



# FINANCIAL REPORT 2021



**MR. BABAJIDE OLUSOLA  
SANWO-OLU**

GOVERNOR OF LAGOS STATE

# BOARD OF TRUSTEES



**Mrs. Bola Adesola**  
Chairperson, Board Of Trustees



**Mrs. Tejumola Abisoye**  
Executive Secretary



**Mr. Idris Olorunnimbe**  
Member



**Mrs. Tatiana Mousalli-Nouri**  
Member



**Mr. Sinari Bolade Daranijo**  
Member



**Ms. Kofo Durosini-Etti**  
Member



**Mr. Segun Ojelade**  
Member



**Mr. Ronald Chagoury Jnr**  
Member



**Dr. Rabiu Onaolapo Olowo**  
Member



**Otunba Mrs. Yetunde Arobieke**  
Member

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**BOARD OF TRUSTEES:** Mrs. Bola Adesola - Chairperson | Mrs. Tejumola Abisoye - Executive Secretary | Mr. Idris Olorunnimbe - Member  
Mrs. Tatiana Mousalli-Nouri - Member | Mr. Sinari Bolade Daranijo - Member | Ms. Kofo Durosini-Etti - Member | Mr. Segun Ojelade - Member  
Mr. Ronald Chagoury Jnr. - Member | Dr. Rabiu Olowo - Member | Hon. Yetunde Arobieke - Member

# Financial Highlights:

For the year ended 31 December 2021

In thousands of Naira	31-Dec-21	31-Dec-20
Gross income	902,839	257,321
Program expenses	(1,571,828)	(327,592)
Operating and personnel expenses	(921,588)	(741,769)
Deficit before impairment, depreciation & amortization	(1,590,377)	(812,040)
Impairment charge on loans and advances	(194,439)	332,625
Depreciation of property and equipment	(49,453)	(84,943)
Amortization of intangible assets	(2,650)	(15,036)
<b>Total deficit from operations</b>	<b>(1,836,919)</b>	<b>(579,394)</b>
<b>Deficit for the year</b>	<b>(1,836,919)</b>	<b>(579,394)</b>
Total assets	5,697,090	5,678,968
Total liabilities	(242,808)	(187,766)
<b>Reserves</b>	<b>5,454,282</b>	<b>5,491,202</b>

The above stated program and operating expenditures were funded through the following sources during the year:

Source of Funding	31-Dec-2021	31-Dec-2020
Subvention from LASG	1,800,000	1,717,533
Grants/donations received during the year	20,000	55,803
Interest income received during the year	23,299	37,889
Repayments from loan beneficiaries (Gross)	626,661	671,607
<b>2,469,960</b>	<b>2,482,832</b>	

\* This represents the deficit arising from the Fund's activities/operations during the year, excluding non-cash expenses such as impairment, depreciation and amortisation.

## SDGs Spotlight

**1** NO POVERTY



**2** ZERO HUNGER



**5** GENDER EQUALITY



**8** DECENT WORK AND ECONOMIC GROWTH



**9** INDUSTRY, INNOVATION AND INFRASTRUCTURE



**10** REDUCED INEQUALITIES



**11** SUSTAINABLE CITIES AND COMMUNITIES



**12** RESPONSIBLE CONSUMPTION AND PRODUCTION

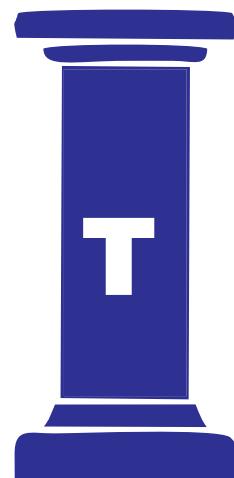


**17** PARTNERSHIPS FOR THE GOALS



# Our Development Agenda for a Greater Lagos

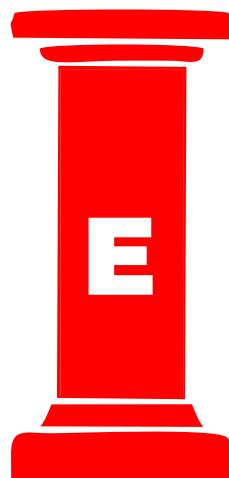
Our development programmes will be built upon 5 Pillars, T.H.E.M.E



Traffic Management & Transportation



Health & Environment



Education & Technology



Making Lagos a 21st Century Economy



Entertainment & Tourism

# TRUSTEES REPORT

For the year ended 31 December 2021

## LAGOS STATE EMPLOYMENT TRUST FUND IN 2021:

Year 2021 was characterized by recovery from the pandemic and the resulting economic fallout and recession. LSETF's intervention focus was to support businesses impacted by the pandemic, stem job losses, recover lost jobs and help resilience against similar future shocks.

### 1. MSME Support

a. **MSME Loan Program:** The Originate loan application portal was launched in 2021 to automate the loan application cycle and reduce the turn-around time to 30 days from application to disbursement.

Also, we are pleased to report that since its inception, the MSME loan program has created 124,507 direct and indirect jobs, and 55,170 new taxpayers have been added to the Lagos State tax register through our loan program.

b. **The MSME Recovery Fund 2.0:** The second iteration of the MSME Recovery Fund was launched in October 2021. The programme was implemented to support MSMEs that were impacted by the economic fallout of the pandemic as well as macroeconomic headwinds. A total of 11,149 unique applications were received.

c. **Lagos CARES:** The Lagos COVID-19 Action Recovery and Economic Stimulus (CARES) program (dubbed Lagos CARES) is a state-level intervention that seeks to mitigate the local effects of the COVID-19 pandemic by protecting the livelihoods of existing MSMEs. The programme commenced in April 2021 and is expected to run for 24 months. LSETF is responsible for implementing the third result area of the programme in Lagos State. The programme aim to provide grant funding to businesses affected by the pandemic through three disbursement links- Credit Grants, Operations Grants and IT Grants. In 2021, we received 2,662 applications and disbursed N12million to 19 beneficiaries

### 2. Startup Support

a. **Innovation Driven Enterprise Program "Lagos Innovates":** Lagos Innovates is a series of programs designed to create an enabling environment for technology and innovation-driven start-ups to thrive in Lagos State. By providing access to high-quality infrastructure, learning, capital, and networks, Lagos Innovates is aimed at cementing the position of Lagos as the leading destination for Tech startups in Africa.

b. **Workspace Voucher Programme:** The workspace voucher programme provides access to well-equipped workspaces and learning, to help defray the cost of accessing high-quality infrastructure. Lagos Innovates will cover 30% to 75% of average membership cost at any of our 47 partner hubs for 3 to 12 months. In 2021, workspace vouchers were issued to 105 beneficiaries.

c. **Talent Development Student Loan Programme:** The Talent Development Programme offers skill development opportunities to residents of Lagos State to develop tech-focused skills and provide access to decent jobs and income-earning opportunities. In 2021, in partnership with Ustacky, 50 persons were trained.

d. **Idea Hub:** The Idea Hub Programme is a mentorship/incubation platform that allows tech entrepreneurs to take their businesses from ideation to early-stage, by pairing mentees with

industry expert mentors. The second cohort mentored 22 beneficiaries in 2021.

### **3. Employability Support (LSESP)**

The LSETF Employability Support Project plans to increase the pool of skilled manpower to alleviate the acute shortages of employable labour in Lagos State. In 2021, 6,494 applications were received, of which 3,235 were trained. 2,722 of the trained applicants were certified, and 2156 beneficiaries were either placed in jobs or self-employed.

**a. United Nation Development Programme (UNDP):** The project aims to provide training and employment to unemployed/underemployed Lagos residents while also helping businesses solve the challenges of finding qualified and competent staff to grow their businesses. 562 and 514 beneficiaries were trained and placed in jobs respectively, under the UNDP project in 2021.

**b. GIZ Employability Project :** The Fund partnered with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, a German development agency, to set up an employability programme. The programme's objective is to reduce the illegal migration of youth and support the re-integration of voluntary returnees and potential migrants into Lagos State through skills development training and jobs placement or access to start-up tools. 72 and 34 beneficiaries were trained and placed in jobss respectively under the GIZ project in 2021.

**c. United States African Development Foundation (USADF):** The Fund has partnered with the United State African Development Foundation (USADF) on an employability programme to train 3,000 Lagos residents per year across construction, renewable energy, agriculture value chain, transport & logistics, technology and creative arts sectors. 2,639 and 1,570 beneficiaries were trained and placed in jobs respectively under the USADF project in 2021.

### **4. Funding**

The following institutions/establishments contributed in various capacities to the funding of the Lagos State Employment Trust Fund (LSETF) during the year:

- Lagos State Government
- United Nations Development Programme (UNDP)
- Bank of Industry
- IHS Nigeria
- Lagos Internal Revenue Service

### **5. Other Activities of The Board**

The board celebrated its first anniversary in August 2021 and reflected on the work done in the past year despite the unusual circumstances and external challenges, including and not limited to the pandemic, insecurity and the economy as a whole. The LSETF, in collaboration with the Board of Trustees, steered the course and stayed focused on meeting its collective mandate. The Board also engaged the services of a new Board Secretary (TNP Secretaries Limited) now know as 50 RN Secretaries Limited.

In 2021, the Board of Trustees held ten (10) meetings. To effectively provide oversight, the Board Committees also held seventeen (17) meetings.



**Bola Adesola**  
**Chairperson, Board of Trustees**  
**FRC/2013/CIBN/0000001629**  
**29 June 2022**



**Teju Abisoye**  
**Executive Secretary**  
**FRC/2019/NBA/00000019573**  
**29 June 2022**

# LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

## SOURCES OF FUNDING

### **Subvention from the Government**

The Lagos State Employment Trust Fund (LSETF) derives its major source of funding from the Lagos State Government (LASG) in the form of subvention to run the Fund's programmes for both capital and recurrent (operating) expenditures.

In line with Generally Acceptable Accounting Principles (GAAP) and applicable accounting standards (International Public Sector Accounting Standards), this source of funding is regarded as funding from owners of the Fund and, as such, reported as capital contribution rather than income in the Fund's financial statements. Subvention received from LASG in 2021 was ₦1.80 billion (2020: ₦1.72 billion) and has been disclosed as capital contribution for the purpose of these financial statements. The Fund has received a total of ₦14.67 billion as subvention from LASG since its inception.

### **Grants & Donations**

LSETF also funds its programmes and operations through grants and donations received from donor agencies (international and local). Grants could be in form of cash or kind. Grants received with conditions attached to them are not recognized as revenue until the stipulated conditions are met. For this type of grant, income is recognized on a systematic basis over the period in which the Fund recognises expenses for the related cost for which the grant is intended to compensate.

Major grant donors to the Fund in 2021 include:

**United Nations Development Programme (UNDP):** In 2017, LSETF entered into a partnership agreement with the United Nations Development Programme (UNDP) for the funding of the Lagos State Employability Support Project (LSESP). This Project aims at training 10,000 people between the ages of 18 - 35 in the manufacturing, healthcare, construction, entertainment, garment making, hospitality and tourism sectors by 2021. The funding agreement is in the ratio of 3:1 (\$3,000,000 and \$1,000,000) for LSETF and UNDP respectively.

Though the Fund did not receive any grant from UNDP during the year, it received the sum of \$500,000 (₦162.2 million) in 2017. As such, a pro-rata Nil was recorded in the year under review (2020: ₦nil) as there is no total related cost recorded in 2021 (2020: ₦nil) that was recorded as grant income relating to the partnership during the year.

**Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ):** The Fund did not receive any sum from GIZ in the year 2021 (2020: ₦55.8 million). The grant is specifically geared towards providing opportunities for returning and potential illegal migrants. There was no inflow during the year.

The Fund also received a donation of ₦20 million from the Bank of Industry (BOI) during the year which was recognized as deferred income as it is towards the Talent Development Program for the youth.

### **Loan Repayments**

Loan repayments refer to repayments on loans and advances made to beneficiaries of the Fund's loan programmes. Loan repayments are essentially used to fund more loans as well as

related expenditure. During the year, the Fund received a total sum of ₦626.66million (2020: ₦671.66million) as repayment of due principal and interest on loans granted to beneficiaries.

### **Interest from Investments**

LSETF also derives its funding from cash generated from the investment of idle funds. As part of the Fund's cash management strategy and the need to obtain maximum benefit from assets, certain sums were placed with financial institutions during the year, earning investment interest of ₦23.30million (2020: ₦37.9million).

## **EXPENDITURE**

Expenses incurred during the course of carrying out the operations and programmes of the Fund are categorised as cash and non-cash, with the non-cash element not requiring actual outflow of cash and based on applicable accounting standards and principles. Some of the Fund's cash-related expenses are stated below:

### **Program Expenses**

These refer to the direct expenses incurred in carrying out the Fund's programmes and interventions:

**Loan Program Expenses:** These are expenses directly attributable to the loan programme. Some major expenses incurred include pre-disbursement trainings for loan beneficiaries, insurance policies taken on loan beneficiaries, management fees paid to fulfillment partners (micro finance and commercial banks) to manage the loan facilities given out, etc. The program expenses for 2021 amounted to ₦935.87million (2020: ₦180.60 million).

**Other Program Expenses:** These refer to non-loan-related program expenses and cover expenses for the Employability Programme, Lagos innovates, Market stimulation, etc. in 2021. Other program expenses amounted to ₦636.18million (2020: ₦152.99million).

### **Operating/Recurrent Expenses**

These are expenses incurred during the course of normal operations of the Fund. For the purpose of these financial statements, operating expenses have been presented in 2 broad categories as listed below:

- **Personnel Expenses:** These refer to non-loan-related program expenses and cover expenses for the Employability Programme, Lagos innovates, Market stimulation, etc. in 2021. Other program expenses amounted to ₦636.18million (2020: ₦152.99million). staff salaries and wages, staff allowances and pension contribution. Personnel expenses in 2021 amounted ₦482.03million (2020: ₦473.03million).
- **Other operating expenses:** These include office/equipment maintenance, administrative expenses, rent and service charges, board-related expenses, training programmes etc. Other operating expenses in 2021 amounted to ₦439.36million (2020: ₦268.74million).

As required by relevant accounting standards and principles, the Fund takes certain non-cash expenses as part of the total expenses during any accounting period, regardless of whether there is an actual cash outflow during the period or not. These expenses are explained below:

- **Impairment Charges:** These relate to charges made to the Income statement of estimated loss arising from the extent of recoverability of the loans granted to beneficiaries. Under the incurred loss model of IPSAS 29, a financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of one or more events occurring. Measurement of impairment losses across all LSETF loan categories

requires judgement on the estimation of the amount and timing. These estimates are driven by several factors, changes to which result in different levels of allowances. The Fund's impairment calculations are outputs of models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Impairments are non-cash charges, hence do not affect the liquidity of the Fund. The Fund assesses whether there is objective evidence that Fund Under Management are not carried at fair value, i.e. impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- Significant financial difficulty of the obligor,
- Default or delinquency by a borrower resulting in a breach of contract,
- Restructuring of a loan or advance by the Fund on terms that the Fund would not otherwise consider,
- Indications that a borrower will enter bankruptcy,
- Other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults.

LSETF loans are unsecured. Where no objective evidence of impairment exists for an individually-assessed financial asset, whether significant or not, the Fund includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Some impairment parameters like Loss Given Default (LGD), Probability of Default (PD) and Recovery Rate (RR) are typically set at the loan program level. These parameters are significantly influenced by collection strategies and collateral deposits. In 2021, the Fund had a net additional impairment of ₦194.44million (2020: Net impairment charge of ₦332.59million). Refer to Note 5d for further details.

- **Depreciation:** Depreciation represents the reduction in the value of an asset over time due to wear and tear. The Fund calculates its depreciation using the straight-line method and the rate applied varies based on the estimated useful life of the assets (motor vehicle, office equipment, furniture & fittings, etc.). Depreciation in 2021 was ₦49.45million (2020: ₦84.90million).
- **Amortization of Intangible Assets:** Amortization refers to the allocation of the cost of an intangible asset over time. The Fund calculates the amortization costs on a straight-line basis over the useful life of the asset. Intangible assets include software. Amortization costs for 2021 was ₦2.65million (2020: ₦15.04million).



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**Bola Adesola**  
Chairperson, Board of Trustees  
FRC/2013/CIBN/00000001629  
29 June 2022



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**Teju Abojoye**  
Executive Secretary  
FRC/2019/NBA/00000019573  
29 June 2022

# STATEMENT OF TRUSTEES

Statement of Trustees' responsibilities in relation to the preparation of financial statements for the year ended 31 December 2021

The Trustees accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Lagos State Employment Trust Fund Law 2016 and the Financial Reporting Council (FRC) of Nigeria Act, 2011.

The Trustees further accept responsibility for maintaining adequate accounting records as required by the Lagos State Public Finance Management Laws, Laws of the Federation of Nigeria, 2004 and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Trustees have made an assessment of the Fund's ability to continue as a going concern and have no reason to believe that the Fund will not remain a going concern in the year ahead.

# BOARD AUDIT AND RISK COMMITTEE REPORT

For the year ended 31 December 2021

The Audit and Risk Committee of the Board of Trustees of the Lagos State Employment Trust Fund (LSETF) is pleased to present its report for the year ended 31 December 2021.

## Functions and Responsibilities

The principal functions and responsibilities of the Audit and Risk Committee include the following:

- i. Review, monitor compliance with and make recommendations on the integrity of the financial statements and financial reporting process;
- ii. Review, monitor and make recommendations on the choice of accounting policies and principles;
- iii. Review, monitor and make recommendations on the activities, hiring, performance and independence of the external and internal auditors;
- iv. Review, monitor compliance with and make recommendations on the effectiveness of the system of internal controls, accounting and operating procedures;
- v. Review, monitor compliance with and make recommendations on policy standards and guidelines for risk assessment and management;
- vi. Review, monitor compliance with and make recommendations on legal and regulatory requirements, including completeness of disclosures; and,
- vii. Review, monitor compliance with and make recommendations on ethics and whistleblowing policy

## Composition

The Audit and Risk Committee consists of the following members:

- I. Segun Ojelade (Chairman)
- ii. Idris Olorunnimbe
- iii. Tatiana Moussalli-Nouri
- iv. Rabiu Onaolapo Olowo (The Hon. Commissioner, Lagos State Ministry of Finance).

## Meetings

During the year, the Committee held three meetings on the following dates:

- i. April 22, 2021
- ii. July 14, 2021
- iii. December 30, 2021

## Activities

A summary of the activities of the Audit and Risk Committee during the year under review is presented below:

### i. 2020 Financial Statements

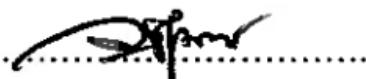
The Committee reviewed the audited financial statements for the year ended 31 December 2020.

### ii. LSETF Loan Impairment Model

The Committee reviewed the internally updated loan impairment model based on IPSAS 29 to be adopted in year 2021 as presented by Management. The review included an appraisal of the Peer Group Loss Experience Benchmarking approach earlier adopted to estimate the impairment to the Fund's portfolio and presented its recommendations to the Board for approval.

- iii. **Internal Audit**  
The Committee reviewed the internal audit reports for each quarter in 2021. The reports covered specific units at the LSETF and MacTay, the liaison officers' management consultant.
  - iv. **Review of Terms of Reference and Policies**  
The Committee reviewed the enterprise risk management, loan recovery, blacklisting, and internal control policies of the Fund.
  - v. **The Enterprise Risk Management Report**  
The Committee considered the enterprise risk management report and noted the recommendations therein.
  - vi. **Auditor General's Report: Bank Account Closure**  
The Lagos State Auditor General concluded the audit of the Fund's activities for the year 2020 and issued a report to this effect. The Committee considered the recommendations proposed.
  - vii. **Consideration of External Auditor's Interview Report**  
The Committee interviewed four audit firms; PricewaterhouseCoopers, Deloitte, BDO Professional Services and Lafenwa Osiberu & Co. PricewaterhouseCoopers was selected as the new external auditor and approved by the LSETF Board.
- iv. **Approval of Audit Plans**  
The internal audit plan for 2022 was reviewed and approved by the Committee and recommended same to the Board of Trustees for approval.

Signed on behalf of the Audit and Risk Committee



Segun Ojelade  
Chairman, Board Audit and Risk Committee  
FRC/2020/003/00000021863  
29 June 2022

# BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

For the year ended 31 December 2021

The Credit and Investment Committee of the Board of Trustees of the Lagos State Employment Trust Fund (LSETF) is pleased to present its report for the year ended 31 December 2021.

## Functions and Responsibilities

The principal functions and responsibilities of the Credit and Investment Committee include the following:

- I. Determining appropriate credit and investment policies and procedures;
- ii. Determining the extent to which funds raised will be disbursed directly to beneficiaries as credit or through fund managers, subject to the rules guiding funds raised or sourced;
- iii. Overseeing the Fund's credit and investment risks by ensuring that an appropriate control environment and reporting process are in place to govern the management of credit and investment risks;
- iv. Provide oversight for the Fund's investment activities and periodically review and evaluate the Fund's approval policy for investments;
- v. Oversee significant treasury matters such as capital structures, liquidity and fixed income;
- vi. Determine key performance indicators for the counterparty financial institutions that may be engaged by the Board for disbursement to ensure they meet the requisite standard.

## Composition

The Credit and Investment Committee consists of the following members:

- I. Sinari Daranijo (Chairman)
- ii. Kofo Durosinmi-Etti
- iii. Ronald Chagoury Jnr
- iv. Rabiu Onaolapo Olowo (The Hon. Commissioner, Lagos State Ministry of Finance).

## Meetings

During the year, the Credit and Investment Committee met eight times on the following dates:

- I. January 20, 2021
- II. February 19, 2021
- III. March 18, 2021
- IV. May 18, 2021
- V. July 13, 2020
- VI. August 23, 2021
- VII. September 21, 2021
- VIII. October 27, 2021

## Activities

Presented below is a summary of the significant matters considered by the Credit and Investment Committee:

- i. **Review of Loan Applications**  
The Committee reviewed and made recommendations to the Board for the approval or rejection of loan applications
- ii. **Review of Credit Approval Threshold**  
The Committee reviewed the Fund's credit approval thresholds and recommended the same to the Board. This was to eliminate the delays in disbursement to beneficiaries and the loan application process in general.
- iii. **Introduction of New Loan Categories**  
The Committee, in the period under review, approved the creation of a new loan category- the Nano category for loan amounts of one hundred thousand naira (N100,000) and below to drive up application rates and increase the impact at the bottom of the pyramid.
- iv. **Review of LSETF Loan Process**  
The Committee reviewed the Fund's loan application process to reduce the LSETF's turnaround time and increase its application rate without losing sight of its sustainability requirements. This included the adoption of a hybrid reverse engineering loan process, adoption of the blended assessment model, review of the LSETF's target credit loss ratio and increment of the loans' approval limits.



Sinari Daranijo  
Chairman, Board Credit and Investment Committee  
29 June 2022

# BOARD GOVERNANCE COMMITTEE REPORT

For the year ended 31 December 2021

The Governance Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present a report of its activities for the year ended 31 December 2021.

## Functions and Responsibilities

The principal functions and responsibilities of the Governance Committee include the following:

- i. Reviewing, monitoring compliance with and making recommendations for amendments to the corporate governance framework of the Fund;
- ii. Reviewing and making recommendations on the proposals for the remuneration of the Board for presentation to the Governor;
- iii. Reviewing and proposing for the Board's approval, the overall remuneration and benefits policy for employees of the Fund;
- iv. Monitoring proper reporting and disclosure of the state of affairs of the Board to the Governor, Accountant-General and other stakeholders;
- v. Overseeing the finance and human resource management functions;
- vi. Ensuring optimal performance of the Board towards achieving its mandate as enshrined in the laws governing the operation of the Fund;
- vii. Monitoring, overseeing and making recommendations to the Board on all actions instituted or proposed by the Fund at the Small Claims Court or any other court for the recovery of loans from defaulters.

## Composition

The Governance Committee consists of the following members:

- i. Tatiana Moussalli-Nouri (Chairman)
- ii. Sinari Daranijo
- iii. Segun Ojelade
- iv. Yetunde Arobieke (The Hon. Commissioner, Lagos State Ministry of Wealth Creation and Employment).

## Meetings

The Governance Committee held the following meetings during the year under review:

- i. January 27, 2021
- ii. March 16, 2021
- iii. April 19, 2021
- iv. April 23, 2021
- v. April 27, 2021
- vi. July 1, 2021
- vii. July 15, 2021
- viii. September 24, 2021
- ix. November 23, 2021

## Activities

A summary of the activities of the Governance Committee during the year under review is presented below:

- i. **Budget Performance Report:** The Committee reviewed the implementation of the Fund's

2021 budget, as well as the implementation of the 2022 budget on a quarterly basis.

- ii. **Executive Management Appraisal for 2021:** The Committee reviewed and made recommendations to the Board on the performance of the executive management for 2021.
- iii. **Amendments to LSETF Board Charter:** The Committee deliberated extensively on the proposed changes to the LSETF Board Charter and presented its recommendations to the Board.
- iv. **Consideration of 2021 Key Performance Indicators For Executive Management**  
The Committee reviewed and made recommendations to the Board on key performance indicators for assessing the performance of the executive management, particularly in light of the COVID-19 pandemic.
- v. **HR Audit Exercise and Engagement Survey:** The Committee conducted a skills assessment on the LSETF team and an engagement survey to eliminate stifled productivity, communication gaps and the existence of organizational silos. The Committee thus made recommendations to the Board in light of its findings.
- vi. **Approval of the Assets Disposal:** The Committee approved the disposal of some of the Fund's Assets in line with the Fund's asset disposal policy as presented by Management and made recommendations to the Board
- vii. **Consideration of the Succession Plan for Executive Management:** The Committee reviewed the Fund's 2021 employee performance appraisal exercise and presented management's recommendation for the promotion of high-performing employees to the Board for approval.
- viii. **Staff Appraisal for 2021:** The Committee reviewed the Fund's 2021 employee performance appraisal exercise and presented management's recommendation of the promotion of high performing employees to the Board for approval
- ix. **Board Training:** The Committee successfully ensured that the Trustees-attended trainings were aimed at improving Board effectiveness and corporate governance, as well as improving results for Board members.
- x. **Interview and Selection of the Director, Programmes and Coordination:** The Committee interviewed the shortlisted candidates for the position of the Fund's Director, Programmes and Coordination and made appropriate recommendations to the Board for selection in this regard.
- xi. **Engagement of a CIMM Expert for the Labour Market Information System (LMIS):** The Committee reviewed Management's recommendations to engage a CIMM expert for the LMIS and made its recommendations to the Board for approval.
- xii. **Review of the Liaison Officers' Renumeration:** The Committee made recommendations to the Board on the remuneration of the Fund's liaison officers to encourage productivity and recognise their efforts and responsiveness.

Signed on behalf of the Governance Committee

Tatiana Mousalli-Nouri  
Chairman, Governance Committee  
29 June 2022

# BOARD STAKEHOLDERS COMMITTEE REPORT

For the year ended 31 December 2021

The Stakeholders Committee of the Board of Trustees of the Lagos State Employment Trust Fund (LSETF) is pleased to present a report of its activities for the year ended 31 December 2021.

## Functions and Responsibilities

The principal functions and responsibilities of the Stakeholders Committee include the following:

- i. Continuing identification and monitoring of significant stakeholders and stakeholder groups relevant to the Fund;
- ii. Determining how stakeholder/media enquiries are to be handled and maintaining a broad overview of strategic issues that may be of interest to specific stakeholders;
- iii. Building credibility, inspiring commitment and creating stakeholder support for the Fund;
- iv. Developing a strategy for advocacy and interaction within Lagos State and relationships with other States and the Federal Government;
- v. Determining the quantum, nature and source of funds to be raised to meet the Fund's mandate, as input into the overall strategic plan of the Fund;
- vi. Raising funds from stakeholders

## Composition

The Stakeholders Committee consists of the following members:

- i. Idris Olorunnimbe (Chairman)
- ii. Kofo Durosinmi-Etti
- iii. Ronald Chagoury Jnr
- iv. Yetunde Arobieke (The Hon. Commissioner, Lagos State Ministry of Wealth Creation and Employment).

## Meetings

The Stakeholders Committee held the following meetings during the year under review:

- i. February 12, 2021
- ii. February 19, 2021
- iii. May 25, 2021
- iv. September 9, 2021
- v. November 23, 2021

## Activities

Presented below is a summary of the significant matters considered by the Stakeholders Committee at its meetings:

- I. **Review of PR and brand consultancy firms:** After an RFP (Request for Proposal) exercise, three (3) PR firms were shortlisted and subsequently presented to the committee for recommendation to the Board. The Chairman declared interest with respect to one of the PR firms to be considered and excused himself from deliberations. The Board approved the engagement of Temple Management Company as the PR and brand consultants to LSETF on the recommendation of the committee. However, the decision to run a larger communications team internally was accepted by the Board after

the resignation of Temple Management Company. The internal team has been found to be effective.

- ii. **Grass root engagement:** The Committee deliberated extensively on LSETF's grassroot engagement plans, which were aimed at conducting community engagements to sensitize people about LSETF and its offerings.
- iii. **LSETF at 5:** The following initiatives were proposed and approved in respect of LSETF at 5 celebrations-
  - Selecting 5 LSETF beneficiaries to undergo the Emerging Entrepreneurship Programme by Fate Foundation.
  - Establishing a partnership with Business Day Newspaper to create awareness through their platform, as well as supporting LSETF's beneficiaries with a specially curated Business Day package.
  - Increasing followership by organising give-aways via LSETF's social media platforms.
  - Organizing radio campaigns to drive narratives on LSETF's initiatives.
- iv. **Review of the 2021 strategic communication plan of LSETF:** The Committee reviewed the communication plan, which was implemented through social media, use of brand influencers, as well as television and radio adverts
- v. **Review of the sustainability plan of LSETF:** The Committee reviewed the sustainability plan and approved same
- vi. **Weekly circulation of newsletter:** The circulation of LSETF weekly newsletter was extended to all Trustees

Signed on behalf of the Stakeholders Committee



.....  
Idris Olorunnimbe  
Chairman, Stakeholders Committee  
29 June 2022



## Independent auditor's report

To the Members of Lagos State Employment Trust Fund

### Report on the audit of the financial statements

#### Our opinion

In our opinion, Lagos State Employment Trust Fund (LSETF) ("the Organization's") financial statements give a true and fair view of the financial position of the Organization as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standard (IPSAS) and the requirements of the Lagos State Employment Trust Fund (LSETF) Law 2016, and the Financial Reporting Council of Nigeria Act.

#### What we have audited

Lagos State Employment Trust Fund's financial statements comprise:

- The statement of financial performance for the year ended 31 December 2021;
- the statement of financial position as at 31 December 2021;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### Basis for 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Organization in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e. the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### Other information

The trustees are responsible for the other information. The other information comprises the Corporate information, Financial highlights, Sources of fund and expenditure analysis, Statement of trustees' responsibility in relation to the preparation of financial statements, Board Audit and Risk committee report, Board Credit and Investment Committee report, Board Governance Committee report, Board Stakeholders Committee report, Value Added Statement and Financial summary, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

### *Responsibilities of the trustees and those charged with governance for the financial statements*

The trustees are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Public Sector Accounting Standard (IPSAS) and the requirements of the Lagos State Employment Trust Fund (LSETF) Law 2016, and for such internal control as the trustees determine is 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 trustees are responsible for assessing the Organization'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 trustees either intend to liquidate the Organization or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 scepticism throughout the audit. We also:

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

A handwritten signature in black ink, appearing to read "Edafe Erhie".



12 August 2022

For: **PricewaterhouseCoopers**  
Chartered Accountants  
Lagos, Nigeria

Engagement Partner: Edafe Erhie  
FRC/2013/ICAN/oooooooooooo1143

# STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 December 2021

In thousands of Naira	Notes	31-Dec-21	31-Dec-20
<b>Revenue</b>			
Interest income	14	51,826	50,145
Grant income	15	244,613	93,717
Other income	16	606,400	113,459
<b>Total revenue</b>		<b>902,839</b>	<b>257,321</b>
Expenses			
Amortisation of intangible assets	8b	(2,650)	(9,039)
Depreciation of property and equipment	9	(49,453)	(84,943)
Impairment charge	17	(194,439)	332,625
Program expenses	18	(1,571,828)	(333,589)
Personnel expenses	19	(482,028)	(473,027)
Other operating expenses	20	(439,360)	(268,741)
<b>Total operating expenses</b>		<b>(2,739,758)</b>	<b>(836,715)</b>
<b>Performance for the year (Deficit)</b>		<b>(1,836,919)</b>	<b>(579,394)</b>

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2021

In thousands of Naira	Notes	31-Dec-20	31-Dec-19
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	122,507	84,859
Intangible assets	8	3,175	2,151
		<b>125,682</b>	<b>87,010</b>
<b>Current assets</b>			
Loans and advances	5	1,064,187	1,067,389
Prepayments	6	32,311	20,970
Other assets	7	1,817,597	703,658
Cash and cash equivalents	4	2,657,313	3,799,940
		<b>5,571,408</b>	<b>5,591,957</b>
<b>Total assets</b>		<b>5,697,090</b>	<b>5,678,967</b>
<b>EQUITY</b>			
Capital contribution	13	14,667,533	12,867,533
Accumulated deficit from operations	22	(9,213,251)	(7,376,333)
		<b>5,454,282</b>	<b>5,491,200</b>
<b>Current liabilities</b>			
Managed funds	10	56,274	56,274
Deferred/earned income	11	44,249	40,980
Other liabilities and accruals	12	142,285	90,513
		<b>242,808</b>	<b>187,767</b>
<b>TOTAL EQUITY</b>		<b>242,808</b>	<b>187,767</b>
<b>Total liabilities &amp; equity</b>		<b>5,697,090</b>	<b>5,678,967</b>

The accompanying notes on pages 24 to 50 are an integral part of these financial statements.

The financial statements on pages 20 to 50 were approved by the Board of Trustees on..... June 2022.

  
**Bola Adesola**  
Chairman, Board of Trustees  
FRC/2013/CIBN/00000001629

  
**Teju Abisoye**  
Executive Secretary  
FRC/2019/NBA/00000019573

*Additionally certified by:*



**Adedamola Jolaoso FCA**  
Director, Finance and Corporate Services  
FRC/2020/001/00000022366

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

In thousands of Naira	Capital		Accumulated	Total
	Notes	contribution	Deficit	equity
Balance as at 1 January 2020		11,150,000	(6,796,938)	4,353,062
Transaction recorded directly in equity	13(a)	1,717,533	-	1,717,533
Performance for the year		-	(578,394)	(579,393)
<b>Balance as at 31 December 2020</b>		<b>12,867,533</b>	<b>(7,376,332)</b>	<b>5,491,201</b>

In thousands of Naira	Capital		Accumulated	Total
	Notes	contribution	Deficit	equity
Balance as at 1 January 2021		12,867,533	(7,376,332)	5,491,201
Transaction recorded directly in equity	13(a)	1,800,000	-	1,800,000
Performance for the year		-	(1,836,919)	(1,836,919)
<b>Balance as at 31 December 2021</b>		<b>14,667,533</b>	<b>(9,213,251)</b>	<b>5,454,282</b>

The accompanying notes on pages 24 to 50 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

In thousands of Naira	Notes	31-Dec-21	31-Dec-20
<b>Cash flows from operating activities</b>			
Deficit from operations		(579,394)	(1,836,919)
Adjustments for non-cash items:			
Amortisation	8	2,650	15,036
Depreciation	9	49,453	84,943
Allowance for (write back)/ impairment charges	5(c)	194,439	(332,625)
Late repayment fees	5	(34,383)	-
Unearned grant income	15	(16,852)	(60,708)
Interest income	14	(51,826)	(50,145)
		<b>(1,693,438)</b>	<b>(922,893)</b>
<b>Changes in prepayments</b>			
Changes in other current assets	21(ii)	(11,341)	1,852
Changes in loans and advances	21(iii)	(105,029)	540,946
Changes in unearned income	21(v)	20,121	45,803
Changes in other liabilities and accruals	21(iv)	51,773	(25,250)
<b>Net cash used in operating activities</b>		<b>(2,851,853)</b>	<b>(821,498)</b>
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets	8	(3,675)	-
Acquisition of property and equipment	9	(87,101)	(58,789)
<b>Net cash from investing activities</b>		<b>(90,776)</b>	<b>(58,789)</b>
<b>Cash flows from financing activities</b>			
Capital contribution	13(a)	1,800,000	1,717,533
Managed funds	21(vi)	-	-
<b>Net cash from financing activities</b>		<b>1,800,000</b>	<b>1,717,533</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year	4	3,799,940	2,952,696
Net increase in cash and cash equivalents		(1,142,627)	847,244
<b>Cash and cash equivalents at 31 December</b>	<b>4</b>	<b>2,657,313</b>	<b>3,799,940</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2021

## 1 Reporting entity

The Lagos State Employment Trust Fund ("LSETF" or "the Fund") was established in 2016 by the Lagos State Employment Trust Fund Law of the Lagos State House of Assembly and is domiciled in Nigeria. LSETF was established to provide financial support to residents of Lagos State for job and wealth creation, and to tackle unemployment. LSETF serves as an instrument to inspire the creative and innovative energies of all Lagos residents and reduce unemployment across the State. The Fund has the mandate to directly invest N25 Billion in helping Lagos residents grow and scale their Micro, Small and Medium Enterprises ("MSMEs") or acquire skills to get better jobs. LSETF will focus on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. The registered office is located at 16, Billings Way, Oregun Ikeja, Lagos.

The Fund recognizes the subventions received from the Lagos State Government (its major shareholder and regulatory board) as equity in the statement of financial position, using the Assets-Liability approach, as adopted from the guidance of IPSAS 23 "Revenue from Non-Exchange Transactions"

The financial statements of the Lagos State Employment Trust Fund (LSETF) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Trustees on 30 June 2022.

## 2 Basis of preparation and statement of compliance with International Public Sector Accounting Standards

### (a) Basis of preparation

These financial statements have complied with the International Public Sector Accounting Standards (IPSAS) for accrual basis of accounting issued by International Public Sector Accounting Standards Board (IPSASB) and Financial Reporting Council (FRC) of Nigeria Act, 2011. The measurement base applied is historical cost basis.

The financial statements have been prepared on a going concern basis and the accounting policies have been consistently applied throughout the year.

### (b) Functional and presentation currency

The financial statements are presented in Nigerian currency (Naira), which is the Fund's functional currency. Except otherwise indicated, financial information presented in Naira has been rounded to the nearest thousand.

### (c) Going concern

The Fund's Trustees have made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Trustees are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

#### **(d) Use of estimates and judgments**

The preparation of the Fund's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

##### *Estimates and assumptions*

Property and equipment: The Fund carries its property and equipment at cost in the Statement of financial position. Estimates and assumptions made to determine their carrying value and related depreciation are critical to the Fund's financial position and performance. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the assets are determined by management at the time the asset is acquired and reviewed periodically. The lives are based on historical experience with similar assets, as well as anticipation of future events which may impact their lives, such as changes in technology.

##### *Impairment allowance*

Assets accounted for at amortized cost are evaluated for impairment on a basis described in the accounting policy 3.6. In calculating impairment allowance, assets are categorized into individually impaired and collectively impaired. In categorizing assets into whether individually or collectively impaired, Management exercises some degree of judgement regarding what events/criteria the loans are to be measured against. The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon Management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cashflows considered recoverable are independently reviewed by the risk management function.

Collectively-assessed impairment allowance covers credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine required input parameters based on historical experience or benchmark (when there is no sufficient historical data). The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

### **3 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. They have been applied consistently for similar transactions, other events and conditions unless otherwise stated.

#### **3.1 Property and equipment**

##### **(i) Recognition and measurement**

Property and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses. The cost of an item of property and equipment

is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Fund, and the cost of the item can be measured reliably. The cost of equipment comprises their purchase cost and any incidental costs of acquisition. For assets acquired through non-exchange (e.g. donations to the Fund), the cost represents the fair value of the acquired items.

#### **(ii) Subsequent costs**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

#### **(iii) Depreciation**

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives.

*The estimated annual rates of depreciation are as follows:*

	<b>Percentage (%)</b>
Furniture and equipment	20
Office equipment	25
Motor vehicles	25
Computer equipment	25
Leasehold improvements	Over the term of the lease

The residual values, useful life and depreciation method are reviewed at each financial-year end and adjusted prospectively, if appropriate. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **(iv) Derecognition**

An item of property, plant and equipment, and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income or expenditure when the asset is derecognised.

#### **(v) Leasehold improvements**

The Fund recognises leasehold improvements as property, plant and equipment. The improvements are measured at cost on initial recognition when it is probable that economic benefits will flow to the entity and the resources will be used for more than one financial period. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation in the same policy as other items of property and equipment.

### **3.2 Intangible assets**

#### **(i) Recognition and measurement**

Intangible assets consist of loan application and accounting software. Software not integral to the related hardware acquired by the Fund is stated at cost less accumulated

amortisation and accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Fund are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

#### **(ii) Subsequent measurement**

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

#### **(iii) Amortisation**

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software from the date that the asset is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life is 3 years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### **(iv) De-recognition:**

(iv) De-recognition:

An item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income or deficit in the year it was derecognised.

### **3.3**

#### **Impairment of non-financial assets**

For impairment testing, assets are classified into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Value in use is based on the estimated future cash flows, 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 or cash-generating unit. An impairment loss is recognised for non-financial assets when the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets not yet available for use are tested for impairment annually. All other assets are assessed for indicators of impairment at the end of each reporting period.

### 3.4 Revenue

**Revenue recognition criteria for exchange and non-exchange transactions:** Revenue from an exchange transaction is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Such revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding taxes. Revenue from a non-exchange transaction recognised as an asset shall be recognised as revenue except to the extent that a liability is also recognised in respect of the same inflow. Such revenue shall be measured at the amount of the increases in net assets recorded by the Fund.

*The Fund's revenue comprises interest income, grant income, donations and other income*

#### **Interest income**

For all financial instruments measured at amortised cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of income or expenditure.

Interest Income Received are the funds generated through the loans given out to the beneficiaries and placement with other financial institution.

#### **Grant income**

A number of the Fund's programs are supported by grants received from donor agencies (both local and international). If conditions are attached to a grant which must be satisfied before the Fund is eligible to receive the contribution, recognition of the grant as revenue is deferred until those conditions are satisfied.

Grants are recognised in the income statement on a systematic basis over the period in which the Fund recognises as expenses the related costs for which the grants are intended to compensate.

Grants that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Fund with no future related costs, are recognised in the profit or loss in the period in which they are received or become receivable.

#### **Donations**

Donations collected are recognised as revenue when the Fund gains control, economic benefits are probable, and the amount of the donation can be measured reliably.

Grants/donations relate to the grant received through the partnership between LSETF, USADF and GIZ during the period.

#### **Other income**

Other income represents income generated from sources other than interest and grant income. It includes income realised from income generated from current account

balances and penal charges on late repayments by beneficiaries. Income is recognized when the right to receive the income is established.

### **3.5 Financial instruments**

#### **(a) Classification**

The classification of financial instruments depends on the purpose for which the assets are acquired. The Fund classifies its financial assets into the following category:

- Loans and receivables.

The Fund's liabilities are classified into the following category:

- Other financial liabilities.

Loans and receivables are loans and advances to beneficiaries, cash and bank balances and placements with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of its short-term commitments.

Other financial liabilities are other payables, unearned income and managed funds.

#### **(b) Recognition**

Financial instruments are initially recognised at fair value and on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or where the Fund has substantially transferred all risks and rewards of ownership.

#### ***Loans and receivables***

Loans and advances to customers are initially measured at fair value. These represent the Fund's owned and managed loans and advances.

#### ***Managed loans***

This is a counterparty funding between LSETF and other third parties. Risks and rewards are also borne by each party based on the agreement.

#### ***Other financial liabilities:***

Financial liabilities are initially measured at fair value.

#### **(c) Subsequent measurement**

#### ***Loans and receivables***

Loans and receivables are subsequently measured at amortised cost using the effective interest method (cost plus accrued interest) in the statement of financial position.

Repayments from loan beneficiaries refer to repayment amount on loans and advances to beneficiaries of the Fund's loan programs.

#### ***Other financial liabilities:***

Other financial liabilities are subsequently measured at amortised cost.

#### **(d) Derecognition of financial instruments**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on

the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

The Fund may enter into transactions whereby it transfers assets recognised on its statement of financial position but retains either all risks or 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 derecognised from the statement of financial position. In transactions where the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Any interest in transferred financial assets that is created or retained by the Fund is recognised as an interest income or interest expense in the surplus or deficit.

#### **(e) Amortised cost measurement**

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### **(f) Fairvalue measurement**

The Fund did not measure any assets or liabilities at fair value at the end of the reporting period. However, fair values of financial instruments measured at amortised cost are disclosed. Fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants will use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### 3.6

### **Impairment of financial assets**

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

#### **a) Individually assessed financial assets**

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

The following factors are considered in assessing objective evidence of impairment:

- evidence of default of contractual payment terms;
- there is an observable data indicating that there is a measurable decrease in the estimated future cash flows of the financial assets.

If there is objective evidence that an impairment loss on an account receivable has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. The amount of the loss is the difference between the receivable carrying amount and the present value of the estimated cash flows expected to be received. Estimates of changes in future cash flows for financial assets are reflected and directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as the repayment of outstanding balance), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss under impairment charge for credit losses.

#### **b) Collectively assessed financial assets**

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Fund and historical loss experience or benchmark experience with credit risk characteristics similar to those in the Fund. Historical loss experience or benchmark experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist or entity specific situation to reflect the effects of conditions that are present in the benchmark but not in the Fund and vice versa. The methodology and

assumptions used for estimating future cash flows will be reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience.

### **3.7 Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances and placements with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost (cost plus accrued interest) in the statement of financial position.

### **3.8 Provisions**

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

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

### **3.9 Other current assets and prepayments**

Other current assets are measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Prepayments are carried at cost less accumulated amortisation.

### **3.10 Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date on which the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

### **3.11 Employee benefits**

#### **(a) Defined contribution plan**

The Fund has a defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity

pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in Income and Expenditure in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Fund operates a defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The employer and the employee contributions are 10% and 8% respectively of the qualifying employee's salary. Obligations in respect of the Fund's contributions to the scheme are recognized as an expense in the surplus or deficit on an annual basis.

#### **(b) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Fund has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

### **3.12 Expenditure**

All expenses are accounted for on an accrual basis. The Funds expenses are classified into programs expenses and other operating expenses. Program expenses are expenses incurred wholly and exclusively for the direct actualization of the programs activities of the Fund while other operating expenses are mainly Secretarial and/or Office running expenses.

### **3.13 Contingent assets and liabilities Contingent assets**

#### *Contingent asset*

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent assets are disclosed in the financial statements when they arise.

#### *Contingent liabilities*

Contingent liability is the probable obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. However, they are recognised, if it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Contingent liabilities are disclosed in the financial statements when they arise.

### **3.14 Taxation**

The income of LSETF is exempted from income tax based on the provisions of Section 23 (i) of the Companies' Income Tax Laws of Nigeria and the Section 26 of the Lagos State Employment Trust Fund Act.

### **3.15 Equity**

The Fund's equity majorly comprises subventions received from the Lagos State

Government (LASG), its parent company (Owner), and the deficit for the year, which is usually net off from the Fund's capital contribution (subventions). Subventions can be defined as a sum of money received by a business from a government.

Section 16 of the Fund's bill states that:

The Board shall have power to raise money for the Fund through voluntary subscription and donations from all interested government agencies, private organizations and individuals but not limited to:

- a) State Government Subventions,
- b) Contribution from the Federal and Local Government Councils in the State,
- c) Financial or material donations from any person whether corporate or otherwise, and several other sources.

These subventions received by the Fund from the Lagos State Government (LASG), are classified as Ownership contributions, in line with the provisions of IPSAS 1 (The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities).

Ownership contributions are defined as "Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity. IPSAS 1, also guides that ownership contributions may take the form of an initial injection of resources at the creation of an entity or subsequent injection of resources, as is consistent with the Lagos State Employment Trust Fund ("The Fund").

Based on the relevant guidance as highlighted above, the Fund has elected to recognize the subventions received from the Lagos State Government (its Shareholder), as equity in the statement of financial position, as adopted from the explicit guidance of IPSAS 23 "Revenue from Non-Exchange Transactions"

### **3.16 New standards effective in the year**

There are no standards effective in the current year under review.

### **3.17 New standards and interpretations not yet effective**

The following new or revised standards and amendments which have a potential impact on the Fund are not yet effective for the year ended 31 December 2021 and have not been applied in preparing these consolidated financial statements. The Fund also plans to apply the standards and amendments disclosed below once they are applicable. However, the Fund's assessments of the new standards and amendments is not yet concluded but is expected to have significant impact on the Fund's operations and subsequent financial position.

IPSAS	Effective Date	Key Requirement
IPSAS 41 (Financial Instruments)	1 January 2022.	<p>IPSAS 41 is to replace IPSAS 29 (Financial Instruments: (Recognition and Measurement).</p> <p>IPSAS 41 is based on International Financial Reporting Standard (IFRS 9-Financial Instruments), and is set to establish new requirements for classifying, recognizing and measuring financial instruments.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>Applying a single classification and measurement model for financial assets that considers the characteristics of the assets's cash flows and the objective for which the asset is held;</li> <li>Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4 Cash and cash equivalents

In thousands of Naira	31-Dec-21	31-Dec-20
Cash in hand	720	83
Current accounts with banks (see (a) below)	1,406,501	3,697,224
Deposits with financial institutions (see (b) below)	1,250,092	102,633
	<b>2,657,313</b>	<b>3,799,940</b>

(a) Balance in the Fund's current accounts is further analysed as follows:

In thousands of Naira	31-Dec-19	31-Dec-20
Balance with Fulfilment Partner Banks	118,343	376,076
Other Bank balances	1,288,158	3,321,148
	<b>1,406,501</b>	<b>3,697,224</b>

The amounts with fulfilment partner banks represents sums available for onward loan disbursement to beneficiaries who are yet to meet the conditions precedent to draw-down and repayments from beneficiaries who have assessed loans as at 31 December 2021. Funds yet to be disbursed to beneficiaries will be disbursed as these conditions are met.

(b) Deposit with financial institutions include:

In thousands of Naira	31-Dec-21	31-Dec-20
Access Bank Plc	500,000	102,541
First Bank	750,000	-
Other Banks	92	92
	<b>1,250,092</b>	<b>102,633</b>

The deposit with financial institutions represents fixed deposit of N500million at 5.5% per annum with Access Bank and N750million at 5% per annum with First Bank.

## 5 Loans and advances

In thousands of Naira	31-Dec-21	31-Dec-20
Movement in loans and advances during the year		
Balance at the beginning of year	3,458,423	3,949,224
Loan disbursed during the year (see note (a) below)	731,690	130,661
Interest earned (see note 14 (b))	51,825	50,145
Late repayment fees (see note 16 (a))	34,383	-
	4,276,321	4,130,030
Repayments	(626,661)	(671,607)
Gross loans	3,649,660	3,458,423
Allowance for impairment (See note (c) below)	(2,585,473)	(2,391,034)
	<b>1,064,187</b>	<b>1,067,389</b>

Gross loans for the year is made up of the following:	1,998,505	2,012,930
Small and Medium Enterprises	1,388,785	1,409,746
Micro-Enterprises	6,702	7,934
Hub Loan	8,000	4,500
Honeywell Loan	122,149	-
W-Initiative Loan	42,360	-
First Edu Loan	31,508	-
Edfin Edu Loan	19,338	-
Nano Loan	9,000	-
Sky Home Loan	23,313	23,313
Managed Loans		
	<b>3,649,660</b>	<b>3,458,423</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Net Loans is classified as:

Current	329,878	414,833
Non-current	734,309	652,556
	<b>1,064,187</b>	<b>1,067,389</b>

**(a) Loan disbursed during the year is made up of the following:**

In thousands of Naira	31-Dec-21	31-Dec-20
Small and Medium Enterprises	338,145	32,304
Micro-Enterprises Hub Loan	169,530	90,719
Honeywell Loan	-	-
Managed Loans	3,600	4,500
W-Initiative Loan	-	3,138
First Edu Loan	119,895	-
Edfin Edu Loan	40,591	-
Nano Loan	30,769	-
Sky Home Loan	20,160	-
	9,000	-
	<b>731,690</b>	<b>130,661</b>

Hub loans are part of the Tech StartUp program aimed at high-performing, outcome-focused providers of co-working spaces, innovation hubs, incubators and similar workspaces in Lagos State. It is targeted to support the capacity expansion, or facilities upgrade of existing hubs.

By granting Hub loans, LSETF hopes to support the growth and sustainability of this segment and other innovation-driven enterprises (IDEs). Honeywell loan represents the amount disbursed to the Fund towards the fulfilment of the Talent Development Programs (trainings) engaged by the Fund during the year. These programs are conducted in partnership with Honeywell Limited

Small and medium enterprises are loans granted to business owners at cadre of Small and Medium enterprises

Micro-enterprises are loans disbursed to business owner on micro/micro startup enterprises during the period under review.

W-Initiative loan represents partnership loans between LSETF and Access Bank to support women-owned business in Lagos State. The Fund has recognised 50% of total loans disbursed during the year under review in accordance with the signed MOU.

Edu loans represent partnership between LSETF, FirstBank and Edfin MFB to provide working capital or asset financing needs to low cost private school and vocational training centres in Lagos State that have been in operation for atleast one year. The Fund has recognised 50% of total loans disbursed during the year under review in accordance with the signed MOU.

Nano loans are the smallest type of loans granted to support business owners in Lagos State.

Sky Home loan is loan granted under Business Park Programme for asset finance/working capital.

**(b) Loans disbursed under the Managed Loan scheme is made up of the following:**

In thousands of Naira	31-Dec-21	31-Dec-20
LSETF contribution	-	1,569
Counterparty contribution to loan advanced to beneficiaries	-	1,569
	<b>-</b>	<b>3,138</b>

LSETF enters into counter-party agreement with individuals and local governments to contribute funds at an agreed ratio, usually equally between parties, towards the advancement of loan to beneficiaries in specified locations in Lagos State. The terms of the agreement vary across counterparties. See note 10(b) for funds received during the year.

**(c) Movement in impairment charge on loans and advances during the year**

**Collective allowance for impairment**

In thousands of Naira	31-Dec-21	31-Dec-20
Balance as at 1 January	2,391,034	2,723,659
Charge for the year (note (d) below)	194,439	(332,625)
Balance as at 31 December	2,585,473	2,391,034
<b>Total impairment</b>	<b>2,585,473</b>	<b>2,391,034</b>

(d) Impairment charge

In thousands of Naira	31-Dec-21	31-Dec-20
SME loans	83,593	(353,970)
ME loans	132,655	24,736
Hub loans	(1,559)	-
Late repayment fees	(12,298)	0
LSETF's contribution to managed loans	(7,952)	(3,391)
	194,439	(332,625)
<b>Impairment charge for the year</b>	<b>194,439</b>	<b>(332,625)</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

- i). Loss Given Default (LGD): This reflects the losses that are expected to be incurred on the exposures that have gone into a default state. The LGD estimate adopted were based on the historical loss provision experiences on the LSETF loan portfolio.
- ii). Probability of Default (PD): This is the likelihood that a beneficiary will default within a 12-month period
- iii). Recovery Rate (RR): This is the amount, expressed as a percentage, recovered from a loan when the beneficiary is in default for the period.

## 6 Prepayments

In thousands of Naira	31-Dec-21	31-Dec-20
<b>Non financial Assets</b>		
Rent	5,787	5,787
Other prepayment (see note (a) below)	22,195	10,229
Credit insurance (see note (b) below)	797	1,487
Prepaid insurance	3,532	3,467
	<b>32,311</b>	<b>20,970</b>
<b>Classified as:</b>		
Current	32,311	20,970
Non-Current	-	-
	<b>32,311</b>	<b>20,970</b>

- (a) Other prepayment represents prepaid rent, service charge, subscription and retainer fees.
- (b) Credit insurance represents protection of the loan sum granted to beneficiaries against default burglary and fire of business premises of loan beneficiaries.

## 7 Other assets

In thousands of Naira	31-Dec-21	31-Dec-20
<b>Financial Assets</b>		
Balance in joint arrangement account with UNDP (see notes (a) below)	368,216	98,485
Balance in joint arrangement account with USADF (see notes (b) below)	246,092	302,553
Other receivables	8,815	9577
Advance payments	23,400	3,040
Deposit for Edu-Loan (Edfin MFB) (See note (a) below)	219,231	250,000
Deposit with British Council	40,003	40,003
Deposit for W-Initiative Loan	880,105	-
Ibile Wallets	21,840	-
Staff Receivables	1,215	-
Wallet-Equity Contribution	423	-
Interest Receivable on Term Deposit	8,257	-
	<b>1,817,597</b>	<b>703,659</b>
<b>Classified as:</b>		
Current	1,817,597	703,659
Non-Current	-	-
	<b>1,817,597</b>	<b>703,659</b>

- (a) LSETF entered into a partnership agreement with the United Nations Development Project (UNDP) for the funding of "The Lagos State Employability Support Project". This Project aims at training 10,000 people between the ages of 18 - 35 years in the manufacturing, healthcare, construction, entertainment, garment making, hospitality and tourism sectors by 2020. The Partners agreed to contribute \$3,000,000 and \$1,000,000 respectively.

As at 31 December 2021, LSETF and UNDP had contributed USD3,260,883.65 and USD589,513.71 respectively.

LSETF also signed memorandum of understanding with Edfin MFB and deposited N250million for the purpose of granting loans to school owners affected by COVID19 and EndSARS protests

LSETF also signed an MOU with British Council in building filmlabs for those in creative/films industry

The movement in the balance in the Joint arrangement account with UNDP is as shown below:

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of year	98,485	68,405
Contribution by LSETF	269,731	30,080
	368,216	98,485
Expenditure on project during the year (see note 18(b) below)	-	-
Management fees to UNDP (see note 18(b) below)	-	-
<b>Balance, end of year</b>	<b>368,216</b>	<b>98,485</b>

The movement in the balance in the Joint arrangement account with USADF is as shown below:

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of year	302,553	162,000
Contribution by LSETF	171,300	173,447
<u>Interest recognised on deposit</u>	-	115
	473,853	335,562
Expenditure on project during the year (see note (b) below)	(227,761)	(33,009)
<b>Balance, end of year</b>	<b>246,092</b>	<b>302,553</b>

- (b) The United States African Development Foundation (USADF) and LSETF executed an agreement in May 2019 to fund an Employability Program to the tune of \$2,000,000 annually. The partners agreed to make this contribution in ratio 50:50 for a duration of 5 years. The program aims to support 3,000 young people (50% female and 50% male) per annum to attain the relevant industry trade skills that cut across sectors, including but not limited to: technology, creative arts, agriculture, transportation and logistics, renewable energy, construction; thereby increasing the market competitiveness of youth in Nigeria to gain access to employment, create more jobs and generate income. LSETF and USADF expect to place a minimum of fifty percent (50%) of the trainees in jobs within these sectors.

As at 31 December 2021, LSETF has contributed the sum of USD1,350,000 to the project account. The total contribution deposit of \$450,000 for the year under review was converted at N380.66/\$.

- (c) There was no impairment charge recognised on other assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 8 Intangible assets

31 December 2021

In thousands of Naira	Loan Application Software	Accounting Software & Others	Total
Cost:			
Balance as at 1 January 2021	108,135	29,451	137,586
Additions	-	3,675	3,675
<b>Balance as at 31 December 2021</b>	<b>108,135</b>	<b>33,126</b>	<b>141,261</b>
Amortisation:			
Balance as at 1 January 2021	(108,125)	(27,311)	(135,436)
Charge for the year	-	(2,650)	(2,650)
<b>Balance as at 31 December 2021</b>	<b>(108,125)</b>	<b>(29,961)</b>	<b>(138,086)</b>
Carrying amounts			
<b>Balance at 31 December 2021</b>	<b>10</b>	<b>3,165</b>	<b>3,175</b>
Cost:			
Balance as at 1 January 2020	108,135	29,451	137,586
Additions	-	-	-
<b>Balance as at 31 December 2020</b>	<b>108,135</b>	<b>29,451</b>	<b>137,586</b>
Amortisation:			
Balance as at 1 January 2020	(102,128)	(18,272)	(120,400)
Charge for the year	(5,997)	(9,039)	(15,036)
<b>Balance as at 31 December 2020</b>	<b>(108,125)</b>	<b>(27,311)</b>	<b>(135,436)</b>
Carrying amounts			
<b>Balance at 31 December 2020</b>	<b>10</b>	<b>2,140</b>	<b>2,150</b>

- (i) There were no leased assets included in the balances as at year end (2020: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2020: Nil).
- (iii) There were no impairment losses on intangible assets during the year (2020: Nil).
- (iv) Intangible assets represent development cost with respect to the computer software i.e. the beneficiary selection software used for managing the loan beneficiaries' selection process and purchased software for the Fund's accounting function and, technological start-ups program.

### (b) Amortisation

	31-Dec-21	31-Dec-20
Loan Application Software (see note (i) below)	-	5,997
Accounting Software & Others	2,650	9,039
<b>Amortisation expense for the year</b>	<b>2,650</b>	<b>15,036</b>

- (i) The amortization charge for Loan Application Software is classified as a part of the loan programs expense considering its direct relationship with the loan program. See note 18(a).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 9 Property and equipment

The movement in this account during the year was as follows:

31 December 2021

In thousands of Naira	Motor vehicles	Computer Equipment	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
<b>Cost:</b>						
Balance as at 1 January 2021	156,295	208,888	14,232	38,243	34,957	452,615
Additions	61,377	17,335	1,575	6,814	-	87,101
Disposal	(62,534)	(10,384)	-	(1,900)	-	(74,818)
<b>Balance as at 31 December 2021</b>	<b>155,138</b>	<b>215,839</b>	<b>15,807</b>	<b>43,157</b>	<b>34,957</b>	<b>464,898</b>
<b>Accumulated depreciation:</b>						
Balance as at 1 January 2021	(114,191)	(184,698)	(11,847)	(29,952)	(27,068)	(367,756)
Charge for the year	(19,700)	(15,053)	(1,943)	(4,868)	(7,889)	(49,453)
Disposal	62,534	10,384	-	1,900	-	74,818
<b>Balance as at 31 December 2021</b>	<b>(71,357)</b>	<b>(189,367)</b>	<b>(13,790)</b>	<b>(32,920)</b>	<b>(34,957)</b>	<b>(342,391)</b>
Carrying amounts						
<b>Balance at 31 December 2021</b>	<b>83,781</b>	<b>26,472</b>	<b>2,017</b>	<b>10,237</b>	<b>0</b>	<b>122,507</b>

In thousands of Naira	Motor vehicles	Computer Equipment	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
<b>Cost:</b>						
Balance as at 1 January 2020	143,487	194,337	13,989	37,248	34,957	424,018
Additions	43,000	14,551	243	995	-	58,789
Disposal	(30,192)	-	-	-	-	(30,192)
<b>Balance as at 31 December 2020</b>	<b>156,295</b>	<b>208,888</b>	<b>14,232</b>	<b>38,243</b>	<b>34,957</b>	<b>452,615</b>
<b>Accumulated depreciation:</b>						
Balance as at 1 January 2020	(116,022)	(139,203)	(8,366)	(22,346)	(27,068)	(313,005)
Charge for the year	(28,361)	(45,495)	(3,481)	(7,606)	-	(84,943)
Disposal	30,192	-	-	-	-	30,192
<b>Balance as at 31 December 2020</b>	<b>(114,191)</b>	<b>(184,698)</b>	<b>(11,847)</b>	<b>(29,952)</b>	<b>(27,068)</b>	<b>(367,756)</b>
Carrying amounts						
<b>Balance at 31 December 2020</b>	<b>42,104</b>	<b>24,190</b>	<b>2,385</b>	<b>8,291</b>	<b>7,889</b>	<b>84,859</b>

- (i) No leased asset is included in property and equipment as at year end (2020: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2020: Nil).
- (iii) There were no impairment losses on any class of property and equipment during the year (2020: Nil).
- (iv) There was no property and equipment pledged as security for borrowing as at year end (2020: Nil).
- (v) There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2020: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

**10 Managed funds**

In thousands of Naira	31-Dec-21	31-Dec-20
Financial liabilities		
Managed Funds (see note (a) below)	56,274	56,274
	<b>56,274</b>	<b>56,274</b>
Classified as:		
Current	56,274	56,274
Non - Current	-	-
	<b>56,274</b>	<b>56,274</b>
(a) The movement in the managed funds is as shown below:		
Balance as at beginning of year	63,200	53,200
Additions (see notes (b) below)	-	10,000
	63,200	63,200
Collective impairment on loan disbursed (see note (f) below)	(6,926)	(6,926)
	<b>56,274</b>	<b>56,274</b>
(b) Managed Funds represents funds received from counterparties under a joint scheme, for loan disbursements to residents of Lagos in particular locations. The Fund and the counterparties contribute funds at agreed ratio for the programs and, bear the credit risk on their respective funds contributed.		
Ojo Local Government	5,000	5,000
TAM FUND	5,000	5,000
Lagos Island Local Government	10,000	10,000
Hon. Agunbiade	10,000	10,000
Itire Ikate LCDA	5,000	5,000
Apapa Local Government	10,000	10,000
Honeywell Group	10,000	10,000
	<b>55,000</b>	<b>55,000</b>
(c) The utilisation of the managed funds is as follows:		
31-Dec-21	31-Dec-20	
Funds disbursed during the year	-	1,569
	-	<b>1,569</b>
(d) The movement in the impairment on managed loans is as shown below:		
31-Dec-21	31-Dec-20	
Balance as at beginning of year	6,926	6,926
Additions (see note 5 (d))	-	-
	<b>6,926</b>	<b>6,926</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

11 Unearned Income

In thousands of Naira	31-Dec-21	31-Dec-20
<b>Financial liabilities</b>		
Unearned Income on agreement with GIZ (see note (a) below)	24,127	40,980
Unearned Income on agreement with Honeywell (see note (b) below)	20,000	-
Other unearned income	122	-
	<b>44,249</b>	<b>40,980</b>
Classified as:		
Current	44,249	40,980
Non - Current	-	-
	<b>44,249</b>	<b>40,980</b>

- (a) The movement in unearned income on GIZ employability project is as shown below:

In thousands of Naira	31-Dec-20	31-Dec-19
Opening Balance	40,980	55,885
Additional inflow from GIZ during the year	-	55,803
Income earned during the year (See note 15)	(16,852)	(60,708)
Reclassification (Honeywell)	-	(10,000)
	<b>24,128</b>	<b>40,980</b>

- (b) Unearned grant income represents funds received from Bank of Industry for the Lagos Innovates programme in respect of talent development programme. Income recognition of this grant is conditional to performance of agreed activities.

12 Other liabilities and accruals

In thousands of Naira	31-Dec-21	31-Dec-20
<b>Financial liabilities</b>		
Due to fulfilment partners	7,446	7,446
Audit fee payable	12,500	11,825
Other payables (see note (a) below)	84,881	33,343
	<b>104,827</b>	<b>52,614</b>
Non-financial liabilities		
PAYE payable	0	182
Withholding tax payable	18,673	19,525
Value added tax payable	14,653	13,920
Development levy payable (see (b) below)	4,132	4,272
	<b>37,458</b>	<b>37,899</b>
	<b>142,285</b>	<b>90,513</b>
Classified as:		
Current	142,285	90,513
Non - Current	-	-
	<b>142,285</b>	<b>90,513</b>

- (a) Other payables is made up of IT infrastructure payable, consultancy fee payable, deposit for First Edu loans amongst others.  
(b) Development levy is a 1% deduction made by all agencies and parastatals from all payments to suppliers and contractors as mandated by the Lagos State Government.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

**13 Capital contribution**

This comprises:

In thousands of Naira	31-Dec-21	31-Dec-20
Capital contribution from Lagos State Government (LASG) (see note (a) below)	14,517,533	12,717,533
Take-off fund (see note (c) below)	150,000	150,000
	<b>14,667,533</b>	<b>12,867,533</b>

- (a) The movement in capital contribution is as shown below:

In thousands of Naira	31-Dec-21	31-Dec-20
In thousands of Naira		
Opening balance	12,717,533	11,000,000
Capital contribution from LASG (see note (b) below)	1,800,000	1,717,533
	<b>14,517,533</b>	<b>12,717,533</b>

- (b) LSETF received the sum of N1.72 billion as capital contribution from the Lagos State Government during the financial year. As at 31 December 2020, the Fund had received a total of N12.87 billion from the Lagos State Government. The capital contribution is to target programs meant to generate employment including disbursement of loans to MSMEs, Employability programmes or as may be required to support employment creation.
- (c) The take-off grant of N150million represents funds provided by the Lagos State Government to support the operational costs of setting up the Fund.

**14 Interest income**

In thousands of Naira	31-Dec-21	31-Dec-20
Loans and advances (See note (a) below)	51,826	50,145
	<b>51,826</b>	<b>50,145</b>

**(a) Interest income on loans and advances**

Micro enterprises	7,242	15,517
Small and medium enterprises	38,833	33,995
Hub loan	687	633
Nano loan	302	-
Edfin loan	739	-
W- Initiative loan	2,254	-
First Edu loan	1,769	-
	<b>51,826</b>	<b>50,145</b>

**(b) Interest income on loans and advances**

Own loans (see note 5)	51,825	50,145
	<b>51,825</b>	<b>50,145</b>

**15 Grant income**

In thousands of Naira	31-Dec-21	31-Dec-20
USADF		
GIZ (see note 11(a))	227,761	33,009
	16,852	60,708
	<b>244,613</b>	<b>93,717</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16 Other income

In thousands of Naira	31-Dec-21	31-Dec-20
Late repayment fees (see note (a) below)	34,383	-
Sundry income	18,610	12,816
Donation - MSME recovery fund	547,281	3,500
Foreign exchange gain/(loss)	(17,173)	59,254
Interest on term deposits	23,299	37,889
	<b>606,400</b>	<b>113,459</b>

Sundry income is made up of income earned on the Fund's current account balances with banks and donations from the employment summit.

(a) Late repayment fees

In thousands of Naira	31-Dec-21	31-Dec-20
Late repayment fees (see note 5)	34,383	-
	<b>34,383</b>	-

17 Impairment (write back)/ charge

In thousands of Naira	31-Dec-21	31-Dec-20
Impairment (Write back)/ charge on loans and advances (See note 5(d))	194,439	(332,625)
	<b>194,439</b>	<b>(332,625)</b>

18 Programs expenses

In thousands of Naira	31-Dec-21	31-Dec-20
Loan program expenses (see (a) below)	935,653	180,595
Other programs expenses (see (b) below)	636,175	152,994
	<b>1,571,828</b>	<b>333,589</b>
(a) Loan programs expenses		
Management fees (see note (i) below)	16,371	33
Credit insurance (see note (iii) below)	2,883	7,282
Beneficiary training (see note (iv) below)	1,375	126
Beneficiary selection (see note (v) below)	-	300
Amortization of loan application software (see note 8 (b))	-	5,997
Other loan program costs (see note (vi) below)	51,230	19,242
MSME Recovery Costs	863,794	147,615
	<b>935,653</b>	<b>180,595</b>

- i. Management fees relate to payments made to fulfillment partners for loan disbursement, monitoring and collection of repayments. The fees are charged at the rate of 2.5% and 3.5% for small and medium enterprises and micro enterprises loans respectively.
- ii. Credit insurance represents the amortised portion of annual premium paid for the protection of the loan sum granted to beneficiaries. This covers against default arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries.
- iii. Beneficiary training represents cost of providing trainings on business management amongst others to successful loan applicants on how to better utilize and turn around capital and manage their businesses.
- iv. Beneficiary selection fees represents the fees paid to independent consultants to manage the beneficiary selection process and recommend candidates to the Fund for approval.
- v. Other loan programs cost represents among others cost of engaging consultants to carry out business verification and assessment on behalf of the Fund.
- vi. MSME recovery costs represents the amount disbursed to the businesses that were affected during the ENDSARS protests in Lagos State.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(b) Other programs expenses

<b>In thousands of Naira</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
Lagos CARES	53,257	-
Leap tourism	27,500	-
Employability program costs - GIZ (see note 11(a))	16,852	-
Employability program costs - USADF	468,322	135,045
Technological start-ups program cost	70,244	17,949
	<b>636,175</b>	<b>152,994</b>

19 Personnel expenses

<b>In thousands of Naira</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
Wages and salaries	461,215	453,119
Defined contribution plan (see note (a) below)	20,813	19,908
	<b>482,028</b>	<b>473,027</b>

(a) This is the contribution made by LSETF to employees' pension accounts. LSETF and its employees make contributions of 10% and 8% respectively of the base salary, housing and transport allowance to each employee's retirement savings account maintained with the employees' nominated Pension Fund Administrators.

Total personnel expenses includes the Executive Secretary's remuneration.

(b) Analysis of personnel expenses

Employees of the Fund, earning more than N500,000 other than the Board of Trustees, whose duties were wholly or mainly discharged in Nigeria, received emoluments (excluding pension contributions and certain benefits/allowances) in the following ranges:

	<b>Number</b>	<b>Number</b>
N500,001 - N1,500,000	6	15
N1,500,001 - N2,500,000	6	12
N2,500,001 - N3,500,000	-	8
N3,500,001 - N4,500,000	12	13
N4,500,001 - N5,500,000	10	4
N5,500,001 - N6,500,000	7	4
N6,500,001 - N7,500,000	6	3
N7,500,001 - N 8,500,000	5	2
N8,500,001 and above	8	-
	<b>60</b>	<b>61</b>

The Board of Trustees' emoluments comprise:

<b>In thousands of Naira</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
Trustees' sitting allowances (see note 20)	44,827	50,147
	<b>44,827</b>	<b>50,147</b>

The sitting allowances disclosed above include amounts paid to:

<b>In thousands of Naira</b>	<b>31-Dec-21</b>	<b>31-Dec-20</b>
The Chairman	4,350	3,400
The Executive Secretary	8,039	8,039

There were no fees paid to the Trustees during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 20 Other operating expenses

In thousands of Naira	31-Dec-21	31-Dec-20
Rent & service charge	22,320	22,113
Professional fees	12,996	1,803
Audit fees (See note 20 (a) below)	12,500	11,825
Trustees' sitting allowance (See note 19(b))	44,827	50,147
Liaison office	15,520	5,950
General and administrative expenses	11,333	5,761
Fueling	2,530	4,612
Transport and travelling	15,458	120
Bank charges	2,071	702
Security costs	533	429
Board and staff strategy session	5,201	4,315
Board training	39,441	374
Staff training	30,250	1,681
Electricity & power	15,000	11,000
Office repairs and maintenance	3,840	1,363
Printing and stationeries	2,362	501
Motor vehicles repairs and maintenance	2,719	2,723
Advert, publicity and engagement	105,731	65,341
Computer accessories & consumables	57,057	35,850
Insurance	43,226	42,132
Other expenses	(5,555)	-
	<b>439,360</b>	<b>268,742</b>

## 21 Reconciliation notes to the statement of cashflows

### (i) Changes in pre-payments

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year (see note 6)	20,970	22,822
Balance, end of the year (see note 6)	32,311	20,970
<b>Decrease in prepayments</b>	<b>(11,341)</b>	<b>1,852</b>

### (ii) Changes in other current assets

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year (see note 7)	703,658	241,698
Balance, end of the year (see note 7)	1,817,597	703,658
<b>(Increase)/Decrease in other current assets</b>	<b>(1,113,939)</b>	<b>(461,960)</b>

### (iii) Changes in loans and advances

In thousands of Naira	31-Dec-21	31-Dec-20
Loans granted during the year (see note 5)	(731,690)	(130,661)
Cash repayments received (see note 5)	626,661	671,607
Interest on managed loan (see note 14(b))	-	-
<b>Decrease/(Increase) in loans and advances</b>	<b>(105,029)</b>	<b>540,946</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(iv) Changes in other liabilities and accruals

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year (see note 12)	90,512	115,762
Balance, end of the year (see note 12)	142,285	90,512
<b>Increase/(Decrease) in other liabilities</b>	<b>51,773</b>	<b>(25,250)</b>

(v) Changes in unearned income

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year	40,980	55,885
Amount written to statement of financial performance (see note 15)	(16,852)	(60,708)
Balance, end of the year (see note 11)	44,249	40,980
<b>Increase in unearned Income</b>	<b>20,121</b>	<b>45,803</b>

(vi) Changes in managed funds

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year	56,274	46,274
Balance, end of the year (see note 10)	56,274	56,274
<b>(Decrease)/Increase in managed funds</b>	<b>(0)</b>	<b>10,000</b>

## 22 Movement in Deficit from operations

In thousands of Naira	31-Dec-21	31-Dec-20
Balance, beginning of the year	(7,376,332)	(6,796,938)
Addition during the year	(1,836,919)	(579,393)
<b>Balance, end of the year</b>	<b>(9,213,251)</b>	<b>(7,376,331)</b>

## 23 Contingent liabilities, litigation and claims

The Fund was not involved in any suit in its ordinary course of business as at the reporting date. The Trustees of the Fund are not aware of any pending or threatened claims or litigations, which may be material to the financial statements. There were no other contingent liabilities requiring disclosure in the financial statements.

## 24 Taxation

The income of LSETF is exempted from income tax based on the provisions of Section 23 (i) of the Companies' Income Tax Laws of Nigeria and the Section 26 of the Lagos State Employment Trust Fund Act.

## 25 Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes trustees and key management personnel, among others.

The list of the Fund's related parties and the details of transactions with the Fund is shown below;

Name of related party	Relationship	Nature of transactions	Due from/(Due to)		Receipt/(Payment)	
In thousands of Naira			31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
Lagos State Government*	Parent	Capital contribution	-	-	-	1,717,533
LASACO Assurance Plc	Sister Company	Insurance of the Fund's Assets	-	-	-	71
Trustees and Relations	Personnel	Loan Beneficiary	-	401	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

\* The Lagos State Government released the sum of N1.80 billion on various dates as capital contribution to the Fund during the year 2021 (N1.72billion: 2020). The capital contribution is to target programmes meant to generate employment including disbursement of loans to MSMEs, employability programmes or as may be required to support employment creation.

## (i) Key management compensation

Key management personnel of the Fund includes all Trustees and senior management. The summary of the compensation of key management personnel for the year is as follows:

### Key management compensation

In thousands of Naira	31-Dec-21	31-Dec-20
Salaries and other short-term employee benefits	73,077	73,077
Sitting allowances (see note 20)	50,147	44,827
<b>Total compensation of key management personnel</b>	<b>123,224</b>	<b>117,904</b>

## 26 Events occurring after reporting period

There were no events occurring after the end of the reporting period which could have a material effect on the financial position of the Fund as at 31 December 2021.

## 27 Financial risk management

### (a) Introduction and overview

The Board of Trustees (BOT), comprising the Chairman, Executive Secretary and other Trustees is the apex decision making body of the organization. The BOT provides guidance for the overall risk appetite and direction of the Fund. The BOT has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Fund's risk management framework provides a disciplined and structured process upon which the pillars of risk and control processes and extreme events management lie

The Fund's risk management policies are established to provide guidance regarding the management of risk to support the achievement of the Fund's strategic objectives, protect Fund's assets and set appropriate limits and controls and to monitor risks and adherence to limits. LSETF risk management framework, policies and operating procedures are reviewed at the minimum, annually in line with changes in the operating environment, available resources among competing Fund's activities.

The BOT have the overall responsibility for developing, monitoring and overseeing the Fund's risk management policies, procedures and framework. The Board is assisted in its oversight role by the Board Audit & Risk Committee, which undertakes both regular and ad-hoc reviews of risk management controls and procedures. The Board Audit & Risk Committee has oversight over the Fund's audit, risk and control functions. Its responsibilities include:

The BOT have the overall responsibility for developing, monitoring and overseeing the Fund's risk management policies, procedures and framework. The Board is assisted in its oversight role by the Board Audit & Risk Committee, which undertakes both regular and ad-hoc reviews of risk management controls and procedures. The Board Audit & Risk Committee has oversight over the Fund's audit, risk and control functions. Its responsibilities include:

- o Overseeing the integrity of the financial statements and financial reporting process;

- o Monitoring choice of accounting policies and principles;
- o Overseeing the activities, hiring, performance and independence of the external and internal audit function;
- o Overseeing the effectiveness of internal control systems, accounting and operating procedures;
- o Establishing policy standards and guidelines for risk assessment and management;
- o Ensuring compliance with legal and regulatory requirements, including completeness of disclosures; and
- o Overseeing ethics, and whistle-blower hotlines.

*(I) LSETF's Approach to Risk*

The Fund addresses the challenge of risks comprehensively through an enterprise-wide risk management framework, applying leading practices that is supported by a governance structure consisting of the Board and Executive Management committees. The Board sets the tone for the risk governance and compliance process by setting the risk philosophy, policies and risk management strategy.

The Board Audit & Risk Committee reviews and ensures the compliance of our internal control and risk management practices, in line with the LSETF Law of 2016, Regulatory/Best Practices, and Board-approved guidelines.

The Board Credit and Investment Committee (BCIC) reviews and ensures all loan disbursed and investment decisions are in compliance with the LSETF Law of 2016 and Board approved guidelines. The Committee is responsible for advising/approval and collection of loans/investments within its mandate.

The Board Legal Advisory Committee advises the Fund on legal and litigation issues involving the Fund at the Small Claims Court or in any other court, including those that result from collection/recovery actions.

The Management Risk Committee, headed by the Executive Secretary, drives the management of the financial risks (liquidity and credit risk), operational risks as well as strategic and reputational risks. The Committee is responsible for the daily operations of the Fund with jurisdiction over multiple activities including risk management.

In accordance with Section 35 of the "Lagos State Audit Law 2011", the Management Audit Committee implements all recommendations contained in the Auditor General's report as approved by the Lagos State House of Assembly and any other regulation and directive of the Lagos State House of assembly.

The Management Credit Committee reviews and recommends to the Board Credit and Investment Committee and Board of Trustees for approval, credit policy direction and loan applications up to the stipulated limit as defined by the BCIC and the Board of Trustees. The Committee on an ongoing basis ensure compliance of the credit environment in the 'Fund' with approved policies and framework.

The Fund continuously identifies all events that, if they occur, would affect the Fund's ability to achieve its goals. The Fund prioritizes early identification of these events, to enable proper risk response. The Fund also educates and empowers stakeholders to own the risks applicable to them, guiding them to being front level risk managers. The Fund continuously carries out a risk grading exercise by evaluating the likelihood of occurrence, and the extent of deviation from expectation if crystallization of identified risks occurs. Each risk is graded, and controls are put in place to mitigate the risk and reduce its effect to a minimal level. There is constant communication of risk positions to relevant stakeholders. This communication includes periodic reporting, deviation escalation, and knowledge sharing to help in the entire risk management process.

**The key features of the Fund's risk management framework are:**

The Fund considers effective risk management a requirement in a long lasting institution.

- The Fund's risk management framework gives all relevant stakeholders a clear and consistent direction of its approach to managing risks, and individual's role in the risk management Process.

- The Fund continually educates and empowers stakeholders to be risk managers, guiding them to be the front line of risk response thereby building a shared perspective on risks.
- All risks are brought together under limited number of oversight functions, thereby having a holistic and integrated approach to risk management.
- Clear segregation of duties between Finance & Corporate Services Directorate, Programs and Coordination Directorate, Strategy, Partnerships and Stakeholder Management Directorate, Lagos Innovates, Risk Management and Internal Control. All activities with risk implication are thoroughly assessed.
- There is communication of risk positions to relevant stakeholders which includes periodic reporting, deviation escalation, and knowledge sharing to help in the entire risk management process.

*(ii)Risk Appetite*

The Risk Appetite of the Fund is reviewed annually in line with the Enterprise Strategic objective. As things evolve within the year, circulars and directive shall be issued periodically to reflect the changes in risk direction. The risk appetite contains limit on exposure to sectors, Local Government, Age limit where applicable, liquidity expected to cover operational expenses etc..

The Fund employs a range of quantitative indicators to monitor the risk profile. Specific limits have been set in line with the Fund's risk appetite. The Board of Trustees of LSETF shall use a balanced approach in determining acceptable levels of risk for the Fund to undertake.

The Fund will only pursue endeavours within its objectives in a safe and sound manner, complying with the LSETF Law of 2016, relevant guidelines, and ensure the Fund's sustainability for a longer term.

*(iii)Risk Management Philosophy, Culture and Objectives*

The Fund considers effective risk management a requirement in a long lasting institution.

- The Fund considers effective risk management a requirement in a long lasting institution.
- The Fund's risk management framework gives all relevant stakeholders a clear and consistent direction of its approach to managing risks, and individual's role in the risk management Process.
- The Fund continually educates and empowers stakeholders to be risk managers, guiding them to be the front line of risk response thereby building a shared perspective on risks.
- All risks are brought together under limited number of oversight functions, thereby having a holistic and integrated approach to risk management.
- Clear segregation of duties between Finance & Corporate Services Directorate, Programs and Coordination Directorate, Strategy, Partnerships and Stakeholder Management Directorate, Lagos Innovates, Risk Management and Internal Control. All activities with risk implication are thoroughly assessed.
- There is communication of risk positions to relevant stakeholders which includes periodic reporting, deviation escalation, and knowledge sharing to help in the entire risk management process.

The Fund has exposure to the following risks arising from its business and mandate:

- Credit risk
- Liquidity risk
- Funding risk
- Counter party risk
- Operational risk
- Political risk
- Legal risk
- Environmental & Social risk
- Strategic risk
- Fiduciary risk

## **(b) Credit risk**

Credit risk is the risk of financial loss to the Fund if a beneficiary or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Fund's receivables from loan beneficiaries and investment securities. The BoT have the overall responsibility for credit risk, and it delegated some of its loan approval responsibility to Board Credit & Investment Committee and Management Credit Committee.

The Fund has exposure to credit risk from the loans it granted to Lagos Residents.

Credit exposure begins from when fulfilment Partners make approved money available to the beneficiaries. Existing approval grid is shown below.

### *(i) Credit risk limits*

The Fund applies credit risk limits, among other techniques in managing credit risk. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Internal and regulatory limits are strictly adhered to. Through this, the Fund not only protects itself, but also in a sense, protects the counterparty from borrowing more than they are capable of paying.

The Fund continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Fund. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence is used to mitigate the crystallization of these risks.

The Fund has in place various portfolio concentration limits (which is subject to periodic review). These limits are closely monitored and reported on from time to time

The Fund's internal credit approval limits for the various authority levels are as indicated below.

### Approval Limit

Loan Type	Amount	Approving authority
Micro Enterprise Start-up	₦250,000	Management Credit Committee
Micro Enterprise loans	₦500,000	Management Credit Committee
SME loans	Up to N2,500,000	Board Credit & Investment Committee
	Above	
SME loans	₦2,500,000	Board of Trustees

These internal approval limits are set and approved by the Board of Trustees.

### *(ii) Credit risk limits*

The Fund's exposure to credit risk is influenced mainly by loan beneficiaries willingness and ability to repay their loans as and when due.

The Fund is exposed to credit risk on its cash and cash equivalents, investments, loans and receivables balances due from its beneficiaries and other counterparties in the public and private sectors .The Fund has procedures to monitor its credit risk across segments. Although beneficiaries are free to repay their outstanding loans before expiration, all loans are categorized as Loans and Advances & Receivables.

Utilization of the services of portfolio managers whom are educated on the risk appetite of the Fund and thus ensure that all investments are in low risk grade securities.

The Fund limits its exposure to credit risk by investing only in highly liquid money market instruments with counterparties that have a good credit rating. The Fund actively monitors credit ratings and ensures that the Fund make investments in line with the Fund's investment policy as approved by Board.

### *Cash and cash equivalents*

The Fund held cash and cash equivalents with maturity profile of less than three (3) months, held with local Funds and assessed to have good credit ratings based on the Fund's policy. The Fund also carries out a periodic evaluation of its Fulfilment partners by assessing the Financial Health, Corporate Governance and Capacity.

### *Loans and advances to beneficiaries and other receivables*

The Fund has classified loans to beneficiaries as loans and advances and other receivables. The Fund's exposure to credit risk is influenced mainly by loan beneficiaries willingness and capacity to repay obligations as and when due. The Fund ensures that loan application process assesses each applicant's credit history and financial capability in line with the loan amount. These assets evaluated for impairment in line with IPSAS 29. In 2021, the Fund had a net additional impairment of ₦194.44 million (31 Dec 2020: N332.63million)

### *(iii) Collateral security*

All financial assets held by the Fund are normally unsecured. The Fund's comfort on the loans and advances is the guarantee provided by beneficiaries, credit risk is also reduced from the fact that the loans are tenured with maturity period of not more than 36 months. Loans are also insured under Life, theft and Fire Policy.

### *(iv) Write-off policy*

Loans written off shall reduce the net asset value of the fund by the amount written off. Board approval shall be required for such write-off.

### *(v) Maximum exposure to credit risk*

The carrying amount of the Fund's financial assets, which represents the maximum exposure to credit risk at the reporting date was as follows

In thousands of Naira	31-Dec-21	31-Dec-20
Cash and cash equivalents	₦ 4	₦ 3,799,940
Loans and advances	₦ 5	₦ 1,067,389
	<b>₦ 3,721,500</b>	<b>₦ 4,867,329</b>

### *(vi) Geographical Sectors*

All LSETF loans are to beneficiaries who are resident in Lagos.

### *(vii) Foreign Currency Risk*

The Fund did not carry out any foreign currency related transaction during the year which would have exposed it to any form of related risks. However, the domiciliary account maintained with Access Bank was used for operational purposes during the year.

### *(viii) Credit Quality*

The following table breaks down the Fund's main credit exposure at their gross amounts ("Cash and cash equivalent" at carrying amount), as categorised by performance as at 31 December 2021 and 2020 respectively.

In thousands of Naira	31-Dec-21			31-Dec-20		
	Cash and cash equivalents	Loans and advances to beneficiaries	Total	Cash and cash equivalents	Loans and advances to beneficiaries	Total
Neither past due nor impaired	₦ 2,657,313	₦ -	₦ 2,657,313	₦ 3,799,940	₦ -	₦ 3,799,940
Impaired	-	3,649,660	3,649,660	-	3,458,423	3,458,423
Collectively impaired	-	3,649,660	3,649,660	-	3,458,423	3,458,423
Gross	2,657,313	3,649,660	6,306,973	3,799,940	3,458,423	7,258,363
Impairment allowance	-	(2,585,473)	(2,585,473)	-	(2,391,034)	(2,391,034)
Collective impairment	-	(2,585,473)	(2,585,473)	-	(2,391,034)	(2,391,034)
<b>Net</b>	<b>₦ 2,657,313</b>	<b>₦ 1,064,187</b>	<b>₦ 3,721,500</b>	<b>₦ 3,799,940</b>	<b>₦ 1,067,389</b>	<b>₦ 4,867,329</b>

*(c) Liquidity risk*

Liquidity risk is the potential loss arising from the Fund's inability to meet its obligations as they fall due without incurring unacceptable cost or losses. Liquidity risk is not viewed in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other risks faced by the Fund. This risk for the Fund would include the inability to manage unplanned decreases or changes in funding sources. The Fund ensures at all times, it has enough liquidity enough to cover its six (6) months operation.

*(i) Liquidity risk management process*

The Fund has a liquidity risk management process that ensures that sufficient liquidity, including a cushion of unencumbered and high quality liquid assets, are maintained at all times to enable the Fund withstand a range of stress events, including those that might involve loss or impairment of funding sources.

The Fund's liquidity risk exposure is monitored and managed by the finance unit on a weekly basis. This process includes:

- Projecting cash flows and considering the level of liquid assets necessary in relation thereto
- Monitoring balance sheet liquidity against operational requirement
- Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the Fund.

The following are the contractual maturities as at 31 December 2021 of financial liabilities and financial assets:

In thousands of Naira	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3- 12 months	1 - 2 years	2 - 10 years
<b>Financial assets</b>							
Cash and cash equivalents	4	2,657,313	2,657,313	2,657,313	-	-	-
Loans and advances	5	1,067,389	1,067,389	-	-	-	-
<b>Total</b>		<b>3,721,500</b>	<b>3,721,500</b>	<b>2,657,313</b>	-	-	-
<b>Financial liabilities</b>							
Managed funds	10	56,274	(56,274)	(56,274)	-	-	-
Unearned income	11	44,249	(44,249)	(44,249)	-	-	-
Other liabilities & accruals	12	104,827	(104,827)	(104,827)	-	-	-
<b>Total</b>		<b>205,350</b>	<b>(205,350)</b>	<b>(205,350)</b>	-	-	-
<b>Liquidity gap</b>		<b>3,926,850</b>	<b>3,516,150</b>	<b>2,451,963</b>	-	-	-
<b>Cumulative gap</b>		<b>3,926,850</b>	<b>3,516,150</b>	<b>2,451,963</b>	<b>2,451,963</b>	<b>2,451,963</b>	<b>2,451,963</b>

The following are the contractual maturities as at 31 December 2021 of financial liabilities and financial assets:

In thousands of Naira	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3- 12 months	1 - 2 years	2 - 10 years
<b>Financial assets</b>							
Cash and cash equivalents	4	3,799,940	3,799,940	3,799,940	-	-	-
Loans and advances	5	1,067,389	1,067,389	-	-	-	-
<b>Total</b>		<b>4,867,329</b>	<b>4,867,329</b>	<b>3,799,940</b>	-	-	-
<b>Financial liabilities</b>							
Managed funds	10	56,274	(56,274)	(56,274)	-	-	-
Unearned income	11	40,980	(40,980)	(40,980)	-	-	-
Other liabilities & accruals	12	52,614	(52,614)	(52,614)	-	-	-
<b>Total</b>		<b>149,868</b>	<b>(149,868)</b>	<b>(149,868)</b>	-	-	-
<b>Liquidity gap</b>		<b>5,017,197</b>	<b>4,717,461</b>	<b>3,650,072</b>	-	-	-
<b>Cumulative gap</b>		<b>5,017,197</b>	<b>4,717,461</b>	<b>3,650,072</b>	<b>3,650,072</b>	<b>3,650,072</b>	<b>3,650,072</b>

**(d)Funding risk**

Funding risk is the risk that arises from lack of fund or delay in the release of fund by the Lagos State Government and other donor partners.

**(e)Counter Party risk**

Counter Party risk is the risk that arises from failure of the Fund's Partners or Stakeholders not fulfilling their contractual obligation.

**(f)Operational risk**

Operational risk is the risk that arises from the potential that inadequate information systems, processes or people will result in unexpected losses. This risk is mitigated by ensuring that there is adequacy of internal control and information systems, employee integrity, management policies and operating processes.

**(f)Political risk**

Political risk is the risk that arises from change in government. This risk might crystalize as a result of repeal of or modification to the law that established LSETF.

**(g)Legal risk**

Legal risk is the risk that arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of the Fund. Legal risk can also arise from violations of or nonconformance with laws, regulations, prescribed practices, standards, or ethical standards.

**(i)Environmental & Social Risk**

Environmental & social risk is the risk that arises from arising from the Fund's action or inaction, resulting in; environmental degradation, destruction of natural habitat, reduction of employment, social unrest, community/labour scuffle, greenhouse gas emission etc.

**(j) Strategic risk**

Strategic risk is the risk that arises from the pursuit of an unsuccessful plan; making poor decisions, not supporting a good decision with the adequate resources, or not responding to changes in the environment. This is the risk that the Fund's strategy may be inappropriate to support long-term goals. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed to support achievement of those goals, and the quality of implementation. Properly managing these risks is not only critical to the conduct and sustainability of the Fund, but also crucial to its success .

**(k) Fiduciary risk**

Fiduciary risk is the risk that arises from failure of the Fund in its position as an intervention fund to achieve the aspiration of the Lagos State Government to create more employment or failure as an agent/trustee in start-up ideation/incubation activities.

**(l) Market risk**

Market risk is the risk that changes in market prices such as interest rate will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

**(i) Exposure to Currency risk**

The Fund is exposed to a minimal level of currency risk (i.e. the potential risk of loss from fluctuating foreign exchange rates due to exposure to foreign currency). During the financial year, the Naira was fairly stable. The Fund keeps minimal foreign currency assets as represented by the balance in Domiciliary account, however the Fund does not have any obligation in foreign currency.

(ii) Foreign Currency Risk

The Fund did not carry out any foreign currency related transaction during the year which would have exposed it to any form of related risks.

(iii) Exposure to interest rate risk

The Fund is exposed to a considerable level of interest rate risk (i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates). During the financial year, interest rate was fairly stable while inflation rate dropped. The Fund, however, has a significant portion of its loans and advances to customers at a concessionary fixed rate of 5%.

Sensitivity analyses are carried out from time to time to evaluate the impact of rate changes on the net interest income. The assessed impact has not been significant on the capital or earnings of the Fund.

**Interest rate profile**

At the end of the reporting period the interest rate profile of the Fund's interest bearing financial instruments as reported to the Management of the Fund are as follows:

Financial instruments

In thousands of Naira	Notes	31-Dec-21	31-Dec-20
Cash and cash equivalents	4	2,657,313	3,799,940
<b>Total</b>		<b>2,657,313</b>	<b>3,799,940</b>

**Fair value sensitivity analysis for fixed rate instruments**

The fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or available for sale. Therefore, a change in interest rates at the end of the reporting period would not affect performance for the year or equity. The table below shows the impact on the Fund's performance for the year if interest rates on the financial instruments had increased or decreased by 100 basis points, with all other variables held constant.

In thousands of Naira	31-Dec-21	31-Dec-20
Increase in interest rate by 100 basis points (+1%)	26,573	37,999
Decrease in interest rate by 100 basis point (-1%)	(26,573)	(37,999)

# **OTHER NATIONAL DISCLOSURES**

# OTHER NATIONAL DISCLOSURES

## VALUE ADDED STATEMENTS

As at 31 December 2021

In thousands of Naira	31-Dec-21	%	31-Dec-20	%
Receipts	902,839	(69)	257,321	(2,078)
Bought-in materials and services - Local	(2,205,626)	169	(269,704)	2,178
<b>Value added</b>	<b>(1,302,787)</b>	<b>100</b>	<b>(12,383)</b>	<b>100</b>
Distribution of value added:				
To employees:				
Wages, salaries and pensions	482,028	(37)	473,027	(3,820)
Retained in the business:				
For the replacement of property and equipment and intangible assets (depreciation and amortisation)	52,103	(4)	93,982	(759)
To deplete reserves	(1,836,919)	141	(579,393)	4,679
<b>Value added</b>	<b>(1,302,788)</b>	<b>100</b>	<b>(12,384)</b>	<b>100</b>

# OTHER NATIONAL DISCLOSURES

## FINANCIAL SUMMARY

For the year ended 31 December 2021

In thousands of Naira	31 December 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Statements of financial position					
Total assets	5,697,090	5,678,968	4,570,984	4,549,409	7,248,783
Total liabilities	(242,808)	(187,766)	(217,921)	(164,344)	(248,149)
	<b>5,454,282</b>	<b>5,491,202</b>	<b>4,353,063</b>	<b>4,385,065</b>	<b>7,000,634</b>
FINANCED BY:					
Capital contribution	14,667,533	12,867,533	11,150,000	9,450,000	9,150,000
Deficit from operations	(9,213,251)	(7,376,331)	(6,796,937)	(5,064,935)	(2,149,366)
Other reserves	-	-	-	-	-
<b>Equity</b>	<b>5,454,282</b>	<b>5,491,202</b>	<b>4,353,063</b>	<b>4,385,065</b>	<b>7,000,634</b>
Statements of financial performance					
Revenue	902,839	257,321	206,693	472,341	367,085
Social impact and other programs expenses	(1,766,267)	(964)	(1,063,261)	(2,390,093)	(1,450,806)
Recurring expenses	(973,490)	(835,750)	(875,434)	(997,817)	(933,344)
Gain from available for sale securities	-	-	-	-	-
Reclassification to the statement of financial performance on disposal	-	-	-	-	(31,950)
<b>Deficit for the year</b>	<b>(1,836,918)</b>	<b>(579,393)</b>	<b>(1,732,002)</b>	<b>(2,915,569)</b>	<b>(2,049,015)</b>



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