MANAGING DIRECTOR'S REMARKS

The Chairman of the Board, Members of the Board, Distinguished Shareholders, Representatives of our Regulators and Auditors, Ladies and Gentlemen,

I count it a great privilege to present to you the performance of our Company in 2012 financial year. Prior to this a brief review of the Nigerian economy with an emphasis on the Pension Industry wherein the Company operated is presented.

Macroeconomic Development

There was a decline in macroeconomic performance as real GDP growth decelerated by 0.78 percent from 7.36 percent witnessed in 2011 to 6.58 percent in 2012. The decline in real growth rates of economic activity is as a result of poor performance in the oil and non-oil sectors. While the oil sector was negatively impacted by oil theft and vandalism of oil pipelines, the non-oil sector was affected by the incidence of flooding, security challenges as well as muted consumer demand for most part of 2012. Consequently, the rate of inflation increased by 2.3 percent from 10.3 percent recorded in 2011 to 12.6 percent in 2012. The double digit rate of inflation could negatively affect the real returns on pension fund investment, especially where such returns are generally lower than the inflation rate. A double digit rate of inflation can as well impact negatively on the welfare of retirees as their purchasing power become weak.

The equities market recorded the best performance as the Nigerian Stock Exchange All Share Index (NSE ASI) closed the year 2012 at 28,078.80 points up from 20,730.63 points as at 31 December 2011, representing an appreciation of 35.45% (a gain of 36.04% in US$ terms) as against a loss of 16.31% in 2011. Positive factors that influenced the growth include macro-economic stability especially foreign exchange and foreign portfolio manager's interest in Nigeria.

The Economy and Pension Industry

The pension industry operated under a declined economic atmosphere as estimated real GDP decreased slightly by 0.78 percent to 6.58 percent in 2012 as against the 7.36 percent growth rate recorded in 2011. In spite of this decline in growth, the pensions industry experienced significant growth as more people and companies joined the new scheme. The total scheme memberships increased from 4,993,581 at the end of 2011 to 5,459,418 at the end of 2012, representing an increase of 9.2 percent. The total pension contribution by both the public and private sectors into the RSA Scheme was N1, 787.57 billion as at the end of 2012. This marked an increase of N505.57 billion, representing 26.80 percent over the total contributions as at the end of 2011. The total assets under custody grew by 20% in 2012 from N2.45 trillion in 2011 to N2.94 trillion. It is obvious that the pension reform act has positively impacted on the Nigerian economy, and would continue to do so considering the rapid growth of the funds.

Regulation

The pension industry witnessed a number of regulatory actions and interventions. Most significant was the increase in the paid-up share capital of licensed pension fund administrators (PFAs) from N150 million to N1 billion unimpaired by losses effective 30

June 2012. This led to consolidation among the PFAs and also improved the financial stability as well as business processes of the PFAs. However, FUG maintains a positive stand to regulation by taking a serious approach to ensuring compliance with the resulting regulations and initiatives.

As part of the ongoing developments in the industry, the National Assembly has stated that it is prepared to amend the Pension Reform Act 2004, to give the National Pension Commission, the regulatory body for the pension industry, more power to fight the abuse of the pension scheme by both corporate and public organizations. There have been several cases of fraudulent mismanagement of pension funds, refusal of some organizations to join the scheme, while others who have joined do not remit the monthly contributions into their employees' Retirement Savings Accounts (RSAs) when due. Compliance with the contributory pension scheme is still far below the expected level.

PUG Operational Results

Our Company's operations are dispensed from six regional offices located in Lagos, Abuja, Port Harcourt, Ibadan, Kano and Maiduguri, three sub-regional offices located in Enugu, Sokoto and Jos and from 23 zonal offices located nationwide. Amidst intense competition, FUG has been able to compete favorably amongst its peers.

Profit and Loss Account

As indicated in the profit and loss account for the year ended December 31,2012, we closed the 2012 financial year with a profit after tax of 41,952 million which represented a 12.08% increase from last year when we recorded 37,429 million. Our result demonstrates that we performed well. It is our hope that as this trend is maintained and further improved upon and as a result, will increases our market share in the industry.

Balance Sheet

The balance sheet as at the year ended December 31, 2012 indicated a fixed assets net book value of N50.844 million, and a Deferred tax assets of N124.5 million, while the current assets is made up of other assets of N61.113 million and cash and short term funds of N421.0million.

Significant Development

During the year under review, FUG pension fund under management grew to N16.261billion, about 42% increase over 2011 financial year. This is also an improvement in relative terms compared to 2011 – total assets under management. However, it is our expectation that more improvement will be recorded in the subsequent years ahead as we continuously strengthen and enforce our marketing strategies.

Future Outlook

The Economy

Although there was a slowdown in the GDP growth rate in 2012, we expect the GDP growth rate to accelerate from 2013 on account of a number of positive factors in the economy:

- **Power Sector Reform:** The ongoing power sector reform in the country should lead to improved power generation and distribution. It is estimated that a stable power supply in Nigeria will reduce cost of doing business by more than 30%. This will encourage the growth of Small Scale Businesses in the country and at tract more large firms that can produce goods that will meet international standards at competitive cost.

- **Agricultural Sector Transformation:** The sector has attracted the attention of the Federal Government of Nigeria (FGN) and that of the Central Bank of Nigeria (CBN)/Bank of Industry (Boi). The FGN has announced a number of tax and import duty waivers and import substitution measures in order to boost productivity in the sector and develop other agro allied industries to improve the value chain in the sector. The Government also restructured and repositioned the Bank of Agriculture (BOA) to play a more significant role in funding the sector.

- **On-going and Planned Reforms in the Petroleum Sector:** The local content initiative of the FGN and the passage of the Petroleum Industry Bill (PIB) will create tremendous opportunities and investments in the oil sector, particularly in the upstream and midstream sectors.

- **Low Internet Usage in Nigeria:** The latest figure from the NBS put the internet usage in Nigeria at about 5%. This low internet penetration in the country in addition to the current CBN cashless Nigeria initiative will stimulate demand for internet usage in Nigeria. The anticipated demand will cause more investment in the data segment of the Information and Communication Technology (ICT) industry. Therefore, we are of the opinion that the sector still offers more opportunities for investments.

- **The Financial Inclusion Strategy of the CBN:** This initiative and the expected growth in other sectors of the economy which will require financing will be the major driving force of growth in the financial sector in 2013.

Stock Market

Changing regulations in the financial industry in 2012 meant that the uncertainty in the industry led to comparatively low returns. To some extent, we would expect this trend to continue until there is some stability in the industry. However, we would expect that as pension funds continue to grow and investments continue to be made, the market will rebound gradually in 2013 and beyond. This should be as a result of firming up of policies in the financial industry as well as the increased political and economic stability.

Pension Fund

The industry is currently at the growth stage with a lot of prospect in compliance level especially in the States. In the next few years, the industry will be characterized by the following trends:

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- Increased competition as more states join the scheme and PenCom opens the transfer window.
- More market growth, as more compames and employees are getting aware of the new scheme and its advantages.
- Contributors becoming more enlightened and demanding more value added serv1ces.
- More focus on service delivery in a bid to retain contributors given the implementation of the provision for change of PFA, as contained in the act
- Growth of the Nigerian economy with attendant growth in GDP and employment
- Consolidation by mergers acquisition and other form of business combination

In the midst of significant challenges ahead, our Company is positioned for a sustained growth and development in the year ahead. We shall continue to experience growth in all areas of our marketing and investment activities. Our systems and processes will continue to be fine-tuned for greater levels of efficiency and effectiveness. We shall harness our staff training and development in order to improve our penetration level in the industry.

Conclusion

In view of the foregoing, I hereby express the sincere appreciation of Management for the support and co-operation of all our stakeholders particularly our clients, shareholders and the regulator. I also thank our Board members for their continued support and contribution to all strategic management decisions and efforts undertaken during the year under review. Ultimately it is my great privilege to thank God for his abundant mercies for keeping us alive and well and also giving us the advancement we have experienced so far.

Thank you for your attention.

Usrnan B. Suleirnan
Managing Director/CEO