IFRS 9 – Explanatory Note – July 2018

Adjusting how the Net Asset Value (NAV) is calculated

Reflecting a new accounting standard

All financial institutions reporting under International Financial Reporting Standards (IFRS), including the SQN Asset Finance Income Fund (the "Fund") are required to adhere to a new accounting standard, IFRS 9: *Financial Instruments*, in 2018.

What does IFRS 9 cover?

IFRS 9 is concerned with accounting for financial instruments, including asset finance and business loans. One of the key changes under IFRS 9 concerns how impairment (the recognition of credit losses) is measured.

Implementing IFRS 9 requires institutions to:

- Provide an impairment charge based on expected credit losses, at the point each loan is originated
- Adjust these expectations to reflect future changes.

The expected credit loss is calculated using a number of variables including historic data and the expected probability of default of each loan or class of loan.

How does IFRS 9 affect the SQN Asset Finance Income Fund?

Previously, credit losses were reported as and when there was objective evidence of financial distress and there was evidence that the underlying asset values were insufficient to repay the full asset financing exposure. In the Fund's four year history, Suniva is the only impairment made to date. By recognising an expected credit loss across the portfolio – even those that are currently performing – there will be an increase in the impairment provision and, consequently, a reduction in the NAV upon introduction of the new rules on 1st July 2018.

Underlying performance is unaffected

This change is purely an accounting adjustment, and has no bearing on the loans held within the Fund. There will be no change to the underlying risk or future cash flows of the portfolio.