CHAIRMAN'S STATEMENT

Distinguished stakeholders, it is with great pleasure that I welcome you all to the 18th Annual General Meeting of our Company, First Securities Discount House Group.

I am happy to present to you the report and accounts of the Group for the last accounting period which covered the six months to December 31, 2009. This is as a result of the Central Bank of Nigeria (CBN) endorsement of the Bankers' Committee agreement for all Deposit Money Banks and Discount Houses to observe December 31 as a uniform year end from 2009.

Global Environment

The global economic crisis of the last eighteen months appeared to have eased off in the latter part of 2009. However, this optimism is being replaced with the pessimism of a double dip recession, as fears grow that governments and policy makers around the world might be forced (due to pressure or mistakes) to remove monetary and fiscal props, too soon. It was in this regard therefore, that the Group of Seven (G7) nations rightly concluded in their February 2010 gathering that it was too early to begin withdrawing their respective stimuli. Although, most developed economies are beginning to come out of recession, the situation is still delicate.

In 2010, the world economy is projected to grow at about 3.1%. If achieved, this will be a significant projected growth rate given the negative growth rate of 1.1% in 2009.

Domestic Economic Environment

In spite of the global economic contraction of 2009, Nigeria witnessed a measure of GDP growth. Our growth for Q4 in 2009 was about 8.23%; the average for the entire year however was about 6.9%. For Nigeria, the duration of the global contraction mattered more than the severity of the contraction. This is because the global contraction though severe was short-lived. The Nigerian growth was mainly driven by non- oil sectors - crops and trading, both of which are rigid and respond only with considerable long lags to global economic fluctuations. This is unlike the growth in western economies driven by manufacturing or services, which are flexible and readily respond with little or no lags to global economic cycles.

Operating Environment

The environment for obvious reasons was full of challenges as a result of an array of issues. The inflation rate (year-on-year) in December 2009, stood at 12%, a decrease of 3.1 percentage points from 15.10% when compared with inflation rate (year on year) in December, 2008. However, this inflation rate of 12% still fell short of the single digit target rate set at the beginning of the year.

In July 2009, The Monetary Policy Committee of the Central Bank reduced MPR from 8% to 6% and introduced an interest rate corridor of +/-2% around the MPR. By this, the Standing Lending Facility Rate (rate at which CBN lends to Banks and Discount Houses as bank of last resort) became 8% and remained so until the end of March 2010. On the other hand, the Standing Deposit Rate (rate at which Banks and Discount Houses place excess funds with the CBN) became 4%. However, this was reduced to 2% in November 2009 and further slashed to 1% in March 2010.
Crude oil production averaged 1.77 million barrels per day in 2009 compared with 1.95 million barrels per day in 2008. The reduced oil output put fiscal and external accounts of government under pressure. The revenue shortfall was offset by increase in domestic borrowing. The total amount borrowed via the issuance of Federal Government Bonds therefore grew by 44%, from a total of N494 billion in 2008 to N711.5 billion in 2009.

Similarly, External Reserves fell from US$64 billion in December 2008 to approximately US$42 billion in December 2009 and to US$40.50 billion at March 2010. However, Government's revenue situation is expected to improve this year as a result of the Niger Delta region amnesty programme and projected higher oil prices resulting from enhanced global demand arising from improved economic performance world-wide.

The appointment in June 2009 of the current Central Bank Governor started a chain of reforms in the banking industry that promises to have profound impact on the short to medium term. Starting from the special joint CBN/NDIC examination which focused on liquidity, capital adequacy and corporate governance, it was discovered that there was a staggering amount of concealed bad loans in the books of the banking industry. The CBN ordered that banks make immediate provision and publish their unaudited accounts for the quarter ended September 2009 with the loan losses included. Aggregate loan losses were approximately N2 trillion. Furthermore, it was discovered that 10 banks were in a grave situation, health wise, requiring external liquidity support to stay afloat. Consequently, the Central Bank invoked Sections 33 and 35 of the Banks and Other Financial Institutions Act 2004 by removing the executive directors of 8 of the banks and immediately appointing new executive directors. The executive directors of the other 2 banks were spared (one was adjudged to have insufficient capital but healthy liquidity while the other which had just come under new ownership and management was given time to recapitalize). Subsequently, the CBN injected a total of N620billion in bailout funds in to the "troubled" banks.

In order to reduce the systemic impact of these disclosures and actions, the Central Bank provided in addition to the bailout funds, a guarantee on all interbank placements and bank placements made by Pension Funds Administrators up until March 31, 2010. The terminal date was later extended to December 31, 2010.

Also in November 2009, the CBN released a new Bankers' Acceptance (BA) and Commercial Paper (CP) guideline which was to ensure uniform practice and correct treatment of BA's and CP's by Banks and Discount Houses. This became necessary as a way to forestall the fraudulent treatment of these instruments as was discovered during the CBN/NDIC joint examination of banks. The policy stipulated among other things, a minimum of investment grade risk rating of BBB- for issuers of commercial paper and a tenor not exceeding 270days. Full compliance deadline with the provisions was set for March 31 2010. This was however recently extended for 25 companies on the recommendation of the Bankers Committee to December 31 2010 due to delays being experienced in getting risk ratings.

Operations

During the year under review, the implementation of our newly acquired investment banking software began. The process is expected to be completed before the end of the 3rd quarter of this year. The new software when fully operational will ensure that FSDH continues to deliver on its promise to utilize the latest available technology to enhance response time and service delivery that is of the highest standard to our customers.

To further enhance our corporate governance capabilities, members of your board during the year attended several training programmes to improve their abilities to perform their duties effectively. The few that are yet to attend are to do so later this year.

As prescribed by the CBN Code of Corporate Governance, and for the third year running, another board performance evaluation exercise was conducted by PriceWaterHouseCoopers during the year. The report recorded further improvement on our board performance. We will also review their recommendations to ensure continuous improvement in the performance of our Board

Financial Performance

In spite of the tough economic environment, I am pleased to inform you that the management of your company was once again able to post an impressive performance. The group achieved a profit before tax (PBT) of N3.015 billion for the six month financial year ended December 31 2009.

It is even more remarkable when compared with the PBT of the last financial year ended June 30 2009 of N4.32 billion as it represents 70% of this amount. Likewise, Profit after tax (PAT) was N2.64 billion for the six months representing 68% of the Profit after tax of N3.85 billion declared for the full year ended June 30 2009. Earnings per share (EPS) was 94 kobo, equivalent of 69% of the full year EPS of 137k for year ended June 30 2009. Similarly, annualized Return on Shareholders' Funds for the six months under review was 36.42% compared to a Return on Shareholders' Funds of 29.68% for year ended June 30 2009.

During the period under review, two of our subsidiaries FSDH Securities Limited and FSDH Asset Management came out of their loss positions for the year ended June 30 2009 to post marginal profits of N21.52m and N21.6m respectively. It is pertinent to state that this was achieved in spite of the continued poor performance of the capital market in Q3 and Q4 of 2009, when the Nigeria Stock Exchange All Share Index recorded declines of 17.86% and 5.61% for the two quarters respectively.

I am also happy to confirm that as predicted in my last year's statement; our third subsidiary Pensions Alliance Limited (PAL) posted a Profit before tax of N53 million for the six months under review. This we believe is a considerable improvement when compared with the subsidiary's Profit before tax of N40 million for the full year ended June 30 2009. Going forward, our expectation is that the company will continue to grow as it increases its assets under management.

Dividend

Your Board of Directors is proposing the sum of N558.96 million as dividend payment for the year ended December 31 2009. If approved, this translates to 20 kobo per share. Your approval as shareholders is hereby sought. If this approval is granted, in annualized terms, it represents 14.29% growth over the dividend payment made for the year ended June 30 2009.

Outlook

The impact of the CBN Banking sector reforms ranging from the reduction in monetary policy rates to the new BA/CP guideline and the ordered provisioning for bad credits in the books of banks has resulted in the unavailability of credit due to extreme risk aversion by financial institutions leading to unprecedented levels of liquidity in the industry.

However, the proposed Asset Management Company when operational is expected to reduce the debt overhang of banks and create liquidity which can be used to book fresh credit. It is however doubtful whether this alone, will be sufficient for one to witness the revival of lending by the banks to the real sector.

Nevertheless, ongoing concerted efforts by the Central Bank, Federal Ministry of Finance, Federal Inland Revenue Service, and the Debt Management Office to reform taxation, tariffs and charges regarding Corporate and State Government Bonds are providing fresh impetus for raising long term capital through the issuance of bonds. Consequently, Management has put in place the necessary structure to gain advantage when the sector takes off.

As for the capital market, even though it is still bogged down by lack of investor confidence, there seems to be growing optimism as the market appears to be coming alive again, probably driven by the excess liquidity in the system. It is however still very difficult to say if the market has bottomed out or whether the Bull Run we are currently witnessing will be short lived. I am pleased to say that FSDH is properly prepared for the market fluctuations.

Even though, the business terrain in the current year appears unclear, we are confident our unique culture of excellence will thrive and propel us to rise above current challenges as we have always done to attain our vision of being the leader in our chosen markets. We will also continue to focus and broaden our business activities of securities trading, market making and corporate finance services. In addition, we shall continue, as always, to look for new ways of doing what we do better, while taking on only risks we fully understand and can quantify. Our goal remains as always to be the specialist financial institution of choice to our clients.

Finally, I would like to thank all our stake holders most especially, the Central Bank of Nigeria, for their continued support and to assure them that FSDH will continue to justify the confidence they have in the company.

Thank you.

Ibrahim Y. Dikko
Chairman