

www.lsetf.ng



LSETF

LAGOS STATE EMPLOYMENT TRUST FUND

SKILLS DEVELOPMENT | ACCESS TO FINANCE | INNOVATION

2019 ANNUAL REPORT



FROM PANDEMIC TO PROSPERITY:

LSETF ECONOMIC RECOVERY SUPPORT

To apply visit:

WWW.LSETF.NG

or

Call: 01 7000969

...enabling opportunities; creating jobs



ART & CREATIVE SECTOR



AGRI-BUSINESS



EDUCATION SECTOR



HOSPITALITY SECTOR



ENTERTAINMENT SECTOR



TOURISM SECTOR



CONTENTS

	Pages
Vision, Mission and Core Value	3
About Us	4
Corporate Information	6
Financial Highlights	8
Trustees Report	9
Sources of Fund and Expenditure Analysis	13
Statement of Trustees' Responsibilities in Relation to the preparation of Financial Statements	16
Board Audit and Risk Committee Report	17
Board Credit and Investment Report	19
Board Governance Committee Report	21
Board Stakeholders Committee Report	24
Independent Auditor's Report	26
Statement of Financial Performance	29
Statement of Financial Position	30
Statement of Changes in Equity	31
Statement of Cash Flows	32
Notes to Financial Statements	33
Other National Disclosures	
Value Added Statement	63



Vision

Creating employment and entrepreneurship opportunities for all Lagos residents.

Mission

Enabling Lagos residents realize their aspirations by providing leverage & access to finance

T

Transparency

To be open, fair and equitable

R

Results-oriented

Focused on delivery and desired outcomes. Always having the end in mind

Ac

Accountability

Periodically inform and give updates to our stakeholders

E

Enabling

Catalyst for a conducive environment to make businesses thrive and unleash potential

I

Integrity

Principled, ethical and honest in our dealings

I

Inclusive

Nobody left behind

I

Innovation

Questioning the status-quo, always striving to be better than we are. Continuous learning and improvement



About Us

The Lagos State Employment Trust Fund ("LSETF"), was established by The Lagos State Employment Trust Fund Law 2016 to enable Lagos residents realize their aspiration by providing leverage and access to finance.

To achieve its mission, LSETF launched three key programmes:

MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) LOAN SCHEME

Through this scheme Lagos residents can apply for affordable loans to start or grow their businesses. Micro Enterprise start-ups can get a loan of up to N250,000; existing Micro-businesses can get a loan of up to N500,000; while registered small and medium sized businesses can get a loan of up to N5,000,000, all at 5% interest rate per annum, and without collateral.

EMPLOYABILITY PROGRAMME

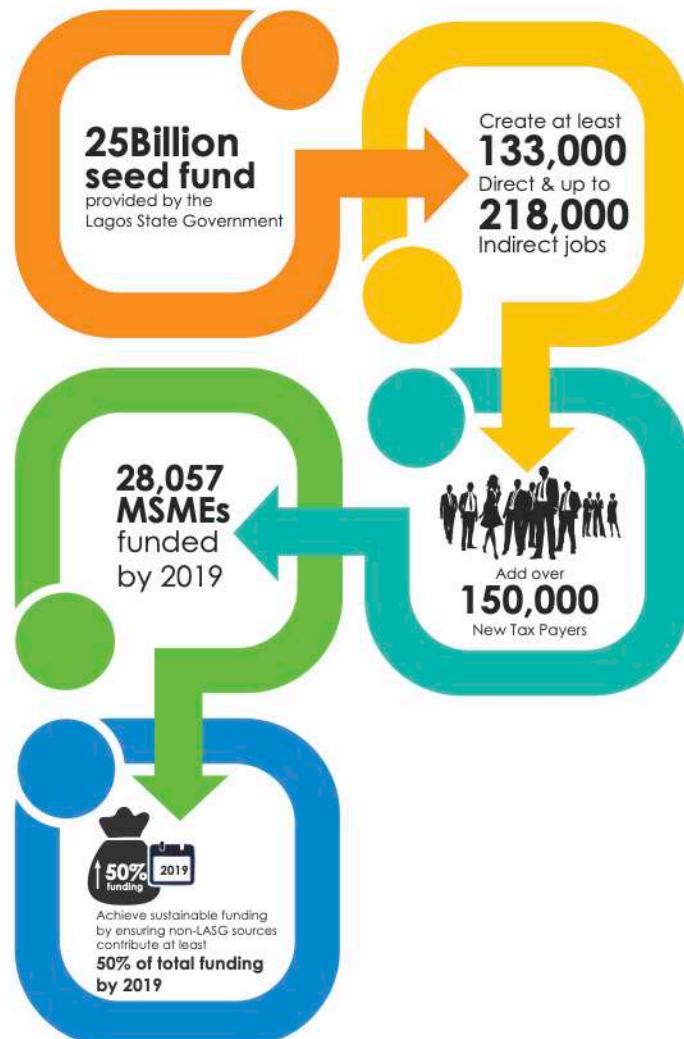
The LSETF's Employability Programme aims to train and place unemployed Lagos residents in various strategic sectors within the state. The programme has started with the Lagos State Employability Support Project (LSESP), which is being implemented with the United Nations Development Programme (UNDP), to train and place 10,000 unemployed Lagos State residents in jobs by 2019.

LAGOS INNOVATES

Lagos Innovates aims to ensure Lagos State is Africa's most vibrant technology start-up ecosystem. Under this programme, founders, operators of co-working spaces and talent within the ecosystem can apply for any of its programmes, which launched in 2018.



Strategic Targets





Corporate Information

Board of Trustees

Ifueko M. Omoigui Okauru, MFR*
 Akintunde Oyebode**
 Ayodele Martins*
 Babatunde Bank-Anthony*
 Bilikiss Adebiyi-Abiola*
 Otto Orondaam*
 Funmi Dawodu, FCA*
 Michael Popoola Ajayi*
 Akinyemi Ashade****
 Uzamat Akinbile-Yusuf****

Chairman
 Executive Secretary
 Member
 Member
 Member
 Member
 Member
 Member
 Member
 Member
 Member

Bola Adesola***
 Teju Abisoye***
 Sinari Bolade Daranijo***
 Tatiana Mousalli-Nouri***
 Segun Ojelade***
 Kofo Durosinmi-Etti***
 Idris Olorunmbe***
 Ronald Chagoury Jnr.***
 Rabiu Olowo Onaolapo*****
 Yetunde Arobieke*****

Chairman
 Executive Secretary
 Member
 Member
 Member
 Member
 Member
 Member
 Member
 Member
 Member

Executive Secretary

Teju Abisoye***

* Tenor came to an end effective 29 February 2020

** Resigned 31 March 2019

*** Appointed 21 June 2020

**** Tenor came to an end effective 29 May 2020

***** Appointed 16 January 2020

***** Appointed 21 August 2020

Registered office:

16 Billings Way
 Oregun
 Lagos, Nigeria

Auditor:

KPMG Professional Services
 KPMG Tower
 Bishop Aboyade Cole Street
 Victoria Island
 Lagos

Bankers:

Access Bank Plc
 183, Obafemi Awolowo Road,
 Alausa
 Guaranty Trust Bank Plc
 Alausa Branch



Corporate Information

Stanbic IBTC Bank Plc¹
IBTC Place, Walter Carrington,
Victoria Island

Sterling Bank Plc¹
20, Marina

First City Monument Bank Limited¹
Tinubu Street,
Marina

Bosak Microfinance Bank Limited¹
Plot 8, Cocoa Industries Road
Ogba Industrial Estate, Ikeja

Bowen Microfinance Bank Limited¹
Baptist Academy Compound,
Obanikoro Ikorodu Road

Primera Microfinance Bank Limited¹
24, Kofo Abayomi Street, Victoria Island

Vineland Microfinance Bank Limited¹
Suite EU6, 01/02, Nigeria Army Arena
Bolade, Oshodi

Parkway Microfinance Bank Limited¹
96/102, Broad Street, Lagos

Ibile Microfinance Bank Limited¹
121, Obafemi Awolowo Way,
Allen Roundabout, Ikeja

Lapo Microfinance Bank Limited¹
65 Kudirat Abiola Way
Oregun, Ikeja, Lagos

These Bankers also act as agents of the Fund with respect to the disbursement, monitoring and collection of repayments of loan granted to beneficiaries



FINANCIAL HIGHLIGHTS

for the year ended 31 December 2019

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Gross income	206,693	472,341
Program expenses (excluding amortisation of intangible assets)	(612,979)	(833,337)
Operating and personnel expenses (recurrent expenditure)	(770,991)	(891,795)
Deficit before impairment, depreciation & amortisation*	(1,177,277)	(1,252,791)
Impairment charge on loans and advances	(414,237)	(1,520,711)
Depreciation of property and equipment	(94,400)	(98,305)
Amortization of intangible assets	(46,088)	(43,762)
Total deficit from operations	(1,732,002)	(2,915,569)
Deficit for the year	(1,732,002)	(2,915,569)
Total assets	4,570,984	4,549,409
Total liabilities	(217,921)	(164,344)
Equity	4,353,063	4,385,065

The above stated expenditures (program and operating expenses) were funded through the following sources during the year under review:

Source of Funds	31-Dec-2019	31-Dec-2018
Subvention from LASG	1,700,000	300,000
Grants/donations received during the year	78,515	61,023
Interest income received during the year	35,964	81,949
Repayments from loan beneficiaries	1,301,702	1,667,874
Funds available	3,116,181	2,110,846

* This represents the deficit arising from the Fund's activities/operations during the year. It excludes expenses such as impairment, depreciation and amortisation which are generally non-cash.



TRUSTEES REPORT

For The Year Ended 31 December 2019



Real GDP growth was estimated at 2.3% in 2019, marginally higher than 1.9% in 2018. Transportation and information and communications technology were the main areas that contributed to economic growth in 2019. Agriculture in 2019 was hurt by conflicts between herdsmen and local farmers as well as incidents of flooding in certain regions. In addition to this, the Manufacturing industry continues to suffer from a lack of development and financing.

Inflation closed the year at 11.98%. The effort to lower inflation to a single-digit number of approximately 6% to 9% faced structural and macroeconomic constraints which was largely driven by the closure of the country's land borders.

With fiscal revenues below 7% of GDP, increased public spending widened the deficit, financed mainly by borrowing. Nigeria's foreign reserves decreased from \$43.17 billion in January 2019 to \$38.68 billion in December 2019. Foreign reserves help the country meet external obligations with global partners. It also helps to absorb shocks and prevent economic crises. The CBN attributed the decline in external reserves to weakening oil prices and various interventions in the foreign exchange market which led to exchange rate instability. The worst

exchange rate in the year was experienced in June 2019 at \$305.91.

Poverty remains widespread. The poverty rate in over half of Nigeria's 36 states is above the national average of 69%. High poverty reflects rising unemployment, which is estimated at 23.1% in 2018, up from 14.2% in 2016. Low skills limit opportunities for employment in the formal economy. Lagos State has tried to tackle unemployment in the state with various interventions such as those offered by the LSETF and this is yielding fruit as data shared by the National Bureau of Statistics (NBS) showed Lagos State created the most jobs in the country, resulting in a 6.7% drop in the unemployment rate in the last quarter of 2018.

However, 44% of all Nigerians remain unemployed or underemployed, driven by the slowdown in employment elastic sectors such as construction, manufacturing and real estate. Youth unemployment is even more worrisome, with 55.4% of the labour force under the age of 35 years, either unemployed or underemployed. These numbers highlight the importance of institutions like LSETF, and the need for the Federal and State Governments to focus, on solving what is Nigeria's biggest socio-economic challenge.



TRUSTEES REPORT

For The Year Ended 31 December 2019

LAGOS STATE EMPLOYMENT TRUST FUND IN 2019:



Achievements

The LSETF remains committed to achieving its core mandate of job creation through the programmes highlighted below.

1. MSME Loan Program

LSETF received 4,964 loan applications for its Micro, Small and Medium Enterprise (MSME) Loan Programme, and approved 2,308 applicants totaling N718.82 million, in 2019. Of the approved loans, 2,554 beneficiaries (this includes spill-over approved applications from 2018) have drawn down N907.54 million. In addition to providing loans, the Fund also trained 1,298 beneficiaries during the year, fulfilling its mandate to deepen business management capabilities and financial literacy amongst MSMEs.

Also, we are pleased to report that since inception, the MSME loan program has created 91,507 jobs, and 48,717 new taxpayers have been added to the Lagos State tax register through our loan program.

Furthermore, during the year the Fund launched the LSETF W-Initiative in partnership with Access Bank Plc to provide funding for women entrepreneurs in Lagos. The LSETF W-INITIATIVE is

a special intervention fund set up jointly by the LSETF and Access Bank Plc to provide access to affordable finance for 5,000 - 10,000 female-owned businesses in Lagos State.

2. 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 cementing Lagos' position as the leading destination for tech start-ups in Africa.

- a. Workspace voucher programme:** The first batch of vouchers for 2019 was approved in March 2019 and since then, 52 beneficiaries have been awarded vouchers worth N38.08 million and N14.39 million has been disbursed as at 31 December 2019. The vouchers enable startups to save on office and infrastructure costs, while also benefitting from access to valuable resources and networks present in the coworking spaces.
- b. Event sponsorships:** 8 events were sponsored by Lagos Innovates as part of its objective to support network building, knowledge-sharing, and collaboration for Lagos based founders and start-ups. These ecosystem-building initiatives played a significant role to ensure value-creation within the Lagos tech ecosystem in 2019.
- c. Talent Development Student Loan Programme:** Lagos Innovates in partnership with Honeywell Group launched its Talent Development Program to support capacity development by facilitating access to



TRUSTEES REPORT

For The Year Ended 31 December 2019

technology skills via student loans and improving job placement opportunities. The first cohort was trained in 2019 with 18 beneficiaries.

- d. Idea Hub:** Lagos Innovates launched an Idea hub to provide a digital mentorship system to create a sustainable pipeline of high growth businesses. Through the idea hub, entrepreneurs will be matched with mentors to nurture and validate their ideas.
- e. Partnerships:** A partnership agreement was executed with IBM to implement IBM's Digital Nation Africa (D-NA) programme in Lagos State. DNA is helping address the digital skills shortage among the youth. The initiative, through a freely accessible online learning platform delivered on IBM cloud, provides a vast range of enabling resources from understanding the basics to more complex digital technology all through an online course.

We are pleased to report that the Lagos Innovates programme has helped start-ups create 3,371 jobs since it was launched.

3. The LSETF Employability Support Project

The Fund continued its partnership with

- United Nations Development Programme (UNDP);
- Upskill – American Towers & Jobberman; and
- The Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ) GmbH.

In 2019, a total of 4,568 applications were received across all partnership programmes, out of which 2,094 were trained. 1,831 of the trained applicants were certified and 1,436 of the certified trainees have either been placed on jobs or are self-employed.

- a. UNDP:** The Fund ended the first phase of its partnership with the United Nations Development Programme on the skills development project in August 2019. The project aimed to provide training and employment to unemployed /

underemployed Lagos residents; while also helping businesses solve the challenge of finding qualified and competent staff to grow their businesses. To ensure these objectives were met, the training was tailored to cater to the demand in key sectors such as manufacturing, construction, entertainment, garment making, hospitality, healthcare, and business support.

- b. GIZ Employability Project:** The Fund partnered with the Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ) GmbH, a development agency of the German Government that provides services in international development cooperation, to set up an employability programme. The objective of the programme is to reduce illegal migration of youth and support the re-integration of voluntary returnees and potential migrants into Lagos State through the provision of Skills Development Training and job placement or access to start-up tools.

The programme's focus is on sectors such as construction, health & beauty, hospitality, fashion, media & entertainment and creative art and renewable energy. The first phase of the programme trained 140 beneficiaries while the second phase which ends mid-2020 plans to train an additional 440 beneficiaries.

- c. USADF:** The Fund has partnered with the United States African Development Foundation (USADF) on an employability programme whose objective is to train 3,000 Lagos residents per year, across sectors such as Construction, Renewable Energy, Agriculture value chain, Transport & Logistics, Technology, and Creative Arts.

The programme commenced its due diligence and project development processes on pre-qualified training centres in the last quarter of 2019. The programme plans to commence training of beneficiaries before the first quarter of 2020 ends.



TRUSTEES REPORT

For The Year Ended 31 December 2019

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 Program (UNDP);
- Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ);
- FCMB Limited; and
- Honeywell Group.

See LSETF Sources of Funds and Expenditure analysis for details of these contributions.

5. Grassroot Stakeholder Engagement:

The Fund carried out stakeholder engagement sessions in 10 Local Government Areas/Local (LGA/LCDAs), Council Development Areas during the year to promote the LSETF W-Initiative Programme. Also, these engagement sessions were done in two locations each across the IBILE divisions (Ikeja, Badagry, Ikorodu, Lagos Island and Epe) where representatives of the Board engaged stakeholders to understand how to serve them better.

6. Other Activities of The Board

In 2019, the Board of Trustees held 14 meetings. In order to effectively provide oversight, the Board Committees also held 23 meetings, broken down as follows:

1. Audit and Risk Committee (5 meetings)
2. Credit and Investment Committee (3 meetings)

3. Governance Committee (12 meetings)
4. Stakeholders Committee (4 meetings)
5. Ad-hoc Bill Monitoring Committee (1 meeting)

In addition to the Board meetings, the Board held a mid-year strategy review session with the Fund's Management in July 2019.

7. The tenor of the pioneer Board of Trustees of the Fund came to an end on 29 February 2020, subsequently on 16 June 2020 a new Board of Trustees was constituted.

During the interim period between 29 February 2020 and 16 June 2020, the affairs of the Fund continued to be overseen by the Executive Secretary and the two standing Commissioners of Finance and Ministry of Wealth Creation and Employment Honorable Rabiu Olowo Onaolapo and Honorable Yetunde Arobieke.



.....8C2BB22F822845B.....
Bola Adesola

Chairperson, Board of Trustees
FRC/2013/CIBN/00000001629
6 October 2020



SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

For The Year Ended 31 December 2019



Sources of Funding

As a government owned fund, LSETF's operations are funded via the following means:

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 and 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 2019 was N1.7 billion (2018: N300million) and has been disclosed as capital contribution for the purpose of these financial statements. The Fund

has received a total of N11.15 billion as subvention from LASG since 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 recognised on a systematic basis over the period in which the entity recognises expenses for the related cost for which the grant is intended to compensate.

Major Grant donors to the Fund in 2019 include:

United Nations Development Programme (UNDP): In 2017, LSETF entered into a partnership agreement with United Nations Development Project (UNDP) for the funding of the Lagos State Employability Support Project (LSESP). This Project aims at training 10,000 people between

SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

For The Year Ended 31 December 2019

the ages of 18 - 35 years in the manufacturing, healthcare, construction, entertainment, garment making, hospitality and tourism sectors by 2019. 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 (N162.2million) in 2017. As such, a pro-rata N11.4million (2018: N131million) of the total related cost of N355.2million (2018:N524.3million) was recorded as grant income relating to the partnership during the year.

Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ): The Fund received the sum of N68.5 million from GIZ during the year. The grant is specifically geared towards providing opportunities for returning and potential illegal migrants. The inflow has been recorded as unearned income in the financial statements since the expenses for which the grant is intended was not incurred as at year end.

Honeywell Nigeria Group: The Fund received the sum of N10million from Honeywell Nigeria Group for the Lagos Innovates Talent development program. Income recognition of this grant is conditional to performance of agreed activities which were yet to be performed as at year end. Therefore no portion of the funds received was recognized as grant income.

The Fund also received a donation of N1.25 million from FCMB during the year which was recognised as Grant income.

Loan Repayments

Loan repayments refer to repayments on loans and advances made to beneficiaries of the Fund's loan programmes. Loan repayments are used to fund more loans as well as running the Fund's operations. During the year, the Fund received a total sum of N1.3billion (2018: N1.67billion) 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 N35.9million (2018: N81.95million).

Expenditure

Expenses incurred during the course of carrying out the operations and programmes of the Fund can be categorised as cash and non-cash with the non-cash element not requiring actual outflow of cash and dictated by applicable accounting standards and principles. Some of the Funds cash related expenses are stated below:

Program Expenses

This refers 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 2019 was N116.03million (2018: N211.5million).

Other Program Expenses: This refers to non-loan related program expenses and covers expenses for the employability programme, Lagos Innovates, Market Stimulation, etc. in 2019. Other Program Expenses amounted to N496.94million (2018: N621.78million).

Operating/Recurrent Expenses

These are expenses incurred during the course of normal operations of the Fund. For the purpose of these financial statements,

SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

For The Year Ended 31 December 2019

operating expenses have been presented in 2 broad categories as listed below:

Personnel expenses: This include staff salaries and wages, staff allowances and pension contribution. Personnel expenses in 2019 was N407.68million (2018: N408.53million).

Other operating expenses: This include Office/equipment maintenance, administrative expenses, rent and service charges, board related expenses, trainings etc. Other operating expenses in 2019 amounted to N363.30million (2018: N483.26million).

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:

Impairments Charges: This relates to charges made to the profit and loss account 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 does 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 condition 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) and Probability of Default (PD), Recovery Rate (RR) are typically set at loan program level. These parameters are significantly influenced by collection strategies and collateral deposits. Impairment charges for 2019 was N414.23million (2018: N1.52billion).

Depreciation: Depreciation refers to 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 2019 was N94.4million (2018: N98.30million).

Amortization of intangible assets: Amortization refers to the process of allocating 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, accounting software, loan application software, and other software. Amortization costs for 2019 was N46.08million (2017: N43.76million).



STATEMENT OF TRUSTEES'

For The Year Ended 31 December 2019

STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RELATION TO THE PREPARATION OF FINANCIAL STATEMENTS

for the year ended 31 December 2019



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.

SIGNED ON BEHALF OF THE BOARD OF TRUSTEES BY:



Bola Adesola
Chairperson, Board of Trustees
FRC/2013/CIBN/0000001629
6 October 2020



Teju Abisoye,
Executive Secretary
FRC/2019/NBA/00000019573
6 October 2020



BOARD AUDIT AND RISK COMMITTEE REPORT

For The Year Ended 31 December 2019

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 2019.

Functions and Responsibilities

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

- I. Reviewing, monitoring compliance with and making recommendations on the integrity of the financial statements and financial reporting process;
- ii. Reviewing, monitoring and making recommendation on the choice of accounting policies and principles;
- iii. Reviewing, monitoring and making recommendations on the activities, hiring, performance and independence of the external and internal auditors;
- iv. Reviewing, monitoring compliance with and making recommendations on the effectiveness of the system of internal controls, accounting and operating procedures;
- v. Reviewing, monitoring compliance with and making recommendations on policy standards and guidelines for risk assessment

and management;

- vi. Reviewing, monitoring compliance with and making recommendations on legal and regulatory requirements, including completeness of disclosures; and,
- vii. Reviewing, monitoring compliance with and making recommendations on ethics, and whistle-blowing policy.

Composition

The Audit and Risk Committee consists of the following members:

- i. Funmi Dawodu (Chairman)*
- ii. Tunde Bank-Anthony*
- iii. Michael Popoola Ajayi*
- iv. The Hon. Commissioner, Lagos State Ministry of Finance.
- v. Segun Ojelade (Chairman)**
- vi. Idris Olorunnimbe**
- vii Tatiana Moussalli-Nouri**

*Tenure ended 29 February 2020

**Appointed 28 July 2020



BOARD AUDIT AND RISK COMMITTEE REPORT

For The Year Ended 31 December 2019

Meetings

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

- i. March 15, 2019
- ii. May 2, 2019
- iii. July 11, 2019
- iv. October 9, 2019
- v. November 22, 2019

Activities

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

i. 2018 Financial Statements

The Committee reviewed the audited financial statements for the year ended 31 December 2018, the audit findings and management's responses.

ii. Enterprise Risk Management

The Committee reviewed the quarterly enterprise risk management reports presented by management. The reviews included an appraisal of the key risks affecting the Fund and management's plans to mitigate the identified risks.

iii. Internal Audit

The Committee considered the Fund's quarterly internal audit reports, and where required, proposed remedial actions to the Board and Management. The Committee also reviewed the 2020 Internal Audit Plan and recommended it to the Board for approval.

iv. Consideration of the External Audit Plan for the 2019 Financial Year

The Committee reviewed the external audit plan for the year ended 31 December 2019 and presented it to the Board for approval.

SIGNED ON BEHALF OF THE AUDIT AND RISK COMMITTEE



Segun Ojelade

Chairman, Board Audit and Risk Committee

FRC/2020/003/00000021863

6 October 2020

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

For The Year Ended 31 December 2019



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 2019.

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. Overseeing the management of the Funds' investment portfolio;
- vii. Recommend to the Board all viable credit and investment proposals, related applications and execution of related instruments; and,
- viii. 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.

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

For The Year Ended 31 December 2019

Composition

The Credit and Investment Committee consists of the following members:

- i. Mr. Otto Orondaam (Chairman)*
 - ii. Mr. Dele Martins*
 - iii. Comrade Michael Popoola Ajayi*
 - iv. The Hon. Commissioner, Lagos State Ministry of Finance.
 - v. Sinari Daranijo (Chairman)**
 - vi. Kofi Durosinsimi-Etti**
 - vii. Ronald Chagoury Jnr**
- *Tenure ended 29 February 2020
**Appointed 28 July 2020

Meetings

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

- i. April 23, 2019
- ii. August 14, 2019
- iii. November 13, 2019

Activities

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

i. Review of Loan Applications

The Committee made the final decisions in respect of loan applications between N0.5million to N2.5million. The Committee reviewed and made recommendations to the Board for the approval or rejection of SME loan applications from N2.5million to N5million.

ii. Review of Product Papers

The Committee reviewed various product papers aimed at improving LSETF's offering to female entrepreneurs, the technology and transportation sectors.

iii. Credit Risk Management

The Committee reviewed the Fund's loan portfolio, credit loss ratio and portfolio at risk from time to time.

iv. Lagos Innovates

The Committee recommended the allocation of workspace vouchers to successful applicants by the Board.

SIGNED ON BEHALF OF THE CREDIT AND INVESTMENT COMMITTEE



Sinari Daranijo

Chairman, Board Credit and Investment Committee

6 October 2020

BOARD GOVERNANCE COMMITTEE REPORT

For The Year Ended 31 December 2019



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 2019.

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. Mr. Ayodele Martins (Chairman)*
- ii. Pastor Funmi Dawodu*
- iii. Mrs. Bilikiss Adebiyi-Abiola*
- iv. The Hon. Commissioner, Lagos State Ministry of Wealth Creation and Employment.
- v. Tatiana Moussalli-Nouri (Chairman)**
- vi. Sinari Daranijo**
- vii. Segun Ojelade**



BOARD GOVERNANCE COMMITTEE REPORT

For The Year Ended 31 December 2019

*Tenure ended 29 February 2020

** Appointed 28 July 2020

Meetings

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

- i. January 14, 2019
- ii. February 4, 2019
- iii. March 5, 2019
- iv. April 15, 2019
- v. May 6, 2019
- vi. May 21, 2019
- vii. June 17, 2019
- viii. June 24, 2019
- ix. September 10, 2019
- x. September 17/24, 2019
- xi. November 14, 2019
- xii. December 18, 2019

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 2018 budget as well as the implementation of the 2019 budget on a quarterly basis.

ii. Appraisal of Fulfilment Partners

The Committee reviewed the performance of the Fund's Fulfilment Partners and recommended the renewal of the contracts of some of the Partners for Board approval.

iii. Consideration of the Succession Plan for Executive Management

The Committee reviewed and made recommendations on the Succession Plan for Executive Management. The purpose of the Succession Plan is to ensure the Fund's operations is not impaired by any changes in the Fund's Management team.

iv. Amendments to LSETF Law and Regulations

The Committee deliberated extensively on the proposed changes to the LSETF Law and Regulations.

v. Approval of Staff Policies

The Committee reviewed and made recommendations to the Board in respect of the Fund's Flexible Working Hours, Social and Staff Welfare Policy, and Staff Loan Policies in addition to the review of the Fund's Compensation and Benefits Policy.

vi. Consideration of 2019 Key Performance Indicators for Executive Management

The Committee reviewed and made recommendations on key performance indicators for assessing the performance of the Executive Management. The aim is to ensure that Management's key performance indicators align with the Fund's strategic goals.

vii. Reconstitution of the Board Committees

The Committee made recommendations on the reconstitution of Board Committees in line with the Board Charter and Committees' Terms of Reference.

viii. Revision of the Committee's Terms of Reference

The functions of the erstwhile ad hoc Legal Advisory Committee were incorporated into the Committee's terms of reference.

ix. Oversight of the Loan Portfolio

The Committee regularly reviewed and made recommendations to the Board in respect of the management of past-due loan obligations to the Fund. The Committee appraised the Fund's recovery efforts through the Small Claims Court, Recovery Agents and recovery staff and made recommendations for improvements.

x. Staff Appraisal for 2018

The Committee reviewed the Fund's 2018 employee performance appraisal exercise and presented Management's recommendation of the promotion of high performing employees to the Board for approval.

xi. Establishment of Additional Six Liaison Offices

The Committee considered and recommended to the Board for approval, Management's proposal to establish an



BOARD GOVERNANCE COMMITTEE REPORT

For The Year Ended 31 December 2019

additional six LSETF liaison offices across the State.

xii. Review of Contracts and Performance of Service Providers

The Committee reviewed the performance of all major service providers to the Fund and made recommendations on the renewal of their contracts with modifications where necessary.

xiii. Interview and Selection of Interim and Full-time Board Secretary

The Committee reviewed the options available and made recommendations to the Board on the acquisition of Board Secretarial Services pending the recruitment of a new fulltime Board Secretary.

The Committee interviewed the shortlisted candidates for the position of the Fund's full time Board Secretary and made appropriate recommendations to the Board for Selection in this regard.

xiv. Review of Management Staff and Board Training Plans

The Committee reviewed the proposals for Management Staff and Board training and made appropriate recommendations to the Board.

xv. Review of Board Transition Plan

The Committee reviewed and made recommendations on a plan for transition of the Fund form the current Board of Trustees to a new Board of Trustees in the event that the new Lagos State Government administration wished to reconstitute the Fund's Board.

SIGNED ON BEHALF OF THE GOVERNANCE COMMITTEE



Tatiana Mousalli-Nouri
Chairman, Governance Committee
6 October 2020

BOARD STAKEHOLDERS COMMITTEE REPORT

For The Year Ended 31 December 2019



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 2019.

Functions and Responsibilities

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

- i. Identification, engagement and management of 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 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 of funds from stakeholders; and
- vii. Redressing stakeholders and donor complaints.

Composition

The Stakeholders Committee consists of the following members:

- i. Michael Popoola Ajayi (Chairman)*
- ii. Ayodele Martins*
- iii. Otto Orondaam*
- iv. The Hon. Commissioner, Lagos State Ministry of Wealth Creation and Employment.
- v. Idris Olorunnimbe (Chairman)**
- vi. Kofo Durosinmi-Etti**
- vii. Ronald Chagoury Jnr**



BOARD STAKEHOLDERS COMMITTEE REPORT

For The Year Ended 31 December 2019

*Tenure ended 29 February 2020

**Appointed 28 July 2020

Meetings

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

- i. January 11, 2019
- ii. May 13, 2019
- iii. June 21, 2019
- iv. September 9, 2019

Activities

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

i. Political Stakeholder Engagement Plan

The Committee reviewed and recommended the Political Stakeholder Engagement Plan to the Board. The purpose of the Plan is to provide a roadmap to engage the Fund's political Stakeholders.

ii. LSETF Stakeholder Engagement Plan

The Committee reviewed the Stakeholders' Engagement Plan and recommended its approval to the Board. The Fund held a series of stakeholder engagement sessions across the 20 local government areas in the state in the course of 2019.

iii. Crisis Communication Management Policy

The Committee evaluated the Crisis Communication Management Policy presented by Management and recommended its approval to the Board. The aim of the Policy is to provide guidance to the Fund on the appropriate communication methods to manage a crisis.

iv. Communication Kit for Liaison Officers

The Committee considered the Communication Kit developed for the use of the Fund's Liaison Officers and recommended its approval to the Board. The kit was designed to ensure uniform communication of feedback by liaison officers on behalf of the Fund.

v. Consideration of 2019 Fundraising Plan

The Committee evaluated the Fund's 2019 fundraising plan and recommended its approval to the Board.

SIGNED ON BEHALF OF THE STAKEHOLDERS COMMITTEE.



Idris Olorunnimbe

Chairman, Stakeholders Committee
6 October 2020

INDEPENDENT AUDITOR'S REPORT

For The Year Ended 31 December 2019



KPMG Professional Services

KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
234 (1) 271 8599
Internet home.kpmg/ng

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of Lagos State Employment Trust Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lagos State Employment Trust Fund ("the Fund"), which comprise the statement of financial position as at 31 December, 2019, and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 21 to 53.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards (IPSAS) and in the manner required by the Lagos State Employment Trust Fund Law 2016 and the Financial Reporting Council of Nigeria Act, 2011.

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 are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Trustees are responsible for the other information. The other information comprises the Corporate information, Results at a glance, Trustees' report, Statement of Trustees' responsibilities, Board Committee reports and Other national disclosures, 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 any form of assurance conclusion thereon.

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

KPMG Professional Services, a Partnership established under Nigeria laws, is a member of KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Registered in Nigeria No BN 906925

Partners:

Adebisi O. Lamikanra	Adegoke A. Oyelami	Adekorunle A. Elebute	Adetola P. Adeyemi
Adewale K. Ajayi	Alibola O. Olomola	Akiniyemi Ashade	Ayobami L. Salami
Ayodele A. Soyinka	Ayodele H. Otihiwa	Chibuzor N. Anyarechi	Chinenye B. Nwigbo
Elijah O. Oladunmoye	Goodluck C. Oti	Ibitomi M. Adspaju	Ijeoma T. Emiezie-Ezigbo
Joseph O. Tegbe	Kabir O. Okunlola	Lawrence C. Amadi	Mohammed M. Adamu
Nneka C. Elumla	Ogunlayo I. Ogungbenro	Olatimpe S. Afolabi	Oladimeji I. Salaudeen
Olanike I. James	Oluamide O. Oluyinka	Olusegun A. Sowande	Oluwoyi I. Ogunlowo
Oluwafemi O. Awotayo	Oluwatosin A. Gbagi	Temitope A. Omilai	Tolulope A. Odutale
Victor U. Onyenkpa			



INDEPENDENT AUDITOR'S REPORT

For The Year Ended 31 December 2019



Responsibilities of the Board of Trustees for the Financial Statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with IPSAS and in the manner required by the Lagos State Employment Trust Fund Law 2016 and the Financial Reporting Council of Nigeria Act, 2011, 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITOR'S REPORT

For The Year Ended 31 December 2019



We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

oluawafemi awotoye

Oluwafemi O. Awotoye, FCA
FRC/2013/ICAN/00000001182
For: KPMG Professional Services
Chartered Accountants
4 December 2020
Lagos, Nigeria



STATEMENT OF FINANCIAL PERFORMANCE

For The Year Ended 31 December 2019

<i>In thousands of Naira</i>	<i>Notes</i>	31-Dec-19	31-Dec-18
<u>Revenue</u>			
Interest income	14	148,650	278,233
Grant income	15	51,554	175,919
Other income	16	6,489	18,189
Total revenue		206,693	472,341
<u>Expenses</u>			
Amortisation of intangible assets	8	(10,043)	(7,717)
Depreciation of property and equipment	9	(94,400)	(98,305)
Impairment charge	17	(414,237)	(1,520,711)
Program expenses	18	(649,024)	(869,382)
Personnel expenses	19	(407,683)	(408,531)
Other operating expenses	20	(363,308)	(483,264)
Total operating expenses		(1,938,695)	(3,387,910)
Performance for the year (Deficit)		(1,732,002)	(2,915,569)

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



STATEMENT OF FINANCIAL POSITION

As at 31 December

In thousands of Naira	Notes	31-Dec-19	31-Dec-18
<u>ASSETS</u>			
Cash and cash equivalents	4	2,952,699	2,244,045
Loans and advances	5	1,225,565	1,901,517
Prepayments	6	22,822	47,760
Other assets	7	241,699	93,580
Intangible assets	8	17,186	63,274
Property and equipment	9	111,013	199,233
Total Assets		4,570,984	4,549,409
<u>LIABILITIES</u>			
Managed funds	10	46,274	48,478
Unearned income	11	55,885	16,214
Other liabilities and accruals	12	115,762	99,652
Total Liabilities		217,921	164,344
<u>EQUITY</u>			
Capital contribution	13	11,150,000	9,450,000
Accumulated deficit from operations	22	(6,796,937)	(5,064,935)
Total Equity		4,353,063	4,385,065
Total Liabilities & Equity		4,570,984	4,549,409

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

The financial statements were approved by the Board of Trustees on 6 October 2020 and signed on their behalf by:

Additionally certified by:

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

Teju Abisoye
Executive Secretary
FRC/2019/NBA/00000019573

Rahman Akinwonmi FCA
Director, Finance and Corporate Services
FRC/2013/ICAN/00000002759

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2019

<i>In thousands of Naira</i>	Notes	Capital contribution	Accumulated Deficit	Total equity
Balance as at 1 January 2019		9,450,000	(5,064,935)	4,385,065
Capital contribution - Lagos State Government	13(a)	1,700,000	-	1,700,000
Deficit from operations		-	(1,732,002)	(1,732,002)
Balance as at 31 December 2019		11,150,000	(6,796,937)	4,353,063

<i>In thousands of Naira</i>	Notes	Capital contribution	Accumulated Deficit	Total equity
Balance as at 1 January 2018		9,150,000	(2,149,366)	7,000,634
Capital contribution - Lagos State Government	13(a)	300,000	-	300,000
Deficit from operations		-	(2,915,569)	(2,915,569)
Balance as at 31 December 2018		9,450,000	(5,064,935)	4,385,065

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

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2019

In thousands of Naira	Notes	31-Dec-19	31-Dec-18
Cash flows from operating activities			
Deficit from operations		(1,732,002)	(2,915,569)
<i>Adjustments for non - cash items:</i>			
Amortisation	8	46,088	43,762
Depreciation	9	94,400	98,305
Allowance for impairment	5(c)	417,249	1,522,497
Late repayment fees	5	(1,856)	(7,216)
Unearned grant income	15	(38,816)	(131,082)
Interest income	14	(148,650)	(278,233)
		(1,363,587)	(1,667,536)
Changes in prepayments	21(i)	24,938	3,307
Changes in other current assets	21(ii)	(148,119)	427,335
Changes in loans and advances	21(iii)	373,245	(201,778)
Changes in unearned income	21(v)	78,487	23,142
Changes in other liabilities and accruals	21(iv)	16,110	(19,177)
Net cash used in operating activities		(1,018,926)	(1,434,709)
Cash flows from investing activities			
Acquisition of intangible assets	8	-	(11,002)
Acquisition of property and equipment	9	(6,180)	(8,579)
Interest received on term deposits	14	35,964	81,949
Net cash from investing activities		29,784	62,368
Cash flows from financing activities			
Capital contribution	13(a)	1,700,000	300,000
Managed funds	21(vi)	(2,204)	43,312
Net cash from financing activities		1,697,796	343,312
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	4	2,244,045	3,273,074
Net increase/(decrease) in cash and cash equivalents		708,654	(1,029,029)
Cash and cash equivalents at 31 December	4	2,952,699	2,244,045

The accompanying notes are an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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, 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 financial statements of the Lagos State Employment Trust Fund (LSETF) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Trustees on 9 September 2020.

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 have 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 require 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.

Judgments

In the process of applying the Fund's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Fund as lessee

The Fund leased the office space where it



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

operates. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these office space and accounts for the contracts as operating leases.

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 life, 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 exercise some degree of judgement regarding what events/criteria are the loans 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 cashflows that are expected to be received. In estimating these cashflows,

management makes judgements about a counterparty's financial situation. Each impaired assets is assessed on its merits, and the workout strategy and estimate of cashflows considered recoverable are independent reviewed by the risk management function.

Collectively assessed impairment allowance cover 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.

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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:

	Percentage (%)
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.

(i) Derecognition

An item of property 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 on 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.

(ii) Leasehold improvements

The Fund recognises leasehold improvements as property 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.

Intangible assets

(i) Recognition and measurement

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 as 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 and to use or sell the software product are available; and



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

- 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 expenditure 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:

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 on the de-recognition 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 de-recognised.

Impairment of non-financial assets

For impairment testing, assets are grouped together into the smallest group of assets that generates 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.

Revenue

Revenue recognition criteria for exchange and non-exchange transactions

Revenue from an exchange transactions is recognized 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 a 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,



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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.

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 profit and loss 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.

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.

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 in the following category:

- loans and receivables;

The Fund's liabilities are classified in the following categories:

- other financial liabilities.

Classified as 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.

Classified as 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 transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and advances to customers are initially measured at fair value.

Other financial liabilities:

Other financial liabilities are initially measured at fair value.

(c) Subsequent measurement

Loans and receivables

Loans and receivables are subsequently



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

measured at their amortised cost using the effective interest method (cost plus accrued interest) in the statement of financial position.

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

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.

(a) 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.

(b) Fair value 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 would 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 by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would 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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

use of unobservable inputs.

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

flows will be reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience

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.

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.

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.

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.

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

4 Cash and cash equivalents

	31-Dec-19	31-Dec-18
In thousands of Naira		
Cash in hand	60	77
Current accounts with banks (see (a) below)	2,670,431	975,796
Deposits with financial institutions (see (b) below)	282,208	1,268,172
	2,952,699	2,244,045

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

	31-Dec-19	31-Dec-18
In thousands of Naira		
Balance with Fulfilment Partner Banks	747,522	776,588
Other Bank balances	1,922,909	199,208
	2,670,431	975,796

The amount with fulfilment partner banks represents sums available for onward 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 2019. Funds yet to be disbursed to beneficiaries will be disbursed as these conditions are met.

(b) Deposit with financial institutions include:

	31-Dec-19	31-Dec-18
In thousands of Naira		
Access Bank Plc	282,116	1,206,658
Other Banks	92	61,514
	282,208	1,268,172

The deposit with financial institutions represents short term deposits of N180 million with Access Bank which matures within a month at an interest rate of 3% per annum and call deposit of N100 million with Access Bank at an interest of 4% per annum.

5. Loans and Advances

	31-Dec-19	31-Dec-18
In thousands of Naira		
Movement in loans and advances during the year		
Balance at the beginning of year	4,207,927	3,802,648
Loan disbursed during the year (see note (a) below)	929,265	1,870,008
Interest earned (see note 14 (b))	111,878	195,929
Late repayment fees (see note 16 (a))	1,856	7,216
	5,250,926	5,875,801
Repayments	(1,301,702)	(1,667,874)
	3,949,224	4,207,927
Gross loans	(2,723,659)	(2,306,410)
Allowance for impairment (See note (c) below)		
	1,225,565	1,901,517
Gross loans for the year is made up of the following:		
Small and medium enterprises	2,372,694	2,812,568
Micro-enterprises	1,525,625	1,369,779
Hub loan	27,592	-
Managed loans	23,313	25,580
	3,949,224	4,207,927



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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.

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.

Contingent assets and liabilities

Contingent assets

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.

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.

Equity

Equity represents the net sum of capital contribution and the deficit for the year transferred to equity.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

Net Loans is classified as:

Current	555,715	1,354,263
Non-current	669,850	547,254
	1,225,565	1,901,517

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

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Small and medium enterprises	505,871	620,740
Micro-enterprises	378,844	1,218,190
Hub loan	30,000	-
Managed loans	14,550	31,078
	929,265	1,870,008

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 Hubloans, LSETF hopes to support the growth and sustainability of this segment and other innovation-driven enterprises (IDEs).

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

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
LSETF's contribution	5,830	15,539
Counterparty contribution to loan advanced to beneficiaries	8,720	15,539
	14,550	31,078

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

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Balance as at 1 January	2,306,410	783,913
Charge for the year (note (d) below)	417,249	1,522,497
Balance as at 31 December	2,723,659	2,306,410
Total impairment	2,723,659	2,306,410

(d) Impairment charge

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
SME loans	232,001	1,056,063
ME loans	179,558	450,674
Hub loans	2,066	-
Late repayment fees	110	12,188
LSETF's contribution to managed loans	502	1,786
	414,237	1,520,711
Managed funds advanced to beneficiaries (see note 10(f))	3,012	1,786
Impairment charge for the year	417,249	1,522,497



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

6. Prepayments

	31-Dec-19	31-Dec-18
In thousands of Naira		
Non financial Assets		
Rent	5,787	23,146
Other prepayment (see note (a) below)	7,102	11,674
Credit insurance (see note (b) below)	6,220	9,080
Prepaid insurance	3,713	3,860
	22,822	47,760
Classified as:		
Current	22,822	47,760
Non-Current	-	-
	22,822	47,760

(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 arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries.

7. Other assets

	31-Dec-19	31-Dec-18
In thousands of Naira		
Financial Assets		
Balance in joint arrangement account with UNDP (see notes (a) below)	68,406	80,512
Balance in joint arrangement account with USADF (see notes (b) below)	162,000	-
Receivable from UNDP	-	7,071
Other receivables	10,293	4,997
Advance payments	1,000	1,000
	241,699	93,580
Classified as:		
Current	241,699	93,580
Non-Current	-	-
	241,699	93,580

(a) LSETF entered into a partnership agreement with 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, health -care, construction, entertainment, garment making, hospitality and tourism sectors by 2019. The Partners agreed to contribute \$3,000,000 and \$1,000,000 respectively.

As at 31 December 2019, LSETF and UNDP had contributed USD3,260,883.65 and USD589,513.71 respectively. The movement in the balance in the Joint arrangement account with UNDP is as shown below:

	31-Dec-19	31-Dec-18
In thousands of Naira		
Balance, beginning of year	80,512	496,041
Contribution by LSETF	381,955	150,000
	462,467	646,041
Expenditure on project during the year (see note 18(b) below)	(355,253)	(524,326)
Management fees to UNDP (see note 18(b) below)	(38,808)	(41,203)
Balance, end of year	68,406	80,512



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

Arcskills is the implementing partner of the LSETF/UNDP partnership program tagged "The Lagos State Employability Support Project". The balance in the Joint arrangement account with UNDP is as shown below:

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Balance with UNDP	68,406	60,973
Balance with Arcskills	-	19,539
	68,406	80,512

(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 5years. The program aims to help 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 2019, the program is yet to kick off and LSETF had contributed the sum of USD450,000 to the project account. The total contribution deposit was converted at 360/\$ as at year end.

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

8. Intangible assets

31 December 2019

In thousands of Naira	Loan Application Software	Accounting Software & Others	Total
Cost:			
Balance as at 1 January 2019	108,135	29,451	137,586
Additions	-	-	-
Balance as at 31 December 2019	108,135	29,451	137,586
Amortisation:			
Balance as at 1 January 2019	(66,083)	(8,229)	(74,312)
Charge for the year	(36,045)	(10,043)	(46,088)
Balance as at 31 December 2019	(102,128)	(18,272)	(120,400)
Carrying amounts			
Balance at 31 December 2019	6,007	11,179	17,186
Cost:			
Balance as at 1 January 2018	108,135	18,449	126,584
Additions	-	11,002	11,002
Balance as at 31 December 2018	108,135	29,451	137,586
Amortisation:			
Balance as at 1 January 2018	(30,038)	(512)	(30,550)
Charge for the year	(36,045)	(7,717)	(43,762)
Balance as at 31 December 2018	(66,083)	(8,229)	(74,312)
Carrying amounts			
Balance at 31 December 2018	42,052	21,222	63,274

- (i) There were no leased assets included in the balances as at year end (2018: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2018: Nil).
- (iii) There were no impairment losses on intangible assets during the year (2018: 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-19	31-Dec-18
Loan Application Software (see note (i) below)	36,045	36,045
Accounting Software & Others	10,043	7,717
Amortisation expense for the year	46,088	43,762

- (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 2019

9. Property and equipment

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

31 December 2019

In thousands of Naira	Motor Vehicles	Computer Equipment	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
Cost:						
Balance as at 1 January 2019	143,487	190,111	13,959	35,324	34,957	417,838
Additions	-	4,226	30	1,924	-	6,180
Balance as at 31 December 2019	143,487	194,337	13,989	37,248	34,957	424,018
Accumulated depreciation:						
Balance as at 1 January 2019	(80,150)	(91,366)	(4,876)	(15,145)	(27,068)	(218,605)
Charge for the year	(35,872)	(47,837)	(3,490)	(7,201)	-	(94,400)
Balance as at 31 December 2019	(116,022)	(139,203)	(8,366)	(22,346)	(27,068)	(313,005)
Carrying amounts						
Balance at 31 December 2019	27,465	55,134	5,623	14,902	7,889	111,013

31 December 2018

In thousands of Naira	Motor Vehicles	Computer Equipment	Office Equipment	Furniture & Fittings	Leasehold Improvements	Total
Cost:						
Balance as at 1 January 2018	143,487	186,129	9,922	34,764	34,957	409,259
Additions	-	3,982	4,037	560	-	8,579
Balance as at 31 December 2018	143,487	190,111	13,959	35,324	34,957	417,838
Accumulated depreciation:						
Balance as at 1 January 2018	(44,278)	(44,570)	(1,906)	(8,118)	(21,428)	(120,300)
Charge for the year	(35,872)	(46,796)	(2,970)	(7,027)	(5,640)	(98,305)
Balance as at 31 December 2018	(80,150)	(91,366)	(4,876)	(15,145)	(27,068)	(218,605)
Carrying amounts						
Balance at 31 December 2018	63,337	98,745	9,083	20,179	7,889	199,233

- (i) No leased asset is included in property and equipment as at year end (2018: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2018: Nil).
- (iii) There were no impairment losses on any class of property and equipment during the year (2018: Nil).
- (iv) There was no property and equipment pledged as security for borrowing as at year end (2018: Nil).
- (v) There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2018: Nil).



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

10 Managed funds

	31-Dec-19	31-Dec-18
In thousands of Naira		
Financial liabilities		
Managed funds (see note (a) below)	46,274	48,478
	46,274	48,478
Classified as:		
Current	46,274	48,478
Non - Current	-	-
	46,274	48,478

	31-Dec-19	31-Dec-18
In thousands of Naira		
Financial liabilities		
Managed funds (see note (a) below)	46,274	48,478
	46,274	48,478
Classified as:		
Current	46,274	48,478
Non - Current	-	-
	46,274	48,478

(a) The movement in the managed funds is as shown below:

Balance as at beginning of year	52,392	7,294
Additions (see notes (b) below)	-	45,000
Interest income on LSETF portion of loan (see note (d) below)	-	(77)
Interest income on counterparty portion of loan (see note (e) below)	808	175
	53,200	52,392
Collective impairment on loan disbursed (see note (f) below)	(6,926)	(3,914)
	46,274	48,478

(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. Receipts of managed funds during the year represents:

Ojo Local Government	-	5,000
TAM FUND	-	5,000
Lagos Island Local Government	-	10,000
Hon. Agunbiade	-	10,000
Itire Ikate LCDA	-	5,000
Apapa Local Government	-	10,000
	-	45,000

(c) The utilisation of the managed funds is as follows:

	31-Dec-19	31-Dec-18
Funds disbursed during the year	-	15,539
Funds yet to be disbursed	-	29,461
	45,000	

(d) This amount represents interest income due on loan disbursed under the LSETF/Hon. Wale Raji category. The counterparty arrangement with Hon. Wale Raji is that the interest due on the LSETF's portion of disbursed loans will be funded by him.

(e) This amount represents the counterparty portion of interest accrued on loans disbursed from their funds. This interest due is directly proportional to the agreed ratio of the counterparty contribution to the loan disbursed.

The arrangement with Hon. Agunbiade is that the loans disbursed are entirely from the funds contributed by the counterparty hence the interest due and impairment allowance on the loans disbursed accrues solely to the counterparty. The arrangement with other counterparties excluding Hon. Wale Raji and Hon. Agunbiade is that the interest due on the disbursed loans is earned by LSETF and the counterparties equally in accordance with each party's contribution.

(f) The movement in the impairment on managed loans is as shown below:

	31-Dec-19	31-Dec-18
Balance as at beginning of year	3,914	2,128
Additions (see note 5 (d))	3,012	1,786
	6,926	3,914



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

11. Unearned Income

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
<i>Financial liabilities</i>		
Unearned Income on managed funds	-	28
Unearned Income on Agreement with GIZ (see note (a) below)	45,885	16,186
Unearned Income on Agreement with Honeywell (see note (b) below)	10,000	-
	55,885	16,214
Classified as:		
Current	55,885	16,214
Non - Current	-	-
	55,885	16,214

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

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Opening Balance		
Additional inflow from GIZ during the year	16,186	-
Income earned during the year (See note 15)	68,515	16,186
	(38,816)	-
	45,885	16,186

- (b) Unearned grant income represents funds received from Honeywell Nigeria Group for the Lagos Innovates programme. Income recognition of this grant is conditional to performance of agreed activities.**

12. Other liabilities and accruals

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
<i>Financial liabilities</i>		
Due to fulfilment partners	30,192	16,653
Audit fee payable	10,500	9,500
Other payables (see note (a) below)	43,342	39,067
	84,034	65,220
<i>Non-financial liabilities</i>		
PAYE payable	182	182
Withholding tax payable	16,235	19,737
Value added tax payable	11,247	10,492
Development levy payable (see (b) below)	4,064	4,021
	31,728	34,432
	115,762	99,652
Classified as:		
Current	115,762	99,652
Non - Current	-	-
	115,762	99,652

- (a) Other payables is made up of IT infrastructure payable, consultancy fee payable 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 2019

13. Capital contribution: This comprises:

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Capital contribution from Lagos State Government (LASG) (see note(a)below)	11,000,000	9,300,000
Take-off fund (see note (c) below)	150,000	150,000
	11,150,000	9,450,000

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

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Opening balance	9,300,000	9,000,000
Capital contribution from LASG (see note (b) below)	1,700,000	300,000
	11,000,000	9,300,000

(b) LSETF received the sum of N1.7 billion as capital contribution from the Lagos State Government during the financial year. As at 31 December 2019, the Fund had received a total of N11 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 N150 million represents funds provided by the Lagos State Government to support the operational costs of setting up the Fund.

14. Interest income

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Term deposits	35,964	81,949
Loans and advances (See note (a) below)	112,686	196,284
	148,650	278,233

(a) Interest income on loans and advances

Micro Enterprises	44,632	77,786
Small and Medium Enterprises	67,730	118,499
Hub Loan	324	-
	112,686	196,285

(b) Interest income on loans and advances

Managed loans	808	356
Own loans (see note 5)	111,878	195,929
	112,686	196,285

15. Grant income

	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Income from UNDP joint arrangement	11,488	131,082
Ford Foundation	-	36,087
GIZ (see note 11(a))	38,816	-
Others	1,250	8,750
	51,554	175,919

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

16. Other income

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Late repayment fees (see note (a) below)	1,856	8,477
Miscellaneous income	4,633	9,712
	6,489	18,189

Other income is made up of income earned on the Fund's current account balances with Banks and late repayment penalty charge.

(a) Late repayment fees

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Accrued late repayment fees (see note 5)	1,856	7,216
Late repayment fees received	-	1,260
	1,856	8,476

17. Impairment charge

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Impairment charge on loans and advances (See note 5(d))	414,237	1,520,711
	414,237	1,520,711

18. Programs expenses

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Loan program expenses (see (a) below)	152,077	247,604
Other programs expenses (see (b) below)	496,947	621,778
	649,024	869,382

(a) Loan programs expenses

Management fees (see note (i) below)	40,025	57,038
Business verification (see note (ii) below)	-	2,801
Credit insurance (see note (iii) below)	23,036	39,163
Beneficiary training (see note (iv) below)	17,303	66,863
Beneficiary selection (see note (v) below)	4,438	658
Amortization of loan application software (see note 8 (b))	36,045	36,045
Other loan program costs (see note (vi) below)	31,230	45,036
	152,077	247,604

- (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 2.50% and 3.50% for Small and medium enterprises and Micro-enterprises loans respectively.
- (ii) Business verification relates to payments made to business development and support partners for verifying information provided by loan applicants and post disbursement business development and support to loan beneficiaries.
- (iii) 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.
- (iv) 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.
- (v) Beneficiary selection fees represents the fees paid to independent consultants to manage the beneficiary selection process and recommend candidates to the Fund for approval.
- (vi) Other loan programs cost represents among others cost of engaging consultants to carry out an impact assessment of the Fund and cheque presentation ceremony.

(b) Other programs expenses

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Employability program cost - UNDP arrangement (See note 7(a))	355,253	524,326
Employability program cost - Management fees to UNDP (See note 7(a))	38,808	41,203
Employability program costs- GIZ (see note 11(a))	38,816	-
Employability program costs - others	19,615	5,229
Technological start -ups program cost	43,455	49,059
Market stimulation program cost	1,000	1,961
	496,947	621,778



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

19 Personnel expenses

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Wages and salaries	388,205	390,979
Defined contribution plan (see note (a) below)	19,478	17,552
	407,683	408,531

(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:

	Number	Number
N500,001 - N1,500,000	15	15
N1,500,001 - N2,500,000	8	10
N2,500,001 - N3,500,000	13	14
N3,500,001 - N4,500,000	10	7
N4,500,001 - N5,500,000	2	1
N5,500,001 - N6,500,000	8	7
N6,500,001 - N7,500,000	1	1
N7,500,001 - N 8,500,000	1	2
N8,500,001 and above	-	3
	58	60

The Board of Trustees' emoluments comprise:

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Trustees' sitting allowances (see note 20)	22,346	22,256
	22,346	22,256

The sitting allowances disclosed above include amounts paid to:

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
The Chairman	1,950	736
The highest paid Trustee	1,950	736

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

20. Other operating expenses

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Rent & service charge	21,700	23,691
Professional fees (See note (a) below)	6,558	15,764
Audit fees	10,500	9,500
Trustees' sitting allowance (See note 19(b))	22,346	22,256
Liaison office	25,467	4,095
General and administrative expenses	6,520	18,149
Fueling	5,012	11,600
Transport and travelling	29,791	7,835
Bank charges	1,991	1,836
Security costs	673	497
Board and staff strategy session	10,268	6,258
Board training	28,426	32,460
Staff training	26,678	34,320
Electricity & power	13,030	17,529
Office repairs and maintenance	1,694	521
Printing and stationeries	1,131	7,531
Motor vehicles repairs and maintenance	4,587	4,049
Advert, publicity and engagement	63,589	183,940
Computer accessories & consumables	32,121	30,954
Insurance	45,505	46,038
Other expenses	5,723	4,441
	363,308	483,264

(a) Professional fees includes the sum of N6.06 million paid to Probitas Professional Services for board secretarial services and N0.50 million paid for advisory services.

21 Reconciliation notes to the statement of cashflows

(I) Changes in prepayments

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Balance, beginning of the year (see note 6)	47,760	51,067
Balance, end of the year (see note 6)	22,822	47,760
Decrease in prepayments	24,938	3,307

(ii) Changes in other current assets

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Balance, beginning of the year (see note 7)	93,580	520,915
Balance, end of the year (see note 7)	241,699	93,580
(Increase)/Decrease in other current assets	(148,119)	427,335

(iii) Changes in loans and advances

<i>In thousands of Naira</i>	31-Dec-19	31-Dec-18
Loans granted during the year (see note 5)	(929,265)	(1,870,008)
Cash repayments received (see note 5)	1,301,702	1,667,874
Interest on managed loan (see note 14(b))	808	355
Decrease/(Increase) in loans and advances	373,245	(201,778)



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

(iv) Changes in other liabilities and accruals

In thousands of Naira	31-Dec-19	31-Dec-18
Balance, beginning of the year (see note 12)	99,652	118,829
Balance, end of the year (see note 12)	115,762	99,652
Increase/(Decrease) in other liabilities	16,110	(19,177)

(v) Changes in unearned income

In thousands of Naira	31-Dec-19	31-Dec-18
Balance, beginning of the year	16,214	124,154
Amount written to statement of financial performance	(38,816)	(131,082)
Balance, end of the year (see note 11)	55,885	16,214
Increase in unearned Income	78,487	23,142

(vi) Changes in managed funds

In thousands of Naira	31-Dec-19	31-Dec-18
Balance, beginning of the year	48,478	5,166
Balance, end of the year (see note 10)	46,274	48,478
(Decrease)/Increase in managed funds	(2,204)	43,312

22 Movement in Deficit from operations

In thousands of Naira	31-Dec-19	31-Dec-18
Balance, beginning of the year	(5,064,935)	(2,149,366)
Addition during the year	(1,732,002)	(2,915,569)
Balance, end of the year	(6,796,937)	(5,064,935)

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 party and the details of its transactions with the Fund is shown below;

Name of related party	Relationship	Nature of transactions	Due from/(Due to)		Receipt/(Payment)	
In thousand of Naira			31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Lagos State Government*	Parent	Capital contribution	-	-	1,700,000	300,000
Restral Limited	Trustee	Training of Loan Beneficiaries	(2,296)	(2,054)	(4,350)	(3,665)
LASACO Assurance Plc	Sister Company	Insurance of the Fund's Assets	-	-	(260)	(5,157)
Ibile Microfinance Bank Limited	Sister Company	Fulfilment Partners	(22,747)	(15,075)	-	(19,394)
Trustees and Relations	Personnel	Loan Beneficiary	4,041	4,041	-	-



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

- * The Lagos State Government released the sum of N1.7 billion on various dates as capital contribution to the Fund during the year 2019 (N300million: 2018). 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.

Key management compensation

- (I) 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	31-Dec-19	31-Dec-18
<i>In thousands of Naira</i>		
Salaries and other short - term employee benefits	73,077	52,377
Sitting allowances (see note 20)	22,346	22,256
Total compensation of key management personnel	95,423	74,633

26. Events occurring after reporting period

On 11 March 2020, the World Health Organization declared the coronavirus (COVID – 19) outbreak a pandemic and most governments have taken restrictive measures to contain its further spread by introducing lockdowns, closures of borders and travel restrictions which has affected the free movement of people and goods. The Nigerian Centre for Disease Control (NCDC) has confirmed COVID-19 cases in Nigeria and this has resulted in lock down in certain states. The pandemic has caused a significant reduction in social interactions, disruption in economic activities while some public facilities have been shut down in a bid to reduce the spread of the virus. The Fund considers this outbreak to be a non-adjusting subsequent event. As the situation is fluid and rapidly evolving, the Board of Trustees do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak and will continue to evaluate the impact of COVID-19 on the Fund's operations, financial position and operating results. As at the date these financial statements were authorized for issue, the Board of Trustees were not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

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 2019.

The tenor of the first Board of Trustees of the Fund came to an end on 29 February 2020, subsequently on 16 June 2020 a new Board of Trustees was constituted.

During the interim period between 29 February 2020 and 16 June 2020, the affairs of the Fund continued to be overseen by the Executive Secretary and the two standing Commissioners of Finance and Ministry of Wealth Creation and Employment, Honorable Rabiu Olowo Onaolapo and Honorable Yetunde Arobieke respectively. 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 2019.

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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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:

- Overseeing the integrity of the financial statements and financial reporting process;
- Monitoring choice of accounting policies and principles;
- Overseeing the activities, hiring, performance and independence of the external and internal audit function;
- Overseeing the effectiveness of internal control systems, accounting and operating procedures;
- Establishing policy standards and guidelines for risk assessment and management;
- Ensuring compliance with legal and regulatory requirements, including completeness of disclosures; and
- 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. 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 overall risk management direction and oversight is provided by the BOT.
- The BOT approves the Fund's risk appetite.
- Risk Management is entrenched in the Fund's processes, however the Risk management function does not influence the outcome of other risk creating functions
- The Fund manages its credit, operational and liquidity risks in a coordinated manner.
- Reports are being provided to the Management and Board by the Risk Management Unit, and the fund's internal audit unit report to the Board of Trustees.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

The compliance function, under the leadership of the Head of Internal Audit of the Fund ensures:

- Review and analysis of all relevant laws and regulations, which are adopted into policy statements to ensure business is conducted professionally
- The review and the compliance of our internal control and risk management practices, in line with Board-approved and regulatory standards;
- Adequacy of controls systems;
- Strong Board Committees, and Executive Secretary's oversight of Risk Management, Compliance, and Audit programs.

(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'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
- Counterparty risk
- Operational risk
- Political risk
- Legal risk
- Environmental & Social risk
- Strategic risk
- Fiduciary risk

(a) 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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

(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
SME loans	Above ₦2,500,000	Board of Trustees

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

(i) Exposure to credit risk

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. The total impairment allowance during the year ended 31 December 2019 was N414.24 million (31 Dec 2018: N1.52 billion). This impairment figure is collective on loans and advances. A proactive loan recovery strategy has been put in place to further reduce credit risk.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

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 tenored 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

In thousands of Naira	Note	31-Dec-19	31-Dec-18
Cash and cash equivalents	4	₦ 2,952,699	₦ 2,244,045
Loans and advances	5	1,225,565	1,901,517
		4,178,264	4,145,562

(iv) Geographical Sectors

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

vii) Credit Quality

The following table breaks down the Fund's main credit exposure at their gross amounts ("Due from Banks" at carrying amount), as categorised by performance as at 31 December 2019 and 2018 respectively.

	31 December 2019			31 December 2018			
	Due from Banks	Loans and advances to beneficiaries		Total	Due from Banks	Loans and advances to beneficiaries	
		₦	₦	₦		₦	₦
Neither past due nor impaired	2,952,699	-	-	2,952,699	2,244,045	-	2,244,045
<i>Impaired</i>							
Individually impaired	-	-	-	-	-	-	-
Collectively impaired	-	3,949,224	3,949,224	-	4,207,927	4,207,927	
Gross	2,952,699	3,949,224	6,901,923	2,244,045	4,207,927	6,451,972	
<i>Impairment allowance</i>							
Specific impairment	-	-	-	-	-	-	-
Collective impairment	-	(2,723,659)	(2,723,659)	-	(2,306,410)	(2,306,410)	
Net	2,952,699	1,225,565	4,178,264	2,244,045	1,901,517	4,145,562	

(a) 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.



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

The following are the contractual maturities as at 31 December 2019 of financial liabilities and financial assets:

	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3 - 12 months	1 - 2 years	2 - 10 years
In thousands of Naira							
Financial assets							
Cash and cash equivalents	4	2,952,699	2,953,113	2,953,113	-	-	-
Loans and advances	5	1,225,565	3,949,224	1,656,928	1,471,321	817,932	3,043
Total		4,178,264	6,902,337	4,610,041	1,471,321	817,932	3,043
Financial liabilities							
Managed funds	10	46,274	(46,274)	(46,274)	-	-	-
Unearned income	11	55,885	(55,885)	(55,885)	-	-	-
Other liabilities & accruals	12	84,034	(84,034)	(84,034)	-	-	-
Total		186,193	(186,193)	(186,193)	-	-	-
Liquidity gap			6,716,144	4,423,848	1,471,321	817,932	3,043
Cumulative gap				4,423,848	5,895,169	6,713,101	6,716,144

The following are the contractual maturities as at 31 December 2018 of financial liabilities and financial assets:

	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3- 12 months	1 - 2 years	2 - 10 years
In thousands of Naira							
Financial assets							
Cash and cash equivalents	4	2,244,045	2,246,665	2,246,665	-	-	-
Loans and advances	5	1,901,517	2,259,962	208,439	377,811	1,673,712	-
Total		4,145,562	4,506,627	2,455,104	377,811	1,673,712	-
Financial liabilities							
Managed funds	10	48,478	(48,478)	(48,478)	-	-	-
Unearned income	11	16,214	(16,214)	(16,214)	-	-	-
Other liabilities & accruals	12	65,220	(65,220)	(65,220)	-	-	-
Total		129,912	(129,912)	(129,912)	-	-	-
Liquidity gap			4,376,715	2,325,192	377,811	1,673,712	-
Cumulative gap				2,325,192	2,703,003	4,376,715	4,376,715

(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.

(g) Political risk

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



NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2019

(h) 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 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) 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-19	31-Dec-18
Cash and cash equivalents	4	2,952,699	2,244,045
Total		2,952,699	2,244,045

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-19 31-Dec-18

Increase in interest rate by 100 basis points (+1%)

29,527 22,440

Decrease in interest rate by 100 basis point (-1%)

(29,527) (22,440)



OTHER NATIONAL DISCLOSURES



VALUE ADDED STATEMENT

As at 31 December

	31-Dec-19	%	31-Dec-18	%
<i>In thousands of Naira</i>				
Receipts	206,693	(17)	472,341	(20)
Bought-in materials and services - Local	(1,426,569)	117	(2,873,357)	120
Value added	(1,219,876)	100	(2,401,016)	100
Distribution of value added:				
To employees:				
Wages, salaries and pensions	407,683	(33)	408,531	(17)
Retained in the business:				
For the replacement of property and equipment and intangible assets (depreciation and amortisation)	104,443	(9)	106,022	(4)
To deplete reserves	(1,732,002)	142	(2,915,569)	121
Value added	(1,219,876)	100	(2,401,016)	100



THE LSETF-FIRSTEDU LOAN

will provide loans at an affordable interest rate of 9% per annum to 2 categories of applicants;

Micro-Enterprise (ME) businesses will receive a sum of not more than ₦500,000 (Five hundred thousand Naira)

Small and Medium Enterprise (SMEs) will receive a sum of not more than ₦5,000,000 (Five million naira only).

Apply now
via bit.ly/LFEduloan
call 01 7000969

#EducationMeetsFunding



LSETF
LAGOS STATE EMPLOYMENT TRUST FUND

SKILLS DEVELOPMENT | ACCESS TO FINANCE | INNOVATION

For further enquiries,
please visit our website: www.lsetf.ng
or send an email to communications@lsetf.ng
or call 01-7000969