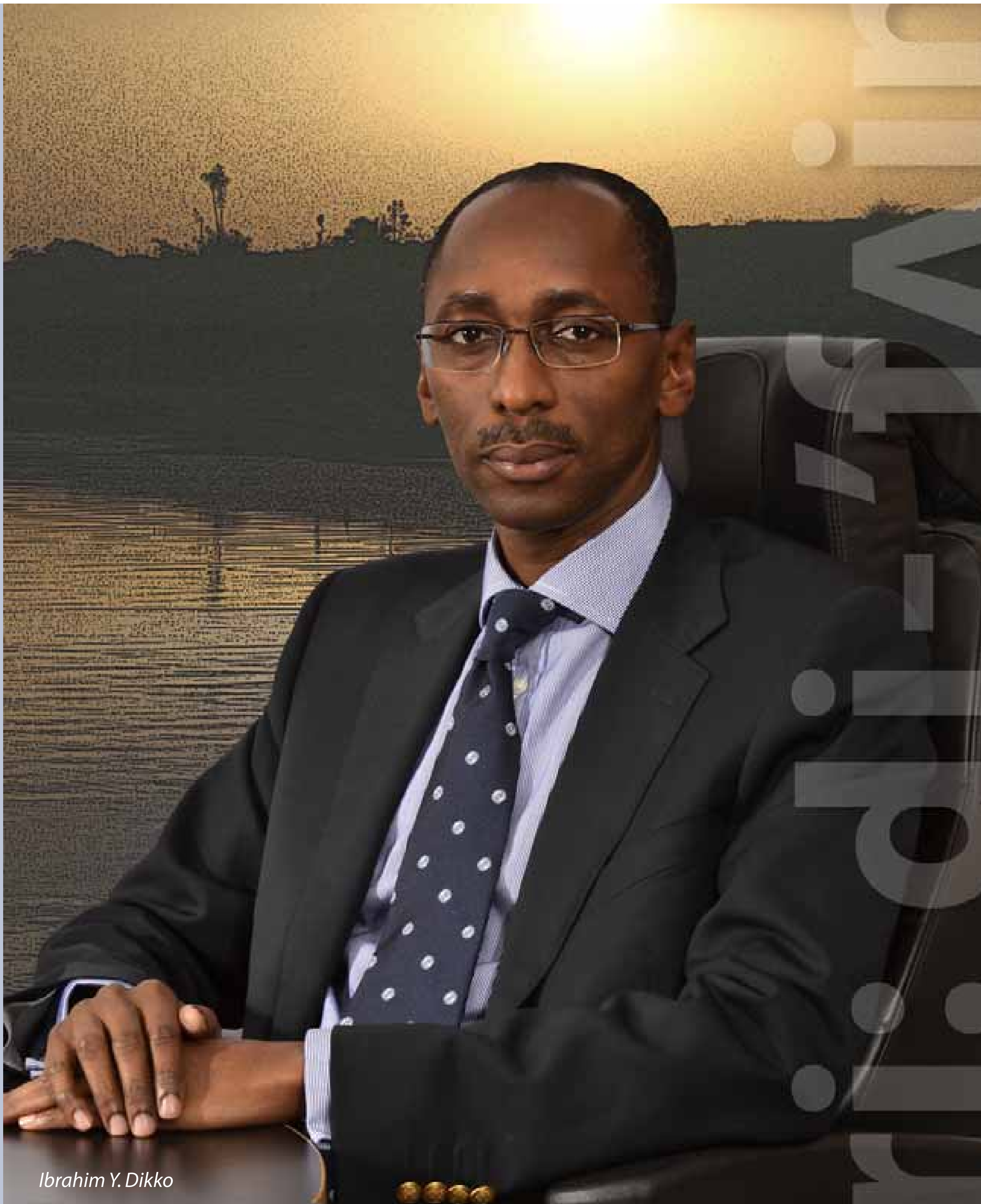


Ibrahim Y. Dikko

Even though the World Bank economic growth forecast for developing countries in 2012 is 5.4% - the lowest in a decade - for Nigeria, the World Bank has projected more robust growth of 7.1%.

On behalf of the Board of Directors of First Securities Discount House Limited, it is my pleasure to welcome you all to the 20th Annual General Meeting of your company and to present to you the Financial Statements of the Group for the year ended 31 December 2011.

Global Environment

Although some signs of economic recovery were observed in certain pockets of the global economy, global economies were weak overall. The lack-lustre performance was further exacerbated by the serious problems in the Eurozone. Natural disasters such as the Japanese earthquake and tsunami that led to the near meltdown of the Fukushima nuclear reactor were an added source of economic problems. It was a year also that witnessed, for the first time ever, the downgrade of the U.S Sovereign Credit rating from AAA to AA+ by Standard & Poor's. This, coupled with the Eurozone crisis which forced out the Prime Ministers of Greece and Italy, further weakened the financial markets. The uprising in North Africa constituted an additional threat to an already shaky global recovery.

Domestic Economic Environment

In line with global economic trends, the Nigerian economy, as indicated by Gross Domestic Product (GDP) data from the National Bureau of Statistics (NBS) grew by 7.40% by Q3, 2011 a slight reduction when compared with 7.8% recorded in the corresponding period of 2010.

Even though the World Bank economic growth forecast for developing countries in 2012 is 5.4% - the lowest in a decade - for Nigeria, the World Bank has projected more robust growth of 7.1%.

As indicated in my statement last year, the continued apathy by investors towards the Equities market hindered the recovery of that sector of the economy. The Nigerian Stock Exchange All Share Index (NSE ASI) closed December 30, 2011 at 20,730.63 points, down from 24,770.52 points at the end of December 31, 2010 representing a depreciation of 16.31% (a loss of 21.36% in US$). The poor performance of the equities market was also driven by the higher yields available on Fixed Income Securities due to the high interest rate regime witnessed during the year. Investors therefore found fixed-income instruments more attractive. This situation is expected to continue in the near to medium term, especially going by the Central Bank's stated commitment to pursue price stability as its key mandate.

Operating Environment

The operating environment continues to bring up a variety of challenges. The inflation rate (year-on-year) as at December 2011 stood at 10.30% compared to 11.80% recorded in the month of December 2010. However inflation figures released in January by the National Bureau of Statistics (NBS), showed that inflation rate (year-on year) rose sharply by 2.3% to 12.6% from 10.30% recorded in the month of December 2011. This is as a result of the increase in prices following the partial removal of fuel subsidy. The trend is expected to be moderated by the recent action of the Federal Government in reducing the proposed budget and its intended commitment to fiscal discipline alongside the efforts of the Central Bank to ensure price stability.

Government's debt stock (Domestic and External) as at 31 December 2011 stood at N6.5trillion representing an increase of 24.37% from the December 31, 2010 figure of N5.235trillion. A break down of the total debt stock shows that external debt accounted for 13.64% of the total debt at N887.9billion, while domestic debt stock accounted for 86.36% of the total debt stock at N5.623trillion. The total public debt stock in the country as at December 2011 is estimated at about 17.50% of the Gross Domestic Product (GDP) as against the applicable critical limit of 40% for countries in Nigeria's economic peer group.

It is pertinent to state at this juncture that as we seek to redefine the future of our business and break into new frontiers, the management of emerging risks will remain a top priority...

Nigeria's total external debt stock as at 31 December 2011 stood at US$ 5.67billion representing an increase of 23.76% from US$4.58billion by 31 December 2010. The total external debt stock is estimated at about 2.39% of the GDP.

Also during the year, Nigeria's sovereign credit rating outlook by Fitch was revised from negative to stable. The upgrade is especially significant because Fitch ratings had lowered Nigeria's sovereign credit outlook to negative in October 2010 from stable citing the depletion of its windfall oil savings and heightened political uncertainty ahead of elections at the time.

Similarly, external reserves position grew marginally by 0.90% from US$32.35billion as at 31 December 2010 to US$32.64billion as at 31 December 2011.

Operations

The firm of PricewaterhouseCoopers has been appointed by your board as the external auditors to the group to replace KPMG Professional Services. This change is to comply with the Central Bank's directive stipulating a mandatory rotation of external auditors after 10 years. We use this opportunity to thank KPMG for their professional services to FSDH over the years. For the fifth consecutive year and in line with the CBN Code of Corporate Governance, a board evaluation exercise has just been completed for FSDH by KPMG Professional Services. As usual, we will review their recommendations with a view to adopting them where necessary.

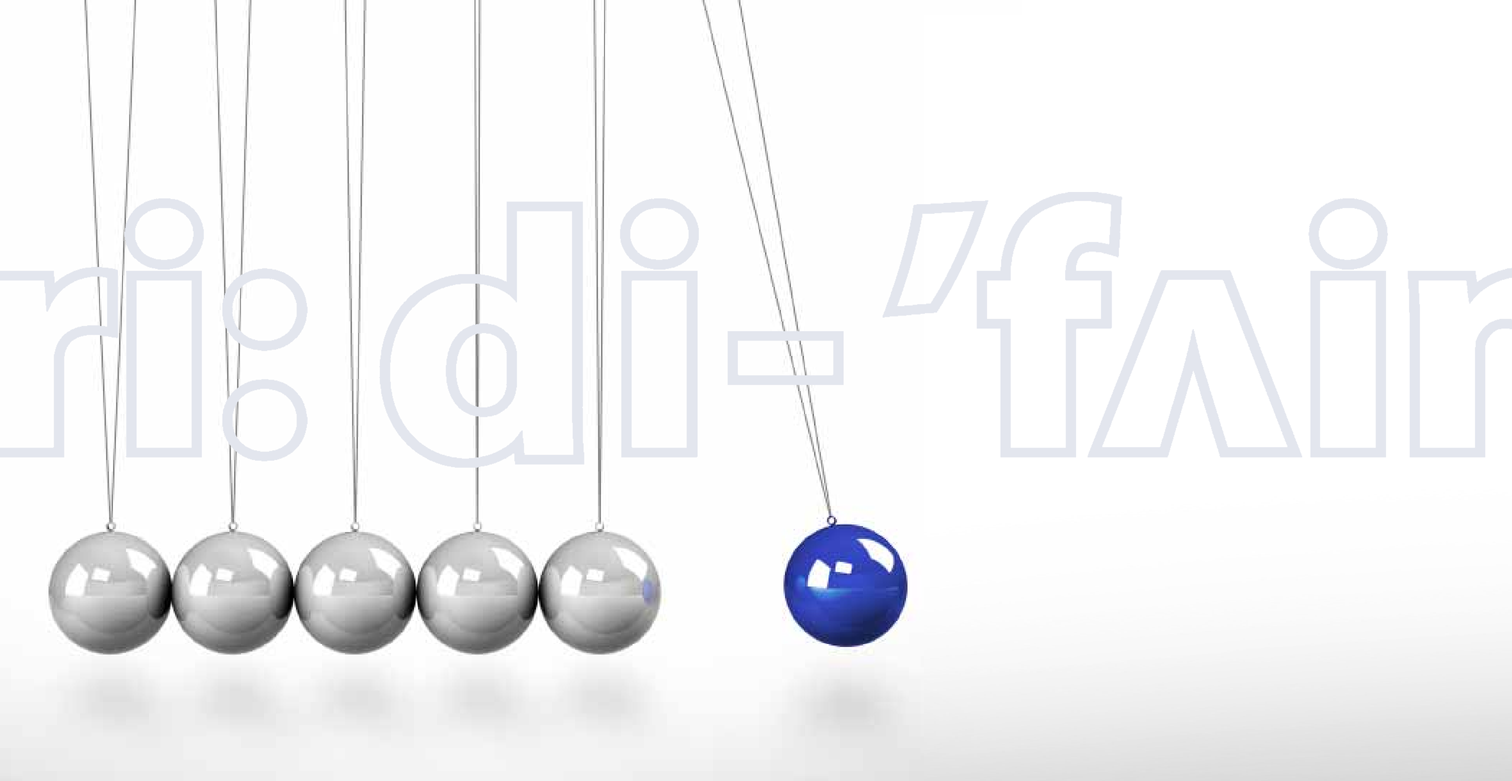
Following the adoption of International Financial Reporting Standards (IFRS) by the Federal Government of Nigeria and the directive by the Central Bank requesting all financial institutions to ensure full compliance by the financial year ending 31 December 2012, your board has approved the appointment of PricewaterhouseCoopers as consultants to guide the group in the conversion from Nigerian Generally Accepted Accounting Practice (NGAAP) to International Financial Reporting Standards. Consequently a transition project roadmap involving the Board Audit committee, Executive Management and a Project Committee has been put in place to ensure that all resources required for a successful transition are deployed.

Financial Performance

The group achieved a Profit before Tax (PBT) of N2.91billion for the financial year ended 31 December 2011. This represents a decline of 15.14% from the position of N3.43billion for the year ended 31 December 2010. Profit after Tax (PAT) attributable to the group was N2.75billion which is 9.9% below the position of N3.05billion for the year ended 31 December 2010. This decline in profitability was a direct result of the tight monetary policy regime of 2011, the effect of which was high interest rates with corresponding pressure on fixed income securities trading. The net effect was a reduction in profit margins and a slowing down in trading activities in the bond market for most of the year under review thus making the operating environment extremely challenging.

Earnings per share (EPS) was 94 kobo which is 15 kobo less than the 109 kobo that was earned in the financial year ended 31 December 2010. Except for FSDH Securities which witnessed a drop in profitability, all the other subsidiaries posted higher figures when compared with their performance for financial year ended 31 December 2010. FSDH Asset Management Limited (FAML) and Pensions Alliance Limited (PAL) achieved PAT figures of N80million and N241million respectively, while FSDH Securities Limited (FSL) posted a PAT of N22.9million. When compared with the PAT for the year ended 31 December, 2010, this translates to an increase of 41% and 109% for FAML and PAL respectively and a decline of 28% for FSDH Securities Limited. FSDH Securities Limited was unable to improve on its position of last year because of the continued uncertainty in the Capital (Equities) Market, coupled with the tight monetary policy regime of 2011 which made money market products more attractive to investors than equities.

As mentioned earlier, the Nigerian Stock Exchange's All Share Index depreciated by 16.31% when compared to the position recorded as at the end of December 2010. Consequently, FSDH Securities Limited witnessed a drop in trading turnover which adversely impacted brokerage commission earned.



Dividend

The Board of Directors is recommending the sum of N698.7million as dividend payment for the year ended 31 December 2011. This represents the same amount in absolute terms when compared with the dividend payment for the year ended 31 December 2010. The amount translates to 25 kobo per share. Your approval as Shareholders is hereby sought. As always, the company will continue to strike a good balance between its obligations to reward shareholders and the need to retain earnings in order to finance future growth and expansion.

Outlook

The last financial year was extremely challenging for business. The tight monetary policy regime of the past year with its attendant high interest rates was a challenge for Fixed Income Securities trading and by extension a drag on profitability as we have seen in the numbers.

The additional constraint imposed on our sub-sector was through the revised CBN BA/CP (Bankers Acceptances and Commercial paper) guidelines that cut-off our Commercial Bills trading activities thereby seriously restricting our ability to meet set growth targets. This is one of the reasons we have approached the Central Bank of Nigeria for a Merchant Banking Licence following the recent repeal of the Universal Banking Guidelines. It is our belief that such a license will open to us a wider array of opportunities. We also believe that the permitted activities under the Licence will be a perfect fit for our present competencies in securities trading, asset management, financial advisory and Investment banking.

It is pertinent to state at this juncture that as we seek to redefine the future of our business and break into new frontiers, the management of emerging risks will remain a top priority. Also, in line with our conservative risk management culture, we will only take on risks that we understand and can quantify. It is in line with this conservative posture that we engaged the services of Mckinsey & Co - a highly reputed global consulting firm - in the design and formulation of an entry strategy into the Merchant Banking Space. We are committed to operating within the strategy and its defined boundaries as we recognize that we can never be all things to all people. We are therefore determined to stay focused on our strategy whilst keeping a close eye on market trends and developments. Finally, I would like to thank all our stakeholders for their continued support and patronage and assure you of our determination to continuously re-invent and redefine our business offerings to serve you all better. Thank you.

Ibrahim Dikko
Chairman.