

2018 Annual Report





LSETF

LAGOS STATE EMPLOYMENT TRUST FUND

SKILLS DEVELOPMENT | ACCESS TO FINANCE | INNOVATION

LOAN PROGRAMME



10,000+

total number of beneficiaries.

₦7b+

total amount on loan programmes

EMPLOYABILITY



3,363

total number of individuals trained.

1,100

total number of graduate trainees who have been placed in jobs.

LAGOS INNOVATES



75

total workspace vouchers given to StartUps.

₦38m

total amount disbursed.



25,000+

total number of new jobs created by beneficiaries of the LSETF programmes.

You can Support our work by:



DONATING

an amount that the LSETF will match to design a lending or employability programme within your target segment.



EMPLOYING

trainees from the Employability Support Programme as staff or beneficiaries of our Loan Programme as vendors for your organization.

To support, call: 01-7000969, or email: communications@lsetf.ng



Thank you for your support



Empowered lives. Resilient nations.



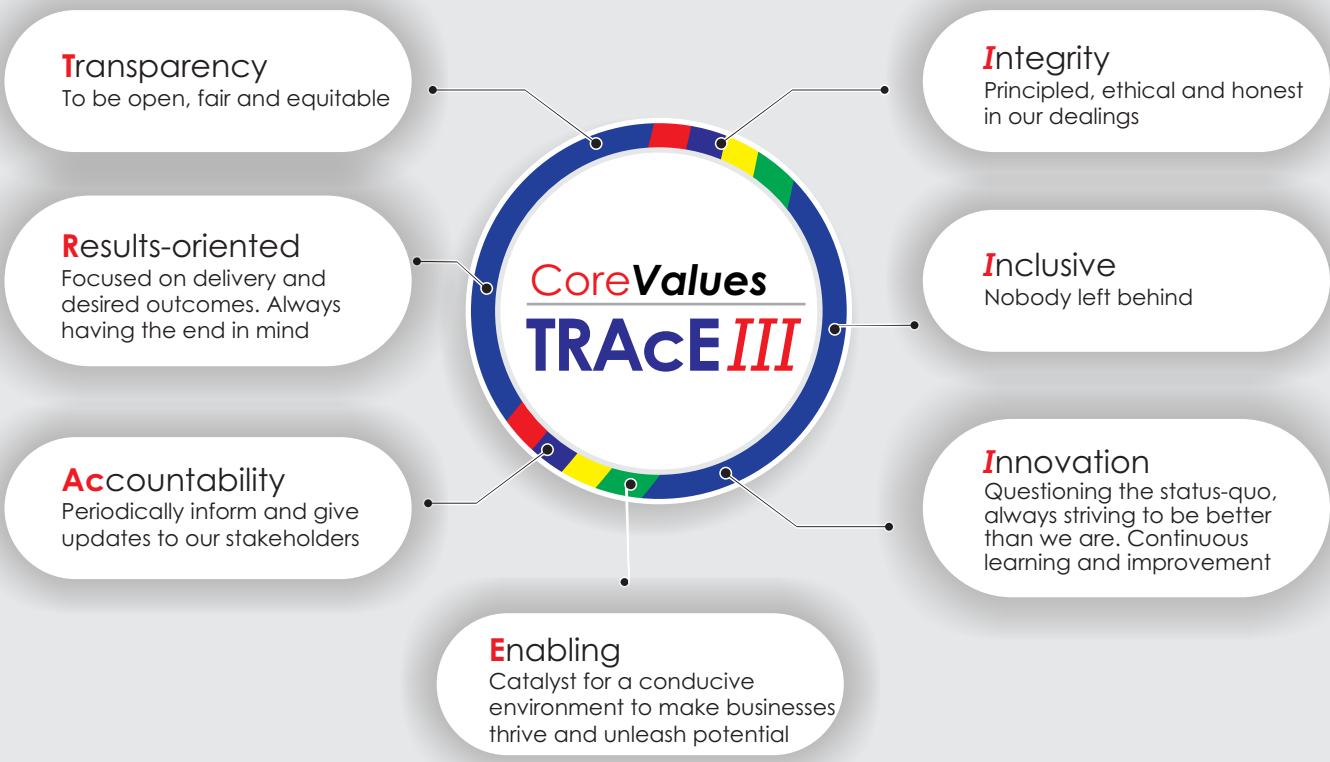
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About Us



LSETF

LAGOS STATE EMPLOYMENT TRUST FUND

SKILLS DEVELOPMENT | ACCESS TO FINANCE | INNOVATION

Strategic Targets

25 Billion
seed fund
provided by the
Lagos State Government

Create at least
133,000 Direct
& up to **218,000**
Indirect jobs

28,057 MSMEs
funded by 2019



Add over
150,000
New Tax Payers



Achieve sustainable funding
by ensuring non-LASG sources
contribute at least
50% of total funding
by 2019

Our Programmes

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

To achieve its mission, LSETF launched three key programmes:

MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) LOAN SCHEME

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

EMPLOYABILITY PROGRAMME

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

LAGOS INNOVATES

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



Corporate Information

Board of Trustees

Ifueko M. Omoigui Okauru, FCA, MFR	Chairman
Akintunde Oyebode (Resigned 31st March, 2019)	Executive Secretary
Teju Abisoye (Appointed 1st April, 2019)	Ag. Executive Secretary
Ayodele Martins	Member
Babatunde Bank-Anthony	Member
Bilikiss Adebisi-Abiola	Member
Otto Orondaam	Member
Funmi Dawodu, FCA	Member
Michael Popoola Ajayi	Member
Akinyemi Ashade	Member
Uzamat Akinbile-Yusuf	Member

Registered office: 16 Billings Way, Oregun Lagos, Nigeria

Auditor: KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street,
Victoria Island, Lagos

Bankers: Access Bank of Nigeria
183, Obafemi Awolowo Road,
Alausa

Guaranty Trust Bank Plc
Alausa Branch

Stanbic IBTC Bank Plc**
IBTC Place,
Walter Carrington
Victoria Island

Sterling Bank Plc**
20, Marina, Lagos

First City Monument Bank Plc**
Tinubu Street, Marina.

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

Bowen Microfinance Bank Limited**
Baptist Academy Compound,
Obanikoro, Ikorodu Road

Primera Microfinance Bank Limited**
24, Kofo Abayomi Street,
Victoria Island

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

Parkway Microfinance Bank Limited **
96/102, Broad Street,
Lagos

Ibile Microfinance Bank Limited **
121, Obafemi Awolowo Way,
Allen Roundabout, Ikeja

Lapo Microfinance Bank Limited **
65 Kudirat Abiola Way
Oregun, Ikeja, Lagos

FSDH Merchant Bank Limited
5th Floor, UAC House
1/5 Odunlami Street
Lagos Island

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

Financial Highlights

for the year ended 31 December 2018

In thousands of Naira	31-Dec-2018	31-Dec-2017
Gross income	472,341	367,085
Program Expenses (excluding amortisation of intangible assets)	(833,338)	(638,983)
Operating Expenses(Recurrent Expenditure)	(891,794)	(833,126)
* Deficit before impairment, depreciation & amortisation	(1,252,021)	(1,105,024)
Impairment Charge on Loans and Advances	(1,520,711)	(781,785)
Depreciation of Property, Plant & Equipment	(98,305)	(99,706)
Amortization of Intangible Assets	(43,762)	(30,550)
Total Deficit from operations	(2,915,569)	(2,049,015)
Derecognition of fair value gain on available-for-sale securities	-	(31,950)
Deficit for the year	(2,915,569)	(2,017,065)
Total assets	4,549,409	7,248,783
Total liabilities	(163,344)	(248,149)
Net assets/equity	4,385,065	7,000,634

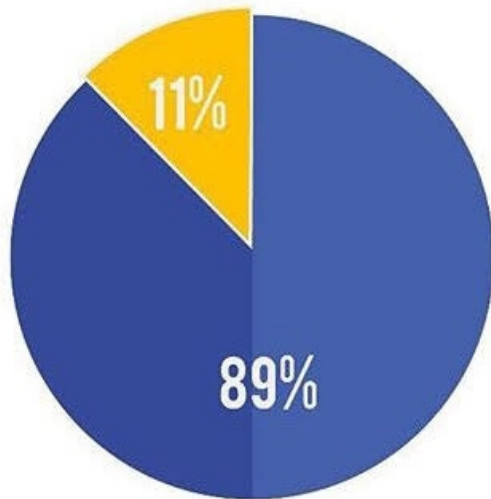
The above stated expenditures (program and operating expenses) were funded through the following sources during the year under review:

Source of Funds	31-Dec-2018	31-Dec-2017
Subvention from LASG	300,000	2,750,000
Grants/Donations received during the year	61,023	162,250
Interest income received during the year	81,949	290,886
Repayments from Loan Beneficiaries	1,667,874	848,271
	2,110,846	4,051,407

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

Impact of Loans on MSMEs

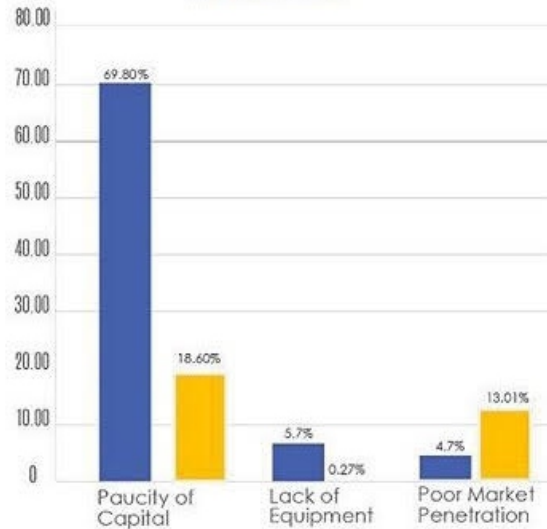
Sources of Funds for Loan Repayment



■ Solely From Business
■ From Other Sources

89% of businesses have been able to pay back loans solely from business income.

Differences in Growth Before and After Intervention



■ Before Intervention
■ After Intervention

69.8% reported a shortage of capital prior to the LSETF intervention. Currently only **18.9%** of small business owners still experience this challenge

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Achievements Till EOY 2018





The 2018 Macro-Economic and Business Operating Environment

The Nigerian economy grew by 1.93% in 2018, an improvement from the 0.82% growth achieved in 2017. The improved performance of the economy was largely underpinned by agriculture, which grew by 2.12% and manufacturing that grew by 2.09%. Trade, a mainstay of the economy contracted by 0.63%, while oil GDP growth was a moderate 1.1%.

TRUSTEES REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd)



Inflation closed the year at 11.4%, from 15.4% in 2017, largely driven by a 13.6% increase in food prices, while core inflation remains stable at 9.8%. However, with a better outlook for agriculture in 2019, inflation is expected to moderate and possibly return to the single digit corridor in 2019. Gross external reserves rose to over US\$43 billion in 2018, from \$38 billion in 2017, providing a significant buffer to cover imports, which allowed the exchange rate remain

relatively stable at NGN360: US\$1.

Unemployment in Nigeria

Nigeria's unemployment continues to rise, with the official Q3 2018 report showing 20.9 million Nigerians, or 23.1% of the labour force, are unemployed; while another 20.1% or 18.2 million people are underemployed. This means 44% of all Nigerians are either unemployed or underemployed, driven by the

slowdown in employment elastic sectors such as construction, industries and real estate. Youth unemployment is even more worrisome, with 53% of the labour force under the age of 35 years, either unemployed or underemployed. These numbers highlight the importance of institutions like LSETF, and the need for Federal and State Governments to focus, jointly and severally, on solving what is clearly Nigeria's biggest socio-economic challenge.

Achievements

At the beginning of 2018, the LSETF set out to achieve its mandate of job creation in Lagos State by implementing the following programmes.

1. MSME Loan Program: LSETF received 10,913 loan applications for its Micro, Small and Medium Enterprise (MSME) Loan Programme, and approved 5,005 applicants totaling N2.07 billion, in 2018. Of the approved loans, 1,908 beneficiaries have drawn down N1.2 billion. In addition to providing loans, the Fund also trained 4,133 beneficiaries during the year, fulfilling its mandate to deepen business management capabilities and financial literacy, while providing the capital, needed by small and micro businesses.

We are pleased to report that since inception, the MSME loan program has created 87,553 jobs, and 41,515 new taxpayers added to the Lagos State tax register through our loan program.

TRUSTEES REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd)



2. Innovation Driven Enterprise Program “Lagos Innovates”:

Lagos Innovates is a series of programs designed for the benefit of technology and innovation-driven startups in Lagos State. By providing access to high quality infrastructure, learning, capital and networks, Lagos Innovates will cement Lagos' position as the leading destination for start-ups in Africa.

a. Workspace voucher programme:

The first batch of vouchers were approved in March 2018 and since then, 75 beneficiaries have been awarded vouchers worth N38 million and N18.4 million has been disbursed to date. The vouchers enable start-ups to save on office and infrastructure costs, while also benefitting from access to valuable resources and networks present in the co-working spaces.

b. Event sponsorships: 9 events were sponsored by Lagos Innovates as part of its objective to support network-building, knowledge-sharing and collaboration for Lagos-based founders and start-ups. These ecosystem-building initiatives played a significant role to ensure value-creation within the Lagos tech ecosystem in 2018.

c. Hackathons: Lagos Innovates organised the

TRUSTEES REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Secure Lagos Hackathon and Cashless Lagos Hackathon in partnership with VISA and First City Monument Bank PLC respectively. These hackathons aim to solve problems encountered in Lagos with technology, and the corporates are currently working with the winners to develop their ideas further.

d. Partnerships: A partnership agreement was executed with IBM to implement IBM's Digital Nation Africa (D-NA) programme in Lagos State. D-NA intends to help address the digital skills shortage among the youth. The initiative, through a freely accessible online learning platform delivered on IBM cloud, provides a vast range of enabling resources from introductions to key digital technology through the provision of online courses.

We are pleased to report that the Lagos Innovates programme has helped start-ups create **2,125 jobs** since it was launched.

3. The LSETF Employability Support Project: The Fund continued its partnership with the United Nations Development Programme on a skills development project aimed at providing training and employment to unemployed Lagos residents; while also helping businesses solve the challenge of finding qualified and competent staff to grow their businesses. To ensure these objectives are met, the training is tailored to cater to the demand in key sectors such as Manufacturing, Construction, Entertainment, and Hospitality.

In 2018, we received 21, 588 applications for this programme, out of which, 3,698 applicants were enrolled into the programme after a screening exercise. Of those enrolled, 3,075 trainees successfully completed the programme, and 1,417 of the certified trainees have been placed in jobs.

4. GIZ Employability Project: The Fund partnered with the German Development Agency (GIZ) to develop an Employability Support Programme, with an objective to reduce illegal migration of youth's resident in Lagos. The Pilot Programme will provide vocational and technical training designed to equip 140 youths with relevant skills in order to improve their prospects of gaining economic independence.



TRUSTEES REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (Cont'd)

Funding

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

- Lagos State Government
- United Nations Development Program (UNDP)
- Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ)
- Ford Foundation.
- Visa: Visa contributed to the organisation of the Lagos Hackathon event under the Lagos Innovates programme

In the same vein, the Fund signed matching fund partnerships, with several Local Government Areas (LGAs) in Lagos State, individuals and institutions where these partners provided counterpart funding.

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

Stakeholder Engagement

The Fund carried out various stakeholder engagement sessions during the year. These include the divisional engagement sessions across the IBILE divisions (Ikeja, Badagry, Ikorodu, Lagos Island and Epe), where representatives of the Board engaged stakeholders to understand how to serve them better; and periodic engagement sessions between the Fund's staff and potential beneficiaries, held across the 20 Local Government Areas (LGAs) and 37 Local Community Development Areas (LCDAs).

Strategy Sessions

The Fund also held two strategy sessions during the year; firstly, to define the strategic plan and

targets for the year; and secondly, to review the performance of the Fund against the agreed targets and determine what changes should be made to the agreed strategic plan. These sessions allowed the Fund respond to a challenging and dynamic operating environment in 2018.

OTHER ACTIVITIES OF THE BOARD

In 2018, the Board of Trustees held 12 meetings. In addition, to effectively provide oversight, the Board Committees also held 25 meetings, broken down as follows:

1. Audit and Risk Committee (4 meetings)
2. Credit and Investment Committee (5 meetings)
3. Governance Committee (9 meetings)
4. Stakeholders Committee (5 meetings)
5. Legal Advisory Committee (1 meeting)



Ifueko M. Omoigui Okauru, FCA, MFR
Chairman
FRC/2017/ICAN/00000014169
2 May, 2019



Teju Abisoye,
Ag. Executive Secretary
FRC/2019/NBA/00000019573
2 May, 2019

IMPACT ASSESSMENT



The trustees commissioned a comprehensive social impact assessment report for the period 2017 and 2018 to enable us have an independent feel of the exact impact of LSETF activities on beneficiaries. For the very first time as part of this report, we have included the report of the social impact assessment which we will continue to update on an annual basis.

Objective: Evaluate the impact of LSETF activities on beneficiaries

This is the report of the Social Impact Assessment (SIA) of activities of the Lagos State Employment Trust Fund (LSETF)

between 2017 and 2018 by Sages Consult Limited. The main objective of the SIA was to evaluate the impact of LSETF activities on beneficiaries (entrepreneurship and innovation) based on jobs created and business growth and based on the LSETF's mandate to provide financial support to residents of Lagos State, for job and wealth creation and to tackle unemployment. The input to drive the objective was a commitment of N25 billion base capital. The fund would be a catalyst to business development and growth for Lagos residents. Entrepreneurship loans were

made available in three categories of SMEs (up to N5 Million), Micro Enterprises (up to N500,000) and Micro Enterprise Startups (up to N250,000 and Workspace Vouchers (grants) were provided to innovators to support development of technological applications and products.

The LSETF entrepreneurship Programme was based on a theory of change that when inputs of loans at single digit interest rate are advanced to businesses, the increase in capital will lead to increase in turnover and expansion of businesses which will include employment generation and

IMPACT ASSESSMENT (Cont'd)

better outcomes for residents in Lagos State. For the Lagos Innovates program, the theory was that Government needed to catalyze the startup ecosystem, to allow outliers achieve geometric growth, and also ensure the Lagos economy is ready for the future. If this was done, Lagos would be a leading innovation capital of the continent, and would attract and retain the best talent, creating high value jobs in return.

The SIA was commissioned on the 22nd of October 2018 at which time the LSETF project tenure still had one year to end of term in 2019. Because of this, the Key Performance Indicators (KPIs) set at project commencement which were set for the project closure had to be adjusted in proportion to values due in 2018 especially as the said KPIs formed the basis for evaluating performance of the LSETF.

Findings on Key Performance Indicators (KPI)

KPI #1: Fund 18,705 MSMEs by end of 2018

Performance in respect of KPI #1:

The LSETF funded 7,817 MSMEs as against the expected 18,705 by 2018. This represents 41.7% achievement. The LSETF had a surfeit of applications but paucity of funds meant that the Fund had to rationalize the interventions among the two sectors (entrepreneurship and innovation) to be able to impact on all sectors. Going forward and using the results of the economic analysis from the

SIA, the LSETF would be able to know which of the interventions was most efficient and adjust the interventions accordingly.

KPI #2: Create 88,667 Direct and 145,333 Indirect Jobs by end of 2018

Performance in respect of the KPI #2:

The LSETF interventions created a total 10,550 direct jobs and 79,128 indirect jobs, representing 11.89% and 54.44% of the targeted totals of 88,667 direct and 145,333 Indirect jobs by 2018. The low percentage of direct jobs is partly as a result of inability to fund expected number of MSMEs loans.

KPI #3: Add 100,000 New Tax Payers by 2018

Performance in respect of the KPI #3:

41,515 new taxpayers were recorded as additional taxpayer as being a taxpayer was a condition precedent to applying for any LSETF intervention. This represents the total number of applicants for all the LSETF interventions because on this third KPI, the effectiveness rate was low on account of not deploying an automated system of capturing tax registrations of employees of beneficiaries through the Pay As You Earn (PAYE) system.

Findings on impact that relates to business and personal life based on 15 Indicators surveyed

Beneficiaries affirmed that the LSETF project improved their finances and personal life.

60.2% of beneficiaries recorded positive improvement across 15 indices that were tracked in the SIA. These included capacities to meet business and personal financial obligations; capacity to save; operating surpluses, increase in productivity, poverty alleviation etc. A further 11.7% recorded excellent improvement, making a total of 72% recording great improvement across board. Only 3.9% said their businesses were worse off, while about 24% say the businesses have remained the same.

Project Efficiency

Micro Enterprise was most efficient with an efficiency rate of 65.7% and added 6,367 and 47,751 direct and indirect jobs respectively within the two years. SME had an efficiency rate of 60.1% and adding 1478 and 11087 direct and indirect jobs respectively.

Cost of Job Creation

The SIA calculated the cost of creating job in each space as follows:- SME job – N268,090.17; ME job – N43,149.77, MES job – N6,081.36; and Workspace voucher job – N17,882.35

Economic Benefit

The result of the analysis showed that the intervention has wider economic benefits to the residents of Lagos through the beneficiaries. With an Economic Rate of Return (ERR) greater than the lending rate (5%), the intervention is on a positive track, also with a Benefit/Cost Ratio (BCR) greater than 1, it means that the accrued benefits are greater

IMPACT ASSESSMENT (Cont'd)



than the total expenditure.

The ERR and BCR for the Fund trends positive at 17% at 2.48 respectively.

Sensitivity Analysis

Sensitivity analysis undertaken assumed three varied lending rates of 10%, 25% and 30%.

10% is representative of lending rate of the Bank of Industry, 25% representative of average of commercial banks' lending rate while the 30% is representative of some Microfinance banks' lending rate.

Results of the Sensitivity Analysis in comparison to LSETF shows that the economic benefits to society is better served with the LSETF than with the others, although, if the LSETF loan were to go up to 10% the ERR and BCR would still trend positive. However, the ERR and BCR trends negative for loans of 25% and 30%.

Core Values

In evaluating reflection of LSETF

core values in all its activities, we confirm that LSETF stands out for adhering faithfully to its core values as espoused in the acronym TRACELL (Transparency, Result Oriented Accountability, Enabling, Integrity, Inclusiveness and Innovation). In all activities, processes and actions of LSETF, the core values are reflected. Staff integrity is prominent. No record of bribe taking or attempts to tilt the scales in favour of any beneficiary was noticed throughout survey and the discussions at the FGD confirmed the core value of inclusiveness. Specifically, non-Yoruba ethnic groups attested to the fact that there was no discrimination whatsoever in the process.

Outlook

- **Inflation:** Inflation has proved stubborn and has trended at around 11.00% over the past few months. If inflation trends, in 2019, towards the CBN's target band of 6.00% to 9.00%, then it will help the CBN cut rates in order to stimulate the economy. On a positive note there might be

a reduction in the number of LSETF loan defaulters due an improvement in the Nigerian economy.

- **Political Climate:** Elections might affect the yield of the financial markets. LSETF being the brainchild of the current Governor of Lagos State His Excellency Akinwunmi Ambode, might experience some institutional changes as a result of the change in Government.
- **GDP:** GDP Growth is expected to be 2.25% in 2019, as a result of very weak consumer demand, and a lack of growth in government expenditure relative to the 2018 budget. This might bear a potential risk of reduced funding from the Government for LSETF Programmes.
- **Finance:** Given the seemingly smooth elections, foreign direct investment is set to increase and therefore stabilize the exchange rate which appeared to be rising at certain points in Q4 of 2018. This will mean there may be a slight rise in lending of foreign denominated loans which had dropped significantly since late 2014. This coupled with banks apparent renewed appetite for disbursing retail loans, is expected to increase the gross revenues of banks. This may be beneficial to LSETF as it may increase the appetite of banks to donate to and partner with a worthy cause such as LSETF as part of their corporate social responsibility drive.

LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS

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 2018 was N300 million (2017: N2.75billion) and has been disclosed as capital contribution for the purpose of these financial statements. The fund has received a total of N9.45 billion as subvention from LASG since inception.

Grants & Donations

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

grant is intended to compensate.

Major Grant donors to the fund in 2018 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 2019. The Funding agreement is in the ratio of 3:1 (\$3,000,000 and \$1,000,000) for LSETF and UNDP respectively.

Though the fund did not receive any grant from UNDP during the year, it received the sum of \$500,000 (N162.2million) in 2017. As such, a pro-rata N131million of the total related cost of N524.3 million representing 25% (agreed contribution ratio) was recorded as grant income relating to the partnership during the year. The fund also received various sums amounting to N8.75million from other donor agencies during the year. They have been appropriately recognised as grant income.

Deutsche Gesellschaft Fur

LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS (Cont'd)

Internationale Zusammenarbeit (GIZ): The Fund received the sum of N16.18 million out of a total commitment of EUR50,000 (N18.9 million) from GIZ during the year. The grant is specifically geared towards providing opportunities for returning and potential illegal migrants. The inflow has been recorded as unearned income in the financial statements since the expenses for which the grant is intended was not incurred as at year end.

Ford Foundation: The Fund received the sum of \$100,000 (N36 million) from Ford Foundation during the year to carry out among others, an impact assessment of the Fund's programmes. This has been recorded as grant income during the year.

Other donations during the year which were recognised as Grant income (others) include N5 million from

Stanbic IBTC and N3.75million from FCMB.

Loan Repayments

Loan repayments refer to repayments on loans and advances made to beneficiaries of the Fund's loan programmes. Loan repayments are used to fund more loans as well as running the Fund's operations. During the year, the Fund received a total sum of N1.67billion (2017 N848.27million) 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 N81.95million (2017:

N205.49. million).

Matching Funds:

This refers to counterpart funding received to carry out interventions targeted at certain specific demographics. Counterpart partners provide a certain amount, which is matched by the Fund, and the cumulative sum is used in carrying out the programme agreed with the counterpart partner. The Fund's counter party partners include Hon. Wale Raji, Lagos Island Local Govt, Ojo Local Govt, TAMFUND, Apapa Local Govt, Stanbic IBTC, Hon. Agunbiade, FCMB, Itire Ikate LCDA.

These funds are recognized as managed funds in the financial statements. Managed funds less impairments as at 2018 was N48.48million and N5.17million as at 2017. Details of these contributions during the year are as listed below:

Donors	Amount Donated	Purpose
Lagos Island Local Govt	₦10,000,000	Loan program
Ojo Local Govt	₦5,000,000	Loan program
TAMFUND	₦5,000,000	Loan program
Apapa local Govt	₦10,000,000	Loan program
Hon. Agunbiade	₦10,000,000	Loan program
Itire Ikate LCDA	₦5,000,000	Loan Program

LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS (Cont'd)



manage the loan facilities given out, etc. The program expenses for 2018 was N211.56 million (2017 N432.24 million).

Other Program Expenses: This refers to non-loan related program expenses and covers expenses for the employability programme, Lagos Innovates, Market Stimulation, etc. in 2018. Other Program Expenses amounted to N621.78million (2017 N206.74million).

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 2018 was N408.53million (2017 was N359.41million).

Other operating expenses: This include Office/equipment maintenance,

EXPENDITURE

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

Program Expenses

This refers to the direct expenses incurred in carrying out the Fund's programmes and interventions:

Loan Program Expenses:

These are expenses directly attributable to the Loan Programme. Some major expenses incurred include, pre-disbursement trainings for loan beneficiaries, insurance policies taken on loan beneficiaries, management fees paid to fulfillment partners (micro finance and commercial banks) to

LSETF SOURCES OF FUNDS AND EXPENDITURE ANALYSIS (Cont'd)

administrative expenses, rent and service charges, board related expenses, trainings etc. Other operating expenses in 2018 amounted to N483.26million (2017 473.72million).

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

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

charges hence does affect the liquidity of the Fund. The Fund assesses whether there is objective evidence that Fund Under Management are not carried at fair value, i.e. impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include;

- Significant financial difficulty of the obligor,
- Default or delinquency by a borrower resulting in a breach of contract,
- Restructuring of a loan or advance by the Fund on terms that the Fund would not otherwise consider,
- Indications that a borrower will enter bankruptcy,
- Other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic 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. Impairment charges for 2018 was N1.52bn (2017 N784.91million).

Depreciation: Depreciation refers to the reduction in the value of an asset over time due to wear and tear. The Fund calculates its depreciation using the straight-line method and the rate applied varies based on the estimated useful life of the assets (Motor vehicle, Office equipment, furniture & fittings, etc.). Depreciation in 2018 was N98.30million (2017 N99.71million).

Amortization of Intangible Assets: Amortization refers to the process of allocating the cost of an intangible asset over time. The Fund calculates the amortization costs on a straight-line basis over the useful life of the asset. Intangible assets include, accounting software, loan application software, and other software. Amortization costs for 2018 was N43.76million (2017 N30.55million).

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

for the year ended 31 December 2018

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 (IPSASs) and in the manner required by 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 assessed 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:



Ifueko M. Omoigui Okauru, FCA, MFR
Chairman
FRC/2017/ICAN/00000014169
2 May, 2019



Teju Abisoye,
Ag. Executive Secretary
FRC/2019/NBA/00000019573
2 May, 2019

BOARD AUDIT AND RISK COMMITTEE REPORT*for the year ended 31 December 2018*

The Audit and Risk Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2018, which summarizes its activities for the year.

Functions and Responsibilities

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

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

BOARD AUDIT AND RISK COMMITTEE REPORT (Cont'd)

for the year ended 31 December 2018

**Composition**

The Audit & Risk Committee consists of the following members:

- i. Funmi Dawodu (Chairman);
- ii. Tunde Bank-Anthony;
- iii. Michael Popoola Ajayi; and
- iv. The Hon. Commissioner, Lagos State Ministry of Finance.

Meetings

The Audit and Risk Committee held the following meetings during the year under review:

- i. 1st meeting held on 22nd March, 2018;
- ii. 2nd meeting held on 8th June, 2018;
- iii. 3rd meeting held on 30th August, 2018; and,
- iv. 4th meeting held on 27th November, 2018.

Activities

The Audit and Risk Committee held the four meetings during the year under review, and a summary of its activities is listed below.

i. Risk Management Policy

The Committee reviewed the Enterprise Risk Management policy to ensure the framework covered and mitigated all risk issues that could affect the Fund's operations. This included a review of the Fund's Enterprise Risk Register, where the risk and control or remedial actions were listed; and the Business Continuity Plan.

ii. Internal Audit Report

The Committee considered the quarterly internal audit reports presented by the Head of Internal Audit, and where required, proposed follow up actions to the Board and Management.

iii. Internal Control Policy

The Committee considered the draft internal control policy as presented by Management and ensured that the policy provided sufficient protection to the Fund's capital, assets and operations.

Signed on behalf of the Audit and Risk Committee


Funmi Dawodu, FCA

Chairman

FRC/2017/ICAN/00000016687

2 May, 2019

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

for the year ended 31 December 2018



The Credit and Investment Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2018, which summarizes its activities for the year.

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; Oversee significant treasury matters such as capital structures, liquidity and fixed income;
- v. Overseeing the management of the Funds' investment portfolio;
- vi. Recommend to the Board all viable credit and investment proposals, related applications and execution of related instruments; and,
- vii. Determine key

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

for the year ended 31 December 2018

performance indicators for the counterparty financial institutions that may be engaged by the Board for disbursement to ensure they meet the requisite standard

Composition

The Credit and Investment Committee consists of the following members:

- i. Mrs. Bilikiss Adebisi-Abiola (Chairman);
- ii. Mr. Otto Orondaam;
- iii. Mr. Tunde Bank-Anthony; and,
- iv. The Hon. Commissioner, Lagos State Ministry of Finance

Meetings

The Credit and Investment Committee held the following meetings during the year under review:

- i. 1st meeting held on 23rd January 2018;
- ii. 2nd meeting held on 12th February, 2018;
- iii. 3rd meeting held on 10th May, 2018;
- iv. 4th meeting held on 13th June, 2018;
- v. 5th meeting held on 11th September, 2018; and,
- vi. 6th meeting held on 22nd October, 2018

Activities

The Credit and Investment Committee held four meetings during the year under review, and a summary of its activities is listed below.

i. Credit Risk Management

The Committee reviewed the Fund's Credit Risk Management policy and ensured that all credit risks within the operations were identified; ranked in order of importance; and ensured mitigating actions were identified for these risks.

ii. Loan Portfolio Review

The Committee reviewed the performance of the Fund's loan portfolio on a periodic basis, and made recommendations to Management, aimed at continuously improving the quality of the loan book.

iii. Review of Product Papers

The Committee reviewed various product papers aimed at improving LSETF's offering to strategic sectors identified by the Fund's Management. These include product papers targeted at Environment/Waste Management, Health, Education and Fast-Moving Consumer Goods (FMCG).

iv. Lagos Innovates

The Committee reviewed various programmes under the Fund's Innovation Driven Enterprise (IDE) framework, called Lagos Innovates. Under this programme, the Committee considered the requests for Seventy-Five workspace vouchers, one hub loan and a student loan programme, designed to increase the pool of software development talent within the Lagos technology ecosystem.

v. Consideration of outstanding SMEs Loan Application

The Committee reviewed the memo with respect to all outstanding loan applications from 2017. The Committee recommended the disbursement of N469,129,071.96 (Four Hundred and Sixty -Nine Million, One Hundred and Twenty-Nine Thousand, Seventy -One Naira, Ninety-Six Kobo) to 156 applicants and to decline 786 SMEs applicants who did not meet the LSETF requirement, to the Board for approval.

Signed on behalf of the Credit and Investment Committee



Mr. Otto Orondaam
Chairman
2 May, 2019

BOARD GOVERNANCE COMMITTEE REPORT

for the year ended 31 December 2018



The Governance Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2018, which summarizes its activities for the year.

Functions and Responsibilities

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

- i. Developing and maintaining an appropriate corporate governance framework for the Fund;
- ii. Developing the ecosystem within which the Fund will operate;
- iii. Recommending proposals for the remuneration of the Board and Board Committees for presentation to the Governor;
- iv. Reviewing and making recommendations to the Board for the overall remuneration and benefits policy for employees of the Fund;
- v. Assisting the Board to ensure the proper reporting and disclosure of the state of affairs of the Fund to the Governor, Accountant-General and other stakeholders;
- vi. Developing strategic frameworks and plans for the Fund;
- vii. Overseeing the finance and human resource management functions;
- viii. Overseeing the financial strategies and objectives of the Fund regarding financial performance and compliance with applicable

BOARD GOVERNANCE COMMITTEE REPORT (Cont'd)*for the year ended 31 December 2018*

- financial regulatory requirements; and
- ix. Ensuring optimal performance of the Board towards achieving its mandate as enshrined in the laws governing the operation of the Fund.

Composition

The Governance Committee consists of the following members:

- i. Mr. Ayodele Martins (Chairman);
- ii. Pastor Funmi Dawodu;
- iii. Mrs. Bilikiss Adebisi-Abiola; and
- iv. 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. 1st meeting held on 7th February, 2018;
- ii. 2nd meeting held on 5th April, 2018;
- iii. 3rd meeting held on 6th June, 2018;
- iv. 4th meeting held on 11th July, 2018;
- v. 5th meeting held on 3rd September, 2018;
- vi. 6th meeting held on 7th and 13th November, 2018; and,
- vii. 7th meeting held on 5th December, 2018.

Activities

The Governance Committee held seven meetings during the year under review, and a summary of its activities is presented below.

I. 2018 Financial Year Budget (as approved by the Lagos State House of Assembly)

The Committee considered and reviewed the revised 2018 financial year budget as presented by Management based on the comments and observations of the State House of Assembly and recommended its approval by the Board as revised.

ii. Budget Performance Report

The Committee reviewed the budget performance of the Fund on a quarterly basis and reviewed the 2018 budget implementation (projected versus actual) in terms of revenue, personnel cost, overhead cost, programs cost, and capital expenditure.

iii. Executive Management's Performance Appraisal for 2017

The Committee reviewed the performance appraisal exercise of the Fund's executive committee and recommended the reward for high performing employees for Board approval.

iv. The LSETF Gender Policy

The Committee reviewed and made recommendations on the Fund's Gender Policy to ensure gender equality within the Fund's internal operations and across all its programmes, in line with internationally acceptable standards for inclusion.

v. Consideration of Key Performance Indicators for the Board and Board Committees

The Committee reviewed and made recommendations on Key Performance Indicators for assessing the performance of the Board and the Committees as presented by Management, to ensure the process is not only transparent and effective but aligned to the strategic goals of the Fund.

vi. Consideration of Succession Plan for Executive Management

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

Signed on behalf of the Governance Committee



Ayodele Martins
Chairman
2 May, 2019

BOARD LEGAL ADVISORY COMMITTEE REPORT*for the year ended 31 December 2018*

The Legal Advisory Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees was inaugurated on 29th October, 2018 and is pleased to present its report for the year ended 31 December 2018, which summarizes its activities for the year.

Functions and Responsibilities

The principal functions and responsibilities of the Legal Advisory Committee include the following:

- i. Developing and overseeing the implementation of a robust and effective legal loan recovery framework for the Fund;
- ii. Reviewing and making recommendations on proposals for the institution and defence of Court cases involving the Fund;
- iii. Recommending external legal practitioners to the Board for the institution or defence of claims by or against the Fund.;
- iv. Developing and making

recommendations on loan recovery strategies for the Fund;

- v. Conducting regular reviews of legal matters involving the Fund; and
- vi. Oversee the progress of pending matters in Court

Composition

The Legal Advisory Committee consists of the following members

- i. Mr. Ayodele Martins (Chairman)
- ii. Mr. Akintunde Oyebode
- iii. Pastor Funmi Dawodu; and,
- iv. Mr. Otto Orondaam

**Activities**

The Legal Advisory Committee held one meeting during the year under review, and a summary of its activities is presented below.

I. Update on pending Legal

There were no pending legal matters involving the Fund.

ii. Commencement of Recovery Action against SME Defaulters

The Committee recommended the commencement of recovery proceedings against hard core defaulting beneficiaries at the small claims Court

Signed on behalf of the Legal Advisory Committee

Ayodele Martins
Chairman
2 May, 2019

BOARD STAKEHOLDERS COMMITTEE REPORT

for the year ended 31 December 2018



The Stakeholders Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2018, which summarizes its activities for the year.

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; Developing strategy for advocacy and interaction with Lagos State and relationships with other States and the Federal Government;
- iv. Determining the quantum, nature and source of funds to be raised to meet the Funds mandate, as input into the overall strategic plan of the Fund; Raising of Funds from stakeholders; and
- v. Redressing stakeholders and donor complaints.

Composition

The stakeholders Committee consists of the following members:

- i. Comrade Michael Popoola Ajayi (Chairman);
- ii. Mr. Ayodele Martins;
- iii. Mr. Otto Orondaam; and,
- iv. 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. 1st meeting held on 6th March, 2018;
- ii. 2nd meeting held on 26th July, 2018;
- iii. 3rd meeting held on 30th August, and 3rd September, 2018; and,
- iv. 4th meeting held on 18th October, 2018.

Activities

The Stakeholders Committee held four meetings during the year under review, and a summary of its activities is



presented below.

I. Consideration of Fundraising Plan 2018

The Committee reviewed the fundraising plan for 2018 and the ongoing partnership for fundraising and recommended the plan to the Board for approval.

ii. Reviewed the performance of LSETF Champions

The Committee reviewed the performance of the existing LSETF champions and its Ambassador's engagement model, the Committee recommended the model to the Board for Approval.

iii. Communication Plan 2018

The Committee reviewed the draft Communication Plan tagged "The Enterprising Lagos Campaign." The campaign sought to position LSETF as a development catalyst and attract stakeholders to support job creation in Lagos State.

iv. Stakeholder Engagement Plan 2018

The Committee reviewed the Stakeholder Engagement Plan for 2018 and recommended the plan should create awareness on all LSETF programmes across the 5 (Five) IBILE divisions, Ikeja, Epe, Ikorodu, Lagos and Badagry. The main target groups were artisans, traders, traditional rulers, market women, youth groups, as well as existing and potential beneficiaries.

Signed on behalf of the Stakeholders Committee

Michael Popoola Ajayi
Chairman
2 May, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the **Lagos State Employment Trust Fund**

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Lagos State Employment Trust Fund ("the Fund"), which comprise the statement of financial position as at 31 December, 2018, statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 36 to 73.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December, 2018, and of its financial performance and its cash flows for the year then ended 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.

Basis for Opinion

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

Other Information

The Trustees are responsible for the other information. The other information comprises the Corporate information, Results at a glance, Trustees' report, Statement of Trustees' responsibilities, Board Committee reports and Other national disclosures but does not include the financial statements and our audit report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Board of Trustees for the Financial Statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with IPSAS and in the manner required by the 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.

In preparing the financial statements, the Trustees are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Signed:

Oluwafemi O. Awotoye, FCA
 FRC/2013/ICAN/00000001182
 For: **KPMG Professional Services**
 Chartered Accountants
 June 18, 2019
 Lagos, Nigeria



Financial Statement

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STATEMENT OF FINANCIAL PERFORMANCE*for the year ended 31 December*

	Notes	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>			
<u>Revenue</u>			
Interest income	15	278,233	321,458
Grant income	16	175,919	38,240
Other income	17	18,189	7,387
Total revenue		472,341	367,085
<u>Expenses</u>			
Amortisation of intangible assets	9(b)	(7,717)	(512)
Depreciation	10	(98,305)	(99,706)
Programs Expenses	18	(2,390,093)	(1,450,806)
Personnel expenses	19	(408,531)	(359,408)
Other Operating Expenses	20	(483,264)	(473,718)
Total operating expenses		(3,387,910)	(2,384,150)
Derecog. of fair value gain on available-for-sale securities	5	-	(31,950)
Performance for the year		(2,915,569)	(2,049,015)

The accompanying notes are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>			
ASSETS			
Cash and cash equivalents	4	2,244,045	3,273,074
Loans and Advances	6	1,901,517	3,018,735
Prepayments	7	47,760	51,066
Other assets	8	93,580	520,915
Intangible assets	9	63,274	96,034
Property and equipment	10	199,233	288,959
Total assets		4,549,409	7,248,783
LIABILITIES			
Managed Funds	11	48,478	5,166
Unearned Income	12	16,214	124,154
Other Liabilities and Accruals	13	99,652	118,829
Total liabilities		164,344	248,149
EQUITY			
Capital contribution	14	9,450,000	9,150,000
Deficit from operations	23	(5,064,935)	(2,149,366)
TOTAL EQUITY		4,385,065	7,000,634
Total liabilities & equity		4,549,409	7,248,783

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

The financial statements were approved by the Board of Trustees on 2-May-19 and signed on their behalf by:

Additionally certified by:



Ifueko M. Omoigui Okauru, FCA, MFR
Chairman, Board of Trustees
FRC/2017/ICAN/00000014169



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



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

STATEMENT OF CHANGES IN NET ASSETS/EQUITY

for the year ended 31 December 2018

	Notes	Capital contribution	Other reserves	Deficit	Total equity
In thousands of Naira					
Balance as at 1 January, 2018		9,150,000	-	(2,149,366)	7,000,634
Capital contribution - Lagos State Government	14(a)	300,000	-	-	300,000
Deficit from operations		-	-	(2,915,569)	(2,915,569)
Balance as at 31 December, 2018		9,450,000	-	(5,064,935)	4,385,065
In thousands of Naira					
Balance as at 1 January, 2017		6,400,000	31,950	(132,301)	7,000,634
Capital contribution - Lagos State Government	14(a)	2,750,000	-	-	2,750,000
De-recognition of fair gain on available-for-sale securities	5	-	(31,950)	-	(31,950)
Deficit from operations		-	-	(2,017,065)	(2,017,065)
Balance as at 31 December, 2017		9,150,000	-	(2,149,366)	7,000,634

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

CASH FLOW STATEMENT

for the year ended 31 December

<i>In thousands of Naira</i>	Notes	31-Dec-18	31-Dec-17
Cash flows from operating activities			
Deficit from operations		(2,915,569)	(2,017,065)
Adjustments for non-cash items:			
Amortisation	9	43,762	30,550
Depreciation	10	98,305	99,706
Allowance for Impairment	6(c)	1,522,497	781,785
Late Repayment Fees	6	(7,216)	(4,972)
Grant Income	16	(131,081)	(38,240)
Interest income	15	(278,233)	(321,458)
		(1,667,535)	(1,469,694)
Changes in prepayments	22(i)	3,307	(12,835)
Changes in other current assets	22(ii)	427,335	(481,972)
Changes in Loans and Advances	22(iii)	(201,778)	(3,681,771)
Changes in Unearned Income	22(v)	23,142	162,250
Changes in Other Liabilities	22(iv)	(19,177)	(22,196)
Net cash used in operating activities		(1,434,709)	(5,506,218)
Cash flows from investing activities			
Acquisition of investment securities	5	-	(3,435,773)
Redemption of investment securities	5	-	7,380,730
Acquisition of intangible assets	9	(11,002)	(18,449)
Acquisition of property and equipment	10	(8,579)	(77,506)
Interest received on Investment Securities	5	-	250,511
Interest received on Term Deposits	15(a)	81,949	40,375
Net cash from/(used in) investing activities		62,368	4,139,888
Cash flows from financing activities			
Capital contribution	14(a)	300,000	2,750,000
Managed Funds	22(vi)	43,312	7,500
Net cash from financing activities		343,312	2,757,500
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	4	3,273,074	1,881,904
Net increase in cash and cash equivalents		(1,029,029)	1,391,170
Cash and cash equivalents at 31 December	4	2,244,045	3,273,074

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. Reporting entity

The Lagos State Employment Trust Fund ("LSETF" or "the Fund"), was established by The Lagos State Employment Trust Fund Law 2016 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 N25Billion in helping Lagos residents grow and scale their Micro Small and Medium Enterprises ("MSMEs") or acquire skills to get better jobs. LSETF will focus on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. The registered office is located at 16, Billings Way, Oregun Ikeja, Lagos.

The financial statements of the Lagos State Employment Trust Fund (LSETF) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Trustees on 2-May-19

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 Boards (IPSAB) 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 assessed 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.

Judgements

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

Operating lease commitments – Fund as lessee

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

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for the year ended 31 December 2018

space and accounts for the contracts as operating leases.

Estimates and Assumptions

Property, Plant and Equipment

The Fund carries its property, plant 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 asset is assessed on its merits, and the workout strategy and estimate of cashflows considered recoverable are independently reviewed by the risk management function.

Collectively assessed impairment allowance 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, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant 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

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for the year ended 31 December 2018

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, plant and equipment to their residual values over their estimated useful lives.

The estimated annual rates of depreciation are as follows

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

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

(iv) Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising 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, plant and equipment. The improvements are measured at cost on initial recognition, when it is probable that economic benefits will flow to the entity and the resources will be used for more than one financial period. Subsequent to initial recognition the asset is measured at cost less accumulated depreciation and amortisation in the same policy as other items of property, plant 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

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

Intangible assets not yet available for use are tested for impairment annually. All other assets are assessed for indicators of

impairment at the end of each reporting period.

3.4 Revenue

Revenue recognition criteria for exchange and non-exchange transactions

Revenue from an exchange transaction is 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.

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 eligible to receive the contribution, recognition of the grant as revenue is deferred until those conditions are satisfied.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

Grants are recognised in profit and loss on a systematic basis over the period in which the fund recognises as expenses the related costs for which the grants are intended to compensate.

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

Donations

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

Other Income

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

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;
- available for sale.

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.

Available for Sale Securities

These financial assets are classified at initial recognition as available-for-sale. Available-for-sale financial assets are included in non-current assets unless LSETF intends to dispose of the investment within 12 months of the reporting date. Regular purchases and sales of financial assets are recognized at fair value on the trade-date and subsequently at fair value with any resultant fair value gains or losses recognised through the statement of changes net assets/equity. The fair values of quoted investments are based on current bid prices.

Realized gains and losses on sale of available-for-sale assets are recognized in the statement of financial performance as 'gains and losses from available-for-sale securities.'

Interest income is recognised in the statement of profit or loss using the effective interest method. Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold or redeemed, the gain or loss accumulated in equity is reclassified to income statement.

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for the year ended 31 December 2018

Loans and Receivables

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

Other Financial Liabilities:

Other financial liabilities are initially measured at fair value.

(c) Subsequent Measurement

Available for sale financial instruments

Available for sale treasury bills are subsequently measured at their fair value, without any deduction for transaction costs it may incur on sale or other disposal.

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.

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 Fund derecognises a financial instrument when its contractual obligations are discharged or cancelled or expired. 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) Fair Value Measurement

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

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

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

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

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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

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for the year ended 31 December 2018

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 receivables are carried at amortised cost using the effective interest rate less accumulated impairment loss. Prepayments are carried at cost less accumulated amortisation and impairment losses.

3.10 Foreign currency transactions

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

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

3.11 Employee benefits

(a) Defined contribution plan

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

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for the year ended 31 December 2018

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.

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

3.14 Taxation

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

3.15 Equity

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

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for the year ended 31 December 2018

4 Cash and cash equivalents	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Cash in Hand	77	26
Current account with Bank (see (a) below)	975,796	2,050,687
Deposits with financial institutions (see (b) below)	1,268,172	1,222,361
	2,244,045	3,273,074
Classified as:		
Current	2,244,045	3,273,074
Non-Current	-	-
	2,244,045	3,273,074

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Balance with Fulfilment Partner Banks	776,589	1,425,508
Other Bank Balances	199,208	625,179
	975,796	2,050,687

The amount with fulfilment partner banks represents the sum that is available for onward disbursement to beneficiaries who are yet to meet their conditions precedent to draw-down as at 31 December 2018. The amount will be disbursed to the beneficiaries as these conditions are met.

(b) Deposit with financial institutions include:

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Access Bank	1,206,658	1,222,361
Bosak MFB	61,514	-
	1,268,172	1,222,361

The deposit with financial institutions represents short term deposits of N1.2 billion with Access Bank which matures within a month at an interest rate of 10% per annum and call deposit of N61.5 million with Bosak MFB at an interest of 5% per annum

5. Movement in investment securities

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Balance at the beginning of year	-	4,062,301
Addition during the year	-	3,435,773
Fair value (loss)/gain on investment	-	(31,950)
Interest Income (see note 15(a))	-	165,117
Interest income received	-	(250,511)
Redemption during the year	-	(7,380,730)
Balance as at year end	-	-

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for the year ended 31 December 2018

6. Loans and Advances*In thousands of Naira*

	31-Dec-18	31-Dec-17
Movement in loans and advances during the year		
Balance at the beginning of year	3,802,648	-
Loan disbursed during the year (see note (a) below)	1,870,008	4,530,042
Interest Earned (see note 15(c) below)	195,929	115,905
Late Repayment Fees (see note 17(a))	7,216	4,972
	5,875,801	4,650,919
Repayments	(1,667,874)	(848,271)
Gross Loans	4,207,927	3,802,648
Allowance for Impairment (See note (c) below)	(2,306,410)	(783,913)
	1,901,517	3,018,735
Gross Loans for the year is made up of the following:		
Small and medium enterprises	2,812,568	2,447,801
Micro-enterprises	1,369,779	1,347,103
Managed Loans	25,580	7,744
	4,207,927	3,802,648
Net Loans is classified as:		
Current (ME Loans)	1,354,263	1,354,263
Non-Current (SME Loans)	547,254	1,664,472
	1,901,517	3,018,735

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Small and medium enterprises	620,740	2,741,601
Micro-enterprises	1,218,190	1,780,783
Managed Loans	31,078	7,658
	1,870,008	4,530,042

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
LSETF's contribution	15,539	3,829
Counterparty Contribution to loan advanced to beneficiaries (see	15,539	3,829
	31,078	7,658

LSETF enters into counter-party agreement with Individuals and Local governments to contribute funds at an agreed ratio, usually equally between parties, towards the advancement of loan to beneficiaries in specified locations in Lagos State. This term of the agreement vary across counterparties.

See note 11 (d) for funds received during the year.

NOTES TO THE FINANCIAL STATEMENTS

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(c) Movement in impairment charge on Loans and Advances during the year

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Balance as at 1 January	783,913	-
Charge for the year (note (d) below)	1,522,497	783,913
Balance as at 31 December	2,306,410	783,913
Total Impairment	2,306,410	783,913

(d) Impairment Charge

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
SME Loans	1,056,063	434,213
ME Loans	450,674	345,444
Late Repayment Fees	12,188	-
LSETF's contribution to the women economic empowerment scheme	1,786	2,128
	1,520,711	781,785
Managed funds advanced to beneficiaries (see note 11(f))	1,786	2,128
Impairment charge for the year	1,522,497	783,913

7 Prepayments

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Non financial Assets		
Rent	23,146	7,778
Other prepayments (see note (a) below)	11,674	9,637
Credit Insurance (see note (b) below)	9,080	29,778
Other Prepaid Insurance	3,860	3,873
	47,760	51,066
Classified as:		
Current	47,760	51,066
Non-Current	-	-
	47,760	51,066

(a) Other prepayments represents prepaid service charge, prepaid subscription, prepaid retainer fees and prepaid licence fees.

(b) Credit Insurance represents protection of the loan sum granted to beneficiaries against default arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries

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8 Other assets	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Financial Assets		
Balance in Joint arrangement account with UNDP (see notes (a) below)	80,512	496,041
Receivable from UNDP	7,071	-
Other Receivables	4,997	15,248
Advance Payments	1,000	9,626
	93,580	520,915
Classified as:		
Current	93,580	520,915
Non-Current	-	-
	93,580	520,915

(a) LSETF entered into a partnership agreement with United Nations Development Project (UNDP) for the funding of "The Lagos State Employability Support Project". This Project aims at training 10,000 people between the ages of 18 - 35 years in the manufacturing, health-care, construction, entertainment, garment making, hospitality and tourism sectors by 2019. The Partners agreed to contribute \$3,000,000 and \$1,000,000 respectively.

As at 31st December 2018, LSETF and UNDP had contributed USD 1,915,236 and USD500,000,000 respectively.

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Balance, beginning of year	496,041	-
Contribution by LSETF	150,000	486,750
Contribution by UNDP	-	162,250
	646,041	649,000
Expenditure on project during the year	(524,326)	(152,959)
Management fees to UNDP	(41,203)	-
Balance, end of year	80,512	496,041

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Balance with UNDP	60,973	403,631
Balance with Arcskills	19,539	92,410
	80,512	496,041

(c) There was no impairment charge recognised on the receivables.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

9 Intangible assets

<i>In thousands of Naira</i>	Loan Application Software	Accounting Software & Others	Total
Cost:			
Balance as at 1 January 2018	108,135	18,449	126,584
Additions	-	11,002	11,002
Balance as at 31 December 2018	108,135	29,451	137,586
Amortisation:			
Balance as at 1 January 2018	(30,038)	(512)	(30,550)
Charge for the year	(36,045)	(7,717)	(43,762)
Balance as at 31 December 2018	(66,083)	(8,229)	(74,312)
Carrying amounts			
Balance at 31 December 2018	42,052	21,222	63,274
31 December 2017			
Cost:			
Balance as at 1 January 2017	108,135	-	108,135
Additions	-	18,449	18,449
Balance as at 31 December 2017	108,135	18,449	126,584
Amortisation:			
Balance as at 1 January 2017	-	-	-
Charge for the year	(30,038)	(512)	(30,550)
Balance as at 31 December 2017	(30,038)	(512)	(30,550)
Carrying amounts			
Balance at 31 December 2017	78,097	17,937	96,034

(i) No leased asset is included in the above accounts.

(ii) There were no authorised or contracted capital commitments as at the reporting date.

(iii) There were no impairment losses on intangible assets during the year

(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-18	31-Dec-17
Loan Application Software (see note (i) below)	36,045	30,038
Accounting Software & Others	7,717	512
Amortisation expense for the year	43,762	30,550

The amortisation charge for Loan application software is classified as a part of the loan programs expense considering its direct relationship with the Fund's operations. See note 18(a)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

10 Property and equipment

The movement on this account during the year was as follows:
31 December 2018

<i>In thousands of Naira</i>	Motor vehicles	Computer Equipment	Office Equipment	Furniture & Equipment	Leasehold Improvements	Total
Cost:						
Balance as at 1 January 2018	143,487	186,129	9,922	34,764	34,957	409,259
Additions	-	3,982	4,037	560	-	8,579
Balance as at 31 December	143,487	190,111	13,959	35,324	34,957	417,838
Accumulated depreciation:						
Balance as at 1 January 2018	(44,278)	(44,570)	(1,906)	(8,118)	(21,428)	(120,300)
Charge for the year	(35,872)	(46,796)	(2,970)	(7,027)	(5,640)	(98,305)
Balance as at 31 December	(80,150)	(91,366)	(4,876)	(15,145)	(27,068)	(218,605)
Carrying amounts						
Balance at 31 December 2018	63,337	98,745	9,083	20,179	7,889	199,233
31 December 2017						
Cost:						
Balance as at 1 January 2017	143,487	121,402	2,423	29,484	34,957	331,753
Additions	-	64,727	7,499	5,280	-	77,506
Balance as at 31 December	143,487	186,129	9,922	34,764	34,957	409,259
Accumulated depreciation:						
Balance as at 1 January 2017	(8,406)	(3,275)	(35)	(2,192)	(6,686)	(20,594)
Charge for the year	(35,872)	(41,295)	(1,871)	(5,926)	(14,742)	(99,706)
Balance as at 31 December	(44,278)	(44,570)	(1,906)	(8,118)	(21,428)	(120,300)
Carrying amounts						
Balance at 31 December 2017	99,209	141,559	8,016	26,646	13,529	288,959

(i) No leased asset is included in the above property and equipment accounts.

(ii) There were no authorised or contracted capital commitments as at the reporting date.

(iii) There were no impairment losses on any class of property and equipment during the year.

(iv) There was no property and equipment pledged as security for borrowing as at 31 December 2018.

(v) There are no capitalised borrowing costs related to the acquisition of property and equipment during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

11 Managed Funds

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
<u>Financial liabilities</u>		
Managed Funds (see note (a) below)	48,478	5,166
	48,478	5,166
Classified as:		
Current	48,478	5,166
Non - Current	-	-
	48,478	5,166
(a) The movement in the Managed Funds is as shown below:		
Balance as at beginning of year	7,294	-
Additions (see notes (b) below)	45,000	7,500
Interest income on LSETF portion of Loan (see note (d) below)	(77)	(206)
Interest income on Counterparty portion of Loan (see note (e) below)	175	-
	52,392	7,294
Collective impairment on loan disbursed (see note (f) below)	(3,914)	(2,128)
	48,478	5,166

(b) Managed Funds represents funds received from counterparties under a joint scheme, for loan disbursements to residents of Lagos in particular locations. The Fund and the counterparties contribute funds at agreed ratio for the programs and, bear the credit risk on their respective funds contributed. Receipts of managed funds during the period represents:

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Hon. Wale Raji (WES)	-	7,500
Ojo Local Government	5,000	-
TAM FUND	5,000	-
Lagos Island Local Government	10,000	-
Hon. Agunbiade	10,000	-
Itire Ikate LCDA	5,000	-
Apapa Local Government	10,000	-
	45,000	7,500

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

Funds disbursed during the year (see note 6 (b))	15,539	3,829
Funds yet to be disbursed	29,461	3,671
	45,000	7,500

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

(e) The arrangement with other counterparties excluding Hon. Wale Raji is that the interest due on the disbursed loans is earned by LSETF and the counterparties according to the agreed ratio of contribution. This amount represents interest income due to other counterparties.

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2018***(f) The movement in the Impairment on Managed Loans is as shown below:**

	31-Dec-18	31-Dec-17
Balance as at beginning of year	2,128	-
Additions (see note 6 (d))	1,786	2,128
	3,914	2,128

12 Unearned Income
In thousands of Naira
Financial liabilities

	31-Dec-18	31-Dec-17
Unearned Income on UNDP joint arrangement (see note (a) below)	-	124,010
Unearned Income on managed funds	28	144
Unearned Income on Agreement with GIZ (see note (c) below)	16,186	-
	16,214	125,154
Classified as:		
Current	16,214	125,154
Non - Current	-	-
	16,214	125,154

(a) Unearned income on the arrangement with UNDP represents the portion of the grant received from UNDP for the Lagos State Employability Support Project, that is yet to be utilised.

(b) The movement in Unearned Income is as shown below:
In thousands of Naira

	31-Dec-18	31-Dec-17
Opening Balance	124,010	-
Contribution by UNDP (see note 8(a))	-	162,250
Accrual for contribution due from UNDP (see note 8)	7,071	-
Income earned during the year (See note 16)	(131,081)	(38,240)
	-	124,010

The Income earned is 25% of N524,326,143.81 expended on the Employability project with UNDP during the year. This is based on the cost-sharing ratio of 25% and 75% for UNDP and LSETF respectively for costs related to the project.

(c) Unearned grant income represents funds received from International Donor for employability support projects which its income recognition is conditional to performance. The amount is made up of funds received from GIZ (N16,185,600)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

13 Other Liabilities and Accruals	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
<u>Financial liabilities</u>		
Due to fulfilment partners	16,653	19,509
Audit fees payable	9,500	9,500
Other payables (see note (a) below)	39,067	36,680
	65,220	65,689
<u>Non-Financial liabilities</u>		
PAYE Payable	182	27
Withholding tax payable	19,737	30,371
Value added tax payable	10,492	17,386
Development levy payable (see (b) below)	4,021	5,356
	34,432	53,140
	99,652	118,829
Classified as:		
Current	99,652	118,829
Non - Current	-	-
	99,652	118,829

(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.

14 Capital contribution

This comprises:

14 Capital contribution	31-Dec-18	31-Dec-17
<i>This comprises:</i>		
<i>In thousands of Naira</i>		
<u>Financial liabilities</u>		
Capital contribution from Lagos State Government (LASG) (see note (a) below)	9,300,000	9,000,000
Take-off fund (see note (c) below)	150,000	150,000
	9,450,000	9,150,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Opening Balance	9,000,000	6,250,000
Capital Contribution by LASG (see note (b) below)	300,000	2,750,000
	9,300,000	9,000,000

(b) LSETF received the sum of N300 million as capital contribution from the Lagos State Government during the financial year. As at 31 December 2018, the Fund had received a total of N9.3 billion from the Lagos State Government. The capital contribution is to target programmes meant to generate employment including disbursement of loans to MSMEs, Employability programmes or as may be required to support employment creation.

(c) The take-off grant of N150 million represents funds provided by the Lagos State Government to support the operational costs of setting up the Fund.

15 Interest income

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Investment Securities (See note (a) below)	81,949	205,492
Loans and Advances (See note (b) below)	196,284	115,966
	278,233	321,458

(a) Interest Income on Investment Securities

Treasury Bills (see note 5)	-	165,117
Term deposits	81,949	40,374
	81,949	205,491

(b) Interest Income on Loans and Advances

Micro Enterprises	77,786	38,220
Small and Medium Enterprises	118,499	77,746
	196,285	115,966

(c) Interest income on loans and advances

Managed Loans	356	61
Own Loans (see note 6)	195,929	115,905
<i>Interest income on loans and advances</i>	196,285	115,966

16 Grant income

	31-Dec-18	31-Dec-17
<i>In thousands of Naira</i>		
Income from UNDP joint arrangement (see note 12 (b) above)	131,081	38,240
Ford Foundation	36,087	-
Others	8,750	-
	175,918	38,240

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

17 Other income

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Late repayment fees (see note (a) below)	8,477	5,210
Miscellaneous Income	9,712	2,177
	18,189	7,387

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

(a) Late repayment fees

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Accrued late repayment fees	7,216	4,972
Late repayment fees received	1,260	238
	8,476	5,210

18 Programs Expenses

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Loan Programs Expenses (see (a) below)	1,768,315	1,244,063
Other Programs Expenses (see (b) below)	621,778	206,743
	2,390,093	1,450,806

(a) Loan Programs Expenses

Management Fees (see note (i) below)	57,038	169,428
Business Verification (see note (ii) below)	2,801	32,530
Credit Insurance (see note (iii) below)	39,163	22,721
Beneficiary Training (see note (iv) below)	66,863	130,580
Impairment Charge on Loans and Advances (See note 6(d))	1,520,711	781,785
Beneficiary Selection (see note (v) below)	658	24,273
Amortization of Loan Application Software (see note 9 (b))	36,045	30,038
Other Loan Program Costs (see note (vi) below)	45,036	52,708
	1,768,315	1,244,063

- (i) Management fees relate to payments made to fulfillment partners for loan disbursement, monitoring and collection of repayments. The fees are charged at the rate of 2.50% and 3.50% for Small and medium enterprises and Micro-enterprises loans respectively.
- (ii) Business verification relates to payments made to business development and support partners for verifying information provided by loan applicants and post disbursement business development and support to loan beneficiaries.
- (iii) Credit Insurance represents the amortised portion of annual premium paid for the protection of the loan sum granted to beneficiaries. This covers against default arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries.
- (iv) Beneficiary training represents cost of providing trainings on business management amongst others to successful loan applicants on how to better utilize and turn around capital and manage their businesses.
- (v) Beneficiary selection fees represents the fees paid to independent consultants to manage the beneficiary selection process and recommend candidates to the Fund for approval.
- (vi) Other loan programs cost represents among others cost of engaging consultants to carry out an impact assessment of the Fund and cheque presentation ceremony.

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2018***(b) Other Programs Expenses**

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Employability program cost - UNDP arrangement (See note 8(a))	524,326	152,959
Employability program cost - Management fees to UNDP(See note 8(a))	41,203	-
Employability program costs - Others	5,229	15,750
Technological Start-ups (see note (i) below)	49,059	38,034
Market Simulations	1,961	-
	621,778	621,778

- (i) The Technological Start-up programs represents the program where the Lagos State Employment Trust Fund plans to finance and accelerate startups that are technologically driven. The cost is primarily made up of the cost of setting up of the framework of the program together with some associated infrastructure.
- (ii) The Market Simulations costs represents cost incurred by the fund to address sundry challenges faced by MSMEs in Lagos other than access and pricing of finance and skilled manpower which have been addressed by our loan and employability program respectively.

19 Personnel expenses

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Wages and salaries	389,317	335,660
Staff allowances	1,662	8,383
Defined contribution plan (see note (a) below)	17,552	15,365
	408,531	359,408

- (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.

NOTES TO THE FINANCIAL STATEMENTS*for the year ended 31 December 2018***20 Other operating expenses**

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Rent & Service charge	23,691	28,335
Professional fees (See note 20 (a))	15,764	23,413
Audit fees	9,500	9,500
Trustees' sitting allowance (See note 21 (b))	22,256	27,878
Liaison Office	4,095	-
General and Administrative expenses	18,149	39,401
Fueling	11,600	9,404
Transport and Travelling	7,835	21,851
Bank Charges	1,836	989
Security Costs	497	1,102
Board and Staff Strategy Session	6,258	11,290
Board Training	32,460	50,152
Staff Training	34,320	34,409
Electricity & Power	17,529	13,471
Office repairs and maintenance	521	2,657
Printing and stationeries	7,531	11,984
Motor vehicles repairs and maintenance	4,049	2,995
Advert, Publicity and Engagement	183,940	94,853
Computer Accessories & Consumables	30,954	17,479
Insurance	46,038	45,666
Other Expenses	4,441	26,889
	483,264	473,718

- (a) Professional fees include the sum of N10.1 million paid to Probitas Professional Services for board secretarial services and N5 million paid for advisory services.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 Analysis of personnel expense**(a)**(i) Employee costs, including the executive secretary's remuneration amounted to:

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Salaries	389,317	335,660
Staff allowances	1,662	8,383
Pension contribution	17,552	15,365
	408,531	359,408

(ii) 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	18
N1,500,001 - N2,500,000	10	6
N2,500,001 - N3,500,000	14	15
N3,500,001 - N4,500,000	7	5
N4,500,001 - N5,500,000	1	9
N5,500,001 - N6,500,000	7	3
N6,500,001 - N7,500,000	1	2
N7,500,001 - N 8,500,000	2	1
N8,500,001 and above	3	-
	60	59

(b)The Board of Trustees' emoluments comprise:

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Trustees' sitting allowances	22,256	27,878
	22,256	27,878

The sitting allowances disclosed above include amounts paid to:

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
The Chairman	736	736
The highest paid Trustee	736	736

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

22 Reconciliation notes to the statement of cashflows

(i) Changes in prepayments		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year (see note 7)	51,067	38,232
Balance, end of the year (see note 7)	47,760	51,067
<u>Decrease/(Increase) in Prepayments</u>	<u>3,307</u>	<u>(12,835)</u>
(ii) Changes in other current assets		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year (see note 8 above)	520,915	38,943
Balance, end of the year (see note 8 above)	93,580	520,915
<u>Decrease/(Increase) in Other Current Assets</u>	<u>427,335</u>	<u>(481,972)</u>
(iii) Changes in Loans and Advances		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Loans granted during the year (see note 6 above)	(1,870,008)	(4,530,042)
Cash repayments received (see note 6 above)	1,667,874	848,271
Interest on Managed Loan (see note 15(c) above)	355	-
<u>Increase in loans and advances</u>	<u>(201,778)</u>	<u>(3,681,771)</u>
(iv) Changes in Other Liabilities		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year (see note 13 above)	118,829	141,025
Balance, end of the year (see note 13 above)	99,652	118,829
<u>Decrease in Other Liabilities</u>	<u>(19,177)</u>	<u>(22,196)</u>
(v) Changes in Unearned Income		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year	124,010	-
Balance, beginning of the year (Other Unearned Income)	144	-
Amount Written to Statement of Financial Performance	(131,082)	38,240
Balance, end of the year	16,214	124,010
<u>Increase in Unearned Income</u>	<u>23,142</u>	<u>162,250</u>
(vi) Changes in Managed Funds		
<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year	5,166	-
Balance, end of the year	48,478	7,500
<u>Increase in Managed Loans</u>	<u>43,312</u>	<u>7,500</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 Movement in Deficit from operations

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Balance, beginning of the year	(2,149,366)	(132,301)
Addition during the year	(2,915,569)	(2,017,065)
Balance, end of the year	(5,064,935)	(2,149,366)

24 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.

25 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/Bill.

26 Related Parties

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

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

Name of related party	Relationship	Nature of transactions	Due from/(Due to)		Receipt/(Payment)	
			31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
In thousands of Naira						
* Lagos State Government	Parent	Capital contribution	-	-	300,000	2,750,000
Restral Limited	Trustee	Training of Loan Beneficiaries	(2,054)	-	(3,665)	(14,837)
LASACO Assurance Plc	Sister Company	Insurance of the Fund's Assets	-	-	(5,157)	(10,658)
Ibile Microfinance Bank Limited	Sister Company	Fulfilment Partners	(15,075)	(8,250)	(19,394)	(9,123)
Trustees and Relations	Key Management Personnel	Loan Beneficiary	4,041	5,475	-	(6,000)

* The Lagos State Government released the sum of N300 million on various dates as capital contribution to the Fund
The capital contribution is to target programmes meant to generate employment including disbursement of loans to MSMEs, Employability programmes or as may be required to support employment creation."

Key management compensation

(i) Key management personnel of the Entity include all Trustees and senior management. The summary of the compensation of key management personnel for the year is as follows:

Key management compensation

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Salaries and other short-term employee benefits	52,377	30,446
Sitting allowances	22,256	27,878
Total compensation of key management personnel	74,633	58,324

27 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 2018.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

28 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.

(i) LSETF's Approach to Risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

Loan Type

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

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

(ii) Exposure to Credit Risk

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

The Fund is exposed to credit risk on its cash and cash equivalents, investments, loans and receivables balances due from its beneficiaries and other counterparties in the public and private sectors.

The Fund has procedures to monitor its credit risk across segments. Although beneficiaries are free to repay their outstanding loans before expiration, all loans are categorized as Loans and Advances & Receivables.

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

Available-for-Sale Investment

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

The Fund did not have any Available-For-Sale investments as at 31 December 2018

Cash and Cash Equivalents

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

Loans and Advances to Beneficiaries and Other Receivables

The Fund has classified loans to beneficiaries as loans and advances and other receivables. The Fund's exposure to credit risk is influenced mainly by loan beneficiaries willingness and capacity to repay obligations as and when due. The Fund ensures that loan application process assesses each applicant's credit history and financial capability in line with the loan amount. These assets evaluated for impairment in line with IPSAS 29. The total impairment allowance during the year ended 31 December 2018 was 1,522,498. This impairment figure is both collective and specific on Loans and Advances.

(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

(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:

<i>In thousands of Naira</i>	Note	31-Dec-18 ₦	31-Dec-17 ₦
Cash and cash equivalents	4	2,244,045	3,273,074
Loans and advances	6	1,901,517	3,018,735
		4,145,562	6,291,809

(vi) Geographical Sectors

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

(vii) Credit Quality

The following table breaks down the Fund's main credit exposure at their gross amounts ("Due from Banks" at carrying amount), as categorised by performance as at 31 December 2018 and 2017 respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	31 December 2018			31 December 2017		
	Due from Banks	advances to beneficiaries	Total	Due from Banks	Loans and advances to beneficiaries	Total
	₦	₦	₦	₦	₦	₦
Neither past due nor impaired	2,244,045	-	2,244,045	3,273,074	-	3,273,074
<i>Impaired</i>						
Individually impaired	-	-	-	-	-	-
Collectively impaired	-	4,207,927	4,207,927	-	3,802,648	3,802,648
Gross	2,244,045	4,207,927	6,451,972	3,273,074	3,802,648	7,075,722
<i>Impairment allowance</i>						
Specific impairment	-	-	-	-	-	-
Collective impairment	-	(2,306,410)	(2,306,410)	-	(783,913)	(783,913)
Net	2,244,045	1,901,517	4,145,562	3,273,074	3,018,735	6,291,809

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

	Note	Carrying amount	Nominal Inflow/Outflow	3months or less	3- 12 months	1 -2 years	2 - 10 years
<i>In thousands of Naira</i>							
Financial assets							
Cash and cash equivalents	4	2,244,045	2,246,665	2,246,665	-	-	-
Loans and Advances	6	1,901,517	2,259,962	208,439	377,811	1,673,711	-
Total		4,145,562	4,506,627	2,455,104	377,811	1,673,711	-
Financial liabilities							
Other Liabilities	13	65,220	65,220	65,220	-	-	-
Total		65,220	65,220	65,220	-	-	-
Liquidity gap				2,389,884	377,811	1,673,711	-
Cumulative				2,389,884	2,767,695	4,441,407	4,441,407

The contractual maturities as at 31 December 2017 of financial liabilities and financial assets are as follows:

	Note	Carrying amount	Nominal Inflow/Outflow	3months or less	3- 12 months	1 -2 years	2 - 10 years
<i>In thousands of Naira</i>							
Financial assets							
Cash and cash equivalents	4	3,273,074	3,301,789	3,301,789	-	-	-
Loans and Advances	6	3,018,735	3,207,189	680,105	1,273,555	894,631	362,301
Total		6,291,809	6,508,978	3,981,894	1,273,555	894,631	362,301
Financial liabilities							
Other Liabilities	13	65,689	65,689	65,689	-	-	-
Total		65,689	65,689	65,689	-	-	-
Liquidity gap				3,916,205	1,273,555	894,631	362,301
Cumulative				3,916,205	5,189,760	6,084,391	6,446,692

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

(d) Funding risk

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

(e) Counter Party risk

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

(f) Operational risk

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

(g) Political risk

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

(h) Legal risk

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

(i) Environmental & Social Risk

Environmental & Social risk is the risk 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

(i) Exposure to Currency risk

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

(ii) Exposure to interest rate risk

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

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

Interest rate profile

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

Financial instruments

<i>In thousands of Naira</i>	Notes	31-Dec-18	31-Dec-17
Cash and cash equivalents	4	2,244,045	3,273,074
Total	5	2,244,045	3,273,074

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 profit or loss or equity. The table below shows the impact on the Fund's profit before tax if interest rates on the financial instruments had increased or decreased by 100 basis points, with all other variables held constant.

<i>In thousands of Naira</i>	31-Dec-18	31-Dec-17
Increase in interest rate by 100 basis points (+1%)	22,440	32,731
Decrease in interest rate by 100 basis point (-1%)	(22,440)	(32,731)

OTHER NATIONAL DISCLOSURES

Value Added Statement

As at 31 December 2018

	31-Dec-18	%	31-Dec-17	%
<i>In thousands of Naira</i>				
Receipts	472,341	(20)	367,085	(24)
Bought-in materials and services - Local	(2,873,357)	120	(1,924,524)	124
Value added	<u>(2,401,016)</u>	<u>100</u>	<u>(1,557,439)</u>	<u>100</u>
Distribution of value added:				
To employees:				
Wages, salaries and pensions	408,531	(17)	359,408	(23)
Retained in the business:				
For the replacement of fixed assets and intangible (depreciation and amortisation)	106,022	(4)	100,218	(7)
To deplete reserves	(2,915,569)	121	(2,017,065)	130
Value added	<u>(2,401,016)</u>	<u>100</u>	<u>(1,557,439)</u>	<u>100</u>

Financial Summary

For the year ended 31 December 2018

In thousands of Naira

31 December 2018 31 December 2017 31 December 2016

Statements of financial position

Total assets	4,549,409	7,248,783	6,440,674
Total liabilities	(164,344)	(248,149)	(141,025)
	4,385,065	7,000,634	6,299,649

FINANCED BY:

Capital Contribution	9,450,000	9,150,000	6,400,000
Deficit from Operations	(5,064,935)	(2,149,366)	(132,301)
Other Reserves	-	-	31,950

Shareholders Funds 4,385,065 7,000,634 6,299,649

Statements of financial performance

Total revenue	472,341	367,085	245,577
Social Impact and Other Programs Expenses	(2,390,093)	(1,450,806)	(5,948)
Recurring Expenses	(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)	-

Profit for the year (2,915,569) (2,049,015) (100,351)



LSETF
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