Norsad
FINANCE

INVESTING IN SUSTAINABLE
ENTERPRISE GROWTH

ANNUAL REPORT 2018

Investing In **Sustainable** Enterprise Growth

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ABOUT US

COMPANY

Our 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

Our Vision

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

Our 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 is an impact investor offering bespoke debt and mezzanine financing solutions to mid-market growth companies in the Southern African region. Norsad can also provide financing beyond our principal markets to Southern African Development Community (SADC) domiciled or headquartered companies expanding outside the region. Investing in sustainable enterprise growth, we have financed more than 130 businesses and projects in multiple sectors and across 12 countries

Norsad prioritises investments that supports job creation, diversifies and strengthens local economies, and contributes to sustainable infrastructure growth and industry development. Our mission to impact growth and development is catalytic and, in the process, we intentionally aim to generate a financial return and positive social and environmental impact that is actively measured.

The emphasis on impact and maintaining high social and environmental standards are driven by our need to maximise the long term value creation of Norsad's portfolio investments and overall capital. Our investments align to international Environmental, Social and Governance (ESG) standards, the Sustainable Development Goals (SDGs), as well as regional development priorities.

Norsad has a long history of monitoring and measuring development impact and has traditionally achieved this by tracking the specific indicators and enhancing alignment between our investments and international ESG standards such as the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability. Our view is that businesses that subscribe to best ESG practices are more resilient to volatile markets and unforeseen risks, thus creating stakeholder value in the long term. Norsad also subscribes to the principles outlined in the United Nations Principles for Responsible Investment (UNPRI) and the Global Impact Investing Network (GIIN) and we firmly believe these principles assist in maximising impact and additionality.

OUR JOURNEY

Premier provider of medium to long-term risk capital to mid-market growth companies across the Southern Africa (SADC) region

1990

DKK200 million (USD 33.5 million)

Norsad fund and 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 funding. The initial capital provided by 4 Nordic countries was DKK200 million (USD 33.5 million).

2000

10th Anniversary

Norsad celebrates its 10th anniversary.

2004

Norsad Fund Grows Beyond USD 80 Million

Norsad achieved an operating surplus of USD 1.5 million and increased its capital base to USD 84 million.

2009

Financed 81 Projects

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

2010

20th Anniversary

Norsad celebrates its 20 Year Anniversary

2011

Norsad Fund and Agency Transformation

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

2012

Increase in Capital

Finfund 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 to Gaborone from Lusaka and increased its product offering around flexibility.

2015

Stretch Senior & Mezzanine Focused

Increased emphasis on customised debt offerings with more stretch loans and mezzanine investments introduced to the Norsad portfolio

2017

Bespoke Direct Debt Financing

Premier provider of medium to long term risk capital to mid-market growth companies across the Southern Africa (SADC) region

2018

Johannesburg Office

Norsad sets up a representative office in Johannesburg South Africa.

CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I present our Annual Report for the financial year ended 31 December 2018. This marked the seventh year of operations of Norsad Finance Limited, following emergence from the Norsad Fund and Agency that was established in 1990.

We continue to advance strongly towards achieving our vision of a preferred impact investor that provides flexible and customised financing solutions. We have also made substantial progress implementing the Norsad Finance Strategy, with the goal of becoming the premier Southern African provider of flexible and customised impact financing.

CHAIRMAN'S MESSAGE

Operations

The financial and political landscape in the region continues to influence the overall performance of businesses. Several SADC countries including Angola, South Africa and Namibia which entered a recession in 2018 have emerged from the recession. Early signs of headwinds reversing the slowdown which had characterised the last few years provided some relief to our business.

Norsad's Investment Policy remained focused on offering bespoke funding structures, with mezzanine features accounting for 40% of the portfolio. The shift in focus from typical debt structures to more flexible funding instruments is driven by Norsad's mandate and experience in the region of customising our financing to match the cashflow generation of investments for suitability and impact. Norsad remains catalytic by providing complementary financing and offering structures typically not available from the commercial debt and equity players in our markets.

Performance Outlook

The Board approved seven new investments valued at USD49.8 million in 2018, slightly below the budgeted total of USD53 million. The Company's total gross loan portfolio reached USD125 million compared to USD109 million in 2017.

The year however had its fair share of challenges and despite some of the high points achieved, the Company made significant impairments on its assets resulting in a comprehensive loss for the year of USD2.1 million. The loss is attributed to significant impairment losses from a specific investment holding. Key learnings have since been institutionalised and Management continues to proactively address anticipated significant issues that could impact the portfolio.

Noting the financial performance of 2018, the Board of Directors did not recommend a dividend payment to Shareholders.

Looking Ahead

2018 was an active transformational period positioning the Company for growth. The imperative to communicate impact better, amidst the changing global dynamics and increased recognition of responsible businesses towards sustainable growth, will become more emphatic. We are pleased with the progress made in meeting our sustainability targets and work done to ensure that Norsad continues to improve the integration of sustainability with our investment mandate and enhance the reporting of our impact.

After almost a decade, Norsad is working on a new developmental impact measurement tool. We plan to develop and implement a tool that improves relevance for our operations, and continues to measure our developmental effects with integrity. We have enhanced the monitoring of headwinds coming from our markets to improve the management of our Environmental, Social and Governance (ESG) risks and provide value adding support to investee companies in this capacity.

Seven countries across the SADC region are scheduled to hold general elections in the next year which will influence investment sentiments and the business landscape in the region. We will however continue to focus efforts on implementing our strategic priorities and strengthening governance towards increased institutional resilience and capacity for greater impact.

Aligning the Norsad Strategic Business Objectives to the Sustainable Development Goals (SDG's)

Our development impact emphasis on jobs created and sustained, net currency effects, contributions to Government revenues and national income continue to influence our decisions. We have increased alignment with the regional developmental agenda, with specific focus on SDG 1 'No Poverty'; SDG 2 'Zero Hunger'; SDG 3 'Good Health and Wellbeing'; SDG 7 'Affordable and Clean Energy'; and SDG 9 'Industry Innovation and Infrastructure'. We will continue to ensure alignment of our strategy towards achieving these objectives in responding to the need for sustainable growth and development to address high levels of poverty and inequality.

Gratitude

During the year, Mr Jacob Lushinga resigned from the Board. I would like to extend my gratitude to Mr Lushinga for his contribution to Norsad Finance for the past six years following the completion of his tenure on the Board of Directors. We also welcomed Mr Martin inkumbi to the Board and he brings over 20 years of banking experience and knowledge of the region to support the effective governance of the Company.

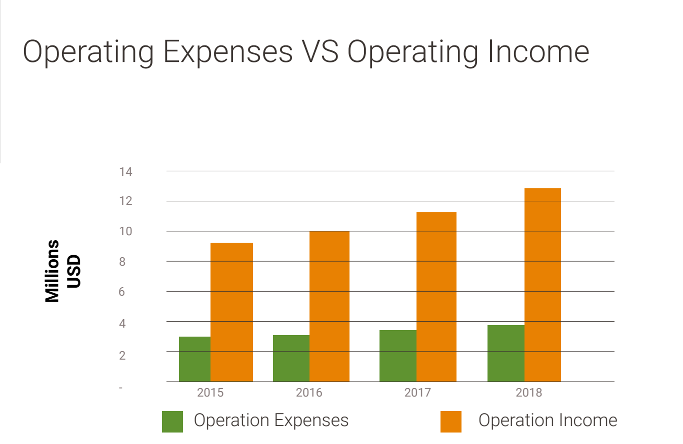
I extend my gratitude to the Board of Directors for the strong leadership during the period and to our Shareholders for their support during the year. I also wish to thank the Management team and Norsad staff for their dedication towards advancing our vision through challenging times. We will continue to forge ahead and focus on our mission as the premier provider of customised longer-term risk capital to sustainable Southern African companies

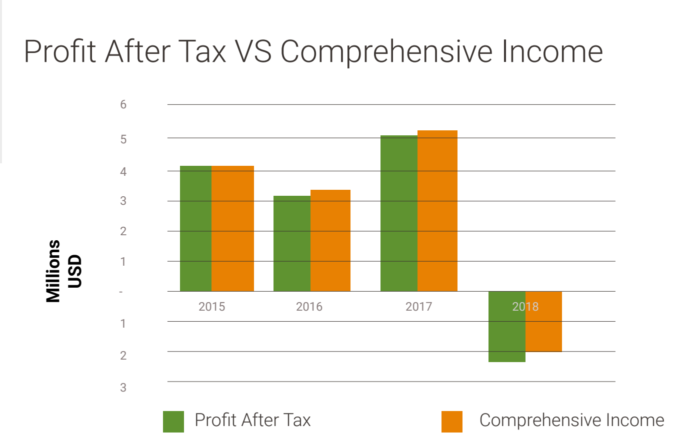
Chairperson of the Board
Jan Rixen

CHIEF EXECUTIVE OFFICER'S REPORT

I present the financial and operational achievements of Norsad in 2018. The seventh operational year of Norsad Finance has involved the strengthening of existing capacity towards institutional resilience and further consolidation on the growth funding strategy.

Chief Executive Officer
Kenny Nwosu





CHIEF EXECUTIVE OFFICER'S REPORT

Commentry on Profit for the year

The Company achieved a record high Operating Income of USD 12.4 million, a 10.7% increase from 2017. Unfortunately, the Company also made significant impairments on its assets resulting in a loss for the year of USD 2.4 million and a comprehensive loss for the year of USD2.1 million.

The loss is attributed to significant impairment losses from a specific investment holding and while we consider the investment climate risk a contributing factor in the collapse of the related portfolio entities, there were also significant lapses within the governance of the related portfolio entities. Key learnings have since been institutionalised and our internal processes and capacity remains robust and the rest of the portfolio continues to perform well. We have also taken measures to further diversify the investment portfolio by country, sector and investment instrument.

Investment Operations 2018

The year 2018 included milestone achievements and also challenges influenced by both internal and external factors, however good progress was made reinforcing our investments towards achieving the goals set out in the Norsad Strategy. Norsad Finance's investment operations accommodates investments from secured debt to mezzanine finance and our investment policy emphasises the need to intentionally generate both market-related returns and desirable development impact.

The driving principle in our investment operations is to provide innovative and flexible financing solutions, primarily towards commercially viable expansion investments to achieve sustainable development outcomes. In 2018, our bespoke funding structures with mezzanine features accounted for 40% of the portfolio.

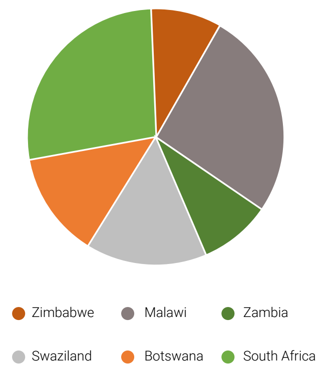
To support the growth strategy, the team was strengthened with the addition of a Head of Portfolio and Risk and an Investment Director. Despite the additional resources amidst growing total operating expenditure, the Cost to Income ratio improved to 32% in 2018 (2017: 33%).

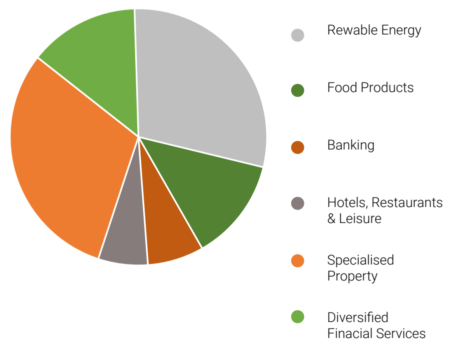
Norsad's approach towards investments has been to evolve the investment policy to match the opportunities in the market. It is envisaged that the introduction of the Investment Director in the Johannesburg office will increase our visibility, deal-flow and execution capability. The expansion of the investment policy in late 2018 is also expected to broaden our investment reach and access to transactions that can assist in further diversifying our porfolio.

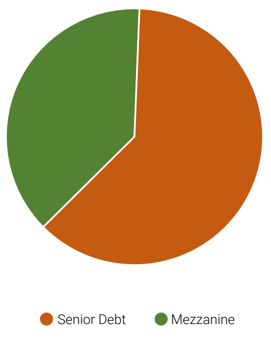
The Board approved seven new investments valued at USD 49.8 million in 2018 (2017: USD 32.9 million) which was slightly below the budgeted total of USD 53 million. The average size of an investment was USD 7.1 million (2017: USD 4.1 million).

CHIEF EXECUTIVE OFFICER'S REPORT

Approved Investments in 2018 by country, sector and instrument

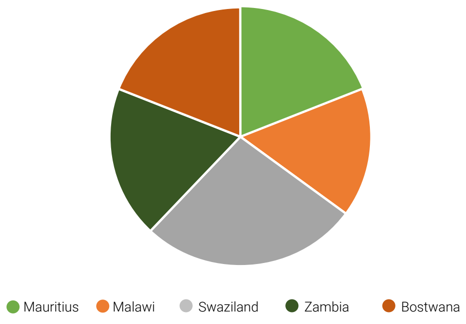


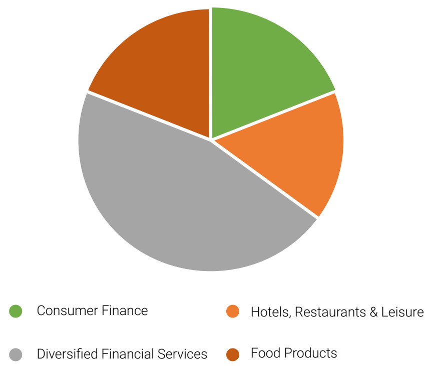


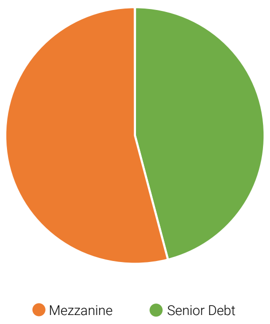


The Company's total gross loan portfolio reached USD 125 million (2017: USD 109 million) with investment disbursements of USD 26.3 million in 2018 (2017: USD 21.2 million). Undisbursed commitments as at 31December 2018 stood at USD34.7 million.

Disbursements in 2018 by country, sector and instrument







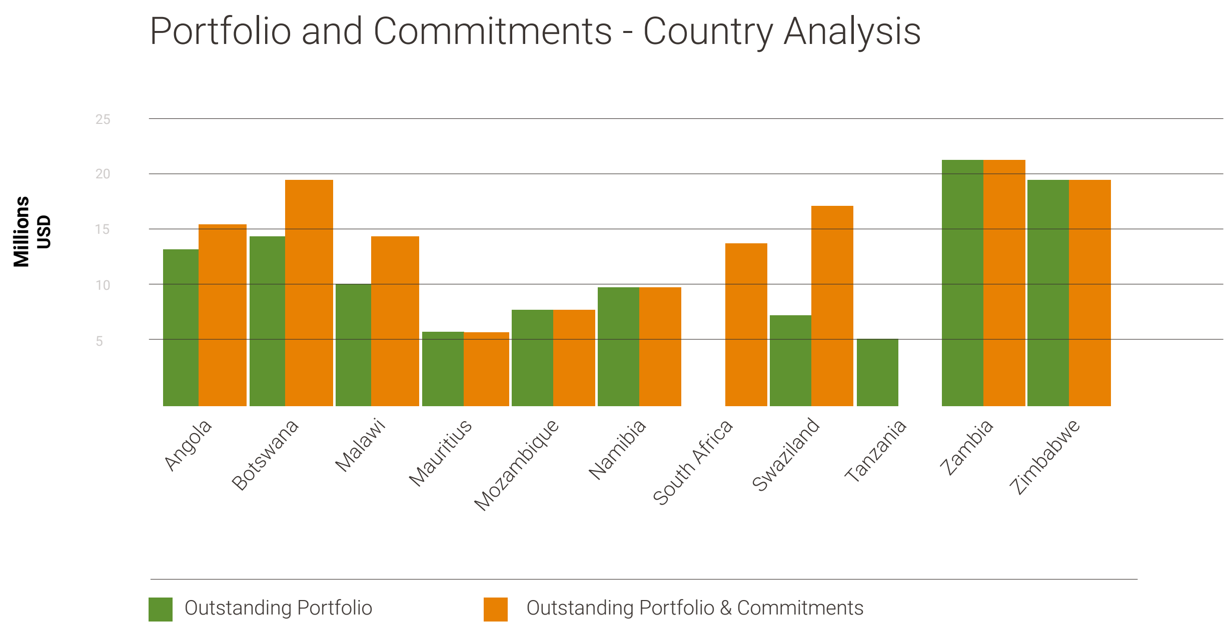
CHIEF EXECUTIVE OFFICER'S REPORT

Investment Portfolio

Country Analysis

Our investment portfolio and commitments are well diversified by country. Zambia, Zimbabwe, Botswana and Angola remain our biggest market exposures in terms of Outstanding Portfolio and Outstanding Portfolio and Commitments.

Portfolio and Commitments as at 31 December 2018 – Country Analysis



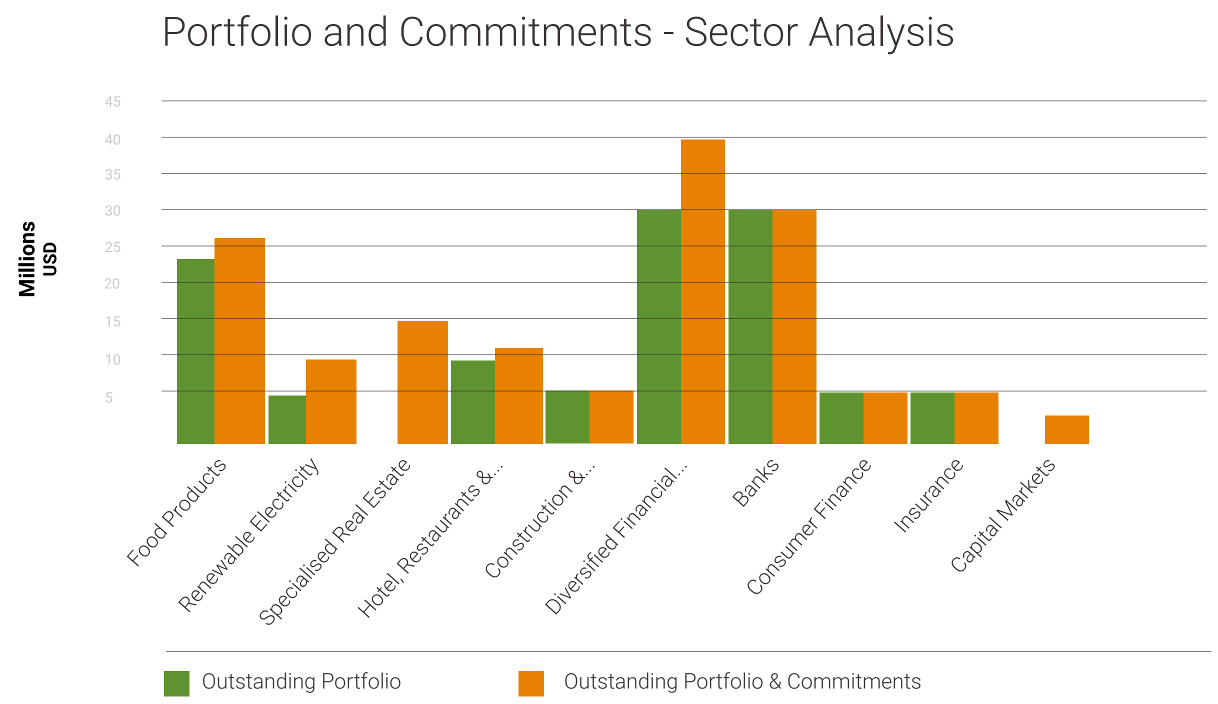
CHIEF EXECUTIVE OFFICER'S REPORT

Sector Analysis

Norsad's impact focus targets financial access and inclusion, food security, renewable energy and hospitality. Our largest sector exposures are in the diversified financial sector, banks and food products.

Financial access and inclusion are critical to social and economic growth and poverty alleviation by strengthening resilience to shocks for the underserved and facilitating the ability to capture opportunities through investments, education, housing, health and other welfare enhancing areas. The insufficient progress made towards achieving SDG1: 'No poverty' and SDG 2: 'Zero Hunger' necessitates that strengthening food security and sustainable agriculture remain high priority in Southern Africa. Greater access and inclusion to financial services are also deemed instrumental in attaining many of the SDGs.

Portfolio and Commitments as at 31 December 2018 – Sector Analysis



CHIEF EXECUTIVE OFFICER'S REPORT

Environmental, Social And Governance (ESG)

Norsad Finance screening of investments is according to their Environmental, Social and Governance (ESG) risks which are monitored throughout the investment cycle to ensure continued compliance with international standards. At Norsad, we consider ESG factors as a crucial part of the decision-making process and incorporate sustainability criteria into all our business processes and financing activities.

We insist that adequate levels of Governance be in place at the time of our investment and undertake rigorous screenings as part of our investment process which enables us to identify projects and target companies that can align with our mandate. Our belief is that subscribing to best ESG practices reduces investment risk, creates sustainable brands, increases productivity and enables companies to unlock further funding.

Due diligence assessments are conducted to ensure compliance with international environmental, social, labour, health and safety and resource use, land use and cultural heritage preservation standards. Ongoing measurement of ESG risk and developmental impacts are conducted through annual portfolio company reviews to inform annual impact measurement and reporting.

CHIEF EXECUTIVE OFFICER'S REPORT

Impact Highlights

At Norsad, we target companies that share our vision and commitment towards sustainable enterprise growth, and we are committed to measuring and managing the impact of our investments. The full Norsad Social and Environmental Impact Report 2018 is available on the Company's website at www.norsadfinance.com/publications under Media.

The following summary highlights the 2018 developmental quality of the investment portfolio in sustaining impactful jobs:

Agribusiness

3 172 total employees
1 112 (35%) women employees
909 (28%) of employees under the age of 25

Aquaculture

1 664 total employees
625 (37%) women employees
415 (25%) of employees under the age of 25

Renewable energy

86 total employees
25 (29%) women employees

Hospitality

636 total employees
96 (15%) women employees
85 (13%) of employees under the age of 25

Banking

3 905 total employees
1 320 (34%) women employees
113 (13%) of employees under the age of 25

Non-Banking

2 394 total employees
1 320 (35%) women employees
47 (2%) of employees under the age of 25

CHIEF EXECUTIVE OFFICER'S REPORT

Outlook for 2019

The global geopolitical environment has been impacted by heightened tensions between the US and China over trade tariffs and this may be drawn out and continue to cause uncertainty, although regional monetary policies are expected to generally remain accommodative.

The SADC region is expected to grow at 2% in 2019, which will be a moderate improvement over 2018, however, rising government debt and inflationary pressures continue to dampen optimism. Struggling commodity prices and a tight fiscal position could weigh down on trade balances resulting in pressure on exchange rates and inflation and hence posing a risk to the projected growth.

The electricity generation capacity constraints being faced by the region, especially South Africa and possibly Zambia and Zimbabwe (due to low water levels in lake Kariba), could also pose a threat to the growth outlook of the counties and region. The significant challenges in Zimbabwe remain and there is no end in sight to the crisis. Zambia is also still faced with a high risk of debt distress situation as debt service costs have become significant and have been draining the fiscus. Seven SADC member states (Botswana, Madagascar, Mozambique, South Africa, Namibia, Mauritius and Malawi) are scheduled to conduct elections in 2019, which will also influence investment sentiments in the region.

The challenging environment necessitates that the risk management framework of the Company continues to be enhanced because of the risks associated with our investments. It remains evident that there are very limited providers of flexible and customized funding in the region such as Norsad and we shall remain cautiously optimistic in seeking out viable opportunities requiring such capital. Norsad will continue monitor the environment for any triggers which present opportunities or pose risks to our investments and will seek to further diversify our portfolio.

With our strong capitalisation, optimising Norsad's balance sheet structure remains a focal point as increasing our debt leverage it will lower our cost of capital and improve the return on equity. We have made progress towards providing medium-term local currency (ZAR) financing, which will be a key component to unlocking further growth for the Company.

I would like to take this opportunity to extend my gratitude to the whole Norsad Finance team for their efforts during the year. 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 Africa and for their positive development impact in the region.

Chief Executive Officer
Kenny Nwosu

CORPORATE GOVERNANCE

"We have detailed governance policies including a Code of Ethics and Business Conduct which clarifies expected standards of behaviour and communicates the ethical values of Norsad."

Compliance with international corporate governance standards is a key principle for Norsad Finance, with investors from 15 countries, and the Company is guided by standards such as King IV™, as well as domicile regulations. 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.

We have detailed governance policies including a Code of Ethics and Business Conduct which clarifies expected standards of behaviour and communicates the ethical values of Norsad. The Code and our Complaints Policy are available on the Company's website at www.norsadfinance.com/policies under Media.

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.

During the last financial year, the Board composition was altered due to the resignation Mr Jacob Lushinga in April 2018. Mr Martin Inkumbi was appointed to the Board at the AGM of 19 April 2018.

Our Board of Directors

Director	Nationality	Personal Alternate	Nationality
Mr Morten Christiansen	Danish	Mr Jens Lund Sørensen	Danish
Mr Martin Inkumbi	Namibian	Mr Molefi Leqhaoe	Mosotho
Mr John Kristensen	Swedish	Mr Jonas Armtoft	Swedish
Mr Andrew Madeswi	Motswana	Mr Charles Singili	Tanzanian
Ms Aurora Malene Psico	Mozambican	Ms Ana Maria De Campos	Angolan
Ms Paula Perttunen	Finnish	Ms Ulla Huotari	Finnish
Mr Jan Rixen (Chair)	Danish	Mr Erik Sandersen	Norwegian

CORPORATE GOVERNANCE

Board Committees

The Board has established three standing subcommittees namely Governance Committee, Audit & Risk Committee and Human Resources & Remuneration (HR&R) Committee. The compostion of the Board Committees are as follows:

Governance Committee	Audit & Risk Committee	HR&R Committee
Mr Jan Rixen (Chair)	**Ms Paula Perttunen** (Chair)	**Mr Martin Inkumbi** (Chair)
Mr John Kristensen	**Mr Morten Christiansen**	**Mr Morten Christiansen**
Mr Andrew Madeswi	**Mr Martin Inkumbi**	**Ms Aurora Malene Psico**

EXECUTIVE MANAGEMENT

Kenny 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.

Mr Kenny Nwosu
Chief Executive Officer (CEO)

Nathaniel has a diverse background in the investment space spanning private credit, private equity, investment banking and hedge fund management in sub-Saharan Africa. He holds a B.Sc. (Hons) in Engineering and an MBA (cum laude) from the University of Witwatersrand, Wits Business School. Prior to transitioning into finance, he practiced as an engineer.

Nathaniel Nyika
Chief Investment Officer (CIO)

Jonathan 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).

Jonathan Davies
Chief Financial Officer (CFO)

OUR TEAM

Ngodiya Chimbwete
Senior Investment Analyst

Lorato Kgarubane
Portfolio Analyst

Keboetswe Letsholo
Investment Analyst

Charity Malatsi
Administration Officer

Keoleboge Malela
Social and Environmental Analyst

Wedu Mbayi
Investment Analyst

Gosegomang Modise
Audit & Compliance Head

Lantlha Mokhai
Receptionist & Office Admin Assistant

Nathan Monageng
ESG Officer

Naomi Mulima
Portfolio Officer

Justin Nthala
Investment Principal

Gorata Ogotseng
Snr. Executive Assistant

Mercy Ramateke
Snr. Financial Accountant

Oteng Sebonego
Investment Director

Khumoetsile Sekucha
Head of Portfolio & Risk

Masilo Serumola
Investment Analyst

Zubair Suliman
Investment Director

Thabo Toko
Driver & Office Assistant

Alice Zulu
Investment Principal

FEATURED PROJECTS

AFRICAN MILLING LIMITED (AML), ZAMBIA

African Milling Limited (AML) is an integrated agro-processing business based in Lusaka, Zambia. Its main line of business is the processing of wheat into flour and maize grain into maize meal or 'mealie meal' as it is commonly called in Zambia. Mealie meal is Zambia's staple food and is consumed by the majority of the country's population on a daily basis for breakfast, lunch and dinner in one form or another.

AML started operations in June 2006 as a maize milling company, producing 100 tons per day of mealie meal, employing about 40 people and selling to wholesalers in Lusaka and the Copperbelt. The product was well received on the Copperbelt market and by end of 2007, AML had doubled its production and had employed around 100 people.

In 2008, the company installed a wheat milling plant to address the high demand for bread flour at the time. The wheat mill was commissioned in 2010, but initially was slow to gain popularity on the market. However, with targeted marketing and riding on the success of the maize meal on the Copperbelt, AML's bread flour sales improved, and the product was sold to some of the largest wholesalers on the Copperbelt. Both products also started being exported to the neighbouring DR Congo's Katanga Province, whose population was larger than that of the entire Zambia. The increasing demand necessitated further expansion of both plants to the current combined production capacity.

In 2017 AML embarked on a further expansion of its maize milling to bring the total maize milling capacity to 503 MT/day, which will make it the largest single maize milling company in Zambia. In addition to the milling plant, AML also embarked on increasing its storage facilities by constructing additional warehouses and silos. Norsad assisted the company by providing a USD 5 million facility in 2018 to fund this expansion. With the increased production capacity, AML will be able to increase its distribution channels to include supplying the largest supermarket chain in Zambia.

Food security remains a key theme in Norsad's investment thesis and is aligned with the Sustainable Development Goals (SDG) 2 towards Zero hunger. AML is a key player in the supply of staple food to Zambia and hence plays a pivotal role in achieving this objective. Climate change resulting in floods and droughts and increased urbanisation has given an even greater importance of food production companies in securing the supply of staple food in both rural and urban areas in the region.

FEATURED PROJECTS

AMARYLLIS HOTEL, MALAWI BLANTYRE

The Malawian hospitality sector has grown steadily over the years driven by the increase in demand for larger and higher quality business hotels with conferencing facilities. Soon to join this sector is the Amaryllis Hotel Blantyre which is expected to open its doors in mid-2019. The Amaryllis Hotel Blantyre has become a significant landmark in the Blantyre Central Business District. The 91-room hotel is expected to bridge the gap in the business travel hospitality segment in Blantyre Malawi and and will also improve the supply of conferencing and events venues.

Amaryllis Hotel is ideally situated for conducting business in Blantyre, offering a choice of venues according to varied requirements, with conferencing and banqueting facilities in 6 venues, seating up to 1000 delegates in various configurations.

In line with our complementary financing role, Norsad invested USD 3.5 million structured debt towards the completion of Amaryllis Hotel Blantyre alongside two other local banks, National Bank of Malawi and CDH Bank Malawi. This partnership demonstrates our continued efforts to seek out partnerships with local and regional financial institutions towards achieving a sustainable development outcome.

Hospitality is a focus sector for Norsad investments due to its high employment (direct and indirect) creation effects, both during the construction and operating phases. Malawi remains one of the poorest countries in the world and employment creation is key in reducing poverty levels in the country. Procurement of products and services is from the domestic market which also supports upstream smaller enterprises such as horticulture and light manufacturing. Employment creation in the hospitality sector and supporting smaller to medium enterprises is aligned with the Sustainable Development Goals (SDGs) on reducing poverty, zero hunger, reduced inequalities and gender effects. The Amaryllis Hotel project has created jobs and supply opportunities during the construction period and will result in a good number of permanent jobs supply contracts once it is fully operational.

NORSAD
FINANCE LIMITED

Annual financial statements
for the year ended 31 December 2018

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NORSAD FINANCE LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year 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 19 March_2019 and signed on their behalf by:

Jan Rixen
Chair of the Board of Directors

Paula Perttunen
Chair of the Board Audit & Risk Committee

NORSAD FINANCE LIMITED

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

Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Norsad Finance Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Norsad Finance Limited's consolidated and separate financial statements set out on pages 39 - 84 comprise of:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the Botswana Institute of Chartered Accountants' Code of Ethics (the "BICA Code") and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matter that relates to the audit of the consolidated and separate financial statements of the current period in the table overleaf.

Key Audit Matter	How Our Audit Addressed The Key Audit Matter
Assessment ,if Alfowan ·esfm· Expected Credit Losses on Loans and Advances The Group has adopted IFRS 9 - Financial Instruments (IFRS 9) for the first time in the 2018 reporting period (Previously IAS 39 - Financial Instruments: Recognition and Measurement was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly. The introduction of the requirements of IFRS 9 require allowances to be considered on an expected loss basis, which - when compared to the previous incurred loss basis - was expected to have a material impact on the Group's financial condition. With the adoption of IFRS 9, the Group developed its own impairment model to calculate Expected Credit Losses ("ECLs"). In determining the ECLs, the following key judgements were applied by the Group: • Choosing appropriate model and assumptions for the measurement of ECLs; • Determining appropriate Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") applying to loans; • Determining criteria for significant increase in credit risk ("SICR"); • Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECLs; and • Establishing groups of similar financial assets for the purposes of measuring ECLs. • The first time adoption of IFRS 9 by the Group, • The degree of judgement applied by in determining the PD, LGD and EAD, and • The degree of judgement applied in determining the SICR thresholds. Refer to the significant accounting policies "changes in accounting policies" on page 45, use of judgement and estimates on page 44, accounting policies "financial assets and liabilities" on page 49, credit risk note on page 68 and loans and advances note on page 64.	Our audit addressed the assessment of allowance for ECLs of advances to customers by performing the following: • We assessed the accounting policies relating to the assessment of ECLs on advances to customers and found these to be in accordance with the requirements of IFRS 9. • We utilised our valuation expertise to assess the appropriateness of the model used by the Group, including IFRS 9 compliance, and ensured that the model was consistently applied to all loans and loan portfolios. We noted that the model was appropriate and there were no inconsistencies across the Group. • We tested the underlying information with respect to loans and portfolios of loans utilised in the model to underlying accounting records and other information maintained by the Group and found no exceptions. • We evaluated the reasonableness of key judgemental inputs used in the model. We are satisfied that the judgements applied are in line with our understanding. • We assessed the reasonableness of the judgement applied by the Group in determining the SICR attribution by discussing with management to obtain an understanding, and by comparing this understanding with other available information. We found the Group's assessment of SICR to be appropriate.

Other information

- The directors are responsible for the other information. The other information comprises the information included in the Norsad Finance Limited Group Annual Financial Statements and Annual Financial Statements for the year ended 31 December 2018. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.
- Our opinion on the consolidated and separate 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 consolidated and separate annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
- If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

> Identify and assess the risks of material misstatement of the consolidated and separate 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.

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

Auditor’s responsibilities for the audit of the consolidated and separate financial statements (continued)

> 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 Group’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 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 consolidated and separate financial statements oh 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 Group to cease to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group 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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Individual practicing member: Rudi Binedell
Registration number: 20040091

Gaboronе
29 May 2019

NORSAD FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors have pleasure in presenting their report to shareholders, together with the audited group annual financial statements and the annual financial statements for the year ended 31 December 2018.

Nature of business and principle activities

Norsad Finance Limited is a company domiciled in Botswana, incorporated on 23 November 2011 with company registration no CO.2011/11031. It is registered under the Botswana Companies Act and regulated by the Botswana Non-Bank Financial Institutions Regulatory Authority (NBFIRA). The company is accredited under the Botswana International Financial Services Centre (IFSC) which became the Botswana International Trade Centre (BITC). Principle activities are providing investment loans and long-term risk capital to Southern African companies. These financial statements represent the statutory financial statements.

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).

In addition, Norsad Finance Limited holds a 100% share in Norsad Finance (Pty) Ltd, a company incorporated in South Africa on 24 March 2017, (Company Registration No. CO.2017/137409/07).

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 subsidiaries and are collectively referred to as the "Group".

The financial results and position are reflected in the financial statements set out on pages 39 - 84.

NORSAD FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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.

Stated capital

There were no changes in stated capital during the year ended 31 December 2018. The stated capital is disclosed in note 22.

Property, plant and equipment

Details of changes in property, plant and equipment during the year ended 31 December 2018 are reflected in note 18.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

Board of Directors	Alternate Directors
Christiansen, Morten	Sorensen, Jens
Inkumbi, Martin	Singili, Charles
Kristensen, John	Armtoft, Jonas
Madeswi, Andrew	Leqhaoe, Molefi
Malene, Aurora	De Campos, Ana Maria
Perttunen, Paula	Huotari, Ulla
Rixen, Jan	Sandersen, Erik

Changes during the period

Lushinga, Jacob	(Resigned 19 April 2018)
Inkumbi, Martin	(Appointed 19 April 2018)

Registered office

Plot 54366, Western Commercial Road

Central Business District, P.O. Box 1476 ABG, Gaborone

Company Secretary

Desert Secretarial Services (Proprietary) Limited

Plot 64518, Fairgrounds Office Park, Gaborone

Auditors

PricewaterhouseCoopers

Plot 50371, Fairgrounds Office Park, Gaborone

Principal Bankers

First National Bank Botswana Limited

Plot 54362, Central Business District, Gaborone

Exchange Rates		2018	2017
ZAR / USD	(ZAR = South African Rand)	14.412	12.355
BWP / USD	(BWP = Botswana Pula)	10.729	9.689

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
Operating income					
Interest income	*5*	12 310 736	12 310 736	12 310 736	12 310 736
Interest expense		(296 946)	(296 946)	(296 946)	(296 946)
Net interest income		**12 013 790**	**12 013 790**	**12 013 790**	**12 013 790**
Fee and commission income		713 149	713 149	713 149	713 149
Fee and commission expense		(150 000)	(150 000)	(150 000)	(150 000)
Net fee and commission income		**563 149**	**563 149**	**563 149**	**563 149**
Investment income		461 282	534 901	461 282	543 901
Other income	*6*	-	36 781	-	36 781
Fair value adjustment on FVPL assets	*9*	(655 865)	-	(655 865)	-
Other operating income (deficit)		**(194 583)**	**580 682**	**(194 583)**	**580 682**
Total Operating income		**12 382 356**	**11 184 701**	**12 203 648**	**11 133 820**
Operating expenses					
Personnel expenses	*7*	(2 355 972)	(2 440 256)	(2 355 972)	(2 440 256)
General and administration expenses		(275 901)	(229 765)	(275 901)	(229 765)
Depreciation and amortisation expense	*18*	(71 967)	(60 387)	(71 967)	(60 387)
Other operating expenses	*8*	(1 144 814)	(739 616)	(1 115 306)	(732 110)
Total Operating expenses		**(3 848 654)**	**(3 470 024)**	**(3 819 146)**	**(3 462 518)**
Operating profit		**8 533 702**	**7 714 677**	**8 384 502**	**7 671 302**
Credit impairment losses	*9*	(9 293 427)	(1 554 420)	(9 241 734)	(1 552 185)
Foreign exchange (loss) gain on loans & advances	*10*	(494 615)	149 357	(393 536)	149 357
Foreign exchange gain (loss) on borrowings	*20*	311 843	(226 568)	311 843	(226 568)
(Loss)/Profit before income tax		**(942 497)**	**6 083 046**	**(938 925)**	**6 041 906**
Income tax expense	*11*	(1 500 004)	(1 061 447)	(1 503 661)	(1 033 847)
(Loss)/Profit for the year		**(2 442 501)**	**5 021 599**	**(2 442 586)**	**5 008 059**
Other comprehensive income					
Items that may be reclassified to profit and loss		-	-	-	-
Unrealised net gain on equity investments	*14*	362 925	199 341	362 925	199 341
Deferred taxation	*19*	-	(29 901)	-	(29 901)
Total Other comprehensive income		362 925	169 440	362 925	169 440
Total Comprehensive (loss)/income		**(2 079 576)**	**5 191 039**	**(2 079 661)**	**5 177 499**

NORSAD FINANCE LIMITED

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Note	Group 2018	Group 2017	Company 2018	Company 2017
Assets					
Cash	12	5 850 594	7 600 012	5 678 203	7 595 079
Cash held as investments	13	17 895 845	22 215 605	17 895 845	22 215 605
Loans and advances to customers	15	102 392 891	101 891 710	97 444 584	100 506 385
Loans and advances to subsidiaries	16	-	-	4 868 126	1 146 556
Investment securities	14	1 372 023	1 009 098	1 372 023	1 009 098
Property, plant and equipment	18	192 249	99 552	192 249	99 552
Current tax assets		232 214	301 434	232 214	301 434
Deferred tax assets	19	29 791	-	19 038	-
Other assets	17	547 945	572 846	545 508	572 846
Total assets		**128 513 552**	**133 690 257**	**128 247 790**	**133 446 555**
Liabilities					
Secured debt	20	6 938 855	1 517 592	6 938 855	1 517 592
Current tax liabilities		4 969	1 572	-	-
Deferred tax liabilities	19	-	25 286	-	25 286
Other liabilities	21	441 277	574 681	427 592	565 581
Total liabilities		**7 385 101**	**2 119 131**	**7 366 447**	**2 108 459**
Shareholders' equity					
Share capital	22	118 978 745	118 978 745	118 978 745	118 978 745
Retained earnings		1 645 296	12 450 896	1 398 188	12 217 866
Other reserves		504 410	141 485	504 410	141 485
Total equity		**121 128 451**	**131 571 126**	**120 881 343**	**131 338 096**
Total liabilities and equity		**128 513 552**	**133 690 257**	**128 247 790**	**133 446 555**

Jan Rixen
Chair of the Board of Directors

Paula Perttunen
Chair 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 2018

	Ordinary share capital	Preference share capital	Available for sale equity reserve	Retained earnings	Total equity
Group					
Balance at 31 December 2016	73 071 690	45 907 055	(27 955)	8 199 631	**127 150 421**
Interest					
Profit for the year	-	-	-	5 021 599	**5 021 599**
Other comprehensive income	-	-	169 440	-	**169 440**
Dividends paid	-	-	-	(770 334)	**(770 334)**
Balance at 31 December 2017	**73 071 690**	**45 907 055**	**141 485**	**12 450 896**	**131 571 126**
Balance at 1 January 2018	73 071 690	45 907 055	141 485	12 450 896	131 571 126
Changes on initial application of IFRS 9 (see note 2aii)	-	-	-	(5 856 959)	(5 856 959)
Restated Balance at 1 January 2018	**73 071 690**	**45 907 055**	**141 485**	**6 593 937**	**125 714 167**
(Loss) for the year	-	-	-	(2 442 501)	**(2 442 501)**
Other comprehensive income	-	-	362 925	-	**362 925**
Dividends paid	-	-	-	(2 506 140)	**(2 506 140)**
Balance at 31 December 2018	**73 071 690**	**45 907 055**	**504 410**	**1 645 296**	**121 128 451**
Company					
Balance at 31 December 2016	**73 071 690**	**45 907 055**	**(27 955)**	**7 980 141**	**126 930 931**
Profit for the year	-	-	**-**	5 008 059	**5 008 059**
Other comprehensive income	-	-	169 440	-	**169 440**
Dividends paid	-	-	-	(770 334)	**(770 334)**
Balance at 31 December 2017	**73 071 690**	**45 907 055**	**141 485**	**12 217 866**	**131 338 096**
Balance at 1 January 2018	73 071 690	45 907 055	141 485	12 217 866	**131 338 096**
Changes on initial application of IFRS 9 (see note 2aii)	-	-	-	(5 870 952)	(5 870 952)
Restated Balance at 1 January 2018	**73 071 690**	**45 907 055**	**141 485**	**6 346 914**	**125 467 144**
(Loss) for the year	-	-	-	**(2 442 586)**	**(2 442 586)**
Other comprehensive income	-	-	362 925	-	**362 925**
Dividends paid	-	-	-	(2 506 140)	**(2 506 140)**
Balance at 31 December 2018	**73 071 690**	**45 907 055**	**504 410**	**1 398 188**	**120 881 343**

NORSAD FINANCE LIMITED

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	**2018**	**2017**	**2018**	**2017**
Operating activities:					
(Loss) Profit before taxation		(942 497)	6 083 046	(938 925)	6 041 906
Adjusted for:					
Depreciation	*18*	71 967	60 387	71 967	60 387
(Gain) on disposal of assets		(3 890)	(2 957)	(3 890)	(2 957)
Withholding Tax Deducted		(1 547 985)	(849 057)	(1 547 985)	(849 057)
Foreign exchange differences on loans	*10*	494 615	(149 357)	393 536	(149 357)
Foreign exchange differences on borrowings	*20*	(311 843)	226 568	(311 843)	226 568
Movement in other receivables	*17*	93 927	(289 537)	97 058	(289 537)
Movement in accruals and other payables	*21*	(133 404)	(306 284)	(137 989)	(285 171)
Credit impairment losses	*9*	9 293 427	1 189 931	9 241 734	1 189 931
Fair value adjustment on FVPL assets		655 865	-	655 865	-
Collective Loan impairment charge	*9*	-	364 489	-	362 254
Taxation paid		(141 630)	(466 125)	(138 725)	(438 525)
Cash generated in operating activities		**7 528 552**	**5 861 104**	**7 380 803**	**5 866 442**
Investing activities:					
Proceeds from disposal of cash investments		11 000 000	9 000 000	11 000 000	9 000 000
Payments to acquire cash investments		(6 556 366)	(4 089 636)	(6 556 366)	(4 089 636)
Loan investment principal repayments	*15*	11 569 876	16 376 445	10 302 010	16 012 052
Loan investment disbursed and interest added	*15*	(28 357 572)	(20 535 140)	(23 387 945)	(20 535 140)
Subsidiary interest addition	*16*	-	-	(3 870 763)	(140 276)
Subsidiary loan repayment	*16*	-	-	149 193	660 000
Equity investment disbursed	*14*	-	(400 000)	-	(400 000)
Sale proceeds of plant and equipment		6 671	19 014	6 671	19 014
Acquisition of plant and equipment	*18*	(167 445)	(77 641)	(167 445)	(77 641)
Cash used from investing activities		**(12 504 836)**	**293 042**	**(12 524 645)**	**448 373**
Financing activities:					
Borrowings advanced	*20*	7 132 203	-	7 132 203	-
Borrowings repaid	*20*	(1 399 097)	(1 456 751)	(1 399 097)	(1 456 751)
Dividends paid		(2 506 140)	(770 334)	(2 506 140)	(770 334)
Cash generated from financing activities		**3 226 966**	**(2 227 085)**	**3 226 966**	**(2 227 085)**
Movement in cash		**(1 749 318)**	**3 927 061**	**(1 917 876)**	**4 087 730**
Cash at the beginning of year	*12*	*7 600 012*	*3 672 951*	*7 595 079*	*3 507 349*
Cash at end of year	*12*	**5 850 694**	**7 600 012**	**5 678 203**	**7 595 079**

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2018

1. 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 requires management to make judgements, estimates and assumptions that affect the development, selection and disclosure of the group's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. 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 regarding estimates and judgments in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are included in Notes 3 and 4.

2. Significant accounting policies

(a) Changes in accounting policies

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any provisions of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 2a below.

2. Significant accounting policies

(a) Changes in accounting policies (continued)

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

		IAS 39	IFRS 9	
Financial Assets	**Measuring Category**	**Carrying Amount USD**	**Measuring Category**	**Carrying Amount USD**
Cash	Amortised Cost	7 600 912	Amortised Cost	7 600 912
Cash held as investments	Amortised Cost	22 215 605	Amortised Cost	22 215 605
Loans and advances to customers	Amortised Cost	101 891 710	Amortised Cost	92 667 026
			FVPL	9 224 684
Investment securities	FVOCI	1 009 098	FVOCI (Designated)	1 009 098
Loans and advances to subsidiaries	Amortised Cost	1 146 556	Amortised Cost	1 146 556

There were no changes to the classification and measurement of financial liabilities

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to note 2b for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

NORSAD FINANCE LIMITED

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies

(a) Changes in accounting policies (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

	IAS 39 Carrying Amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 Carrying Amount 1 January 2018
Amortised Cost	**USD**	**USD**	**USD**	**USD**
Cash	7 600 912	-	-	7 600 912
Cash held as investments	22 215 605	-	-	22 215 605
Loans and advances to customers	101 891 710	-	-	-
To FVPL	-	(9 224 684)		-
Remeasurement: ECL allowance	-		(5 864 209)	-
Closing Balance	-	-	-	86 802 817
Loans and advances to subsidiaries	1 146 556	-	-	1 146 556
Total measured at Amortised Cost	**132 854 783**	**(9 224 684)**	**(5 864 209)**	**117 765 890**
Fair Value through profit and Loss (FVPL)				
Loans and advances to customers				
From Amortised Cost	-	9 224 684	-	9 224 684
Total measured at FVPL	**-**	**9 224 684**	**-**	**9 224 684**
Fair Value through other comprehensive income (FVOCI)				
Investment securities	1 009 098	-	-	
FVOCI (Designated)				1 009 098
Total measured at FVOCI	**1 009 098**	**-**	**-**	**1 009 098**

2. Significant accounting policies

(a) Changes in accounting policies (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (cont)

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

Debt instruments previously classified as amortised cost but which fail the SPPI test

The Group held three investment facilities of debt instruments that failed to meet the 'solely payments of principal and interest' (SPPI) requirement for amortised cost classification under IFRS 9. These instruments contain provisions that, in certain circumstances, the group is entitled to a share in the profits of the entity in which it has invested. This clause breaches the criterion that interest payments should only be consideration for credit risk and the time value of money on the principal. As a result, these instruments, which amounted to USD 9 224 684, were classified as FVPL from the date of initial application.

Designation of equity instruments at FVOCI

The Group has elected to irrevocably designate two strategic investments totaling USD 1 009 098 of equity securities at FVOCI as permitted under IFRS 9.

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan Loss Allowance under IAS 39	Reclassifications	Remeasurements	Loan Loss Allowance under IFRS 9
Amortised Cost	**USD**	**USD**	**USD**	**USD**
Loans and advances to customers				
Specific Impairment	4 832 875	1 029 209	5 864 209	11 726 293
Collective Impairment	1 029 209	(1 029 209)	-	-
Total	**5 862 084**	**-**	**5 864 209**	**11 726 293**

NORSAD FINANCE LIMITED

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies

(a) Changes in accounting policies (continued)

(iii) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9 (continued)

	Loan Loss Allowance under IAS 39	Reclassifications	Remeasurements	Loan Loss Allowance under IFRS 9
Fair Value through profit and Loss (FVPL)	**USD**	**USD**	**USD**	**USD**
Loans and advances to customers	-	-	(7 250)	(7 250)
Total	**5 862 084**	**-**	**5 856 959**	**11 719 043**

(b) Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, and fees that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

2. Significant accounting policies

(b) Financial assets and liabilities (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

Financial Assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

> Amortised cost;
> Fair value through profit or loss (FVPL); or
> Fair value through other comprehensive income (FVOCI).

The classification requirements for debt and equity instruments are described below:

(ii) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and credit lines.

Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

NORSAD FINANCE LIMITED
ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies

(b) Financial assets and liabilities (continued) Financial Assets (continued)

Business model: Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the loan facility book is to hold to collect contractual cash flows. Another example is the cash held as investments, which are held by the Group as part of liquidity management and are generally classified within the hold to collect and sell business model.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

SPPI: Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

> **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.1.2. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

> **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'.

2. Significant accounting policies

(b) Financial assets and liabilities (continued)

Financial Assets (continued)

> **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method..

(iii) Equity Investments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

> An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

> The time value of money; and

> Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 25b provides more detail of how the expected credit loss allowance is measured.

NORSAD FINANCE LIMITED

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies

(b) Financial assets and liabilities (continued)

(v) Modification of Loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

> If the borrower is in financial difficulty, whether the modification merely reduces the contractual cashflows to amounts the borrower is expected to be able to pay.

> Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

> Significant extension of the loan term when the borrower is not in financial difficulty.

> Significant change in the interest rate.

> Change in the currency the loan is denominated in.

> Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is detailed in note 25b.

Financial Liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires.

2. Significant accounting policies

(b) Financial assets and liabilities (continued)

Financial Assets (continued)

Loan Commitments

The Group contractually recognizes loan commitments on the signing of the facility agreement. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(c) Foreign currency

Foreign currency translations

Transactions in foreign currencies are translated into the functional currency of group at the 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.

(d) Investment in Subsidiares

(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 subsidiaries which are collectively referred to as the **"Group".**

NORSAD FINANCE LIMITED

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. Significant accounting policies (continued)

(e) Fee and commissions

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

(f) 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.

(g) 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.

2. Significant accounting policies (continued)

(h) Cash

Cash and cash equivalents include mainly 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 company in the management of its short-term commitments Such assets are held with regulated banks that have risk ratings above "non-investment grade – Baa3, per Moody's ratings". Also included are notes and coins on hand.

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

(i) Cash held as 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.

(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 holds to collect and 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.

(k) Property, Plant and equipment

(i) 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.

2. Significant accounting policies (continued)

(k) Plant and equipment (continued)

(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 equipment 20% straight line

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

(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.

2. Significant accounting policies (continued)

(n) 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.

(o) 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.

3.Judgement and Estimates

Management discusses with the Audit and Risk Committee of the Board, 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.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 25b, which also sets out key sensitivities of the ECL to changes in these elements.

NORSAD FINANCE LIMITED

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Judgement and Estimates (continued)

Measurement of the expected credit loss allowance (continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 25b.

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 the group's accounting policy in Note 2(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 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 or indirectly 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

ACCOUNTING POLICIES (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018					
Investment securities	14	1 099 303	272 720	-	1 372 023
Loans and advances to customers		-	-	12 944 497	12 944 497
		1 099 303	**272 720**	**12 944 497**	**13 217 217**

Group	Note	Level 1	Level 2	Level 3	Total
31 December 2017					
Investment securities	14	609 098	400 000	-	1 009 098
		609 098	**400 000**	**-**	**1 009 098**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. 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	Amortised Cost	FVPL	FVOCI	Total carrying amount & Fair Value
31 December 2018					
Cash and cash equivalents	12	5 850 594	-	-	5 850 594
Fixed deposit investments	13	17 895 845	-	-	17 895 845
Loans and advances	15	89 448 394	12 944 497	-	102 392 891
Investment securities	14	-	-	1 372 023	1 372 023
		113 194 833	**12 944 497**	**1 372 023**	**127 511 353**

Group	Note	Amortised Cost	Available for sale	Total carrying amount & Fair Value
31 December 2017				
Cash and cash equivalents	12	7 600 012	-	7 600 012
Fixed deposit investments	13	22 215 605	-	22 215 605
Loans and advances	15	101 891 710	-	101 891 710
Investment securities	14	-	1 009 098	1 009 098
		131 707 327	**1 009 098**	**132 716 425**

	Group		Company	
	2018	**2017**	**2018**	**2017**
5. Interest income				
Loans and advances to financial institutions	8 783 737	6 866 658	8 630 029	6 950 716
Loans and advances direct to customers	3 526 999	3 611 003	3 526 999	3 476 064
	12 310 736	**10 477 661**	**12 157 028**	**10 426 780**
6. Other income				
Income from loans written off	-	36 781	-	36 781
	-	36 781	-	36 781
7. Personnel expenses				
Salaries and incentive payments	1 547 233	1 701 793	1 547 233	1 701 793
Pension and gratuity costs	169 854	162 417	169 854	162 417
Leave pay costs and provisions	72 844	72 501	72 844	72 501
Health insurance and staff welfare	136 912	124 638	136 912	124 638
Other employee benefits	429 129	378 907	429 129	378 907
	2 355 972	**2 440 256**	**2 355 972**	**2 440 256**

At year end the number of staff employed by the group was 20 (2017: 23)

	Group		Company	
	2018	**2017**	**2018**	**2017**
8. Other operating expenses				
Board of Director meeting costs	176 266	187 535	176 266	187 535
Financial charges and losses	194 075	34 965	194 601	34 959
Travel and promotion expenses	268 237	193 327	268 237	193 327
Legal and consultancy expenses	431 971	173 126	408 052	170 826
Staff training costs	45 785	124 163	45 785	124 163
Auditors remuneration	28 480	26 500	22 365	21 300
	1 144 814	**739 616**	**1 115 306**	**732 110**
9. Credit impairment losses				
Specific provisions for impairment	9 293 427	1 189 931	9 241 734	1 189 931
Collective provisions for impairment	-	364 489	-	362 254
Fair value adjustment on FVPL assets	655 865	-	655 865	-
	9 949 292	**1 554 420**	**9 897 599**	**1 552 185**
Specific Impairment Control Account				
Balance as at 1 January	4 832 875	6 271 356	4 832 875	6 271 356
Changes on initial application of IFRS 9	6 886 168	-	6 886 168	-
Restated Balance as at 1 January	11 719 043	6 271 356	11 719 043	6 271 356
Charge for the period	9 293 427	1 189 931	9 241 734	1 189 931
Loan written off from Books	-	(2 628 412)	-	(2 628 412)
Balance as at 31 December	**21 012 470**	**4 832 875**	**20 960 777**	**4 832 875**
Collective Impairment Control Account				
Balance as at 1 January	1 029 209	664 720	1 015 216	652 962
Changes on initial application of IFRS 9	(1 029 209)	-	(1 015 216)	-
Restated Balance as at 1 January	-	664 720	-	652 962
Charge for the period	-	364 489	-	362 254
Balance as at 31 December	**-**	**1 029 209**	**-**	**1 015 216**
10. Foreign Exchange Losses on loans & advances				
Realised (loss) on ZAR loan advances	(209 195)	(65 579)	(209 195)	(65 579)
Total Realised (loss) on loans and advances	(209 195)	(65 579)	(209 195)	(65 579)
Unrealised (loss)/gain on ZAR loan advances	(184 341)	214 936	(184 341)	214 936
Total Unrealised (loss)/gain on loans and advances	(184 341)	214 936	(184 341)	214 936
Net foreign exchange (loss)/gain on loans and advances	**(393 536)**	**149 357**	**(393 536)**	**149 357**
Exposure				
ZAR loans and advances	7 158 742	2 697 911	7 158 742	2 697 911
Total forex loan and advance exposure	**7 158 742**	**2 696 911**	**7 158 742**	**2 697 911**

NORSAD FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018	**2017**	**2018**	**2017**
11. Income tax expense				
Normal company taxation	-	998 481	-	998 481
Normal company taxation - subsidiary	7 096	9 542	-	-
Foreign withholding tax	1 129 724	39 699	1 129 724	36 699
Taxation relating to prior year	418 261	18 058	418 261	-
Deferred taxation charge per profit or loss	(55 077)	(4 333)	(44 324)	(4 333)
Taxation per statement of profit or loss	**1 500 004**	**1 061 447**	**1 503 661**	**1 033 847**
Taxation reconciliation				
(Loss)/Profit before taxation	(942 497)	6 083 046	(938 925)	6 041 906
Taxation at the rate of 15% on taxable profit	-	906 286	-	906 286
Taxation at the rate of 22% on taxable profit	7 096	9 051	-	-
Effect of items disallowed and exempt income	1 074 647	128 052	1 085 400	127 561
Taxation relating to prior year	418 261	18 058	418 261	-
Taxation per statement of profit or loss	**1 500 004**	**1 061 447**	**1 503 661**	**1 033 847**
12. Cash				
Balances with banks	5 848 180	7 592 762	5 675 789	7 587 829
Petty cash	2 414	7 250	2 414	7 250
	5 850 594	**7 600 012**	**5 678 203**	**7 595 079**
13 Cash held as investments				
Investments held	**17 895 845**	**22 215 605**	**17 895 845**	**22 215 605**

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
14. Investment securities				
Market value on 1 January	1 009 098	409 757	1 009 098	409 757
Equity investment disbursed	-	400 000	-	400 000
Market price movements in the year	362 925	199 341	362 925	199 341
Market value on 31 December	**1 372 023**	**1 009 098**	**1 372 023**	**1 009 098**

Norsad has subscribed to ordinary shares of a fund, initially at a value of USD 400,000. The investment is not self-liquidating, so the capital contribution plus other income and capital gains accruing during the life of the fund are payable at the end of the Fund's Life which is 10 years, subject to extension by 2 years. Hence, the value of the investment can rise or fall depending on the performance of the overall investment portfolio created by the Fund. The investment cannot be recalled with distributions being made after the Fund has exited from all investments made during its life and upon expiry of the Life of the Fund. In terms of valuation, this will be based on regular fund investor reports from the client, in line with normal practices.

	Group		Company	
	2018	**2017**	**2018**	**2017**
15. Loans and advances to customers				
Loans and advances to financial institutions	85 330 927	73 262 966	80 330 929	73 262 966
Loans and advances direct to customers	38 730 299	34 490 828	38 730 297	33 091 510
Gross Loan Balance as at 31 December	124 061 226	107 753 794	119 061 226	106 354 476
Less specific allowance for impairment	(21 012 470)	(4 832 875)	(20 960 777)	(4 832 875)
Less general allowance for impairment	-	(1 029 209)	-	(1 015 216)
Less fair value adjustment on FVPL assets	(655 865)	-	(655 865)	-
Net Loan Balance as at 31 December	**102 392 891**	**101 891 710**	**97 444 584**	**100 506 385**
Loan Control Account				
Balance transferred at 1 January	107 753 794	105 569 665	106 354 476	103 805 954
Loan disbursements	26 342 914	20 800 000	21 342 914	20 800 000
Interest adjustment	2 014 658	(264 860)	2 045 031	(264 860)
Repayment of loan principal	(11 569 876)	(16 376 445)	(10 302 010)	(16 012 052)
Foreign exchange (losses)/gains on loans	(480 264)	163 704	(379 185)	163 704
Write-offs against provisions	-	(2 138 270)	-	(2 138 270)
Gross Loan Balance as at 31 December	**124 061 226**	**107 753 794**	**119 061 226**	**106 354 476**
16. Loans and advances to subsidiaries				
Opening balance at 1 January	-	-	1 146 556	1 666 280
Loans and advances to subsidiaries	-	-	3 870 763	140 276
Loans and advances repaid from subsidiaries	-	-	(149 193)	(660 000)
Gross balance at 31 December	-	-	4 868 126	1 146 556
Less specific allowance for impairment	-	-	-	-
Net Loan Balance at 31 December	-	-	**4 868 126**	**1 146 556**

The company holds 100% of the issued stated capital of Norsad Finance (Botswana) Limited comprising 100 shares at no par value, a company incorporated in Botswana. In addition, the company holds 100% of the issued stated capital of Norsad Finance (Pty) Limited comprising 100 shares at no par value, a company incorporated in South Africa.

	Group		Company	
	2018	**2017**	**2018**	**2017**
17. Other assets				
Accrued interest from loans	315 055	326 396	315 055	326 396
Loans and advances to employees	56 524	66 102	53 981	66 102
Prepayments and deposits	176 366	180 348	176 472	180 348
	547 945	**572 846**	**545 508**	**572 846**

NORSAD FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group and Company			
18. Cost Plant and equipment	**Motor vehicles**	**Computer equipment**	**Office Equipment**	**Total**
Balance as at 31 December 2016	151 892	81 902	72 490	306 284
Additions	42 892	34 040	1 455	77 641
Disposals	(55 338)	(21 146)	(810)	(77 294)
Balance as at 31 December 2017	**138 700**	**94 796**	**73 135**	**306 631**
Additions	-	9 119	158 326	167 445
Disposals	-	(23 978)	(34 960)	(58 938)
Balance as at 31 December 2018	**138 700**	**79 937**	**196 501**	**415 138**
Accumulated depreciation				
Balance as at 31 December 2016	103 088	60 218	44 625	207 931
Charge for the period	20 830	25 852	13 705	60 387
Disposals	(41 985)	(18 444)	(810)	(61 239)
Balance as at 31 December 2017	**81 933**	**67 626**	**57 520**	**207 079**
Charge for the period	14 192	19 475	38 300	71 967
Disposals	-	(23 877)	(32 280)	(56 157)
Balance as at 31 December 2018	**96 125**	**63 224**	**63 540**	**222 889**
Carrying amounts				
As at 31 December 2018	**42 575**	**16 713**	**132 961**	**192 249**
As at 31 December 2017	56 767	27 170	15 615	99 552

19. Deferred taxation	**Group**	**Company**	**Group & Company**
	2018	**2018**	**2017**
Movement in deferred taxation			
Deferred taxation (liability) / asset at beginning of year	(25 286)	(25 286)	282
Movement per profit or loss	55 077	44 324	4 333
Movement per other comprehensive income	-	-	(29 901)
Deferred taxation asset / (liability) at end of year	**29 791**	**19 038**	**(25 286)**
Analysis of deferred taxation			
Accelerated allowances on property, plant & equipment	10 141	10 141	(368)
Fair value adjustments on financial assets and liabilities	19 650	8 897	(24 918)
Deferred taxation asset / (liability) at end of year	**29 791**	**19 038**	**(25 286)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Company	
	2018	2017	2018	2017
20. Secured debt				
Opening balance as at 1 January	1 517 592	2 747 775	1 517 592	2 747 775
Borrowing advanced	7 132 203	-	7 132 203	-
Borrowing repaid	(1 399 097)	(1 456 751)	(1 399 097)	(1 456 751)
Foreign exchange (gain)/loss	(311 843)	226 568	(311 843)	226 568
Closing balance as at 31 December	**6 938 855**	**1 517 592**	**6 938 855**	**1 517 592**
Rand Merchant Bank, South Africa	-	1 517 592	-	1 517 592
Barclays Bank, Botswana	6 938 855	-	6 938 855	-
Closing balance as at 31 December	**6 938 855**	**1 517 592**	**6 938 855**	**1 517 592**

The loan with Rand Merchant Bank was fully repaid during the year. The loan with Barclays is for the equivalent of ZAR 100,000,000 and was used solely for lending to a customer and is repayable in twelve equal instalments by 30 June 2023. The loan is interest bearing, on commercial market related terms and is secured against fixed deposit investments that the company is obliged to hold until the loan is fully repaid and the loan portfolio.

	Group		Company	
	2018	2017	2018	2017
21. Other liabilities				
Accruals	267 518	352 359	253 833	343 259
Employee and payroll liabilities	173 759	222 322	173 759	222 322
	441 277	**574 681**	**427 592**	**565 581**
22. Share capital				
Ordinary shares				
8 800 shares (2017: 8 800) at nil par value	73 071 690	73 071 690	73 071 690	73 071 690
Preference shares				
5 545 shares (2017: 5 545) at USD 8 279 per share	45 907 055	45 907 055	45 907 055	45 907 055
	118 978 745	**118 978 745**	**118 978 745**	**118 978 745**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

		31 December 2018 Number of shares	
22. Share capital (continued)			
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 Cooperation 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**

23. Related party transactions

Norsad Finance Limited holds a 100% share in Norsad Finance (Botswana) Ltd. Details of transactions and year end balances are reflected in note 16.

Norsad Finance Limited holds a 100% share in Norsad Finance (Pty) Ltd. Details of transactions and year end balances are reflected in note 16.

There have been no other related party transactions during 2017 or 2018.

24. Key management personnel

In total, members of the Board of Directors were paid USD 22,600 (2017: USD 21,600) for attending Board meetings during 2018 and USD 18,600 (2017: 20,100) for attending Board Committee meetings.

Total remuneration paid to Management staff during 2018 was USD 958,864 (2017: USD 1,076,774) comprising salary of USD 659,244 (2017: USD 631,612) and short term employee benefits of USD 299,620 (2017: USD 445,162).

25. 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 and Risk Committee of the Board 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

> 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.

> The measurement of ECL under IFRS 9 uses the information and approaches that the Group uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is outlined below.

> Limiting concentrations of loan portfolio exposure as follows:

  > Unhedged foreign currency risk, limited to 5% of equity total.
  > Single company or corporate group, limited to 15% of equity total.
  > Aggregate loans to a single country, limited to 30% of equity total.
  > Aggregate loans to a single sector other than financial, limited to 30% of equity total.
  > Aggregate loans to a related parties, limited to 20% of equity total.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

25. Financial Risk Management (continued)

(b) Credit risk (continued)

> 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 four 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 team undertake the entire facility 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 team monitor the operations of the customers to assess their ability to make repayments.

(i) Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and time.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

(ii) Credit Risk Grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual customer. The Group use internal grading models tailored to the various categories of customer. Borrower and loan specific information collected at the time of application is fed into this grading model. This may be supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Portfolio and Risk team to be fed into the final internal credit grading for each investment. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between higher rating grade is lower than the difference in the PD between a lower rating grade.

The major investment related risks associated with Norsad facilities and incorporated into its risk grading model include:

Political Risk: High levels of potential political risk may be mitigated through structuring and/or the acquisition of political risk insurance from the commercial or multilateral market. The political risk factors are fundamental to working in developing economies and are considered manageable.=

Foreign Exchange Risk: Norsad favours export-oriented businesses and those with some earnings linked to convertible/hard currencies. This risk is considered manageable and Norsad is currently not extending any further unhedged local currency facilities.

25. Financial Risk Management (continued)

(b) Credit risk, credit risk grading (continued)

Reputational Risk: Current worldwide attention to international best practice on sustainability issues and assessing and monitoring portfolio compliance with anti-money laundering and "know your client" (KYC) policies are undertaken at the time of due diligence and monitored through regular portfolio reviews and strengthened through S&E plans.

Interest Rate Risk: Norsad is currently not directly exposed to significant interest rate risk as the Company is not extending fixed rates and the current pricing has a minimum margin. In addition, leverage levels in the Company are currently not significant. There is currently an indirect risk that higher rates could impact the asset quality of the Norsad portfolio. This risk is considered manageable and will be monitored more closely with increased leverage and/or interest rate increases.

Commercial Risk: Other market risks. It is anticipated that through rigorous due diligence and regular monitoring other systematic risks (inflation, recessions, commodity risk etc.) will be managed. These day-to-day risks receive major attention from the Norsad Investment team.

Conflicts of Interest Risk: The role of the Board and Screening Committee in assessing conflicts of interest as part of the investment process, combined with the corporate governance of Norsad should minimize any potential conflict of interest risk.

The following are the risk grading criteria for the two main investment types held by the Company:

Financial Institutions (FI)
To rate an FI investment, the risk grading model assesses a combined score relating to Financial Condition & Performance, Management & HR, External Conditions, Institutional & Sector Conditions and One-Time Items. Each of these factors is scored, with 1 being the best score possible and 4 being the worst score possible. As a policy, Norsad will not undertake an FI investment with a total score greater than 14. The overall risk grading of the investments is classified as follows:

Risk Classification	Overall Grading Score
Favourable	4 - 6
Good	7 - 10
Average	11 - 14
Poor	15 - 19

Direct Investments (DI)
To rate an DI investment, the risk grading model assesses a combined score relating to Financial Condition & Performance, Management & Corporate Structure, Institutional Conditions, Sector Conditions, External Conditions and One-Time Items. Each of these factors is scored, with 1 being the best score possible and 4 being the worst score possible. As a policy, Norsad will not undertake an DI investment with a total score greater than 16. The overall risk grading of the investments is classified as follows:

Risk Classification	Overall Grading Score
Favourable	5 - 8
Good	9 - 12
Average	13 - 16
Poor	17 – 23

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25. Financial Risk Management (continued)

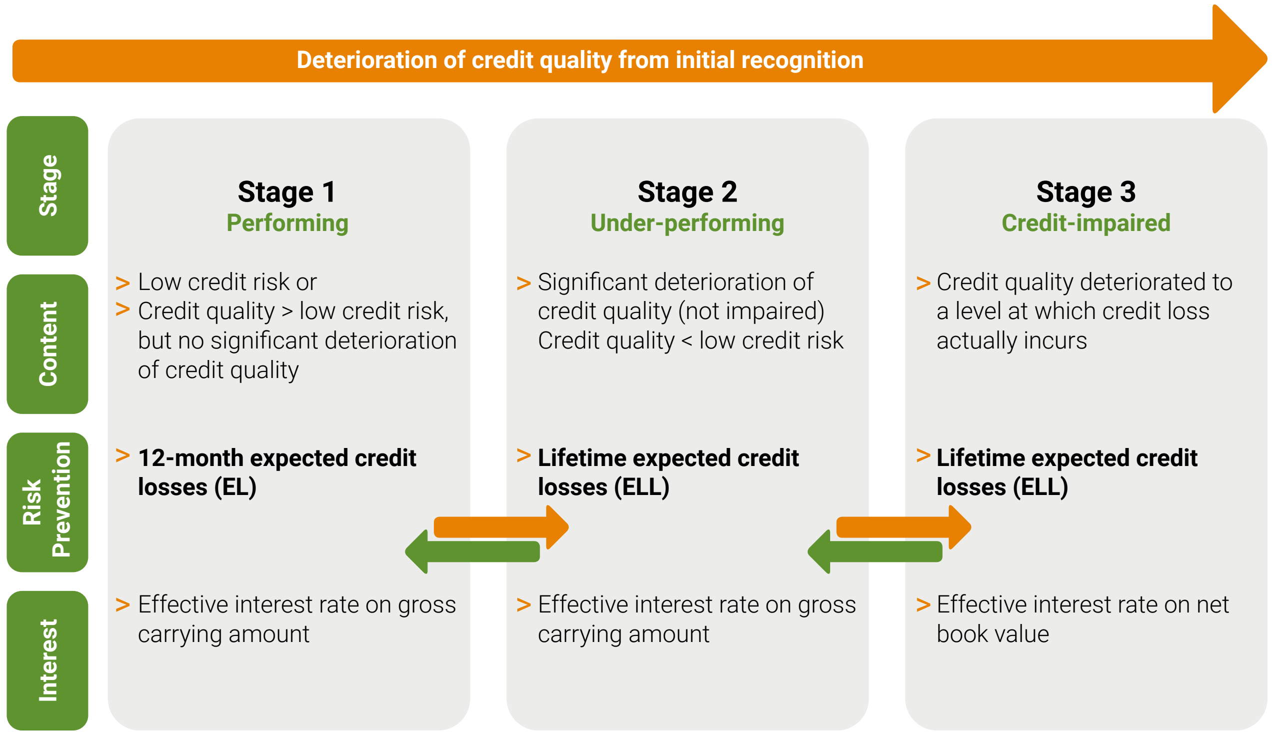
(b) Credit risk (continued)

(iii) Expected Credit Loss Measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition on disbursement, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to the note below for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to the note below for a description of how the Group defines credit-impaired and default. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to the note below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

The following diagram summarises the impairment requirements under IFRS9:



25. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Significant Increase in Credit Risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria: its credit risk score moves 3 or more notches downwards. The facility may remain in stage 1 if its overall risk score is classified as average (FI: 11-14), (Dir: 13-16) and there is other evidence that its overall risk classifies it as a stage 1.

Qualitative criteria: there is other evidence that its overall risk classifies it as a stage 2.

(v) Credit Impaired and Default Definition

The Group considers a financial instrument to be credit impaired and in default when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria: it has payments in arrears for 90 days and over. Its credit risk score moves 3 or more notches downwards and there is other evidence of significant credit impairment.

Qualitative criteria: there is other evidence that its overall risk classifies it as a stage 3.

(vi) Expected Credit Loss (ECL) – Inputs, Assumptions and Estimates

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

Probability of Default (PD) - represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

Exposure at Default (EAD) - is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12m EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current facility limit by the time of default.

Loss Given Default (LGD) - represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of customer, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the facility.

NORSAD FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

25. Financial Risk Management (continued)

(b) Credit risk, expected credit loss (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future quarter and for each individual facility exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier quarter). This effectively calculates an ECL for each future quarter, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12m PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan facilities. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

> For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

> For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

> For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

> For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

Forward-looking information is incorporated in the ECL models. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables are provided by the Risk & Portfolio department and provide the best estimate view of the economy over the next five years

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

25. Financial Risk Management (continued)

(b) Credit risk, expected credit loss (continued)

The tables below set out information about the credit quality of financial assets and the loss allowance held by the group against those assets.

Group Exposure to credit risk				
Risk Grading and ECL Staging 31 December 2018	*Notes*	**Investments to Financial Institutions**	**Direct Investments**	**Total**
Per risk grading:				
Risk Grade 1 : Favourable		-	-	-
Risk Grade 2 : Good		22 158 742	6 429 256	28 587 998
Risk Grade 3 : Average		41 760 379	26 714 976	68 475 355
Risk Grade 4 : Poor		21 411 806	5 586 067	26 997 873
Gross amount		85 330 927	38 730 299	124 061 226
Loss allowance	*15*	(20 999 252)	(669 083)	(21 668 335)
Carrying amount 2018	*15*	**64 331 675**	**38 061 216**	**102 392 891**
Per ECL staging:				
Stage 1		47 866 804	22 902 324	70 769 128
Stage 2		10 466 250	15 827 975	26 294 225
Stage 3		26 997 873	-	26 997 873
Gross amount		85 330 927	38 730 299	124 061 226
Loss allowance	*15*	(20 999 252)	(669 083)	(21 668 335)
Carrying amount 2018	*15*	**64 331 675**	**38 061 216**	**102 392 891**
Risk Grading and ECL Staging 31 December 2017	Notes	**Investments to financial institutions**	**Direct Investments**	**Total**
Per risk grading:				
Risk Grade 1 : Favourable		-	1 945 600	1 945 600
Risk Grade 2 : Good		15 000 000	4 375 000	19 375 000
Risk Grade 3 : Average		37 135 167	22 318 060	59 453 227
Risk Grade 4 : Poor		21 127 799	5 852 168	26 979 967
Gross amount	*15*	73 262 966	34 490 828	107 753 794
Loss allowance	*15*	(4 341 989)	(1 520 095)	(5 862 084)
Carrying amount 2017		**68 920 977**	**32 970 733**	**101 891 710**
Per ECL staging:				
Stage 1		42 531 763	28 638 659	71 170 422
Stage 2		10 047 852	-	10 047 852
Stage 3		20 683 351	5 852 169	26 535 520
Gross amount		73 262 966	34 490 828	107 753 794
Loss allowance	*15*	(4 341 989)	(1 520 095)	(5 862 084)
Carrying amount 2017	*15*	**68 920 977**	**32 970 733**	**101 891 710**

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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25. Financial Risk Management (continued)

(b) Credit risk (continued)

(vii) Concentration of credit risk

The group monitors concentrations of credit risk by sector and geographic location. The group has extended credit facilities to clients in countries currently experiencing a restriction in terms of remittances of foreign currency. Whilst the majority of clients have not been affected adversely in terms of remittances, two clients have been unable to fully remit, but instead placed the repayments and interest in escrow accounts that can only be remitted to or withdrawn by Norsad. The value of such funds at 31 December 2018 was USD 4,214,706 (2017 USD 1 528 555). These funds are expected to be remitted and no specific loss allowance has been made in the 2017 or 2018 financial statements.

An analysis of concentrations of credit risk from investments is shown below:

Group concentration exposure 31 December 2018	Total	Investments to Financial Institutions	Direct Investments	Investment securities
By location:				
Angola	**12 870 317**	9 988 557	2 609 040	272 720
Botswana	**14 245 493**	14 245 493	-	-
Malawi	**9 848 014**	5 000 000	4 848 014	-
Mauritius	**6 123 888**	6 123 888	**-**	
Mozambique	**7 008 120**	-	7 008 120	-
Namibia	**9 199 726**	9 199 726	-	-
Swaziland	**7 158 742**	7 158 742	**-**	**-**
Zambia	**17 771 355**	1 416 007	16 355 348	-
Zimbabwe	**19 539 259**	11 199 262	7 240 694	1 099 303
	103 764 914	**64 331 675**	**38 061 216**	**1 372 023**

Group concentration exposure 31 December 2017	Total	Investments to Financial Institutions	Direct Investments	Investment securities
By location:	**Total:**			
Angola	**12 775 000**	9 900 000	2 475 000	400 000
Botswana	**13 438 123**	10 126 654	3 311 469	-
Malawi	**5 884 607**	4 950 000	934 607	**-**
Mauritius	**3 708 833**	3 708 833	-	-
Mozambique	**7 003 937**	**-**	7 003 937	**-**
Namibia	**10 692 102**	10 692 102	**-**	**-**
Tanzania	**116 937**	-	116 937	-
Zambia	**24 572 412**	13 498 855	11 073 557	
Zimbabwe	**24 708 857**	16 044 533	8 055 226	609 098
	102 900 808	**68 920 977**	**32 970 733**	**1 009 098**

25. Financial Risk Management (continued)

(b) Credit risk (continued)

(viii) Collateral and other credit enhancements

The tables below set out information about the credit quality of financial assets and the loss allowance held by the group against those assets.

The Group employs a range of policies and practices to mitigate credit risk. 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. In addition, the group accepts collateral for facilities advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan facility origination process. This assessment is reviewed periodically. The principal collateral types for loan facilities are:

> charge over real estate;
> floating charges over all corporate assets;
> other liens and guarantees.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

Types of credit exposure Principal type of collateral held for secured lending	Percentage collateralisation coverage arrangements over loan value			
Risk Grading and ECL Staging 31 December 2018		**Investments to Financial Institutions**	**Direct Investments**	**Total**
Investments to financial institutions	**Group**		**Company**	
	2018	2017	2018	2017
Charge over real estate	17%	19%	17%	19%
Floating charge/Debenture	18%	9%	18%	9%
Guarantees and cash	50%	57%	49%	57%
Total Coverage	**85%**	**85%**	**84%**	**85%**
Direct Investments				
Charge over real estate	164%	150%	159%	142%
Floating charge/Debenture	38%	44%	38%	44%
Guarantees and cash	120%	121%	122%	125%
Total Coverage	**322%**	**315%**	**319%**	**311%**

The group does not hold collateral against investment securities, and as such no collateral was held as at 31 December 2018.

25. Financial Risk Management (continued)

(b) Credit risk, collateral and other credit enhancements (continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Group position 31 December 2018	Gross Exposure	Impairment Allowance	Carrying Amount	Fair Value of Collateral Held
Credit impaired assets	USD	USD	USD	USD
Investments to financial institutions				
Stage 2	10 466 250	(1 266 524)	9 199 726	-
Stage 3	21 411 806	(18 871 911)	2 539 895	2 655 002
Direct investments				
Stage 2	2 227 613	-	2 227 613	4 409 360
Stage 3	5 586 067	-	5 586 067	13 313 396
Total credit impaired assets	**39 691 736**	**(20 138 435)**	**19 533 301**	**20 377 758**

(ix) Loss Allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

> Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
> Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
> Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
> Impacts on the measurement of ECL due to changes made to models and assumptions;
> Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
> Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
> Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

25. Financial Risk Management (continued)

(b) Credit risk, loss allowance (continued)

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:.

Loans and Advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	USD	USD	USD	USD
Loss allowance as at 1 January 2018	763 276	1 333 226	9 622 541	11 719 043
New Assets Originated	51 693	-	-	51 693
Changes in PS's/LGD's/EAD's	71 722	(66 702)	9 249 370	9 254 390
Assets derecognised	(12 656)	-	-	(12 656)
Loss allowance as at 31 December 2018	**874 035**	**1 266 524**	**18 871 911**	**21 012 470**

(x) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

(xi) Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements and payment holidays. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

25. Financial Risk Management (continued)

(b) Credit risk (continued)

(xii) Cash and cash equivalents

At the year end the group held cash and cash equivalents of USD 5 850 594 (2017, USD 7 600 012). 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 or which is approved by the Audit Committee.

(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 2018.

Exposure to liquidity risk

Group 31 December 2018	*Note*	Carrying amount	Less than 1 month	Within 1 year	Within 1 year	More than 5 years
Asset by type						
Cash and cash equivalents	*12*	5 850 594	5 850 594	-	-	-
Fixed deposit investments	*13*	17 895 845	15 582 893	-	2 312 952	-
Loans and advances	*15*	102 392 891	5 410 227	19 101 851	76 300 873	1 579 940
Investment securities	*14*	1 372 023	1 009 098	-	362 925	-
Total assets by maturity		**127 511 353**	**27 852 812**	**19 101 851**	**78 976 750**	**1 579 940**
Liability by type						
Borrowings	*20*	6 938 855	-	-	6 938 855	-
Total liabilities by maturity		**6 938 855**	**-**	**-**	**6 938 855**	**-**
Maturity surplus		**120 572 498**	**27 852 812**	**19 101 851**	**72 037 895**	**1 579 940**

25. 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 on the basis of their earliest possible contractual maturity. 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 five approved projects to the value of USD 33,976,626 (2017 Six projects, USD 26,700,000), 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.

(i) Exposure to interest 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 and exchange rate risk are subject to regular monitoring by the Board of Directors, but are currently not significant in relation to the overall results and financial position of the group.

(ii) Interest rate sensitivity analysis

	31 December 2018	31 December 2017
Floating rate assets	120 288 736	107 405 296
Floating rate liabilities	6 938 855	1 517 592
Interest sensitivity gap	113 349 881	105 887 704
Increase in profit due to increase in annual average interest rates		
1%	1 133 499	1 023 818
2%	2 266 998	2 047 636
Decrease in profit due to decrease in annual average interest rates		
1%	(1 133 499)	(1 023 818)
2%	(2 266 998)	(2 047 636

25. Financial Risk Management (continued)

(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.

26. New Accounting Pronouncements

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 2018, 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 2018. The group does not plan to adopt these standards early, but in the period that they become mandatory:

Standards/interpretations		Effective date
IFRS 9 Amendment	Financial Instruments	1 January 2019
IFRS 16	Leases	1 January 2019
	Annual improvements cycle 2015-2017	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
IAS 1 Amendment IAS 8 Amendment	Presentation of financial statements Accounting policies, changes in accounting estimates and errors' on the definition of material.	1 January 2020
IFRS 3	Business combinations	1 January 2020
Practice statement 2	Making materiality judgements	The Practice statement is not a standard, and it is not mandatory but can be applied to financial statements prepared from 14 September 2017.

26. New Accounting Pronouncements (continued)

(i) IFRS 9 Financial Instruments – Amendment

The narrow-scope amendment covers two issues:

> The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.

> How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

(ii) IFRS 16 Leases

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

(iii) Annual improvements cycle 2015-2017 (continued)

> IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business.

> IFRS 11,'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

> IAS 12,' Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

> IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

NORSAD FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

26. New Accounting Pronouncements (continued)

(iv) IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

(v) IAS 1 and IAS 8 – Amendments

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.

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

> use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;

> clarify the explanation of the definition of material; and

> incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

(vi) IFRS 3 Business combinations – Amendment

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

(vii) Practice Statement 2 Making materiality judgements

The objective of the Practice statement is to provide guidance for reporting entities that are performing materiality assessments when preparing financial statements in accordance with IFRSs. The Practice statement also includes illustrative examples to help with the application of the guidance.

NORSAD FINANCE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

26. New Accounting Pronouncements (continued)

(vii) Practice Statement 2 Making materiality judgements (continued)

The Practice statement:

- uses a definition of materiality aligned with the definition in the Conceptual framework for Financial reporting;
- considers materiality judgements in relation to presentation and disclosure, and also for recognition and measurement;
- explains the application of judgement to materiality decisions based on the specific circumstances of the entity and the changes that might occur in those circumstances over time;
- requires an entity to assess whether information is material to the financial statements, even if it is already included in other publicly available information;
- clarifies that the provision of additional information required by local regulations is permitted, but the information should be presented in a way that does not obscure material information;
- Includes a four-step process, the 'materiality process', as a guide for materiality judgements, including identification, assessment, organisation of the information and, finally, review.

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