

# FINANCIAL REPORT 2020





**MR. BABAJIDE OLUSOLA  
SANWO-OLU**

GOVERNOR OF LAGOS STATE

# BOARD OF TRUSTEES



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



**Mrs. Tejumola Abisoye**  
Executive Secretary



**Mrs. Tatiana Mousalli-Nouri**  
Member



**Mr. Idris Olorunnimbe.**  
Member



**Mr. Sinari Bolade Daranijo**  
Member



**Mr. Segun Ojelade**  
Member



**Ms. Kofo Durosinmi-Etti**  
Member



**Dr. Rabiu Onaolapo Olowo**  
Member



**Otunba Mrs. Yetunde Arobieke**  
Member



**Mr. Ronald Chagoury Jnr**  
Member

# Financial Highlights: for the year ended 31 December 2020

In thousands of Naira	31-Dec-20	31-Dec-19
Gross income	257,321	201,954
Program expenses	(327,592)	(612,979)
Operating and personnel expenses	(741,768)	(766,254)
Deficit before impairment, depreciation & amortisation*	(812,039)	(1,177,278)
Impairment charge on loans and advances	332,625	(414,237)
Depreciation of property and equipment	(84,943)	(94,400)
Amortization of intangible assets	(15,036)	(46,088)
Total deficit from operations	(579,393)	(1,732,003)
<b>Deficit for the year</b>	<b>(579,393)</b>	<b>(1,732,003)</b>
 Total assets	 5,678,968	 4,570,984
Total liabilities	(187,766)	(217,922)
<b>Reserves</b>	<b>5,491,202</b>	<b>4,353,062</b>

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

Source of Funding	31-Dec-2020	31-Dec-2019
Subvention from LASG	1,717,533	1,700,000
Grants/donations received during the year	55,803	78,515
Interest income received during the year	37,889	35,964
Repayments from loan beneficiaries (Gross)	671,607	1,301,702
<b>2,482,832</b>	<b>3,116,181</b>	

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

## SDGs Spotlight

**1** NO POVERTY



**2** ZERO HUNGER



**5** GENDER EQUALITY



**8** DECENT WORK AND ECONOMIC GROWTH



**9** INDUSTRY, INNOVATION AND INFRASTRUCTURE



**10** REDUCED INEQUALITIES



**11** SUSTAINABLE CITIES AND COMMUNITIES



**12** RESPONSIBLE CONSUMPTION AND PRODUCTION

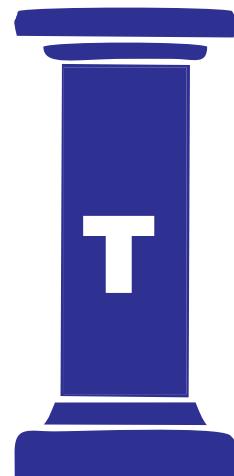


**17** PARTNERSHIPS FOR THE GOALS



# Our Development Agenda for a Greater Lagos

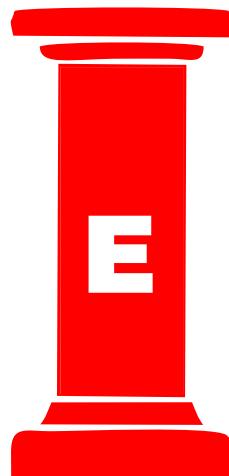
Our Development programmes will be built upon 5 Pillars, T.H.E.M.E



Traffic Management & Transportation



Health & Environment



Education & Technology



Making Lagos a 21st Century Economy



Entertainment & Tourism



## Environment

Through its Employability programme, the Fund has invested in training young persons in the renewable sector.



## Social

Launched the W Initiative and Edu Loans to support members of the vulnerable population.



**Goal:**

Support 2,133 low-cost private schools and



Improve quality of education for over 200,000 children.



Support 2,000 female entrepreneurs

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Launched the Lagos Economic Acceleration Programme (LEAP) to assist businesses impacted by the Pandemic.



**Goal :** Support 2,505 businesses

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Launched the MSME Recovery Fund to aid businesses vandalized by the End SARS Riots



**Goal:** 1880 businesses supported.



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Organized 2 hackathons to address socio-economic issues



Achievement of the SDGs through our Ideahub Programme



## Governance

- The 2nd Board of Trustees of the Fund were inaugurated in July.
- The board is made up of independent and diverse members with strong credentials, broad skills and experiences.



# TRUSTEES REPORT

For the year ended 31 December 2020

## LAGOS STATE EMPLOYMENT TRUST FUND IN 2020:

In 2020, the World and Nigeria faced various macro and socioeconomic challenges largely due to the COVID 19 pandemic. This resulted in the country experiencing a recession in third quarter of year 2020. Despite this disruption, LSETF managed to maintain focus on creating interventions that stemmed the loss of employment and enabled entrepreneurship opportunities through the following interventions

### 1. MSME Support

a. **Loan Program:** LSETF received loan applications for its Micro, Small and Medium Enterprise (MSME) Loan Programme in year 2020. Approvals were stopped during the lockdown and only resumed in October 2020. Of the approved loans,(this includes spill-over approved applications from 2019) beneficiaries have drawn N124.17 million. In addition to providing loans, the Fund also trained beneficiaries during the year, fulfilling its mandate to deepen business management capabilities and financial literacy amongst MSMEs.

b. **Lagos Economic Acceleration Programme (LEAP):** This is a bouquet of COVID-19 intervention programmes aimed at cushioning the effect of the pandemic on small businesses. The target sectors and specific programmes launched as at year end was: - NGN 250million EduFund in partnership with First Bank and Edfin MFB, targeted at low-cost schools.

c. **The MSME Recovery Fund:** In response to the damages to the goods and properties of businesses, stemming from the vandalism experienced during the End SARS protests, LSETF initiated the MSME Recovery Fund, to support businesses affected. The Fund received applications from the affected businesses, applications were verified, claims were approved and disbursement was made.

### 2. Start Up Support

a. **Innovation Driven Enterprise Program "Lagos Innovates":** Lagos Innovates is a series of programs designed to create an enabling environment for technology and innovation-driven start-ups to thrive in Lagos State. By providing access to high-quality infrastructure,

learning, capital, and networks. Lagos Innovates is aimed at cementing the position of Lagos as the leading destination for Tech start-ups in Africa.

- b. Talent Development Student Loan Programme:** In partnership with Honeywell Group, the Talent Development Program is a platform to support capacity development by facilitating access to technology skills via student loans and improving job placement opportunities. The 2nd cohort was trained in 2020 with 41 beneficiaries.
- c. Idea Hub:** The Idea Hub Programme is a mentorship/incubation platform that allows Tech entrepreneurs to take their businesses from ideation to early-stage, by pairing mentees with industry expert mentors. The first cohort successfully completed the program in 2020 with 20 beneficiaries

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

The LSETF Employability Support Project plans to increase the pool of skilled manpower to alleviate the acute shortages of employable labour in Lagos State. In 2020, applications were received across all partnership programmes- United Nations Development Programme (UNDP), Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ), United States African Development Foundation (USADF) and Coursera. In total 7,226 were trained. 2,722 of the trained applicants were certified and 415 of the certified trainees have either been placed on jobs or are self-employed.

### **4. Funding**

The LSETF received grant funding of N55million from GIZ in 2020 and this contributed to increasing the capacity of the LSETF to meet its objectives under employability initiatives.

### **5. LSETF Employment Summit**

The theme of the summit was "Showcasing Leading Practices for Job Creation" and aimed at discussing remedies that address unemployment and the future of jobs in Africa. The summit featured 51 speakers and had in attendance representatives of Governments across the 36 States in Nigeria and Africa, NGOs, Corporate Organisations, International Donor Agencies and Government Agencies.

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

2020 was a transition year from the pioneer Board of Trustees of the Fund to a newly constituted Board on July, 2020. During the interim period between 29 February, 2020 (when the tenure of the pioneer Board ended) and July 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, Dr Rabiu Olowo Onaolapo and Honourable Yetunde Arobieke, respectively.

In 2020, the Board of Trustees held 10 meetings. To effectively provide oversight, the Board Committees also held 17

meetings, broken down as follows:

1. Audit and Risk Committee (3 meetings)
2. Credit and Investment Committee (5 meetings)
3. Governance Committee (6 meetings)
4. Stakeholders Committee (3 meetings)



## LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

For the year ended 31 December 2020

### 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 2020 was ₦1.72 billion (2019: ₦1.7billion) and has been disclosed as capital contribution for the purpose of these financial statements. The Fund has received a total of ₦12.87 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 Fund recognises expenses for the related cost for which the grant is intended to compensate. Major Grant donors to the Fund in 2020 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 the ages of 18 - 35 years in the manufacturing, healthcare, construction, entertainment, garment making, hospitality and tourism sectors by 2020. The funding agreement is in the ratio of 3:1(\$3,000,000 and \$1,000,000) for LSETF and UNDP respectively.

Though the Fund did not receive any grant from UNDP during the year, it received the sum of \$500,000 (₦162.2million) in 2017. As such, a pro-rata Nil was recorded in the year under review (2019: ₦11.4million) of the total related cost was recorded nil in 2020 (2019:₦355.2million) was recorded as grant income relating to the partnership during the year.

**Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ):** The Fund received the sum of ₦55.8 million from GIZ in the year 2020. 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.

The Fund also received a donation of ₦1.25 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 essentially used to fund more loans as well as related expenditure. During the year, the Fund received a total sum of ₦671.6million (2019 ₦1.3billion) 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 ₦37.9million (2019: ₦35.9million)

## **EXPENDITURE**

Expenses incurred during the course of carrying out the operations and programmes of the Fund are categorised as cash and non-cash with the non-cash element not requiring actual outflow of cash and based on applicable accounting standards and principles. Some of the 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, predisbursement 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 2020 was ₦180.60million (2019: ₦152.07million).

Other Program Expenses: This refers to non-loan related program expenses and covers expenses for the employability programme, Lagos Innovates, Market Stimulation, etc. in 2020. Other Program Expenses amounted to ₦152.99million (2019: ₦496.94million).

### **Operating/Recurrent Expenses**

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

**Personnel expenses:** This include staff salaries and wages, staff allowances and pension

contribution. Personnel expenses in 2020 was ₦473.03million (2019: ₦407.68million).

**Other operating expenses:** This include Office/equipment maintenance, administrative expenses, rent and service charges, board related expenses, trainings etc. Other operating expenses in 2020 amounted to ₦268.74million (2019: ₦358.57million).

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 Income statement of estimated loss arising from the extent of recoverability of the loans granted to beneficiaries. Under the incurred loss model of IPSAS 29, a financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of one or more events occurring. Measurement of impairment losses across all LSETF loan categories requires judgement on the estimation of the amount and timing. These estimates are driven by several factors, changes to which result in different levels of allowances. The Fund's impairment calculations are outputs of models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Impairments are non-cash charges hence 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 conditions that correlate with defaults.

LSETF loans are unsecured. Where no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Fund includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Some impairment parameters like Loss Given Default (LGD) 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. In 2020, the Fund had a net write back on Impairment of ₦332.59million (2019: Net impairment charge of ₦414.23million).

**Depreciation:** Depreciation represents the reduction in the value of an asset over time due to wear and tear. The Fund calculates its depreciation using the straight-line method and the rate applied varies based on the estimated useful life of the assets (Motor vehicle, Office equipment, Furniture & fittings, etc.). Depreciation in 2020 was ₦84.9million (2019: ₦94.4million).

**Amortization of intangible assets:** Amortization refers to the allocation of the cost of an intangible asset over time. The Fund calculates the amortization costs on a straight-line basis over the useful life of the asset. Intangible assets include, Softwares. Amortization costs for 2020 was ₦15.04million (2019: ₦46.08million).



## STATEMENT OF TRUSTEES

### Statement of Trustees' responsibilities in relation to the preparation of financial statements for the year ended 31 December 2020

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:**

# **BOARD AUDIT AND RISK COMMITTEE REPORT**

For the year ended 31 December 2020

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 2020.

## **Functions and Responsibilities**

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

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

## **Composition**

The Audit and Risk Committee consists of the following members:

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

## **Meetings**

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

- i. August 13, 2020
- ii. September 9, 2020
- iii. December 9, 2020

## **Activities**

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

### **i. 2019 Financial Statements**

The Committee reviewed, adopted and recommended the audited financial statements for the year ended 31 December 2019, the audit findings and management's responses, to the Board and was approved.

### **ii. LSETF Loan Impairment Model**

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

### **iii. Internal Audit**

The Committee considered the Fund's monthly and quarterly internal audit reports, and where required, proposed remedial actions to the Board and Management. The Committee also reviewed the 2021 Internal Audit Plan and recommended it to the Board for approval.

### **iv. Consideration of the External Audit Plan for the 2020 Financial Year**

The Committee reviewed the external audit plan for the year ended 31 December 2020 and presented it to the Board for approval. Signed on behalf of the Audit and Risk Committee

Signed on behalf of the Audit and Risk Committee

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Segun Ojelade  
Chairman, Board Audit and Risk Committee  
FRC/2020/003/00000021863  
23 July 2021  
Lagos State Employment Trust Fund  
Annual Report 31 December 2020



## **BOARD CREDIT AND INVESTMENT COMMITTEE REPORT**

For the year ended 31 December 2020

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 2020.

### **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 counter party financial institutions that may be engaged by the Board for disbursement to ensure they meet the requisite standard.

### **Composition**

The Credit and Investment Committee consists of the following members:

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

## **Meetings**

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

- i. January 30, 2020
- ii. August 7, 2020
- iii. September 29, 2020
- iv. October 19, 2020
- v December 2, 2020

## **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 education, technology, transportation, fashion and agriculture sector as well as the Fund's intervention to cushion the effects of the Covid-19 pandemic on residents of Lagos State.

### **iii. Credit Risk Management**

The Committee reviewed the Fund's loan portfolio, credit loss ratio and portfolio at risk from time to time. During the period under review, the Committee also made recommendations to the Board on the review of the LSETF credit process.

### **iv. LSETF Credit Policies**

The Committee developed and reviewed the Fund's credit policies and made appropriate recommendations to the Board.

v. 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

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Sinari Daranijo  
Chairman, Board Credit and Investment Committee  
23 July 2021  
Lagos State Employment Trust Fund  
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## BOARD GOVERNANCE COMMITTEE REPORT

For the year ended 31 December 2020

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 2020.

### Functions and Responsibilities

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

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

### Composition

The Governance Committee consists of the following members:

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

## **Meetings**

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

- I August 12, 2020
- ii August 27, 2020
- iii September 7, 2020
- vi. September 16, 2020
- v. October 6, 2020
- iv October 20, 2020

## **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 2019 budget as well as the implementation of the 2020 budget on a quarterly basis.
- ii. **LSETF Compensation Structure:** The Committee reviewed and recommended the implementation of a review process that allowed staff to get an increment based on increase in the inflation rate.
- iii. **Executive Management Appraisal for 2019:** The Committee reviewed and made recommendations to the Board on the performance of the Executive Management for 2019
- iv. **Review and Revalidation of Staff and Board Remuneration:** The Committee reviewed and made its recommendations to the Board on an upwards review to the Board remuneration and the revalidation of the hitherto reviewed staff remuneration.
- v. **Amendments to LSETF Law and Regulations:** The Committee deliberated extensively on the proposed changes to the LSETF Law and Regulations and presented its recommendations to the Board.
- vi. **Consideration of 2020 Key Performance Indicators for Executive Management:** The Committee reviewed and made recommendations to the Board on key performance indicators for assessing the performance of the Executive Management. The aim is to ensure that Management's key performance indicators align with the Fund's strategic goals.
- vii. **Approval of the Assets Disposal Policy:** The Committee reviewed the Fund's Asset Disposal Policy as presented by Management and made recommendations to the Board.
- viii. **Disengagement of the former Board Secretary:** The Committee carried out an extensive review of the Fund's Human Resource Policy as well as the disengagement process, found the disengagement satisfactory and recommended the disengagement to the Board for ratification.
- ix. **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.

- x. **Staff Appraisal for 2019:** The Committee reviewed the Fund's 2019 employee performance appraisal exercise and presented Management's recommendation of the promotion of high performing employees to the Board for approval.
- xi. **Interview and Selection of the Director, Programmes and Coordination:** The Committee interviewed the shortlisted candidates for the position of the Fund's Director, Programmes and Coordination and made appropriate recommendations to the Board for selection in this regard.
- xii. **Engagement of a Telecoms Recovery Agent:** The Committee reviewed Management's recommendations to engage a telecoms recovery agent to aid the Fund's loan recovery strategy and made its recommendations to the Board for approval
- xiii. **Appraisal of Recovery Agents:** The Committee reviewed the performance of the Fund's Recovery Agents and recommended the renewal of the contracts of some of the Agents for Board approval
- xiv. **Engagement of a Data Protection Compliance Organization:** The Committee reviewed Management's recommendations to engage a Data Protection Compliance Organization in line with the Federal Government Directives and made its recommendations to the Board for approval
- xv. **Review of the Liaison Offices Key Performance Indicators:** The Committee made recommendations to the Board on the Key Performance Indicators for the Fund's liaison offices to ensure that it is still effective for the achievement of the Fund's goals and strategic targets.

Signed on behalf of the Governance Committee

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Tatiana Mousalli-Nouri  
Chairman, Governance Committee  
23 July 2021  
Lagos State Employment Trust Fund  
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31 December 2020



## BOARD STAKEHOLDERS COMMITTEE REPORT

For the year ended 31 December 2020

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 2020.

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

### Meetings

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

- I. January 30, 2020
- ii. August 31, 2020
- iii. November 8, 2020

## **Activities**

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

- i. **Review of Communications and Stakeholder Engagement Plan for 2020:** The Committee reviewed and recommended the Communications and Stakeholder Engagement Plan 2020 to the Board. The purpose of the plan is to provide a roadmap to engage the Fund's Stakeholders
- ii. **2020 Fundraising Plan:** The Committee evaluated the Fund's 2020 Fundraising Plan and recommended its approval to the Board.
- iii. **Review of LSETF method of Communications, Stakeholder Management and Fundraising:** The Committee evaluated the Fund's adopted process of communications and presented its findings to the Board
- iv. **Fundraising for the Lagos MSME Recovery Fund:** The Committee at different occasions deliberated extensively on the fundraising drive for the Lagos MSME Recovery Fund provided its recommendations to the Board for approval

Signed on behalf of the Stakeholders Committee

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Idris Olorunnimbe  
Chairman, Stakeholders Committee  
23 July 2021  
Lagos State Employment Trust Fund  
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# STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 December 2020

In thousands of Naira	Notes	31-Dec-20	31-Dec-19
<b>Revenue</b>			
Interest income	14	88,034	148,650
Grant income	15	93,717	51,554
Other income	16	75,570	1,751
<b>Total revenue</b>		<b>257,321</b>	<b>201,954</b>
Expenses			
Amortisation of intangible assets	8b	(9,039)	(10,043)
Depreciation of property and equipment	9	(84,943)	(94,400)
Impairment charge	17	332,625	(414,237)
Program expenses	18	(333,589)	(649,024)
Personnel expenses	19	(473,027)	(407,683)
Other operating expenses	20	(268,741)	(358,571)
<b>Total operating expenses</b>		<b>(836,714)</b>	<b>(1,933,957)</b>
<b>Performance for the year (Deficit)</b>		<b>(579,393)</b>	<b>(1,732,003)</b>

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

# STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

In thousands of Naira	Notes	31-Dec-20	31-Dec-19
<b>ASSETS</b>			
Cash and cash equivalents	4	3,799,940	2,952,699
Loans and advances	5	1,067,389	1,225,565
Prepayments	6	20,970	22,822
Other assets	7	703,659	241,698
Intangible assets	8	2,151	17,187
Property and equipment	9	84,859	111,013
<b>Total assets</b>		<b>5,678,968</b>	<b>4,570,984</b>
<b>LIABILITIES</b>			
Managed funds	10	56,274	46,274
Unearned income	11	40,980	55,885
Other liabilities and accruals	12	90,512	115,763
<b>Total liabilities</b>		<b>187,766</b>	<b>217,922</b>
<b>EQUITY</b>			
Capital contribution	13	12,867,533	11,150,000
Accumulated deficit from operations	22	(7,376,331)	(6,796,938)
<b>TOTAL EQUITY</b>		<b>5,491,202</b>	<b>4,353,062</b>
<b>Total liabilities &amp; equity</b>		<b>5,678,968</b>	<b>4,570,984</b>

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

The financial statements were approved by the Board of Trustees on 23 July 2021 and signed on their behalf by:

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

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

Additionally certified by:

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

In thousands of Naira	Capital		Accumulated	Total
	Notes	contribution	Deficit	equity
Balance as at 1 January 2020		11,150,000	(6,796,938)	4,353,062
Transaction recorded directly in equity	13(a)	1,717,533	-	1,717,533
Performance for the year		-	(579,393)	(579,393)
<b>Balance as at 31 December 2020</b>		<b>12,867,533</b>	<b>(7,376,331)</b>	<b>5,491,202</b>

In thousands of Naira	Capital		Accumulated	Total
	Notes	contribution	Deficit	equity
Balance as at 1 January 2019		9,450,000	(5,064,935)	4,385,065
Transaction recorded directly in equity	13(a)	1,700,000	-	1,700,000
Performance for the year		-	(1,732,003)	(1,732,003)
<b>Balance as at 31 December 2019</b>		<b>11,150,000</b>	<b>(6,796,938)</b>	<b>4,353,062</b>

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

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

In thousands of Naira	Notes	31-Dec-20	31-Dec-19
<b>Cash flows from operating activities</b>			
Deficit from operations		(579,393)	(1,732,003)
Adjustments for non-cash items:			
Amortisation	8	15,036	46,088
Depreciation	9	84,943	94,400
Allowance for (write back)/ impairment charges	5(c)	(332,625)	417,249
Late repayment fees	5	-	(1,856)
Unearned grant income	15	(60,708)	(38,816)
Interest income	14	(88,034)	(148,650)
		<b>(960,781)</b>	<b>(1,363,588)</b>
<b>Changes in prepayments</b>			
Changes in other current assets	21(ii)	(461,962)	(148,117)
Changes in loans and advances	21(iii)	540,946	373,245
Changes in unearned income	21(v)	45,803	78,487
Changes in other liabilities and accruals	21(iv)	(25,249)	16,110
<b>Net cash used in operating activities</b>		<b>(859,391)</b>	<b>(1,018,925)</b>
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets	8	-	-
Acquisition of property and equipment	9	(58,789)	(6,180)
Interest received on term deposits	14	<b>37,889</b>	<b>35,964</b>
<b>Net cash from investing activities</b>		<b>(20,900)</b>	<b>29,784</b>
<b>Cash flows from financing activities</b>			
Capital contribution	13(a)	1,717,533	1,700,000
Managed funds	21(vi)	-	(2,204)
<b>Net cash from financing activities</b>		<b>1,717,533</b>	<b>1,697,796</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year	4	2,952,699	2,244,044
Net increase in cash and cash equivalents		837,241	708,655
<b>Cash and cash equivalents at 31 December</b>	<b>4</b>	<b>3,799,940</b>	<b>2,952,699</b>

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

# **Notes to the financial statements for**

## **For the year ended 31 December 2020**

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

The financial statements of the Lagos State Employment Trust Fund (LSETF) for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Trustees on 23 July 2021.

### **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.

##### *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.

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

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

Property and equipment are stated at historical cost less any accumulated depreciation

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

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

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

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

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

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

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

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

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

An item of property 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.

#### **(v) 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.

### **3.2 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
  - 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.

## **3.3**

### **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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised for non-financial assets when the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

## **3.4**

### **Revenue**

Revenue recognition criteria for exchange and non-exchange transactions

Revenue from an exchange 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, where appropriate to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of income or expenditure.

Interest Income Received are the funds generated through the placement of funds with financial institutions.

### **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 Income statement on a systematic basis over the period in which the Fund recognises as expenses the related costs for which the grants are intended to compensate.

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

### **Donations**

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

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

### **Other income**

Other income represents income generated from sources other than interest and grant income. It includes income realised from income generated from current account balances and penal charges on late repayments by beneficiaries. Income is recognized when the right to receive the income is established.

## **3.5 Financial instruments**

### **(a) Classification**

The classification of financial instruments depends on the purpose for which the assets are acquired. The Fund classifies its financial assets 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. These represent the Fund's Owned and Managed Loans and advances.

##### ***Managed Loans***

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

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

Other financial liabilities are initially measured at fair value.

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

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

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

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

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

Other financial liabilities are subsequently measured at amortised cost.

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

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

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

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

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

The Fund did not measure any assets or liabilities at fair value at the end of the reporting period. However, fair values of financial instruments measured at amortised cost are disclosed. Fairvalue 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 use of unobservable inputs.

### **3.6 Impairment of financial assets**

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset,

whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

**a) Individually assessed financial assets**

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

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

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

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

**b) Collectively assessed financial assets**

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

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

**3.7 Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances and placements with

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

### **3.8 Provisions**

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

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

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

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

Prepayments are carried at cost less accumulated amortisation.

### **3.10 Foreign currency transactions**

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

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the spot exchange rate at the reporting date. Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date on which the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.<sup>33</sup>

### **3.11 Employee benefits**

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

The Fund has a defined contribution plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in Income and Expenditure in the periods during which

services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

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

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

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

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

#### **3.12 Expenditure**

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

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

##### *Contingent asset*

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 nonoccurrence of one or more uncertain future events not wholly within the control of the Fund. However, they are recognised, if it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Contingent liabilities are disclosed in the financial statements when they arise.

#### **3.14 Taxation**

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

#### **3.15 Equity**

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

Section 16 of the Fund's bill states that:

The Board shall have power to raise money for the Fund through voluntary subscription and donations from all interest Government Agencies, Private Organizations and Individual but not limited to:

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

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

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

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

Subvention received from Lagos State Government was treated in form of capital contribution to run the activities of the Fund.

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

The following new or revised standards and amendments which have a potential impact on the Fund are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these consolidated financial statements. The Fund also plans to apply the standards and amendments disclosed below once they are applicable. However, the Fund's assessments of the new standards and amendments is not yet concluded but is expected to have significant impact on the Fund's operations and subsequent financial position.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 4 Cash and cash equivalents

In thousands of Naira	31-Dec-20	31-Dec-19
Cash in hand	83	60
Current accounts with banks (see (a) below)	3,697,224	2,670,431
Deposits with financial institutions (see (b) below)	102,633	282,208
	<b>3,799,940</b>	<b>2,952,699</b>
<b>Classified as:</b>		
Current	3,697,306	2,670,492
Non-current	102,633	282,208
	<b>3,799,940</b>	<b>2,952,699</b>

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

In thousands of Naira	31-Dec-20	31-Dec-19
Balance with Fulfilment Partner Banks	376,076	747,522
Other Bank balances	3,321,148	1,922,909
	<b>3,697,224</b>	<b>2,670,431</b>

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 2020. Funds yet to be disbursed to beneficiaries will be disbursed as these conditions are met.

**(b) Deposit with financial institutions include:**

In thousands of Naira	31-Dec-20	31-Dec-19
Access Bank Plc	102,541	282,116
Other Banks	92	92
	<b>102,633</b>	<b>282,208</b>

The deposit with financial institutions represents call deposit of N100 million with Access Bank at an interest of 0.75% per annum.

## 5 Loans and advances

In thousands of Naira	31-Dec-20	31-Dec-19
Movement in loans and advances during the year		
Balance at the beginning of year	3,949,224	4,207,927
Loan disbursed during the year (see note (a) below)	130,661	929,265
Interest earned (see note 14 (b))	50,145	111,878
Late repayment fees (see note 16 (a))	-	1,856
	4,130,030	5,250,926
Repayments	(671,607)	(1,301,702)
Gross loans	3,458,423	3,949,224
Allowance for impairment (See note (c) below)	(2,391,034)	(2,723,659)
	<b>1,067,389</b>	<b>1,225,565</b>

Gross loans for the year is made up of the following:

Small and medium enterprises	2,012,930	2,372,694
Micro-enterprises	1,409,746	1,525,625
Hub loan	7,934	27,592
Honeywell Loan	4,500	-
Managed loans	23,313	23,313
	<b>3,458,423</b>	<b>3,949,224</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

Net Loans is classified as:

Current	414,833	555,715
Non-current	652,556	669,850
	<b>1,067,389</b>	<b>1,225,565</b>

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

In thousands of Naira	31-Dec-20	31-Dec-19
Small and medium enterprises	32,304	505,871
Micro-enterprises	90,719	378,844
Hub loan	-	30,000
Honeywell Loan	4,500	-
Managed loans	3,138	14,550
	<b>130,661</b>	<b>929,265</b>

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

By granting Hub loans, LSETF hopes to support the growth and sustainability of this segment and other innovation-driven enterprises (IDEs)

Honeywell Loan represents the amount disbursed to the Fund towards the fulfilment of the Talent Development Programs (Trainings) engaged by the Fund during the year. These programs are conducted in partnership with Honeywell Limited

Small and medium enterprises are loans granted to business owners at cadre of Small and Medium enterprises  
Micro-enterprises are loans disbursed to business owner on micro/micro startup enterprises during the period under review.

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

In thousands of Naira	31-Dec-20	31-Dec-19
LSETF contribution	1,569	7,275
Counterparty contribution to loan advanced to beneficiaries	1,569	7,275
	<b>3,138</b>	<b>14,550</b>

LSETF enters into counter-party agreement with individuals and local governments to contrib equally between parties, towards the advancement of loan to beneficiaries in specified locatio agreement vary across counterparties. See note 10(b) for funds received during the year.

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

**Collective allowance for impairment**

In thousands of Naira	31-Dec-20	31-Dec-19
Balance as at 1 January	2,723,659	2,306,410
Charge for the year (note (d) below)	(332,625)	417,249
Balance as at 31 December	2,391,034	2,723,659
<b>Total impairment</b>	<b>2,391,034</b>	<b>2,723,659</b>

**(d) Impairment charge**

In thousands of Naira	31-Dec-20	31-Dec-19
SME loans	(353,970)	232,001
ME loans	24,736	179,558
Hub loans	-	2,066
Late repayment fees	0	110
LSETF's contribution to managed loans	(3,391)	502
	(332,625)	414,238
Managed funds advanced to beneficiaries (see note 10(f))	-	3,012
<b>Impairment charge for the year</b>	<b>(332,625)</b>	<b>417,249</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 6 Prepayments

In thousands of Naira	31-Dec-20	31-Dec-19
Non financial Assets		
Rent	5,787	5,787
Other prepayment (see note (a) below)	10,229	7,102
Credit insurance (see note (b) below)	1,487	6,220
Prepaid insurance	3,467	3,713
	<b>20,970</b>	<b>22,822</b>
Classified as:		
Current	20,970	22,822
Non-Current	-	-
	<b>20,970</b>	<b>22,822</b>

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

## 7 Other assets

In thousands of Naira	31-Dec-20	31-Dec-19
Financial Assets		
Balance in joint arrangement account with UNDP (see notes (a) below)	98,485	68,405
Balance in joint arrangement account with USADF (see notes (b) below)	302,553	162,000
Other receivables	9,578	10,293
Advance payments	3,040	1,000
Deposit for Edu-Loan (Edfin MFB) (See note (a) below)	250,000	-
Deposit with British Council	40,003	-
	<b>703,659</b>	<b>241,698</b>
Classified as:		
Current	703,659	241,698
Non-Current	-	-
	<b>703,659</b>	<b>241,698</b>

- (a) LSETF entered into a partnership agreement with the United Nations Development Project (UNDP) for the funding of "The Lagos State Employability Support Project". This Project aims at training 10,000 people between the ages of 18 - 35 years in the manufacturing, healthcare, construction, entertainment, garment making, hospitality and tourism sectors by 2020. The Partners agreed to contribute \$3,000,000 and \$1,000,000 respectively. As at 31 December 2020, LSETF and UNDP had contributed USD3,260,883.65 and USD589,513.71 respectively.

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

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

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

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of year	68,405	80,512
Contribution by LSETF	30,080	381,955
	<b>98,485</b>	<b>462,467</b>
Expenditure on project during the year (see note 18(b) below)	-	(355,253)
Management fees to UNDP (see note 18(b) below)	-	(38,808)
<b>Balance, end of year</b>	<b>98,485</b>	<b>68,405</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of year	162,000	-
Contribution by LSETF	173,447	162,000
Interest recognised on deposit	115	-
	335,562	162,000
Expenditure on project during the year (see note (b) below)	(33,009)	-
<b>Balance, end of year</b>	<b>302,553</b>	<b>162,000</b>

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

As at 31 December 2020, the program has kicked off and LSETF has contributed the sum of USD900,000 to the project account. The total contribution deposit of \$450,000 for the year under review was converted at N385.43/\$.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 8 Intangible assets

31 December 2020

In thousands of Naira	Loan Application Software	Accounting Software & Others	Total
Cost:			
Balance as at 1 January 2020	108,135	29,451	137,586
Additions	-	-	-
<b>Balance as at 31 December 2020</b>	<b>108,135</b>	<b>29,451</b>	<b>137,586</b>
Amortisation:			
Balance as at 1 January 2020	(102,128)	(18,272)	(120,400)
Charge for the year	(5,997)	(9,039)	(15,036)
<b>Balance as at 31 December 2020</b>	<b>(108,125)</b>	<b>(27,311)</b>	<b>(135,436)</b>
Carrying amounts			
<b>Balance at 31 December 2020</b>	<b>10</b>	<b>2,141</b>	<b>2,151</b>
Cost:			
Balance as at 1 January 2019	108,135	29,451	137,586
Additions	-	-	-
<b>Balance as at 31 December 2019</b>	<b>108,135</b>	<b>29,451</b>	<b>137,586</b>
Amortisation:			
Balance as at 1 January 2019	(66,083)	(8,229)	(74,312)
Charge for the year	(36,045)	(10,043)	(46,088)
<b>Balance as at 31 December 2019</b>	<b>(102,128)</b>	<b>(18,272)</b>	<b>(120,400)</b>
Carrying amounts			
<b>Balance at 31 December 2019</b>	<b>6,007</b>	<b>11,179</b>	<b>17,187</b>

- (i) There were no leased assets included in the balances as at year end (2019: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2019: Nil).
- (iii) There were no impairment losses on intangible assets during the year (2019: 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-20	31-Dec-19
Loan Application Software (see note (i) below)	5,997	36,045
Accounting Software & Others	9,039	10,043
<b>Amortisation expense for the year</b>	<b>15,036</b>	<b>46,089</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9 Property and equipment

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

31 December 2020

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

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
<b>Balance as at 31 December 2019</b>	<b>143,487</b>	<b>194,337</b>	<b>13,989</b>	<b>37,248</b>	<b>34,957</b>	<b>424,018</b>
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)
<b>Balance as at 31 December 2019</b>	<b>(116,022)</b>	<b>(139,203)</b>	<b>(8,366)</b>	<b>(22,346)</b>	<b>(27,068)</b>	<b>(313,005)</b>
Carrying amounts						
<b>Balance at 31 December 2019</b>	<b>27,465</b>	<b>55,134</b>	<b>5,623</b>	<b>14,902</b>	<b>7,889</b>	<b>111,013</b>

- (i) No leased asset is included in property and equipment as at year end (2019: Nil).
- (ii) There were no authorised or contracted capital commitments as at the reporting date (2019: Nil).
- (iii) There were no impairment losses on any class of property and equipment during the year (2019: Nil).
- (iv) There was no property and equipment pledged as security for borrowing as at year end (2019: Nil).
- (v) There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2019: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 10 Managed funds

In thousands of Naira	31-Dec-20	31-Dec-19
Financial liabilities		
Managed Funds (see note (a) below)	56,274	46,274
	<b>56,274</b>	<b>46,274</b>
Classified as:		
Current	56,274	46,274
Non - Current	-	-
	<b>56,274</b>	<b>46,274</b>
(a) The movement in the managed funds is as shown below:		
Balance as at beginning of year	53,200	52,392
Additions (see notes (b) below)	10,000	-
Interest income on LSETF portion of loan (see note (d) below)	-	-
Interest income on counterparty portion of loan (see note (e) below)	-	808
	63,200	53,200
Collective impairment on loan disbursed (see note (f) below)	(6,926)	(6,926)
	<b>56,274</b>	<b>46,274</b>
(b) Managed Funds represents funds received from counterparties under a joint scheme, for loan disb particular locations. The Fund and the counterparties contribute funds at agreed ratio for the program respective funds contributed.		
Ojo Local Government	5,000	5,000
TAM FUND	5,000	5,000
Lagos Island Local Government	10,000	10,000
Hon. Agunbiade	10,000	10,000
Itire Ikate LCDA	5,000	5,000
Apapa Local Government	10,000	10,000
Honeywell Group	10,000	-
	55,000	45,000
(c) The utilisation of the managed funds is as follows:		
In thousands of Naira	31-Dec-20	31-Dec-19
Funds disbursed during the year	1,569	7,275
	<b>1,569</b>	<b>7,275</b>
(d) The movement in the impairment on managed loans is as shown below:		
In thousands of Naira	31-Dec-20	31-Dec-19
Balance as at beginning of year	6,926	3,914
Additions (see note 5 (d))	-	3,012
	<b>6,926</b>	<b>6,926</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

11 Unearned Income

In thousands of Naira	31-Dec-20	31-Dec-19
Financial liabilities		
Unearned Income on agreement with GIZ (see note (a) below)	40,980	45,885
Unearned Income on agreement with Honeywell (see note (b) below)	-	10,000
	<b>40,980</b>	<b>55,885</b>
Classified as:		
Current	40,980	55,885
Non - Current	-	-
	<b>40,980</b>	<b>55,885</b>

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

In thousands of Naira	31-Dec-20	31-Dec-19
Opening Balance	55,885	16,186
Additional inflow from GIZ during the year	55,803	68,515
Income earned during the year (See note 15)	(60,708)	(38,816)
Reclassification (Honeywell)	(10,000)	-
Additional inflow from Honeywell	-	10,000
	<b>40,980</b>	<b>55,885</b>

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

12 Other liabilities and accruals

In thousands of Naira	31-Dec-20	31-Dec-19
Financial liabilities		
Due to fulfilment partners	7,446	30,192
Audit fee payable	11,825	10,500
Other payables (see note (a) below)	33,343	43,342
	52,614	84,035
Non-financial liabilities		
PAYE payable	182	182
Withholding tax payable	19,525	16,235
Value added tax payable	13,919	11,247
Development levy payable (see (b) below)	4,272	4,064
	<b>37,898</b>	<b>31,728</b>
	<b>90,512</b>	<b>115,763</b>
Classified as:		
Current	90,512	115,763
Non - Current	-	-
	<b>90,512</b>	<b>115,763</b>

- (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 2020

**13 Capital contribution**

This comprises:

In thousands of Naira	31-Dec-20	31-Dec-19
Capital contribution from Lagos State Government (LASG) (see note (a) below)	12,717,533	11,000,000
Take-off fund (see note (c) below)	150,000	150,000
<b>12,867,533</b>	<b>11,150,000</b>	

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

In thousands of Naira	31-Dec-20	31-Dec-19
In thousands of Naira		
Opening balance	11,000,000	9,300,000
Capital contribution from LASG (see note (b) below)	1,717,533	1,700,000
<b>12,717,533</b>	<b>11,000,000</b>	

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

**14 Interest income**

In thousands of Naira	31-Dec-20	31-Dec-19
Term deposits	37,889	35,964
Loans and advances (See note (a) below)	50,145	112,686
<b>88,034</b>	<b>148,650</b>	

(a) Interest income on loans and advances

Micro Enterprises	15,517	44,632
Small and Medium Enterprises	33,995	67,730
Hub Loan	633	324
<b>50,145</b>	<b>112,686</b>	

(b) Interest income on loans and advances

Managed loans	-	807
Own loans (see note 5)	50,145	111,878
<b>50,145</b>	<b>112,686</b>	

**15 Grant income**

In thousands of Naira	31-Dec-20	31-Dec-19
UNDP joint arrangement	-	11,488
USADF	33,009	-
GIZ (see note 11(a))	60,708	38,816
Others	-	1,250
<b>93,717</b>	<b>51,554</b>	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

16 Other income

In thousands of Naira	31-Dec-20	31-Dec-19
Late repayment fees (see note (a) below)	-	1,856
Sundry income	12,816	4,633
Donation - MSME Recovery Fund	3,500	-
Foreign Exchange gain/(Loss)	59,254	(4,738)
	<b>75,570</b>	<b>1,751</b>

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

(a) Late repayment fees

In thousands of Naira	31-Dec-20	31-Dec-19
Accrued late repayment fees (see note 5)	-	1,856
Late repayment fees received	-	-
	<b>-</b>	<b>1,856</b>

17 Impairment (write back)/ charge

In thousands of Naira	31-Dec-20	31-Dec-19
Impairment (Write back)/ charge on loans and advances (See note 5(d))	(332,625)	414,237
	<b>(332,625)</b>	<b>414,237</b>

18 Programs expenses

In thousands of Naira	31-Dec-20	31-Dec-19
Loan program expenses (see (a) below)	180,595	152,077
Other programs expenses (see (b) below)	152,994	496,947
	<b>333,589</b>	<b>649,024</b>

(a) Loan programs expenses

Management fees (see note (i) below)	33	40,025
Credit insurance (see note (iii) below)	7,282	23,036
Beneficiary training (see note (iv) below)	126	17,303
Beneficiary selection (see note (v) below)	300	4,438
Amortization of loan application software (see note 8 (b))	5,997	36,045
Other loan program costs (see note (vi) below)	19,242	31,230
MSME Recovery Costs	147,615	-
	<b>180,595</b>	<b>152,077</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(b) Other programs expenses

In thousands of Naira	31-Dec-20	31-Dec-19
Employability program cost - UNDP arrangement (See note 7(a))	-	355,253
Employability program cost - Management fees to UNDP (See note 7(a))	-	38,808
Employability program costs - GIZ (see note 11(a))	60,708	38,816
Employability program costs - others	74,337	19,615
Technological start-ups program cost	17,949	43,455
Market stimulation program cost	-	1,000
	<b>152,994</b>	<b>496,947</b>

19 Personnel expenses

In thousands of Naira	31-Dec-20	31-Dec-19
Wages and salaries	453,119	388,205
Defined contribution plan (see note (a) below)	19,908	19,478
	<b>473,027</b>	<b>407,683</b>

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

Total personnel expenses includes the Executive Secretary's remuneration.

(b) Analysis of personnel expenses

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

	Number	Number
N500,001 - N1,500,000	15	15
N1,500,001 - N2,500,000	12	8
N2,500,001 - N3,500,000	8	13
N3,500,001 - N4,500,000	13	10
N4,500,001 - N5,500,000	4	2
N5,500,001 - N6,500,000	4	8
N6,500,001 - N7,500,000	3	1
N7,500,001 - N 8,500,000	2	1
N8,500,001 and above	-	-
	<b>61</b>	<b>58</b>

The Board of Trustees' emoluments comprise:

In thousands of Naira	31-Dec-20	31-Dec-19
Trustees' sitting allowances (see note 20)	50,147	22,346
	<b>50,147</b>	<b>22,346</b>

The sitting allowances disclosed above include amounts paid to:

In thousands of Naira	31-Dec-20	31-Dec-19
The Chairman	3,400	1,950
The Executive Secretary	8,039	8,039
<b>The highest paid Trustee</b>	<b>11,439</b>	<b>9,989</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 20 Other operating expenses

In thousands of Naira	31-Dec-20	31-Dec-19
Rent & service charge	22,113	21,700
Professional fees	1,803	6,558
Audit fees (See note 20 (a) below)	11,825	10,500
Trustees' sitting allowance (See note 19(b))	50,147	22,346
Liaison office	5,950	25,467
General and administrative expenses	5,761	6,520
Fueling	4,612	5,012
Transport and travelling	120	29,791
Bank charges	702	1,991
Security costs	429	673
Board and staff strategy session	4,315	10,268
Board training	374	28,426
Staff training	1,681	26,678
Electricity & power	11,000	13,030
Office repairs and maintenance	1,363	1,694
Printing and stationeries	501	1,131
Motor vehicles repairs and maintenance	2,723	4,587
Advert, publicity and engagement	65,341	63,589
Computer accessories & consumables	35,851	32,121
Insurance	42,132	45,505
Other expenses	-	985
	<b>268,741</b>	<b>358,571</b>

- (a) There were no non-audit fees paid to the Fund's External Auditors (KPMG Professional Services) during the year under review (2019:NIL).

## 21 Reconciliation notes to the statement of cashflows

### (i) Changes in prepayments

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year (see note 6)	22,822	47,760
Balance, end of the year (see note 6)	20,970	22,822
<b>Decrease in prepayments</b>	<b>1,852</b>	<b>24,938</b>

### (ii) Changes in other current assets

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year (see note 7)	241,698	93,580
Balance, end of the year (see note 7)	703,659	241,698
<b>(Increase)/Decrease in other current assets</b>	<b>-461,962</b>	<b>-148,117</b>

### (iii) Changes in loans and advances

In thousands of Naira	31-Dec-20	31-Dec-19
Loans granted during the year (see note 5)	(130,661)	(929,265)
Cash repayments received (see note 5)	671,607	1,301,702
Interest on managed loan (see note 14(b))	-	808
<b>Decrease/(Increase) in loans and advances</b>	<b>540,946</b>	<b>373,245</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

(iv) Changes in other liabilities and accruals

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year (see note 12)	115,762	99,652
Balance, end of the year (see note 12)	90,512	115,762
<b>Increase/(Decrease) in other liabilities</b>	<b>(25,249)</b>	<b>16,110</b>

(v) Changes in unearned income

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year	55,885	16,214
Amount written to statement of financial performance (see note 15)	(60,708)	(38,816)
Balance, end of the year (see note 11)	40,980	55,885
<b>Increase in unearned Income</b>	<b>45,803</b>	<b>78,487</b>

(vi) Changes in managed funds

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year	46,274	48,478
Balance, end of the year (see note 10)	56,274	46,274
<b>(Decrease)/Increase in managed funds</b>	<b>10,000-</b>	<b>2,204</b>

## 22 Movement in Deficit from operations

In thousands of Naira	31-Dec-20	31-Dec-19
Balance, beginning of the year	(6,796,938)	(5,064,935)
Addition during the year	(579,393)	(1,732,003)
<b>Balance, end of the year</b>	<b>(7,376,331)</b>	<b>(6,796,938)</b>

## 23 Contingent liabilities, litigation and claims

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

## 24 Taxation

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

## 25 Related Parties

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

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

Name of related party	Relationship	Nature of transactions	Due from/(Due to)	Receipt/(Payment)
<b>In thousand of Naira</b>				
Lagos State Government*	Parent	Capital contribution	-	1,717,533
Restral Limited	Trustee	Training of Loan Beneficiaries	(2,296)	(4,350)
LASACO Assurance Plc	Sister Company Key Management	Insurance of the Fund's Assets	-	71
Trustees and Relations	Personnel	Loan Beneficiary	401	4,041

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

\*\* The Lagos State Government released the sum of N1.72 billion on various dates as capital contribution to the Fund during the year 2020 (N1.7billion: 2019). The capital contribution is to target programmes meant to generate employment including disbursement of loans to MSMEs,

## (i) Key management compensation

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

### Key management compensation

In thousands of Naira	31-Dec-20	31-Dec-19
Salaries and other short-term employee benefits	73,077	73,077
Sitting allowances (see note 20)	50,147	22,346
<b>Total compensation of key management personnel</b>	<b>123,224</b>	<b>95,423</b>

## 26 Events occurring after reporting period

There were no events occurring after the end of the reporting period which could have a material effect on the financial position of the Fund as at 31 December 2020.

## 27 Financial risk management

### (a) Introduction and overview

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

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

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

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

- 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.
  - 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;

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

## (I) LSETF's Approach to Risk

The Fund addresses the challenge of risks comprehensively through an enterprise-wide risk management framework, applying leading 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, while the fund's internal audit unit report to the Board of Trustees.
- 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

**(b) Credit risk**

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

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

Credit exposure begins from when Fulfilment Partners make approved money available to the

beneficiaries. Existing approval grid is shown below.

*(i) Credit risk limits*

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

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

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

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

**Approval Limit**

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

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

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

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

The Fund has classified loans to beneficiaries as loans and advances and other receivables. The Fund's exposure to credit risk is influenced mainly by loan beneficiaries willingness and capacity to repay obligations as and when due. The Fund ensures that loan application process assesses each applicant's credit history and financial capability in line with the loan amount. These assets evaluated for impairment in line with IPSAS 29. In 2020, the Fund had a net write back on impairment of ₦332.59 million (31 Dec 2019: N414.24million).

#### *(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 follows:

In thousands of Naira	31-Dec-20	31-Dec-19
	₦	₦
Cash and cash equivalents	3,799,940	2,952,699
Loans and advances	1,067,389	1,225,565
	4,867,329	4,178,264

#### *(iii) Geographical Sectors*

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

#### *(iv) Foreign Currency Risk*

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

#### *(v) Credit Quality*

The following table breaks down the Fund's main credit exposure at their gross amounts ("Cash and cash equivalent" at carrying amount), as categorised by performance as at 31 December 2020 and 2019 respectively.

	31 December 2020			31 December 2019		
	Cash and cash equivalents	Loans and advances to beneficiaries	Total	Cash and cash equivalents	Loans and advances to beneficiaries	Total
	₦	₦	₦	₦	₦	₦
Neither past due nor impaired	3,799,940	-	3,799,940	2,952,699	-	2,952,699
Impaired						
Individually impaired	-	-	-	-	-	-
Collectively impaired	-	3,458,423	3,458,423	-	3,949,224	3,949,224
Gross	3,799,940	3,458,423	7,258,363	2,952,699	3,949,224	6,901,923
Impairment allowance						
Specific impairment	-	-	-	-	-	-
Collective impairment	-	(2,391,034)	(2,391,034)	-	(2,723,659)	(2,723,659)
<b>Net</b>	<b>3,799,940</b>	<b>1,067,389</b>	<b>4,867,329</b>	<b>2,952,699</b>	<b>1,225,565</b>	<b>4,178,264</b>

*(c) Liquidity risk*

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

*(i) Liquidity risk management process*

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

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

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

The following are the contractual maturities as at 31 December 2020 of financial liabilities and financial assets:

In thousands of Naira	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3- 12 months	1 - 2 years	2 - 10 years
<b>Financial assets</b>							
Cash and cash equivalents	4	3,799,940	3,800,354	3,800,354	-	-	-
Loans and advances	5	1,067,389	1,067,389	-	0	-	-
<b>Total</b>		<b>4,867,329</b>	<b>4,867,743</b>	<b>3,800,354</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>							
Managed funds	10	56,274	(56,274)	(56,274)	-	-	-
Unearned income	11	40,980	(40,980)	(40,980)	-	-	-
Other liabilities & accruals	12	52,614	(52,614)	(52,614)	-	-	-
<b>Total</b>		<b>149,868</b>	<b>(149,868)</b>	<b>(149,868)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liquidity gap			4,717,874	3,650,485	-	-	-
<b>Cumulative gap</b>				<b>3,650,485</b>	<b>3,650,485</b>	<b>3,650,485</b>	<b>3,650,485</b>

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

In thousands of Naira	Note	Carrying amount	Nominal Inflow/ (Outflow)	3months or less	3- 12 months	1 - 2 years	2 - 10 years
<b>Financial assets</b>							
Cash and cash equivalents	4	2,952,699	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
<b>Total</b>		<b>4,178,264</b>	<b>6,902,337</b>	<b>4,610,041</b>	<b>1,471,321</b>	<b>817,932</b>	<b>3,043</b>
<b>Financial liabilities</b>							
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)	-	-	-
<b>Total</b>		<b>186,193</b>	<b>(186,193)</b>	<b>(186,193)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liquidity gap			6,716,144	4,423,848	1,471,321	817,932	3,043
<b>Cumulative gap</b>				<b>4,423,848</b>	<b>5,895,169</b>	<b>6,713,101</b>	<b>6,716,144</b>

**(d)Funding risk**

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

**(e)Counter Party risk**

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

**(f)Operational risk**

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

**(f)Political risk**

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

**(g)Legal risk**

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

**(i)Environmental & Social Risk**

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

**(j) Strategic risk**

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

**(k) Fiduciary risk**

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

**(l) Market risk**

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

**(l) Exposure to Currency risk**

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

### **(ii) Foreign Currency Risk**

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

### **(iii) Exposure to interest rate risk**

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

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

#### **Interest rate profile**

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

##### **Financial instruments**

<b>In thousands of Naira</b>	<b>Notes</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
Cash and cash equivalents	4	3,799,940	2,952,699
<b>Total</b>		<b>3,799,940</b>	<b>2,952,699</b>

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

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

<b>In thousands of Naira</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>
Increase in interest rate by 100 basis points (+1%)	37,999	29,527
Decrease in interest rate by 100 basis point (-1%)	(37,999)	(29,527)

# **OTHER NATIONAL DISCLOSURES**

# OTHER NATIONAL DISCLOSURES VALUE ADDED STATEMENTS

As at 31 December 2020

In thousands of Naira	31-Dec-20	%	31-Dec-19	%
Receipts	257,321	(2,078)	201,954	(17)
Bought-in materials and services - Local	(269,704)	2,178	(1,421,831)	117
<b>Value added</b>	<b>(12,383)</b>	<b>100</b>	<b>(1,219,877)</b>	<b>100</b>
Distribution of value added:				
To employees:				
Wages, salaries and pensions	473,027	(3,820)	407,683	(33)
Retained in the business:				
For the replacement of property and equipment and intangible assets (depreciation and amortisation)	93,982	(759)	104,443	(9)
To deplete reserves	(579,393)	4,679	(1,732,003)	142
<b>Value added</b>	<b>(12,383)</b>	<b>100</b>	<b>(1,219,877)</b>	<b>100</b>

# OTHER NATIONAL DISCLOSURES FINANCIAL SUMMARY

For the year ended 31 December 2020

In thousands of Naira	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Statements of financial position					
Total assets	5,678,968	4,570,984	4,549,409	7,248,783	6,440,674
Total liabilities	(187,766)	(217,921)	(164,344)	(248,149)	(141,025)
	<b>5,491,202</b>	<b>4,353,063</b>	<b>4,385,065</b>	<b>7,000,634</b>	<b>6,299,649</b>
FINANCED BY:					
Capital contribution	12,867,533	11,150,000	9,450,000	9,150,000	6,400,000
Deficit from operations	(7,376,331)	(6,796,937)	(5,064,935)	(2,149,366)	(132,301)
Other reserves					32
<b>Equity</b>	<b>5,491,202</b>	<b>4,353,063</b>	<b>4,385,065</b>	<b>7,000,634</b>	<b>6,299,649</b>
Statements of financial performance					
Revenue	257,321	206,693	472,341	367,085	245,577
Social impact and other programs expenses	(964)	(1,063,261)	(2,390,093)	(1,450,806)	(5,948)
Recurring expenses	(835,750)	(875,434)	(997,817)	(933,344)	(371,930)
Gain from available for sale securities	-	-	-	-	31,950
Reclassification to the statement of financial performance on disposal	-	-	-	(31,950)	-
<b>Deficit for the year</b>	<b>(579,393)</b>	<b>(1,732,002)</b>	<b>(2,915,569)</b>	<b>(2,049,015)</b>	<b>(100,351)</b>

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