



PAMICOL 2010 GLOBAL ECONOMIC REVIEW & 2011 OUTLOOK

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Table of Contents

2010 YEAR IN REVIEW

1.0 Highlights

2.0 Global Economy Review in 2010

3.0 Nigeria Economy in 2010

4.0 World stock markets review of 2010

4.1 The Nigeria Equities Market

4.2 The Banking Sector Review

5.0 Bond Market Review

6.0 Real Estate

ECONOMIC OUTLOOK FOR 2011

7.0 World Bank Outlook

7.1 Nigerian General Economy Outlook

7.2 Money Market

7.3 Capital Market Outlook

7.4 Fixed Income Market

7.5 Cash and Bank Instruments

7.6 Real Estate

7.7 Foreign Exchange



1.0 Document Highlights

- The year 2010 was a year of broad recovery from the crash of 2007-2009.
- The emerging markets grew strongly, while the advanced markets struggled with deleveraging and high levels of unemployment.
- The overall GDP growth for 2010 is estimated at 7.85% compared to 6.96% recorded in 2009.
- Nigeria Federal Government proposed N4, 226.19 billion for 2011 fiscal year.
- Sri Lanka's stock market gained the most at 96.01%, while Bermuda declined the most at -44.87%.
- Kenya was the best performing market in Africa for 2010 financial year with a gain of 36.5 per cent.
- Nigeria was fifth performing market in Africa with a gain of 18.9 per cent.
- The Asset Management Corporation of Nigeria (AMCON) Bill.



Preambles

The world started to recover from the recession of 2008-09 by the quarter of 2009. The recession which was created by financial institutions has been described as the worst ever recession in many years. The financial institutions themselves were the worst hit; however, the cascading impact can be seen in all the economies. Foreign direct investments went down drastically because of funds crunch in the developed economy. Lack of foreign investments dried the resource pool and many projects had to be scrapped. It also had direct impact on trade as productivity declined in the absence of financial resources which led to massive layoffs adding to the unemployment rate. The number of unemployed doubled in United States since 2007. Many manufacturing economies saw a fall in exports following the change in inventory cycle. Domestic demand was constrained by credit crunch and stringent economic policies. Oil and essential commodities have been playing a major role in deciding the recovery model of many economies. The unemployment rate has been going down with reopening of the international trade and boost to production capacities of the industrialized economies. A strong recovery has begun in the developing countries as compared to the developed nations. It is expected that conditions for international trade will be challenging keeping in view that most of the exports are driven by developed nations. International policy responses were largely successful but needed an international coordination to bring the recovery on full swing. Globally, the recovery is not uniform and is not robust enough to provide positive stimulus.

2.0 Global Economy Review in 2010

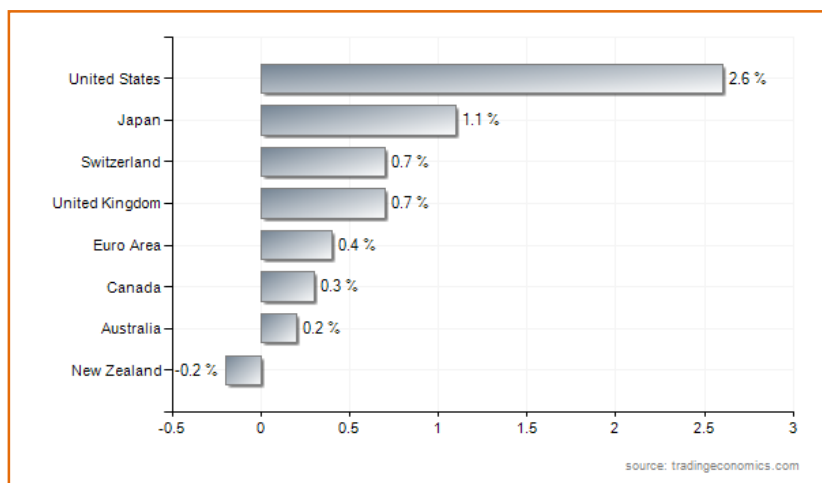
According to the October 2010 Regional Economic Outlook of the IMF on the Sub Saharan Africa, "before the 2007–09 global shocks, most of the region's economies were in good shape: steady growth, low inflation, sustainable fiscal balances, rising foreign exchange reserves, and declining government debt. When the financial shocks hit them, the countries were able to use fiscal and monetary policies nimbly to dampen the adverse effects of the sudden shifts in world trade, prices, and financial flows". Hence in the wake of the global recovery, "growth in 2010 and 2011 is expected to be broad-based. Domestic demand is expected to remain strong on the basis of rising real incomes and sustained private and public investment. In addition, exports are expected to benefit from the increased reorientation of trade toward fast-growing markets in Asia" the report projected. South Africa expanded by more than 3% in 2010, better than the projected 2%, and is expected to sustain the growth in 2011.

The worldwide PMI surveys suggested a sharp acceleration in global GDP growth to an annual rate of just over 3.5% at the end of 2010. The growth spurt will further calm any lingering fears of a double-dip recession. However some signs of underlying weakness remain. The year 2010 went by like a flash.



At the global level, it was a year of broad recovery from the crash of 2007-2009. The emerging markets grew strongly, while the advanced markets struggled with deleveraging and high levels of unemployment. The year ended with the Europeans in deep water as they struggled with the rescue of the Irish economy to stop the contagion from spreading. But Germany seems to have become the strongest partner in the European Union, with current account surpluses that are as high in absolute and relative terms as China. The US economy seems to have regained some growth but unemployment remains stubbornly high. On the whole, from an investment point of view, the developed markets seem to have done reasonably well thanks to the second round of quantitative easing (QE2). The US equity market is up 10% and even the Japanese market is up 10% because of the revaluation of the yen.

Countries Ranking By Gross Domestic Product (GDP) Growth Rate



Only the European markets are down roughly 10% with the exception of Germany, which is up 10%. Emerging market stocks are up 13%, with Thailand and Indonesia delivering returns of over 50% in 2010. Only China, the fastest growing economy, had a decline in the Shanghai All share index of more than 15% due to concerns with higher interest rates and tighter monetary conditions. Financial markets, however, did not perform as well as commodity markets. Gold and oil prices were up nearly 25% in 2010 while industrial commodities were up 40%. This basically says that investors prefer to hold more real goods than paper currency and securities.



3.0 Nigeria Economy 2010

The overall GDP growth for 2010 is estimated at 7.85% compared to 6.96% recorded in 2009. This also compares favourably with the average growth rate in Africa of 4.5%. The growth was driven by the Agricultural and Crude Oil sectors, which makes up approximately 42.32% and 19.70% of GDP respectively. At the beginning of 2010, the economy was still grappling with the aftermath of the 2008 global economic downturns, with relative fluctuations in oil prices, which is the main stain of the Nigerian economy. However, by the end of the first half of 2010, the economy recorded strong Gross Domestic Product (GDP) growth of 7.2% compared with 5.9% during the same period in 2009. This trend continued throughout the year. The real GDP grew by 7.2% in the first quarter of 2010, this compared to 4.5% and 4.6% in the first quarter of 2009 and 2008 respectively. The oil GDP also grew by 3.2% in the first quarter of 2010 compared with a contraction of 8.08% in the first quarter of 2009 and 6.45% in the first quarter of 2008. The improved performances were due to the sustained growths in the non-oil sector led by Agriculture and an obvious improvement in oil production due to the stability in the Niger Delta region.

According to the World Bank, about 40 million Nigerian Youths are unemployed and in spite of the various interventions, the power generation and supply have not translated into regular electricity. Notwithstanding, these shortcomings, the government came out with a bailout programme to rescue some of the near comatose sector of the economy. Through the Central Bank of Nigeria, the manufacturing sector received 500 billion naira bail out. The Small Medium Enterprises (SMEs) sector received 200 billion naira lifeline support. The banking sub sector, Agriculture and the Aviation also received the same gesture of support. The 2010 was also a year in which a number of new economic policies were introduced while some other policies were reversed. A national Tax Policy was launched by the Federal Inland Revenue, aimed at boosting internal revenue generation and the government also lifted ban on some commodities and the importation of some categories of cars into the country.

Country Forecast Overview (3 Year)			
Key Indicators	2010	2011	2012
Real GDP Growth (%)	5.5	3.6	4.6
Consumer Price Inflation (av:%)	13.9	11.8	10.7
Budget Balance (% of GDP)	-5.9	-5.7	-4.9
Current-Account Balance (% of GDP)	12.7	12	10
Exchange Rate US\$:Euro (av)	149.97	154.67	160
Exchange Rate US\$:Euro (year-end)	152.3	157.3	162.5
Source: Country Forecast Nigeria July 2010			

According to a new UN report Nigeria's Foreign Direct Investment (FDI) inflows fell from six billion dollars in 2009 to \$2.3 billion in 2010, the fall represents a 60.4 per cent decline. The latest UN Conference on Trade and Development (UNCTAD) Global Investment Trends Monitor (GITD) was released at the UN office in Geneva.

The report notes that inflows into Africa, which peaked in 2008, is on the decline, despite an increase in developing and transition economies, which rose by 10 per cent in 2010."Estimates show that FDI inflows in the continent fell by 14 per cent to \$50 billion in 2010, although there are significant regional variations," the report stated.

According to the report, cross-border mergers and acquisitions, an increasingly important mode of entry into developing countries, increased in Nigeria from 0.2 per cent in 2009 to 0.4 in 2010. "India's Bhari Airtel's acquisition of the African mobile phone networks, Zain Africa, for 10.7 billion dollars in 2010, was not reported as an addition to FDI flows into Africa or Nigeria, since it is only a change of ownership," it noted. Nigeria's communications sector, which attracted \$15 billion in the last nine years, is the second largest source for FDIs in the country, after the oil and gas sector. The UNCTAD report, which also highlighted decline in FDIs in South Africa, notes that developing and transition economies, for the first time, accounted for more than half of the global FDI inflows in 2010. The report showed that global inflows of FDI rose marginally by one per cent from \$1.1 trillion dollars in 2009 to almost \$1.112 trillion. "There was a strong rebound in FDI to developing Asian economies and Latin America, while Europe stood out as the region where flows fell the most sharply," The report estimates that FDI flows to developing economies increased to \$525 billion in 2010 compared with \$478 billion in 2009.

It mainly attributed the additional flows to a relatively fast economic recovery experienced by these countries and increasing South-South flows. However, it notes that the rise of FDI from developing Asia and Latin America to Africa was not yet enough to compensate for the decline of FDI from developed countries, which still accounted for the lion's share of inward FDI flows to many African countries. According to the report, FDI flows are expected to improve this year from \$1.3trillion to \$1.5 trillion, but a number of risk factors remained in place. Conversely, the report predicts that worldwide GDP growth, after the "recovery-boost" in 2010, would slow down. In addition, risks related to currency volatility, sovereign debt and investment protectionism could still derail the expected FDI upturn.



A strong global FDI recovery depends much on the steady economic and FDI recovery of the developed economies, the report says.

Nigeria: risk assessment

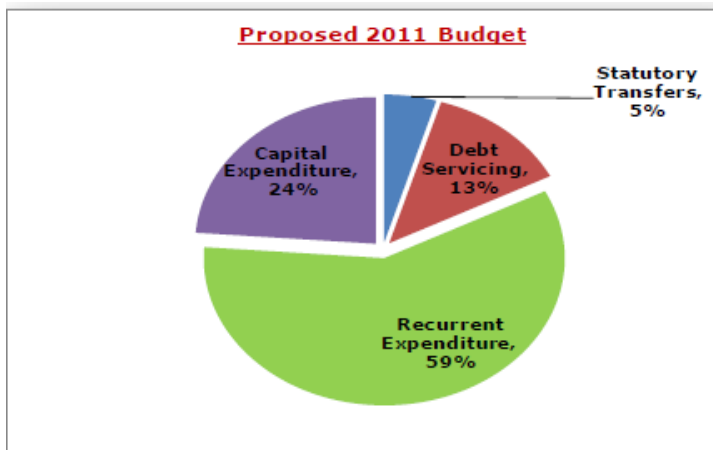
Risk	Dec-10
Sovereign risk	B
Currency risk	B
Banking sector risk	CCC
Political risk	CC
Economic structure risk	B
Source:IMF	

Year	GDP in Billions of USD PPP	% GDP Growth
2006	267.85	3.8
2007	293.51	4.3
2008	317.87	3.9
2009	342.14	4.5
2010	370.24	5.5
Source: EIU Country Data		



3.1 The Proposed 2011 Budget

The proposed 2011 Budget indicates a contraction in government spending given the planned 18.1% reduction in total expenditure (from N5,159.66 billion to N4,226.19 billion with N3,220.20 billion and N1,005.99 billion representing recurrent and capital expenditure respectively), we are of the opinion that challenges still exist to stall the full implementation of this budget. We expect the CBN to maintain the contraction in monetary policy so as to contain inflation in view of increase in disbursements over the election period and AMCON's activities. As such we expect yields on fixed income securities to rise across all tenures of the yield curve.



Indicators	Approved 2010 Budget	Proposed 2011 Budget	% Change
Budgeted Revenue(N' trn)	3.086	2.836	-8%
Budgeted Expenditure(N' trn)	4.608	4.226	-8%
Budgeted Deficits (Ntrn)	1.521	1.39	-9%
Oil Price/barrel (US\$)	67	65	-3%
Crude Oil Production (mbpd)	2.35	2.3	-2%
GDP (FGN Estimates) N' trn)	31.25	38.34	23%
GDP Growth Rate(%)	11.2	N/A	
Inflation Rate (%)	11.2	N/A	
Exchange Rate (N/US \$)	150	150	0%
Debt Service (N'bn)	497	542.38	9%

Source: FGN Appropriation Bill 2011

4.0 World stock markets review of 2010

The year 2010 returns of major stock exchange (in local currencies) for equity markets around the world. Summarily, the average country saw its major equity market index gain of 15.33% in 2010. Sri Lanka's stock market gained the most at 96.01%, while Bermuda declined the most at -44.87%. Six other countries along with Sri Lanka gained more than 50% in 2010 -- Bangladesh (82.79%), Estonia (72.62%), Ukraine (70.20%), Peru (64.99%), Lithuania (56.49%), and Argentina (51.83%). Looking at just the G-7 countries, Germany did the best at 16.06%, followed by Canada (14.45%), the US (12.78%), and the UK (9%). The three other G-7 countries -- France, Japan, and Italy -- all declined in the year. Of the BRICs, Russia gained the most at 22.70%, followed by India (17.43%), Brazil (1.04%), and China (-14.31%).

Analysis shown that Kenya was the best performing market in Africa for 2010 financial year with a gain of 36.5 per cent followed by Ghana with a gain of 35.9 percent; Morocco was third with 22.1 per cent. Tunisia came fourth with a gain of 19.1 per cent, while Nigeria was fifth performing market in Africa with a gain of 18.9 per cent.

Global Stock Market Performance 2010			
Country	Return (2010) %	Country	Return (2010)%
Sri Lanka	96.01	United States	12.78
Bangladesh	82.79	Luxembourg	12.44
Estonia	72.62	Namibia	12.35
Ukraine	70.2	Romania	12.35
Peru	64.99	Singapore	10.09
Lithuania	56.49	Czech Republic	9.62
Argentina	51.83	Taiwan	9.58
Indonesia	46.13	Malta	9.27
Latvia	41.08	Britain	9
Thailand	40.6	Saudi Arabia	8.15
Philippines	37.62	Oman	6.06
Chile	37.59	Netherlands	5.74
Kenya	36.48	Croatia	5.33
Denmark	35.91	Hong Kong	5.33
Colombia	33.57	Belgium	2.67
Ghana	32.25	New Zealand	2.44
Pakistan	28.08	Jamaica	2.28
Turkey	24.95	Brazil	1.04
Qatar	24.75	Hungary	0.47
Russia	22.7	Kuwait	-0.71
Morocco	22.1	Abu Dhabi(UAE)	-0.87
South Korea	21.88	Switzerland	-1.68
Sweden	21.42	Bahrain	-1.78
Mexico	20.02	Vietnam	-2.04
Malaysia	19.34	Serbia	-2.22
Austria	19.2	Japan	-3.01
Tunisia	19.13	Ireland	-3.01
Nigeria	18.93	France	-3.34
Fin land	18.68	Lebanon	-5.76
Venezuela	18.63	Portugal	-6.21
Mauritius	18.46	Dubai UAE	-9.6
Norway	18	Botswana	-11.45
India	17.43	Italy	-13.23
Ecuador	16.94	Slovakia	-13.71
South Africa	16.09	China	-14.31
Germany	16.06	Bulgaria	-15.19
Egypt	15.71	Spain	-17.43
Israel	14.93	Greece	-35.62
Poland	14.88	Bermuda	-44.87
Iceland	14.65	Average	15.33
Canada	14.45		

Source: Peninsula Research

4.1 The Nigeria Equities Market

The Nigerian capital market which started the year with a little above 4 trillion naira market capitalization appreciated to more than 7 trillion naira at the end of last year, with an 18.86% year – to – year end growth. A major shakeup saw the replacement of Ndi Okereke-Onyiuke, as the Director-General and Chief Executive Officer of NSE, with an interim Administrator. This follows the allegation of mismanagement and sharp practices leveled by the former Chairman of the NSE Council, Billionaire businessman, Aliko Dangote, who was also removed by the Securities and Exchange Commission (SEC) for complacency. New trading hours came into operation at the last quarter of last year, precisely in December, extending the hours from 9.30 am to 2.00 pm local time as against the previous time of 9.30 am to 12.30 pm. In spite of the downturns in the capital market, many new companies were listed on the exchange while some moribund companies got delisted.

Officials of the Dar es Salaam Stock Exchange also visited the capital market in April to understudy the operations of the 50-year-old NSE. Specifically, they were in Nigeria to understudy the operations of the Alternative Investment Market and Private Placement Exchange (AIM/PRIPEX) market of the NSE. While it is generally believed that a lot still needed to be done to improve the economy, many Nigerians are hoping for a better living condition in year 2011. Stability returned to the capital market in 2010 because the index which started declining in 2008 after hitting its highest points of 66,000 points, dropped to about 20,800 at the beginning of 2010. But at the end of it, the index had advanced to about 24,000 points and within the year, it was actually revolving around that figure, indicating that the decline has ended and stability has returned to the market. That is how 2010 can be ranked. The ranking now is principally for the secondary market's equities. The equities' primary market was almost dormant and only a very few companies were listed. There was a mega listing of Dangote Cement which was quite historic, except this, there wasn't any public offer that came up last year. All the listings that were done were essentially securities listed by introduction. None of them came in IPO by way of new issues. For equities' primary market, there was little or no activity.

Aggregate stock market turnover between January and December 2010 were 93.335 billion shares valued at N797.551 billion, exchanged in 1,918,479 deals. In the comparable period during 2009, the market recorded turnover of 95.3 billion shares valued at N638.11 billion in 1,619,385 deals.

Top Gainers For Year 2010				Top Losers For Year 2010			
Symbol	5-Jan-10	31-Dec-10	% Change	Symbol	5-Jan-10	31-Dec-10	%Change
Int Breweries	2.27	6.42	183%	Unity Kapital	2.26	0.5	-78%
Berger Paints	3.2	8.36	161%	Beco Petroleum	2.53	0.6	-76%
Ashakacem	10.27	26.51	158%	OASIS INS	1.49	0.5	-66%
Cadbury	25.79	50	94%	ECOBANK	10.63	3.6	-66%
Jberger	36	69	92%	STACO	1.25	0.5	-60%
Flourmills	36	69	92%	UNIC INS	1.1	0.5	-55%
Sterling Bank	1.23	2.31	88%	RT Briscoe	6.15	2.9	-53%
NNFM	21.85	39.88	83%	Intercont Wapic	1.1	0.52	-53%
Fidson Healthcare	1.78	3.06	72%	Prestige Assurance	4	2.09	-48%
COATAINS (W/A)	3.8	6.49	71%	Goldlink Ins	0.95	0.5	-47%

Source: NSE/Peninsula Research



4.2 The Banking Sector Review

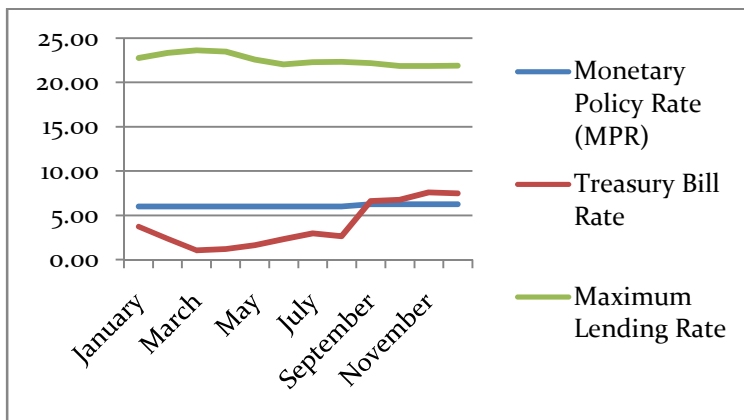
Banking operation in the country in the year 2010 was relatively calm following the tumultuous character of operations in the previous year. It was truly a year for consolidation, to ascertain that the reforms achieved their targeted goals and therefore there were no major land-shaking developments as it related to the sector in the year.

There was a general return to profitability as most banks, following the recognition and adequate provisioning for the bad debts on their balance sheets, witnessed a return to profitability as a result of aggressive debt recovery drives which yielded impressive results. The highlights of developments in the banking sector during the year in review included the fact of the commencement of the Asset Management Company, on which a lot of hope is reposed for the delayed recapitalization and resolution of ownership for the banks which were 'rescued' and which the Governor of the Central Bank has informed all concerned that the banks did not fail but were killed by the politicians! There was also the apparent seamless exit of the bank CEOs who were caught on the wrong side of the new tenure regime instituted last year by the Central Bank, which requires bank CEOs that have put in more than two terms of five years each to vacate their positions. In this regard, the Governor, during the year, had cause to caution all concerned to resist the temptation to remotely call the shots at the banks they respectively vacated threatening dire consequences if this caution was not heeded. There was also the high profile conviction of the toppled erstwhile Managing Director of Oceanic Bank following a plea bargaining which resulted in the recovery of the whopping sum of N 191 billion to the Treasury; the highest such recovery in the history of the country.

A new banking model- the successor to Universal Banking- came into effect on November 15, 2010 for which a deadline of May 2011 has been given for the banks in the country to decide on their preferred particular individual models. Quantitative easing was introduced by the Apex Bank to provide credit to the critical real sectors of the economy in answer to the drought in credit following the reforms. There were the usual corporate governance issues; the enforcement of the decision on common-year-end for the purposes of financial reporting for banks, the notice regarding the adoption of the International Financial Reporting Standards (IFRS), the know-your-customers campaign to checkmate money laundering and related financial crimes. Hurricane Sanusi visited the Microfinance operators during the year resulting in the withdrawal of- wait for it- a whole 224 operating licenses of some of the banks caught with one shortcomings or another in their operations. And in furtherance to the determination to increase the range and scope of banking services to bank customers, Mobile banking licenses were granted during the year. All these and more would form the crux of this review effort.



But before we give more details, it would be informative to outline the profile of the banking sector during the year by reviewing performance in the critical indices of price stability, the exchange rate and the cost of borrowing (interest rates) that prevailed during the year in review. The Central Bank prioritized stability mindful of the critical role which macro-economic and financial stability could play in fostering rapid economic growth and development. The Monetary Policy Rate (MPR) was left at 6.25 per cent having been hovering around 6 per cent for a long time in furtherance of the preferred accommodative stance of policy. The asymmetric corridor was retained at ± 200 basis points which implied that the Standing Lending Facility (SLF) is 8.25 per cent while the Standing Deposit Facility (SDF) stands at 4.25 per cent. This situation resulted in fairly predictable sustainable increase in the lending rates. The exchange rates remained stable within the band of ± 3 per cent during the year, a development which gave the assurance needed by most economic agents who do international business which in the Nigeria particular situation would mean almost all operators in the economy. For instance, official data gave the rates of exchange at the various markets at the end of September 2010 as follows, for the official, interbank and parallel markets respectively as; N 149.95, N 154.54 and N 157 to the dollar.



Source: CBN

The Central Bank worried that one of the anticipated fallouts of its reform of the banking sector was the dearth of credit to the private sector and mindful of the need to think outside the box to make funding available to the real sector decided to embark on quantitative easing. For instance, as February 2010 the annualized rate of growth of credit to the private sector was negative at - 16.20 per cent below the targeted benchmark of 31.54 per cent. By the way quantitative easing describes a situation whereby the Central Bank floods the financial market with liquidity through investing in securities with the aim to boosting credit availability to the private sector and in the process contribute to the lowering of the long term cost of borrowing. In our particular situation the Central Bank requested the Bank of Industry to raise debentures which the Bank then invested in. The quantitative easing was commenced

with the Central Bank injecting a whopping 500 billion Naira for investment in emergency power sector projects dedicated to industrial clusters and the refinancing of Deposit.

Money Banks' exposures to the manufacturing and Small and Medium Scale sectors of the economy. These funds are channeled through DMBs who access the funds at 1 per cent for on lending to the intended beneficiaries at not more than 7 per cent interest rates with permissible tenor of 10-15 years. Questions have been raised regarding the propriety of the Central Bank in embarking on-lending under the quantitative easing arrangement and some have asked if the Central Bank was not operating outside its brief. But the literature does not say so and the Central Bank, in performing its Open Market Operations, had always regulated available liquidity by selling and repurchasing securities!

Precisely, on July 19, the Asset Management Corporation of Nigeria (AMCON) Bill became law after presidential assent. The new AMCON Board appointed by government on August 30, is chaired by Aliyu Belgore; Mustafa Chike-Obi is the Managing Director.

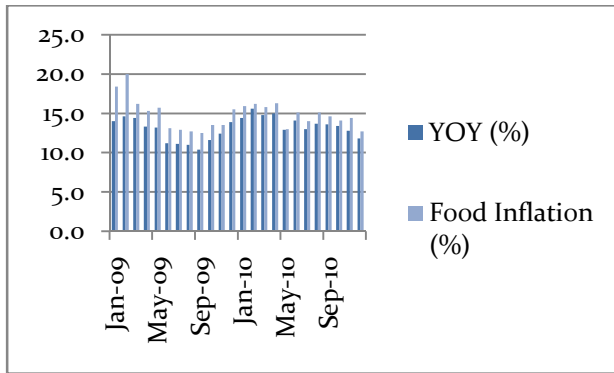
The AMCON is a multi-purpose platform empowered to purchase non-performing assets from banks as well as inject needed capital in the form of appropriate securities. In the case of distressed banks, the AMCON will, therefore, play the key role of facilitating mergers, acquisitions or capital injection by new investors.

AMCON made good its plan to buy over the toxic assets from banks with the issuance of N1, 036,821,000 Zero-Coupon Initial Consideration bonds to 21 banks. The bonds, due in December 31, 2013, have a yield of 10.125 per cent and have subsequently replaced toxic assets in the coffers of the benefiting banks, putting them back in a comfortable position to resume lending.

During the year, the CBN also gave an order that chief executive officers (CEOs) of banks will serve a maximum tenure of 10 years so as to strengthen the corporate governance structures in the banking system. It mandated all CEOs who would have served for 10 years by July 31, 2010 to cease to function in that capacity and hand over to their successors.

On July 31, 2010, Jim Ovia, Tony Elumelu, Akinsola Akinfenwa who were former CEOs of Zenith Bank, United Bank for Africa (UBA) and Skye Bank respectively who had served in that capacity in their banks for a period of 11 to 20 years relinquished their positions to new successors. The UBA appointed Phillips Oduoza to take over from Elumelu, Zenith Bank followed up by appointing Godwin Emefiele, its deputy managing director to succeed Ovia while Skye Bank appointed Kehinde Durosini-Etti as its managing director.





Inflation Rate movement in 2010

Source: CBN

5.0 Bond Market Review

The primary market for bonds was quite active, especially at the government debts ended. Many bond issues were made by the Debt Management Office (DMO), essentially to finance the budget of the Federal Government. That impacted positively on that market. New bond issue was N2.05trillion in 20010 compared to the N40billion recorded for equity in the same period. This was believed to be due to the market downturn as investors' confidence was eroded making the bond market a safe haven for investment. This experience continued into 2010 despite a seemingly positive sign of recovery in the bottom-line statistics. However, Activities in the secondary market for FGN Bonds were low towards the end of 2010 as investors patronised the equity market. Investors' flight to safety had accounted for a boost in trading activities during the first quarter of the year when FGN bonds trading were at its peak in March 2010. The month of October witnessed high volume traded at 10.92billion while the lowest activity on 0.73billion was recorded in May.

Federal Government Of Nigeria Bonds

Coupon Rate (%)	FGN BONDS	Nominal Value (N)	Issue Date	Redemption Date	Coupon Payment Dates
12.50	FG24DS2011	1,000.00	14-Apr-06	30-Mar-11	30-SEP / 30-MAR
T.Bills+3.750.00	T-BILLS+3.75 SEP 30, 2013	1,000.00	10-Oct-03	30-Sep-13	31-MAR / 30-SEP
14.50	14.50% FGN FEB 2011	1,000.00	24-Feb-06	24-Feb-11	24-MAY / 24-FEB
14.50	14.50% FGN MAR 2011	1,000.00	31-Mar-06	31-Mar-11	30-SEP / 31-MAR
13.50	13.50% FGN APR 2011	1,000.00	28-Apr-06	28-Apr-11	28-OCT / 28-APR
15.00	15.00% FGN MAY 2013	1,000.00	26-May-06	26-May-13	26-NOV / 26-MAY
12.00	12.00% FGN MAY 2011	1,000.00	26-May-06	26-May-11	26-NOV / 26-MAY
16.00	16.00% FGN JUN 2013	1,000.00	30-Jun-06	30-Jun-13	30-DEC / 30-JUN
12.99	12.99% FGN SEP 2011	1,000.00	29-Sep-06	29-Sep-11	29-MAR / 29-SEP
12.74	12.74% FGN OCT 2013	1,000.00	27-Oct-06	27-Oct-13	27-APR / 27-OCT
10.98	10.98% FGN NOV 2013	1,000.00	24-Nov-06	24-Nov-13	24-MAY / 24-NOV
11.99	11.99% FGN DEC 2013	1,000.00	22-Dec-06	22-Dec-13	22-JUN / 22-DEC
9.50	9.50% FGN FEB 2012	1,000.00	23-Feb-07	23-Feb-12	23-AUG / 23-FEB
10.75	10.75% FGN MAR 2014	1,000.00	30-Mar-07	30-Mar-14	30-SEP / 31-MAR
0.23	0.23% FGN MAY 2012	1,000.00	26 May 07	26 May 12	26 NOV / 26 MAY
9.20	9.20% FGN JUN 2014	1,000.00	29-Jun-07	29-Jun-14	29-DEC / 29-JUN
9.85	9.85% FGN JUL 2017	1,000.00	27-Jul-07	27-Jul-17	27-JAN / 27-JUL
0.35	0.35% FGN AUG 2017	1,000.00	31-Aug-07	31-Aug-17	28-FEB / 31-AUG
9.50	9.50% FGN AUG 2012	1,000.00	31-Aug-07	31-Aug-12	28-FEB / 31-AUG
9.25	9.25% FGN SEP 2014	1,000.00	28-Sep-07	28-Sep-14	28-MAR / 28-SEP
9.45	9.45% FGN JAN 2013	1,000.00	25-Jan-08	25-Jan-13	25-JUL / 25-JAN
10.70	10.70% FGN MAY 2018	1,000.00	30-May-08	30-May-18	30-NOV / 30-MAY
10.50	10.50% FGN JUL 2011	1,000.00	25-Jul-08	25-Jul-11	25-JAN / 25-JUL
15.00	15.00% FGN NOV 2028	1,000.00	28-Nov-08	28-Nov-28	28-MAY / 28-NOV
10.50	10.50% FGN NOV 2013	1,000.00	28-Nov-08	28-Nov-13	28-MAY / 28-NOV
9.92	9.92% FGN JAN 2012	1,000.00	30-Jan-09	30-Jan-28	30-JUL / 30-JAN
10.50	10.50% FGN MAY 2012	1,000.00	22-May-09	22-May-12	22-NOV / 22-MAY
12.49	12.49% FGN MAY 2029	1,000.00	22-May-09	22-May-29	22-NOV / 22-MAY
7.00	7.00% FGN OCT 2019	1,000.00	23-Oct-09	23-Oct-19	23-APR / 23-OCT
8.50	8.50% FGN NOV 2029	1,000.00	20-Nov-09	20-Nov-29	20-MAY / 20-NOV
4.00	4.00% FGN APR 2015	1,000.00	23-Apr-10	23-Apr-15	23-APR / 23-OCT
10.00	10.00% FGN JUL 2030	1,000.00	27-Jul-10	27-Jul-30	27-JAN / 27-JUL

Source: NSE & DMO



6.0 Real Estate

The year 2010 has come and gone leaving in its trail a sobering experience for all stakeholders in the real estate market. 2009 was really bad, but 2010 was a bit worse for developers, investors, vendors, valuers, bricklayers, building materials sellers, estate consultants etc whose revenue profile came down considerably as a result of market lull and low activities in the sector.

More than anything else, the lingering impact of the banking sector reform by the Central Bank of Nigeria (CBN) dealt a devastating blow on the sector in two major respects. Credit to developers and investors dried up as most banks stopped lending or financing real estate. Added to this, many bank workers including the chief executives of those most affected by the reform were laid off while a lot more that were lucky to retain their jobs suffered salary cut. This significantly affected supply and demand for housing.

Both sales and rental markets also had their beating in the year. Before the price stability that prevailed throughout the last quarter of the year, prices had dropped by as much as 40-50 percent for high end properties. The market was over-supplied especially on the island because a number of developments started springing up early 2008 and were completed last year leading to so many competing properties.

The renovation of the 1004 flats in Victoria Island were completed in 2010 with about 20 percent potential owner-occupiers while about 80 percent of them are to let at N2 million for two-bedroom flat and N2.5 million for three-bedroom flats.

For landlords on this axis, 2010 was also a sobering experience. A lot of them were forced to accept one-year rent which analysts have described as a blessing. One out of every three landlords is ready to accept one-year rent as against one out of 10 in the past.

Vacancy rate was high in the highbrow neighborhoods of Ikoyi, Lekki and Victoria Island and this, according to industry report. Year 2010 was however, not without its flipside. At the mid-low end market, activities were upbeat, recording appreciable value increase which was understandable given that this is where population lies with strong demand. Also, the year saw a marked shift in investment portfolio. Investors moved cash to commercial real estate that saw hotels, shopping malls, office buildings and event centres coming to market in droves.



Our 2011 Outlook

7.0 World Bank Outlook

The World Bank has warned that the global economy could return to the dark days of the 2008 crisis, with slowing growth and rising commodity prices. World Bank said that, after the recession in 2009 and the 2010 rebound, 2011 is expected to be a year of deceleration. In its latest projections, World Bank estimates global growth of 3.3% in 2011 following a 3.9% rate in 2010. Emerging and developing countries were expected to expand 6%, down from a 7% pace in 2010. But that was more than double the 2.4% rate expected to be clocked by high income countries this year, slowing from a 2.8% rate in 2010. Growth in both high income and developing countries, however, was expected to pick up toward mid 2011 and settling at rates close to their longer run potential. The World Bank forecast that by 2012, growth in the global economy would be rising at a 3.6% rate. High income countries were expected to expand by 2.7% and developing countries would speed up just a notch, to 6.1%. Still, the overall pace of growth is too weak to give the recovery solid traction. It added that "Unfortunately these growth rates are unlikely to be fast enough to eliminate unemployment and slack in the hardest hit economies and economic sectors. In addition, serious tensions and pitfalls persist in the global economy, which in the short run could derail the recovery to differing degrees.

The World Bank expressed particular concern about rising commodity prices, including food and fuel, driven by loose monetary policies in the developed countries and solid demand in the emerging economies. It said that "Although real food prices in most developing countries have not increased as much as those measured in US dollars, they have risen sharply in some poor countries. And if international prices continue to rise, affordability issues and poverty impacts could intensify."

In 2008, oil prices surged above USD 147 a barrel in July, then fell to nearly USD 30 six months later. Currently around USD 92 in New York, oil prices are above the bank's estimate of USD 85 a barrel on average in 2011 as compared with USD 79 in 2010. The World Bank forecasted that commodity prices excluding oil were expected to dip 0.1% in dollar terms. The 2008 scenario of soaring food and oil prices amid slowing growth, which had revived the word stagflation, would likely be avoided.



7.1 Nigerian General Economy Outlook

We anticipate strong output growth in agriculture as the benefits of some of the recent policy initiatives begin to show and oil and gas exports as production moves closer to installed capacity after the severe disruption of previous years arising from militant activity in the Niger Delta. Given that these are the largest contributors to GDP, the impact on the economy should be significant and altogether positive. In addition, other key sectors like telecoms, construction, general commerce and manufacturing should witness varying levels of growth in 2011 further supporting the growth outlook. The power sector reform, if successful, represents another potential upside to the outlook. The successful restitution of capital to the banking sector as a result of AMCON successfully completing a buyout of non-performing loans into the picture, thus, we can conclude that there is sufficient basis for optimism. Of course downside risks exist and notable amongst these are the possibility of something going wrong with the general elections or a resurgence of militant activity in the delta. Our conclusion is that the probability of this is low and we therefore remain optimistic on the economy.

7.2 Money Market:

In the United States of America, the official position of policymakers has been to keep rates as low as possible for as long as possible to support economic recovery. Nonetheless, yields on US treasury instruments have seen a sharp rise in the past year as market operators remain doubtful about the ability of the current administration to tackle the large fiscal deficit and improve the state of public finances. The most likely outcome therefore in the US is that the interest rate will remain low while bond investors will demand a higher return on lending to the government with this increase likely to feed through to other borrowers in the economy. The domestic situation is similar to the emerging markets outlook with the Central Bank of Nigeria highlighting inflation as a key concern in the published communiqué of meetings of the monetary policy committee starting from its September meeting. This inflation has been primarily fuelled by a significant expansion in government spending over the past year. We are therefore likely to see an upward move in the interest rate in 2011 but the timing will depend on the economic data coming through in the next few quarters.



7.3 : Capital Market Outlook

The intervention of AMCON is a force that will drive this boom. This is because AMCON's intervention is meant to repair the damage caused by banks. Banks constitute a very significant portion of companies that are listed and traded on the capital market. Their contributions to the market are probably about 40 per cent, having been watered down by the listing of Dangote Cement last year. But that is still significant. And so, if the banks are resuscitated and they improve in their earnings, it means investors' appetite for that sector will be very high. And that will give it a boost. When the banks are doing well, and are able to give more credit to the economy, it also translates into strengthening the macro economy. In which case, other sectors (non-banking) in the market are also going to enjoy a boom because when more credit flows from the banking sector to the others, it means they will be strengthened and corporate earnings will improve. That will also be a factor that will drive the capital market. So, we are seeing the intervention of AMCON as being a force that should drive the economy out of slumber into increased activity.

However, there is a caveat; that is, with the total liberalisation of trade, the credit that the bank will form may go into financing import trade because it is almost going to be impossible for our domestic manufacturers to compete with foreign products. And so, if most of the credits that are formed by banks go into financing import trade, the benefits may not trickle to the capital market. So, we believe that the CBN should seriously take a look at diverting most of their credit to financing domestic productive activities. That is, our expectation and that is the only when the benefits of AMCON will trickle into the capital market.

Another factor driving our optimism for this year is the earnings reported by banks in the previous quarters. They have been very impressive, If they end the year with impressive earnings like they had in the first three quarters of last year, we expect this to contribute to increase in banking stocks and that would drive up that particular sector and the market would benefit from it. From the banking sector, we also expect the market to receive a boost.

This year, we expect the macroeconomic environment to be favourable in this respect, notwithstanding the socio-political risks arising from the elections. We expect that liquidity in the macro economy will be good enough to propel activities in the general economy and, specifically, in the capital market. And then, we also believe that interest rates in the macro economy should reasonably be kept low, so that assets can flow from the money market to the capital market.

Finally, it is our expectation that with the recovery and profitability of the secondary market, it will then encourage issuers to start releasing new shares in the primary market. In which case, the stock market will be fulfilling its primary function, which is to finance productivity in the economy. This ceased to exist in the past two or three years. But this year, we expect the primary market, especially for equities, because the type of financing that the economy requires now is a cost-free long term equity type to build fixed assets and expand the existing ones. So that it will aid in the creation of wealth and generation of productive employment. And then, we also believe that the environment in the capital market should be encouraging enough to enable the Federal Government to privatise its holdings in the heavy industrial sector. It is the weakness of the heavy industrial sector which has been financed and operated by the Federal Government that has contributed majorly to the under development for Nigeria's industries.

Our asset class strategy for 2011 remains largely unchanged. In general, we *continue to favour equities over fixed income, as many quoted companies are still looking good on both a technical and fundamental basis*. Our favourite subsectors are still financial institutions stocks, which have proved to have a strong correlation with the overall market performance. We are forecasting real GDP growth of 8.4% in 2011 followed by an estimated figure of 7.85% in 2010. However, we await an attractive entry point for most value and growth stock. We believe that the market may have gone too far too fast in recent weeks, and a correction could be on the cards. However, it should be noted that performance in the first quarter may be moderated as sidelines trading might characterized this period as most foreign investors may limit participation at least until after April's general elections. For this asset class we have clear favourites over short- term, medium- term, and longer-term time horizons. We still believe there is still significant growth going forward. Our outlook sees the NSE- All Share Index at about 32,000 points by year end which indicates an upside of 16.97 percent. Factors such as the continue activities of AMCON in mopping up Non performing Loans from banks, reduced government borrowing activities and hopefully a successful elections couple with the significant production growth and Crude Oil price rise will set the stage for growth this year. Our recommendation is probably 50% exposure to this asset class this year.



OUR STOCK SELECTIONS

Company	Current Prices	EPS	P/E Ratio	Price/Book Value	6-Months Target Price	% Potential Upsides
ACCESS BANK PLC.	10.70	1.04	10.31	1.15	15.00	40.19%
ECOBANK NIGERIA PLC	4.17	0.63	6.60	0.95	7.00	67.87%
FLOUR MILLS NIG. PLC.	80.10	8.79	9.11	3.76	90.00	12.36%
JAPPAUL OIL & MARITIME SERVICES	1.75	0.20	8.57	0.51	2.00	14.29%
MOBIL OIL NIG PLC.	141.00	13.69	10.30	10.15	170.00	20.57%
NATIONAL SALT CO. NIG. PLC	6.10	0.57	10.78	4.16	8.00	31.15%
NIGERIAN AVIATION HANDLING CO	10.45	0.93	11.23	3.05	13.00	24.40%
OANDO PLC	72.00	8.96	8.03	1.83	90.00	25.00%
SKYE BANK PLC	9.60	1.64	5.85	1.23	14.00	45.83%
UACN PROPERTY DEVELOPMENT CO	17.20	2.75	6.26	0.57	20.00	16.28%
UNION BANK NIG.PLC.	4.70	-10.86	-0.43	0.95	7.00	48.94%
CEMENT CO. OF NORTH.NIG. PLC	14.02	0.93	15.01	4.38	20.00	42.65%
FIRST BANK OF NIG. PLC	15.00	1.16	12.98	1.45	20.00	33.33%
GUARANTY TRUST BANK PLC.	19.60	1.37	14.28	2.38	24.00	22.45%
STANBIC IBTC BANK PLC	9.86	0.62	15.94	2.27	13.00	31.85%
ZENITH BANK PLC	15.71	1.02	15.39	-10.96	20.00	27.31%

7.4 Fixed Income Market

We have long anticipated that local debt yields would bottom out across the various maturities as investors start to price in higher inflation and interest rates. Nigerian local debt has seen a sharp sell-off over recent months. We believe this trend has further to run as high inflation and rampant spending in the run-up to elections will likely drive investors out of bonds. We think fixed income will become attractive again when real yields reach levels seen in other investment alternative. We recommend an allocation of 20% of portfolio exposure to this market.

7.5 Cash and Bank Instruments

Having announced the increase in the Monetary Policy Rate (MPR) from 6.25% to 6.5%, this actions of the CBN will likely bring about temporary shift of funds from fixed income securities and equities market in the short run to bank deposit, however it will be of importance to note that even with the pronouncement of an increase in the Cash Reserve Ratio (CRR) requirement from 1% to 2% of total deposits held by banks with effect from February 1st, 2011 and also the intent to increased the liquidity ratio of banks from 25% to 30% with effect from March 1st, 2011. The bank will be seriously house out to mobilize deposits. Meanwhile, investor should be outward looking for investment option that will not only compensate them for inflationary rate but also those that will take advantage of economic growth expectation. 2011 is not a year to keep much investible funds in cash; we allocate 10% to this asset class.

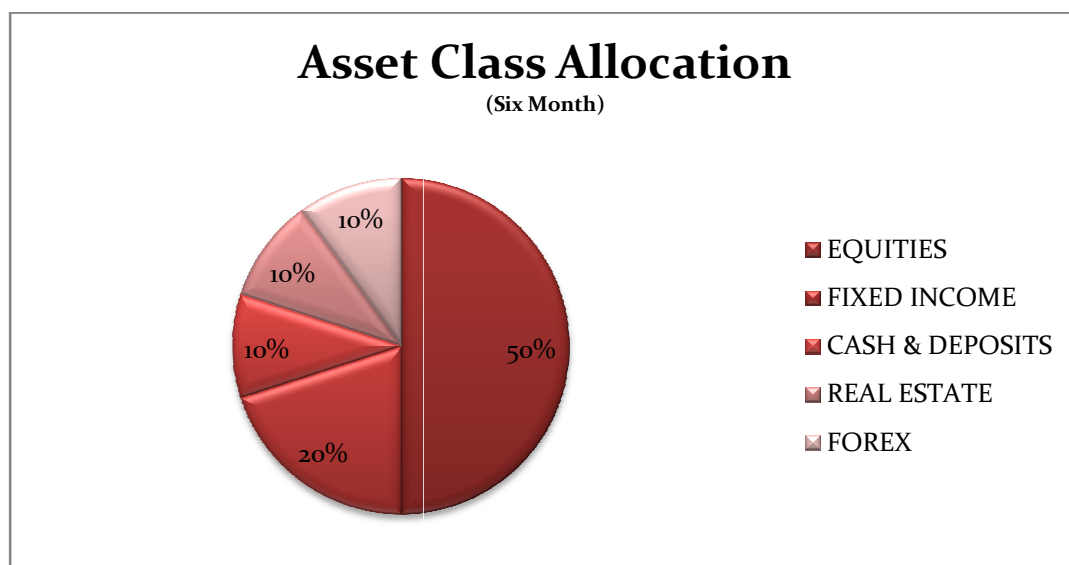


7.6 Real Estate

A steady increase in property development was witnessed in 2010, but low transactions due to liquidity trap in the system. Little improvement over the prior year performance might be seen in this market this year, indications in 2011 show a likelihood of steady increase in the property transactions. It is now seen that high end Landlords and property companies are gradually yielding to the demands of prospective tenants to reduce lease price and year. This is an indication of flooded market, thus we made an allocation of 10% to real estate investment.

7.7 Foreign Exchange

The naira is very likely to come under tremendous pressure in the foreign exchange market in the first half of 2011. Although oil prices are likely to remain firm and may even sail perilously close to \$100 per barrel, the thick fog of uncertainty hanging over the country's political horizon would compel investors to dump the naira and invest in the dollar for fear of the unknown. Half of the nation's foreign reserves have been depleted in the last two years. We allocate 10% of funds in this instrument to avoid earnings erosion.





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