

ARM DISCOVERY FUND

Managed by

ARM INVESTMENT MANAGERS LIMITED

FINANCIAL STATEMENTS

For the year ended

31ST DECEMBER, 2018

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

For the year ended 31st December, 2018

Contents	Page(s)
Corporate information	1
Report of the trustee	2 – 4
Report of the fund manager	5 – 6
Report of the independent auditors	7 – 9
Statement of financial position	10
Statement of profit or loss and other comprehensive income	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	
1 General	
1.1 Reporting entity	14
1.2 Basis of preparation	14 – 15
2 New standards and interpretations not yet adopted	15 – 16
3 Significant accounting policies	17
3.1 Foreign currency transactions	17
3.2 Net gain/loss from financial instruments at fair value through profit or loss	17
3.3 Dividend income	17
3.4 Fees and other expenses	17
3.5 Taxation	17
3.6 Financial assets and liabilities	17 – 21
3.7 Cash and cash equivalents	21
3.8 Provisions	21 – 22
3.9 Contingencies	22
3.10 Unit holders balances	22
4 Risk management objectives	23 – 27
5 Critical accounting estimates and judgements	27 – 28
6 Financial assets and liabilities	28 – 29
7 Cash and cash equivalents	30
8 Investment property	30
9 Financial asset at fair values through profit or loss	30
10 Financial assets at amortised cost	30
11 Other receivables	31
12 Trade and other payables	31
13 Net asset per unit	31
14 Investment Income	31
15 Net loss from financial assets at fair value through profit or loss	31 – 32
16 Management fee and other expenses	32
17 Taxation	32
18 Related parties and other key contracts	33
Information not required under International Financial Reporting Standard:	
Statement of value added	34
Five year financial summary	35

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Corporate information

Trustee to the Fund

FBN Trustees Limited

Directors of the Fund Manager

Ms. Jumoke Ogundare (Managing Director)
Mr. Sadiq Mohammed
Dr. Adedoyin Salami
Mr. Abayomi Sanni

Registered Office of the Fund Manager

1 Mekunwen Road
Ikoyi
Lagos

Company Secretary and Legal Adviser

Mrs. Folashade Adeloye

Independent auditors to the Fund

Horwath Dafinone
Chartered Accountants

ARM Discovery Fund Head Office

68c Coker Road
Ilupeju
Lagos

Bankers

Access Bank Plc
Citibank (Nigeria) Limited
First Bank of Nigeria Limited
Guaranty Trust Bank Plc
United Bank for Africa Plc
Zenith Bank Plc

Custodian to the Fund

Citibank (Nigeria) Limited
27 Kofo Abayomi Street
Victoria Island
Lagos

E-mail address

discoveryfund@arm.com.ng

Website

www.armdiscoveryfund.com

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Trustee

The Trustee present their report on the affairs of the ARM Discovery Fund, together with the audited financial statements for the year ended 31st December, 2018.

Principal activity

The principal activity of the ARM Discovery Fund is the pooling of funds from individual members of the public and other entities, and the investment of such funds in quoted equity securities, real estate, fixed income and Money Market instruments as determined by the Fund Manager in accordance with the Trustee Investments Act, the Investments and Securities Act, and the Securities and Exchange Commission's Rules and Regulations, The Trust Deed and Supplemental Deeds thereto ("the Applicable Regulations").

Results

The results for the year are set out on Page 11.

Distribution

The Fund Manager in consultation with the Trustee did not propose dividend for the year (2017: Nil).

Directors

The directors of the Fund Manager who served on the board of the Fund Manager during the period under review were:

- Ms. Jumoke Ogundare (Managing Director)
- Mr. Sadiq Mohammed
- Dr. Adedoyin Salami (Appointed 10th July, 2018)
- Mr. Abayomi Sanni (Appointed 10th July, 2018)

Directors' and related parties interest in the units of the Fund

The Directors of the Fund Manager who held direct and indirect beneficial interest in the units of the Fund as at 31st December, 2017 are:

	Units held as at 31st December, 2018	Units held as at 31st December, 2017
Ms. J. Ogundare	8,219.67	8,219.67

None of the directors of FBN Trustees Limited has any direct or indirect beneficial interest in the units of the Fund.

Responsibilities of the Fund Manager

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper books of account and prepare annual financial statements which give a true and fair view of the state of affairs of the unit trust scheme during the period covered by the financial statements.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Trustee (continued)

Responsibilities of the Fund Manager (continued)

In preparing the financial statements, the Fund Manager:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- ensured that the applicable International Financial Reporting Standards have been followed, and in the case of any material departure, that it was fully disclosed and explained in the financial statements;
- prepared the financial statements on a going concern basis; since it was appropriate to assume that the Fund shall continue to exist.

The Fund Manager was responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the Fund and enable the Fund Manager to ensure that the financial statements comply with the Applicable Regulations.

The Fund Manager is also responsible for maintaining adequate financial resources to meet its commitments and to manage the risks to which the Fund is exposed.

Responsibilities of the Trustee

The responsibilities of the Trustee as provided by Securities and Exchange Commission, Rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring of the activities of the Fund Manager and the custodian on behalf of and in the interest of the Unit Holders;
- Ensuring that the Custodian takes into custody all of the scheme's assets and holds it in trust for the holders in accordance with the Trust Deed and the Custodial Agreement;
- Monitoring the register of Unitholders or contributors;
- Ascertaining the Fund Manager's compliance with the Applicable Regulations;
- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission;
- Taking all steps and executing all documents which are necessary to secure acquisitions or disposals properly made by the Fund Manager in accordance with the Trust Deed and Custodial Agreement;
- Exercising any right of voting conferred on it as the registered holder of any investment and/or forward to the fund manager within a reasonable time all notices of meetings, reports, circulars, proxy solicitations and any other document of a like nature for necessary action;

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Fund Manager

Responsibilities of the Trustee (continued)

- Ensuring that fees and expenses of the fund is within the prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the scheme

Administration of the Fund

During the year under review, the Fund did not adhere strictly to the Asset Allocation as provided in the Trust Deed. According to the Fund Manager, this was as a result of the increased volatility and illiquidity of the equity market and the unavailability of appropriately priced real estate properties. Apart from this breach, the Fund was administered in accordance with the Applicable Regulations, taking into cognizance prevailing market conditions as well as the need to preserve and minimize possible losses to Unit holders' funds during the year under review.

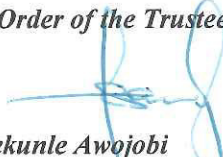
Charitable donations

The Fund did not make any charitable donations during the period (2017: nil).

Independent auditors

Messrs Crowe Dafinone (formerly Horwath Dafinone), the Fund's Auditors, have indicated their willingness to continue in office and shall do so in accordance with section 169(1) of the Investment and Securities Act 2007.

By Order of the Trustee



Adekunle Awojobi
FRC/ICAN/2013/00000002442
Managing Director
FBNQuest Trustees Limited
10 Keffi Street
Off Awolowo Road, Ikoyi
Lagos, Nigeria
3rd May, 2018

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Fund Manager

Global Economic Review

Coming into 2018, the troika of monetary policy normalization in US and UK, fading effect of accommodative monetary policy in Japan and EU, and the fallout of trade protectionism clouded the outlook for global GDP growth. Despite the concerns, global growth was expected to remain resilient with a thesis largely driven by expectation of stronger growth in emerging and developing countries (EMs) – premised on higher commodity prices and recovery in developing economies. The foregoing was expected to offset the impact of monetary policy normalization in developed economies (DMs). Expectedly, economic numbers over the first half of the year across the globe came out strong to settle at 3.4% YoY in Q1 and Q2, tracking higher relative to corresponding quarters of prior year by +50bps and +60bps respectively. The global growth was hinged on stronger than expected growth in EMs in Q1 18 and a swift recovery in DMs over Q2 18. That said, the global economy decelerated over the 2nd half of the year, following softness in crude oil prices amidst stiffened trade rhetoric which drove contraction in global trade and investment with global growth estimated to have contracted 20bps QoQ to 3.2% over Q3 18. Consequently, global GDP is projected to have stagnated at 3.7% over 2018 (FY 17: 3.7%) with support coming from strong growth at the start of the year. Particularly, growth in DMs is estimated to have decelerated by 10bps to 2.3% (2.4% in FY 17) while growth in EMs is estimated at 5.0% from 4.9% in FY 17. The slower growth in developed nations was driven by sluggish growth in personal consumption expenditure, fallout of trade rhetoric and currency induced contraction in external demand which have slowed growth in EU (2.0% vs 2.4% in FY 17), UK (1.4% vs 1.7% in FY 17) and Japan (1.7% vs 1.1% in FY 17) to more than outweigh the economic expansion in US (2.9% vs 2.2% in FY 17). For emerging nations, stronger growth was largely underpinned by the knock-on effect of higher commodity prices, improved global trade on consumer spending and stronger private capital investment which supported growth in Russia (1.7% vs 1.1% in FY 17), India (7.3% vs 6.7% in FY 17), Brazil (1.4% vs 1.0% in FY 17), and Sub-Saharan Africa (3.1% vs 2.7% in FY 17).

Domestic Economic Review

Following the recovery in 2017, Nigeria's economy gained momentum in 2018 on the back of strong growth in the non-oil sector – precisely agriculture and services – which offset slower growth in the oil sector, with IMF & World Bank's 2018 growth estimate printing at 1.9%. In terms of actual, economic expansion in the first nine-months of the year settled at 1.76% YoY relative to 0.3% YoY growth recorded in the corresponding period of 2017. Unlike in 2017, in which the rebound in oil sector supported growth, improved activities in the Services and Agriculture Sectors – both of which triggered expansion in the non-oil sector, were the drivers of growth. Looking at Inflation, the possible shocks to the CPI revolved mainly from currency shocks, possible increase in petrol (PMS) prices, a raise in electricity tariff and the introduction of a wage increase by the FG. On capital flows, the ecstasy that accompanied foreign investors' appetite for naira assets over 2017 until early 2018 appears to have faded. Importantly, after scaling to an apogee in Q1 18, capital flows into the country withered for two straight consecutive quarters hitting a 6-quarter low of \$2.9 billion in Q3 18. While it is expected that the naira would remain stable for most part of 2019 as the Apex bank sustains its market intervention, the intensity would reduce as accretion to the reserves would drop due to an expectation of lower oil receipts in the latter part of the year. Over 2019, an expansion in growth is expected as FX stability for most of the year and anticipated calmness in the polity post-election is expected to support growth in the economy. Basically, with oil production at 2.0mpd, nearing its peak of 2.3mbpd, economic growth will be largely hinged on the non-oil sector, wherein the need for investment friendly policies will be required to provide fresh impetus for sustained growth. In addition, absence of herdsman conflict, normalcy in the oil producing region, and relative stability in the FX market is expected to support growth in the agriculture, oil and manufacturing sector over 2019. Despite the stability in the naira and attractive valuation of the equity market and competitive local FI yields; foreign investors flow towards naira assets was soured largely due to rising US yields, change in sentiments towards emerging markets and concerns over the upcoming general elections.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Fund Manager (continued)

Fixed Income Strategy

Coming into second half of 2018, expectation for a tighter monetary policy by the CBN hinged on elevated liquidity profile and its reverberating effect on currency as well as ramp up in FG borrowings and tighter financial conditions in DMs came to the fore in delivering expectations for an expansion in naira yield curve over the period (+166bps to 15.13% in H2 2018). To buttress, despite dissipating headline inflation (11.24% in H2 18 vs 13.02% in H1 18), CBN left its anchor rate unchanged at 14%. In addition, the apex bank heightened its liquidity sterilization and raised OMO rates to their highest level in one year. Aside monetary influences, the uptrend in yields was in part fed by fiscal borrowings as FG borrowed ₦339.5 billion in the local market, with a large chunk of the borrowings coming from the bond segment of the market. Lastly, Nigeria's FI market buckled under pressures from the external front as interest rate hike by the US FED which culminated into higher US treasury yields (H2 18 avg: +14bps to 2.98%) drove wild sell off across Nigeria's FI market. From our analysis we pen down Foreign portfolio repatriation from Nigeria's Fixed income space to the tune of \$6.8 billion in H2 18 (vs \$3.8 billion in H1 18). Despite failing to sustain its assault on naira liquidity over H2 18 with tamer OMO sales (₦61.8 billion) in H2 18 (vs ₦597.4 billion in H1 18), monetary influences by the CBN still dominated naira yield curve trajectory at the short end of the curve. Specifically, after so much ado, CBN bowed to strain on both internal and external fronts and raised OMO rates multiple times (5 times) with the on-year closing the year at 15%. In terms of drivers, the pressure was in part driven by elevated liquidity levels over the period. For context, in a bid to rid the system of excess liquidity emanating from pent up maturity in the fixed income market (OMO: ₦8.8 trillion, NTB: ₦1.8 trillion) and higher FAAC (Federation Account Allocation Committee) disbursement (Avg FAAC disbursement: +15% to 753.1 billion in H2 18) the apex bank took a more defensive stance against the naira. Given elevated treasury yields in the US and concerns over political uncertainties ahead of general elections in February this year, FPI repatriation heightened in the second half of the year to \$6.8 billion in H2 18 vs \$3.8 billion in H1 18. This cascaded into plunge in FX reserves (-9% in H2 18 to \$43.1 billion) and a switch to a net outflow in H2 18 (-\$6.2 billion vs net inflow of \$763 million in H1 18) at the Importer & Exporter Window (IEW). Largely reflecting mounting pressures from the currency leg, CBN resumed special OMO auction where it sold Stabilization securities (STAB) worth ₦1.3 trillion in December 2018. Consequently, the pass through of tighter monetary policy by the apex bank, FPI repatriation and currency pressures resulted into higher yields at the short end of the curve (+174bps to 15% in H2 18). With regards to strategy, we will invest in near maturing instruments into short term instruments taking advantage of the attractive rates that we believe will be on offer in the coming months.

Equity Strategy

Among its peers the Nigerian Equity Market remains relatively cheap with a price to earnings ratio multiple of 9.2x compared to the Emerging Market Average of 13.8x. With bearish sentiment taking hold on the equity market over 2018, over 2019 we will continue to take advantage of lower prices to position in securities with sound fundamentals, corporate governance and positive earnings growth prospects. Moderation in herdsman conflict, sustained peace in the Niger-Delta region, stable oil prices relative stability in the FX market, sufficient reserves and relative calmness post-elections is expected to support investor's appetite for Nigerian assets in 2019.

Discovery Fund Performance

The Discovery Fund returned -5.49% in the 12 months ended December 2018.

***REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF
ARM DISCOVERY FUND (MANAGED BY ARM INVESTMENT MANAGERS LIMITED)***

Opinion

We have audited the financial statements of ARM Discovery Fund which comprises, the statement of financial position as at 31st December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, the significant accounting policies, other explanatory notes, the statement of value added and the five year financial summary. These financial statements are set out on pages 10 to 37 and have been prepared using the significant accounting policies set out on page 18 to 24.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December, 2018 and of its financial performance and its cash flows for the year ended on that date, and comply with the applicable International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act No. 6, 2011, the Trustee Investment Act, CAP T22 LFN 2004, the Investment and Securities Act, 2007 and the Provision of the Trust Deed.

Basis of our opinion

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Information other than the financial statements and auditors' report

The fund manager's report and other information contained therein are the responsibility of management. Our opinion does not cover these reports and accordingly we do not express any form of assurance conclusion thereon. It is our responsibility to read the other information and in doing so, consider whether the information is materially inconsistent with the financial statements or with the knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work we conclude that there is material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

***REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF
ARM DISCOVERY FUND (MANAGED BY ARM INVESTMENT MANAGERS LIMITED)
(continued)***

Independence

We are independent of the company in accordance with International Ethics Standards Board for Accountants' code of ethics for Professional Accountants (IESBA CODE). We have fulfilled our ethical responsibility in accordance with the IESBA code.

Responsibilities of the Fund Managers and those charged with governance for the financial statements

The fund managers are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act No. 6, 2011, the Trustee Investment Act, CAP T22 LFN 2004, the Investment and Securities Act, 2007 and the Provision of the Trust Deed and any Supplemental Deeds. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the fund manager is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error and to issue an auditor's report that include our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of significant accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

*REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF
ARM DISCOVERY FUND (MANAGED BY ARM INVESTMENT MANAGERS LIMITED)
(continued)*

Auditors' responsibilities for the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in the manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


From the matters communicated with those charged with governance, we determine those matters that were most significant in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with Section 169 (1) of the Investments and Securities Act 2007, we confirm that the financial statements are in agreement with the accounting records, which have been properly kept.

In accordance with Section 169(3) of the Investments and Securities Act 2007, we confirm that the fund has been operated within the provisions of the Act.

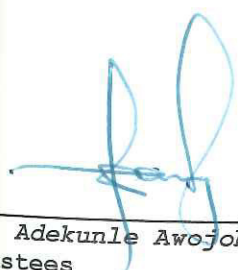
Lagos, Nigeria
3rd May, 2019



Omolola Samuel
Engagement Partner
FRC/2012/ICAN/00000000358
For: Crowe Dafinone
(Formerly Horwath Dafinone)
Chartered Accountants



ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Statement of financial position as at 31st December, 2018**

	Notes	2018 N '000	2017 N '000
Non-current assets			
Investment property	8	52,000	52,000
Current assets			
Financial assets at fair value through profit or loss	9	2,316,132	2,887,684
Financial assets at amortised cost	10	1,631,016	1,861,922
Other receivables	11	43,441	37,068
Cash and cash equivalents	7	121,767	30,845
Total assets		4,164,356	4,869,519
Current liabilities			
Trade and other payables	12	(154,270)	(257,946)
Net assets		4,010,086	4,611,573
Financed by:			
Members' Funds		4,010,086	4,611,573
Net asset per unit	13	342.28	394.67


 Mr. Adekunle Awojobi
 Trustees
 FRC/2013/ICAN/00000002442


 Ms. Jumoke Ogundare
 Fund Manager
 FRC/2013/IODN/00000003767

3rd May, 2019

The statement of the significant accounting policies and notes to the financial statements set out on pages 14 to 35 form an integral part of these financial statements.

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Statement of profit or loss and other comprehensive income for the year ended 31st December, 2018**

	Notes	2018 ₹ '000	2017 ₹ '000
Income			
Investment income	14	401,004	447,939
(Loss)/gain from security trading	15	(2,377)	77,966
Fair value (loss)/gain on financial assets through profit or loss	15	(525,778)	860,565
Fair value loss on investment property	8	-	(1,000)
(Loss)/profit from investing activities		(127,151)	1,385,470
Other income		-	-
(Loss)/profit for the year		(127,151)	1,385,470
Expenses			
Management fee and other expenses	16	(120,002)	(195,181)
(Loss)/profit before taxation		(247,153)	1,190,289
Taxation	17	(19,373)	(14,448)
(Loss)/profit for the year		(266,526)	1,175,841
Other comprehensive income		-	-
Total comprehensive (loss)/profit for the year		(266,526) =====	1,175,841 =====
Basic loss/earnings per unit		(22.75) =====	100.63 =====

The statement of the significant accounting policies and notes to the financial statements set out on pages 14 to 35 form an integral part of these financial statements.

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Statement of changes in equity for the year ended 31st December, 2018**

	Unit holder capital balances 2018 ₹ '000	Unit holder capital balances 2017 ₹ '000
As at 1st January, 2018	4,611,573	4,123,528
Total comprehensive income for the year:	(266,526)	1,175,841
	<hr/> 4,345,047 <hr/>	<hr/> 5,299,369 <hr/>
Transactions with unit holders:		
Additional units purchased	203,466	178,903
Units liquidated	(538,427)	(866,699)
Distributions paid as dividend	-	-
	<hr/>	<hr/>
Net transactions with unit holders	(334,961)	(687,796)
	<hr/>	<hr/>
Members' funds at 31st December, 2018	4,010,086 =====	4,611,573 =====

The statement of the significant accounting policies and notes to the financial statements set out on pages 14 to 35 form an integral part of these financial statements.

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Statement of cash flows for the year ended 31st December, 2018**

	Notes	2018 ₹ '000	2017 ₹ '000
Cash flows from operating activities			
(Loss)/profit before taxation		(247,153)	1,190,289
Adjustments for:			
Fair value loss/(gains) on investment	9,15	525,778	(860,565)
Loss/(gains) on sale of financial assets at fair value through profit or loss	15	2,377	(77,966)
Fair value loss on investment property	8	-	1,000
Allowance for doubtful receivables	11	19,955	-
Changes in working capital		300,957	252,758
(Increase)/decrease in other receivables	11	(26,328)	561
(Decrease)/increase in trade and other payables	12	(103,676)	229,201
Cash generated from operations		170,953	482,520
Tax paid	17	(19,373)	(14,448)
Net cash inflow from operating activities		151,580	468,072
Cash flows from investing activities			
Proceed from sale of quoted securities	15.1	1,656,283	1,664,928
Movement in financial assets at amortised cost	10	230,906	(107,394)
Purchase of quoted securities	9	(1,612,886)	(1,446,166)
Net cash inflow from investing activities		274,303	111,368
Cash flows from financing activities			
Net proceeds from sale of unit		(334,961)	(687,796)
Distributions to holders of redeemable units		-	-
Net cash outflow from financing activities		(334,961)	(687,796)
Net increase/(decrease) in cash and cash equivalent		90,922	(108,356)
Cash and cash equivalents at the beginning of the year		30,845	139,201
Cash and cash equivalents at the end of the year	7	121,767	30,845

The statement of the significant accounting policies and notes to the financial statements set out on pages 14 to 35 form an integral part of these financial statements.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018

1. General

1.1 Reporting entity

ARM Discovery Fund (“the Fund”) is an open-ended Unit Trust Scheme authorised and registered by the Securities and Exchange Commission. The Fund was established by Assets & Resources Management Company Limited now ARM Investment Managers Limited as a private investment fund under a trust deed dated 21st October 2007. The Fund’s principal office is located at ARM Investment Managers Limited 1, Mekunwen Road, Off Oyinkan Abayomi Drive, Ikoyi, Lagos.

The Fund is primarily involved in investments in well-diversified portfolio comprising of high quality equities listed on the Nigerian Stock Exchange,

The Fund is managed by ARM Investment Managers Limited (“the Fund Manager”) and the trustee to the Fund is FBN Trustees Limited (“the Trustees”).

1.2 Basis of preparation

1.2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (“IASB”) in the manner required by the Financial Reporting Council of Nigeria Act No. 6, 2011.

The financial statements were authorised for issue by the Trustees and Fund Manager on 3rd May, 2019.

1.2.2 Functional and presentation currency

These financial statements are presented in Nigerian Naira, which is the Fund’s functional currency.

1.2.3 Basis of measurement

These financial statements are prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Financial assets and liabilities measured at amortised cost.
- Financial instruments at fair value through other comprehensive income.

1.2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

1.2 Basis of preparation (continued)

1.2.4 Use of estimates and judgments (continued)

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments are discussed in note 5.

2 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended 31st December, 2018, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Fund, with the possible exception of the following:

2 New standards and interpretations not yet adopted (continued)

IFRS Reference	Title and Affected Standard(s)	Nature of change	Application date	Impact on initial Application
IFRS 16	Leases	<p>The standards set out the principle for the recognition, measurement, presentation and disclosure of leases for both parties to be contract i.e. the customers (leasee) and the supplier ('lessor') IFRS 16 eliminates the classification of leases as refund by IAS 17 and introduces a single lease accounting model. Applying that model, a lease is required to recongise:</p> <ul style="list-style-type: none">• assets and liability for leases with a term of more than 12 months, unless the underlying assets is of low value.• depreciation of lease assess separately from interest on lease liability in profit or loss for the lessor, IFRS 16 substantially carrying forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases and to account for these two type of leases differently	1 January 2019	The Fund Manager is currently in the process of assessing the impact that the initial application would have on its business standards for the year ending 31 st December, 2019.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

2 New standards and interpretations not yet adopted (continued)

Pronouncement	Nature of change	Effective date
<i>IFRS 17 Insurance Contracts</i>	<p>IFRS 17 was issued in May 2017 as replacement for IFRS 4 <i>Insurance Contracts</i>. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none">• discounted probability-weighted cash flows• an explicit risk adjustment, and• a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policy holders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features</p>	1 January 2021

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies

The significant accounting policies set out below have been consistently applied to years presented in these financial statements.

3.1 Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Naira at the rate of exchange ruling at the date of each transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the balance sheet date, the resulting foreign exchange gain is recognised in the income statement while those on non-monetary items are recognised in other comprehensive income.

3.2 Net gain/loss from financial instruments at fair value through profit or loss

Net gain/loss from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes finance and dividend income.

3.3 Dividend income

Dividend income is recognised when the right to receive income is established. Dividend income from equity securities designated at fair value through profit or loss and available-for-sale is recognised in the “dividend income” line in the statement of comprehensive income.

3.4 Fees and other expenses

Fees and other expenses are recognised in the statement of comprehensive income on an accrual basis.

3.5 Taxation

Dividend income and income from loans and receivables received by the Fund is subject to withholding tax. Dividend income and income from financing and investing are therefore recorded gross of such taxes and the corresponding withholding tax is recognised as tax expense.

3.6 Financial assets and liabilities

(i) Recognition

The Fund classifies its financial instruments based on the following categories: at fair value through profit and loss, at fair value through other comprehensive income and financial assets at amortised cost.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies (continued)

3.6 Financial assets and liabilities (continued)

(i) Recognition

Management determines the classification at initial recognition. All financial instruments are initially recognised at fair value, which includes transaction costs for financial instruments not classified as at fair value through profit or loss. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or where the Fund has transferred substantially all risks and rewards of ownership.

(ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value through profit or loss, at fair value through other comprehensive income or financial assets at amortised cost, depending on their classification:

(a) Financial assets at amortised cost

Held-to-maturity investments are non-derivative financial assets with fixed determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss. Financial assets at amortised cost investments are carried at amortised cost, using the effective return method, less any provisions for impairment.

(b) Financial assets held at fair value through profit or loss

Financial assets may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different basis; or
- A group of financial assets is managed and its performance evaluated on a fair value basis.

Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes therein are recognised in profit or loss in 'trading income' for trading assets.

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in net trading income. Trading assets are not reclassified subsequent to their initial recognition.

(iii) Fair value measurement

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies (continued)

3.6 Financial assets and liabilities (continued)

(iii) Fair value measurement

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the reporting date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

(iv) Impairment of financial assets

(a) Assets carried at amortised cost

The Fund assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired may include; default or delinquency by a debtor, restructuring of a financing account or advance by the Fund on terms that the Fund would not otherwise consider, indications that a customer or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of customers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies (continued)

3.6 Financial assets and liabilities (continued)

(iv) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Fund's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

In assessing collective impairment, the Fund uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested benchmarked against actual outcomes to ensure that they remain appropriate.

If there is objective evidence that an impairment loss on receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective return rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Finance income on the impaired asset continues to be recognised through the unwinding of the discount. The carrying amount of the asset is reduced through the use of an allowance account.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a receivable is irrecoverable, it is written off against the related allowance for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for impairment in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies (continued)

3.6 Financial assets and liabilities (continued)

b) Offsetting financial instrument

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

c) Derecognition of financial instruments

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Fund enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. In transactions where the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is provable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

3. Significant accounting policies (continued)

3.8 Provisions (continued)

A provision for restructuring is recognised when the Fund has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Fund from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract. Before a provision is established, the Fund recognises any impairment loss on the assets associated with that contract.

3.9 Contingencies

(i) Contingent asset

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent assets is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not a contingent and its recognition is appropriate. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

(ii) Contingent liability

Contingent liability is a possible obligation that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

3.10 Unit holders balances

Unit holder balances are redeemable on demand at an amount equal to a proportionate share of the unit portfolio's net asset value. The balances are carried at the redemption amount that is payable at the balance sheet date if the holder exercised their right to redeem the balances. The Fund's redeemable units meet these conditions and are classified as equity.

All transactions relating to the issue and redemption of redeemable units as well as distributions to holders of redeemable units are recognised in equity.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

4. Risk management objectives

In an attempt to achieve its aim of generating optimal return for fund holders, the Fund participates in risk-taking activities such as investments in the equities, fixed income securities and real estate. These activities expose the Fund to risks such as:

- **Market and Investment risk**
- **Liquidity risk**
- **Counterparty credit risk**
- **Compliance risk**
- **Operational risk**
- **Property risk**

The Fund Manager adopts a holistic Enterprise Risk Management (ERM) framework that considers all risk exposures from a comprehensive and integrated standpoint. The ultimate goal is to ensure efficient risk/return decision-making, reduce volatility in fund performance, improve operational efficiency as well as the quality of service delivery and ensure that the fund's risk profile is transparent to all relevant stakeholders.

This holistic ERM Framework is implemented by the Fund Manager's independent risk management function who oversees risk exposure across the ARM Group. The Group Risk Management function works closely with front and back-office personnel to address identified issues in a timely manner. In addition, the importance of risk management is stressed through periodic group-wide risk awareness activities, and a zero tolerance for violations of risk management guidelines.

The Fund's Investment Committee has ultimate responsibility for Risk Management oversight, playing an important role in defining and reviewing overall risk appetite; and in approving policies and methodologies. The Committee receives quarterly reports of the Fund strategies, performance and Risk Management, and to set operational strategy for the succeeding quarter. In addition, the executive management of the Fund Manager is responsible for providing oversight over development and implementation of risk management policies.

4.1 Market and Investment risk

Market risk is the risk of loss occurring as a result of unfavourable changes in market rates, such as foreign exchange rates, interest rates, equity prices, commodity prices, and implied volatilities of the market rates.

The Fund is exposed to market and investment risk through its investment activities, which is carried out in accordance with approved investment guidelines and within strategic asset allocation as contained in the trust deed. Adherence to these guidelines is monitored by the Risk Management team who immediately notify the portfolio managers of identified exceptions.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

4. Risk management objectives (continued)

4.1.1 Equity price risk

Equity price risk is the risk of loss to the fund as a result of unfavourable changes in the prices of equities. The Fund is significantly exposed to equity price risk from its investments in equities listed on the Nigerian Stock Exchange. In Managing this risk and to minimise concentration risk, a single exposure limits which define the maximum allowable exposure to any individual stock has been applied to the Fund. Also, the Investment Committee has set a maximum allowable total exposure limit of the Fund to equity, a limit which the Fund manager has to operate within.

Equity positions held by the fund have been presented at fair value and stands at ₦ 2,316,132,836 (2017: ₦ 2,887,683,979)

4.1.2 Foreign exchange risk

The Fund is not exposed to foreign exchange risk, as all transactions are carried out in the domestic currency, the Nigerian Naira.

4.2 Interest rate risk

Interest rate risk is the risk of loss of interest income arising from changes in interest rates. Interest rate exposure is generated from the Fund's investments in interest-sensitive securities such as bonds, treasury bills and placements with financial institutions, most of which are fixed rate instruments.

The Fund's exposure to interest rate risk is seen in its holdings in financial assets at amortised cost as shown below.

	2018	2017
	₦ '000	₦ '000
Financial assets at amortised cost	1,631,016	1,861,922
Cash & cash equivalents*	121,767	30,845
Exposure to interest rate risk	<u>1,752,783</u>	<u>1,892,767</u>

* Cash & cash equivalents are held in interest bearing accounts.

4.3 Liquidity risk

Liquidity risk is the risk that the Fund will be unable to efficiently meet its financial obligations as they fall due and without adversely affecting realisable amount on the Fund's assets. *The Fund is exposed to daily cash redemptions of redeemable units.*

Liquidity risk is managed on a daily basis by the Portfolio Manager. In order to meet client redemption requests, asset allocations are carefully and appropriately structured to ensure that the Fund is liquid at all times and that it has sufficient liquid assets that can be converted to cash immediately without any loss in Fund value when the need arises. To achieve this, the Fund invests highly liquid assets such as treasury bills and placement with financial institutions. The fund also retains a portion of its assets in call accounts to meet client redemption requests in a timely manner without having to liquidate other assets.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

4. Risk management objectives (continued)

The table below shows the Funds' investments in cash and near cash equivalents at 31st Dec 2018 and 31st Dec 2017.

	2018 ₹ '000	2017 ₹ '000
Financial assets at amortised cost	1,631,016	1,861,922
Cash & bank balances	28,095	30,845
Call deposits	93,672	-
Cash and cash equivalents	1,752,783	1,892,767
Current liabilities	(154,270)	(257,946)
Net investments in cash and near cash equivalents net of payables	1,598,513 =====	1,634,821 =====

The table below shows redemption history over the past two years and Members' Funds which are redeemable without prior notice.

	2018 ₹ '000	2017 ₹ '000
Members' Funds	4,009,725	4,611,573
Total client redemptions during the year	538,427	866,699

4.4 Credit risk

Credit risk is the risk of loss arising from counterparty's inability or unwillingness to fulfil contractual obligations to the Fund. Credit risk arises from the Fund's placements with financial institutions, and investments in debt securities such as treasury bills and bonds.

The Fund Manager has in place a Counterparty Policy that guides portfolio managers' counterparty selection process. This policy states acceptable credit ratings for counterparties, and limits maximum exposure to each of the counterparties. The Policy also stipulates a counterparty selection process that includes a periodic assessment of each of the counterparty's financial position and available market information, to ascertain that these institutions are of sound financial health.

The Fund's maximum exposure to credit risk as at 31st December, 2018 and 31st December, 2017 are shown in the table below:

Analysis of credit risk exposure by counterparty:

	2018 ₹ '000	2017 ₹ '000
Government securities	1,304,354	1,717,149
Placements with financial institutions	326,662	144,773
Cash & call account balances	121,767	30,845
Other receivables	43,441	37,068
	1,796,224 =====	1,929,835 =====

None of the balances were past due or impaired as at 31st December, 2018.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

4. Risk management objectives (continued)

4.5 Compliance risk

Compliance risk is the risk of loss arising from violations of, or non-conformance with laws, rules, regulations, prescribed practices, internal policies and procedures or ethical standards. The Fund Manager operates strictly within the fund's risk profile as stipulated in the Trust Deed, and has a dedicated compliance unit and a registered Compliance Officer, who ensures strict adherence to regulatory requirements and internal investment guidelines. In addition, regulatory returns and disclosures are made as and when due.

The Fund Manager's Compliance unit maintains a Regulatory Rule Library that contains key regulations pertaining to the Fund. The Rule Library enables easy monitoring of regulatory requirements; and helps prevent violations and/or non-conformance. This Rule Library is updated as new relevant legislations are released.

The Fund Manager has also implemented a robust Anti-Money Laundering policy and Know Your Customer (KYC) procedures that help prevent the use of the Fund, the financial system and/or any of its resources for legalization of proceeds from illicit activities.

4.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems and external events.

The Fund Manager manages operational risk using a well-established control framework, and tools such as Risk and Control Self Assessment (RCSA) workshops, Internal Loss Data Collection (LDC), Issues Management and Whistleblowing. The Fund Manager uses a bespoke system; the OpRisk Manager and other excel based templates for collecting, managing, monitoring and reporting operational risks.

Operational risk loss events are escalated and managed using a four level escalation matrix depending on the amount of loss that may occur.

The ultimate aim of the Fund Manager's operational risk management activities is to improve operational efficiency as well as the quality of its service delivery to investors through:

- Improved processes and operational guidelines
- Minimising occurrence of avoidable risk events
- Creating group-wide risk awareness that guides behaviours and creates a careful approach to transaction handling and execution

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

4. Risk management objectives (continued)

Information obtained from operational risk management tools mentioned above helps the Fund Managers to make informed decisions that invariably ameliorate impact of operational risk exposures.

5. Critical accounting estimates and judgements in applying the Fund's accounting policies

(i) Valuation of financial instruments

The Fund's significant accounting policy on fair value measurements is discussed in note 3.6 (iii).

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Fund, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

5. Critical accounting estimates and judgements in applying the Fund's accounting policies (continued)

(i) Valuation of financial instruments (continued)

The table below analyses financial instruments measured at fair value into the fair value hierarchy at the end of the year.

31 st December 2018	Note	Level 1 N '000	Level 2 N	Level 3 N	Total N '000
Financial assets at fair value through profit or loss	9	2,316,132 =====	- =====	- =====	2,316,132 =====
31 st December 2017	Note	Level 1 N '000	Level 2 N	Level 3 N	Total N '000
Financial assets at fair value through profit or loss	9	2,887,684 =====	- =====	- =====	2,887,684 =====

6. Financial assets and liabilities

The fair value of the Fund's financial instruments such as cash and cash equivalents, other receivables and uninvested fund deposits are not materially sensitive to shifts in market return rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values of other financial instruments are based on the following methodologies and assumptions:

Financial assets at fair value through profit or loss and available-for-sale. The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

Accounting classification, measurement basis and fair value.

The table below sets out the Fund's classification of each class of financial assets and liabilities, and their fair values.

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

6. Financial assets and liabilities (continued)

31 st December 2018	Note	FVTPL N '000	Financial assets at amortised cost N '000	Other financial liabilities N '000	Total carrying amount N '000	Fair value N '000
Investment property	8	52,000	-	-	52,000	52,000
Trading securities	9	2,316,132	-	-	2,316,132	2,316,132
Financial assets at amortised cost	10	-	1,631,016	-	1,631,016	1,631,016
Other receivables	11	-	43,441	-	43,441	43,441
Cash & cash equivalents	7	-	121,767	-	121,767	121,767
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		2,368,132	1,796,224	-	4,164,356	4,164,356
Trade and other payables	12	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		-	-	154,270	154,270	154,270
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		-	-	154,270	154,270	154,270
		=====	=====	=====	=====	=====
31 st December 2017	Note	FVTPL N '000	Financial assets at amortised cost N '000	Other financial liabilities N '000	Total carrying amount N '000	Fair value N '000
Investment property	8	53,000	-	-	53,000	53,000
Trading securities	9	2,887,684	-	-	2,887,684	2,887,684
Financial assets at amortised cost	10	-	1,861,922	-	1,861,922	1,861,922
Other receivables	11	-	37,068	-	37,068	37,068
Cash & cash equivalents	7	-	30,845	-	30,845	30,845
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		2,940,684	1,929,835	-	4,870,519	4,870,519
Trade and other payables	12	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		-	-	257,946	257,946	257,946
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		-	-	257,946	257,946	257,946
		=====	=====	=====	=====	=====

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Notes to the financial statements for the year ended 31st December, 2018 (continued)**

	2018 ₦ '000	2017 ₦ '000
7. Cash and cash equivalents		
Bank balances	28,095	30,845
☒ Call deposits*	93,672	-
	<hr/>	<hr/>
	121,767	30,845
	=====	=====
8. Investment property		
As at 1 st January,	52,000	53,000
Fair value loss	-	(1,000)
	<hr/>	<hr/>
As at 31 st December,	52,000	52,000
	=====	=====
The company's investment property at No. 8 Rasheed Alaba-William Street, off Admiralty Road, Lekki Phase 1 Lagos, was revalued by Messrs Ubosieleh and Company Estate Surveyors & Valuers on a market value basis as at 20 th March, 2018.		
	2018 ₦ '000	2017 ₦ '000
9. Financial assets at fair value through profit or loss		
Equity securities	2,887,684	2,167,915
Purchases	1,612,886	1,446,166
Disposal (note 15.1)	(1,658,660)	(1,586,962)
	<hr/>	<hr/>
Investments as at the end	2,841,910	2,027,119
Fair value (loss)/gain in the year	(525,778)	860,565
	<hr/>	<hr/>
Equity at fair value as at 31 st December	2,316,132	2,887,684
	=====	=====
10. Financial assets at amortised cost		
Government bonds	717,877	794,037
Treasury bills	586,477	923,113
	<hr/>	<hr/>
	1,304,354	1,717,150
	<hr/>	<hr/>
Placement with financial institutions	326,662	144,772
	<hr/>	<hr/>
	1,631,016	1,861,922
	=====	=====

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Notes to the financial statements for the year ended 31st December, 2018 (continued)**

	2018 ₹ '000	2017 ₹ '000
11. Other receivables		
Dividend receivable	43,441	14,449
Rental income receivable*	4,046	4,046
Due from ARM Properties Plc*	15,909	15,909
Sales awaiting settlement	-	2,664
	-----	-----
	63,396	37,068
*Provision for doubtful receivables	(19,955)	-
	-----	-----
	43,441	37,068
	=====	=====
12. Trade and other payables		
Purchases awaiting settlement	-	33,296
Redemption payable	130,099	87,279
Management fee payable	8,382	18,457
Custodian fee payable	7,027	6,981
Trustee fee payable	4,503	1,777
Accruals and other payables	4,259	4,259
Incentive fees	-	105,897
	-----	-----
	154,270	257,946
	=====	=====
13. Net asset per unit		
The net asset per unit is computed using the net assets value as at the statement of financial position date divided by 11,715,846.41 units (2017: 11,684,581.31 units) in existence as at year end.		
	2018 ₹ '000	2017 ₹ '000
14. Investment income		
Interest income	207,274	303,464
Gross dividend income	193,730	144,475
	-----	-----
	401,004	447,939
	=====	=====
15. Net (loss)/gain from financial assets at fair value through profit or loss		
(Loss)/gain from security trading (note 15.1)	(2,377)	77,966
Fair value (loss)/gain on investment at fair value through profit or loss (note 15.2)	(525,778)	860,565
	-----	-----
	(528,155)	938,531
	=====	=====

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Notes to the financial statements for the year ended 31st December, 2018 (continued)**

	2018 ₦ '000	2017 ₦ '000
15.1 (Loss)/gain from security trading		
Proceeds	1,656,283	1,664,928
Cost (note 9)	(1,658,660)	(1,586,962)
	<hr/>	<hr/>
	(2,377)	77,966
	=====	=====
15.2 Fair value gain/loss on investments at fair value through profit or loss		
As at 1 st January	809,705	(50,860)
Fair value (loss)/gain in the year (note 15)	(525,778)	860,565
	<hr/>	<hr/>
As at 31 st December	283,927	809,705
	=====	=====
16. Management fee and other expenses		
Custodian fee	3,552	4,694
Registrar fee	8,686	-
Trustees fees	8,159	7,725
Audit fees	4,400	3,960
Fund management fee	69,934	66,210
Other expenses	1,043	3,612
Advertising and publicity expenses	4,273	3,084
Incentive fee	-	105,896
Provision for doubtful receivables	19,955	-
	<hr/>	<hr/>
	120,002	195,181
	=====	=====

17. Taxation

The Fund is exempted from paying income taxes under the current system of taxation in Nigeria.

However, certain dividend incomes received by the Fund are subject to withholding tax imposed in Nigeria. During the year, the average withholding tax rate suffered by the Fund was 10 percent (2017: 10 percent).

ARM DISCOVERY FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Notes to the financial statements for the year ended 31st December, 2018 (continued)

18. Related parties and other key contracts

(a) Related parties

Fund Manager

The Fund appointed ARM INVESTMENT MANAGERS LIMITED, an investment management Company incorporated in Nigeria, to implement the investment strategy as specified in the prospectus and the Fund's Trust Deed. Under the Trust Deed, the Fund Manager is entitled to:

- (i) Management fee at an annual rate of 1.5 percent of the Net Assets Value (NAV) attributable to holders of redeemable units on each day. The Fund manager has charged a management fee of ₦ 69.9 million (2017: ₦ 66.2 million).
- (ii) An incentive fee not exceeding 30 percent of the total return in excess of 10 percent of Fund's Net Asset Value per annum. The fund manager did not charge incentive fee during the year (2017: ₦ 105.9 million).

(b) Other key contracts

Trustee

The Fund appointed FBN Trustees Limited, a trusteeship company in Nigeria, to provide administrative services to the Fund. Under the Fund Trust Deed, the Trustee is entitled to a fee at an annual rate of 0.175 percent of the Net Assets Value attributable to holders of redeemable units on each valuation day. The Trustee charged ₦ 8.16 million (2017: ₦ 7.73 million) for the year and the amount payable as at 31st December, 2018 was ₦ 4.50 million (2017: ₦ 1.78 million).

Custodian to the Fund

The Fund engaged the service of Citibank (Nigeria) Limited to provide custodian services for a fee. The fee is charged on 0.08% on the equity/fixed income securities. The custodian charged ₦ 3.55 million (2017: ₦ 4.69 million) for the year and the amount payable as at 31st December, 2017 was ₦ 7.03 million (2017: ₦ 6.98 million).

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Statement of value added for the year ended 31st December, 2018**

	2018		2017	
	₹ '000	%	₹ '000	%
Total revenue	401,004		1,386,470	
	<hr/>		<hr/>	
	401,004		1,386,470	
Bought in services:	(648,157)		(196,186)	
Value (lost)/added	(247,153)	(100)	1,190,289	100
	<hr/>	<hr/>	<hr/>	<hr/>
	=====	===	=====	===
To pay providers of capital:				
Dividend payment	-		-	
To pay government				
Taxation	19,373	8	14,448	1
Retained for future replacement of assets and expansion of business:				
(Loss)/profit for the year	(266,526)	(108)	1,175,841	99
	<hr/>	<hr/>	<hr/>	<hr/>
	(247,153)	(100)	1,190,289	100
	<hr/>	<hr/>	<hr/>	<hr/>
	=====	===	=====	===

Value added represents the additional wealth which the fund has been able to create through the effort of the Fund Managers, and other parties to the fund. The statement shows the allocation of the wealth between the unit holders and the governments, and that retained for the future creation of more wealth

ARM DISCOVERY FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Five year financial summary**

	2018 N' 000	2017 N' 000	2016 N' 000	2015 N' 000	2014 N' 000
Assets					
Investment property	52,000	52,000	53,000	53,000	257,000
Financial assets at fair value through profit or loss	2,316,132	2,887,684	2,167,915	2,032,822	2,582,992
Financial assets at amortised cost	1,631,016	1,861,922	1,754,528	1,871,118	1,466,969
Other receivables	43,441	37,068	37,629	98,089	5,266
Cash and cash equivalents	121,767	30,845	139,201	196,618	235,999
	4,164,356	4,869,519	4,152,273	4,251,647	4,548,226
Liabilities					
Trade and other payables	(154,270)	(257,946)	(28,745)	(28,948)	(36,608)
Net assets	4,010,086	4,611,573	4,123,528	4,222,699	4,511,618
Equity					
Members' capital	4,010,086	4,611,573	4,123,528	4,222,699	4,511,618
Statement of profit or loss					
Investment income	401,004	447,939	365,139	415,074	398,422
(Loss)/profit before taxation	(247,153)	1,190,289	185,760	(112,918)	(522,199)
(Loss)/profit after taxation	(266,526)	1,175,841	172,674	(124,697)	(538,189)
Net assets per unit	342.28	394.66	303.01	273.19	291.52
Basic (loss)/earnings per unit	(22.75)	100.63	12.69	(8.07)	(34.78)

Basic (loss)/earnings per unit is calculated by dividing the (loss)/profit attributable to unit holders of the company by the weighted average number of funds outstanding at the end of the reporting period.

Net assets per unit is calculated by dividing net assets of the company by the weighted average number of funds outstanding at the end of the reporting period.