

ARM ETHICAL FUND

Managed by

ARM INVESTMENT MANAGERS LIMITED

FINANCIAL STATEMENTS

for the year ended

31ST DECEMBER, 2018

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Financial statements for the year ended 31st December, 2018

Contents	Page(s)
Corporate information	1
Report of the trustees	2 – 4
Report of the fund manager	5 – 6
Report of the independent auditors	7 – 9
Statement of profit or loss and other comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	
1 Reporting entity	14
2 Basis of preparation	14 – 15
3 Significant accounting policies	15 – 23
4 Risk management objectives	24 – 26
5 Critical accounting estimates and judgements	27
6 Financial assets and liabilities	27 – 29
7 Investment income	29
8 Net gain/(loss) from financial assets at fair value through profit or loss	29
9 Other operating expenses	29
10 Rental income	29
11 Withholding tax expense	30
12 Investment properties	30
13 Financial assets at fair value through profit or loss	30
14 Fixed income securities	31
15 Other assets	31
16 Cash and cash equivalents	31
17 Trade and other payables	31
18 Net asset per unit	31
19 Related parties and other key contracts	32

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Corporate information

Trustee to the Fund

Royal Exchange Plc

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***

Crowe Dafinone
(formerly Horwath Dafinone)
Chartered Accountants

Bankers

Citi Bank of Nigeria
First Bank of Nigeria Limited
Guaranty Trust Bank Plc
United Bank for Africa Plc
Zenith Bank Plc

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Trustees

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

Principal activity

The principal activity of the ARM Ethical Fund (“The Fund”) is a fund that is specifically designed to enable investors acquire investments that are sharia compliant and earn returns in adherence to approved guidelines as determined by the Fund Manager in accordance with the Trust Deed and Supplemental Deeds thereto.

During the year under review, the Fund was administered in accordance with the Trustees Investment Act, CAP T22 LFN, 2004, the Investment and Securities Act, 2007, the International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act No. 6, 2011, the provisions of the Trust Deed and any supplemental thereto, together with the rules and regulations set out by the regulatory bodies established pursuant to the legislation referred to within this paragraph (“Applicable Regulations”), taking into cognisance prevailing market conditions as well as preserving of (and minimising possible losses to) Unit holders funds.

Results

The results for the year, which are set out on page 10, have been duly audited in accordance with Section 169 of the Investment and Securities Act 2007, and the Trust Deed establishing the Fund.

Distribution

The Fund Manager in consultation with the Trustee has not proposed any dividend for the year (2017: nil).

Directors

The directors of the Fund Manager who served on the board of the Fund Manager during the year under review and up to the date of approving these financial statements 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

None of the directors of Royal Exchange Plc has any direct or indirect beneficial interest in the units of the Fund.

Responsibilities of the Fund Manager

The Investment and Securities Act 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 year covered by the financial statements.

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Trustee (continued)

Responsibilities of the Fund Manager (continued)

In our opinion, the Fund Manager has in preparing the financial statements;

- 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 were followed, and in the case of any material departures, that it was fully disclosed and explained within the financial statements; and
- 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 is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the Fund, and enables the Fund Manager to ensure that the financial statements comply with the Trustee Investments Act, CAP T22 LFN 2004, the Investment and Securities Act, 2007, the International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act No. 6, 2011, the provisions of the Trust Deed and any supplemental thereto, together with the rules and regulations set out by the regulatory bodies established pursuant to the legislation referred to within this paragraph (“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 Investment and Securities Act 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 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 of the Register of Unit Holders or contributors;
- Ascertaining the Fund Manager’s compliance with the Applicable Regulations;

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

Report of the Trustee (continued)

Responsibilities of the Trustee (continued)

- 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 disposal 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 documents of a like nature for necessary action;
- Ensuring that fees and expenses of the fund are within the prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the scheme.

Charitable donations

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

Independent Auditors

Messrs Crowe Dafinone (formerly Horwath Dafinone), Chartered Accountants, having indicated their willingness to continue in office shall do so, in accordance with Section 184(1) of the Investment and Securities Act, 2007.

By Order of the Trustee



Managing Director
FRC No. 000000004059
Royal Exchange Plc
Lagos, Nigeria
10th May, 2019

ARM ETHICAL 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 1.0% 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 herdsmen 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 ETHICAL 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.

Ethical Fund Performance

The Ethical Fund returned 3.53% in the 12 months ended December 2018.

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

Opinion

We have audited the financial statements of ARM Ethical Fund which comprise, statement of financial position as at 31st December, 2018, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and other explanatory notes. These financial statements are set out on pages 10 to 32 and have been prepared using the significant accounting policies set out on pages 15 to 23.

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.

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.

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

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

Responsibility 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' responsibility for the financial statement

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 statement 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 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 ETHICAL FUND (MANAGED BY ARM INVESTMENT MANAGERS LIMITED) (continued)**

Auditors' responsibility for the financial statement (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
10th May, 2019


Omolola Samuel
Engagement Partner
FRC/2012/ICAN/00000000358
For: Horwath Dafinone
Chartered Accountants



ARM ETHICAL 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 N	2017 N
Revenue			
Investment income	7	23,065,014	12,100,306
(Loss)/gain from security trading	8.1	(2,373,554)	8,769,671
Fair value (loss)/gain on investments at fair value through profit or loss	8.2	(7,637,511)	26,850,443
Rental income	10	1,933,333	2,004,583
Profit from investing activities		14,987,282	49,725,003
Total income for the year		14,987,282	49,725,003
Expenses			
Other operating expenses	9	(7,048,315)	(6,178,650)
Profit before tax		7,938,967	43,546,353
Taxation	11	(471,917)	(300,846)
Profit for the year		7,467,050	43,245,507
Other comprehensive income		-	-
Total comprehensive income for the year		7,467,050 =====	43,245,507 =====

The reporting entity, the significant accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

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

	Notes	2018 ₦	2017 ₦
Investment properties	12	35,684,676	36,173,507
Current assets			
Financial assets at fair value through profit or loss	13	101,370,863	82,540,839
Financial assets at amortised cost	14	184,151,322	110,515,779
Other assets	15	207,412	208,762
Cash and cash equivalents	16	6,330,893	5,082,632
Total current assets		<u>292,060,490</u>	<u>198,348,012</u>
Total assets		<u>327,745,166</u>	<u>234,521,519</u>
Current liabilities			
Trade and other payables	17	(6,851,748)	(7,607,250)
Net assets		<u>320,893,418</u>	<u>226,914,269</u>
Financed By:			
Members' fund		<u>320,893,418</u>	<u>226,914,269</u>
Net assets per unit	18	<u>33.69</u>	<u>28.75</u>



Sheila Ezeuko
Trustees
FRC/2013/NBA/00000004059



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

10th May, 2019

The reporting entity, the significant accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

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

	Unit holder capital balances 2018 ₦	Unit holder capital balances 2017 ₦
As at 1st January	226,914,269	187,553,001
Total comprehensive income for the year	7,467,050	43,245,507
	<hr/>	<hr/>
	234,381,319	230,798,508
Transactions with unit holders:	<hr/>	<hr/>
Additional units purchased	110,024,151	28,388,745
Units liquidated	(23,512,052)	(32,272,984)
	<hr/>	<hr/>
Total transactions with unit holders	86,512,099	(3,884,239)
	<hr/>	<hr/>
Members' funds at 31st December	320,893,418	226,914,269
	<hr/>	<hr/>

The reporting entity, the significant accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

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

	Notes	2018 N	2017 N
Cash flows from operating activities			
Profit before tax		7,938,967	43,546,353
Adjustments for:			
Depreciation	12	488,831	488,831
Fair value loss/(gain) on investment	8	7,637,511	(26,850,443)
Loss/(profit) on sale financial assets @ fair value through profit or loss	8	2,373,554	(8,769,671)
		<hr/>	<hr/>
		18,438,863	8,415,070
Changes in working capital			
Decrease in other assets	15	1,350	449,085
Decrease in trade and other payables	17	(755,502)	(3,154,264)
		<hr/>	<hr/>
Cash generated from operations		17,684,711	5,709,891
Tax paid	7	(471,917)	(300,846)
		<hr/>	<hr/>
Net cash inflow from operating activities		17,212,794	5,409,045
		<hr/>	<hr/>
Cash flows from investing activities			
Proceed from sale financial assets @ fair value through profit or loss	8	40,001,425	122,012,102
Purchase of financial assets @ fair value through profit or loss	13	(68,842,514)	(78,857,117)
Purchase of financial assets at amortised cost	14	(73,635,543)	(43,523,356)
		<hr/>	<hr/>
Net cash used in investing activities		(102,476,632)	(368,371)
		<hr/>	<hr/>
Cash flows from financing activities			
Net cashflow from sale and purchase of unit		86,512,099	(3,884,239)
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities		86,512,099	(3,884,239)
		<hr/>	<hr/>
Total movement for the year		1,248,261	1,156,435
Cash and cash equivalents at the beginning of the year		5,082,632	3,926,197
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	16	6,330,893	5,082,632
		=====	=====

The reporting entity, the significant accounting policies and notes on pages 14 to 32 form an integral part of these financial statements.

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

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

1. Reporting entity

ARM Ethical Fund (“the Fund”) is an open-ended Islamic mutual fund authorized and registered by the Securities and Exchange Commission. The Fund’s principal office is located at Asset & Resource Management Company Limited at No. 1, Mekunwen Road, Off Oyinkan Abayomi Drive, Ikoyi, Lagos.

The Fund is specifically designed to enable investors acquire investments that are sharia compliant and earn returns in adherence to approved guidelines.

The Fund is managed by Asset and Resource Management Company Limited who during the year changed its name to ARM Investment Managers Limited (“the Fund Manager”) and the trustees to the Fund are Royal Exchange Plc (“the Trustees”).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Reporting Standards (IFRSs).

The financial statements were authorised for issue by the Trustees and Fund Manager on 10th May, 2019.

2.2 Functional and presentation currency

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

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;
- * Loans and receivables, held to maturity financial assets and financial liabilities are measured at amortized cost.

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.

ARM ETHICAL FUND

MANAGED BY ARM INVESTMENT MANAGERS LIMITED

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

2. Basis of preparation (continued)

2.4 Use of estimates and judgments (continued)

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.

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.

3. Significant accounting policies

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

3.1 Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Naira at the exchange rate 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 financing and advances 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.

ARM ETHICAL 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 instruments

(i) Transition disclosures

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39. Classification and measurement of debt assets is driven by the Fund's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). IFRS 9 also introduces a new expected credit loss (ECL) impairment model. IFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification or measurement of financial instruments as outlined in note 3.6.

The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

(ii) Initial recognition and measurement

Financial instruments are recognised initially when the Fund becomes a party to the contractual provisions of the instruments. Financial instruments carried at fair value through profit or loss are initially recognised at fair value with transaction costs, which are directly attributable to the acquisition or issue of the financial instruments, being 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. Financial instruments are recognised or de-recognised on the date the Fund commits to purchase or sell the instruments (trade day accounting).

(iii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at amortised cost or fair value depending on their classification category.

(iv) Classification

Financial assets Subsequent to initial recognition, all financial assets within the Fund are measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

ARM ETHICAL 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 instruments (continued)

(iv) Classification (continued)

The Fund's financial assets are subsequently measured at amortised cost if they meet both of the following criteria and are not designated as at FVTPL:

- 'Hold to collect' business model test - The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- 'SPPI' contractual cash flow characteristics test - The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding on a specified date. Interest in this context is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Debt instruments are measured at amortised cost by the Fund if they meet both of the following criteria and are not designated as at FVTPL:

- 'Hold to collect and sell' business model test: The asset is held within a business model whose objective is achieved by both holding the financial asset in order to collect contractual cash flows and selling the financial asset; and
- 'SPPI' contractual cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

All other financial assets (equity investments) are measured at fair value. A financial asset is classified and measured at fair value through profit or loss (FVTPL) by the Fund if the financial asset is:

- A debt instrument that does not qualify to be measured at amortised cost or FVOCI;
- An equity investment which the Fund has not irrevocably elected to classify as at FVOCI and present subsequent changes in fair value in OCI;
- A financial asset where the Fund has elected to measure the asset at FVTPL under the fair value option.
- Financial liabilities Financial liabilities are either classified by the Fund as:
 - Financial liabilities at amortised cost; or
 - Financial liabilities as at fair value through profit or loss (FVTPL).
- Financial liabilities are measured at amortised cost by the Fund unless either:
 - The financial liability is held for trading and is therefore required to be measured at FVTPL, or
 - The Fund elects to measure the financial liability at FVTPL (using the fair value option).

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. 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 ETHICAL 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 instruments (continued)

(v) Fair value measurement (continued)

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 an unlisted instrument, 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 financial position date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the financial position 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 the price.

(vi) 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 ETHICAL 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 instruments (continued)

(vi) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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.

(vii) 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.

(viii) 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.

ARM ETHICAL 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 instruments (continued)

(viii) Derecognition of financial instruments (continued)

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, cancelled or expired. 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 balance sheet 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.

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.

ARM ETHICAL 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)

3.9 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 ETHICAL 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)

3.11 New standards and interpretations not yet adopted

Pronouncement	Nature	Effective date
IFRS 16	<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 recognise:</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

ARM ETHICAL 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)

3.11 New standards and interpretations not yet adopted

IFRS Reference	Nature of change	Application date
IFRS 17 Insurance Contracts	<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.</p> <p>There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items.</p> <p>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>	

ARM ETHICAL 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 optional returns for fund holders, the Fund participates in risk-taking activities such selective investments in equities, real estate, Murabaha, and Sukuk. These activities expose the Fund to risks such as:

- Market and Investment risk
- Liquidity risk
- Counterparty credit risk
- Compliance risk
- Operational 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 exposures 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 market rates.

The Fund is exposed to market and investment risk through its investment activities, which are 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 from time to time notifies the portfolio managers of identified exceptions. Persistent violations of the guidelines are escalated to the Fund's Investment Committee. The Investment Committee meets on a quarterly basis to review the Fund's activities and performance, and to set operational strategy for the succeeding quarter.

The Fund's performance is assessed periodically and compared to relevant benchmarks and peer funds.

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

ARM ETHICAL 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 limit 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 ₦ 101,370,863 (2017: ₦ 82,540,839).

4.1.1 Foreign exchange risk:

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

4.2 Liquidity risk

Liquidity risk is the risk that the Fund will be unable to sufficiently 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 unit.

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 significant loss in asset value. To achieve this, the Fund retains a portion of its assets in cash and cash equivalents to meet client redemption requests in a timely manner without having to liquidate other assets.

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

	2018 ₦	2017 ₦
Financial assets at amortised cost	184,151,322	110,515,779
Cash & bank balances	6,330,893	5,082,632
Current liabilities	(6,851,748)	(7,607,250)
Net investments in cash and near cash equivalents net of payables	183,630,467 =====	107,991,161 =====

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

	2018 ₦	2017 ₦
Members' Funds	320,893,418 =====	226,914,269 =====
Total client redemptions during the year	(23,512,052) =====	(32,272,984) =====

ARM ETHICAL 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)

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 bank balances with financial institutions and investments in securities such as Sukuk and Murabaha.

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 31 December 2018 and 31 December 2017 is seen in the table below:

Analysis of credit risk exposure by counterparty:

	2018 RM	2017 RM
Federal Government Investment	133,623,929	83,501,567
Sukuk Investment	8,607,638	11,910,053
Investment in murabaha	-	15,104,159
Fixed placement	41,919,756	-
Financial Institutions	6,330,893	5,082,632
Other receivables	207,412	208,762
	<u>190,689,628</u>	<u>115,807,173</u>
	=====	=====

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 ensure 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 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.

ARM ETHICAL 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

(i) Valuation of financial instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Fund determines fair values using valuation techniques.

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

	Note	Level 1 N	Level 2 N	Level 3 N	Total N
31st December 2018					
Financial assets at fair value through profit or loss	13	101,370,863 =====	=====	=====	101,370,863 =====
31st December 2017					
Financial assets at fair value through profit or loss	13	82,540,839 =====	- =====	- =====	82,540,839 =====

(ii) Financial assets and liabilities classified

The Fund's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances as set out in note 3.6 (ii). Details of the Fund's classification of financial assets and liabilities are given in note 6.

ARM ETHICAL 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

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.

	Note	FVTPL	Financial assets at amortised cost	Other financial liabilities	Fair value
		₦	₦	₦	₦
31st December, 2018					
Cash and cash equivalents	15	-	6,330,893	-	6,330,893
Financial assets at fair value through profit or loss	13	101,370,863	-	-	101,370,863
Fixed income securities	14	-	184,155,322	-	184,155,322
Other assets	15	-	207,412	-	207,412
		<hr/>	<hr/>	<hr/>	<hr/>
		101,370,863	190,693,627	-	292,064,490
		<hr/>	<hr/>	<hr/>	<hr/>
Trade and other payables	17	-	-	(6,851,748)	(6,851,748)
		=====	=====	=====	=====
31st December, 2017					
Cash and cash equivalents	16	-	5,082,632	-	5,082,632
Financial assets at fair value through profit or loss	13	82,540,839	-	-	82,540,839
Fixed income securities	14	-	110,515,779	-	110,515,779
Other assets	15	-	208,762	-	208,762
		<hr/>	<hr/>	<hr/>	<hr/>
		82,540,839	115,807,173	-	198,348,012
		<hr/>	<hr/>	<hr/>	<hr/>
Trade and other payables	17	-	-	(7,607,250)	(7,607,250)
		=====	=====	=====	=====

ARM ETHICAL 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)**

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

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.

	2018 ₦	2017 ₦
7. Investment income		
Interest income	18,345,841	9,091,847
Gross dividend income	4,719,173	3,008,459
	<u>23,065,014</u>	<u>12,100,306</u>
	=====	=====
8. Net (loss)/gain from financial assets at fair value through profit or loss		
(Loss)/gain from security trading (note 8.1)	(2,373,554)	8,769,671
Fair value gain/(loss) on investments at fair value through profit or loss (8.2)	(7,637,511)	26,850,443
	<u>(10,011,065)</u>	<u>35,620,114</u>
	=====	=====
8.1 (Loss)/gain from security trading		
Proceed	40,001,425	122,012,102
Cost	(42,374,979)	(113,242,431)
	<u>(2,373,554)</u>	<u>8,769,671</u>
	=====	=====
8.2 Fair value gain on investments at fair value through profit or loss		
As at 1 st January	26,850,443	(1,498,500)
Fair value change in the year (note 8)	(7,637,511)	26,850,443
	<u>19,212,932</u>	<u>25,351,943</u>
	=====	=====
9. Other operating expenses		
Custodian fee	318,623	227,902
Trustees fees	254,929	375,230
Audit fees	1,500,000	1,500,000
Other expenses	320,277	370,433
Management remuneration	4,014,654	3,216,254
Depreciation	488,831	488,831
Bank charges	151,001	-
	<u>7,048,315</u>	<u>6,178,650</u>
	=====	=====
10 Rental income	1,933,333	2,004,583
	=====	=====

This relates to the income generated from sub-lease of the shops as disclosed in the investment property (note 12).

ARM ETHICAL FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Notes to the financial statements for the year ended 31st December, 2018 (continued)****11. Withholding tax expense**

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).

	2018 ₦	2017 ₦
12. Investment properties		
Cost:		
As at 31 st December*	37,640,000	37,640,000
	=====	=====
Depreciation:		
As at 1 st January	1,466,493	977,662
Charge for the year	488,831	488,831
	1,955,324	1,466,493
	=====	=====
Carrying amount:		
As at 31 st December	35,684,676	36,173,507
	=====	=====

*This amount represents the cost of acquiring 4 shops at Ikota Shopping Complex, Victoria Garden City, Lagos in November, 2013. The lease currently has an unexpired tenure of 76 years and was acquired primarily for its investment potentials.

The fair value of the investment property as at 31st December, 2018 was ₦ 55 million (2017: ₦ 36 million). Total revenue generated from the investment property during the year amounted to ₦ 1.93 million (note 10).

	2018 ₦	2017 ₦
13. Financial assets at fair value through profit or loss		
Investments	55,690,396	90,075,710
Purchases	53,342,989	78,857,117
Disposals	(42,374,979)	(113,242,431)
	-----	-----
Investments as at year end	66,658,406	55,690,396
Fair value gain as at the year end	19,212,932	26,850,443
	-----	-----
Investment at fair value as at the year end	85,871,338	82,540,839
	-----	-----
Exchange traded fund		
Investment at cost	15,499,525	-
Fair value changes	-	-
	15,499,525	-
	-----	-----
	101,370,863	82,540,839
	=====	=====

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

	2018 ₦	2017 ₦
14 Financial assets amortised cost		
Fixed deposit (i)	41,919,756	15,104,159
Government bonds (ii)	142,231,566	95,411,620
	<hr/> 184,151,322 <hr/> =====	<hr/> 110,515,779 <hr/> =====

- (i) This represents the fixed deposit with financial institution during the year at an average annual interest rate of 11.6% during the year (2017: 10%).

	2018 ₦	2017 ₦
(ii) Government bonds		
Investment in Osun State bond at a market yield of 14.75%	8,607,638	11,910,053
Investment in Federal Government bond at a market yield of 16.47%	133,623,928	83,501,567
	<hr/> 142,231,566 <hr/> =====	<hr/> 95,411,620 <hr/> =====

The investing principal and interest are repayable annually throughout the life of the bond.

15. Other assets		
Dividend receivable	207,412	208,762
	<hr/> =====	<hr/> =====
16. Cash and cash equivalents		
Bank balances	6,330,893	5,082,632
	<hr/> =====	<hr/> =====
17. Trade and other payables		
Redemption payable	1,039,298	1,040,000
Management fee payable	1,096,529	888,327
Custodian fee payable	961,084	794,795
Trustee fee payable	226,164	575,288
Audit fees	3,428,673	3,575,507
Unearned income	100,000	733,333
	<hr/> 6,851,748 <hr/> =====	<hr/> 7,607,250 <hr/> =====

18. Net asset per unit

The net asset per unit is computed using the net asset value as at the statement of financial position date divided by the 9,524,248.92 units (2017: 7,891,366.05 units) in existence as at that date.

ARM ETHICAL FUND**MANAGED BY ARM INVESTMENT MANAGERS LIMITED****Notes to the financial statements for the year ended 31st December, 2018 (continued)****19. 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 Fund Management Agreement (Trust Deed), the Fund Manager is entitled to a 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 ₦ 4.01 million (2017: 3.21 million).

(b) Other key contracts*Trustees*

The Fund appointed Royal Exchange Plc, a trusteeship company in Nigeria, to provide administrative services to the Fund. Under the Fund Trust Deed, the Trustees are entitled to a fee at an annual rate of 0.10 percent of the Net Assets Value attributable to holders of redeemable units on each valuation day.

Custodian

The Fund engaged the service of Citibank (Nigeria) Limited to provide custodian services for a fee. The fee is charged at 0.125% on equities/fixed income.

	2018		
	Members capital account ₦	Retained earnings ₦	Total equity ₦
As at 1 st January	171,966,523	54,947,746	226,914,269
Profit for the year	-	7,467,050	7,467,050
Contributions during the year	110,024,151	-	110,024,151
Redemption during the year	(23,512,052)	-	(23,512,052)
As at 31st December	258,478,622	62,414,796	320,893,418
	=====	=====	=====
	2017		
	Members capital account ₦	Retained earnings ₦	Total equity ₦
As at 1 st January	175,850,762	11,702,239	187,553,001
Profit for the year	-	43,245,507	43,245,507
Contributions during the year	28,388,745	-	28,388,745
Redemption during the year	(32,272,984)	-	(32,272,984)
As at 31st December	171,966,523	54,947,746	226,914,269
	=====	=====	=====