# THE CORAL GROWTH FUND

# ANNUAL REPORT AND FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2018

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## PARTIES TO THE FUND

**Trustees**
UBA Trustees Limited
UBA House (12th Floor)
57 Marina
Lagos

**Fund Manager**
FSDH Asset Management Limited
8th Floor
1/5 Odunlami Street
Lagos Island
P. M. B. 12913, Lagos
Telephone: (01) 2704884-5

**Registrars**
United Securities Limited
10 Amodu Ojikutu Street
Victoria Island
Lagos

**Custodian**
Stanbic Nominees Nigeria Limited
IBTC Place
Walter Carrington Crescent
Victoria Island
Lagos

**Bankers**
Stanbic IBTC Bank Plc
IBTC Place
Walter Carrington Crescent
Victoria Island
Lagos

**Auditors**
PricewaterhouseCoopers
(Chartered Accountants)
Landmark Towers,
5b Water Corporation Road
Victoria Island
Lagos.

# CORAL GROWTH FUND

**TRUSTEE'S REPORT FOR THE YEAR ENDED 31 DECEMBER, 2018**

The Trustee present their Report on the affairs of the Coral Growth Fund (CGF) together with the Auditor's Report and the Financial Statements for the Year ended December 31, 2018.

**Principal Activities and Business Review:**

The CGF is an actively managed, open-ended Fund that invests in large capitalisation equities and debt securities quoted on The Nigerian Stock Exchange as well as in investment grade fixed-income securities.

The CGF was established on February 01, 2001 initially as a Private Fund and has since been registered by the Securities & Exchange Commission as a Unit Trust Scheme in Nigeria on January 10, 2005. The CGF was initially managed by a business unit within First Securities Discount House Limited (**FSDH**), which was incorporated as a wholly owned subsidiary of FSDH in 2003 and called FSDH Asset Management Limited (**FAML**). FAML has been the Manager and Administrator of the CGF since November, 2003.

The CGF is listed by memorandum on the Floor of the Nigerian Stock Exchange and in line with international best practice and the assets of the CGF are totally segregated from the assets of the Manager.

**Operating result**

The Fund's operating result for the year is as follows:

| | **Dec. 2018** | **Dec. 2017** |
|---|---|---|
| | ₦ '000 | ₦ '000 |
| Profit before tax | (39,661) | 651,328 |
| Tax | (1,767) | (5,114) |
| Profit after tax | (41,428) | 646,214 |

During the period under review, the Fund made a loss due to the volatilities prevalent in the Equities market. It is envisaged that notable increases will be recorded in all areas of business operations in the years ahead with a view to improving on its performance.

**Responsibilities of the Trustee:**

The Trustee's responsibilities to the Fund are as follows:

1. To retain in its possession or in the possession of such third parties as it may, with the consent of the Manager appoint, on a safe custody basis, all the investments and documents of title or value connected therewith;

2. At all times to act with prudence and honesty in relation to all investments and documents of title or value kept in its custody;

3. To forward to the Manager without delay all notices of meetings, reports and circulars received by it or its nominees as holders of any investment;

4. To jointly issue (with the Fund Manager) certificates evidencing ownership of units in the Fund;

5. To demand from the Manager a statement of all issues and sale of Units;

6. To grant its consents to the appointment of the Auditors for the Fund;

7. To make the Trust Deed available for inspection by the Unit holders during normal business hours at its head office;

8. To consider and grant approval to all advertisements, circulars or other documents of that nature containing any statement with reference to the offer price of the Units or yield therefrom or containing an invitation to buy Units issued by the Manager;

9. To convene General Meetings of the Unit holders of the Fund and/or to consent to the Manager convening such meetings;

10. To nominate the Chairman for every General Meeting of the Fund;

11. To approve the form of Proxy used for the Meetings.

**Auditors:**

PricewaterhouseCoopers (PWC) were reappointed Auditors to the Fund during the year and have indicated their willingness to continue in office in accordance with section 357 (2) of the Companies and Allied Matters Act.

**Asset Allocation Requirement:**

The Fund Manager was in compliance with the Asset Allocation requirement of the Fund as there was no asset allocation breach during the period.

**Administration of the Scheme:**

The Administration of the Fund is guided by the provisions of the Investment and Securities Act (2007) and the Trust Deed which the Fund Manager has made concerted efforts to comply with.

**The Trustee is of the opinion that the Fund was fully administered in line with the provisions of the Trust Deed and the Investment and Securities Act 2007.**

**Parties to the Fund:**

| | | |
|---|---|---|
| FSDH Asset Management Limited | - | Fund Manager |
| United Capital Trustees Limited | - | Trustee |
| PricewaterhouseCoopers (PWC) | - | Auditors |
| Registrars | - | United Securities Limited |

**BY ORDER OF THE TRUSTEE**

United Capital Trustees Limited

UBA House (12th Floor)

No. 57, Marina

Lagos

25th March, 2019

**Tokunbo Ajayi**
FRC/2014/NBA/00000008349

# CORAL GROWTH FUND

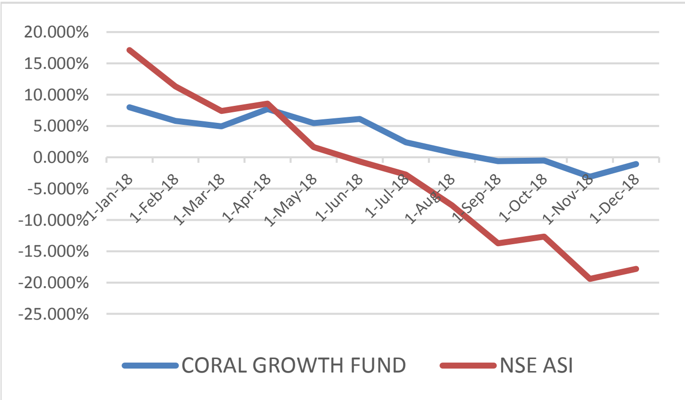
## 2018 Fund Managers Report

### BACKGROUND INFORMATION

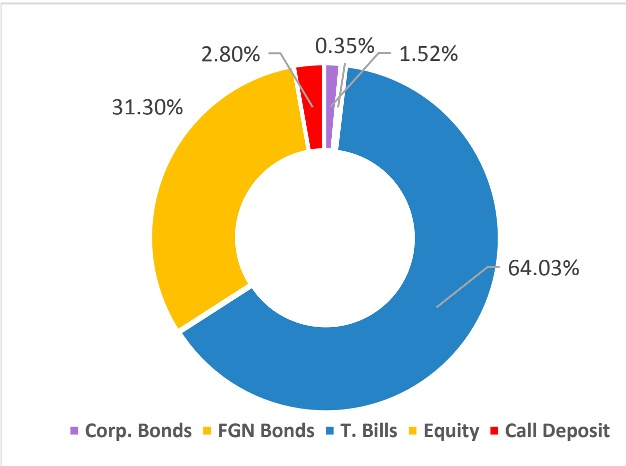
The Coral Growth Fund "CGF", established in February 2001, is an actively managed open-ended equity based unit trust scheme that invests a maximum of 65% of its assets in equity securities quoted on the Nigerian Stock Exchange "NSE" and a minimum of 35% in investment grade fixed income investments.

### INVESTMENT OBJECTIVE

The objective of the Fund is to enable investors achieve capital growth over the long term. In particular, the CGF is designed to enable investors satisfy a broad range of financial needs as it can be used as a private pension/retirement plan, investments plan, or children's educational plan.




### ASSET ALLOCATION (% OF TOTAL ASSETS)




### REVIEW OF THE FUND

| | |
|---|---|
| Inception date: | February 2001 |
| Net Asset Value: | N 1,938,450.00 |
| Opening price (January 2018): | N 3,007.45 |
| Closing price (December 2018): | N 2,974.91 |
| Management Fee | 1.50% |
| Expense Ratio: | 3.14% |
| Portfolio Manager: | Oladapo Adekoya |
| Investment Managers Rating: | A-(NG)(GCR) |
| Current Asset Allocation: | 30.07% in Equities, 69.93% in other Fixed income Instruments |
| Benchmark: | NSE ASI |
| Risk Profile: | Medium |
| Fund Custodian: | Stanbic IBTC bank |
| Fund Trustee: | United Capital Trustees |
| Auditors: | PriceWaterhouse Coopers |
| Registrars: | United Securities Limited |

### FUND MANAGER'S COMMENT

The CGF's return for the year 2018 was a negative 1.08%. However, the Fund did outperform The Nigerian Stock Exchange All Share Index (NSE ASI) which depreciated by -17.81% in the same period. The Stock Market 2018 witnessed a short-lived bullish run for the first quarter in 2018 while there was a persistent bearish run for the rest of the year. The bullish run was essentially driven by expectations of bright macro-economic outlook, as well as brilliant corporate announcements.

However, the downward trend in the market from the second quarter of the year can be attributed to continued pullback of foreign investors due to political considerations and rising global yields. Domestic investors also adopted a cautious approach to the equity market because of weak economic performance

Going into 2019, we expect that the upcoming general elections may deter some investors from the equities market. However, some informed investors may make strategic positioning in selected stocks. We expect the outlook to brighten slightly in Q3 2019 as political risks abate and investors get more clarity on the policies and plans of the Government

### STRATEGY

In view of our opinion that some of the quoted stocks are trading below their fair value, we will take advantage of purchasing selected stocks with good fundamentals take profit when the prices appreciate. In addition, in the fixed income and money market space, we will continue to lock into high yielding securities.

## STATEMENT OF THE FUND MANAGER'S RESPONSIBILITIES

The Fund Manager is responsible for the preparation of annual financial statements which give a true and fair view of the state of affairs of the Fund at the end of the financial year and of the net income for the year then ended.

The responsibilities include ensuring that:

i. the Fund keeps accounting records which disclose with reasonable accuracy the financial position of the Fund and which ensure that the financial statements comply with the requirements of the relevant accounting standards;
ii. appropriate and adequate internal controls are established to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities;
iii. the Fund prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied; and
iv. it is appropriate for the financial statements to be prepared on a going concern basis.

The Fund Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with:

i. International Financial Reporting Standards
ii. Financial Reporting Council of Nigeria Act
iii. Investments and Securities Act
iv. Relevant circulars issued by the Securities and Exchange Commission.

The Fund Manager is of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Fund and of its financial performance.

The Fund Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial

Nothing has come to the attention of the Fund Manager to indicate that the Fund will not remain a going concern for at least twelve months from the date of this statement.

**SIGNED ON BEHALF OF THE FUND MANAGER**

**Hamda Ambah**
Director
FRC/2013/CISN/00000001749
27 March 2019

**Olumayowa Ogunwemimo**
Director
FRC/2013/ICAN/00000001742
27 March 2019

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|---|
| Interest income on assets measured at fair value through profit or loss | 5 | **180,372** | 205,778 |
| Interet income on deposit with banks | | **1,494** | 3,591 |
| Other income | 6 | **30,562** | 59,279 |
| Net (loss)/gain on financial assets measured through profit or loss | 7 | **(177,564)** | 463,237 |
| **Net income** | | **34,864** | 731,885 |
| Operating expenses | 8 | **(74,525)** | (80,557) |
| (Loss)/profit before tax | | **(39,661)** | 651,328 |
| Tax | 9 | **(1,767)** | (5,114) |
| **(Loss)/profit for the year** | | **(41,428)** | 646,214 |
| **Other comprehensive income** | | | |
| **Items that may be subsequently reclassified to profit and loss** | | | |
| Unrealised net gains/(losses) on available for sale financial assets | | **-** | 14,803 |
| **Total comprehensive (loss)/income** | | **(41,428)** | 661,017 |

*The accompanying notes form an integral part of these financial statements.*

## STATEMENT OF FINANCIAL POSITION

| | Notes | **31 December 2018 ₦'000** | 31 December 2017 ₦'000 |
|---|---|---|---|
| **Assets:** | | | |
| Balances with banks | 10 | **65,309** | 36,953 |
| Financial instruments measured through profit or loss | 11 | **1,924,637** | 750,717 |
| Financial assets classified as available for sale | 12 | **-** | 1,141,075 |
| Other assets | 13 | **1,111** | 1,001 |
| Total assets | | **1,991,057** | 1,929,746 |
| **Liabilities:** | | | |
| Other liabilities | 14 | **52,607** | 22,937 |
| Total liabilities | | **52,607** | 22,937 |
| Net assets attributable to unitholders | | **1,938,450** | 1,906,809 |
| **Represented by**: | | | |
| Unitholders' contributions | | **323,744** | 234,821 |
| Retained earnings | | **1,614,706** | 1,666,010 |
| Available for sale reserve | | **-** | 5,978 |
| | | **1,938,450** | 1,906,809 |

*The accompanying notes form an integral part of these financial statements.*

**SIGNED ON BEHALF OF THE FUND MANAGER ON 27 MARCH 2019**

**Hamda Ambah (Director of the Fund Manager)**
FRC/2013/CISN/00000001749

**Olumayowa Ogunwemimo (Director of the Fund Manager)**
FRC/2013/ICAN/00000001742

Additional Certification:

**Wasiu Shafe (Chief Financial Officer)**
FRC/2015/ICAN/00000012973

**STATEMENT OF CHANGES IN NET ASSETS** **ATTRIBUTABLE TO UNITHOLDERS**

| | Unitholders contributions ₦'000 | Retained earnings ₦'000 | Available for sale reserve ₦'000 | Net assets attributable to unitholders ₦'000 |
|---|---|---|---|---|
| **At 1 January 2017** | 1,057,024 | 1,797,348 | (8,825) | 2,845,547 |
| Comprehensive income | | | | |
| Profit for the year | - | 646,214 | - | 646,214 |
| Fair value loss on available for sale financial asset | - | - | 14,803 | 14,803 |
| | **-** | **646,214** | **14,803** | **661,017** |
| Transactions with unit holders: | | | | |
| Contributions from unitholders | 203,010 | - | - | 203,010 |
| Redemptions by unitholders | (1,025,213) | (770,699) | - | (1,795,912) |
| Distributions to unitholders | - | (6,853) | - | (6,853) |
| | (822,204) | (777,552) | - | (1,599,755) |
| **At 31 December 2017** | **234,821** | **1,666,010** | **5,978** | **1,906,809** |
| IFRS 9 remeasurement impairment provision | | | | |
| IFRS 9 reclassification | | 5,978 | (5,978) | - |
| Restated balance as at 1 January 2018 | **234,821** | **1,671,988** | **-** | **1,906,809** |
| Comprehensive income | | | | |
| Loss for the year | - | (41,428) | - | (41,428) |
| | **-** | **(41,428)** | **-** | **(41,428)** |
| Transactions with unit holders: | | | | |
| Contributions from unitholders | 144,688 | - | - | 144,688 |
| Redemptions by unitholders | (55,764) | | - | (55,764) |
| Distributions to unitholders | - | (15,855) | - | (15,855) |
| **At 31 December 2018** | **323,744** | **1,614,706** | **-** | **1,938,450** |

## STATEMENT OF CASH FLOWS

| | Notes | **31 December 2018 N'000** | 31 December 2017 ₦'000 |
|---|---|---|---|
| **Cashflow from operating activities** | | | |
| Cash (used in)/generated from operations | 16 | **(348,380)** | 379,512 |
| Interest received | | **182,165** | 211,030 |
| Tax paid | 9 | **(1,767)** | (5,114) |
| **Net cash flow (used in) /from operating activities** | | **(167,981)** | 585,428 |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities | | **-** | (7,117,473) |
| Proceeds from sale of investment securities | | **-** | 8,353,868 |
| Dividend received | | **30,339** | 59,148 |
| **Net cash generated from investing activities** | | **30,339** | 1,295,543 |
| **Cashflow from financing activities** | | | |
| Contributions from unitholders | | **144,688** | 203,010 |
| Redemptions by unitholders | | **(55,764)** | (1,795,912) |
| Distribution paid to unit holders | | **(15,855)** | (6,853) |
| **Net cash flow generated from/(used in) financing activities** | | **73,069** | (1,599,755) |
| **Net (decrease)/increase in cash and cash equivalent for the year** | | **(64,574)** | 281,216 |
| Analysis of changes in cash and cash equivalents: | | | |
| Cash and cash equivalents at start of year | | **351,098** | 69,882 |
| (Decrease)/increase in cash and cash equivalent | | **(64,574)** | 281,216 |
| **Cash and cash equivalents at end of year** | 17 | **286,524** | 351,098 |

*The accompanying notes form an integral part of these financial statements.*

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

## 1 General information

The Coral Growth Fund ("CGF"), established in February 2001, is an actively managed open-ended equity based unit trust scheme that invests a maximum of 65% of its assets in equity securities quoted on The Nigerian Stock Exchange (NSE) and a minimum of 35% in investment grade fixed-income securities.

The objective of the Fund is to enable investors to achieve capital growth over the long term. In particular, the CGF is designed to enable investors to satisfy a broad variety of financial needs as it can be used as a private pension/retirement plan, investments plan, or children's educational plan.

## 2 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB). Additional information required by national regulations is included where appropriate. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Fund Manager to exercise its judgement in the process of applying the Fund's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Fund Manager believes that the underlying assumptions are appropriate and that the Fund's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial statements are presented in Naira, which is the Fund's functional and presentation currency. The figures shown in the financial statements are stated in thousands of Naira, unless otherwise stated.

### 2.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

**New and amended standards and interpretations**

Standards and interpretations effective during the reporting period

The following standards became effective in the annual period starting from 1st January, 2018. The new reporting requirements as a result of the new standards and amendments have been evaluated and their impact or otherwise are noted below:

- IFRS 15 Revenue from Contracts with Customers

The IASB issued a new standard for the recognition of revenue. This replaced IAS 18 which covered contracts for goods and services, IFRIC 4 which covered determination of whether an arrangement contains a lease and IAS 11 which covered construction contracts.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The following five step model in IFRS 15 is applied in determining when to recognise revenue, and at what amount:

a) Identify the contract(s) with a customer
b) Identify the performance obligations in the contract
c) Determine the transaction price
d) Allocate the transaction price to the performance obligations in the contract
e) Recognise revenue when (or as) the entity satisfies a performance obligation

The standard has no significant impact on the Fund's financial statements as the current policies of the Fund are aligned with the new standard on revenue recognition.
.

- IFRS 9 - Financial instruments

The Fund adopted IFRS 9 with a transition date of 1 January 2018. This resulted in changes in accounting policies but there were no adjustments to the amounts previously recognised in the financial statements because the assets are measured at fair value through profit or loss (FVTPL). The Fund did not early adopt IFRS 9 in previous periods

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

Classification and Measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost.
Financial assets will be measured at amortised cost if they are held within a business model with the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest.

Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss.

The Fund Manager has undertaken an assessment to determine the impact of changes in classification and measurement of the financial assets. The standard has no significant impact on the financial assets of the Fund.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk shall be presented in Other Comprehensive Income.

**Impairment Methodology**

The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables and loan commitments.

IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions.

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The requirement to recognise lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39.

The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses. Reasonable and supportable forward looking information will also be used in determining the stage allocation. In general, assets more than 30 days past due, but not credit impaired, will be classed as stage 2.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions. The Fund Manager has developed the capability to model a number of economic scenarios and capture the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight has been established around the process.

IFRS 9 also allows entities to apply a 'simplified approach' for trade receivables, contract assets and lease receivables. The simplified approach allows entities to recognise lifetime expected losses on all these assets without the need to identify significant increases in credit risk. Certain accounting policy choices apply. Key to this approach is existence of credit risk along which lines receivables with similar credit characteristics are grouped, determine historical loss rates and consider appropriate forward looking macro-economic factors.

The new impairment requirements will not have any significant impact on the Fund

**Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Fund's financial assets and financial liabilities as at 1 January 2018:

| **01-Jan-18**<br>**In thousands of Nigerian Naira** | **Original classification under IAS 39** | **New classification under IFRS 9** | **Original carrying amounts under IAS 39** | **New carrying amounts under IFRS 9** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Balances with banks | Loans and receivables | Amortised cost | 36,953 | 36,953 |
| Receivables | Loans and receivables | Amortised cost | 1,001 | 1,001 |
| Financial assets held for trading | Held for trading | Fair value through profit or loss | 750,717 | 750,717 |
| Financial assets classified as available for sale | Available for sale | Fair value through profit or loss | 1,141,075 | 1,141,075 |
| **Financial liabilities:** | | | | |
| - Financial liabilities | Amortised cost | Amortised cost | 22,864 | 22,864 |

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

**Reconciliation of statement of financial position from IAS 39 to IFRS 9**

The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS39 to their new measurement categories upon transition to IFRS on 1 January 2018:

| 1 January 2018 | Carrying amount per IAS 39 | | | Carrying amount per IFRS 9 |
|---|---|---|---|---|
| | 31 December 2017 | Reclassification | Re-measurement | 1 January 2018 |
| **In thousands of Nigerian Naira** | | | | |
| **Financial assets carried at amortised cost :** | | | | |
| Amortised cost | | | | |
| *Balances with banks* | | | | |
| Opening amount | 36,953 | | | |
| Reclassification | | | | |
| Remeasurement of ECL | | | | |
| Closing balance under IFRS 9 | | - | - | **36,953** |
| Total financial assets at amortised cost | **36,953** | - | - | **36,953** |
| **Financial assets measured at fair value through P/L** | | | | |
| *Financial instruments held for trading (HFT)* | | | | |
| Opening amount | 750,717 | | | |
| Reclassification to FVPL | | | | |
| Remeasurement of ECL | | | | |
| Closing balance under IFRS 9 | - | - | - | **750,717** |
| | | | | |
| *Investment securities* | | | | - |
| Opening amount | 1,141,075 | - | - | |
| Reclassification from available for sale | | (1,141,075) | | |
| Reclassification to fair value through profit or loss | - | 1,141,075 | - | |
| Remeasurement of ECL | - | - | - | |
| Closing balance under IFRS 9 | - | | | 1,141,075 |
| Total financial assets at fair value through profit or loss | **1,891,792** | - | - | **1,891,792** |

The table below shows the analysis of the impact of IFRS 9 opening entries on equity on 1 January 2018.

| | Impact of IFRS 9 Opening Entries on Equity | | |
|---|---|---|---|
| | Fair value reserve | Retained earnings | Total |
| | N'000 | N'000 | N'000 |
| **Reclassification of fair value** | | | |
| **Treasury bills** | | | |
| - FVTPL | (8,331) | 8,331 | - |
| **Federal Government of Nigeria (FGN) bonds** | | | |
| - FVTPL | (225) | 225 | - |
| **Corporate bonds** | | | |
| - FVTPL | 2,577 | (2,577) | - |
| | **(5,978)** | **5,978** | **-** |

## 2.2 Standards and interpretations issued/amended but not yet effective

The Fund has not early adopt the following new standard(s) in preparing these financial statements as it plans to adopt these standards at their respective effective dates if applicable.

The following standard(s) have been issued or amended by the IASB but are yet to become effective for annual periods beginning on or after 1 January 2018:

**IFRS 16 – Leases**

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However it requires lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Fund is expected to adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Fund Manager has evaluated the standard and established that it will not have a significant impact on its financial statements as there are currently no long term lease contracts in place.

**Annual Improvements**

The following improvements are relevant:
• IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.
• IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit Funds and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

## 2.3 Financial assets and liabilities

**Measurement methods**

***Amortised cost and effective interest rate***

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Fund revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:
(a) Purchased or Originated Credit Impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
(b) Financial assets that are not ‘POCI’ but have subsequently become credit-impaired (or ‘stage 3’), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the Fund commits to purchase or sell the asset.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in the income statement when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, IFRS 9 the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement.

**Financial assets**

**Classification and subsequent measurement**

From 1 January 2018, the Fund has applied IFRS 9 and classified its financial assets in the following measurement categories:

• Fair value through profit or loss (FVPL);
• Amortised cost.
The classification requirements for debt and equity instruments are described below:

**Debt instruments**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:
(i) the Fund’s business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its financial instruments into one of the following two measurement categories:

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

a) Financial assets measured at amortised cost

These represent assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

b) Financial assets measured at FVTPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the income statement and presented in the income statement within 'Net gain on financial assets measured through profit or loss' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in income. Interest income from these financial assets is included in 'Interest income'.

**SPPI Test**

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund Manager assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Fund Manager considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund subsequently measures all equity investments at fair value through profit or loss. Dividends, when representing a return on such investments, continue to be recognised in the income statement as other income when the Fund's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the "Net gain on financial assets measured through profit or loss' line in the income statement.

**Derecognition**

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Fund tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

**Financial liabilities**

Classification and measurement
In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost. The Fund's financial liabilities includes fees payable, payable to unit holders, accrued expenses and other payables.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). For instance, the accrued fees paid or payment made to unit holders. The Fund classifies non-derivative financial liabilities into the following categories: financial liabilities at amortised cost and other financial liabilities.

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

**Classifications of financial assets and liabilities under IFRS 9**

| Category (as defined by IFRS 9) | Classes as determined by the Fund | | Subclasses |
|---|---|---|---|
| Financial assets | Amortised cost | Bank balances | Balances with banks |
| | | Other assets | Receivables |
| | Financial instruments measured through profit or loss (FVTPL) | Financial assets held for trading | Quoted equity securities |
| | | | Treasury bills |
| | | | Federal Government of Nigeria (FGN) bonds |
| | | | Corporate bonds |
| | | | Commercial Bills |
| Financial liabilities | Financial liabilities at amortised cost | Account payables | Fund manager's fee payable |
| | | | Custodian fees payable |
| | | | Accrued expenses |
| | | | Other Payable |

**2.4 Impairment**

For trade receivables that do not contain a significant financing component, the loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL. As a practical expedient, a provision matrix has been used to estimate ECL for these assets.

The provision matrix simply involves applying the relevant loss rates to the balances outstanding across the different age bands i.e. rates applied depends on the number of days that a trade receivable is past due.

The loss rate is determined based on historical losses rate over a three-year period. The loss definition is any receivables balance that is over 365 days. The estimated historical loss rates have been appropriately adjusted to reflect the expected future changes using macroeconomic variables which serve as indicators of losses. Macro variables considered include GDP growth rate, inflation rate and exchange rate respectively.

**2.5 Write-off**

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Fund determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Fund’s procedures for recovery of amounts due

**2.6 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

**2.7 Dividend income**

Dividend on investments in quoted equities are recognised when such dividends are declared at the annual general meetings of the dividend paying companies. Dividend is accrued on the basis of the units of shares held by the Fund as at the share register closure date and is accounted for at gross of withholding tax. The resultant tax is separately accounted for and disclosed in the statement of comprehensive income as ‘tax’.

Dividend accrued but yet to be received are regarded as "receivables" in the statement of financial position.

**2.8 Cash and cash equivalent**

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. Hence this includes cash in hand and cash equivalents that are readily convertible to known amount of cash, are subject to insignificant risk of changes in value and whose original maturity is three months or less. This includes cash in hand, loans to banks and other short-term highly liquid investments which originally matures in three months or less (treasury bills with less than 3 months maturity)

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

### 2.9 Retained earnings

Retained earnings represent undistributed earnings of the Fund.

### 2.10 Operating expenses

**Management fees**

Management fees are charged as 2.5% of the net asset value of the Fund. They are accrued daily but paid quarterly in arrears.

**Incentive fees**

An annual incentive fee is calculated as 10% of total returns in excess of 10% of the net asset value of the Fund and is accounted for on an accrual basis or as soon as this condition is met.

### 2.11 Other expenses

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

### 2.12 Taxation

The Fund is domiciled in Nigeria. Under the current laws of Nigeria, there is no income, estate, corporation, capital gains or other gains or taxes payable by the Fund.

### 2.13 Dividend distribution

In line with the provisions of the Trust Deed, the income of the Fund less any sums properly chargeable thereon or deductible therefrom may either be reinvested in the Fund or distributed to the Unitholders in such form, manner and amount for such periods and at such times as the Fund Manager may, in its absolute discretion, decide in accordance with applicable law and the rules of the Exchange on which the units are listed.

Dividend proposed for the year are not accounted for but disclosed in the financial statements and appropriated from retained earnings after the approval of the unitholders at the Fund's Annual General Meeting (AGM).

## 3 Risk Management Objective and Policies

### 3.1 Financial risk management

The Fund generates revenues for unit holders by investing in various income generating activities which involve trading equity securities on the stock exchange and trading in government securities. These activities expose the Fund to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Fund Managers under direction of the investment committee and FSDH Merchant Bank Limited's Group Risk Management Department. The investment committee works within policies approved by the Fund's Trustee. Fund Managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against these risks. The Group Risk Department provides the Fund Managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Securities and Exchange Commission (SEC).

**The Funds financial instruments are categorised as follows:**

| **31 December 2018** | **Financial Assets** | | **Financial Liabilities** |
|---|---|---|---|
| In thousands of Nigerian Naira | **Fair value through profit or loss (FVTPL)** | **At amortised cost** | **At amortised cost** |
| **Financial assets:** | | | |
| | | | |
| Balances with banks | | | |
| - Current account with banks in Nigeria | - | 400 | - |
| - Call balance with banks | - | 64,909 | - |
| | | | |
| Financial assets held for trading | | | |
| - Quoted securities | 616,571 | - | - |
| - Treasury bills | 1,271,946 | - | - |
| - FGN Bonds | 7,301 | - | - |
| - Corporate Bonds | 28,819 | - | - |
| | | | |
| **Other assets:** | | | |
| Receivables | - | 1,034 | - |
| | | | |
| **Financial liabilities:** | | | |
| | | | |
| **Other liabilities:** | | | |
| Other accounts payable | - | - | 52,534 |

| **31 December 2017** | **Financial Assets** | | | **Financial Liabilities** |
|---|---|---|---|---|
| In thousands of Nigerian Naira | **Financial assets held-for-trading** | **Available-for-sale** | **Loans and receivables** | **At amortised cost** |
| **Financial assets:** | | | | |
| | | | | |
| Cash and bank balances | | | | |
| - Current account with banks in Nigeria | - | - | 24 | - |
| - Call balance with banks | - | - | 36,929 | - |
| | | | | |
| Financial assets held for trading | | | | |
| - Quoted securities | 750,717 | - | - | - |
| | | | | |
| Financial assets classified as available-for-sale | | | | |
| - Treasury bills | - | 813,138 | - | - |
| - FGN Bonds | - | 7,576 | - | - |
| - Corporate Bonds | - | 43,280 | - | - |
| - Commercial papers | | 277,081 | | |
| | | | | |
| **Other assets:** | | | | |
| Receivables | - | - | 811 | - |
| | | | | |
| **Financial liabilities:** | | | | |
| | | | | |
| **Other liabilities:** | | | | |
| Other accounts payable | - | - | - | 22,864 |

### 3.2 Liquidity

The Fund is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are traded at the Nigerian Stock Exchange (NSE). The Fund’s listed securities are considered readily realisable, as they are listed on the NSE.

In addition to this, the Fund Manager in managing the Fund's liquidity risks, monitors the Fund’s liquidity position on a daily basis and has developed a comprehensive history of the Fund’s daily and/or periodic liquidity requirements. Guided by this history, the manager maintains sufficient cash and near cash investments to meet the day to day redemption requirements.

The amounts disclosed in the table are the contractual undiscounted cash flows.

**Liquidity maturity analysis**

31 December 2018

| Financial assets | **No contractual maturity** | **Due within 3 months** | **Due within 3 & 12 months** | **Due after 1 year** | **Total** |
|---|---|---|---|---|---|
| | **₦’000** | **₦’000** | **₦’000** | **₦’000** | **₦’000** |
| Balances with banks | | | | | |
| - Balances with banks | - | 400 | - | - | 400 |
| - Call balance with banks | - | 64,909 | - | - | 64,909 |
| Financial assets held-for-trading | | | | | |
| - Quoted equity securities | 616,571 | - | - | - | 616,571 |
| - Treasury bills | - | 667,685 | 697,500 | - | 1,365,185 |
| - Federal Government of Nigeria (FGN) bonds | - | 508 | 508 | 9,030 | 10,045 |
| - Corporate bonds | - | - | 5,475 | 35,475 | 40,950 |
| Receivables | - | 1,111 | | - | 1,111 |
| | 616,571 | 734,613 | 703,483 | 44,505 | 2,099,171 |
| Financial liabilities | - | 52,534 | - | - | 52,534 |
| Net financial asset | 616,571 | 682,079 | 703,483 | 44,505 | 2,046,637 |
| Net asset attributable to unitholders | | | | | 1,938,450 |
| Percentage of liquid financial assets to net asset attributable to unitholders | | | | | 105.58% |

31 December 2017

| Financial assets | No contractual maturity ₦'000 | Due within 3 months ₦'000 | Due within 3 & 12 months ₦'000 | Due after 1 year ₦'000 | Total ₦'000 |
|---|---|---|---|---|---|
| Cash and bank balances | | | | | |
| - Current accounts | - | 24 | - | - | 24 |
| - Loans to banks | - | 36,929 | - | - | 36,929 |
| Financial assets held-for-trading | | | | | |
| - Quoted equity securities | 750,717 | - | - | - | 750,717 |
| Financial assets classified as available for sale | | | | | |
| - Treasury bills | - | 321,162 | 525,642 | - | 846,804 |
| - Federal Government of Nigeria (FGN) bonds | - | 508 | 508 | 10,045 | 11,061 |
| - Corporate bonds | - | - | 8,213 | 61,425 | 69,638 |
| - Commercial Bills | - | - | 300,000 | - | 300,000 |
| Receivables | - | 811 | | - | 811 |
| | 750,717 | 359,434 | 834,362 | 71,470 | 2,015,983 |
| Financial liabilities | - | 22,864 | - | - | 22,864 |
| Net financial asset | 750,717 | 336,570 | 834,362 | 71,470 | 1,993,119 |
| Net asset attributable to unitholders | | | | | 1,906,809 |
| Percentage of liquid financial assets to net asset attributable to unitholders | | | | | 104.53% |

## 3.3 Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents and other receivable balances. All transactions in listed securities are settled/paid for upon delivery using approved brokers. Therefore the risk of default is considered minimal.

The Fund considers the credit exposure to geographical sectors as immaterial as all the credit risk exposures are domiciled in Nigeria for all periods.

The maximum exposure to credit risk is the carrying amount of the financial assets as set out below.

**Sector analysis of credit risk exposure**

**31 December 2018**

| | Balances with banks | Fair value through profit or loss (FVTPL) | Receivables | Maximum Exposure |
|---|---|---|---|---|
| Government | - | 1,279,247 | - | 1,279,247 |
| Financial Institutions | 65,309 | 28,819 | - | 94,128 |
| Others | - | - | 1,111 | 1,111 |
| | **65,309** | **1,308,066** | **1,111** | **1,374,486** |

All the financial assets are stage 1 assets

**31 December 2017**

| | Cash and bank balances | Financial assets classified as available for sale | Receivables | Maximum Exposure |
|---|---|---|---|---|
| Government | - | 820,714 | - | 820,714 |
| Financial Institutions | 36,953 | 320,361 | - | 357,314 |
| Others | - | - | 1,001 | 1,001 |
| | 36,953 | 1,141,075 | 1,001 | 1,179,029 |

None of these assets are impaired nor past due but not impaired

Debt Securities to which the Fund is exposed are mainly Federal Government of Nigeria (FGN) bonds and treasury bills. The credit risk associated with these sovereign debt securities is considered minimal.

Credit rating of financial asset neither past due nor impaired.

| | 31 December 2018 N'000 | 31 December 2017 N'000 |
|---|---|---|
| Aaa to Aa- | 1,344,556 | 857,667 |
| Bbb+ to Bb- | 28,819 | 320,361 |
| Unrated | 1,111 | 1,001 |
| | 1,374,486 | 1,179,029 |

The maximum exposure to credit risk before any credit enhancements at 31 December is the carrying amount of the financial assets as measured in the financial statements.  None of these assets are impaired nor past due but not impaired.

**3.4 Market risk**

(a) Price risk

The Fund's exposure to the capital market makes it susceptible to price movements of quoted equity securities' in its portfolio. All the Fund's equity investments are quoted on the Nigerian Stock Exchange (NSE). In managing the risk arising from this class of investments, the Fund ensures diversification of its portfolio to include different sectors of the economy. Diversification of the portfolio is done in accordance with limits set by the Fund's Trust Deed which provides for investments subject to a maximum of 5% of the value of the Fund in any particular equity security. Likewise, the Trust Deed also provides for minimum investment of 30% and maximum of 65% in the equity market under normal market conditions

The Fund invests in securities as permitted under the Trustee Investment Act, Cap 449, LFN 1990 and approved by the Securities and Exchange Commission. All quoted equities held by the Fund are traded on the NSE.

**Classification of quoted equity securities per sector:**

| | **31 December 2018 ₦'000** | 31 December 2017 ₦'000 |
|---|---|---|
| Financial services | 170,866 | 178,441 |
| Food products | 106,948 | - |
| Consumer goods | 165,441 | 300,616 |
| Industrial goods | 124,233 | 205,012 |
| Breweries | 49,082 | 66,649 |
| | 616,571 | 750,717 |
| The impact on the Fund's net asset attributable to Unitholders if quoted prices of equity securities held had increased or decreased by 5% with all other variables held constant | 30,829 | 37,536 |

**Classification of financial assets**

| | **31 December 2018 ₦'000** | 31 December 2017 ₦'000 |
|---|---|---|
| Financial instruments measured through profit or loss | | |
| - Quoted equity securities | 616,571 | 750,717 |
| - Treasury bills | 1,271,946 | 813,138 |
| - Federal Government of Nigeria (FGN) bonds | 7,301 | 7,576 |
| - Corporate bonds | 28,819 | 43,280 |
| - Commercial papers | - | 277,081 |
| Receivables | 1,034 | 811 |
| | 1,925,671 | 1,892,603 |
| The impact on the Fund's net asset attributable to Unitholders if prices held had increased or decreased by 5% with all other variables held constant | 96,284 | 94,630 |

(b) Cashflow and fair value Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cashflows. The Fund's exposure to cashflow interest rate risk which is the risk that the future cashflows of a financial asset will fluctuate because of changes in market interest rates is minimal as it holds only cash and cash equivalents with fixed interest and has no interest bearing financial liabilities.

The Fund also holds fixed interest securities which expose the Fund to fair value interest rate risk. The Fund's fixed interest rate financial assets are government securities (bonds and treasury bills), corporate bonds and deposits with financial institutions.

However, the Fund may be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. The sensitivity of this on the Fund's net assets attributable to unitholders can not be fully determined.

(c) Foreign exchange risk

As at 31 December 2018 (2017: Nil), the Fund did not have investments denominated in foreign currency and as a result was not exposed to foreign exchange risk.

**3.5 Fair value estimation**

Financial assets not measured at fair value

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| **Financial assets** | **Carrying Value N'000** | **Fair value N'000** | **Carrying Value N'000** | **Fair value N'000** |
| Balances with banks | 65,309 | 65,309 | 36,953 | 36,953 |
| Receivables | 1,034 | 1,034 | 811 | 811 |
| | 66,343 | 66,343 | 37,764 | 37,764 |
| **Financial Liabilities** | | | | |
| Other liabilities | 52,534 | 52,534 | 22,864 | 22,864 |
| | 52,534 | 52,534 | 22,864 | 22,864 |

Fair value hierachy of financial assets and liabilities not measured at fair value is shown below

**At 31 December 2018 (N'000)**

| | Level 3 | Total |
|---|---|---|
| **Financial assets** | | |
| Balances with banks | 65,309 | 65,309 |
| Receivables | 1,034 | 1,034 |
| | 66,343 | 66,343 |
| **Financial Liabilities** | | |
| Other liabilities | 52,534 | 52,534 |
| | 52,534 | 52,534 |

**At 31 December 2017 (N'000)**

| | Level 3 | Total |
|---|---|---|
| Cash and bank balances | 36,953 | 36,953 |
| Receivables | 811 | 811 |
| | 37,764 | 37,764 |
| **Financial Liabilities** | | |
| Other liabilities | 22,864 | 22,864 |
| | 22,864 | 22,864 |

Fair value hierachy of financial assets measured at fair value is shown below

**At 31 December 2018 (N'000)**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading | | | | |
| - Quoted securities | 616,571 | - | - | 616,571 |
| - Treasury bills | 1,271,946 | - | - | 1,271,946 |
| - Federal Government of Nigeria (FGN) bonds | 7,301 | - | - | 7,301 |
| - Corporate bonds | - | 28,819 | - | 28,819 |
| | **1,895,818** | **28,819** | **-** | **1,924,637** |

**At 31 December 2017 (N'000)**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets held for trading | | | | |
| - Quoted securities | 750,717 | - | - | 750,717 |
| Financial assets classified as available for sale | | | | |
| - Treasury bills | 813,138 | - | - | 813,138 |
| - Federal Government of Nigeria (FGN) bonds | 7,576 | - | - | 7,576 |
| - Corporate bonds | - | 43,280 | - | 43,280 |
| - Commercial papers | - | - | 277,081 | 277,081 |
| | **1,571,431** | **43,280** | **277,081** | **1,891,792** |

**Fair valuation estimates and techniques**

(i) Balances with bank

Cash and bank balances represent cash held with other banks of the various jurisdictions in which the Fund operates. The fair value of these balances is their carrying amounts.

(ii) Treasury bills and bonds

Treasury bills represent short term instruments issued by the Central Bank of Nigeria. Bonds are debt instruments or contracts issued for an agreed period of time. The investor lends an amount of money to the issuer and earns interest on the investment until the maturity of the bond when the principal will be repaid. The fair value of actively traded treasury bills and bonds are determined with reference to quoted prices (unadjusted) in an active market for identical assets.

(iii) Equity securities

The fair value of quoted equity securities are determined by reference to quoted prices (unadjusted) in active markets for identical instruments. The Fund is not permitted at any time to hold unquoted equity instruments.

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This hierarchy requires the use of observable market data when available.

The Funds considers relevant and observable market prices in its valuations where possible.

There are no transfer within fair value hierarchies during the period.

(iv) Receivables

Receivables represent dividend receivables from companies in which the Fund has equity investments; and withholding tax receivables on interest on call balances with banks. The fair value is the carrying amount.

(v) Other liabilities

This represents accrued expenses and other payables by the company. The fair value is the carrying amount.

### 3.5 Capital management

The capital of the Fund is represented by unit holder contributions. The amount of unit holder liabilities can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders.

The Fund’s objectives when managing capital are to safeguard the Fund’s ability to continue as a going concern in order to provide returns for unit holders.

## 4 Critical accounting estimates and judgements

The Funds’s financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Fund Manager makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Fund Manager’s judgements for certain items are especially critical for the Fund’s results and financial situation due to their materiality.

### 4.1 Unit holders classification

The units of the Fund are redeemable, but are not carried as financial liabilities because:

- there are no other class of unit holders with less senior rights to them.
- units are bought or redeemed at market value with no guarantees to the unit holders of principal or return.
- all units are equal in gain and loss.

**4.2 Classification of financial assets**

Financial instruments at fair value through profit or loss are initially recognised at fair value while transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, are recognised immediately through profit or loss. Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost depending on their classification.

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques as described in valuation methods and assumptions as disclosed in Note 3.6 above. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**NOTES TO THE FINANCIAL STATEMENTS**

| | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| **5 Interest income on assets measured at fair value through profit or loss** | | |
| **Held for trading assets:** | | |
| Bonds | **8,266** | 12,795 |
| Treasury bills | **148,329** | 192,983 |
| Commercial papers | **23,777** | - |
| | **180,372** | 205,778 |
| 6 **Other income** | | |
| Dividend income | **30,562** | 59,279 |
| | **30,562** | 59,279 |
| **7 Net trading (loss)/gain on financial assets held-for-trading** | | |
| Net trading income on quoted equities | **77,869** | 139,029 |
| Net trading income/(loss) on treasury bills | **916** | (2,125) |
| Unrealised (loss)/gain on quoted equities | **(246,435)** | 326,333 |
| Unrealised loss on treasury bills and bonds | **(9,914)** | - |
| | **(177,564)** | 463,237 |
| **8 Operating expenses** | | |
| Operating expenses comprise: | | |
| Audit fees | **4,538** | 4,331 |
| Fund manager's fee | **54,556** | 58,139 |
| Incentive Fees | **-** | 4,091 |
| Registrar's fees | **525** | 525 |
| Trustees' fees | **788** | 788 |
| Professional fees | **550** | 500 |
| Custodian fees | **1,528** | 1,628 |
| Annual general meeting expenses | **1,361** | 1,219 |
| Advertisement | **10,590** | 9,205 |
| Other operating expenses | **89** | 131 |
| | **74,525** | 80,557 |
| **9 Tax** | | |
| Charge for the period | | |
| Tax attributable to franked investment income | **1,767** | 5,114 |
| **Tax expense** | **1,767** | 5,114 |

| **10 Balances with banks** | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| Balances held with other banks: | | |
| - Balances with banks in Nigeria | **400** | 24 |
| - Call balances with banks | **64,909** | 36,929 |
| | **65,309** | 36,953 |

**NOTES TO THE FINANCIAL STATEMENTS**

| | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| **11 Financial instruments measured through profit or loss** | | |
| Quoted equity securities | **616,571** | 750,717 |
| Treasury bills | **1,271,946** | - |
| Federal Government of Nigeria (FGN) bonds | **7,301** | - |
| Corporate bonds | **28,819** | - |
| | **1,924,637** | 750,717 |
| Current | **1,271,946** | - |
| Non-Current | **652,691** | 750,717 |
| | **1,924,637** | 750,717 |

| | | |
|---|---|---|
| **12 Financial assets classified as available for sale** | | |
| Treasury bills | **-** | 813,138 |
| Federal Government of Nigeria (FGN) bonds | **-** | 7,576 |
| Corporate bonds | **-** | 43,280 |
| Commercial Bills | **-** | 277,081 |
| | **-** | 1,141,075 |
| Current | **-** | 1,090,219 |
| Non-Current | **-** | 50,856 |
| | **-** | 1,141,075 |

| | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| **13 Other assets** | | |
| **Financial assets:** | | |
| Dividend receivable | **1,034** | 811 |
| | **-** | - |
| | **1,034** | 811 |
| **Non financial assets:** | | |
| Witholding tax receivable | **77** | 190 |
| | **77** | 190 |
| | **1,111** | 1,001 |
| Current | **1,111** | 1,001 |

| | | |
|---|---|---|
| **14 Other liabilities** | | |
| **Financial liabilities:** | | |
| Fund manager's fee payable | **24,078** | 17,171 |
| Custodian fees payable | **731** | 366 |
| Accrued expenses | **5,456** | 5,283 |
| Payable to other Funds | **22,233** | - |
| Other payables | **36** | 44 |
| | **52,534** | 22,864 |
| **Non financial Liabilities:** | | |
| Witholding tax payable | **73** | 73 |
| | **73** | 73 |
| | **52,607** | 22,937 |
| Current | **52,534** | 22,864 |
| Non-Current | **73** | 73 |
| | **52,607** | 22,937 |

**NOTES TO THE FINANCIAL STATEMENTS**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **15 Unitholders' contribution** | | |
| The movement in unitholders' units during the year is analysed below: | | |
| | **Units 000** | Units 000 |
| As at 1 January | **632** | 1,291 |
| Additions during the period | **45** | 69 |
| Redemptions during the period | **(18)** | (729) |
| | **659** | 632 |

| | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| **16 Cash generated from operations** | | |
| Reconciliation of income before tax to cash generated from operations: | | |
| (Loss)/profit before tax | **(39,661)** | 651,328 |
| Adjustments for: | | |
| – Fair value loss on financial assets held for trading | **236,521** | - |
| – Interest income | **(180,372)** | (205,778) |
| – Interet income on deposit with banks | **(1,494)** | (3,591) |
| – Dividend income | **(30,339)** | (59,279) |
| Changes in working capital: | | |
| – Financial instruments held for trading | **(362,595)** | - |
| – Other assets | **(110)** | (190) |
| – Other liabilities | **29,670** | (2,978) |
| | **(348,380)** | 379,512 |

| | 31 December 2018 ₦'000 | 31 December 2017 ₦'000 |
|---|---|---|
| **17 Cash and cash equivalents** | | |
| For purposes of the cash flow statement, cash and cash equivalents comprises: | | |
| - Current account with banks in Nigeria (Note 10) | **400** | 24 |
| - Treasury bills | **221,215** | 314,145 |
| - Balances with banks (Note 10) | **64,909** | 36,929 |
| | **286,524** | 351,098 |

## 18 Related party transactions

Coral Growth Fund is managed by FSDH Asset Management Limited (FSDH AM). FSDH AM is a subsidiary of FSDH Merchant Bank Limited which owns 99.7% of the Company's share capital. FSDH AM is a co-subsidairy with FSDH Securities Limited.

During the year, the following related party activities occurred:

a. FSDH Securities Limited provides stock broking activities for the Coral Growth Fund and earned total income of N2.59m in brokerage fees on the transactions during the year 2018 (2017: N2.78m).

b. FSDH Asset Management earns management fees at the rate of 2.5% of the Net Asset Value (NAV) accrued on daily basis but paid quarterly in arrears. Total sum of N54.56m was earned as management fees for the year (2017: N58.14m). No incentive fee during the year (2017: N4.09m).

During the year, no commercial papers was purchased from FSDH Merchant bank Ltd (2017: N266.05 billiion) and there was no income earned (2017: N0.06m).

c. UBA Trustees Limited earned trustee fees of N0.79m (2017: N0.79m) during the period in line with the Trust Deed of the Fund.

d. Key management staff has been defined as members of executive management committee of the Fund Manager and its other related companies.

| Units held in the Fund | **31 December 2018 Units** | 31 December 2017 Units |
|---|---|---|
| Direct | 96,516.96 | 65,971 |
| Indirect | 5,868.70 | 2,761 |

## 19 Distributions

| | **31 December 2018 ₦'000** | 31 December 2017 ₦'000 |
|---|---|---|
| Proposed distribution at N6.02 kobo (2017: N24.08) per share | 3,968 | 15,872 |

Distributions are not accounted for until they have been ratified at the Annual General Meeting (AGM) of the unitholders. At the next AGM, a distribution in respect of the financial year ended 31 December 2018 of N6.02 kobo per share (2017: N24.08k) amounting to a total of N3.97 million (2017: N15.872 million) will be proposed. These financial statements do not reflect this resolution which will be accounted as an appropriation of retained earnings in the year ending 31 December 2018.

**THE CORAL GROWTH FUND**
**OTHER FINANCIAL INFORMATION**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

## STATEMENT OF VALUE ADDED

| | **Dec 18 ₦'000** | % | Dec 2017 ₦'000 | % |
|---|---|---|---|---|
| Gross income | **34,864** | 234 | 731,885 | 103 |
| Bought-in-materials and services (local) | **(19,969)** | (134) | (18,327) | (3) |
| **Value added** | **14,896** | 100 | 713,558 | 100 |
| **Distribution of value added:** | | | | |
| **To Government:** | | | | |
| Tax | **1,767** | 12 | 5,114 | 1 |
| **To Fund Manager:** | | | | |
| Management fee | **54,556** | 366 | 62,230 | 9 |
| **Retained in the fund:** | | | | |
| Retained earnings | **(41,428)** | (278) | 646,214 | 91 |
| | **14,896** | 100 | 713,558 | 100 |

**THE CORAL GROWTH FUND**
**OTHER FINANCIAL INFORMATION**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

**FIVE YEAR FINANCIAL SUMMARY**

| | **Dec 2018** | **Dec 2017** | **Dec 2016** | Dec 2015 | Dec 2014 |
|---|---|---|---|---|---|
| | **₦'000** | ₦'000 | ₦'000 | ₦'000 | ₦'000 |
| **ASSETS** | | | | | |
| Balances with banks | **65,309** | 36,953 | 4,241 | 481,490 | 58,378 |
| Financial instruments measured through profit or loss | **1,924,637** | 750,717 | 973,573 | 1,134,981 | 1,224,174 |
| Financial assets classified as available for sale | **-** | 1,141,075 | 1,892,968 | 1,202,253 | 1,773,669 |
| Financial assets carried at amortised cost | **-** | - | - | 173,551 | 162,464 |
| Other assets | **1,111** | 1,001 | 680 | 690 | 680 |
| **TOTAL ASSETS** | **1,991,057** | 1,929,746 | 2,871,462 | 2,992,965 | 3,219,365 |
| **LIABILITIES** | | | | | |
| Other liabilities | **52,607** | 22,937 | 25,915 | 36,760 | 26,935 |
| **Net assets attributable to unitholders** | **1,938,450** | 1,906,809 | 2,845,547 | 2,956,205 | 3,192,430 |
| **Represented by:** | | | | | |
| Unitholders' funds | **1,938,450** | 1,906,809 | 2,845,547 | 2,956,205 | 3,192,430 |
| | **1,938,450** | 1,906,809 | 2,845,547 | 2,956,205 | 3,192,430 |
| Interest income on assets measured at fair value through profit or loss | **180,372** | 205,778 | 245,004 | 306,695 | 311,499 |
| Interet income on deposit with banks | **1,494** | 3,591 | - | - | - |
| Other income | **30,562** | 59,279 | - | - | - |
| Net (losses)/gain on investments at fair value through profit and loss | **(177,564)** | 463,237 | (142,330) | (209,051) | (658,375) |
| Operating expenses | **(74,525)** | (80,557) | (111,346) | (100,929) | (122,245) |
| Other comprehensive income | **-** | 14,803 | (28,380) | 36,477 | (9,537) |
| | **(39,661)** | 666,131 | (37,052) | 33,192 | (478,658) |
| Tax | **(1,767)** | (5,114) | (5,259) | (4,539) | (7,574) |
| Total comprehensive income/(loss) for the year | **(41,428)** | 661,017 | (42,310) | 28,654 | (486,232) |