Norsad FINANCE

Investing in Sustainable Enterprise Growth

2016 ANNUAL REPORT

Annual
Report
2016

INVESTING IN SUSTAINABLE ENTERPRISE GROWTH

Norsad Finance Limited is an impact investor that provides flexible and customised financing to mid-market companies and financial services providers in Southern Africa with the intention of driving economic growth, social advancement and environmental sustainability.

CONTENTS

ABOUT US

Mission

To be the premier provider of customised longer-term risk capital to Southern African companies and financial services providers that are financially, socially and environmentally sustainable.

Vision

To be acknowledged as a preferred impact investor providing flexible and customised financing solutions.

Company Values

Integrity	We do what we say and uphold high standards of fairness and ethical behaviour.
Respect	Respect and treat others equally.
Transparency	Openness in our communication and actions.
Accountability	The willingness to take responsibility for our actions.
Learning	Continuous improvement in ourselves and our work.
Partnership	We continuously seek to be a more agile and responsive partner to our stakeholders.

OUR PROFILE

Norsad Finance Limited is an impact investor established to contribute to the private sector development of Southern African economies by providing funding to enterprises that are financially, socially and environmentally sustainable. Norsad prioritises investments to businesses that create sustainable employment, diversify local economies and are keen to adopt or maintain decent working conditions and good governance.

Norsad Finance Limited emerged from the NORSAD Fund which was established in 1990 as a multilateral partnership between four Nordic and eleven SADC Member States and extended foreign currency facilities for the operations of private sector enterprises in the region. Norsad's strategy has since incorporated more customized and flexible debt funding and mezzanine financing structures.

Social and Environmental Responsibility

One of Norsad Finance's key aims is to promote socially sustainable and environmentally friendly businesses. Compliance with international social and environmental standards is an integral part of our investment operations. Norsad Finance has adopted the International Finance Corporation (IFC)'s environmental and social performance standards. Companies financed by Norsad are required to comply with these standards as well as the local environmental and labour legislations.

To enhance our added value to investee companies, Norsad Finance investment professionals work with investee companies to assist them with formulating and implementing acceptable social and environmental policies.

NORSAD TIMELINE

1990

DKK 200 MILLION

Norsad Fund and Norsad Agency began operations as a Nordic SADC multilateral entity based in Lusaka, Zambia. Established to contribute to the economic development and self-reliance of the participating SADC countries by extending foreign currency facilities to private sector projects. The initial capital provided by 4 Nordic countries was DKK 200 million approximately
(USD 33.5 million)

2005

Norsad adopted a primary focus to support small to medium size businesses through intermediary financial institutions and increased its direct focus on mid-market companies

1993

The Organisation transformed into a development finance institution with the aim of financing SME joint ventures between the SADC and Nordic countries.

2009

81
PROJECTS

Norsad had financed 81 projects since inception, resulting in disbursement volume of USD 114 million

1998

Norsad received an additional
DKK
150 MILLION

Norsad received an additional DKK 150 million (USD 19.5 million) from the Nordic countries resulting in paid in capital of DKK 350 million

2011

Norsad Finance Limited was established with the transformation of the Norsad Fund and Agency multilateral entity into a limited liability company.

2000

Norsad Fund celebrated its 10th Anniversary

2002

The Board of Governors of the Norsad Fund approved the removal of the requirement for Norsad investments to have a Nordic investment partner.

2004

Norsad Fund Grows To DKK 392 MILLION

Norsad Agency achieved an operating surplus of DKK 7million (USD 1.5 million), and the initial capital of DKK 350 million (USD 61 million) provided by the 4 Nordic governments had grown to DKK 392 million (USD 84 million)

2012

Four Nordic development finance institutions – Finnfund of Finland, IFU of Denmark, Norfund of Norway and Swedfund of Sweden, made a USD 33.8 million equity investment in Norsad Finance which increased its capital base to over USD 100 million. Norsad Finance relocated its offices and staff to Gaborone from Lusaka. Norsad increased its product offering around flexibility and adopted the IFC environmental and social performance standards.

NORSAD FINANCE *Increased Its Capital Base To Over* USD 100 MILLION.

2014

In addition to the equity investment of USD 33.8 million by Nordic Shareholders in 2012, the SADC shareholders made an additional equity investment of USD 9.34 million in Norsad Finance

2015

Increased Mezzanine Focus

Mezzanine investments were introduced to the Norsad portfolio, with increased emphasis on customised debt offerings.

CHAIRMAN'S MESSAGE

Thabo THAMANE
Chairperson

"I am pleased to present our Annual Report for the year ended 31 December 2016. This year has seen significant development and changes in our markets and the company. What remains the same is Norsad's commitment to continue supporting strong commercial businesses in Southern Africa with the intention of driving economic growth, social advancement and environmental sustainability."

We continue to strengthen our business and improve operations and efficiencies which will deliver long-term benefit to our stakeholders. While we were able to manage costs effectively and achieve a record total operating income of USD 10.1 million for the year, profit after tax fell to USD 1.54 million due to increased impairment provisions on loans and advances for the year. This is in context of a challenging period for Southern African markets with low commodity demand and prices, adverse weather impact and consequences of a strengthening USD.

Due to concerning market uncertainties, the Audit and Risk Committee of the Board concentrated on improving risk and portfolio management in the Company. The risk management platform of the company is more robust and the monitoring and reporting system has been enhanced. There will be continued focus on comprehensive risk management in 2017.

The Human Resources and Remuneration Committee of the Board has emphasised alignment and growth of the team. Human Resources skills audit and talent framework review was a key initiative during the year. There is continued focus on talent management and skills upgrade to maximise value of the team.

SHARPENING THE NORSAD STRATEGY HAS LED TO INCREASED FOCUS ON MEZZANINE FINANCING WITH ABOUT 30% OF THE NEW INVESTMENTS IN 2016 WITH MEZZANINE FEATURES.

We engaged the Institute of Directors in Southern Africa (IoDSA) for a governance review based on the King IV report and are currently implementing suggested improvements. The Governance Committee of the Board also increased oversight on governance related issues and are ensuring that we have a strong, diverse Board with relevant experience to support the company in delivering its growth strategy. Governance continues to remain a strong foundation of the company.

The Board focused on our long-term strategic direction and growth plan during the year. With Norsad entering its fifth year of operations since transformation from a multilateral entity to a limited liability company, the Board agreed to sharpen the present strategy and mission with the goal of maximising the potential return (financial and impact) to shareholders, for a similar asset class investment. The strategy goal statement is "to become the premier Southern African provider of flexible and customised impact financing".

The strategic review has led to increased focus on mezzanine financing. We continue to increase mezzanine investments in the portfolio with about 30% of the new investments in 2016 with mezzanine features, higher yield and some upside potential. We believe that this remains a growth area for Norsad to increase the potential return to our Shareholders. The strategy is anchored on our unwavering commitment towards development impact and maintaining high social and environmental standards.

Despite the current challenging circumstances, our markets are on a growth path and the persisting resilience in the region reflects the continuing diversification of Southern African economies over the last decade. Going forward, this will be supported by a growing labour force, increasing urbanization and the accelerating technological changes.

We are confident in the future of Norsad and in September 2016 appointed Kenny Nwosu as new CEO effective from 1 January 2017 to drive the strategy of the company. Ms. Sari Nikka served out her term as CEO in December 2016. The Board of Directors recognizes her immense contribution in the transformation of Norsad and wishes her success in future endeavours.

Mr. Nwosu was recruited as Chief Investment Officer in 2015 and has been closely involved in Norsad's review of the strategy and structure. He brings extensive investment management and private equity experience and has demonstrated since his appointment, the ability to identify the challenges we face and lead the necessary responses to create growth for the company.

I am very pleased to announce that Norsad continues to pay a dividend to its shareholders. The unique shareholding structure of Norsad brings together investors and ideas from the Nordic countries and the SADC region adding value to the Company. We continue to work with partners and portfolio companies on the sharing of market information, co-financing opportunities and Environmental, Social and Governance (ESG) best practices.

Our shareholders' confidence in the Company is also highlighted by receipt of a final subscription payment in April 2016 of USD 3.3 million for the Preference Share Issue which is now closed. "A total of USD 45,907,055 was received in respect of all subscribed and paid Preference Shares."

I would like to thank my fellow Directors for their contribution in 2016. Finally, on behalf of the Board I would like to thank all of our people for their significant contribution over the past year, despite the challenging year in Southern African markets. We have implemented new strategic initiatives and the successful and timely delivery of these as well as the continued growth and development of Norsad is down to the passion, hard work and effort of all our people.

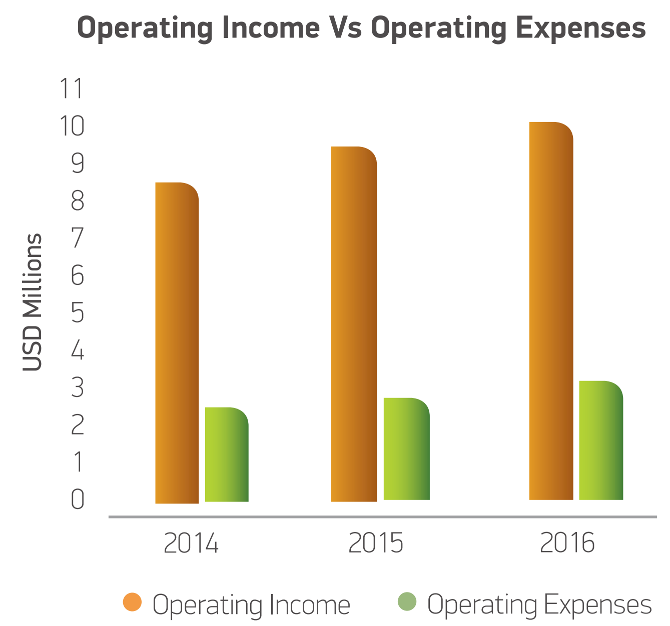
CEO'S REPORT

Kenny NWOSU
Chief Executive Officer

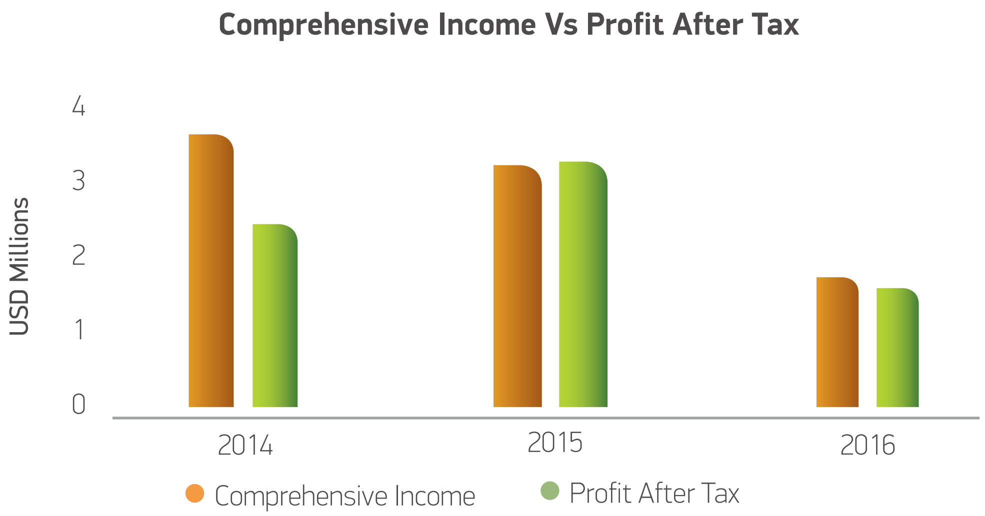
"Norsad Finance's fifth year of operations has been characterised by the increased focus on mezzanine and customized funding instruments on the backdrop of a strenuous operating environment as most markets strive towards a full recovery."

THE COMPANY ACHIEVED A RECORD HIGH OPERATING INCOME OF

USD 10.1 million.



Improvement in Operating Income did not reflect in the Comprehensive Income for the Year due to impairment provisions of USD 4.73 million (276% higher than 2015) which were USD 2.3 million higher than budget. The Profit for the year was USD 1.54 million and Comprehensive Income for the Year was USD 1.73 million. Management has prioritized risk and portfolio management activities to address key issues impacting the portfolio.



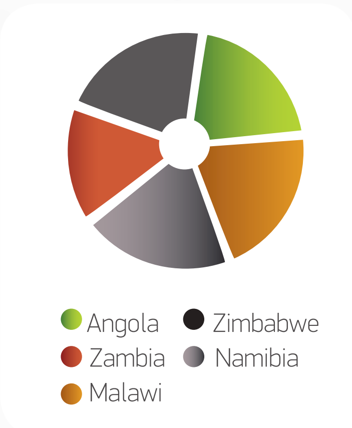
Investment Operations

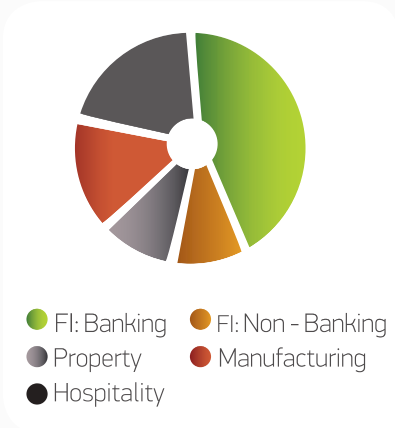
Norsad Finance's investment operations accommodates investments from secured debt to customized flexible instruments including mezzanine financing. Our Investment Policy emphasizes the need to intentionally generate both market-related returns and development impact that is actively measured. During the year, our investment focus remained private enterprises in Southern Africa committed to the sustainability criteria of Norsad.

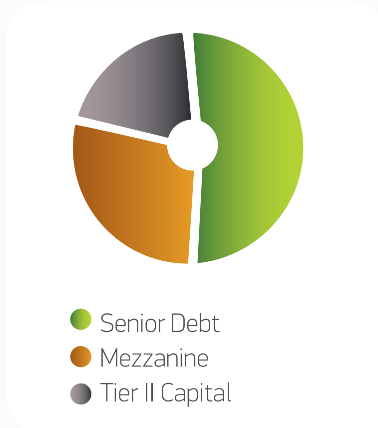
Marketing activities were intensified during the year as we introduced mezzanine funding options to our existing and new partners. About 30% of the investment facilities approved included mezzanine features. The Company also strengthened the team by hiring three new investment professionals who joined the Company during the year.

The Board of Directors approved six investments valued at USD 47.5 million in 2016 (2015: USD 38 million) which was above the budgeted total of USD 45.1 million. The average size of an investment was USD 7.9 million (2015: USD 4.8 million) and expected weighted average return was 12% (2015: 11%). The new investment approvals were well diversified by country and sector, with the financial sector still remaining the largest beneficiary as shown in the following charts:

Investment Approvals in 2016 (By Country, Sector and Instrument)

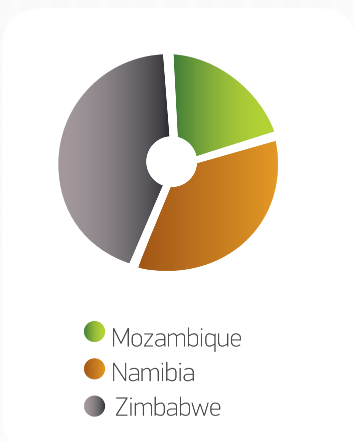


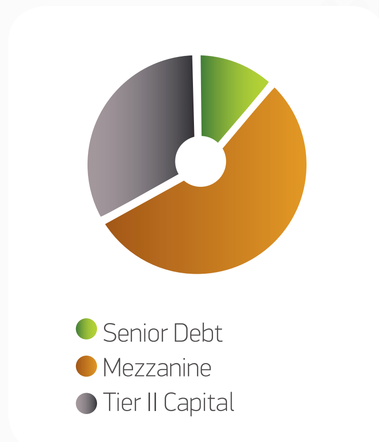




Norsad Finance's investment disbursements were USD 29.5 million in 2016 (2015: 34 million). The investment disbursements were below the budgeted value of USD 42 million. In addition to the lower than anticipated disbursements, Norsad had high loan repayments of USD 22.6 million (2015: USD 28.6 million) compared to a budgeted total of USD 17.4 million. These left the portfolio growth at a modest level of 3.6% (2015: 1.3%). The undisbursed commitments as at 31 December 2016 were USD 27.5 million (2015: USD 14.5 million). The following charts illustrate disbursements in 2016 by country, sector and instrument:

Disbursements in 2016 (By Country, Sector and Instrument)

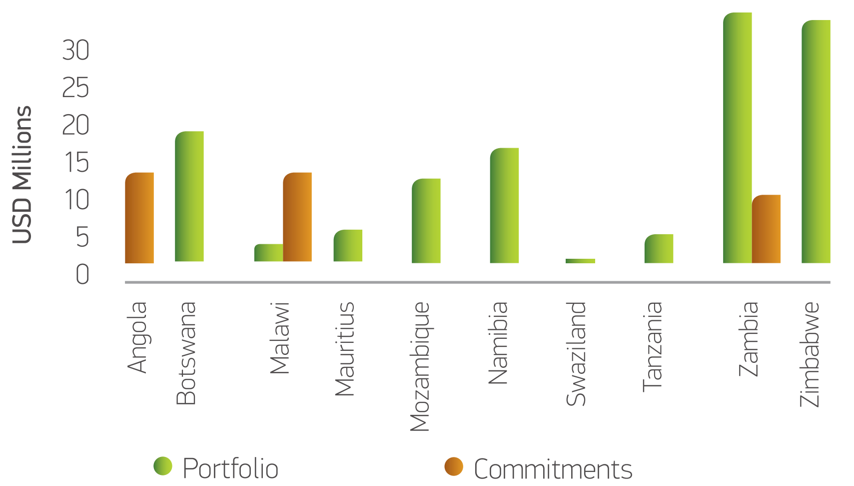




Investment Portfolio

The investment portfolio is well diversified by country and sector. Zambia and Zimbabwe are currently the biggest markets for our financing while the largest client group is financial institutions. We have twice as many direct investments to companies than to financial institutions, however investments to the latter are normally more sizable than direct investments into growth companies. The following charts summarise the investment portfolio as at 31 December 2016 by country and sector.

Portfolio and Commitments - Country Analysis



Portfolio and Commitments - Sector Analysis

The Company's total gross loan portfolio exceeded USD 100 million for the first time (USD 105 million). The net outstanding investment portfolio as at 31 December 2016 before collective provisions was USD 99.7 million (2015: USD 95.9 million). The outstanding portfolio is expected to grow by about 25% to USD 124 million by the end of 2017.

Improving of the portfolio monitoring and risk management remained a key focus in 2016. The majority of the portfolio is well performing with 9% of the portfolio categorised as Doubtful and 2% categorised as loss.

Social and Environmental Compliance - Core to Norsad Investment Operations

Norsad Finance follows international best practice and World Bank/IFC guidelines in determining the social and environmental risks of its investments, as well as in the upgrading of investee companies' social and environmental risk management systems. The majority of the investee companies (74%) are categorised as medium social and environmental risk entities. Seven of the investee companies are categorised as high risk companies based on their business operations.

Norsad's dedicated social and environmental specialists and the investment officers work closely with investee companies to identify and mitigate risks related to their business operations. The compliance with the international standards is not only to fulfil Norsad's requirements, but to also add value to our investee companies by improving their future funding prospects from international markets and access to global business partnerships.

We monitor compliance of the investee companies with the social and environmental requirements on regular basis. According to the 2016 year-end compliance monitoring of the investee companies, 96% were compliant and meeting with Norsad's Social and Environmental requirements and reporting. Only one investee company was considered to be non-compliant with Norsad's requirements.

Developmental Quality of Norsad Finance Investments

Norsad Finance measures the developmental quality of its investments on an annual basis by using the GPR Tool system designed by German Investment and Development Corporation (DEG), a German development finance institution. We are currently exploring other measurement tools in the market to replace the legacy GPR Tool. With current measurements, we record investee companies' contribution to government revenue, national income, foreign currency revenue and employment creation. In addition, the overall training and gender effects are measured, as well as technology know-how and transfer and positive market and structural effects.

The overall achievement of development outcome for 2016 was found to be broadly positive and the developmental quality of the investment portfolio has steadily improved over the years. For the year ended 31 December 2016, 25 investee companies formed the basis of the evaluation. This represents 100% of total portfolio.

For our Direct Investment Portfolio, a total of fifteen (15) investee companies were tested against the GPR tool. Ten (10) investee companies were classified "Very Good", five (5) Investee companies were classified "Good" and no Investee Company was classified below "Good". The improvement is attributed to continuous progress made in investee companies as well as the quality of the new investments.

For our Financial Institution Portfolio, the overall result of the GPR tool identified the ten (10) investee companies as "Very good". This is an improvement from 2015 where two institutions were classified as "Good" and have since moved to "Very Good".

At the end of the year, Norsad Finance's investee companies employed a total of 11,934 people.

AT THE END OF THE YEAR, NORSAD FINANCE'S INVESTEE COMPANIES EMPLOYED A TOTAL OF

11,934

PEOPLE.

NORSAD WILL ALSO LOOK TO OFFER LOCAL CURRENCY FACILITIES (ZAR) ALONG OUR TYPICAL USD FACILITIES AND SEEK PARTNERS TO PROVIDE LEVERAGE TO FINANCE OUR CONTINUED

GROWTH.

Outlook for 2017

Many Southern African economies continue to recover from the sluggish growth, with the recent growth in optimism, accompanied by some modest recovery in commodity prices and expected stronger harvests. The increased government borrowing in some markets to address the fiscal issues continue to crowd out the private sector while the expected strengthening of the US Dollar still poses some concern on inflationary pressures and renewed flow of external capital.

Norsad Finance will continue to increase investment activities in the region and increasingly focus on mezzanine and uniquely structured financing instruments. It is more evident that there are very limited providers of flexible and customized funding in the region such as Norsad, with an ever growing need of such financing, we will look to fill the market gaps by offering financing not typically available from the commercial market players and complementary to other financing. Norsad will also look to offer local currency facilities (ZAR) along our typical USD facilities and seek partners to provide leverage to finance our continued growth.

The current challenges with the environment necessitates that the risk management framework of Norsad be enhanced because of the risks associated with our investments. This shall remain a key development area. In addition, we shall continue to focus on the categorisation, identification and monitoring of the social and environmental risks of our investee companies.

I would like to take this opportunity to extend my gratitude to the whole Norsad Finance team for their efforts during the year. Significant gratitude is specifically extended to Ms. Sari Nikka for her extensive contribution to Norsad over her tenure as CEO of the company. I would also like to thank our clients and partners for their continued support in enhancing the social and environmental standards of doing business in Southern Africa, as well as for their positive development impact in the region.

CORPORATE GOVERNANCE

Compliance with international corporate governance guidelines is a key principle for Norsad Finance, with its investors from 15 countries. Therefore, our Board of Directors is committed to the integrity of the organisation and its ability to manage risk and perform at its best. There is further emphasis in ensuring that Norsad Finance maintains the highest level of ethical and accountable business practices.

The Board, together with its sub-committees, acts in the best interest of the Company and always takes cognisance of the objectives of accountability, responsibility and transparency, which are the cornerstones of Norsad Finance's corporate governance principles.

According to the Company Constitution, a Director 's term of service is three years and can be re-elected once. Mr. Thabo Thamane (Botswana) chaired the Board in 2016. During the year, the Board composition was altered due to the resignation of two Directors, Mr Charles Chikaura and Mr Erik Sandersen both resigned. Ms Aurora Malene was appointed in the Annual General Meeting in April 2016 and Jan Rixen was appointed in an Extraordinary General Meeting in August 2016.

Our Board of Directors

Director	Nationality	Personal Alternate	Nationality
Ms Lena Algerin	Swedish	Mr Jonas Armtoft	Swedish
Mr Morten Christiansen	Danish	Mr Jens Lund Sørensen	Danish
Mr Jacob Lushinga	Zambian	Mr Molefi Leqhaoe	Mosotho
Ms Aurora Malene Psico	Mozambican	TBC	
Ms Paula Perttunen	Finnish	TBC	
Mr Jan Rixen	Danish	Mr Erik Sandersen	Norwegian
Mr Thabo Thamane	Motswana	Mr Martin Inkumbi	Namibian

The Board has established three standing sub-committees namely Governance Committee, Audit & Risk Committee and Human Resources & Remuneration Committee. The compostion of the Board Committees are as follows:

Governance Committee	Audit & Risk Committee	HR&R Committee
Ms Lena Algerin	Mr Jacob Lushinga	Ms Lena Algerin
Mr Morten Christiansen	Ms Paula Perttunen	Mr Morten Christiansen
Ms Aurora Malene Psico	Mr Jan Rixen	Ms Aurora Malene Psico

OUR MANAGEMENT

Jonathan DAVIES
Chief Financial Officer

He has over 20 years' experience in financial management in Southern Africa. He holds a Bachelor (Hons) degree in Accounting and Finance. He is a Fellow member of Chartered Certified Accountants (ACCA) and Fellow member of Botswana Institute of Chartered Accountants (BICA).

Rosemary LIYWALII
Chief Portfolio Officer

She has over 18 years' experience in banking, credit appraisal, project monitoring, loan restructuring and debt recovery. She joined NORSAD Agency in 2003 as Portfolio Officer and is currently Chief Portfolio Officer. Mrs Liywalii has an MBA from Heriots-Watt University's Edinburgh Business School.

Kenny NWOSU
Chief Executive Officer

He has extensive investment management and private equity experience and has served on the Board of Directors in several banks and investment funds across Africa. He holds a BA Honors in Economics from the University of Nottingham and an MBA from London Business School.

OUR TEAM

1 **Naomi MULIMA**
Portfolio Officer

2 **Ngodya CHIMBWETE**
Senior Investment Analyst

3 **Lorato MOLEMA**
Portfolio Analyst

4 **Thabo TOKO**
Driver and Messenger

5 **Keboetswe LETSHOLO**
Investment Analyst

6 **Alice ZULU**
Investment Principal

7 **Edward MULILO**
Investment Principal

8 **Gosegomang MODISE**
Audit and Compliance Head

9 **Dudu GAREKWE**
Investment Principal

10 **Wedu TSIMAKO**
Investment Analyst

11 **Keoleboge MALELA**
Social & Environmental Analyst

12 **Charity MALATSI**
Receptionist & Admin Assistant

13 **Kelsey TALANE**
Office Administration Officer

Justin NTHALA
Investment Principal

Nathan MONAGENG
Social & Environmental Officer

Oteng SEBONEGO
Investment Principal

Masilo SERUMOLA
Investment Analyst

Mercy RAMATEKE
Financial Accountant

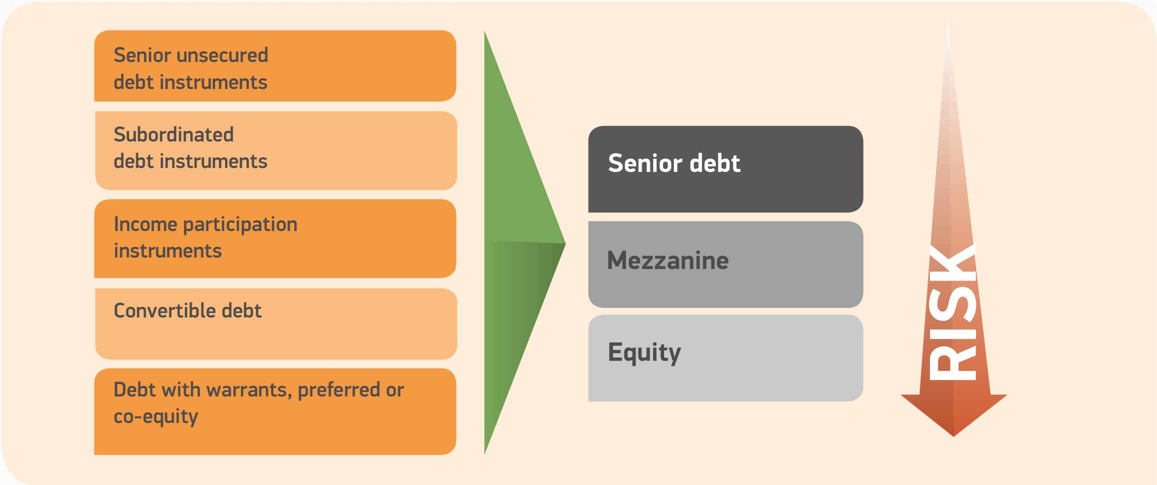
INVESTMENT OPERATIONS

Norsad - Spotlight on Mezzanine Finance

For over 20 years, Norsad (including its predecessor entity) has been contributing to private sector development in Southern African countries by providing funding to enterprises that are deemed financially, socially and environmentally sustainable. Following the evolvement of Norsad from a multilateral agency to a limited liability company by 2012, our strategy incorporated more customised and flexible debt funding structures to businesses in the region. The geographical coverage of investments expanded to include all SADC member countries and mezzanine financing was identified as a key growth opportunity.

The importance of mezzanine financing structure is evident from some of the challenges that entrepreneurs and business owners across SADC and other emerging economies face when accessing typical financing structures (senior debt and equity). For fast growing mid-size businesses, access to bank credit poses a challenge with the lending focus primarily on assets or collateral. Norsad places significant emphasis on the cash flows of the business in the provision of customised debt and mezzanine facilities. Furthermore, the subsequent introduction of new capital adequacy requirements post the global financial crisis have resulted in many international banks scaling back their emerging market activities in recent years. While private equity is an option, entrepreneurs are at times hesitant to give up equity in their companies. In such cases mezzanine financing can play a vital role.

Mezzanine Finance is a hybrid form of financing, typically in-between senior debt and equity finance in the capital structure of a company and can have features of both debt and equity. The utilisation of mezzanine and other quasi-equity financing instruments usually results in a more optimised balance sheet structure with better access to additional loans or equity, offers the lowest cost of capital and maximises return on equity. In emerging markets, mezzanine financing is typically growth capital provided to medium-size companies that are cash-flow positive and looking for financing to fund growth, acquisitions or recapitalisations.



FEATURED PROJECTS 2016

Trustco Holdings, *Namibia*

Trustco Group Holdings Limited is a Namibian registered investment holding company with a primary listing on the Johannesburg Stock Exchange and a secondary listing on the Namibian Stock Exchange. In addition, the group listed in the United States under the American Depository Receipt programme in 2014. The group's four main operating segments are banking and finance, insurance, investments and resources. The insurance segment has a presence in both Namibia and South Africa. The group is anticipated to grow in both the banking & finance and resources segments. In 2016, Norsad approved a facility to support the financial services expansion plans fo the group.

FBC Holdings Limited, *Zimbabwe*

FBC Holdings Limited (FBCH) is an Investment holding company listed on the Zimbabwe Stock Exchange and whose principal activities are in Zimbabwe. The Group offers diverse financial services through subsidiaries that span commercial banking, mortgage financing, short-term insurance, re-insurance, securities trading and micro financing. FBC Holdings Group comprises FBC Bank Limited, FBC Building Society, FBC Reinsurance, FBC Securities (Private) Limited, Eagle Insurance Company Limited, and MicroPlan Financial Services (Private) Limited. The Group's clients include SMEs, individuals and mid-sized corporates. FBCH is also involved in micro finance through MicroPlan Financial Services. In 2016, Norsad Finance approved a facility to FBCH to support its continued growth.

Malawi Sun Hotel, *Malawi*

Malawi Sun Hotel and Conference Centre is a 73-room hotel in Blantyre, Malawi. The hotel also has a double storey conference facility to cater for 300 people, two restaurants, a food court serving fast foods and an ice cream parlor, a fun game shop and a bakery and confectionery shop.

Malawi Sun Hotel and Conference Centre is an existing client of Norsad and has decided to expand its foot print to Lilongwe, Malawi. In 2016, Norsad Finance approved a mezzanine facility to support this expansion.

Norsad FINANCE | Annual Report **2016**

GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

For The Year Ended 31 December 2016

(Company Registration No. CO.2011/11031)

CONTENTS

The directors have pleasure in presenting their report, the group annual financial statements and the annual financial statements for the year ended 31 December 2016.

Nature of business

The group provides investment loans and long term risk capital to Southern African companies that are financially, socially and environmentally sustainable.

Interest in Subsidiaries

Norsad Finance Limited holds a 100% share in Norsad Finance (Botswana) Ltd, a company incorporated in Botswana on 9 September 2013, (Company Registration No. CO.2013/10180).

Review of the group's financial position and results

The financial statements incorporate the financial statements of the company, referred to as the "Company" and consolidated statement incorporating entities controlled by the company, reflect the financial statements of the company and its subsidiary and are collectively referred to as the "Group".

The financial results and position are reflected in the financial statements set out on pages 29 to 60.

Currency of presentation

The group's annual financial statements and the annual financial statements are presented in United States Dollars (USD), which is the group's functional and presentation currency.

Events after the reporting date

The directors are not aware of any matter or circumstance arising since the end of the financial period, not dealt with in this report or these financial statements which would significantly affect the operations or financial results of the group.

Changes in equity

During the year ended 31 December 2016, preference shares were paid and issued as follows:

SHAREHOLDER	NUMBER OF SHARES	USD VALUE
Development Bank of Zambia	280	2 318 120

Dividends

On 26 April 2017 a dividend of USD 39 (2015: USD 85) per ordinary share was declared for the year ended 31 December 2016 on 8,800 (2015: 8,800) ordinary shares. Further a dividend of USD 78 (2015: USD 170) per preference share was declared on 5,545 preference shares (2015: 5,265 preference shares). Dividends are recognised as a liability in the period in which they are declared.

Directors

BOARD OF DIRECTORS	ALTERNATE DIRECTORS
Algerin, Lena	Armtoft, Jonas
Malene Psico, Aurora	To be confirmed
Christiansen, Morten	Sorensen, Jens
Lushinga, Jacob	Leqhaoe, Molefi
Perttunen, Paula	To be confirmed
Rixen, Jan	Sandersen, Erik
Thamane, Thabo	Inkumbi, Martin

Changes during the period

Sandersen, Erik	(Resigned 1 July 2016)
Chikaura, Charles	(Resigned 4 July 2016)
Malene Psico, Aurora	(Appointed 20 April 2016)
Rixen, Jan	(Appointed 24 August 2016)

Registered Office

Plot 74770, Western Commercial Road
Central Business District, Gaborone

Company Secretary

Desert Secretarial Services (Proprietary) Limited
Plot 64518, Fairgrounds Office Park, Gaborone

Auditors

KPMG
Plot 67977, Fairgrounds Office Park, Gaborone

Principal Bankers

First National Bank Botswana Limited
Plot 54362, Central Business District, Gaborone

Exchange Rates		2016	2015
ZAR / USD	(ZAR = South African Rand)	13.647	15.398
ZMW / USD	(ZMW = Zambian Kwacha)	9.807	10.946
BWP / USD	(BWP = Botswana Pula)	10.529	11.039

DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Norsad Finance Limited, comprising the statements of financial position at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management. Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The directors have made an assessment of the ability of the company and its subsidiaries to continue a going concern and have no reason to believe that the group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The auditor conducts an examination of the annual financial statements in conformity with International Standards on Auditing, which include tests of transactions and internal accounting control. Discussions meetings are held between the auditor and management, the Audit and Risk Committee and the Board of Directors.

Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements of Norsad Finance Limited, as identified in the first paragraph, were approved by the board of directors on 22 March 2017 and signed on their behalf by:

Thabo Thamane
Chairman of the Board of Directors

Jacob Lushinga
Chairman of the Board Audit & Risk Committee

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NORSAD FINANCE LIMITED

Independent Auditor's Report

To the Shareholders of Norsad Finance Limited

Opinion

We have audited the group financial statements and financial statements of Norsad Finance Limited set out on pages 29 to 60, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the group financial statements and financial statements give a true and fair view of the financial position of Norsad Finance Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 company in accordance with the independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our ethical responsibilities in accordance with ethical requirements applicable to performing audits in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Directors' Responsibility Statement set out on pages 24 to 26. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the group financial statements and 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 Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the group financial statements and financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements and financial statements, the directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the group financial statements and 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 group financial statements and financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the group financial statements and financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the group financial statements and financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the group financial statements and financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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.

KPMG
Certified Auditors
Practicing Member: A. G. Devlin (19960060:23)
27 April 2017
Gaborone

KPMG, Chartered Accountants
Audit
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PO Box 1519, Gaborone, Botswana
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NORSAD FINANCE LIMITED

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

In US Dollar

		Group		Company	
	Note	**2016**	**2015**	**2016**	**2015**
Operating income					
Interest from loans and advances	7	8 877 988	8 312 204	8 777 628	8 221 099
Interest income other investments		588 988	630 777	588 988	630 777
Interest expense		(295 603)	(404 730)	(295 603)	(404 730)
Net interest income		**9 171 373**	**8 538 251**	**9 071 013**	**8 447 146**
Fee and commission income		952 630	829 125	952 630	829 125
Other income	8	-	74 481	-	78 481
Non interest income		**952 630**	**907 606**	**952 630**	**907 606**
Total Operating income		**10 124 003**	**9 445 857**	**10 023 643**	**9 354 752**
Operating expenses					
Personnel expenses	9	(2 190 595)	(2 007 021)	(2 190 595)	(2 007 021)
Administration expenses		(182 413)	(191 346)	(182 413)	(191 346)
Depreciation		(58 097)	(50 382)	(58 097)	(50 382)
Other operating expenses	10	(824 448)	(550 221)	(817 888)	(544 557)
Total Operating expenses		**(3 255 553)**	**(2 798 970)**	**(3 248 993)**	**(2 793 306)**
Profit before impairment gains and losses		**6 868 450**	**6 646 887**	**6 774 650**	**6 561 446**
Impairment provisions on loans & advances	11	(4 729 815)	(1 256 142)	(4 775 744)	(1 198 455)
Net foreign exchange gain/(loss) on loans and advances	12	689 756	(5 048 475)	689 756	(5 048 475)
Net foreign exchange (loss)/gain on borrowings	23	(452 598)	1 371 820	(452 598)	1 371 820
Gain on loan restructuring	13	-	2 100 000	-	2 100 000
Profit before income tax		**2 375 793**	**3 814 090**	**2 236 064**	**3 786 336**
Taxation	14	(834 584)	(577 415)	(782 966)	(577 415)
Profit for the year		**1 541 209**	**3 236 675**	**1 453 098**	**3 208 921**
Unrealised net gain/(loss) on equity investments	17	221 490	(88 596)	221 490	(88 596)
Deferred taxation	22	(33 224)	13 574	(33 224)	13 574
Total comprehensive income for the year		**1 729 475**	**3 161 653**	**1 641 364**	**3 133 899**

NORSAD FINANCE LIMITED
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

In US Dollar

		Group		Company	
	Note	**2016**	**2015**	**2016**	**2015**
Assets					
Cash and cash equivalents	15	3 672 951	14 430 175	3 507 349	14 347 374
Fixed deposit investments	16	27 381 058	17 297 285	27 381 058	17 297 285
Equity investments	17	409 757	188 267	409 757	188 267
Loans and advances	18	98 633 589	95 443 020	96 881 636	94 105 910
Investment in subsidiary	19	-	-	1 666 280	1 287 470
Other assets	20	584 743	1 085 350	584 743	1 081 412
Plant and equipment	21	98 353	121 009	98 353	121 009
Deferred taxation	22	282	34 583	282	34 583
Total assets		**130 780 733**	**128 599 689**	**130 529 458**	**128 463 310**
Liabilities and equity					
Borrowings	23	2 747 775	3 653 044	2 747 775	3 653 044
Accruals and other liabilities	24	882 537	292 726	850 752	287 726
Total liabilities		**3 630 312**	**3 945 770**	**3 598 527**	**3 940 770**
Shareholders' equity					
Stated capital	25	118 978 745	116 660 625	118 978 745	116 660 625
Retained earnings		8 199 631	8 209 515	7 980 141	8 078 136
Other reserves		(27 955)	(216 221)	(27 955)	(216 221)
Total equity		**127 150 421**	**124 653 919**	**126 930 931**	**124 522 540**
Total liabilities and equity		**130 780 733**	**128 599 689**	**130 529 458**	**128 463 310**

Thabo Thamane
Chairman of Board of Directors

Jacob Lushinga
Chairman of the Board Audit & Risk Committee

Kenny Nwosu
Chief Executive Officer

NORSAD FINANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In US Dollar

	Stated capital	Preference share capital	Available for sale equity reserve	Retained earnings	Total equity
Group					
Balance at 31 December 2014	**73 071 690**	**33 811 436**	**(141 199)**	**6 245 440**	**112 987 367**
Issue of preference shares	-	9 777 499	-	-	**9 777 499**
Dividends paid	-	-	-	(1 272 600)	**(1 272 600)**
Profit after tax	-	-	-	3 236 675	**3 236 675**
Other comprehensive expense	-	-	(75 022)	-	**(75 022)**
Balance at 31 December 2015	**73 071 690**	**43 588 935**	**(216 221)**	**8 209 515**	**124 653 919**
Issue of preference shares	-	2 318 120	-	-	**2 318 120**
Dividends paid	-	-	-	(1 551 093)	**(1 551 093)**
Profit after tax	-	-	-	1 541 209	**1 541 209**
Other comprehensive expense	-	-	188 266	-	**188 266**
Balance at 31 December 2016	**73 071 690**	**45 907 055**	**(27 955)**	**8 199 631**	**127 150 421**
Company					
Balance at 31 December 2014	**73 071 690**	**33 811 436**	**(141 199)**	**6 141 815**	**112 883 742**
Issue of preference shares	-	9 777 499	-	-	**9 777 499**
Dividends paid	-	-	-	(1 272 600)	**(1 272 600)**
Profit after tax	-	-	-	3 208 921	**3 208 921**
Other comprehensive expense	-	-	(75 022)	-	**(75 022)**
Balance at 31 December 2015	**73 071 690**	**43 588 935**	**(216 221)**	**8 078 136**	**124 522 540**
Issue of preference shares	-	2 318 120	-	-	**2 318 120**
Dividends paid	-	-	-	(1 551 093)	**(1 551 093)**
Profit after tax	-	-	-	1 453 098	**1 453 098**
Other comprehensive income	-	-	188 266	-	**188 266**
Balance at 31 December 2016	**73 071 690**	**45 907 055**	**(27 955)**	**7 980 141**	**126 930 931**

NORSAD FINANCE LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

In US Dollar

		Group		Company	
	Note	**2016**	**2015**	**2016**	**2015**
Operating activities:					
Profit before taxation		2 375 793	3 814 090	2 236 064	3 786 336
Adjusted for:					
Depreciation	21	58 097	50 382	58 097	50 382
(Gain)/Loss on disposal of assets		(17)	(2 178)	(17)	(2 178)
Withholding Tax Deducted		(721 874)	(534 646)	(721 874)	(534 646)
Net foreign exchange loss on loans/advances	12	(689 756)	5 048 475	(689 756)	5 048 475
Net foreign exchange gain on borrowings	23	452 598	(1 371 820)	452 598	(1 371 820)
Gain on loan restructuring	13	-	(2 100 000)	-	(2 100 000)
Movement in other assets	20	510 910	(380 580)	496 699	(376 642)
Movement in accruals and other liabilities	24	589 811	109 647	563 026	110 828
Specific Loan impairment charge	11	4 354 971	966 266	4 408 635	912 602
Collective Loan impairment charge	11	374 844	289 876	367 109	285 853
Net cash generated in operating activities		**7 305 377**	**5 889 512**	**7 170 551**	**5 809 190**
Investing activities:					
Proceeds from disposal of fixed deposits		7 000 000	17 478 290	7 000 000	17 478 290
Payments to acquire fixed deposits investments		(17 065 092)	(14 068 660)	(17 065 092)	(14 068 660)
Loans repaid	18	23 451 219	28 614 481	22 584 547	28 614 481
Loans disbursed and additions	18	(30 660 819)	(34 164 203)	(30 827 122)	(34 251 547)
Taxation paid		(161 595)	(24 640)	(161 595)	(24 640)
Loan repayment from subsidiary	19	-	-	1 085 000	90 000
Sale proceeds of plant and equipment		625	3 397	625	3 397
Acquisition of plant and equipment	21	(36 049)	(30 638)	(36 049)	(30 638)
Net cash used from investing activities		**(17 471 711)**	**(2 191 973)**	**(17 419 686)**	**(2 189 317)**
Financing activities:					
Proceeds from issue of preference shares		2 318 120	9 777 499	2 318 120	9 777 499
Borrowings repaid		(1 357 917)	(1 463 686)	(1 357 917)	(1 463 686)
Dividend payments		(1 551 093)	(1 272 600)	(1 551 093)	(1 272 600)
Net cash generated from financing activities		**(590 890)**	**7 041 213**	**(590 890)**	**7 041 213**
Net movement in cash & cash equivalents		**(10 757 224)**	**10 738 752**	**(10 840 025)**	**10 661 086**
Cash & cash equivalents at beginning of year		14 430 175	3 691 423	14 347 374	3 686 288
Cash & cash equivalents at end of year	**15**	**3 672 951**	**14 430 175**	**3 507 349**	**14 347 374**

1. *Reporting entity*

Norsad Finance Limited is a company domiciled in Botswana registered under the Botswana Companies Act and regulated by the Botswana Non-Bank Financial Institutions Regulatory Authority (NBFIRA). Norsad Finance Limited is accredited under the Botswana International Financial Services Centre (IFSC) which became the Botswana International Trade Centre (BITC) and is primarily involved in providing investment loans and long term risk capital to Southern African companies. These financial statements represent the statutory financial statements.

2. *Basis of preparation*

a) Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of Measurement

The financial statements are prepared on the historical cost basis, except for financial instruments which are disclosed at fair value.

c) Functional and Presentation Currency

The financial statements are presented in US Dollar, which is also the functional currency.

d) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are included in Notes 4 and 5.

3. *Significant accounting policies*

a) Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated into the functional currency of group at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

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 that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the following item is recognised in other comprehensive income:

— available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

3. *Significant accounting policies* (continued)

b) Investments

(i) Subsidiary

A subsidiary is an entity controlled by the company. Control exists when the company is exposed to or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its powers over the investee. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. All inter-group transactions, balances, income and expenses are eliminated in full on consolidation.

(ii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the "company" and entities controlled by the company, its subsidiary, which are collectively referred to as the "Group".

c) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest, the group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest includes all transaction costs and fees paid or received that are an integral part of the effective interest. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

— interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

— interest on available-for-sale investment securities calculated on an effective interest basis

d) Fee and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in other operating income based on the underlying classification of the equity investment.

3. *Significant accounting policies (continued)*

f) Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3. *Significant accounting policies (continued)*

g) Financial assets and financial liabilities

(i) Recognition

The group initially recognises loans and advances on the date that they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial Assets

The group classifies its financial assets in one of the following categories:
— loans and receivables; or
— available-for-sale

Financial Liabilities

The group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial Assets

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial Liabilities

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

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

3. *Significant accounting policies (continued)*

g) Financial assets and financial liabilities *(continued)*

(vi) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Available for sale financial assets are carried at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the available for sales reserve in equity.

(vii) Identification and Measurement of Impairment

At each reporting date the group assesses whether there is objective evidence that financial assets are impaired. An impairment test is carried out on all investments individually to determine their classification. A financial asset is re-classified as impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include the following:

(i) indications that the economic performance of the asset is or will be weaker than expected

(ii) an actual breach of contract, such as default in interest or principal payments.

(iii) a historical pattern of collection of accounts receivable that indicates that the entire amount will not be collected.

(iv) a high probability of bankruptcy or other financial reorganisation of the borrower.

(v) Significant changes having an adverse effect have taken place in the technological, market, economic, political or legal environment in which the borrower operates or in the market to which it is dedicated

(vi) the market value of the net assets or the core performance indicators of the borrower has declined significantly more than would be expected under usual circumstances.

Collateral values play a prominent role in loan risk classification and provisioning. The group's own calculations are primarily based on the value of collateral compared to the total outstanding. The group may seek valuation by independent professional valuer(s) taking into account ease of realisation and reduction in value arising from delays in enforcement or realisation. The group shall value corporate guarantees on the basis of audited statements of the guarantor submitted in line with the requirements under the guarantee document. The value of the security shall also depend on the confidence the company has in the respective legal framework to support realisation of security.

In assessing collective impairment the group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly bench marked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

3. *Significant accounting policies (continued)*

g) Financial assets and financial liabilities *(continued)*

(vii) Identification and Measurement of Impairment (continued)

Classification	Subjective Narration	Objective Narration
Pass	*All of the following:* a) the financial condition of the borrower is sound; b) there is adequate documentation to support the credit, such as current financial statements, cash flows; and c) the collateral is unimpaired and represents tangible security to cover the exposure in secured investments.	a) the investment is up-to-date in repayments; or b) an investment with principal or interest due and unpaid for less than 30 days.
Special Mention	*All of the following:* a) the investment account is currently up-to-date but evidence suggests that certain factors could in the future affect the borrower's ability to service the account properly or impair the collateral; b) collateral is not fully in place; c) an account which could deteriorate because of current market conditions affecting the sector or industry; d) a renegotiated account which is up-to-date in repayments and adequately secured for a minimum of one year after rescheduling and during which period there would have been no inherent weaknesses affecting repayment; or e) deterioration in credit standing or political situation of the country in which the assets or collateral of the investment account are located; or f) deterioration of future prospects of the sector or industry of the investment account.	a) principal or interest is due and unpaid for 30 days to less than 90 days; or b) interest charges for 30 to 90 days have been capitalised.
Substandard	*All of the following:* a) there are well-defined credit weaknesses, such as, shortfalls in the borrower's cash flow; b) the primary source of repayment is insufficient to service the debt and the Norsad will have to look at secondary sources, such as collateral or refinancing, for repayment; c) the well-secured portion of an investment which would otherwise have been classified as doubtful or loss; or d) significant deterioration in credit standing or political situation of the country in which the assets or collateral of the investment account are located; or e) significant deterioration of future prospects of the sector or industry of the investment account.	a) principal or interest is due and unpaid for 90 days to less than 180 days; or b) interest charges for 90 to 180 days have been capitalised.
Doubtful	*All of the following:* a) the collection of the debt in full is highly questionable or improbable; or b) there is possibility of a loss, and some factors exist which could improve the situation.	a) principal or interest is due and unpaid for 180 days to less than 365 days; or b) interest charges for 180 to 365 days have been capitalised.

3. *Significant accounting policies* (continued)

g) Financial assets and financial liabilities *(continued)*

(vii) Identification and Measurement of Impairment (continued)

Classification	Subjective Narration	Objective Narration
Loss	*All of the following:* a) an account considered uncollectible; b) an account which may have some recovery value but it is not considered practical nor desirable to defer write off; or c) an account classified as doubtful with little or no improvement over the 365 days period it has been classified as such.	a) principal or interest is due and unpaid for 365 days or more; or b) interest charges for 365 days or more have been capitalised.
Write-Off	*Write off shall be considered for non-performing investments which have been provided for 100% when:* a) the arrears have been outstanding without being repaid or reduced for at least 540 days. The Portfolio Management will continue to follow-up these investments to maximize debt recovery from the proceeds of the receivership and/or liquidation process; projects will be listed on the internal Investment Update Report and on annual Investment Provision paper to the Board until legal or recovery processes have been completed; and b) all possible efforts at recovery of the debt have been exhausted or no reasonable expectation of further recovery exists; or c) the estimated cost of further action does not justify the expected recovery which may result from the action.	

Specific Provisions shall be provide for against instrument classification as follows:

Classification	Provision Level up to outstanding loan principal
Pass	0%
Special Mention	0%
Substandard	20%
Doubtful	50%
Loss	100%

The classification and provision levels of all the company's investments are individually reviewed on a quarterly basis throughout the life of the investments.

3. *Significant accounting policies (continued)*

h) Fixed Deposit Investments

Fixed deposit investment are fixed term deposit investments with regulated banks that have risk ratings above "non-investment grade – Baa3, per Moody's ratings", with original maturities of one month or more from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its loan commitments.

Fixed deposit investments are carried at amortised cost in the statement of financial position.

i) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than one month from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

j) Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term.

Investment loans to financial institutions and directly to customers are classified as loans and advances.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

k) Plant and equipment

(ii) Recognition and Measurement

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of plant or equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Any gain or loss on disposal of an item of plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

(ii) Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss.

Significant items of plant and equipment are depreciated as follows:

- Motor vehicles	25% reducing balance
- Computer equipment	33.3% straight line
- Office furniture	20% straight line

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. *Significant accounting policies (continued)*

l) Impairment of non-financial assets

The group's non-financial assets are identified as plant & equipment and deferred taxation. Their carrying amounts are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. Impairment losses are recognised in the statement of profit or loss and other comprehensive income. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment was recognised.

m) Provisions

A provision is recognised if, as a result of a past event, the group 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

n) Financial guarantees and commitments

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

The group had invested in a financial guarantee contract in which it retains 50% of the risks of the total facility amount. The contract expired on 28 February 2015.

3. *Significant accounting policies (continued)*

o) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the periods during which related services are rendered.

(ii) Short-term employee benefits

The cost of short term benefit is recognised during the period in which the employee renders the related service.

Employee entitlements to incentive payments, medical aid and gratuity benefits are recognised when they accrue to employees and an accrual is recognised for the estimated liability as a result of services rendered by the employee up to the reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

Employees who are not members of an approved pension scheme are entitled to gratuity benefits as stipulated in their employment contracts. An accrual is recognised for the estimated liability for services rendered by the employee up to the reporting date.

p) Share capital and reserves

Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

q) Standards and interpretations which became effective during the year

At the date of authorisation of the Group annual financial statement and annual financial statements of Norsad Finance Limited for the year ended 31 December 2016, the following standards, amendments to standards and interpretations that apply to the Group and company, were in issue but not yet effective for 31 December 2016. The group does not plan to adopt these standards early, but in the period that they become mandatory:

Standards/Interpretations		Effective date
IAS 7	Disclosure amendments	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 27	Equity Method in Separate Financial Statements	1 January 2017
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Leases	1 January 2019

3. *Significant accounting policies (continued)*

r) New standards and interpretations not yet adopted

The following are new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements.

(i) (Amendments to IAS 7) Disclosure Initiative

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. The amendments apply for annual periods beginning on or after 1 January 2017 and will be adopted when it becomes effective.

(ii) (Amendments to IAS 12) Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

The amendments apply for annual periods beginning on or after 1 January 2017 and will be adopted when it becomes effective.

(iii) (Amendments to IAS 27) Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures. The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 and early adoption is permitted.

These amendments, which become effective for the company's 2017 financial statements, may have an impact on the measurement of the company's investments in its subsidiaries and the required disclosures in the company's separate financial statements. The company is currently measuring and disclosing its investments in subsidiaries at cost. The amendments will have no impact on the group's financial statements.

(iv) IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard is unlikely to have a significant impact on the company. The standard is effective for annual periods beginning on or after 1 January 2018.

(v) IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the company.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(vi) IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lesees and lessors. The company are assessing the potential impact on the financial statements resulting from the application of IFRS 16.

4. *Financial Risk Management*

a) Introduction and Overview

The group has exposure to various risks from financial instruments, the most significant of which are the following:

— credit risk
— liquidity risk
— market risks
— operational risks

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The group's risk management systems are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the group's risk management systems and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the group.

b) Credit Risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's loans and advances to customers and other banks. For risk management reporting purposes the group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Board of Directors is responsible for the oversight and management of credit risk including:

— *Formulating investment policies* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

— *Establishing the authorisation structure* for the approval and renewal of credit facilities.

— *Limiting concentrations of loan portfolio* exposure as follows:

- Unhedged foreign currency risk, limited to 15% of balance sheet total.
- Single company or corporate group, limited to 15% of balance sheet total.
- Aggregate loans to a single country, limited to 30% of balance sheet total.
- Aggregate loans to a single sector other than financial sector, limited to 30% of balance sheet total.
- Aggregate loans to a related parties, limited to 20% of balance sheet total.

— *Developing and maintaining the group's risk grading*'s in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. A risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Board of Directors and are subject to regular reviews.

— *Reviewing compliance* with agreed exposure limits. Quarterly reports on the credit quality of portfolios are provided to Directors who may require corrective action to be taken.

The Investment Officers undertake the entire project proposal process for potential customers including input from an internal screening committee, before they can be submitted to the Board of Directors for approval. On a continual basis the Portfolio Officers monitor the operations of the customers to assess their ability to make the repayments. In an event where the customer is unable to fulfil the repayment plan, an impairment provision of the loan is determined taking into consideration the recoverable amount of the collateral pledged by the customer.

4. *Financial Risk Management (continued)*

b) Credit Risk (continued)

Group Exposure to Credit Risk

Risk Grading And Ageing 31 December 2016	*Notes*	**Loans & Advances Direct To Customers**	**Loans & Advances To Financial Institutions**	**Total**
Total Carrying amount	*18*	**37 023 958**	**61 609 631**	**98 633 589**
Assets as per risk grading's:				
Risk Grade 1 : **Pass**		29 158 309	45 104 124	74 262 433
Risk Grade 2 : **Special Mention**		7 281 920	13 174 416	20 456 336
Risk Grade 3 : **Substandard**		-	-	-
Risk Grade 4 : **Doubtful**		1 666 489	7 492 592	9 159 081
Risk Grade 5 : **Loss**		-	1 691 815	1 691 815
Gross amount		38 106 718	67 462 947	105 569 665
Allowance for impairment	*18*	(1 082 760)	(5 853 316)	(6 936 076)
Carrying amount 2016		**37 023 958**	**61 609 631**	**98 633 589**
Ageing analysis:				
Neither past due nor impaired		35 003 868	56 016 792	91 020 660
Past due not impaired:				
0 – 30 days		1 186 845	1 846 544	3 033 389
30 – 90 days		-	-	-
90 – 180 days		-	3 746 295	3 746 295
+ 180 days		833 245	-	833 245
Total Carrying Amount 2016		**37 023 958**	**61 609 631**	**98 633 589**

4. *Financial Risk Management (continued)*

b) Credit Risk (continued)

Group Exposure to Credit Risk

Risk Grading And Ageing 31 December 2015	*Notes*	**Loans & Advances Direct To Customers**	**Loans & Advances To Financial Institutions**	**Total**
Total Carrying amount	18	**32 446 866**	**62 996 154**	**95 443 020**
Assets as per risk grading's:				
Risk Grade 1 : **Pass**		25 479 484	61 844 344	87 323 828
Risk Grade 2 : **Special Mention**		1 720 589	-	1 720 589
Risk Grade 3 : **Substandard**		4 219 472	1 703 125	5 922 597
Risk Grade 4 : **Doubtful**		2 682 267	-	2 682 267
Risk Grade 5 : **Loss**		-	-	-
Gross amount		34 101 812	63 547 469	97 649 281
Allowance for impairment	18	(1 654 946)	(551 315)	(2 206 261)
Carrying amount 2015		**32 446 866**	**62 996 154**	**95 443 020**
Ageing analysis:				
Neither past due nor impaired		29 551 895	61 674 314	91 226 209
Past due not impaired:				
0 – 30 days		860 881	876 792	1 737 673
30 – 90 days		692 957	445 048	1 138 005
90 – 180 days		-	-	-
+ 180 days		1 341 133	-	1 341 133
Total Carrying amount 2015		**32 446 866**	**62 996 154**	**95 443 020**

The tables above set out information about the credit quality of financial assets and the allowance for impairment held by the group against those assets. The carrying amount of assets which are individually assessed represents the estimated proportion of the total assets within these grades (rather than collectively impaired assets) to which such allowance is estimated to relate.

Impaired Loans and Investment Debt Securities

The group regards a loan and advance as impaired where there is objective evidence that a loss event has occurred since initial recognition and such loss event has an impact on future estimated cashflows from the asset. In addition, a loan is considered impaired if it is overdue for 30 days or more. Impaired loans and advances are graded 1 to 5 in the group's internal credit risk grading system. Note 15 provides details of impairment allowance for loans and advances.

4. *Financial Risk Management* (continued)

b) Credit Risk (continued)

Set out below is an analysis of the gross and net (of allowance for impairment) amounts of group loan amounts individually impaired assets per risk grade.

GROUP

31 December 2016	Gross	Net
Risk Grade 1 : **Pass**	-	-
Risk Grade 2 : **Special Mention**	-	-
Risk Grade 3 : **Substandard**	-	-
Risk Grade 4 : **Doubtful**	9 159 081	4 579 540
Risk Grade 5 : **Loss**	1 691 815	-
	10 850 896	**4 579 540**

31 December 2015	Gross	Net
Risk Grade 1 : **Pass**	-	-
Risk Grade 2 : **Special Mention**	-	-
Risk Grade 3 : **Substandard**	2 876 254	2 301 003
Risk Grade 4 : **Doubtful**	2 682 267	1 341 133
Risk Grade 5 : **Loss**	-	-
	5 558 521	**3 642 136**

Past due but not impaired loans and investment securities

Past due but not impaired loans and investment securities, are those for which contractual interest or principal payments are past due, but the group believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the group.

Write Off Policy

The group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

4. *Financial Risk Management (continued)*

b) Credit Risk (continued)

Collateral held and other credit enhancements and their financial effect

The group's loans and advances to corporate customers are subject to individual credit appraisal and impairment testing. The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the group generally requires corporate to provide it. The group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Types of credit exposure Principal type of collateral held for secured lending	**Percentage collateralisation coverage arrangements over loan value**			
	Group		**Company**	
	2016	**2015**	**2016**	**2015**
Loan and advances to financial institutions				
Marketable securities	0%	9%	0%	9%
Guarantees and cash	73%	79%	73%	79%
Property and equipment	18%	31%	18%	31%
Total Coverage	**91%**	**119%**	**91%**	**119%**
Loan and advances to customers				
Marketable securities	0%	0%	0%	0%
Guarantees and cash	100%	95%	103%	102%
Property and equipment	85%	80%	83%	79%
Total Coverage	**185%**	**175%**	**186%**	**181%**

The group typically does not hold collateral against investment securities, and as such no collateral was held as at 31 December 2016.

Because of the group's focus on the corporate customers' credit worthiness, an updated valuation of collateral is generally not carried out unless the credit risk of a loan deteriorates significantly and the loan is monitored more closely. Accordingly, the group does not routinely update the valuation of collateral held against all loans to corporate customers. For impaired loans, the group usually obtains appraisals of collateral as the current value of the collateral may be input into the impairment measurement. At 31 December 2016, the net carrying amount of impaired loans and advances amounts to USD 4 579 540 (2015: USD 3 642 136) and the value of identifiable collateral held against those loans and advances is estimated at USD 14 000 000 (2015: USD 6 860 000).

Concentration of credit risk

The group monitors concentrations of credit risk by sector and geographic location. An analysis of concentrations of credit risk from loans and advances, lending commitments financial guarantees, and investment securities is shown below:

4. *Financial Risk Management (continued)*

b) Credit Risk (continued)

Group Concentration Exposure	Total	Loans and Advances Direct to Customers	Loans and Advances to Financial Institutions	Investment Securities
31 December 2016				
Carrying amount	**99 043 346**	37 023 958	61 609 631	409 757
By client type:				
Corporate	**37 433 715**	37 023 958	-	409 757
Financial Institutions	**61 609 631**	-	61 609 631	-
	99 043 346	**37 023 958**	**61 609 631**	**409 757**
By location:	**Total:**			
Botswana	**14 481 410**	4 481 410	10 000 000	-
Malawi	**1 997 772**	1 997 772	-	-
Mauritius	**3 721 321**	-	3 721 321	
Mozambique	**9 278 867**	9 278 867	-	-
Namibia	**12 541 315**	-	12 541 315	-
Swaziland	**295 132**	-	295 132	-
Tanzania	**3 265 605**	230 279	3 035 326	-
Zambia	**27 327 497**	12 916 463	14 411 034	-
Zimbabwe	**26 134 427**	8 119 167	17 605 503	409 757
	99 043 346	**37 023 958**	**61 609 631**	**409 757**

Group concentration exposure		Loans and advances direct to customers	Loans and advances to financial institutions	Investment Securities
31 December 2015	**Total**			
Carrying amount	**95 631 287**	32 446 866	62 996 154	188 267
By client type:				
Corporate	**32 635 133**	32 446 866	-	188 267
Financial Institutions	**62 996 154**	-	62 996 154	-
	95 631 287	**32 446 866**	**62 996 154**	**188 267**
By location:				
Angola	**823 840**	-	823 840	-
Botswana	**15 389 721**	5 389 721	10 000 000	-
Malawi	**12 027 286**	3 936 287	8 090 999	-
Mauritius	**7 100 605**	-	7 100 605	
Mozambique	**3 046 343**	3 046 343	-	-
Namibia	**2 664 325**	-	2 664 325	-
Swaziland	**547 665**	-	547 665	-
Tanzania	**6 386 368**	386 368	6 000 000	-
Zambia	**30 210 176**	13 673 731	16 536 445	-
Zimbabwe	**17 434 958**	5 946 655	11 300 036	188 267
	95 631 287	**32 379 105**	**63 063 915**	**188 267**

4. *Financial Risk Management (continued)*

b) Credit Risk (continued)

Cash and cash equivalents

At the year end the group held cash and cash equivalents of USD 3 672 951 (2015, USD 14 430 175). The cash and cash equivalents with banks are held with financial institution counterparties which are rated Baa3 (above non-investment grade) per Moody's ratings.

c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Board of Directors sets the group's strategy for managing liquidity risk and is responsible for the implementation of this policy. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The key elements of the group's liquidity strategy are as follows:

— carrying a portfolio of highly liquid assets, diversified by currency and maturity; and
— monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the group's financial assets and liabilities, and the extent to which the group's assets are encumbered and so not available as potential collateral for obtaining funding.

(ii) Maturity analysis for financial assets and financial liabilities

The table below sets out the remaining contractual maturities of the group's financial assets and financial liabilities for 2016.

Exposure to liquidity risk

Group	Note	Carrying amount	Less than 1 month	Within 1 year	1 to 5 years	More than 5 years
31 December 2016						
Asset by type						
Cash and cash equivalents	15	3 672 951	3 672 951	-	-	-
Fixed deposit investments	16	27 381 058	27 381 058	-	-	-
Loans and advances	18	98 633 589	3 221 965	12 999 957	75 226 224	7 185 443
Investment securities	17	409 757	-	-	-	409 757
Total assets by maturity		**130 097 355**	**34 275 974**	**12 999 957**	**75 226 224**	**7 595 200**
Liability by type						
Borrowings	23	2 747 775	-	1 373 888	1 373 887	-
Total liabilities by maturity		**2 747 775**	**-**	**1 373 888**	**1 373 887**	**-**
Liquidity maturity gap		**127 349 580**	**34 275 974**	**11 626 069**	**73 852 337**	**7 595 200**

4. *Financial Risk Management (continued)*

c) Liquidity risk (continued)

The above tables show the undiscounted cash flows on the group's non-derivative financial assets and liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. As part of the management of its liquidity risk arising from financial liabilities, the group holds liquid assets comprising cash and cash equivalents for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements.

(iii) Commitments

At the year end the group had four approved projects to the value of USD 27,500,000 (2015, USD 14,450,000), that were awaiting disbursement to clients, upon the conditions precedent of the loans, being met.

d) Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the group's income or the value of its holdings of financial instruments. The objective of the group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the group's solvency while optimising the return on risk.

Exposure to interest and exchange rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate movements affect reported equity in the following ways:

— retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss; and

— fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity

Equity price risk is subject to regular monitoring by the Board of Directors, but is currently not significant in relation to the overall results and financial position of the group.

e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the group's processes, personnel, technology and infrastructure, and from other external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the group's operations.

The group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the group's reputation with overall cost effectiveness and innovation. In all cases, the group policy requires compliance with all applicable legal and regulatory requirements.

5. *Use of estimates and judgements*

Management discusses with the Audit and Risk Committee the development, selection and disclosure of the group's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed below.

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3(g)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The group's accounting policy on fair value measurements is discussed in Note 3(g)(vi).

The group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

— **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.

— **Level 2:** Valuation techniques based on observable inputs, either directly - i.e. as prices – or indirectly - i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

— **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses the level of fair value hierarchy of financial instruments that are traded in active markets are based on quoted market prices:

Group	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2016					
Investment securities	*17*	409 757	-	-	409 757
		409 757	**-**	**-**	**409 757**

Group	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2015					
Investment securities	*17*	188 267	-	-	188 267
		188 267	**-**	**-**	**188 267**

6. *Financial assets*

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the group's financial assets:

Group	*Note*	Loans and receivables	Available for sale	Total carrying amount	Fair value
31 December 2016					
Cash and cash equivalents	*15*	3 672 951	-	3 672 951	3 672 951
Fixed deposit investments	*16*	27 381 058	-	27 381 058	27 381 058
Loans and advances	*18*	98 633 589	-	98 633 589	98 633 589
Investment securities	*17*	-	409 757	409 757	409 757
		129 687 598	**409 757**	**130 097 355**	**130 097 355**

Group	*Note*	Loans and receivables	Available for sale	Total carrying amount	Fair value
31 December 2015					
Cash and cash equivalents	*15*	14 430 175	-	14 430 175	14 430 175
Fixed deposit investments	*16*	17 297 285	-	17 297 285	17 297 285
Loans and advances	*18*	95 443 020	-	95 443 020	95 443 020
Investment securities	*17*	-	188 267	188 267	188 267
		127 170 480	**188 267**	**127 358 747**	**127 358 747**

	Group		Company	
	2016	**2015**	**2016**	**2015**
7. *Interest income from loans and advances*				
Loans and advances to financial institutions	5 196 204	5 594 814	5 345 088	5 697 206
Loans and advances direct to customers	3 681 784	2 717 390	3 432 540	2 523 893
	8 877 988	**8 312 204**	**8 777 628**	**8 221 099**
8. *Other operating income*				
Income from loans written off	-	78 481	-	78 481
	-	**78 481**	**-**	**78 481**
9. *Personnel expenses*				
Salaries and incentive payments	1 570 214	1 422 774	1 570 214	1 422 774
Pension and gratuity costs	153,532	132 280	153 532	132 280
Leave pay costs and provisions	85 223	8 986	85 223	8 986
Health insurance and staff welfare	113 086	117 292	113 086	117 292
Other employee benefits	268 540	325 689	268 540	325 689
	2 190 595	**2 007 021**	**2 190 595**	**2 007 021**

At year end the number of staff employed by the company was 22 (2015: 19)

	Group		Company	
	2016	2015	2016	2015
10. *Other operating expenses*				
Board of Director meeting costs	176 750	148 728	176 750	148 728
Financial charges and losses	42 094	142 470	42 094	141 806
Travel and promotion expenses	139 077	99 368	139 077	99 368
Legal and consultancy expenses	343 919	87 741	342 419	87 741
Staff training costs	96 648	46 214	96 648	46 214
Auditors remuneration	25 960	25 700	20 900	20 700
	824 448	**550 221**	**817 888**	**544 557**
11. *Impairment provisions on loans and advances*				
Specific provisions for impairment	4 354 971	966 266	5 696 105	(374 868)
Collective provisions for impairment	374 844	289 876	367 109	285 853
Specific impairment of subsidiary	-	-	(1 287 470)	1 287 470
	4 729 815	**1 256 142**	**4 775 744**	**1 198 455**
Specific Impairment Control Account				
Balance as at 1 January	1 916 385	950 119	575 251	950 119
Charge/(write-back) for the period	4 354 971	966 266	5 696 105	(374 868)
Write-offs	-	-	-	-
Balance as at 31 December	**6 271 356**	**1 916 385**	**6 271 356**	**575 251**
Collective Impairment Control Account				
Balance as at 1 January	289 876	-	285 853	-
Charge/(write-back) for the period	374 844	289 876	367 109	285 853
Balance as at 31 December	**664 720**	**289 876**	**652 962**	**285 853**
12. *Foreign Exchange Losses on loans & advances*				
Realised Gain/(Losses) on ZAR loans and advances	65 965	(318 207)	65 965	(318 207)
Realised Gain/(Losses) on ZMW loans and advances	-	(2 467 899)	-	(2 467 899)
Total Realised Losses on loans and advances	65 965	(2 786 106)	65 965	(2 786 106)
Unrealised Gain/(Losses) on ZAR loans and advances	623 791	(2 262 369)	623 791	(2 262 369)
Total Unrealised Losses on loans and advances	623 791	(2 262 369)	623 791	(2 262 369)
Net foreign exchange gains/(loss) on loans and advances	**689 756**	**(5 048 475)**	**689 756**	**(5 048 475)**
Exposure				
ZAR loans and advances	5 487 045	7 264 601	5 487 045	7 264 601
Total forex loan and advance exposure	**5 487 045**	**7 264 601**	**5 487 045**	**7 264 601**

13. *Gain on Loan Restructuring*

During the 2015 year, due to a significant change in market conditions, the company was facing substantial unrealised losses on an otherwise performing loan denominated in Zambian Kwacha (ZMW). The company embarked on a restructuring of the facility to mitigate the risk of foreign currency exposure.

This resulted in an early full repayment of the ZMW loan and replacement by a United States Dollar (USD) loan to the Holding Company of the Zambian entity. The loan with a nominal value of USD 7 million was transacted at an issue price of USD 4.9 million. The principal repayment of the noted USD loan is a minimum of USD 7 million throughout the life of the loan.

Exchange losses on the repayment of the ZMW loan were realised in 2015, therefore the company has realised the day one discount value gain on the USD loan amounting to USD 2.1 million in the profit for the 2015 financial year. This judgement has been made considering the component parts of the restructuring as an entirety, however if the company's usual accounting policies had been applied to this transaction the discount would have been recognised over the life of the loan.

	Group		Company	
	2016	**2015**	**2016**	**2015**
14. *Current Taxation*				
Taxation reconciliation				
Taxation at the rate of 15% on taxable profit	297 602	401 211	297 602	401 211
Taxation at the rate of 22% on taxable profit	51 618	-	-	-
Foreign withholding tax suffered	484 287	173 930	484 287	173 930
Deferred taxation charge per profit or loss	1 077	2 274	1 077	2 274
Taxation per statement of profit or loss	**834 584**	**577 415**	**782 966**	**577 415**
15. *Cash and cash equivalents*				
Balances with banks	3 669 609	14 425 446	3 504 007	14 342 645
Petty cash	3 342	4 729	3 342	4 729
	3 672 951	**14 430 175**	**3 507 349**	**14 347 374**
16. *Fixed deposit investments*				
Investments held	**27 381 058**	**17 297 285**	**27 381 058**	**17 297 285**

Fixed USD deposit investments are held with regulated financial institutions with a rating above Baa3 (Moody's). Maximum duration is 6 months with a USD 10million limit to any one institution.

	Group 2016	Group 2015	Company 2016	Company 2015
17. *Equity investments*				
Market value on 1 January	188 267	276 863	188 267	276 863
Market price movements in the period	221 490	(88 596)	221 490	(88 596)
Market value on 31 December	**409 757**	**188 267**	**409 757**	**188 267**

	Group		Company	
	2016	2015	2016	2015

18. *Loans and advances*

Loans and advances to financial institutions	67 462 947	63 547 468	67 462 947	63 547 468
Loans and advances direct to customers	38 106 718	34 101 813	36 343 007	31 419 546
Gross Loan Balance as at 31 December	105 569 665	97 649 281	103 805 954	94 967 014
Less specific allowance for impairment	(6 271 356)	(1 916 385)	(6 271 356)	(575 251)
Less general allowance for impairment	(664 720)	(289 876)	(652 962)	(285 853)
Net Loan Balance as at 31 December	**98 633 589**	**95 443 020**	**96 881 636**	**94 105 910**
Loan Control Account				
Balance transferred at 1 January	97 649 281	95 037 795	94 967 014	92 381 359
Loan disbursements	29 500 000	34 001 666	29 500 000	34 001 666
Interest Added	1 160 819	162 537	1 212 703	136 706
Repayment of loan principal	(23 451 219)	(28 641 481)	(22 584 547)	(28 641 481)
Exchange losses on foreign exchange loans	710 784	(5 011 236)	710 784	(5 011 236)
Discount on loan value	-	2 100 000	-	2 100 000
Write-offs against provisions	-	-	-	-
Gross Loan Balance as at 31 December	**105 569 665**	**97 649 281**	**103 805 954**	**94 967 014**

19. *Investment in subsidiary*

Opening balance at 1 January	-	-	1 287 470	2 551 765
Advances to subsidiary	-	-	176 340	113 175
Repayments from subsidiary	-	-	(1 085 000)	(90 000)
Gross balance at 31 December	-	-	378 810	2 574 940
Less specific allowance for impairment	-	-	1 287 470	(1 287 470)
Net Loan Balance at 31 December	**-**	**-**	**1 666 280**	**1 287 470**

The entity holds 100% of the issued stated capital of Norsad Finance (Botswana) Limited comprising 100 shares at no par value.

The subsidiary had negative equity at the end of 2015, raising some going concern worries. The impairment provision raised at that time was reversed in 2016 as the subsidiary's financial position substantially improved.

20. *Other Assets*

Accrued interest from loans	218 454	107 420	218 454	107 420
Loans and advances to employees	100 816	73 157	100 816	73 157
Prepayments and deposits	49 601	807 914	49 601	807 914
Income and other taxes	215 872	96 859	215 872	92 921
	584 743	**1 085 350**	**584 743**	**1 081 412**

21. *Plant and Equipment*

	Motor vehicles	Computer equipment	Office Equipment	Total
Cost				
Balance as at 31 December 2014	151 892	55 706	55 205	262 803
Additions	-	24 305	6 333	30 638
Disposals	-	(14 605)	(6 153)	(20 758)
Balance as at 31 December 2015	151 892	65 406	55 385	272 683
Additions	-	18 944	17 105	36 049
Disposals	-	(2 448)	-	(2 448)
Balance as at 31 December 2016	**158 892**	**81 902**	**72 490**	**306 284**
Accumulated depreciation				
Balance as at 31 December 2014	65 129	31 440	24 262	120 831
Charge for the period	21 691	16 785	11 906	50 382
Disposals	-	(13 967)	(5 572)	(19 539)
Balance as at 31 December 2015	86 820	34 258	30 596	151 674
Charge for the period	16 268	27 800	14 029	58 097
Disposals	-	(1 840)	-	(1 840)
Balance as at 31 December 2016	**103 088**	**60 218**	**44 625**	**207 931**
Carrying amounts				
As at 31 December 2016	**48 804**	**21 684**	**27 865**	**98 353**
As at 31 December 2015	65 072	31 148	24 789	121 009

22. *Deferred taxation*

	2016	2015
Movement in deferred taxation		
Deferred taxation at beginning of year	34 583	23 283
Movement per profit or loss	(1 077)	(2 274)
Movement per other comprehensive income	(33 224)	13 574
Deferred taxation at end of year	**282**	**34 583**
Analysis of deferred taxation		
Accelerated capital allowances on property, plant and equipment	(4 702)	(3 624)
Fair value adjustments on available for sale financial assets	4 984	38 207
	282	**34 583**

23. Borrowings

	Group 2016	Group 2015	Company 2016	Company 2015
Opening balance as at 1 January	3 653 044	6 488 550	3 653 044	6 488 550
Borrowing repaid	(1 357 867)	(1 463 686)	(1 357 867)	(1 463 686)
Foreign exchange loss/gain	452 598	(1 371 820)	452 598	(1 371 820)
Closing balance as at 31 December	**2 747 775**	**3 653 044**	**2 747 775**	**3 653 044**

The loan with Rand Merchant Bank is for the equivalent of ZAR 37,500,000 (2015: ZAR 56,250,000) and was used solely for lending to a customer and is repayable in sixteen equal instalments by 31 March 2019. The loan is interest bearing, on commercial market related terms and is secured against an equivalent specific fixed deposit investment that the company is obliged to hold until the loan is fully repaid.

24. Accruals and other liabilities

	Group 2016	Group 2015	Company 2016	Company 2015
Accruals	738 071	231 872	715 662	226 872
Employee and payroll liabilities	135 090	44 928	135 090	44 928
Income and other taxes	9 376	15 926	-	15 926
	882 537	**292 726**	**850 752**	**287 726**

25. Stated capital

	Group 2016	Group 2015	Company 2016	Company 2015
Ordinary shares				
8 800 shares at nil par value	73 071 690	73 071 690	73 071 690	73 071 690
Preference shares				
5 545 (2015: 5 265 shares) at USD 8 279 per share	45 907 055	43 588 935	45 907 055	43 588 935
	118 978 745	**116 660 625**	**118 978 745**	**116 660 625**

During the year Development Bank of Zambia paid for 280 preference shares that had been sub-scribed for in 2015. There were no other subscribed but unpaid preference shares as at 31 December 2016.

The holders of ordinary and preference shares are entitled to one vote per share at meetings of the group. The distribution of any dividends declared from time to time shall ensure that the amount paid to a preference share shall be twice the amount paid as dividend to an ordinary share. Preference shares rank in priority over ordinary shares with regard to the group's residual assets.

25. *Stated capital (continued)*

		31 December 2016	
		Number of shares	
Shareholder name	**Domicile**	**Ordinary**	**Preference**
Banco de Desenvolvimento de Angola	Angola	400	400
Citizen Entrepreneurial Development Agency	Botswana	400	128
Development Bank of Namibia	Namibia	400	400
Development Bank of Zambia	Zambia	400	400
Export Development Fund	Malawi	400	-
Finnish Fund for Industrial Cooperation Ltd	Finland	968	906
Infrastructure Development Bank of Zimbabwe	Zimbabwe	400	-
Instituto de Gestão das Participações de Estado	Mozambique	400	-
Investment Fund for Developing Countries	Denmark	968	1 161
Lesotho Postbank Limited	Lesotho	400	-
National Industrial Development Corporation of Swaziland	Swaziland	400	-
Norwegian Investment Fund for Developing Countries	Norway	968	1 123
Swedfund International AB	Sweden	1 496	894
TIB Development Bank Ltd	Tanzania	400	133
The State Investment Corporation Ltd	Mauritius	400	-
Total shares		**8 800**	**5 545**

26. *Related party transactions*

During 2013, the group invested USD 6,000,000 in fixed rate unsubordinated development bonds issued by Infrastructure Development Bank of Zimbabwe. The coupon rate is 10% per annum and one third of the face value is to be repaid at each anniversary until redemption. The bonds are secured by the Government of Zimbabwe and a cash security account. The facility was repaid in full during 2015.

During 2014, the group advanced a credit facility of USD 10,000,000 to TIB Development Bank Limited. The net interest rate is 6.5% per annum plus 3months Libor, to be repaid within three years. There were no provisions for impairment as at 31 December 2016 when the outstanding amount was USD 3,000,000.

27. *Key management personnel*

In total, members of the Board of Directors were paid USD 20,600 (2015: USD 16,500) for attending Board meetings during 2016 and USD 19,800 (2015: 10,500) for attending Board Committee meetings

Total remuneration paid to Management staff during 2016 was USD 1,113,655 (2015: USD 1,006,965) comprising salary of USD 752,628 (2015: USD 670,688) and short term employee benefits of USD 361,027 (2015: USD 336,277).

NOTES

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