

SFS REIT

Annual report

For the year ended December 31, 2023

	Page
Contents	
Corporate Information	2
Trustee Responsibility	3
Fund Managers Duties to the Nigerian Exchange Group	4
Certification of Account	5
Independent Auditors' Report	6
Statement of Financial Position	9
Statement of Comprehensive Income	10
Statement of Cash flow	11
Statement of Changes in Equity	12
Portfolio Statement	13
Statement of Accounting Policies	14
Notes to the Financial Statements	24
Value Added Statement	29
Financial Summary	30

Corporate Information

Fund Manager	SFS Capital Nigeria Limited Plot 287 Ajoye Adeogun Street Victoria Island Lagos.
Directors of Fund Manager	Dr. Layi Fatona (Chairman) Mr. Patrick Ilodiana (Managing Director) Mr. Dimeji Sonowo (Executive Director) Mr. Yemi Gbenro (Director) Dr. Yemi Kale (Director)
Trustees	Apel Capital and Trust Limited 8, Alhaji Bashorun Street Off Norman Williams Crescent South - West Ikoyi Lagos.
Custodian	Stanbic IBTC Nominees Walter carington Crescent Victoria Island Lagos.
Auditor:	DOC Advisory (Chartered Accountants) 6B, Irete Street Sabo, Yaba Lagos.
Registrars	Pace Registrars Limited 8th Floor, Knight Frank Building 24 Campbell Street Lagos.
Real Estate Surveyors & Valuers	Ubosi Eleh & Co. NUJ Lighthouse 3/5 Adeyemo Alakija Street Victoria Island Lagos.

Trustees Responsibility Statement

The Trustees responsibilities to the Fund are as follows:

- 1 To stand possessed of the deposited property upon trust for the Unitholders.
- 2 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 investment and documents of title or value connected therewith that are actually received by the Trustees.
- 3 At all times to act with prudence and honesty in relation to all investments and documents of title or value kept in its custody.
- 4 To forward to the Manager without delay all notices of meetings, reports and circulars received by its nominees as holders of any investment.
- 5 To jointly issue (with the Manager) certificates evidencing ownership of Units in the fund.
- 6 To grant its consent to the appointment of the Auditors of the fund.
- 7 To send copies of the accounts of the Fund to all Unitholders.
- 8 To make the trust deed available for inspection by the Unit holders of the Fund and/or to consent to the Manager convening such meetings.
- 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 and to approve the form of the proxy used for meetings.

Fund Managers Duties To The Nigerian Exchange Group

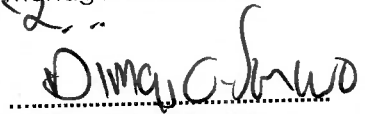
The Fund Manager shall render periodic returns and projections to the office of the Chief Executive of the Nigerian Exchange Group.


The Fund Manager shall abide by all the rules and regulations of the Nigerian Exchange Group.

Certification of Account By Directors

We hereby certify that neither the manager nor any other person acting on its behalf has:

- 1 Acquired or disposed of Investments for account of the Trust otherwise through a recognized Exchange Group except where such investment consist of money market instruments or cash deposits; or
- 2 Disposed of Units to another person for a price lower than the current offered price; or
- 3 Acquired Units for a price higher than the current bid price; or
- 4 Transferred units to another person for sale, resale or subsequent transfer to the Manager for sale or resale.


.....
DIMEJI SONOWO
EXECUTIVE DIRECTOR
FRC/2013/ICAN/00000002089


.....
PATRICK ILODIANYA
MANAGING DIRECTOR
FRC/2013/ICAN/00000002177

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF SFS REAL ESTATE INVESTMENT TRUST FUND REPORT FOR THE YEAR ENDED DECEMBER 31, 2023

Opinion

We have audited the accompanying financial statements of SFS Real Estate Investment Trust ("SFS REIT" or "the Fund") , which comprises the statement of financial position as at December 31, 2023; the statement of profit or loss and other comprehensive income; the statement of changes in equity; and the statement of cash flows for the same year along with significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at December 31, 2023 and of its financial performance and cash flows for the same year in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Allied Matters Act ("CAMA") CAP C20 LFN 2020, the Investment and Securities Act ("ISA") and the Financial Reporting Council of Nigeria Act 2011.

Basis of opinion

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the Auditors' judgment, including the assessment of the risk of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment judgement and in order to design audit procedures that are appropriate in the circumstances, the Auditor considers internal controls relevant to the entity's preparation and fair presentation of its financial statements that give a true and fair view, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Also, an audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management of the Company, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidences that we have obtained are sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, we do not provide a separate opinion on these matters. No key audit matters were noted during the course of the audit.

Fund Manager's Responsibility

The Fund manager is responsible for the preparation of the financial statements that give a true and fair view of the state of affairs of the Fund in accordance with IFRS; and in the manner required by CAMA, CAP C20 LFN 2020, the Trustees Investment Act, the Investment and Securities Act, the Financial Reporting Council of Nigeria ("FRCN") Act, 2011 and such other internal controls as determined necessary by the Fund manager, for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the Fund manager either liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities

Our objective is to obtain reasonable assurance, whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing ("ISA") 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 the financial statements. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. Also, we:

- 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 identified risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- Obtain an understanding of internal controls 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 the Fund manager;
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists in relation 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 auditors' 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- 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 a manner that achieves fair presentation.

We are required to communicate with the Fund manager 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 the audit. Also, we are required to provide the Fund Manager, a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them on all relationships and other matters that may be thought to impact our independence and related safeguards, where applicable.

Report on other Legal, Regulatory Requirements

Compliance with the requirements of schedule 6 of CAMA CAP C20 LFN 2020.

In our opinion, the Fund has kept proper books of account, so far as it appears from our examination of its statement of financial position and its statement of comprehensive income, which are in agreement with the books of account.

Signed: 

Oladeinde Odusanya, FCA

FRC/2013/ICAN/00000003192

For: DoC Advisory. (Chartered Accountants)

March, 2024


Lagos, Nigeria.



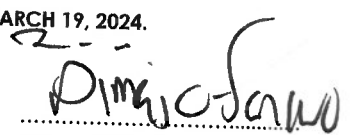
**Statement of financial position
As at December 31, 2023**

	Notes	2023 N'000	2022 N'000
ASSETS			
Investment properties	10	1,968,950	1,820,390
Non-current Assets		1,968,950	1,820,390
Cash and cash equivalents	8	755,421	559,406
Investment in securities	9	574,471	575,326
Other receivables	11	49	49
Prepaid expenses	16	1,134	1,134
Current Assets		1,331,075	1,135,915
Total Assets		3,300,025	2,956,305
LIABILITIES			
Payables & accruals	12	583,970	415,987
Deferred income	13	122,482	95,249
Total liabilities		706,452	511,236
Net Assets		2,593,573	2,445,069
EQUITY AND RESERVES			
Unitholders' equity	14	2,000,000	2,000,000
Revenue reserve	15	593,573	445,069
Unitholders' Equity		2,593,573	2,445,069
Net assets per unit (N)	17	129.68	122.25

APPROVED AND SIGNED BY THE BOARD OF DIRECTORS ON MARCH 19, 2024.


PATRICK ILODIANYA
MANAGING DIRECTOR


AKINYEMI GBENRO
DIRECTOR


DIMEJI SONOWO
EXECUTIVE DIRECTOR

FRC/2013/ICAN/00000002177 FRC/2013/CIBN/00000002091 FRC/2013/ICAN/00000002089

The accompanying notes on pages 24 to 28 form an integral part of these financial statements

Statement of profit or loss and other comprehensive income
For the year ended December 31, 2023

	Notes	2023 N'000	2022 N'000
Interest income	4	147,730	68,930
Profit on disposal of investment property	4	57,661	-
Rental income	4	190,026	178,854
Total income		395,417	247,785
Total operating expenses	5	(77,914)	(61,164)
Net income		317,503	186,621
Net income per unit (N)		15.88	9.33
Proposed final distribution	7	290,000	169,000
Proposed final distribution per unit (N)		14.50	8.45

The accompanying notes on pages 24 to 28 form an integral part of these financial statements

Statement of Cash Flows
For the year ended December 31, 2023

	2023	2022
	N'000	N'000
Cash flow from operating activities:		
Net Income for the year	317,503	186,621
Profit on investment property disposed	(57,661)	-
(Increase)/Decrease in prepayments & receivables	-	360
Increase/ (Decrease) in payables & accruals	183,980	8,419
Net cash generated from operating activities	443,822	195,400
Cash flows from investing activities:		
Investment property purchased (new Investments)	(426,550)	-
Proceeds on disposal of property	335,651	-
Investment in securities	855	110,929
Unclaimed distribution	11,237	40,052
Net cash (used in) investing activities	(78,807)	150,981
Cash flows from financing activities:		
Distribution paid	(169,000)	(145,000)
Net cash used in from financing activities	(169,000)	(145,000)
 Increase in cash and cash equivalents	 196,015	 201,381
Cash and cash equivalents at the beginning of the year	559,406	358,025
Cash and cash equivalents at the end of the year	755,421	559,406

The accompanying notes on pages 24 to 28 form an integral part of these financial statements

Statement of changes in equity

	Unitholders' Equity	Revenue Reserve	Total equity
	N'000	N'000	N'000
Balance as at 1 January 2023	2,000,000	445,069	2,445,069
Net income for the year		317,503	317,503
Distribution paid		(169,000)	(169,000)
Balance at 31 December 2023	2,000,000	593,573	2,593,573
Balance as at 1 January 2022	2,000,000	403,445	2,403,445
Adjustment for capitalised interest		4	4
Net income for the year	-	186,621	186,621
Distribution paid	-	(145,000)	(145,000)
Balance at 31 December 2022	2,000,000	445,069	2,445,069

PORTFOLIO STATEMENT

For the year ended December 31, 2023

	Note	Cost N'000	Net Asset %
Real estate	10	1,968,950	75.9
Real estate related investments		417,374	16.1
Liquid assets		912,518	
Prepayments and other receivables	16	1,183	
Less unclaimed dividend and other payables		<u>(706,452)</u>	
		207,249	8.0
Net assets		<u>2,593,573</u>	<u>100</u>

The Trust Deed stipulates that not more than 10% of the Fund's net asset value shall be held in liquid assets.

Notes to the Financial Statement

1 Reporting entity

- (a) The SFS Real Estate Investment Trust is a fund incorporated under the laws of Nigeria. The address of the Fund's registered office is Plot 287, Ajose Adeogun Street, Victoria Island, Lagos. It is governed by a Trust Deed approved by the Securities and Exchange Commission. The fund's units are listed on the floor of the Nigerian Exchange Group. Its financial statements are filed with Securities and Exchange Commission and other regulatory authorities.

The SFS Real Estate Investment Trust is a close – ended Real Estate Investment Trust (REIT), primarily involved in acquiring investment properties which are held for capital appreciation.

The investment activities of the fund are managed by SFS Capital Nigeria Limited (the fund manager) while Apel Capital and Trust Limited are the Trustees.

(b) Disclosure: Securities Trading Policy

In compliance with Rule 17.15 Disclosure of Dealings in Issuers' Shares, Rulebook of the Exchange 2015 (Issuers Rule) SFS Real Estate Investment Trust maintains effective Security Trading Policy which guides the directors of the Fund manager, Audit Committee members, employees and all individuals categorized as insiders as to their dealing in the units. The policy is regularly reviewed and updated by the board. The fund manager has made specific inquiries of all the directors and other insiders and is not aware of any infringement.

2 Basis of preparation

(a) Statement of compliance

The financial statements of the fund as at and for the year ended December 31, 2023 have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements are authorised for issue by the board of directors of the fund manager on March 19, 2024.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- i) Financial assets held till maturity are measured at fair value.
- ii) Investment properties are measured at cost and at subsequent recognition, at cost less impairment (if any).

(c) Functional and presentation currency

These financial statements are presented in naira (N), which is the fund's functional currency. All financial information presented in naira has been rounded to the nearest thousand.

(d) Use of estimates and Judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. Actual results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognised prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in these notes.

Adoption of pronouncements under IFRS

Standards and amendments effective during the reporting period:

IFRS 16 - Leases (effective on or after January 1, 2019)

Standards and interpretations issued but not yet effective during the reporting period.

IFRS 7 - Financial instruments (Disclosures) - Interest rate benchmark reform (effective on or after January 1, 2020)

The Fund did not adopt earlier any new or amended standards in 2023.

3 Significant accounting policies

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

(a) Foreign Currency

Transactions denominated in foreign currencies are recorded in Naira at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates, subsequent to the dates of transactions, is included as an exchange gain or loss in the profit and loss account.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Nigerian naira at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in income, except for differences arising on the translation of available - for - sale equity instruments, financial liability designated as a hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

(b) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost, including transaction costs. The fund elected to apply the optional exemption to use the cost of the investment properties as deemed cost on 1 January 2011, the date of transition for all properties that were thus stated under GAAP. Subsequent to initial measurement, investment property is accounted for in accordance with the cost model, which is, cost less accumulated depreciation and less accumulated impairment losses.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized as income or expense in the income statement.

Assets and Liabilities

Recognition

All financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the fund becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Subsequent recognition of financial assets and liabilities is at amortized cost or fair value. When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from markets, the fund immediately recognizes the difference between the transaction price and fair value in 'Net gains/(losses)' on financial instruments classified as held till maturity'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

Classification

The classification of financial instruments depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics.

De-recognition

The fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the fund is recognized as a separate asset or liability. The fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. The Fund enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. In transactions in which the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognize the asset to the extent of its continuing involvement, determined by extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Fund continues to recognize 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.

Offsetting

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 realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Fund of similar transactions such as in the Fund's trading activity.

Sale and repurchase agreements.

The Fund has no sale and repurchased agreements as at the reporting date.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the fund's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity financial assets.

If the fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the fund from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The fund's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale financial assets are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount minus any reduction for impairment.

Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Fair value hierarchy

Fair values are determined according to the following hierarchy based on the requirements in IFRS 7 'Financial Instruments: Disclosures':

- Level 1: quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets
- Level 2: valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3: valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable. The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

Identification and Measurement of Impairment

At each reporting date the fund assesses whether there is objective evidence that financial assets measured at amortized cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. The fund writes off financial assets carried at amortized cost when they are uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less.

Provisions

Provisions are recognized when the fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the fund expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain.

Taxes

The fund is not subjected to income and education taxes on its income by the concession given to it. This concession was given and approved by the Federal Ministry of Finance in accordance with international best practice. This concession covers:

Exemption from Companies Income Tax, although WHT will be imposed on dividend distributed, to investors; any distribution below the prescribed threshold (i.e., 90% of net income) will disqualify the REIT from tax exemption. Exemption from stamp duties to reduce transaction costs; and exemption from Capital Gains Tax on the ground that income arising from sales or disposal will be ploughed back for the purchase of additional properties or distributed as dividend.

Property, plant and equipment

The Fund does not hold any property, plant and equipment at present, as it is against the position of the Securities and Exchange Commission (SEC). All properties, plant and equipment used for managing the Fund are owned by the Fund manager who is paid management fees.

Impairment of non-financial assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Deferred Income Liability

Rental income that are designed to cover periods beyond the reporting period is included as a liability and amortized over the period covered by the lease agreement.

Income Recognition

Profit on Disposal of Investment Property

Income from disposal of property is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectability is probable, and the significant risks and rewards of ownership have been transferred to the buyer. Gain on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

Rental Income

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the rent/lease. Lease incentives granted are recognized as part of the lease.

Interest Income

Interest income is recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. When calculating the effective interest rate, the fund estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

Risk Management Analysis

Risk management framework

The fund's risk management policies are established to identify and analyze the risks faced by the fund, to set appropriate risk limits and controls, to monitor risks and adherence to limits. This policy is subject to review periodically. More frequent reviews may be conducted in the opinion of the fund Manager, when changes in laws, market conditions or the fund's activities are material enough to impact on the continued adoption of existing policies. The fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the fund manager has overall responsibility for the establishment and oversight of the fund's risk management framework via its committees.

The Board is assisted by the various Management Committees in identifying and assessing risks arising from daily activities of the fund. These committees are:

The Management Credit Committee

Management Risk Committee

Other Ad-hoc Committee

These committees meet on a regular basis while others are set up on an ad hoc basis as dictated by the circumstances.

Financial risks

The fund has exposure to the following risks from its use of financial instruments:

Credit risk

Liquidity risk

Market risks

Operational risks

This note presents information about the fund's exposure to each of the above risks, the fund's objectives, policies and processes for measuring and managing risks, and the fund's management of asset and liability.

Credit Risk

Credit risk is the risk of an economic loss arising from failure of counterparty to fulfill its contractual obligations. Its effect is measured by the cost of replacing cash flows if the other party defaults. The tough operating economic environment has continued to pose several challenges in the management of credit risk.

Credit Risk Philosophy

The fund's credit risk philosophy is guided by twin responsibilities of protecting earnings and preventing erosion of capital. The Credit Risk Management is guided by the following principles.

- a. Clear articulation of policy guidelines.
- b. Irrespective of rewards, the fund will always put Credit Risk before pecuniary considerations.
- c. The fund shall adopt a strategic rather than a purely opportunistic approach in the creation of risk portfolio.

Liquidity Risk

Liquidity risk is the risk that the fund does not have sufficient resources to meet its obligations when they fall due or will have to meet its obligations at an excessive cost. This may be as a result of cash requirement from contractual commitments and Investments.

Management of liquidity risk

A brief overview of the fund's liquidity management processes includes the following:

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement limit;
- The fund has set for itself more stringent in-house limit to which it adheres;
- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits;
- Regular monitoring of non-earning assets;
- Monitoring of deposit placement concentration;
- Ensure diversification of funding sources;
- Maintaining a contingency funding plan.

Exposure to liquidity risk

The key measure used by the fund for managing liquidity risk is the ratio of net liquid assets to total net asset of the fund.

Market Risk

Market risk is the risk that the fund income or fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices in particular, changes in interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of Market Risk

Overall authority for market risk is vested in Market Risk Management Committee. However, the Market Risk Management group within is responsible for the development of detailed risk management policies (subject to review and approval by the Committee) and for the day-to-day review of their implementation.

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Fund's trading portfolios is the open position limits using the Earnings at Risk approach. Specified limits have been set for open positions limits, which are the expected maximum exposure the Fund is to be exposed.

Exposure to interest rate risk – Trading and non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands.

Operational Risk

Operational risk is the risk of loss arising through fraud, unauthorized activities, errors, omission, inefficiency, system failure or from external events. The definition includes losses arising from legal and regulatory risk but excludes strategic and reputational risk. Operational risks arise from all of the fund's operations and are faced by all business entities.

The objectives of the fund operational risk management are to manage and control operational risk in a cost-effective manner, avoiding financial losses and reputational damage without instituting control procedures that will stifle initiative and creativity.

The fund's focus is to manage operational risk based on a consistent framework that enables us to determine not only our operational risk profile in comparison to our risk appetite, but also define risk mitigating measures and priorities.

Future operational risks identified through forward-looking analysis are managed via mitigation strategies such as the development of backup systems and emergency plans.

Critical accounting judgements made in applying the fund's accounting policies include:

Financial asset and liability classification.

The fund's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets or liabilities as "trading", the fund has determined that it meets the description of trading assets and liabilities set out in accounting policy.

In designating financial assets or liabilities as available-for-sale, the fund has determined that it has met one of the criteria for this designation set out in accounting policy.

In classifying financial assets as held-to-maturity, the fund has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy.

Depreciation and carrying value of property and equipment.

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

Determination of impairment of property and equipment

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Fund applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realizable values. Management's judgement is also required when assessing whether a previously recognized impairment loss should be reversed.

Impairment of available-for-sale equity investments

The fund determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the fund evaluates among other factors, the volatility of the market. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Valuation of financial instruments

The fund's accounting policy on fair value measurements is discussed under the note. The fund measures fair values using the quoted market price in an active market for identical instruments.

Financial instruments at fair value (including those held for trading, designated at fair value, derivatives and available-for-sale) are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and prices.

Notes to the Financial Statements
For the year ended December 31, 2023

4 INCOME

	2023	2022
	N'000	N'000
Fixed interest income	120,556	45,779
Interest from unclaimed distribution(note 7b)	27,174	23,151
Profit on disposal of investment property	57,661	-
Rental income	190,026	178,854
Total income	395,417	247,785

5 OPERATING EXPENSES

Manager's fee	38,959	35,742
Other expenses*	36,455	23,651
Audit fee	2,500	1,771
	77,914	61,164

***Other Expenses comprise**

Trustee fee	2,500	2,500
Repairs and renovations/service charge	11,882	1,905
AGM, annual report publication expenses etc	1,836	1,190
Custodian fee	2,321	2,321
Insurance	1,774	1,665
Valuation and other professional fees	450	350
Registrars' fee	-	387
Bank charges	26	16
General expenses	8,860	8,553
SEC Supervisory fee	4,811	4,765
VAT Paid	1,996	
	36,455	23,651

6 MANAGEMENT AND INCENTIVE FEES

The Fund Manager's fee for the year was calculated as 1.5% of the Fund's Net Assets Value as at the Statement of Financial Position date. This amounted to N39million (2022:N35.7million). The fee for the year was equivalent to 9.9% (2022:14%) of the Fund's gross income for the year.

7 DISTRIBUTION

The Fund Manager has proposed a distribution of N14.50 per unit amounting to N290million for the year ended December 31, 2023.

Notes to the Financial Statements

b. UNCLAIMED DISTRIBUTION

	2023	2022
	N'000	N'000
Opening balance	388,565	348,512
Addition during the year	30,083	58,752
Paid during the year	(41,320)	(18,700)
Income earned during the year	27,174	23,151
	404,502	411,715
Income transferred to interest income(note 4)	(27,174)	(23,151)
Closing balance (note 12)	377,328	388,565

8 CASH AND CASH EQUIVALENTS

These are balances in current accounts with banks and short term investments:

Cash at bank	10,626	378,997
Tenored Deposit	744,795	180,409
	755,421	559,406

9 INVESTMENT IN SECURITIES

These are investments in bonds and other financial instruments which are held till maturity.

The details are as follows:

	Current value N'000	Face Value N'000	Maturity Date	Rate
16.47% FGN SUKUK Bond	292,129	280,000	26/09/2024	16.47%
15.74% FGN SUKUK Bond	100,129	100,000	28/12/2025	15.74%
14.8 FGN APR 2049	157,097	129,327	26/04/2049	14.80%
11.2% FGN SUKUK 2027	25,115	25,000	16/06/2027	11.20%
	574,471			

10 INVESTMENT IN PROPERTIES

	2023	2022	Report as at Dec. 31 2023
Description	Cost N'000	Cost N'000	Valuation N'000
Investment in property in ikeja GRA	-	277,990	-
Investment in property in Victory Park Estate Lekki	365,400	365,400	660,000
Investment in properties Sapphire	132,000	132,000	180,000
Investment in properties in Bourdillon Court, Lekki	360,000	360,000	456,000
Investment in properties Milverton, Lekki	685,000	685,000	950,000
Investment in properties Cromwell Estate	75,300	-	75,000
Investment in properties Maben Estate	173,250	-	180,000
Investment in properties Victoria Crest Estate	178,000	-	180,000
	1,968,950	1,820,390	2,681,000

The cost model is used in the measurement of investment properties.

The properties were valued at N2.62million inclusive of disposed property (2020:N2.28million) and 435million by Emeka D. Eleh (FRC/2015/NIESV/00000013406) of Ubosi Eleh & Co Estate Surveyors & Valuers (FRC/2014/00000003997) in their report dated 10th March, 2022 and 14th December 2023 respectively.

Notes to the Financial Statements

Description & Title

Property in Victory Park Estate

This is covered by a deed of sublease

Properties in Sapphire Estate Lekki

Properties in Milverton, Lekki

} Covered by letters of allocation

Properties in Milverton, Lekki are supported by purchase agreements between the original owners and the SFS Real Estate Investment Trust.

Properties in Bourdillon Court are covered by provisional allocation letters.

The title documents on all properties are yet to be perfected.

Movement in carrying amount of investment properties

	2023	2022
	N'000	N'000
Balance brought forward	1,820,390	1,820,390
Additions	426,550	-
Disposals	(277,990)	-
Balance carried forward	1,968,950	1,820,390

The Fund manager is of the opinion that the investment properties will continue to appreciate in value and that they are not impaired.

Rental income on investment properties were as follows:

	2023	2022
	N'000	N'000
Victory Park - Lekki	29,725	25,512
Harold Sodipo - GRA Ikeja	4,258	12,000
Sapphire Garden	9,576	8,246
Bourdillon Court	26,625	24,358
Milverton	54,767	43,958
Cromwell	417	-
Rental income from SUKUK Bond	64,659	64,779
	190,026	178,854

Direct operating expenses that arose from investment properties that generated rental income.

	2023	2022
	N'000	N'000
Service charge	-	-
Renovation/Repairs	11,882	1,905
Purchase agreement/agency fee/land use	819	2,352
Others	-	-
	12,701	4,257

Notes to the Financial Statements

	2023	2022
	N'000	N'000
11 OTHER RECEIVABLES		
Other receivables	49	49
	49	49

12 PAYABLES AND ACCRUALS

Unclaimed distribution*	377,328	388,565
Creditors and Accruals(note 12b)	204,142	25,651
Audit fee	2,500	1,771
	583,970	415,987

b. Creditors and Accruals

Custody fees	5,494	3,594
Management fees	12,648	9,217
Trustee	4,968	4,866
Sec supervisory fees	5,828	5,755
Other creditors and accruals**	175,204	2,220
	204,142	25,651

*In line with the rule of the Securities and Exchange Commission, the sum of N377.3million (2022:N388.5million) was returned to the fund by the Registrars as unclaimed distribution.

**Other Payables include WTH, deposit for sale of property and other accruals

13 DEFERRED INCOME

Analysed into:

Current	122,482	95,249
Non-current	-	-
	122,482	95,249

Movement in deferred income

Balance brought forward	95,249	90,304
Rents received during the year	153,480	108,579
Bonds Income received	-	9,335
SEC fees on bond	-	(54)
Security deposits refunded	(300)	(170)
Security deposits received	3,225	550
Rent refunded during the year	(3,000)	(3,000)
Transferred to Statement of comprehensive income	(126,172)	(110,295)
Deferred income	122,482	95,249

14 UNITHOLDERS' EQUITY

20,000,000 units of N100 each	2,000,000	2,000,000
-------------------------------	------------------	------------------

	2023	2022
	N'000	N'000
15 REVENUE RESERVE		
Balance brought forward	445,069	403,445
Capitalised interest	-	4
Net income for the year	317,503	186,621
Distribution paid	(169,000)	(145,000)
Reserve carried forward	593,573	445,069
16 PREPAYMENTS		
Opening balance	1,134	1,025
Addition	1,774	1,774
Prior year adjustment	-	-
Amortised	(1,774)	(1,665)
Closing balance	1,134	1,134

The Fund renews the insurance on its properties annually and the amount paid is amortized across the period. The unamortized value as at December 31, 2023 was N1.13million (2022: N1.13million).

17 NET ASSETS VALUE PER UNIT

The net assets value per unit of N129.86 (2022: N122.25) is based on the net assets of the fund and the total number of units in issue at the financial position date.

18 NON-AUDIT SERVICE PROVISION

No non-audit service was rendered to SFS REIT by the auditors, DOC Advisory during the year ended December 31, 2023.

Value Added Statement

For the year ended December 31, 2023

	<u>2023</u>	%	<u>2022</u>	%
	<u>N'000</u>		<u>N'000</u>	
Gross earnings	395,417		247,785	
Deduct:				
Administrative overheads and payments for other services	(38,955)		(25,422)	
Value added	<u>356,462</u>	<u>100</u>	<u>222,363</u>	<u>100</u>
Applied as follows:				
Fund manager's remuneration	38,959	11	35,742	16
Retained earnings	317,503	89	186,621	84
	<u>356,462</u>	<u>100</u>	<u>222,363</u>	<u>100</u>

Five Years Financial Summary

	2023	2022	2021	2020	2019
	N'000	N'000	N'000	N'000	N'000
ASSETS					
Cash and cash equivalents	755,421	559,406	358,025	134,262	53,605
Investment in securities	574,471	575,326	686,255	923,410	818,622
Receivables	49	49	518	-	-
Prepaid	1,134	1,134	1,025	1,118	1,272
Investment properties	1,968,950	1,820,390	1,820,390	1,775,390	1,846,390
Total Assets	3,300,025	2,956,305	2,866,214	2,834,179	2,719,889
LIABILITIES					
Payables & accruals	(583,970)	(415,987)	(372,465)	(376,565)	(284,235)
Deferred income	(122,482)	(95,249)	(90,304)	(52,030)	(59,208)
Net assets	2,593,573	2,445,069	2,403,445	2,405,584	2,376,446
Represented By:					
Unitholders' equity	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Revenue reserve	593,573	445,069	403,445	405,584	376,446
UNITHOLDERS' FUNDS	2,593,573	2,445,069	2,403,445	2,405,584	2,376,446
Gross income	395,417	247,785	232,623	244,324	224,164
Net income	317,503	186,621	159,861	175,138	162,115
Proposed Distribution	290,000	169,000	145,000	162,000	146,000
Proposed Distribution per unit (N)	14.5	8.45	7.25	8.10	7.30
Net Assets value per unit (N)	129.68	122.25	120.17	120.28	118.82