

MERISTEM EQUITY RESEARCH PUBLIC OFFER REPORT

Report Date: November 16, 2007

EXECUTIVE SUMMARY & INVESTMENT RATIONALE

- In pursuant of its aggressive strategic restructuring programme, Afriland is at present in the marketplace to source for a whopping sum of N100bn through a Public Offer of 4,000,000,000 Ordinary Shares of 50k at N25/share. The Bank's latest offering is hinged on two broad corporate strategic imperatives of growth and modernisation with a view to regaining its erstwhile position in the banking industry.
- Afriland intends to shore up the capital base of its 'star' subsidiaries and deploy comprehensive and modern retail banking models via large scale expansion and upgrade of branch networks in an attempt to achieve competitive growth strategy. Similarly, in line with the modern banking practice driven by innovation, service delivery, risk management and cost efficiency, the Bank intends to undergo extensive deployment of information communication and technology (ICT) infrastructure and brand revamping.
- The Bank's books have been confirmed and certified healthy and free from any blemishes by the apex regulatory authority - the Central Bank of Nigeria (CBN) as at the year ended March 31, 2007. This is a clean bill of health over the stormy waters of 2006 concerning its audited accounts for the year ended March 31, 2006 which led to a break out of peace between the Board and the former Management Director. Total Assets and Shareholders' Funds stood at N182.92bn/US\$1.46bn and N28.43bn/US\$0.23bn respectively while Total Deposits and Gross Loans and

Advances were N142.28bn/US\$1.14bn and N83.76bn/US\$0.70bn in that order. Moreso, liquidity and Capital adequacy ratios were 46.62 per cent and 20.95 per cent while Loans to Deposits ratio stood at 58.87 per cent as at FYE March 31, 2007.

- Most recent financials of the Bank as at the period ended August 31, 2007 provide some justifications for the Bank's presence in the primary market. Total Deposits dipped by 6.68 per cent while Shareholder's Funds shrank marginally by 0.56 per cent. Our analysis reveals that Afribank's profitability indices compete favourably with old peers and also above industry average, while it also has record of decent returns on assets and to equity holders. Growth in after tax profit was 68.2 per cent against industry average of 54.7 per cent year-on-year (y-o-y). The Bank's compounded annual growth rate (CAGR, 2003-2007) of after tax profit is 51.2 per cent higher than industry average of 44.1 per cent.

- Further analysis shows that other performance indicators of the Bank fall slightly below industry averages as well as the feat recorded in March 2007. Prominent among these are assets quality and utilisation; liquidity and capital adequacy ratios as well as deposit base. We strongly believe that ability of the Bank to breakthrough the current strategic restructuring remains a critical success factor in re-shaping its operations towards playing dominant roles in the modern and dynamic banking environment and endearing its brand to the banking public within and outside the shores of Nigeria.

- Most germane amongst the risks faced by Afribank and other players in the financial services industry is regulation. This will continually shape the practice of Banking towards achieving set goals of FSS vision 2020. Also prominent is the assets quality risk as the Bank is considering corporate lending to Manufacturing and Agriculture sectors which are known for a record of high non-performing credits. Political risk heightened by youth restiveness and unrest in the Niger Delta region may affect country's fortunes and slow the pace of nation building process. This may also obstruct economic activities and militate against achieving the growth targets of the Bank as stated in the Offer prospectus.

- Afribank Group has projected a CAGR of 50.1 per cent and 59.9 per cent in Gross Earnings (GE) and after tax profit (PAT) respectively between 2008 and 2010. Its 5-yr CAGR (2003-2007) in gross earnings and after tax profit were 14.1 per cent and 51.2 per cent correspondingly. However, between 2006 and 2007, gross earnings grew by 76.1 per cent while after tax profit rose by 68.2. Annual growth forecasts for FYE March 31, 2008 are 54 per cent and 69 per cent in GE and PAT. This looks feasible on the premise of historical trend and future prospects as the synergistic effect of re-engineering of the Bank's strategic business units starts to manifest in the Group's overall performance.
- Our valuation reveals that the Offering price of N25/share is at a discount of 21.4 per cent to fair value. At the current market price of N30.49, the stock is trading at a discount of 4.1per cent. We recommend the Bank's Offer a BUY for medium to long term investment decisions.

Afribank Nigeria Plc: Transition/Growth

Afribank Nigeria Plc was one of the first generation Banks licensed to carry out banking business in Nigeria on October 20, 1959 under the name - International Bank for West Africa Limited (IBWA). Afribank commenced operations in January 1960 as a unit bank with a lone branch in Kano State, Northern Nigeria and later opened its head office, Afribank Plaza on Broad Street, Lagos State, the commercial/industrial hub of Nigeria. Since then, the Bank has undergone transitions in nomenclature from Banque International Pour l' Afrique Occidentale (BIAO) in 1964 and later changed to its English equivalent; IBWA on May 30, 1969. Its name was later transformed to Afribank Nigeria Limited in 1990 and subsequently converted to Afribank Nigeria Plc on October 7, 1992 in preparation for listing of its shares on the Nigerian Stock Exchange (NSE).

Afribank was among the 25 Banks that scaled the hurdle of recapitalising Shareholders' funds to the tune of N25bn on December 31, 2005. Leveraging on its

long standing outing in the financial services sector in Nigeria, the Bank has a wide network of 221 branches in major cities and suburbs in Nigeria with additional 48 branches recently approved by the CBN in key strategic locations across the country. In spite of operational hiccups experienced pre and post consolidation period, Afribank has recorded a fair leap in balance sheet growth in the past 5 years. Total assets grew by about 91 per cent while Shareholders' funds soared by 342 per cent. Tier 1/core capital galloped by 414 per cent to N29.55bn/US\$0.24bn and its bonus reserves stood at N511m/US\$4.09m as at March 31, 2007. The Bank has one of the lowest number of shares outstanding of 6.13billion (including scrip issue of 1 for 5 in 2006/2007) in the industry. This is distributed between Asset Management Nominees-35.04% and Others-64.96%. However, post offer, its issued shares will be 10.13bn (assuming full subscription)

Business Models:

Afribank Group is made up of the parent company Afribank Nigeria Plc and seven subsidiaries offering diversified financial services. Interests in subsidiaries are made up of Afribank Capital Markets Limited(100%);Afribank Registrars Limited(50%);AIL Securities Limited(71.7%);Afribank Insurance Brokers Company Limited (100%);Afribank Estate Company Limited(100%);Afribank Trustees & Inv. Limited (100%) and ANP International Finance Company Limited, Dublin, Republic of Ireland (100%). The Bank also has investments in a number of other companies such as Consolidated Discount House Limited(24.5%);Electricity Meter Company of Nigeria(17%);Niger Insurance Plc (10%), Unique Ventures Limited(40%) and Trustfund Pension Plc (PFA, 15%).

The bank recently concluded a merger with its erstwhile subsidiary-Afribank International Limited (Merchant Bankers) with a view to adding value through synergy. The Group has strong core competencies in commercial and consumer/retail banking services since its inception and has over the years reduced to a minor player

in corporate and wholesale banking. As part of its rebranding and restructuring exercise, the Bank has restructured its key strategic business units (SBUs) with a view to playing leading roles in the industry.

Strategic Overhaul & Future Prospects:

Afribank has embarked on a holistic operational re-engineering to salvage and consolidate the 'Afribank Brand'. Having acknowledged the grand rules for key participation in the modern banking terrain, the management has gone back to the drawing board to devise formidable competitive strategies to position the Bank for the next level. The Bank's corporate, commercial and consumer/retail banking units have been restructured for robust and efficient service offering to different clientele base in segmented markets. All these are expected to galvanise synergistic growth and appreciable contributions to overall performance of the Bank.

The Bank has specified growth and modernisation as the two broad strategic imperatives for achieving its development plans. Its growth strategies are targeted at exploring emerging opportunities at home and abroad to build and optimise balance sheet size and structure and ultimately maximise group synergies. On the other hand, in consonance with the dictate of the twenty-first century banking practice, service delivery and risk management through robust ICT infrastructural support remain driving force. This forms the Bank's second strategic focus.

As part of its future strategic focus, Afribank has identified a niche in corporate lending to Manufacturing and Agricultural sectors. This is hinged on the belief that these sectors have been adjudged to record higher growth rates in recent times than oil and gas sector which has received more attention from the Banking sector over the years. However, the ability of the Bank to develop sound risk management procedures remains a potent challenge since the two sectors are characterised by non-performing credits. Without mincing words, the success of the new 'Afribank Bank

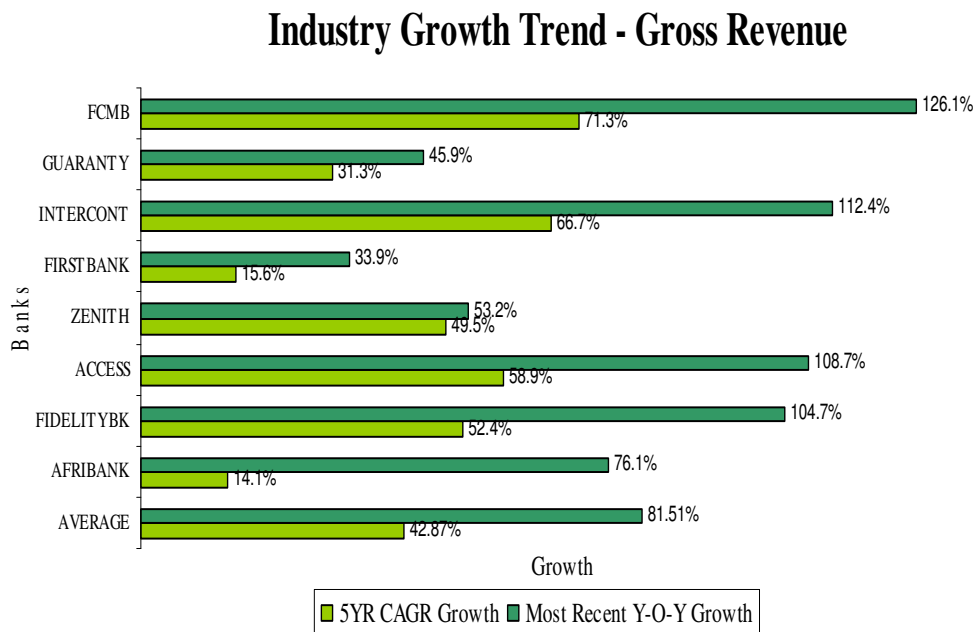
Group' largely hinges on how proactive and resilient the Board and Management team are in the implementation of its newly crafted strategies.

Performance Overview

Gross Revenue and Profit After Tax

The gross earnings of Afribank has grown at a Compounded Annual Growth Rate (CAGR) of 14.1%, increasing from N16.27 billion in 2003 FY to N27.54 billion in 2007 FY. Although this is pale in comparison with the growth performance of other Banks in the industry, Afribank's most recent growth rate of 76.1% is impressive when compared with those of other key players in the industry.

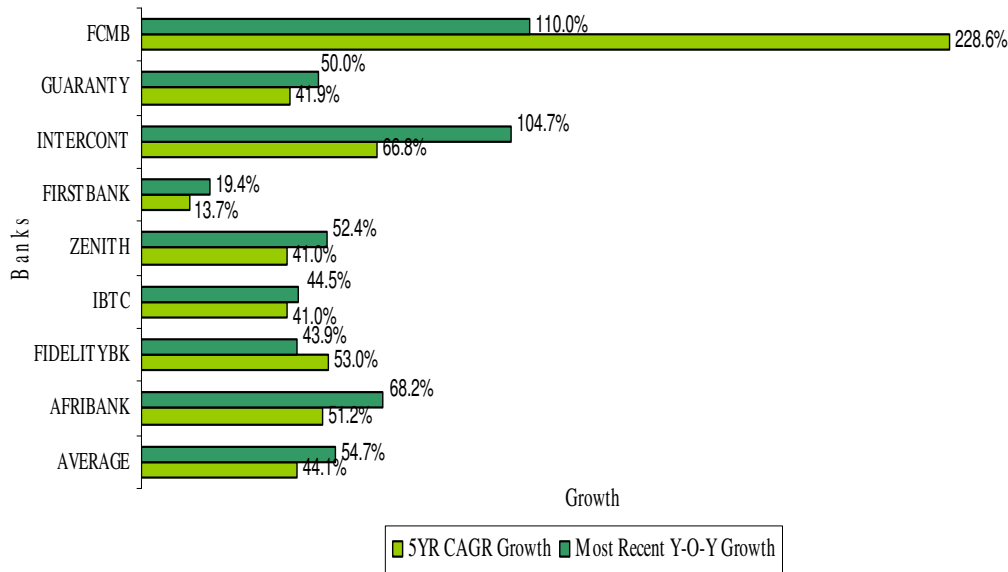
Chart 1:



However, Afribank recorded an above-industry average growth rate (CAGR) of 51.2% in profit after tax, which increased from N994.5 million to N5.196 billion between 2003 FY and 2007 FY.

Chart 2:

Industry Growth Trend - Profit After Tax



Total Assets and Total Deposits

Total assets and total deposit growth rates for Afribank averaged 17.5% and 21.0% respectively for the past five financial years (CAGR). These growth rates are largely below industry averages of 58.1% and 71.2% for total assets and total deposits respectively. Also, the Bank’s most recent growth rates for total assets and total deposits of 37.7% and 53.4% fall short of the industry averages of 56.4% and 67.9% respectively. This observed trend may not be unconnected with the management crisis that rocked the Bank’s operations in 2006 which slowed its activity level.

Chart 3:

Industry Growth Trend - Total Assets

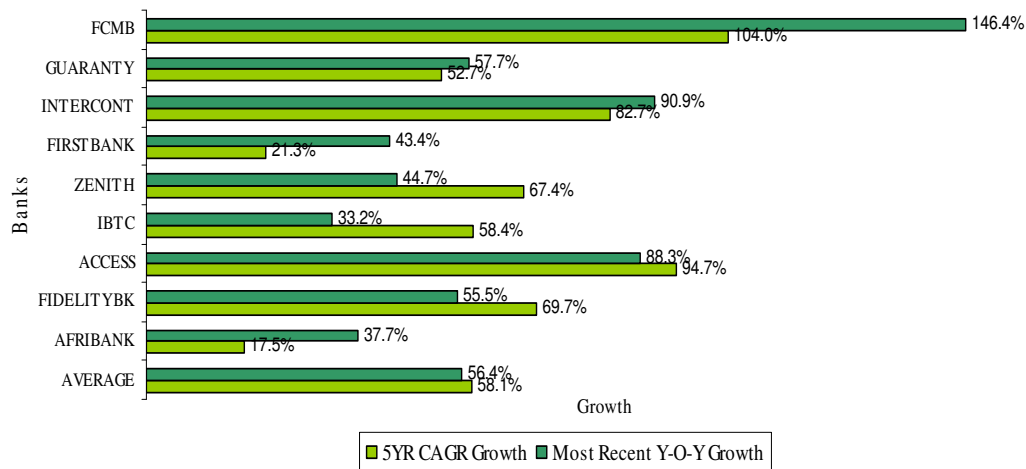
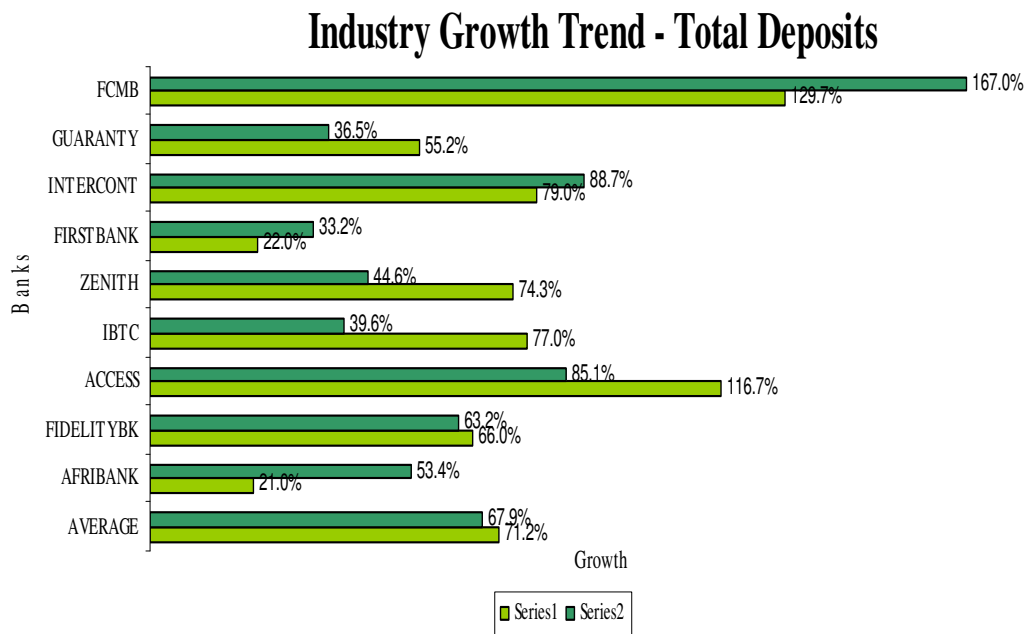


Chart 4:



Earnings Performance:

Although the earnings performance of Afribank, as measured by its returns on assets and equity, dwindled between 2003 and 2005, it improved between 2005 and 2007 when returns on assets and equity increased from 1.10% and 0.53% to 5.66% and 17.36% respectively. This improvement is mainly attributable to increased efficiency in the Bank's operations as revealed by major efficiency indices. For instance, operating expenses as a proportion of gross earnings declined from 69.28% in 2005 to 48.61% in 2007, showing improved cost management.

Chart 5:

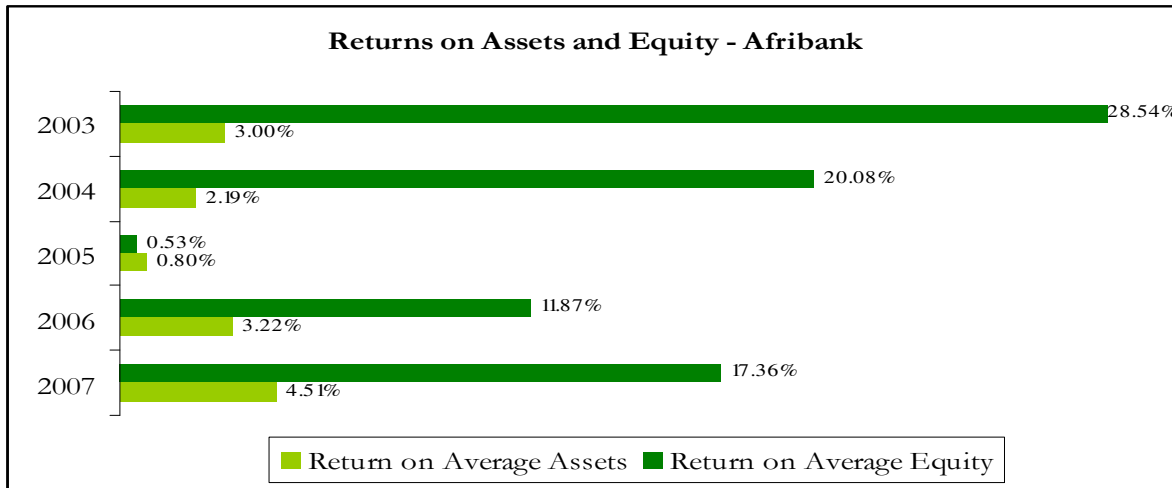
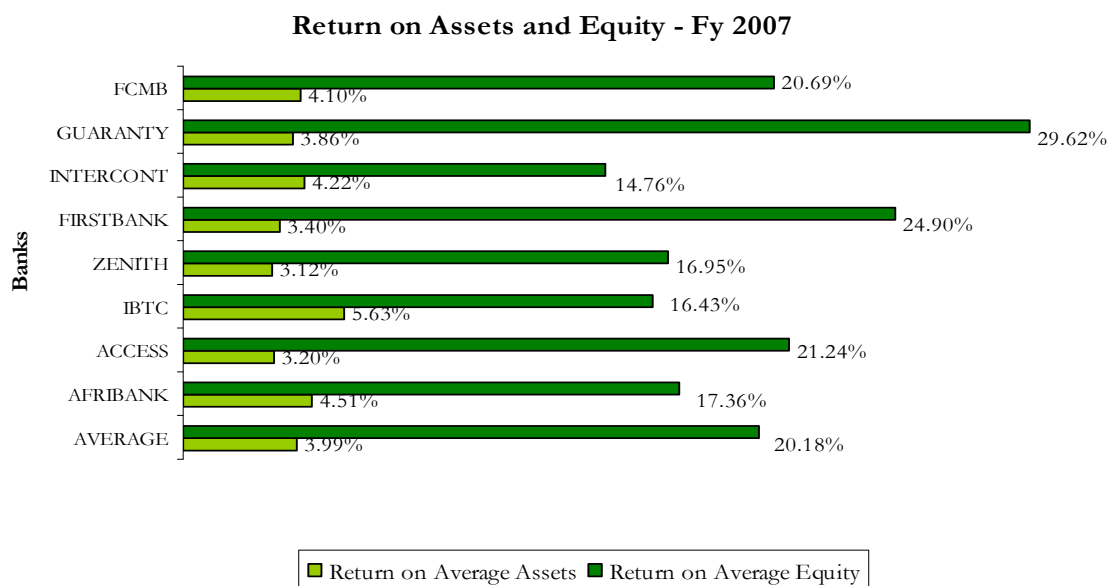


Chart 6:



Similarly, Afribank's asset utilisation ratio improved as the total of the bank's interest and non-interest income as a proportion of total assets increased from 13.44% to 14.72% between 2005 and 2007. However, though a reflection of industry trend, the Bank's interest yield which measures the difference between the interest income as a proportion of the interest earning assets and the interest expenses as a proportion of interest bearing liabilities declined from 9.30% in 2005 to 8.85% in 2007.

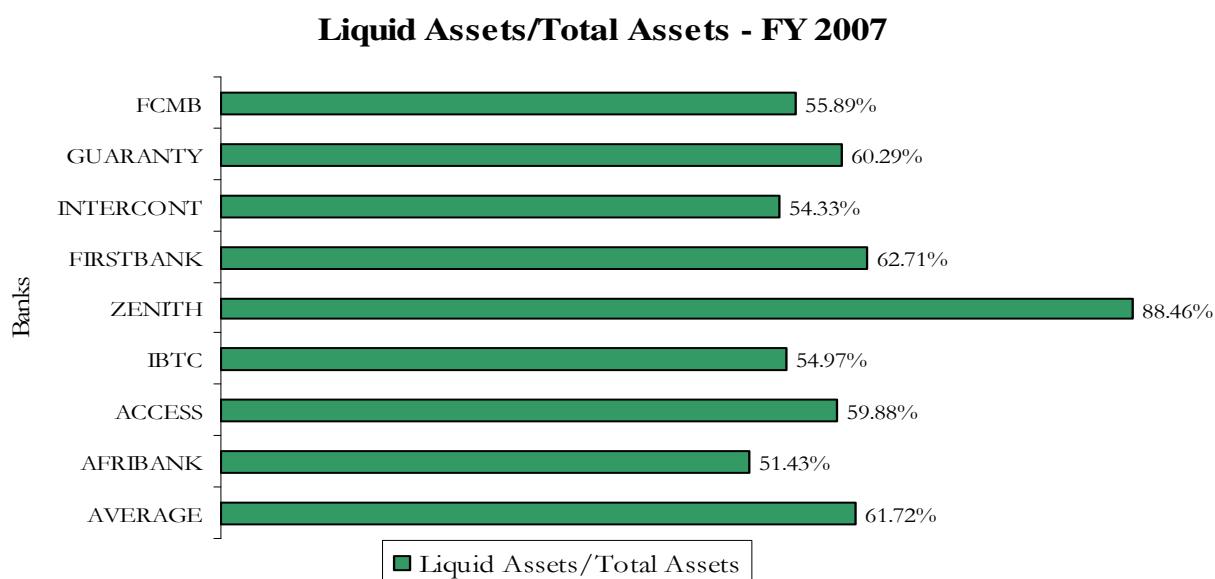
Asset Quality, Liquidity and Capital Adequacy:

Afribank has consistently improved its asset quality in the post-consolidation era. The ratio of the Bank's total performing loans as a proportion of its total loans increased

from 66.71% in 2005 to 82.35% in 2007. This averaged 72.7% over the past 5 years. Similarly, loan provisions as a percentage of total non-performing loans declined from 28.49% to 16.73% between 2005 and 2007, while loan loss expenses as a proportion of net interest income fell from 19.91% to 13.63% over the same period.

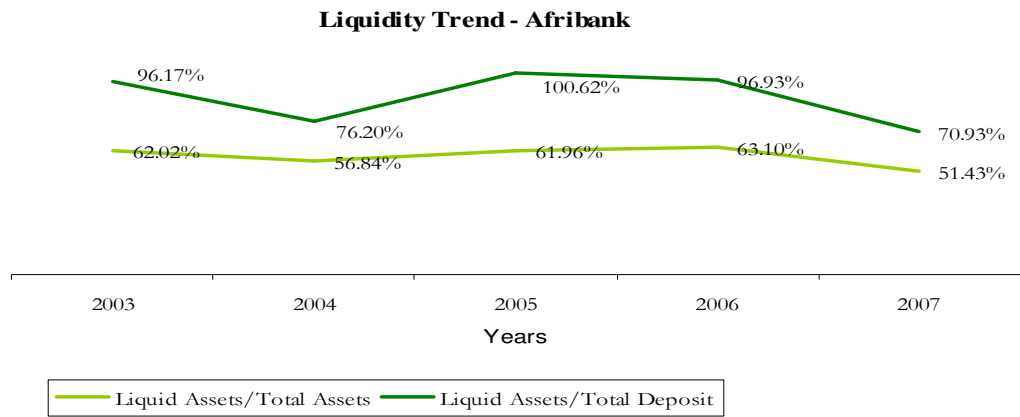
In terms of liquidity, available evidence suggests a deteriorating liquidity position for Afribank. For instance, liquid assets as a proportion of total deposits declined from 96.17% to 70.93% between 2003 and 2007, while liquid assets as a proportion of total assets also fell from 62.02% to 51.43% over similar period.

Chart 7:



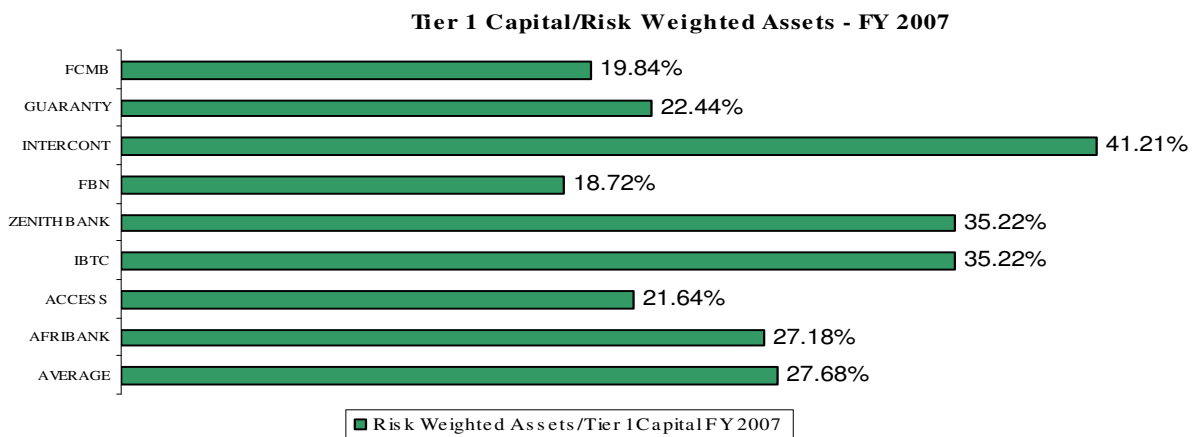
In addition, a review of the composition of the bank’s deposits showed that demand deposits, which constituted about 35.40% of its total deposits in 2003, constitute 46.40% as at the end of 2007 financial year, while total savings and time deposits as a proportion of total deposits declined from 62.05% in 2003 to 51.33% in 2007. Also, the proportion of the total deposits given out as loans and advances increased from 39.89% in 2003 to 45.26% in 2007.

Chart 8:



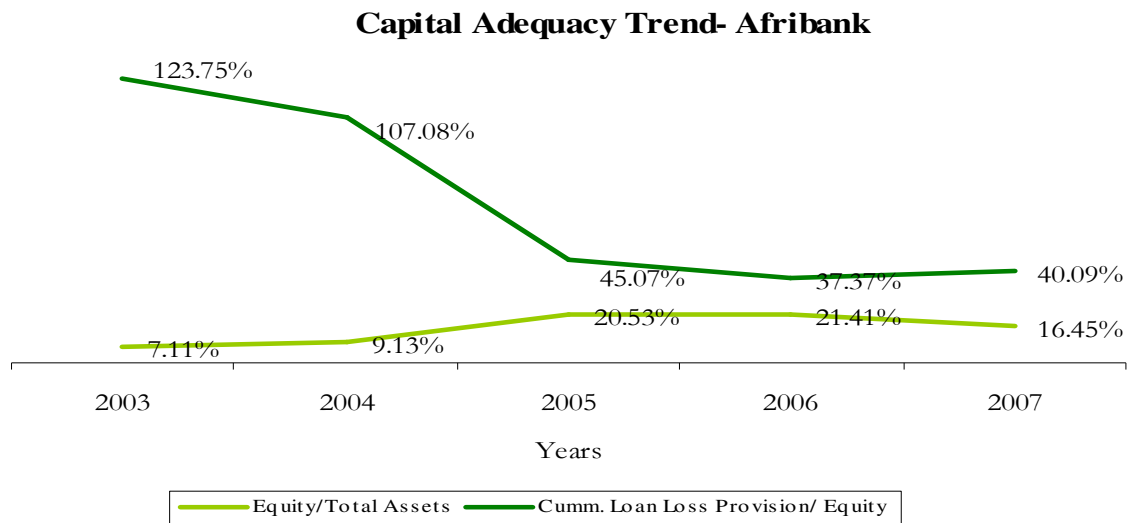
In respect of capital adequacy, computed ratios suggest the bank’s capital adequacy is waning. Its Tier 1 capital as a proportion of risk assets, having declined from 41.61% in 2005 to 27.18% in 2007, now stands slightly below the industry average of 27.68%. However, the Bank’s Tier 1 capital is well above the benchmark of 10% set by the regulatory authority-the CBN. Further analysis of Afribank’s capital adequacy revealed that the proportion of total assets financed by equity declined from 20.53% to 16.45% between 2005 and 2007.

Chart 9:



Besides, total non-performing loans as a proportion of total equity soared from 158.2% in 2005 to 239.56% in 2007. Although recent trends in other capital adequacy indices, such as cumulative loan loss provisions as a proportion of total equity, suggest slight improvement, the above-highlighted trends provide justification for the bank’s on-going equity capital raising exercise.

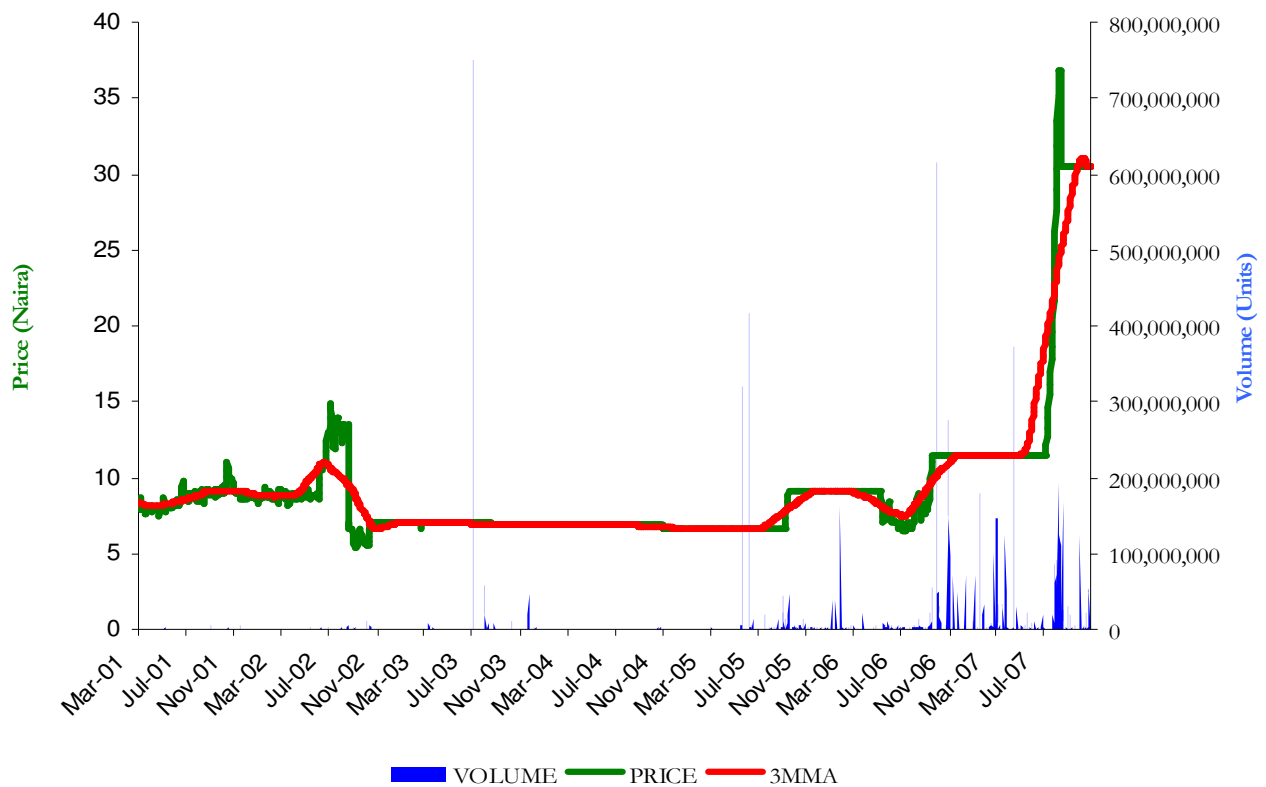
Chart 10:



Performance of Afribank Shares in the Nigerian Stock Market:

Afribank was quoted on the Nigerian Stock Exchange in 1993. The stock experienced a bearish trend between 2003 and 2005. With an opening price of N8.72 in 2003, Afribank closed the year at a lower price of N6.98, thus recording a capital loss of 20.0% which compares badly with the overall market return of 21.7% during same period. The lull in activity in the stock extended into December 2004, at the end of which the price dipped further to N6.83. This amounted to another capital loss of 2.1%, while the overall market gained 69.2% over same period. Although the bearish trend in Afribank continued into 2005, this may be attributed to general market trend as the entire market dipped by 9.7% compared with a capital loss of 2.9% recorded by Afribank during same year.

Price-Volume Chart



In 2006, there was a renewed interest in Afribank as the stock experienced a bullish trend and eventually closed the year higher at N9.10, thus recording a capital gain of 37.3% which greatly out-matched 12.8% returned by the overall market over same period. Also, similar trend was observed in the year ended March 31, 2007, during which the stock gained 26.5%, though below the 86.2% gained by the market over the period. The entire historical price trend may be adduced to several distractions with hostile take over launched on the Bank in 2006 which was later aborted among others.

Soon after the abortion of take over bid and the commencement of its strategic restructuring plans, the stock's price soared on the heels of the release of its belated corporate results for the FYE March 31, 2007 and declaration of twin benefits of 30kobo dividend/share and 1 for 5 bonus. It appreciated significantly and reached an all-time high of N36.89 before it was again placed on technical suspension at N30.49 following the Bank's application to the Exchange to raise N100 billion from the capital market.

Afribank Stock Price Performance Table

NAIRA (NGN)	2007	2006	2005	2004	2003
On March 31 (closing price)	11.51	9.10	6.63	6.83	6.98
Annual change in share price*	26.5%	37.3%	-2.9%	-2.1%	-20.0%
Annual change in All-Share Index*	86.2%	12.8%	-9.7%	69.2%	21.7%
All time price bands					
High	36.89	11.51	9.10	6.83	6.98
Low	11.51	6.45	6.63	6.63	6.64

*Change between 31/03/N-1 and 31/03/N. These changes take account of the various operations affecting the capital.

Valuation Statement:

Two different classes of valuation models were used in arriving at a fair value for Afribank. The first class of model is based on trading multiples relative to prices of other comparable Banks in the industry. The second valuation method (Discounted Cash Flow Valuation) was based on the present value of Afribank's projected dividend payments. The table below provides summary of valuation results from the methods:

Valuation Summary Table:

	Results	Weights
Price-to-Earnings	26.65	25%
Price-to-Gross Earnings	29.86	25%
Price-to-Book Value	52.88	10%
Discounted Dividend Valuation	30.94	40%
FINAL VALUATION	31.79	

Valuation Basis:

The Discounted Cash flow (DCF) valuation is based on a cost of capital of 12.55 % and a terminal growth rate of 9.0 %. Our proxy for risk free rate is 5-yr FG Treasury bond rate of 10.75 %, while risk premium is set at 7.0 %. In arriving at our final valuation, we attached the greatest weight to the discounted cash flow (DCF) valuation as we consider dividend a main driver of value, especially in Nigeria investment environment. Similarly, the other drivers of value, Earnings and Gross Earnings are taken into consideration in attaching higher weights to Price to Earnings and Price to Gross Earnings.

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