185,151	308,411	486,491	735,693	962,722

Profit & Loss	2005	2006	2007	2008	2008
	N'm	N'm	N'm	N'm	N'm
Gross Earnings	25,459	33,615	48,578	81,496	104,120
Interest Earnings	15,489	21,600	32,016	52,901	68,208
Interest Expense	(6,052)	(6,866)	(11,242)	(15,717)	(16,703)
Net Interest Income	9,437	14,734	20,775	37,184	51,505
Commission and other Income	9,493	12,015	16,551	28,594	35,912
Operating Income	18,930	26,749	37,325	65,778	87,417

Staff Cost	(2,536)	(3,612)	(5,377)	(8,957)	(12,261)
Depreciation	(1,912)	(1,703)	(2,307)	(3,685)	(4,015)
Other Operating Expenses	(5,891)	(7,985)	(11,641)	(17,861)	(26,110)
Provision for doubtful accounts	(1,149)	(1,784)	(253)	(3,934)	(4,042)
Operating Profit	7,442	11,665	17,747	31,341	40,989
Exceptional Items	477	283	0	0	
Interest on borrowings	(661)	(1,176)	(2,031)	(3,699)	(5,660)
Profit before taxation	7,258	10,772	15,716	27,642	35,329
Info. Tech. devt. levy	0	0	0	(273)	(152)
Current Taxation	(1,577)	(1,910)	(2,552)	(4,468)	(6,231)
Deferred taxation Expense	(247)	(272)	30	(1,731)	(630)
Profit after taxation	5,434	8,590	13,194	21,169	28,316

Extraordinary Items					
Minority Interest	(72)	(44)	(201)	(369)	(707)
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	5,362	8,546	12,993	20,800	27,609
Dividend Proposed	3,700	5,700	6,000	12,995	14,923

Other Information	2005	2006	2007	2008	2008
Outstanding Shares (million)	5,746	6,000	8,000	13,679	14,923
No. of Employees	1,103	1,269	1,875	2,477	3,154
No. of Branches	60	90	107	130	158

54: GT Bank's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2005	2006	2007	2008	2008
Commissions/Gross Earnings	37.29%	35.74%	34.07%	35.09%	34.49%
Interest Margin	60.84%	64.26%	65.91%	64.91%	65.51%
Net Interest Margin	37.07%	43.83%	42.77%	45.63%	49.47%
Operating Expenses/Gross Earnings	40.61%	39.57%	39.78%	37.43%	40.71%
PAT/Gross Earnings	21.34%	25.56%	27.16%	25.98%	27.20%
Cost to Income Ratio	0.55	0.50	0.52	0.46	0.48
Pretax Profit Margin	28.51%	32.05%	32.35%	33.92%	33.93%
ROCE	18.20%	25.47%	16.42%	14.28%	16.73%
ROAE	23.64%	24.36%	30.49%	19.85%	16.40%
ROAA	3.41%	3.48%	3.32%	3.46%	3.33%
EPS	0.95	1.43	1.65	1.55	1.90
DPS	0.64	0.95	0.75	0.95	1.00
Operating Income per employee	17,162.27	21,078.48	19,906.87	26,555.61	27,716.20
Operating Expenses per employee	(9,374.04)	(10,480.72)	(10,306.79)	(12,314.78)	(13,438.70)
Profit per branch	124,029.60	129,611.52	165,859.69	241,080.91	259,423.08

Asset Quality Ratios	2005	2006	2007	2008	2008
Interest Income/Earning Assets	10.39%	8.68%	8.41%	9.55%	8.58%
Effective Return on Earnings Assets	9.62%	7.96%	8.34%	8.84%	8.07%
Explicit cost of Debt	6.43%	3.50%	3.72%	4.61%	4.18%
Cost of bad and doubt loans	1.70%	2.03%	0.21%	1.34%	0.94%
% of classified loans	2.11%	3.37%	2.02%	1.28%	1.82%
Loan loss provision/classified loans	157.25%	120.59%	127.78%	165.96%	118.58%

Liquidity Ratios	2005	2006	2007	2008	2008
Liquidity Ratio	80.52%	75.71%	75.40%	69.51%	55.12%

Capital Adequacy Ratios	2005	2006	2007	2008	2008
Equity/Loans & Advances	0.50	0.42	0.42	0.55	0.43
Debt/Equity Ratio	4.45	7.44	8.73	3.50	4.29
Equity/Total Assets	0.18	0.12	0.10	0.22	0.19

Source: Company's Annual Reports, BGL Research

Skye Bank Plc

Summary and Investment Case

Table 55: Market Statistics

Report Date	04-Feb-10
Target Price (N) -DDM	7.95
Current Price (N)	8.09
PE	-4.30
EPS (N)	-1.21
Projected EPS	-0.87
Projected PE	28.65
Projected DPS	0.00
Projected Dividend Yield	0.00%
Outstanding Shares	11,584,970,080

Source: BGL Research Estimates

- **Metamorphosed from a Merchant Bank to a Universal Bank**
  Skye Bank Plc was incorporated on December 8, 1989 in accordance with the provisions of the Companies Act, 1968. It was issued a banking license on 7 February 1990 to carry on all classes of merchant banking business as Prudent Merchant Bank Limited. The bank commenced operations on May 2, 1990. It is wholly owned by Nigerian citizens. The bank's name was changed to "Prudent Bank Plc" in 2000 following an approval in "principle" by the Central Bank of Nigeria (CBN) for its conversion to a commercial bank. It commenced operations as a Commercial bank in 2001.

- **Major player in telecommunications, oil and gas, other lucrative sectors**
  Skye Bank has carved a niche for itself in various lucrative sectors of the Nigerian economy, playing in sectors like telecommunications, oil and gas, power, manufacturing and infrastructure financing. The profile of the bank in real sector financing is growing. Skye Bank has improved its relationship with various state governments and has mandates to partner with many of them in areas of tax collection, infrastructure financing, power plant financing and other banking relationships.

Table 56: Forecast Valuation

	2010	2011
ROCE	38.89%	40.01%
ROAE	25.40%	26.02%
PE	2.43	2.06
EPS (N)	2.10	2.48
DPS (N)	0.95	1.12
Price (Forward PE Model)	17.22	20.33
Price (DDM)	7.95	21.69
Price (Gordon Growth)	20.16	20.33
Price (DCF)	28.44	26.95

Source: BGL Research Estimates

- **Growth in branch network**
  The bank currently has over 220 online and real-time branches across Nigeria, with presence in Sierra Leone, The Gambia and Guinea Republic. It has grown from the relatively mid-sized bank it was two years ago to become one of the major banks in the country today.

- **Huge potentials**
  Skye Bank is a proactive and innovative bank which gives it a competitive advantage. It has strong Corporate, Commercial, Retail and Investment Banking platforms that can compete favourably with its peers. The bank, ranked among the top ten banks in Nigeria has over 450,000 customers and gained a relationship with the Lagos State Government when during the consolidation process, Eko International Bank (EIB) – owned by Lagos State Government merged with other banks, including Prudent Bank to form the new Skye Bank. This relationship should continue to have positive benefits for the Bank.

- **Commendable performance on the back of prudent growth**
  With a five year CAGR of 78.38% in Gross Earnings and a remarkable 98.80% in customer deposits from N16.11 billion in 2003 to N500.21 billion in 2008, Skye Bank has displayed its ability to play in the big league. Post consolidation EPS increased steadily from 0.33 in 2006, to 0.78 in 2007 and 1.38 in 2008, paying out increasing dividends for each of the years apart from 2008, due to the

banking crisis. The cost-to-income ratio of the bank has steadily declined post consolidation while there are indications of prudent expansion with ratios such as net margin and profit per branch increasing year on year.

- **Successful Hybrid Offer**
  Skye Bank's 2008 offer was oversubscribed. The proceeds of the offer were used to reinforce business expansion. The bank was able to make capital investment in branch expansion – 30 branches were opened in 2008; information technology was improved, subsidiaries were recapitalised, all of which further boosted its position in the industry and rekindled its goal to be among the top five banks in Nigeria within a short time.

Structure of Business

Skye Bank currently operates with over 220 branches across four countries – Sierra Leone, The Gambia, Guinea Republic and Nigeria.

The bank has a universal banking license and has diversified its businesses to cover many areas of the financial services sector. It also showed interest in Nigeria's real estate sector with the launch of the Skye Shelter Fund, a real estate-dedicated fund.

Table 57: Skye Bank's Subsidiaries and Associate Companies

Company	Holding %	Principal activity
Coop Savings & Loans Limited	27	Financial Services
Law Union & Rock Plc	51	Insurance
PSL Limited	100	Stockbroking
Skye Financial Services Limited	100	Capital Market
Skye Trustees Limited	100	Trusteeship
Skye Mortgage Bankers Limited	100	Mortgage financing
Apex Integrated Technical Limited	100	Infotech

Source: Company's Annual Report, 2008

Skye Bank has grown both organically and inorganically in its operating territories. The bank plans to expand into other African countries like Cameroon, Ghana and Central African Republic.

Key Strengths

- **Young and Dynamic Management:** Skye Bank parades a young and innovative management team which has taken the bank from a medium-sized position to one where it competes with the top 10 banks in Nigeria. If the team continues at this pace, the bank is likely to achieve its goal of being among the top five Nigerian banks within the planned time.

- **Well diversified network of branches:** Skye Bank now has over 220 branched spread strategically across the country. 30 branches were opened during the last financial year alone and the bank seeks to continue to take strategic steps in opening viable and real time, online branches in various locations throughout Nigeria and outside the Nigerian shores.

- Winning of public sector mandates from some State Governments: - Skye Bank actively partners with some state governments in financing important projects, giving the bank goodwill, which if continued will translate to more liquidity and more government patronage.

Key Weaknesses

- **The current economic meltdown and capital market downturn:** The bank admitted in its 2008 annual accounts that its investment banking group was not spared from the effect of the recent capital market downturn. This has increased the need for non-performing loans provision, which would reduce profitability in the next financial year.

- **Reduced revenue availability to the government:** Skye Bank has advanced loans to some of the states it does business with. Given dwindling Federal and State government inflows, some of the state governments might find it difficult to honour the repayment of their loans and interests as at when due. This may result to the bank making provision for these doubtful debts which could threaten its profitability.

Strategy

Skye Bank's vision to be one of the top five Banks in Nigeria within the next few years is hinged on the following strategies:

- **Products and services differentiation:** In a bid to deepen its retail strategy, the bank created the e-channels group to champion products and services differentiation and this is paying off. Several products have been launched into the market like the Skye Mobile, International Visa Card and the Naira Credit Card.

- **Infrastructure and real sector financing:** Skye Bank seeks to distinguish itself as a real sector financing bank by participating in various PPP projects with state governments and partnering on the development of the power sector, telecommunication industry and oil and gas industry financing.

- **Strategic human resources:** The bank embarked on a focused recruitment of highly skilled professionals from the rich pool of Nigerians in the Diaspora at the senior management level. The bank's training school was equally re-organised. All these steps were geared towards getting and retaining the best hands.

- **Unique and innovative advertisement:** First was the 'Saying Yes to your needs' slogan and recently 'Hakuna Matata' slogan and advertisements. These adverts are widely recognised amongst customers and prospective clients alike.

Ownership Structure

Skye Bank prides itself in the fact that no single individual or institutional investor owns up to 5% of the Bank's shareholdings. The major shareholders are:

Table 58: Skye Bank's Shareholder Structure

Name	% Holding
Business Objects Limited	4.40%
Ibile Holdings Limited	3.84%
Swanlux Global Investment Limited	0.76%
Stallion Nig Ltd & Westex Nig Ltd	3.11%
The Nigerian Port Authority Sperannuation Fund	1.53%

Source: Skye Bank 2008 Audited Annual Report

Financial Performance

Skye Bank's Gross Earnings rose from N41.72 billion in 2007 to N78.28 billion in 2008 representing an increase of 88%. This is a significant growth despite it being lower than the 202% growth achieved in 2007. Operating Income grew 181% from N8.49 billion in 2007 to N23.83 billion in 2008; also lower than over 400% growth in 2007. Net Interest Income grew 85% from N18.79 billion in 2007 to N34.78 billion in 2008, while Commission and the other Income equally grew 85% from N12.40 billion in 2007 to N22.96 billion in 2008.

The Bank's Profit before Tax (PBT) grew 172% from N7.97 billion in 2007 to N21.69 billion in 2008 - PBT was N2.09 billion in 2006 and N733m in 2005. The Profit after Tax was N16.02 billion in 2008 as against N5.89 billion in 2007. To arrive at this impressive performance, the bank grew its Total Assets by 77% from N448 billion in 2007 to N791 billion in 2008. Accretion in Shareholders' Funds and Deposits from 2007 to 2008 was 209% and 87% respectively. This resulted in increased investment in risk assets by 120% from N115 billion in 2007 to N254 billion in 2008. Investment in trading securities also increased by 48%; from N69 billion to N102 billion while interbank placements more than doubled from N83 billion to N177 billion in 2008.

While creation of risk assets increased by 120% from 2007 to 2008, non-performing loans (NPL) only grew by 53% from N6.16 billion to N9.4 billion during the period. While the recent directive on full provision and the reclassification of BA/CPs portends great uncertainty about the performance of the bank, historical trends and our scenario analysis suggest that the bank will remain profitable albeit with an expectation that some percentage of the provisioning would be recovered by the end of 2009.

Fig. 58: Skye Bank's Earnings

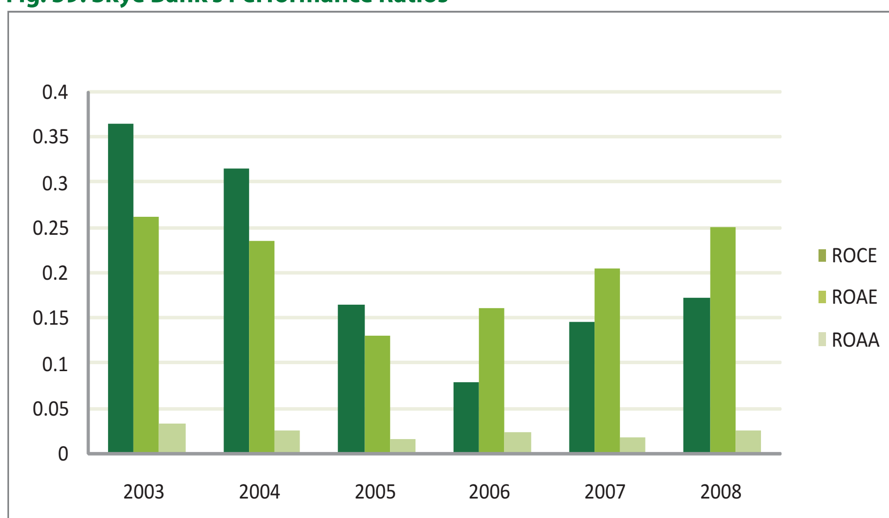
Source: Company's Annual Reports, BGL Research

Performance Ratios

Skye Bank's interest margins reveal a stable focus on the traditional activities of financial intermediation. About 70% of the income of the bank has been consistently accounted for by interest earnings while a stable 30% is being accounted for by fee-based income. Although this is not as conservative as some other more banks, the ratios have been consistently above industry average of about 65%. Return on Capital Employed (ROCE) grew from 14.53% in 2007 to 17.26% in 2008; Returns on Average Equity (ROAE) rose from 20.50% to 25.01% between 2007 and 2008 while Returns on Average Asset (ROAA) grew to 2.59% in 2008 from 1.89% in 2007. Earnings per Share increased from N0.78 in 2007 to N1.38 in 2008; a consistent increase from N0.11 in 2005 and N0.33 in 2006.

The bank's efforts to reduce costs are paying off as Cost to Income Ratio reduced consistently over the years from 0.81 in 2005 to 0.52 in 2008. Profit per Employee improved by 42% from N14.24m in 2007 to N20.19m in 2008 despite a 20% increase in staff strength; while Profit per Branch also improved significantly from N44.67m in 2007 to N106.39m in 2008.

Fig. 59: Skye Bank's Performance Ratios

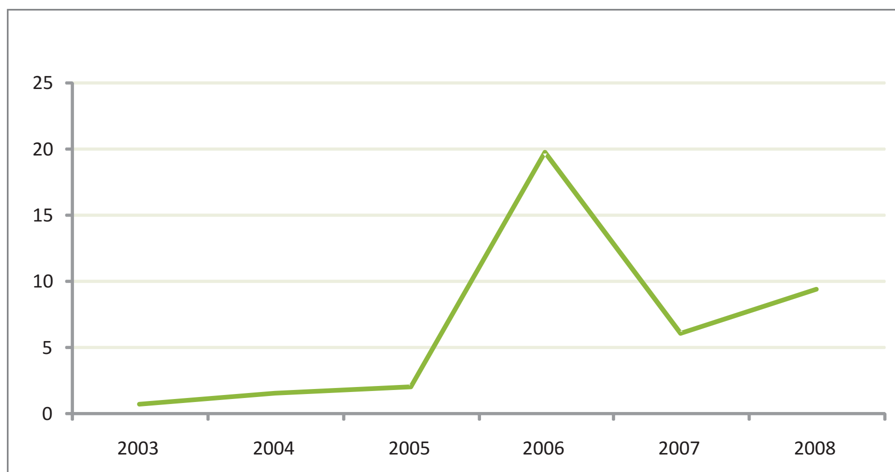


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

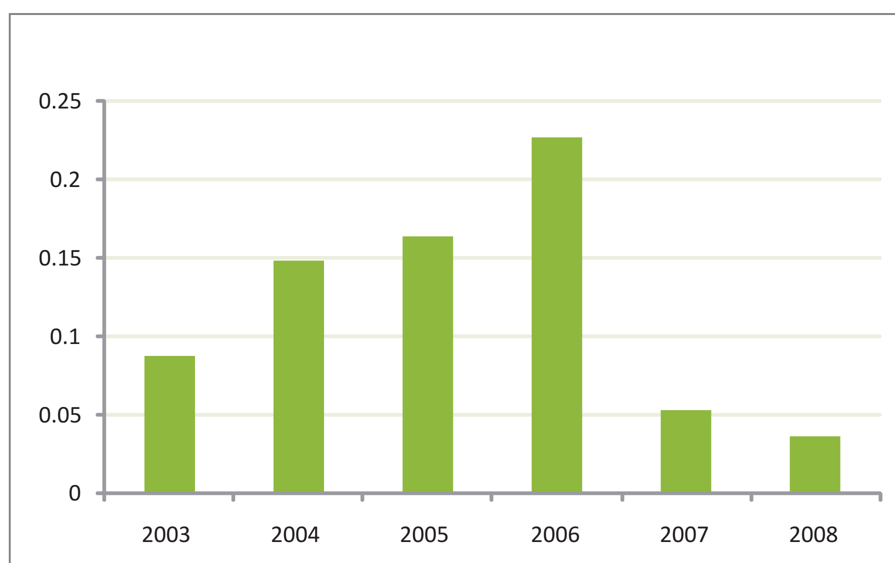
Skye Bank's asset quality as measured by the percentage of non-performing loans shows significant improvement post-consolidation. The percentage of non-performing loans which rose consistently to peak at 22.6% in 2006 when the final provisioning were made for the bad debts of the legacy banks, declined to 5.33% in 2007 and 3.69% in 2008. Cost of Bad and Doubtful Loans reduced from 2.25% in 2007 to 1.62% in 2008 while Loan Loss Provision was 113.05% in 2007 and 103% in 2008.

Fig. 60: Skye Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 61: Skye Bank's % of Classified Loans

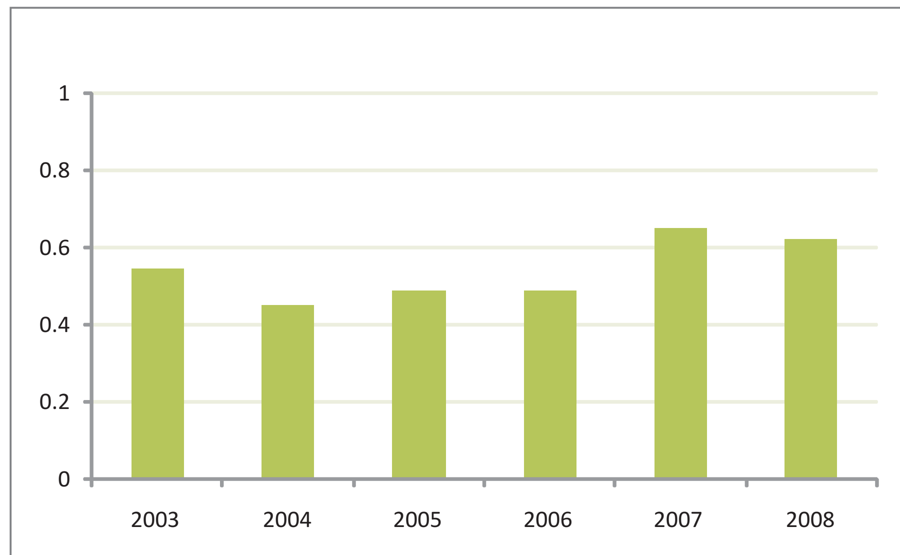


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Over the years, Skye Bank has shown reasonable liquidity. In 2003, the Bank's Liquidity Ratio was 54.50%; 2004 was 44.88%; 2005 was 48.93%; 2006 was 48.92%; 2007 was 64.89% and 2008 was 62.30%. The relatively low ratios between 2004 and 2006 were close to the 50% benchmark at the time. The high liquidity ratio for 2007 and 2008 reflect the strong liquidity position of Skye Bank Plc.

Fig. 62: Skye Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings per Share

Earnings per Share (EPS) increased from N0.78 in 2007 to N1.38 in 2008. The EPS in 2005 was N0.11 and it increased to N0.33 in 2006. From the EPS of N1.38, the bank paid a dividend of 60 kobo in the current year.

Table 59: Skye Bank's Financial Summary

Financial Year End Balance Sheet Assets	March 2004 N'm	March 2005 N'm	September 2006 N'm	September 2007 N'm	September 2008 N'm
Cash & Short-term funds	2,814	3,697	12,164	17,823	40,255
Due from banks in Nigeria	1,394	2,292	2,639	82,730	177,103
Due from banks outside Nigeria	3,235	3,207	8,669	7,430	39,913
Bills Discounted	0	0	0	0	0
Short Term Investments	4,834	4,809	40,007	69,030	102,324
Managed Funds	0	0	0	.	240
Long Term Investments - FGN Bonds	343	271	6,568	6,172	4,412
Long Term Investments - Others	142	585	1,901	5,195	7,531
Investment/Trading Properties	0	0	0	200	367
Loans & Advances - Gross	11,237	13,123	87,378	115,417	254,409
Non-Performing Loan	1,660	2,143	19,744	6,155	9,396
Loans & Advances - Net	10,166	12,123	71,717	108,459	244,731
Advances under finance lease	278	197	735	2,272	4,756
Other Facilities	0	0	0	0	0
Other Assets	1,965	3,617	17,515	135,652	148,548
Deferred Tax Assets	0	0	90	0	0
Fixed Assets	826	1,192	9,672	12,777	20,528
Goodwill	0	0	2,516	0	0
Total Assets	25,997	31,990	174,193	447,992	790,708
Liabilities					
Deposit and Current Account	20,913	22,624	125,471	267,095	500,212
Due to other banks	0	0	0	3,735	20,000
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	252	240
Tax Payable	540	354	525	1,755	4,767
Deferred Taxation	119	187	0	600	1,491
Other Liabilities	1,473	4,380	22,114	116,079	125,955
Dividend Payable	0	0	0	0	0
Borrowings	0	0	0	27,157	41,254
Total Liabilities	23,045	27,545	148,110	416,673	693,919
Capital & Reserves					
Share Capital	1,524	2,264	3,752	3,752	5,792
Share Premium	144	710	8,067	5,551	55,374
Statutory Reserve	549	694	1,434	3,089	7,627
Exchange difference reserve	0	0	0	91	405
General Reserve	180	479	1,958	50,390	12,887
Bonus Issue Reserve	305	0	0	0	0
Reserve for SMEIS	250	298	546	1,098	1,854
Revaluation Reserve	0	0	2,823	3,215	3,215
Capital Reserve	0	0	0	38	97
Investment Properties Reserve	0	0	7,503	7,503	7,503
Minority Interests	0	0	0	1,943	2,035
Shareholders' Fund	2,952	4,445	26,083	31,319	96,789
Total Liabilities and Equity	25,997	31,990	174,193	447,992	790,708

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	5,252	6,159	20,680	41,720	78,277
Interest Earnings	3,607	4,171	14,264	29,324	55,319
Interest Expense	(1,573)	(2,458)	(6,051)	(10,531)	(20,544)
Net Interest Income	2,034	1,713	8,213	18,793	34,775
Commission and other Income	1,644	1,988	6,416	12,396	22,958
Operating Income	3,678	3,701	14,629	31,189	57,733
Staff Cost	(842)	(1,013)	(3,786)	(5,066)	(10,030)
Depreciation	(254)	(265)	(1,297)	(2,959)	(3,194)
Other Operating Expenses	(1,356)	(1,726)	(5,836)	(12,075)	(16,564)
Provision for doubtful accounts	(298)	36	(1,620)	(2,595)	(4,113)
Operating Profit	928	733	2,090	8,494	23,832
Exceptional Items					
Interest on borrowings	0	0	0	(521)	(2,143)
Profit before taxation	928	733	2,090	7,973	21,689
Info. Tech. devt. levy	0	0	0	(3)	(215)
Current Taxation	(294)	(182)	(304)	(1,408)	(4,565)

Deferred taxation Expense	(14)	(68)	680	(677)	(891)
Profit after taxation	620	483	2,466	5,885	16,018

Extraordinary Items					
Minority Interest	0	0	0	(153)	(192)
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	620	483	2,466	5,732	15,826
Dividend Proposed	0	0	0	2,626	6,951

Other Information	**2004**	**2005**	**2006**	**2007**	**2008**
Outstanding Shares (million)	3,048	4,528	7,504	7,504	11,584
No. of Employees	620	494	1,992	2,190	2,859
No. of Branches	N/A	33	182	186	224

Table 60: Skye Bank's Ratios and Analysis

Ratios & Analysis					
Perfomance Ratios (Margin)	**2004**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	31.30%	32.28%	31.03%	29.71%	29.33%
Interest Margin	68.68%	67.72%	68.97%	70.29%	70.67%
Net Interest Margin	38.73%	27.81%	39.71%	45.05%	44.43%
Operating Expenses/Gross Earnings	46.69%	48.77%	52.80%	48.18%	38.05%
PAT/Gross Earnings	11.81%	7.84%	11.92%	14.11%	20.46%
Cost to Income Ratio	0.67	0.81	0.75	0.64	0.52
Pretax Profit Margin	17.67%	11.90%	10.11%	19.11%	27.71%
ROCE	31.44%	16.49%	8.01%	14.53%	17.26%
ROAE	23.43%	13.06%	16.16%	20.50%	25.01%
ROAA	2.64%	1.67%	2.39%	1.89%	2.59%
EPS	0.20	0.11	0.33	0.78	1.38
DPS	0.00	0.00	0.00	0.35	0.60
Operating Income per employee	5,932.26	7,491.90	7,343.88	14,241.55	20,193.42
Operating Expenses per employee	(3,954.84)	(6,080.97)	(5,481.43)	(9,178.08)	(10,419.03)
Profit per branch	N/A	22,212.12	11,483.52	45,666.67	106,392.86

Asset Quality Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Interest Income/Earning Assets	16.92%	17.45%	9.77%	10.36%	9.49%
Effective Return on Earnings Assets	15.52%	17.60%	8.66%	9.44%	8.78%
Explicit cost of Debt	7.52%	10.86%	4.82%	3.71%	4.04%
Cost of bad and doubt loans	2.65%	-0.27%	1.85%	2.25%	1.62%
% of classified loans	14.77%	16.33%	22.60%	5.33%	3.69%
Loan loss provision/classified loans	64.52%	46.66%	79.32%	113.05%	103.00%

Liquidity Ratios	**2004**	**2005**	**2006**	**2007**	**2008**
Liquidity Ratio	44.88%	48.93%	48.92%	64.89%	62.30%
Capital Adequacy Ratios	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.26	0.34	0.30	0.27	0.38
Debt/Equity Ratio	7.81	6.20	5.68	13.30	7.17
Equity/Total Assets	0.11	0.14	0.15	0.07	0.12

Source: Company's Annual Reports, BGL Research

Stanbic IBTC Bank Plc

Summary and Investment Case

- **Celebrating 20 years of Operation in Nigeria**

Incorporated in 1989 solely for investment banking transactions, IBTC quickly gained a reputation within the decade as one of the foremost in its industry. However, as a result of the consolidation ofconsolidation of 2005, IBTC merged with Chartered Bank Plc to become IBTC Chartered Bank. On September 24th 2007 the merger of IBTC Chartered Bank and Standard Bank Group of South Africa was consummated. The South African bank bought a 50.7% majority stake in a deal worth US$525m thus becoming Stanbic IBTC Bank Plc (Stabic IBTC). In addition, the largest bank in China, the Industrial and Commercial Bank of China struck a deal with Standard Bank buying a minority stake of 20% in the South African giant in a deal worth US$5.5billion.

Stanbic IBTC Bank a member of the Standard Banking Group is backed by a renowned retail banking system with a presence in 17 African countries and 16 countries outside the continent. Synergies of the merger between the two entities would begin to yield profitable results in the coming years, as company structure and sustainable platforms solidify, also if the business execution is as planned, there would a significant cost reduction due to already deployed initial capital outlay for Infrastructural upgrades and subsequently an improvement of the company's bottom-line.

Table 61: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	9.73
Current Price (N)	9.43
PE	27.37
EPS (N)	0.27
Projected EPS	0.59
Projected PE	11.92
Projected DPS	0.38
Projected Dividend Yield	5.41%
Outstanding Shares	18,750,000,000

Source: BGL Research Estimates

- **Vision and new frontiers....**

With the temporal shock on the flow of foreign direct investments into the Nigerian economy, and a staggering current account balance, there was an apparent need for infrastructural and technological development to drive sustained economic growth, StanbicIBTC Bank realising the inherent opportunities acted swiftly in various sectors, for instance acting as lead arranger, underwriter and largest lender to the project funding for the US$426m Lekki Concession Company's Lekki-Epe Expressway PPP. With a 3-year completion timeframe it is bound to turn around its environment with traffic decongestion, real estate valued upwards in the short term, expected employment creation and improvement in local security. The bank also facilitated the Lafarge cement expansion project, acting as the global co-ordinator and co-lead arranger on both the Naira and Dollar tranches, total estimated capital expenditure was billed at approximately US$560m, it is to include a power station and a sophisticated production line, project is expected to be ready by Q1 2011.

Table 62: Forecast Statistics

	2010	2011
ROCE	22.50%	28.16%
ROAE	15.72%	19.81%
PE	9.52	7.10
EPS (N)	0.73	0.99
DPS (N)	0.48	0.64
Price (Forward PE Model)	6.03	8.08
Price (DDM)	9.73	9.19
Price (Gordon Growth)	7.67	8.08
Price (DCF)	7.89	9.59

Source: BGL Research Estimates

- **Surviving trying times**

The group has seen modest growth in the last year with Gross Earnings up by 114% from N28.86 billion to N61.24 billion in 2008 and a rise in all other profit indicators. On the back of the Central Bank's examination the bank made a

provision of N672m for risky assets, a far cry when compared to other players in the sector; this is a testament to Stanbic's disciplined approach to revenue generation and an effective risk management system.

Structure of Business

Stanbic IBTC Bank is focused on three core business units, Corporate & Investment Banking (CIB), Personal & Business Banking (PBB) and Wealth Management. The Corporate & Investment Banking business is designed to meet the needs of local and international corporate and institutional clients. With knowledge of debt and equity markets, the bank acts in advisory capacities in varying structured and project financing deals, trades services, transactional banking, global markets, and private equity funding. The PBB has the task of becoming competitive in local retail banking, with its focal point customers of all income levels and business clients excluding government and corporations, it serves clients through its branch network and self-service stations i.e. ATMs and internet banking. Wealth management handles proprietary trades, occupying the asset management, pension administration space, holding positions with reduced capital requirements and boosting its income levels. Business is conducted through IBTC Ventures to avoid issues relating to conflict of interests regarding client accounts.

Table 63: Stanbic IBTC Subsidiaries
Stanbic IBTC Asset Management Ltd
Stanbic IBTC Ventures Ltd
Stanbic IBTC Pension Managers Ltd
R.B. Resources Ltd
Stanbic Equities Ltd
Stanbic Nominees (Nigeria) Ltd

Source: Company's Annual Report

Key Strengths

- Significant access to liquidity due to foreign ownership of the bank and business partnerships with ICBC. Standard Banking Group weathered the financial storm in 2008 posting an 8% growth in net profit and got a significant injection of cash through the minority stake buy-in of ICBC.

- Strong market perception as one of the safest banks in the banking sector, characterised by a strong focus on risk management. Leader in the pension industry with over 20% of the registered individual pension market being managed by PFA's, and participates significantly in capital market transactions with close to 13% market share, based on transaction value.

Key Weaknesses

- Retail banking which is Standard Bank Group's strongest attribute would take some time to pick up in this market. Realistically huge investments in both human capital and infrastructure would need to be strategically employed if any significant impact is to be made in the coming years.

- Standard Bank's commitment to the Nigerian business is yet to be tested by market complexities.

Strategy

The bank's strategy is structured along business segment lines independently enhancing shareholder value.

Retail Banking

- A massive human capacity development drive is pursued through training of sales and relationship managers to promote client appreciation and improve clients' service standards. In 2008 retail staff increased by 61% from 1,213 to 1,941.
- Increasing commission from stock broking is top priority, an increase in corporate loans, mortgages and a reduction in risk appetite, margin lending and personal loans is the path Stanbic IBTC has planned to tread.
- Increasing and improving transaction channels provided by an increased number of branches and ATMs, and an internet-based transaction model.

Corporate and Investment Banking (CIB)

- Increase in knowledge base is seen as the key to consolidating its position as a major stakeholder in this particular market. Specialty in debt capital markets, infrastructural financing, derivative instruments and private equity funding is being developed
- Cost management is billed as top priority as 2008 total costs for the business unit was at N31.94 billion, 80% of gross revenue.

Wealth Management

- Cross-selling of products between CIB and Wealth Management thus creating formidable platform.
- Retail expansion and penetration of market is a key driver in the coming year.

Ownership Structure

Stanbic Africa Holdings Limited, the largest shareholder, as at 31 December 2008 and 29 April 2009, held 9,389,916,566 units9,389,916,566 units of shares, representing 50.7% of the bank's equity.

Table 64: Stanbic IBTC's Shareholding Structure

Shareholders	% Held
Stanbic Africa Holdings Limited	50.70%
First Century International	7.50%
Others	41.80%

Source: Stanbic IBTC Annual Report, 2008

Financial Performance

The financial year end 2008, which marked 20 years of business operations of the bank, revealed profitability in all business units and an upward trend in both gross and interest earnings. Stanbic posted a PAT of N11.56 billion in 2008, an increase of

25.50% from the previous year's N9.22 billion. Some of the benefits of the merger are a 33% increase in Deposits from N71.39 billion in 2007 to N95.24 billion in 2008, and 13.67% growth in Gross Revenue from N53.87 billion to N61.20 billion. Profit before Tax also increased by 38.74%, from N10.54 billion to N14.63 billion in spite of one-off goodwill impairment charges and huge capital outlay for branch expansion. The bank recorded a 5-year CAGR of 68.50% in Gross Earnings which increased from N4.51 billion to N61.24 billion between 2004 and 2008. Over the same period, after-tax Profit grew at a CAGR of 48.78% from N1.59 billion to N11.56 billion.

Total Loans and Advances increased by 32.03% to N210 billion in 2008 from N159.04 billion in 2007, largely due to a 40% growth in Loans & advances to banks. Retail lending was down by 20% in 2008 due to a decline in margin lending. In terms of total assets, Stanbic grew tremendously over the past five years, with a 5-year CAGR of 61.86% from N31.62 billion in 2004 to N351 billion in 2008. Total Deposits grew with a 5-year CAGR of 58.3% from N9.58 billion to N95.24 billion over the same period.

However, the bank has slowed down its risk asset creation in 2009. Stanbic IBTC's Loans and Advances dropped by 20% in its 9 months interim results to N97.92 billion from N122.35 billion.

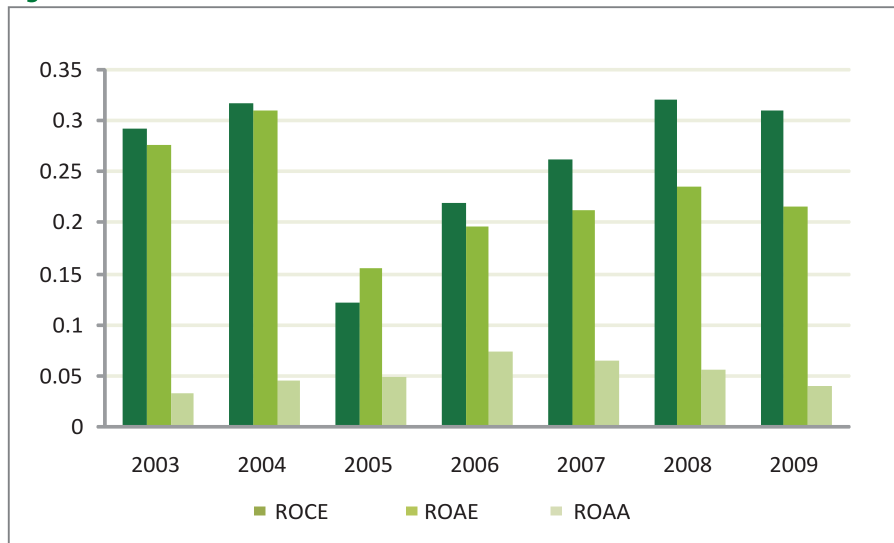
Fig. 63: Stanbic IBTC Bank's Earnings

Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin declined by 28.67% in 2008 from 26.47% in 2007 to 18.88%. The bank's operating, interest and credit costs escalated within the year, Operating Expenses increased by an outstanding 143% from N9.44 billion in 2007 to N22.98 billion in 2008, resulting in a cost-income ratio increase of 28.57% over the previous year. Operating Expense as a percentage of Gross Earnings increased from 32.96% in 2007 to 37.53% in 2008. Interest and non-interest income both increased significantly in 2008, interest income by 160% from N15.77 billion in 2007 to N40.97 billion and non-interest earnings grew 57%, primarily attributable to a 65% increase in net fees and commissions and 107% rise in trading revenue. The year 2009 Q2 figures predict lower than usual indices in profitability with a 64% drop witnessed in the Net Profit margin over the same period in 2008, a 58% decline in Pre-tax Profit margin and worse-off ROCE, ROAE and ROAA.

Fig. 64: Stanbic IBTC Bank's Performance Ratios



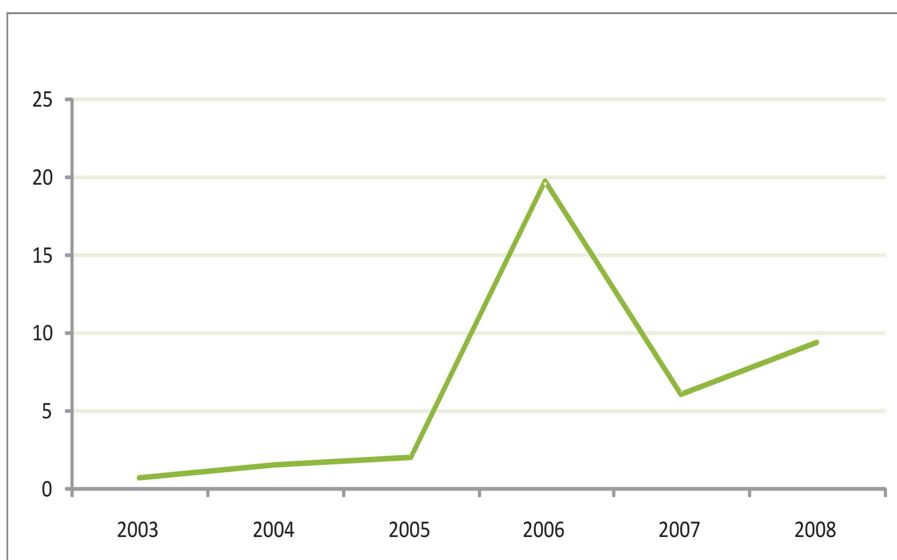
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

The bank's asset quality dipped in 2009, as the non-performing loan ratio increased by 16.48%. The loan structure remained fairly constant; the only change was transactions in commercial papers and bankers acceptances which increased dramatically from N13.55 billion in 2008 to N30.68 billion in 2009, a 163.74% increase, loan loss provision as a percentage of classified loans stands at 9.55% in 2009 as against 12.70% recorded in the corresponding year, a 32.98% fall.

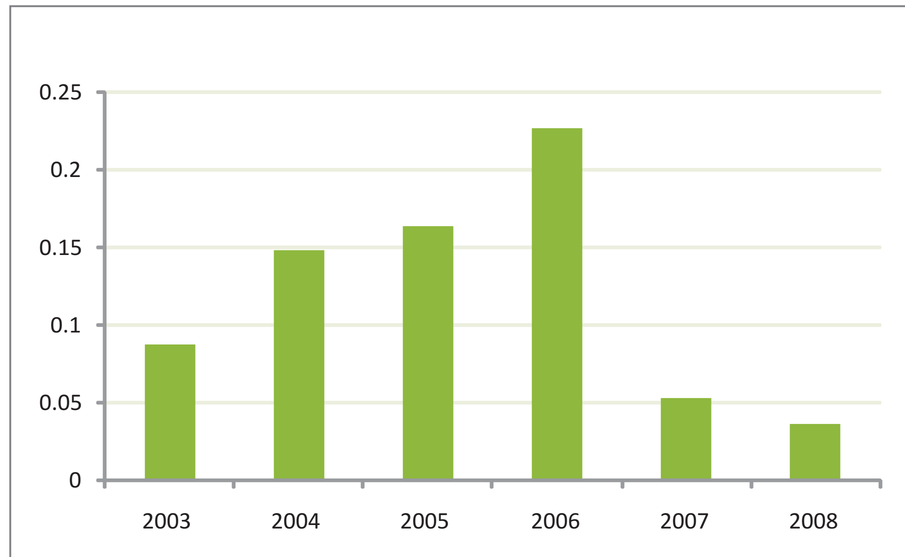
In 2009, the bank, like its peers in the industry, experienced deterioration in the quality of its loans. The Total Non Performing Loans to Total Loans and Advances increased to 17.09% in September 2009 from 9.81% in the previous year. This is in spite of previous write downs in 2008 and the reduction of margin trade exposures.

Fig. 65: Stanbic IBTC Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 66: Stanbic IBTC Bank's % of Classified Loans

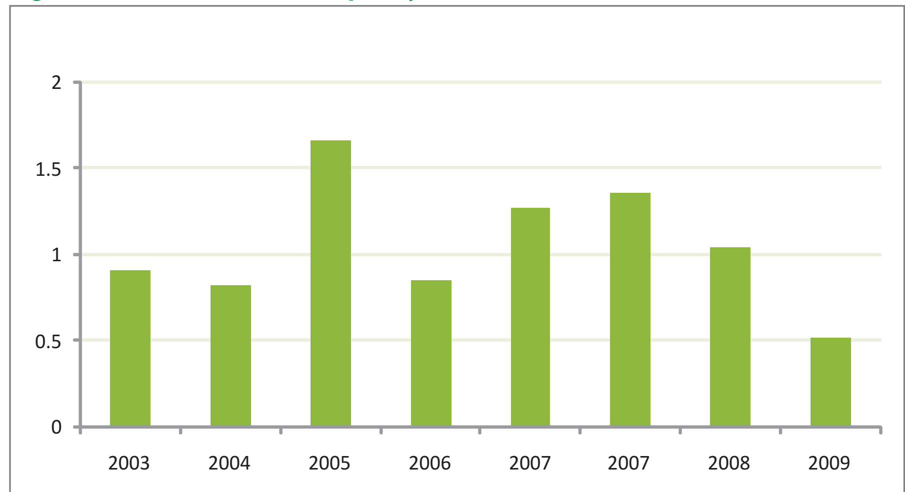


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

In spite of the global credit tightness witnessed in economies across the globe, Stanbic IBTC Bank showed just a slight drop in liquidity ratio from 135.74% in 2007 to 104.66% in 2008. However half year results in 2009 show a sharp decline to 51.90% a decrease of 29.45% from the corresponding period in the previous year confirming the industry's current liquidity squeeze.

Fig. 67: Stanbic IBTC Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's earnings showed strong performances in 2008, as measured by the return on average assets and returns on average equity. The bank's ROE and ROA stood at 14.34% and 3.29% respectively compared to 10.04%, and 2.41% in 2007. This improvement in profitability ratios is mainly attributable to increased inter-bank lending activity which jumped by 127.61% in 2008, a reduction of 72.50% in treasury bills investment and growth in higher yielding investments such as

overdrafts and loans which slightly increased in 2008 to N98.40 billion from N79.46 billion the previous year, partially retiring long term loans like the DEG-Deutsche Investitions facility which expires on or after 15 October 2009, and an improvement in deposit figures.

Earnings growth slowed in 2008 as a result of bad loans. The bank wrote off N5.905 billion as exceptional items in its 2009 9 month interim results which led to a 67% dip in the bottom-line to N3.39 billion from N10.258 billion, the same time the year before. ROE and ROA were also affected by these write-downs. ROE dropped by 65% to 4.46% (12.83%, September 2008) while ROA dropped to 1.04% (2.14%, September 2008).

Financial Year End Balance Sheet Assets	March 2004 N'm	March 2005 N'm	March 2006 N'm	March 2007 N'm	December 2007 N'm	December 2008 N'm
Cash & Short-term funds	999	903	6,257	10,832	13,038	11,587
Due from banks in Nigeria	2,494	6,460	9,178	40,931	65,130	88,388
Due from banks outside Nigeria	7,142	2,876	3,039	5,942	14,449	23,205
Bills Discounted	0	0	0	0	0	0
Short Term Investments	4,375	9,481	28,131	13,956	47,563	14,549
Managed Funds	0	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	3,745	28,017	62,531	71,160
Long Term Investments - Others	4,681	3,313	2,731	4,976	10,519	4,818
Investment/Trading Properties	1321.367	2,076	2,591	0	0	0
Loans & Advances - Gross	9,102	12,675	56,339	44,948	91,030	108,789
Non-Performing Loan	420	403	12,130	9,258	11,162	15,538
Loans & Advances - Net	8,965	12,492	48,275	36,607	79,465	98,398
Advances under finance lease	0	0	853	314	1,644	4,262
Other Facilities	0	0	0	0	0	0
Other Assets	825	698	2,976	3,014	11,762	19,455
Deferred Tax Assets	0	0	0	0	0	0
Fixed Assets	812	851	5,451	6,702	9,007	15,433
Goodwill	0	0	0	0	0	0
Total Assets	31,612	39,151	113,226	151,290	315,107	351,253
Liabilities						
Deposit and Current Account	9,582	10,163	55,492	68,031	71,391	95,240
Due to other banks	0	0	0	5,840	67,298	82,202
Other Facilities	0	0	0	0	0	0
Managed Funds	0	0	0	0	0	0
Tax Payable	664	1,077	2,009	2,213	5,641	5,821
Deferred Taxation	693	357	417	780	442	378
Other Liabilities	12,335	10,517	16,729	27,438	66,784	74,034
Dividend Payable	500	1,174	2,411	0	0	0
Borrowings	0	0	3,338	5,609	27,533	12,201
Total Liabilities	23,775	23,289	80,396	109,911	239,089	269,877
Capital & Reserves						
Share Capital	2,000	2,935	6,029	6,250	9,375	9,375
Share Premium	0	6,361	18,796	20,554	47,469	47,469
Statutory Reserve	1,735	2,443	3,680	5,307	7,480	10,419
Exchange difference reserve	0	0	0	0	0	0
General Reserve	2,064	2,101	2,307	6,362	8,024	11,962
Bonus Issue Reserve	0	0	0	0	0	0
Reserve for SMEIS	597	832	1,039	1,039	1,039	1,039
Revaluation Reserve	1,441	691	563	1,394	1,835	273
Capital Reserve	0	290	290	290	341	129
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests		208	126	184	455	711
Shareholders' Fund	7,838	15,862	32,830	41,379	76,018	81,376
Total Liabilities and Equity	31,612	39,151	113,226	151,290	315,107	351,253

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2007 N'm	2008 N'm
Gross Earnings	4,510	6,484	11,287	21,124	28,856	61,241
Interest Earnings	1,919	2,813	7,306	12,608	15,838	40,973
Interest Expense	(1,437)	(1,479)	(2,424)	(5,246)	(6,237)	(18,611)
Net Interest Income	482	1,334	4,881	7,361	9,601	22,362
Commission and other Income	2,693	3,671	3,982	8,516	13,018	20,267
Operating Income	3,174	5,005	8,863	15,877	22,619	42,629
Staff Cost	(360)	(565)	(1,337)	(2,717)	(4,660)	(10,426)
Depreciation	(147)	(169)	(289)	(798)	(910)	(1,433)
Other Operating Expenses	(617)	(915)	(1,373)	(3,754)	(4,013)	(11,124)
Provision for doubtful accounts	0	(35)	(196)	(1,174)	(2,044)	(5,020)
Operating Profit	2,050	3,321	5,667	7,435	10,992	14,627

Exceptional Items						
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	2,050	3,321	5,667	7,435	10,992	14,627
Info. Tech. devt. levy	0	0	0	0	0	0
Current Taxation	(481)	(891)	(1,567)	(1,352)	(3,492)	(2,438)
Deferred taxation Expense	17	14	(113)	(321)	349	(195)
Profit after taxation	1,586	2,445	3,987	5,762	7,850	11,994

Extraordinary Items						
Minority Interest	0	0	74	(58)	(265)	(430)
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	1,586	2,445	4,061	5,704	7,585	11,564
Dividend Proposed	500	1,174	2,411	3,750	4,687	7,500
Other Information	2004	2005	2006	2007	2007	2008
Outstanding Shares (million)	4,000	5,871	12,057	12,500	18,750	18,750
No. of Employees	93	100	783	931	1,202	1,659
No. of Branches	4	4	56	56	61	64

Table 65: Stanbic IBTC Bank's Financial

Ratios & Analysis Perfomance Ratios (Margin)	2004	2005	2006	2007	2007	2008
Commissions/Gross Earnings	59.71%	56.61%	35.27%	40.32%	45.11%	33.09%
Interest Margin	42.56%	43.39%	64.73%	59.68%	54.89%	66.91%
Net Interest Margin	10.68%	20.58%	43.24%	34.85%	33.27%	36.52%
Operating Expenses/Gross Earnings	24.94%	25.43%	26.58%	34.41%	33.21%	37.53%
PAT/Gross Earnings	35.17%	37.70%	35.33%	27.28%	27.20%	19.59%
Cost to Income Ratio	0.35	0.33	0.34	0.46	0.42	0.54
Pretax Profit Margin	45.46%	51.22%	50.21%	35.20%	38.09%	23.88%
ROCE	26.15%	20.94%	15.67%	15.82%	10.62%	15.63%
ROAE	22.94%	20.63%	16.38%	15.53%	13.37%	15.24%
ROAA	5.71%	6.91%	5.23%	4.36%	3.37%	3.60%
EPS	0.40	0.42	0.33	0.46	0.42	0.64
DPS	0.13	0.20	0.20	0.30	0.25	0.40
Operating Income per employee	34,134.24	50,048.28	11,318.75	17,054.03	18,817.61	25,695.73
Operating Expenses per employee	(12,092.13)	(16,485.78)	(3,831.10)	(7,807.32)	(7,972.51)	(13,853.22)
Profit per branch	512,479.00	830,323.75	101,191.73	132,765.75	180,198.82	228,545.23

Asset Quality Ratios	2004	2005	2006	2007	2007	2008
Interest Income/Earning Assets	8.30%	8.93%	7.21%	9.40%	5.61%	13.20%
Effective Return on Earnings Assets	8.30%	8.82%	7.02%	8.53%	4.89%	11.58%
Explicit cost of Debt	15.00%	14.55%	4.12%	6.60%	3.75%	9.81%
Cost of bad and doubt loans	0.00%	0.28%	0.35%	2.61%	2.25%	4.61%
% of classified loans	4.61%	3.18%	21.53%	20.60%	12.26%	14.28%
Loan loss provision/classified loans	32.82%	45.42%	66.48%	90.09%	103.61%	66.88%

Liquidity Ratios	2004	2005	2006	2007	2007	2008
Liquidity Ratio	82.10%	165.74%	85.26%	126.89%	135.74%	104.64%

Capital Adequacy Ratios	2004	2005	2006	2007	2007	2008
Equity/Loans & Advances	0.86	1.25	0.58	0.92	0.84	0.75
Debt/Equity Ratio	3.03	1.47	2.45	2.66	3.15	3.32
Equity/Total Assets	0.25	0.41	0.29	0.27	0.24	0.23

Source: Company's Annual Reports, BGL Research

Standard Chartered Bank

Summary and Investment Case

- **Wholly Owned subsidiary of the Standard Chartered Group**
  Standard Chartered Nigeria was incorporated as a private limited liability company in May 1999, obtaining a commercial banking license in September 1999, and getting a universal banking license in February 2001. The bank has expanded conservatively within Nigeria and carved out its niche market. Standard Chartered has a relatively small operation in Nigeria compared to its global capabilities.

- **International banking capabilities**
  Standard Chartered Group has been in business for over 150 years, with presence in over 70 countries. The Standard Chartered Group is one of the world's top emerging banking groups, with over 1,600 branches and 5,500 ATMs globally. The group has made major in-roads into the Asian, African and Middle Eastern markets where it has done business for many decades. The network of the bank makes Standard Chartered Bank Nigeria formidable for competition; with access to most of the world's sophisticated instruments at relatively cheaper costs, the bank leverages on its main strengths to project excellence in banking.

- **Change of strategy…..maintaining culture**
  Pre consolidation in 2004, Standard Chartered Bank was particularly selective in conducting its business; however it was quite clear that this posture may not be adequate after 2004 in terms of the predictable increase in competition within the industry for customers and deposits. The outlook for the bank for 2009 has changed with an expansion drive topmost on its agenda, Standard Chartered plans to have a minimum of 13 new branches nationwide. With the enduring brand, character and discipline in growth policies and internal control systems the bank continues to receive improved return on investments.

- **Financials show steady growth**
  After consolidation in 2004, Standard Chartered Nigeria grew its Net Profits by a 5 year CAGR of 43% to N8.03 billion in 2008. In 2009, the bank's conservative approach to doing business proved worthwhile. The bank outperformed even industry leaders to grow Net Profits by 27%, to N7.76 billion in September 2009 (6.10 billion, September 2008). Despite an industry record of 143% growth in deposits to N163.134 billion in September 2009 from N67.09 billion in the previous year; the bank's Interest Expense fell by 49% to N3.08 billion in 2009 from N6.005 billion the year before. However like its peers, the bank's provision for risk assets grew by an industry record of 4,217% from N58.92m in September to N2.54 billion in September 2009.

Structure of Business

Standard Chartered Bank comprised of 4 business units, Consumer Banking, Wholesale Banking, Technology & Operations and Human Resources. The Consumer Banking business is structured to meet the needs of local and multinational, corporate and institutional clients. With a new focus on retail penetration by the bank, the division opened 4 new branches in Nigeria within the last year. Surprisingly, it was one of the top markets for the group in 2008, increasing its clientele base by 40%, largely attributable to its unique capacity to conduct international transactions for its customers with relative ease. Its agenda for the coming year is an improved business channel system i.e. increased number of Automated Teller Machines (ATMs), internet banking portals, and cheque deposit machines; in 2008 the number of ATMs increased by 23. The bank also intends to break into significant retail markets by enhancing its competence to develop new products. The Wholesale Banking segment achieved tremendous results in revenues and trading profits in 2008 increasing by 50% and 25% respectively, with the pressure of the global economy the division stuck to its gun, and maintained its investment strategy, improved clients relationships and augmented product novelty. Heavy investments in human capacity, network expansion, and infrastructure, led to key mandates won in Oil & Gas and Manufacturing sectors for the Local Corporate, Global Corporate, Cash Management and Financial Institutions.

To further illustrate the innovativeness of Standard Chartered Bank, it has pioneered the introduction of sophisticated product offerings such as interest rate swaps, currency swaps, commodity derivatives, foreign exchange derivatives & repurchase agreements, thus placing its customers at a great advantage in the Nigerian market, the downside to this however is the relative cost when compared to what customers in other markets pay for the same services. The Technology & Operations division focuses on improved services to the bank's customers, ensuring they have access to some of the world's best technology. The Electronic Branch Banking System was upgraded making it more robust in order to support growth and enhance customer experience.

Key Strengths

- Significant access to liquidity due to foreign ownership of the bank. Standard Chartered Banking Group declared significant profits during the financial storm in 2008, a growth of 17.46% over the previous year's Net Profits.

- Properly structured businesses in line with its global practice making it easy for staff with pre-requisite skills anywhere in the world to function within the local context. The bank leveraging on the group's capacities to expand its businesses creates a solid basis for future growth.

- Strong market perception as one of the safest banks in the banking sector, characterised by a strong focus on risk management, internal control and good corporate management.

Key Weaknesses

- Relatively small market share: Standard Chartered Bank Nigeria has 22 branches nationwide. This has resulted in the bank's insignificant market share; 1% of market share in deposits and 1.3% in total industry's loans and advances.

- Lack of popularity amongst Nigerians has also affected the Consumer Banking business of Standard Chartered Bank.

Strategy

- Standard Chartered intends to provide its customers with seamless 24 hour banking, making available 23 Automated Banking Machines in branches and at sites with heavy human traffic such as malls and public centres.

- As 'The Right Partner' the bank also plans to give its customers the edge in term of access to international markets, enabling them to hedge investment risks with very sophisticated instruments.

- Standard Chartered continues to deepen already existing relationships; furthermore it intended to increase distribution methods and channels in a bid to stand apart from competition when it rolled out its unique set of financial products in 2009.

- Improve customer satisfaction by simplifying transaction processes and training of front office staff. Also the bank intends to leverage on its foreign payment solutions capabilities and global network to boost trading activities.

- In pursuing its goal to be the top trading bank, the bank has upgraded its operating system helping it to integrate its products, operating model and enhance its efficiency and controls.

- The bank seeks to attract the best hands in the industry and retain them with focus on training and skills development, going as far as staggering resumption times for some of its staff to enable them perform at their optimum.

Ownership Structure

Standard Chartered Bank is wholly owned by Standard Chartered Holdings (Africa) BV, which in turn is a wholly owned subsidiary of Standard Chartered Bank, United Kingdom.

Financial Performance

The group experienced impressive growth in 2008 with Gross Earnings up by 50.99% from N17.30 billion to N26.12 billion. PBT grew 30.08%, from N8.67 billion in 2007 to N11.28 billion in 2008; however Interest Expense grew by 159.45% to N6.50billion, a huge increase from N2.50 billion in 2007. The bank also accrued a 29.53% increase in Operational Expenses in the year, a rise attributable to a steep increase in staff costs, seeing that staff numbers increased by 34% during the year, also branch expansion and infrastructural upgrades of these branches incurred

large capital outlay. PAT only grew by 15.48% in 2008, to N8.03 billion in 2008 from N6.95 billion in 2007.

The wholesale banking segment accounts for approximately 77% of the local gross income, which indicates its significance to the top line of the group. Although consumer banking has not contributed as much this year, it is viewed as a potential gold mine and achieved the highest revenue growth amongst the group's African holdings. Contributing to this was the ability to step up its customer base to 32,000 year end 2008.

Standard Chartered posted a Profit after tax of N8.03 billion in 2008 a slight increase from last year's N6.95 billion. Deposits grew by an outstanding 104.14% from N47.11 billion in 2007 to N96.18 billion in 2008 a testament to the bank's commitment to increase market share in the consumer banking space. The bank's Gross Earnings increased by 51% from N17.30 billion in 2007 to N26.12 billion in 2008. Between 2004 and 2008, Gross Earnings grew by a 5-year CAGR of 35.12%. Over the same period, after-tax profit grew at a CAGR of 61.78% from N0.724 billion to N8.03 billion. Increase of 29.53% and 159.45% in operating and interest expenses from 2007 to 2008 respectively, led to increase in the bank's cost-to-income ratio to 0.54, in line with the industry average. Total Loans and Advances increased by 72.12% to N61.52 billion in 2008 from N35.74 billion in 2007.

Fig. 68: Standard Chartered Bank's Earnings

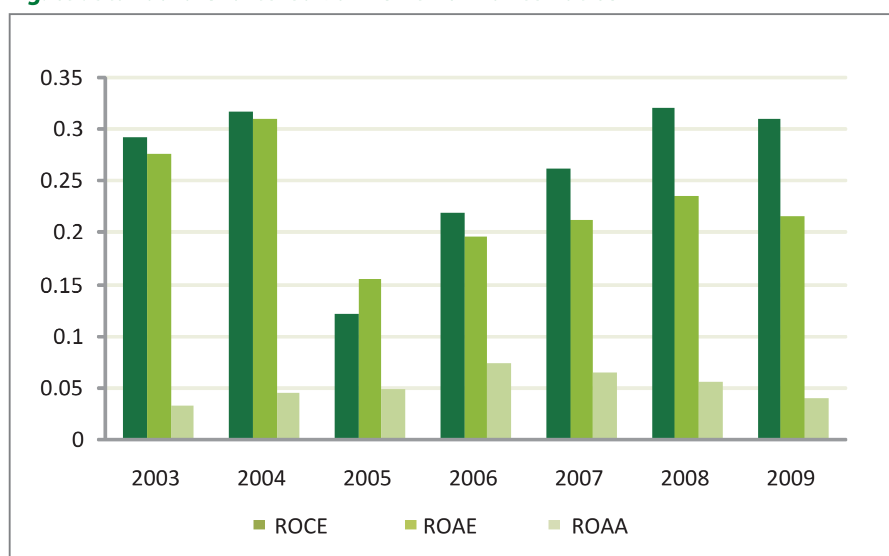
Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin decreased in 2008 to 30.73% from 40.19% in 2007, a significant drop mainly attributable to increased staff costs and branch expansion. Operating Expenses as a percentage of Gross Earnings dropped from 34.75% in 2007 to 29.65% in 2008, indicating growth in total income. Net Interest margin, Pre-tax Profit margin, Return on Assets, and Operating profit/Employee all declined in 2008 as the impact of the financial meltdown affected banking activities. The bank's earnings showed strong performances in 2008, as measured by the return on average equity which

grew from 21.19% in 2007 to 23.41% in 2008; however the Returns on Average Assets declined from 6.33% in 2007 to 5.52% to 2008. The ROCE improved by 22.38% thereby increasing shareholders' funds. A breakdown of interest income shows interbank lending increased by 88.76% in 2008, from N2.20 billion in 2007 to N4.15 billion. The biggest increase in 2008, however, was in lending to customers which grew 170.96% to N11.52 billion from N4.25 billion in 2007. Non-interest income increased by 34.70%, from N5.42 billion in 2007 to N7.30 billion in 2008, largely as a result of a more efficient foreign currency trading desk.

Fig. 69: Standard Chartered Bank's Performance Ratios

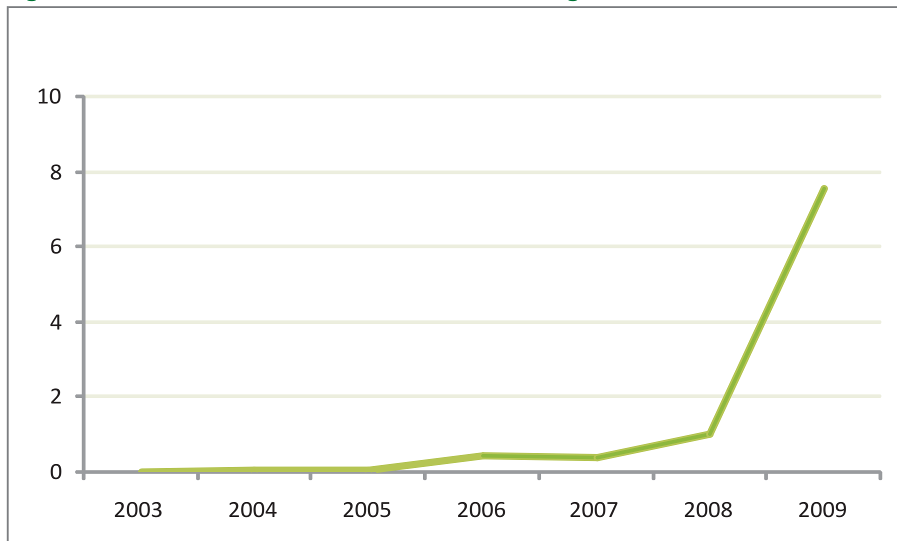


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

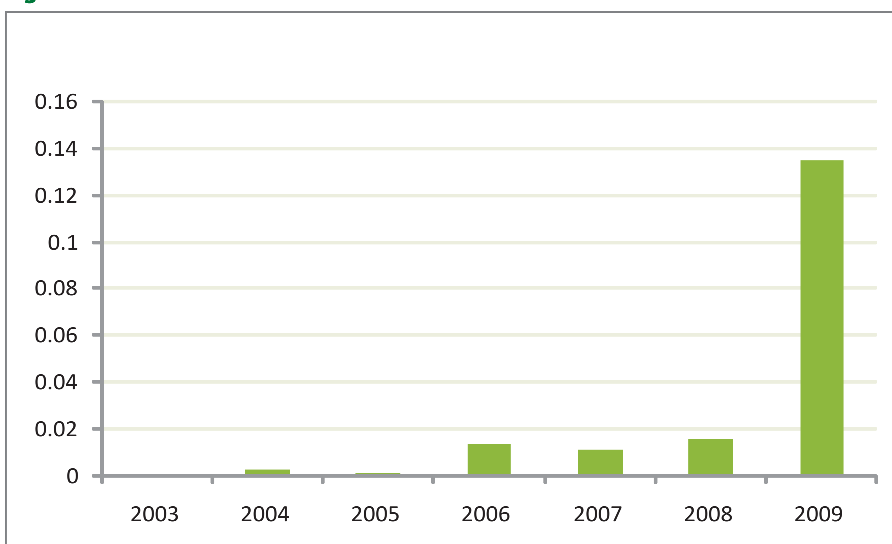
The bank's asset quality improved in 2008, with a 35.18% decrease in the non-performing loan ratio. Although the percentage of non-performing loans to the total loans slightly increased to 1.54%, it remains well below the banking average of 5.4%. Effective return on earning assets also improved to 13.29% in 2008 from 10.92% in 2007. Cost of bad loans more than tripled in 2008, from 0.30% in 2007 to 0.96%, the loan structure remained fairly constant with most of the loans having maturity within a year. There is a sharp decline in short term investments reflected by a 48.83% reduction in values of trading securities, 87.77% decline in FGN Bonds and 98.29% decline in treasury bills. On the other hand Standard Chartered has done tremendously well in Loans and Advances, with a 72.12% increase from N35.74 billion in 2007 to N61.52 billion.

Fig. 70: Standard Chartered Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 71: Standard Chartered Bank's % of Classified Loans

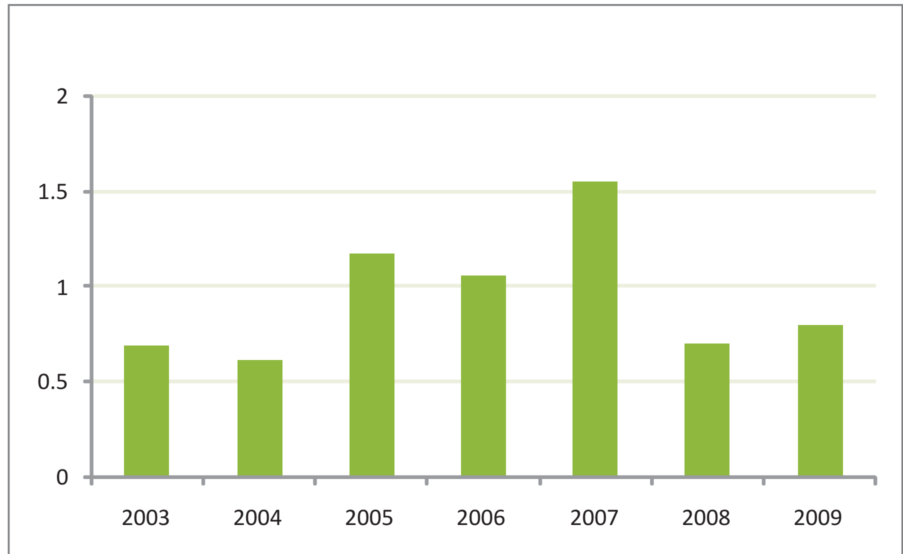


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

The Liquidity Ratio declined significantly from 154.64% in 2007 to 70.17% in 2008. This arguably is reflected in the increase in loans and advances while investment in most liquid assets declined significantly. Decline in the Liquidity Ratio notwithstanding, the bank's ratio was far above the regulatory benchmark of 40% in 2008 and 25% in 2009.

Fig. 72: Standard Chartered Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Table 67: Standard Chartered's Financial Summary

Financial Year-End Balance Sheet Assets	December 2004 N'm	December 2005 N'm	December 2006 N'm	December 2007 N'm	December 2008 N'm
Cash & Short-term funds	2,870	3,530	4,305	3,768	13,458
Due from banks in Nigeria	170	500	0	15,100	43,800
Due from banks outside Nigeria	7,271	6,736	13,710	2,087	20,176
Bills Discounted	0	0	0	0	0
Short Term Investments	6,300	18,806	15,660	43,326	8,016
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	5,000	16,500	19,741	10,662	2,214
Long Term Investments - Others	123	156	349	594	656
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	9,168	20,028	30,182	36,596	62,884
Non-Performing Loan	25	15	404	388	970
Loans & Advances - Net	8,983	19,776	29,408	35,740	61,516
Advances under finance lease	0	0	0	0	0
Other Facilities	0	0	0	0	0
Other Assets	2,676	1,353	4,421	14,286	4,245
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	1,332	1,179	1,546	4,888	6,197
Goodwill	0	0	0	0	0
Total Assets	34,724	68,536	89,140	130,450	160,279
Liabilities					
Deposit and Current Account	23,526	33,440	37,542	47,113	96,176
Due to other banks	0	0	0	0	0
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	0	0
Tax Payable	267	1,028	1,875	2,190	4,160
Deferred Taxation	104	16	24	226	280
Other Liabilities	5,867	7,398	17,339	47,682	24,334
Dividend Payable	0	0	0	0	0
Borrowings	0	0	0	0	0
Total Liabilities	29,764	41,883	56,781	97,211	124,950
Capital & Reserves					
Share Capital	2,458	3,010	3,010	3,010	3,010
Share Premium	0	18,709	18,709	18,709	18,709
Statutory Reserve	828	1,558	3,294	4,337	5,541
Exchange difference reserve	0	0	0	0	0
General Reserve	1,318	2,778	6,170	6,007	6,579
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	355	598	1,177	1,177	1,490
Revaluation Reserve	0	0	0	0	0
Capital Reserve	0	0	0	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests			0	0	0
Shareholders' Fund	4,960	26,653	32,359	33,239	35,329
Total Liabilities and Equity	34,724	68,536	89,140	130,450	160,279

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	5,799	7,665	13,428	17,296	26,117
Interest Earnings	3,778	4,717	9,189	11,877	18,816
Interest Expense	(1,624)	(1,034)	(1,536)	(2,505)	(6,498)
Net Interest Income	2,154	3,683	7,654	9,372	12,318
Commission and other Income	2,021	2,948	4,238	5,420	7,300
Operating Income	4,174	6,631	11,892	14,792	19,618
Staff Cost	(940)	(1,336)	(1,686)	(2,823)	(4,119)
Depreciation	(237)	(272)	(228)	(330)	(505)
Other Operating Expenses	(1,314)	(1,674)	(2,401)	(2,857)	(3,113)
Provision for doubtful accounts	(118)	(106)	(478)	(110)	(601)
Operating Profit	1,565	3,243	7,100	8,672	11,281

Exceptional Items					
Interest on borrowings	0	0	0	0	0
Profit before taxation	1,565	3,243	7,100	8,672	11,281
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(192)	(899)	(1,305)	(1,519)	(3,200)
Deferred taxation Expense	(45)	88	(8)	(202)	(54)
Profit after taxation	1,327	2,432	5,787	6,951	8,027

Extraordinary Items					
Minority Interest	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	1,327	2,432	5,787	6,951	8,027
Dividend Proposed	0	0	6,000	5,875	7,525

Other Information	2004	2005	2006	2007	2008
Outstanding Shares (million)	2,458	2,500	2,500	2,500	2,500
No. of Employees	181	203	262	353	472
No. of Branches	5	5	6	12	22

Table 68: Standard Chartered's Ratios & Analysis

Ratios & Analysis					
Perfomance Ratios (Margin)	**2004**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	34.85%	38.46%	31.56%	31.33%	27.95%
Interest Margin	65.15%	61.54%	68.44%	68.67%	72.05%
Net Interest Margin	37.14%	48.05%	57.00%	54.19%	47.17%
Operating Expenses/Gross Earnings	42.97%	42.80%	32.13%	34.75%	29.62%
PAT/Gross Earnings	22.89%	31.74%	43.09%	40.19%	30.73%
Cost to Income Ratio	0.60	0.49	0.36	0.41	0.39
Pretax Profit Margin	26.98%	42.32%	52.88%	50.14%	43.19%
ROCE	31.54%	12.17%	21.94%	26.09%	31.93%
ROAE	30.89%	15.39%	19.61%	21.19%	23.41%
ROAA	4.35%	4.71%	7.34%	6.33%	5.52%
EPS	0.54	0.97	2.31	2.78	3.21
DPS	0.00	0.00	2.40	2.35	3.01
Operating Income per employee	23,062.73	32,663.45	45,389.02	41,902.50	41,564.46
Operating Expenses per employee	(13,766.25)	(16,161.87)	(16,467.22)	(17,025.14)	(16,392.09)
Profit per branch	312,918.00	648,665.80	1,183,322.00	722,660.75	512,762.68

Asset Quality Ratios	2004	2005	2006	2007	2008
Interest Income/Earning Assets	13.54%	7.54%	11.59%	11.02%	13.73%
Effective Return on Earnings Assets	13.11%	7.37%	10.99%	10.92%	13.29%
Explicit cost of Debt	6.90%	3.09%	4.09%	5.32%	6.76%
Cost of bad and doubt loans	1.29%	0.53%	1.58%	0.30%	0.96%
% of classified loans	0.27%	0.08%	1.34%	1.06%	1.54%
Loan loss provision/classified loans	753.19%	1631.73%	191.65%	220.38%	141.08%

Liquidity Ratios	2004	2005	2006	2007	2008
Liquidity Ratio	60.95%	117.63%	105.76%	154.64%	70.17%
Capital Adequacy Ratios	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.54	1.33	1.07	0.91	0.56
Debt/Equity Ratio	6.00	1.57	1.75	2.92	3.54
Equity/Total Assets	0.14	0.39	0.36	0.25	0.22

Source: Company's Annual Reports, BGL Research

Sterling Bank Plc

Summary and Investment Case

- **Nigeria's first merchant bank in 1969**
  Sterling Bank Plc originally incorporated in 1960 as Nigeria Acceptances Limited (NAL) was licensed as Nigeria's first merchant bank in 1969. Consequent to the indigenisation decree of 1972, the bank became fully government owned and was managed in partnership with Grindlays Bank Limited, Continental International Finance Company Illinois and American Express Bank Limited between 1974 and 1992. In 1992, the bank was partly privatised and listed on the NSE and in 2000 the government sold its residual interest, effectively making it a fully private institution. In January 2006, as part of the consolidation of the Nigerian banking industry, NAL Bank completed a merger with four other Nigerian banks namely Magnum Trust Bank, NBM Bank, Trust Bank of Africa and Indo-Nigeria Merchant Bank (INMB) and adopted the Sterling Bank name.

Table 69: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	3.66
Current Price (N)	1.63
PE	-3.40
EPS (N)	-0.36
Projected EPS	0.12
Projected PE	12.01
Projected DPS	0.02
Projected Dividend Yield	0.50%
Outstanding Shares	12,563,091,545

Source: BGL Research Estimates

- **Gains strength from diversified universal bank**
  The bank currently operates as a fully diversified universal bank with footprints in investment banking, asset management, stockbrokerage, savings and loans, pension funds management, insurance brokerage and registrar services. Over the past four years, the bank has taken great strides in achieving growth from the first year of operation after consolidation and has grown its branch network to over 100 nationwide as at mid 2009.

- **Modestly growing as a mid-sized bank**
  Sterling Bank Plc (Sterling) which could be classified amongst the third tier of Nigerian banks with a strong focus on customer service and improving its share of its chosen markets surprised many by passing the regulator's stress-test in August 2009. With Shareholders' Funds of N28 billion, Sterling Bank Plc could summarily be classified as a fringe player when compared to bigger competitors like UBA and First Bank. Sterling Bank post consolidation has shown remarkable growth with Gross Earnings growing by a CAGR of 68.03% from 2006 to 2008, and Interest Earnings rising by 72.58% within the same period; now 62% of total earnings as against 59% in 2006. EPS has also steadily risen from 0.10 in 2006 to 0.18 in 2007 and 0.66 in 2008.

Table 70: Forecast Valuation

Indices	2010	2011
ROCE	12.02%	18.69%
ROAE	8.43%	13.21%
PE	2.27	1.62
EPS (N)	0.63	0.89
DPS (N)	0.16	0.36
Price (Forward PE Model)	5.20	7.30
Price (DDM)	3.66	7.64
Price (Gordon Growth)	12.53	11.68
Price (DCF)	16.21	16.18

Source: BGL Research Estimates

Structure of Business

Providing comprehensive services in customer banking, trade finance, e-business, public sector collections and financial services, the Group is made up of Sterling Bank Plc and seven subsidiaries; Sterling Registrars Limited, SBG Insurance Brokers Limited, Crusader Sterling Pension Limited, Safetrust Savings & Loans Limited, Nigerian Stock Brokers Limited (NSL), Sterling Asset Management Trust Limited (SAMTL) and Sterling Capital Markets Limited. In addition to the subsidiaries, the bank makes investments under the Small and Medium Enterprises Equity Investment Scheme

(SMEEIS), and as at September 2008, over N350m was invested under the scheme. With respect to the bank's significant holding in the investee companies, some of them qualify as associates. However, they are not consolidated as the bank is not positioning to exercise influence and control.

Table 71: Sterling Bank's Subsidiaries and Associate Companies

Subsidiaries	Principal Activities
Sterling Registrars Limited	Registrar
Nigerian Stock Brokers Limited (NSL)	Financial Services
Sterling Asset Management Trust	Financial Services
Sterling Capital Markets Limited.	Financial Services
SBG Insurance Brokers Limited	Insurance
Crusader Sterling Pension Limited	Pension
Safetrust Savings & Loans Limited.	Financial Services

Source: 2008 Company Financial

Key Strengths

- Strong competitive proposition as aftermath of re-branding: The bank is competing favourably with its peers in the industry in the area of product development, branch network and market sentiment, and the ongoing re-branding of the bank is expected to enhance its competitive position.

- Customer-centric strategy: The 'One-Customer Bank' re-branding, implementation of a well orchestrated 3-year strategy aimed at ensuring consistent improvement of the bank's franchise to all stakeholders and the planned roll out of new branches are expected to buoy the bank's bottom-line and increase investors wealth. Its low price and strong brand is an attraction to investors and it would not be a surprise to see increasing interest that may cause a change in the ownership structure of the bank.

Key Weaknesses

- High risk of losses from high yield investments: While Sterling Bank appears to be benefiting from a fast growing risk asset portfolio (total Loans and Advances are estimated to have doubled since September 2006, to about N65.2 billion); risks relating to asset quality and investment performance remain a major cause for concern. The balance is heavily weighed towards high yield investments; hence the high risk of losses in case of impairment.

- Unresolved fallout of share reconstruction: The bank compensated the shareholders of the legacy banks in 2008 by issuing 13,317,026,285 ordinary shares of 50kobo bringing the issued and fully paid share capital of the bank to 23,869,873,917 ordinary shares. This value was consolidated into 12,563,091,543 ordinary shares in the ratio of 10 new shares for every 19 existing ones. This exercise led to loss of about 50% of quantity held especially for the shareholders that joined the company post-consolidation. Until all the standing court cases on this issue are cleared, investor apathy on the company's shares will linger.

Ownership Structure and Corporate Governance

The bank is owned 100% by Nigerian citizens, corporations and foreign investors. According to the financial statement as at 30 September 2008, the bank had 90,206 shareholders with the following shareholders owning 5% or more:

Table 72: Major Shareholders of Sterling Bank Plc

Shareholder	% holding
State Bank of India	14.75
Eba-Odan Commercial and Industrial Co. Ltd	7.46
HAK Air Limited	5.6
ESS-AY Investments Ltd.	5.33

Source: Company's Annual Report 2008

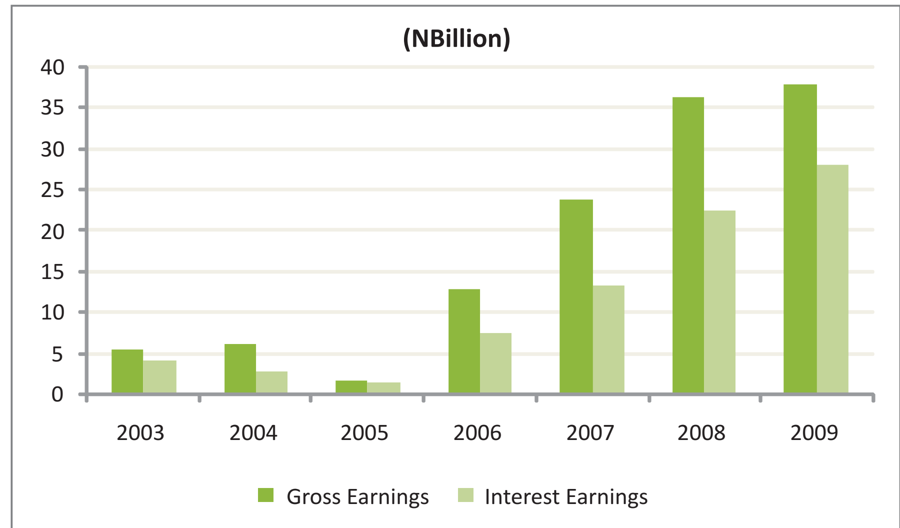
Financial Performance

The bank's performance in 2008 was impressive. The Gross Earnings grew by 56% from N21.06 billion in 2007 to N32.95 billion in 2008. Net Interest margin grew by 225% to N9.58 billion. Deposits and other accounts also grew by 73% to N184.7 billion during the same period.
The proportion of Shareholders' Funds expended to finance acquisition of total asset in the period slid to 12.79% in contrast with the 18.36% recorded in the previous financial year. The portion of classified loans to the owners' equity also dropped substantially.

Gross Earnings increased by 52% while the Profit after tax increased by 259%; this is despite the fact that the bank expensed its post-merger goodwill during the financial year, which means that it had a high quality earnings. The disparity in the change between turnover and PBT also means that the bank has put things in place to reduce overhead costs.

Similarly, the bank's yield which measures the difference between interest income as a proportion of average interest earning assets and interest expenses as a proportion of average interest bearing liabilities showed a consistently increasing trend, moving from 9.9% in 2006 to 12.3% in 2008. The bank's Cost to Income ratio remained relatively flat, at 0.66 in 2003 and 0.64 2008. This trend is also consistent with the Net Interest Margin.

Fig. 73: Sterling Bank's Earnings

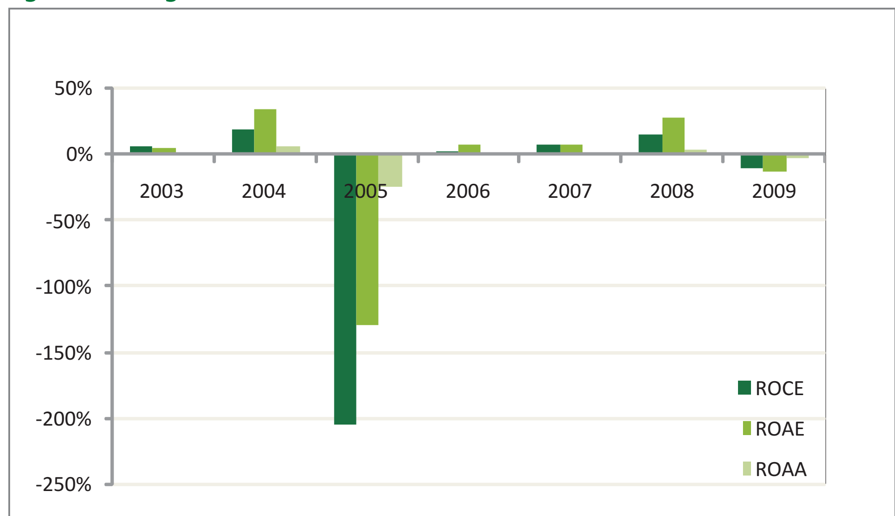


Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin grew from 8.12% in 2007 to 22.30% in 2008. The bank contained operating, interest and credit costs. Operating Expense as a percentage of Gross Earnings remained fairly constant over the year from 45.43% in 2007 to 45.84% in 2008, however at 33.51%; the Net Interest Margin was up from 27.58% in the previous year. Given this performance, the bank proposed a dividend payout of 10 kobo per share.

Fig. 74: Sterling Bank's Performance Ratios

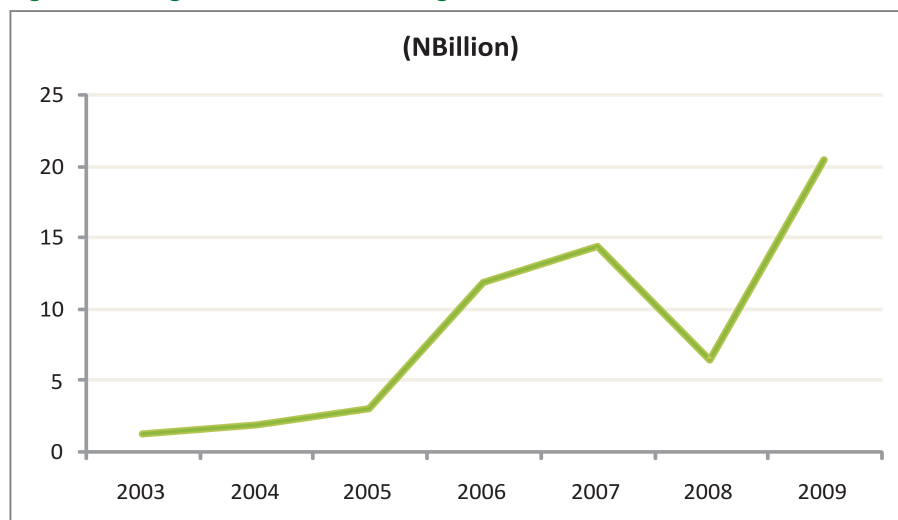


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

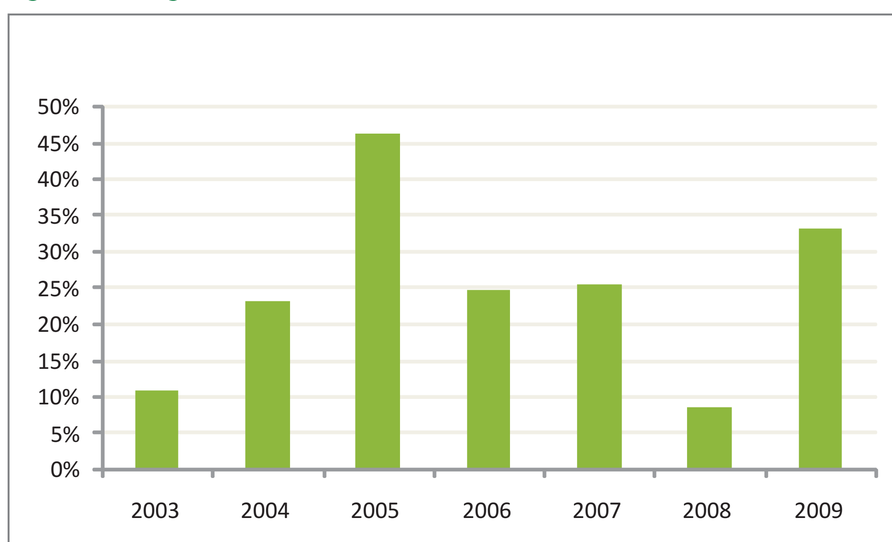
The bank has improved the quality of its assets over the years as shown by the various asset quality indicators. However, it did not escape the ongoing wave of non performing loans, with the Loan Loss Provision growing from N3 billion in 2008 to over N10 billion in 2009. About 8.75% of the total loan portfolio is classified while the loan loss provision amounted for about 115% of non-performing loans.

Fig. 75: Sterling Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 76: Sterling Bank's % of Classified Loans

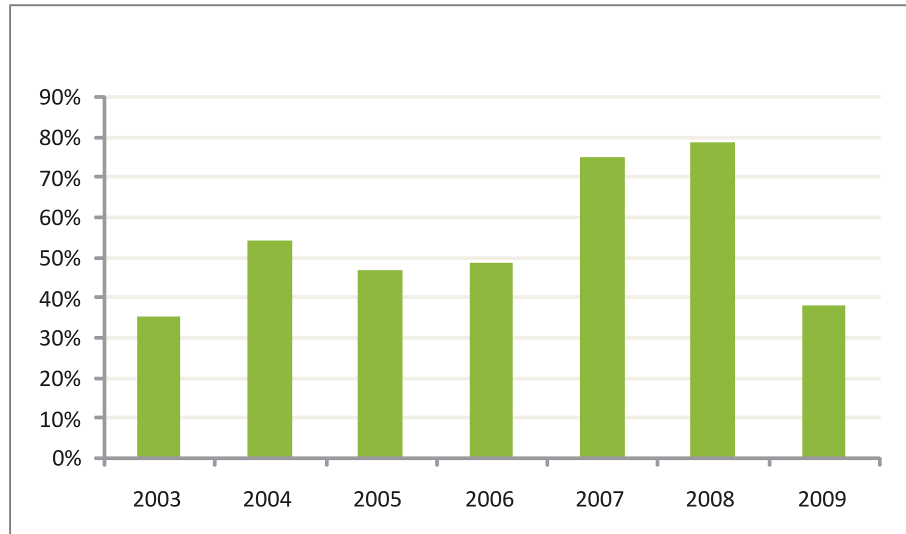


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

The bank's Liquidity Ratio remained flat at about 75%, significantly above the regulatory benchmark of 40% in 2008 The strong liquidity ratio was accounted for by a modest investment in liquid assets such as interbank market, treasury bills and FGN bonds. The aggressive foray into risk asset creation by late 2008 is having a negative impact on the bank's liquidity as shown in the bank's September 2009 interim results.

Fig. 77: Sterling Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's earnings performance, as measured by the returns on average assets and returns on average equity, has improved consistently. The banks return on equity (ROE) and return on assets (ROA) as at September 2008 stood at 27.74% and 4.07% respectively, an increase from 7.12% and 1.44% in September 2007

Table 73: Sterling Bank's Financial Summary

Financial Year-End Balance Sheet Assets	June 2003 N'm	June 2004 N'm	December 2005 N'm	September 2006 N'm	September 2007 N'm	September 2008 N'm
Cash & Short-term funds	1,454	2,372	2,891	7,023	6,235	6,601
Due from banks in Nigeria	1,148	2,063	1,563	7,865	34,202	78,249
Due from banks outside Nigeria	2,558	2,852	1,018	3,100	8,604	16,099
Bills Discounted	0	0	0	0	0	0
Short Term Investments	460	789	1,318	18,809	18,643	25,875
Managed Funds	0	0	0	0	0	0
Long Term Investments - FGN Bonds	2,411	1,570	0	0	15,620	28,590
Long Term Investments - Others	1,159	1,029	1,756	4,009	3,969	3,383
Investment/Trading Properties	1,717	299.238	3,209	8,394	5,837	1,946
Loans & Advances - Gross	11,889	8,314	6,545	47,699	56,166	74,459
Non-Performing Loan	1,323	1,946	3,045	11,840	14,402	6,536
Loans & Advances - Net	11,129	6,768	4,055	38,544	47,114	66,883
Advances under finance lease	300	239	222	1,590	2,233	3,366
Other Facilities	0	0	0	0	0	0
Other Assets	1,298	2,150	2,070	10,970	5,618	12,309
Deferred Tax Assets	0	563	989	1,572	460	1,159
Fixed Assets	975	1,891	2,251	7,390	5,119	5,387
Goodwill	0	0	0	4,030	3,082	0
Total Assets	24,609	22,585	21,342	113,297	156,736	249,847
Liabilities						
Deposit and Current Account	15,458	12,430	12,315	68,946	99,218	176,916
Due to other banks	0	0	0	0	0	0
Other Facilities	0	0	0	0	0	0
Managed Funds	0	0	0	0	0	0
Tax Payable	0	0	343	1,038	1,327	1,750
Deferred Taxation	628	194	286	1,535	24	16
Other Liabilities	5,170	4,332	5,662	15,594	27,940	28,650
Dividend Payable	0	0	0	0	0	0
Borrowings	0	0	0	0	0	11,073
Total Liabilities	21,256	16,955	18,607	87,113	128,509	218,406
Capital & Reserves						
Share Capital	832	1,243	2,387	5,276	5,276	6,282
Share Premium	172	569	1,887	13,319	13,319	12,314
Statutory Reserve	776	1,240	1,287	1,575	1,761	3,718
Exchange difference reserve	1,449	453	603	505	489	178
General Reserve	47	550	(4,324)	(3,655)	(1,968)	2,639
Bonus Issue Reserve	0	630	0	5,276	5,276	5,276
Reserve for SMEIS	76	403	138	235	235	235
Revaluation Reserve	0	540	540	3,431	3,456	534
Capital Reserve	0	0	115	87	96	96
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests	0	0	101	134	285	169
Shareholders' Fund	3,353	5,629	2,735	26,184	28,227	31,441
Total Liabilities and Equity	24,609	22,585	21,342	113,297	156,736	249,847

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	5,525	6,136	1,824	12,858	23,864	36,301
Interest Earnings	4,222	2,922	1,480	7,523	13,325	22,405
Interest Expense	(3,000)	(2,463)	(1,380)	(3,946)	(6,744)	(10,240)
Net Interest Income	1,222	459	100	3,577	6,581	12,165
Commission and other Income	1,303	3,214	344	5,335	10,539	13,895
Operating Income	2,525	3,672	444	8,912	17,120	26,060
Staff Cost	(320)	(395)	(796)	(3,136)	(4,195)	(6,187)
Depreciation	(168)	(176)	(128)	(762)	(1,002)	(1,169)
Other Operating Expenses	(1,172)	(1,342)	(2,579)	(3,631)	(5,643)	(9,282)
Provision for doubtful accounts	(632)	(670)	(2,534)	(655)	(4,053)	(3,132)
Operating Profit	233	1,089	(5,594)	728	2,227	6,290

Exceptional Items	0	0	0	0	0	1,693
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	233	1,089	(5,594)	728	2,227	7,983
Info. Tech. devt. levy	0	0	0	0	0	0
Current Taxation	(54)	(108)	(37)	(450)	(635)	(767)
Deferred taxation Expense	0	563	229	796	346	(632)
Profit after taxation	179	1,545	(5,402)	1,074	1,938	8,277

Extraordinary Items						
Minority Interest	0	0	(4)	(20)	(65)	(20)
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	179	1,545	(5,406)	1,054	1,873	8,256
Dividend Proposed	85	252	0	0		1,256
Other Information	2003	2004	2005	2006	2007	2008
Outstanding Shares (million)	1,663	2,487	4,774	10,553	10,553	12,563
No. of Employees	263	293	335	1,438	1,446	1,540
No. of Branches	N/A	N/A	84	99	95	93

Table 74: Sterling Bank's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2003	2004	2005	2006	2007	2008
Commissions/Gross Earnings	23.58%	52.38%	18.86%	41.49%	44.16%	38.28%
Interest Margin	76.42%	47.62%	81.14%	58.51%	55.84%	61.72%
Net Interest Margin	22.12%	7.48%	5.48%	27.82%	27.58%	33.51%
Operating Expenses/Gross Earnings	30.05%	31.18%	192.11%	58.56%	45.43%	45.84%
PAT/Gross Earnings	3.24%	25.18%	-296.22%	8.35%	8.12%	22.80%
Cost to Income Ratio	0.66	0.52	7.89	0.84	0.63	0.64
Pretax Profit Margin	4.21%	17.76%	-306.72%	5.66%	9.33%	21.99%
ROCE	6.94%	19.35%	-204.54%	2.78%	7.89%	14.79%
ROAE	5.62%	34.40%	-129.18%	7.43%	7.12%	27.74%
ROAA	0.78%	6.55%	-24.60%	1.60%	1.44%	4.07%
EPS	0.11	0.62	-1.13	0.10	0.18	0.66
DPS	0.05	0.10	0.00	0.00	0.00	0.10
Operating Income per employee	9,600.84	12,533.75	1,325.06	6,197.43	11,839.74	16,922.18
Operating Expenses per employee	(6,311.30)	(6,528.52)	(10,458.20)	(5,235.66)	(7,496.94)	(10,804.35)
Profit per branch	N/A	N/A	(66,590.46)	7,355.36	23,439.03	67,632.35

Asset Quality Ratios	2003	2004	2005	2006	2007	2008
Interest Income/Earning Assets	22.50%	18.46%	13.87%	9.52%	9.84%	9.89%
Effective Return on Earnings Assets	19.13%	14.23%	-9.88%	8.69%	6.84%	8.50%
Explicit cost of Debt	19.40%	19.82%	11.20%	5.72%	6.80%	5.45%
Cost of bad and doubt loans	5.32%	8.06%	38.72%	1.37%	7.22%	4.21%
% of classified loans	11.13%	23.41%	46.53%	24.82%	25.64%	8.78%
Loan loss provision/classified loans	57.48%	79.43%	81.75%	77.32%	62.86%	115.92%

Liquidity Ratios	2003	2004	2005	2006	2007	2008
Liquidity Ratio	35.41%	54.66%	46.87%	48.87%	75.29%	78.75%

Capital Adequacy Ratios	2003	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.28	0.68	0.42	0.55	0.50	0.42
Debt/Equity Ratio	6.34	3.01	6.80	3.33	4.55	6.95
Equity/Total Assets	0.14	0.25	0.13	0.23	0.18	0.13

Source: Company's Annual Reports, BGL Research

United Bank for Africa Plc

Summary and Investment Case

- **Veteran in the Nigerian banking sector**
  United Bank for Africa Plc's (UBA) history dates back to 1948 when the British and French Bank Limited ("BFB") commenced business in Nigeria and then in 1961, UBA was incorporated to take over the business of BFB. In 1970, UBA became the first bank to be listed on the Nigerian Stock Exchange. Today's UBA is the product of the 2005 merger of Nigeria's third (3rd) and fifth (5th) largest banks, namely the old UBA and the erstwhile Standard Trust Bank Plc (STB) respectively, and a subsequent acquisition of the erstwhile Continental Trust Bank Limited (CTB).

- **Adds 148 branches to network through CBN's Purchase & Assumption window**
  UBA has been the most active bank in the CBN's cherry picking programme for liquidated banks as a result of the 2005 regulatory induced banking consolidation. In 2007, the bank acquired Trade Bank, Metropolitan Bank, City Express Bank and African Express Bank. Liberty Bank and Gulf Bank were acquired in 2007. As a result, the bank added 148 branches to its network from these liquidated banks and has been able to retain 70% of the deposits acquired from these banks.

- **Seeks dominance in retail and consumer banking**
  In Nigeria alone, UBA has 613 branches, which means it has well more than 100 branches over its closest rival–First Bank. Globally the bank has 694 branches and retail outlets. UBA has about 6.6m customer accounts while First Bank has about 4.5m. UBA's focus on consumer and retail banking is premised on the following: Intense competition for corporate deposits amongst banks, high costs and lower margins on corporate deposits, low cost efficiency and higher margins of retail market. Its wide branch network also gives it easier access to cheaper customer deposits.

- **Nine-months interim results show provisions of N21.3 billion as exceptional items**
  The company's 9 months interims released on July 31, 2009 reveal Gross Earnings growth of 34% over the same period of 2008 to N160.6 billion while PBT and exceptional items fell slightly by 3% to N33.7 billion. The 63% dip in Q3'09 pre-tax earnings to N12.4 billion was due to N21.3 billion in provisions. The bank's total exposure to margin loans currently stands at N24 billion out of which it restructured N16 billion and made provisions for N11.7billion; representing 55% of total loan loss provisions.

Table 75: Market Statistics

Report Date	04-Feb-10
Target Price (N) - Average	15.35
Current Price (N)	14.40
PE	13.31
EPS (N)	0.87
Projected EPS	0.72
Projected PE	8.20
Projected DPS	0.18
Projected Dividend Yield	1.28%
Outstanding Shares	21,556,499,963

Source: BGL Research Estimates

Table 76: Forecast Valuation

	2010	2011
ROCE	36.32%	41.83%
ROAE	21.84%	25.64%
PE	6.26	4.73
EPS (N)	1.77	2.34
DPS (N)	0.89	1.17
Price (Forward PE Model)	14.52	19.20
Price (DDM)	15.35	20.66
Price (Gordon Growth)	34.64	19.20
Price (DCF)	42.00	23.96

Source: BGL Research Estimates

Structure of Business

UBA operates with 694 branches in 14 countries across three continents including Nigeria, Benin, Cameroun, Uganda, Ghana, Cote d'Ivoire, Liberia, Sierra Leone, Senegal, Burkina Faso, Cayman Island, USA, UK and France. The bank has filed applications for banking licenses in China, UAE and nine other African countries.

The company's September 2009 interim results show that its ex-Nigeria operations contributed 11% of Gross Earnings (1.6%, Q3'08). This is a historical high for the bank. Of this figure, New York contributed 32% while the Burkina Faso operations contributed 28%. The Ghanaian operations earned 18%, Benin Republic 9%, Cameroun 7% while the others contributed 6% to the segment's gross earnings during the period. Burkina Faso remained the highest contributor within the African continent. We recall that unlike in other African countries where UBA adopted a brown field approach, the bank acquired the state owned Banque Internationale du Burkina Faso (BIB) of Burkina Faso, thus possessing a formidable structure from commencement of business in the country. Deposit liabilities from outside Nigeria also attained another historic high in Q3 of 2009 when it accounted for 12% (2%, Q3'08) of the Group's deposit liabilities.

Table 77: UBA's Subsidiaries and Associate Companies

Subsidiaries	Country	% Holding	Principal Activity
UBA Ghana Limited	Ghana	51%	Banking
UBA Cameroun SA	Cameroun	100%	Banking
UBA Cote d'Ivoire SA	Cote d'Ivoire	100%	Banking
UBA Liberia Limited	Liberia	100%	Banking
UBA (S L) Limited	Sierra Leone	100%	Banking
UBA Uganda Limited	Uganda	100%	Banking
Banque Internationale Du Burkina Faso SA	Burkina Faso	51%	Banking
UBA Microfinance Bank Limited	Nigeria	100%	Banking
UBA Asset Management Limited	Nigeria	100%	Asset Management
UBA Capital (Africa) Limited	Nigeria	100%	Investment Banking
UBA Capital (Europe) Limited	Nigeria	49%	Investment Banking
UBA Pension Custodian Limited	Nigeria	100%	Pension Custody
UBA Metropolitan Life Insurance Limited	Nigeria	50%	Insurance
STB Capital Market Limited	Nigeria	31%	Investment Banking

Source: Company Data

Key Strengths

- **Large distribution network:** Amongst Nigerian Banks, UBA has the largest distribution network of branches, ATMs and POS machines. As at 30 June 2009, the bank had 694 branches (621, June 2008), 1,592 ATMs (1,205, June 2008), 3,713 POS machines (3,296, June 2008). This has translated into over 6.6m customers in the retail and corporate market segments–the largest for any Nigerian bank, and a large deposit base.

- **Quality of management:** UBA has one of the strongest management teams in the industry. The management of the bank has also imbibed a rich culture of communicating its strategies, goals and plans while achievement of these plans has been relatively impressive. UBA has a 20 man board of directors which comprised 11 non-executive directors and nine executive directors.

- **Higher disclosure levels:** UBA currently prepares its accounts based on Nigerian GAAP accounting standards and will only be adopting IFRS accounting standards for the first time in its December 2009 accounts. Nevertheless, we note that the bank has high disclosure levels relative to its Nigerian peers. This obtains not just for audited financial statement, but, but for its un-audited interim reports during the financial period.

Key Weaknesses

- **Weak customer service:** UBA is perceived to have weak customer service compared to its peers. This is largely linked to stringent operational procedures at its branches, large customer base and I.T weaknesses. UBA Prestige was established in 2008 to serve the affluent and high net worth social classes in Nigeria. However, we believe UBA Prestige might not be a sustainable approach to redeeming its poor customer service image and there is need for a more holistic approach.

- **High Cost to Income Ratio:** The high cost of doing business in Nigeria especially pertaining to the poor infrastructural framework increases the cost burden of businesses. In its Q3'09 interim results, UBA's Cost to Income ratio increased by 8% to 67.2%, First Bank–66.8%. The bank has a targeted cost to income ratio of 50% by 2011.

- **Unexploited capacity to create risk assets:** UBA's Q3'09 loan to deposit ratio dropped by 6.2% to 46.4% (52.6% Q3,'08). This falls way below the bank's internal limit of 60% and the 80% regulatory cap. Amongst its peers, only Zenith Bank has a lower loan to deposit ratio of 39% whilst others maintain higher ratios– First Bank 64%, GTB 91%. We believe UBA can optimise risk asset creation with its large deposit base.

Strategy

Pan-African strategy: UBA has a target of having local presence in 30 African countries by 2010 and earning 30% of the group's revenues from operations outside Nigeria. The bank currently operates in 10 African countries while it awaits regulatory approval in nine others. UBA has a three year plan towards becoming one of the top six banks in sub-Saharan Africa. According to the bank, its Africa-wide expansion is based on the following:

- Asset and revenue diversification to reduce risk;
- Need to facilitate trade and investment flows across Africa as intra-continental trade improves;
- UBA also says that many of the African countries are growing more rapidly than Nigeria and with lower levels of banking sophistication. The bank wants to pursue growth opportunities by adapting products and services developed in Nigeria to its operations in other countries.

The other key corporate objectives are:

- Increase market share to 25%–30% by 2011
- Attain top 3 position in each business segment
- Presence in all major global financial centres

- Dominate retail banking
- Achieve cost to income ratio of 50% by 2011
- Deploy risk management standards in key areas of operations

Overall, the bank seeks to become the leading bank in Nigeria as measured by total assets, deposit liabilities, gross earnings, profit before tax, ROE, market capitalisation and branch/ATM network.

Fresh Capital Raising Plans

UBA has announced plans to raise N500 billion in additional capital as part of a fresh capital injection initiative for a number of key projects and transactions. The fund will be raised in tranches by way of ordinary shares and bonds of 7 year tenor. The proceeds from the capital raising will finance infrastructure funding, opportunistic acquisitions and the consolidation of the bank's channel and IT infrastructure across Africa. We believe the bank will get the required shareholders' approval for this re-capitalisation.

Ownership Structure

Official data from UBA shows that the top 10 shareholders own 35.4% of the bank, with the balance of 64.6% owned by other Nigerians. Members of the Board of Directors collectively control 6.6% of the bank's shares in direct and indirect holdings. Altogether the company has over 240,000 shareholders.

Table 78: UBA's Shareholder Structure

Shareholders	% Held
First Dominion Investment Ltd	6
The Bank of New York Mellon	6
BGL Plc	6
Consolidated Trust Funds Ltd	5
Others	77

Source: Company's Annual Report 2008

Financial Performance

The financial year end 2009 came during the gloomiest of times marking the start of a series of negative earnings from industry participants. UBA posted a loss of N7.24 billion in 2009 a drop of 117.86% from N40.83 billion profit recorded in the same period of 2008. The bank recorded a 5-year CAGR of 52% in Gross Earnings which increased from N24.50 billion to N198.15 billion between 2004 and 2009. Interest Earnings also show a 5-year CAGR of 45.52% in corresponding years making up 73% of total Gross Revenue, up from 69% in 2008. Correspondingly, Interest Income per Earning Assets rose to 11.72% in 2009.

Total Loans and Advances increased by 27% to N587.74 billion in 2009 from N461.70 billion in 2007. This resulted in an increase in the percentage of Classified Loans from 3.51% in 2008 to 9.02% in 2009. Deposits and other accounts dropped by 5.33% to N1.26trillion in 2009 from N1.33trillion in 2008. In terms of total assets, UBA grew moderately over the past five years, with a 5-year CAGR of 39.50% from N212 billion in 2004 to N1,562 billion in 2009.

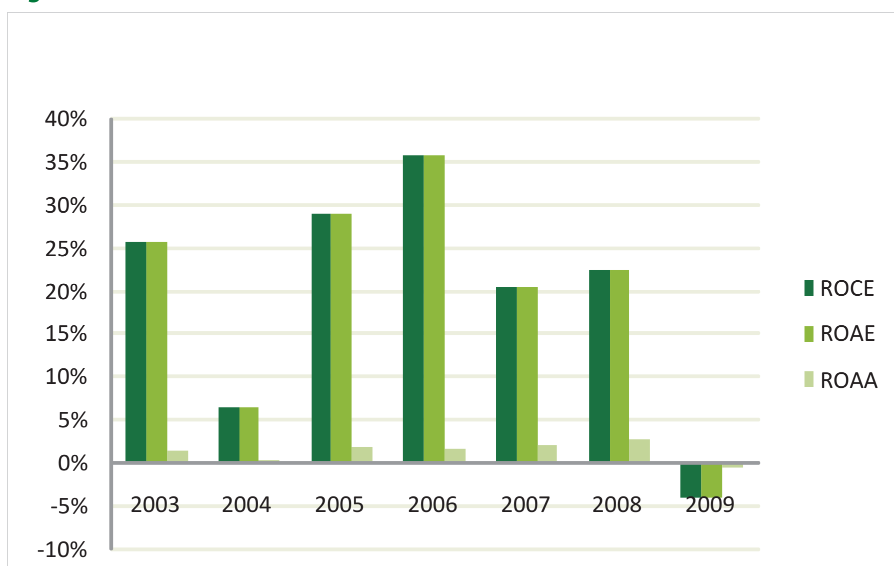
Fig. 78: UBA's Earnings

Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin declined in 2009 to -3.68% from 24.07% in 2008, due to escalating expenses and full provisioning made for risk assets. The bank's cost of debt rose from 3.10% to 4.86%, cost-to-income ratio displayed a similar trend rising to 0.72 from 0.54 in 2008. Operating Expenses as a percentage of Gross Earnings increased from 40.57% in 2008 to 50% in 2009. Interest and non-interest income both increased in 2009, interest income by 23.48% from N116.70 billion in 2008 to N144.11 billion in 2009, non-interest earnings by a modest 2.20%, from N52.88 billion in 2008 to N54.04 billion in 2009.

Fig.79: UBA's Performance Ratios



Souce: Company's Annual Reports, BGL Research

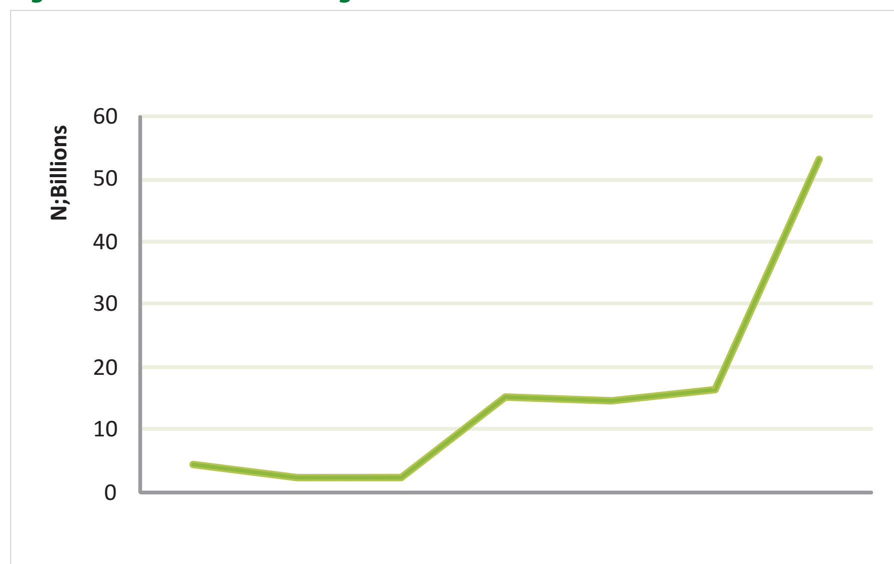
Asset Quality Ratios

UBA's total asset size of N1.67 trillion as at 2008 ranks it third behind First Bank (N2 trillion) and Zenith Bank (N1.78 trillion). Despite the significant size, the bulk of UBA's assets are placed in low-yield liquid assets accounting for about 46% of its total asset size. Investment in loans and advances accounts for 27% of UBA's asset size and amongst peers is comparable only to Zenith Bank (25%) with First Bank and GTB assuming more bullish lending postures of 37% and 43% respectively. Treasury Bills and other Government securities account for 15%. We believe investments in fixed income instruments will increase due to the lull in the equities market.

UBA grew its long term Loans and Advances from a meagre 2% of Total Loan portfolio in 2007 to 24% in 2008. Prior to 2008, the bank's strategy had been to place the bulk of its loans in advances with a maturity of less than one month, but this dropped to 22% in 2008 from 52% the year before. In 2008, the bank's overall loan portfolio strategy was more even as short term loans and advances dropped from 33% to 26% in 2008 while medium term loans increased to 28% in 2009 from 13% the year before.

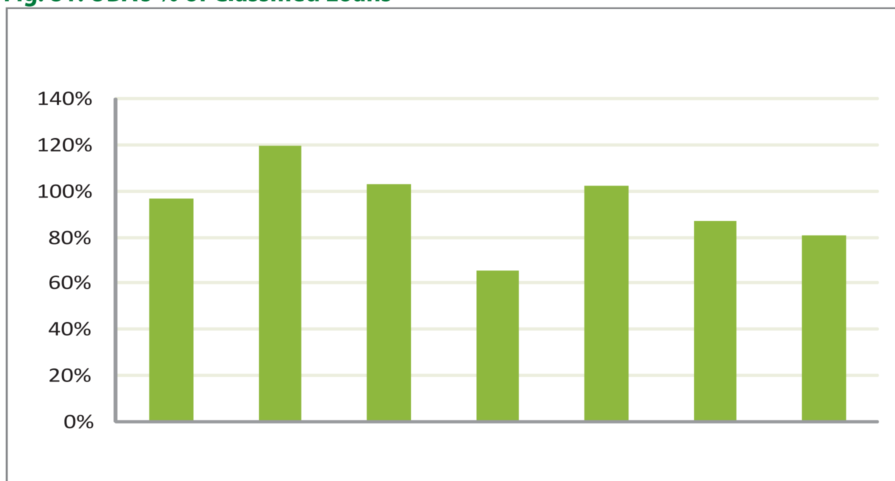
The maturity profile of the loans maturities when compared to the maturity profile of deposit liabilities in 2008 reflects a liquidity mis-match, contrary to the close liquidity match of 2007. Demand deposits still accounted for over half of the total deposit liabilities at 54% (59%, 2007). Short and medium term deposits showed similar growth patterns to that of the loans and advances. However the short and medium term deposits jointly accounted for 38% of total deposits.

Fig. 80: UBA's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 81: UBA's % of Classified Loans

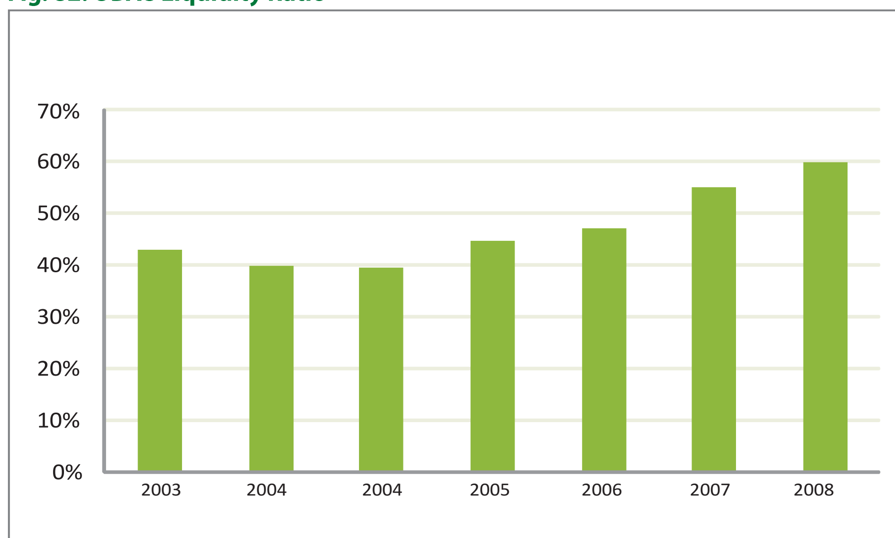


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

UBA's Liquidity Ratio, hitherto slightly above regulatory benchmark of 40% grew quite impressively to 59.97% in 2009 from 47.18% in 2007. The growth was as a result of a significant increase in interbank lending which almost doubled to N490billion in 2009 from N277billion in 2008. Since lending to customers has been curtailed due to the financial meltdown, the interbank guarantee introduced by the CBN led to an increase in UBA's interbank lending.

Fig. 82: UBA's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

With a steadily rising EPS after the consolidation period, 2009 witnessed a sour reality with this earnings indicator dropping to -N0.34, the effect of Central Bank's requirement for provisions to be made for losses and expected losses on assets. Similarly all other ratios went south with Return on Capital Employed, Return on Average Equity and Return on Average Assets all declining, from 29.16% to 18.64%, 22.50% to -3.76%, and 2.85% to -0.45%, respectively, within the same period.

Table 79: UBA's Financial Summary

Financial Year End Balance Sheet Assets	March 2004 N'm	March 2005 N'm	March 2006 N'm	September 2007 N'm	September 2008 N'm
Cash & Short-term funds	10,696	12,411	58,466	129,897	200,820
Due from banks in Nigeria	9,465	8,784	80,161	139,986	277,372
Due from banks outside Nigeria	70,048	89,322	332,867	309,836	296,923
Bills Discounted	0	0	0	0	0
Short Term Investments	40,497	59,832	207,341	157,519	256,368
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	0	0
Long Term Investments - Others	3,460	2,193	26,597	38,725	46,021
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	58,855	70,086	119,743	335,391	461,695
Non-Performing Loan	2,286	2,420	15,095	14,664	16,199
Loans & Advances - Net	56,136	67,610	109,896	320,406	447,618
Advances under finance lease	0	0	0	0	0
Other Facilities	0	0	0	0	0
Other Assets	15,343	4,091	35,618	44,926	86,294
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	6,379	6,176	33,191	49,747	61,575
Goodwill					
Total Assets	**212,024**	**250,419**	**884,137**	**1,191,042**	**1,672,991**
Liabilities					
Deposit and Current Account	151,929	205,110	776,135	905,806	1,333,289
Due to other banks	0	0	0	0	0
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	66,013	40,558
Tax Payable	2,373	2,535	1,212	5,149	5,606
Deferred Taxation	1,104	1,073	4,871	994	993
Other Liabilities	37,158	24,404	58,775	43,825	97,641
Dividend Payable	42	42	42	42	42
Borrowings	3,385	1,676	1,135	1,135	0
Total Liabilities	195,991	234,840	842,170	1,022,964	1,478,129
Capital & Reserves					
Share Capital	1,275	1,530	3,530	5,748	8,622
Share Premium	0	0	18,367	119,066	114,788
Statutory Reserve	3,013	3,710	5,430	7,223	19,224
Exchange difference reserve	7,055	3,880	3,058	1,997	1,997
General Reserve	2,987	4,387	(505)	19,292	31,861
Bonus Issue Reserve	255	0	706	0	2,156
Reserve for SMEIS	1,426	2,050	3,197	2,635	2,635
Revaluation Reserve	0	0	7,862	11,231	11,231
Capital Reserve	22	22	22	527	527
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	300	359	1,821
Shareholders' Fund	16,033	15,579	41,967	168,078	194,862
Total Liabilities and Equity	212,024	250,419	884,137	1,191,042	1,672,991

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	24,510	26,089	90,447	109,457	169,581
Interest Earnings	15,155	14,456	57,693	73,724	116,704
Interest Expense	(3,107)	(3,490)	(26,954)	(28,649)	(41,354)
Net Interest Income	12,048	10,966	30,739	45,075	75,350
Commission and other Income	9,355	11,633	32,754	35,733	52,877
Operating Income	21,403	22,599	63,493	80,808	128,227
Staff Cost	(5,977)	(6,667)	(17,436)	(14,930)	(25,400)
Depreciation	(1,360)	(1,412)	(3,868)	(4,028)	(6,123)
Other Operating Expenses	(7,295)	(8,324)	(23,443)	(26,996)	(37,273)
Provision for doubtful accounts	(761)	(40)	(5,571)	(3,702)	(2,616)

Operating Profit	6,010	6,156	13,175	31,152	56,815
Exceptional Items	(3,500)	0	(1,629)	(5,788)	(8,786)
Interest on borrowings					
Profit before taxation	2,510	6,156	11,546	25,364	48,029
Info. Tech. devt. levy	0	0	0	0	(559)
Current Taxation	(1,265)	(1,632)	(829)	(4,431)	(6,646)
Deferred taxation Expense	(220)	33	(432)	508	1
Profit after taxation	1,025	4,557	10,285	21,441	40,825
Extraordinary Items					
Minority Interest	0	0	0	99	414
Amortisation of goodwill	0	0	(908)	0	0
Profit attrib. to shareholders	1,025	4,557	9,377	21,540	41,239
Dividend Proposed	1,530	1,836	7,060	13,794	15,808

Other Information	2004	2005	2006	2007	2008
Outstanding Shares (million)	2,550	3,060	7,060	11,496	17,244
No. of Employees	3,590	3,787	4,659	5,076	6,681
No. of Branches	250	380	450	N/A	668

Table 80: UBA's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2004	2005	2006	2007	2008
Commissions/Gross Earnings	38.17%	44.59%	36.21%	32.65%	31.18%
Interest Margin	61.83%	55.41%	63.79%	67.35%	68.82%
Net Interest Margin	49.16%	42.03%	33.99%	41.18%	44.43%
Operating Expenses/Gross Earnings	59.70%	62.87%	49.47%	41.98%	40.57%
PAT/Gross Earnings	4.18%	17.47%	11.37%	19.59%	24.07%
Cost to Income Ratio	0.68	0.73	0.70	0.57	0.54
Pretax Profit Margin	10.24%	23.60%	12.77%	23.17%	28.32%
ROCE	30.95%	35.68%	30.57%	18.41%	29.16%
ROAE	6.63%	28.83%	35.75%	20.42%	22.50%
ROAA	0.49%	1.97%	1.81%	2.07%	2.85%
EPS	0.40	1.49	1.46	1.87	2.37
DPS	0.60	0.60	1.00	1.20	0.92
Operating Income per employee	5,961.84	5,967.52	13,628.03	15,919.62	19,192.79
Operating Expenses per employee	(4,075.77)	(4,331.40)	(9,604.42)	(9,053.19)	(10,297.26)
Profit per branch	24,040.00	16,200.00	29,277.78	N/A	85,052.40

Asset Quality Ratios	2004	2005	2006	2007	2008
Interest Income/Earning Assets	8.47%	6.34%	7.80%	7.82%	9.03%
Effective Return on Earnings Assets	8.05%	6.32%	7.04%	7.43%	8.83%
Explicit cost of Debt	2.00%	1.69%	3.47%	3.16%	3.10%
Cost of bad and doubt loans	1.29%	0.06%	4.65%	1.10%	0.57%
% of classified loans	3.88%	3.45%	12.61%	4.37%	3.51%
Loan loss provision/classified loans	118.94%	102.31%	65.23%	102.19%	86.90%
Liquidity Ratios	2004	2005	2006	2007	2008
Liquidity Ratio	39.93%	39.50%	44.58%	47.18%	55.09%
Capital Adequacy Ratios	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.27	0.22	0.35	0.50	0.42
Debt/Equity Ratio	12.22	15.07	20.07	6.09	7.59
Equity/Total Assets	0.08	0.06	0.05	0.14	0.12

Source: Company's Annual Reports, BGL Research

Zenith International Bank Plc

Summary and Investment Case

Table 81: Market Statistics

Report Date	04-Feb-10
Target Price (N) - DDM	19.57
Current Price (N)	15.68
PE	21.70
EPS (N)	0.65
Projected EPS	0.75
Projected PE	8.20
Projected DPS	0.29
Projected Dividend Yield	4.72%
Outstanding Shares	25,117,195,029

Source: BGL Research Estimates

- **At a zenith of its own**
  Within 20 years of incorporation Zenith Bank has arguably ascended to the top of the banking industry with assets growing a remarkable 1488.69% from N112.53 billion in 2003 to N1.787 trillion in September 2009.

- **Global brand**
  Zenith Bank has achieved phenomenal growth & recognition across the financial landscape in Nigeria and beyond. It is a well appreciated name in terms of professionalism, efficiency and customer satisfaction. Through aggressive marketing strategies via media publications and street awareness the bank has claimed a spot amongst Africa's top banking enterprises.

- **Record setting trailblazers…..**
  Zenith Bank has consistently seen its public offers oversubscribed which is a testament to market sentiment towards the company and investors belief in its brand, management and ability to compete fiercely within the industry. In 2004 the bank raised about N20.39 billion from approximately 290,000 subscribers, at that time, a record in history of the capital market with a 556% subscription rate. Yet again in February 2006, the bank raised N53.63 billion by way of a public offering of 3 billion shares and immediately succeeding that with an outstanding N130 billion combined public offer and rights issue.

Table 82: Forecast Valuation

	2010	2011
ROCE	21.48%	23.60%
ROAE	15.05%	16.58%
PE	6.21	4.59
EPS (N)	2.22	3.01
DPS (N)	1.33	1.56
Price (Forward PE Model)	18.22	24.65
Price (DDM)	19.57	26.97
Price (Gordon Growth)	31.30	21.39
Price (DCF)	38.58	31.13

Source: BGL Research Estimates

- **Customers….the business focal point**
  Zenith Bank has traditionally placed high emphasis on the customer, seeking new ways to satisfy the customer by producing sustainable value in a more competitive manner. The bank is upgrading its technological platform to improve transaction efficiency with an increase in POS service machines, and other forms of e-payment technology.

- **Large Shareholders' Fund**
  The banks hit N346 billion in 2008, 198% growth over the previous year, and to this end paid out what is the highest dividend by a bank in the history of the industry, a whopping total of N28.5 billion. The bank's consistency over the years has earned it excellent ratings by domestic and international business/ credit rating agencies, for example Augusto & Co rated Zenith bank Aaa for the last decade, while on the global scene Fitch recommends AA-. Standard & Poor rates it at a BB-.

Structure of Business

The bank is shaped like most of its competitors, having mostly an organic growth strategy. The bank is divided into four business segments, the largest by way of

revenue generation being Corporate & Retail banking, with this unit alone generating more than 96.1% of the bank's total income. The other business segments are Investment management & Securities Trading, General Health and Life Insurance.

Table 83: Zenith International Bank's Subsidiaries

Subsidiaries	Country	% Holding	Principal Activities
Zenith Capital Limited	Nigeria	100	Investment banking
Zenith Securities Limited	Nigeria	100	Stockbroking
Zenith Registrars Limited	Nigeria	100	Capital Market
Zenith General Insurance Company Limited	Nigeria	100	Insurance
Zenith Pensions Custodian Limited	Nigeria	100	Pension
Zenith Life Assurance Company	Nigeria	100	Insurance
Zenith Trust Company Limited	Nigeria	100	Trusteeship
Zenith Medicare Limited	Nigeria	100	Health Insurance
Zenith Bank (Ghana) Limited	Ghana	100	Banking
Zenith Bank (UK) Limited	UK	100	Banking
Zenith Bank (Sierra Leone) Limited	Sierra Leone	100	Banking
Zenith Bank Representative Office (South Africa)	South African	N/A	Banking
CyberSpace Networks Limited	Nigeria	100	Info. Tech.

Source: Company's Website

Key Strengths

- Zenith Bank possesses a large balance sheet which would enable it absorb large write-downs and ever increasing loan loss provisioning, which have become necessary following the CBN's push for greater disclosure in financial statements; with this it is believed Zenith bank has sufficient weight to survive this drastic change in policy.

- Zenith Bank has a very large branch network spanning the whole country. With offices in every state capital and a deliberate push into the hinterlands, the bank has shown real intent to be closer to the customer which paid off over the last banking year with a 169.94% increase in deposits.

- The bank has an experienced management team with diverse expertise and practical knowledge of the local market.

Key Weaknesses

- Zenith Bank had been viewed as a one-man bank with no obvious succession plan to the current chief executive of the bank who has been at the helm since inception, a potentially worrying factor to investors, customers and other stakeholders. However, the recent CBN's limiting of bank CEOs' tenure to ten years has forced the bank to announced a successor. Industry watchers are still apprehensive of the bank's performance under the new dispensation.

- Rapid expansion comes at a cost especially in this sector of the economy, aggressive marketing means huge capital outlay for recruitment and development of human capital as well as increased advertising costs which have reduced earnings and depleted shareholder value in the short term.

Strategy

The bank has identified key business paths for the future that will drive the growth strategy. These include:

- Understanding the business environment of their clients by forming substantial relationships with individuals and corporates with solution provision at the core of intentions.
- Customer orientation to ensure top quality services to every client.
- Expanding its business by establishing non-bank financial services subsidiaries to complement its core trade. Also expansion into the West African sub-region and global financial capitals is top on the agenda.
- Regular upgrading of its technological backbone and systems, while prospecting new capabilities, advancing operational efficiency and realising economies of scale.

Details of planned public offer

Zenith Bank has joined its peers FinBank, First bank, Diamond Bank and GTBank in a bid to raise debt. The bank has released details of its plans to issue a N300 billion debt offering with 5 year tenure. The bank plans to use the funds to increase its ability to lend medium term, finance big ticket transactions and fund its expansion.

Table 84: Zenith Bank's Shareholding Structure

Shareholders	% Held
Jim Ovia	9.5%
Institutional Investors Ltd	8.8%
Lurot Barca Ltd	5.1%
Others	76.6%

Source: Company's Annual Report 2008

Financial Performance

The 15 month financial year ending September 2008 showed strong profits in banking operations reflected in improvements in Gross and Net Earnings. The bank posted a PAT attributable to shareholders of N51.61 billion in 2008 an increase of 181.12% from N18.35 billion 2007. Deposits grew by 68.95% from N701.98 billion in 2007 to N1.19 trillion in 2008, and Gross Earnings rose by 119.53%, from N94.88 billion to N208.29 billion. Profit Before Tax also increased by 118.54%, from N25.68 billion to N56.12 billion in spite of a 114.98% increase in the bank's total expenses for the year as a result of 100% increase in other Operating Expenses from N28.89 billion in 2007 to N49.28 billion in 2008, 181.5% increase in Interest Expenses, 131.68% increase in staff costs and remuneration, and 88.30% growth in depreciation of assets. The bank recorded a 5-year CAGR of 54.15% in Gross Earnings which increased from N17.84 billion to N208.29 billion between 2004 and 2008. Over the same period, after-tax Profit grew at a CAGR of 57.61% from N4.38 billion to N51.99 billion.

Total Loans and Advances increased by 56.21% to N459.57 billion in 2008 from N294.21 billion in 2007, and a five-year CAGR of 30.38% from 2004 to 2008.

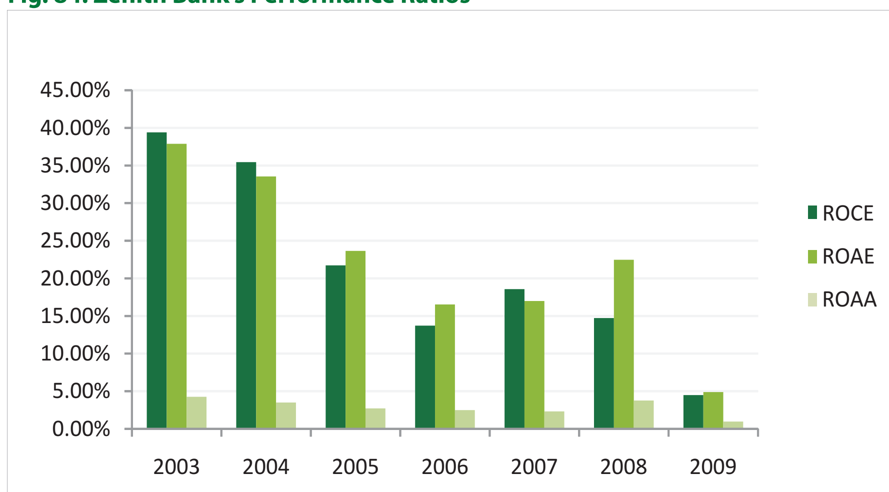
Fig. 83: Zenith Bank's Earnings

Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin increased in 2008 from 19.45% in 2007 to 24.96%, a 28.33% rise mainly attributable to a tremendous increase in Gross Earnings. The bank has also shown strength in cost reduction with its cost-income ratio dropping from 0.64 in 2007 to 0.6 in 2008, a drop of 6.25%. Operating Expenses as a percentage of gross earnings also reduced from 50.94% in 2007 to 44.29% in 2008. Interest Income increased by 123.80% in 2008, from N63.63 billion in 2007 to N142.39 billion. Interest expenses in 2008 grew by 182% to N53.598 billion from N19.038 billion in 2007. The September 2009 interim results reveal a 12% growth in Interest Expenses over the same period last year. This is as a result of the 8% dip in Deposits in September 2009.

Fig. 84: Zenith Bank's Performance Ratios



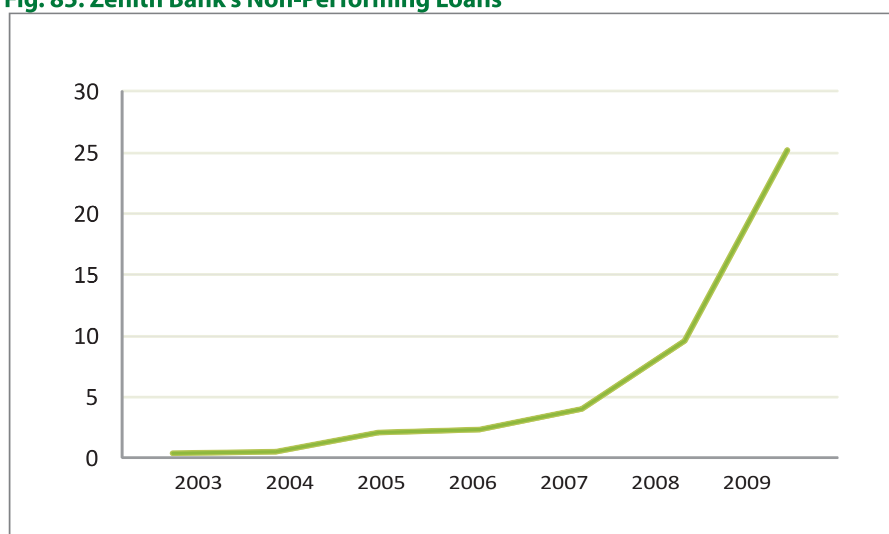
Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

The bank's asset quality dipped in 2008, as the Non-Performing Loan ratio increased to 2.08% from 1.37% in 2007. The loan structure changed in composition with a redirection towards commercial papers now valued at N124.70 billion or 27.13% of the total loans in 2008. There was also an 18.02% increase in overdrafts to N201.59 billion in 2008; however this represents a decline of 24.45% in the total loans composition. Loan loss provision as a percentage of classified loans was 143.55% in 2008 as against 151.48% in the previous year, a 5.24% decline from 2007. Cost of bad loans increased from 0.62% in 2007 to 1.38% in 2008; also increasing is the cost of debt from 2.61% in 2007 to 4.37% in 2008, due to a rise in non-performing loans.

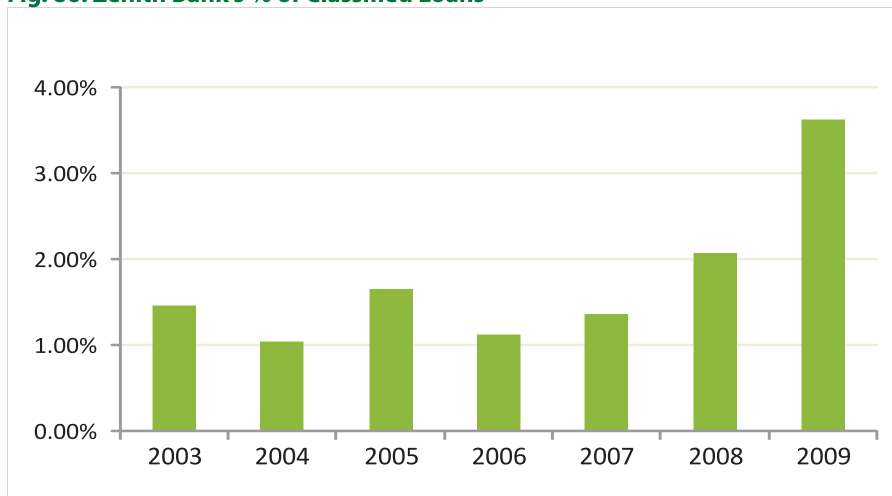
Despite the slowdown in lending activities by Nigerian banks, Zenith Bank's September 2009 Interim results show a 46% growth of its loans, the highest amongst its Tier1 peers. This growth in risk assets led to an improvement in the bank's Loans to Deposits ratio of 60% (38%, September 2008). It also led to a 29% increase in Interest Earnings in September 2009 to N146.5 billion (N113.9 billion, September 2008).

Fig. 85: Zenith Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 86: Zenith Bank's % of Classified Loans

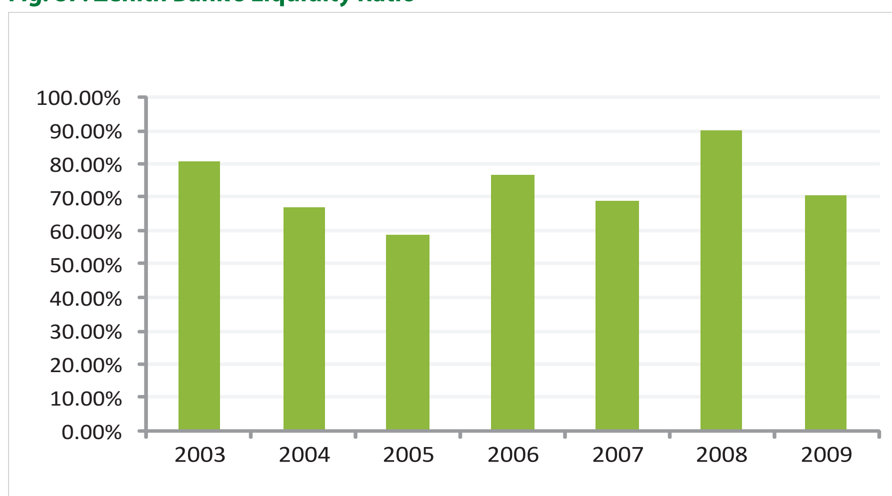


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Following a decline in its liquidity ratio in 2007, the bank showed significant improvement by increasing its asset portion of this ratio by 120.47% and liability by 68.84%. The liquidity ratio stands at 90.27% in 2008 a 30.51% improvement over the 69.32% recorded in the preceding year.

Fig. 87: Zenith Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's earnings showed strong performances in 2008, as measured by the Return on Average Assets and Returns on Average Equity, the bank's ROAE and ROAA stood at 22.46% and 3.77% respectively compared to 17.00%, and 2.32% in 2007. Dividend payout of 1.70 in 2008 (N1.00, 2007), amounts to a total figure of N28.45 billion, a significant rise of 207.01%.

Corporate strategy as it relates to financing operations and new investments are very questionable with dividends consistently rising over the last five years and the bank having raised capital from the public 3 times within the same period. In 2009, Earnings have been halved by write downs of N26.14 billion in the September 2009 interim results, leading to a PAT of N16.241 billion (N34.634 billion September 2008), as a result of which ROE and ROA dropped 55% and 50% respectively.

Table 85: Zenith Bank's Financial Summary

Financial Year End Balance Sheet Assets	June 2003 N'm	June 2004 N'm	June 2005 N'm	June 2006 N'm	June 2007 N'm	September 2008 N'm
Cash & Short-term funds	24,576	33,760	42,203	83,447	111,055	239,562
Due from banks in Nigeria	232	0	0	2,561	4,279	165,034
Due from banks outside Nigeria	27,219	36,865	45,975	69,489	123,485	147,590
Bills Discounted	0	0	0	0	0	0
Short Term Investments	25,114	51,266	92,230	209,669	336,138	624,117
Managed Funds	0	0	0	0	0	
Long Term Investments - FGN Bonds	0	3,000	3,000	7,000	35,152	44,119
Long Term Investments - Others	721	1,427	3,139	4,155	6,477	19,664
Investment/Trading Properties	0	0	0	0	0	0
Loans & Advances - Gross	27,895	54,420	125,531	204,590	294,205	459,566
Non-Performing Loan	409	565	2,085	2,309	40,224	9,563
Loans & Advances - Net	27,290	53,391	122,494	200,238	288,112	445,837
Advances under finance lease	475	848	841	1,716	2,445	4,678
Other Facilities	0	0	0	2,263	4,702	5,801
Other Assets	1,311	3,294	4,756	14,569	24,177	40,326
Deferred Tax Assets	0	0	0	0	0	160
Fixed Assets	5,597	9,469	15,079	24,234	36,799	50,943
Goodwill	0	0	0	0	0	0
Total Assets	**112,535**	**193,321**	**329,717**	**619,341**	**972,822**	**1,787,832**
Liabilities						
Deposit and Current Account	61,574	131,095	233,413	393,309	701,977	1,185,893
Due to other banks	0	0	0	0	0	0
Other Facilities	0	0	0	2,263	4,749	5,860
Managed Funds	0	0	0	0	0	0
Tax Payable	1,079	1,140	1,858	4,010	6,452	5,690
Deferred Taxation	348	267	450	452	1,234	1,960
Other Liabilities	35,729	42,753	51,813	105,715	120,149	207,242
Dividend Payable	0	0	0	0	0	0
Borrowings	0	0	0	12,750	21,948	34,570
Total Liabilities	**98,730**	**175,255**	**287,534**	**518,499**	**856,509**	**1,441,214**
Capital & Reserves						
Share Capital	1,549	1,549	3,000	4,587	4,633	8,372
Share Premium	0	0	18,224	67,760	69,237	255,047
Statutory Reserve	3,690	4,492	5,561	7,314	9,893	16,878
Exchange difference reserve	0	0	0	136	400	(815)
General Reserve	7,447	9,857	13,032	17,450	25,351	60,553
Bonus Issue Reserve	0	516	0	0	1,158	0
Reserve for SMEIS	1,118	1,653	2,365	3,534	3,534	3,729
Revaluation Reserve	0	0	0	0	79	322
Capital Reserve	0	0	0	44	160	261
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests	0	0	0	19	1,869	2,269
Shareholders' Fund	13,804	18,067	42,182	100,843	116,313	346,618
Total Liabilities and Equity	**112,535**	**193,321**	**329,717**	**619,341**	**972,822**	**1,787,832**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	17,844	23,931	34,913	60,002	94,880	208,294
Interest Earnings	11,996	15,708	22,885	37,686	63,625	142,390
Interest Expense	(2,289)	(3,332)	(5,620)	(10,377)	(19,039)	(53,598)
Net Interest Income	9,707	12,376	17,265	27,309	44,586	88,792
Commission and other Income	5,848	8,223	12,028	22,316	31,255	65,904
Operating Income	15,555	20,599	29,293	49,625	75,841	154,696
Staff Cost	(2,982)	(4,285)	(5,861)	(9,614)	(14,651)	(33,942)
Depreciation	(1,162)	(1,746)	(2,278)	(3,280)	(4,794)	(9,026)
Other Operating Expenses	(5,905)	(7,766)	(10,015)	(19,831)	(28,889)	(49,282)
Provision for doubtful accounts	(65)	(397)	(1,975)	(1,310)	(1,832)	(6,327)
Operating Profit	5,440	6,405	9,165	15,590	25,676	56,119

Exceptional Items						
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	5,440	6,405	9,165	15,590	25,676	56,119
Info. Tech. devt. levy	0	0	0	0	(242)	(547)
Current Taxation	(1,079)	(1,140)	(1,858)	(3,770)	(6,196)	(2,911)
Deferred taxation Expense	15	81	(183)	(2)	(782)	(669)
Profit after taxation	4,377	5,346	7,124	11,818	18,457	51,992

Extraordinary Items						
Minority Interest	0	0	0	1	(103)	(384)
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	4,377	5,346	7,124	11,819	18,354	51,609
Dividend Proposed	1,084	2,168	4,200	6,600	9,266	28,446
Other Information	2003	2004	2005	2006	2007	2008
Outstanding Shares (million)	3,097,110	3,097,110	6,000,000	9,173,488	9,265,524	16,744,796
No. of Employees	1,594	2,190	2,627	5,399	5,435	7,628

Table 86: Zenith Bank's Ratios & Analysis

Ratios & Analysis						
Perfomance Ratios (Margin)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	32.77%	34.36%	34.45%	37.19%	32.94%	31.64%
Interest Margin	67.23%	65.64%	65.55%	62.81%	67.06%	68.36%
Net Interest Margin	54.40%	51.72%	49.45%	45.51%	46.99%	42.63%
Operating Expenses/Gross Earnings	56.32%	57.65%	52.00%	54.54%	50.94%	44.29%
PAT/Gross Earnings	24.53%	22.34%	20.40%	19.70%	19.45%	24.96%
Cost to Income Ratio	0.65	0.67	0.62	0.66	0.64	0.60
Pretax Profit Margin	30.49%	26.76%	26.25%	25.98%	27.06%	26.94%
ROCE	39.41%	35.45%	21.73%	13.72%	18.57%	14.72%
ROAE	37.88%	33.55%	23.65%	16.53%	17.00%	22.46%
ROAA	4.27%	3.50%	2.72%	2.49%	2.32%	3.77%
EPS	1.41	1.73	1.19	1.29	1.99	3.10
DPS	0.35	0.70	0.70	0.72	1.00	1.70
Operating Income per employee	9,758.44	9,406.09	11,150.85	9,191.56	13,954.25	20,279.98
Operating Expenses per employee	(6,304.31)	(6,300.14)	(6,910.37)	(6,061.43)	(8,892.87)	(12,093.62)

Asset Quality Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Interest Income/Earning Assets	14.82%	10.73%	8.55%	7.58%	7.95%	9.81%
Effective Return on Earnings Assets	14.74%	10.46%	7.81%	7.31%	7.72%	9.38%
Explicit cost of Debt	3.72%	2.54%	2.41%	2.54%	2.61%	4.37%
Cost of bad and doubt loans	0.23%	0.73%	1.57%	0.64%	0.62%	1.38%
% of classified loans	1.47%	1.04%	1.66%	1.13%	1.37%	2.08%
Loan loss provision/classified loans	147.84%	181.93%	145.66%	188.45%	151.48%	143.55%

Liquidity Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Liquidity Ratio	81.08%	67.15%	58.88%	76.96%	69.32%	90.47%

Capital Adequacy Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Equity/Loans & Advances	0.49	0.33	0.34	0.49	0.40	0.75
Debt/Equity Ratio	7.15	9.70	6.82	5.14	7.36	4.16
Equity/Total Assets	0.12	0.09	0.13	0.16	0.12	0.19

Source: Company's Annual Reports, BGL Research

Company Profiles – Group B

Afribank Plc

Bank PHB Plc

Equitorial Trust Bank Plc

Finbank Plc

Intercontinental Bank Plc

Oceanic Bank Plc

Spring Bank Plc

Union Bank Plc

Unity Bank Plc

Wema Bank Plc

Afribank Nigeria Plc

Summary and Investment Case

- **Notable Financial Services Brand**
  Afribank Plc was incorporated in 1959 and commenced operation on the 4th of January 1960. On the 1st of January 1990, the bank changed its name to Afribank Nigeria Limited and subsequently converted to a PLC on 7th October, 1992. Afribank currently operates about 300 branches nationwide offering products and services that appeal to diverse banking customer segments. The Group's principal activities are providing Commercial banking, Real Estate and Insurance Brokerage services.

- **Highly Diversified Financial Group**
  Afribank Nigeria Plc boasts of a full service commercial bank, Afribank Capital Market, an off-shore finance company in Dublin, Ireland, a stock broking company, an insurance brokerage company, a trustees and assets management company and an estate development company. With activities in asset management, capital raising, stock broking, business and financial advisory services, export financing and project finance being a part of the bank's strategic focus, Afribank has investments in a number of companies in the financial and real sectors of the economy.

- **Re-organising for better value and growth**
  The highpoints of the strategic initiatives being vigorously pursued by the bank are the development of a risk management framework that meets Basel 2 requirements and a retail strategy hinged on the bank's new vision that refocuses on retail business as a key profit engine for growth. The bank aims to entrench across board, best practices in managing its risk profile.

Structure of Business

The bank has a universal banking license and has diversified its businesses to cover several segments of the financial sector. It also maintains a significantly strong presence in Nigeria's real estate sector through its mortgage bank (Afribank Estate Company Ltd.).

Table 87: Structure of Business

Name	Financial activities	Location
Afribank Nigeria Plc	Commercial and investment banking	Nigeria
Afribank Capital Markets Ltd.	Issuing house and financial advisory s ervices	Nigeria
Afribank Insurance Brokers	Insurance broking	Nigeria
ANP International Finance, Dublin	Off-shore subsidiary	Dublin, Ireland
Afribank Estate Company	Real estate development and facilities management	Nigeria
Afribank Trustees and Investment Ltd	Trusteeship and portfolio management	Nigeria
AIL Securities Ltd	Stock broking	Nigeria
Afribank Registrars	Creation and maintenance of stockholder's register of members	Nigeria

Source: Afribank's Annual Report, 2008

Ownership Structure

With the total share capital at N6billion as at 31st March 2008, rising to about N8billion after the public offer in August 2008, about 83% of the Afribank shares are held by Nigerian citizens and associations while the remaining is held by Asset Management Nominees Ltd.

Table 88: Ownership Structure

Name	Shareholding	% Holding
Nigerian Citizens and Associations	6,736,461,334	82.42
Asset Management Nominees Limited	1,436,872,000	17.58
Total	**8,173,333,334**	**100%**

Source: Afribank Offer Document, 2008

Key Strengths

- **Strong banking pedigree:** With strong brand recognition, over 300 branch network (4th largest in Nigeria), competitive pricing and an efficient cost structure, retail and wholesale banking is arguably a clear strength. Also, apart from the traditional accounts like current, savings, domiciliary, fixed deposit accounts, the Afribank group has considerable presence in credit services, electronic banking, trusteeship services, money market instruments, collection services, international services (direct remittances, advisory services on foreign investments etc) and commercial banking (Invoice Discounting Facility (IDF), Bureau De Change Financing).

- **Strong customer/client service engendering customer loyalty:** Having been awarded the most valuable bank by UAC Franchising, most improved bank by the Kaduna Trade Fair and the best supportive bank by Omatek Computers, Afribank has proven a consistent trend in customer-centric services.

- **Recovery of Non-Performing Loans:** As at January 22nd 2010, Afribank had recovered about N50 billion of its non-performing loans with the intention to recover another N50 billion before the end of the year. This constitutes about 30% of the entire non-performing loan portfolio presently estimated at N307 billion.

- **Exit from CBN Expanded Discount Window (EDW):** Afribank exited from the CBN EDW paying off its N21 billion facility.

Key Weaknesses

- **High Exposure to non-performing loans:** The 2008 audited financial statements of Afribank show an approximate value of 75% loan loss provision against classified loans. Although the bank's provisioning for non-performing loans falls below the industry average of 90%, the bank's September unaudited result revealing non performing loans in excess of N307 billion, indicates over exposure to non-performing risky assets.

- **Late adoption of modern banking trends:** Although Afribank cannot be considered the last of the banks to adopt modern banking practices, the bank is clearly a late adopter of innovations in the financial sector. This reflects itself in the intensive business re-engineering processes currently being adopted.

- **Public Perception due to CBN restructuring:** With the recent structuring of the bank by the apex bank – changes in the board of directors, infusion of bailout funds, Afribank clearly needs to devise strategies to invigorate the public and increase investor confidence.

- **Unclear characteristic niche market:** Every business venture thrives on a niche market. However, as a universal bank, Afribank is involved in all segments of financial services without attempting to create a niche. Afribank appears to have too many products and services without a strategic objective on how to deliver.

Strategy

Presently, the strategic measures being employed are geared towards building profit capacity in the medium and long term, increasing clientele base, increasing investment in strategic sectors, improving efficiency, diversifying operations, and streamlining and restructuring operations. The bank's operations have been divided into three strategic units- commercial, corporate and retail.

Contextually, taking into consideration the performance of the bank at the foreign exchange and bond markets - from a point of 0% participation at the Dutch auction during CBN intervention on August 14, to the current 4.5%; being the most successful bidder in the last bond trading; partnering with the Federal Inland Revenue Service (FIRS) for its collection of the endowment fund; not retrenching any staff in its on-going restructuring programme, it is arguably clear that the strategic measures being put in place by the new management are yielding good results.

Financial Performance

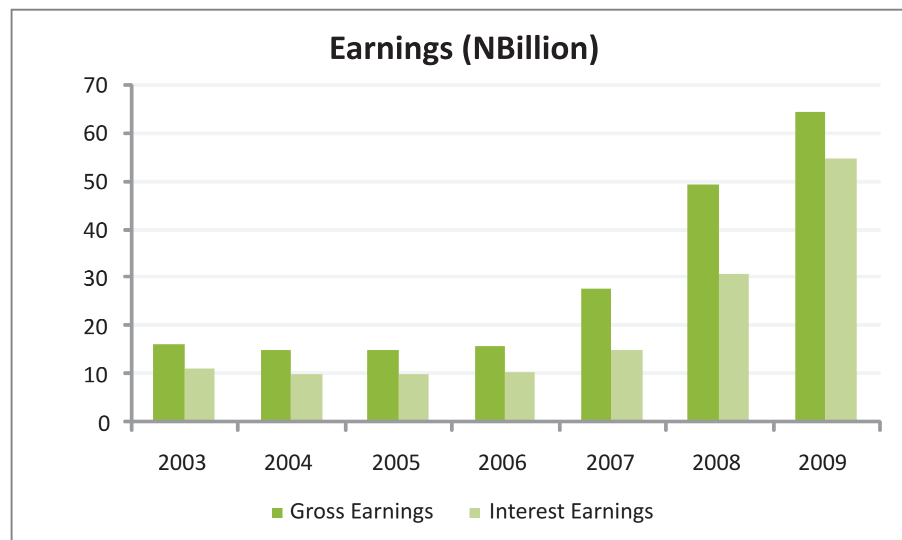
Afribank grew its Gross Earnings by 79% from N28 billion in 2007 to N50 billion in 2008 and N64 billion in the unaudited September 2009 result. Low asset quality ratios like interest income per earning assets and explicit cost of debt could arguably indicate an averseness to risks, which informs low business turnover especially when one considers the high liquidity ratio of the bank – 88% in 2008. With the declaration of non-performing loans in the September 2009 results, liquidity dropped to 23.96% which further reveals a need for better strategic investment operations within the bank.

Afribank depends principally on income from risk assets as interest income forms

the major component of gross earnings. Interest Margins averaged 73% over the last 5 years and peaked at 83% in 2009, well above the industry average of about 60%. The bank therefore needs to sweat its assets more in risk assets creation rather than being kept in low-yield liquid assets.

Staff productivity improved to N9.6m in 2008 from N7.2m in 2007, a growth of 33.8%. This arguably informed the reason that the bank has chosen to retain their staff in spite of the perceived economic issues the bank is undergoing especially when the 2009 result still shows an increase in all the parameters being discussed.

Fig. 88: Afribank's Earnings



Source: Company's Annual Reports, BGL Research

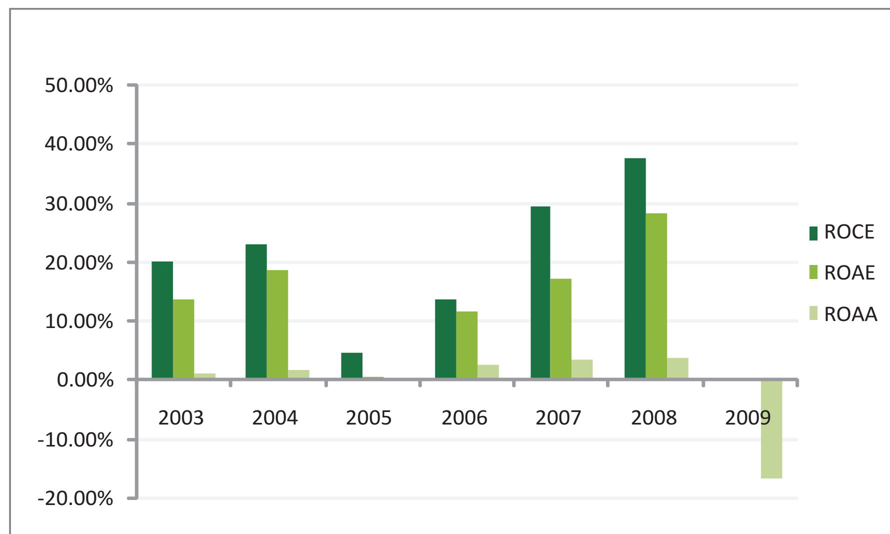
Performance Ratios

All performance ratios fell in the current year compared to the previous year. Although performance in 2006 was impressive, one can most realistically associate this to the consequences of consolidation.

A critical review of the bank's net interest margins would reveal relatively little change at about 37% between 2007 and 2008 with a decrease of about 10% between 2008 and 2009. This further buttresses the fact that the bank has low activity coefficient in its banking products and services

Operating Expense as a percentage of Gross Earnings decreased consistently from 2004 to 2009 from about 63% to 25% with a slight increase between 2005 and 2006 – once again a result of consolidation. The cost efficiency led to improved profitability and reflected in returns. Returns on Capital Employed (ROCE) improved post-consolidation from 4.43% in 2005 to 30.67% in 2008 while Return on Average Assets (ROAA) and Return on Average Equity (ROAE) improved from 0.08% and 0.49% in 2005 to 3.72% and 28.06% in 2008 respectively. However by September 2009, the returns turned negative as the bank made an outstanding risk asset provision of N84 billion leading to a net loss of N71.2 billion.

Fig. 89: Afribank's Performance Ratios

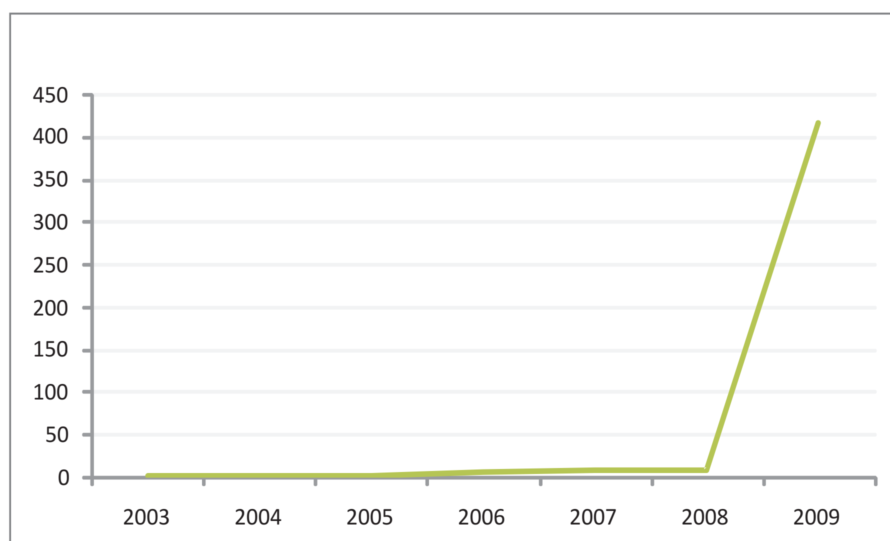


Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

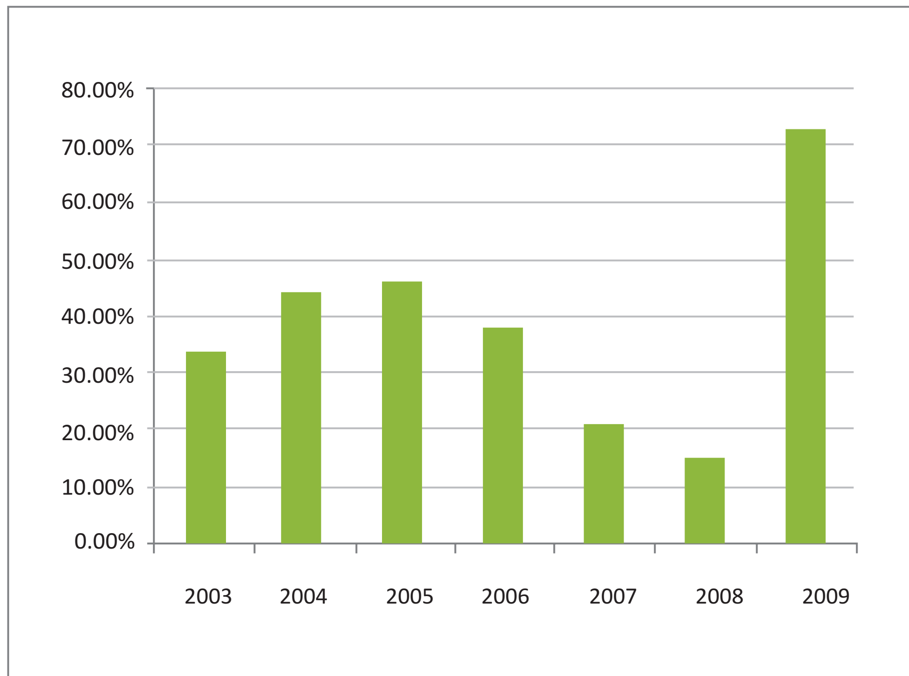
The bank's gross returns from earning assets dropped from 12.88% in 2004 to 9.82% in 2008 and then increased to 15.47% in the September 2009 result, while its effective return on earning assets also dropped from 12.58% in 2004 to 9.03% in 2008 before increasing to 12.49% in September 2009. These ratios are reflective of the conservative nature of the bank's operation and the growth experienced in 2009 is necessary to keep the bank operational in the bane of the CBN restructuring. Non-Performing Loans grew from N16 billion in 2008 to N307 billion in September 2009 resulting in a significant increase in the percentage of Classified Loans to 73% of Gross Loans and Advances from 15.28% in 2008.

Fig. 90: Afribank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 91: Afribank's % of Classified Loans

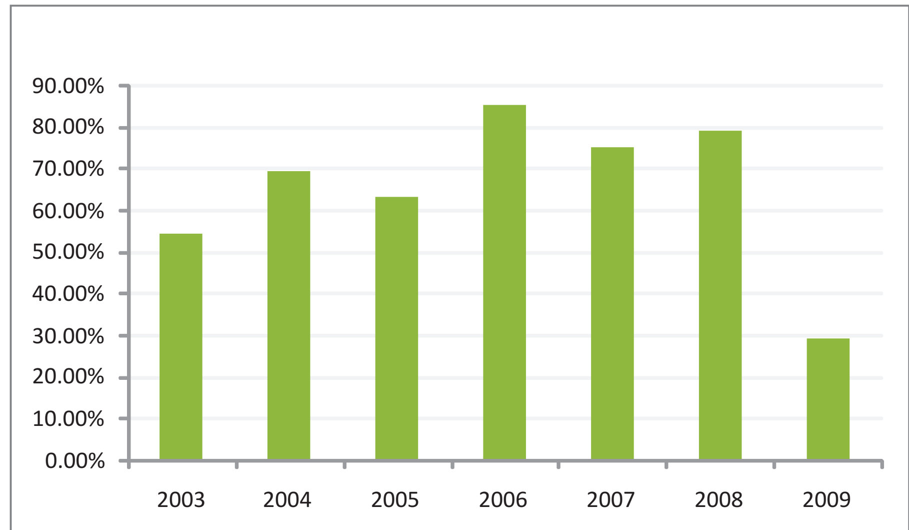


Source: Company's Annual Reports, BGL Research

Liquidity Ratios

Prior to September 2009, Afribank appeared to have an efficient liquidity management programme as reflected in the high liquidity ratio of above 60% in the last five years, especially high at 88.10% in 2008 - well above the 40% benchmark at the time. However the September 2009 results, revealed an aggressive foray into risk asset creation and its attendant effect on the liquidity ratio. The bank's current ratio of 23.96% is below the now-reduced regulatory benchmark of 25%.

Fig. 92: Afribank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

Although the bank's EPS rose significantly from N1.02 in 2007 to N1.64 in 2008, a historical review reveals that between 2004 and 2005 there was a significant decrease from 0.68 to 0.02 arguably due to restructuring costs during consolidation. However, the bank's EPS had improved post-consolidation from 0.60 in 2006 to N1.64 in 2008. The current EPS of -N5.27, based on September 2009 results is a disconnect from earlier performance and should be smoothed once the bank makes significant head-way in recovery.

September 2009 Results

The significant departure of the September 2009 results from the historical performance of Afribank has casted a cloud of uncertainty on the bank's future performance. While we believe that this is one-off and that normalcy should return in 2010, the release of the audited December 2009 result of the bank will provide more clarity. However, we are of the view that the worst is over and that subject to significant recovery of bad loans, the bank may report a reduction in net loss by December 2009. This is further supported by the CBN's directive that the banks need not make further provisioning for the last quarter of 2009.

Table 89: Afribank's Financial Summary

Financial Year End Balance Sheet Assets	March 2003 N'm	March 2004 N'm	March 2005 N'm	March 2006 N'm	March 2007 N'm	March 2008 N'm
Cash & Short-term funds	2,615	2,223	2,680	4,586	2,834	7,788
Due from banks in Nigeria	36,528	25,405	31,112	47,369	45,689	134,273
Due from banks outside Nigeria	5,238	3,162	6,856	4,471	9,224	12,114
Bills Discounted	0	0	0	0	36,579	45,209
Short Term Investments	15,167	16,839	26,748	26,247	167	6,276
Managed Funds	0	0	0	0	0	0
Long Term Investments - FGN Bonds	993	1,044	1,036	1,692	102	92
Long Term Investments - Others	270	594	855	1,357	1,620	2,426
Investment/Trading Properties	0	0	0	0	0	0
Loans & Advances - Gross	33,845	30,541	36,315	41,041	73,723	116,101
Non-Performing Loan	8,590	9,772	12,091	11,563	13,009	15,926
Loans & Advances - Net	25,220	22,066	25,969	30,172	61,386	104,226
Advances under finance lease	293	300	149	0	0	0
Other Facilities	0	0	0	0	0	0
Other Assets	7,071	10,062	11,228	14,823	21,874	30,501
Deferred Tax Assets	0	0	0	0	0	0
Fixed Assets	4,661	4,975	5,184	5,137	7,605	9,365
Goodwill	0	0	0	2,194	0	0
Total Assets	**98,055**	**86,669**	**111,818**	**138,047**	**187,079**	**352,270**
Liabilities						
Deposit and Current Account	63,229	64,650	68,857	88,435	135,645	217,977
Due to other banks	9,265	4,757	3,382	2,920	618	1,814
Other Facilities	0	0	0	0	0	0
Managed Funds	0	0	0	0	0	0
Tax Payable	518	406	775	822	2,232	5,659
Deferred Taxation	349	652	652	837	1,010	1,114
Other Liabilities	16,981	6,976	13,540	15,516	16,252	85,504
Dividend Payable	331	442	0	0	0	0
Borrowings	0	0	0	0	0	0
Total Liabilities	**90,672**	**77,882**	**87,206**	**108,530**	**155,757**	**312,068**
Capital & Reserves						
Share Capital	1,104	1,104	2,354	2,554	2,554	3,065
Share Premium	0	0	14,562	16,941	14,707	14,707
Statutory Reserve	1,564	1,791	1,984	2,729	3,232	4,450
Exchange difference reserve	1,141	1,334	1,308	1,880	723	1,169
General Reserve	948	1,284	743	2,759	6,478	11,066
Bonus Issue Reserve	0	0	0	0	511	1,688
Reserve for SMEIS	526	715	785	1,000	1,347	2,159
Revaluation Reserve	1,222	1,222	1,222	1,222	1,222	1,222
Capital Reserve	465	465	0	0	0	0
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests	413	872	1,655	432	548	676
Shareholders' Fund	7,383	8,787	24,612	29,517	31,322	40,202
Total Liabilities and Equity	**98,055**	**86,669**	**111,818**	**138,047**	**187,079**	**352,270**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	16,268	14,889	15,031	15,637	27,538	49,196
Interest Earnings	11,327	9,958	10,027	10,380	15,111	30,835
Interest Expense	(4,274)	(3,747)	(3,181)	(2,957)	(4,733)	(12,432)
Net Interest Income	7,054	6,211	6,846	7,423	10,378	18,403
Commission and other Income	4,838	5,572	3,641	6,661	12,426	18,361
Operating Income	11,892	11,783	10,487	14,084	22,804	36,764
Staff Cost	(1,431)	(1,574)	(1,504)	(1,502)	(1,710)	(2,259)
Depreciation	(842)	(960)	(1,094)	(740)	(867)	(1,337)
Other Operating Expenses	(7,872)	(6,992)	(6,453)	(7,421)	(9,393)	(15,578)
Provision for doubtful accounts	(274)	(235)	(347)	(437)	(1,698)	(2,473)
Operating Profit	1,473	2,022	1,090	3,983	9,136	15,116
Exceptional Items	0	0	(300)	0	(1,847)	0
Interest on borrowings	0	0	0	0	0	0

Profit before taxation	1,473	2,022	790	3,983	7,288	15,116
Info. Tech. devt. levy	0	0	0	0	0	(149)
Current Taxation	(277)	(224)	(709)	(789)	(1,920)	(4,829)
Deferred taxation Expense	(201)	(303)	0	(105)	(172)	(104)
Profit after taxation	994	1,495	81	3,089	5,196	10,033
Extraordinary Items						
Minority Interest	(52)	(172)	(225)	(59)	(116)	(128)
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	943	1,323	(144)	3,030	5,081	9,905
Dividend Proposed	331	442	0	0	1,533	5,065

Other Information	2003	2004	2005	2006	2007	2008
Outstanding Shares (million)	2,208	2,208	4,708	5,108	5,108	6,130
No. of Employees	3,675	3,631	3,181	3,399	3,177	3,829

Table 90: Afribank's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2003	2004	2005	2006	2007	2008
Commissions/Gross Earnings	29.74%	37.43%	24.23%	42.60%	45.13%	37.32%
Interest Margin	69.63%	66.88%	66.71%	66.38%	54.87%	62.68%
Net Interest Margin	43.36%	41.71%	45.55%	47.47%	37.69%	37.41%
Operating Expenses/Gross Earnings	62.36%	63.98%	60.21%	61.80%	43.47%	38.98%
PAT/Gross Earnings	6.11%	10.04%	0.54%	19.75%	18.87%	20.39%
Cost to Income Ratio	0.85	0.81	0.86	0.69	0.52	0.52
Pretax Profit Margin	9.05%	13.58%	5.26%	25.47%	26.47%	30.73%
ROCE	19.95%	23.01%	4.43%	13.49%	29.17%	37.60%
ROAE	13.47%	18.49%	0.49%	11.41%	17.08%	28.06%
ROAA	1.01%	1.62%	0.08%	2.47%	3.20%	3.72%
EPS	0.45	0.68	0.02	0.60	1.02	1.64
DPS	0.15	0.20	0.00	0.00	0.30	0.83
Operating Income per employee	3,235.81	3,245.11	3,296.91	4,143.46	7,177.92	9,601.43
Operating Expenses per employee	(2,760.56)	(2,623.46)	(2,845.09)	(2,843.04)	(3,767.92)	(5,007.63)

Asset Quality Ratios	2003	2004	2005	2006	2007	2008
Interest Income/Earning Assets	12.30%	12.88%	9.81%	8.59%	9.13%	9.82%
Effective Return on Earnings Assets	12.01%	12.58%	9.47%	8.23%	8.11%	9.03%
Explicit cost of Debt	5.90%	5.40%	4.40%	3.24%	3.47%	5.66%
Cost of bad and doubt loans	0.81%	0.77%	0.96%	1.06%	2.30%	2.13%
% of classified loans	34.06%	44.28%	46.56%	38.32%	21.19%	15.28%
Loan loss provision/classified loans	100.41%	86.73%	85.57%	93.99%	94.83%	74.57%

Liquidity Ratio	2003	2004	2005	2006	2007	2008
Liquidity Ratio	76.29%	65.57%	85.24%	87.45%	62.65%	88.10%
Capital Adequacy Ratios	2003	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.22	0.29	0.68	0.72	0.42	0.35
Debt/Equity Ratio	12.28	8.86	3.54	3.68	4.97	7.76
Equity/Total Assets	0.08	0.10	0.22	0.21	0.17	0.11

Source: Company's Annual Reports, BGL Research

Bank PHB

Summary and Investment Case

- **Notable Merger from Banking Sector Consolidation**
  Bank PHB has in the last two years built a strong and highly recognisable brand in the Nigerian banking industry. Formerly known as Nationwide Merchant Bank Limited until it was taken over by new investors in 2000, Platinum Bank was converted to a public liability company on the 5th of August 2005 and then it merged with Habib Nigeria Bank Plc in December of the same year resulting in the post merger entity – PlatinumHabib Bank Plc, which was later renamed Bank PHB Plc. The bank was listed on the Nigerian Stock Exchange (NSE) on the 7th December 2005.

- **Innovations in Consumer Based Product Creation and Implementation**
  With products like the Bank PHB Partner Network Account, the Bank PHB national scholar scheme, Good Life, which is about auto loans, salary advances and mortgages, the Bank PHB entertainment combo and the Bank PHB UK Education Loan in conjunction with the British Council, Bank PHB shows immense potentials and innovations in their consumer products.

Structure of Business

Bank PHB currently operates with a 210 branch network across four West African countries – Nigeria, Gambia, Uganda, and Liberia. The bank has a universal banking license and has diversified its businesses to cover several segments of the financial sector.

Table 91: Bank PHB's Subsidiaries

Company	Business Activities	Location
Orient Bank	Banking Services	Uganda
Bank PHB (Gambia) Limited	Banking Services	Gambia
PHB Asset Management	Capital Market	Nigeria
PHB Capital & Trust Limited	Investment Banking	Nigeria
Insurance PHB Limited	Insurance	Nigeria
Global Bank Liberia Limited	Banking Services	Liberia

Source: Company's website

Key Strengths

- **Reputed as an innovative bank**
  Based on the bank's recent award as the most innovative bank in Nigeria 2008, it is clear that the bank has established itself as a differentiator in its product creation and service delivery.

- **Strong financials and future prospects**
  The bank seems to have established a strong track record of profitability.. With a consistent growth in earnings since 2006 and significant expansion of its

deposit base, there are indications that there will be continuous growth in the operations of the bank.

Key Weaknesses

- **Significant amount of non-performing loans**
  With the highest amount of write-offs behind Intercontinental Bank Plc, Bank PHB definitely needs an improvement in its risk management framework. The aggressive foray into risk asset creation in line with the bank's expansion programme has caused a significant increase in non-performing loans. This has led to significant provisioning and the attendant effect on capital adequacy and liquidity ratios.

- **Deteriorating investor confidence:** With the recent restructuring of the bank by the apex bank– changes in the board of directors, infusion of bailout funds, litigation and salary issues even with the current management; Bank PHB clearly needs to devise strategies to invigorate the public and increase investor confidence.

Strategy

The new management needs to rebuild and restore customer and employee confidence. The new road map revolves around what is termed the 'six pillars of the bank':

- Debt recovery
- Governance – risk management
- Corporate governance and control
- Business streamlining
- People management
- Return-to-business strategy

Ownership Structure

Habib Bank Limited, Pakistan is the largest single shareholder of Bank PHB with 8.35% shareholding in the bank. Francis Atuche is the largest individual shareholder with 7% shareholding.

Table 92: Bank PHB's Shareholder Structure

Shareholder	Ordinary Shares Held	% holding
Habib Bank Limited, Pakistan	1,266,057,863	8.35
Francis Atuche	1,060,150,289	7.00
Other Directors	1,028,574,024	15.14
Other Nigerians	10,524,164,090	69.51

Source: PHB Annual Report 2008

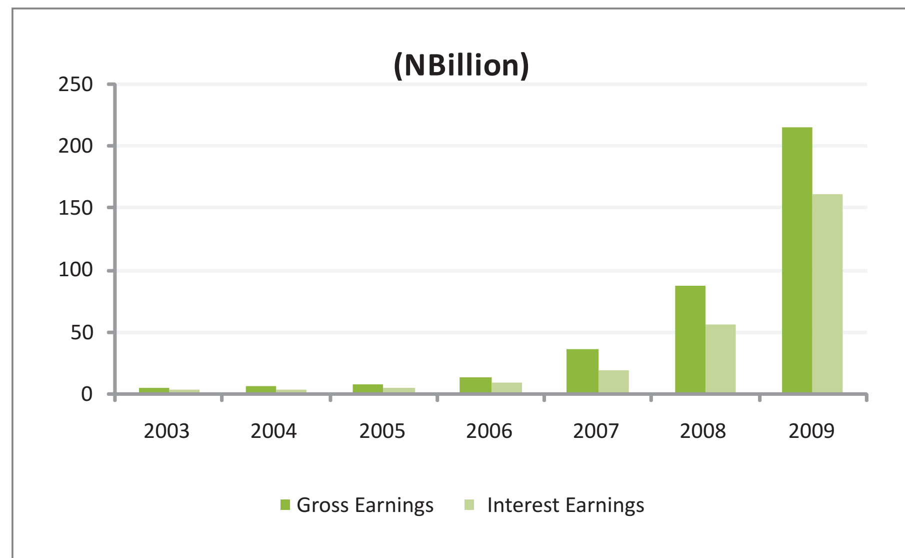
Financial Performance

Bank PHB grew its Gross Earnings by 140% from about N36 billion in 2007 to N87 billion in 2008 and further by almost 150% to N214 billion in September 2009. The fact that the bank's loan loss provision hit a record high of 128.02% in 2008, indicating an affinity to risks which could inform high business turnover, should have made the bank rethink its loan strategies. This eventually resulted in non-performing loans of about N415 billion in September 2009. With a liquidity ratio of almost 80% in 2008, the CBN restructuring in 2009 revealed actual liquidity outside loan provisions to be about 28% - a clear indication that the bank needed to revisit its strategic inclinations.

Although it has stayed above the zero margins since consolidation in 2006, the staccato trend in PHB's earnings growth are indications of a financial institution still trying to carve a niche in the marketplace. Earnings growth has not reached the margins posted just after consolidation in 2006 – about 233.13%, the 192.99% posted in 2007 and the 152.14% in 2008.

PHB's Interest Margins averaged about 62% over the last 5 years – 64.18% as at year end 2008 and 75.03% as at September 2009, meeting the industry average of about 60% - further showing the bank's appetite for risk assets. The bank may need to create some low-yield liquid assets in order to balance out their risks.

Fig. 93: Bank PHB's Earnings



Source: Company's Annual Reports, BGL Research

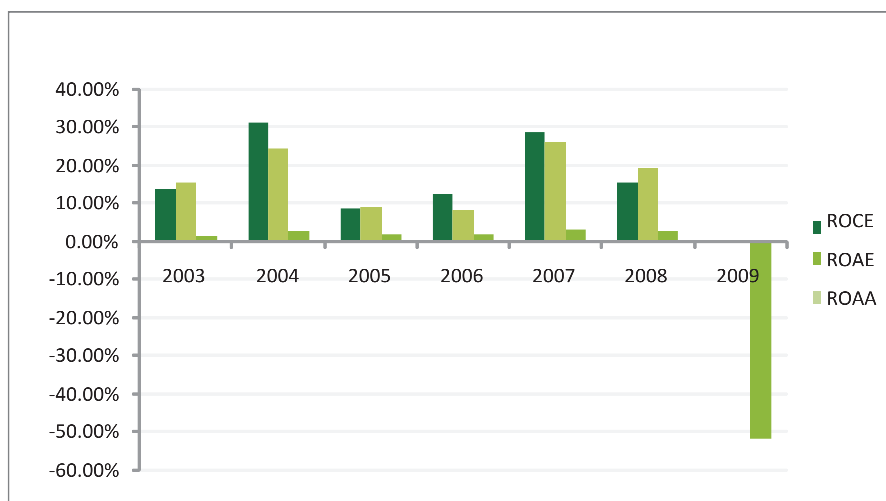
Performance Ratios

All performance ratios fell in the current year compared to the previous year except for interests' margins and dividend per share which increased from 19K in 2007 to 45K in 2008. Although performance in 2007 was somewhat impressive, one can most realistically associate this to the consequences of their public offer and with Shareholders' Funds currently in deficit of about N139 billion, it is unclear when dividends will be paid again.

Bank PHB's Income from core operations fell from 62.38% in 2006 to 51.69% in 2007; although this increased to 64.13% in 2008, the drop reflected in Operating Expenses between 2007 (40.30%) and 2008 (36.65) is either a sign of dwindling operational performance or a diversification of operations. This is further corroborated in the September 2009 result where income from core operations stood at 28.29%.

Also, a critical review of the bank's net interest margins would reveal a drop in the September 2009 result to about 31%, relatively no change from about 37% between 2007 and 2008 with a decrease of about 10% between 2006 and 2007. This perhaps further buttresses the fact that the bank is not appropriating enough value from its banking products and services.

Fig. 94: Bank PHB's Performance Ratios

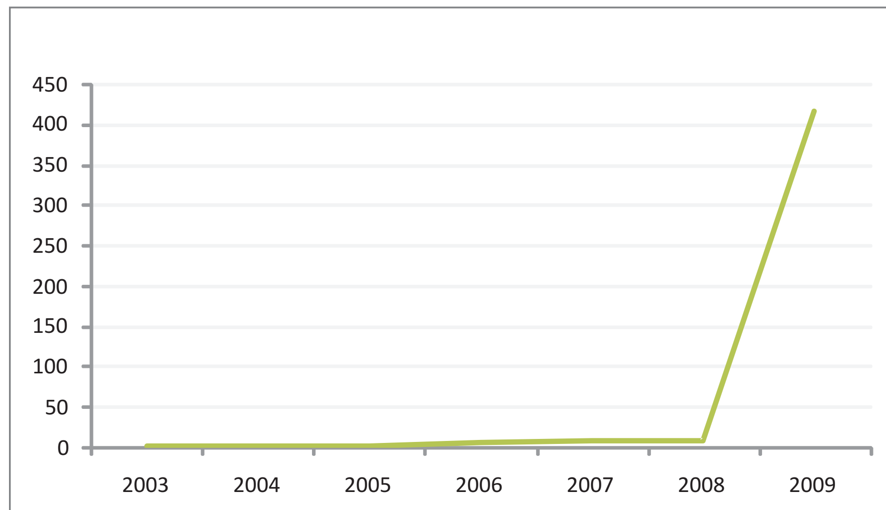


Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

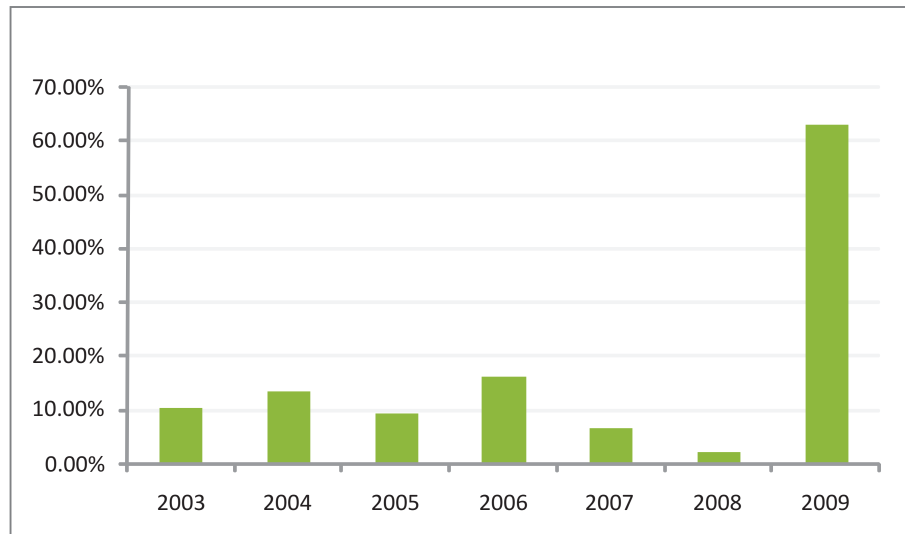
These ratios are reflective of the aggressive nature of the bank's operations which needs to be mitigated. As at September 2009 – after the restructuring, loan loss provisioning as a percentage of non-performing loans had reduced to about 83% from 128.02% in 2008 with effective return on assets being 17% from 6.07% in 2008.

Fig. 95: Bank PHB's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 96: Bank PHB's % of Classified Loans

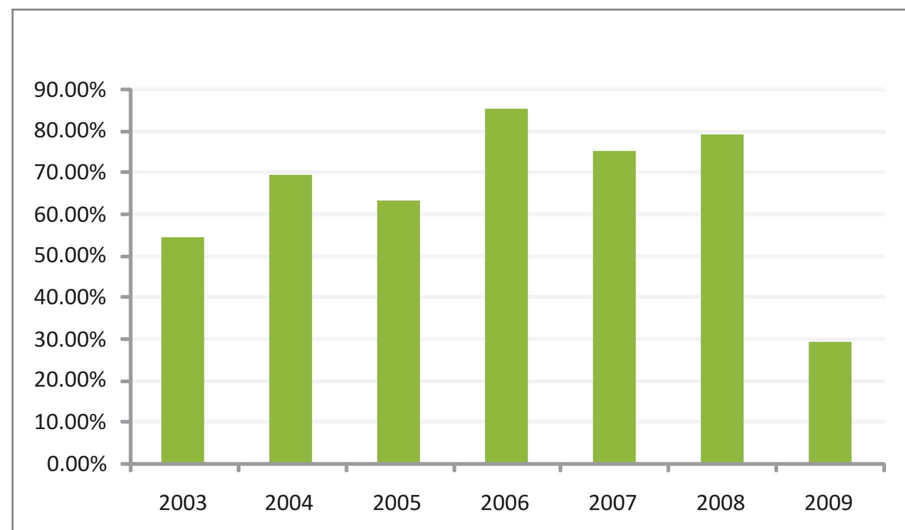


Source: Company's Annual Reports, BGL Research

Liquidity Ratios

Bank PHB's liquidity ratio was called to question after the CBN stress-test of September 2009. The bank's liquidity ratio has been above 60% since consolidation in 2005, well above the regulatory benchmark of 40% at the time. Even the current ratio (28.93%) is above the current benchmark of 25%. Going forward, aggressive recovery of non-performing loans and balance sheet restructuring would be needed to improve the bank's liquidity ratio.

Fig. 97: Bank PHB's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's EPS decreased marginally from N1.32 in 2007 to N1.29 in 2008 as a result of increase in outstanding shares. The huge provision for risk assets resulted in the bank's EPS falling to –N14.03 by September 2009; however, significant success in loan recovery could reduce the bank's loss position by December 2009 and thus lead to an improvement in EPS from September 2009.

September 2009 Interim Results

Contrary to expectations that Bank PHB was the bank to watch out for post-consolidation, the CBN's stress-test instead revealed that the bank is rather the bank with one of the largest hole in relation to non-performing loans. Based on turnover, a growth of about 150% to N214 billion would have confirmed the bank's growing popularity as a strong bank; however the write-off of about N344 billion in risk asset provision placed the bank just above Intercontinental Bank Plc in loss making by September 2009.

The unexpected result created uncertainty about the future performance of the bank until a full independent audit is carried out and the bank's strategic direction can be quantified. However, we expect that future performance would depend on the quick resolution of the ownership tussle which will affect the management and strategic direction of the entity.

Table 93: Bank PHB's Financial Summary

Financial Year End Balance Sheet Assets	June 2003 N'm	June 2004 N'm	June 2005 N'm	June 2006 N'm	June 2007 N'm	June 2008 N'm
Cash & Short-term funds	6,747	4,705	4,175	15,684	85,876	84,215
Due from banks in Nigeria	752	5,369	3,196	31,965	76,456	262,266
Due from banks outside Nigeria	1,390	427	3,747	7,237	13,661	21,067
Bills Discounted	0	0		0	0	0
Short Term Investments	605	3,770	6,460	41,354	53,667	139,139
Managed Funds	0	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	3,820	14,048	96,952
Long Term Investments - Others	45	40	33	1,083	2,600	50,810
Investment/Trading Properties	0	0	0	0	0	150
Loans & Advances - Gross	8,678	9,011	19,850	41,838	106,234	321,443
Non-Performing Loan	835	1,104	1,731	5,973	6,459	6,688
Loans & Advances - Net	8,199	8,199	18,612	37,138	100,159	312,881
Advances under finance lease	79	34	74	884	1,886	3,953
Other Facilities	0	0	0	0	0	0
Other Assets	1,382	1,381	13,483	12,071	15,376	32,625
Deferred Tax Assets	0	0	0	0	0	0
Fixed Assets	956	1,100	1,890	7,625	18,301	34,259
Goodwill	0	0	0	0	0	
Total Assets	**20,155**	**25,027**	**51,671**	**158,861**	**382,029**	**1,038,318**
Liabilities						
Deposit and Current Account	14,388	19,715	21,893	108,773	306,961	714,460
Due to other banks	600	300	0	500	0	21,513
Other Facilities	0	0	0	0	0	0
Managed Funds	0	0	0	2,247	134	332
Tax Payable	70	180	413	1,016	1,925	6,136
Deferred Taxation	37	128	134	1,167	1,092	1,378
Other Liabilities	2,829	1,856	16,560	16,225	35,724	126,826
Dividend Payable	0	0	9	1	0	0
Borrowings						
Total Liabilities	**17,924**	**22,179**	**39,011**	**129,929**	**345,835**	**870,644**
Capital & Reserves						
Share Capital	1,839	1,839	4,311	9,653	3,218	7,577
Share Premium	359	359	7,097	16,425	22,860	140,883
Statutory Reserve	13	198	409	1,133	3,425	9,256
Exchange difference reserve	0	0	0	0	0	
General Reserve	20	363	684	1,297	6,262	9,492
Bonus Issue Reserve	0	0	0	0	0	
Reserve for SMEIS	0	89	159	400	400	400
Revaluation Reserve	0	0	0	16	16	0
Capital Reserve	0	0	0	6	6	57
Investment Properties Reserve	0	0	0	0	0	
Minority Interests	0	0	0	1	7	7
Shareholders' Fund	2,231	2,847	12,660	28,933	36,194	167,673
Total Liabilities and Equity	**20,155**	**25,027**	**51,671**	**158,861**	**382,029**	**1,038,318**
Profit & Loss	**2003 N'm**	**2004 N'm**	**2005 N'm**	**2006 N'm**	**2007 N'm**	**2008 N'm**
Gross Earnings	3,613	5,258	6,658	13,281	36,163	87,228
Interest Earnings	2,350	3,507	4,474	8,285	18,694	55,935
Interest Expense	(1,491)	(2,016)	(2,151)	(4,268)	(9,323)	(24,664)
Net Interest Income	859	1,491	2,323	4,017	9,371	31,271
Commission and other Income	1,262	1,751	2,184	4,997	17,469	31,293
Operating Income	2,121	3,242	4,507	9,014	26,840	62,564
Staff Cost	(652)	(907)	(1,186)	(1,600)	(5,095)	(12,400)
Depreciation	(226)	(280)	(474)	(743)	(1,453)	(2,283)
Other Operating Expenses	(713)	(992)	(1,195)	(2,342)	(8,026)	(17,282)
Provision for doubtful accounts	(228)	(179)	(597)	(814)	(1,984)	(4,628)
Operating Profit	303	885	1,055	3,515	10,282	25,970

Exceptional Items						
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	303	885	1,055	3,515	10,282	25,970
Info. Tech. devt. levy	0	0	0	0	0	0
Current Taxation	(68)	(178)	(347)	(937)	(1,842)	(6,103)
Deferred taxation Expense	0	(91)	(6)	(898)	76	(287)
Profit after taxation	234	617	703	1,680	8,516	19,581
Extraordinary Items						
Minority Interest	0	0	0	(1)	(6)	(3)
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	234	617	703	1,679	8,511	19,577
Dividend Proposed	0	0	100	0	1,255	6,820

Other Information	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Outstanding Shares (million)	3,678	3,678	8,623	19,305	6,435	15,155
No. of Employees	314	392	381	1,025	1,336	2,214

Table 94: Bank PHB's Ratios and Analysis

Ratios & Analysis **Perfomance Ratios (Margin)**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	34.94%	33.30%	32.80%	37.62%	48.31%	35.87%
Interest Margin	65.06%	66.70%	67.20%	62.38%	51.69%	64.13%
Net Interest Margin	23.78%	28.36%	34.88%	30.25%	25.91%	35.85%
Operating Expenses/Gross Earnings	44.03%	41.43%	42.88%	35.27%	40.30%	36.65%
PAT/Gross Earnings	6.49%	11.73%	10.55%	12.65%	23.55%	22.45%
Cost to Income Ratio	0.75	0.67	0.63	0.52	0.54	0.51
Pretax Profit Margin	8.38%	16.83%	15.85%	26.47%	28.43%	29.77%
ROCE	13.57%	31.08%	8.34%	12.15%	28.41%	15.49%
ROAE	15.48%	24.28%	9.06%	8.08%	26.15%	19.21%
ROAA	1.40%	2.73%	1.83%	1.60%	3.15%	2.76%
EPS	0.06	0.17	0.08	0.09	1.32	1.29
DPS	0.00	0.00	0.01	0.00	0.19	0.45
Operating Income per employee	6,756	8,271	11,829	8,794	20,090	28,258
Operating Expenses per employee	(5,066)	(5,557)	(7,493)	(4,571)	(10,909)	(14,438)

Asset Quality Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Interest Income/Earning Assets	20.43%	18.85%	13.42%	6.52%	7.03%	6.62%
Effective Return on Earnings Assets	18.45%	17.88%	11.63%	5.88%	6.28%	6.07%
Explicit cost of Debt	9.95%	10.07%	9.83%	3.91%	3.04%	3.35%
Cost of bad and doubt loans	2.63%	1.98%	3.01%	1.94%	1.87%	1.44%
% of classified loans	10.18%	13.46%	9.30%	16.08%	6.45%	2.14%
Loan loss provision/classified loans	57.35%	73.52%	71.49%	78.68%	94.07%	128.02%

Liquidity Ratio	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Liquidity Ratio	54.07%	69.17%	63.18%	84.95%	74.94%	79.16%

Capital Adequacy Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Equity/Loans & Advances	0.26	0.32	0.64	0.69	0.34	0.52
Debt/Equity Ratio	8.03	7.79	3.08	4.49	9.56	5.19
Equity/Total Assets	0.11	0.11	0.25	0.18	0.09	0.16

Source: Company's Annual Reports, BGL Research

Equitorial Trust Bank

Summary and Investment Case

- **Incorporated in 1990 as a limited liability company**
  Equitorial Trust Bank (ETB) was established in 1990 when it was given a commercial banking licence. It currently has 93 branches and 13 Automated Teller Machines all over Nigeria with an obvious concentration in the southern areas of the country.

- **Keeping it within the ranks**
  In June 2006, Equitorial Trust Bank completed its statutory merger with Devcom Bank Limited as part of the banking consolidation exercise. Providing most of the deposits and clients for the bank are its energy partner ConOil Plc and telecoms partner GlobaCom Nigeria. These two companies are owned by Dr. Mike Adenuga, the majority shareholder of ETB and receive sufficient funding from Equitorial Trust Bank.

- **Available for sale**
  The bank might be available for sale as the current owners have signified intent to exit the bank after almost 20 years. This might not be unconnected to the recent Central Bank action which led to the replacement of the bank's management and the injection of funds into the bank. The owners also injected US$150m into the bank and also agreed to reconstitute the bank's board. Part of the agreement with the CBN is to restructure, diversify and enlarge the capital base of the bank either by way of a public offering of shares, securing a core investor or merger with a local bank by June 30, 2010. Specifically, the majority shareholder might have been asked to divest part of the holding; hence the willingness to sell some stake in the bank.

Structure of Business

Equitorial Trust Bank is structured around key strategic business units and support groups, these business groups are designed for the purpose of identifying and exploiting opportunities within high revenue generating sectors of the local economy, while support groups offer vital back office duties.

Table 95: Equitorial Trust Bank Group

Equitorial Trust Bank Business Segments
The Public Sector Group
The Corporate Banking Group
The Treasury & Financial Services Group
The Commercial Banking Group
The Retail banking Group
The Operations Group
The Risk Management Group
The Legal, Recovery & Corporate Services Group

Source: Company's website

Key Strengths

- Equitorial Trust Bank has a close network of business associates such as Conoil Plc and Glo Nigeria Plc which provide it with a huge clientele base and a measure of liquidity even within the present financial crisis.

- The bank has partnerships with international correspondents that have lasted for several years, and within the local business environment it is perceived as a risk-averse bank, conservative in its quest for market dominance, lying somewhere in the median of the risk-return profile in the banking industry.

Key Weaknesses

- The bank has fewer branches, compared to its industry peers and seems like a closed entity. There is a lot required for market perception to change in this regard.

- Until the divestment of the majority shareholder and the reconstitution of the bank's board, the bank will continue to be seen as a one-man business. This key-man risk is significant enough to prevent many prospective clients from dealing with the bank.

Strategy

- Equitorial Trust Bank intends to become a top player in the competitive banking sector and is placing its resources around the task of building its retail banking capabilities, pursuing a hasty branch growth programme by deploying outlets in all parts of the country.

- The bank promotes lower-risk lending strategies i.e. car loans consumer loans, and credit cards to regular income earners.

- Equitorial Trust Bank is continuing efforts to place its technological backbone at par with global standards with the aim of increasing distribution channels, electronic/internet banking and other banking products.

Ownership Structure

Equitorial Trust Bank is a wholly owned Nigerian Bank with shareholdings spread amongst many high net-worth individuals.

Financial Performance

The bank's 2007 results (which is the latest report available to us) showed commendable growth in gross revenue and net earnings over the 2006 results. Gross Earnings increased by 13.79% from N17.04 billion in 2006 to N19.39 billion in 2007. Equitorial Trust Bank posted a Profit after Tax of N3.72 billion in 2007, up from N2.15 billion in 2006. Deposits grew by 13.48% from N72.77 billion in 2006 to N82.58 billion in 2007 while Total Loans and Advances increased by 7.54% to N39.89 billion in 2007 from N37.10 billion in 2006. The bank managed to reduce its Cost-to-Income ratio in 2006 from 0.62 to 0.57 in 2007 by keeping its Operating Expenses and Interest Expenses fairly constant, increasing by 7.13% and 6.22% respectively while Operating Income grew by about 18%.

Fig. 98: ETB's Earnings

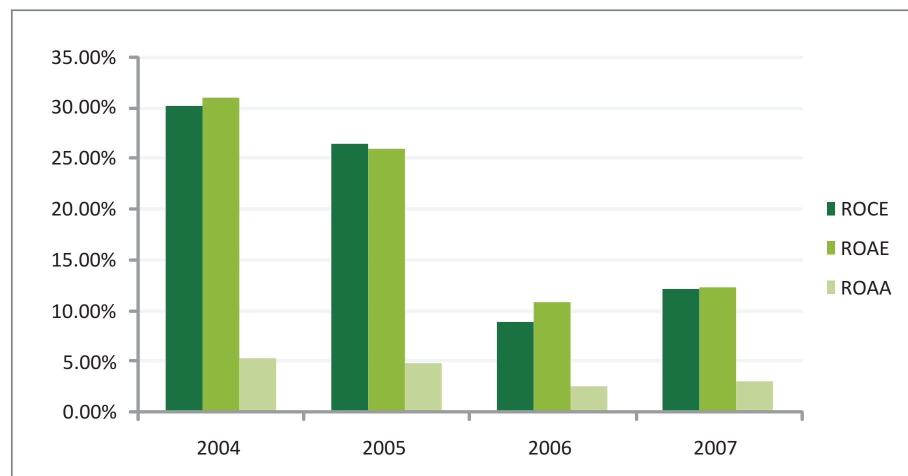
Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin increased in 2007 from 12.62% in 2006 to 19.17% as the bank kept its interest expense within limit while Pre-tax Profit Margin also increased from 14.73% to 20.00% in 2007. Operating Expense as a percentage of Gross Earnings reduced from 40.09% in 2006 to 38.48% in 2007 indicating efficient cost control. Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Return on Capital Employed (ROCE) all increased in 2007 due to improved profitability. The bank's ROAE and ROAA were 12.01% and 3.09% respectively compared to 8.84%, and 2.59% in 2006. ROCE also improved from 8.84% in 2006 to 12.07% in 2007.

Increase in employees due to business expansion post-consolidation led to a decrease in operating income/employee from N14.22m in 2006 to N13.46m in 2007. Similarly, operating expenses/employee also dropped by 12.26% from N8.75m to N7.68m in 2007 as the benefits of economies of scale set in.

Fig. 99: ETB's Performance Ratios



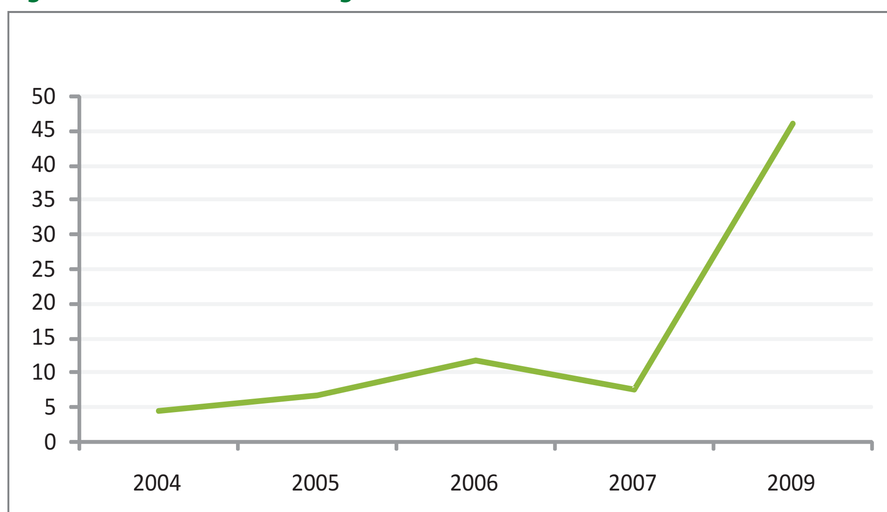
Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

ETB's asset quality ratios in 2007 revealed mixed results. The bank's Effective Return from Earning Assets dipped from 11.46% in 2006 to 10.82% in 2007 while its Interest Income/Earning Assets also declined from 13.15% in 2006 to 12.25% in 2007. However, Explicit Cost of Debt and Cost of Bad and Doubtful Loans fell from 8.16% and 4.75% in 2006 to 6.85% and 4.38% in 2007 respectively.

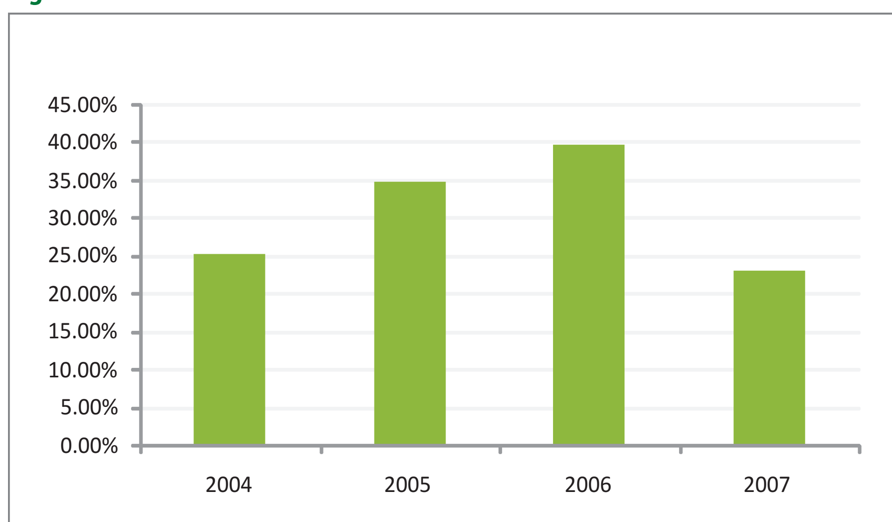
Although, the bank's percentage of Classified Loans declined to 23.02% in 2007 from 39.56% in 2006, nonetheless Loan Loss provisioning was 98.09% in 2007 rather than 64.23% in 2006. While the bank could have been perceived as very conservative as a result of the increased provision in 2007, the stress-test exercise conducted by CBN revealed a total non-performing loan value of N46.154 billion in 2009; a significant jump from the N7.4 billion reported in 2007.

Fig. 100: ETB's Non-Performing Loan



Source: Company's Annual Reports, BGL Research

Fig. 101: ETB's % of Classified Loans

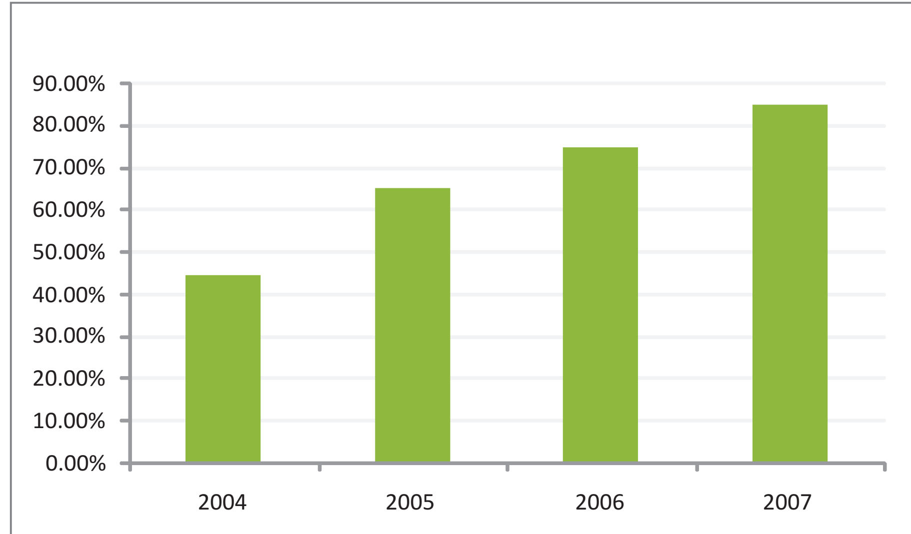


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

ETB's liquidity ratio improved from 74.68% in 2006 to 84.55% in 2007, by far above the regulatory benchmark of 40% at the time. However, the outcome of the September 2009 stress-test exercise and the CBN's actions against the bank thereafter suggest that the bank's liquidity position might have been seriously affected post-2007.

Fig. 101: ETB's Liquidity Ratios



Source: Company's Annual Reports, BGL Research

Table 96: ETB's Financial Summary

Financial Year End Balance Sheet Assets	June 2004 N'm	June 2005 N'm	June 2006 N'm	June 2007 N'm
Cash & Short-term funds	5,648	6,477	4,592	7,855
Due from banks in Nigeria	1,017	2,540	7,659	10,771
Due from banks outside Nigeria	8,500	6,406	16,743	11,256
Bills Discounted	8,260	13,260	42,090	59,229
Short Term Investments	0	0	0	0
Managed Funds	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	0
Long Term Investments - Others	197	197	230	40
Investment/Trading Properties	0	0	0	0
Loans & Advances - Gross	21,079	23,530	37,095	39,890
Non-Performing Loan	4,402	6,543	11,702	7,490
Loans & Advances - Net	17,506	18,825	29,579	32,543
Advances under finance lease	0	2,278	717	805
Other Facilities	0	0	0	0
Other Assets	3,506	2,343	828	835
Deferred Tax Assets	0	0	0	0
Fixed Assets	2,770	3,709	7,303	7,106
Goodwill	0	0	0	0
Total Assets	**47,406**	**56,034**	**109,740**	**130,440**
Liabilities				
Deposit and Current Account	33,652	34,142	72,767	82,577
Due to other banks	100	200	0	9,500
Other Facilities	0	0	0	0
Managed Funds	0	0	0	0
Tax Payable	365	310	478	257
Deferred Taxation	479	483	557	563
Other Liabilities	4,386	9,966	7,533	5,422
Dividend Payable	0	0	0	0
Borrowings	0	0	0	0
Total Liabilities	**38,983**	**45,100**	**81,335**	**98,319**
Capital & Reserves				
Share Capital	2,450	3,000	6,500	6,500
Share Premium	0	0	10,500	10,500
Statutory Reserve	3,165	3,919	4,564	5,678
Exchange difference reserve	0	0	0	0
General Reserve	1,345	2,851	4,141	6,370
Bonus Issue Reserve	550	0	0	0
Reserve for SMEIS	913	1,164	1,379	1,751
Revaluation Reserve	0	0	0	0
Capital Reserve	0	0	1,322	1,322
Investment Properties Reserve	0	0	0	0
Minority Interests	0	0	0	0
Shareholders' Fund	8,423	10,934	28,405	32,121
Total Liabilities and Equity	**47,406**	**56,034**	**109,740**	**130,440**

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm
Gross Earnings	12,638	13,894	17,038	19,389
Interest Earnings	10,519	11,979	13,717	14,937
Interest Expense	(6,029)	(6,673)	(5,935)	(6,304)
Net Interest Income	4,490	5,305	7,782	8,632
Commission and other Income	2,122	2,102	3,321	4,452
Operating Income	6,612	7,407	11,103	13,085
Staff Cost	(737)	(890)	(2,149)	(2,450)
Depreciation	(456)	(505)	(959)	(1,151)
Other Operating Expenses	(2,474)	(2,728)	(3,724)	(3,860)
Provision for doubtful accounts	(412)	(401)	(1,762)	(1,746)
Operating Profit	2,533	2,883	2,510	3,878

Exceptional Items	0	0	0	0
Interest on borrowings	0	0	0	0
Profit before taxation	2,533	2,883	2,510	3,878
Info. Tech. devt. levy	0	0	0	0
Current Taxation	(93)	(370)	(363)	(157)
Deferred taxation Expense	(182)	(3)	3	(5)
Profit after taxation	2,257	2,510	2,150	3,716
Extraordinary Items	0	0	0	0
Minority Interest	0	0	0	0
Amortisation of goodwill	0	0	0	0
Profit attrib. to shareholders	2,257	2,510	2,150	3,716
Dividend Proposed	0	0	0	0

Other Information	**2004**	**2005**	**2006**	**2007**
Outstanding Shares (million)	4,900	6,000	13,000	13,000
No. of Employees	480	535	781	972

Table 97: ETB's Ratios & Analysis

Ratios & Analysis				
Perfomance Ratios (Margin)	**2004**	**2005**	**2006**	**2007**
Commissions/Gross Earnings	16.79%	15.13%	19.49%	22.96%
Interest Margin	83.23%	86.21%	80.51%	77.04%
Net Interest Margin	35.53%	38.18%	45.67%	44.52%
Operating Expenses/Gross Earnings	29.02%	29.67%	40.09%	38.48%
PAT/Gross Earnings	17.86%	18.07%	12.62%	19.17%
Cost to Income Ratio	0.55	0.56	0.62	0.57
Pretax Profit Margin	20.04%	20.75%	14.73%	20.00%
ROCE	30.07%	26.37%	8.84%	12.07%
ROAE	30.94%	25.94%	10.93%	12.28%
ROAA	5.40%	4.85%	2.59%	3.09%
EPS	0.46	0.42	0.17	0.29
DPS	0.00	0.00	0.00	0.00
Operating Income per employee	13,774.15	13,845.04	14,216.75	13,461.43
Operating Expenses per employee	(7,640.31)	(7,706.46)	(8,747.21)	(7,675.21)

Asset Quality Ratios	**2004**	**2005**	**2006**	**2007**
Interest Income/Earning Assets	27.07%	24.95%	13.15%	12.25%
Effective Return on Earnings Assets	26.01%	24.11%	11.46%	10.82%
Explicit cost of Debt	17.86%	19.43%	8.16%	6.85%
Cost of bad and doubt loans	1.95%	1.70%	4.75%	4.38%
% of classified loans	25.14%	34.76%	39.56%	23.02%
Loan loss provision/classified loans	81.18%	71.91%	64.23%	98.09%

Liquidity Ratio	**2004**	**2005**	**2006**	**2007**
Liquidity Ratio	44.22%	64.87%	74.68%	84.55%

Capital Adequacy Ratios	**2004**	**2005**	**2006**	**2007**
Equity/Loans & Advances	0.40	0.46	0.77	0.81
Debt/Equity Ratio	4.63	4.12	2.86	3.06
Equity/Total Assets	0.18	0.20	0.26	0.25

Source: Company's Annual Reports, BGL Research

Finbank Plc

Summary and Investment Case

- **A merger of four hitherto fringe players**
  Finbank commenced operations as First Inland Bank Plc on 3rd of January 2006. The bank was established due to the regulatory induced mergers of 2006 which led to the fusion of four banks – First Atlantic Bank, Inland Bank (Nigeria) Plc, NUB International Bank Limited and IMB International Bank Plc. FinBank Plc was formerly known as First Inland Bank Plc and changed its name to FinBank Plc on September 22, 2008.

- **CBN effects top level sweeping personnel changes**
  On 10th March 2009, eight directors of Finbank resigned their board appointments. The bank attributed this to the need "to ensure adequate returns on investment to shareholders arising from its capital raising exercise" in 2008. However, industry analysts believed that the mass resignation was as a result of regulatory pressures. This was further corroborated when on 14 August 2009, the CBN announced the removal of the management of FinBank along with four other banks, citing abuse of insider related credit, poor corporate governance standards and various banking related offences.

- **Receives capital injection of N50 billion in N420 billion bailout**
  Despite claims by the bank that its shareholders funds was shored up with proceeds from capital raising in the second quarter of 2008, the CBN had to inject fresh capital of N50 billion in August 2009 after the sack of the CEO citing depletion of shareholder's equity. The September 2009 interims of FinBank show the shareholders fund had dropped way below the regulatory benchmark of N25 billion to a negative of N85 billion. This is a drop of 161% from the same time a year earlier.

- **Regulatory incoherency and shareholder resistance may affect take-over**
  The CBN plans to sell FinBank as well the 9 other affected banks to new owners. However, recent pronouncements by the regulator have only increased the confusion on the CBN's actual plans. In addition, we expect stiff resistance and litigations from activist shareholders on any take-over that could be considered as hostile.

Structure of Business

FinBank operates in 3 countries in West Africa with about 200 branches. These are Nigeria, Ghana and Gambia. The bank has a universal banking license and has diversified its businesses to cover different spheres of the financial sector. The bank's strategic intent for its Gambian operations is to use the subsidiary to tap into the Gambian tourism market and also to partner with the bank to transfer Islamic Banking skills to the Nigerian operations.

Table 98: FinBank's Subsidiaries

Country	Principal	Activity
FinBank Registrars Limited	Nigeria	Secretarial Services
Finbank Securities & Asset Management Limited	Nigeria	Asset Management
Finbank Capital Limited	Nigeria	Investment Banking
Finbank Insurance Company Limited	Nigeria	Insurance
Finbank Insurance Brokers Limited	Nigeria	Insurance Brokerage
Finbank Homes Limited	Nigeria	Mortgage Financing
e-Frontiers Technologies Limited	Nigeria	Online banking service
e-Frontiers Technologies Limited	Ghana	Online banking service
Arab Gambia Islamic Bank Limited	Gambia	Banking

Source: Offer Prospectus, 2008

Key Strengths

- **Technocentric bank:** Amongst Nigerian banks, FinBank has carved a niche for itself by using Information Technology as a major platform for customer service delivery. The bank has pioneered technological advancements in product delivery and the floating of a subsidiary – e-Frontiers Technologies Limited to deepen its online banking services will only help the bank remain ahead of peers.

Key Weaknesses

- **Negative brand perception resulting from CBN's Stress-Test:** The management of the bank need to embark on a strong brand recovery exercise as a result of the negative effects of the Central Bank's dismissals of the management of the bank.

- **Low Market Share:** According to the September 2009 interims, FinBank has a 2% market share of deposits and 1% of the total industry lending despite possessing close to 200 branches and outlets across the country.

Strategy

Finbank's strategy will be based on the following key areas:

Technology: Information Technology will continue to serve as the platform of Finland Bank's service delivery. The bank's strategy involves the continued use of technology to reshape banking service delivery in Nigeria in order to ensure convenience, efficiency, cost reduction, value added and innovation. The bank continues to exploit and master new technologies to package and deliver innovative products and services, and intends to create a niche for itself by using technologically driven products.

Retail Banking: The retail banking products and services will be targeted at lower-risk retail lending products, in particular car loans, credit cards, and other consumer finance related products. The focus will be on the low class customer segment, which is currently under-banked and is set to grow rapidly during the next few years as the economy continues to expand. The products will be in five major functional aspects: access, type, pricing, service and marketing.

Private Banking: FinBank's Private Banking is designed to cater for the needs of high net-worth clients, families and selected institutions. It also provides a comprehensive offering of financial solutions including estate planning and advising on foundations and philanthropic activities.

Ownership Structure

First Inland Bank's Staff Share Scheme is the major shareholder in the bank with a 6.05% holding while the balance of 93.95% is being held by various shareholders.

Table 99: Ownership Structure

Shareholder	% Held
First Inland Bank Plc Staff Share Scheme	6.05
Others	93.95

Source: Company's Report, 2008

Financial Performance

The last audited financials of FinBank was for the April 2008 year end. The bank is yet to release the April 2009 year end results.

Gross Earnings growth averaged 166% in the last 5 years though this was heavily spiked by the 822% growth in 2007. Following the 2008 performance, FinBank grew its Gross Earnings 38% in 2008, but the bank's pre-tax profits dropped by 75% to N1.6 billion in 2008 from N6.5 billion in 2007. PAT dipped by 82% from N5.9 billion in 2007 to N1 billion in 2008

FinBank's Interest Margin of 69% in 2008 was slightly below the industry average of about 70%. The bank's write-downs in 2009 of N120.6 billion could be a reflection of risk asset creation out-pacing risk management capacity. In 2008, the bank grew risk assets 112%. There is need to bring risk management to the heart of the business, while corporate governance needs to be institutionalised to bring insider related infractions to the barest minimum.

Staff productivity also showed some decline with Operating Profit per Employee dropping by 17% from N11.1m in 2007 to N9.2m in 2008. However, Operating Expenses per Employee improved by about 24% dropping from N7.7m in 2007 to N5.9m in 2008.

Fig. 103: Finbank's Earnings

Source: Company's Annual Reports, BGL Research

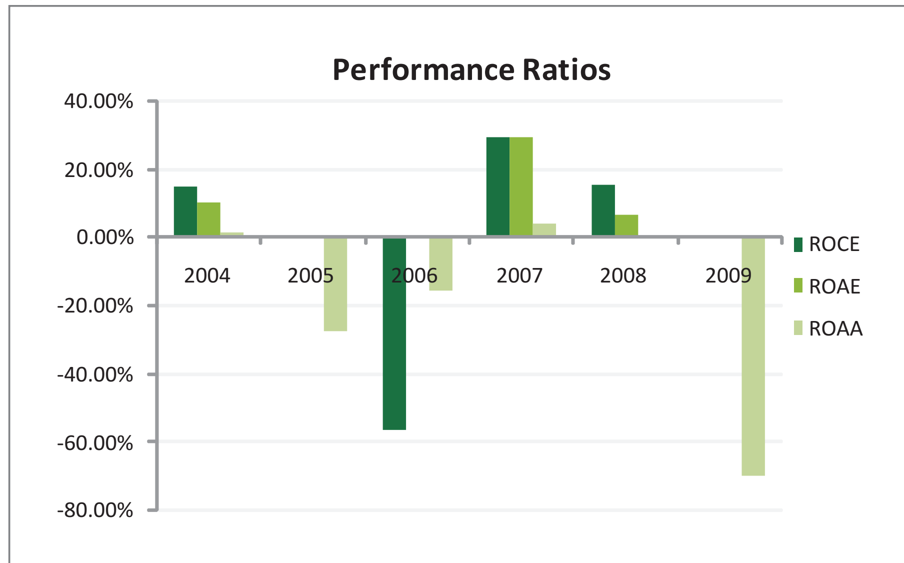
Performance Ratios

FinBank saw several performance ratios fall in 2008 compared to the previous year.

The ratio of the bank's income from core operations showed significant recovery in 2008 when it once again crossed the 60% mark to reach 69%, having dropped to 54% in 2007. Thus ratio of other incomes fell from 46% in 2007 to 31% 2008, largely due to the fact that the bank's risk assets more than doubled, from N28.5 billion in 2007 to N60.3 billion in 2008.

The cost control measure of the bank in 2008 led to a 1% drop in the bank's expenses from the previous year. With the 38% growth in Gross Earnings and the 1% drop in expenses, Operating expense as a percentage of gross earnings improved, dropping from 54.42% in 2007 to 43.78% in 2008.

Fig. 104: Finbank's Performance Ratios

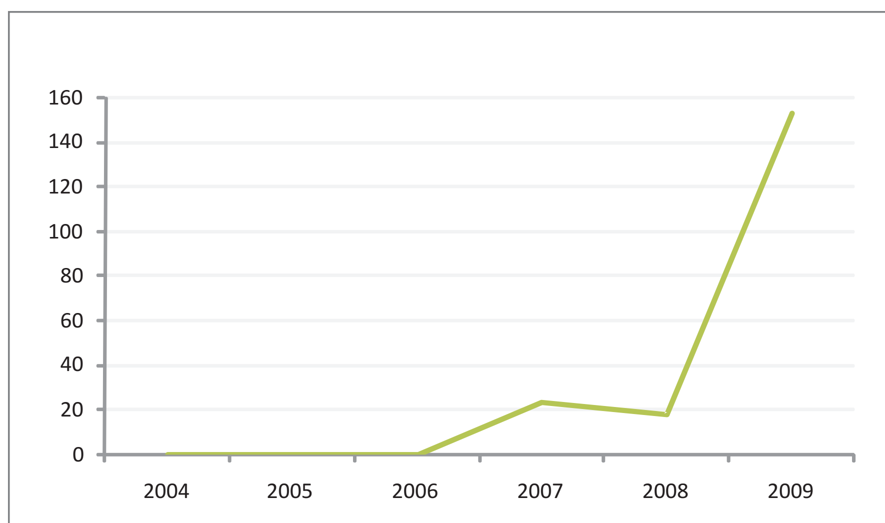


Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

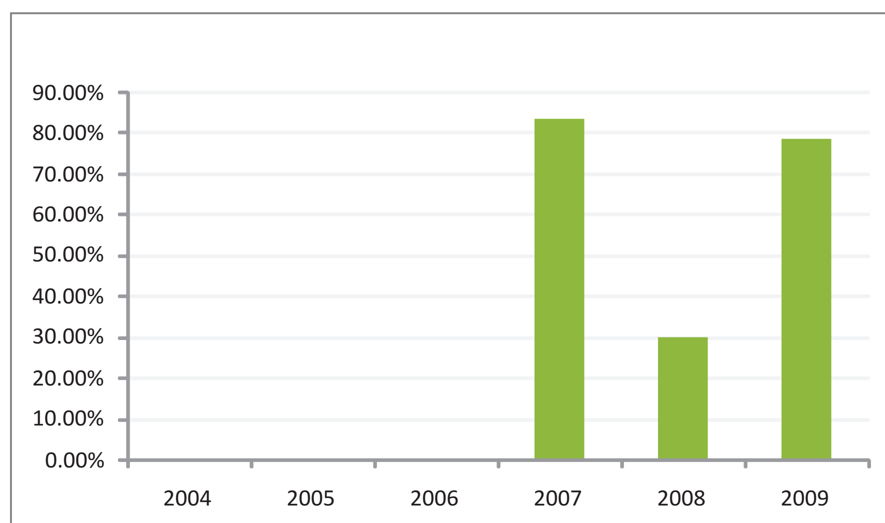
FinBank's effective returns from earning assets dropped from 11.36% in 2007 to 7.89% in 2008 while its interest income on earning assets dropped from 11.36% in 2007 to 5.53%% in 2008. Correspondingly, its explicit cost of debt and cost of bad and doubtful loans improved from 4.86% in 2007 to 3.03% in 2008. Non-Performing Loans grew to N152 billion in September 2009 from N18 billion in 2008 resulting in a significant growth in the percentage of Classified Loans to 78.57% in 2009 from 29.68% in 2008.

Fig. 105: Finbank's Non-Performing Loan



Source:Company's Annual Reports, BGL Research

Fig. 106: Finbank's % of Classified Loans

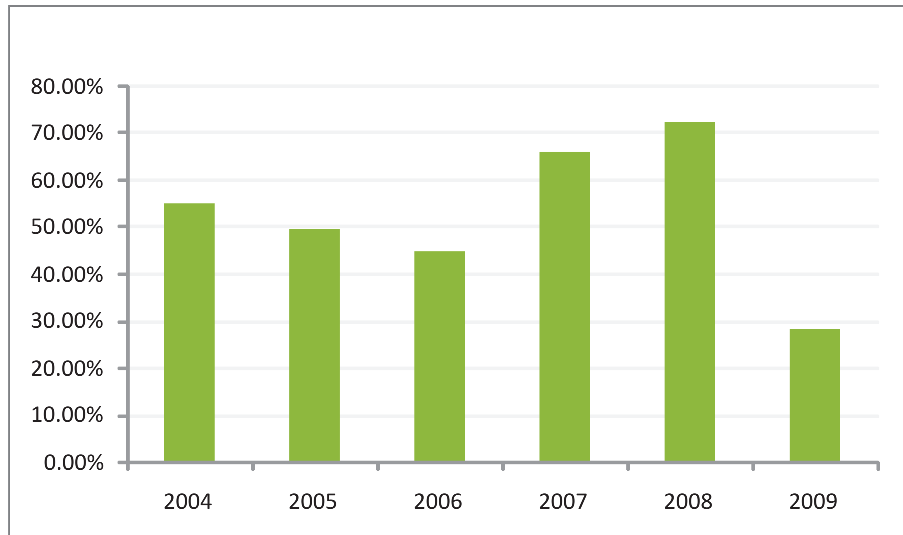


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

By September 2009, Finbank's liquidity ratio which had been improving since consolidation suffered a significant fall to 28.93% from a 5-year high of 72.27% in 2008. The fall is not unconnected to the growth in loans and advances from N76 billion in 2008 to N193 billion in September 2009. This aggressive increase in risk assets was at the detriment of the low-yield liquidity assets leading to a huge fall in liquidity ratio.

Fig. 107: Finbank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earning per Share

With the shrinking of profits the bank experienced in 2008, EPS fell by 82% to N0.11 from N0.62 the year before. The bank has not paid dividends since consolidation and with the sliding profit figures, the dividend forecasts of N0.31 and N0.83 in 2009 and 2010 respectively may not be achieved.

September 2009 Results

The bank grew its Gross Earnings by 19% from N50.2 billion in September 2008 to N59.5 billion in September 2009. Interest Earnings grew by 24% to N48.9 billion from the year before despite a 39% drop in the loan books in 2009. On the other hand Interest Expense on Deposits increased by 55% in spite of a 3% drop in deposit liabilities in 2009 to N158.5 billion from N162.7 billion a year before. The increased Interest Expense could be as a result of the bank offering more to mobilise deposits in view of deep client scepticism following the CBN's actions. In September, the bank made a provision for risk assets of N94.7 billion and another write-down in exceptional items of N26 billion. These combined write-downs of N120.7 billion led to record pre-tax losses of N120.3 billion. The bank's Shareholders Funds was also significantly hit by these losses as a result of which it dropped to negative N85.1 billion in 2009 from N139 billion the year before.

Table 100: Finbank's Financial Summary

Financial Year End Balance Sheet Assets	March 2004 N'm	March 2005 N'm	February 2006 N'm	April 2007 N'm	April 2008 N'm
Cash & Short-term funds	3,048	5,739	20,086	22,280	37,346
Due from banks in Nigeria	3,775	1,900	1,148	29,017	164,163
Due from banks outside Nigeria	1,096	1,972	4,317	4,131	8,835
Bills Discounted	2,076	2,434	6,633	45,974	82,193
Short Term Investments	0	0	0	0	0
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	0	0
Long Term Investments - Others	261	261	3,954	4,992	8,495
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	14,676	17,404	50,663	50,804	76,444
Non-Performing Loan	0	0	0	23,677	17,909
Loans & Advances - Net	11,138	7,126	26,837	28,472	60,333
Advances under finance lease	0	0	0	0	0
Other Facilities	0	0	0	0	0
Other Assets	3,311	3,673	22,004	26,384	81,068
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	1,699	2,385	5,324	8,182	11,677
Goodwill	0	0	15,948	12,759	0
Total Assets	**26,404**	**25,491**	**106,252**	**182,191**	**454,110**
Liabilities					
Deposit and Current Account	15,183	19,424	61,380	130,807	320,012
Due to other banks	976	991	879	16,506	72,561
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	0	0
Tax Payable	135	45	298	631	1,190
Deferred Taxation	289	473	807	1,174	1,198
Other Liabilities	6,190	8,021	24,606	10,758	48,457
Dividend Payable	0	0	2	2	2
Borrowings	0	0	0	0	0
Total Liabilities	**22,772**	**28,955**	**87,973**	**159,878**	**443,420**
Capital & Reserves					
Share Capital	1,500	2,000	4,844	4,844	4,844
Share Premium	989	767	27,903	27,903	15,144
Statutory Reserve	587	587	1,712	2,507	2,793
Exchange difference reserve	0	0	0	0	0
General Reserve	67	(7,006)	(17,353)	(15,512)	(14,731)
Bonus Issue Reserve	300	0	0	0	0
Reserve for SMEIS	189	189	593	725	725
Revaluation Reserve	0	0	580	1,788	1,788
Capital Reserve	0	0	0	55	116
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	3	11
Shareholders' Fund	3,632	(3,464)	18,279	22,314	10,690
Total Liabilities and Equity	**26,404**	**25,491**	**106,252**	**182,191**	**454,110**

Profit & Loss	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	4,131	3,752	2,980	27,472	37,987
Interest Earnings	3,045	2,537	2,055	14,754	26,168
Interest Expense	(1,356)	(1,709)	(1,809)	(7,160)	(11,899)
Net Interest Income	1,689	828	245	7,593	14,269
Commission and other Income	1,086	1,215	926	13,878	11,819
Operating Income	2,775	2,042	1,171	21,471	26,089
Staff Cost	(944)	(1,348)	(1,360)	(3,608)	(4,963)
Depreciation	(133)	(195)	(248)	(1,551)	(1,992)
Other Operating Expenses	(1,022)	(1,430)	(2,489)	(9,792)	(9,676)
Provision for doubtful accounts	(150)	(5,945)	(7,381)	0	(7,839)
Operating Profit	527	(6,875)	(10,308)	6,520	1,619

Exceptional Items	0	0	0	0	0
Interest on borrowings	0	0	0	0	0
Profit before taxation	527	(6,875)	(10,308)	6,520	1,619
Info. Tech. devt. levy	0			0	(11)
Current Taxation	(81)	(13)	(39)	(310)	(509)
Deferred taxation Expense	(134)	(184)	0	(304)	(24)
Profit after taxation	312	(7,073)	(10,347)	5,906	1,074
Extraordinary Items	0	0	0	0	0
Minority Interest	0	0	0	(3)	(8)
Amortisation of goodwill	0	0	0	(3,190)	0
Profit attrib. to shareholders	312	(7,073)	(10,347)	2,713	1,066
Dividend Proposed	0	0	0	0	0

Other Information	2004	2005	2006	2007	2008
Outstanding Shares (million)	3,000	4,000	9,689	9,689	9,689
No. of Employees	663	672	1,474	1,942	2,829

Table 101: Finbank's Ratios and Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2004	2005	2006	2007	2008
Commissions/Gross Earnings	26.29%	32.38%	31.07%	50.52%	31.11%
Interest Margin	73.71%	67.62%	68.93%	53.70%	68.89%
Net Interest Margin	40.88%	22.07%	8.22%	27.64%	37.56%
Operating Expenses/Gross Earnings	50.79%	79.24%	137.49%	54.42%	43.78%
PAT/Gross Earnings	7.55%	-188.54%	-347.15%	21.50%	2.83%
Cost to Income Ratio	0.76	1.46	3.50	0.70	0.64
Pretax Profit Margin	12.76%	-183.27%	-345.85%	23.73%	4.26%
ROCE	14.51%	198.50%	-56.39%	29.22%	15.14%
ROAE	10.26%	-8404.52%	-139.67%	29.10%	6.51%
ROAA	1.22%	-27.26%	-15.71%	4.09%	0.34%
EPS	0.10	-1.77	-1.07	0.61	0.11
DPS	0.00	0.00	0.00	0.00	0.00
Operating Income per employee	4,186	3,039	794	11,056	9,222
Operating Expenses per employee	(3,165)	(4,424)	(2,780)	(7,699)	(5,879)

Asset Quality Ratios	2004	2005	2006	2007	2008
Interest Income/Earning Assets	14.08%	10.70%	3.27%	11.36%	7.89%
Effective Return on Earnings Assets	13.39%	-14.37%	-8.49%	11.36%	5.53%
Explicit cost of Debt	8.39%	8.37%	2.91%	4.86%	3.03%
Cost of bad and doubt loans	1.02%	34.16%	14.57%	0.00%	10.25%
% of classified loans	0.00%	0.00%	0.00%	83.16%	29.68%
Loan loss provision/classified loans	N/A	N/A	N/A	94.32%	89.96%

Liquidity Ratio	2004	2005	2006	2007	2008
Liquidity Ratio	55.07%	49.34%	44.76%	66.03%	72.27%

Capital Adequacy Ratios	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.25	-0.20	0.36	0.44	0.14
Debt/Equity Ratio	6.27	-8.36	4.81	7.16	41.48
Equity/Total Assets	0.14	-0.14	0.17	0.12	0.02

Source: Company's Annual Reports, BGL Research

Intercontinental Bank Plc

Summary and Investment Case

- **Incorporated as Nigerian Intercontinental Merchant Bank Limited**
  Intercontinental Bank PLC (formerly Nigerian Intercontinental Merchant Bank Limited) was incorporated as a private limited liability company in February 1989. It was converted to a commercial bank on 9 July 1999 and adopted its present name in 2001 when it became a public limited liability company. The bank was listed on the Nigerian Stock Exchange on 29 January 2003.

- **Acquisition as a major part of the consolidation exercise**
  As part of the consolidation process in 2005, Intercontinental Bank executed a merger with three other banks; Equity Bank of Nigeria Plc, Global Bank Plc and Gateway Bank Plc. The bank also acquired substantial equity stake in Associated Discount House Limited (ADHL) and a controlling stake in West African Provincial Insurance Company Plc (WAPIC). WAPIC has since changed its name to Intercontinental WAPIC Plc to reflect the bank's ownership of the company.

- **Partnership with South African Blue Financial Services**
  In partnership with Blue Financial Services, the Bank formed Blue Intercontinental Micro Finance Bank (BIMFB), which was brought together by an investment from a mutual shareholder, AIG Investments, the asset management division of American International Group Inc. Intercontinental Bank holds 35% of Blue Intercontinental Microfinance Bank, AIG Capital Partners holds 10% while Blue Financial Services holds 55%, the majority share.

- **Line of Credit support from AfDB and EIB**
  African Development Bank Group (AfDB) approved a US$100m Line of Credit (LoC) to support Nigeria's Intercontinental Bank Plc in financing small and medium-sized enterprises (SMEs) in February 2009. The LoC was expected to be used for medium to long-term financing for SMEs in manufacturing, services, and natural-resource projects across Nigeria. It also secured a US$66m credit facility from the European Investment Bank (EIB) to fund projects in the country's health and education sectors. The facility is the first international credit line granted to a Nigerian bank since the global financial crisis began in 2008.

- **Expansion drive; a continental approach**
  As part of the bank's aggressive expansion scheme, Intercontinental Bank Plc opened its first European office in London. The opening marks the bank's continued international expansion that began in 2006 with the opening of Intercontinental Bank Ghana Limited by the acquisition of Citi Savings & Loans Company Limited. The bank currently operates over 300 business offices in Nigeria.

- **Intercontinental Bank L-T Ratings Lowered To 'B' On Deteriorated Financials**
  A sharp deterioration in Intercontinental Bank PLC's financial condition, namely very high levels of nonperforming loans revealed by an extraordinary audit,

has led the Central Bank of Nigeria (CBN) to provide significant financial support to stabilise the bank's liquidity and solvency. Standard & Poor's is lowering its long-term global scale rating to 'B' from 'BB-', and the long and short-term Nigeria national scale ratings to 'ngBBB-/ngA-3' from 'ngA/ngA-1'.

Structure of Business

Intercontinental Bank Plc offers retail, corporate banking, insurance, real estate development, and financial services. The bank has ten subsidiary companies namely Intercontinental Home Savings & Loans Plc, Intercontinental Properties Ltd, Intercontinental Finance Ltd, Intercontinental Capital Markets Ltd, Intercontinental Securities Ltd, Intercontinental WAPIC insurance Plc, Intercontinental Ghana Ltd, Intercontinental Registrars Ltd, Intercontinental Trustees ltd, Intercontinental Bank (UK) Plc and one associate company, Associated Discount House Ltd.

Table 102: Intercontinental Bank's Subsidiaries & Associate Companies

Company	Business Activities	Location
Intercontinental Home Savings & Loans	Mortgage Services	Nigeria
Intercontinental Properties Limited	Real Estate	Nigeria
Intercontinental Finance Limited	Leasing	Nigeria
Intercontinental Capital Markets Limited	Capital Market	Nigeria
Intercontinental Securities Limited	Investment Banking	Nigeria
Intercontinental WAPIC Insurance Plc	Insurance Services	Nigeria
Intercontinental Bank (Ghana) Limited	Banking Services	Ghana
Intercontinental Registrars Limited	Secretarial Services	Nigeria
Intercontinental Trustees Limited	Trusteeship	Nigeria
Intercontinental Bank (UK) Limited	Banking Services	UK
Associated Discount House Limited	Capital Market	Nigeria

Source: Company's Annual Report, 2008

Key Strengths

- Injection of fresh capital (N100 billion) by CBN
- New management put in place and monitored by CBN
- Spread of branch network
- Aggressive loan recovery strategy

Key Weaknesses

- Credit risk due to margin facility
- Exposure to huge toxic assets (about N500 billion as at September 2009)
- Short term strategic plans due to the tenor set for the new management

Strategy

Targets N150 billion debt recovery by year-end

The new management of Intercontinental Bank has announced a three-phase reposition plan tagged 'Project Transformation' in response to unfolding industry challenges and to re-establish the Bank as a leading financial services institution in Nigeria. The key areas of new focus include debt recovery to achieve stability, rebuilding and consolidation of the bank's brand. So far the bank has been able to recover N78 billion of its bad loans and gave a projection of N150 billion recoveries by the end of 2010.

Ownership Structure

Official data from Intercontinental Bank Plc states that no single shareholder of the bank owns up to 5% of the bank's issued share capital. Amongst the Board members, Chairman of the Bank, Dr. Raymond Obieri holds 2.46% in direct and indirect holdings and is the single largest shareholder on the board while the sacked CEO of the bank, Dr. Erastus Akingbola ranks behind him with 2.35%.

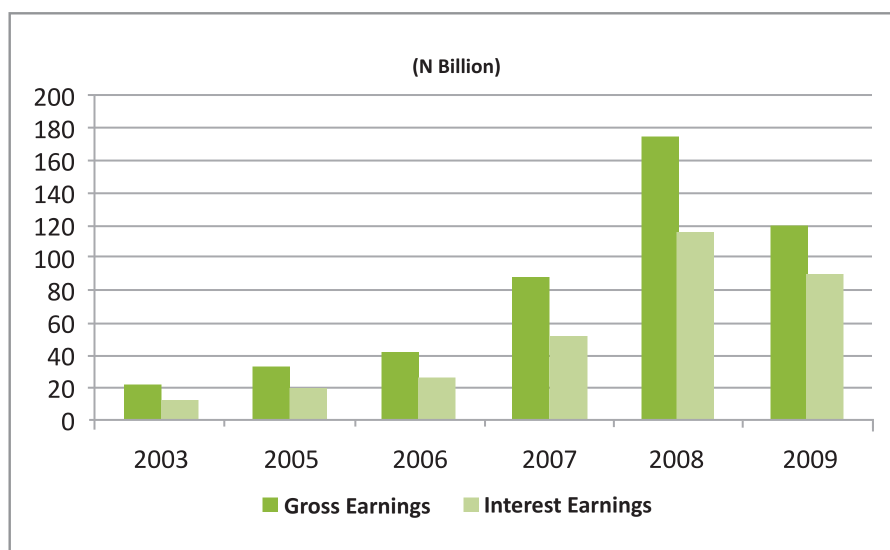
Table 103: Ownership Structure

Shareholder	No. of Shares	% Holding
Dr. Raymond Obieri	441,227,534	2.46
Erastus Akingbola	421,337,696	2.35
Mrs. Seinye Lulu-Briggs	418,926,290	2.33
Other Directors	1,169,171,246	6.51
Other Nigerians	15,515,970,720	86.35

Source: Company's Annual Report, 2008

Financial Performance

In 2008, Intercontinental Bank's Gross Earnings increased significantly to N174.61billion from N87.92billion in 2007; representing a 98.6% increase. Interest Earnings recorded 121.9% growth to N114.79 billion in 2008 from N51.73billion in 2007; however Interest Expense grew by 178.6% to N47.98 billion from N17.22 billion in 2007 as the bank became aggressive in liability generation to cushion liquidity pressure. While Operating Income grew by 79% to N126.63billion in 2008 from N70.70billion in 2007, efficient cost management as shown by a reduced Cost to Income ratio from 0.60 in 2007 to 0.57 in 2008 resulted in a growth of over 100% in profits. Net Profit grew considerably by 121.6% from N15.69 billion in 2007 to N34.77 billion in 2008. As a result, the bank paid 75 kobo per share to investors as dividend.

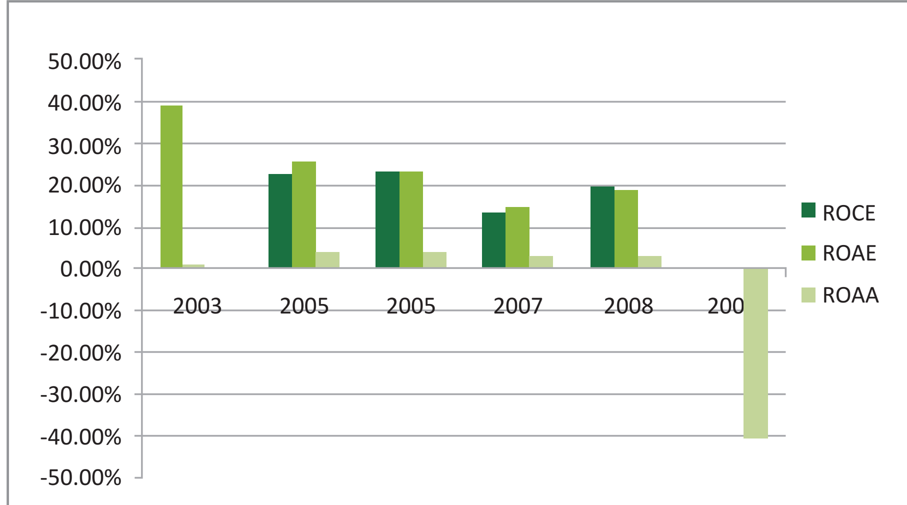


Source: Company's Annual Reports, BGL Research

Performance Ratios

As a result of improved profitability, the bank's performance ratios also show significant improvement. Although, growth in Pretax Profit Margin was flat from 2007 to 2008, Return on Capital Employed (ROCE) increased from 13.66% in 2007 to 19.91% in 2008. Returns on Average Assets and Equity (ROAA and ROAE) also improved from 2.92% and 14.67% to 3.32% and 18.93% respectively.

Fig. 109: Intercontinental Bank's Performance Ratios

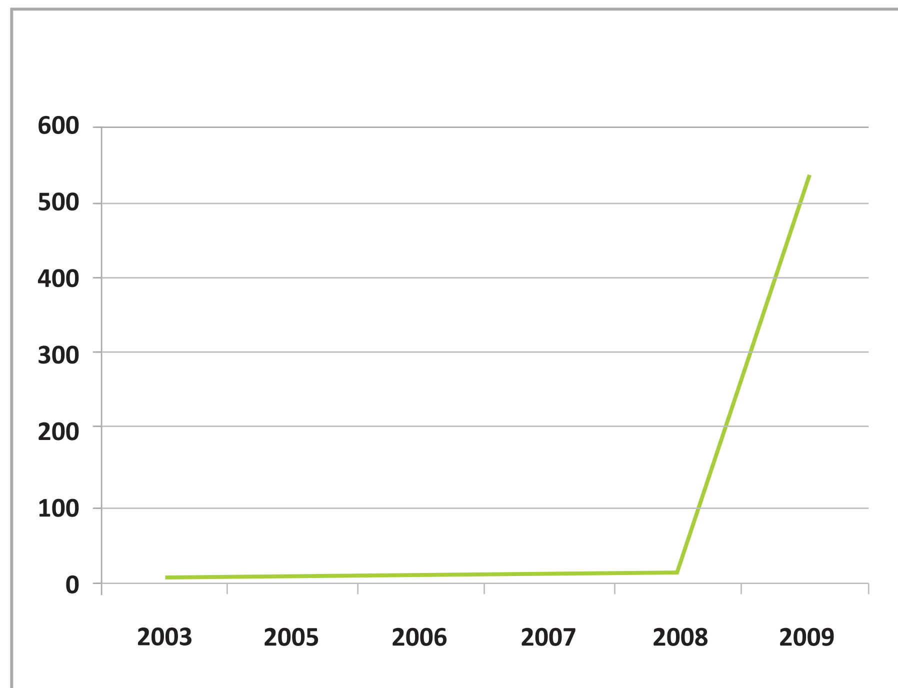


Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

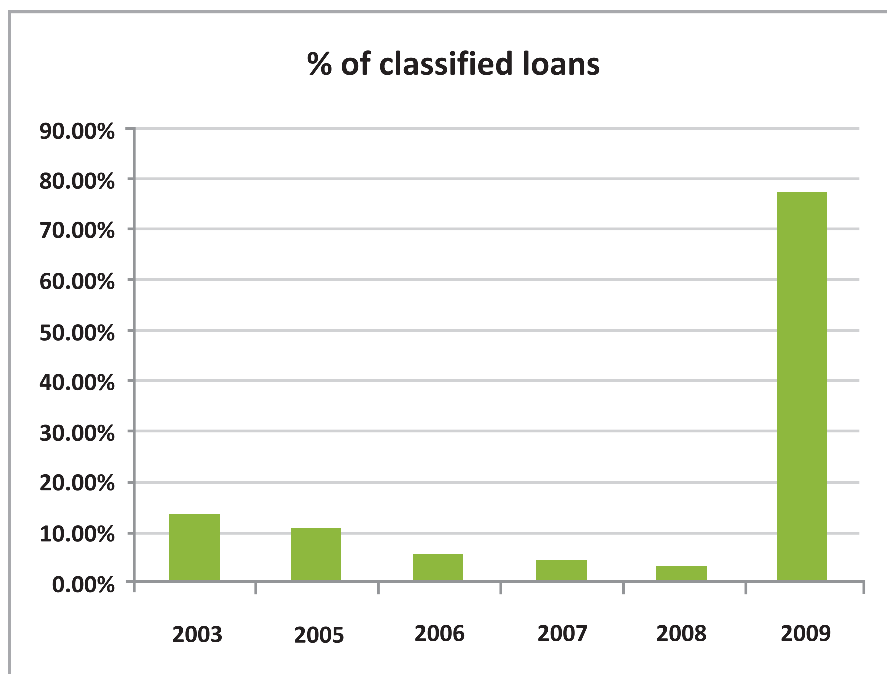
The bank's loan portfolio increased significantly to N456.27 billion in 2008 from N277.05 billion in 2007 representing an increase of 64.7%. Despite this increase, the bank only recorded N16.59 billion as non-performing loan in 2008; just 29% increase over N12.87billion in 2007. The low reported non-performing loans despite significant increase in loans and advances resulted in a lower percentage of classified loans in 2008 than 2007. The percentage fell from 4.65% in 2007 to 3.74% in 2008. This was an impressive performance arguably due to efficient risk management. However, the current situation about the bank has proved this to be unreliable.

Fig. 110: Intercontinental Bank's Non-Performing Loan



Source: Company's Annual Reports, BGL Research

Fig. 111: Intercontinental Bank's % of Classified Loans

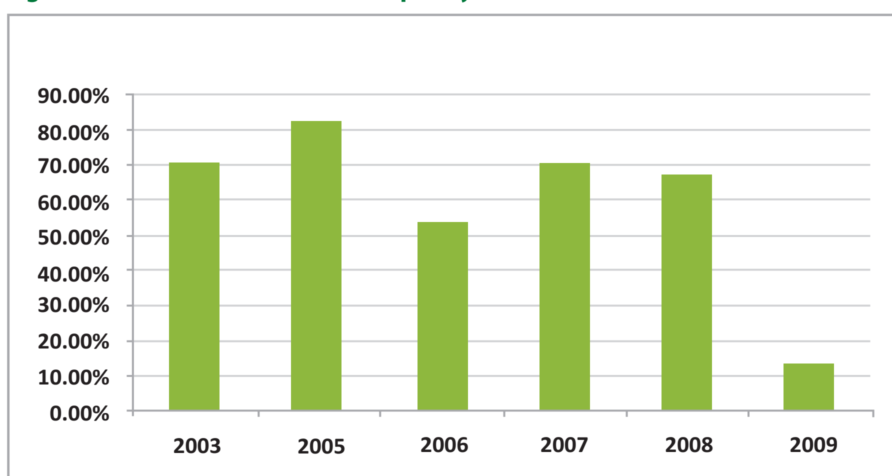


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Until September 2009, Intercontinental Bank's liquidity ratio has always been above the regulatory benchmark. Although the ratio has experienced a staccato trend moving from a high of 81.94% in 2005 to 53.63% in 2006, 70.53% in 2007 and 66.86 in 2008, it has always been above regulatory requirement. However, September 2009 results show that the bank's liquidity ratio of 13.36% is well below the current regulatory benchmark of 25%.

Fig. 112: Intercontinental Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earning

The bank's Earnings per Share (EPS) stood at N1.79 in 2008 from N0.81 in the corresponding period of 2007. Return on average equity (ROAE) recorded 18.93% and 14.67% in 2008 and 2007 respectively. A total of N21.81 billion retained earnings and N22.16 billion other reserves were transferred to the company's revenue reserves.

September 2009 Interim Results

The bank financial results for the seven months ended 30th September 2009 show gross earnings of N107 billion compared to N141billion recorded in the corresponding period of 2008. Loss before taxation stood at N447 billion compared to a profit before tax of N33 billion for the corresponding period last year. However, loss after tax reduced to N328billion after taking into consideration the tax credit associated with the reported losses. The new Management put in place by CBN since August 2009 complied with CBN directive to fully provide for all known losses for loans, diminution in the values of shares both held by the Bank and under the margin loans and other identified operational losses.

We are confident that the bank is set on the path of recovery giving that the worst has happened and much of the debt recovered will begin to turn the bank into profitability.

Table 104: Intercontinental Bank's Financial Summary

Financial Year End Balance Sheet Assets	December 2003 N'm	February 2005 N'm	February 2006 N'm	February 2007 N'm	February 2008 N'm
Cash & Short-term funds	17,421	18,882	30,472	58,766	125,881
Due from banks in Nigeria	16,886	52,997	61,683	185,905	450,151
Due from banks outside Nigeria	6,867	6,960	14,961	17,835	25,894
Bills Discounted	0	0	0	0	0
Short Term Investments	12,377	38,241	43,134	87,909	144,885
Managed Funds	21	35	35	35	0
Long Term Investments - FGN Bonds	0	0	0	0	0
Long Term Investments - Others	1,791	2,600	17,806	34,385	95,566
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	35,533	73,828	172,662	277,055	456,270
Non-Performing Loan	4,944	7,912	9,738	12,871	16,589
Loans & Advances - Net	32,147	68,396	161,357	262,537	435,457
Advances under finance lease	2,290	5,379	10,958	16,074	14,605
Other Facilities	0	0	0	0	0
Other Assets	2,595	4,622	17,433	19,600	62,097
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	4,464	5,536	11,395	21,737	37,674
Goodwill					
Total Assets	**96,858**	**203,647**	**369,233**	**704,783**	**1,392,210**
Liabilities					
Deposit and Current Account	66,387	134,383	252,281	467,934	1,057,079
Due to other banks	0	0	0	3,594	21,116
Other Facilities	0	0	0	0	0
Managed Funds	484	814	782	1,284	0
Tax Payable	0	0	2,848	6,852	14,435
Deferred Taxation	594	536	1,149	2,061	1,667
Other Liabilities	18,013	31,725	54,714	55,880	68,740
Dividend Payable	0	0	0	0	0
Borrowings	0	0	2,125	8,605	20,274
Total Liabilities	**85,479**	**167,459**	**313,898**	**546,208**	**1,183,311**
Capital & Reserves					
Share Capital	1,794	1,794	5,362	5,362	9,733
Share Premium	2,920	24,191	37,656	128,027	146,712
Statutory Reserve	3,003	3,943	6,521	8,760	18,049
Exchange difference reserve	0	0	0	0	(77)
General Reserve	1,300	2,675	2,106	10,260	21,805
Bonus Issue Reserve	0	0	0	0	0
Reserve for SMEIS	1,030	1,782	2,641	4,123	3,868
Revaluation Reserve	64	49	35	35	81
Capital Reserve	46	84	145	322	242
Investment Properties Reserve	25	162	0	0	0
Minority Interests	1,198	1,510	867	1,686	8,486
Shareholders' Fund	11,379	36,188	55,334	158,575	208,899
Total Liabilities and Equity	**96,858**	**203,647**	**369,233**	**704,783**	**1,392,210**

Profit & Loss	2003 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	21,204	32,492	41,516	87,921	174,615
Interest Earnings	13,287	20,183	25,767	51,733	114,786
Interest Expense	(6,557)	(8,358)	(8,347)	(17,221)	(47,983)
Net Interest Income	6,730	11,826	17,420	34,511	66,803
Commission and other Income	8,123	12,613	15,749	36,188	59,829
Operating Income	14,853	24,438	33,169	70,699	126,632
Staff Cost	(3,560)	(6,180)	(9,078)	(20,033)	(38,791)
Depreciation	(836)	(1,269)	(979)	(2,105)	(3,587)
Other Operating Expenses	(4,600)	(6,796)	(9,119)	(20,209)	(29,964)
Provision for doubtful accounts	(1,442)	(2,044)	(573)	(5,509)	(8,657)
Operating Profit	4,415	8,150	13,419	22,843	45,633

Exceptional Items					
Interest on borrowings	0	0	0	0	0
Profit before taxation	4,415	8,150	13,419	22,843	45,633
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(893)	(2,089)	(2,090)	(6,242)	(11,254)
Deferred taxation Expense	(98)	60	(613)	(913)	394
Profit after taxation	3,424	6,121	10,717	15,689	34,773

Extraordinary Items					
Minority Interest	(298)	(417)	(345)	(360)	(779)
Amortisation of goodwill	(15)	0	(3,156)	(208)	0
Profit attrib. to shareholders	3,111	5,703	7,215	15,121	33,994
Dividend Proposed	1,435	2,330	4,293	10,030	14,600
Other Information	2003	2005	2006	2007	2008
Outstanding Shares (million)	3,589	3,589	10,724	19,466	19,466
No. of Employees	1,104	1,303	4,978	7,942	10,261
No. of Branches	49	63	185	200	298

Table 105: Intercontinental Bank's Ratios & Analysis

Ratios & Analysis					
Perfomance Ratios (Margin)	**2003**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	38.31%	38.82%	37.93%	41.16%	34.26%
Interest Margin	62.66%	62.12%	62.07%	58.84%	65.74%
Net Interest Margin	31.74%	36.40%	41.96%	39.25%	38.26%
Operating Expenses/Gross Earnings	42.42%	43.84%	46.19%	48.16%	41.43%
PAT/Gross Earnings	16.15%	18.84%	25.81%	17.84%	19.91%
Cost to Income Ratio	0.61	0.58	0.58	0.60	0.57
Pretax Profit Margin	20.82%	25.08%	32.32%	25.98%	26.13%
ROCE	38.80%	22.52%	23.35%	13.66%	19.91%
ROAE	0.08%	25.73%	23.42%	14.67%	18.93%
ROAA	0.01%	4.07%	3.74%	2.92%	3.32%
EPS	0.95	1.71	1.00	0.81	1.79
DPS	0.40	0.65	0.40	0.52	0.75
Operating Income per employee	13,453.62	18,755.30	6,663.15	8,901.94	12,341.10
Operating Expenses per employee	(8,147.96)	(10,931.92)	(3,852.33)	(5,332.02)	(7,050.19)
Profit per branch	90,108.04	129,363.03	72,536.79	114,214.38	153,130.87

Asset Quality Ratios	2003	2005	2006	2007	2008
Interest Income/Earning Assets	17.97%	11.38%	8.49%	8.85%	10.51%
Effective Return on Earnings Assets	16.02%	10.22%	8.30%	7.90%	9.72%
Explicit cost of Debt	9.88%	6.22%	3.28%	3.59%	4.37%
Cost of bad and doubt loans	4.06%	2.77%	0.33%	1.99%	1.90%
% of classified loans	13.91%	10.72%	5.64%	4.65%	3.64%
Loan loss provision/classified loans	68.50%	68.66%	116.09%	112.79%	125.46%

Liquidity Ratio	2003	2005	2006	2007	2008
Liquidity Ratio	70.32%	81.94%	53.63%	70.53%	66.86%
Capital Adequacy Ratios	2003	2005	2006	2007	2008
Equity/Loans & Advances	0.32	0.49	0.32	0.57	0.46
Debt/Equity Ratio	7.51	4.63	5.67	3.44	5.66
Equity/Total Assets	0.12	0.18	0.15	0.22	0.15

Source: Company's Annual Reports, BGL Research

Oceanic International Bank Nigeria Plc

Summary and Investment Case

- **From a family bank to a major bank**
  Oceanic Bank International Plc was incorporated on March 26, 1990 as a private company and later converted to public liability company in 2004. The bank was listed on the Nigerian Stock Exchange on June 2004 and did an Initial Public Offer late 2004. At the end of the consolidation exercise, the bank merged with the erstwhile International Trust Bank (ITB) to form the fifth largest bank in Nigeria in terms of total assets.

- **One of the rated banks in Nigeria and Africa**
  With over 300 branches, including e-banking centres spread mostly over Nigeria's major metropolitan centers, the bank has indeed positioned itself to be a major bank in the country. In 2005, the Financial Times of London rated the bank as one of the top 20 banks in Africa and one of the world's top 1,000 banks. The bank's stock was also rated as one of the top five African Stocks (outside South Africa) by Reuters. This recognition catalysed the banks quest for international prominence as it entered into a technical partnership with Cominvest (the asset management subsidiary of Commerzbank AG) for extensive collaboration in Trade Finance, provision of world-class Asset Management services and part-administration of Nigeria's foreign reserves. Since its establishment in 1990, it has grown rapidly from N20m in shareholders fund to about N220 billion at the end of 2008 financial year.

- **Leader in infrastructure development financing**
  Arguably the most bullish in financing infrastructure developments in the country, Oceanic Bank has severally partnered with the government or government concessionaires through the Public Private Partnership initiative to finance infrastructure developments such as the renovation of the new local airport in Lagos and other toll roads.

- **Strong initiative for grassroot banking**
  Without necessarily being a microfinance bank, Oceanic Bank has made the provision of banking services to the unbanked population a strategic focus. The bank is determined to make its presence known by the products and services it provides to the lower end consumers of banking services. Special arrangements are made on products and services to artisans and traders who may not have any corporate backing and recognised identification.

- **Corporate Social Responsibility**
  In addition to innovative products and grassroot banking, Oceanic Bank has partnered with several organizations both local and international on developmental projects as part of corporate social responsibility. The bank has sup-

ported educational and infrastructural developments in many states in Nigeria, local sports programmes and global initiatives on poverty eradication. One of the bank's prominent projects is the Oceanic Bank Global Leadership Forum.

Structure of Business

Oceanic Bank is structured as a one-stop financial institution with strong local presence and an expanding international footprint. The bank has over 300 branches locally and presence in other African countries such as Cameroun, Gambia, Ghana and Sao Tome. In addition, the bank has subsidiaries that operate in other financial services sectors.

Table 106: Oceanic Bank's Subsidiaries and Associate Companies

Name	Financial activities	Location
Oceanic Bank Nigeria Plc	Commercial Banking	Nigeria
Oceanic Capital Limited	Issuing House and Financial Advisory Services, Stockbroking	Nigeria
Oceanic Insurance Limited	Insurance	Nigeria
Oceanic Homes Limited	Mortgage lending	Nigeria
Oceanic Trustees Limited	Trusteeship & Fund Management	Nigeria
Oceanic Pension Custodian	Pension fund custodial services	Nigeria
Oceanic Health Limited	Health Management	Nigeria
Oceanic Registrars Limited	Creation and maintenance of stockholder's register of members	Nigeria
Oceanic Life Limited	Life Insurance	Nigeria

Source: Company's Website

Shareholding Structure

For the year ended December 2008, the bank declared a bonus of one share for every ten held; thus bringing its outstanding shares to 24.44 billion from 22.22billion shares before the corporate action. Out of all these shares, nearly 20% are held by the Ibru family through Arata Nigeria Limited and Meeky Enterprises.

Table 107: Ownership Structure

Name	No of Shares held	% Holding
Nigerian Citizens and Associations	20,092,562,040	82.20
Arata Nigeria Limited	2,556,790,741	10.46
Meeky Enterprises Limited	1,794,153,350	7.34
Total	**24,443,506,134**	**100.00**

Source: Company's Annual Report, 2007

Key Strengths

- **Attractive Brand Name:** One of the unexpected turnarounds of the banking consolidation of 2005, Oceanic Bank has built a brand name of resilience and a silent achiever. A peaceful bank, as stated in its slogan "experience peace" and the less aggressive ways in the bank's pursuit of business, Oceanic has warmed its way into the hearts of many business organisations and individuals in Nigeria.

- **Strong Public Sector Focus:** While this might have waned down by now, Oceanic Bank was strategically positioned to handle several public sector

transactions. For several years, Oceanic Bank was the sole receiving bank for the military pensions, an amount believed to run into billions of naira. Several other collections for the federal and some state governments have Oceanic Bank as the leading receiving bank. This might have necessitated the bank's relocating its head office to the FCT, Abuja but maintains a corporate office in Lagos.

- **Strong Balance Sheet Size:** Oceanic Bank ranked 5th in terms of total assets and 3rd behind First Bank and Zenith Bank in terms of Shareholder's Fund in 2008. While the recent action of the CBN might have cast a huge doubt on the veracity of the balance sheet claim, a quick resolution of embarassment surrounding non-performing loans could return the bank back to it's earlier status as a contender for the top spot in banks' ranking.

- **Grassroot Banking:** With the constant claim by the apex bank that there is more cash in circulation outside of the banking system than inside, it is expedient for Oceanic Bank to seek ways of serving the unbanked segment of the economy. The focus on the lower rung of the banking populace will act as an avenue for generating stable funds for financing developmental projects.

Key Weaknesses

- **High exposure to non-performing loans:** The aggressive foray into risk assets creation especially for capital market activities and oil & gas trading became an albatross for the bank as the global financial meltdown caused unanticipated losses to the bank. Oceanic Bank has about N546billion in non-performing loans as at September 2009. Half of the non-performing loans were loans to oil & gas, capital market and real estate. While the bank has made a provision of about N42billion in its 2008 audited account, another N330billion provision by September 2009 is an indication that all is not well with the bank.

- **Corporate Governance issues:** As usually experienced from most owner-managed businesses, there were tendencies for the violation of the code of corporate governance practices in the bank. Most of the bank's directors were believed not to be independent while delegation of authority was not very objective. Although this weakness was believed to be associated with the former management of the bank, the new management is yet to prove that it is above-board; hence there still exists the risk of below the table transactions.

Strategy

Oceanic Bank's strategy had been previously centred on the public sector segment of the economy. However, after consolidation, the bank has shifted its focus to other segments of the banking sector with an aggressive push towards the retail market. Oceanic bank has also been strategically focused on infrastructure financing through public private partnership programmes. While these transactions are very capital intensive and long term in gestation, they portend very attractive rewards to the bank.

Financial Performance

The December 2009 financial year harmonisation by banks has changed the September financial year end of Oceanic bank. To this end, an interim financial state-

ment as at September 30, 2009 was published by the new management which showed a whopping loss of N286 billion as against a profit of N29 billion in 2008 representing drop of 1084%. This phenomenal drop in profit was attributable to the huge provision of N315 billion compared with N42 billion in 2008. The global economic and financial crisis adversely affected the performance of the bank and exacerbated by the sack of the previous management by the CBN with the attendant problems of run on the bank by depositors and credit freeze. Inevitably, all the income lines dropped significantly especially the gross earnings and interest earnings from N112.3 billion and N82.5 billion to N46.8 billion and N30.8 billion unveiling 58% and 63% respectively. While the income lines went down, operating expenses astronomically increased by 73% from N41.3 billion in 2008 to N71.7 billion in 2009. Regrettably, shareholders' funds had dipped by 127% to a negative position of N69.2 billion from N254.4 billion in 2008 which puts the bank on the threshold of imminent recapitalisation.

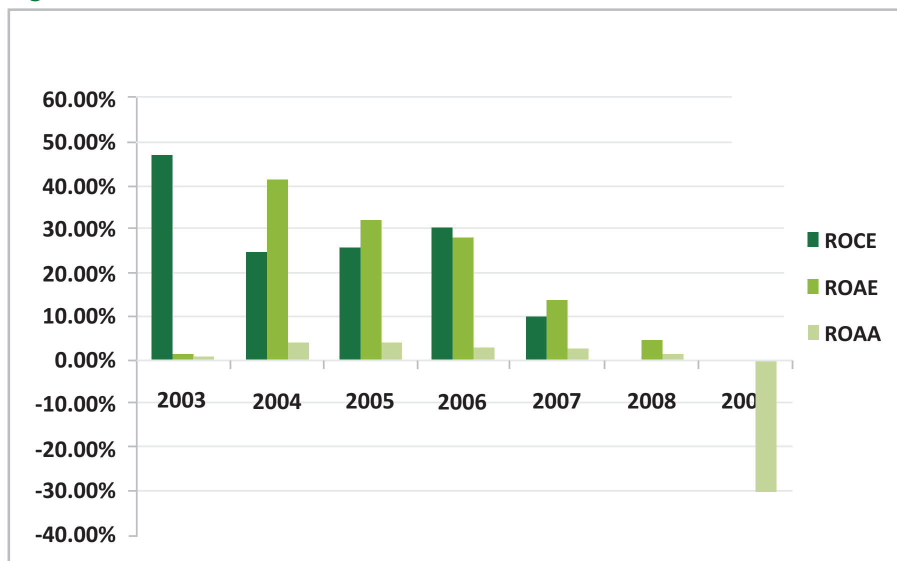
Fig. 113: Oceanic Bank's Earnings

Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin decreased in 2009 to 611% from 63.57% in 2008, mainly attributable to a tremendous increase in Provision for Risk Assets and Operating Expenses by 65% and 73% respectively. Operating Expenses as a percentage of gross earnings also increased to 153% in 2009 from 39.2% in 2008. Interest Income reduced by 63% in 2009, from N82.5 billion in 2008 to N30.8 billion. Interest expenses in 2009 grew by 42% to N47.2 billion from N33.3 billion in 2008. Accretion in equity without a corresponding increase in profitability continue to put pressure on the bank's returns; Returns on Capital Employed (ROCE), Average Assets (ROAA) and Average Equity (ROAE) fell consistently over the last five years before eventually falling to negative in September 2009 as a result of the significant provision for risk assets.

Fig. 114: Oceanic Bank's Performance Ratios

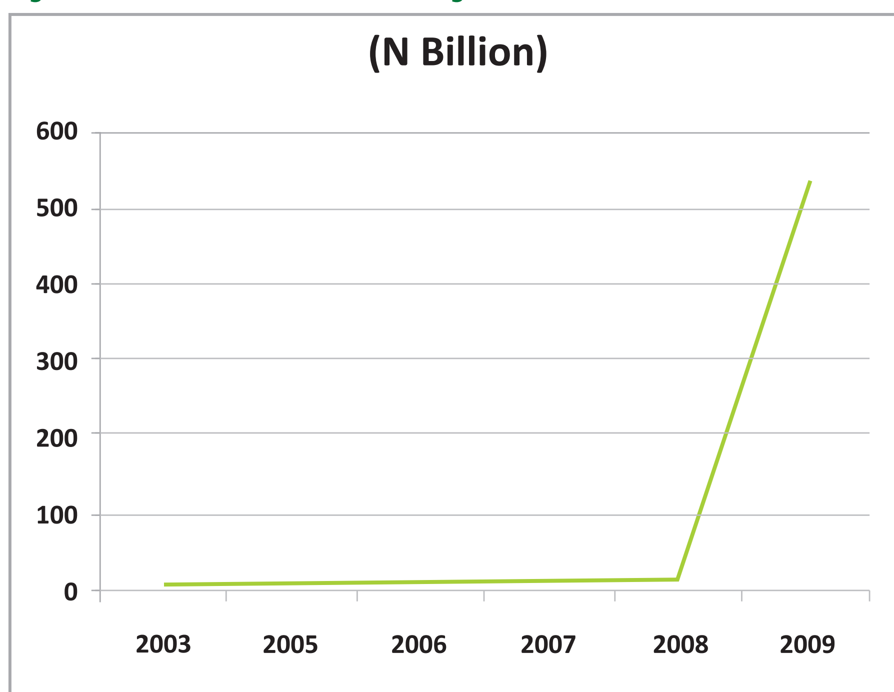


Source: Company's Annual Reports, BGL Research

Asset Quality Ratios

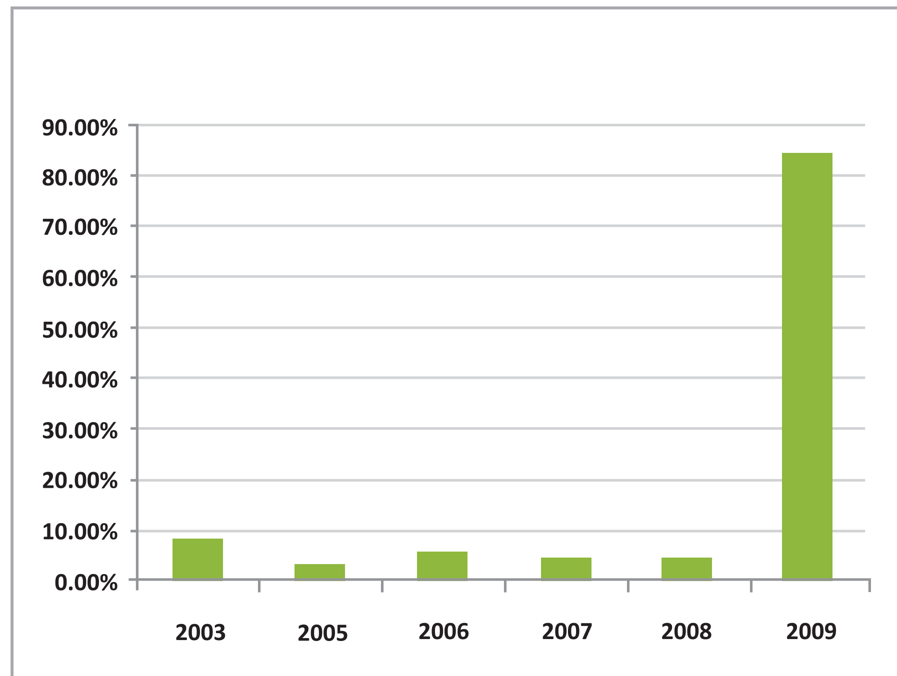
The bank's asset quality dropped in 2009, as the Non-Performing Loan ratio increased to 70.91% from 3.68% in 2008. Loan loss provision as a percentage of classified loans was 57.7% in 2009 as against 210% in the previous year, a 152.3% decline from 2009. Cost of bad loans increased from 1.36% in 2008 to 71.4% in 2009; also increasing is the cost of debt from 2.3% in 2008 to 5.25% in 2009, due to increase in non-performing loans. Non-Performing Loans grew from N20billion in 2008 to N546billion by September 2009.

Fig. 115: Oceanic Bank's Non-Performing Loans



Source: BGL Research

Fig. 116: Oceanic Bank's % of Classified Loans

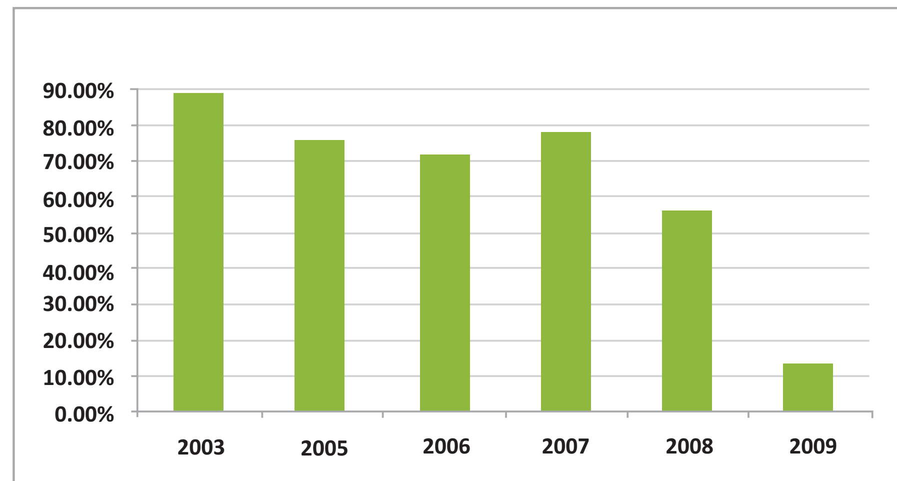


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Since consolidation, Oceanic Bank's liquidity ratio has been on the rise; however the impact of the financial crisis put pressure on the bank's liquidity position since 2008 when the ratio fell to 50.55% from 79.46% in 2007. The interim results of the bank for September 2009 reveal further pressure on the bank's liquidity ratio as it fell significantly to a historical low of 12.64% and far below the current regulatory benchmark of 25%.

Fig. 117: Oceanic Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

Despite an aggressive increase in shareholders' fund over the years, the bank successfully increased its Earnings per Share (EPS) over the period until the manifestation of the financial crisis. EPS grew from N0.55 in 2004 to N1.51 in 2007 but fell to N0.43 in 2008 due to a provision for exceptional items of N42billion and for the first time in six years, the bank could not pay a cash dividend in 2008.

September 2009 Interim Results

The long delay in releasing the bank's annual report for December 2008 was a signal of bad times for Oceanic Bank. When the results were finally released in early August 2009, the exceptional provision of N42billion was welcome by most analysts as a sign of full disclosure. However, the action of the CBN just days after the 2008 results were released proved the expectation wrong. Rather than the expected smoothening of the bank's financials through recovery of some of the assets already provided for, a revelation of more non-performing loans and the subsequent provision for risk assets of about N315billion caught most observers unawares.

The crucial point will be whether Oceanic's new management can continue to take the stern decisions that will ensure health and turnaround: for instance, given that splurge in staffing in the 2008 that led to a decline of about 85% in PBT/staff has been addressed by the recent serious headcount cut to stymie operational slump, it is yet to be seen if this would really help the bank to improve profitability.

Instructively, the new management has firmed up short-term to medium-term strategies to turnaround the bank. As part of the short-term measures, the bank has embarked on aggressive loan recovery and cost optimization to boost profitability. Specifically, staff rationalisation has been carried to reduce overhead which culminated in the laying off of over 1500 staff and cutting of salary by about 30% while over N34 billion has been recovered from loans previously classified as non-performing loans. This is impressive if it would be sustained by new management.

With hindsight, the new management has also mapped out medium term strategies with focus on establishing robust risk management framework and recapitalisation of the bank. It is expected that the independent financial advisers appointed by the CBN to assist the bank to fashion out a recapitalisation plan would speedily complete the assignment within a reasonable time frame.

Table 108: Oceanic Bank's Financial Summary

Financial Year End Balance Sheet Assets	September 2003 N'm	September 2004 N'm	September 2005 N'm	September 2006 N'm	September 2007 N'm	December 2008 N'm
Cash & Short-term funds	6,298	6,074	15,182	20,613	191,872	215,489
Due from banks in Nigeria	10,217	17,801	45,532	168,095	90,064	188,225
Due from banks outside Nigeria	4,252	4,316	11,535	12,206	32,100	0
Bills Discounted	0	0	0	0	0	0
Short Term Investments	23,810	23,213	47,288	25,900	287,880	51,143
Managed Funds	0	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	750	10,592	21,910	0
Long Term Investments - Others	2,253	2,265	3,836	5,829	10,883	78,411
Investment/Trading Properties	0	0	0	270	370	10,898
Loans & Advances - Gross	13,600	24,827	79,762	106,139	351,292	630,700
Non-Performing Loan	834	569	4,226	4,364	11,331	0
Loans & Advances - Net	12,875	24,251	77,716	99,120	339,499	588,700
Advances under finance lease	253	465	1,304	2,383	2,528	4,945
Other Facilities	0	0	0	0	0	0
Other Assets	2,479	5,816	9,428	12,569	31,605	43,475
Deferred Tax Assets	0	0	0	0	0	0
Fixed Assets	2,541	2,683	5,232	14,457	29,727	64,895
Goodwill	0	0	0	0	0	0
Total Assets	**64,978**	**86,884**	**217,803**	**372,035**	**1,038,437**	**1,246,182**
Liabilities						
Deposit and Current Account	49,366	68,954	167,401	310,033	693,925	835,210
Due to other banks	0	0	0	9,089	50,742	64,576
Other Facilities	0	0	0	0	0	0
Managed Funds	0	0	0	0	0	0
Tax Payable	0	0	0	1,402	4,185	4,399
Deferred Taxation	188	215	163	1,453	3,112	1,211
Other Liabilities	8,351	7,356	19,147	12,498	41,882	37,721
Dividend Payable	0	1,500	2,980	0	0	0
Borrowings	0	0	0	0	21,460	85,504
Total Liabilities	**57,905**	**78,024**	**189,692**	**334,474**	**815,306**	**1,028,621**
Capital & Reserves						
Share Capital	2,800	3,000	4,657	4,657	5,821	11,111
Share Premium	0	0	14,677	14,677	186,260	176,749
Statutory Reserve	2,415	3,401	5,171	8,038	10,608	18,089
Exchange difference reserve	0	0	0	0	0	0
General Reserve	632	1,089	1,647	6,118	16,285	11,045
Bonus Issue Reserve	200	0	0	1,164	0	0
Reserve for SMEIS	1,026	1,370	1,960	2,916	3,772	0
Revaluation Reserve	0	0	0	0	0	0
Capital Reserve	0	0	0	2	29	0
Investment Properties Reserve	0	0	0	0	0	0
Minority Interests	0	0	0	(11)	354	568
Shareholders' Fund	7,073	8,860	28,111	37,561	223,130	217,561
Total Liabilities and Equity	**64,978**	**86,884**	**217,803**	**372,035**	**1,038,437**	**1,246,182**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm
Gross Earnings	11,054	12,623	24,309	44,690	74,937	188,218
Interest Earnings	5,847	7,169	13,877	28,323	47,640	
Interest Expense	(1,866)	(2,512)	(4,700)	(12,459)	(16,359)	
Net Interest Income	3,981	4,657	9,177	15,864	31,281	0
Commission and other Income	5,207	5,455	10,433	16,228	27,116	
Operating Income	9,188	10,111	19,610	32,092	58,397	0
Staff Cost	(1,666)	(1,797)	(3,076)	(7,992)	(11,383)	
Depreciation	(655)	(602)	(692)	(1,089)	(2,271)	
Other Operating Expenses	(3,466)	(4,866)	(7,604)	(9,863)	(15,724)	
Provision for doubtful accounts	(113)	(667)	(974)	(1,787)	(4,770)	
Operating Profit	3,287	2,180	7,265	11,360	24,250	0
Exceptional Items	0	1,266	0	0	0	
Interest on borrowings	0	0	0	0	(1,242)	

Profit before taxation	3,287	3,445	7,265	11,360	23,007	11,255
Info. Tech. devt. levy	0	0	0	0	0	
Current Taxation	(923)	(132)	(1,419)	(795)	(3,810)	(1,690)
Deferred taxation Expense	454	(26)	51	(1,266)	(1,660)	
Profit after taxation	2,818	3,287	5,897	9,299	17,537	9,565
Extraordinary Items	0	0	0	0	0	0
Minority Interest	0	0	0	1	(5)	44
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	2,818	3,287	5,897	9,300	17,532	9,609
Dividend Proposed	900	1,500	2,980	3,912	11,675	0

Other Information	2003	2004	2005	2006	2007	2008
Outstanding Shares (million)	5,600		9,314	9,314	11,642	22,221
No. of Employees	1,057	1,221	1,507	2,327	3,743	N/A
No. of Branches	45	53	81	164	299	N/A

Table 109: Oceanic Bank's Ratios & Analysis

Ratios & Analysis						
Perfomance Ratios (Margin)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Commissions/Gross Earnings	47.11%	43.21%	42.92%	36.31%	36.19%	0.00%
Interest Margin	52.89%	56.79%	57.08%	63.38%	63.57%	0.00%
Net Interest Margin	36.01%	36.89%	37.75%	35.50%	41.74%	0.00%
Operating Expenses/Gross Earnings	52.36%	57.55%	46.78%	42.39%	39.20%	0.00%
PAT/Gross Earnings	25.49%	26.04%	24.26%	20.81%	23.40%	5.08%
Cost to Income Ratio	0.63	0.72	0.58	0.59	0.50	N/A
Pretax Profit Margin	29.74%	27.29%	29.89%	25.42%	30.70%	5.98%
ROCE	46.47%	24.60%	25.84%	30.25%	9.91%	0.00%
ROAE	0.11%	41.26%	31.90%	28.32%	13.45%	4.34%
ROAA	0.01%	4.33%	3.87%	3.15%	2.49%	0.84%
EPS	0.50	0.55	0.63	1.00	1.51	0.43
DPS	0.16	0.25	0.32	0.42	1.00	0.00
Operating Income per employee	8,692.30	8,281.13	13,012.51	13,791.17	15,601.77	0.00
Operating Expenses per employee	(5,475.45)	(5,949.97)	(7,545.30)	(8,141.25)	(7,848.84)	N/A
Profit per branch	73,047.67	41,124.11	89,694.68	69,271.20	81,102.01	N/A

Asset Quality Ratios	2003	2004	2005	2006	2007	2008
Interest Income/Earning Assets	11.22%	10.15%	7.45%	8.71%	6.06%	0.00%
Effective Return on Earnings Assets	11.00%	9.21%	6.93%	8.16%	5.46%	0.00%
Explicit cost of Debt	3.78%	3.64%	2.81%	3.90%	2.30%	0.00%
Cost of bad and doubt loans	0.83%	2.69%	1.22%	1.68%	1.36%	0.00%
% of classified loans	6.13%	2.29%	5.30%	4.11%	3.23%	0.00%
Loan loss provision/classified loans	86.94%	101.26%	48.43%	160.85%	104.08%	N/A

Liquidity Ratio	2003	2004	2005	2006	2007	2008
Liquidity Ratio	81.69%	68.29%	64.96%	70.57%	79.46%	50.55%
Capital Adequacy Ratios	2003	2004	2005	2006	2007	2008
Equity/Loans & Advances	0.52	0.36	0.35	0.35	0.64	0.34
Debt/Equity Ratio	8.19	8.81	6.75	8.90	3.65	4.73
Equity/Total Assets	0.11	0.10	0.13	0.10	0.21	0.17

Source: Company's Annual Reports, BGL Research

Spring Bank Plc

Summary and Investment Case

- **Historical Background**
  Spring Bank Plc was borne out of the merger of six (6) banks namely ACB International Bank Plc, Citizens International Bank Plc, Fountain Trust Bank Plc, Guardian Express Bank Plc, Omega Bank Plc and Trans International Bank Plc during the 2004 banking consolidation exercise. With consolidated shareholders' Funds of N32.4 billion and Total Assets of N150 billion, the bank boasted of bringing innovations in the banking sector that will be customer-centric.

- **Failed to meet society expectation post-consolidation**
  Contrary to high expectations that greeted the formation of the bank, it has been enmeshed in boardroom squabble to the detriment of growth. Of the six merging banks and their bogus claims to the individual contribution to the N32.4 billion Shareholders' Funds, only former Guardian Express Bank and ACB International brought positive capital to the merger. However, this deepened the crisis that rocked the bank post-consolidation leading to non-release of the bank's audited results to the public since 2005.

- **Purchase by Bank PHB now reversed**
  Due to irresolvable differences among the owners of Spring Bank Plc, the bank became a target for acquisition and was quickly bought over by Bank PHB in December 2008 despite strong disapproval from aggrieved shareholders. Although the CBN approved the acquisition and a new Board of Directors was re-constituted to revive the bank, a court ruling has now reversed the purchase and except an appeal by Bank PHB is successful; Spring Bank will revert back to the former owners with their internal squabble.

- **Woes compounded by CBN's Stress-Test**
  While the new board constituted after the purchase by Bank PHB was still settling down to refocus the bank for business, the CBN conducted a stress test and declared the bank as being in grave situation. Although CBN has changed the bank's management and injected funds into the bank, it is yet unclear how soon the bank will evolve strategic policies to re-launch itself into public's heart.

Structure of Business

Spring Bank has a portfolio of diversified investments that make the bank a one-stop financial warehouse in order to give it a strong competitive edge. In addition, the bank has subsidiaries that operate in other financial services sectors.

Table 122: Spring Bank's subsidiaries and associate companies

Name	Financial activities	Location
Spring Bank Plc	Commercial Banking	Nigeria
Spring Capital	Issuing House and Financial Advisory Services, Stockbroking	Nigeria
Spring Mortgage	Mortgage Lending	Nigeria
Fleet Technology Ltd	Information Technology/ Marketing	Nigeria
Springlife Assurance Ltd	Life Insurance	Nigeria

Source: Company's Website

Shareholding Structure

Spring Bank Plc has been embroiled in ownership crisis since its formation through the merger of 6 legacy banks. To achieve the conditions stipulated in the banking consolidation exercise, which mandated banks to have a minimum of N25 billion each, representatives of the merging banks had executed a Head of Agreement, which categorized the 6 legacy banks into 2 groups: Citizens-Guardian Group (CGG) and Bank One Group (BOG). In the agreement, there were provisions that upon due diligence and capital verification, a reasonable time would be given to make merger adjustments where there was material change. Because of the significant discrepancies on the capital contribution by each legacy bank, board squabbles erupted and tore the groups apart.

Sequel to this development, the CBN intervened by dissolving the bank's board and management. Subsequently, an interim management board was appointed to manage the affairs of the bank in 2007. Even after the joint verification exercise by the CBN and NDIC to resolve the post merger agreement issues, the controversy remained unabated.

Submerged in shareholders' crisis and huge negative shareholders' fund, spring Bank became a target for acquisition. In 2008, Bank PHB acquired 51% stake in the bank which has faced litigation instituted by aggrieved shareholders. Although the CBN approved the acquisition by Bank PHB, its poor financial position due to huge non-performing loans and negative shareholders' fund made the CBN remove the management appointed by Bank PHB in October 2009 and injected N50 billion Tier 2 capital as well as appointing interim management.

The CBN should take a decisive step to resolve the lingering crisis and urge aggrieved shareholders to withdraw all pending cases in the courts or else effort to recapitalize the bank will not yield any positive result in attracting potential investors.

Key Strengths

- **Branch Network:** The bank has adequate distribution channels with it's over 200 branches in major cities and towns in Nigeria. To deepen its market share and gain competitive advantage, the bank should remodel its old branches with aesthetic designs in order to attract high net worth customers.

- **Retail Banking:** With its innovative consumer product and service offerings, Spring Bank stands good to mobilize a large pool of cheap deposits from the retail end to fund big ticket transactions and play big in the interbank market as a market net placer.

Key Weaknesses

- **High Exposure to non-performing loans:** The bank is burdened by huge non-performing loans mostly inherited from the six legacy banks. Provision for these loans has eroded shareholders' Fund. Although no financial result has been published by the bank post-merger, an interim result as at September 30, 2009 showed that a provision of N18.2 billion in 2009 as against N28.4 billion in 2008 representing 36% decline. The bank should engage in aggressive loan recovery and drastically reduce its non-performing loans.

- **Ownership Crisis:** As earlier stated, the bank been enmeshed in ownership crisis since its formation which does not augur well for its growth. All parties to the crisis should sheathe the sword and embrace peace in order for the bank to remain competitive.

- **Under-capitalization:** The bank is grossly under-capitalized with a negative shareholders' fund of N60.4 billion and N80.7 billion as at September 30, 2008 and 2009 respectively indicating 34% rise. This is worrisome. The interim management should firm up concrete strategies to turnaround the bank and ensure immediate recapitalization.

- **Poor Brand:** The cumulative effect of lingering board crisis has negatively impacted on the brand name of the bank. Spring Bank is one of the least ranked banks in the country and the re-branding by the previous management did not improve the bank's public perception.

Strategy

The interim management has identified key strategies to turnaround the bank:

- Cost reduction which involves running a cost structure that reflects the true business size of the bank. Already, the bank has carried out staff rationalisation.
- Income optimization to enhance efficiency and profitability.
- Aggressive loan recovery which has so far seen a recovery of over N1 billion from non-performing loans.
- Deepening customer base through the retail banking platform with innovative products and services.
- Recapitalisation of the bank using a 7-Step plan.

Outlook and Analysis

From the merger period till date (about 3 years), no audited financial statements have been released – a possible sign that either management is not keen to reveal the details of the bank's financials or that the depth of work required to bring the books up to date is enormous. However, the interim management released an interim result in the third quarter of 2009 which in the view of industry analysts calls for more scrutiny as it took the new management less than 2 months to publish the result which has eluded the previous management for nearly 3 years.

In line with expectation though, the result reflected the market players' sentiment that the bank is performing at a sub-optimal level. With a negative shareholders' fund of N80.7 billion as at September 30, 2009 which is a wide mark off the N25billion minimum capital base for banks in Nigeria, it is crystal clear that Spring Bank is playing at fringes of the banking sector.

Prior to the global economic and financial crisis in 2008, Spring Bank had virtually lost its customer base to competitors. No doubt, this has manifested on the interim result. Key performance indicators are all in the negative. Gross earning dropped by 27% in 2009 from N12.8 billion to N9.3 billion while interest earning was flat. Paradoxically, Interest expense increased by 96% from N3.8 billion in 2008 to N7.5 billion in 2009 which exacerbated the negative position of N16.3 billion net loss.

The worrisome aspect of the bank's financial position is the increasing non-performing loan to total loans and advances. In 2009, the ratio rose by 28% from 69% 2008 to 88%. Although the interim management has pursued aggressive loan recovery, the N1 billion so far recovered is minimal relative to N129.4 billion.

The major challenge facing the new management of Spring Bank is the recapitalisation which should be preceded by well articulated turnaround strategy. Instructively, the new management headed by Olusola Ayodele has submitted to the CBN a comprehensive and achievable 7-step recapitalisation plan. It is our opinion that this should be vigorously pursued in order to re-position the bank.

Union Bank of Nigeria Plc

Summary and Investment Case

- **Established as a colonial bank in 1917 prior to Barclays Bank entry**
  Union Bank of Nigeria Plc (UBN) was founded as a Colonial Bank in 1917 but later taken over by Barclays Bank in 1925. The bank was listed on the Nigerian Stock Exchange (NSE) IN 1971. Following the nationalisation of foreign-owned companies in Nigeria in 1977, Barclays Bank International disposed its 40% holding to Nigerians.

- **Gains from Recapitalisation and Cherry picking nullified by bad loan books**
  During the consolidation exercise of 2005, UBN acquired its erstwhile subsidiary Union Merchant Bank Ltd and raised N55.1 billion through rights and public offering to boost its shareholders funds to N100.5 billion. The bank also used the Central Bank's cherry picking window (which enabled bigger banks acquire the assets and liabilities of liquidated banks while leaving the government deposits to the CBN) to acquire the former Universal Trust Bank Plc and Broad Bank Ltd. However these structural strengthening were all nullified by the bank's bad loan books where it recorded a triple digit growth. In September 2009, UBN reported a non-performing loan book of N185 billion, up by 194% from the year before.

- **Huge Potentials**
  Union Bank is the industry's Sleeping Giant - representing untapped potential. A potential buy-in by UK's Barclays Bank at the planned August 2008 capital raising offering was blocked by the CBN restrictive policy on foreign ownership of Nigerian top banks. However, with a more open disposition by the new administration at the apex bank, we believe UBN will emerge a choice acquisition for new potential buyers.

- Receives N120 billion government bailout fund after management changeover
  On August 14th, 2009, the CBN sacked the erstwhile management of UBN; accusing them of mismanagement and executive recklessness and appointed a new management team for the bank. Subsequently the CBN injected a cash bailout of N120 billion to shore up the depleted equity. The September 2009 interim results of UBN show that the Shareholders Fund has declined to a negative of N146 billion from N67billion in March 2009.

- **Prolonged uncertainty on the bank's ownership post-intervention**
  Subsequent to the CBN's actions, there have been lots of regulatory pronouncements concerning ownership structure of the affected banks. These pronouncements have all but created clarity on the CBN's plans for the take-over process.

The litigations and shareholder resistance to forced take-overs on one hand, and the regulatory flip-flop on the other hand could only prolong the uncertainty of the bank's ownership.

Structure of Business

UBN currently operates across four countries in two different continents – Benin Republic, Ghana, Nigeria and the United Kingdom with 349 branches. Though the bank is a household name in Nigeria, it has a marginal share of the market in the other three countries.

The bank has a universal banking license and has diversified its businesses to cover every sphere of the financial sector. It also maintains a strong presence in Nigeria's real estate sector through its mortgage bank on one hand and on the other its property company.

The new CBN administration has shown a significant dislike for universal banking on one hand and on the other, the opening of subsidiary banks outside Nigeria. We believe UBN's business structure could be significantly affected by any changes by the Central Bank to the current universal banking structure.

Table 110: UBN's Subsidiaries and Associate Companies

	Country	UBN Share (%)	Principal Activity
Union Homes Savings and Loans Plc	Nigeria	61.20	Mortgage financing
Union Trustees Limited	Nigeria	100.00	Trusteeship
Consolidated Discounts Limited	Nigeria	70.00	Financial services
Union Assurance Company Limited	Nigeria	100.00	Insurance
UBN Property Company Limited	Nigeria	80.00	Real Estate
Union Registrars Limited	Nigeria	48.00	Secretarial services
Unique Venture Capital Management Ltd	Nigeria	100	Financial services
Union Capital Markets Limited	Nigeria	56.70	Asset management
Banque Internationale Du Benin	Benin Republic	20.00	Banking
HFC Bank (Ghana) Limited	Ghana	100.00	Banking
Union Bank UK Plc	United Kingdom	100.00	Banking

Source: Company Data

Key Strengths

- Well diversified network of branches: UBN has a well diversified network of 349 branches across Nigeria which gives the bank comparative advantage in mobilising deposits. This also serves as a formidable platform to distribute the bank's products.

- Inherent latency amidst huge underlying value: UBN is greatly perceived to be a sleeping giant and there have been strong arguments that a more dynamic and innovative management will be required to unlock the great underlying value in the bank.

Key Weaknesses

- Negative brand perception resulting from CBN's vote of no confidence in management: Prior to the August 14th sack of Union Bank CEO, the bank was largely perceived as a safety nest for customer deposits. However, the CBN's action

has diminished the perception of the bank. The charge of insider infractions against the bank's erstwhile management has affected customer perception of the bank.

- Slow adoption of modern banking trends: UBN is perceived as a laggard among peers in adopting modern banking trends and practises. This has weakened the growth and competitiveness of UBN in the banking space.

Strategy

The CBN appointed management of UBN has shelved the prior strategy plans of the bank code-named PROJECT GEAR. The strategy focus of the bank is now on three major areas of:

- Risk Management and Control: The focus in this area will be on credit risk and operational risks.

On credit risks, focus will be on the following key areas:

- Aggressive loan recovery using both the internal machinery and the law enforcement agencies.
- Reduction of concentration risks by ensuring that the loan portfolio is more evenly spread with less impact on the Bank by large ticket items.
- Loan monitoring and control system, development of appropriate early warning signals and ensure that debtors are closely monitored. The objective will be to ensure timely recovery of facilities at risk of default.
  On the operational side, to ensure the integrity of the Bank's accounting and financial reporting systems and that appropriate controls are in place, in particular, systems for monitoring risk, financial probity, and compliance with the law.
  The corporate governance structure will be built around enhancing transparency and accountability.

- **Market and Business Development**: As part of the on-going Enterprise Transformation Programme, the bank will put a new operating model for its branches. The new model is designed to allow branches to give dedicated focus to marketing and relationship management.
- Steps being taken to increase the ratio of market-facing staff in the new system.
- The organizational structure of the Bank will be changed to reflect the new expectations.
- The Bank's business module and portfolio would be reinvigorated to tap opportunities in diversified spheres.
- Branches will be upgraded to be customer friendly in physical ambience as well as working tools. Technology will be at the core of this drive.
- Brand management will also become priority.
- People Management: The area of focus in People management will be:
- Placing emphasis on capacity building to enable staff deliver on their set objectives.

- Establishing a merit-driven and objective performance management system where staff would be rewarded and promoted based on merit.

Ownership Structure

Williams Street Trustees Limited is the largest single shareholder of UBN with a 5% holding in the bank. The other majority shareholders collectively own about 5.15% of the bank and a free float of 89.15%.

Table 111: UBN's Ownership Structure

Shareholder	%held
William Street Trust Limited	55.01
Nigeria Social Insurance Trust Fund	0.36
UNA Staff Share Trust Account	3.90
Nominee Account - UMB Conversion	1.58
Other/free float	89.15

Source: UBN Offer Prospectus of 2008

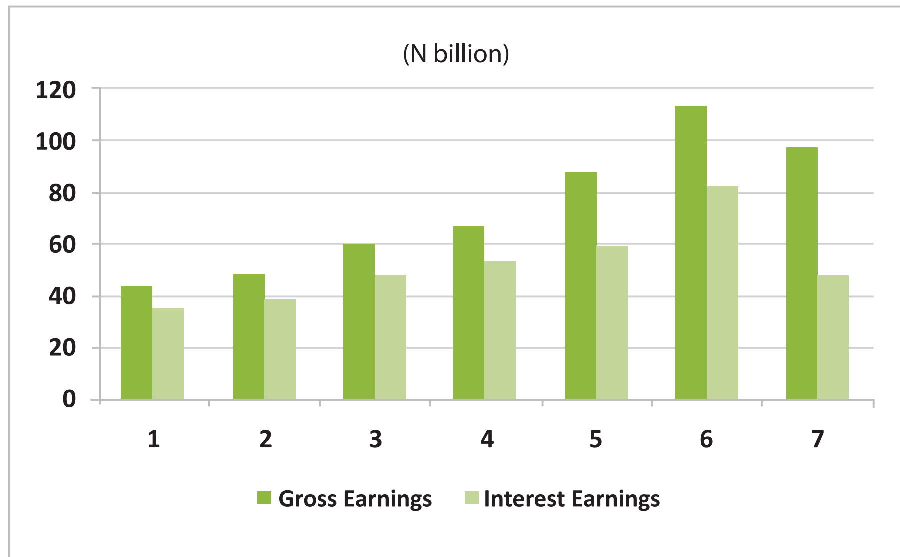
Financial Performance

In 2009, Union Bank grew its Gross earnings by 30% to N147.3billion from N113billion in 2008, but in an unprecedented manner in the bank's history; the bank's net profits declined by almost 300% to negative N72billion in 2009 from N25billion in 2008. Gross Earnings growth averaged 25% in the last 5 years with the largest growth experienced during the later years (32% in 2007, 28% in 2008 and 30% in 2009).

UBN's revenue and earnings growth which have been low for the earlier part of the last five years averaging 11% over the period, took an impressive turn in 2007 and was repeated in 2008. Whilst revenue grew about 30% in the last two years, earnings growth was more outstanding in 2008 with 95% growth reflecting UBN's longevity and stodgy image as a platform of stability. In the face of consolidation and the aggressive pursuit of returns to meet the expectation of capital raising thereto, UBN's business strategy seems to be changing. At the completion of the on-going process re-engineering in the bank, it is expected that the gentle giant will evolve with competitive strategy to retake its earlier position as a foremost bank in Nigeria.

Union Bank depends principally on income from risk asset, as interest income forms the major component of gross earnings. Interest Margins averaged 73% over the last 5 years, which is above the industry average of about 70%. The bank therefore needs to sweat its assets more in risk assets creation rather than being kept in low-yield liquid assets. The bank's strong focus on debt recoveries and contraction in lending may even mean greater emphasis on low yielding fixed income instruments. Contrary to industry experience when interest paid on deposits went down during the period, UBN's interest expense increased by 55% in 2009 to N41.7 billion from N26.9 billion in 2008. Though the bank's deposits grew by 13%, the 55% growth in Interest Expense could be regarded as a high price to pay for the growth in deposits.

Fig. 118: Union Bank's Earnings



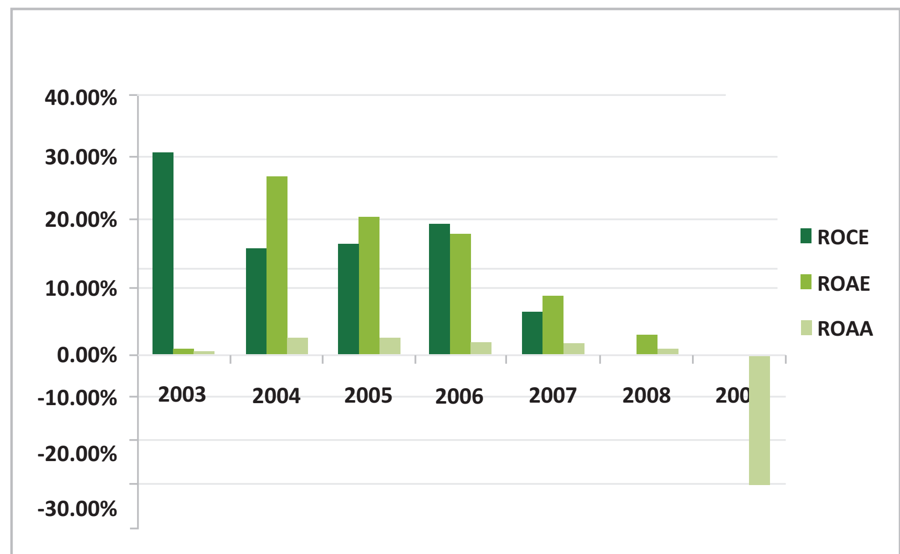
Source: Company's Annual Reports, BGL Research

Performance Ratios

Union bank clearly underperformed in 2009 when compared to its 2008 performance. All performance ratios fell in the current year compared to the previous year. The ratio of the bank's income from core operations reached a 5-year high in 2009 when it reached 78.61% from 72.6% in 2008, thus ratio of other income fell from 27.4% to 24.39%. With a slow-down in lending and focus on recovery, the bank could tilt towards non-core banking business to boost revenues.

Operating expense as a percentage of gross earnings increased from 41.78% in 2008 to 44.69% in 2009 while the dip in PAT resulted in a fall in Net Earnings Margin from 23.77% in 2008 to negative 49.45% in 2009.

Fig. 119: Union Bank's Performance Ratios



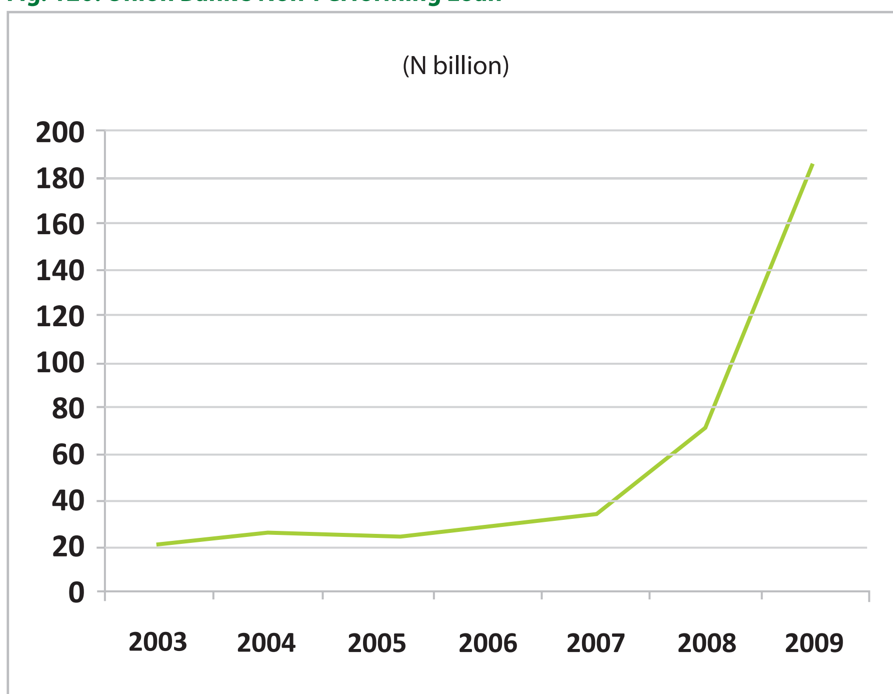
Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

Similar to its poor performance ratios, Union Bank's asset quality ratios also declined in 2009. Although, the bank's gross returns from earning assets grew from 8.94% in 2008 to 12.94% in 2009, its effective return on earning assets declined from 8.31% in 2008 to 3.63% in 2009. Correspondingly, its explicit cost of debt and cost of bad and doubtful loans grew from 3.07% and 1.99% in 2008 to 4.53% and 16.48% in 2009 respectively.

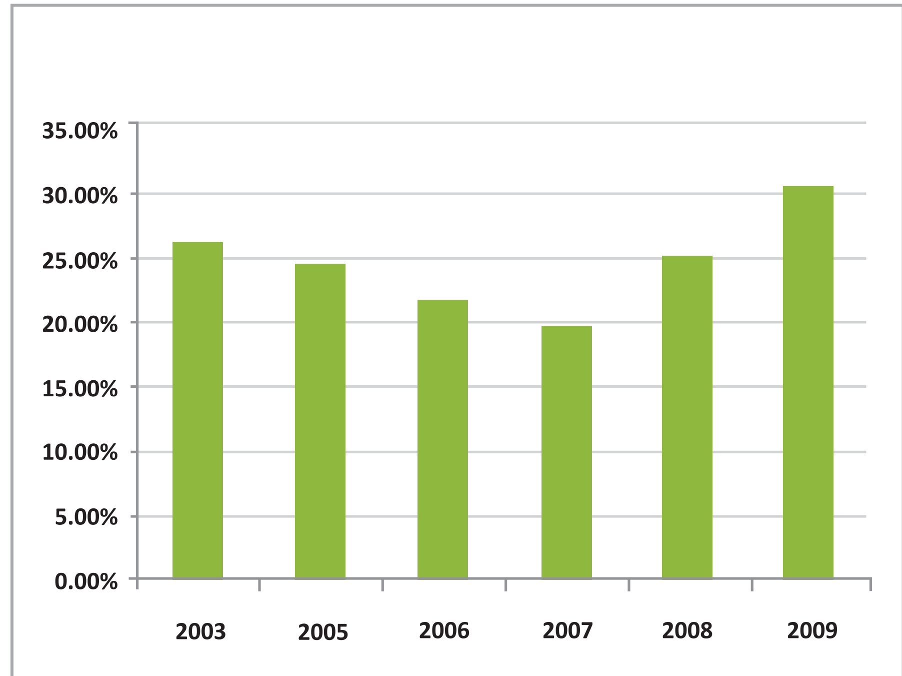
Non-Performing Loans grew significantly from N71billion in 2008 to N185billion in 2009 leading to an increase in the percentage of classified loans to about 30% from 24% in 2008.

Fig. 120: Union Bank's Non-Performing Loan



Source: Company's Annual Reports, BGL Research

Fig. 121: Union Bank's % of Classified Loans

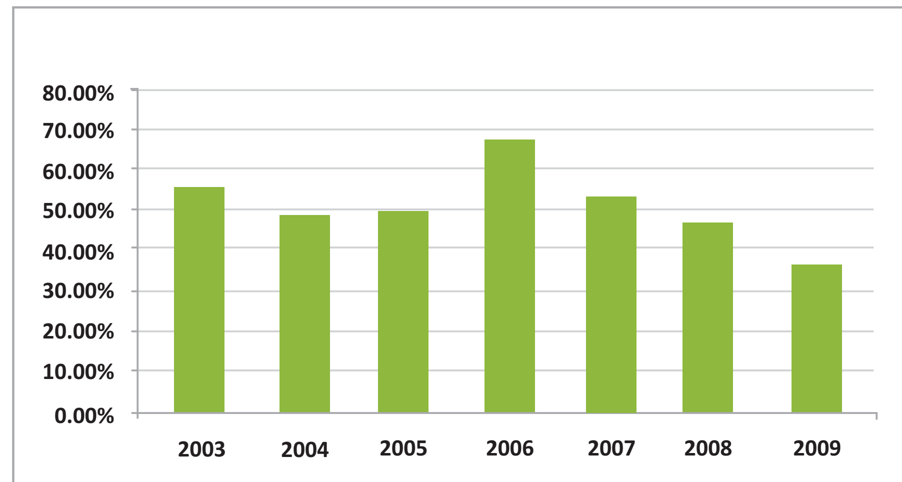


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Union Bank's liquidity ratio of 35% in 2009 represents a 43% drop from the 47% in 2008. While this is still above the current regulatory benchmark of 25%, the growth in deposit liabilities without a corresponding growth in liquid assets poses a significant threat to the bank's liquidity.

Fig.122: Union Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

Earnings

The bank's EPS fell from N2.32 in 2008 to negative N5.39 in 2009 due to the shrink in net profits. The loss position of the bank led to the non-payments of dividend in 2009. However, we expect that the aggressive recoveries will help to reduce the depths of losses in 2010.

September 2009 Results

The September 2009 interims of the bank paint a grim picture. The 63% increase in the bank's Gross Earnings from the year before seemed to be the only bright spot. Net profits dipped by a record 1,670% to N222.9 billion in September 2009 (N14.2 billion, September 2008) as a result of the 61% growth in interest expense and the N148.5 billion provisioning in risk assets. The bank's reserves took beatings from the write-downs which affected the owner's equity; thus the bank's shareholders funds dipped by 207% to negative N146.2 billion in September 2009 from N136.7 billion, September 2008.

Table 112: Union Bank's Financial Summary

Financial Year End Balance Sheet Assets	March 2003 N'm	March 2004 N'm	March 2005 N'm	March 2006 N'm	March 2007 N'm	March 2008 N'm	March 2009 N'm
Cash & Short-term funds	29,574	23,442	28,925	57,223	29,847	46,956	71,865
Due from banks in Nigeria	31,991	52,116	67,798	148,069	78,744	214,222	10,153
Due from banks outside Nigeria	136,541	158,735	240,454	100,560	206,278	253,682	208,673
Bills Discounted	77,161	53,647	62,234	51,396	95,331	94,495	59,278
Short Term Investments	0	0	0	0	51,280	50,634	100,898
Managed Funds	0	0	0	0	0	4,000	9,339
Long Term Investments - FGN Bonds	0	7,000	7,000	18,057	0	8,579	5,274
Long Term Investments - Others	4,697	6,704	12,232	27,328	24,174	21,028	27,497
Investment/Trading Properties	0	0	0	0	0	12,958	14,014
Loans & Advances - Gross	78,395	108,603	112,209	149,446	182,456	291,909	505,342
Non-Performing Loan	19,935	25,899	23,610	28,332	34,139	71,477	105,311
Loans & Advances - Net	60,554	87,684	91,928	127,202	160,331	258,959	421,473
Advances under finance lease	377	470	644	897	1,131	4,143	5,465
Other Facilities	0	0	0	0	0	0	0
Other Assets	13,184	14,578	22,096	112,859	24,954	129,766	247,580
Deferred Tax Assets	0	0	0	0	0	0	
Fixed Assets	12,598	14,352	17,672	24,175	28,024	29,468	57,288
Goodwill	0	0	0	0	0	0	
Total Assets	**366,677**	**418,728**	**550,983**	**667,766**	**700,094**	**1,128,890**	**1,238,797**
Liabilities							
Deposit and Current Account	251,636	282,524	339,538	320,957	432,084	682,309	772,127
Due to other banks	0	0	0	90,523	50,298	196,928	148,832
Other Facilities	0	0	0	0	0	0	0
Managed Funds	0	0	0	0	0	4,000	9,339
Tax Payable	3,627	3,893	3,854	4,183	3,599	5,707	6,527
Deferred Taxation	2,061	2,592	2,987	3,212	3,971	4,721	5,399
Other Liabilities	68,470	83,399	153,406	141,430	102,349	109,653	229,494
Dividend Payable	3,398	4,698	6,264	6,270	309	309	309
Borrowings	0	0	0	0	0	0	0
Total Liabilities	329,192	377,106	506,049	566,575	592,610	1,003,627	1,172,027
Capital & Reserves							
Share Capital	1,258	1,678	2,237	4,512	4,825	5,790	6,755
Share Premium	15,343	15,338	15,269	66,415	54,382	53,023	53,023
Statutory Reserve	5,621	7,103	8,633	10,161	12,173	16,282	16,282
Exchange difference reserve	1,744	1,947	1,980	2,058	1,945	1,895	1,895
General Reserve	7,565	7,888	8,193	10,382	21,093	31,834	(52,267)
Bonus Issue Reserve	420	559	746	313	965	965	0
Reserve for SMEIS	2,447	3,726	4,664	5,166	5,537	6,774	6,774
Revaluation Reserve	1,493	1,493	1,493	1,493	1,669	2,355	25,999
Capital Reserve	0	0	0	0	117	242	365
Investment Properties Reserve	0	0	0	0	0	0	0
Minority Interests	1,594	1,890	1,719	691	4,778	6,103	7,944
Shareholders' Fund	37,485	41,622	44,934	101,191	107,484	125,263	66,770
Total Liabilities and Equity	**366,677**	**418,728**	**550,983**	**667,766**	**700,094**	**1,128,890**	**1,238,797**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm
Gross Earnings	44,013	48,166	58,898	66,576	88,095	112,988	147,319
Interest Earnings	34,973	38,089	46,211	47,166	59,625	82,032	115,806
Interest Expense	(10,433)	(10,720)	(14,592)	(16,321)	(22,001)	(26,973)	(41,733)
Net Interest Income	24,540	27,369	31,619	30,845	37,624	55,059	74,073
Commission and other Income	9,040	10,077	12,687	19,410	29,617	30,956	31,513
Operating Income	33,580	37,446	44,306	50,255	67,241	86,015	105,586
Staff Cost	(10,293)	(12,984)	(14,531)	(15,818)	(19,234)	(24,282)	(34,370)
Depreciation	(1,671)	(1,899)	(2,458)	(3,447)	(3,645)	(4,192)	(4,144)
Other Operating Expenses	(6,880)	(8,586)	(9,736)	(12,700)	(18,275)	(18,729)	(27,328)
Provision for doubtful accounts	(2,519)	(2,183)	(4,642)	(4,754)	(8,510)	(5,800)	(83,283)
Operating Profit	12,217	11,794	12,939	13,536	17,577	33,012	(43,539)
Exceptional Items	0	13	0	0	0	0	(23,798)
Interest on borrowings	0	0	0	0	0	0	0
Profit before taxation	12,217	11,807	12,939	13,536	17,577	33,012	(67,337)
Info. Tech. devt. levy	0	0	0	0	0	(307)	0
Current Taxation	(2,798)	(2,343)	(2,465)	(2,434)	(2,949)	(5,109)	(4,839)
Deferred taxation Expense	(1,157)	(531)	(400)	(234)	(752)	(741)	(678)
Profit after taxation	8,262	8,933	10,074	10,868	13,876	26,855	(72,854)
Extraordinary Items							
Minority Interest	(500)	(592)	(291)	(66)	(547)	(1,116)	333
Amortisation of goodwill	0	0	0	0	0	0	
Profit attrib. to shareholders	7,762	8,341	9,783	10,802	13,329	25,739	(72,521)
Dividend Proposed	3,398	4,698	6,264	6,270	9,652	11,580	0

Other Information	2003	2004	2005	2006	2007	2008	2009
Outstanding Shares (million)	2,517	3,356	4,474	9,023	9,652	11,580	13,510
No. of Employees	8,420	8,293	7,828	7,844	8,027	7,746	7,078
No. of Branches	313	322	322	392	405	467	489

Table 113: Union Bank's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2003	2004	2005	2006	2007	2008	2009
Commissions/Gross Earnings	20.54%	20.92%	21.54%	29.15%	33.62%	27.40%	21.39%
Interest Margin	79.46%	79.08%	78.46%	70.85%	67.68%	72.60%	78.61%
Net Interest Margin	55.76%	56.82%	53.68%	46.33%	42.71%	48.73%	50.28%
Operating Expenses/Gross Earnings	42.81%	48.73%	45.38%	48.01%	46.72%	41.78%	44.69%
PAT/Gross Earnings	18.77%	18.55%	17.10%	16.32%	15.75%	23.77%	-49.45%
Cost to Income Ratio	0.56	0.63	0.60	0.64	0.61	0.55	0.62
Pretax Profit Margin	27.76%	24.51%	21.97%	20.33%	19.95%	29.22%	-45.71%
ROCE	32.59%	28.34%	28.80%	13.38%	16.35%	26.35%	-65.21%
ROAE	0.05%	22.58%	23.28%	14.87%	13.30%	23.08%	-75.88%
ROAA	0.01%	2.27%	2.08%	1.78%	2.03%	2.94%	-6.15%
EPS	3.28	2.66	2.25	1.20	1.44	2.32	-5.39
DPS	1.35	1.40	1.40	0.69	1.00	1.00	0.00
Operating Income per employee	3,988.12	4,515.37	5,659.94	6,406.81	8,376.85	11,104.44	14,917.49
Operating Expenses per employee	(2,238.00)	(2,829.98)	(3,414.03)	(4,075.09)	(5,126.95)	(6,093.85)	(9,302.35)
Profit per branch	39,031.95	36,627.33	40,183.23	34,530.61	43,400.00	70,689.51	(89,036.81)

Asset Quality Ratios	2003	2004	2005	2006	2007	2008	2009
Interest Income/Earning Assets	10.78%	10.01%	9.42%	10.07%	9.69%	8.94%	12.94%
Effective Return on Earnings Assets	10.00%	9.43%	8.48%	9.05%	8.31%	8.31%	3.63%
Explicit cost of Debt	4.15%	3.79%	4.30%	3.97%	4.56%	3.07%	4.53%
Cost of bad and doubt loans	3.21%	2.01%	4.14%	3.18%	4.66%	1.99%	16.48%
% of classified loans	25.43%	23.85%	21.04%	18.96%	18.71%	24.49%	20.84%
Loan loss provision/classified loans	89.50%	80.77%	85.90%	78.51%	64.81%	46.10%	79.64%
Liquidity Ratio	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Liquidity Ratio	55.13%	48.21%	48.88%	66.77%	52.90%	47.19%	26.87%
Capital Adequacy Ratios	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Equity/Loans & Advances	0.48	0.38	0.40	0.68	0.59	0.43	0.13
Debt/Equity Ratio	8.78	9.06	11.26	5.60	5.51	8.01	17.55

Source: Company's Annual Reports, BGL Research

Unity Bank Plc

Summary and Investment Case

- **Succeeding together**
  Unity bank, the comglomeration of nine pre-consolidation entities has been regarded by most as a non-aggressive bank keeping a subtle position in its correspondence with investors and the public. The biggest conbination of banks during the 2005 consolidation exercise has successfully worked together. While there might have been some internal wranglings among the owners of the constituent banks, the merger has been well managed so far.

- **Targets top 5 position by 2012**
  If ambition is anything to go by Unity Bank Group has set for itself a 5 year target referred to as 5-in-5 taking it from 2008 to 2012. The particular goals are to attain a set minimum balance sheet size of N3.6 trillion by the year 2012, realize a top 5 Industry position in rate of return on equity, return on assets and other profitability ratios; and become very prudent in its costs management processes by ranking in the top 5 in the sector based on a Income to cost ratio profile.

- **Strategising to meet recapitilisation demand**
  Following the Central Bank's directive to recapitalise the bank with N30 billion by June 30 2010, the bank has set an audacious goal of raisng N40 billion from the capital market which is considered to be bearish at the moment. The successful raising of capital will need to be supported by well crafted corporate strategy to appropriate value from the bank's investment and thus improve shareholders' value.

- **Looks like a good acquisition target**
  As a strong regional bank, Unity bank appears to be a good candidate for acquisition. A core investor that will provide the needed fresh injection of capital and a well crafted competitive strategy that will leverage on the bank's regional strength would help to reposition the bank. The small amount of the bank's non-performing loans and low provision for risk assets also make the bank attractive for acquistion.

Structure of Business

The Bank is a union of firms providing a range of financial services with subsidiaries covering Insurance, Pensions Fund Management, Share Registration and Stock broking. The operational structure is divided into five zones and 17 regional offices across the country aiding its decision making processes with a strong, considerably singular focus on retail banking. The group is one of the leading employers of labour in the country with staff strength of over 5,000.

Table 114: Unity Bank's Subsidiaries and Associate Companies

Subsidiaries	Principal Activities
Unity Capital & Trust Limited	Capital Market
Caranda Management Services LTD	Capital Market
Unity Registrars LTD	Capital Market
Northlink Insurance Brokers LTD	Insurance Brokerage
Newdevco Investments & Securities LTD	Stockbroking
UnityKapital Assurance PLC	Insurance
Pelican Prints LTD	Publishing
Unity Bank BDC	Banking
Hexali Properties Limited	Real Estate
Associate Companies:	
FUG Pension LTD	Pension
Kakawa Discount House LTD	Money Markets
First Securities Discount House LTD	Money Markets
Banque Internationale Du Benin, Cotonou, Benin Republic	Banking
African Export-Import Bank, Cairo, Egypt	Banking
ICHL Nig LTD	Investments

Source: Company's Website

Key Strengths

- In its last published audited financial statement of 2006, Unity bank showed leadership in costs management having the lowest operating expenses per staff ratio in the industry posting at N1.49 m per staff

- Unity Bank Group has a strong Northern Nigeria presence with its headquarters in the federal capital territory and a deliberate effort to solidify its position within the region.

- The basket of financial services made available by the group enables it to function across its core banking tasks, hence affording it a wider customer reach and improving competence in diverse areas.

Key Weaknesses

- The local perception of the bank has been its main cross since consolidation, viewed by most as a passive participant in the industry and historically notorious for a weak customer relationship management and below par service delivery, however the re-branding programme if successful, should adequately address this.

- The bank is trailing in the banking technology race with little utilization of services such e-payment systems, ATMs and minimal adoption of technology based infrastructures.

- Unity Bank Group's branch presence is skewed towards the north faced with an inadequate infrastructural base to effectively compete in the nation's financial capital.

Strategy

The bank has recognized key business approaches for the future that is expected to drive the growth of the business. These are:

- Re-orientation of the human capital of the bank in order to improve service delivery and image-enhancing attitudes, with the goal to create verifiable monitoring processes and platforms for continuous training of employees to ensure long-term sustainability.

- Expanding its business by increased investments in IT infrastructure enabling the institution to broaden its customer base hence improving chances of meeting it 2012 targets.

Details of Planned Public Offer

The capital adequacy ratio for banks set by the CBN requires the Unity group to recapitalize to ensure it meets up with the minimum regulatory standards. Nestling the ambition of achieving this target, the bank has settled for two very distinct strategies, however with the same intended result. Plan A is to raise N40 billion from the Capital Market by start of Q2, and plan B is to get strategic investors, local or foreign, to buy into the firm so there exists an owner group behind the bank's decision making structure, this is regarded in the bank as the preferred choice, the downside of this option is an increase in agency costs which is relatively a non-issue in today's banking sector with most banks run by owners or directors with significant control an issue the CBN is addressing.

Table 115: Unity Bank's shareholding structure

Shareholders	No. of Ordinary Shares	% Held
Rivers State Government	1,115,582,927	7.57
Directors	859,160,959	5.83
Others	12,762,150,780	86.60

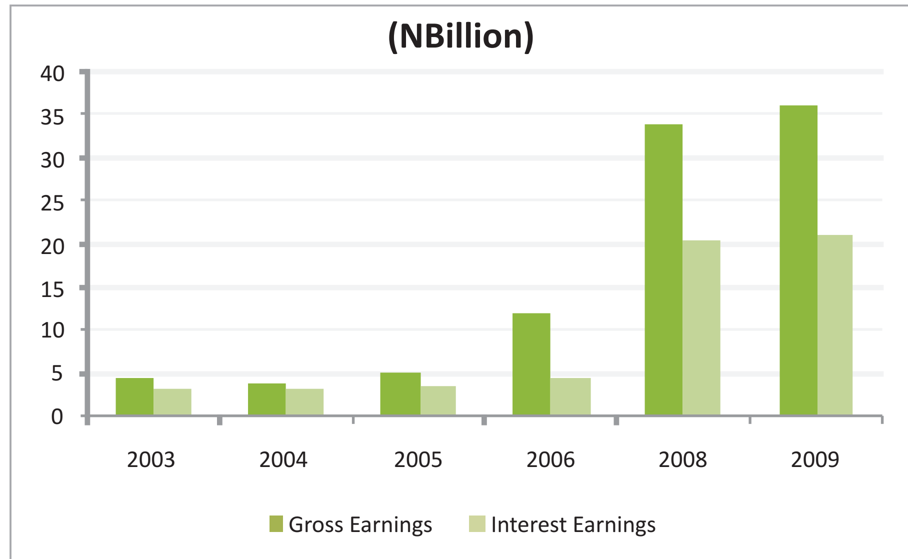
Source: Company's Annual Report 2006

Financial Performance

In 2007, Unity Bank's profits declined significantly from the 2006 figures: Profit before Tax declined from N2.38 billion in 2006 to N1.46 billion in 2007 as a result of increasing cost of operation post-consolidation leading a decline of 47.40% in Net Profits from N1.37 billion in 2006 to N721m in 2007. Gross Earnings however grew by an amazing 99.59% from N11.99 billion in 2006 to N23.92 billion in 2007.

Deposits grew by 83.01% from N79.66 billion in 2006 to N145.79 billion in 2007 while Loans and Advances remained fairly stable at N36.59 billion in 2007 from N37.02 billion in 2006.

Fig. 123: Unity Bank's Earnings

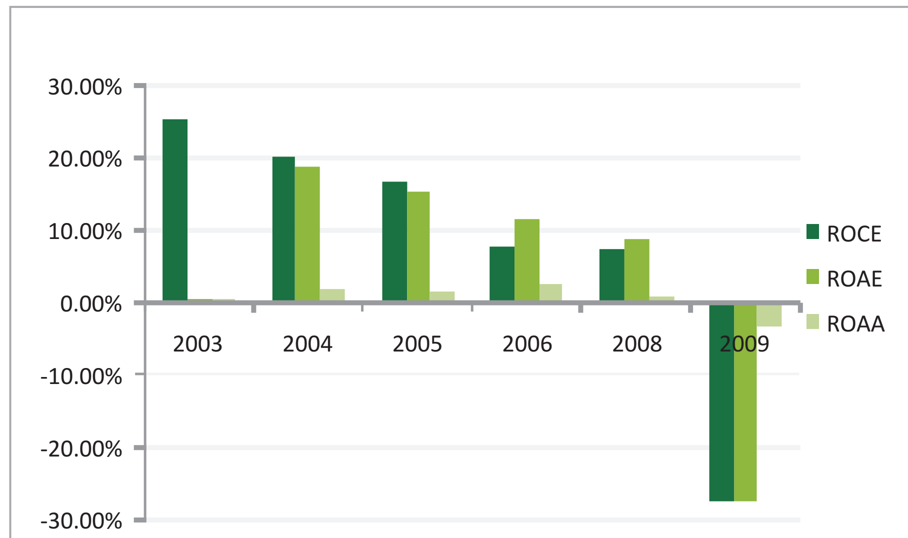


Source: Company's Annual Reports, BGL Research

Performance Ratios

Net Profit Margin dropped sharply in 2007 from 11.43% in 2006 to 3.01%, owing mainly to rising operating expenses since the bank's Gross Earnings grew impressively from 2006. The September 2009 interim results also reveal a 55% growth in Interest Expenses to N14 billion from N9 billion in the corresponding period of 2008 while the bank's Gross Earnings and Interest Earnings remain flat. The increased expenses put pressure on the bank's profitability leading to a loss of N8.73 billion in 2009 from N2.72 billion profit in 2008. Returns on Capital Employed, Assets and Equity (ROCE, ROAA, and ROAE) all were all negative by September 2009.

Fig. 124: Unity Bank's Performance Ratios



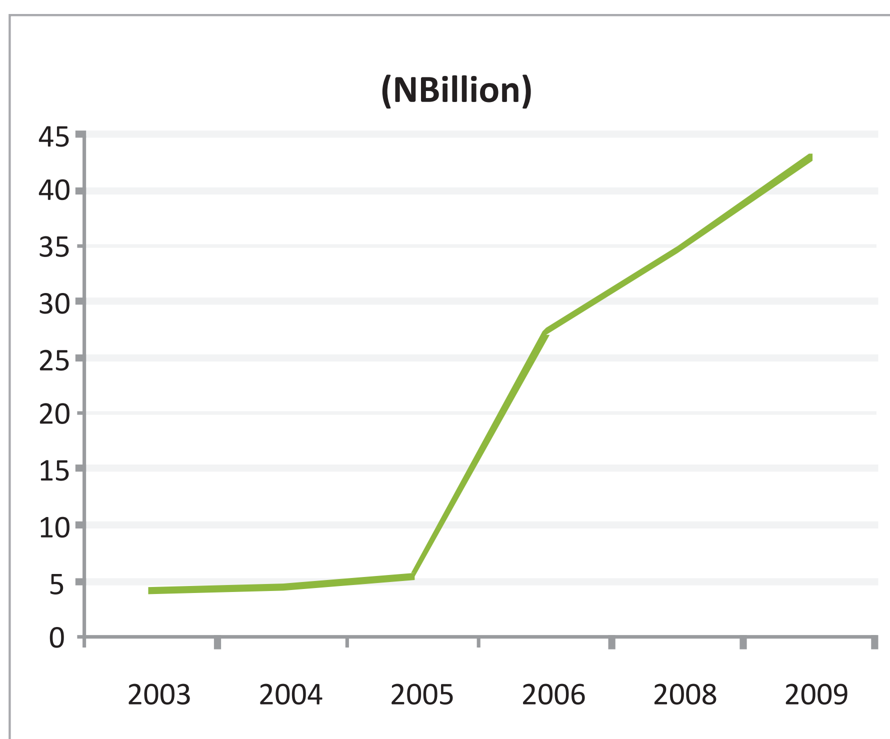
Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

The bank's loan and advances remained at similar levels in 2006 with a slight contraction from N37.02 billion to N36.59 billion in 2007 despite huge decline in customer deposits. This would definitely have affected the bank's liquidity in 2007.

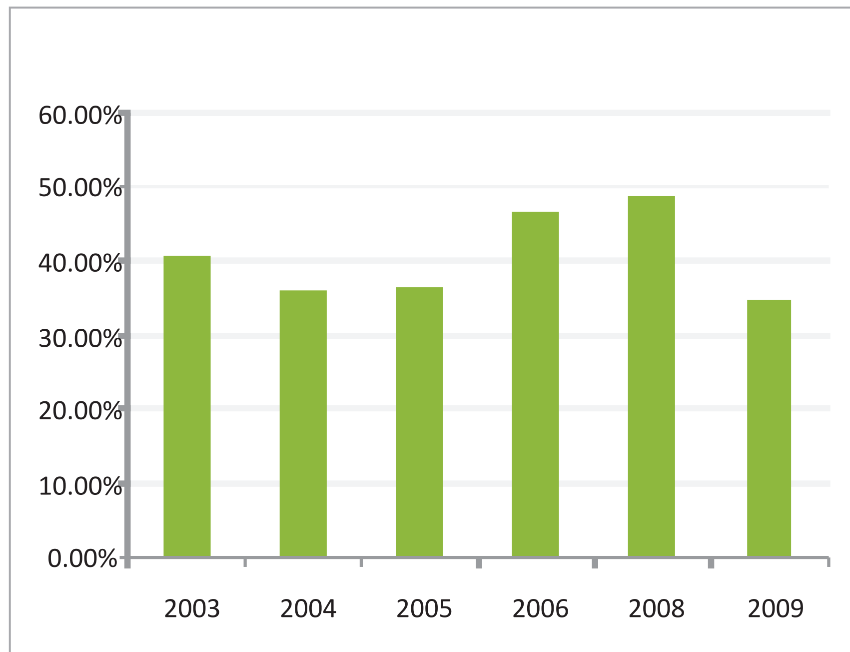
Despite reduction in lending activities by most banks, Unity Bank's September 2009 Interim results show a 64% growth in Loans and Advances, the highest amongst its peers. The increase in Loans and Advances also led to increase in the bank's Non-Performing Loans from N34.7 billion in 2008 to N42.9 billion in 2009. However, the bank's percentage of classified loans fell to 35% in 2009 from 49% in 2008; arguably due to the age of the loans which were presumably granted within the last 365 days.

Fig. 125: Unity Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 126: Unity Bank's % of Classified Loans

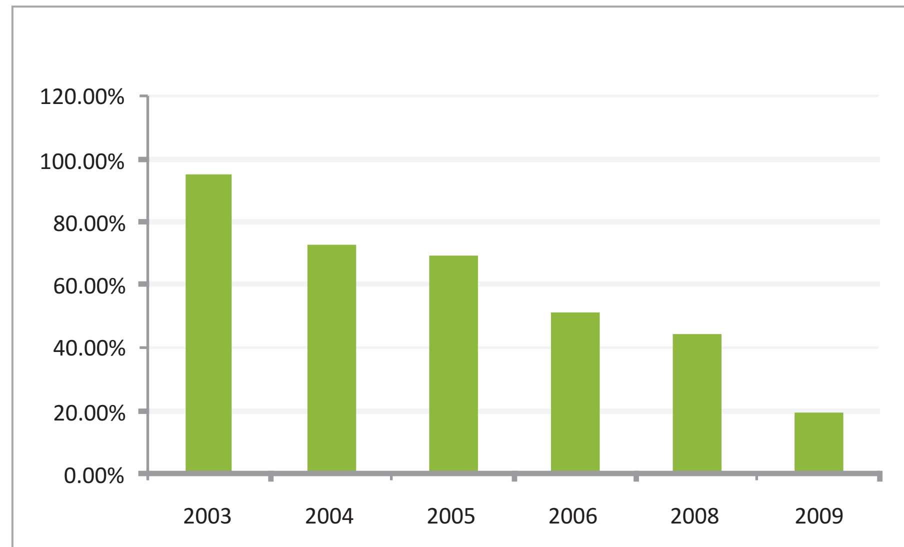


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Post-consolidation, Unity Bank's liquidity ratio has been on the decline. The ratio fell consistently from 69.17% in 2005 to 18.96% by September 2009. At 44.76% in 2008, the bank' s ratio was above the regulatory benchmark of 40% at that time; however, even now that the regulatory benchmark has been reduced to 25%, the current 19% is well below the regulatory benchmark.

Fig: 127: Unity Bank's Liquidity Ratio



Source:Company's Annual Reports, BGL Research

Earnings

The bank's earnings showed weak performances in 2007, as measured by the Return on Average Assets and Returns on Average Equity, the bank's ROAE and ROAA stood at 4.69% and 0.48% respectively compared to 11.46%, and 2.34% in 2006. EPS also declined to 0.02 in 2007 from 0.04 in 2006.

2009 Interim results show a slight improvement in gross earnings of 6% from N33.77 billion in 2008 to N35.93 billion in 2009; nevertheless a provision for risky assets of N7.70 billion and a growth of 55% in interest expense led to a decline of 420% in Profit after Tax to a loss of N8.73 billion from N2.724 billion profit in September 2008. As a result, EPS also declined by 420.40% from 0.17 in 2008 to -0.55 in 2009.

Table 116: Unity Bank's Financial Summary

Financial Year End Balance Sheet Assets	June 2003 N'm	June 2004 N'm	June 2005 N'm	June 2006 N'm
Cash & Short-term funds	4,042	2,716	5,102	14,083
Due from banks in Nigeria	316	4,575	4,960	10,384
Due from banks outside Nigeria	1,131	1,755	1,469	2,285
Bills Discounted	0	0	0	0
Short Term Investments	9,887	6,178	7,052	16,323
Managed Funds	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	0
Long Term Investments - Others	0	0	336	1,476
Investment/Trading Properties	0	0	0	0
Loans & Advances - Gross	10,243	11,836	15,340	58,666
Non-Performing Loan	4,170	4,285	5,589	27,362
Loans & Advances - Net	7,057	8,047	11,282	37,023
Advances under finance lease	0	0	0	183
Other Facilities	0	0	0	0
Other Assets	1,127	1,468	2,027	19,917
Deferred Tax Assets	199	151	0	0
Fixed Assets	798	824	952	12,823
Goodwill			0	16,534
Total Assets	**24,557**	**25,713**	**33,179**	**131,032**
Liabilities				
Deposit and Current Account	14,909	18,430	24,743	79,683
Due to other banks	0	0	0	0
Other Facilities	0	0	0	0
Managed Funds	0	0	0	0
Tax Payable	55	47	63	369
Deferred Taxation	51	66	73	1,469
Other Liabilities	7,200	4,468	5,374	10,328
Dividend Payable	120	152	167	197
Borrowings	0	0	0	8,218
Total Liabilities	22,335	23,163	30,420	100,264
Capital & Reserves				
Share Capital	1,199	1,516	1,668	21,753
Share Premium	0	14	14	6,567
Statutory Reserve	504	639	754	1,166
Exchange difference reserve	0	0	0	0
General Reserve	88	47	92	914
Bonus Issue Reserve	300	152	0	0
Reserve for SMEIS	131	182	231	368
Revaluation Reserve	0	0	0	0
Capital Reserve	0	0	0	0
Investment Properties Reserve	0	0	0	0
Minority Interests	0	0	0	0
Shareholders' Fund	2,222	2,550	2,759	30,768
Total Liabilities and Equity	**24,557**	**25,713**	**33,179**	**131,032**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm
Gross Earnings	4,448	3,848	5,050	11,989
Interest Earnings	3,263	3,101	3,433	4,407
Interest Expense	(1,222)	(1,247)	(1,922)	(2,475)
Net Interest Income	2,041	1,854	1,511	1,933
Commission and other Income	1,184	747	1,617	7,581
Operating Income	3,226	2,601	3,128	9,514
Staff Cost	(670)	(821)	(1,406)	(2,729)
Depreciation	(209)	(227)	(246)	(948)
Other Operating Expenses	(807)	(708)	(887)	(2,909)
Provision for doubtful accounts	(980)	(330)	(130)	0
Operating Profit	561	514	459	2,928

Exceptional Items	0	0	0	0
Interest on borrowings	0	0	0	0
Profit before taxation	561	514	459	2,928
Info. Tech. devt. levy	0	0	0	0
Current Taxation	(73)	(66)	(43)	(182)
Deferred taxation Expense	0	0	(7)	(824)
Profit after taxation	488	448	410	1,922
Extraordinary Items	0	0	0	0
Minority Interest	0	0	0	0
Amortisation of goodwill	0	0	0	(551)
Profit attrib. to shareholders	488	448	410	1,370
Dividend Proposed	120	152	167	0

Other Information	2003	2004	2005	2006
Outstanding Shares (million)	2,398	3,032	3,335	43,506
No. of Employees	631	592	588	4,425
No. of Branches	N/A	82	191	215

Table 117: Unity Bank's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2003	2004	2005	2006
Commissions/Gross Earnings	26.63%	19.41%	32.02%	63.24%
Interest Margin	73.37%	80.59%	67.98%	36.76%
Net Interest Margin	45.90%	48.18%	29.92%	16.12%
Operating Expenses/Gross Earnings	37.89%	45.65%	50.27%	54.94%
PAT/Gross Earnings	10.97%	11.65%	8.11%	16.03%
Cost to Income Ratio	0.52	0.68	0.81	0.69
Pretax Profit Margin	12.61%	13.36%	9.09%	24.42%
ROCE	25.24%	20.17%	16.64%	7.51%
ROAE	0.06%	18.80%	15.43%	11.46%
ROAA	0.00%	1.78%	1.39%	2.34%
EPS	0.20	0.15	0.12	0.04
DPS	0.05	0.05	0.05	0.00
Operating Income per employee	5,112.34	4,393.67	5,319.51	2,150.08
Operating Expenses per employee	(2,670.83)	(2,967.07)	(4,317.38)	(1,488.42)
Profit per branch	N/A	6,270.93	2,403.84	13,617.79

Asset Quality Ratios	2003	2004	2005	2006
Interest Income/Earning Assets	15.13%	12.74%	11.91%	5.02%
Effective Return on Earnings Assets	10.58%	11.38%	11.46%	5.02%
Explicit cost of Debt	8.20%	6.77%	7.77%	2.82%
Cost of bad and doubt loans	9.57%	2.79%	0.85%	0.00%
% of classified loans	40.71%	36.20%	36.44%	46.64%
Loan loss provision/classified loans	76.41%	88.43%	72.61%	79.10%

Liquidity Ratio	2003	2004	2005	2006
Liquidity Ratio	95.54%	73.08%	69.17%	51.19%

Capital Adequacy Ratios	2003	2004	2005	2006
Equity/Loans & Advances	0.22	0.22	0.18	0.52
Debt/Equity Ratio	10.05	9.08	11.03	3.26
Equity/Total Assets	0.09	0.10	0.08	0.23

Source: Company's Annual Reports, BGL Research

Wema Bank Plc

Summary and Investment Case

- **Reputed as the longest surviving indigenous bank in Nigeria**
  Wema Bank Plc was incorporated in May 1945 as a private limited liability company and commenced business operations as a commercial bank in the same year. The Bank was converted to a public limited liability company in April 1987 and was subsequently listed on the floor of the Nigerian Stock Exchange in January 1990. Following the industry consolidation in 2004/2005, Wema Bank merged with National Bank Limited (the first indigenous bank) resulting in shareholders' funds in excess of N25 billion and total assets of N165 billion. With banking operations spanning sixty years, Wema Bank Plc is reputed to be the longest surviving indigenous bank in Nigeria.

- **Originally Conceived as a Regional Giant**
  As a strong regional bank in South - West Nigeria, the bank has been successful so far on social sentiments and political connections of the southwestern people. Wema Bank's merger with National Bank in 2005 further lends credence to the strength of its brand in the region.

- **Yet another Overhang of Recapitalisation Deadline**
  Wema Bank Plc has been involved in a series of management tussles that have no doubt impacted adversely on its business. The weak financial performance evidenced by net loss of N29.43 billion and provision of N36 billion by September 2009 is a consequence of the management and ownership troubles in the bank. Although the bank is now under a new management; cumulative business losses and provisioning has impacted negatively on the bank's capital base; hence the CBN's requirement for fresh capital injection into the bank by June 2010. The bank is therefore engrossed in another recapitalization deadline in the manner of the 2005 consolidation exercise.

Structure of Business

Wema Bank Plc operates in Nigeria through a network of 155 branches providing banking and financial services. Its services comprises primarily of commercial banking and agricultural services; corporate finance services, such as capital market operations, mergers and acquisitions, capital restructuring, venture capital, project finance, investment services/advisory, and portfolio management; institutional banking services; and public sector banking services that include current account plus overdraft facility, higher institutions funding account, and revenue collection services. The company also offers retail banking services, trade finance, and treasury services. The bank's other services are carried on through its following subsidiaries:

Table 118: Wema Bank's Subsidiaries

Company	Business Activities	Location
Wema Registrars Limited	Secretarial Services	Nigeria
Wema Trustees Limited	Trusteeship	Nigeria
Wema Homes Limited	Mortgages	Nigeria
Wema Insurance Brokers Ltd	Insurance Brokerages	Nigeria
Wema Venture Limited	Administrative Services	Nigeria

Source: Company's Website

Key Strengths

- Low cost of operation brought about by low operating expenses per staff.
- Strong presence in the South-Western part of the country.
- Diversified group of businesses.
- Customer loyalty in the southwest

Key Weaknesses

- Weak capital base making it difficult for the bank to adopt relevant technology and compete favourably in the unfolding landscape.
- Disinvestment by the owner states government could strip the bank of its institutional support.
- Short term strategic plans amid growing uncertainty surrounding the possibility of being acquired by other banks.

Strategy

As a strong regional bank, the bank has been successful so far on social sentiments and political connections of the southwestern people. Going forward, the bank should adopt a strategy of Focus with Cost Leadership. With this the bank can continue to leverage on its strength within the Southwester Nigeria, providing top of the range services at low cost to customers and then taking the strategy to a broader target market in future.

In the face of its current challenges in the industry, the current management is embarking on short/medium term stabilisation strategies which include aggressive loan recovery drive to reduce its loan loss provision and boost shareholders fund, efficiency and cost saving strategy. How much the new management will thrive will be confirmed by its ability to survive its new recapitalisation deadline of June 30, 2010 set by CBN.

Ownership Structure

After the disinvestment of 32% (of the earlier 42% held) by Odu'a Investments Limited in 2008 which was eventually acquired by SW8 Investments Limited, the bank's shareholding structure is as follows:

Table 119: Ownership Structure

Shareholder	No. of Shares	% holding
Odu'a Investments Limited	1,070,204,478	10.00
SW8	3,424,654,330	32.00
Other Nigerians	6,207,185,972	58.00

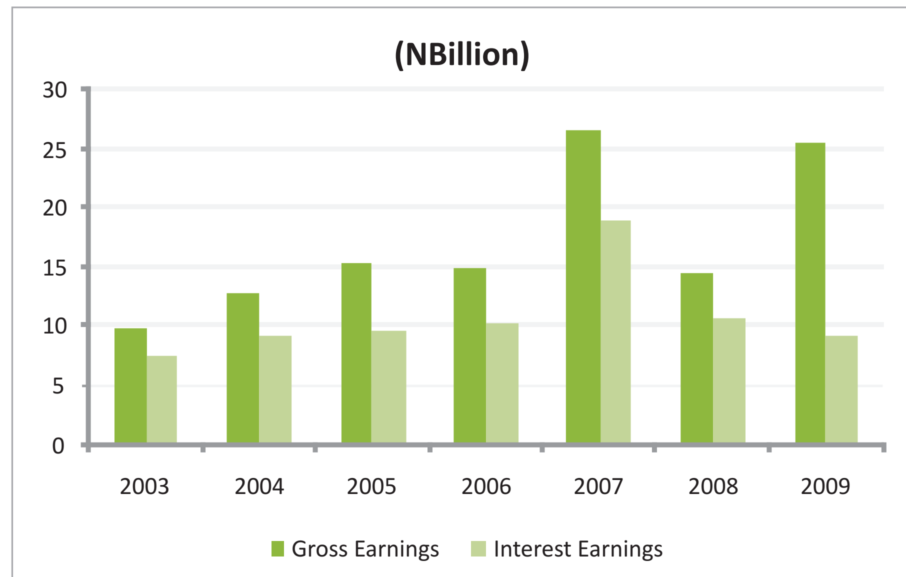
Source: Company's Annual Report, 2007, BGL Research

Financial Performance

In 2007 Wema Bank grew its Gross Earnings by 78.1% to N26.43billion from N14.83billion in 2006. The growth in Gross Earnings was driven principally by customer's loyalty relationship and political connection in the South - West region as the bank could not be seen to be involved in new transactions during the period. Profit after tax (PAT) of the Bank experienced a considerable growth of about 138% from a loss of N6.6 billion in 2006 to a profit of N2.5 billion in 2007, an amount just enough to restore the bank's shareholders' fund to N25 billion having been hemorrhaged to N20 billion in 2006.

The loss of N6.6 billion in 2006 was believed to be exceptional due to a loan loss provision of N10.26 billion and a further N6.96 billion provision in 2007. It is worthy to note that out of a total loan loss provision of N22.99 billion made between 2003 and 2007; N18.36 billion representing 80% was provided in 2006 and 2007 alone. While analysts believed that with the N18billion provision in 2006 and 2007, Wema bank was out of the financial mess and that the future should be bright, the outcome of the CBN stress-test was another loan loss provision of N32.82 billion, putting a fresh pressure on the current management to recapitalise the bank.

Fig. 128: Wema Bank's Earnings

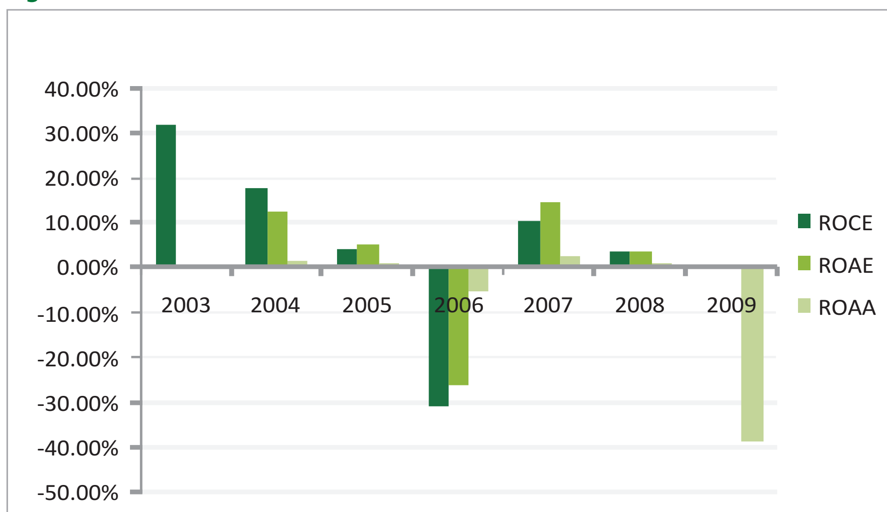


Source: Company's Annual Reports, BGL Research

Performance Ratios

Pretax profit margin rose to 9.98% in 2007 from a loss of 45.98% in 2006 while Net interests Margin grew by 71.9% in 2007. Cost-income ratio fell from 0.67 to 0.52 in 2007. Operating expense as a percentage of gross earnings dipped from 52.34% in 2006 to 38.80% in 2007. The improved performance in 2007 resulted in returns as measured by Returns on Capital Employed (ROCE), Returns on Average Assets (ROAA) and Returns on Average Equity (ROAE) moving to positive from negative positions in 2006. The provisioning of another N32 billion in the aftermath of the September 2009 stress-test put pressure on the bank's returns as the bank's ROAA

Fig. 129: Wema Bank's Performance Ratios

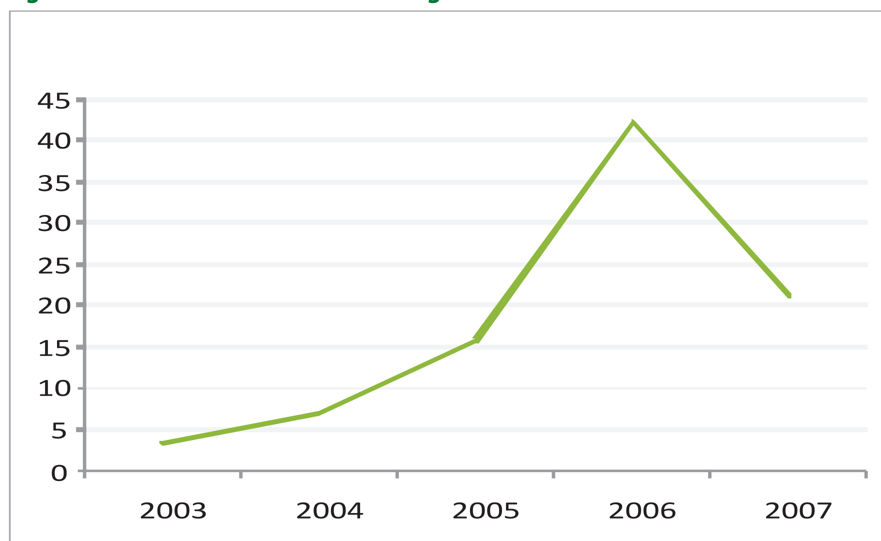


Source: Company's Annual Reports, BGL Research

Assets Quality Ratios

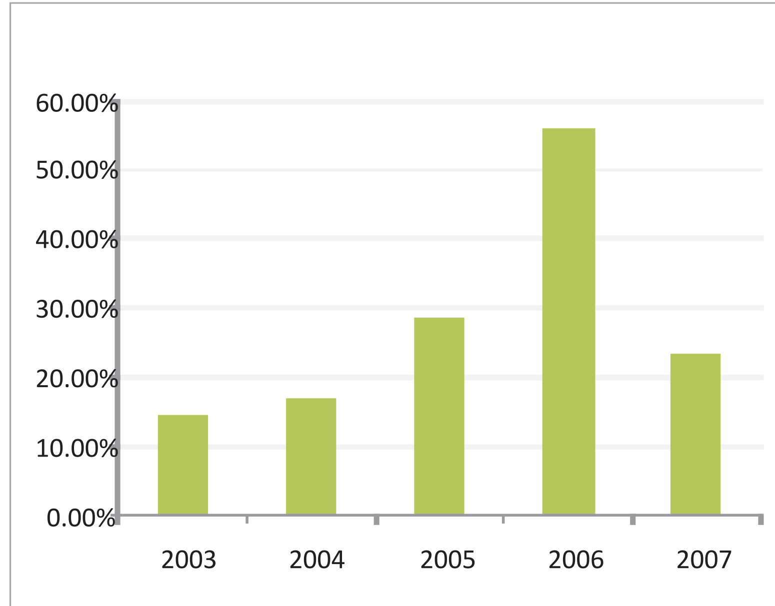
As the bank grew its loans and advances to N91.47 billion in 2007 from N75.38 billion in 2006, the bank's non-performing loans also grew significantly. Although the bank reported a reduction of about 50% in non-performing loans from N42 billion in 2006 to N21billion in 2007, the provisioning of about N32 billion on risk assets from the same level of gross loans and advances showed that more assets had become bad during the period of management crisis in the bank.

Fig. 130: Wema Bank's Non-Performing Loans



Source: Company's Annual Reports, BGL Research

Fig. 131: Wema Bank's % of Classified Loans

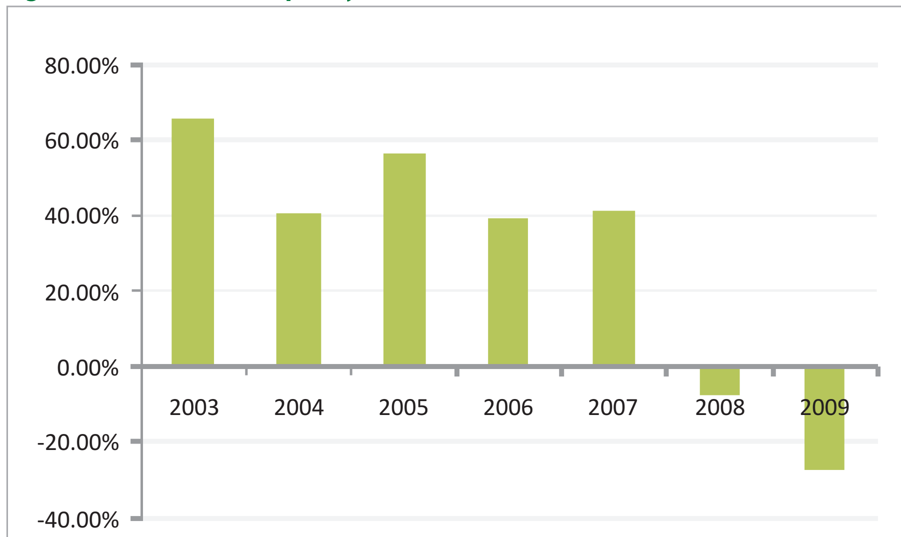


Source: Company's Annual Reports, BGL Research

Liquidity Ratio

Since consolidation, Wema Bank's liquidity ratio has been very low. Although it was kept slightly above regulatory benchmark of 40% until 2007, the bank's liquidity problem has become so evident since 2008 when the management crisis got to a boiling point. Wema's liquidity fell to negative in 2008 and has been growing worse since then especially as shown in the September 2009 results. We are expectant that the new management of the bank would evolve an effective strategy to improve the bank's liquidity, going forward.

Fig. 132: Wema Bank's Liquidity Ratio



Source: Company's Annual Reports, BGL Research

September 2009 Results

For the first time in two years, Wema Bank Nigeria Plc, made public its financial statement for the third quarter ended September 30, 2009. As expected, Wema Bank reported 36% decline in its gross earnings relative to the same period in 2008. The bank's gross earnings which stood at N25.98 billion in 2008, fell by N9.42 billon to N16.55 billion. The bank made a provision for risky assets of N36.26 billion which resulted in a net loss situation of N29.43 billion, compared to a profit of N1.41 billion in September, 2008. In the same vein, net assets fell by 235% to negative N52billion in 2009 from a positive N38 billion in 2008.

Amidst this challenge lies the greatest task to recapitalize the bank before the deadline of June 2010. The bold initiatives of the board and management in recovering the non-performing loans of the bank have yielded substantially. We are not able to know how much has been recovered so far but significant amount of recoveries was said to have been made after the published results of September 2009. However, we are hopeful that the worst is now over for the bank and that these recoveries will improve the bank's profitability and shareholders' funds going forward.

The bank has articulated and commenced the implementation of a three-phase turnaround programme to restore it to a sustainable growth path. The critical phase in the transformation process is the need to strengthen the capital base of the bank in line with regulatory requirements; we hope that the bank has put in place a recapitalization programme that will achieve this objective within the first half of 2010.

Table 120: Wema Bank's Financial Summary

Financial Year End Balance Sheet Assets	March 2003 N'm	March 2004 N'm	March 2005 N'm	March 2006 N'm	March 2007 N'm
Cash & Short-term funds	8,574	7,311	7,822	9,870	16,191
Due from banks in Nigeria	16,598	7,150	5,805	10,881	11,398
Due from banks outside Nigeria	6,280	4,588	5,726	8,213	7,585
Bills Discounted	0	0	0	0	0
Short Term Investments	3,564	8,016	20,821	12,582	23,893
Managed Funds	0	0	0	0	0
Long Term Investments - FGN Bonds	0	0	0	0	0
Long Term Investments - Others	379	1,645	1,914	2,325	7,992
Investment/Trading Properties	0	0	0	0	0
Loans & Advances - Gross	23,508	41,766	54,493	75,383	91,490
Non-Performing Loan	3,434	7,118	15,677	42,284	21,161
Loans & Advances - Net	20,740	36,607	46,183	53,703	68,797
Advances under finance lease	1,066	563	2,523	4,268	3,406
Other Facilities	0	0	0	0	0
Other Assets	1,127	1,476	2,951	8,083	11,825
Deferred Tax Assets	0	0	0	0	0
Fixed Assets	2,996	4,067	4,164	7,147	11,716
Goodwill	0	0	0	3,037	2,278
Total Assets	**61,323**	**71,424**	**97,909**	**120,109**	**165,082**
Liabilities					
Deposit and Current Account	43,762	55,072	61,285	85,605	125,476
Due to other banks	0	0	0	0	0
Other Facilities	0	0	0	0	0
Managed Funds	0	0	0	0	0
Tax Payable	0	315	48	102	292
Deferred Taxation	396	534	644	104	109
Other Liabilities	9,950	7,152	11,674	13,654	14,022
Dividend Payable	0	311	0	0	0
Borrowings	0	0	0	103	0
Total Liabilities	**54,108**	**63,383**	**73,650**	**99,569**	**139,899**
Capital & Reserves					
Share Capital	1,527	1,555	4,452	4,962	5,035
Share Premium	2,686	2,308	15,082	16,944	17,693
Statutory Reserve	1,633	1,778	2,032	0	0
Exchange difference reserve	0	0	0	0	0
General Reserve	31	400	906	(2,188)	366
Bonus Issue Reserve	0	518	223	823	0
Reserve for SMEIS	538	680	764	0	0
Revaluation Reserve	0	0	0	0	2,089
Capital Reserve	800	800	800	0	0
Investment Properties Reserve	0	0	0	0	0
Minority Interests	0	0	0	0	0
Shareholders' Fund	7,215	8,040	24,259	20,540	25,183
Total Liabilities and Equity	**61,323**	**71,424**	**97,909**	**120,109**	**165,082**

Profit & Loss	2003 N'm	2004 N'm	2005 N'm	2006 N'm	2007 N'm
Gross Earnings	9,716	12,856	15,288	14,837	26,431
Interest Earnings	7,372	9,212	9,511	10,327	18,915
Interest Expense	(2,637)	(4,027)	(4,993)	(3,244)	(6,575)
Net Interest Income	4,735	5,185	4,518	7,082	12,340
Commission and other Income	2,345	3,644	5,777	4,510	7,516
Operating Income	7,080	8,829	10,295	11,592	19,856
Staff Cost	(1,612)	(2,746)	(2,901)	(3,285)	(4,397)
Depreciation	(460)	(589)	(734)	(819)	(1,141)
Other Operating Expenses	(2,384)	(1,848)	(3,579)	(3,661)	(4,717)

Provision for doubtful accounts	(338)	(2,227)	(2,080)	(10,267)	(6,963)
Operating Profit	2,286	1,420	1,002	(6,441)	2,638
Exceptional Items	0	0	0	0	0
Interest on borrowings	0	0	0	0	0
Profit before taxation	2,286	1,420	1,002	(6,441)	2,638
Info. Tech. devt. levy	0	0	0	0	0
Current Taxation	(650)	(315)	(48)	(54)	(214)
Deferred taxation Expense	(161)	(138)	(110)	652	890
Profit after taxation	1,475	967	844	(5,843)	3,313
Extraordinary Items	0	0	0	0	0
Minority Interest	0	0	0	(759)	(759)
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	1,475	967	844	(6,602)	2,554
Dividend Proposed	764	311	0	0	0

Other Information	2003	2004	2005	2006	2007
Outstanding Shares (million)	3,055	3,111	8,903	9,923	10,070
No. of Employees	1,741	1,824	1,843	1,441	1,694
No. of Branches	110	110	111	110	146

Table 121: Wema Bank's Ratios & Analysis

Ratios & Analysis Perfomance Ratios (Margin)	2003	2004	2005	2006	2007
Commissions/Gross Earnings	24.13%	28.35%	37.79%	30.40%	28.43%
Interest Margin	75.87%	71.65%	62.21%	69.60%	71.57%
Net Interest Margin	48.73%	40.33%	29.55%	47.73%	46.69%
Operating Expenses/Gross Earnings	45.86%	40.31%	47.18%	52.34%	38.80%
PAT/Gross Earnings	15.18%	7.52%	5.52%	-39.38%	12.54%
Cost to Income Ratio	0.63	0.59	0.70	0.67	0.52
Pretax Profit Margin	23.53%	11.05%	6.55%	-43.41%	9.98%
ROCE	31.68%	17.66%	4.13%	-31.20%	10.48%
ROAE	0.08%	12.68%	5.23%	-26.08%	14.49%
ROAA	0.01%	1.46%	1.00%	-5.36%	2.32%
EPS	0.48	0.31	0.09	-0.59	0.33
DPS	0.25	0.10	0.00	0.00	0.00
Operating Income per employee	4,066.42	4,840.54	5,585.95	8,044.63	11,721.22
Operating Expenses per employee	(2,559.13)	(2,841.11)	(3,913.78)	(5,389.21)	(6,053.74)
Profit per branch	20,782.06	12,909.26	9,023.63	(58,553.85)	18,068.53

Asset Quality Ratios	2003	2004	2005	2006	2007
Interest Income/Earning Assets	14.45%	14.84%	10.64%	9.28%	13.73%
Effective Return on Earnings Assets	13.79%	11.25%	8.31%	0.05%	8.68%
Explicit cost of Debt	6.03%	7.31%	8.15%	3.79%	5.24%
Cost of bad and doubt loans	1.44%	5.33%	3.82%	13.62%	7.61%
% of classified loans	14.61%	17.04%	28.77%	56.09%	23.13%
Loan loss provision/classified loans	80.62%	72.48%	53.01%	51.27%	107.24%

Liquidity Ratio	2003	2004	2005	2006	2007
Liquidity Ratio	65.66%	40.81%	56.21%	38.94%	41.03%
Capital Adequacy Ratios	**2003**	**2004**	**2005**	**2006**	**2007**
Equity/Loans & Advances	0.31	0.19	0.45	0.27	0.28
Debt/Equity Ratio	7.50	7.88	3.04	4.85	5.56
Equity/Total Assets	0.12	0.11	0.25	0.17	0.15

Source: Company's Annual Reports, BGL Research

APPENDIX

Regulatory Interventions In Some Other Jurisdictions

United States of America

The U.S. has one of the most institutionally disjointed financial regulatory environments of any industrialized country. Banks face a long list of regulators, including the Fed, the Comptroller of the Currency Administrator of National banks, Office of Thrift Supervision (OTS), Federal Deposit Insurance Corporation, the National Credit Union Administration, and separate state regulators, while the SEC, the Commodity Futures Trading Commission and other regulators monitor the capital markets. Most surprisingly, the U.S. does not have a federal insurance regulator; instead, 50 separate state regulators govern insurance firms within their jurisdictions. In the 1980s, when bank capital adequacy was unambiguously too low, the Fed, OCC, and FDIC combined forces in tightening capital adequacy requirements, and the Fed represented the group in the negotiations over the Basel Accord. The response to the current financial crisis has needed much more effort than elsewhere in the world to be coherent.

In the US, the response to the current financial crisis has needed much more effort than elsewhere in the world to be coherent.

The regulatory environment in the U.S., however, is likely to change. The Treasury's plan calls for the dismantling of OTS, the enhancement of the Fed's supervisory authority, and the creation of a national insurance regulator to replace the 50 separate regulators. Regulatory consolidation in the U.S. might be the most important catalyst for the creation of new international regulatory standards in banking. Consider the immense challenges of creating a global standard-which most likely cannot occur without U.S. support-when the agencies within the U.S. are at odds with one another. Ironically, U.S. investment banks themselves may have cleared one obstacle to international cooperation: the remaining free-standing securities firms (Goldman Sachs and Morgan Stanley) have opted to transform themselves into bank holding companies. This move reduces the SEC's influence and gives the Fed a more uniform role in supervising financial institutions. All the same, there is still considerable fragmentation in the regulation of a range of activities that clearly have an important bearing on the stability of the banking system. If today's financial crisis triggers the institutional consolidation of domestic financial regulation, then fruitful international negotiations will be more likely in the future. And the fragmentation of accountability among regulators and policymakers will continue to hamper U.S. leadership in preventing such a terrible crisis from happening again.

The first action was the TARP with a spending limit of $700billion to buy 'toxic assets' from struggling institutions.

Policy reactions to the banking crisis

Plan A: The original plan was the Emergency Economic Stabilization act of 2008, enacted on October 3, 2008 with the goals of defrosting credit markets and lending between banks and also between the customers and banks and preventing failures of "too big to fail" financial institutions. With a spending limit of $700 billion the Troubled Asset Relief Program preferred to a capital purchase program was allowed to buy "toxic" assets from struggling institutions.

Rather than buy the toxic assets, the US Treasury decided to buy preferred shares in the banks to increase their capital reserves and thus encourage lending to consumers and businesses.

- The Act requires financial institutions selling assets to TARP to issue equity warrants, or equity or senior debt securities (for non-publicly listed companies) to the Treasury.
- **Limits on Executive Compensation:** The Act sets new limits on the compensation of the five highest-paid executives at companies that elect to participate significantly in TARP.
- **Recoupment:** If TARP has not been able to recoup its outlays through the sale of the assets within five years after its operation, the Act requires the President to submit a plan to Congress to recoup the losses from the "financial industry."
- **Increase in FDIC deposit insurance:** The Act increased the maximum amount of federal deposit insurance from $100,000 to $250,000 until December 31, 2008.
- **HOPE Act Amendments and foreclosure relief:** The Act amends the HOPE Act provisions to expand eligibility

Plan B: Quick Capital- TARP Capital Purchase Program

In lieu of the original TARP plan, the U.S. Treasury decided in late October to adopt the Capital Purchase Program (CPP) to recapitalize banks directly and quickly. The goals were to increase the availability of lending for consumers and businesses by increasing banks' capital reserves and to stabilize the financial system to avoid further failures of financial institutions.

The Structure of the Programme is a follows:

- The CPP allowed U.S. financial institutions to sell senior preferred shares to the Treasury, thereby augmenting their capital reserves and facilitating lending.

- In addition to the non-voting senior preferred shares, the government will receive warrants to purchase common stock. The government's senior preferred shares will take priority over all other shares and will pay a 5 percent dividend rate per year for the first five years and 9 percent per year after the fifth year.

- Participating institutions must also abide by the TARP restrictions on executive compensation and were admonished, though not required, to use the money for increased lending. The Treasury committed $250 billion to the program.

Even after the implementation of the Capital Purchase Program, bank lending remained hampered by large amounts of asset-backed securities that remain on banks' balance sheets. Therefore a plan C was necessary.

Plan C: - The Financial Stability Plan

On February 10, 2009, the Obama Administration released its preliminary plans for a bailout revamp to address this continuing problem.

The Structure of Plan C is as follows:

- **Financial Stability Trust:** All banks with more than $100 billion in assets were required to undergo a comprehensive "stress test" to evaluate their financial position and sustainability. Additionally, any institution that has undergone a stress test will be able to borrow from the capital assistance program, but all such funds will be held in the separate Financial Stability Trust.

- **Public-Private Investment Fund:** The Fund will use TARP funds to leverage private sector investment in banks' asset-backed and mortgage backed security holdings.

- **Consumer and Business Lending Initiative:** This initiative expanded the Term Asset-Backed Securities Loan Facility (TALF), which provided up to $1 trillion in financing from the Treasury and the Federal Reserve to investors wishing to purchase AAA-rated asset-backed securities.

- **Transparency and Accountability Agenda:** Participation in the Financial Stability Plan now required extensive disclosures about how public funds are used and subjected the participating institution to new restrictions on investments, executive compensation (including the newly announced $500k salary cap), and lobbying activity.

- **Affordable Housing Support and Foreclosure Prevention Plan:** This plan committed $50 billion in TARP funds to foreclosure prevention and continued the efforts of the Federal Reserve to drive down mortgage rates through the purchase of up to $600 billion in GSE mortgage-backed securities. The plan also required recipients of public funds from the Trust to participate in foreclosure mitigation plans.

- **Small Business and Community Lending Initiative:** This initiative provides financing for AAA-rated small business loans to loosen the secondary markets for such loans and increase lending.

But at the end of it all, there is need for regulatory reform to address systemic risk, protect customer and investors, eliminate gaps in regulatory structure and foster international coordination.

U.S. Framework for Regulatory reform

On March 26, 2009, the U.S. Treasury announced its framework for reform of financial regulation. The framework has four main goals:

I. Addressing systemic risk to ensure stability;
II. Protecting consumers and investors through strengthened enforcement;
III. Eliminating gaps in the regulatory structure; and
IV. Fostering international co-ordination to work towards high standards world-wide

The Treasury proposes to:
i. Identify and regulate financial institutions that pose systemic risk;
ii. Limit excessive leverage in American financial institutions;
iii. Increase supervision of the shadow financial system;
iv. Create a new system for federal and state regulation of mortgages and other consumer credit products;
v. Create executive pay structures that discourage excessive risk taking;
vi. Reform the credit rating system;
vii. Make establishing a global financial regulatory floor a U.S. diplomatic priority;
viii. Create a single independent regulator for systemically important firms.

The United Kingdom

UK set up a £50bn Bank Recapitalisation Fund to make capital available to eligible banks and building societies, taken up by Royal Bank of Scotland (RBS), Lloyds TSB Group and HBOS.

In the UK, the introduction of the Financial Services Authority (FSA) as a universal regulator with a single set of powers brought a number of important benefits:

- It has significantly reduced the chance of firms choosing or "arbitraging" between regulators to achieve the least restraining regulation;
- As the financial services sector becomes increasingly international, a single regulator makes the process for international engagement clearer and more efficient.
- It has given the FSA access to the information essential to take a total view of financial firms' activities and the overall risks being taken across all markets;
- It has delivered enhanced coordination of regulatory engagement with all the activities of progressively more diversified financial services providers, increasing the effectiveness and efficiency of the regulatory process, and enabling the FSA to act more decisively;
- It has reduced regulatory duplication and costs for firms, as firms are able to deal with a single regulator across all the product markets in which they were dealing;
- It has clarified the regulatory landscape for the customer, in many cases making it much easier for them to negotiate decisions about often complex products, while providing rights and mechanisms for redress.

Measures taken to mitigate the banking crisis

Measures include Credit Guarantee Scheme, Asset protection scheme for banks and assets swap for treasury bills over a three-year period.

The British Government focused on protecting retail depositors and actions to restore stability to the financial system include:

- Setting up a £50bn Bank Recapitalisation Fund to make capital available to eligible banks and building societies; taken up by Royal Bank of Scotland (RBS), Lloyds TSB Group and HBOS.

- The establishment of a Credit Guarantee Scheme (CGS) of up to £250bn, to provide banks with a guaranteed source of funding, and hence improve the flow of credit to the economy;

- Making £200bn available under the Bank of England's Special Liquidity Scheme (SLS), first introduced by the Bank in April 2008, allowing institutions to swap their pre-existing assets (which had become illiquid) for Treasury bills over a three-year period; and

- Offering capital protection for banks through the Asset Protection Scheme, which provides Government protection against future credit losses on certain assets, in exchange for a fee, to support the banks and allow them to continue making loans to creditworthy businesses and households.

A crucial feature of this support has been to secure commitments from banks to lend to companies and individual borrowers by entering into lending agreements. It is clear from the global scale of this financial crisis that there needs to be a major reform of the way that banks are managed and how they are regulated, throughout the world.

The UK Government took a large number of important steps to reform the regulatory and legislative framework, to address the lessons already learned from the financial crisis. These steps are meant to: reform the corporate governance of banking institutions; change the amount of capital firms will need; lead to more intensive regulation of such firms; and give the authorities new powers to deal with failing banks through the Banking Act 2009.

UK also embarks upon the reform of bank regulation to increase the intensity banking supervision and to reduce incentive for excessive risk taking.

In February 2008, the Banking (Special Provisions) Act 2008 provided temporary powers to enable the Government to deal with failing banks, which were used to resolve Northern Rock, Bradford and Bingley and the UK subsidiaries of two Icelandic banks. These powers were taken on an emergency basis and limited to a year. The Banking Act 2009 was drafted to give these powers a permanent statutory footing, and came into effect in February 2009. This Act gives the authorities permanent powers to intervene when the likely failure of a bank or other deposit-taking institution threatens financial stability, the protection of depositors' money, or the interests of the taxpayer. The Act gives the Bank of England new powers, once the FSA has determined that a bank is failing to take the lead in resolving it. The Act was used for the first time to resolve the Dunfermline Building Society in March 2009. The Act also made provision for the Government to introduce – by secondary legislation – a new insolvency regime for investment banks.

Reform of Bank Regulation

Key to these reforms, which are underway, will be the FSA's plans to:

- Work with its international counterparts to strengthen capital and liquidity requirements – the rules that banks must follow to ensure that they have sufficient financial resources to deal with the risks that their business involves – for example, by:
  - Increasing the quality and quantity of capital held by banks;
  - Increasing the capital requirements for riskier trading activities;
  - Introducing a backstop "leverage ratio" that ensures minimum capital levels are maintained, to stop banks from becoming over-extended; and
  - Increasing the focus of regulation on liquidity i.e. the extent to which bank assets can be turned into cash, if necessary alongside the ongoing strengthening of the capital regime;
- Continue to increase the effectiveness and intensity of its supervision of banks, monitoring their business and their risk to ensure that they remain stable and secure, through the FSA's Supervisory Enhancement Programme (SEP) including:
  - Increased regulatory resources in the FSA;
  - Increased focus of these resources on large, complex, "high impact" firms;
  - Focusing on the business models and strategies of firms, as well as the systems and processes they put in place to support them;
  - A shift in the approach to the assessment of approved persons, with a focus on technical skills as well as probity; and

- Investments in specialist skills, with supervisory teams able to draw on enhanced central expert resources;

- Reduce the incentives for excessive risk taking by banks by tackling the problem of bankers' pay and bonuses, so that they are effectively rewarded for long-term, sustainable growth, not short-term, paper profits.

The FSA is consulting on a Code to cover remuneration practices, and will be incorporating this Code into its regulatory guidelines. These changes will ensure that banks will in future avoid the excessive leverage of the past, devote more capital to their business activities, particularly in respect of their riskier investment banking businesses, and be prudent in their liquidity management. This marks a significant change in the framework in which banks operate, and is a good basis upon which to move further.

European Union

The European Union banking sector is regulated by the European Central Bank through member nations' financial control systems. However, there is a recognised need to oversee activities on an international platform with many large and complex banking groups having trans-border operations in Europe and other continents. A well thought out action plan was implemented to rescue the European banking system at the start of the financial crisis when in October 2008, the European Union member states agreed to an intergovernmental effort to save European financial institutions from collapse by injecting nearly €300 billion euro worth of recapitalisation and €2.5 trillion euro worth of guarantees into the financial system. These actions delivered some successes, despite the fact that the sector on the whole remains fragile, financial markets have gradually stabilised seeing notable improvements in some areas such as interbank lending. The main objectives of the public support schemes were to:

In October 2008, the EU member states injected nearly €300 billion euro worth of recapitalisations and €2.5 trillion euro worth of guarantees into the financial system.

(i) Safeguard financial stability;
(ii) Restore the provision of credit and lending to the economy; (iii) Promote a timely return to normal market conditions;
(iv) Restore the long-term viability of the banking sector; and
(v) Contain the impact on public finances and preserve taxpayers' interests.

In practice, the Government support schemes introduced thus far fall into one of three main categories: (i) guarantees for bank liabilities; (ii) re-capitalisation measures; and (iii) measures to provide relief from legacy assets.

The main characteristics of these schemes, most of which have been made available to banks on a voluntary basis, can be summarised as follows:

- **Guarantees for bank liabilities:** In accordance with the agreement reached at the Paris summit, euro area governments raised the coverage of their deposit insurance schemes to the new maximum of €50,000 per deposit account, with some governments extending the guarantees even further. In addition, many countries started to extend government guarantees to cover newly issued bank debt securities. These guarantees were provided either on an ad hoc basis or within national schemes, with pre-announced commitments of the total amounts made available for banks.

- **Capital injections:** Several governments also provided Tier 1 capital to banks. Capital injections have mostly been made through the acquisition of preference shares or other hybrid instruments which fulfil the conditions for Tier 1 capital. Some countries considered the provision of capital through the acquisition of ordinary shares.

- **Asset support schemes:** Some countries set up asset support schemes. These can take the form of asset removal schemes (transferring the assets to a separate institution) or asset insurance schemes (keeping the assets on the banks'

balance sheets). Some initiatives can be categorised as hybrid schemes, in that they involved asset transfers, financed through guaranteed public sector loans, and sophisticated risk-sharing arrangements between the governments and the participating banks.

In October 2008, the European Commission ordered the High Level Group on Financial Supervision in the EU, chaired by Jacques de Larosière, to investigate the causes of, and possible solutions to the financial crisis. Thirty-one recommendations were made in its report, including:

i. Extending regulation to all systemically important financial firms.
ii. Creating a registration and disclosure system for hedge funds.
iii. Requiring the creation of a central clearing house for credit default swaps in the EU.
iv. Changing the structure of remuneration in the financial sector to reward long-term profitability rather than short-term risk taking.
v. Creating a coherent regulatory framework for crisis management in the EU.
vi. Creating a European Systemic Risk Council in order to gather and analyze information about macroeconomic conditions and relevant changes in the financial sector, as well as a risk warning system to alert authorities about systemic risks.
vii. Working towards the creation of a European System of Financial Supervision including Colleges of Supervisors for all major cross-border institutions.
viii. Simplify and standardize over-the-counter derivatives

The Group saw the need for a fundamental review of the Basel 2 Rules including:

- Gradually increasing minimum capital requirements;
- Reducing pro-cyclicality, by e.g. encouraging dynamic provisioning or capital buffers;
- Introducing stricter rules for off-balance sheet items;
- Tightening norms on liquidity management; and
- Strengthening the rules for bank's internal control and risk management, notably by reinforcing the "fit and proper" criteria for management and board members.

Effective Regulation of Credit Rating Agencies

Given the pivotal and quasi-regulatory role that they play in today's financial markets, Credit Rating Agencies (CRAs) should be regulated effectively to ensure that their ratings are independent, objective and of the highest possible quality. This is all the more true given the oligopolistic nature of this business. The stability and functioning of financial markets should not depend on the opinions of a small number of agencies – whose opinions often were proven wrong, and who have much too frequently been substituted for rigorous due diligence by firms.

Concerning the regulation of Credit Rating Agencies, the Group recommended that:

- Within the EU, a strengthened Committee of European Securities Regulators should be in charge of registering and supervising Credit Rating Agencies;
- A fundamental review of CRAs' business model, its financing and of the scope for separating rating and advisory activities should be undertaken;
- The use of ratings in financial regulations should be significantly reduced over time;
- The rating for structured products should be transformed by introducing distinct codes for such products.

The stability and functioning of financial markets should not depend on the opinions of a small number of agencies – whose opinions often were proven wrong, and who have much too frequently been substituted for rigorous due diligence by firms.

While the above areas for regulatory repair are relevant for all major jurisdictions in the world, and should be addressed internationally, Europe suffers from an additional problem in comparison to all single jurisdictions: the lack of a consistent set of rules. The present regulatory framework in Europe lacks cohesiveness and the main cause of this situation stems from the options provided to EU members in the enforcement of common directives. These options lead to a wide diversity of national transpositions related to local traditions, legislations and practices. In order to tackle the current absence of a truly harmonised set of core rules in the EU, the Group recommended that:

- Member States and the European Parliament should avoid in the future, legislation that permits inconsistent transposition and application;

- The Commission and the level 3 Committees should identify those national exceptions, the removal of which would improve the functioning of the single financial market; reduce distortions of competition and regulatory arbitrage; or improve the efficiency of cross-border financial activity in the EU.

- Notwithstanding, a Member State should be able to adopt more stringent national regulatory measures considered to be domestically appropriate for safeguarding financial stability as long as the principles of the internal market and agreed minimum core standards are respected.

Latin America - Brazil

The main consequence of the financial crisis for the Brazilian economy was the lack of foreign credit lines which resulted in a huge upsurge in demand for credit from local banking institutions. The effect was greater for smaller institutions, however this was rapidly mitigated by the National Monetary Council's (CMN) and Central Bank's actions by increasing credit level to altitudes exceeding the pre-crisis period.

The banking system in Brazil is composed of domestic institutions (49%) and domestic with foreign ownership (35%). Public banks account for less than 8% of total assets. It is important to highlight that the Brazilian credit resilience is supported by a particular mix, unfolded in diverse mainly domestic financing sources, funded by local currency deposits, domestic fixed income corporate securities and low mortgage securities exposure (less than 5% of GDP).

What helped protect the Brazilian banking system from the many problems observed in the developed countries in the crisis is the particularly traditionalist national financial regulation system. This is as a consequence of the hyper-inflationary periods Brazil went through at the start of the last decade. During this period local financial institutions went on a large scale privatisation programme and developed very close monitoring processes to provide checks and balances under very unstable situations. This know-how spilled over their activities and provided increased control over their balance sheets.

Several resolutions were passed in 2007 before the crisis such as the change in capital allocation calculation, redefining the minimum criteria for measuring risk in operations not classified on trading books. Internal systems must also reflect the nature of the operation carried out, the intricacy of the products and the dimensions of the risk exposure of the institution. To this end financial institutions were required to include all operations sensitive to variations in borrowing rates, utilise risk measurement techniques and widely accepted financial rules, consider data related to rates & maturities and measure sensitivity to changes in the temporal structure of interest rates among different rate structures. In an attempt to improve the regulations that discipline relations among financial system institutions and society, the Central Bank constituted the office of the ombudsman marked by transparency, independence, impartiality and an absence of bias, as an organisational component of financial institutions and all other institutions authorised to operate within the republic in order to ensure strict observance of legal and regulatory rules related to consumer rights and to act as a communications channel/mediator of conflicts between these institutions and users of financial products.

In light of the global financial crisis, the CMN and the Central Bank enacted measures to modify Brazilian banking laws in order to provide the financial market with greater liquidity; including:

- Establishing the amount that may be discounted from the time deposits reserve requirement of R$2 billion;

- Reducing the rate applicable on additional time deposit and demand deposit reserve requirements from 8% to 4%, and 8% to 5%, respectively;
- Providing that financial institutions may deduct the amount of foreign currency acquisition transactions with the Central Bank from the reserve requirements on interbank deposits of commercial leasing companies;
- Reducing the rate of compulsory demand deposits from 45% to 42%; and
- Reducing the rate of required compulsory reserves on time deposits from 15% to 13.5%.

In October 2008, the Central Bank enacted further regulations, permitting financial institutions that acquire credit portfolios from small and mid-sized financial institutions (i.e., those institutions with a reference equity of up to R$2.5 billion in December, 2008) to deduct the amount of the acquisition from up to 70% of the reserves and compulsory deposits that such financial institution must maintain with the Central Bank. Acquisitions of credit portfolios from the same small and mid-sized financial institutions are limited to 20% of the total amount of credit portfolios acquired in order to enable such deduction. In addition, on the rediscount operations, the Central Bank may impose the following measures on financial institutions:

- the obligation to pay additional amounts in order to meet the risk that financial institutions may be exposed to;
- the adoption of more restrictive operational limits;
- the restrictions on certain transactions or operational practices;
- the rearrangement of the adequate liquidity level of the financial institution;
- the suspension of dividends higher than the minimum required by law;
- the prohibition of acts that may result in an increase of the remuneration of management;
- the prohibition of the development of new lines of business; and
- the prohibition of sales of assets.

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred charges) of Brazilian financial institutions may not exceed 50.0% of the sum of their referenced shareholders' equity, calculated in accordance with the criteria established by the Central Bank.

Brazilian financial institutions may not have more than 25.0% of their referenced shareholders' equity allocated to credit transactions (including guarantees) extended to the same customer (including its parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their referenced shareholders' equity.

Asia - China

In 2008 against the background of the global financial crisis, the central government resolutely launched the reform of the China development bank (CDB) and the Agricultural Bank of China (ABC), and injected $20 billion and $19 billion respectively into these two banks.

The Chinese banking sector reform began in 2003 when the reform of large state-owned commercial banks was carried out in a pre-emptive manner. By the end of 2006, the shareholding reform of the Bank of China (BOC), China Construction Bank (CCB) and Bank of Communications (BOCOM) was completed and the reformed banks were listed successfully. In 2008 against the background of the global financial crisis, the central government resolutely launched the reform of the China Development Bank (CDB) and the Agricultural Bank of China (ABC), and injected $20 billion and $19 billion respectively into these two banks, highlighting China's determination to deepen financial sector reform and safeguard financial stability. By then the reform of China's large state-owned commercial banks was basically completed, with remarkable improvements being achieved both in terms of financial performance and corporate governance structure. Reform of the large state-owned banks helped to improve financial services and competitiveness of the whole banking sector, paving the way for the economy to maintain healthy and stable development, and for safeguarding financial stability and preventing financial crises.

The four reformed banks continued to enhance corporate governance and vigorously pursued business transformation and internal reform, with business management, earning capacity and performance being continuously improved. By the end of 2008, the capital adequacy ratios of ICBC, BOC, CCB and BOCOM were 13.06%, 13.43%, 12.16% and 13.47% respectively. Non-performing loan ratios were 2.29%, 2.65%, 2.21% and 1.925 respectively.

In 2008, in close coordination with other agencies, the PBC carried out research on the reform plan for the ABC and steadily advanced the reform process. On October 21, the State Council convened its 32nd Executive Meeting and approved in principle the Guidelines on the Shareholding reform of the Agricultural Bank of China.

In February and June 2008, the overall plan and implementation measures of the CBD reform were approved in succession, leading to stable progress in the transformation. The overall plan specified the management of losses caused by exchange of foreign currency-denominated capital funds in financial restructuring, co-managed funds and risk provisions. In addition, the Export-Import Bank of China and the Agricultural Development Bank of China (ADBC) deepened internal reform, strengthened risk managed and internal control, steadily launched new businesses, and paved the way for further comprehensive reform. At present the People's Bank of China is deliberating on the reform and development of the two banks.

The People's Bank of China will accelerate reform and development of asset management companies, in a bid to assist in their transformation into market-oriented operations and bringing them into speciality in disposing non-performing assets of financial institutions. Also on top of the Chinese agenda is a vigorous implementation of strict corporate governance practices to and strong internal controls aimed at improving the quality and efficiency of decision making.

Africa

The global financial and economic crisis presented significant challenges for African countries. It has also exposed weaknesses in the functioning of the global economy and led to calls for the reform of the international financial architecture. Although the crisis was triggered by events in the United States housing market, it has spread to all regions of the world with dire consequences for global trade, investment and growth. The crisis represents a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management. Since 2000, Africa has had an average growth rate of real output above 5% and inflation has declined to single digits. Net private capital flows to Africa increased from US$17.1billion in 2002 to US$81 billion in 2007 (ECA and APF, 2008).

The crisis represents a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management.

There was the widely held view that the impact on African countries would be minimal because of their low integration into the global economy. Furthermore, African countries tend to have very small inter-bank markets and several countries have restrictions on new financial products as well as market entry, which should shield them from the direct effects of the global financial crisis. Developments have, however, shown that the negative contagion effects of the crisis are evident in the Africa region. For example, available evidence indicates that in 2009 the crisis will reduce economic growth in Africa by 2-4 percentage points depending on assumptions made about the availability of external finance to the region as well as the effectiveness of measures taken by the advanced countries to boost global demand. Given the heterogeneity of African countries, the crisis is certainly going to affect some countries much more than others.

In Ghana, the ratio of non-performing loans to gross loans increased from 7.9 per cent to 8.7 per cent between 2006 and the third quarter of 2008.

The turmoil in African stock markets has had significantly negative effects on the financial sector. For example, there is growing evidence that it resulted in negative effects on bank balance sheets and a rise in non-performing loans in the banking sector. In Ghana, the ratio of non-performing loans to gross loans increased from 7.9% to 8.7% between 2006 and the third quarter of 2008. In Lesotho, it increased from 2% to 3.5% over the same period (IMF 2009). So far, bank failures have been rare in the region, largely because most African banks do not have any significant exposure to the sub-prime mortgage market and asset-backed securities. They are, however, vulnerable to contagion effects arising from the high rate of foreign ownership of banks in several countries in the region. To the extent that foreign-owned banks reduce their support of local banks or sell their assets, it will have serious negative consequences for the financial sector in Africa. The countries that are highly susceptible to contagion from this source include Botswana, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Lesotho and Zambia, as foreign ownership of banks is quite high in these countries.

The countries that are highly susceptible to contagion from foreign ownership of banks include Botswana, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Lesotho and Zambia.

African countries have taken several steps to mitigate the impact of the financial crisis on their economies, including interest rate reductions, recapitalisation of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms. The measures adopted differ

The measures adopted differ from country to country, depending on available fiscal space as well as the degree of vulnerability to the crisis.

from country to country, depending on available fiscal space as well as the degree of vulnerability to the crisis. For example, oil-exporting countries in the region have more fiscal space to conduct counter-cyclical policies because they accumulated huge foreign reserves during the recent oil price hikes. In the non-oil economies, however, the ability to adopt counter-cyclical policies is severely limited and so the use of fiscal stimulus measures is limited. In addition to the above measures, some countries have set up task forces or committees to monitor the financial crisis and advise the Government on how to respond. Rwanda, Kenya, Nigeria and the Democratic Republic of the Congo are examples of countries that have adopted this approach.

Some countries have set up task forces or committees to monitor the financial crisis and advise the Government on how to respond. Other countries have taken actions to increase liquidity in the banking system and to domestic firms.

Other countries have taken actions to increase liquidity in the banking system and to domestic firms. For example, in Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger and Togo, the common central bank (BCEAO) injected liquidity on a weekly basis in the regional money market. In Cameroon and Liberia, a support or guarantee fund has been created for firms. In Tunisia, the central bank set up new deposit and credit facilities to improve the flow of credit and increase liquidity in the banking system. Some countries have taken specific measures to recapitalize domestic banks. In Mali, the Government has decided to recapitalise the Banque de l'Habitat du Mali in order to increase and improve finance for housing. In Tunisia, the central bank doubled the capital for the financing of small and medium-sized enterprises in order to boost domestic investments. The Algerian Credit and Monetary Council issued instructions to commercial banks to increase their capital from 2.5 billion Algerian dinars to a minimum of 10 billion Algerian dinars ($142 million) within 12 months. The Government of Kenya also enacted legislation that would increase the minimum capital requirement for banks from 250m shillings to 1 billion shillings by 2012.

The following are some key policy responses that were stressed by African policymakers at the meeting of African Heads of State and Central Bank Governors in Tunis, November, 2008:

1. Countries need to undertake a comprehensive review of their regulatory and supervisory regimes with a view to identifying areas for further improvement. In particular, all sectors of the financial industry should be subjected to proper regulation and oversight, to avoid excessive risk-taking by financial institutions;

2. Macroeconomic policy and structural reforms implemented in Africa over the last two decades have served African countries well. However, there is a need to deepen economic reforms further. This would help minimise the effects of the crisis and lay the foundation for sustainable growth in the region;

3. While measures aimed at restoring growth and financial stability are important, they must be accompanied by measures to minimise the potential negative social impact of the crisis in poor countries. Giving priority to social protection and pro-poor expenditure is important in this regard;

4. Official development assistance can also play an important role in augmenting shrinking domestic resource bases arising from falling exports, remittances and tourist receipts. In this regard, donors must increase aid to Africa in accordance with their Monterrey and G-8 Summit commitments; and

5. Strengthening developing countries' voice and representation by reforming the governance of international financial institutions is also crucially important. This has become imperative especially in the light of the increasing globalisation of financial markets.

South Africa

South Africa was not overwhelmed by the financial crisis because of investments that adhered to the country's high level of self-regulation as well as its limited exposure to experimental or risky asset-backed securities. The country's stringent yet pragmatic market regulations may have allowed the economy bounce back with grace as the banking system was not exposed to sub-prime mortgages and other poor investment products.

The South African government's approach is following the G-20 recommendations of April 2009 along the lines of increased focus on the macro-prudential approach to financial regulation and supervision, the global financial crisis reinforced the principle that individual institutional soundness does not necessarily equate to overall financial system soundness. Therefore, as a supplement to the micro-prudential supervision of individual institutions, the importance of incorporating macro-prudential supervision into the regulatory framework in order to identify the build-up of systemic risks and vulnerabilities in the financial system is actively encouraged; a role which may be played by the South African Reserve Bank. More emphasis has been placed on systemic stress testing including cross-sectoral testing.

In addition, the South Africa Reserve Bank reiterated the adoption of Basel II risk management framework. Basel II applies to all banks registered and operating in South Africa. The framework was adopted in its entirety – as a minimum standard with advanced approaches subject to more stringent approval processes. For credit risk, both the standardised approach and internal rating based approach have been adopted while for operational risk the banks are allowed to choose the alternative standardised approach (ASA), the basic indicator approach (BIA), the standardised approach (TSA) or the advanced measurement approach (AMA).
The initial benefits for implementing Basel II in South Africa have been seen through:

i. Improved corporate governance, including improved risk management; improved capital management and stronger capital structures, improved transparency; and

ii. Improved regulatory frameworks and supervisory policies, practices and processes.

Table 122: Post-CBN Audit Results – September 2009

Balance Sheet Assets	Access Bank N'm	Afribank N'm	Bank PHB N'm	Citibank N'm	Diamond N'm	Ecobank N'm
Cash & Short-term funds	27,744	41,318	33,727	12,724	22,286	14,181
Due from other banks	80,757	44,560	47,111	74,389	117,080	73,628
Treasury Bills	0	0	22,937	12,270	0	0
Trading Securities	0	0	141,026	186	0	0
Investments	45,472	79,562	0	17,508	19,631	11,492
Investment/Trading Properties	0	0	1,381	12,746	3,201	18,253
Loans & Advances (Gross)	415,205	270,935	660,955	54,831	348,926	232,249
Loans & Advances (Net)	379,532	186,784	315,294	54,507	336,274	214,243
Advances under finance lease	3,663	0	8,445	48	5,756	6,951
Long Term Investment	36,165	5,694	14,539	0	73,519	0
Other Assets	45,922	52,204	39,210	18,478	36,714	51,031
Fixed Assets	26,699	12,072	61,590	3,261	36,713	19,502
Intangibles	1,738	0	50,392	0	0	0
Total Assets	**647,692**	**422,194**	**735,653**	**206,118**	**651,173**	**409,280**
Liabilities						
Deposit and Current Account	381,322	355,531	700,782	129,051	469,080	246,457
Due to other banks	55,400	2,936	145,477	0	3,163	62,344
Extraordinary Items (net of tax)	0	0	0	188	0	0
Deferred Taxation	0	4,093	33	4,523	3,508	127
Other Liabilities	42,547	116,507	57,063	32,448	42,187	25,176
Long Term Borrowings	5,976	0	0	0	20,893	4,648
Total Liabilities	485,244	479,067	903,355	166,211	538,831	338,752
Capital & Reserves						
Share Capital	8,107	6,788	10,077	2,794	7,238	3,609
Reserves	151,892	(64,059)	(149,497)	37,113	104,712	66,919
Shareholders' Fund	159,999	(57,271)	(139,420)	39,906	111,950	70,528
Minority Interest	913	398	(28,282)	0	392	0
Total Liabilities and Equity	**646,157**	**422,194**	**735,653**	**206,118**	**651,173**	**409,280**

Profit & Loss	Access Bank N'm	Afribank N'm	Bank PHB N'm	Citibank N'm	Diamond N'm	Ecobank N'm
Gross Earnings	64,326	64,238	214,400	19,945	53,184	45,137
Interest Earnings	48,374	54,492	160,860	12,861	40,015	31,879
Interest Expense	(20,661)	(35,396)	(93,034)	(1,921)	(16,812)	(13,756)
Net Interest Income	27,713	19,095	67,826	10,940	23,203	18,123
Commission and other Income	15,952	9,746	53,540	7,084	13,170	13,259
Operating Income	43,665	28,842	121,366	18,024	36,373	31,381
Operating Expenses	(22,214)	(15,879)	(109,370)	(4,967)	(22,602)	(22,281)
Provision for Risk Assets	(4,779)	(648)	(264,928)	(324)	(12,652)	(2,234)
Net Profit Before Tax	16,672	12,315	(252,931)	12,733	1,119	6,866
Exceptional Items	(30,894)	(83,503)	(80,732)	0	0	(15,771)
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	(14,222)	(71,188)	(333,664)	12,733	1,119	(8,905)
Info tech devt levy	0	0	0	0	0	0
Current Taxation	2,463	(37)	50,863	(3,397)	(1,004)	1
Profit after taxation	(11,759)	(71,226)	(282,801)	9,336	114	(8,905)
Extraordinary Items (net of tax)	0	0	0	0	0	0
Minority Interest	115	(7)	5,358	0	42	0
Amortisation of goodwill	0	0	(104,983)	0	0	0
Profit attrib. to shareholders	(11,644)	(71,233)	(382,427)	9,336	156	(8,905)

Other Information	Access Bank	Afribank	Bank PHB	Citibank	Diamond	Ecobank
Outstanding Shares (million)	16,437	13,507	20,155	2,794	14,475	7,218
Non-Performing Loan	84,873	307,388	415,111	1,867	58,161	73,719
Non-Performing Loan/Total Loans	20.44%	113.45%	62.80%	3.40%	16.67%	31.74%
Provisions/Non-Performing Loans	42.03%	27.38%	83.27%	17.34%	21.75%	24.42%
EPS (N)	-0.72	-5.27	-14.03	3.34	0.01	-1.23

Source: Company Reports, BGL Research

Table 123: Post-CBN Audit Results – September 2009

Balance Sheet Assets	Fidelity Bank N'm	Finbank N'm	First Bank N'm	FCMB N'm	GT Bank N'm	Intercontinetal N'm
Cash & Short-term funds	42,426	13,842	48,904	11,644	14,567	22,643
Due from other banks	4,931	14,259	626,856	36,494	136,523	55,211
Treasury Bills	29,226	21,948	22,842	0	113,351	34,362
Trading Securities	0	0	232,241	0	241,036	0
Investments	47,574	0	112,245	37,078	15,170	31,913
Investment/Trading Properties	0	0	6,076	0	827	0
Loans & Advances (Gross)	155,157	193,833	891,977	251,819	494,416	698,210
Loans & Advances (Net)	153,246	73,192	862,471	246,086	466,549	261,524
Advances under finance lease	14,921	0	11,634	1,490	38	10,343
Long Term Investment	9,534	14,920	0	11,117	0	24,529
Other Assets	8,379	20,958	64,937	11,242	39,099	304,612
Fixed Assets	24,520	13,117	44,998	21,605	45,200	56,477
Intangibles	0	321	0	0	0	0
Total Assets	**334,757**	**172,558**	**2,033,204**	**376,756**	**1,072,362**	**801,614**
Liabilities						
Deposit and Current Account	181,501	158,493	1,197,735	192,315	660,388	563,024
Due to other banks	2,550	17,712	210,000	11,037	36,265	276,647
Extraordinary Items (net of tax)	0	0	6,539	0	0	0
Deferred Taxation	0	0	12,780	2,097	8,483	83
Other Liabilities	18,014	24,717	267,966	26,445	114,562	93,177
Long Term Borrowings	0	55,702	30,156	15,806	65,048	121,344
Total Liabilities	202,065	256,624	1,725,176	247,701	884,746	1,054,275
Capital & Reserves						
Share Capital	14,481	44,722	12,431	8,136	9,327	9,733
Reserves	117,357	(129,829)	295,597	120,920	172,830	(268,427)
Shareholders' Fund	131,838	(85,107)	308,028	129,055	182,157	(258,694)
Minority Interest	853	1,041	0	0	5,459	6,033
Total Liabilities and Equity	**334,757**	**172,558**	**2,033,204**	**376,756**	**1,072,362**	**801,614**

Profit & Loss	Fidelity Bank N'm	Finbank N'm	FBN N'm	FCMB N'm	GT Bank N'm	Intercontinetal N'm
Gross Earnings	18,561	59,542	128,148	35,206	127,475	119,770
Interest Earnings	13,933	48,852	93,052	28,633	89,787	90,294
Interest Expense	(6,234)	(25,929)	(43,048)	(15,483)	(34,920)	(59,179)
Net Interest Income	7,699	22,923	50,004	13,150	54,867	31,115
Commission and other Income	4,628	10,690	35,264	6,573	37,688	29,476
Operating Income	12,327	33,613	85,268	19,723	92,555	60,591
Operating Expenses	(7,639)	(33,283)	(52,573)	(14,469)	(43,291)	(71,356)
Provision for Risk Assets	(1,911)	(94,687)	(29,506)	(5,733)	(27,867)	0
Net Profit Before Tax	2,777	(94,357)	3,189	(479)	21,397	(10,765)
Exceptional Items	0	(25,954)	0	0	0	(436,686)
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	2,777	(120,311)	3,189	(479)	21,397	(447,451)
Info tech devt levy	0	0	0	0	0	0
Current Taxation	(570)	(375)	(1,026)	0	(5,306)	119,001
Profit after taxation	2,208	(120,686)	2,163	(479)	16,091	(328,450)
Extraordinary Items (net of tax)	0	0	0	0	0	0
Minority Interest	8	117	0	0	(116)	1,749
Amortisation of goodwill	0	0	0	0	0	0
Profit attrib. to shareholders	2,216	(120,569)	2,163	(479)	15,975	(326,701)

Other Information	Fidelity Bank	Finbank	FBN	FCMB	GT Bank	Intercontinetal
Outstanding Shares (million)	28,963	14,689	29,006	16,380	18,654	18,860
Non-Performing Loan	46,521	152,291	74,382	40,684	18,823	539,847
Non-Performing Loan/Total Loans	29.98%	78.57%	8.34%	16.16%	3.81%	77.32%
Provisions/ Non-Performing Loans	4.11%	79.22%	39.67%	14.09%	148.04%	80.89%
EPS (N)	0.08	-8.22	0.07	-0.03	0.86	-17.42

Source: Company Reports, BGL Research

Table 124: Post-CBN Audit Results – September 2009

Balance Sheet Assets	Oceanic Bank N'm	Skye Bank N'm	Spring Bank N'm	Stanbic IBTC N'm	Standard Chartered N'm	Sterling Bank N'm
Cash & Short-term funds	29,998	41,274	4,305	5,725	7,763	1,626
Due from other banks	66,581	31,911	27,785	95,853	103,010	30,319
Treasury Bills	0	31,869	0	0	0	18,217
Trading Securities	0	0	0	4,041	0	0
Investments	37,829	53,818	17,389	57,928	19,638	7,350
Investment/Trading Properties	11,257	3,218	0	0	26,275	6,055
Loans & Advances (Gross)	770,388	310,033	39,059	104,498	56,200	76,035
Loans & Advances (Net)	441,526	272,432	20,896	97,920	53,656	67,104
Advances under finance lease	4,298	10,616	2,707	7,397	0	4,556
Long Term Investment	80,908	45,744	11,999	0	0	32,821
Other Assets	69,274	87,120	6,773	35,881	12,055	16,342
Fixed Assets	66,184	29,244	7,783	22,636	6,180	5,415
Intangibles	119,648	0	0	0	0	1,179
Total Assets	**927,504**	**607,246**	**99,636**	**327,382**	**228,577**	**190,983**
Liabilities						
Deposit and Current Account	552,766	416,456	131,927	141,166	163,134	115,517
Due to other banks	211,014	20,407	24,200	63,138	0	15,359
Extraordinary Items (net of tax)	0	0	0	0	0	0
Deferred Taxation	0	1,472	0	4,487	5,691	16
Other Liabilities	96,551	63,573	14,221	28,551	22,906	19,150
Long Term Borrowings	135,115	10,388	10,000	12,944	0	11,073
Total Liabilities	**995,448**	**512,296**	**180,348**	**250,287**	**191,731**	**161,115**
Capital & Reserves						
Share Capital	11,111	5,792	5,661	9,375	3,010	23,872
Reserves	(80,317)	87,147	(86,373)	66,875	33,836	5,996
Shareholders' Fund	(69,206)	92,939	(80,712)	76,250	36,846	29,868
Minority Interest	1,263	2,011	0	846	0	0
Total Liabilities and Equity	**927,504**	**607,246**	**99,636**	**327,382**	**228,577**	**190,983**

Profit & Loss	Oceanic Bank N'm	Skye Bank N'm	Spring Bank N'm	Stanbic IBTC N'm	Standard Chartered N'm	Sterling Bank N'm
Gross Earnings	46,831	106,698	9,294	42,799	24,151	37,768
Interest Earnings	30,807	86,321	6,624	29,103	13,697	28,002
Interest Expense	(47,219)	(38,457)	(7,474)	(10,085)	(3,085)	(17,426)
Net Interest Income	(16,412)	47,864	(849)	19,018	10,612	10,576
Commission and other Income	16,024	20,377	2,670	13,696	10,455	9,766
Operating Income	(388)	68,241	1,821	32,714	21,067	20,342
Operating Expenses	(71,652)	(43,780)	(6,961)	(21,031)	(7,101)	(15,756)
Provision for Risk Assets	(315,115)	(5,423)	(18,163)	(672)	(2,544)	1,391
Net Profit Before Tax	(387,155)	19,038	(23,304)	11,011	11,422	5,977
Exceptional Items	(13,746)	(32,178)	0	(5,906)	0	(10,322)
Interest on borrowings	0	0	0	0	0	0
Profit before taxation	(400,901)	(13,140)	(23,304)	5,105	11,422	(4,345)
Info tech devt levy	0	0	0	0	0	0
Current Taxation	114,865	(782)	6,991	(1,386)	(3,655)	(239)
Profit after taxation	(286,037)	(13,922)	(16,313)	3,718	7,767	(4,584)
Extraordinary Items (net of tax)	0	0	0		0	0
Minority Interest	(163)	(80)	0	(319)	0	601
Amortisation of goodwill	0	0	0		0	0
Profit attrib. to shareholders	(286,200)	(14,002)	(16,313)	3,400	7,767	(3,983)

Other Information	Oceanic Bank	Skye Bank	Spring Bank	Stanbic IBTC	Standard Chartered	Sterling Bank
Outstanding Shares (million)	22,221	14,502	11,321	18,750	16,380	12,563
Non-Performing Loan	546,273	56,234	129,427	20,656	7,546	20,446
Non-Performing Loan/Total Loans	70.91%	18.14%	331.36%	19.77%	13.43%	26.89%
Provisions/Non-Performing Loans	60.20%	66.87%	14.03%	31.85%	33.71%	43.68%
EPS (N)	-12.87	-0.96	-1.44	0.20	0.47	-0.36

Source: Company Reports, BGL Research

Table 125: Post-CBN Audit Results – September 2009

Balance Sheet Assets	UBA N'm	Union Bank N'm	Unity Bank N'm	Wema Bank N'm	Zenith Bank N'm
Cash & Short-term funds	115,300	45,880	11,951	(29,026)	86,532
Due from other banks	489,579	200,415	27,251	1,561	457,837
Treasury Bills	151,951	32,651	0	0	227,075
Trading Securities	0	0	0	0	0
Investments	84,141	78,781	15,057	7,347	127,180
Investment/Trading Properties	0	16,889	0	3,072	0
Loans & Advances (Gross)	587,739	492,620	124,401	85,657	693,567
Loans & Advances (Net)	545,001	374,165	115,673	56,224	658,074
Advances under finance lease	0	4,938	620	3,199	6,177
Long Term Investment	0	51,048	8,785	9,950	0
Other Assets	81,685	149,178	50,959	8,641	48,616
Fixed Assets	94,455	61,396	13,680	14,400	75,425
Intangibles	0	187	17,085	328	0
Total Assets	**1,562,112**	**1,015,528**	**261,062**	**75,696**	**1,686,915**
Liabilities					
Deposit and Current Account	1,262,039	729,566	202,157	101,652	1,090,090
Due to other banks	0	51,274	4,707	0	0
Extraordinary Items (net of tax)	0	0	0	0	0
Deferred Taxation	991	5,084	0	0	6,607
Other Liabilities	105,670	247,345	22,158	25,938	225,719
Long Term Borrowings	0	120,000	0	103	30,079
Total Liabilities	**1,368,700**	**1,153,269**	**229,022**	**127,693**	**1,352,494**
Capital & Reserves					
Share Capital	10,779	5,791	7,251	5,160	12,559
Reserves	177,639	(151,945)	24,789	(57,335)	319,579
Shareholders' Fund	**188,418**	**(146,154)**	**32,040**	**(52,175)**	**332,138**
Minority Interest	4,994	8,413	0	178	2,283
Total Liabilities and Equity	**1,562,112**	**1,015,528**	**261,062**	**75,696**	**1,686,915**

Profit & Loss	UBA N'm	Union Bank N'm	Unity Bank N'm	Wema Bank N'm	Zenith N'm
Gross Earnings	198,148	97,506	35,932	25,286	199,000
Interest Earnings	144,111	48,464	20,955	9,146	146,517
Interest Expense	(61,374)	(31,207)	(14,016)	(5,673)	(48,082)
Net Interest Income	82,737	17,257	6,939	3,473	98,435
Commission and other Income	54,038	49,043	14,977	16,141	52,483
Operating Income	136,775	66,300	21,917	19,613	150,918
Operating Expenses	(99,069)	(36,267)	(22,945)	(12,784)	(94,412)
Provision for Risk Assets	(1,662)	(148,488)	(7,700)	(36,263)	(9,348)
Net Profit Before Tax	36,044	(118,455)	(8,728)	(29,433)	47,158
Exceptional Items	(41,076)	(104,408)	0	0	(26,144)
Interest on borrowings	0	0	0	0	0
Profit before taxation	(5,032)	(222,863)	(8,728)	(29,433)	21,014
Info tech devt levy	0	0	0	0	0
Current Taxation	(2,260)	0	0	0	(4,623)
Profit after taxation	(7,292)	(222,863)	(8,728)	(29,433)	16,391
Extraordinary Items (net of tax)	0	0	0	0	0
Minority Interest	55	0	0	0	(150)
Amortisation of goodwill	0	0	0	0	0
Profit attrib. to shareholders	(7,237)	(222,863)	(8,728)	(29,433)	16,241
Other Information	**UBA**	**Union Bank**	**Unity Bank**	**Wema Bank**	**Zenith**
Outstanding Shares (million)	21,556	13,510	14,502	10,321	25,117
Non-Performing Loan	53,018	185,250	42,846	N/A	25,162
Non-Performing Loan/Total Loans	9.02%	37.61%	34.44%	N/A	3.63%
Provisions/ Non-Performing Loans	80.61%	136.52%	17.97%	N/A	141.06%
EPS (N)	-0.34	-16.50	-0.60	-2.85	0.65

Source: Company Reports, BGL Research

Table 126
Valuation Statistics

Valuation Statistics for Selected Banks																
Company	Current Prices	12 Mths Earnings	Outstanding Shares	EPS	DPS	P/E	Beta	r	1-b	RR (b)	ROE	g = ROE * RR	Price/Cash Flow	Price/Book Value	Debt/Market Cap
ACCESS BANK PLC.	9.60	(133,000,000)	16,437,259,273	(0.01)	0.70	(1,186.45)	1.4870	14.11%	24.25%	75.75%	3.12%	2.3655%	0.30	0.71	18.03%
DIAMOND BANK NIGERIA PLC	9.75	(4,553,630,000)	14,475,237,125	(0.31)	0.09	(30.99)	1.6940	3.15%	75.00%	25.00%	7.43%	1.8572%	1.68	0.58	18.09%
ECOBANK PLC	7.07	(13,461,208,000)	7,218,308,666	(1.86)	0.24	(3.79)	0.4500	4.21%	0.00%	100.00%	2.50%	2.5000%	3.77	1.48	0.00%
FIDELITY BANK PLC	2.80	679,000,000	28,963,165,117	0.02	0.30	119.44	1.2170	17.78%	28.57%	71.43%	4.45%	3.1787%	1.24	0.50	0.00%
FIRST BANK OF NIG. PLC	15.96	(9,039,000,000)	29,006,297,203	(0.31)	1.35	(51.22)	1.3453	13.32%	71.00%	29.00%	11.82%	3.4270%	64.77	1.32	7.24%
FIRST CITY MONUMENT BANK PLC.	9.45	(5,853,614,000)	16,380,311,234	(0.36)	0.50	(26.44)	1.0998	13.81%	53.61%	46.39%	11.00%	5.1051%	1.83	0.37	0.00%
GUARANTY TRUST BANK PLC.	18.50	29,376,000,000	18,653,748,614	1.57	1.00	11.75	1.4207	11.59%	40.50%	59.50%	8.37%	4.9828%	1.45	1.54	21.75%
SKYE BANK PLC	8.09	(14,002,000,000)	11,584,970,080	(1.21)	0.60	(6.69)	1.6760	17.34%	39.44%	60.56%	8.24%	4.9927%	0.45	0.71	68.48%
STANBIC IBTC	9.43	5,137,430,000	18,750,000,000	0.27	0.40	34.42	1.6508	10.69%	64.41%	35.59%	13.21%	4.7025%	5.74	1.75	3.99%
STERLING BANK PLC.	1.63	(4,584,000,000)	12,563,091,545	(0.36)	0.10	(4.47)	1.2021	22.43%	20.40%	79.60%	18.19%	14.4778%	0.33	0.48	71.08%
U B A PLC	14.40	(7,237,000,000)	21,556,499,963	(0.34)	0.92	(42.89)	1.6114	14.59%	25.00%	75.00%	7.73%	5.8012%	0.72	0.76	0.00%
ZENITH INTERNATIONAL BANK PLC	16.25	16,241,241,000	25,117,195,029	0.65	1.70	25.13	1.4141	17.67%	30.20%	69.80%	6.82%	4.7591%	1.37	0.94	10.01%

Source: BGL Research

Table 127
Industry Historical Data – 2004 - 2008

Balance Sheet	2004	2005	2006	2007	2008
Assets	**N'm**	**N'm**	**N'm**	**N'm**	**N'm**
Cash & Short-term funds	165,905	260,472	526,325	96,955	1,355,264
Due from other banks	196,092	337,916	763,610	1,262,984	3,591,085
Due from banks outside Nigeria	460,486	575,629	840,839	1,140,473	1,417,098
Bills Discounted	162,991	183,552	208,435	396,944	337,377
Short Term Investments	256,297	464,496	944,476	1,660,146	2,081,933
Managed Funds	22	35	35	22,357	60,261
Long Term Investments - FGN Bonds	31,878	47,892	148,411	259,102	375,943
Long Term Investments - Others	32,605	47,935	133,859	189,682	421,343
Investment/Trading Properties	1,621	5,285	11,256	7,425	44,699
Loans & Advances - Gross	673,805	1,053,791	1,868,846	3,001,969	5,367,165
Non-Performing Loans	120,900	141,484	255,656	238,258	303,497
Loans & Advances - Net	564,543	924,823	1,641,719	2,787,759	5,096,777
Advances under finance lease	5,790	17,725	34,680	55,968	82,912
Other Facilities	6,815	7,800	13,768	20,714	29,545
Other Assets	118,353	200,667	400,743	534,386	934,156
Deferred Tax Assets	715	989	1,963	939	5,096
Fixed Assets	82,821	109,526	237,543	353,214	509,904
Goodwill	101	101	55,102	18,259	354
Total Assets	**2,087,036**	**3,184,843**	**5,962,764**	**9,679,909**	**16,343,748**
Liabilities					
Deposit and Current Account	1,417,162	2,057,704	4,062,197	6,451,277	10,174,947
Due to other banks	7,832	7,210	110,071	335,160	746,314
Other Facilities	1,867	1,171	9,314	13,094	11,341
Managed Funds	22	814	3,029	89,924	108,285
Tax Payable	19,031	22,108	38,106	62,542	100,036
Deferred Taxation	10,827	13,249	23,180	24,697	35,430
Other Liabilities	379,606	566,484	759,900	1,058,129	2,078,814
Dividend Payable	9,275	20,970	22,336	3,679	353
Borrowings	14,400	15,544	47,218	208,967	373,565
Total Liabilities	**1,860,021**	**2,705,253**	**5,075,350**	**8,247,469**	**13,629,087**
Capital & Reserves					
Share Capital	37,262	68,347	133,983	113,984	144,651
Share Premium	39,003	219,596	486,255	881,118	1,893,496
Statutory Reserve	52,248	69,584	94,609	134,244	221,364
Exchange difference reserve	14,725	11,729	11,130	9,840	8,087
General Reserve	50,842	57,434	72,665	174,159	308,845
Bonus Issue Reserve	5,353	7,455	11,901	9,783	14,438
Reserve for SMEIS	21,922	30,648	41,540	47,897	48,642
Revaluation Reserve	7,221	6,532	20,404	29,016	24,963
Contingency Reserve	1,331	1,354	1,918	6,502	12,717
Investment Properties Reserve	0	162	10,057	10,057	9,370
Minority Interests	3,846	6,749	2,952	15,840	28,088
Shareholders' Fund	**227,014**	**479,590**	**887,414**	**1,432,441**	**2,714,661**
Total Liabilities and Equity	**2,087,036**	**3,184,843**	**5,962,764**	**9,679,910**	**16,343,748**

Profit & Loss	N'm	N'm	N'm	N'm	N'm
Gross Earnings	**296,097**	**396,280**	**630,663**	**1,011,231**	**1,746,318**
Interest Earnings	199,348	258,362	405,156	647,729	1,033,675
Interest Expense	(67,067)	(90,014)	(143,603)	(227,182)	(372,695)
Net Interest Income	**132,263**	**168,348**	**261,553**	**420,547**	**660,980**
Commission and other Income	97,436	136,569	226,773	365,617	522,290
Operating Income	229,698	304,917	488,327	786,164	1,183,270
Staff Cost	(57,101)	(75,195)	(118,074)	(170,438)	(262,813)
Depreciation	(15,918)	(18,838)	(29,061)	(40,797)	(53,860)
Other Operating Expenses	(73,026)	(99,096)	(156,135)	(242,046)	(321,532)
Provision for doubtful accounts	(13,080)	(28,992)	(45,176)	(58,302)	(84,879)
Operating Profit	**70,573**	**82,795**	**139,881**	**274,580**	**460,187**
Exceptional Items	(2,025)	177	255	(7,635)	(7,093)

Interest on borrowings	(522)	(661)	(1,194)	(3,863)	(10,444)
Profit before taxation	**68,026**	**82,311**	**138,943**	**263,082**	**453,905**
Info tech devt. levy	0	0	0	(245)	(2,610)
Current Taxation	(13,519)	(20,936)	(29,027)	(50,981)	(79,019)
Deferred taxation Expense	(1,871)	(1,621)	(3,459)	(5,143)	(8,440)
Profit after taxation	52,630	59,755	106,456	206,713	365,529
Extraordinary Items	0	0	0	0	0
Minority Interest	(697)	(1,010)	(1,237)	(2,792)	(1,276)
Amortisation of goodwill	0	0	(4,615)	(5,382)	0
Profit attrib. to shareholders	**51,932**	**58,745**	**100,604**	**198,539**	**364,252**
Dividend Proposed	19,662	32,391	58,207	110,866	183,366
Other Information					
Outstanding Shares (million)	70,555	130,127	261,650	230,398	282,987
No. of Employees	35	37	58	64	71,584
No. of Branches	1,310	1,895	3,092	3,030	4,279
Ratios & Analysis	**2004**	**2005**	**2006**	**2007**	**2008**
Perfomance Ratios (Margin)					
Commission(other income)/Gross Earnings	32.91%	34.46%	35.96%	36.16%	29.91%
Interest Margin	67.33%	65.20%	64.24%	64.05%	59.19%
Net Interest Margin	44.67%	42.48%	41.47%	41.59%	37.85%
Operating Expenses/Gross Earnings	49.32%	48.74%	48.09%	44.82%	36.55%
PAT/Gross Earnings	17.77%	15.08%	16.88%	20.44%	20.93%
Cost to Income Ratio	0.64	0.63	0.62	0.58	0.54
Pretax Profit Margin	22.97%	20.77%	22.03%	26.02%	25.99%
ROCE	29.23%	16.72%	14.97%	16.73%	14.90%
ROAE	25.23%	16.91%	15.58%	17.82%	17.63%
ROAA	2.62%	2.27%	2.33%	2.64%	2.81%
EPS	0.75	0.46	0.41	0.90	1.29
DPS	0.28	0.25	0.22	0.48	0.65
Operating Profit per employee	6,578.03	8,291.20	8,454.70	12,366.51	16,529.81
Operating Expenses per employee	(4,182.41)	(5,251.51)	(5,250.70)	(7,130.21)	(8,915.46)
Profit per branch	53,872.34	43,691.40	45,239.56	90,620.47	107,545.46

Asset Quality Ratios					
Interest Income/Earning Assets	11.11%	9.61%	8.40%	8.31%	7.78%
Effective Return on Earnings Assets	10.38%	8.53%	7.46%	7.56%	7.14%
Explicit cost of Debt	4.69%	4.36%	3.42%	3.30%	3.39%
Cost of bad and doubt loans	1.94%	2.75%	2.42%	1.94%	1.58%
% of classified loans	17.94%	13.43%	13.68%	7.94%	5.65%
Loan loss provision/classified loans	90.37%	91.15%	88.84%	89.91%	89.09%

Liquidity Ratios					
Liquidity Ratio	57.06%	62.68%	62.11%	67.03%	70.89%
Capital Adequacy Ratios					
Equity/Loans & Advances	0.34	0.46	0.47	0.48	0.51
Debt/Equity Ratio	8.19	5.64	5.72	5.76	5.02
Equity/Total Assets	0.11	0.15	0.15	0.15	0.17

Cashflow Analysis					
Free Operating Cashflow	35,128	287,771	1,169,151	1,397,203	2,479,301
Discretionary Cashflow	53,359	309,782	1,201,650	1,461,456	2,589,712
Prefinancing Cashflow	107,445	364,929	1,473,010	1,986,979	3,467,749
Free Cashflow to Equity	11,429	246,695	1,015,387	1,310,382	2,131,871
Operating Cashflow/Capital Expenditure	2.16	7.46	12.36	9.43	14.32
Operating Cashflow/Depreciation	4.00	17.56	43.54	38.11	49.34
Operating Cashflow to book value	0.28	0.69	1.43	1.09	0.98
Operating Cashflow per Share	0.90	2.54	4.84	6.75	9.39

Source: Company Reports, BGL Research

Required Disclosure

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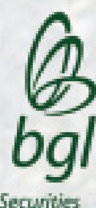

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