

# African Capital Alliance – Acquisition of UBN

---

**Strategic Advice**

**December, 2011**

**BD Advisory**

Raymond Han  
Samuel Ting  
Luke Clinch  
Matthew Yan



---

These materials have been prepared by BD Advisory Group L.L.C. (“BD Advisory”) for the Chairman of African Capital Alliance (the “Company”) to whom such materials are directly addressed and delivered and may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with BD Advisory. These materials are based on information provided by or on behalf of the Company and/or other potential transaction participants, from public sources or otherwise reviewed by BD Advisory. BD Advisory assumes no responsibility for independent investigation or verification of such information and has relied on such information being complete and accurate in all material respects. To the extent such information includes estimates and forecasts of future financial performance prepared by or reviewed with the management of the Company and/or other potential transaction participants or obtained from public sources, BD Advisory has assumed that such estimates and forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of such management (or, with respect to estimates and forecasts obtained from public sources, represent reasonable estimates). No representation or warranty, express or implied, is made as to the accuracy or completeness of such information and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future. These materials were designed for use by specific persons familiar with the business and affairs of the Company. These materials are not intended to provide the sole basis for evaluating, and should not be considered a recommendation with respect to, any transaction or other matter. These materials have been developed by and are proprietary to BD Advisory and were prepared exclusively for the benefit and internal use of the Chairman of the Company.

These materials were compiled on a confidential basis for use by the Chairman of the Company in evaluating the potential transaction described herein and not with a view to public disclosure or filing thereof under state or federal securities laws, and may not be reproduced, disseminated, quoted or referred to, in whole or in part, without the prior written consent of BD Advisory.

These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by BD Advisory (or any affiliate) to provide or arrange any financing for any transaction or to purchase any security in connection therewith. BD Advisory assumes no obligation to update or otherwise revise these materials. These materials may not reflect information known to other professionals in other business areas of BD Advisory and its affiliates.

BD Advisory and its affiliates do not provide legal, accounting or tax advice. Accordingly, any statements contained herein as to tax matters were neither written nor intended by BD Advisory or its affiliates to be used and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on such taxpayer. Each person should seek legal, accounting and tax advice based on his, her or its particular circumstances from independent advisors regarding the impact of the transactions or matters described herein.

## **I. Executive Summary**

---

# Executive Summary

---

## Acquisition Summary



- **30% IRR, 3.5x MOIC** over 5 years till exit
- **\$180 million USD in cost savings p.a** materialized at end of 5 year investment horizon

---

## Deal Rationale

- **Growth prospects** in the Nigerian banking sector are strong
- **Attractive entry and exit valuations** of Union Bank and an attractive asset to potential buyers
- **Competitive advantage** and scope of Union Bank

---

## Valuation

- Undervalued: **Valuation range from ₦31 to ₦58**
- **Trading Range from ₦2.1 to ₦6.5**

---

## Risk Management

- **Market Risk** (Oil price fluctuations, Currency Movements)
- **Company Risk** (Management structure, Government control, Exit strategy)
- **Regulatory Risk** (Capital adequacy)

---

## Bid Strategy

- Mitigate consortium drop out risk by **targeting high-probability investors**
- **Perform leveraged buyout as contingency** to AMCON timeframe

## **II. Acquisition Rationale**

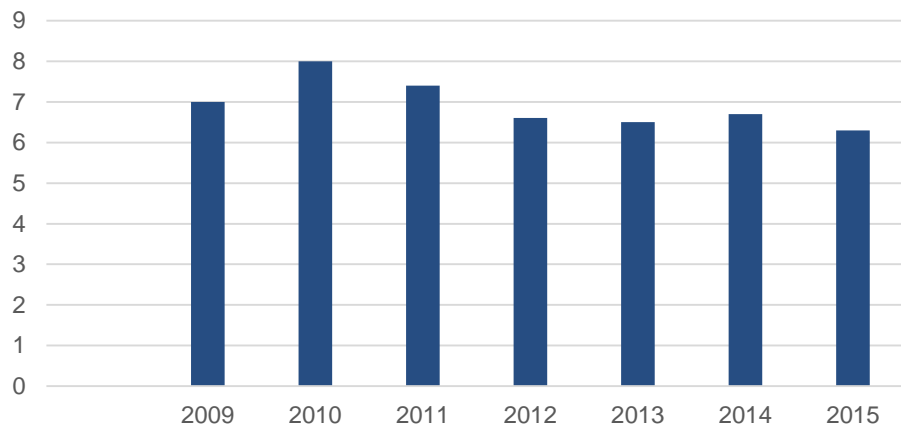
---

# External analysis, why Union Bank of Nigeria?

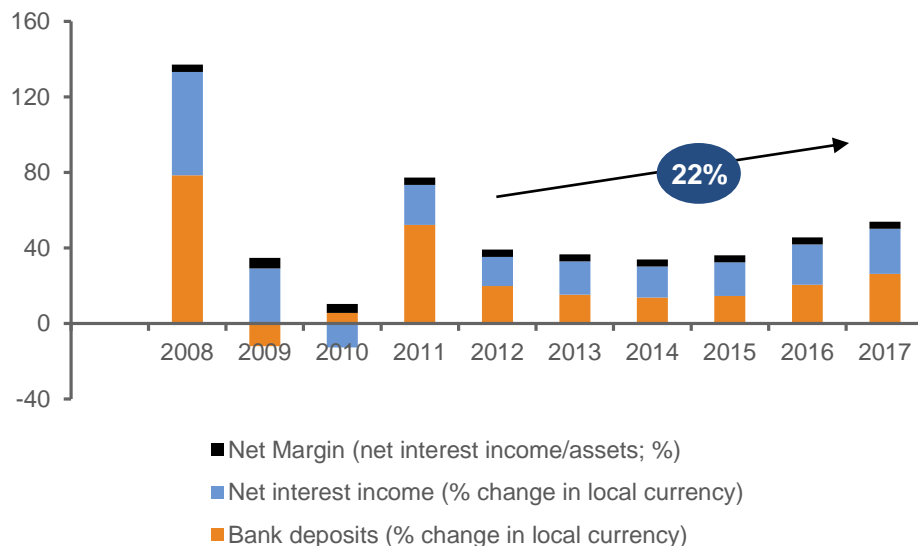
We recommend Nigeria due to the strong economic and banking-sector growth

## Nigeria has strong economic growth fostered by political stability

Real GDP at factor cost growth (%)



## Nigerian Banking Sector has growth prospects...



- **Nigeria** is the second-largest economy in sub-Saharan African, only behind South Africa.
- ▶ Nigeria will **have a 40%** increase in nominal GDP over the five year time horizon.
- ▶ **17% population growth** over the next four years
- ▶ **10-13% growth per annum** in consumer prices

## ...and there is a market penetration opportunity

- **Deposits are forecasted at 22%** year-over-year growth with loans at 31%.
- **Only 12 ATMs per 100,000 adults** compared to USA's 230 which provides adequate opportunity for Union Bank in the competitive landscape
- **Only 30% banking penetration** in Nigeria which is an attractive market for institutional investors due to the growth prospects and immature stage of the industry

# Internal analysis, why Union Bank of Nigeria?

## Acquisition of Union Bank results in considerable return of 30% IRR

### Return of Union Bank Acquisition

#### CAPE I

- \$35 m (US) raised
- 15.7 x realized multiple
- 46% Gross IRR
- Final close in 1999 from 1998

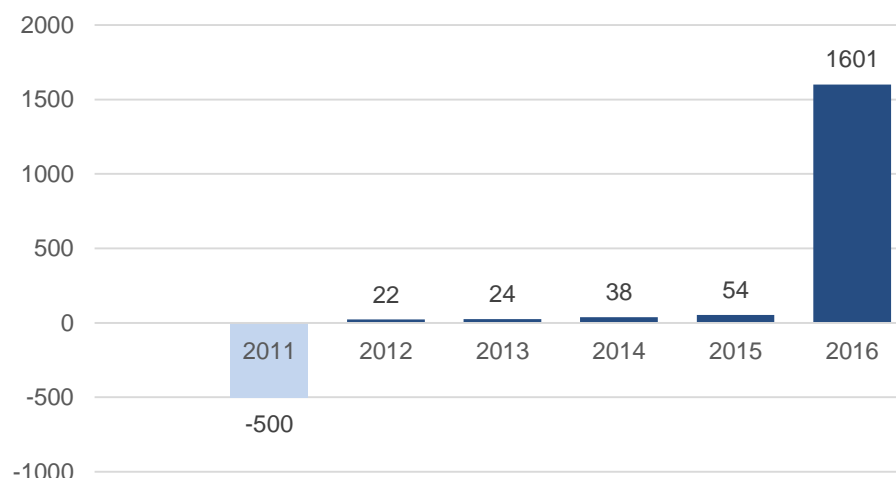
#### CAPE II

- \$100 m (US) raised
- 46.4% Gross IRR
- Final close in 2006 from 2005

#### UBN

- \$500 m (US)
- 30% Gross Projected IRR
- Projected MOIC of 3.48x
- Final close in 2016 from 2011

### Acquisition cash flows to ACA consortium (\$ USD Millions)



### UBN is established with growth prospects

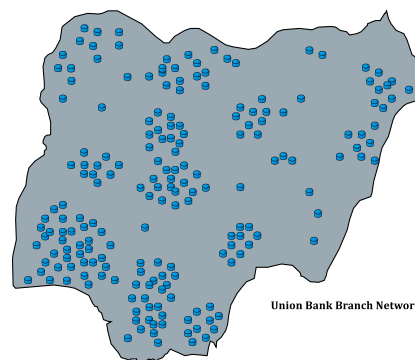
#### High Brand Equity

Iconic, trusted household brand name

#### Strong and Low-Cost Deposit Base

A customer base that includes many blue-chip Nigerian and multinational corporations and a low cost of funds

### Competitive advantage



UBN Branch Footprint

- Far reaching **network of 349 branches** that caters for both rural and sub-urban regions
- **Concentration of branches in economic hub** of Nigeria (South-West)
- **Difficult to replicate UBN's branch network** due to banking sector reform and competition.

# Advantages and Disadvantages of the acquisition deal

## Advantages

- ACA as a growth capital firm is looking to sell in the future, there is potential for operational improvement with Union bank:
  - ▶ **Potential for turnaround** as there are significant areas for **cost reduction**.
    - ACA can capitalize on Union bank's long standing brand equity and project growth of loan and depositor base.
  - ▶ By enhancing Union banks liquidity, corporate governance and capital adequacy, ACA can **restore Union Bank's competitive position**.
  - ▶ Providing **new management and recapitalization will yield high returns** and with a lower acquisition price will adequately satisfy CAPE III investors.

## Disadvantages

- Nigeria has a **dual economy**
  - ▶ High Corruption Index Ranking
  - ▶ Ease of doing-business index is poor
  - ▶ High NPLs to total gross loans
- Union Bank has **poor management practices**
  - ▶ ACA must dedicate more resources towards post-acquisition governance and investors may not view it as a valuable investment.
- Post-Acquisition strategy must satisfy all other investors as the **deal requires substantial capital**.











## Threats and Risks

- **Market Risk** (Oil price fluctuations)
- **Company Risk** (Management structure, Government control, Exit strategy)
- **Regulatory Risk** (Capital adequacy)
- **Finding buyers** for exit after five-year time horizon.
- **Raising capital** to purchase Union Bank



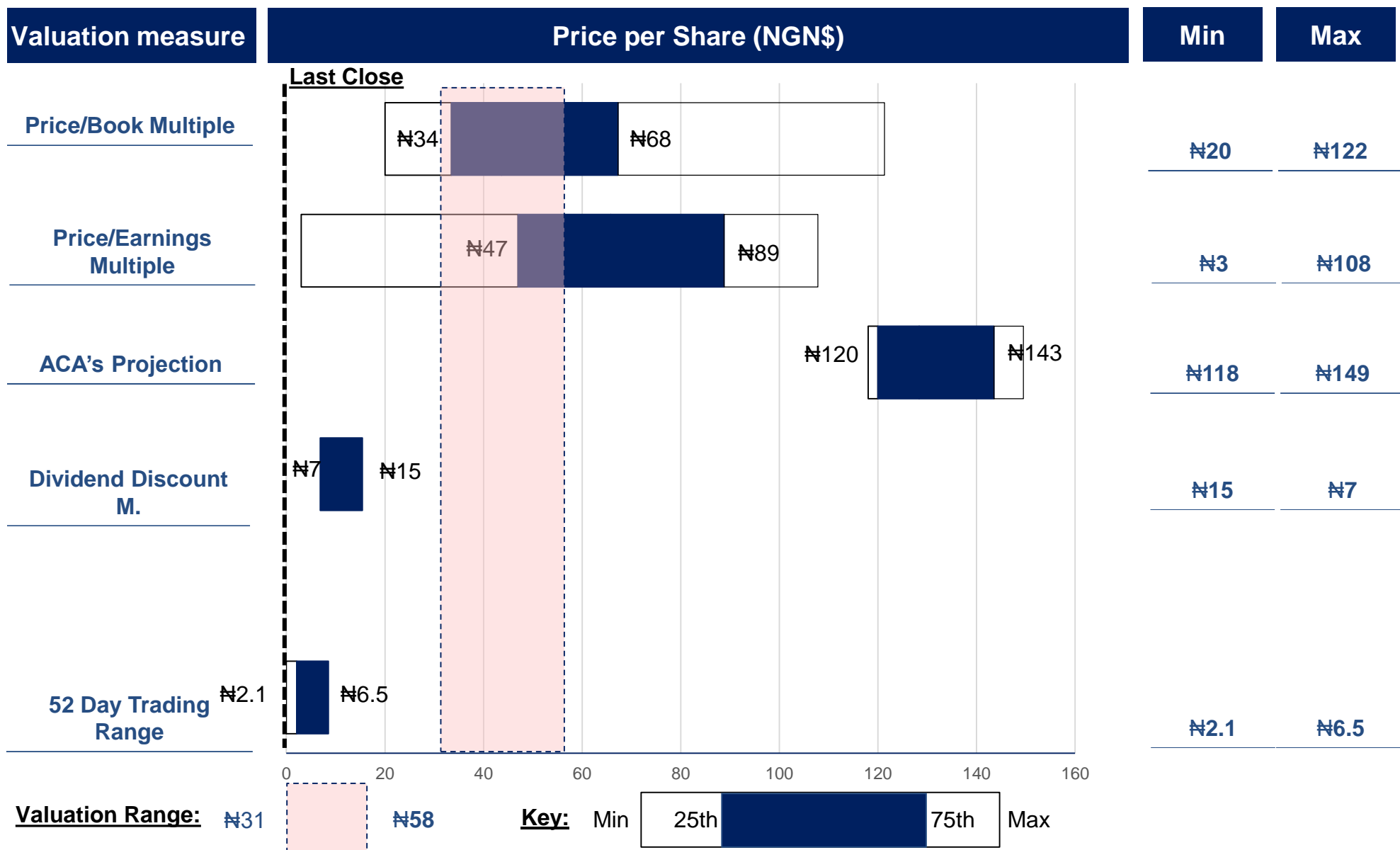
## Other alternatives

Union Bank of Nigeria is an ideal acquisition target for a PE firm

Top Banks in Nigeria	Size	Ability to Acquire	Strategic Fit
	\$1,789.4m		<b>LOW</b> <ul style="list-style-type: none"> <li>■ Largest bank by total assets (\$17bn)</li> <li>■ Mature: unlikely to produce required IRR for CAPE III investors</li> </ul>
	\$516.0m		<b>MODERATE-LOW</b> <ul style="list-style-type: none"> <li>■ 10.3x P/E multiple compared to peer average of 5.3x – potentially overvalued</li> <li>■ Maturing as one of Top 3 Nigerian banks – lacks growth opportunities</li> </ul>
	\$257.4m		<b>MODERATE-HIGH</b> <ul style="list-style-type: none"> <li>■ 0.3x P/E ratio and opportunity to pay 0.7x P/B for UBN, currently valued at 1.0x P/B</li> <li>■ Significant expansion and cost-restructuring opportunities provide attractive upside to PE investors</li> </ul>
	\$312.8m		<b>MODERATE-LOW</b> <ul style="list-style-type: none"> <li>■ Premium financial services focus for mid-high net worth individuals</li> <li>■ Whereas, growth lies in undersaturated low-mid net worth individuals who require credit and financing</li> </ul>
	\$171.2m		<b>MODERATE</b> <ul style="list-style-type: none"> <li>■ Current Non-Executive Partner of ACA was former Diamond Bank CEO</li> <li>■ Limited entrance opportunities compared to AMCON's UBN offer</li> </ul>

# Valuation

Union Bank is currently undervalued and can be bought at a low acquisition price



### **III. Acquisition Risk Management**

---

## Key Acquisition Risks

---

Effective management of market, company and regulatory risks is essential to the ACA-UBN acquisition's success

1

### Market Risk

The UBN acquisition is *highly susceptible* to *declines* and *increased volatility of WTI Crude Oil prices*, which directly depreciates the Naira, *reducing USD returns* on investment.

2

### Company Risk

The ACA Consortium must (i) *effectively strengthen UBN's management board* using its 65% controlling stake to realize their projected cost-restructuring and growth thesis, (ii) *address CBN and AMCON's concerns* regarding funding and recapitalization, and (iii) *formulate a viable exit strategy* at the end of its 5-year investment horizon.

3

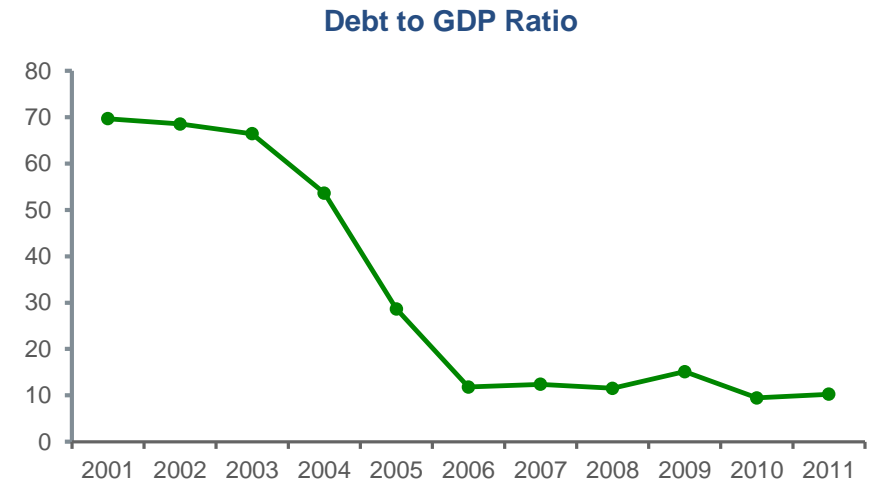
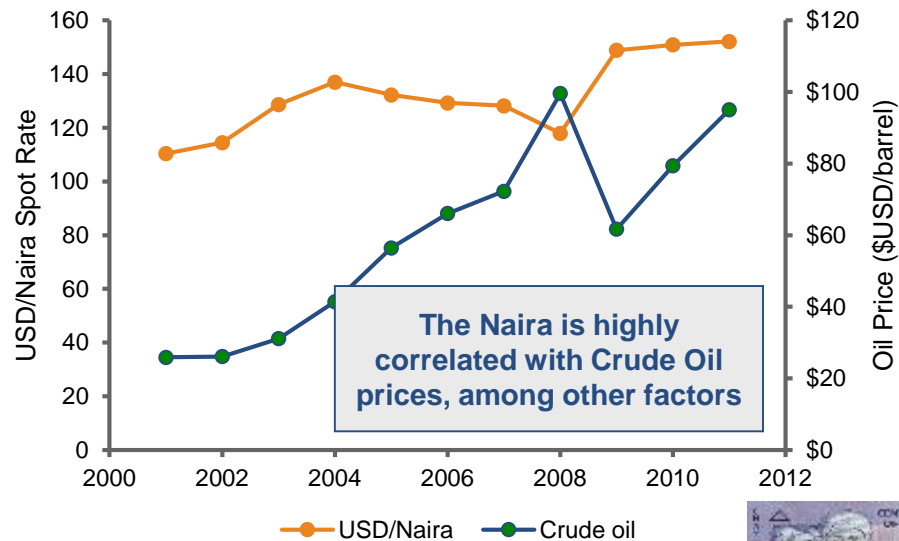
### Regulatory Risk

The ACA Consortium must *ensure UBN satisfies Nigerian regulations and Basel II capital adequacy requirements* at all times throughout the 5-year investment horizon, and ensure they do not restrict their investment thesis from materialization.

# 1. Market Risk – Depreciation of Naira due to price of oil

There lies significant foreign exchange risk due to oil price fluctuations

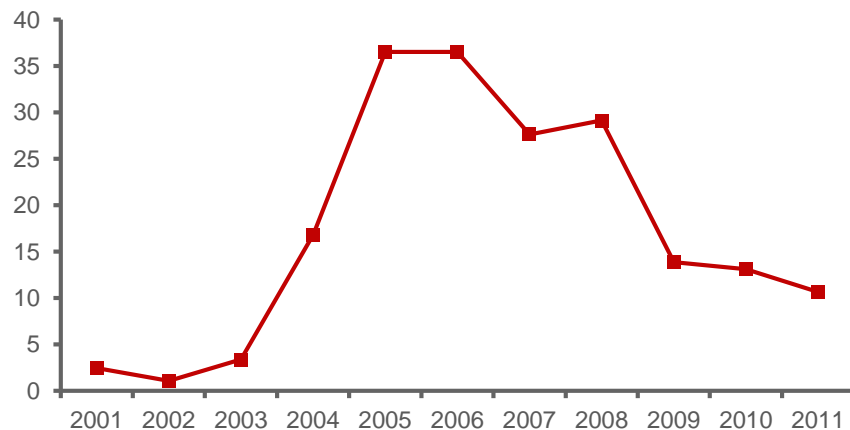
Several factors in conjunction with Crude Oil Prices, affect the Naira's relative value



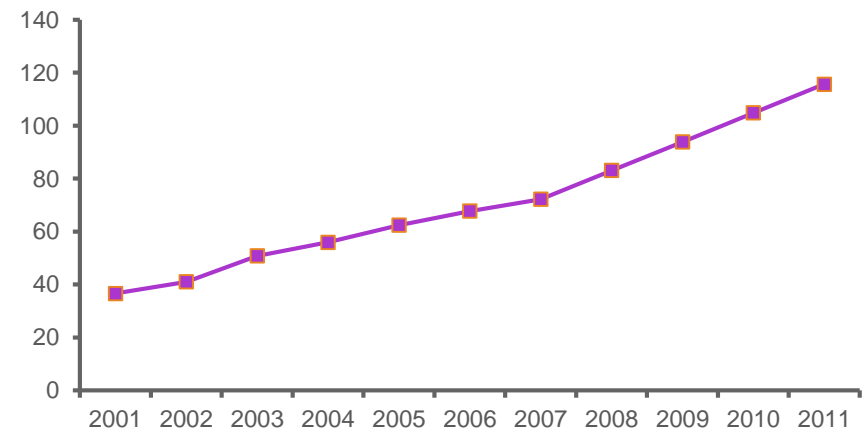
Legend: USD/Naira (orange line), Crude oil (green line)



Current Account Balance



CPI



# 1. Market Risk – Depreciation of Naira due to price of oil

**Oil prices are significantly correlated with Naira movements, with short-term outlook positive**

**Value of the Naira is estimated to *depreciate 8.2% to 165.5499 Naira/USD***

- A 1 USD increase in the price of Crude Oil results in an appreciation in the Nigerian Naira by 0.7787 Naira/USD (Ceteris Paribus)
- Unexpected Oil Price shocks can result in severe fluctuations of Naira value in turn devaluing the Union Bank Assets in USD terms
- At a price of 90 USD per barrel (other variables at most recent data) the value of the Naira is estimated to ***depreciate 8.2% to 165.5499 Naira/USD***

Key Regression  
Outputs  
RMSE: 4.2623  
R<sup>2</sup>: 0.9388  
Adjusted R<sup>2</sup>: 0.9126

**GARCH Model: Volatility of future WTI Oil Prices highly persistent based on prior period data**

- Oil Price volatility forecasted on a GARCH (2,3) process
- Current period volatility based on a combination of previous period prices and volatilities
- Oil Prices experience distinct volatility clusters around time periods with large external shocks

**Future Oil Price volatility increasingly susceptible to demand-supply shocks**

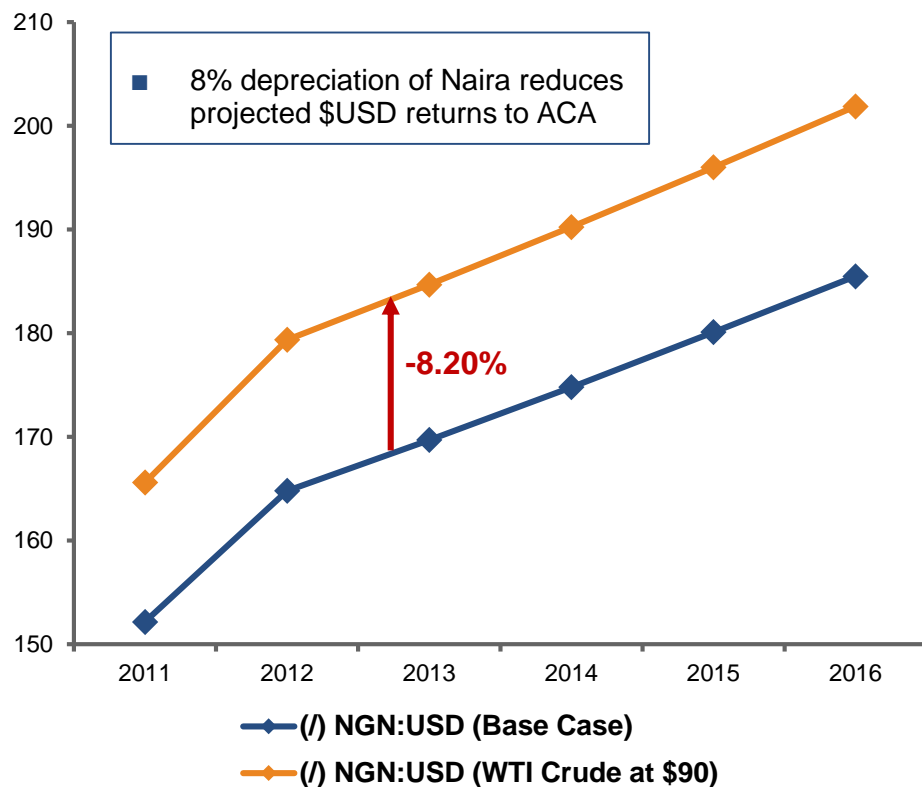
- OPEC anticipates Crude Oil Prices to maintain steady growth over the short term
- Concerns around Iran's potential closure of the straits of Hormuz in early 2012 due to sanctions
  - Iran's straits manage 1/5 of world oil exports, therefore placing upward pressure on price due to supply concerns

**The outlook on global crude oil prices is favorable in the short-medium term with measurable degrees of volatility**

# 1. Market Risk – Depreciation of Naira due to price of oil

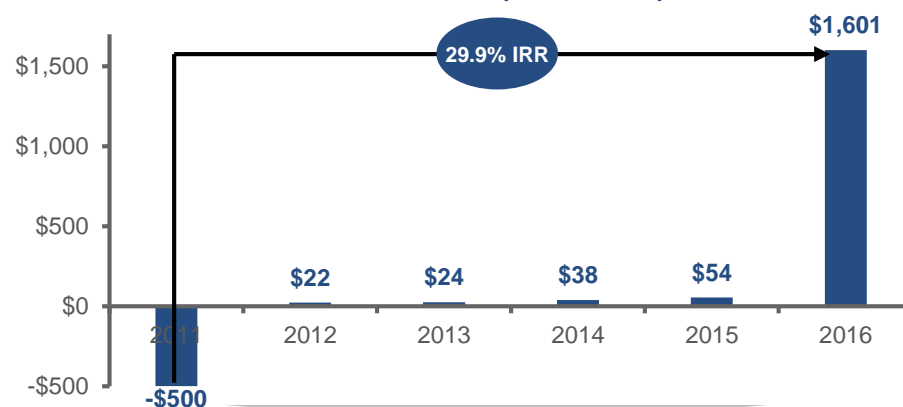
The UBN acquisition is nonetheless attractive at a 28.2% IRR if oil were to drop to \$90/barrel

NGN/USD Exchange Rate Effects of Oil Fluctuations

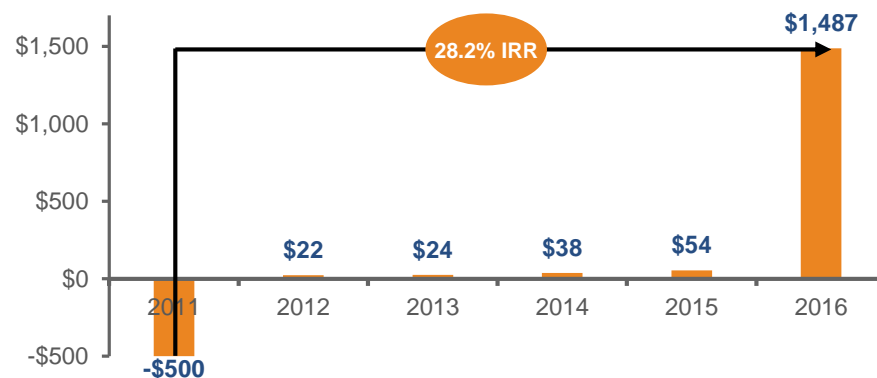


Impact on Valuation

Net Cash Flows (Base Case)



Net Cash flows (WTI Crude at \$90)

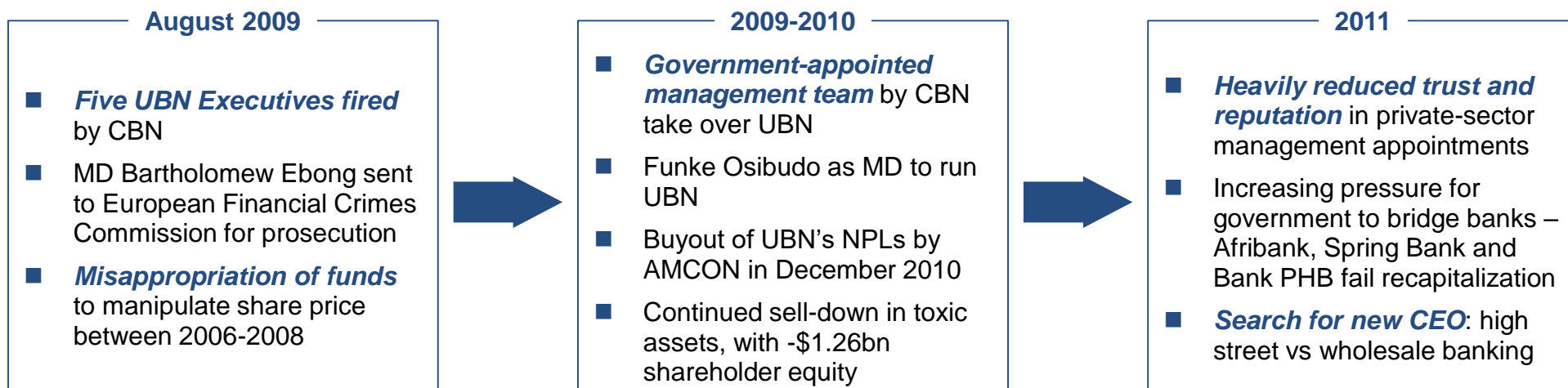


A decline in crude oil prices will reduce the IRR only marginally to 28.2%, at which UBN is nonetheless an attractive private equity acquisition opportunity for the ACA Consortium

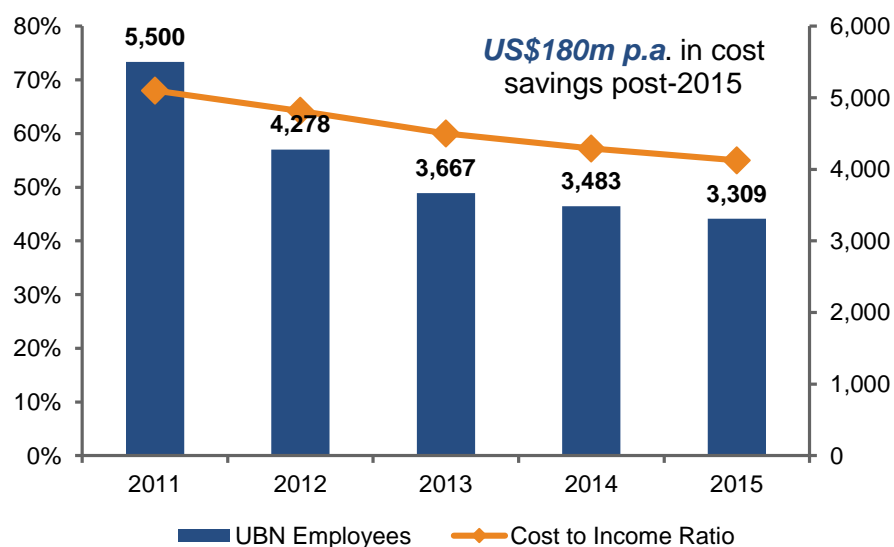
## 2A. Company Risk – Restructuring UBN’s Management

New management board must address existing trust concerns and pioneer ACA’s thesis

### UBN Board Management History



### ACA prioritizes savings by cost restructuring ...



### ...which is unlikely to be effected by existing board.

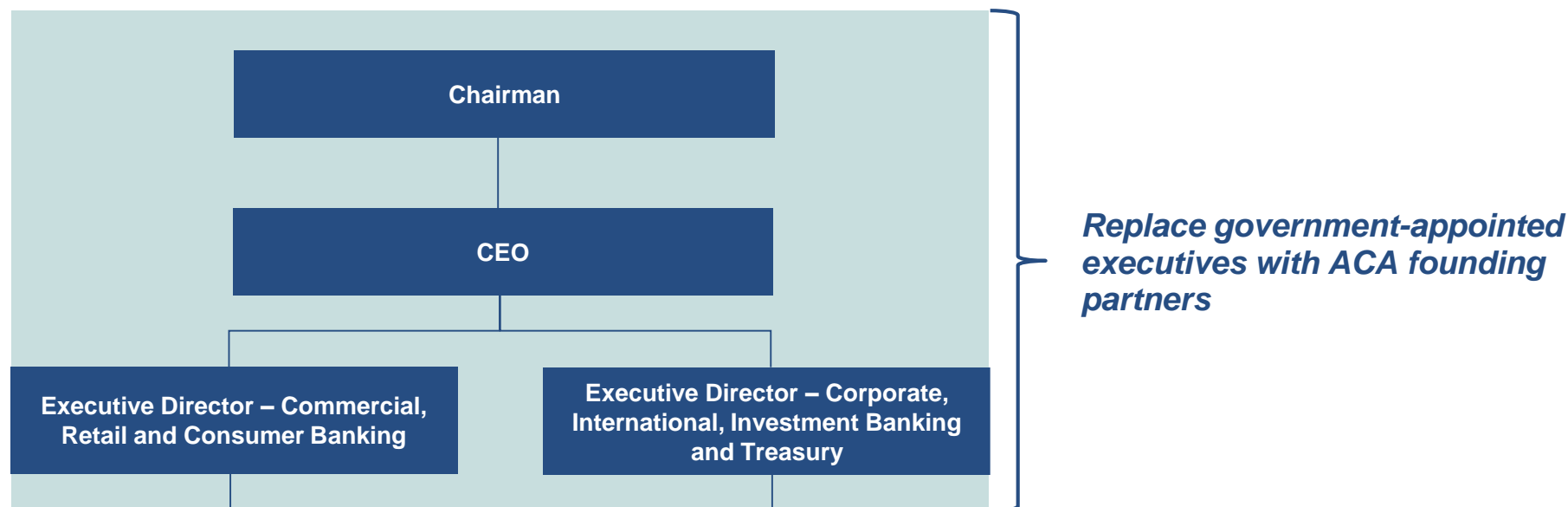
- **Central Bank of Nigeria** (appointer of current management board) **remains opposed** to widespread branch closures
- ACA consortium’s investment thesis hinges on:
  - ▶ 1. **Cost restructuring** for 33% workforce reduction and reduction of unprofitable branches from 34% to 15% of total
  - ▶ 2. **Growing UBN** to one of **Nigeria’s top 5 banks** within 5 years
- Transformation Management Office likely inadequate

**The ACA Consortium must leverage its 60% controlling stake to instill management that aligns with its strategy**



## 2A. Company Risk – Restructuring UBN’s Management

We recommend key candidates at the highest level to give effect to ACA’s vision



### Chairman Candidate



**Richard Kramer**  
*ACA Chairman, UBN  
Chairman Candidate*

### CEO Candidate

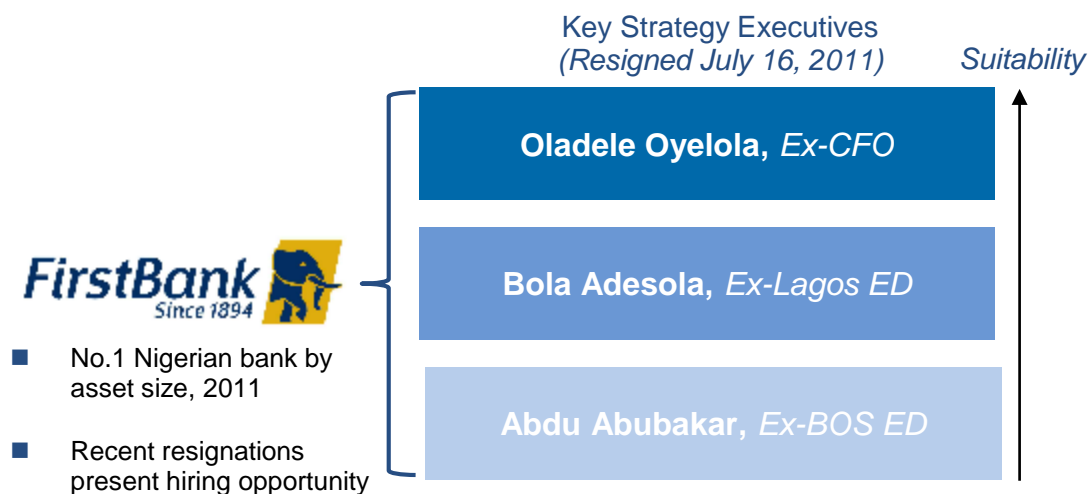


**Mohammed Hayatu-Deen**  
*(Former) ACA  
Director, UBN  
CEO Candidate*

## 2A. Company Risk – Restructuring UBN’s Management

We recommend key candidates at the highest level to give effect to ACA’s vision

### Alternative CEO Candidates



### Commercial, Retail and Consumer Banking Candidate



**Pascal Dozie**  
Candidate for  
Executive Director,  
UBN Commercial and  
Retail Banking

- **Experience in growing large Nigerian banks**
  - ▶ Former Chairman and CEO of Diamond Bank – grew to top 10 Nigerian banks
- **Reputable and trustworthy**

### Corporate and Investment Banking Candidate



**Okey Enelamah**  
Candidate for  
Executive Director,  
UBN Corporate and  
Investment Banking

- **International experience – ability to draw institutional interest for growth**
  - ▶ Goldman Sachs (NY and London)
  - ▶ HBS MBA
- **Extensive Nigerian corporate experience**









## 2B. Company Risk – Mitigating government’s concerns and control issues

ACA can effectively leverage its network and controlling stake to defend against key government concerns

Concern	Will the government relinquish control and provide autonomy to ACA to effect its thesis?		
Key Govt. Issues	Inability of ACA to raise \$300m capital	Government-appointed executives and 20% AMCON ownership	Opposition to disruption and job losses
Recommendation	<b>1</b> <ul style="list-style-type: none"> <li>■ <b>Communicate holistic equity-raising strategy</b> <ul style="list-style-type: none"> <li>▶ Highlight strength of existing partnerships</li> <li>▶ Highlight ability to alleviate key consortium drop-out issues</li> </ul> </li> <li>■ <b>Pitch LBO contingency</b> <ul style="list-style-type: none"> <li>▶ Highlight multitude of debt funding sources</li> <li>▶ Highlight IRR and feasibility</li> </ul> </li> </ul>	<b>2</b> <ul style="list-style-type: none"> <li>■ <b>Replace government executives</b> <ul style="list-style-type: none"> <li>▶ Use 60% controlling stake power on board to overhaul key directors</li> </ul> </li> <li>■ <b>Strengthen pre-existing relationships</b> between ACA, CBN and AMCON, fostering joint ownership and collaboration</li> </ul>	<b>3</b> <ul style="list-style-type: none"> <li>■ Transformation management office: <ul style="list-style-type: none"> <li>▶ <b>Reassure government</b> of growth potential</li> </ul> </li> <li>■ PE investment <b>attracts foreign investors and FDI</b> into country</li> <li>■ Giving reins to private sector <b>signals increased confidence</b> in Nigerian economy</li> </ul>

## 2C. Company Risk – Planning the Exit Strategy

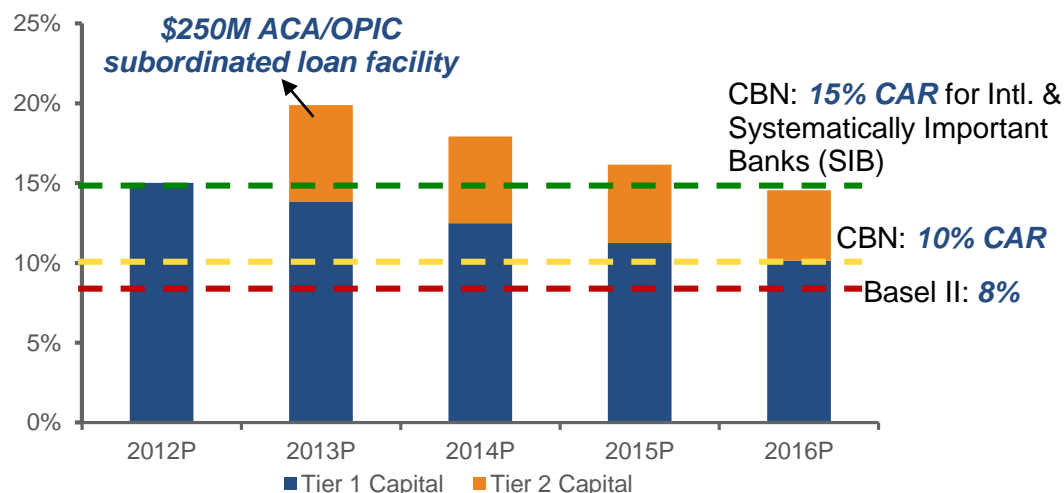
ACA highly likely to ensure a profitable exit through a trade sale

Exit Strategy	Likelihood	Payoff	Advantages	Disadvantages
Trade Sale			<ul style="list-style-type: none"> <li>■ High 'bubble-like' interest from Pan-African banks</li> <li>■ Ability to sell at control premium</li> <li>■ Higher willingness to pay</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased volatility following announcement</li> <li>■ Potential board opposition to sale</li> </ul>
Secondary Buyout			<ul style="list-style-type: none"> <li>■ Leverages ACA's extensive PE network – easier to find acquirers</li> <li>■ Clean and fast exit</li> </ul>	<ul style="list-style-type: none"> <li>■ PE firms have lower willingness to pay than strategic buyers in trade sale</li> </ul>
Leveraged Recapitalization			<ul style="list-style-type: none"> <li>■ Profit extraction whilst retaining stake in UBN</li> </ul>	<ul style="list-style-type: none"> <li>■ Reluctance of UBN to increase leverage to perform share buyback</li> </ul>
On-market share sale			<ul style="list-style-type: none"> <li>■ Minimal transaction costs</li> <li>■ Rapid method of liquidation</li> </ul>	<ul style="list-style-type: none"> <li>■ 60% stake extremely difficult to sell without downward share price pressure</li> <li>■ Negative signalling</li> </ul>

### 3. Regulatory Risk – Satisfying Capital Adequacy

UBN can effectively rely on ACA support to satisfy CBN and international adequacy requirements

Post-Acquisition Capital Adequacy Ratio (CAR)



1

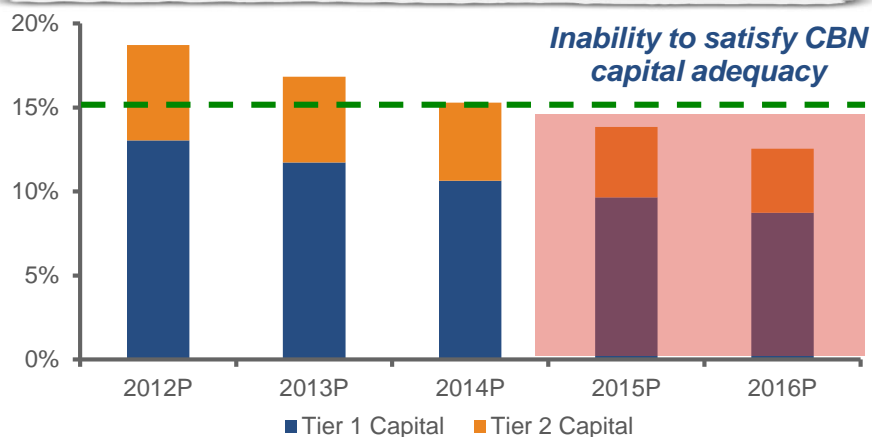
ACA's \$500M equity injection facilitates immediate compliance with CBN and Basel II adequacy accords

2

UBN can effectively rely on \$250m loan facility to clear 15% hurdle should it be classified as a SIB

CBN likely to increase risk weighting of mortgages..

"The Central Bank of Nigeria will vote on **increasing the risk-weighting** of mortgage-backed loans from 50% to 100%" - 2011 Press Release



..however UBN can effectively raise capital to mitigate.

#### (Tier 1) Equity Injections

- ACA Consortium likely to increase equity stake in 3 years time upon realization of projected returns
- High likelihood of **equity injections from ACA coinvestors** in CAPE III and CAPE IV PE funds

#### (Tier 2) Subordinated Debt Facilities

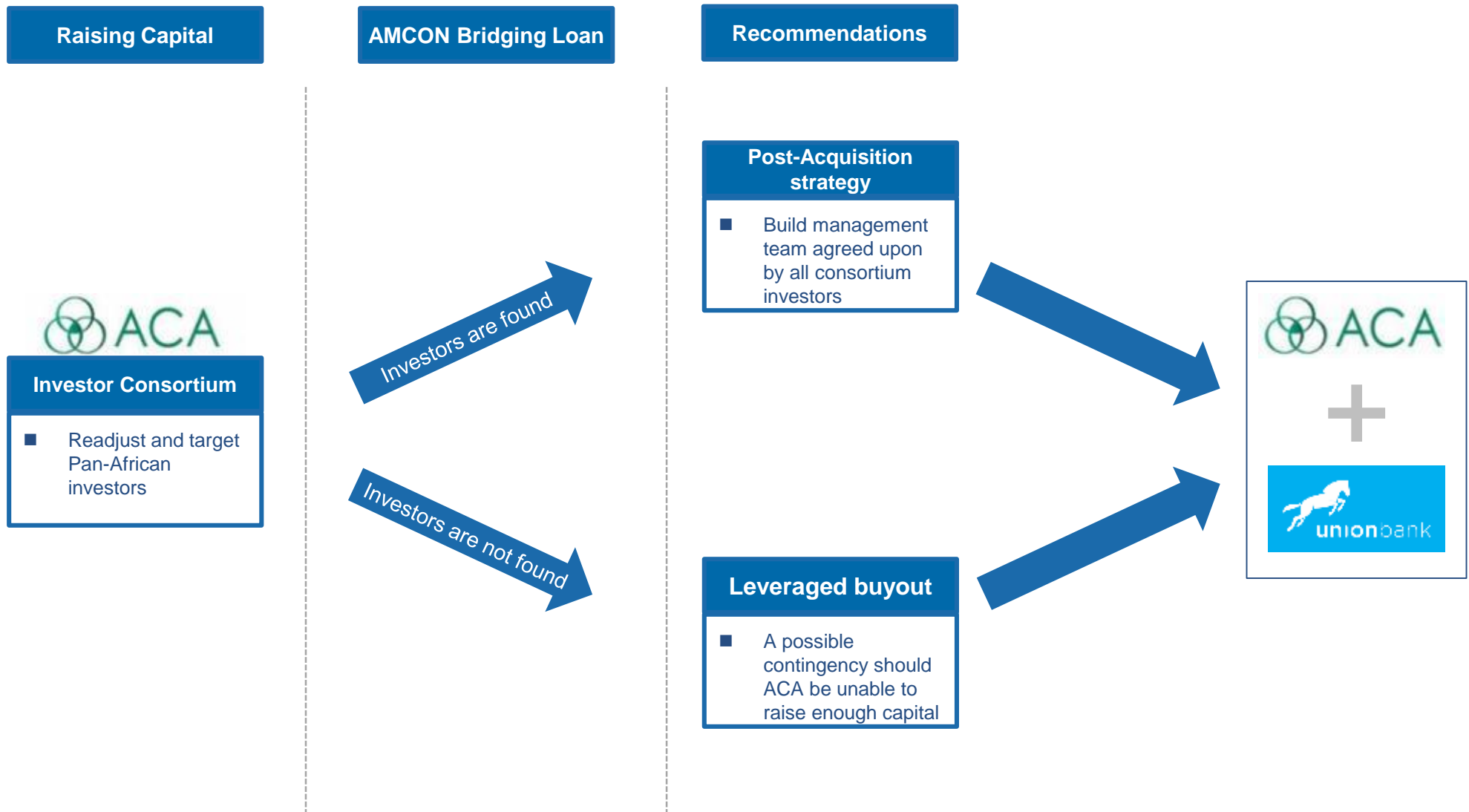
- UBN's **strong balance sheet** and Nigerian **growth prospects** appeals to multinational lenders interested in **higher-yielding Nigerian debt market**

## **IV. Financing the Acquisition**

---

# Bidding Strategy

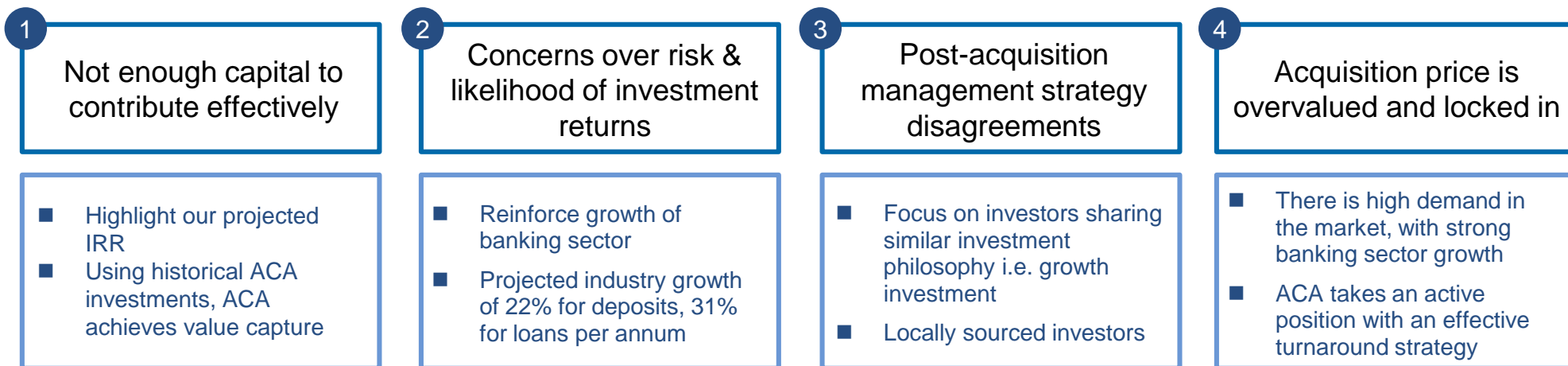
ACA's bidding strategy continues leveraging investor consortium networks



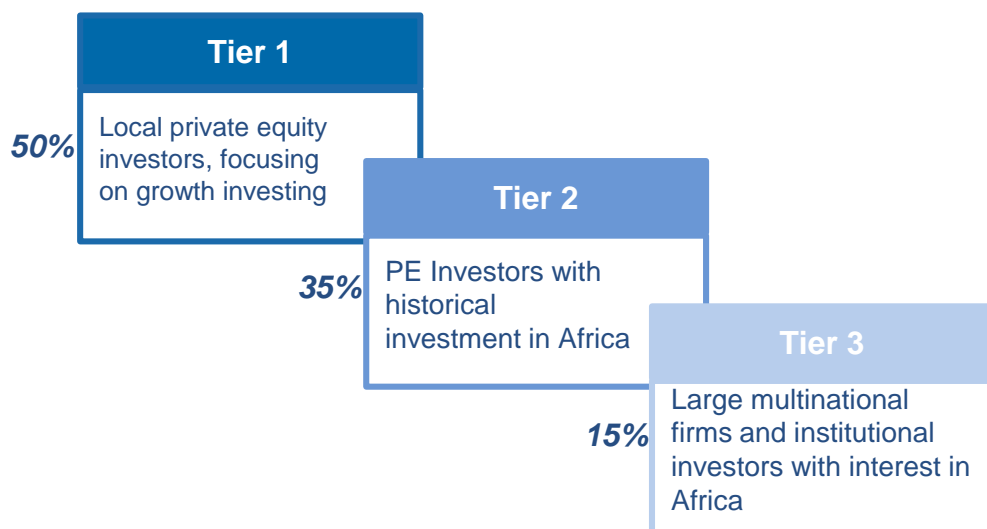
# Key Capital Issues

## Repositioning our consortium approach

ACA adjusts their value proposition to mitigate risks of consortium pull-out



### ACA alleviates investor concerns by strategic targeting



### ACA leverages their existing network and new investors

- **ACA should target their value proposition to Tier 1 investors**, specifically those sharing similar investment philosophies as ACA (growth investing with an active position focusing on developing African economies)
- **ACA's investment philosophy** of active post-acquisition management yields high returns, highlighting core capabilities

CAPE I
46.0% Gross IRR

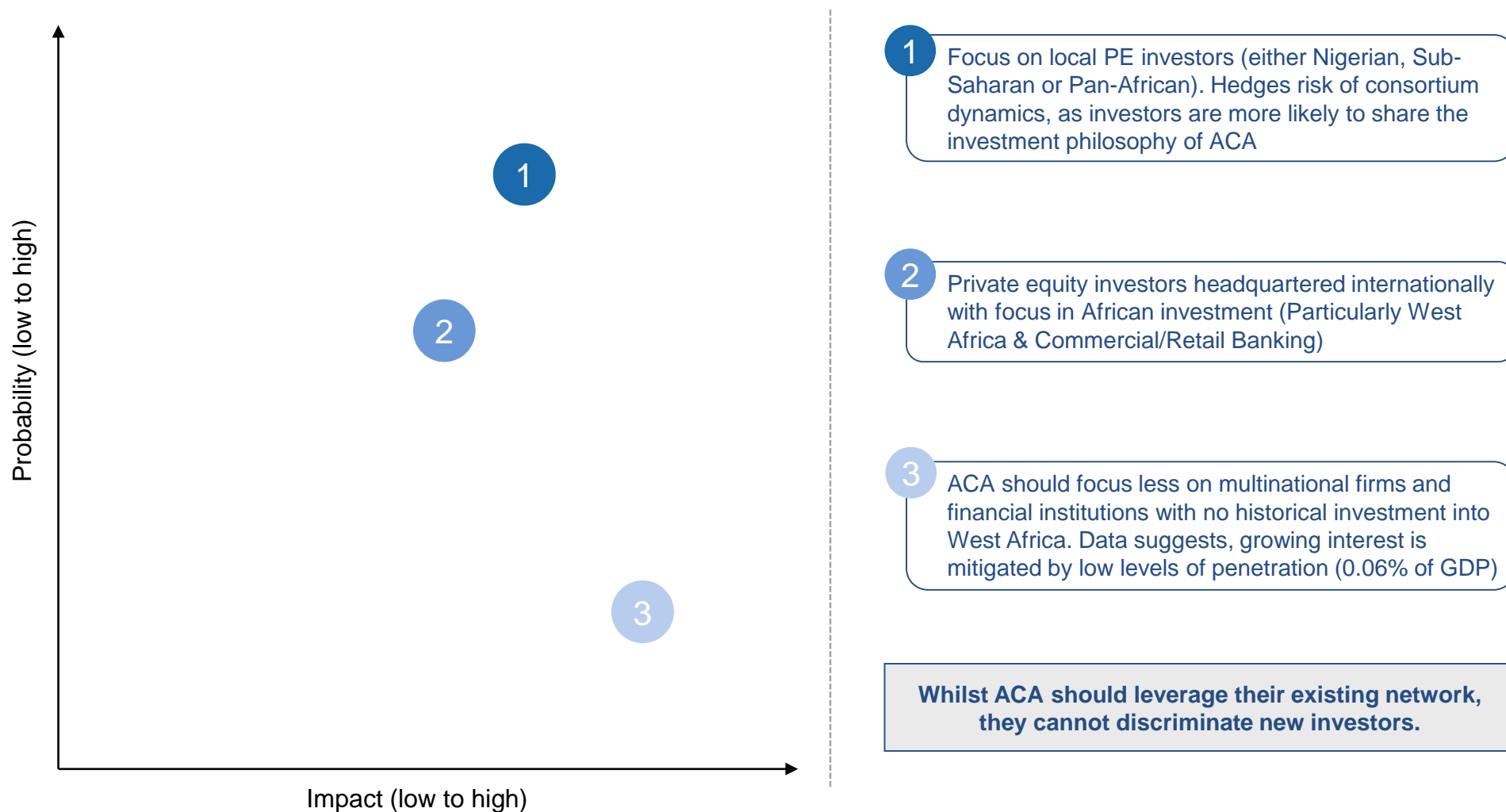
CAPE II
46.4% Gross IRR

**Our strategy focuses on maximising probability to hedge 1-year timeframe of AMCON bridging loan**



# Tiered investor targeting

## ACA converges on high probability, high impact investors



## Possible Consortium Partners

Due to low market penetration, ACA focuses on existing firms with localised investment operations

### Tier 1 Candidates

Firm	Regional Focus	Industry Sectors	Suitability
	East Africa	<ul style="list-style-type: none"> <li>Consumer</li> <li>Financial services</li> <li>Industrials &amp; Technology</li> </ul>	Although regional focus is East Africa, they have been in investor consortiums in the past, acquiring commercial banks. Investment philosophy focuses on growth capital
	Sub-Saharan Africa	<ul style="list-style-type: none"> <li>Financial services</li> <li>Industrials &amp; Technology</li> <li>Telecommunications</li> </ul>	Focus on high growth opportunities in Sub-Saharan Africa, where majority of funds have been consortiums with institutional investors (Adenia Capital II - 2007)
	Pan-African	<ul style="list-style-type: none"> <li>Particular focus on industrials, infrastructure, and financial institutions</li> </ul>	ACR Fund of \$72m USD targeting West Africa, focused on financial institutions. ACRF invested \$14m USD into Ecobank a regional commercial bank
	Pan-African	<ul style="list-style-type: none"> <li>Generalist coverage of all sectors</li> <li>Specifically growth capital</li> </ul>	With 1.2b USD in fund value, Africinvest invested 16% into financial institutions (\$192m USD). Specialises in post-acquisition governance
	Pan-African	<ul style="list-style-type: none"> <li>Consumer</li> <li>Financial Services</li> <li>Industrials &amp; Technology</li> </ul>	1/6 of ECP's many investments are in Nigeria. Investments focus on value creation before exiting through governance and management strategy

### Tier 2 Candidates

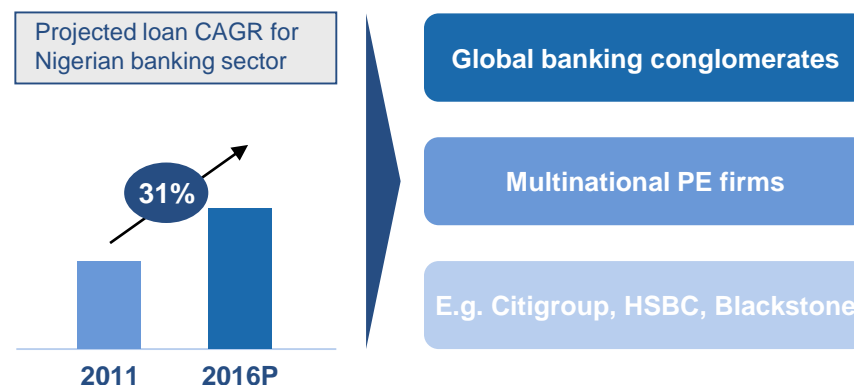






All hold significant investments in financial institutions or commercial banks in West Africa

### Tier 3 Candidates



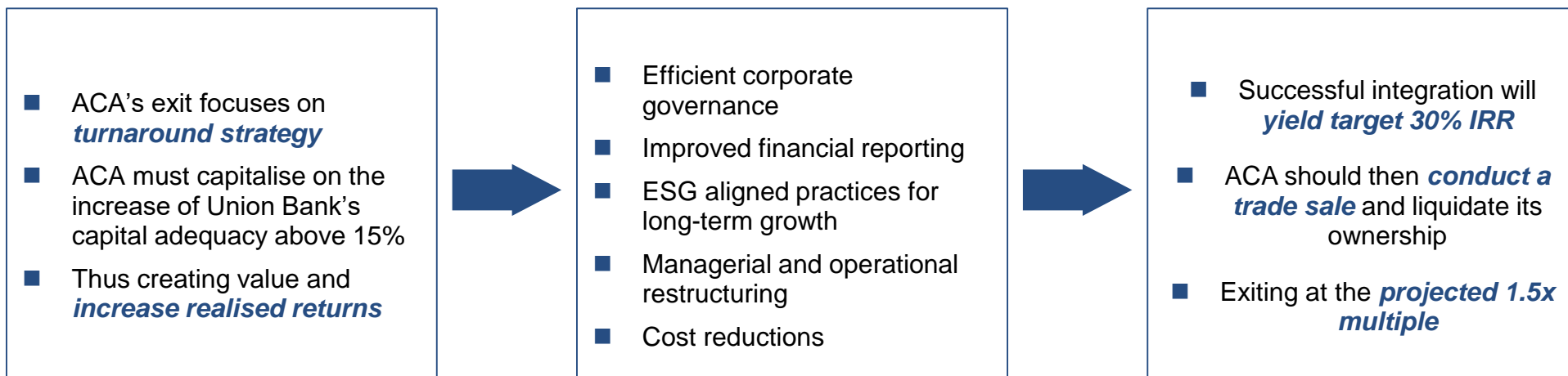
## V. Next Steps

---

# Exit Strategy

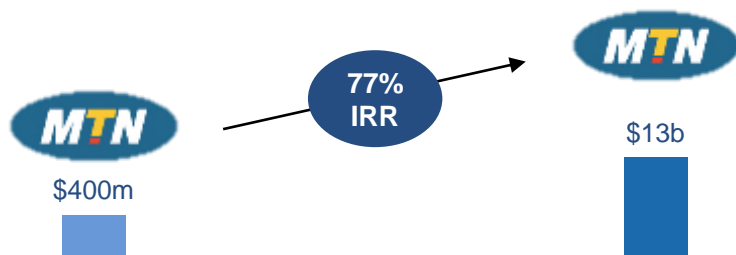
Following 5-7 years of post-acquisition management, ACA should divest

ACA maximises sale valuation through an active position.



ACA's success will attract potential buyers...

Showcasing past success of ACA's turnaround strategy



...who are investing to expand market share.

Attracted by economies of scale and scope



Large multi-national/Pan-African banking groups seeking expansion

## VI. Appendix

---

## Appendix: Weighted-Average Cost of Capital

---

### Assumptions

Tax Rate	30%
<b>WACC</b>	<b>17.03%</b>
E/V	69%
D/V	31%
Cost of Equity	20%
Cost of Debt	15%

Risk Free Rate NG10YRBD	10%
Beta	1
Expected Market Return	20%
<b>Cost of Equity</b>	<b>20%</b>

Risk Free Rate NG10YRBD	10%
Spread to Treasury	5%
Credit Rating	B-
<b>Cost of Debt</b>	<b>15%</b>

## Appendix: Dividend-Discount Model

Assumptions	
Dividend Yield	45%
Exit Multiple (RONI)	1.5
Cost of Equity	20%
Diluted Shares	2918

Year	2012	2013	2014	2015	2016
Net Income (higher performance 20% growth)	13300	15896	24544	35380	45453
Dividends	6089	6849	10949	16135	20921
PV	5074.167	4756.25	6336.227	7781.154	8407.681
PV (terminal value)	12611.52				
Total Equity	44967				
Implied Share Price	15.41021				

Year	2012	2013	2014	2015	2016
Net Income (low performance 2% growth)	13300	13566	13837.32	14114.07	14396.35
Dividends	5985	6104.7	6226.794	6351.33	6478.356
PV	4987.5	4239.375	3603.469	3062.948	2603.506
PV (terminal value)	1569.436				
Total Equity	20066.23				
Implied Share Price	6.876708				

## Appendix: Multiples (Price-to-Earnings and Price-to-Book)

Bank	Total Assets	Total deposits	Long Term Debt	Pre Tax Profit	Net Income
First Bank Nigeria	17429.2		12386.4	302.8	266.1
Zenith International Ban	14221.3		9966.4	645.4	308.2
united Bank for Africa	11816		9035.6	1183.8	97.9
Access Bank Nigeria	5291.2		3203.5	29.7	99.6
Guaranty Trust Bank	9928.5		6469.5	1126.2	298.6
Union Bank of Nigeria	5887.6		3085.3	166.1	0
Skye Bank	5712.3		3964.9	194.5	na
Diamond Bank Nigeria	4897.4		3707.3	337.9	29.4

Bank	Market Cap	Price to Earn.	Price to book	Equity beta	Branches	Employees
First Bank Nigeria		1789.4	6.7	0.8	1	685
Zenith International Ban		2356.2	7.7	1	0.8	327
united Bank for Africa		516	10.9	0.5	1.4	750
Access Bank Nigeria		529	5.8	0.5	0.8	309
Guaranty Trust Bank		2584.1	6.6	1.8	0.6	181
Union Bank of Nigeria		257.4	0.3	1	1	349
Skye Bank		312.8	4.4	0.5	0.9	260
Diamond Bank Nigeria		171.2	9.4	0.3	1.1	240

Assumptions			Price (P/E)	Price (Price-to-book)
EPS	\$	0.06 (USD\$)	66	54
Book Value	\$	1,196.00 (USD\$)	76	68
Exchange Rate		164.8 (multiple USD to get NGN)	108	34
Diluted Shares		2918	57	34
			65	122
			3	68
			44	34
			93	20



## Appendix: Projection Valuation

Year	2012	2013	2014	2015	2016
Net income (NGN mm)	13300	15896	24544	35380	45453
BOP total equity (NGN mm)	222371	228982	236793	249115	267048
(+) Net income	13300	15896	24544	35380	45453
(-) Dividends	-6089	-6849	-10949	-16135	-20921
(-) FX translation gains and losses	-600	-1236	-1273	-1311	-1351
(=) EOP total equity	228982	236793	249115	267049	290229
Tangible book value	228982	236793	249115	267049	290229
(x) Exit multiple	1.5	1.5	1.5	1.5	1.5
(=) Implied equity value	343473	355190	373673	400574	435344
Implied price to LTM earnings multiple	25.8	22.3	15.2	11.3	9.6
(/) NGN:USD exchange rate	164.8		174.8	180.1	185.5
(=) Implied equity value	2084	2093	2137	2224	2347
(x) Consortium ownership	60%	60%	60%	60%	60%
(=) Implied equity value to consortium	1251	1256	1282	1335	1408

### Projected Valuation (NGN)

118

122

128

137

149

## Appendix: Valuation Summary (Field)

---

	Min	25th	Mean	75th	Max
52-Week Trading range	2.09				6.46
DDM	7				15
Projected Value	118	120	128	143	149
P/E Multiple	3	47	66	89	108
P/B Multiple	20	34	44	68	122
Range of 25th to 75th Average	30.75541			58.32128	
DDM Weighting		40%			

## Appendix: Market Risk – Depreciation of Naira due to price of oil

### OLS Time Series Regression Summary

$$\widehat{Naira/USD} = 92.40 - 0.7787CrudeOil_t + 1.097ConsumerPriceIndex_t + 0.000000000436CurrentAccountBalance_t + \epsilon_t$$

[0.1414652]                      [0.1260716]                      [0.000000000145]

#### Key Regression Outputs

RMSE: 4.2623

R<sup>2</sup>: 0.9388

Adjusted R<sup>2</sup>: 0.9126

### GARCH Model: Volatility of future WTI Oil Prices highly persistent based on prior period data

$$\sigma_t^2 = 1.912 + 1.010Oilprice_{t-1}^2 + 0.304Oilprice_{t-2}^2 + 0.0407Oilprice_{t-3}^2 - 0.319\sigma_{t-1}^2 - 0.0438\sigma_{t-2}^2 + \epsilon_t$$

## Appendix: Time Series Regression Modelling

```
. reg USDNaira CurrentAccountBalance Crudeoil CPI
```

Source	SS	df	MS	Number of obs	=	11
Model	1951.98038	3	650.660128	F(3, 7)	=	35.81
Residual	127.173184	7	18.1675977	Prob > F	=	0.0001
				R-squared	=	0.9388
				Adj R-squared	=	0.9126
Total	2079.15357	10	207.915357	Root MSE	=	4.2623

USDNaira	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
CurrentAccountBalance	4.36e-10	1.45e-10	3.01	0.020	9.37e-11	7.79e-10
Crudeoil	-.7787003	.1415652	-5.50	0.001	-1.113449	-.4439519
CPI	1.09702	.1260716	8.70	0.000	.7989081	1.395132
_cons	92.3982	4.338126	21.30	0.000	82.14016	102.6562

- Time Series Regression based on data sourced from the World Bank
- $R^2$  of 0.9388 indicates 93.88% of variation in the exchange rate is captured by the model
- Backwards Stepwise Regression method utilised (0.05 point of removal), with initial variables USD/Naira, Crude Oil Price, CPI, Debt to GDP Ratio, Real GDP, CAB.
- Breusch Pagan test for heteroscedasticity yielded a Chi Square result of 0.1 indicating there is no statistically significant evidence that there is not homoscedasticity
- Cross Validation techniques on Linear, Log and Square Root transformations of USD/Naira variable yielded the Linear transformation as the best fit

## Appendix: GARCH Process Modelling

ARCH family regression

Sample: 2 - 2611, but with gaps

Distribution: Gaussian

Log likelihood = -10465.96

Number of obs = 2,509

Wald chi2(.) = .

Prob > chi2 = .

OILPRICE	OPG					
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
OILPRICE						
_cons	60.7971	.0981378	619.51	0.000	60.60475	60.98945
ARCH						
arch						
L1.	1.009344	.0904204	11.16	0.000	.8321232	1.186565
L2.	.3044666	.0247339	12.31	0.000	.2559889	.3529442
L3.	.0406725	.0060671	6.70	0.000	.0287812	.0525638
garch						
L1.	-.3191277	.0265672	-12.01	0.000	-.3711984	-.267057
L2.	-.0438176	.0109521	-4.00	0.000	-.0652834	-.0223518
L3.	.0001924	.0020097	0.10	0.924	-.0037466	.0041314
_cons	1.912277	.3879629	4.93	0.000	1.151884	2.672671

- General Autoregressive Conditional Heteroskedastic Process models volatility at time  $t$  as a function of previous values of volatility and Oil Price.
- The analysis yields that the required model is a GARCH (2,3).
- Data shows strong evidence of volatility clustering, i.e. periods of high volatility are followed by more periods of high volatility.
- Lagged variables of previous periods volatility are only significant two periods prior to  $t$ .

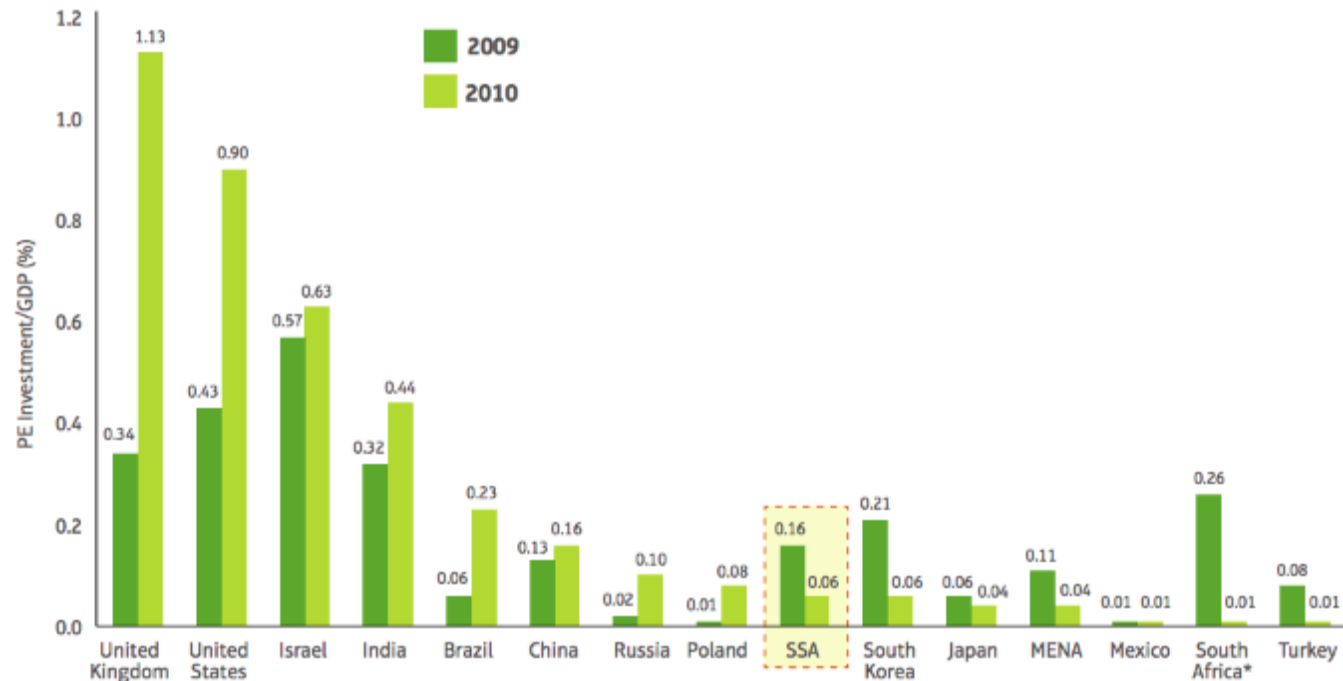
## Appendix: PE market penetration

“The nature of our industry is that there is a lot of looking, but not a lot of dipping into one’s pocket. There has been an almost bubble-like interest in Africa, but it hasn’t been demonstrated by any huge uptick in investment.”

ACA should focus on geographical interest due to low market penetration. I.e. growing interest but low investment.

Compared to a \$10.3b USD total investment into China, Sub-Saharan Africa received \$1.1b USD. Despite the rapidly developing economy

PE penetration in Sub-Saharan Africa is amongst the lowest in the world (0.06% of GDP in 2010)



## Appendix: Tier 2 Candidates

---

Firm	Previous Investments
	<p>East Africa: Apollo Investments Limited (Financial Institutions) West Africa: Express Life (Financial Institutions)</p>
	<p>Sub-Saharan Africa Fund West Africa: Diamond Bank of Nigeria (Financial Institutions)</p>
	<p>East Africa: Equity Bank (Financial Institutions) West Africa: Interswitch Ltd. (Technology) *with consortium \$900m USD Pan-African fund</p>
	<p>East Africa: Umeme (Utilities) Sub-Saharan Africa: Paycorp Holdings Ltd. (Financial Institutions)</p>

## Appendix: Exhibit 2 - Founding Partners

---

### Exhibit 2 ACA Founding Partners' Biographies

#### Dick Kramer, Chairman

- Former Country Managing Partner, Arthur Andersen Nigeria
- 30 years of continuous experience in Nigeria
- Started and grew Andersen's Audit, Tax & Consulting Practices into market leader
- Pioneer Vice Chairman of the Nigerian Economic Summit Group and Technical Advisor for Vision 2010
- 12+ years of private equity experience in Nigeria
- US Certified Public Accountant and Nigerian Chartered Accountant
- HBS MBA, 1958
- Accounting Degree, University Of Kansas, 1956
- 77 years old

#### Okey Enelamah, Chief Executive Officer

- Founding partner of South African Capital Growth Fund (predecessor to Brait)
- Aspen Institute Fellow
- Goldman Sachs (New York & London)
- HBS MBA, 1994 (Baker Scholar)
- Arthur Andersen Nigeria
- Certified Financial Analyst and Chartered Accountant
- Medical Doctor
- Former President and Chief Tournament Director of the Nigerian National Scrabble Club
- 48 years old

#### Chief Ernest Shonekan, Non-Executive Partner

- Former Civilian Transitional President of the Federal Republic of Nigeria
- Former Chairman & Managing Director of Unilever Nigeria
- Awarded an OBE (Officer of the Most Excellent Order of the British Empire) by Queen Elizabeth II
- HBS AMP, 1992
- Law Degree from University of London (1962) and member of English & Nigeria Bars
- 74 years old

#### Pascal Dozie, Non-Executive Partner

- Chairman, MTN Nigeria
- Former Chairman & CEO, Diamond Bank
- Co-Chair, Commonwealth Business Council
- Former Chairman, Nigeria Economic Summit Group
- Former President, Nigeria Stock Exchange
- Co-founded Lagos Business School
- Economics Degree, London School of Economics
- 71 years old

#### Mohammed Hayatu-Deen, (former) Director

- 14 years as Managing Director and CEO of FSB International Bank p.l.c. Nigeria
- Former Group Managing Director and CEO of New Nigeria Development Company
- Director of the Nigerian Stock Exchange and Vice President of the Association of Nigerian Development Finance Institutions
- Economics degree, Ahmadu Bello University
- 57 years old

#### Thomas Barry, (former) Director

- Founder and CEO of Zephyr Management, L.P.
- Founder and Chairman of the South Africa Capital Growth Fund (predecessor to Brait)
- 11 years as CEO of Rockefeller & Co.
- HBS MBA, 1969
- Latin American Studies degree, Yale University, 1966
- 66 years old



## Appendix: Board Candidates

### Chairman Candidate



**Richard Kramer**  
*ACA Chairman, UBN  
Chairman Candidate*

- **30 years experience in Nigeria**
  - ▶ 12+ years private equity experience in Nigeria
  - ▶ HBS MBA
  - ▶ Arthur Andersen Nigeria Founding Partner, previous experience growing AA to market leader
- **Current chairman of ACA: visions align**

### CEO Candidate



**Mohammed Hayatu-Deen**  
*(Former) ACA  
Director, UBN  
CEO Candidate*

- **CEO of multiple Nigerian banks – Ideal ACA candidate**
  - ▶ 14 years MD and CEO of FSB International Bank p.l.c. Nigeria
  - ▶ Former Group MD and CEO of New Nigeria Development Company
- **Director of Nigerian Stock Exchange**
- **Connections to Development Finance**

### Commercial, Retail and Consumer Banking Candidate



**Pascal Dozie**  
*Candidate for  
Executive Director,  
UBN Commercial and  
Retail Banking*

- **Experience in growing large Nigerian banks**
  - ▶ Former Chairman and CEO of Diamond Bank – grew to top 10 Nigerian banks
  - ▶ Chairman, MTN Nigeria
- **Reputable and trustworthy**
  - ▶ Co-Chair, Commonwealth Business Council
  - ▶ Former Chairman, Nigerian Economic Summit Group
  - ▶ Former Chairman, Nigerian Stock Exchange

### Corporate and Investment Banking Candidate



**Okey Enelamah**  
*Candidate for  
Executive Director,  
UBN Corporate and  
Investment Banking*

- **International experience – ability to draw institutional interest for growth**
  - ▶ Goldman Sachs (NY and London)
  - ▶ HBS MBA
  - ▶ CFA and CA qualified
- **Extensive Nigerian corporate experience**
  - ▶ Arthur Andersen Nigeria
  - ▶ CEO of ACA

## Appendix: Exhibit 3 - ACA focuses on growth investment – has never done a LBO

Company Name	Sector	Date	Type	Exit	Exit Type
<b>CAPE I</b>					
GS Telecoms	Telecom	1998	Expansion Capital	2007	Trade sale
Outsourcing Services	Business Services	1999	Growth Capital	2009	Management sale
Andchristie	Telecom	1999	Growth Capital	2003	Write down
Linkserve	Telecom	1999	Growth Capital	2004	Management sale
Resourcery Limited	Business Services	2000	Growth Capital	2011	Secondary sale
MTN Nigeria	Telecom	2001	Replacement Capital	2006	Sale to institutions
ABC Transport	Transportation	2003	Growth Capital	2008	IPO
Alvac Company Limited	Business Services	2003	Growth Capital	2011	Strategic acquirer
Johnnic Communications	Media	2004	Strategic Partnership	2009	Asset realization
Dorman Long	Oil Services	2004	Management Buy-out	2007	Management buyback
<b>CAPE II</b>					
Virgin Nigeria	Transportation	2005	Strategic Partnership	2008	Write down
Swift Networks	Telecom	2006	Growth Capital	-	Active
Cornerstone Insurance	Financial Services	2007	PIPE	-	Active
eTranzact Global	Business Services	2007	Growth Capital	-	Active
DWC Drilling	Oil & Gas	2008	Growth Capital	-	Active
BevPak Nigeria Limited	Manufacturing	2008	Management Buy-out	-	Active
Capsea Marine Limited	Oil & Gas	2008	Asset Acquisition	NA	Asset realization
Linetrade Gas Limited	Oil & Gas	2008	Growth Capital	-	Active
<b>CAPE III</b>					
First Hydrocarbon Nigeria	Oil & Gas	2010	Growth Capital	-	Active
Bankers Warehouse	Business Services	2010	Growth Capital	-	Active
MTN Nigeria	Telecom	2010	Growth Capital	-	Active

## Appendix: Exhibit 4 - Nigerian economic indicators

	2009	2010	2011	2012E	2013P	2014P	2015P
<b>GDP</b>							
Nominal GDP (US\$ bn)	169.5	229.5	245.7	262.6	283.5	304.1	340.8
Real GDP at factor cost growth (%)	7.0	8.0	7.4	6.6	6.5	6.7	6.3
<b>Population and income</b>							
Population (m)	157.5	161.6	165.8	170.1	174.5	179.0	183.7
GDP per head (US\$ at PPP)	2,218	2,359	2,500	2,645	2,791	2,954	3,116
<b>Fiscal indicators (% of GDP)</b>							
Public-sector revenue	10.5	8.4	8.8	8.8	8.4	8.6	9.1
Public-sector expenditure	13.7	12.6	10.8	11.1	11	11.6	12.3
Public-sector balance	-3.2	-4.2	-2.1	-2.3	-2.6	-3.0	-3.2
Net public debt	15.3	15.2	17.1	18.1	19.4	21.2	22.4
<b>Prices and financial indicators</b>							
Exchange rate N:US\$ (av)	148.9	150.3	154.74	156.81	156.79	165	170
Exchange rate N:US\$ (end-period)	149.58	150.66	158.27	155.27	162.9	168.5	172
Consumer prices (av, %)	11.5	13.7	10.8	12.2	8.5	9.3	10.3
Stock of money M1 (% change)	3.3	11.0	21.5	1.8	-3.9	5.3	6.9
Stock of money M2 (% change)	17.6	6.9	15.4	12.4	-2.7	2.4	6.3
Lending interest rate (av, %)	18.4	17.6	16.0	16.8	15.5	15.0	15.5
<b>External debt (US\$ m)</b>							
Debt stock	10,362	10,389	13,108	13,649	15,969	18,069	20,172
Debt service paid	501	359	419	548	577	790	916
Principal repayments	342	248	274	406	432	596	699
Interest	160	111	145	142	145	194	217
<b>International reserves (US\$ m)</b>							
Total international reserves	44,763	34,919	35,212	46,405	46,901	49,083	54,187

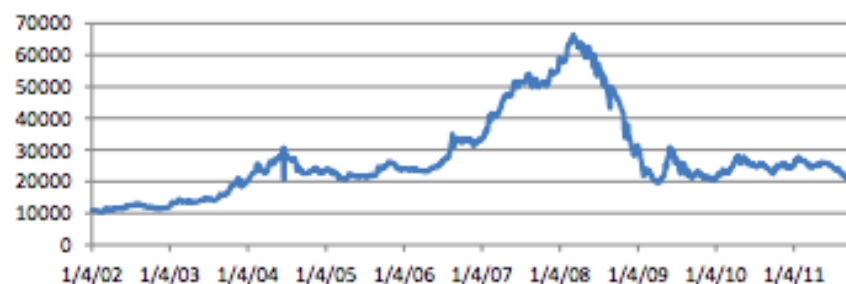
Source: Reproduced with permission of the © Economist Intelligence Unit (<http://www.eiu.com/>), accessed December 2013.

## Appendix: Exhibit 5 - Nigerian economic indicators (Cont.)

	Nigeria	Brazil	China	India	Russia	S. Africa	USA
<b>Macroeconomic indicators</b>							
GDP (USD bn)	245.68	2,473.50	7,314.40	1,869.80	1,893.90	403.98	15,533.8
GDP growth, % real change	7.43	2.74	9.30	6.38	4.36	3.60	1.847
GDP per capita, USD at PPP	2,500.0	11,780.0	8,470.0	3,730.0	16,461.9	10,648.9	49,853.1
Gross fixed investment as % of GDP	10.28	19.28	45.64	30.66	21.25	18.77	14.134
Public debt as % of GDP	17.15	54.20	15.20	51.27	8.11	39.41	65.823
Change in consumer prices (%)	10.84	6.64	5.53	9.62	8.44	5.02	3.141
Inward foreign direct investment (USD bn)	8.84	66.66	331.59	36.50	55.08	4.14	230.23
Inward foreign direct investment, % of GDP	3.60	2.70	4.53	1.95	2.91	1.03	1.482
<b>Population indicators</b>							
Population, millions	165.8	192.8	1339.0	1202.1	143.0	51.9	311.592
Population growth (%)	2.60	1.06	0.30	1.52	0.08	0.97	0.731
Life expectancy at birth <sup>a</sup>	52.40	73.02	74.99	67.40	69.85	49.48	78.60
Birth rate (per 1,000 pop)	39.69	15.47	12.29	20.97	12.46	19.48	12.86
% of population aged 0 -14	44.0	25.1	17.6	29.7	15.4	28.5	19.6
% of population aged 15-64	53.1	68.0	73.6	64.9	71.7	65.8	67.1
% of population aged 65 and over	3.0	6.9	8.9	5.5	12.9	5.7	13.3
Average wages, monthly USD	48.4	1,040.0	539.0	119.0	806.0	1,840.0	4,114.4
Population below \$1.25 PPP per day, (%) <sup>b</sup>	68.0	6.1	13.1	32.7	0.0	13.8	-
2009 Adult literacy rate <sup>c</sup>	61.3	90.1	95.1	62.8	99.7	93.0	99.0
Urban population (%)	50.6	87.0	45.9	30.4	72.8	62.2	82.6
<b>Banking &amp; Business indicators</b>							
Banking assets (USD bn)	102.99	2,273.27	11,327.84	1,557.88	1,037.64	396.49	14,533.66
Bank loans (USD bn)	41.30	984.21	6,212.45	966.06	674.28	263.17	7,114.44
Bank deposits (USD bn)	64.29	291.69	6,908.42	1,105.16	519.34	209.03	9,838.88
Average lending interest rate (%)	16.02	43.88	6.56	10.19	8.45	9.00	3.25
Average of deposit interest rate (%)	5.70	10.99	3.50	9.28	4.44	5.67	0.30
Bank capital to assets ratio (%) <sup>d</sup>	3.9	10.5	6.4	7.1	11.8	7.3	11.2
NPLs to total gross loans (%) <sup>e</sup>	11.6	3.5	1.0	2.3	6.6	4.7	4.1
Bank branches per 100,000 adults <sup>f</sup>	6.4	45.5	7.7	10.5	36.8	10.5	35.2
ATMs per 100,000 adults <sup>g</sup>	11.84	117.86	30.29	8.86	151.84	59.1	173.43
Domestic credit by banking sector (% of GDP) <sup>f</sup>	35.6	110.5	155.1	76.6	41.5	187.2	229.3
Corruption perceptions index ranking (out of 182) <sup>h</sup>	143	73	75	95	143	64	24
Ease of doing business index (Lower is better) <sup>i</sup>	138	118	99	131	111	41	4

## Appendix: Exhibit 6 - Market trends

**Exhibit 6** All Share Index on the Nigerian Stock Exchange, 2002-2011



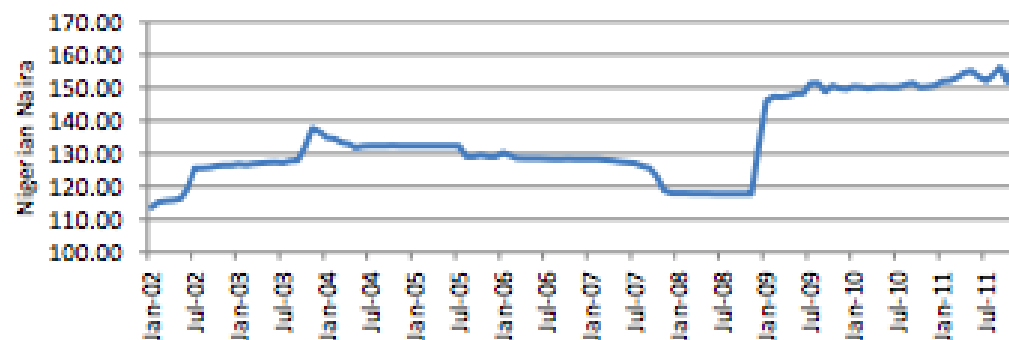
Source: Datastream database, accessed January 2014.

**Exhibit 7** Nigerian Bonny Light Crude Oil, Price Per Barrel in USD, 2002-2011



Source: Datastream database, accessed January 2014.

**Exhibit 8** Nigerian Naira to 1 USD, 2002-2011





## Appendix: Exhibit 9 - Banking sector indicators

	2008	2009	2010	2011	2012E	2013F	2014F	2015F	2016F	2017F
<b>Total financial sector</b>										
Total lending by financial sector (US\$ bn)	91.3	90.7	94.4	124.5	134.0	147.0	160.7	176.5	203.1	236.5
Total lending to the private sector (US\$ bn)	71.8	73.0	64.5	82.0	88.9	93.2	96.3	104.6	120.7	140.0
Deposits (US\$ bn)	60.6	61.9	66.6	72.2	87.2	93.1	100.8	110.0	123.9	144.8
<b>Government bond yields</b>										
1 Year Nigerian Government Bond Yield (%)	7.3	5.4	6.9	8.6	15.9					
10 Year Nigerian Government Bond Yield (%)	12.3	8.6	8.3	14.9	12.0					
<b>Bank performance</b>										
Banking assets (% change in local currency)	72.1	-11.9	3.2	50.6	17.5	20.0	17.3	17.9	20.4	22.6
Bank loans (% change in local currency)	88.8	7.7	-7.2	65.3	27.5	27.7	24.9	25.8	28.6	31.8
Bank deposits (% change in local currency)	78.4	-12	5.6	52.2	19.9	15.2	13.8	14.5	20.5	26.2
Net interest income (% change in local currency)	54.8	29.1	-12.7	21.1	15.4	17.7	16.4	17.9	21.4	23.9
Net margin (net interest income/assets; %)	3.9	5.7	4.8	3.9	3.8	3.7	3.7	3.7	3.7	3.8

Source: Casewriter compilation; reproduced with permission of the © Economist Intelligence Unit (<http://www.eiu.com/>), accessed December 2013, and Datastream database, accessed February 2014.

## Appendix: Exhibit 11 - Income statement

<i>USD Millions</i>	<b>Dec-10</b>	<b>Dec-09</b>	<b>Mar-09</b>	<b>Mar-08</b>	<b>Mar-07</b>	<b>Mar-06</b>
Net Interest Revenue	314.36	221.20	479.49	344.62	235.49	193.06
Other Operating Income	152.57	177.95	175.01	193.64	185.38	121.49
Net Gains (Losses) on Trading and Drvts.	1.84	0.00	0.00	0.00	n.a.	n.a.
Net Gains (Losses) on Assets	0.00	0.00	0.00	n.a.	n.a.	n.a.
Net Fees and Commissions	96.18	128.73	135.27	95.41	73.00	60.53
Remaining Operating Income	54.55	49.22	39.74	98.23	112.38	60.96
Overheads	508.41	403.01	437.62	297.26	304.69	215.66
Loan Loss Provisions	112.49	1,013.28	338.90	32.95	6.16	14.17
Other	382.14	-734.08	-299.45	-3.35	n.a.	0.00
Profit before Tax	228.17	-1,751.21	-421.47	204.70	110.02	84.72
Tax	-438.25	9.93	34.53	36.62	23.16	16.70
Net Income	666.42	-1,761.15	-456.00	168.09	86.85	68.02
Operating Income	459.94	394.22	654.50	538.27	420.87	314.55

Source: Bankscope database, accessed January 2014.

Note: The year-end reporting date for banks in Nigeria changed in 2009 from March 31 to December 31, and the December 2009 figures only represent nine months of data. An exchange rate of 159,767 naira to 1 U.S. dollar was used for all currency conversions.

## Appendix: Exhibit 12 - Balance sheet

**Exhibit 12** Union Bank Balance Sheet, March 2006–December 2010

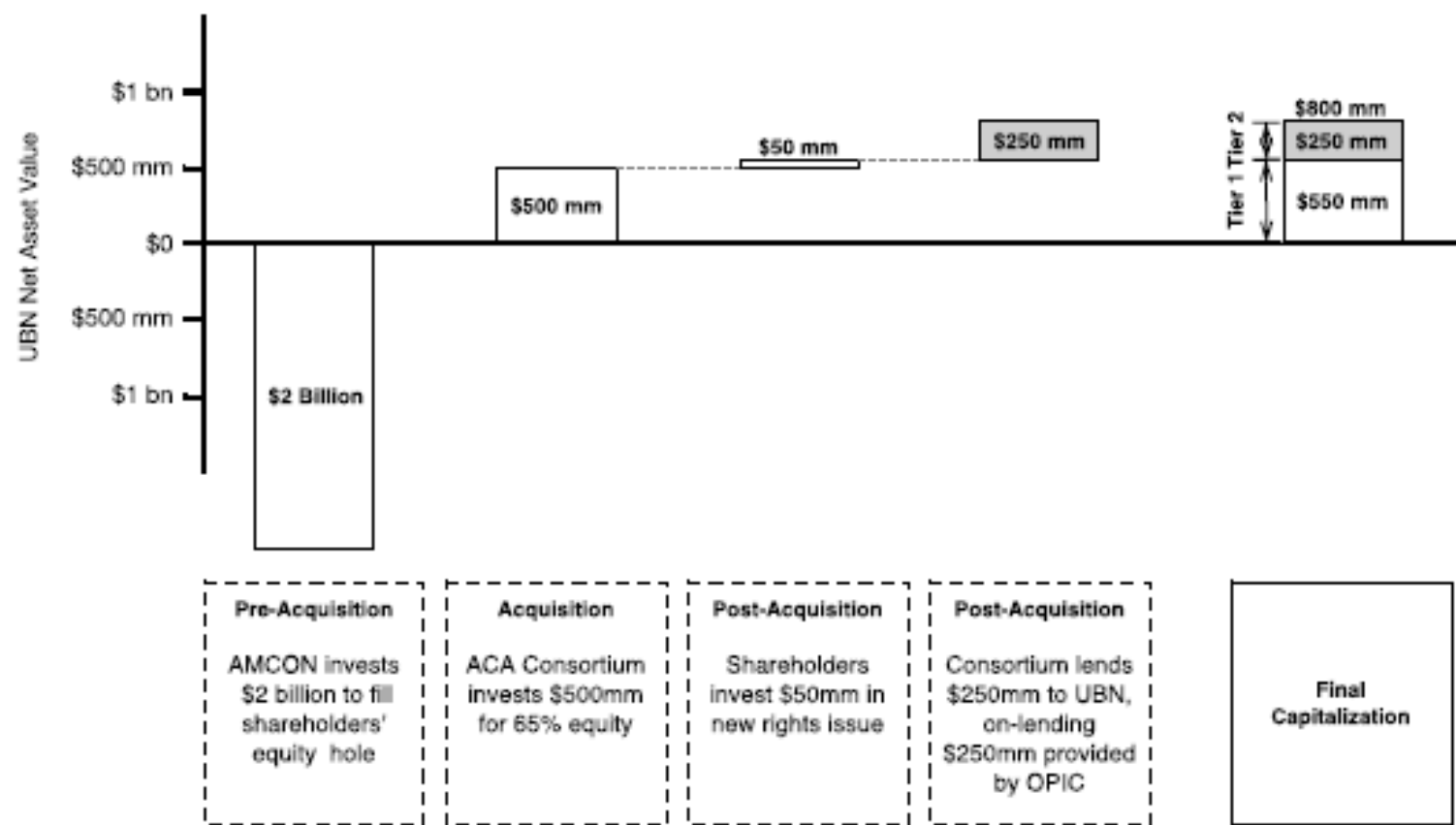
<i>USD Millions</i>	Dec-10	Dec-09	Mar-09	Mar-08	Mar-07	Mar-06
<b>Assets</b>						
Loans	1,297.68	2,958.53	2,672.25	1,646.79	1,010.61	801.79
Gross Loans	1,871.96	4,477.46	3,202.41	1,856.93	1,149.16	941.01
Less: Reserves for NPLs	574.27	1,518.92	530.16	210.14	138.55	139.23
Other Earning Assets	3,453.30	2,530.23	2,725.91	4,103.46	2,963.28	2,424.93
Loans and Advances to Banks	777.48	1,388.62	1,369.66	2,736.94	1,894.32	1,819.17
Other Securities	2,525.72	1,007.24	1,266.13	1,285.42	1,068.96	605.76
Remaining earning assets	150.10	134.37	90.12	81.11	n.a.	n.a.
Total Earning Assets	4,750.98	5,488.76	5,398.17	5,750.25	3,973.89	3,226.72
Fixed Assets	364.46	382.99	357.56	184.44	174.55	151.31
Non-Earning Assets	1,148.00	1,393.24	1,998.04	1,131.16	233.53	801.59
Total Assets	6,263.44	7,264.99	7,753.77	7,065.85	4,381.97	4,179.62
<b>Liabilities &amp; Equity</b>						
Deposits & Short term funding	4,681.93	6,128.31	5,764.39	5,503.25	3,019.28	2,873.40
Total Customer Deposits	4,043.31	5,992.03	4,832.83	4,270.65	2,704.46	2,008.91
Deposits from Banks	607.42	136.28	931.56	1,232.59	314.82	566.59
Short-term Borrowings	31.20	0.00	0.00	0.00	n.a.	297.90
Other interest bearing liabilities	909.28	842.80	0.00	0.00	0.00	0.00
Other (Non-Interest bearing)	1,029.71	1,221.10	1,571.46	778.57	689.93	672.86
Other Reserves	367.25	505.97	0.00	n.a.	n.a.	n.a.
Equity	-724.73	-1,433.19	417.92	784.04	672.75	633.37
Total Liabilities & Equity	6,263.44	7,264.99	7,753.77	7,065.85	4,381.97	4,179.62
<b>Notes</b>						
Impaired Loans	769.99	2,224.23	712.00	451.03	213.68	177.33
Loan Loss Reserves	574.27	1,518.92	530.16	210.14	138.55	139.23
Liquid Assets	893.13	1,896.24	1,746.89	3,030.84	2,567.49	2,236.06
Off Balance Sheet Items	773.82	634.37	570.35	543.64	302.95	161.75

Source: Bankscope database, accessed January 2014.



# Appendix: Exhibit 13 – Proposed Union Bank recapitalization

Exhibit 13 Proposed Union Bank Recapitalization



Source: Casewriter, based on unpublished company documents.

Note: Tier 2 capital (shaded in gray) would not increase Union Bank's net asset valuation.

## Appendix: Exhibit 15a- Projections

**Exhibit 15a** Projected Post-Transaction Union Bank Balance Sheet

<i>USD Millions</i>	2011E	2012E	2013E	2014E	2015E	2016E
<b>Assets</b>						
Cash in hand and balances with CBN	320.1	266.2	266.4	336.9	422.2	521.7
Treasury bills	972.6	739.5	761.3	962.7	1,206.2	1,490.6
Due from other banks	426.3	369.8	380.6	481.4	603.1	745.3
Gross loans and advances to customers	992.4	1,163.2	1,398.3	1,715.1	2,136.0	2,529.6
Allowances for bad and doubtful loans	-88.3	-88.9	-119.2	-148.6	-172.6	-203.0
Investment securities	959.9	2,024.3	2,930.9	3,772.9	4,748.1	5,357.1
Investment in associates	227.5	234.8	243.2	252.4	262.3	273.1
Clearing assets and other receivables	473.1	411.7	159.9	168.5	211.1	260.9
Prepaid expenses	14.4	32.3	29.1	32.4	37.2	43.4
Other assets	164.8	202.5	194.6	207.6	222.0	259.7
Deferred tax assets	598.9	598.9	598.9	598.9	598.9	598.9
Property and equipment	291.5	320.9	347.8	364.9	377.4	392.4
<b>Total assets</b>	<b>5,353.0</b>	<b>6,275.2</b>	<b>7,191.8</b>	<b>8,745.3</b>	<b>10,651.9</b>	<b>12,269.8</b>
<b>Liabilities</b>						
Customers' deposits	2,498.9	2,958.0	3,806.3	4,813.5	6,030.8	6,883.4
Due to other banks	9.9	162.7	247.4	361.0	526.2	659.1
Trade related deposits for foreign currency	261.9	357.7	456.8	625.8	844.3	1,117.9
Draft and bills payable (money orders)	206.1	199.7	173.2	185.3	336.3	448.6
Other liabilities	625.2	739.9	652.2	876.6	969.1	1,120.5
Retirement benefits obligations	386.7	255.2	205.2	155.1	105.0	54.9
Borrowings	168.7	168.7	168.7	168.7	168.7	168.7
<b>Total liabilities</b>	<b>4,157.3</b>	<b>4,841.9</b>	<b>5,709.7</b>	<b>7,186.0</b>	<b>8,980.4</b>	<b>10,453.2</b>
<b>Capital and reserves</b>						
Share capital	574.3	574.3	574.3	574.3	574.3	574.3
AMCON financial accommodation	2,015.4	2,015.4	2,015.4	2,015.4	2,015.4	2,015.4
Share premium	331.9	331.9	331.9	331.9	331.9	331.9
Accumulated reserves	-1,726.0	-1,488.4	-1,439.5	-1,362.4	-1,250.1	-1,105.0
<b>Equity</b>	<b>1,195.6</b>	<b>1,433.2</b>	<b>1,482.1</b>	<b>1,559.2</b>	<b>1,671.5</b>	<b>1,816.6</b>

## Appendix: Exhibit 15b - Projections (Cont.)

**Exhibit 15b** Projected Post-Transaction Union Bank Income Statement

<i>USD Millions</i>	2011E	2012E	2013E	2014E	2015E	2016E
Interest income	428.9	545.6	610.0	744.9	938.2	1,178.0
Interest expense	-144.0	-123.9	-150.6	-178.9	-222.8	-281.1
Net interest income	284.9	421.6	459.4	566.0	715.4	896.9
Non interest income	81.5	107.6	108.8	141.1	177.5	191.2
Operating income	366.4	529.3	568.2	707.1	892.9	1,088.1
<b>Operating expenses</b>						
Personnel expenses	-188.1	-196.0	-205.6	-207.7	-222.9	-249.7
Other operating expenses	-144.1	-135.3	-155.3	-180.6	-223.3	-294.3
Depreciation	-23.8	-23.3	-30.1	-37.2	-44.1	-51.5
Provisions	-124.5	-66.5	-38.1	-64.2	-82.8	-91.3
Profit before tax	-114.0	108.3	139.1	217.4	319.9	401.4
Tax	344.8	-32.3	-48.0	-72.9	-108.4	-127.6
Income from associates	6.8	7.3	8.4	9.2	9.9	10.7
<b>Net income</b>	<b>237.6</b>	<b>83.2</b>	<b>99.5</b>	<b>153.6</b>	<b>221.4</b>	<b>284.5</b>

Source: Unpublished company documents. Note: An exchange rate of 159.767 naira to 1 U.S. dollar was used for all currency conversions.

## Appendix: Exhibit 16a - Projection Union Bank Returns, Base Case

### Exhibit 16 - Projected Union Bank Returns

Returns Analysis	2012	2013	2014	2015	2016	
Net income (NGN mm)	13300	15896	24544	35380	45453	
BOP total equity (NGN mm)	222371	228982	236793	249115	267048	
(+) Net income	13300	15896	24544	35380	45453	
(-) Dividends	-6089	-6849	-10949	-16135	-20921	
(-) FX translation gains and losses	-600	-1236	-1273	-1311	-1351	
(=) EOP total equity	228982	236793	249115	267049	290229	
Tangible book value	228982	236793	249115	267049	290229	
(x) Exit multiple	1.5	1.5	1.5	1.5	1.5	
(=) Implied equity value	343473	355190	373673	400574	435344	
Implied price to LTM earnings multiple	25.8	22.3	15.2	11.3	9.6	
(/) NGN:USD exchange rate	164.8	169.7	174.8	180.1	185.5	
(=) Implied equity value	2084	2093	2137	2224	2347	
(x) Consortium ownership	60%	60%	60%	60%	60%	
(=) Implied equity value to consortium	1251	1256	1282	1335	1408	
USD Millions	2011	2012	2013	2014	2015	2016
(-) Initial cash investment	-500					
(+) Dividends		22	24	38	54	68
(+) OPIC loan 1.5x redemption premium						125
(+) Exit proceeds from equity						1408
(=) Net cash flows to consortium	-500	22	24	38	54	1601
IRR	29.90%					
MOIC	3.48					

## Appendix: Exhibit 16b - Projection Union Bank Returns, No OPIC loan

Returns Analysis	2012	2013	2014	2015	2016	
Net income (NGN mm)	13,300	15,896	24,544	35,380	45,453	
BOP total equity (NGN mm)	222,371	228,982	236,793	249,115	267,048	
(+) Net income	13,300	15,896	24,544	35,380	45,453	
(-) Dividends	-6,089	-6,849	-10,949	-16,135	-20,921	
(-) FX translation gains and losses	-600	-1,236	-1,273	-1,311	-1,351	
(=) EOP total equity	228,982	236,793	249,115	267,049	290,229	
Tangible book value	228,982	236,793	249,115	267,049	290,229	
(x) Exit multiple	1.50	1.50	1.50	1.50	1.50	
(=) Implied equity value	343,473	355,190	373,673	400,574	435,344	
Implied price to LTM earnings multiple	25.8	22.3	15.2	11.3	9.6	
(/) NGN:USD exchange rate	164.80	169.70	174.80	180.10	185.50	
(=) Implied equity value	2,084	2,093	2,137	2,224	2,347	
(x) Consortium ownership	60%	60%	60%	60%	60%	
(=) Implied equity value to consortium	1,251	1,256	1,282	1,335	1,408	
USD Millions	2,011	2,012	2,013	2,014	2,015	2,016
(-) Initial cash investment	-500					
(+) Dividends		22	24	38	54	68
(+) OPIC loan 1.5x redemption premium						0
(+) Exit proceeds from equity						1,408
(=) Net cash flows to consortium	-500	22	24	38	54	1,476
IRR	27.98%					
MOIC	3.23					

## Appendix: Exhibit 16c - Projection Union Bank Returns, Cost savings realised

Returns Analysis	2011	2012	2013	2014	2015	2016
Interest Income (USD)		546	610	745	938	1,178
Non interest Income (USD)		108	109	141	178	191
Total Income (USD)		653	719	886	1,116	1,369
<b>Cost-to-income ratio</b>	<b>68%</b>	<b>68%</b>	<b>64%</b>	<b>60%</b>	<b>57%</b>	<b>55%</b>
<i>Margin contraction (relative to 2011)</i>		0%	4%	8%	11%	13%
<b>Cost savings realised p.a.</b>		<b>0</b>	<b>29</b>	<b>71</b>	<b>123</b>	<b>178</b>
(x) Exit multiple		1.50	1.50	1.50	1.50	1.50
Incremental equity value (USD)		0	43	106	184	267
(x) Consortium ownership		60%	60%	60%	60%	60%
(=) Implied incremental equity value		0	26	64	110	160
USD Millions	<b>2,011</b>	<b>2,012</b>	<b>2,013</b>	<b>2,014</b>	<b>2,015</b>	<b>2,016</b>
(-) Initial cash investment	-500					
(+) Dividends		22	24	38	54	68
(+) OPIC loan 1.5x redemption premium						125
(+) Exit proceeds from equity						1,408
<b>(+) Incremental exit proceeds</b>						<b>160</b>
(=) Net cash flows to consortium	-500	22	24	38	54	1,761
IRR	32.24%					
MOIC	3.80					

## Appendix: Exhibit 16d - Projection Union Bank Returns, Oil drops to \$90

Returns Analysis	2012	2013	2014	2015	2016	
Net income (NGN mm)	13,300	15,896	24,544	35,380	45,453	
BOP total equity (NGN mm)	222,371	228,982	236,793	249,115	267,048	
(+) Net income	13,300	15,896	24,544	35,380	45,453	
(-) Dividends	-6,089	-6,849	-10,949	-16,135	-20,921	
(-) FX translation gains and losses	-600	-1,236	-1,273	-1,311	-1,351	
(=) EOP total equity	228,982	236,793	249,115	267,049	290,229	
Tangible book value	228,982	236,793	249,115	267,049	290,229	
(x) Exit multiple	1.5	1.5	1.5	1.5	1.5	
(=) Implied equity value	343,473	355,190	373,673	400,574	435,344	
Implied price to LTM earnings multiple	26	22	15	11	10	
(/) NGN:USD exchange rate (WTI Crude at \$90)	179	185	190	196	202	
(=) Implied equity value	1,915	1,923	1,964	2,044	2,156	
(x) Consortium ownership	1	1	1	1	1	
(=) Implied equity value to consortium	1,149	1,154	1,179	1,226	1,294	
USD Millions	2011	2,012	2,013	2,014	2,015	2,016
(-) Initial cash investment	-500					
(+) Dividends		22	24	38	54	68
(+) OPIC loan 1.5x redemption premium						125
(+) Exit proceeds from equity						1,294
(=) Net cash flows to consortium	-500	22	24	38	54	1,487
IRR	28.15%					
MOIC	3.48					

## Appendix: Exhibit 17 - Proposed consortium ownership

---

Proposed Consortium December 2011		Consortium Ownership	Ownership UBN
Capital Alliance Private Equity III (CAPE III)	\$50	10.0%	6.0%
ACA Management & Co-Investors	\$45	9.0%	5.4%
ACA Subtotal	\$95	19.0%	11.4%
Standard Chartered PE & Co-Investors	\$75	15.0%	9.0%
African Development Corp.	\$30	6.0%	3.6%
AMCON Equity Bridge	\$300	60.0%	36.0%
Consortium Total	\$500	100.0%	60.0%
AMCON Equity			20.0%
Existing Shareholders			15.0%
New Shareholders			5.0%