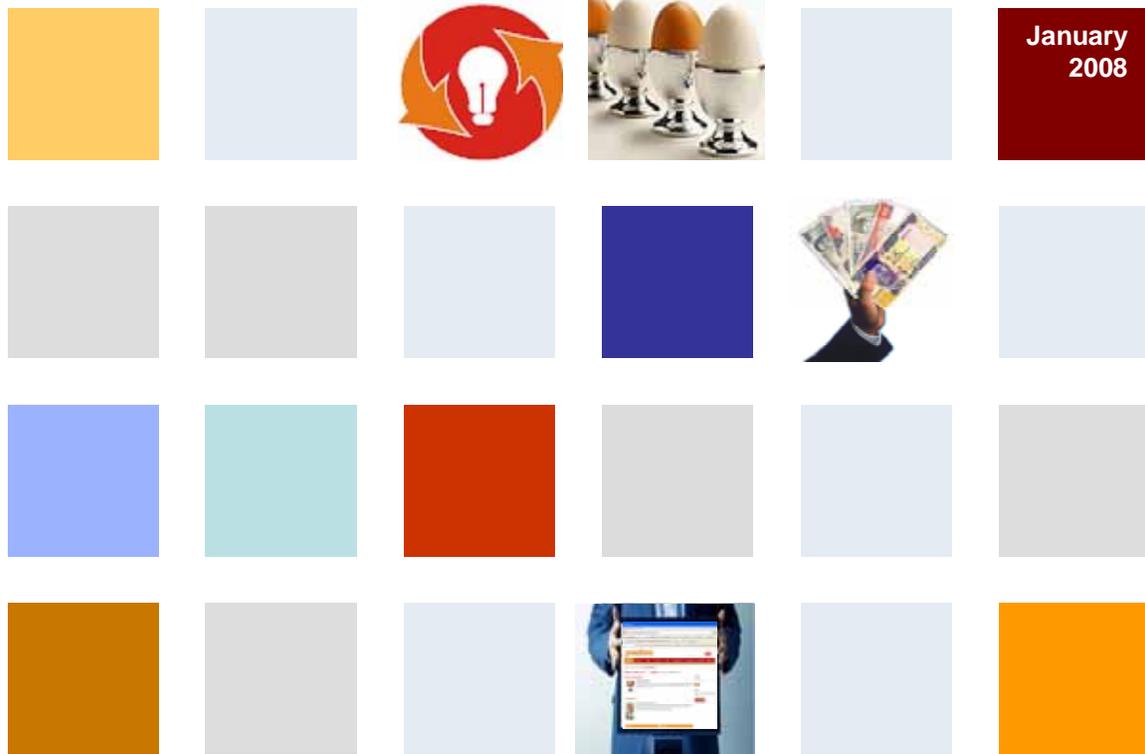




Analyst Report on Skye Bank Plc





proshare

Analyst Report

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Investing in Skye Bank Plc

Executive Summary

Proshare examined the volumes of data, information, analysis and records available directly and indirectly on the bank to access the investment implication of the offer for ordinary shares by the bank. We equally poured through primary data provided by the Nigerian Stock Exchange and the prospectus which were validated with discussions with fund managers and existing investors/stakeholders.

The analysis therefore represents our factual examination of data available to evaluate an investment decision in the bank's offer to new and existing investors.

We examined the risk and mitigating factors related to the investment and found it applicable to firms operating in the sub-sector of the Nigerian Stock Exchange, save for firm-specific risk related to **Skye Bank Plc's** operations - rapid growth and expansion plans, loans portfolio and credit risk management, and the managements' ability to navigate the business of banking in the fiercely competitive market place where benchmarks continue to shift towards regional and global performance indicators.

The Nigerian capital market of which the report focuses has experienced consistent growth and barring any unforeseen events, is expected to continue to grow during the period under review; even as we expect necessary corrections to adjust for price movements in the market-driven by factors other than fundamentals.

The challenge of delays in obtaining certificates persist in the market even with emphasis given to electronic processing of certificates direct to the CSCS accounts and investors are advised to consider this as a factor in their investment decision and expectations.

We have highlighted certain aspects of the offer which investors might want to note in the "Fast Facts" on pages 4 - 6.

The report is presented in two broad sections – the analysis and the opinion. We encourage your feedback on this report for necessary stock updates and review. Thank you.

Yours Sincerely,

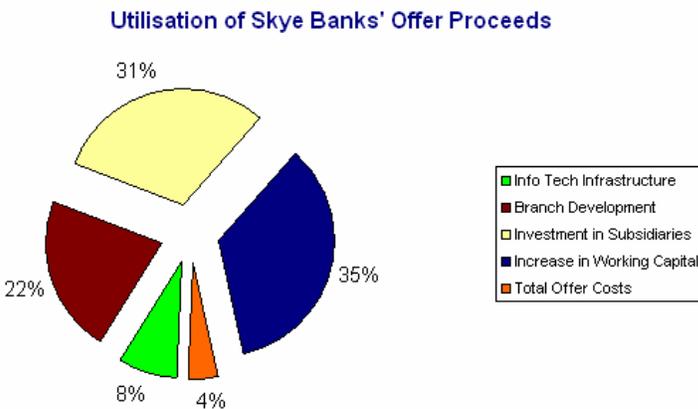


Olufemi AWOYEMI, FCA
Managing Consultant
For: **Proshare Board of Analyst**
January 25, 2008



1. The 'Offer' Fast Facts

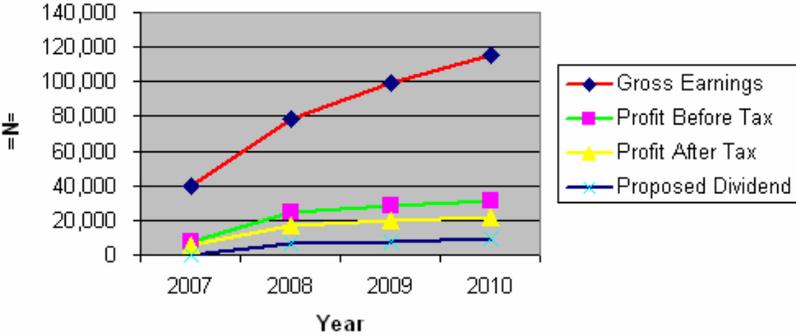
| | |
|--------------------------------------|--|
| Opening Date | January 07, 2008 |
| Closing Date | February 15, 2008 |
| Authorised Share Capital | N12.5bn of 25,000,000,000 Ordinary Shares of 50k each. |
| Issued & Fully Paid | N3.751bn divided into 7, 503, 044, 788 Ordinary Shares of 50k each. |
| Total Amount Being Raised | N50, 000, 000, 005 divided into N18.757bn Rights Issue and N31.242bn Ordinary shares, all of 50k each. |
| Number of Shares on Offer | <i>Hybrid offer of:</i> |
| <i>Rights Issue:</i> | 1,500,608,958 Ordinary Shares of 50k each. @ N12.50k per share |
| <i>Offer for Subscription</i> | 2,231,599,030 Ordinary Shares of 50k each. @ N14.00k per share |

| Method of offer | <ul style="list-style-type: none">  Offer for Subscription  Rights Issue to existing shareholders | | | | | | | | | | | | |
|---|--|----------|------------|-----------------------------|-----|----------------------------|-----|--------------------|-----|--------------------------|----|-------------------|----|
| Purpose: <i>The offer proceeds will be applied as follows:</i> | <p>The total offer is being undertaken as part of the long-term strategic plan to strengthen the position of the Bank, and put it in a good position to surmount the challenges of the evolving banking industry, both locally and globally. An estimated net proceeds of N47.913, 441, 975 after the deduction of the total offer costs of N2.1bn (representing 4.17% of the total offer proceeds) is expected.</p> <p style="text-align: center;">Utilisation of Skye Banks' Offer Proceeds</p>  <table border="1" style="margin-left: auto; margin-right: auto;"> <caption>Utilisation of Skye Banks' Offer Proceeds</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Increase in Working Capital</td> <td>35%</td> </tr> <tr> <td>Investment in Subsidiaries</td> <td>31%</td> </tr> <tr> <td>Branch Development</td> <td>22%</td> </tr> <tr> <td>Info Tech Infrastructure</td> <td>8%</td> </tr> <tr> <td>Total Offer Costs</td> <td>4%</td> </tr> </tbody> </table> | Category | Percentage | Increase in Working Capital | 35% | Investment in Subsidiaries | 31% | Branch Development | 22% | Info Tech Infrastructure | 8% | Total Offer Costs | 4% |
| Category | Percentage | | | | | | | | | | | | |
| Increase in Working Capital | 35% | | | | | | | | | | | | |
| Investment in Subsidiaries | 31% | | | | | | | | | | | | |
| Branch Development | 22% | | | | | | | | | | | | |
| Info Tech Infrastructure | 8% | | | | | | | | | | | | |
| Total Offer Costs | 4% | | | | | | | | | | | | |
| Market Cap. @ (Pre & Post Offer) | N105,042, 627, 032.00 (<i>Pre</i>); N155, 042, 627, 037.00 (<i>Post</i>) | | | | | | | | | | | | |
| Business Combination | The business combination of Skye Bank (formed in January 2006) the merger of the banks - <i>Prudent Bank, EIB International Bank, Bond Bank, Reliance Bank and Cooperative Bank</i> was accounted for under the acquisition method of accounting. | | | | | | | | | | | | |
| Underwriting | N24, 993,910,424.00 representing 80% of the Offer (or 1.785bn ordinary shares at 50k each) is underwritten on firm basis in accordance with SEC's regulations, with underwriting commitments from three (3) firms. | | | | | | | | | | | | |
| Preferential Allotment | A maximum of 446,319,829 ordinary shares of 50 Kobo each representing 20% of the Offer will be preferentially allotted from the 1,785,279,316 ordinary shares of 50 kobo each underwritten by the Underwriting Syndicate which includes Ibile Holdings and Business Objects Ltd (<i>beneficial shareholders with up to 11.41% shareholding in the bank as at the date of the prospectus</i>). | | | | | | | | | | | | |



| | |
|---|---|
| <p>Status</p> | <p>The new shares now being offered for subscription shall rank pari passu in all respects with the issued ordinary shares of the bank and <u>qualifies for dividend</u> which will be declared for the Bank's financial year ending 30th September, 2008. The Irredeemable Non-Cumulative Convertible Preference shares shall rank for dividend before the Ordinary shares of the Bank.</p> |
| <p>Group Structure</p> | <p>Skye Bank Plc wholly owns the subsidiaries and affiliates; associated companies (which are) illustrated below:</p> <div style="text-align: center;">  <p>Associate Companies:</p> <ul style="list-style-type: none"> World Wide Insurance Company Cooperative Savings & Loans </div> |
| <p>Conversion to GDR</p> | <p>The Bank is in the process of establishing a GDR programme which will provide investors holding ordinary shares of Skye Bank the option of converting their ordinary shares to GDR(s) under the terms and conditions that would apply subject to relevant regulatory approvals.</p> |
| <p>Additional Information</p> | <p>Convertible US\$100million Loan Facility Agreement dated August 2007 between Skye Bank Plc and Standard Bank Plc, London. Under the terms of the agreement, the shares can be converted at the instance of the borrower at a premium of 25%, exercisable five days to the final maturity of the convertible loan.</p> |
| <p>Supplementary Allotment</p> | <p>In the event of over subscription, the excess monies not exceeding 25% of the oversubscription may be capitalized in line with SEC's Rules and Regulation (Rule 64 (4) (a)) and additional shares allotted subject to the approval of the Directors of Skye Bank Plc and SEC. The supplementary proceeds will be used for similar purposes as stated in the prospectus and a revised forecast and supplementary information shall be filed with the SEC. Allotment is expected to be announced on April 17, 2008 and excess/rejected monies returned (timetable).</p> |
| <p>Despatch of Share certificate</p> | <p>Share certificates in respect of the ordinary shares of 50 kobo each allotted will be sent by Electronic-Transfer to the CSCS account of all allottees not later than 15 working days from the date of allotment. <i>Investors must state the name of their stockbrokers as well as their CSCS account number and clearing house (CHN) number in the space provided on the Application Form. However, Investors without CSCS account numbers and CHN numbers will receive their certificates by Registered post.</i></p> <p>Based on the timetable released by the bank, dispatch of share certificates is expected to commence from May 07, 2008 and the listing of new shares on the floor of the exchange determined on May 12, 2008.</p> |



| Indebtedness | As at September 30 2007, the Bank had no outstanding debentures, mortgages, charges or similar indebtedness or material contingent liabilities other than in the ordinary course of business. The Bank however has a long term borrowing of N27,175,000,000.00 and contingent liabilities approximately N70,379,000,000.00 comprising acceptances, bonds, guarantees and other obligations for the account of customers as at that date. | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|--|--------|--------|---------|------|------|----------------|--------|--------|--------|---------|-------------------|-------|--------|--------|--------|------------------|-------|--------|--------|--------|-------------------|---|-------|-------|-------|
| Claims & Litigation | The Bank is involved in 422 suits, of which 300 were instituted against the bank, whilst 122 suits have been instituted by the Bank. The total value of monetary claims against the Bank is N3, 342,396,535.59 while the total value of monetary claims by the bank is N1, 555,026,256.58. The Directors are of the opinion that none of the aforementioned cases is likely to have any material effect on the bank or the total offer, and are not aware of any other pending and or threatened claims or litigation save for the foregoing. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Forecast Summary | <p style="text-align: center;">Skye Bank Plc - Forecast Summary</p>  <table border="1" data-bbox="576 1186 1412 1354"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>Gross Earnings</td> <td>39,367</td> <td>78,738</td> <td>99,758</td> <td>115,573</td> </tr> <tr> <td>Profit Before Tax</td> <td>7,519</td> <td>24,259</td> <td>28,248</td> <td>31,262</td> </tr> <tr> <td>Profit After Tax</td> <td>5,517</td> <td>16,981</td> <td>19,774</td> <td>21,883</td> </tr> <tr> <td>Proposed Dividend</td> <td>0</td> <td>6,741</td> <td>7,865</td> <td>8,988</td> </tr> </tbody> </table> | | 2007 | 2008 | 2009 | 2010 | Gross Earnings | 39,367 | 78,738 | 99,758 | 115,573 | Profit Before Tax | 7,519 | 24,259 | 28,248 | 31,262 | Profit After Tax | 5,517 | 16,981 | 19,774 | 21,883 | Proposed Dividend | 0 | 6,741 | 7,865 | 8,988 |
| | 2007 | 2008 | 2009 | 2010 | | | | | | | | | | | | | | | | | | | | | | |
| Gross Earnings | 39,367 | 78,738 | 99,758 | 115,573 | | | | | | | | | | | | | | | | | | | | | | |
| Profit Before Tax | 7,519 | 24,259 | 28,248 | 31,262 | | | | | | | | | | | | | | | | | | | | | | |
| Profit After Tax | 5,517 | 16,981 | 19,774 | 21,883 | | | | | | | | | | | | | | | | | | | | | | |
| Proposed Dividend | 0 | 6,741 | 7,865 | 8,988 | | | | | | | | | | | | | | | | | | | | | | |
| Status of Unclaimed Dividends | As at 28th December 2007 the value of total unclaimed dividend resulted from three (3) of the legacy banks that formed Skye Bank (<i>EIB International Bank Plc</i> , <i>Prudent Bank Plc</i> and <i>Cooperative Bank Plc</i>). The total amount stood at N49, 580,421.52 while the number of shareholders with unclaimed dividends stood at 51,929. This total amount, N49, 580,421.52 is domiciled with <i>City Securities (Registrars) Limited</i> . To address the issue of unclaimed dividend, the Bank shall publish the list of unclaimed dividends quarterly in a newsletter and in its Annual Report that would be circulated to all shareholders of the bank. In addition, the bank shall forthwith design <i>Special Dividend Claim Format/procedures</i> that would enable the speedy receipt of dividends. In addition the bank shall encourage its Shareholders to adopt E – Dividend Payment mode to ease payment modalities. | | | | | | | | | | | | | | | | | | | | | | | | | |
| Prospectus | http://www.proshareng.com/blog and http://www.skyebankng.com/offer/index_offer.php | | | | | | | | | | | | | | | | | | | | | | | | | |
| Registrars to the Issue | City Securities (Registrars) Limited. Primose Tower(5th Floor) 17A Tinubu Street, Lagos | | | | | | | | | | | | | | | | | | | | | | | | | |

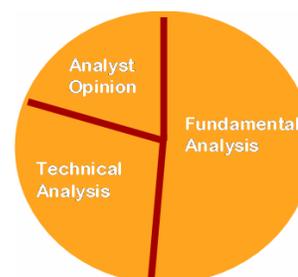


2. The Investment Analysis



OUTLINE

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3. Fundamental Analysis

The Objective: To review the stock valuation by examining the company's financials and operations, especially earnings, growth potential, assets, debt, management, products, and competition through financial ratios arrived at by studying the balance sheet and profit & loss account over a number of years.

This analysis is more effective in fulfilling long – term growth objectives of shares, rather than their short – term price fluctuations.

In the Nigerian Stock Market, this has traditionally been the key focus of most players and it remains a guiding beacon as to what could possibly happen to a stock.

Our approach to fundamental analysis therefore takes into consideration only those variables that are directly related to the company itself, rather than the overall state of the market or technical analysis data, which are reviewed in the second part of this report.



Alhaji Musiliu Smith CFR
(Chairman)



Mrs. Moronkeji Onasanya
Vice Chairman



Mr. Akinsola Akinfemiwa
MD/CEO



Mr. Kehinde Durosinmi-Etti
DMD

Management

The company operates under a group structure managed by a 16-man Board of Directors comprising of accomplished professionals with proven track record in private and public endeavours committed to driving the achievement of the bank's objectives.

Skye Bank, a synergy of five (5) banks with the former Prudent Bank Plc as its nucleus; was formed on January 1, 2006. The synergy and competitive advantage from the merger of these banks is manifest in its deployment of a complement of able support to the roles of the Chairman and Managing Director.

The Chairman of the Board, Alhaji Musiliu Smith (CFR), retired Inspector General of Police and former member of the Provisional Ruling Council of Nigeria is ably assisted by Mrs. Morenike Onasanya, Fellow and Council Member of the Institute of Chartered Accountants of Nigeria and President of the Bank Directors Association of Nigeria (BDAN) who remains familiar with the bank pedigree having been a former Chairman of Prudent Bank Plc.

The Managing Director/CEO, Mr. Akinsola Akinfemiwa, a distinguished banker with over twenty years top management experience was the pioneer MD/CEO of Prudent Bank Plc and remains a key strength index of the bank's brand worth at this time.

Since 2006, Mr. Akinfemiwa has been ably assisted by Mr. Kehinde Durosinmi-Etti who as the Deputy Managing Director brings to bear on his role, the professionalism and vast experience garnered in his previous responsibilities as a former CEO of *Midas Merchant Bank* and EIB International Bank Plc (a component part of the merged bank).



The banks' Non-Executive Directors are: Dr. Adebayo Adewusi, Princess Adenike Adeniran, Mr. Vinay Tuteja, Mr. Collins Chikeluba, Mr. Kola Awodein (SAN), Brig. Gen. Anthony Ukpo (RTD), Mr Victor Adenigbagbe, Dr. Jason O Fadeyi, Mr. Michael Gashau Tarfa, and Mr Ariyo Ajaja.

The Executive Directors are: Mr. Segun Oloketuyi and Mr. Gbenga Ademulegun. Kindly find below the statement of shareholding of the Board members in the bank:

| Names | Representing (Indirect Holdings) | | Direct Holdings | Indirect Holdings | Total Holdings | % of Total Shares |
|--|---|----------------------|-----------------|-------------------|----------------|-------------------|
| Alhaji Musiliu Smith (CFR) | | Chairman | 437,371 | | 437,371 | 0.01% |
| Mrs. Moronkeji Onasanya | | Vice Chairman | 3,466,666 | | 3,466,666 | 0.05% |
| Mr. Akinsola Akinfemiwa | | MD/CEO | 69,250,149 | | 69,250,149 | 0.92% |
| Mr. Kehinde Durosinni Etti | | DMD | 3,423,095 | | 3,423,095 | 0.05% |
| Mr. Segun Oloketuyi | | Exe. Director | 3,931,332 | | 3,931,332 | 0.05% |
| Mr. Gbenga Ademulegun | | Exe. Director | 3,503,233 | | 3,503,233 | 0.05% |
| Dr. Adebayo I. Adewusi | Ibile Holdings Ltd. | Director | 2,525,833 | 431,626,127 | 434,151,960 | 5.79% |
| Dr. Jason Fadeyi | FADCO Investments Ltd. | Director | | 114,666,666 | 114,666,666 | 1.53% |
| " " " | Business Objects Ltd. | " | | 424,999,999 | 424,999,999 | 5.66% |
| Princess Adenike Adeniran | Swanlux Investment Ltd. | Director | | 120,116,666 | 120,116,666 | 1.60% |
| Mr. Vinay Tuteja | Stallion (Nig) Ltd and Westex (Nig) Ltd | Director | | 78,682,755 | 78,682,755 | 1.05% |
| Mr. Kola Awodeinde (SAN) | | Director | 102,197 | | 102,197 | 0.00% |
| Mr. M.G. Tarfa | NPA Superannuation Fund & Inv. | Director | 168,333 | 318,450,366 | 318,618,699 | 4.25% |
| Mr. Collins Chikeluba | | Director | 11,243,386 | | 11,243,386 | 0.15% |
| Mr. Ariyo Ajaja | | Director | 2,587,519 | | 2,587,519 | 0.03% |
| Mr. Victor Adenigbagbe | | Director | 41,332 | | 41,332 | 0.00% |
| Brig Gen. Anthony Ukpo (Rtd.) | | Independent Director | | | 0 | |
| Total Stake of Directors in Skye Bank | | | 100,680,446 | 1,488,542,579 | 1,589,223,025 | 21.18% |
| Other Shareholders | | | 6% | 94% | 5,913,821,763 | 78.82% |
| Total Shareholding as at Prospectus Date | | | | | 7,503,044,788 | |

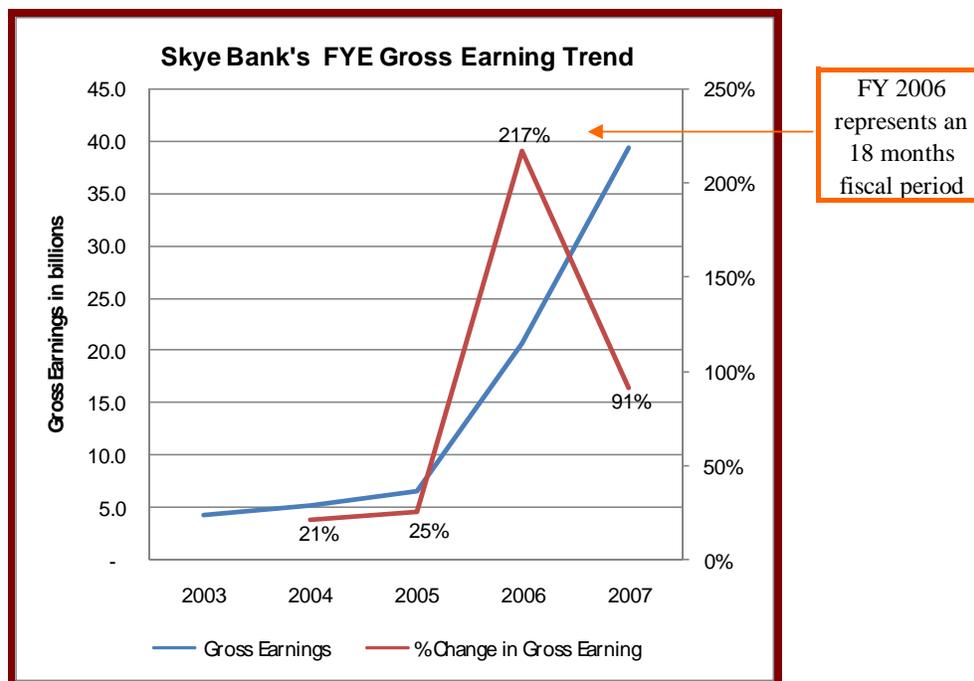
Revenue and Profitability

Gross Earnings Trend

For the fiscal year ended (FY) September 30, 2007, gross earnings increased N18.3 billion or 86.9% to N39.3 billion compared to N21 billion (*the gross earnings for the 18 months fiscal period ended September 30, 2006*).

For FY 2007, interest income contributed N29.3 billion or 74% of earnings, while the balance of N10.1 or 26% were income from non-interest sources. The 217% increase in gross earnings in FY 2006 relative to FY 2005, is because of the consolidation of earnings from four new entities (i.e., EIB International, Bond Bank, Reliance Bank Ltd, and Co-operative Bank Plc) that merged with Prudent Bank.

Also, the FY 2006 is for an 18 months fiscal period. A review of the most recent five (5) fiscal years financial statements reveals a precipitous increase in gross earning between 2003 and 2007 as highlighted in the graph below.



The 86.9% growth in gross earnings between the fiscal year 2006 and fiscal year 2007 resulted from increases in the following earnings component as highlighted in the schedule below:

| Description | FY 2007 | FY 2006 | Yr. over Yr. Change | Yr over Yr % change |
|--|---------------------|---------------------|---------------------|---------------------|
| | Amounts In billions | Amounts In billions | | |
| Interest on loans & Advances | 22,615 | 11,923 | 10,692 | 90% |
| Interest on Treasury Bill | 4,027 | 1,888 | 2,139 | 113% |
| Interest on Inter Bank Placement | 405 | 94 | 311 | 331% |
| Interest on Fed Income | 227 | 208 | 19 | 9% |
| Interest On advances under finance lease | 264 | 152 | 112 | 74% |
| Bond Trading Income | 1,773 | - | 1,773 | - |
| Total Interest income | 29,311 | 14,265 | 15,046 | 105% |
| Fees | 3,012 | 1,859 | 1,153 | 62% |
| Commission | 5,166 | 3,222 | 1,944 | 60% |
| Investment Income | 872 | 207 | 665 | 321% |
| Other Earnings not listed | 1,006 | 1,505 | - | - |
| Combined Gross Earnings | 39,367 | 21,058 | 18,309 | 86.9% |

As noted in the schedule, interest income increased by 104% from N29.3billion to N14.3billion in 2007; this increase is attributable to improvement in the quality of the Bank's risk assets and an increase in other sources of income.

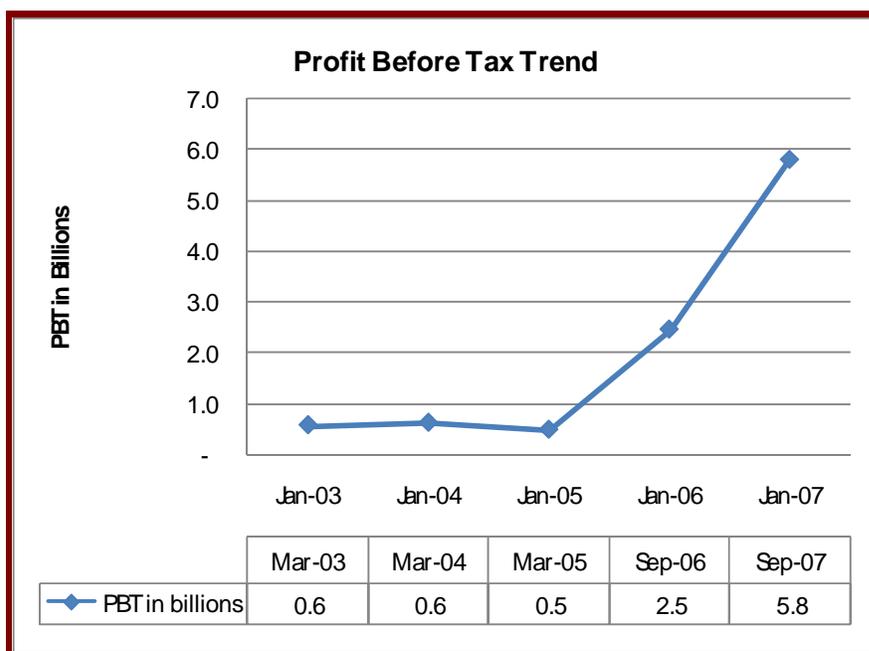


Profitability Trend

For the FY 2007, the company reported a profit before tax (PBT) of N5.8 billion. Comparatively the reported PBT represents an increase of N3.4 billion, or 136.2% compared to FY 2006.

The increase in PBT is impacted by the bank's ability to curtail the growth in operating expenses relative to earnings growth. Total operating expenses compared to gross earnings improved to 46.8% for FY 2007 from 51.85% in FY 2006.

Staff & other related costs is one component of operating expenses that indicated significant improvement. For the FY 2007, staff & related costs was 12% of gross earnings compared to 18.3% in FY 2006. A review of the historical financial statements reveals a bank with consistent profit growth.

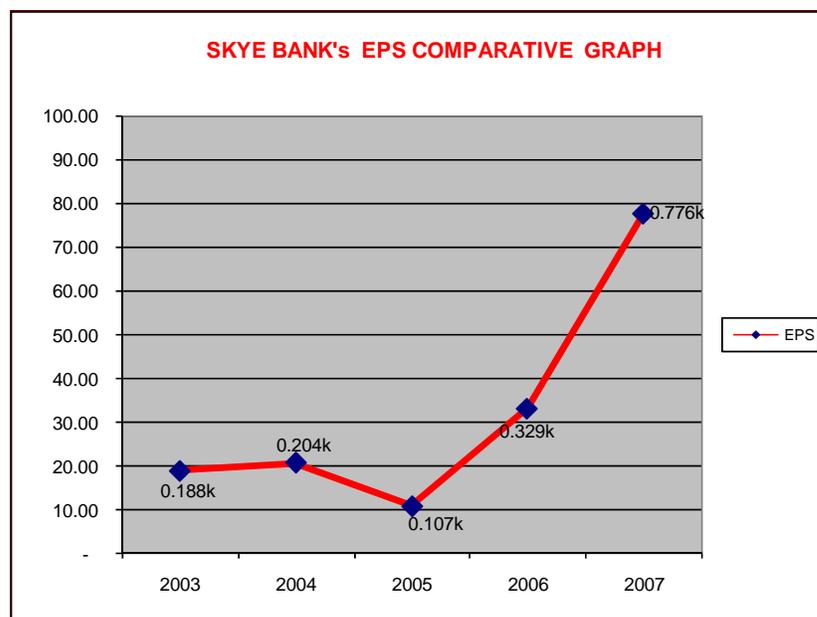


Earnings per Share

EPS represents the portion of a company's earnings, net of taxes and preferred stock dividends that are allocated to each share of common stock. The higher a company's EPS, the better it is considered to have performed over the period.

Based on the financial statements for the most recent fiscal year ended September 30, 2007, Skye Bank's EPS of 77k is below the industry average of 80k.

As indicated in the graph below, the FY 2007 EPS of 77k represents a 136% increase compared to an EPS of 33k for FY 2006. The increase in the EPS resulted from the 136% growth in NPAT for the FY 2007.



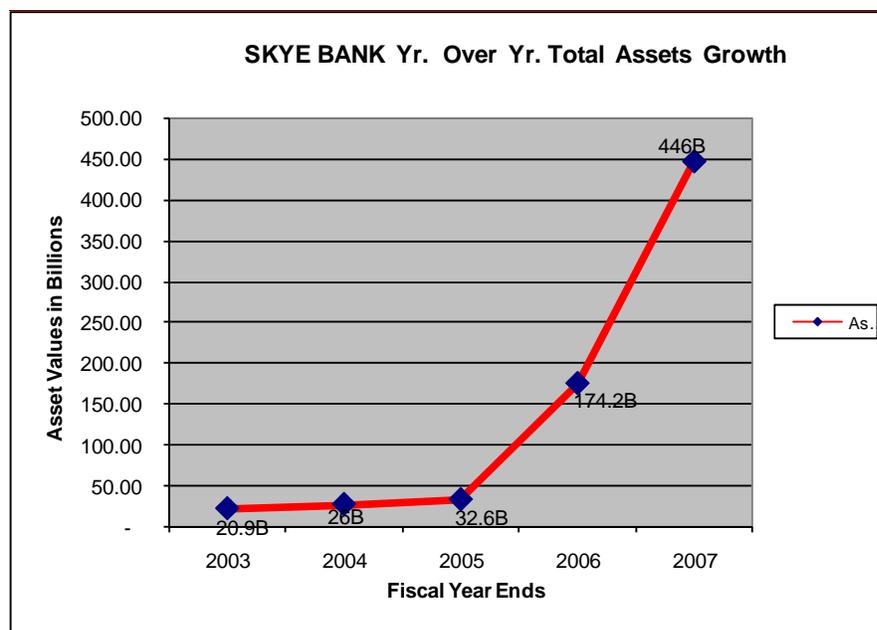
Asset Growth/Quality

For the most recent FY ended September 30, 2007, total assets increased by N272 billion, or 156% to N443 billion from N174 billion in FY 2006.

The growth in total assets between FY 2007 and FY 2006 resulted primarily from increases in the following asset components:

| Description | Amounts | % of | Yr over Yr |
|--|-------------|----------------|------------|
| | In billions | Total Increase | % change |
| Repurchased Placements | 84 | 31% | 100% |
| Due from Banks (Placements, money market, etc) | 78 | 29% | 709% |
| Loans & Advances | 37 | 13% | 51% |
| Treasury Bills | 25 | 9% | 43% |
| Tradind Securities | 21 | 8% | 100% |
| Cash & Short Term Funds | 6 | 2% | 47% |
| Long-term Investment | 4 | 2% | 50% |
| Accounts Receivable clearing | 4 | 1% | 40% |
| Fixed Assets | 3 | 1% | 29% |
| Branch pre-opening expense | 2 | 1% | 75% |
| Total Analyzed | 263 | 97% | |
| Unanalyzed | 9 | 3% | |
| Total increase in Assets | 272 | 100% | |

Additionally, in the most recent five years, total assets of the company increased by 2,018% from N20.9 billion in FY 2003 to N443 billion in FY 2007 as highlighted in the graph below.



In FY 2007, the bank's gross loans and advances was N115 billion. Of the reported gross loan amount, N6.1 billion, or 5% are non performing loans, and N109 billion or 95% are performing loans.

Additionally, N5 billion or 82% of the non performing loans are considered lost and has been fully reserved. Noteworthy is the fact that N9.4 billion of previously reserved loans were written off compared to N3.1 billion in FY 2006.

Price-Earnings (PE) versus Value-Earnings Ratio (VE)

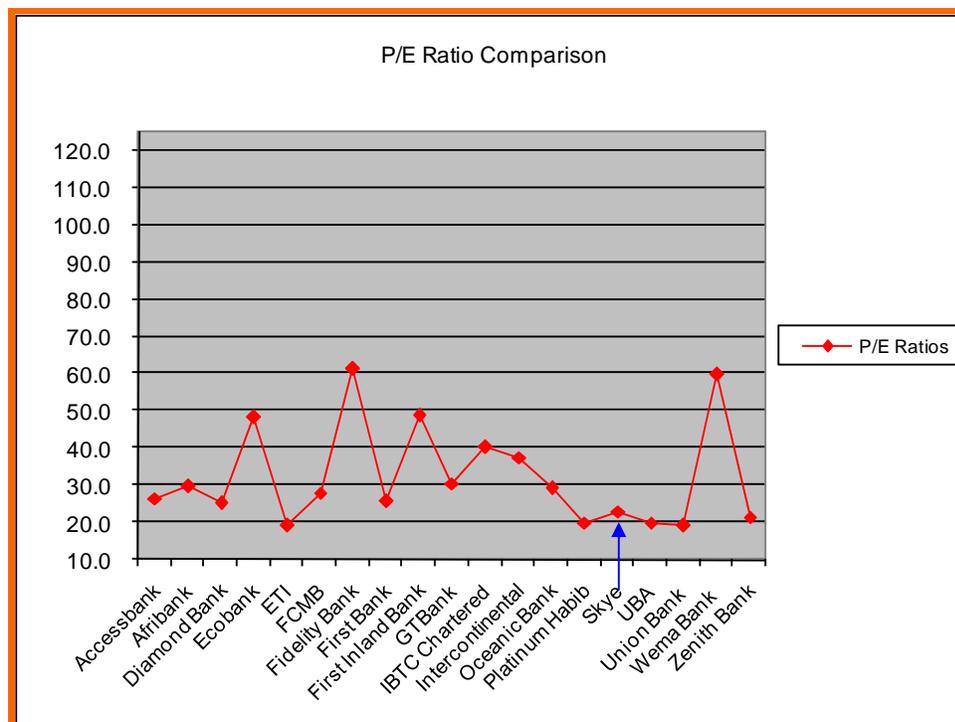
The P/E ratio indicates a price investors are willing to pay per one naira of reported profits. It is a ratio that is helpful in determining valuation risk as regards to whether the stock price is too "high" or correctly valued.

Companies with P/E ratios higher than industry average are considered expensive relative to their peers.

Based on the recent fiscal year financial statements and the stock price of N17.19k, the PE ratio for Skye Bank is **23**.

The current ratio is lower than 33, the average P/E for the banking industry. However, based on the offer price of N14.00k, the projected P/E ratio is 19, which is much better than the industry average.

A comparative graph of SKYE Bank's P/E ratio in relation to majority of the Banks in Nigeria is presented below.



To determine if the current price is overvalued, the stock price was compared to the value of the PEG. Based on the results of the most recent fiscal year end financial statements, the PEG is 0.12 using an average forward growth rate of 192% based on next year's company's expected growth rate. Since the PEG is less than 1, it indicates that the stock price is not over valued since the rule of thumb for PEG, is that the stock prices for companies with PEG ratios less than one (1) are low relative to the company's future growth.

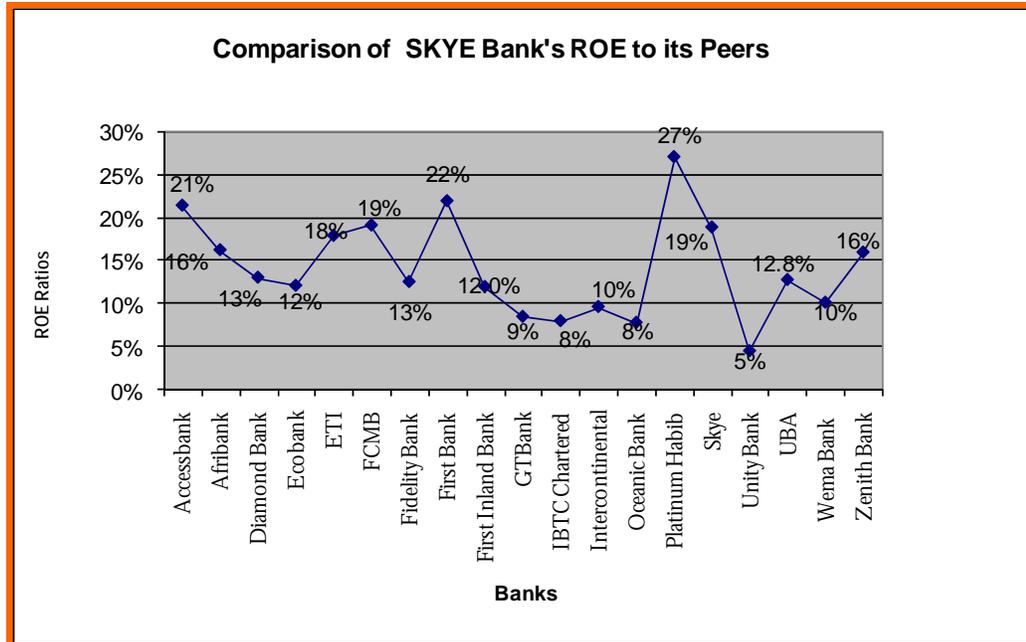
However, it is important to note that an investment decision should not only be based on a PEG ratio, because the PEG does not really explain the future prospect of a company. The PEG must be combined with other variables such as future growth plans of the bank, or strategies the bank is implementing to improve shareholder value.

Return on Common Equity (ROE)

ROE is an important accounting ratio used by investors to determine their return on investment. Shareholders invest to get a return on their money, and ROE conveys how well investors are doing from an accounting perspective.

The ROE for Skye Bank Plc based on the most recent FYE September 30, 2007 is **18.9%**, which is above the industry average of 14%. The analysis revealed that Skye Bank's ROE is in the upper quartile relative to other banks in Nigeria.

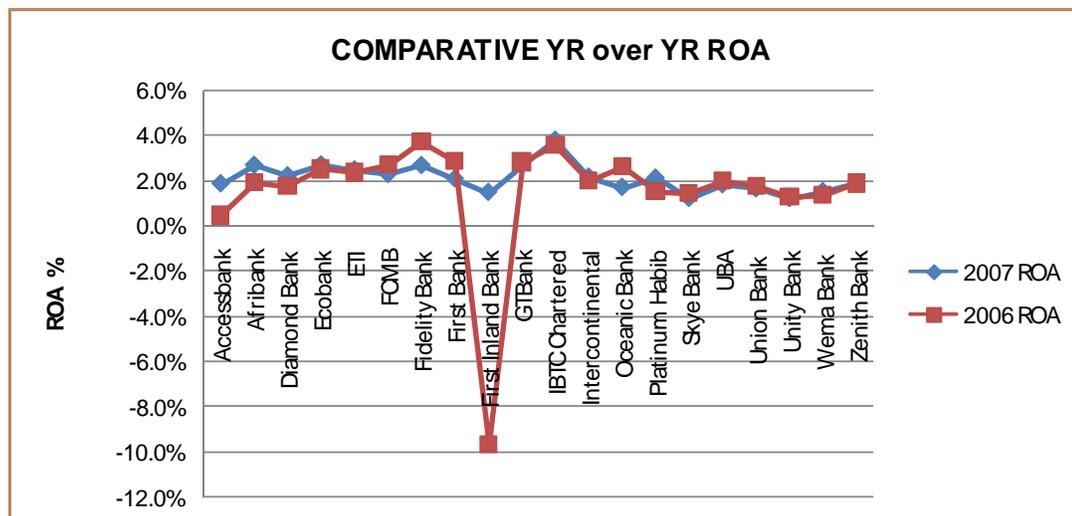
The current year's ROE represents an improvement when compared to a 9.5% ROE for the FY 2006. Highlighted below is a comparative ROE bar graph for majority of the banks in Nigeria.



Return on Total Assets (ROA)

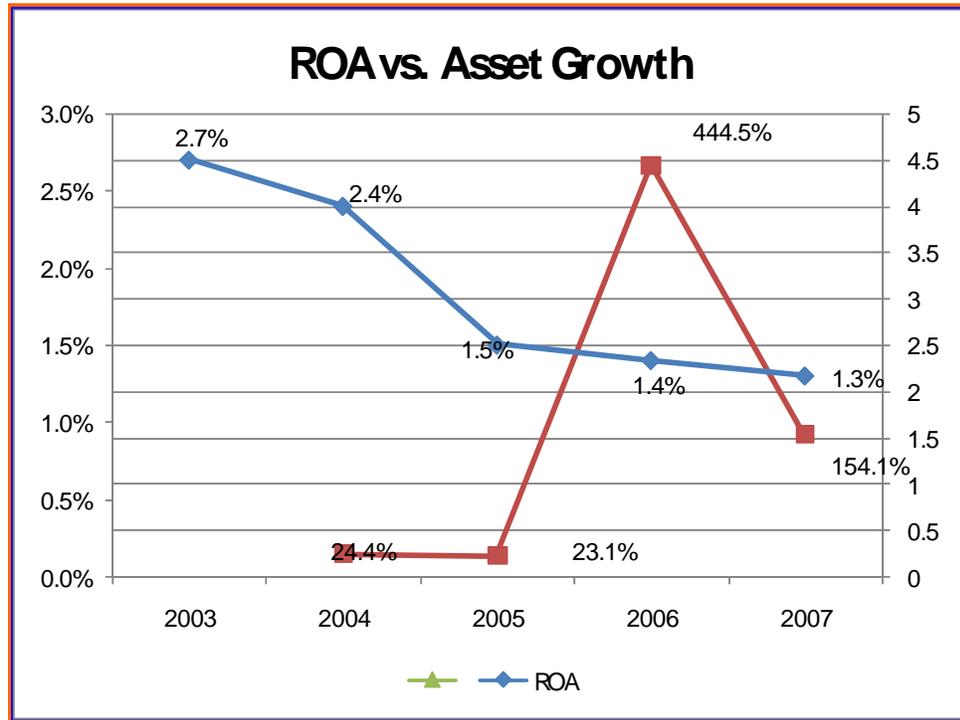
The ROA indicates the overall effectiveness of an institution to generate profits from total investment in assets independent of the financing of those assets.

Skye Bank's ROA based on the latest fiscal year ended April 2007, was 1.3% compared to ROA of 1.4% for the prior fiscal year. The reported ROA of 1.3% for the FY 2007 is lower than the industry average of 2% as reflected in the graph below.

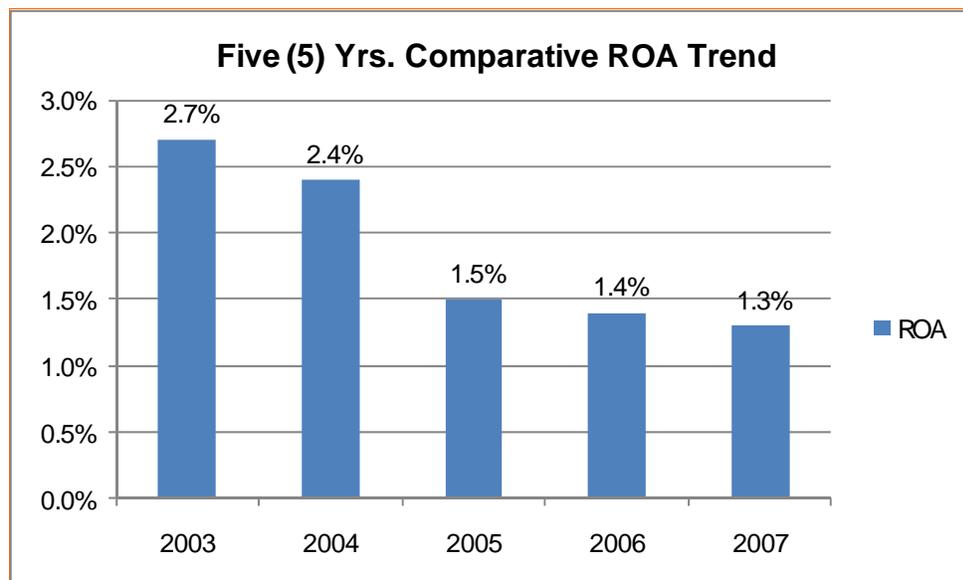




Although the bank's total assets have grown in the most recent five fiscal years, the ROA have continually declined in relation to total asset growth indicating an inefficient utilization of assets as highlighted graph below.



The most recent 5 fiscal years ROA is reflected in the graph below.





Operating Cash Flow (OCF) & Free Cash Flow (FCF)

The FCF represents cash flow actually available for distribution to investors after the company has made all investments in fixed assets, new products, and working capital necessary to sustain their continuing operation.

Most financial statement users focus on accounting profit, which is basically net income.

However, the values of a company's operation depend on all the future expected free cash flows (FCF), defined as after tax operating profit minus the amount of investment in working capital and fixed assets necessary to sustain the business. Consequently, for management to make their companies more valuable, they must increase their FCF.

A review of the most recent four (4) FYE financial statements of Skye Bank reflects an institution with improving operating cash flow (OCF) and free cash flow (FCF) except in FY 2006.

The negative FCF in FY 2006 is due to fixed asset revaluation.

(All figures are N'm)

| Financial Year | NOPAT | Depr. Expense | Operating Cash Flow (OCF) | Net Investment in Operating Capital | Free Cash Flow (FCF) |
|--|--------|---------------|---------------------------|-------------------------------------|----------------------|
| FY 2007 | 14,039 | 2,892 | 16,931 | 8,489 | 8,442 |
| FY 2006 | 6,676 | 1,297 | 7,973 | 14,914 | (6,941) |
| FY 2005 | 2,103 | 265 | 2,368 | 890 | 1,478 |
| FY 2004 | 1,673 | 254 | 1,927 | 664 | 1,263 |
| Note: NOPAT = EBIT (1 - Corporate Tax Rate) | | | | | |

Capital Adequacy Ratio (CAR)

CAR measures a bank's capital strength. It determines the capacity of a bank to meet timed liabilities and other risk such as credit risk, operational risk, etc. Basically, a bank's capital is the "cushion" for potential losses, which protects the bank's depositors, or other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system.

CAR is similar to leverage; it is comparable to the inverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). The more capital a firm has, the more confident shareholders are that it will meet its obligations to them. However, capital alone is no guarantee of solvency, because a well capitalized firm can fail due to a lack of liquidity.

Skye Bank's CAR is 7% for the FY 2007. The traditional rule of thumb is that financial institutions capital ratios should be in the range of 4% to 10%, depending on the size of the firm, its industry and the definition of capital being used.



Economic Value Added (EVA) Indicator

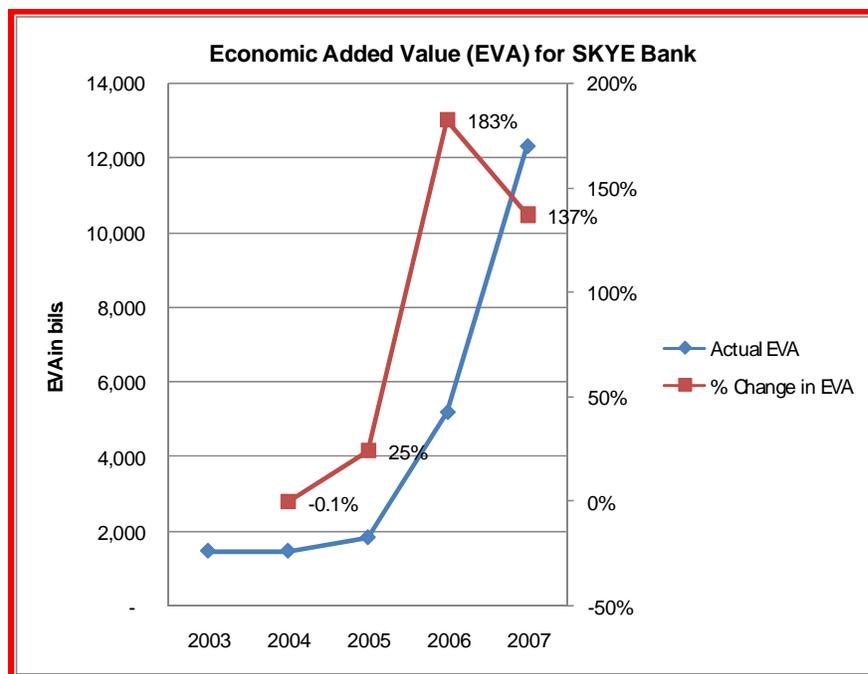
EVA is a financial indicator developed and popularized by the consulting firm Stern Stewart & Company. EVA helps managers ascertain if a particular business unit is adding to stockholder value. Investors can use the EVA to spot stocks that are likely to increase in value. The cost of debt (interest expense) is deducted when calculating net income, but the cost of common equity is not taken into consideration. Therefore, economically net income overstates “true income”. EVA overcomes this conventional accounting flaw because it considers the cost of equity. Basically, EVA is an estimate of the business’s true economic profit for the year, since it represents the residual income that remains after the cost of all capital, including common equity capital, has been deducted from income.

For the most recent five fiscal years (FY 2003, FY 2004, FY 2005, FY 2006, & FY 2007), the EVA for Skye Bank indicates continued improvement as reflected in the schedule below, but negative for fiscal years 2005 and 2006 as shown in the schedule on the side.

All figures are in billion

| Fiscal Yrs | Actual EVA |
|------------|------------|
| 2003 | 1,478 |
| 2004 | 1,477 |
| 2005 | 1,839 |
| 2006 | 5,198 |
| 2007 | 12,336 |

The numerical value change to the percentage change in EVA for the mentioned fiscal years is highlighted in the graph below.



Globally, Security Analysts have found that stock prices track EVA far more closely than other traditional indicators (EPS, ROE, etc). Investors should closely monitor the EVA of companies, because it basically reflects the net cash return on their invested capital. Companies that report consistent negative EVA, should be avoided by investors.



4. Technical Analysis

The Objective: To review the stock valuation by relying on the assumption that market data, such as charts of price, volume, and open interest, can help predict future (*usually short-term*) market trends. Unlike fundamental analysis, the intrinsic value of the stock is not part of the consideration here.

More and more investors are beginning to appreciate and rely on technical analysis in reviewing stocks on the Nigerian Stock Exchange because of the proven fact that market psychology influences trading in a way that enables predicting when a stock will rise or fall.

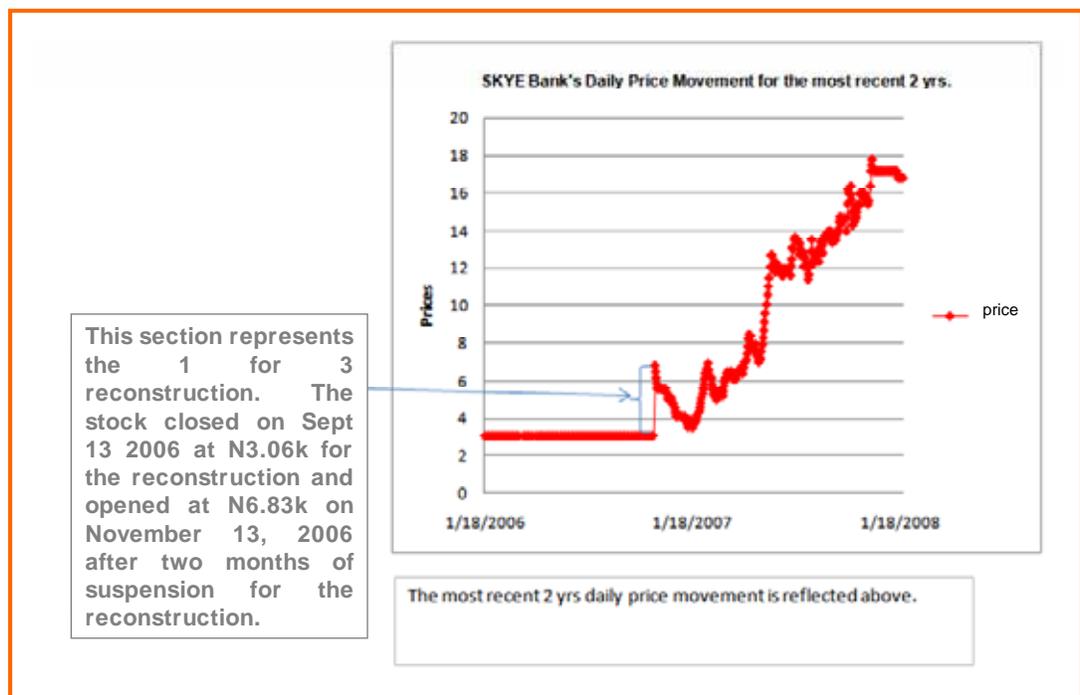
For that reason, technical analysis charts, produced by our technical analysts and published on the Proshare website are market timed based and predicated on the belief that technical analysis can be applied just as easily to the market as a whole as to an individual stock.

To this effect, we developed a quantitative measure of price action using a unique and practical method of easily predicting the buying and selling pressure on individual stocks as illustrated in the analysis/findings below.

Most Recent 24 Mths Stock Performance of Skye Bank Plc's Shares

Since the completion of the 1 for 3 share reconstruction, the Skye Bank's share price has experienced significant appreciation. In the most recent twelve (12) months period from December 5, 2007 through December 4, 2007 (date the stock was suspended for the public offer). Skye Bank's stock price has gained N11.95k, or 237%.

The precipitous rise in the stock price post reconstruction is reflected in the graph below.





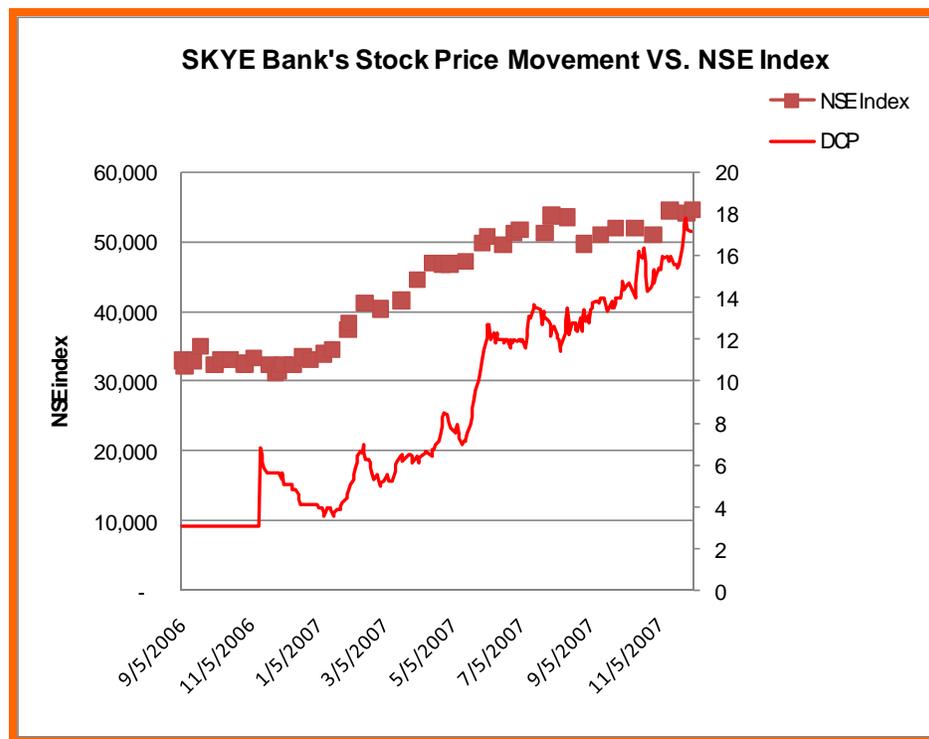
Pre Reconstruction

Skye Bank's stock price underperformed the market (i.e., NSE index) and the industry leaders, because the large number of shares affected the earning capacity (EPS) of the bank and the stock valuation.

Therefore, it became necessary for the bank to implement a share reconstruction strategy. Upon the approval of the SEC and NSE, the bank implemented a 1 for 3 reverse split on November 13, 2006 reducing the number of shares outstanding from 21.5 billion to 7.5 billion.

Post Reconstruction

Skye Bank's stock price has outperformed the NSE index and has been one of the best performing stock in the banking sector. In the most recent 12 months ended December 2007, while the shares of Skye Bank has gained 237%, the NSE index gained 67.6% as highlighted in the graph below.



Impact of the Share Reconstruction on Skye Bank's Investors Share Holdings (Hypothetical Illustration)

As previously noted, prior to the share reconstruction in November 2006, Skye Bank had approximately 21.5 billion shares outstanding and the stock was trading at approximately N3.06k.

Upon completion of the 1 for 3 share reconstruction, the total number of outstanding shares decreased to 7.5 billion at an adjusted post reconstruction price of N6.83k.



From an analytical perspective (calculation), the stock price post reconstruction should have been N9.18k (N3.06k x 3) not N6.83k (N3.06k x 2.23).

As illustrated in the schedule below, although investors received the actual number of shares at completion of the share reconstruction, but by valuing the post reconstruction price at N6.83k, Skye Bank investors initially lost approximately 25.6% of the value of their portfolio (*see schedule below*).

| Description | Shares Purchased Pre-Reconstruction on 1/17/2006 | January 17, 2006 Stock Purchase Adjusted for 3 for 1 on 11/13/2006 | Portfolio Value of Stock Purchased in Jan 2006 (If correct post reconstruction price was utilised) |
|---------------------------|--|--|--|
| Total # of Shares | 12,000 | 4,000 | 4,000 |
| Share Price | 3.06 | 6.83 | 9.18 |
| Total Value of Portfolio | 36,720 | 27,320 | 36,720 |
| Change in Portfolio Value | | -9,400 | 0 |
| Percent Gain | | -25.6% | 0.0% |

However, due to the recent performance of the stock, investors who purchased the shares pre-reconstruction have completely recovered the loss from the initial wrong post reconstruction valuation.

A review of the value of an investor's portfolio who purchased 12,000 shares at N3.06k pre-reconstruction and held the shares post reconstruction through suspension in the trading of Skye Bank's shares on December 12, 2007, indicates that the investors' portfolio gained 85%.

| Description | | Amounts |
|---|-------|---------|
| Total # of shares purchased pre-reconstruction | (a) | 12,000 |
| 1 for 3 share reconstruction factor | (b) | 3 |
| Adjusted number of shares - post reconstruction | (a/b) | 4,000 |
| Stock price pre-secondary offer | | 17.00 |
| Total value of portfolio | | 68,000 |
| Original investment (Net of fees) | | 36,720 |
| Portfolio Gain | | 31,280 |
| % Gain | | 85% |

On January 14, 2007, the Bank paid N0.35k dividend per share. Therefore, if the above illustrated portfolio is adjusted for the dividend, the gain will be 89%.

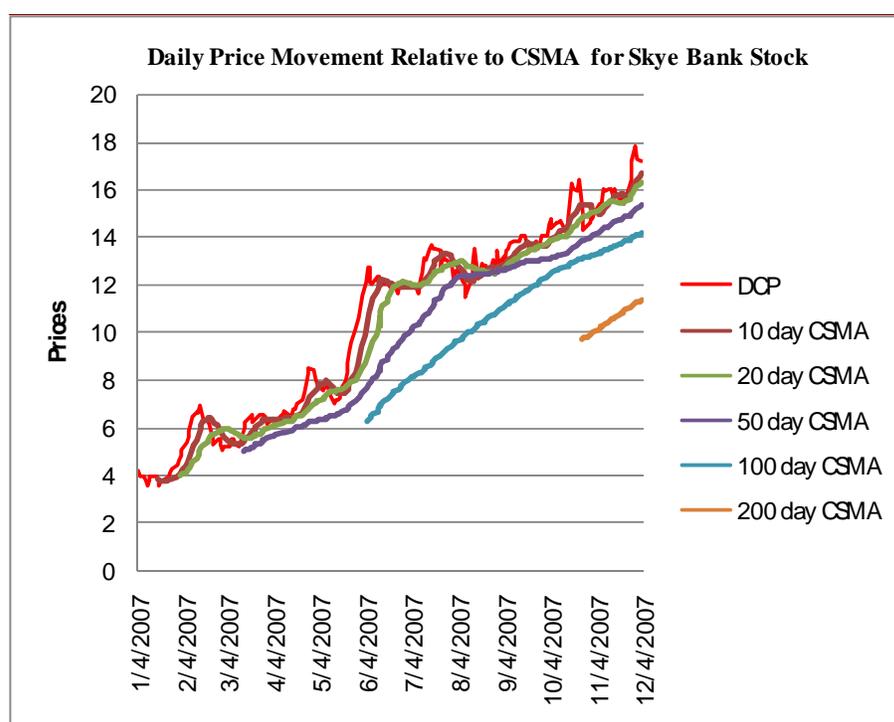
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5. The Analyst Opinion

The shares of Skye Bank Nigeria Plc are priced at N14 for the secondary offering and the rights issue is priced at N12.50K. The offer and the right issue prices represent discount of N3.19k, or 18.6% and N4.60k or 26.9% compared to N17.190k, the closing price at which the stock was halted on December 4, 2007 for the offering.

Prior to the stock's technical suspension for the secondary offering, the stock was trading above all its pertinent cumulative simple moving averages (CSMA) of 10 day, 20 day, 50 day, 100 day, and 200 of N16.7k, N16.26k, N15.34k, N14.191k and N11.32k respectively as highlighted in the schedule below.



At the offer and rights issue prices of N14k, and N12.50k respectively, the stock is below all its relevant CSMA's except the 200 day CSMA of N11.32k. Although we believe the stock price is unlikely to trade below the offer and right issue prices, the following issues might slow any dramatic upward trend for the Bank's stock price:

- ❶ The creation of multiple overhead price resistances since the offer price is below all the stock's pertinent cumulative simple moving averages
- ❷ An increase in the number of shares outstanding by 49.7% from 7.5 billion shares to 11.2 billion shares outstanding at the close of the offer.

Nevertheless in the worst case scenario, the stock has two (2) strong price supports below the offer/rights issue prices. The first price support is N11.32k, the 200 day CSMA, and at N11.62k, a double bottom price support created on August 10, 2007.



Using Fibonacci projections, the price targets highlighted in the schedule below are the exit points investors should consider as the price of the stock resumes trading.

| Projected Fibonacci Target | Price (=N=) |
|------------------------------|-------------|
| First Target - 23.7% | 19.79 |
| Second Target - 38.2% | 21.76 |
| Target Third 50% | 24.20 |
| Fourth Target - 61.8% | 28.15 |

(Please note that the Fibonacci projected targets were calculated based on N17.8, the high of stock prior to its suspension)

Stock Value

Using the constant growth model, we derived a fair value price of N19.70k. However, based enterprise value methodology for the current year, the actual price for Skye Bank was calculated at N21.47k using EV/number of outstanding shares.

Additionally, we calculated the target price for 2008 at N28.21 using the EV/projected EBITDA valuation methodology. Since, the average offer and right issue prices of N13.25k is N7.35k, or 35.6% below the estimated average fair value of N20.59k (i.e., constant growth estimate of N19.7k + EV of N21.47k).

EV is a measure of theoretical takeover price, and is useful in comparisons against income statement line items above the interest expense/income lines such as revenue and EBITDA.

The Deduction of the Projected Target Price

The enterprise value calculation indicates that the shares of Skye Bank is undervalued based on the offer prices (i.e., N14.00k for subscription and N12.50k for rights issue). For the current year the actual price for Skye Bank is calculated at N21.47k using EV/number of outstanding shares. However, we calculated the target price for 2008 at N28.21k using the EV/projected EBITDA valuation methodology.

For the FY 2007, we established the EBITDA at N21.76 billion and divided it into the enterprise value of N161 billion to generate a multiple of 7.40. The resulting multiple of 7.4 was multiplied by our projected forward EBITDA for 2008 of N53.8 billion to generate a forward enterprise value for 2008 of N398 billion.

The long-term debt of the firm was then subtracted from this figure and the resulting figure was divided by the projected post secondary offer number of outstanding shares (11.2 billion) in 2008. This yielded our projected 2008 price of N28.21k.

Based on the calculated value, we are issuing a long-term BUY recommendation at the public offer price.

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6. Advice to Users of this Report

Proshare Nigeria is the country's premier investor relations/education and analyst services platform providing a critical role in ensuring that market confidence & safety is enshrined in the conduct of/and market reliance on the information and activities of firms quoted on the Nigerian Stock Exchange; as a wealth creator for the investing public.

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We are always happy to receive your comments on how we can improve our services and make it more meaningful to the investing public.

Should you be interested in contacting us for further discussions on how such reports can be made more meaningful to you or your organisation/investment club; kindly contact us as follows:

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