**Ibrahim Y. Dikko**

Distinguished shareholders, it is with great pleasure that I welcome you all to the 19th Annual General Meeting of our company, First Securities Discount House Ltd.
I am happy to present to you the report and accounts of our organisation for the year ended 31 December 2010.

### *Global Environment.*

In 2010, a large part of the global economy was still dealing with the consequences of the 2008/2009 financial crisis. In the United States, the return to growth could best be characterized as very slow due to the financial crisis which continued to plague the US economy. Growth was about 2.7% and the economy is still plagued by unemployment which has continued to hover around 9.6%. The country is yet to recover from the loss of about 8 million jobs during the 2008/2009 crisis.
The emerging economic powers (China, India, Brazil), who suffered minimal damage from the financial crisis, continued their ascent on international scene in 2010.
In the Euro zone, countries such as Greece, Ireland, Portugal, and Hungary struggled with debt and financial difficulties. Their allies, the European Central Bank (ECB) and the International Monetary Fund (IMF) continue to work with them in order to resolve the problems.
For most developing countries, particularly Sub-Saharan Africa, economic growth was encouraging.
As at the end of the first quarter of 2011, the world economic score card pointed to

- a possibility of economic tension in some countries in the Euro zone spreading to the core of Europe;
- the lack of progress in formulating medium term fiscal consolidation plans in major advanced economies;

During the year under review, the implementation of our newly acquired banking software **(iDeal Suites)** was completed. Consequently, we have fully migrated from the old system (Flexcube) to the new one.

- the continued weakness of the US real estate market;
- high commodity prices resulting from Middle East unrest; and
- the potential for boom-bust cycles in emerging markets

### *Domestic Economic Environment*

In line with the International Monetary Fund (IMF) world economic report which projected strong economic growth for Sub-Saharan African countries, Nigeria recorded a real Gross Domestic Product (GDP) growth of 7.86% in Q3 of 2010, higher than the growth rate of 7.30% recorded in the corresponding period of 2009 and higher than the 7.69% recorded in Q2 2010. The growth rate of 7.86% in Q3 2010 is the highest growth rate recorded in recent times. A break down of the GDP to oil and non-oil sectors shows that the Nigerian economy continues to be dominated by non-oil sector with a contribution of 84.62% while oil sector contributed 15.38% to output in Q3 of 2010.

As expected, the equities market showed signs of recovery in 2010 after 2 years of consecutive decline. The market recorded its highest performance in Q1, 2010 as investors took positions ahead of the full year earnings season. The Nigerian Stock Exchange All Share Index (NSE ASI) closed the year 2010 at 24,770.52 points up from 20,827.12 points at the end of 2009, representing an appreciation of 18.93% (compared to a depreciation of 33.78% in 2009). It is pertinent to note however that in spite of these gains the market continues to be unpredictable and is far from sustained recovery. This is largely due to the continued apathy by investors towards the capital market.

### *Operating Environment*

The Nigerian operating environment continues to throw up a variety of challenges. The inflation rate (year-on-year) in December 2010 dropped to 11.8% from 12.8% recorded in the month of November 2010. This fell short of the set inflation target rate of 11.20% at the beginning of the year. The January 2011 (Y-o-Y) rate increased by 0.3% to 12.1% on account of higher energy prices and government expansionary fiscal policy ahead of the April elections.
Government debt (Domestic & External) went up during the year. Total Domestic debt stock was =N=4.55 trillion as at 31 December 2010, up by about 41% from =N=3.23 trillion as at December 2009. The Domestic debt stock represents about 14.21% of the GDP.
The country's external debt position was USD4.58 billion as at year end up from USD4.534 billion. This debt represents 2.13% of the GDP and 13.05% of total debt stock of =N=5.23 trillion. The level of the country's external debt increased further in January 2011 when it issued the $500 million 10 year Eurobond.
Also during the year, Nigeria's sovereign credit outlook was downgraded to negative from stable by Fitch. Reasons given for this review were the depletion of Nigeria's windfall oil savings and the heightened political uncertainty ahead of April 2011 elections. This credit rating downgrade was to later affect the pricing of the $500 million Eurobond which was issued at a discount of 7% as against the desired 6.5 – 6.75%.
Similarly, external reserves fell from US $42.4 billion in December 2009 to US $32.35 billion in December 2010 representing a drop of 23.70%. However Government's revenue situation is expected to improve this year with the continued stability in the Niger Delta region and the upward

pressure on oil prices resulting from the political unrest in the Middle East.

During the year, the Government approved the establishment of the National Sovereign Wealth Fund (SWF). The bill for its establishment is currently awaiting the National Assembly's consideration and approval. The SWF is meant to address some of the complexity and constitutional challenges posed by the Excess Crude Account (ECA). It is planned that the SWF will be made up of three separate funds: an intergenerational savings fund, an infrastructure developmental fund, and a stabilization fund which will serve as a secondary source of funding supporting the ECA in periods of budgetary deficit. The most important differentiating characteristic of the SWF from the ECA will be its independence from political pressures and its inbuilt rigorous withdrawal measures and transparency regarding the use of funds.

The chain of reforms which started with the appointment of the current CBN governor Mr. Sanusi Lamido Sanusi, in 2009 continued during the period of review on various fronts. The Central Bank repealed the Universal Banking model as part of its strategic initiative to reform the Nigerian financial system to enhance the quality of banks, ensure financial system stability and promote evolution of a healthier financial sector. The Asset Management Company of Nigeria (AMCON) bill was signed into law during the period under review. The company was set up by the Central Bank to acquire the non-performing loans of Nigerian banks thus boosting the liquidity of troubled banks, paving the way for the recapitalization of many of them and ultimately stimulating the recovery of Nigeria's financial system from the recent crisis. AMCON has since commenced operations with the initial issuance in December 2010 of zero-coupon bonds valued at =N=1.03 trillion in exchange for non performing loans worth =N=2.2 trillion. The bonds with yields of 10.125% are expected to mature on 31 December 2013.

Furthermore, the planned sale of the banks in which CBN intervened in 2009 is on course and hopefully should be concluded during Q3 in 2011. Consequently the CBN guarantee for all interbank transaction as well as pension funds placements with banks has been extended to September 2011.

In September 2010, the Monetary Policy Committee (MPC) of the Central Bank reviewed the Monetary Policy Rate (MPR) from 6%p.a. to 6.25%p.a. and later by January 2011 by a further 25 basis points to 6.50%p.a.This was again reviewed upward by 100 basis points to 7.5%p.a in March 2011. The symmetric interest rate corridor of +/- 200 basis points around the MPR was maintained. By this, the Standing Lending Facility Rate (rate at which CBN lends to Banks and Discount Houses as bank of last resort) became 9.5%p.a while the Standard Deposit Rate (rate at which Banks and Discount Houses place excess funds with the CBN) became 5.5%p.a from 4.5%p.a.in January and from 3.25%p.a. where it was in September having earlier being increased from its prior level of 1.25%p.a. The Monetary Policy Developments in 2011 have seen the MPC also raise the cash reserve requirement (CRR) ratio by 100 basis points from 1.0% to 2.0% with effect from 1ST February 2011 and with effect from March 2011 raised the Liquidity Ratio (LR) by 500 basis points from 25.0% to 30.0%

### *Operations*

During the year under review, the implementation of our newly acquired banking software (iDeal Suites) was completed. Consequently, we have fully migrated from the old system (Flexcube) to the new one. It is our belief that the new software will enable us to continue to keep our promise of utilizing the latest available technology to enhance response times and ensure the highest standards of service delivery to our customers. We also successfully implemented SAP (Systems

The group achieved a Profit Before Tax (PBT) of **=N=3.43 billion** for the financial year ended 31 December 2010 in spite of the tough economic environment. This represents in absolute value, an increase of **13.63%** over the profit for the year ended 31 December 2009...

Application and Product in Data Processing) – an Enterprise Resource Planning System that ensures a seamless integration of Human Resources and Finance Processes. This has increased our operational efficiency in the area of payroll administration and procurement processes.

To ensure that your board is equipped to perform optimally, arrangements were made for members to attend relevant training programs during the year. Courses attended were in the areas of Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Compliance, Corporate Governance and Risk Management.

Going forward, we will continue to ensure that members attend relevant programs to enhance their ability to effectively exercise their oversight duties.

Once again, as prescribed by the CBN Code of Corporate Governance and for the fourth year running, another board performance evaluation exercise was conducted by PriceWaterHouse Coopers during the year. The report recorded further improvement on our board performance. As always, we will also review their recommendations to ensure continuous improvement in the performance of our Board.

***Financial Performance***

The group achieved a Profit Before Tax (PBT) of =N=3.43 billion for the financial year ended 31 December 2010 in spite of the tough economic environment. This represents in absolute value, an increase of 13.63% over the profit for the year ended 31 December 2009, which was =N=3.015 billion. Profit After Tax (PAT) attributable to the group was =N=3.050 billion, which is 15.97% above the position of =N=2.63 billion for the year ended 31 December 2009. When the profitability figures of both periods (2009 and 2010) are reviewed further, it is clear that on an annualized basis, (2009 result was for 6 calendar months) that the 2009 positions for both PBT and PAT were 43.12% and 42.02% respectively better than the positions as at the 31 December 2010. This testifies further to our assertion that the operating environment last year was extremely tough.

Earnings per Share (EPS) was 109 kobo, which is 15 kobo more than the 94 kobo that was earned in December 2009 (unannualized).

During the period under review, all our subsidiaries posted profits. For FSDH Asset Management Limited and FSDH Securities Limited, though PAT was modest at =N=56.56 million and =N=31.85 million respectively it was still a significant improvement on the PAT figures of =N=14.91 million and =N=15.33 million respectively that were recorded for the six months ended 31 December 2009. This improvement was achieved in spite of the continued investor apathy to the Capital Market.

I am happy to confirm that as predicted in my statement last year, our subsidiary, Pensions Alliance Limited (PAL) has continued to grow its assets under management and consequently was able to post PAT of =N=115.58 million. This was a 165.82% increase over its 2009 figures of =N=43.48 million. We are pleased that the company has finally turned the corner on its journey to long term profitability.

***Dividend***

The directors have proposed a total dividend payment of =N=698.70 million for the year ended 31 December 2010. This represents an increase of 25% when compared in absolute terms with the dividend payment of =N=558.96 million for the year ended 31 December 2009. If annualized (full accounting period for year ended 31 December 2009 was 6 calendar months based on CBN directive on common year end), it translates to a decline of 37.50%.

If the proposed dividend is approved, it translates to 25k per share to all shareholders. The company will continue to strike a good balance between its obligation to reward shareholders and the need to retain earnings in order to finance future expansion, growth and share capital requirement for our proposed conversion to merchant bank.

### *Outlook*

The last financial year was quite challenging for business in our sub-sector of the banking industry. The new CBN BA/CP (Bankers Acceptances and Commercial Paper) guideline which cut-off our commercial bills trading activity as well as the sustained liquidity for most of the year and the steep decline in securities trading activities all seriously constrained our ability to meet planned growth targets. This is one of the reasons why we have approached the Central Bank of Nigeria for a Merchant Banking License 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 license will be a perfect fit for our present competencies in securities trading, asset management, financial advisory, and investment banking. Nevertheless, the envisaged positive impact of the various banking sector reforms in terms of the operations of the Asset Management Company (AMCON) and the recapitalization and scale of CBN intervention banks should have a multiplier effect that will positively impact the banking industry and the larger economy.

In the case of the capital market, we envisage that relatively crisis free general elections would positively impact the market via the re-entry of foreign investors that withdrew their funds from the capital market during the global financial crisis of the past three years and in a recent second wave during the ongoing political turmoil in the Middle East and North Africa. I am pleased to say that the FSDH group is properly prepared to take advantage of whatever opportunities these emerging scenarios throw up.

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

Thank you.

**Ibrahim Dikko**
*Chairman*