

**SFS REAL ESTATE INVESTMENT  
TRUST FUND (SFS REIT) FUND  
FINANCIAL STATEMENTS:  
31ST DECEMBER 2020**

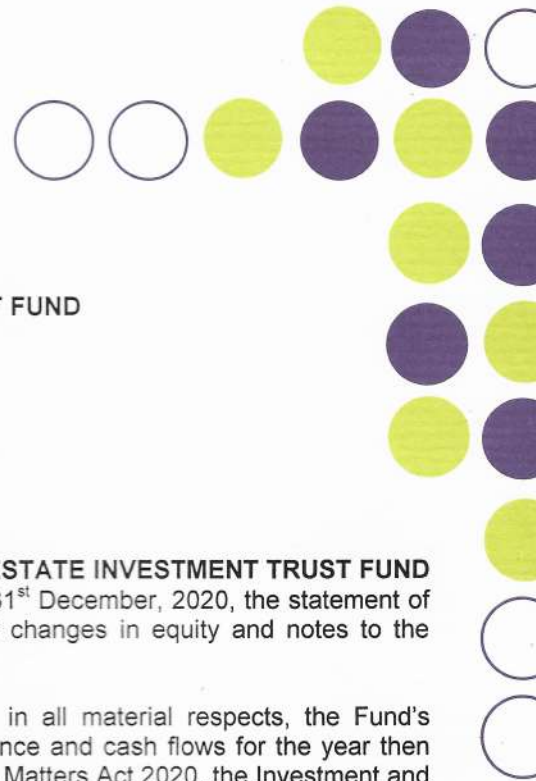
**SFS REAL ESTATE INVESTMENT TRUST FUND**  
**2020 FINANCIAL STATEMENTS**

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**SFS REAL ESTATE INVESTMENT TRUST FUND  
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**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 ( formerly PHB Capital and Trust Limited) 8 Alhaji Bashorun Street Off Norman Williams Crescent South - West Ikoyi Lagos
CUSTODIAN	Stanbic IBTC Bank Plc Walter Carington Crescent Victoria Island Lagos
AUDITORS:	Dele Olufon & Co Chartered Accountants 788 Somide Odunrin Avenue Omole Phase 2 Ikeja Lagos
REGISTRARS	Pace Registrars Limited (formerly Sterling 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



**REPORT OF THE INDEPENDENT AUDITORS  
TO THE UNIT HOLDERS OF SFS REAL ESTATE INVESTMENT TRUST FUND  
FINANCIAL STATEMENTS: 31ST DECEMBER, 2020**

**Report on the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of **SFS REAL ESTATE INVESTMENT TRUST FUND** ('the Fund'), which comprise of the statement of financial position as at 31<sup>st</sup> December, 2020, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and notes to the financial statements for the financial year ended 31st December, 2020.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Fund's financial position as at 31 December 2020 and of its financial performance and cash flows for the year then ended, in accordance with the requirements of the Companies and Allied Matters Act 2020, the Investment and Securities Act and the Financial Reporting Council of Nigeria Act 2011.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Information Other than the Financial Statements and Audit Report thereon**

The Fund Managers are responsible for the other information. The other information comprises the information included in Value added statement and financial summary but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Fund Manager's Responsibility**

The fund manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies and Allied Matters Act 2020, the Trustees Investment Act, the Investment and Securities Act, the Financial Reporting Council of Nigeria Act 2011 and for such internal control, as the fund manager determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Fund Managers are 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 Managers either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about 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 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 skepticism throughout the audit. We also:

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance 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 requirements

The Companies and Allied Matters Act, 2020 requires that in carrying out our audit we consider and report on the following matters. We confirm that:

- a) We obtained the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) In our opinion proper books of account have been kept by the Fund; and
- c) The Fund's financial position and financial performance are in agreement with the books of account.

Ikeja, Lagos  
March 10, 2021.

  
Mrs. O. Olufon  
FRC/2012/ICAN/00000000530

For: DELE OLUFON & CO  
Chartered Accountants




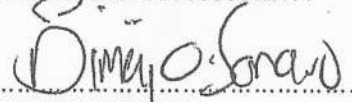
**SFS REAL ESTATE INVESTMENT TRUST FUND**  
**2020 FINANCIAL STATEMENTS**


**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST DECEMBER, 2020**

	Notes	2020 N'000	2019 N'000
<b>ASSETS</b>			
Cash and cash equivalents	8	134,262	53,605
Trading portfolio assets	9	923,410	818,622
Prepaid expenses		1,118	1,272
Investment properties	10	1,775,390	1,846,390
<b>Total Assets</b>		<b>2,834,179</b>	<b>2,719,889</b>
<b>LIABILITIES</b>			
Payables & accruals	11	(376,565)	(284,235)
Deferred income	12	(52,030)	(59,208)
<b>NET ASSETS</b>		<b>2,405,584</b>	<b>2,376,446</b>
<b>Represented By:</b>			
Unitholders' equity	13	2,000,000	2,000,000
Revenue reserve	14	405,584	376,446
<b>UNITHOLDERS' FUNDS</b>		<b>2,405,584</b>	<b>2,376,446</b>
 Net assets per unit (N)	 16	 120.3	 118.8

The full financial statements were approved by the Board of Directors on its behalf by; February 26, 2021

  
 PATRICK ILODIANYA  
 MANAGING DIRECTOR  
 FRC/2013/ICAN/00000002177

  
 DIMEJI SONOWO  
 EXECUTIVE DIRECTOR  
 FRC/2013/ICAN/00000002089

  
 AKINYEMI GBENRO  
 DIRECTOR  
 FRC/2013/CIBN/00000002091

The notes on pages 11 to 25 form an integral part of these financial statements.

**SFS REAL ESTATE INVESTMENT TRUST FUND**  
**2020 FINANCIAL STATEMENTS**

*STATEMENT OF COMPREHENSIVE INCOME*  
*FOR THE YEAR ENDED 31ST DECEMBER, 2020*

	Notes	2020 N'000	2019 N'000
Interest income		128,203	128,391
Profit on disposal of investment property		19,883	2,825
Rental income		<u>96,238</u>	<u>92,948</u>
<b>Total Income</b>		<b>244,324</b>	<b>224,164</b>
Total operating expenses	5	<u>(69,187)</u>	<u>(62,049)</u>
<b>Net Income</b>		<b>175,138</b>	<b>162,115</b>
Net income per unit (Naira)		8.76	8.11
Proposed final distribution		162,000	146,000
Proposed final distribution per unit (Naira)		8.10	7.30

The notes on pages 11 to 25 form an integral part of these financial statements.



**SFS REAL ESTATE INVESTMENT TRUST FUND**  
**2020 FINANCIAL STATEMENTS**

*STATEMENT OF CASH FLOWS*  
*FOR THE YEAR ENDED 31ST DECEMBER, 2020*

	2020 N'000	2019 N'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	128,203	128,391
Rental income received in the year	96,238	104,826
Operating cash payments	(64,444)	(18,546)
Cash receipts/ (payments) to creditors	31,644	(41,234)
<b><i>Net cash from operating activities</i></b>	<b>191,642</b>	<b>173,437</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
investment property purchased	(115,000)	-
Proceeds on disposal of property	205,882	37,500
Trading portfolio assets	(104,788)	(26,200)
Unclaimed distribution	48,922	(39,663)
<b><i>Net cash used in investing activities</i></b>	<b>35,016</b>	<b>(28,363)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Distribution paid	(146,000)	(140,000)
<b><i>Net cash used in financing activities</i></b>	<b>(146,000)</b>	<b>(140,000)</b>
<b><i>Net decrease in cash and cash equivalents</i></b>	<b>80,657</b>	<b>5,074</b>
Cash & cash equivalents at the beginning of the year	53,605	48,531
<b>Cash &amp; cash equivalents at the end of the year</b>	<b>134,262</b>	<b>53,605</b>

The notes on pages 11 to 25 form an integral part of these financial statements.

**SFS REAL ESTATE INVESTMENT TRUST FUND**  
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*STATEMENT OF CHANGES IN EQUITY*  
*FOR THE YEAR ENDED 31ST DECEMBER, 2020*

	Unitholders' Equity N'000	Revenue Reserve N'000	Total N'000
Balance as at January 1, 2019	2,000,000	354,331	2,354,331
Net income for the year		162,115	162,115
Distribution paid		(140,000)	(140,000)
<b>Balance as at December 31, 2019</b>	<b>2,000,000</b>	<b>376,446</b>	<b>2,376,446</b>
Balance as at January 1, 2020	2,000,000	376,446	2,376,446
Net income for the year		175,138	175,138
Distribution paid during the year.		(146,000)	(146,000)
<b>Balance as at December 31, 2020</b>	<b>2,000,000</b>	<b>405,584</b>	<b>2,405,584</b>

The notes on pages 11 to 25 form an integral part of these financial statements.

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*PORTFOLIO STATEMENT*  
*FOR THE YEAR ENDED 31ST DECEMBER, 2020*

	Cost N'000	Total Portfolio %	Net Asset %
Real estate	1,775,390	70	74
Real estate related investments	417,340	17	17
Liquid assets	640,332		
Less unclaimed distribution returned by the registrars	<u>(311,592)</u>	13	14
Total portfolio	<u>2,521,470</u>		
Net assets	<u>2,405,584</u>		

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

**SFS REAL ESTATE INVESTMENT TRUST FUND**  
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*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2020.*

**a) Reporting entity**

The SFS Real Estate Investment Trust Fund is a fund incorporated under the laws of Nigeria. The address of the Fund's registered office is Plot 287, Ajoye 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 Stock Exchange. Its financial statements are filed with Securities and Exchange Commission and other regulatory authorities.

The SFS Real Estate Investment Trust Fund 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, 2020 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 26<sup>th</sup> February, 2021.

**(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 for trading 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.

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**(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 result 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 2020.



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**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 in foreign currencies are translated into Nigerian naira at exchange rates at the dates of the transaction. At the year end date, unsettled monetary assets and liabilities are translated into Nigerian naira by using the exchange rate in effect at the year end date and the related transaction differences are recognised in income.

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

## **SFS REAL ESTATE INVESTMENT TRUST FUND**

### **2020 FINANCIAL STATEMENTS**

#### *NOTES TO THE FINANCIAL STATEMENTS*

##### *FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2020.*

markets, the fund immediately recognizes the difference between the transaction price and fair value in 'Net gains/(losses) on financial instruments classified as held for trading'. 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.

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#### *FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2020.*

#### **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.

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– 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.

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*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2020.*

**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.



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#### **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 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 principle.

- 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 fail 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:

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- 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.
- Monitoring of its cash flow and financial position trends.
- 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 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.

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**Critical accounting judgements in applying the fund's accounting policies .**

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:

1. 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.
2. 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.
3. 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.

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4	<b>TOTAL INCOME</b>	2020	2019
		N'000	N'000
	Fixed interest income	128,203	128,391
	Profit on disposal of investment property	19,883	2,825
	Rental income	96,238	92,948
	<b>Total income</b>	<b>244,324</b>	<b>224,164</b>
5	<b>OTHER OPERATING EXPENSES</b>	2020	2019
		N'000	N'000
	a) Manager's fees (Note 6)	36,634	35,647
	Other expenses ( see below)*	30,865	24,714
	Audit fee	1,688	1,688
		<b>69,187</b>	<b>62,049</b>
	b) Other Expenses comprise*		
	Trustee fee	2,500	2,500
	Repairs and renovations/ service charge	16,126	11,280
	AGM, annual report publication expenses, etc	3,829	3,069
	Custodian fee	2,321	2,321
	Insurance	2,053	2,043
	Valuation and other professional fees	1,333	1,290
	Stock exchange	953	953
	Registrars' fees	508	508
	CSCS eligibility fee	743	250
	Fund rating	500	500
		<b>30,865</b>	<b>24,714</b>

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**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 N36,633,370. The fee for the year was equivalent to 15% of the Fund's gross income for the year.

**7 DISTRIBUTION**

The Fund Manager has proposed a distribution of N8.1 per unit amounting to N 162 million for the year ended December 31, 2020.

**8 CASH AND CASH EQUIVALENTS**

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

	2020	2019
	N'000	N'000
Cash at bank	108,794	33,474
Tenored Deposit	25,468	20,131
	<b>134,262</b>	<b>53,605</b>

**9 TRADING PORTFOLIO ASSETS**

These are investments in bonds and other financial instruments which are held as trading securities. The details are as follows:

	Current Value N'000	Face Value N'000	Maturity Date	Rate
14.20% FGN-Bond Mar 2024	104,212	100,000	14-March-24	14.20%
17% CRSG Bond	16,202	15,942	26-May-22	17.00%
16.47% FGN SUKUK Bond	292,096	280,000	25-Sept-24	16.47%
16.47% FGN SUKUK Bond	100,129	100,000	28 Dec 25	16.47%
14.8 FGN APR 2049	282,292	276,000	26 April 49	14.80%
11.2% FGN SUKUK 2027	25,115	25,000	23-Jan-27	11.20%
Commercial Paper	103,364	105,000	15-Jun-21	3.13%
	<b>923,410</b>			



**10 INVESTMENT IN PROPERTIES**

Description	2020	2019	Report as at Nov. 2020
	Cost N'000	Cost N'000	Valuation N'000
Investment in property in Ikeja GRA	277,990	277,990	330,000
Investment in property in Victory Park Estate Lekki	365,400	365,400	600,000
Investment in property- Maccido Estate	-	160,000	-
Investment in properties Sapphire	132,000	132,000	150,000
Investment in properties in North Star Garden Abuja	-	26,000	-
Investment in properties in Boudillon Court, Lekki	360,000	360,000	440,000
Investment in properties Milverton, Lekki	595,000	525,000	765,000
Investment in property - Cromwell Estate Lekki	45,000	-	-
	<b>1,775,390</b>	<b>1,846,390</b>	<b>2,285,000</b>

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

The properties were valued at N2,285,000,000 by Emeka D. Eleh (FRC/2015/NIESV/00000013406) of Ubosi Eleh & Co Estate Surveyors & Valuers (FRC/2014/00000003997) in their report dated 31st December, 2020.

**Description & Title**

Property in Victory Park Estate  
This is covered by a deed of sublease .

Property in Ikeja GRA  
It is covered by a deed of assignment.

Properties in Sapphire Estate Lekki  
Properties in Milverton, Lekki  
Properties in Milverton, Lekki  
Properties in M ilverton Lekki supported by purchase agreements between the original owners and the SFS Real Estate Investment Trust Fund  
Properties in Bourdillon Court are covered by provisional allocation letters.  
The property in Cromwell Estate is covered by a letter of offer and it was paid for in February 2021.

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

**Movement in carrying amount of investment properties**

	2020 N'000	2019 N'000
Balance brought forward	1,846,390	1,878,390
Additions	115,000	-
Disposals	(186,000)	(32,000)
Balance carried forward	<b>1,775,390</b>	<b>1,846,390</b>

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

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Rental income on investment properties were as follows:

	2020	2019
	N'000	N'000
Victory Park - Lekki	22,300	16,093
Harold Sodipo - GRA Ikeja	12,000	12,000
Saphire Garden	7,980	7,980
Bourdillion Court	21,917	22,717
Milverton	32,042	34,158
	<u>96,239</u>	<u>92,948</u>

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

	2020	2019
	N'000	N'000
Service Charge	772	685
Renovation/Repairs	8,854	7,612
Purchase agreement/ agency fee/ land use	6,300	1,545
Others	200	
	<u>16,126</u>	<u>9,842</u>

Direct operating expenses that arose from investment properties that generated no rental income :

	2020	2019
	N'000	N'000
Renovation/Repairs expenses		2,328
	<u>-</u>	<u>2,328</u>

11 **PAYABLES AND ACCRUALS**

	2020	2019
	N'000	N'000
Unclaimed distribution**	311,592	262,670
Creditors and Accruals	64,974	21,565
	<u>376,565</u>	<u>284,235</u>

\*\* In line with the rule of the Securities and Exchange Commission, the sum of N311,591,646.42 was returned to the fund by the Registrars as unclaimed distribution.

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**12 DEFERRED INCOME**

This is rent received in advance from the tenants in the Fund's properties.

**Analysed into:**

	2020	2019
	N'000	N'000
Current	52,030	50,708
Non - Current		8,500
	<u>52,030</u>	<u>59,208</u>

**Movement in deferred income**

Balance brought forward	59,208	47,330
Rents received during the year	89,060	104,826
Transfer to statement of comprehensive income	<u>(96,238)</u>	<u>(92,948)</u>
Deferred rental income	<u>52,030</u>	<u>59,208</u>

**13 UNITHOLDERS' EQUITY**

20,000,000 units of N100 each	<u>2,000,000</u>	<u>2,000,000</u>
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**14 REVENUE RESERVE**

	2020	2019
	N'000	N'000
Balance brought forward	376,446	354,331
Net income for the year	<u>175,138</u>	<u>162,115</u>
	551,584	516,446
Distribution paid	<u>(146,000)</u>	<u>(140,000)</u>
<b>Reserve carried forward</b>	<u><b>405,584</b></u>	<u><b>376,446</b></u>

**15 APPROVAL OF THE AUDITED FINANCIAL STATEMENTS**

The board of the directors approved the audited financial statements on the 26th February ,2021.

**16 NET ASSETS VALUE PER UNIT**

The net assets value per unit of N120.28 (2019: N118.8) is based on the net assets of the Fund and the total number of units in issue at the financial position date.

**17 RECONCILIATION OF NET INCOME TO NET CASH FROM OPERATING ACTIVITIES**

	2020	2019
	N'000	N'000
Net Income for the year	175,138	162,115
Profit on investment property disposed	(19,883)	(2,825)
Decrease in prepayments	155	993
Increase in payables & accruals	<u>36,232</u>	<u>13,153</u>
Net cash from operating activities	<u>191,642</u>	<u>173,436</u>

**18 NON- AUDIT SERVICE PROVISION**

No non-audit service was rendered to SFS REIT by the auditors, Dele Olufon & Co during the year ended December, 31st 2020

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*VALUE ADDED STATEMENT*  
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	2020 N'000	%	2019 N'000	%
Gross earnings	244,324		224,164	
Deduct				
Administrative overheads and payments for other services	<u>(32,553)</u>		<u>(26,402)</u>	
Value added	<u>211,771</u>	<u>100</u>	<u>197,762</u>	<u>100</u>
Applied as follows:				
Fund manager's remuneration	36,634	17	35,647	18
Retained earnings	<u>175,138</u>	<u>83</u>	<u>162,115</u>	<u>82</u>
Value added	<u>211,771</u>	<u>100</u>	<u>197,762</u>	<u>100</u>

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*FIVE YEAR FINANCIAL SUMMARY (2016 - 2020)*

	2020 N'000	2019 N'000	2018 N'000	2017 N'000	2016 N'000
<b>ASSETS</b>					
Cash and cash equivalents	134,262	53,605	48,531	86,297	340,434
Trading portfolio assets	923,410	818,622	792,422	675,306	303,363
Receivables				37,500	40,800
Prepaid expenses	1,118	1,272	2,266	2,248	1,340
Investment properties	1,775,390	1,846,390	1,878,390	1,878,390	1,930,390
<b>Total Assets</b>	<b>2,834,179</b>	<b>2,719,889</b>	<b>2,721,609</b>	<b>2,679,741</b>	<b>2,616,327</b>
<b>LIABILITIES</b>					
Payables & accruals	(376,565)	(284,235)	(319,948)	(255,636)	(225,527)
Deferred income	(52,030)	(59,208)	(47,330)	(62,592)	(57,300)
<b>NET ASSETS</b>	<b>2,405,584</b>	<b>2,376,446</b>	<b>2,354,331</b>	<b>2,361,513</b>	<b>2,333,500</b>
<b>Represented By:</b>					
Unitholders' equity	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Revenue reserve	405,584	376,446	354,331	361,513	333,500
<b>UNITHOLDERS' FUNDS</b>	<b>2,405,584</b>	<b>2,376,446</b>	<b>2,354,331</b>	<b>2,361,513</b>	<b>2,333,500</b>
Gross Income	244,324	224,164	215,276	227,373	203,053
Net Income	175,138	162,115	152,818	167,716	148,807
Proposed Distribution	162,000	146,000	140,000	160,000	140,000
Proposed Distribution per Unit (N)	8.10	7.30	7.00	8.00	7.00
Net Assets Value per Unit (N)	120.28	118.82	117.72	118.08	116.67