CHAIRMAN'S REPORT

Distinguished stakeholders
We welcome you to the 16th annual general meeting of the company. It is another successful year for the FSDH group and I lay before you the report and accounts for the year, which ended on the 30th of June, 2008.

During the year, the company undertook a series of initiatives to strengthen our competitive position in the market. This was in recognition of the changes taking place in the operating environment and the need to respond rapidly to the opportunities that are opening up. Our aim was to ensure the provision of better services to the customer through increase in our internal capacity, streamlining of operational processes and work flow and the maintenance of a more conducive environment in the work place. These initiatives include the review of the corporate strategy, the acquisition of another floor, the renovation of all the offices (including the complete redesign of offices and sitting arrangements). In addition, the company continued the implementation of the rebranding programme that started in the last financial year and also increased our staff strength in strategic areas of the business. These initiatives have no doubt played a major role in the success that was achieved during the year.

In line with the requirements of the CBN's Code of Corporate Governance for Banks and Discount Houses, the Board of Directors engaged the services of PricewaterhouseCoopers to undertake the evaluation of the performance of the Board. The performance evaluation exercise has been completed and a report presented to the Board of Directors. While the result of the exercise showed that the Board has been doing a good job, there is still room for improvement. The Board has resolved to address all areas that require improvement in the next financial year. Also, as part of the implementation of the Code of Corporate Governance, the Board has appointed two independent directors namely Mr. Vincent Omoike and Mr. Bashir el-Rufai. Furthermore, an Audit Committee has been constituted.

Operating Environment

The operating environment was quite challenging, especially in the money market. Interest rates were generally on the increase throughout the year due to inflationary pressures. Year-on-year inflation rose steadily from 4.8% in July 2007 to 12% in June 2008. The Monetary Policy Rate (MPR) was increased four times during the year in an attempt to curb inflation. We started the financial year in July 2007 with an MPR of 8% p.a. This was increased to 9% p.a. in October 2007 and then to 9.5% p.a. in December of the same year. In April 2008, there was an increase by 50 basis points, moving the MPR to 10% p.a. Another 25 basis points increase in June 2008 pushed the rate to 10.25% p.a.

N9.54BN
Shareholders' funds

N71.14BN
Total Assets

The steady rise in inflation and the accompanying increase in interest rates created uncertainties at the monthly auctions for bonds, as the stop rates failed, in a lot of cases, to meet market expectations. This was compounded by the scheduling difficulties at the Debt Management Office (DMO) in the second half of 2007, leading to a continued increase in market risk. On more than one occasion, the two-way quote market shut down completely, as frantic efforts to exit positions accentuated the largely one-sided expectation of the entire market. This one-sided expectation has continued to erode the two-way quote market of its vibrancy.

The capital market was one of contrasts. The unrestrained optimism in the market in the first two quarters of the financial year gave way to caution during the 3rd quarter and to outright panic and despair in the last quarter. A couple of policy

“Our aim is to ensure the provision of better services to the customer through increase in our internal capacity, streamlining of operational processes and work flow and the maintenance of a more conducive environment in the work place”.

Ibrahim Dikko, chairman

pronouncements by the regulatory authorities and the attendant reactions by the operators drew attention to the many shortcomings in the market, setting off a “bearish” backlash that resulted in a 15% drop in the All-share index from its peak of 66,371 points in early March 2008 to 55,949 points by the end of June 2008. The reversal of the policy pronouncements did not have any positive effect. Many financial institutions, especially stockbrokers, were caught up in the fall and were sitting on huge proprietary positions which they financed with borrowed funds. I am happy to report that in line with our sound risk management practices, the FSDH group did not close the books with any significant short-term proprietary positions.

The problems in the capital market have underscored the message in the adverts that we have been running as part of the rebranding campaign – that investment is a serious business that can only be handled by a financial services provider with a good track record. What happened in the capital market was not unprecedented. It has happened before in Nigeria on a number of occasions; it is also happening in other parts of the world. The only difference this time around is the high level of speculative trading financed with borrowed funds. The speculative trading was not restricted to financial institutions alone. Individuals and organizations were encouraged, without sound financial advice, to borrow and invest in the capital market.

"MONEY IS LIKE MANURE; IT'S NOT WORTH A THING UNLESS IT'S SPREAD AROUND ENCOURAGING YOUNG THINGS TO GROW". - The Matchmaker.

N2.34BN

Profit After Tax

84K

Earnings per share

financial losses which may discourage them from any further investment in the capital market. Other potential investors may also be scared of investing in the market. The implication of this development for our stock-broking and asset management businesses is enormous. We shall continue to leverage on our track record to explain to customers that risk and return can be optimized to meet the financial objectives of customers.

During the year, the CBN came out with a circular on the modalities for the implementation of a common year end for all banks and discount houses. In compliance with the circular, the Board met and changed the company's accounting year end to 31st December. However, it appeared that the fallout of the policy produced a lot of unintended consequences in the market, forcing the CBN first to suspend implementation and later on to cancel the entire policy. Consequently the Board has decided to retain our normal year end of 30th June.

Performance

The group achieved a profit after tax (PAT) of N2.344 billion for the year ended 30th June, 2008 compared with N1.584 billion for the previous year ended 30th June, 2007, representing a growth of 48%. Earnings per share also grew – from 79 kobo in 2007 to 84 kobo in 2008, despite the fact that the number of shares in issue grew by 39% during the year due to the capitalization of the rights issue that was done last year. Profitability grew in all the different companies within the group. FSDH, the parent company, recorded a growth of 20%, despite the difficulties in the money market especially with regard to bond trading. FSDH Asset Management and FSDH Securities grew by 85% and 122% respectively, a reflection of the good performance of the capital market for much of the financial year. Although Pensions Alliance Limited (PAL) posted a pre-tax loss of N92 million compared with the pre-tax loss of N331 million the previous year, a recognition of N130 million for deferred tax assets in respect of cummulative unrelived losses and unutilized capital allowances resulted an after-tax profit of N38 million. As I estimated in my statement last year, PAL turned the corner in June 2008. The company is expected to make profit in the next financial year.

Dividend

The directors have proposed a dividend of 25 kobo per share. If approved, this will represent a 33% increase over the dividend of 18.75 kobo per share paid last year. While being mindful of our obligation to shareholders, there is need to retain a significant portion of the profit for the year in order to meet in a relatively short period of time whatever new minimum share capital that the regulatory authorities may require discount houses to have in the near future.

Outlook

The international financial market is currently facing serious problems, as it has not yet recovered from the sub-prime mortgage crisis. Some prominent financial institutions in the United States of America have collapsed, sending jitters through financial markets all over the world. Credit has dried up and governments in several countries are struggling to put in place measures to stabilize the situation. Fearing some contagion effect, the Central Bank has recently come up with measures aimed at increasing liquidity in the system as a way of boosting activities in the financial markets.

This unfortunate development underpins the importance of financial institutions taking only

"We at FSDH, as we continue to break into new frontiers, will ensure that the management of risk remains a top priority".

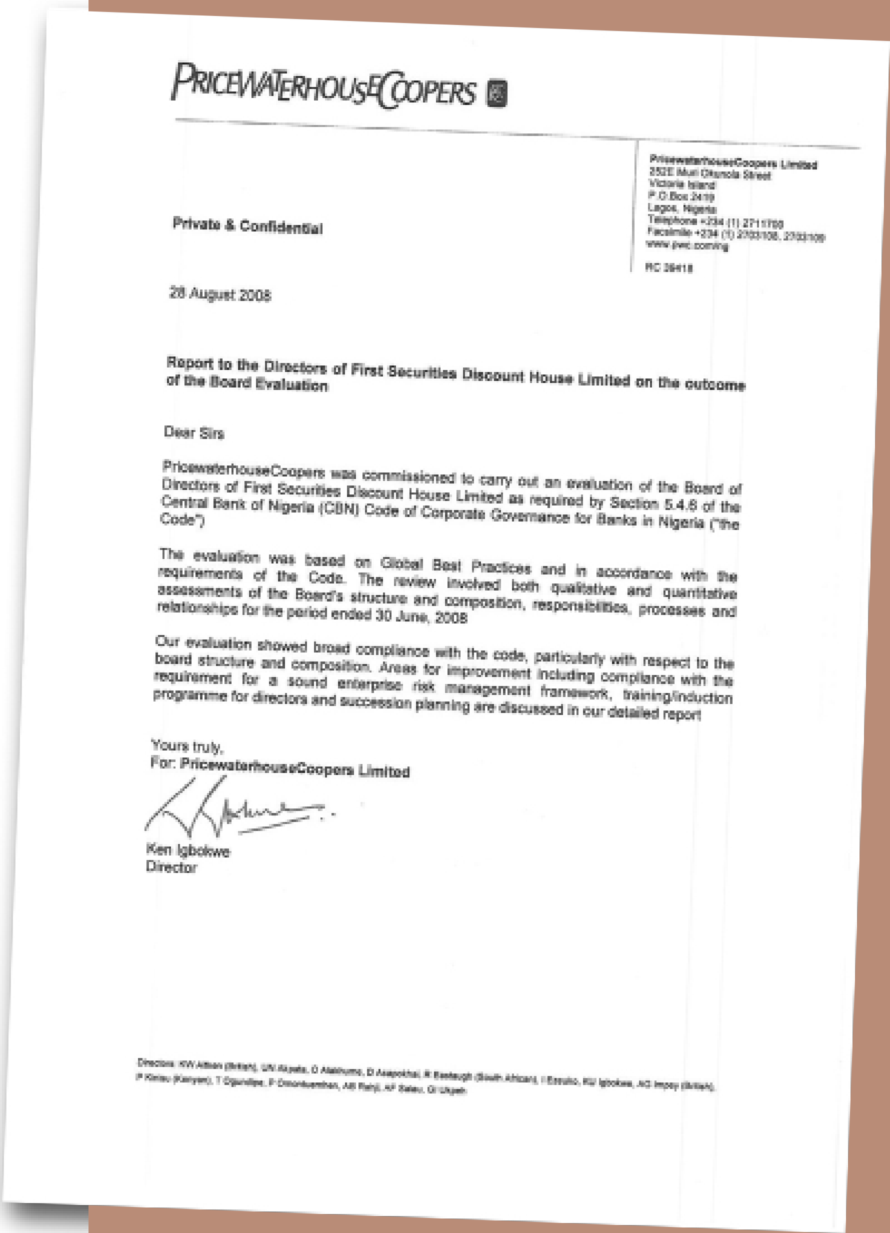
risks that are fully understood and quantifiable. Nassim Taleb said in his recent book, The Black Swan, "The tragedy of capitalism is that the quality of returns is not observable from past data, owners of companies, namely the shareholders, can be taken for a ride by the managers who show returns and cosmetic profitability, but in fact might be taking hidden risks".

We at FSDH, as we continue to break into new frontiers, will ensure that the management of risk remains a top priority.

Despite all these problems, however, we believe that the outlook for the financial services industry and indeed the FSDH group continues to be bright. The Nigerian economy is growing and the financial services industry is more vibrant now than at any other time in the history of this country. At FSDH, we see opportunities in all the market segments that we operate in, and will continue to draw on our strong capabilities to exploit these opportunities not only to improve performance but also to contribute to the growth of the economy in general and the financial services industry in particular.

I seize this opportunity to thank all our stakeholders for their continued support and to assure them that FSDH will continue to justify the confidence they have in the company.

Ibrahim Dikko
Chairman



PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Limited
252E Muri Okunola Street
Victoria Island
P.O.Box 2419
Lagos, Nigeria
Telephone +234 (1) 2711700
Facsimile +234 (1) 2703108, 2703109
www.pwc.com/ng

RC 39418

Private & Confidential

28 August 2008

Report to the Directors of First Securities Discount House Limited on the outcome of the Board Evaluation

Dear Sirs

PricewaterhouseCoopers was commissioned to carry out an evaluation of the Board of Directors of First Securities Discount House Limited as required by Section 5.4.6 of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria ("the Code")

The evaluation was based on Global Best Practices and in accordance with the requirements of the Code. The review involved both qualitative and quantitative assessments of the Board's structure and composition, responsibilities, processes and relationships for the period ended 30 June, 2008

Our evaluation showed broad compliance with the code, particularly with respect to the board structure and composition. Areas for improvement including compliance with the requirement for a sound enterprise risk management framework, training/induction programme for directors and succession planning are discussed in our detailed report

Yours truly,
For: **PricewaterhouseCoopers Limited**

Ken Igbokwe
Director