2020 ANNUAL REPORT

YEARS ANNIVERSARY

50 YEARS OF SERVICE

NICO

2020 ANNUAL REPORT

50TH ANNIVERSARY (50 YEARS OF SERVICE)

CONTENTS

NICO

FIVE YEAR HIGHLIGHTS 2020

GROSS REVENUE (MK'MILLION) 185,764

PROFIT BEFORE TAX (MK'MILLION) 26,468

PROFIT AFTER TAX (MK'MILLION) 18,596

EARNINGS PER SHARE (TAMBALA) 959

TOTAL ASSETS (MK'MILLION) 701,345

NET ASSETS (MK'MILLION) 39,978

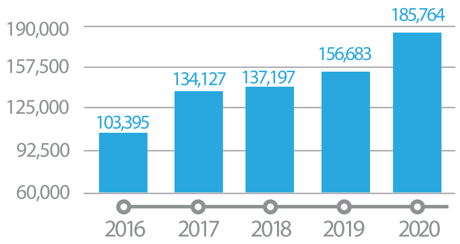
	2016	2017	2018	2019	2020
Gross Revenue (MK'million)	103,395	134,127	137,197	156,683	185,764
Profit Before Tax (MK'million)	1,395	16,480	16,075	21,491	26,468
(Loss)/Profit) After Tax (MK'million)	(1,404)	11,123	12,774	14,730	18,596
(Loss)/Profit) After Tax Attributable To Owners of The Parent Company (MK'million)	(816)	5,819	6,510	8,011	10,004
(Loss)/Earnings) Per Share (Tambala)	(78)	558	624	768	959
Dividend Paid (MK'million)*	417	1,565	1,773	1,982	2,399
Dividend Per Share (Tambala)	40	150	170	190	230
Total Assets (MK'million)	290,248	385,920	443,632	539,646	701,345
Net Assets (MK'million)	17,381	22,536	25,749	31,845	39,978
Share Price (Tambala)	1,700	3,400	4,300	4,850	5,200
Net Asset Value Per Share (Tambala)	1,666	2,161	2,469	3,053	3,833
Price To Book Value (Times)	1	2	2	2	1
Price Earnings Ratio (Times)	22	6	7	6	5
Market Capitalisation (MK'million)	17,732	35,463	44,851	50,587	54,238
***Dividend paid analysed as follows**					
First Interim Dividend	417	522	626	626	699
Second Interim Dividend	-	-	834	887	1,179
Final Dividend	-	1,043	313	469	521
TOTAL	**417**	**1,565**	**1,773**	**1,982**	**2,399**

ONE NICO

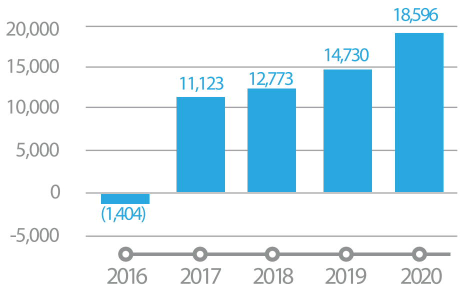
50 YEARS ANNIVERSARY

FIVE YEAR HIGHLIGHTS 2020 (continued)

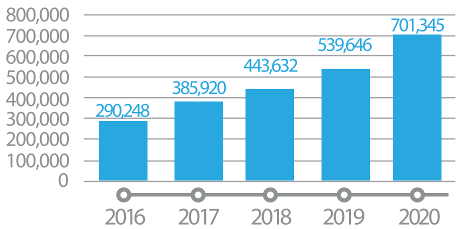
Total Revenue (MK'Million)



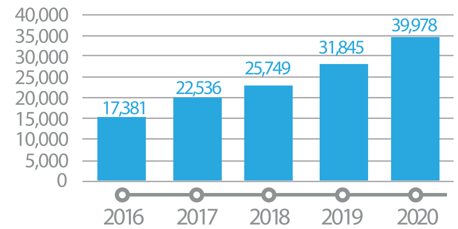
Profit After Tax (MK'Million)



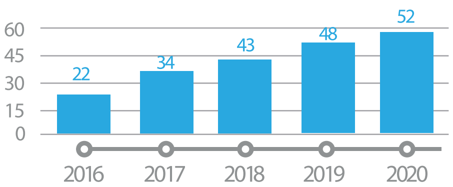
Total Assets (MK'Million)



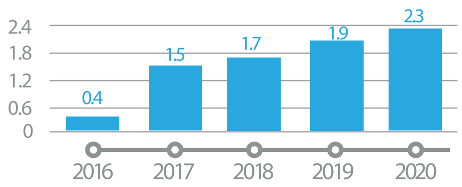
Net Assets (MK' Million)



Share Price (MK)



Dividend Per Share (Net of tax) (MK)



SOME OF OUR KEY MILESTONES

NICO Group reaches a milestone of **50 years of operations**!
50 years of honouring our commitments to clients!
50 years of pioneering various watershed projects in the country!

50 Years of contributing to national and economic development in Malawi.
1971
National Insurance Company opens its doors for operations

Pioneering the development of the capital market in Malawi.
1996
NICO first to list on the Malawi Stock Exchange

Stepping beyond borders as Malawi's first multinational company.
1997
NICO extends its operations to Zambia

Investing in infrastructure to create more business and employment opportunities.
2000
NICO builds Chichiri Mall

Restructuring for growth.
2002
National Insurance Company restructured to establish:
NICO Holdings
NICO General
NICO Life
NICO Technologies

Driving innovation and inclusion in Banking.
2003
NBS Bank established and NICO acquires majority shares

Leveraging on strong partnerships
2011
Sanlam partners with NICO

One NICO – Improving the quality of life for Malawians.
2021
NICO is your dependable one-stop financial services partner


NICO Centre Lilongwe


Chichiri Mall


NICO Chibisa House

ONE NICO | 50 YEARS ANNIVERSARY

BOARD OF DIRECTORS

MR GAFFAR HASSAM

Interim Chairman | Non-executive Director

Mr Gaffar Hassam, is an Executive of Sanlam Emerging Markets (SEM) South Africa. He is an MBA graduate of Oxford Brookes University, a Fellow of the Association of Chartered Certified Accountants (FCCA). Previous roles held by Mr. Hassam include: Group Chief Executive Officer for Botswana Insurance Holdings Limited (BIHL); Group Finance Manager and Company Secretary; Chief Operating Officer. He started his work career with Press Corporation Limited and in 1997 moved to PricewaterhouseCoopers in Malawi and Botswana. Mr. Hassam brings to the Board a wealth of experience in the financial services industry gained over 20 years of work in the industry. The Board benefits from among other things his leadership and insightful approach to issues. In the year 2020 he chaired the Audit Committee and was a member of the Group Appointments and Remuneration Committee.

MR VIZENGE KUMWENDA

Group Managing Director

Mr Vizenge Kumwenda is Group Managing Director of NICO Holdings Plc, a position he has held since January 2016. He has worked for the NICO Group in various senior management positions for over twenty-five years. He Chairs the Boards of some of NICO Holdings Plc's Subsidiary companies.

Before NICO, Mr Kumwenda worked for Deloitte, Malawi College of Accountancy (as a member of faculty), Malawi Institute of Management, Continental Discount House and Continental Asset Management Limited. Mr. Kumwenda is a proponent of Servant Leadership. He likes stretching boundaries, challenging status quo and going into uncharted waters. Mr Kumwenda holds a bachelor's degree in commerce (Accountancy) and Diploma in Business Studies from the University of Malawi. He holds a Master of Science (Finance) degree from the University of Strathclyde , Glasgow Scotland. He is a Fellow of the Association of Chartered Certified Accountants (UK). He is a Chartered Insurance Practitioner and an Associate Member of the Chartered Insurance Institute of UK. He brings to the Board a breadth of experience and expertise in finance and insurance.

BOARD OF DIRECTORS (continued)

MR ROBERT SCHARAR

Non-executive Director

Mr Robert Scharar is the President and Director of FCA Corp, based in Houston Texas, and has worked in this capacity since 1975 (including its predecessor firm). His current directorships include Africap LLC and the Commonwealth International Series Trust, a US mutual fund group. He brings to the Board a combination of finance, investment and legal skills. He has been a key member of the Group Risk Committee and the Group Appointments and Remuneration Committee.

Mr Robert Scharar holds a BSBA (accounting) from University of Florida. He received his AA degree from Polk Community College. He has a Masters Degree in Business Administration and a Juris Doctorate degree from Northeastern University and an LLM in Taxation from Boston University Law School. Mr Scharar is a member of the Florida and Massachusetts Bars and is a Certified Public Accountant (Florida).

MR HAROLD BIJOUX

Non-executive Director

Mr Harold Bijoux is a retired short-term insurance manager. He has over 50 years' experience in the insurance industry obtained from various insurance companies that he worked with including Santam Insurance Company and Guardian National Insurance in South Africa.

He has sat on various Boards. He brings to the Board a wealth of experience in the general insurance business and he has enhanced the Board's technical oversight role in this area. Apart from other Committees where he has added a lot of value, Mr Bijoux has also been a key member of the Audit Committee bringing an insightful approach to matters brought before the Committee.

BOARD OF DIRECTORS (continued)

MS CATHERINE B LESETEDI

Non-executive Director

Ms Catherine Lesetedi is Group CEO of Botswana Insurance Holdings Limited (BIHL Group) having been appointed to that position in March 2016. She holds a BA in Statistics and Demography, an MDP from the Graduate School of Business (UCT), and an ELP from the Gordon Institute of Business Science as well as professional qualifications in Advanced Insurance Practice and a Diploma in Insurance Studies (UNISA). Catherine is also an Associate of the Insurance Institute of South Africa. Catherine brings to the Board expertise in life insurance, finance and risk management. She is a key member of the Group Risk and the Group Investment Committee. Her analytical and objective approach coupled with her zeal to bring out the best in executives and her entrepreneurial approach to the business are invaluable to NICO Holdings plc.

MR ROBERT MDEZA

Independent and Non-executive Director

Mr. Robert Mdeza holds a bachelor's degree in Commerce (Accountancy) from the University of Malawi. He is a Fellow of the Association of Chartered Certified Accountants (UK) and a member of the Institute of Chartered Accountants in Malawi. Early in his career, Mr. Mdeza taught at the Malawi College of Accountancy rising to the position of Deputy Principal. After leaving the accountancy college in 1992, he held various positions in finance rising to the position of General Manager Finance and Company Secretary for Manica Malawi Limited, Mwaiwathu Private Hospital Limited and Petroleum Importers Limited. From November 2005 to August 2011 he served as General Manager for Petroleum Importers Limited and from September 2011 to February 2017, as the first Chief Executive Officer ("CEO") of National Oil Company of Malawi Limited. He briefly served as the CEO for Lilongwe Handling Company Limited from March to 31st August 2017. From May 2018 he took up the position of CEO of Trinity Energy Ltd at its headquarters in Juba South Sudani. Mr. Mdeza has through his career served on various Boards. He brings to the Board vast experience in accounting, general management and leadership.

BOARD OF DIRECTORS (continued)

MR SANGWANI HARA

Non-executive Director

Mr Sangwani Hara holds a Bachelors Degree in Commerce (Accountancy) from the University of Malawi. He is also a graduate of Emile Woolf Accountancy College, London, United Kingdom where he obtained his chartered certified accountancy qualification. He has over twenty-five years experience in accounting, finance, general and commodity marketing gained from working for multinational groups; initially CDC Group plc, then Global Tea & Commodities Limited, both of which have their headquarters in the United Kingdom.

He is currently Head of Finance for Dhunseri African Plantations. He has been a member of several boards. He brings to the NICO Board a wealth of experience in accounting, finance and general management. He is a key member of the Group Investment and Audit Committee where his analytical approach and orientation to detail adds value to those committee's work.

DR CANDIDA NAKHUMWA

Independent and Non- executive Director

Dr. Candida Nakhumwa holds a PhD in agricultural economics obtained from the University of Greenwich, United Kingdom. She also holds a Master of Science degree in agricultural economics, a Bachelor of Science degree in Agriculture, and Diploma in agriculture, all obtained from the University of Malawi. From September 2004 to June 2005 Dr Nakhumwa worked as a Project Economist with Malawi Agricultural Input Markets Development Project and the International Fertilizer Development Centre, Malawi Office. From June 2005 to July 2010 Dr Nakhumwa worked as a Monitoring, Evaluation and Communications Manager for the National Smallholder Farmers' Association of Malawi. In June 2013, Dr. Nakhumwa joined the Farmers Union of Malawi as a Director of Agribusiness and Marketing and from June 2014 she held the position of Director of Research, Policy and Partnerships. She held this position up to September 2018 when she took up a job as Country Director for the Agriculture Transformation Initiative; the position she holds to-date. She brings to the Board skills in management, leadership and insights into the market economy.

BOARD OF DIRECTORS (continued)

MRS NATASHA NSAMALA

Non-executive Director

Mrs Natasha Nsamala is the Chief Executive Officer of Malawi Blood Transfusion Service (MBTS). She served as Finance and Administration Director of the same institution prior to her appointment as CEO in 2009.
She started her career in 1996 as an auditor with Deloitte in Malawi where she rose to the position of Audit Supervisor. After leaving Deloitte she went on to work in the banking sector in Malawi, Zimbabwe and Zambia working for the African Banking Corporation and its subsidiaries before joining the MBTS in 2006.

Natasha holds a Bachelor of Accountancy degree from the University of Malawi. She is a chartered accountant with over 18 years post qualification experience. She is a fellow of the Association of Chartered Certified Accountants and a member of Institute of Chartered Accountants in Malawi.

Natasha also holds directorship positions in other institutions, and she is an Advisor on the board of the National Smallholder Farmers Association of Malawi. She brings to the Board accounting and leadership skills.

MRS EMILY MAKUTA

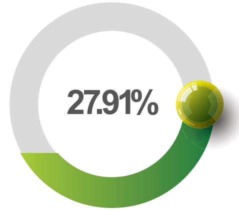
Group Company Secretary

Mrs Emily Makuta holds a Bachelor of Law (Hons) Degree from the University of Malawi and a Masters Degree in International Economic Law from the University of Warwick, UK. She qualified as a Chartered Secretary in 2007 and holds an International Diploma in Compliance from the Manchester Business School and the International Compliance Association which she obtained in 2008.

Emily Makuta previously worked in the banking sector, first in an investment, development and merchant banking environment plus legal support in pensions and later in commercial banking environment. She has legal drafting, analysis and documentation experience and expertise; and has substantive experience and expertise in investment banking, project finance, commercial transactions and negotiations. She also has expertise in governance and compliance. Early in her career, she gained litigation experience from two busy legal firms.

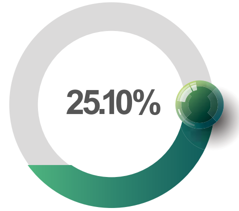
SUMMARISED LIST OF SHAREHOLDERS

Africap LLC
(American)



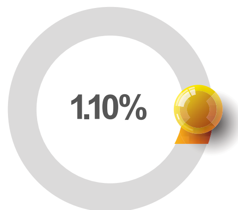
791,Town and Country Blvd
Suite 250, Houston
TX 77024-3925
USA

Botswana Insurance Holdings Limited
(Botswana)



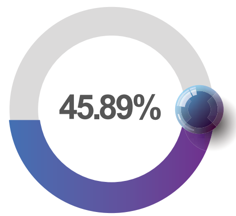
Plot 50374,
Gaborone,
P.O. Box 336
Botswana

NICO Employees Trust
(Malawian and Foreign)



C/O NICO
Transfer Secretaries
19 Glyn Jones Road
P.O. Box 3173
Blantyre, Malawi

General Public
(Malawian and Foreign)



C/O NICO
Transfer Secretaries
19 Glyn Jones Road
P.O. Box 3173
Blantyre, Malawi

CHAIRMAN'S STATEMENT

Mr. Gaffar Hassam
Interim Chairman

The NICO Group has reached a proud milestone of 50 Years! This has been half a century of firsts. NICO Holdings Plc was the first Malawian company to list on the Malawi Stock Exchange in 1996. The first Malawian company to establish a significant presence in regional markets. Over the years, the Group has been at the forefront supporting major infrastructure developments in the country. The Game Complex and Chichiri Shopping Center remain popular shopping centers in the cities of Lilongwe and Blantyre respectively, to this day. Our banking business ,NBS Bank Plc, recently financed the Area 18 interchange in Lilongwe the first of its kind in the country. The insurance and asset management businesses have grown the wealth of many corporate and retail customers. We are also proud to have played a part in the restoration of operations of Airtel Malawi Plc after a major fire had destroyed its Limbe building and equipment. The future is exciting. We have incorporated NICO Capital Limited in 2021 to focus on among other things capital raising initiatives for our clients and the Group. We are also at the heart of efforts to bring Ryalls Hotel to Lilongwe. This is a four-star hotel that will share the land with Lilongwe Golf Club golf course.

ONE NICO 50 YEARS ANNIVERSARY

CHAIRMAN'S STATEMENT (continued)

ECONOMIC OVERVIEW

The global economy was hugely affected by the COVID-19 pandemic. Several countries imposed partial or full lockdowns resulting in supply chain disruptions, layoffs, and weak demand for products. World economic output for 2020 is estimated to have shrunk by 4.3%. Malawi, where most of the NICO operations are based, experienced the knock-on economic effect of subdued demand with sectors such as tourism and transportation among the worst hit. Real GDP growth is estimated at 1.3%, down from 5% in 2019. The Malawi kwacha depreciated from 742 to 778 against the US Dollar as a consequence of declining foreign currency reserves. Debt-to-GDP ratio was at 62% as at 31 December 2020. Sovereign debt is likely to rise as resources are urgently required for various COVID 19 pandemic interventions. Inflation decreased from 10.4% in 2019 to 7.6% in 2020 due to improved agricultural output. The decrease created space for Monetary Authorities to progressively reduce the policy rate from 13.5% to 12% as at 31 December 2020. The returning of political stability following the fresh presidential elections held in June 2020 increased investor confidence and improved Malawi's image globally. Further, the re-opening of export markets in the final quarter of the year gave a glimmer of hope that demand for commodities may pick up in 2021.

FINANCIAL PERFORMANCE

Profit After Tax and Other Comprehensive Income grew from MK14.9 billion to MK18.5 billion representing an impressive increase of 24.2%. The banking and asset management businesses performed exceptionally well. In addition, the Life business delivered strong performance on the back of valuation surpluses from equity investments listed on the Malawi Stock Exchange and underwriting profit. General insurance was negatively impacted by the pandemic resulting in a decrease in profitability of 48.7% year- on-year. The Group expects general insurance to recover post COVID-19.

The NICO Holdings Plc's share price closed at MK52, up from MK48.50 in 2019. Investors continue placing trust in the NICO Group.

DIVIDEND

The Board increased the dividend payment by 21% over last year resulting in total dividend of 230 tambala per share as indicated in the table below.

	Year to December 2020		Year to December 2019	
	Tambala per share	Total K' billion	Tambala per share	Total K' billion
First interim dividend	67	699	60	626
Second interim dividend	113	1,179	85	887
Final dividend	50	521	45	469
Total	**230**	**2,399**	**190**	**1,982**

This is a reflection of the Board's medium-term target for NICO Holdings Plc to pay a consistent and steadily growing dividend year on year.

CHAIRMAN'S STATEMENT (continued)

CUSTOMER SERVICE AND INTERNAL PROCESSES

Group Marketing and Communication function was fully established in 2020. Closely linked to this is the NICO Group Call Centre that was set up and operationalized in 2020. Among the primary objectives of the Group marketing and Communications' function is to track the relevance and appropriateness of our services to clients needs and to track and assess customer experience as the customers consume our services. A tool that we are using in this regard is "customer satisfaction survey" that is conducted by independent reputable marketing research consultants. Based on the survey for 2020, we are pleased to report that our clients are registering increasing satisfaction with our services. Following the COVID 19 pandemic, digitization of our processes and procedures is one area that the group invested in significantly in 2020. We will be embarking on more initiatives in this area as it will remain important for convenience of our customers. We are expecting significant customer service improvement for NICO Life Insurance Company Limited and NICO Pension Services Limited by the second half of 2021 when the new core systems in those companies will have been rolled out.

OPERATING COMPANIES

There was no change to the structure of our businesses. However, plans to hive off Corporate Finance Advisory services from NICO Asset Managers Limited into a stand-alone subsidiary are at an advanced stage. This should bring focus to Corporate Financial services that are critical to the general future growth of the Group as it looks to grow its ecosystem through portfolio investments. All subsidiary companies are based in Malawi except one general insurance company based in Zambia.

We have associate companies in Mozambique, Tanzania, and Uganda in partnership with Sanlam Emerging Markets. In addition, we have one joint venture based in Malawi - Eris Properties Malawi Limited, a company we jointly own with Eris Property Group of South Africa. In June 2020, the Board approved the disposal of our stake in Sanlam Tanzania. This is after the Board had decided not to follow its rights for a capital call that Tanzania had made to shareholders. The shareholding in Tanzania was going to be reduced to a very small percentage hence the decision to exit the company. On the other hand, NICO Holdings Plc is looking to increasing its shareholding in Uganda to between 15% and 20%. NICO believes business prospects in Uganda are bright. The transactions in both companies are subject to approval by regulatory authorities in Tanzania, Uganda, Malawi, and South Africa. Investors should note that neither the disposal in Tanzania nor the prospective acquisition of additional shares in Uganda meets the threshold for issuing cautionary statements in line with the listing regulations of the Malawi Stock Exchange.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Enhancing Corporate Governance structures and upholding ethics and ethical behaviour are never ending pursuits for NICO Group. In 2020 we focused on strengthening our boards through appointments of more independent directors. We also worked on improving the gender balance on our boards. In this regard, I am pleased to report that the proportion of lady directors on NICO Holdings Board improved from 10% in 2019 to 33% in 2020.

CHAIRMAN'S STATEMENT (continued)

This is the general trend across all our companies. Boards of directors and Board committees are continuously reviewed to ensure that they are effective.

CORPORATE SOCIAL RESPONSIBILITY

As a leading financial services Group in Malawi, NICO Holdings Plc has supported initiatives that uplift Malawians in the areas of education, health, and environmental conservation. In a bid to support Government's efforts towards COVID-19 response initiatives, the NICO Group donated MK94 million in 2020 including a contribution of MK55 million from our partner, Sanlam. The funds were channeled mainly towards purchasing of equipment and PPE materials for public hospitals, isolation centres, communication and awareness and on-line learning support. The NICO Group committed a further MK100 million towards the fight against the pandemic to be disbursed in 2021 in response to government appeal to the private sector for help towards COVID-19 pandemic interventions. The funds will be deployed towards closing some of the gaps in the health sector that have been made apparent by the pandemic. The NICO Group believes the donations are within its values of being a responsible and responsive corporate citizen.

OUTLOOK

In 2021, we will focus on positioning the company for growth. The Group recognises that economic recovery may take longer than initially anticipated following a second wave of COVID-19 infections early 2021. Weak exchange rates, growing sovereign debt and high unemployment rates will continue to affect the economy. Nevertheless, the arrival of vaccines in many African countries and beyond offers hope of a brighter future. Falling inflation, adequate rains and easing of supply chain disruptions should spur economic growth. The dedicated well experienced staff, other unique capabilities and diversity of operations position the Group well to seize opportunities and mitigate risks arising in this new environment and enable it to continue delivering satisfactory growth in profitability.

APPRECIATION

I wish to thank all stakeholders for the support rendered to the NICO Group in 2020. For my colleagues on the Board, Executive Management, and Staff, I appreciate your continued sacrifices you made to support the cause of our Group in a very challenging year. I call upon each one of you to rise to the challenges business and society will bring before us in the coming year. Our collective effort will be needed more than ever to rebuild societies and provide our clients with value adding financial services. The NICO brand has been associated with a pioneering role in many sectors over the past 50 years. I count on you all to write the next chapter in this story of success, and you have my trust.

Gaffar Hassam
Chairman

GROUP MANAGING DIRECTOR'S REPORT

Mr Vizenge Kumwenda
Group Managing Director

BUSINESS PROFILE

The core business of the NICO Group is General Insurance, Life Insurance, Pensions Administration, Banking, and Asset Management. This is done through subsidiary companies in Malawi and a general insurance subsidiary in Zambia, a Life Insurance associate company in Mozambique and an investment in Uganda. We are in the process of exiting a general insurance company in Tanzania where we had a 20% shareholding. We have a joint venture company in Malawi whose core business is property development and facilities management. We also have an ICT services company that for the past couple of years has focused on servicing the Group. The NICO Group also owns substantial investments in property, listed and unlisted equity investments across various industries in the Malawi economy. The structure of the Group was unchanged from what it was in the previous year.

GROUP MANAGING DIRECTOR'S REPORT (continued)

GROUP PERFORMANCE

Despite the challenging global and local operating environment which included general business slowdown caused by the COVID -19 pandemic, the Group has posted satisfactory results. Gross revenue for the year ended 31 December 2020 increased by 17% to MK 186.1 billion compared to MK 158.5 billion for the same period in 2019. Profit after tax before other comprehensive income grew by 26% to MK 18.6 billion compared to MK 14.7 billion for 2019. The Group's profitability was driven by good performance from the life insurance, banking, and asset management businesses; the satisfactory performance of these businesses managed to offset the lower than expected profits registered from the general insurance business.

SEGMENTAL PERFORMANCE

Segmental Contribution to Group Profit After Tax

	31-Dec-20 MK' Million	31-Dec-19 MK' Million
Life insurance	8,847	6,799
Pension administration	425	429
Life Insurance and Pension Administration	9,272	7,228
General insurance	1,083	2,112
Banking	7,050	4,458
Asset management	2,053	1,325
Other segments	4,378	3,203
Total segment profit	**23,836**	**18,326**
Elimination of dividend income from group companies	(5,240)	(3,596)
Group Profit After Tax	**18,596**	**14,730**

General Insurance

We have two general insurance subsidiary companies in Malawi and Zambia. In spite of the challenging environment, Malawi and Zambia grew premium by 9% and 27% respectively. Several clients in both countries could not maintain the same level of covers due to financial difficulties arising from the COVID -19 pandemic. Both businesses registered an increase in acquisition costs, claims and operating expenses.

The general insurance business in Malawi registered Profit After Tax of MK1.73 billion compared to MK2.11 billion in 2019 while the business in Zambia registered a loss of MK648.6 million compared to a profit of MK286.7 million for 2019. The operating environment in Zambia changed drastically in 2020. The Zambian Kwacha depreciated by 43%. Combined with translation losses following the currency depreciation, NICO Zambia impact on the Group Profit after tax is MK1.2 billion.

The Group capitalised NICO Zambia in the first quarter of 2021 to meet regulatory solvency requirements.

In Malawi, NICO General Insurance Limited launched YAFEWA Third-Party Insurance in the year, which provides coverage for private motor vehicle owners at an affordable premium. This product is a response to the financial pressures being experienced by customers as a result of COVID-19 and other economic factors.

GROUP MANAGING DIRECTOR'S REPORT (continued)

Life Insurance and Pensions Administration Services

Life Insurance premiums excluding pensions contribution grew by 38% over 2019 premiums. Profit After Tax went up from MK7.23 billion to MK9.27 billion in 2020, representing an increase of 28%. The improved performance is a result of underwriting profit, improved investment income from equity investments listed on the Malawi Stock Exchange and improved yields on money market investments.

The Group is on course to implement new ICT systems in both Life and Pensions companies which are expected to improve customer experience.

Up to 31st December 2020, NICO Pensions Services Ltd was a wholly owned subsidiary of NICO Life Insurance Company. In 2021 this shareholding will be restructured to NICO Pensions Limited becoming a direct subsidiary of NICO Holdings Plc. The change will facilitate focus and improved strategy formulation and execution for both businesses.

In the short term, the major risks facing the Life and Pensions businesses are layoffs, delays in or non- remittance of pension contributions and life insurance premiums by employers and COVID-19 related death claims. The big picture though is that life and pensions are growth areas for the Group. Pension funds have been growing over the past few years and are projected to continue growing once the pandemic is over.

Banking

The Bank has grown from strength to strength since initiation of the turnaround strategy in 2016.

The Bank registered Profit After Tax of MK7.1 billion compared to MK4.5 billion for 2019 representing year on year growth of 58%. Customer deposits increased from MK120.8 billion to MK 153.9 billion as at 31 December 2020. Loans to customers rose from MK42.0 billion to MK61.2 billion, up 38%. The growth of the loan book follows years of investing heavily in credit systems, recruitment and training of credit personnel and strengthening of governance structures. The Bank's capital ratios are adequate and compare well to those of its peers. The Bank was awarded the 2020 Best Bank of the Year in Malawi in the Euromoney Awards for Excellence. This was the second year running that the Bank has received this award. The bank upgraded its internet banking for both corporate and retail customers to take the online experience to a new level.

Asset Management

NICO Asset Managers Limited is a 100% subsidiary of NICO Holdings Plc under whose umbrella the Group offers fund/asset management and Corporate Finance Services. In 2020 the company experienced significant growth of revenue from its private wealth business where several new innovative products were introduced for its retail clients. In December 2020, the company was actively working on raising capital, an equivalent US$40 million, for a major infrastructure project in Lilongwe.

Assets under management registered a 12% growth to MK 655.5 billion (31 December 2019: MK 582.6 billion). Profit After Tax grew by 55% to MK 2.05 billion (2019: MK1.32 billion).

GROUP MANAGING DIRECTOR'S REPORT (continued)

Associate Companies

Associate companies in Uganda and Mozambique continue to register growth year-on- year. As reported in the Chairman's statement, the Group is disposing its stake in Sanlam Tanzania.

Eris Properties Mw Limited, a joint venture between NICO Holdings plc and Eris Properties Group of South Africa focused on building capacity by filling key roles in order to deliver the full bouquet of its products. The company is set to lead in infrastructure development and property services not only for Group clients but also for third party clients.

Strategic Alliances

The Group has longstanding partnerships with Africap LLC, Sanlam Emerging Markets (SEM) and Botswana Insurance Holdings Ltd (BIHL). These partners deliver trainings to senior management and upcoming talent in the Group. Further, their exposure to bigger markets help the Group tap into knowledge and expertise that may not be available locally.

The NBS Bank partnership with Rabo Bank of Netherlands continues with the bank benefiting from specialist support. In 2020, the Dutch government agreed to fund part of the cost of this partnership particularly those initiatives targeted at agriculture and vulnerable groups such as youths and women.

The partnership between NICO Technologies Limited and Bitcrack Cyber Security (Pvt) Ltd of South Africa remains in place. Bitcrack are specialists in cyber security. The two partners have installed systems that monitor activity to ensure client and company information is secure. NICO Technologies is also a Microsoft partner on Office 365 products.

STAFF DEVELOPMENT AND WELFARE

Staff development and welfare is at the heart of the Group's growth strategy. The Group plans to recruit and retain the best talent in the markets we operate. To that end, a formal employee value proposition (EVP) was developed and approved by the Board in 2020. This EVP has been benchmarked against modern world class corporate practices. From 2021 onwards, the Group will be taking proactive steps to ensure that it delivers on commitments to its employees as contained in the EVP. Succession planning was another focus area for the Group in 2020. Related to this, the Board approved a management trainee program that will be a catchment area for creating a pipeline of future leaders in the Group. Adequate resources have also been set aside to train staff at all levels.

The Group took an active role in ensuring the safety of employees in the face of the COVID-19 pandemic. Personal protective equipment was provided to staff, tests were done at company cost, and for those who tested positive, support was provided including company appointed doctors to monitor their condition regularly. As part of the COVID- 19 pandemic preventive and control measures, our staff worked from home except where it was absolutely necessary for them to come and work from the office. I am glad to report that our service levels were not significantly negatively impacted by the remote working arrangement.

I am also very pleased to report that no member of staff lost their life to COVID-19 in 2020. The Group also took steps to inform the general public as and when cases were identified on our premises. At the time of reporting, our staff continued to work from home effectively.

GROUP MANAGING DIRECTOR'S REPORT (continued)

BUSINESS SYSTEMS

The Group is on course to implement new core systems in NICO Life and NICO Pensions in the second quarter of 2021. It has taken longer than originally planned because of the COVID-19 pandemic, but we are glad that we are finally there. With the new system, we expect to meet customer expectations in a timely manner and address any data challenges faced in the past. The Bank has already implemented a new internet banking system. The Group is also exploring the creation of a website that will support the One-NICO concept where a customer will gain access to all the companies through this single website. There are several other initiatives the Group has worked on to digitize our operations. The effort in this regard will be on going, as digital ways of working are here to stay as an alternative way of life at the minimum. To ensure the Group is as innovative as possible, an innovation hub has been created catering for all companies in the Group.

BUSINESS ENVIRONMENT OUTLOOK

The emergence of a second wave of COVID -19 in January 2021 threatens the pace of economic recovery. It is more concerning with fear of a third wave. General economic recovery will depend to a large extent on impact of COVID-19 vaccine programs on the performance of world economy. Locally in Malawi, agriculture, construction and financial services are among sectors expected to drive the economy in 2021.

Inflation and interest rates are expected to decline. However, national debt is likely to rise in the short term as resources are needed to improve facilities to guarantee safety of the citizenry. The Malawi kwacha is expected to continue depreciating albeit gradually. In Zambia the major local event to impact economic parameters are the Presidential and Parliamentary elections scheduled for August 2021. Despite uncertainty and challenges in the business environment implied in the foregoing, the Group will forge ahead with its strategy. We are refocusing our efforts on the development of innovative digital products suitable for customers in a changed environment. Pension funds in Malawi will continue growing. There is need to find a home for these funds beyond the Malawi Stock Exchange. It is for this reason that the Group is reviewing its current configuration to position itself appropriately to play its rightful role in investing funds for our customers around which most of our services will revolve. We are strengthening governance processes, building new capabilities, and going forward we will be actively looking for portfolio investments in sectors of interest. We have done that successfully over and over again in the 50 years of our existence.

APPRECIATION

I owe sincere gratitude to all stakeholders for the Group's performance in 2020. I wish to thank our customers, service providers and regulators, for their invaluable contributions to the NICO Group. I sincerely thank Directors on the boards of all companies in the Group and the NICO Holdings Plc Board, for your guidance and support.

GROUP MANAGING DIRECTOR'S REPORT (continued)

To my colleagues on Group Exco and all NICO Group staff members including NBS Bank and Eris Properties Mw, accept my deep appreciation for your dedication to duty and hard work. 2020 was a year like no other but I can confidently say we triumphed. 2021 looks to be equally challenging. We will all need to be at our best if we are to achieve the targets we have set for ourselves. Lastly, I want to take this opportunity to thank frontline health workers who have been there for us and our families at enormous personal risk during the COVID-19 pandemic. Their courage and dedication encourage us all to do our very best in serving customers and our communities.

Vizenge Kumwenda
Group Managing Director

EXECUTIVE MANAGEMENT

VIZENGE KUMWENDA

Group Managing Director
NICO Holdings PLC
FCCA, ACII, CA (M),
MSc (Fn), B Com (Acc) Dip. Bus

CHIFUNDO CHIUNDIRA

Group Operations Executive
NICO Holdings PLC
FCCA, CA (M),
B Com (Acc), Dip. Bus

EMILY MAKUTA

Group Company Secretary
NICO Holdings PLC
LLB (Hons), LLM, Ass ICSA,
Int. Dip Compliance

LOUIS SIBANDE

Group Chief Finance Officer
NICO Holdings PLC
ACMA,CGMA,
AMCT, CA(M), B.Acc.

THOKOZANI PHOKOSO

Group Head of Internal Audit
NICO Holdings PLC
Bsc (Hons), FCCA, MBA, CA(M)

ERNEST TEMBO

Group Head of Risk
NICO Holdings PLC
FCCA, CA (M), B.Acc.

BUXTON KAYUNI

Group Head of
Human Resources
NICO Holdings PLC
MA(HR), MBA, BSoc (Econs)

LORRAINE PHIRI

Group Head of Marketing
& Communication
NICO Holdings PLC
BSoc, Postgrad Cert. Global
Consumer Marketing Liverpool,UK)

KWANELE NGWENYA

Chief Executive Officer
NBS Bank PLC
MCIBS, MSC (Strategy), MBA (Bus.
Admin), CBMBA (Chartered Banker),
Dip (Bus Mgt), Dip (Fin Mgt)

EXECUTIVE MANAGEMENT (continued)

ERIC CHAPOLA

Chief Executive Officer
NICO Life Insurance Company Limited
Dip Bus Studies,ACII,
Chartered Insurer

DONBELL MANDALA

Chief Executive Officer
NICO General Insurance
Company Limited
ACII, MBA, B.Acc.

GEOFFREY CHIRWA

Chief Executive Officer
NICO Insurance (Zambia) Limited
BA (Hons), FLMI, FIIZA,
ACII, AFSI, AIRC, ARA, AIAA

ELLEN NYASULU

Chief Executive Officer
Eris Properties Malawi
MSC-Real Estate, MBA,
BBA, Post Gra Dip, MSIM

GERALD CHIMA

General Manager
NICO Pension Services Limited
FCCA, CA (M),
MBA (UCT), CII DIPLOMA

CLARENCE GAMA

Chief Executive Officer
NICO Technologies Limited
BSc IT

DANIEL DUNGA

Chief Investment Officer -
Investment Management
NICO Asset Managers Limited
FCCA, CA(M), B.Acc.

DAVID MOYO

Chief Investment Officer -
Corporate Finance
NICO Asset Managers Limited
FCCA, CA(M), CISA, B.Acc.

ONE NICO 50 YEARS ANNIVERSARY

CORPORATE GOVERNANCE

The NICO Group recognizes that good corporate governance is key in ensuring that the Group achieves its objectives for the benefit of its shareholders while taking cognizance of the interests of all other stakeholders. The Group is thus fully committed to good corporate governance in dealing with shareholders and all other stakeholders. NICO Holdings formally adopted the Malawi Code II ("the Code") and where appropriate will supplement with internationally recognized corporate governance principles including the King Code on corporate Governance. The company carries out periodic assessments of the adherence to the Code.

Board of Directors

The Board consists of nine directors eight of whom are non-executive directors. The Roles of chairman and managing director are separate.

The Board continues to ensure that governance structures and processes are effective to ensure proper discharge of its oversight role. The Board considers effective risk management as one of the key drivers to ensuring that the Group achieves its objectives. The Group has separate functions for Internal Audit and Risk Management. The NICO Group has a compliance function to ensure that it operates within the law, its policies, and standards.

The Board recognizes its responsibility to provide ethical leadership, promote the Group's vision and uphold its values. Board members will therefore act in the best interest of the Group and its stakeholders.

The board meets quarterly and has full and effective control over the company.

Where necessary, for effective discharge of its oversight role, the Board holds ad hoc meetings over and above its quarterly meetings. In order to ensure thorough and focused attention on matters before it, the Board has the following standing Board committees:

- Audit Committee
- Group Appointments and Remuneration Committee
- Group Investments Committee
- Group Risk Committee

The Chairpersons of all Board Committees provide to the Board reports on material matters that were considered in their Committees. All Board members receive Board papers and minutes for all Board Committees.

Audit Committee

The committee is responsible for reviewing financial statements and accounting policies, monitoring the effectiveness of the internal controls and to discuss the findings and recommendations of both the internal and external auditors. The external and internal auditors have unrestricted access to the Audit Committee.

The Group Appointments and Remuneration Committee

The committee is responsible for overseeing and making recommendations to the Boards of individual Group companies on human resource strategic matters, risks, opportunities and practices to achieve the Group's mission and goals. The committee among other matters, makes recommendations on remuneration, succession planning, appointments of new executive and non-executive directors and plays a role in the recruitment of executive management.

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50TH ANNIVERSARY (50 YEARS OF SERVICE)

BOARD OF DIRECTORS
CHAIRMAN'S STATEMENT
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CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE (continued)

Group Investment Committee
The Group Investment Committee is responsible for approval of investment proposals, such as equity investments, investments in properties, money market investments and other long-term investment decisions.

Group Risk Committee
The Group Risk Committee is responsible for overseeing risk in the Group. It ensures that Management maintains an effective risk management framework for the Group.

Group Company Secretary
The Company Secretary has a key role in governance. All directors have access to the advice and services of the company secretary.

Management Reporting
The Group has in place management reporting disciplines which include annual Strategy Review meetings attended by senior management team which is involved in the preparation of annual budgets in the various operating entities. Monthly results and the financial status of operating entities are reported against approved budgets. Profit projections and cash flows are reviewed regularly, while working capital and borrowing levels are monitored on an ongoing basis.

Executive Committee
The Group has in place a Group Executive Committee whose membership comprise the Group Managing Director, the Group Operations Executive, the Group Chief Finance Officer, the Group Company Secretary, the Group Head of Risk, the Group Head of Human Resource Management, the Group Head of Marketing and the chief executive officers of the subsidiary companies.

The Committee meets at least once a quarter and its role is to ensure that where necessary, there is uniformity within the Group in terms of policies and procedures and to ensure that the group exploits to the full the synergies available to provide the best service to customers, clients, and other stakeholders.

Empowerment and Employment Equity
NICO Group continued to acknowledge and appreciate the high value on the abilities and contributions made by employees towards achievements of its strategic objectives.

NICO Group is an equal opportunities employer. The group strives to afford all staff members opportunities to realise their full potential and advance their careers. The Group is committed to a working environment that is free from any discrimination.

Safety, Health and Environment
The safety of personnel and their health at the workplace continued to be a priority in the year under review.

2020 was a challenging year on the health and safety side due to the COVID-19 pandemic. The Group worked hard to ensure that the health and safety of its employees, customers, clients, and other stakeholders is given priority. Special initiatives were implemented in this regard. Management will continue to monitor the COVID-19 situation and to put in place appropriate measures so that the health and safety of all stakeholders remain a priority.

The Group acknowledges that the HIV/Aids pandemic remains a health challenge and is always ready and available to support HIV/Aids programs that are designed to improve the quality of life for those employees who are either infected or affected by the HIV/Aids problem.

CORPORATE GOVERNANCE (continued)

Code of Ethics
NICO Holdings and its subsidiary companies are committed to a policy of fair dealing and integrity in the conduct of their businesses. This commitment is based on fundamental belief that business should be conducted honestly, fairly and legally. The board formally adopted a comprehensive code of ethics that is applied throughout the Group in the conduct of its affairs. This code provides a detailed guideline governing the all-important relationships between the various stakeholders and the communities in which the Group operates.

Stakeholder Relations
Regular communication is maintained with various stakeholders such as investors, shareholders and the general public.

The board encourages shareholders to attend the Annual General Meeting ("AGM") where it provides full explanation of the implications of proposed resolutions. An opportunity is always presented at the end of each AGM for informal interaction between shareholders and directors.

Due to the challenges arising from the COVID-19 pandemic which made it impossible to have physical meetings, the AGM in 2020 was held virtually. The company put in place all possible measures to facilitate participation of shareholders at the AGM. On a positive note, this enabled non-resident shareholders to attend the AGM.

Corporate Social Investment
The Group continued to play an important role in the growth and development of the nation through its corporate social responsibility programs. NICO Group has sponsored activities in health, sports, education, and other activities of national importance in all the operating countries.

In 2020, the Group participated in business industry initiatives in the fight against the COVID-19 pandemic. The Group donations towards the fight against the pandemic came to MK94 million. The funds were mainly used for equipment such as beds, oxygen cylinders, regulators and personal protective equipment for Kameza Isolation Centre, Kamuzu Central Hospital, Queen Elizabeth Central Hospital and Mzuzu Central Hospital. The Group intends to continue with initiatives to play a role in the fight against the COVID Pandemic.

Overall, it is the Group's intention to remain a responsible corporate citizen.

NICO IN THE COMMUNITY

Together...We can make a difference

NICO has for 50 years been at the heart of Malawi's development, reaching out to different stakeholders to achieve their goals. The year 2020 was disturbed by unprecedented challenges brought by the COVID-19 pandemic. In a bid to support Government's efforts toward COVID-19 response initiatives, the NICO Group donated MK 94 million in 2020 towards such initiatives. This included a donation of MK 55 million from our partner, Sanlam. The funds were mainly channeled towards purchasing operational equipment and personal protective equipment (PPE) for public hospitals and isolation centers, as well as online learning support, communication, and building awareness on practicing preventive measures.

The NICO Group committed a further MK 100 million and an additional of MK24 million from NBS Bank independently, towards the fight against the pandemic, to be disbursed in 2021. The funds will be deployed towards closing some of the gaps in the health and education sector that have been made apparent with the pandemic.

- HEALTH
- EDUCATION
- SUPPORTING JOURNALISTS
- BUSINESS DEVELOPMENT NEWS
- OPENING OF NICO GENERAL SONGWE BORDER OFFICE
- LAUNCH OF GOODWILL FUNERAL HOMES
- NBS BANK SCOOPS THE BEST BANK AWARD
- NICO GENERAL AWARDED FOR EXCEPTIONAL CLAIMS SERVICE
- NICO INSURANCE ZAMBIA AWARDED ONE OF BEST INSURANCE COMPANIES

NICO IN THE COMMUNITY (continued)

HEALTH

NICO continues to support improvements in the health sector. The Group donated MK22 million towards the refurbishment of the Kameza Isolation Centre in Blantyre. The donation was channeled towards the purchase of hospital beds and mattresses, hospital trolleys, and oxygen cylinders.

The MK55 million from our partner, Sanlam, was channeled towards the purchase of hospital beds, mattresses, trolleys, and oxygen supply for Kamuzu Central Hospital in Lilongwe and Mzuzu Central Hospital in Mzuzu. It also catered for PPEs for Kamuzu Central Hospital, Mzuzu Central Hospital, and Queen Elizabeth Central Hospital in Blantyre.

The Group, through NBS Bank, further donated PPEs to Blantyre Health Office in 2020. The bank further donated computers worth MK14 million to the Ministry of Health to support the Covid-19 Response Toll-Free Call Centre, and MK10 million towards Private Citizens Covid-19 response in 2021.

ONE NICO 50 YEARS ANNIVERSARY

NICO IN THE COMMUNITY (continued)

EDUCATION

NICO believes that every child deserves an opportunity to access better education. The COVID-19 pandemic changed the learning interface in the country. Schools were forced to hold lessons online. However, many students could not afford devices such as laptops, tablets, or phones to allow them to access the online lessons. The institutions tried to raise funds to get the devices for students, however, the funds sourced were not adequate to get the same for all students. This affected the students' school performance.

NICO has to date donated MK14 million towards the purchase of devices for online learning for less privileged students at various colleges in the country. The beneficiaries came from the College of Medicine (now Kamuzu University of Health Sciences – KUHeS), Malawi University of Science and Technology, and The Polytechnic (now Malawi University of Business and Applied Sciences – MUBAS).

The NICO Group further donated PPEs worth MK6 million to University of Malawi to allow the college administration and students to practice COVID-19 preventive measures.

NICO IN THE COMMUNITY (continued)

EDUCATION

NICO Asset Managers continues to support virtually impaired students with school fees and materials. The students are in their final year of secondary school and one proceeded to College. The support is channeled through Hope For The Blind, a non -government organization

SUPPORTING JOURNALISTS

Journalists remain one of NICO's key stakeholders. Due to Covid-19 restrictions, our journalists could not travel to South Africa to attend the annual one-week Sanlam Training for Financial Journalists in Pretoria. With the appreciation that Sanlam and NICO have for media support, the companies organized a virtual training. Mr. Duncan Mlanjira, a business journalist for online publication was our 2020 candidate. The objective of the training is to assist in the coaching of financial journalists to develop investigative journalism skills for the improvement of corporate governance. NICO and Sanlam will continue to promote professional journalism in the country through such training sessions.

NICO IN THE COMMUNITY (continued)

BUSINESS DEVELOPMENT NEWS

The Group continues to expand its presence and introducing new innovations to ensure clients enjoy excellent service from NICO. The hard work and determination of the Group has further yielded recognition from various sectors of the market.

OPENING OF NICO GENERAL SONGWE BORDER OFFICE

NICO General Insurance opened its doors to Songwe Border in April this year. NICO responded to the call from clients for NICO General to have offices at the border for easy access to excellent insurance service in the area. The area sees a lot of motor vehicles and various goods passing through and needing the service, among other opportunities. The new offices are strategically positioned at the border, behind MRA offices.

LAUNCH OF GOODWILL FUNERAL HOMES

NICO Life Insurance in partnership with Goodwill Funeral Service and MASM opened Goodwill Funeral Home in Lilongwe. This is the first state-of-the-art private-owned mortuary in Lilongwe. The Funeral Home will offload the pressure the government-owned mortuary at Kamuzu Central Hospital had and will lessen the burden of our clients in bereavement as the Home has all the facilities needed for funeral logistics – mortuary, chapel, hearse provision and coffin workshop.

NICO IN THE COMMUNITY (continued)

NBS BANK SCOOPS THE BEST BANK AWARD

NBS Bank was awarded the 2020 Best Bank in Malawi at the Annual EuroMoney Awards for Excellence in London. This is the second year running that the bank has received this award. NBS Bank continues to provide innovative services to serve its clients.

NICO GENERAL AWARDED FOR EXCEPTIONAL CLAIMS SERVICE

NICO General Insurance has been awarded Double A Rating for 2020/21 for Claims Processing Ability and Financial Strength by Global Credit Rating. NICO General has demonstrated consistent impressive credit rating in Malawi market over the years which demonstrates its ability to pay claims supported by its strong financial strength.

NICO INSURANCE ZAMBIA AWARDED ONE OF BEST INSURANCE COMPANIES

NICO Insurance Zambia is committed in engaging its customers and has invested in customer touchpoints innovations. This effort has been recognized by other insurance bodies in the country. NICO Zambia Scooped three awards at the 2020 Insurance Industry Awards Ceremony held in Lusaka on 20th November 2020. The awards are:

1. Best Customer Centricity Award
2. Best Social Media Engagement Experience Award
3. Best Fraud Detection & Prevention Award

CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

NICO

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors have pleasure in presenting their report together with the audited consolidated and separate financial statements of NICO Holdings plc (the Group) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES OF THE GROUP

The activities of the Group are general insurance, life assurance, pension administration, banking, asset management and information technology. NICO Holdings plc shareholding structure in subsidiary, associate and joint venture companies is as follows:

Name of subsidiary	% Holding	Type of business
NICO Insurance (Zambia) Limited	51.00	Short term insurance
NICO General Insurance Company Limited	51.00	Short term insurance
NICO Life Insurance Company Limited	51.00	Life insurance and pension administration
NBS Bank plc	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabricators & Manufacturers Limited	100.00	Property holding
Name of Associate	**% Holding**	**Type of business**
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mozambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration
Name of Joint Venture	**% Holding**	**Type of business**
Eris Properties Malawi Limited	50.00	Property management and development

REGISTERED OFFICE

The Physical address of NICO Holdings plc's registered office is:
Chibisa House, 19 Glyn Jones Road
P O Box 501, Blantyre, MALAWI

Directors' Report (Continued)

FINANCIAL PERFORMANCE

The results and state of affairs of the Group are set out in the accompanying consolidated and separate financial statements which comprise the consolidated and separate statements of financial position, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity, consolidated and separate statements of cash flows for the year then ended and associated accounting policies and notes.

CORPORATE GOVERNANCE

The Group embraces best practices in corporate governance as enshrined in the Malawi Code II: Code of Best Practice in Corporate Governance in Malawi ("the Malawi Code/the Code"). The Board adopted the Malawi Code and periodically assesses compliance with the Code. The Board is also committed to comply with all applicable laws and regulations. The Group has a clearly defined governance framework which is reviewed from time to time to ensure effective oversight by the Board.

The Board and subcommittees have a written charter and terms of references respectively which include the material points as required under the corporate governance instruments. All the subcommittees are chaired by a Non-Executive Director and the Company Secretary has a key role in Corporate Governance. The Board as a whole, the subcommittees and the directors individually have access to the advice and services of the Company Secretary on how their responsibilities can be properly discharged in the best interest of the Group and in compliance with laws, regulations and corporate governance standards.

PROFIT

The profit for the year attributable to the owners of the Group of K10 billion (2019: K8 billion) has been added to retained earnings.

DIVIDEND

During the year, the Group paid an interim dividend of K699 million at K0.67 per share (2019: K626 million at K0.60 per share). The Board will make a recommendation to pay a second interim dividend of K1,179 million at K1.13 per share (2019: K887 million at K0.85 per share). The directors will be recommending a final dividend of K521 million at K0.50 per share (2019: K469 million at K0.45 per share) at the forthcoming Annual General Meeting. The total dividend payable for the year will be K2,399 million at K2.30 per share (2019: K1,982 million at K1.90 per share).

STAFFING

Staff complement for the Group stood at 1 081 as at 31 December 2020 (2019: 1 103). Human resource remains a major and key factor to the success of the Group. The Group, therefore, remains committed to professionalism by developing staff to their full potential. The Group has maintained staff development programs through training both locally and internationally.

Directors' Report (Continued)

BOARD OF DIRECTORS AND SECRETARY

Mr. Gaffar Hassam	-	Interim Chairman
Mr. Harold Bijoux	-	Non-executive Director
Mr. Sangwani Hara	-	Non-executive Director
Ms. Catherine Lesetedi	-	Non-executive Director
Mr. Robert Mdeza	-	Independent and Non-executive Director
Ms. Candida Nakhumwa	-	Independent and Non-executive Director (From 26th March 2020)
Mrs. Natasha Nsamala	-	Independent and Non-executive Director (From 26th March 2020)
Mr. Robert Scharar	-	Non-executive Director
Mr. Vizenge Kumwenda	-	Group Managing Director
Ms. Emily Makuta	-	Group Company Secretary

In terms of the Memorandum and Articles of Association, any member who holds 10% or more in nominal value of the issued share capital of the company may from time to time appoint one director of the company in respect of every 10% shares held.

At the annual general meeting of the company, one third of the directors (excluding executive directors and directors appointed by a shareholder in exercise of its rights by virtue of holding 10% or more in nominal value of the issued share capital of the company) or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office and can be re-elected if they are available.

SHAREHOLDING STRUCTURE

	2020 %	2019 %
Africap LLC (American)	27.91	27.91
Botswana Insurance Holdings Limited (Botswana)	25.10	25.10
NICO Company Employees Share Ownership Scheme (Malawian and Foreign)	1.10	1.10
General Public (Malawian and Foreign)	45.89	45.89
	100.00	100.00

BOARD MEETINGS

The Board meets quarterly. Ad-hoc meetings are held when necessary. The directors are provided with comprehensive board documentation at least seven days prior to each of the scheduled meetings.

Directors' Report (Continued)

Main Board meetings - Meeting Attendance

Members	26 Mar 20	19 May 20	05 Jun 20	26 Aug 20	11 Nov 20
Mr. Gaffar Hassam (Interim Chairman)	√	√	√	√	√
Mr. Harold Bijoux	√	√	√	√	√
Mr. Sangwani Hara	√	√	√	√	√
Mr. Vizenge Kumwenda	√	√	√	√	√
Ms. Catherine Lesetedi	√	√	√	√	√
Mr. Robert Scharar	√	A	√	A	√
Mr. Robert Mdeza	√	√	√	√	√
Ms. Natasha Nsamala	N	√	√	√	√
Ms. Candida Nakhumwa	N	√	√	√	√

Key: √ = Attendance A = Apology N = Not a member

At the 26th meeting Mr. Robert Scharar was represented by his alternate, Mr. Ryan Scharar

BOARD COMMITTEES

Board committees were established to ensure that the Board discharges its duties effectively in accordance with principles of good corporate governance.

All board committees have terms of reference and report to the main Board.

AUDIT COMMITTEE

The Audit committee is responsible for reviewing annual reports and Group financial statements. This committee also monitors the adequacy of accounting and internal control systems. The committee oversees the work of both the external and internal auditors. The committee consists of five non-executive directors. The Group Managing Director, internal and external auditors attend by invitation. The committee meets four times in a year. The members of the Audit Committee were as follows:

Mr. Gaffar Hassam	(Chairperson)
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Ms. Natasha Nsamala	(Member) (from August 2020)
Mr. Robert Mdeza	(Member)
Ms. Catherine Lesetedi	(Member) (up to August 2020)

The committee met four times during the year.

Audit Committee- Meeting Attendance

Member	25 Mar 20	4 Jun 20	25 Aug 20	1 Dec 20
Mr. Gaffar Hassam	√	√	√	√
Mr. Harold Bijoux	√	√	√	√

AUDIT COMMITTEE (Continued)

Audit Committee- Meeting Attendance (continued)

Member	25 Mar 20	4 Jun 20	25 Aug 20	1 Dec 20
Mr. Sangwani Hara	√	√	√	√
Ms. Natasha Nsamala	N	N	√	√
Mr. Robert Mdeza	√	√	√	√

Key:
√ = Attendance A = Apology N = Not a member

GROUP APPOINTMENTS AND REMUNERATION COMMITTEE

The Group Appointments and Remuneration Committee is an independent Board Committee for oversight on matters relating to appointments and remuneration of management and staff. The committee also reviews candidates for Board Appointments at individual subsidiary company and Group level. The committee consists of seven non-executive Directors and the Group Managing Director. The Group Operations Executive sits as director representing NICO Asset Managers Limited. The committee meets at least four times in a year.

The members of the Group Appointments and Remuneration Committee are:

Ms. Doreen Chanje*	(Chairperson)
Mr. Chifundo Chiundira**	(Member)
Mr. Gaffar Hassam	(Member)
Mr. Robert Mdeza	(Member)
Dr. Candida Nakhumwa	(Member) (up to March 2020 then from August 2020)
Mr. Robert Scharar	(Member)
Ms. Daisy Kambalame*	(Member) (from August 2020)
Dr. Mathews Mtumbuka*	(Member) (from August 2020)
Mr. Vizenge Kumwenda	(Member)

* Doreen Chanje is a NICO General Director representing the company's interest, Ms. Daisy Kambalame is a NICO Life Director representing the company's interest and Dr. Mathews Mtumbuka is a NICO Pensions Director representing the company's interest on the Group Appointments and Remuneration Committee.

** Mr. Chifundo Chiundira is a member of this committee representing the interest of NICO Asset Managers Limited, he sits on the Board of NICO Asset Managers Limited.

The committee met four times during the year.

Group Appointments and Remuneration Committee - Meeting Attendance

Members	30 Mar 20	27 May 20	21 Aug 20	25 Nov 20
Mr. Robert Scharar	√	√	A	√
Ms. Doreen Chanje	√	√	√	√

GROUP APPOINTMENTS AND REMUNERATION COMMITTEE (Continued)

Group Appointments and Remuneration Committee - Meeting Attendance (continued)

Members	30 Mar 20	27 May 20	21 Aug 20	25 Nov 20
Mr. Chifundo Chiundira	√	√	√	√
Mr. Gaffar Hassam	√	√	√	√
Mr. Robert Mdeza	√	√	√	√
Dr. Candida Nakhumwa	√	N	√	√
Ms. Daisy Kambalame	N	N	√	√
Dr. Mathews Mtumbuka	N	N	√	√
Mr. Vizenge Kumwenda	√	√	√	√

Key:
√ = Attendance A= Apology N= Not a Member

GROUP INVESTMENTS COMMITTEE

The Group Investments Committee is responsible for the review and approval of investment proposals, like equity, property, money market and other long-term investments. It consists of five non-executive directors. The Group Managing Director attends by invitation. The members of the Group Investments Committee are:

Mr. Robert Scharar	(Chairperson) (up to August 2020)
Mr. Harold Bijoux*	(Member)
Mr. Sangwani Hara	(Member) (Chair from August 2020)
Mr. Gaffar Hassam	(Member) (up to August 2020)
Ms. Catherine Lesetedi	(Member) (from August 2020)
Ms. Natasha Nsamala	(Member) (from August 2020)
Mr. Ryan Scharar*	(Member)

The committee met five times during the year:

Group Investments Committee- Meeting Attendance

Members	17 Mar 20	21 May 20	1 Jun 20	14 Aug 20	23 Nov 20
Mr. Robert Scharar	√	√	√	A	√
Mr. Harold Bijoux*	√	√	√	√	√
Mr. Sangwani Hara	√	A	√	√	√
Mr. Gaffar Hassam	√	√	√	N	N
Mr. Ryan Scharar*	√	√	√	√	√
Ms. Catherine Lesetedi	N	N	N	√	√

Key:
√ = Attendance A= Apology N= Not a Member

* Mr. Harold Bijoux is a NICO General Director representing the company's interest and Mr. Ryan Scharar is a NICO Life Director representing the company's interest on the Group Investments Committee.

Directors' Report (Continued)

GROUP RISK COMMITTEE

The Group Risk Committee is responsible for overseeing risk management in the Group and providing direction on matters of risk for the Group. It consists of four Non-Executive Directors. The Group Managing Director attends by invitation. The composition of the committee is as follows:

Ms. Catherine Lesetedi*	(Chairperson)
Dr. Candida Nakhumwa	(Member) (from July 2020)
Mr. Jonathan Kara*	(Member)
Mr. Robert Scharar	(Member)
Dr. Wilson Banda	(Member) (up to 8th July 2020)
Anurag Saxena	(Member) (from August 2020)
Mr. Chifundo Chiundira	(Member)

The committee met seven times during the year.

Group Risk Committee- Meeting Attendance

Members	18 Mar 20	2 June 20	22 July 20	23 Aug 20	26 Nov 20	30 Nov 20	8 Dec 20
Mr. Robert Scharar	A	√	√	A	√	√	√
Dr. Wilson Banda	√	√	N	N	N	N	N
Dr. Candida Nakhumwa	N	N	√	√	√	A	√
Mr. Jonathan Kara	√	√	√	√	√	√	√
Ms. Catherine Lesetedi	A	√	√	√	√	√	√
Mr. Chifundo Chiundira	√	√	√	√	√	√	√
Mr. Anurag Saxena	N	N	N	√	√	√	√

Mr. Robert Scharar was represented by his Alternate, Mr. Ryan Scharar, at the 18th March meeting.

Key:
√ = Attendance A = Apology N = Not a member

* Mr. Jonathan Kara is a NICO General Director representing the company's interest and Ms. Catherine Lesetedi is a NICO Life Director representing the company's interest and Dr. Wilson Banda was an NBS Bank plc Director representing the Bank's interest on the Group Risk Committee. The bank was represented by Anurag Saxena from August 2020.

Directors' Report (Continued)

BOARD EVALUATION

Board evaluation is a proactive, best practice by Boards that intend to excel to higher levels of performance. The review seeks to identify specific areas in need of improvement or strengthening. Further, under the corporate governance instruments it is a requirement that the evaluation be conducted annually, and the Group discloses it in its Annual Report that it has been done.

NICO Group conducts Board evaluations by means of self-evaluation of the Boards as a whole. In 2020 an electronic mode of Board Evaluation was introduced.

DIRECTORS' INTERESTS

Mr. Sangwani Hara directly held 19 435 shares (2019: 1 219 435 shares) in the Company. Mr. Sangwani Hara indirectly held 5 000 000 shares through Continental Asset Managers Nominees (2019: 5 000 000). Mr. Sangwani Hara indirectly held 1 200 000 shares through NICO Asset Managers Nominees (2019: Nil).

J & J Nsamala Trust held 2 916 500 shares in the company. Mrs. Natasha Nsamala is a Trustee in the Trust.

Ubuntu Limited held 219 500 shares in the company. Mrs. Natasha Nsamala is a shareholder and Director in Ubuntu Limited.

WOP VJ Trust indirectly held 50 305 142 shares (2019: 46 305 142) in the company. The Trust belongs to Mr V Kumwenda and his family who are also the beneficiaries. 18 500 000 of these shares are on account of Continental Asset Managers Nominees.

There were no other contracts between the Company and its Directors nor were there any arrangements to enable the Directors of the Company acquire shares in the Company. Further, no contract of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REGISTER OF INTEREST

1. Mr. Robert Scharar declared his interest in the discussions relating to Wananchi Group Holdings Limited. This was as a result of his involvement in the parent company of Wananchi Group Holdings Limited.
2. Mr. Harold Bijoux declared his interest in discussions relating to Eris Properties Limited (Eris) because he was a non-controlling shareholder in the holding company of Eris.
3. Standing notices of Disclosure for Ms. Catherine Lesetedi for Botswana Insurance Holdings Limited executive position (in which Sanlam has a shareholding) and for the Directorship of NICO Life and NICO Pensions.
4. Standing Notices of Disclosure for Mr. Gaffar Hassam for executive position in Sanlam.

Directors' Report (Continued)

DIRECTORS' REMUNERATION

During the year the total remuneration for executive and non-executive Directors was as analysed below:

		2020 K'000	2019 K'000
Directors' remuneration	- Executive (note 14)	376 377	273 730
	- Non- executive (note 14)	197 111	160 287

CONTRACT WITH THE GROUP MANAGING DIRECTOR

The Group engages its Executives on a contact basis. Performance is continually reviewed and renewal of contracts is based on satisfactory performance. The Board has approved renewal of the contract for the Group Managing Director for another period of five years commencing December 2021. Six months' notice is required for termination and there is no predetermined compensation on termination.

EXTERNAL AUDITORS

A resolution is to be proposed at the fourth coming Annual General Meeting to re-appoint Deloitte as auditors in respect of the year ending 31 December 2021.

ADDITIONAL INFORMATION ON INDIVIDUAL COMPANIES

The additional information relating to individual Group Companies is as presented below.

BOARD OF DIRECTORS

The Board of Directors of the various Group Companies are as presented below:

NBS Bank plc

Mr. Vizenge Kumwenda	Chairman	
Mr. Anurag Saxena	Independent and Non-executive Director	
Mr. Chifundo Chiundira	Non-executive Director	
Mr. Harrison Kalua	Independent and Non-executive Director	
Dr. Matthews Mtumbuka	Independent and Non-executive Director	
Ms. Roselyn Kandiero	Independent and Non-executive Director	(from 28th September 2020)
Ms. Meg Kajiyanike	Independent and Non-executive Director	(from 28th October 2020)
Mr. Kudakwashe Mukushi	Non-executive Director	
Mr. Emmanuel Banda	Independent and Non-executive Director	
Dr. Wilson Banda	Independent and Non-executive Director	(up to 8th July 2020)
Ms. Nimia Kambili Mzembe	Independent and Non-executive Director	(up to 22nd July 2020)
Mr. James Masumbu	Independent and Non-executive Director	
Mr. Marsha Machika	Company Secretary	

Directors' Report (Continued)

NICO Life Insurance Company Limited

Mr. Vizenge Kumwenda	Chairman	
Ms. Catherine Lesetedi	Non-executive Director	
Dr. Candida Nakhumwa	Independent and Non-executive Director	(up to March 2020)
Mr. John Melrose	Independent non-executive Director	
Mr. Ryan Scharar	Non-executive Director	
Ms.Daisy Kambalame	Independent and Non-executive Director	(from 28 February 2020)
Mr. Jabbar Alide	Independent and Non-executive Director to) 20th November 2020)	(from 26th February
Ms. Emily Makuta	Company Secretary	

NICO General Insurance Limited

Mr. Harold Bijoux	Chairman (from 26th February 2020)
Mr. Vizenge Kumwenda	Chairman up to (26th February 2020)
Ms. Doreen Chanje.	Independent and Non-executive Director
Mr. Leonard Chikadya	Independent and Non-executive Director
Mr. Jonathan Kara	Independent and Non-executive Director
Ms. Natasha Nsamala	Independent and Non-executive Director
Mr. Maxwel Chilikhuma	Independent and Non-executive Director
Mr. Chifundo Chiundira	Non-executive Director (from 26th February 2020)
Ms. Emily Makuta	Company Secretary

NICO Insurance (Zambia) Limited

Mr. Vizenge Kumwenda	Chairman
Mr. Eric Chapola	Non-executive Director
Ms. Mirriam Chiyaba	Non-executive Director
Mr. Basil Le Grande	Non-executive Director
Ms. Chishala Kateka	Non-executive Director (up to 25th November 2020)
Mr. Michael Mundashi	Non-executive Director
Wilson & Cornhill Advocates	Company Secretary

NICO Asset Managers Limited

Mr. Vizenge Kumwenda	Chairman
Mr. Chifundo Chiundira	Non-Executive Director
Mr. Wilson. Chirwa	Independent and Non-executive Director
Mr. John. Suzi Banda	Independent and Non-executive Director
Mr. Ryan Scharar	Non-executive Director
Mrs. Memory Chipembere	Company Secretary

Directors' Report (Continued)

NICO Technologies Limited

Dr. Matthews Mtumbuka	Chairman (from 27th February 2020)
Mr. Vizenge Kumwenda	Chairman (up to 27th February 2020)
Mr. Louis Sibande	Non- executive Director (from 27th February 2020)
Mr Tayemu Masikini	Independent non-executive Director (from 27th February 2020)
Mr. Eric Chapola	Non- executive Director
Mr. Kwanele Ngwenya	Non- executive Director
Mr. Donbell Mandala	Non- executive Director
Ms. Emily Kwatani	Independent and Non-executive Director
Ms. Emily Makuta	Company Secretary

NON -EXECUTIVE DIRECTORS' REMUNERATION

The remuneration for Non-Executive Directors for the individual Group Companies is as presented below. None of the companies in the Group except NICO Holdings plc has an Executive Director. Remuneration for the Executive Director of NICO Holdings plc is presented in note 14 to the financial statements.

Name of Company	2020 K '000	2019 K '000
1 NICO Holdings plc	62 132	40 730
2 NBS Bank plc	23 876	17 815
3 NICO Life Insurance Limited	37 028	25 441
4 NICO General Insurance Limited	38 378	35 323
5 NICO General Insurance (Zambia) Limited	20 887	22 389
6 NICO Asset Managers Limited	12 268	17 010
7 NICO Technologies Limited	2 542	1 579
Total	197 111	160 287

EXTERNAL AUDITOR'S REMUNERATION

The remuneration of External Auditors for the individual group companies is as presented below.

Name of Company	2020 K '000	2019 K '000
1 NICO Holdings plc	79 238	74 666
2 NBS Bank plc	196 716	142 326
3 NICO Life Insurance Limited	87 439	75 237
4 NICO General Insurance Limited	59 069	54 000
5 NICO General Insurance (Zambia) Limited	28 144	38 286
6 NICO Asset Managers Limited	24 283	28 665
7 NICO Technologies Limited	9 185	10 138
Total	484 074	423 318

Directors' Report (Continued)

DONATIONS

The donations by the individual Group Companies are as presented below.

Name of Company	2020 K '000	2019 K '000
1 NICO Holdings plc	-	935
2 NBS Bank plc	36 800	5 130
3 NICO Life Insurance Limited	7 447	3 335
4 NICO Insurance (Zambia) Limited	1 360	4 512
5 NICO Asset Managers Limited	4 925	6 550
6 NICO Technologies Limited	-	309
7 NICO General Insurance Limited	8 206	13 772
Total	58 738	34 543

DIRECTORS' INTERESTS (Excluding NICO Holdings plc)

Mr. Sangwani Hara directly held 113 874 shares (2019: 105 874 shares) in NBS Bank plc and indirectly held 6 088 072 shares in NBS Bank plc through Continental Asset Management Nominees (2019: 5 500 000 shares). Mr. Sangwani Hara indirectly held 7 000 000 shares in Icon plc through NICO Asset Managers Nominees (2019:7 000 000).

Mr. Robert Mdeza directly held 18 895 shares in NBS Bank plc (2019: 18 895) and directly held 200 000 shares in Icon Properties plc (2019: 200 000).

Dr. Candida Nakhumwa directly held 230 000 shares in Icon Properties plc (2019: Nil).

J & J Nsamala Trust held 10 000 000 shares in NBS Bank plc. Mrs. Natasha Nsamala is a Trustee in the Trust.

Ubuntu Limited held 1 238 000 shares in NBS Bank plc and 581 000 shares in ICON Properties plc. Mrs. Natasha Nsamala is a shareholder and Director in Ubuntu Limited.

WOP V J Trust held 5 000 023 (2019: 5 000 023 shares) shares in NBS Bank Plc. The Trust belongs to Mr V Kumwenda and his family who are also the beneficiaries. 3 000 000 of these shares are on account of Continental Asset Management Nominees.

WOP VJ Trust indirectly held 23 858 000 (2019: 23 858 000) shares in Icon Properties plc. The Trust belongs to Mr V Kumwenda and his family who are also the beneficiaries. 22 858 000 of these shares are on account of Continental Asset Management Nominees.

Further, no contract of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

.... DIRECTOR

.... DIRECTOR

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Nico Holdings plc, comprising the consolidated and separate statements of financial position as at 31 December 2020 and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of 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, and in the manner required by the Companies Act, 2013. In addition, the directors are responsible for preparing the directors' report.

The Companies Act, 2013 also requires the directors to ensure that the Group maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and ensure the financial statements comply with the Companies Act, 2013.

In preparing the consolidated and separate financial statements, the directors accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements; and
- Preparation of consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume the Group and company will continue in business.

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.

The directors have made an assessment of the Group and its subsidiaries abilities to continue as going concerns and have no reason to believe that the company will not be going concerns in the year ahead.

The external auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, 2013.

Approval of Consolidated and Separate financial statements

The consolidated and separate financial statements of NICO Holdings plc as identified in the first paragraph, were approved by the Board of Directors on 19 April 2021 and are signed on its behalf by:

………………………………….............
DIRECTOR

………………………………….............
DIRECTOR

Sanlam

Certificate of the Actuary

I hereby certify that to the best of my knowledge and belief and based on the unaudited financials for the year ending 31 December 2020, that the liabilities under unmatured life, funeral, industrial, Deposit Administration and Group Life sinking fund policies issued by NICO Life Insurance Company Limited do not exceed the amount of the life insurance fund as at 31 December 2020.

Edwin Splinter

Statutory Actuary

Fellow of the Actuarial Society of South Africa

09 March 2021

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NICO HOLDINGS PLC

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of NICO Holdings plc (the Group) set out on pages 62 to 223 which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of NICO Holdings plc as at 31 December 2020, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013.

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 consolidated and separate financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to performing audits of financial statements in Malawi, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of unlisted equity investments (Consolidated and Separate financial statements)	
The valuation of unlisted equity investments is done by an external expert and it involves application of significant degree of judgement in determining the most appropriate valuation basis and assumptions. There is a risk that unlisted shares might not be properly valued due to use of inappropriate valuation methods, use of information that is not complete and accurate and use of inappropriate assumptions. The Group's and Company's total values of these unlisted investments were K3.4 billion (2019: K4.1 billion), and K1.7 billion (2019: K1.5 billion), respectively as disclosed in note 18 to the financial statements. Based on the factors above, we have considered the valuation of investments in unlisted shares to be a key audit matter.	To address the key audit matter we carried out the following audit procedures: • We tested the design and implementation of the relevant controls around valuation of unlisted shares; • We reviewed the terms of reference provided to the valuation expert; • We assessed the qualifications, professional competence and independence of the valuation expert; • We tested the completeness and accuracy of the information provided to the valuation expert; and • We utilised our internal valuation specialists to assess the reasonableness of the valuation methods and assumptions used. We concluded that the investments in unlisted shares are properly valued.

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of long-term policyholder liabilities and insurance technical reserves (Consolidated financial statements)	
Life Insurance Business The policyholder funds and insurance technical reserves comprising Unearned Premium Reserves, Incurred But Not Reported Claims, Data Reserves, Investment Reserves, Resilience Reserves, Annuity Mismatch Reserves and Unallocated Reserves are valued by an approved actuary from Sanlam Emerging Markets (Pty) Limited on behalf of the Directors. As at 31 December 2020, the policy holder liabilities were K294 billion (2019: K249 billion) and technical reserves were K34 billion (2019: K27 billion). These have been disclosed in note 43.9.8 to the financial statements. The determination of the values is complex and requires significant levels of judgement and there is high estimation uncertainty in determining mortality rates, morbidity rates, lapse rates, expenses and interest rates. These liabilities are also material to the financial statements. Based on the factors above, we have considered the valuation of long-term policyholder liabilities and insurance technical reserves to be a key audit matter.	To address the key audit matter we carried out the following audit procedures: **Life Insurance procedures** • Testing the design and implementation of the relevant controls around valuation of technical reserves and long-term policyholder funds; • We relied on the valuation done by the entity's expert and utilised our internal actuarial specialist to assess the reasonableness of the assumptions used and adequacy of the long-term policyholder's liabilities and technical reserves; and • We tested the data sent to the actuaries for completeness and accuracy and our internal actuarial specialist counterchecked the data used for calculations and the output from the calculations of the liabilities and reserves. We concluded that long-term policyholder funds and insurance technical reserves in the life business are properly valued.
General Insurance Business Insurance liabilities and insurance technical reserves balances involves significant estimation and judgements. The estimation of insurance liabilities and insurance technical reserves which include Unearned Premium Reserve (UPR), Deferred Acquisition Costs (DAC) and Incurred But	***General Insurance procedures*** • We assessed the qualifications, professional competence and independence of the Actuary; • We utilised internal actuarial specialist to assess the reasonableness of the assumptions used and sufficiency of the technical reserves (IBNR claims, UPR,

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of long-term policyholder liabilities and insurance technical reserves (Consolidated financial statements)	
General Insurance Business (Continued) Not Reported (IBNR) claims, is an area of subjectivity resulting from uncertainty as to the ultimate cost of settling claims in the future. The uncertainty arises because the insurer has committed itself to meeting liabilities arising on claims, within the policy limits, which may expose it to a wide range of possible outcomes, and which is often without limit as to time. As at 31 December 2020, insurance liabilities, UPR, DAC and IBNR were K17 billion (2019: K15 billion), K11 billion (2019: K9 billion), K1.4 billion (2019: 1.2 billion) and K2.6 (2019: K2 billion) respectively. These have been disclosed in notes 12, 26 and 27 to the financial statements. The determination of insurance technical reserves involves significant judgements and assumptions. Based on these factors we consider the valuation of insurance liabilities and insurance technical reserves in the General Insurance business to be a key audit matter.	***General Insurance procedures (Continued)*** URR, DAC and LAT) computed by management actuary; • We tested the data used by management actuary for completeness and accuracy and our actuarial experts counterchecked the data used for calculation and the output from the calculation of the liabilities and any emerging reserves; and • We performed a retrospective review of the estimates done in prior year. We found that the insurance liabilities and insurance technical liabilities in the General Insurance business are properly valued.
Determination of Expected Credit Losses for Loans and Advances (Consolidated Financial Statements)	
The Group exercises significant judgement using subjective assumptions over the method and timing of recording (ECL), and estimation of the amount of the impairment provision for loans and advances. Staging of loans and advances is a significant component in determining the ECL as such inaccurate staging would have a significant impact on ECL output. The Group was	• We tested the design and implementation of controls around ECLs; • We obtained an understanding of the Group's criteria for Significant Increase in Credit Risk (SICR) from the Group's accounting policy and IFRS 9 Model Methodology documentation; • We assessed management's staging

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Key audit matter	How our audit addressed the key audit matter
Determination of Expected Credit Losses for Loans and Advances (Consolidated Financial Statements) (continued)	
exposed to loans and advances book of K61 billion as at 31 December 2020 (2019: K42 billion) as disclosed under note 7 to the financial statements, which is subjected to Expected Credit Loss model to determine estimated provisions. The following categories of loans and advances were determined to be significant in the Group's staging of loans and advances:	of loans and advances criteria for appropriateness and completeness against the requirements of IFRS 9 and other relevant regulatory guidance; and • We checked accuracy and completeness of data used in staging through the use of Data analytics.
a. The Group's large exposure loans and advances The Group's large exposures contribute 40% (2019: 54%) of the Group's loans and advances included in note 7 to the financial statements.	**Large exposures** • We selected all large exposure loans and advances as per Financial Services (Large Exposures and Credit Concentration Limits for Banks) Directive 2015 and checked if they had been correctly staged based on the Bank's accounting policy and IFRS 9 requirements.
b. Stage 1 loans The Group's loans are concentrated under stage 1. Stage 1 loans contribute 92% of the gross loan amount as per note 5b (Exposure to credit risk). The migration of loans and advances from stage 1 to stage 2 depends on both qualitative and quantitative factors.	**Stage 1 loans** • We sampled through the stage 1 loans and advances; and • Tested whether an exposure currently classified in Stage 1 was appropriately classified in Stage 1 and did not meet any SICR criteria to transfer to Stage 2.
c. Customers in the tourism industry Due to Covid-19 pandemic the customers under tourism industry have been badly affected from a solvency and going concern perspective hindering their ability to repay facilities. Most customers under tourism industry have restructured their loans and advances through a repayment moratorium introduced by the Reserve Bank of Malawi under the directive issued on 09 April 2020. As	**Customers in the tourism industry** • We obtained all customers in the tourism industry; • For the loans that had been restructured due to COVID 19, we obtained supporting documentation to this effect; • We checked the payment moratorium that was granted and its effects on the Exposure at Default (EAD);

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Key audit matter	How our audit addressed the key audit matter
Determination of Expected Credit Losses for Loans and Advances (Consolidated Financial Statements) (continued)	
c. Customers in the tourism industry (Continued) at 31 December 2020 the loans and advances under the tourism industry amounted to K1 billion. We focused on staging of loans and advances due to the fact that ECL is a significant management estimate based on subjective assumptions and inputs into the Expected Credit Loss model used to determine the estimated provisions. The Group has recorded a total expected credit loss of K2.1 billion as at 31 December 2020 (2019: K3.5 billion). We therefore consider this as a key audit matter.	**Customers in the tourism industry (Continued)** • We checked if the staging was inline with the requirements of IFRS 9. Our work on staging for large exposure loans, stage 1 loans and loans under tourism industry did not identify any significant issues. We found that the staging done by the Group which was used in determining Expected Credit Losses against loans and advances was appropriate and that the impairment loss recognised in the financial statements was reasonable and complied with IFRS 9 *Financial Instruments* requirements.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the directors' responsibility statement, as required by the Companies Act 2013, and the certificate of the actuary which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date. The 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

Responsibilities of Directors for the consolidated and separate financial statements
The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirement of the Companies Act, 2013 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;
- 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

Independent Auditor's Report to the Shareholders of NICO Holdings Plc (Continued)

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

separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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; and
- 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 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

Report on Other Legal and Regulatory Requirements
The policyholders' funds and insurance technical reserves have been valued as at 31 December 2020 by an appointed statutory actuary, Edwin Splinter (FASSA) on behalf of the directors. The actuary is an employee of Sanlam Emerging Markets who are a significant shareholder of the Group's subsidiaries in the insurance sector. This is in contravention of Section 132 of the Companies Act, 2013 which prohibits valuation to be carried out by persons who have direct or indirect interest in the assets being valued.

Deloitte

Chartered Accountants
Nkondola Uka
Partner
20 April 2021

Consolidated and Separate Statements of Financial Position

As at 31 December 2020

		Group		Company	
	Notes	2020 K'000	2019 K'000	2020 K'000	2019 K'000
ASSETS					
Cash and cash equivalents	5	76 655 978	50 331 795	4 737 872	2 551 121
Short-term investments	6(a)	105 081 435	84 134 689	-	-
Placements	6(b)	11 818 330	8 035 031	-	-
Loans and advances to customers	7	59 034 722	38 561 505	-	-
Assets classified as held for sale	8	231 707	-	231 707	-
Income tax recoverable	9(c)	1 503 211	290 682	671 318	352 080
Other receivables	10	76 641 832	48 167 633	157 173	96 005
Insurance receivables	11	20 694 940	16 693 727	-	-
Deferred Acquisition Costs (DAC)	12	1 391 870	1 218 119	-	-
Inventories	13	109 060	177 957	-	-
Amounts due from Group companies	14(c)	-	-	51 089	118 092
Deferred tax assets	15	1 649 985	1 967 895	-	-
Investment in subsidiary companies	14(b)	-	-	7 486 165	7 486 165
Investment in associate companies	16(a)	968 110	756 923	968 110	756 923
Investment in joint venture	16(b)	98 102	78 724	98 102	78 724
Investment in government securities	17	143 145 742	105 795 981	-	-
Investment in equity shares	18	163 956 274	141 080 945	1 709 768	1 520 487
Loans and debentures	19	14 071 221	23 547 114	1 753	1 753
Investment properties	20	3 460 143	3 348 337	145 000	134 000
Right-of-use assets	21.1	3 464 960	2 135 660	107 783	152 083
Intangible assets	22	5 648 696	5 273 332	9 812	10 807
Property and equipment	23	11 718 332	8 049 816	85 713	90 302
TOTAL ASSETS		701 344 650	539 645 865	16 461 365	13 348 542
EQUITY AND LIABILITIES					
Equity					
Issued share capital	29(a)	52 152	52 152	52 152	52 152
Share premium	29(b)	428 859	428 859	428 859	428 859
Revaluation reserve	29(c)	569 073	569 073	-	-
Other reserves	29(e)	450 075	794 818	882 550	461 564
Retained earnings		38 477 938	29 999 985	11 295 988	9 059 227
Total equity attributable to equity holders of the company		39 978 097	31 844 887	12 659 549	10 001 802
Non-controlling interest	30	31 940 826	26 643 194	-	-
Total equity		71 918 923	58 488 081	12 659 549	10 001 802

Consolidated and Separate Statements of Financial Position (Continued)

As at 31 December 2020

		Group		Company	
	Notes	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Liabilities					
Deferred tax liabilities	15	1 735 091	2 839 849	-	-
Trade and other payables	24	103 519 883	58 073 153	913 436	420 581
Amounts due to Group companies	14(d)	-	-	-	5 391
Deposits and customer accounts	25	153 146 418	106 886 140	-	-
Insurance contract payables	26	17 151 245	14 806 858	-	-
Lease liability	21.2	4 558 865	2 743 486	138 380	170 768
Unearned Premium Reserve (UPR)	27	11 134 497	9 424 492	-	-
Interest-bearing loans and borrowings	28	10 223 352	10 613 245	2 750 000	2 750 000
Long-term policyholders liabilities	43.9.8	327 956 376	275 770 561	-	-
Total liabilities		629 425 727	481 157 784	3 801 816	3 346 740
TOTAL EQUITY AND LIABILITIES		701 344 650	539 645 865	16 461 365	13 348 542

These financial statements were approved and authorized for issue by the Board of Directors on 19 April 2021 and were signed on its behalf by:

DIRECTOR **DIRECTOR**

Consolidated and Separate Statements of Comprehensive Income

For the year ended 31 December 2020

	Notes	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
REVENUE					
Gross written insurance premiums	31	85 731 970	76 294 187	-	-
Unearned premium adjustment	31	(1 017 971)	(335 417)	-	-
Gross earned insurance premiums		84 713 999	75 958 770	-	-
Fees and commission income	32	6 395 786	4 945 916	1 913 449	1 467 222
Income from banking operations	33	47 040 912	34 376 787	-	-
Investment income	34	47 613 540	41 401 606	5 391 637	3 586 899
Total operating revenue		185 764 237	156 683 079	7 305 086	5 054 121
Other income	35	81 008	1 474 112	27 534	618 555
Share of profit from associated companies	16(a)	211 188	303 256	211 188	303 256
Share of profit from joint venture	16(b)	19 378	15 173	19 378	15 173
Total income		186 075 811	158 475 620	7 563 186	5 991 105
EXPENSES					
Reinsurance premium	31	(16 892 494)	(16 912 265)	-	-
Net policyholders claims and benefits	36	(34 109 559)	(27 752 077)	-	-
Insurance contracts acquisition costs	37	(3 227 190)	(3 062 546)	-	-
Bank interest expense	38	(13 629 016)	(7 681 087)	-	-
Administrative expenses	39	(38 414 029)	(32 095 059)	(2 529 389)	(2 162 657)
Long-term policyholders benefits	43.9.8b (i)	(52 185 816)	(48 542 864)	-	-
Profit before net finance costs		27 617 707	22 429 722	5 033 797	3 828 448
Net finance costs	40	(1 149 622)	(939 176)	(369 400)	(573 754)
Profit before income tax expense		26 468 085	21 490 546	4 664 397	3 254 694
Income tax expense	9(a)	(7 872 364)	(6 760 724)	(372 845)	(229 428)
PROFIT FOR THE YEAR		18 595 721	14 729 822	4 291 552	3 025 266

Consolidated and Separate Statements of Comprehensive Income (Continued)

For the year ended 31 December 2020

	Notes	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation of land and buildings		-	382 555	-	-
		-	382 555	-	-
Items that are or may be reclassified to profit or loss					
Gains/(loss) on financial assets designated at FVTOCI		472 603	48 805	420 986	(184 601)
Translation difference on foreign subsidiary		(541 810)	(175 468)	-	-
Total other comprehensive income for the year net of tax		(69 207)	255 892	420 986	(184 601)
Total comprehensive income for the year		18 526 514	14 985 714	4 712 538	2 840 665
Profit for the year attributable to:					
Non-controlling interest		8 591 739	6 718 916	-	-
Owners of the parent company		10 003 982	8 010 906	4 291 552	3 025 266
		18 595 721	14 729 822	4 291 552	3 025 266
Total comprehensive income for the year Attributable to:					
Non-controlling interest		8 338 513	6 825 631	-	-
Owners of the parent company		10 188 001	8 160 083	4 712 538	2 840 665
		18 526 514	14 985 714	4 712 538	2 840 665
Basic and diluted earnings per share (MK)	41	9.59	7.68		

Consolidated and Separate Statements of Changes in Equity
For the year ended 31 December 2020

	Share capital K'000	Share premium K'000	Revaluation reserves K'000	Translation reserve K'000	Fair value reserve K'000	General reserve K'000	Retained earnings K'000	Total K'000	Non-Controlling interest K'000	Total K'000
Group										
Balance at 1 January 2020	52 152	428 859	569 073	(803 072)	1 052 371	545 519	29 999 985	31 844 887	26 643 194	58 488 081
Profit for the year	-	-	-	-	-	-	10 003 982	10 003 982	8 591 739	18 595 721
Other Comprehensive income for the year										
Financial assets designated at FVTOCI	-	-	-	-	(68 420)	-	528 762	460 342	12 261	472 603
Translation difference on foreign Subsidiaries	-	-	-	(276 323)	-	-	-	(276 323)	(265 487)	(541 810)
Total other comprehensive income	-	-	-	(276 323)	(68 420)	-	528 762	184 019	(253 226)	(69 207)
Total comprehensive income for the year	-	-	-	(276 323)	(68 420)	-	10 532 744	10 188 001	8 338 513	18 526 514
Transactions with the owners of the Company										
Dividends to equity holders (note 42)	-	-	-	-	-	-	(2 054 791)	(2 054 791)	(3 040 881)	(5 095 672)
Total transactions with owners of the parent	-	-	-	-	-	-	(2 054 791)	(2 054 791)	(3 040 881)	(5 095 672)
Balance at 31 December 2020	**52 152**	**428 859**	**569 073**	**(1 079 395)**	**983 951**	**545 519**	**38 477 938**	**39 978 097**	**31 940 826**	**71 918 923**

Consolidated and Separate Statements of Changes in Equity(Continued)
For the year ended 31 December 2020

	Share capital K'000	Share premium K'000	Revaluation reserves K'000	Loan loss reserve K'000	Translation reserve K'000	Fair value reserve K'000	General reserve K'000	Retained earnings K'000	Total K'000	Non-Controlling interest K'000	Total K'000
Group (Continued)											
Balance at 1 January 2019	52 152	428 859	377 413	19 732	(796 022)	1 052 371	545 519	23 662 923	25 342 947	22 120 408	47 463 355
IFRS 16 transition adjustment	-	-	-	-	-	-	-	(170 594)	(170 594)	(129 844))	(300 438)
Adjusted balance	52 152	428 859	377 413	19 732	(796 022)	1 052 371	545 519	23 492 329	25 172 353	21 990 564	47 162 917
Profit for the year	-	-	-	-	-	-	-	8 010 906	8 010 906	6 718 916	14 729 822
Other Comprehensive income for the year											
Other comprehensive income	-	-	191 660	-	-	-	-	-	191 660	190 895	382 555
Financial assets designated at FVTOCI	-	-	-	-	-	-	-	(35 433)	(35 433)	84 238	48 805
Translation difference on foreign subsidiaries	-	-	-	-	(7 050)	-	-	-	(7 050)	(168 418)	(175 468)
Total other comprehensive income	-	-	191 660	-	(7 050)	-	-	(35 433)	149 177	106 715	255 892
Total comprehensive income for the year	-	-	191 660	-	(7 050)	-	-	7 975 473	8 160 083	6 825 631	14 985 714
Transfers within reserves											
Transfer from retained earnings/general reserves	-	-	-	(19 732)	-	-	-	19 732	-	-	-
Total transfer within reserves	-	-	-	(19 732)	-	-	-	19 732	-	-	-
Transactions with the owners of the Company											
Disposal of additional shares in subsidiary	-	-	-	-	-	-	-	285 621	285 621	570 999	856 620
Dividends to equity holders (note 42)	-	-	-	-	-	-	-	(1 773 170)	(1 773 170)	(2 744 000)	(4 517 170)
Total transactions with owners of the parent	-	-	-	-	-	-	-	(1 487 549)	(1 487 549)	(2 173 001)	(3 660 550)
Balance at 31 December 2019	52 152	428 859	569 073	-	(803 072)	1 052 371	545 519	29 999 985	31 844 887	26 643 194	58 488 081

Consolidated and Separate Statements of Changes in Equity(Continued)

For the year ended 31 December 2020

	Share capital K'000	Share premium K'000	Fair value reserve K'000	Retained earnings K'000	Total K'000
Company					
Balance at 1 January 2020	52 152	428 859	461 564	9 059 227	10 001 802
Profit for the year	-	-	-	4 291 552	4 291 552
Other Comprehensive income for the year					
Financial assets designated at FVTOCI	-	-	420 986	-	420 986
Total comprehensive income for the year	-	-	420 986	4 291 552	4 712 538
Transactions with the owners of the Company					
Dividends to equity holders (Note 42)	-	-	-	(2 054 791)	(2 054 791)
Total transactions with owners of the parent	-	-	-	(2 054 791)	(2 054 791)
Balance at 31 December 2020	52 152	428 859	882 550	11 295 988	12 659 549

Consolidated and Separate Statements of Changes in Equity(Continued)

For the year ended 31 December 2020

	Share capital K'000	Share premium K'000	Fair value reserve K'000	Retained earnings K'000	Total K'000
Company (Continued)					
Balance at 1 January 2019	52 152	428 859	646 165	7 807 131	8 934 307
Profit for the year	-	-	-	3 025 266	3 025 266
Other Comprehensive income for the year					
Financial assets designated at FVTOCI	-	-	(184 601)	-	(184 601)
Total comprehensive income/(loss) for the year	-	-	(184 601)	3 025 266	2 840 665
Transactions with the owners of the Company					
Dividends to equity holders (Note 42)	-	-	-	(1 773 170)	(1 773 170)
Total transactions with owners of the parent	-	-	-	(1 773 170)	(1 773 170)
Balance at 31 December 2019	52 152	428 859	461 564	9 059 227	10 001 802

Consolidated and Separate Statements of Cash Flows
For the year ended 31 December 2020

	Note	Group		Company	
		2020 K'000	2019 K'000	2020 K'000	2019
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		168 696 968	151 626 125	1 917 967	1 471 902
Cash payments to clients employees and suppliers		(90 003 364)	(114 236 334)	(2 338 640)	(2 138 453)
Cash generated from operations		78 698 604	37 389 791	(420 673)	(666 551)
Income tax paid	9(c)	(9 899 074)	(3 811 708)	(319 238)	(121 942)
Net cash generated from/ (used in) operating activities		68 794 530	33 578 083	(739 911)	(788 493)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds disposal of property and equipment		290 443	85 792	-	325
Interest received		32 749 417	26 301 012	308 616	111 061
Dividend received	34	3 771 435	3 401 583	5 072 021	3 607 125
Additions to property and equipment and intangible assets	22, 23	(7 451 141)	(3 844 379)	(36 158)	(49 232)
Additions to investment properties	20	(42 100)	(39 398)	-	-
Disposal of government securities	17	53 339 073	70 740 081	-	-
Disposal of loan and debentures	19	22 091 192	6 131 587	-	-
Additions to government securities	17	(124 877 317)	(120 401 675)	-	-
Additions to equity shares	18	(3 773 498)	(5 905 697)	-	(9 766)
Disposal of equity shares	18	1 920 631	2 823 720	-	1 457 639
Additions to loans and debentures	19	(12 336 809)	(13 500 000)	-	-
Net cash (used in)/generated from investing activities		(34 318 674)	(34 207 374)	5 344 479	5 117 152
CASH FLOWS UTILISED IN FINANCING ACTIVITIES					
Disposal of additional shares in subsidiary		-	856 619	-	-
Additions to long term borrowings	28	765 510	10 713 461	-	2 750 000
Repayment of long term borrowings	28	(2 684 342)	(5 271 806)	(362 213)	(4 592 606)
Repayment of lease liability		(1 521 325)	(1 185 421)	(13 261)	(11 731)
Dividend paid	42	(4 605 672)	(4 517 170)	(2 054 791)	(1 773 170)
Net cash generated (used in)/ generated financing activities		(8 045 829)	595 683	(2 430 265)	(3 627 507)
Net increase/(decrease) in cash and cash equivalents		26 430 027	(33 608)	2 174 303	701 152
Cash and cash equivalents at 1 January		50 331 795	50 177 204	2 551 121	1 805 805
Effects of changes in exchange rates		(105 844)	188 199	12 448	44 164
Cash and cash equivalents at 31 December	5	76 655 978	50 331 795	4 737 872	2 551 121

Notes to the Financial Satements
For the year ended 31 December 2020

1.1 Reporting entity

NICO Holdings plc (the company) is a public company incorporated in Malawi. The address of the company's registered office is: Chibisa House, 19 Glyn Jones Road, and P.O. Box 501, Blantyre, Malawi. The consolidated and separate financial statements for the year ended 31 December 2020 comprises the company and its subsidiaries, (together referred to as the "Group"). The Company is listed on the Malawi Stock Exchange.

The major activities of the Group are general insurance, life assurance and pension administration, banking, asset management and information technology. NICO Holdings plc shareholding structure in subsidiaries and associated companies is as follows:

Name of subsidiary	% Holding	Type of business
NICO Insurance (Zambia) Limited	51.00	Short term insurance
NICO General Insurance Company Limited	51.00	Short term insurance
NICO Life Insurance Limited	51.00	Life insurance and pension administration
NBS Bank plc	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabricators and Manufacturers Limited	100.00	Property holding
Name of Associate		
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mozambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration
Name of Joint Venture		
Eris Properties Malawi Limited	50	Property Management and Development

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the Group has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Group.

Notes to the Financial Satements
For the year ended 31 December 2020

2 Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	**IFRS 17 Insurance Contracts** IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual periods beginning on or after 1 January 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

Notes to the Financial Satements
For the year ended 31 December 2020

2 Adoption of new and revised International Financial Reporting Standards (Continued)

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: • **IFRS 1** – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • **IFRS 9** – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. **IFRS 16** – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

2 Adoption of new and revised International Financial Reporting Standards (Continued)

The directors anticipate that other than IFRS 17, these standards and interpretations in future periods will have no significant impact on the financial statements of the group. IFRS 17 will change how the group measures and present insurance contracts. The directors are unable to quantify the impact that adoption of these Standards and Interpretations in future periods will have on the financial statements.

3. Basis of preparation

3.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and in a manner required by the Companies Act, 2013 of Malawi.

3.2 Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value;
- investment properties are measured at fair value;
- available-for- sale financial assets are measured at fair value through other comprehensive income; and
- items of property are measured at their revalued amounts.

3.2.1 Use of estimates and judgements

The preparation of consolidated and separate financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognized in the financial statements can be found in the following notes:

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.2 Basis of measurement (Continued)

3.2.1 Use of estimates and judgements (Continued)

- Note 43.9.8 - Valuation of long-term policy holders' liabilities and technical reserves.
- Note 20 - Valuation of investment properties
- Note 18 and 19 - Valuation of investments in shares and loans receivables
- Note 16 (c) - Non consolidation of investments in which shareholding exceeds 50%

3.2.2 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.2 Basis of measurement (Continued)

3.2.2 Fair value measurement (Continued)

a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.3 Functional and presentation currency

These consolidated financial statements are presented in Malawi Kwacha, which is also the Group's functional currency. Except as otherwise indicated, financial information presented in Malawi Kwacha has been rounded to the nearest thousand.

3.4 Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able realise its assets and settle its liabilities in the normal course of business.

3.5 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a. Basis of consolidation

The consolidated and separate annual financial statements comprise the Group and its entities controlled by the Group. Under the Malawi Companies Act, 2013, control is presumed to exist where a company holds more than one half of the nominal share capital directly or indirectly; or the company can appoint or prevent the appointment of not less than half of the directors of the subsidiary. In general control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it considers

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

a. Basis of consolidation (Continued)

that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

a. Basis of consolidation (Continued)

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The Group manages and administers assets held in investment vehicles on behalf of investors. These are the defined as structure entities. Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Group has power over such entities in which it has an interest, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity. The financial statements of these entities are not included in the consolidated financial statements except when the Group controls the entity.

b. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 *Employee benefits*
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace *share-based payment* arrangements of the acquiree are measured in accordance with IFRS 2 Share based payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

b. Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assts. The choice of measurement basis is made on a transaction by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IFRS 9; Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arisings from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss when such treatment would be appropriate if that interest were disposed of.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

b. Business combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

c. Investments in associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

c. Investments in associates and Joint Venture (Continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

d. Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a Group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

e. Accounting for results of the Life and Pensions Fund

The Life and Pensions Fund is actuarially valued each year. Based on the advice of actuaries, the Group allocates surpluses between "with profits" policyholders and the shareholders.

f. Revenue

The Group's revenue arises mainly from provision of insurance, banking and asset management services. The Company's main revenue is dividend income.

To determine whether to recognise revenue, the Group follows a 5-step process:

- Identifying the contract with a customer;
- Identifying the performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/as performance obligation(s) are satisfied.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

f. Revenue (Continued)

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. Revenue is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services and excludes any amounts collected on behalf of third parties.

i. Short-term insurance contracts

Gross premiums written reflect business written during the year, and exclude any taxes or duties based on premiums. Premium written include estimates for 'pipeline' premiums and adjustments to estimates of premiums written in previous years.

ii. Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contract are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within trade receivables); as well as longer term receivables (classified as reinsurance assets and held within trade receivables) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Premiums on re-insurance inwards are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or re-insurance business assumed. Outward re-insurance premiums are recognized as an expense in accordance with the pattern of indemnity received.

iii. Long-term assurance contracts

Premiums in respect of annuity and non-linked life assurance contracts, and insurance with Discretionary Participation Features (DPF) contracts are recognised as revenue when due. Premiums in respect of unit-linked life assurance contracts are recognised when the corresponding units are allocated to policyholders. Premiums exclude any taxes or duties based on premiums.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

f. Revenue (Continued)

iv. Interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and financial liability and is not revised subsequently.

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

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

- Interest on financial assets and financial liabilities at amortised cost on an effective interest basis.
- Interest on held-to-maturity money market investments at amortised cost on an effective interest basis.

v. Investment income

Investment income comprises interest income on money market financial instruments, dividends from listed and unlisted companies, investments in listed shares and rental income. The financial instruments include local registered stocks, treasury bills and fixed deposits.

Management considers the returns earned (i.e. interest received and dividend received) on investments to be part of investing activities.

vi. 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 reflected as a component of investment income.

vii. Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

viii. Fees and commission

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.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

f. Revenue (Continued)

viii. Fees and commission (Continued)

Other fees and commission income, including account servicing fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised in a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

ix. Other income

Other income includes gains and losses on disposal of an item of equipment which are determined by comparing the proceeds from disposal with the carrying amount of equipment and are recognised net within “other income” in profit or loss upon disposal. It also includes commissions and other sundry income are recognised as the related services are performed.

g. Unearned premium reserve (UPR)

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

h. Claims

Claims include maturities, annuities, surrenders and death claims. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid. Death claims are recognised when notified.

Acquisition costs in respect of insurance contracts with a DPF are not deferred and are recognised in the profit or loss in the period in which they are incurred.

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions.

Claims outstanding comprise provisions for the Group’s estimate of the ultimate cost of settling all claims incurred but unpaid at reporting date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not reported (IBNR), the effects of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are

Notes to the Financial Satements (Continued)
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

h. Claims (Continued)

made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

i. Deferred Acquisition Costs (DAC)

Costs incurred in acquiring general insurance, annuity and life assurance contracts are deferred to the extent that they are recoverable out of future margins.

Deferred acquisition costs are amortised over the period in which the costs are expected to be recoverable out of future margins in the revenue from the related contracts. The rate of amortisation is consistent with the pattern of emergence of such margins.

j. Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due from and payable to, policyholders' agents, brokers and reinsurance contracts.

k. Insurance contracts with Discretionary Participation Features (DPF)

A contract with a Discretionary Participation Feature is a contractual right held by a policyholder to receive as a supplement to guaranteed minimum payments, additional benefits that are likely to be a significant portion of the total contractual benefits. The amount or timing is contractually at the discretion of the insurer of and are contractually based on the performance of the specified pool of contracts or a specified type of contract, realised and or unrealised investment returns on a specified pool of assets held by the insurer or the profit or loss of the Group, fund or other entity that issues the contract. The Group recognises the discretionary element of a contract with a Discretionary Participation Feature as a liability.

l. Liability adequacy test

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests. If a shortfall is identified an additional provision is established. The deficiency is recognised in profit or loss for the year.

m. Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions. Insurance assets/liabilities are fair valued using actuarially determined approach.

The methodology employed in the valuation can be described by splitting the reserving methodology into prospective valuation and retrospective valuation.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

m. Insurance receivables and payables (Continued)

For some classes of business, a prospective reserving calculation was performed and for others, a retrospective reserving calculation was performed. The reserves held for the Group are equal to the sum of the prospective reserve and the retrospective reserve calculation.

Prospective basis is applied on Individual Life, Annuities (Pensioners) and Credit Life businesses.

The prospective reserve is calculated by projecting all the expected future cash flows on each policy and discounting them at the appropriate valuation interest rate (commonly referred to as a discounted cash flow basis – Gross Premium Valuation method).

The retrospective basis is applied on Group Life, Group Funeral, Group Mortgage and Deposit Administration.

For this type of reserve calculation, the reserves are made up of Account balance (e.g. for Deposit Administration), Unearned Premium Reserve (UPR), Incurred But Not Reported (IBNR) Reserve and Additional Unexpired Risk Reserve (AURR).

The UPR includes unearned premiums which are calculated, based on the renewal date of the policy and the frequency of the premium payments.

An AURR is required if the current unearned premiums are considered to be insufficient to cover the unexpired risk in respect of the Company. The additional reserve is then set at such a level as to enable the Group to pay all future expected claims in respect of the unexpired risks of the existing Groups. A prospective reserve calculation check is also carried out so that any apparent shortfalls in future premiums will be covered by the prospective reserve calculation. No AURR is required for the Group's business.

The IBNR reserves are determined by examining run-off triangles and claim patterns for the business and then setting up a reserve for Claims Incurred But Not Reported.

n. Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Malawi Kwacha at the exchange rate (middle rate) at the date on which the fair value is determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate (middle rate) at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated into Malawi Kwacha using the exchange rate at that date. Foreign currency differences arising on translation are generally recognised in profit or loss.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

n. Foreign currency transactions (Continued)

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Malawi Kwacha at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to Malawi Kwacha at average exchange rates during the year.

Exchange difference arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income and accumulated in equity in the translation reserve. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign exchange gains or losses arising from monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form a part of the net investment in foreign operation, are recognised directly in the foreign currency translation reserve.

o. Property and equipment

i. Recognition and measurement

All property and equipment are initially recognised at cost. Buildings and freehold land are subsequently carried at revalued amount, being their fair value, based on valuations by external independent valuers, less subsequent accumulated depreciation, and subsequent accumulated impairment losses. All other property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

ii. Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow. Ongoing repairs and maintenance expenses are expensed in profit or loss.

iii. Revaluation

Revaluations of buildings and freehold land is carried out with sufficient regularity such that the carrying amount does not differ materially from that, which would be determined using fair values at the reporting date as economic conditions dictate, by independent valuers. Surpluses on revaluations are recognised in other comprehensive income in the revaluation reserve. On disposal of the asset, the appropriate portion of the reserve is transferred to retained earnings. Revaluation decreases are charged to the profit or loss except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve. An amount equivalent to the additional depreciation arising from

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

o. Property and equipment (Continued)

iii. Revaluation (Continued)

revaluations is transferred annually, net of deferred tax, from the revaluation reserve to retained earnings. The revaluation reserve is a non-distributable reserve and is not available for distribution as a dividend.

iv. Depreciation recognised

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment and major components that are accounted for separately. Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

- Freehold buildings — 40 years
- Leasehold buildings — 40 years or over the lease period if less than 40 years
- Motor vehicles — 5 years
- Furniture and equipment — 3-10 years

The residual value, useful life and method of depreciation are reviewed at each reporting date and adjusted if appropriate.

v. Capital work in progress

Capital work in progress is the gross amount spent in carrying out work of capital nature. It is measured at cost recognised to date. Capital work in progress is presented as part of property and equipment in the statement of financial position. When the relevant project is completed, the expenditure is capitalised to the various items of property and equipment.

p. Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period in return for a payment or series of payments.

i. The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (those whose value is below the capitalisation threshold). For these leases, the Group recognises the lease payments as an operating

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

p. Leases (Continued)

i. The Group as lessee (Continued)

expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position and is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

p. Leases (Continued)

i. The Group as lessee (Continued)

lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses (in accordance with IAS 36), if any, and adjusted for certain remeasurements of the lease liability.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “Administrative expenses” in profit or loss.

ii. The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

q. Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only if it is probable that the expected future economic benefits that are attributable to the asset flow to the Group and the cost of the asset can be measured reliably. All other expenditure is expensed as it is incurred.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date it is available for use.

The estimated useful life of software is 4-8 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

r. Financial instruments

Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised in the Group's and company's statement of financial position when the Group / Company becomes a party to the contractual provisions of the instrument.

i. Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss). Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost;
- Fair value through profit or loss (FVTPL); and
- Fair value through other comprehensive income (FVOCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

i. Classification and initial measurement of financial assets (Continued)

fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

ii. Subsequent measurement of financial assets

Subsequently, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows.
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Notes to the Financial Satements

For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

ii. Subsequent measurement of financial assets (Continued)

Amortised cost and effective interest method (Continued)

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income calculated using the effective interest method, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Notes to the Financial Satements

For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

ii. Subsequent measurement of financial assets (Continued)

Financial assets designated at fair value through OCI (equity instruments)

On initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments*: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Gains and losses arising from changes in fair value of these financial assets are recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss no disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).

Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
Financial assets at fair value through profit or loss (Continued)
ii. Subsequent measurement of financial assets (Continued)
measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial.

Foreign currency exchange gains and losses
The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss;
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

iii. Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables, loans and advances and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for its financial instruments unless there has been no significant increase in credit risk since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The expected credit losses on these financial assets are estimated using a provision

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
iii. Impairment of financial assets (Continued)
matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. Both Lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

iv. Significant increase in credit risk
The Group performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
iv. Significant increase in credit risk (Continued)

- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk where the borrower has a strong capacity to meet their contractual obligations in the near term and adverse changes in economic and business conditions in the longer term may, but not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It also considers assets in the investment grade category to be low credit risk assets.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
iv. Significant increase in credit risk (Continued)

ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

v. Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

vi. Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a. Significant financial difficulty of the issuer or the borrower;
b. A breach of contract, such as a default or past due event;
c. The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e. The disappearance of an active market for that financial asset because of financial difficulties.

vii. Write-off policy
The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
viii. Measurement and recognition of expected credit losses

The measurement of expected credit losses for the group is based on Markov model approach for non-mortgage loan portfolio and rules based model for the mortgage loan portfolio, overdraft and credit cards. The following are major components of measuring the expected credit losses;

- **PD** – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The 12–month and lifetime PDs of a financial instrument represent the probability of a default occurring over the next 12 months and over its expected lifetime respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- **EAD** – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. As for financial assets, this is represented by the assets' gross carrying amount at the reporting date. For financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

  The Group's modelling approach for EAD reflects current contractual terms of principal and interest payments, contractual maturity date and expected utilisation of undrawn limits on revolving facilities and irrevocable off–balance sheet commitments.

- **LGD** – The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. LGD estimates are based on historical loss data.

When estimating the ECL, the Group considers the stages in which an asset is and also whether there has been a SICR. Each of the stages and the specific conditions of the assets is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure. The stages considered are as described below;

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)
r. Financial instruments (Continued)
Financial assets *(Continued)*
viii. Measurement and recognition of expected credit losses (Continued)

- **Stage 1**: Stage 1 financial instruments are those whose credit risk is low or has improved hence reclassified from Stage 2. Reclassifications from Stage 2 are however subject to 'cooling off' period of 3 months. The Group calculates 12-months ECL for this stage based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR;

- **Stage 2**: When financial instruments have shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECL. The calculation is done as explained under stage 1 above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR. Stage 2 financial instruments also include those whose credit risk has improved hence has been reclassified from Stage 3. Reclassifications from stage 3 are however subject to a 'cooling off" period of 3 months;

- **Stage 3**: financial instruments under this stage are considered credit-impaired. The Group records an allowance for the Lifetime ECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

For overdrafts, revolving facilities that include both a loan and an undrawn commitment and loans commitments, ECLs are calculated and presented together with the loans and advances.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

ix. Forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Low risk assets

In applying the IFRS 9 model, the Group identified the following as assets having a low credit risk:

1. Malawi Government Securities;
2. Interbank Placements; and
3. Other trading and non-trading receivables.

The Group evaluated both internal and external factors related to the assets and concluded that as at the reporting date the risk of default for these assets was low, the borrowers had a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but would not necessarily, reduce the ability of the borrowers to fulfil their contractual cash flow obligations.

The above factors coupled with extensive evaluation of credit histories resulted in classifying these assets in the investment grade.

Based on the assessment per each classification of assets, Probabilities of Default were assigned to these assets and an Expected Credit Loss was computed.

x. Reclassification of financial assets

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

x. Reclassification of financial assets (Continued)

related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

xi. Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer solely payments of Principal and Interest (SPPI), change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then; and
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original

Notes to the Financial Satements

For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

xi. Modification of financial assets (Continued)

effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

xii. De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a

Notes to the Financial Satements

For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial assets *(Continued)*

xii. De-recognition of financial assets (Continued)

debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On de-recognition due to modifications explained under (xi) above, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

Financial liabilities and equity

i. Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

ii. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

iii. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial liabilities and equity *(Continued)*

iii. Financial liabilities (Continued)

Initial recognition and measurement (Continued)

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not:

i. contingent consideration of an acquirer in a business combination;
ii. held-for-trading; or
iii. designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'finance costs" line item in profit or loss for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

r. Financial instruments (Continued)

Financial liabilities and equity *(Continued)*

iii. Financial liabilities (Continued)

De-recognition of financial liabilities (Continued)

substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

s. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

t. Non-financial assets

The carrying amount of the company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If 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 entity that generates cash flows that largely is independent from other assets and entity's. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (entity of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 or amortization, if no impairment loss had been recognised.

u. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

v. Investment property

Investment property is property held either to earn rental income or capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administration purposes. Investment property is measured at cost on initial recognition.

Subsequently, investment property is measured at fair value as determined by an independent registered valuer.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral as an integral part of the total rental income over the term of the lease.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property and equipment is sold, any related amount included in revaluation reserve is transferred to retained earnings.

When the use of property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is recognised in other comprehensive income and reduces the revaluation surplus within equity.

w. Inventories

Consumable stock is measured at the lower of cost and net realisable value. Costs are based on the first-in-first out principle and include expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

x. Taxation

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly to equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

x. Taxation (Continued)

Current tax

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

Deferred tax

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting or taxable profit or loss;
- differences relating to investments in subsidiaries and associates to the extent that it is probable that the Group is able to control the timing of the reversal of the temporary differences and it is probable they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. The effect on deferred tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets and liabilities are offset if there is a legal enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax jurisdiction 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 the temporary difference 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 benefits will be realised.

y Employee benefits

i. Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

y Employee benefits (Continued)

ii. Defined contribution plans

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

The Group contributes to a number of defined contributions pension schemes on behalf of its employees. The pension cost is recognised in the period it is incurred. Contributions to the funds are based on a percentage of the payroll and are charged against profits as incurred. Obligations for contributions to these plans are recognised as employee benefit expenses in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

iii. Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

z. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Where new equity shares have been issued by way of capitalisation or subdivision, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the effects of all dilutive potential ordinary shares.

aa. Finance costs

Finance costs comprising of interest expense on interest bearing loans, and borrowing is recognised in profit or loss using the effective interest method.

ab. Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to initial recognition, loans and advances are measured at amortised cost using the effective interest method.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

z. Basic and diluted earnings per share

ac. Other receivables

Other receivables comprise prepayments, cheques in course of collection, accrued investment income, staff loans and advances. Other receivables are measured at amortised cost using the effective interest method less impairment losses.

ad. Long term insurance contracts

i. Recognition and measurement of Insurance Contracts

The Group assesses the adequacy of the recognised insurance liabilities through its actuaries, using current estimates of future cash flows. If the assessment shows that the carrying amount of the insurance liabilities (less related differed acquisition costs and related intangible assets) is inadequate in the light of related future cash flows, the entire deficiency is recognised in profit or loss.

Insurance contract provisions are measured using the Financial Soundness Valuation (FSV) method as set out in the guidelines issued by the Actuarial Society of South Africa (ASSA) in Professional Guidance Note (SAP) 104 (version 6). Under this guideline, provisions are valued using realistic expectations of future experience, with compulsory margins for prudence and deferral of profit emergence. These insurance contract provisions comprise of long-term policyholders' liabilities and technical reserves.

The provision, estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the profit or loss as they occur. Whilst the Directors consider that the insurance contract provisions and the related reinsurance recovery are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.

ii. Premiums

In respect of long-term business and contracts with discretionary participation features, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. The amounts are classified as liabilities and included in the long-term policyholders' liabilities.

iii. Pension Contributions

In respect of long-term business and contracts with discretionary participation features, pension contributions are accounted for on cash basis and exclude any taxes or duties on the contributed amount.

iv. Unearned Premium Reserve

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years. The provision amount is included in the long-term policyholders' funds under liabilities.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

z. Basic and diluted earnings per share (Continued)

ad. Long term insurance contracts (Continued)

v. Claims

Claims outstanding comprise provisions for the estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported. Claims reflect the cost of all claims arising during the year. Provision for claims incurred but not reported (IBNR) is included in the long-term policyholders' funds.

Individual Business maturity values are recognized as claims when they fall due.

Surrender values are recognized as claims when paid or when policy holder expresses formally of an intention to surrender the policy.

Refund of Pension contributions have an impact on Policy Holders liabilities hence they are recognized upon processing payment.

vi. Commission Payable and Stamp Duty

Commission consists of commission payable to Sales Consultants and Brokers on Life Insurance and Pensions Business. Stamp Duty is payable to Malawi Government on increases in sums assured. The amounts are accounted for in the financial year incurred.

vii. Reinsurance

Reinsurance assets comprises contracts with reinsurers under which the Group is compensated for losses on one or more contracts which are classified as insurance contracts. Reinsurance contracts that do not meet this classification are classified as financial assets.

Reinsurance assets principally include the reinsurers' share of liabilities in respect of contracts with policyholders. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contract. Reinsurance is presented in insurance and other receivables in the statement of financial position on a gross basis.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks.

Notes to the Financial Satements
For the year ended 31 December 2020

3 Basis of preparation (Continued)

3.5 Significant accounting policies(Continued)

z. Basic and diluted earnings per share (Continued)

ad. Long term insurance contracts (Continued)

viii. Deferred acquisition costs

The costs of acquiring new and renewal insurance business that is primarily related to the production of that business are deferred. These include commissions and stamp duties paid.

ae. Non-financial assets

Carrying amounts of non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indications arise, then the asset recoverable amount is estimated. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the 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 assets.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that is largely independent of the cash inflows of other assets or cash generating units.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that a loss has decreased or no longer exists. 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 accumulated depreciation or amortisation, if no impairment loss had been recognised.

af. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from

Notes to the Financial Satements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see note 4.2 below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.2 Significant increase in credit risk

As explained in note 3(r), Expected Credit Losses (ECL) are measured as an allowance equal to 12 month ECL for stage 1 assets, or life time ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Notes to the Financial Satements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying accounting policies (Continued)

4.1.3 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.1.4 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

4.1.5 Forward looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

4.1.6 Determination of life of revolving credit facilities

The Group measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component,

Notes to the Financial Satements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying accounting policies (Continued)

4.1.6 Determination of life of revolving credit facilities (Continued)

the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

4.1.7 Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has recognised any deferred taxes on changes in fair value of investment properties as the Group is subject to income taxes on the fair value changes of the investment properties on disposal.

4.1.8 Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Residual values and useful lives of tangible assets

The estimated residual values and useful lives of property, plant and equipment are reviewed and adjusted, if appropriate, at each reporting date to reflect current thinking on their remaining lives in the light of technological change, prospective economic utilisation and physical conditions of the assets concerned as described in note 3.5 (o).

Notes to the Financial Satements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying accounting policies (Continued)

4.2.2 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data (level 1 inputs) to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs into the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in the notes specific to those assets or liabilities.

Determination of fair values

i. Investment property

An external, independent valuation Group, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment properties every year.

The fair value measurement for all of the investment properties has been categorised as a level 3 fair value based on the inputs to the valuation technique used.

ii. Financial instruments designated at fair value through profit or loss and/or other comprehensive income

The financial instruments designated at fair value through profit or loss and/or other comprehensive income are determined with reference to their quoted closing bid prices at the measurement date, or if unquoted, determined using a valuation technique that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Valuation techniques employed include market principles and discounted cash flow analysis using expected future cash flows and a market related discount rate, comparison to similar instruments for which market observable prices exist and other valuation models.

4.2.3 Impairment testing

The Group reviews its loan portfolios to assess impairment, at least, on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit

Notes to the Financial Satements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying accounting policies (Continued)

4.2.3 Impairment testing (Continued)

risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Key assumptions used:

a. Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
b. Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
c. Unsupported guarantees are assumed to result in nil cash flows; and
d. No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable.

4.2.4 Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario.

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

4.2.5 Probability of Default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

4.2.6 Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

Notes to the Financial Satements
For the year ended 31 December 2020

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
5. Cash and cash equivalents				
Cash and bank balances	11 020 466	6 075 127	2 912 587	367 043
Restricted balances with Reserve Bank of Malawi	8 889 210	4 926 268	-	-
Balances with other banks	10 018 668	4 809 165	-	-
Short term deposits	46 727 634	34 521 235	1 825 285	2 184 078
Cash and cash equivalents	76 655 978	50 331 795	4 737 872	2 551 121

Included in cash and cash equivalents is the liquidity reserve deposit with the Reserve Bank of Malawi (RBM) amounting to K8.9 billion (2019: K4.9 billion) which is not available for use by the Group. Balances with RBM are held at zero-interest rate. Balances with other banks relate to bank balances with correspondent banks on which interest at a rate of 0.5% per annum (2019: 0.5% per annum) is earned. Interest rate on bank balances was 4% (2019: 3.85%) and for short term deposits was 8% (2019: 9.69%).

6. Short term investments

Short term investments have been recognized at a net of expected credit loss. Expected credit loss for the investments has been disclosed in note 43.4.1.

a. Financial assets designated at amortised cost	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Term deposits	278 162	1 683 790	-	-
Government securities (note 17)	104 803 273	82 450 899	-	-
Balance as at Total	105 081 435	84 134 689	-	-

Interest rates for Government securities ranged from 8.52% to 22.5% per annum (2019: 6% to 14%).

6. Short term investment (Continued)

b. Placements

	Group 2020 K'000	2019 K'000
NICO Asset Managers Limited	10 258 904	-
Road Fund Administration	1 559 426	8 035 031
Total placements	11 818 330	8 035 031

Placements earned average interest rate of 12.6% (2019: 7.90%). During the year, interest rates increased by at least 470 basis points due to the elevated funding costs that came as a result of the liquidity squeeze. Yields on financial instruments such as placements increased accordingly.

7. Loans and advances to customers

Loans and overdrafts	56 257 587	36 972 288
Lease receivables	1 697 270	1 639 123
Mortgage advances	3 223 317	3 427 955
Total gross loans and advances	61 178 174	42 039 366
Expected credit losses (note 43.4.1)	(2 143 452)	(3 477 861)
Net loans and advances	59 034 722	38 561 505
Gross loans and advances are due to mature as follows:		
● Within one year	34 590 081	10 982 886
● After one year	26 588 093	31 056 480
	61 178 174	42 039 366
Movement on allowance for impairment:		
At beginning of the year	3 477 861	8 104 670
Amounts written off	(3 316 987)	(3 816 615)
Increase/(Decrease) in impairment loss net of recoveries	1 982 578	(810 194)
	2 143 452	3 477 861

The loans and advances to customers are mainly from the Group's banking business. The Bank applies risk-based pricing on its products. The price is linked to the reference rate (previously base lending rate) with an interest rate spread of 0 to 11.5% basis points. The applicable base lending rate and reference rate were 13.95% and 13.30% for 2019 and 2020, respectively.

7. Loans and advances to customers (Continued)

Finance lease receivables
The Group is the lessor for leases of property and equipment.

Gross investment in finance lease receivables:

	Group 2020 K'000	2019 K'000
Less than one year	289 773	254 689
Between one and five years	2 289 317	2 173 561
	2 579 090	2 428 250
Unearned finance income	(881 820)	(789 127)
Net investment in finance leases	1 697 270	1 639 123
Net investment in finance leases receivable:		
Less than one year	242 895	254 689
Between one and five years	1 454 375	1 384 434
	1 697 270	1 639 123

General terms
The Group's banking business offers asset finance for both new and used assets, the finance period being a minimum of 6 months and maximum of 60 months. The interest rate charges are risk based and the facility is secured through the financed assets and in some occasions additional security is required.

8. Assets classified as held for sale

	Group 2020 K'000	2019 K'000	Company 2020 K'000	2019 K'000
Investment in associate (Note 16(a))	231 707	-	231 707	-

The Group intends to dispose of its investment in Sanlam General Insurance Tanzania Limited. During the year, a buyer was identified and price agreed. The Group and the buyer are in the process of finalising regulatory requirements for the sale to proceed.

Notes to the Financial Satements
For the year ended 31 December 2020

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
9. Income tax expense				
a. Recognised in profit or loss				
Current tax expense				
Current year tax at 30% (2019: 31%)	8 627 634	4 350 766	-	-
Deferred tax				
Temporary differences (note 15)	(755 270)	2 409 958	-	-
Dividend tax at 10% (2019: 10%)	-	-	372 845	229 428
	7 872 364	6 760 724	372 845	229 428
b. Reconciliation of tax charge				
Profit before income tax expense	26 468 085	21 490 546	4 664 397	3 254 694
Income tax	9 476 257	7 549 064	1 399 319	976 408
Effect of non-taxable income/ non-taxable expenses	(4 017 747)	(1 397 543)	(1 569 699)	(678 671)
Effect of permanent differences	1 656 699	180 498	170 380	(297 737)
Dividend tax	740 233	534 208	372 845	229 428
Under/(over) provision in prior year	16 922	(105 503)	-	-
	7 872 364	6 760 724	372 845	229 428

The effective tax rate incorporates 30% tax rate for Malawi and 35% tax rate for Zambia.

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
c. Tax recoverable				
Balance at 1 January	(290 682)	(861 593)	(352 080)	(230 138)
Charge for the year	8 627 634	4 350 766	-	-
Tax paid	(9 899 074)	(3 811 708)	(319 238)	(121 942)
Exchange rate differences	58 911	31 853	-	-
Balance as at 31 December	(1 503 211)	(290 682)	(671 318)	(352 080)

Under the Malawi Taxation Act it is not possible to transfer tax losses from one subsidiary to another.

Notes to the Financial Satements
For the year ended 31 December 2020

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
10. Other receivables				
Accrued investment income	448 784	587 869	44 149	20 558
Staff loans and advances	257 800	429 814	26 650	12 255
Prepayments	2 879 637	2 530 791	71 282	10 354
Sundry receivables	6 186 048	4 956 871	15 092	52 838
Investment fund management fees	249 424	202 754	-	-
Rent receivable	421 748	311 929	-	-
Clients funds under management**	66 198 391	39 147 605	-	-
Total	76 641 832	48 167 633	157 173	96 005

** Clients funds under management are third party funds invested by NICO Nominees. The related payable balances are included in note 24 to these financial statements. Client funds under management earned an average interest of 14.45% (2019:13.16%)

All of other receivables are recoverable within one year. No interest is charged on outstanding other receivables.

The directors believe that the carrying amounts of the other receivables approximates their fair values.

	Group 2020 K'000	Group 2019 K'000
11. Insurance receivables		
Insurance premium receivables (i)	6 480 779	5 643 996
Re - insurance receivables (ii)	14 570 428	11 340 882
Less: expected credit loss	(356 267)	(291 151)
Balance as at 31 December	20 694 940	16 693 727

i. Insurance premium receivables (outstanding premium)

Insurance premium receivables arise from the Group's insurance business. Insurance premium receivables mainly relate to outstanding premiums, fee income from policyholders, net of commissions payable on any insurance contracts and/or co insurance arrangements. These receivables do not contain a significant financing component and have a short duration limited to 365 days, which is the underlying policy period. Insurance premiums do not have a contractual interest rate and this implies that the effective interest rate for these receivables is zero. The average credit period for insurance premiums is 30 days and payment plans are accepted. No interest is charged on outstanding insurance receivables.

Notes to the Financial Satements
For the year ended 31 December 2020

11. Insurance receivables (Continued)

The maximum exposure to credit risk for insurance receivables at the reporting date by type of customer was as follows:

	Group 2020 K'000	2019 K'000
Insurance brokers and agents	4 036 706	3 533 218
Direct clients	1 262 644	1 195 516
Outstanding life premiums	1 181 429	915 262
	6 480 779	5 643 996
Expected credit losses	(356 267)	(291 151)
Total	6 124 512	5 352 845

The Group measures the expected credit losses for insurance premium receivables at an amount equal to lifetime expected credit Loss. The expected credit losses on insurance receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The ageing of insurance premium receivable and related expected credit loss as at the reporting date was as follows:

	Gross K'000	ECL K'000	2020 Net amount K'000	2019 Net amount K'000
Not past due	5 146 177	(210 913)	4 935 264	4 620 195
7 – 9 months	1 152 940	(21 403)	1 131 537	370 495
10 – 12 months	181 662	(123 951)	57 711	362 155
Total	6 480 779	(356 267)	6 124 512	5 352 845

ii. Re-insurance receivables

The directors consider that the carrying amount of re-insurance receivables approximate to their fair value. The balances for re-insurance receivables are interest free and in the opinion of directors, these balances approximate their fair value at the reporting date. The directors believe that the amounts are collectible in full and credit losses are expected, based on historical payment behavior and extensive analysis of the re-insurers credit risk.

Notes to the Financial Satements
For the year ended 31 December 2020

11. Insurance receivables (Continued)

ii. Re-insurance receivables (Continued)

	Group 2020 K'000	2019 K'000
Reinsurance companies - Commission, UPR, IBNR	7 125 185	5 375 913
Reinsurance companies - Outstanding losses	7 445 243	5 964 969
	14 570 428	11 340 882

The directors believe the carrying amounts of the insurance receivables approximates its fair values.

12. Deferred Acquisition Costs (DAC)

Balance as at 1 January	1 218 119	1 184 863
Movement for the year	173 751	33 256
Balance as at 31 December	1 391 870	1 218 119

Deferred acquisition costs comprise expenses for the acquisition of insurance contracts recognised during the year and are recoverable out of future margins in the revenue from the related insurance policies.

	Group 2020 K'000	2019 K'000

13. Inventories

Consumables	117 792	186 689
Less: provision for obsolete stock	(8 732)	(8 732)
Total	109 060	177 957

14. Related parties

The Group's related parties include directors, executive officers, subsidiaries, associates and immediate and ultimate parent companies.

Banking business

Transactions with key management personnel

Directors, Management and their immediate relatives have transacted with the Bank during the year as follows:

	Directors and their related parties 2020 K'000	Employees 2020 K'000	Directors and their related parties 2019 K'000	Employees 2019 K'000
Advances	58 241	2 627 357	20 800	1 693 681
Deposits	(7 176)	(329 077)	-	(219 503)
Net balances	51 065	2 298 280	20 800	1 474 178

Advances to directors and parties related thereto are conducted at arm's length and deemed to be adequately secured. However, advances to management and staff are priced different depending on product as follows;

Product	Senior Managers	General Staff
General purpose loan	9%	9%
Other term loans	Reference rate	Reference rate
Car loans	Reference rate	9%
Mortgage	Reference rate	Reference rate

Advances to staff comprise K143 million (2019: K212 million) interest free loans and K2 731 million (2019: K1 482 million) loans at an interest rate of 9% for general staff and reference rate (which averaged 12.3%) for management personnel (2019: interest rate of 9% for general staff and 12.5% for management personnel).

Advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the Bank on similar loans to non-related parties. The discounted future cost to the bank amounted to K597 million (2019: K510 million).

Executive Directors own shares in the Company through Millennium Holdings Limited. The shareholders comprise executive Directors, past and present senior managers of

Notes to the Financial Satements
For the year ended 31 December 2020

14. Related parties (Continued)

the Company. Millennium Holdings Limited holds 1.4 million shares (2019: 1.4 million shares) out of 1.04 billion shares in NICO Holdings plc, representing 0.4% shareholding in the Company.

Executive Directors also participate in the Company's share option programme (refer to note 45). As at 31 December 2020, the total number of shares of the Company owned by the Executive Directors through the Company's share option program was Nil (2019: Nil).

Insurance business

Directors and their related parties transacted with the General insurance business unit during the year as follows:

	Directors and their related parties 2020 K'000	Directors and their related parties 2019 K'000
Insurance premium	19 403	17 439

All outstanding balances with these related parties are priced on an arms' length basis and are to be settled in cash within one month of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

As at 31 December 2020 there were no balances owing from directors and employees (2019: Nil).

Key management personnel compensation:

Key management personnel compensation comprised the following: -

	Group			
	Executive Directors		Non-executive Directors	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Directors' remuneration	376 377	273 730	-	-
Directors' fees	-	-	197 111	160 287
	376 377	273 730	197 111	160 287

Notes to the Financial Satements
For the year ended 31 December 2020

14. Related parties (Continued)

Related Party	Relationship	Type of transaction	Value of transactions 2020	Balance at year end 2020	Value of transactions 2019	Balance at year end 2019
Sanlam Pan Africa (SPA)	Common investee	Actuarial fees	(121 209)	(49 626)	(63 000)	-
		Shared expenses	(25 518)	(25 518)	(6 000)	-
		Premia Support	-	(9 200)	-	(25 261)
Sanlam General Insurance Tanzania	Associate	Directors fees	10 295	6 804	-	(3 491)
Sanlam Mocambique	Associate	Shared expenses	-	-	-	(2 440)
Vida Companhia de Seguros, SA	Associate	Directors fees	2 972	535	-	-

The amounts in brackets indicate that the goods/services were acquired by the Group from related parties whilst the others indicate services provided to the related parties.

All outstanding balances with related parties are priced on an arm's length basis. These balances are unsecured and approximate their fair value at the reporting date due to their short term nature.

Notes to the Financial Satements
For the year ended 31 December 2020

14. Related parties (Continued)

a. List of significant subsidiaries

The Composition of the Group at the end of the reporting period is as follows:

Name of entity	Principal Activity	Place of Incorporation	Number of Wholly owned subsidiaries 2020	2019
NICO Asset Managers Limited	Asset Management	Malawi Limited	1	1
NICO Technologies Limited	Information Technology	Malawi	1	1
Group Fabricators and Manufactures Limited	Property Holding	Malawi	1	1
			3	3

Name of entity	Principal Activity	Place of Incorporation	Number of Non Wholly owned subsidiaries 2020	2019
NICO General Insurance Company Limited	Short Term Insurance	Malawi	1	1
NICO Insurance Zambia Limited	Short Term Insurance	Zambia	1	1
NICO Life Insurance Company Limited	Long Term Insurance	Malawi	1	1
NBS Bank plc	Banking	Malawi	1	1
			4	4

Notes to the Financial Satements

For the year ended 31 December 2020

14. Related parties (Continued)

The table below provides details of the significant subsidiaries of the Group.

b) Investment in subsidiary companies (at cost)

Company	Country of Incorporation	2020 2020 Shareholding %	2020 Amount K'000	2019 Dividends received K'000	2019 Shareholding %	2019 Amount K'000	Dividends received K'000
NICO General Insurance Company Limited	Malawi	51	61 200	612 000	51	61 200	535 500
NICO Life Insurance Company Limited	Malawi	51	74 588	1 343 562	51	74 588	2 320 500
NICO Insurance Zambia Limited	Zambia	51	595 099	-	51	595 099	-
NICO Technologies Limited	Malawi	100	75 365	-	100	75 365	-
NICO Asset Managers Limited	Malawi	100	31 081	1 950 000	100	31 081	740 000
Group Fabricators and Manufacturers Limited	Malawi	100	58 500	-	100	58 500	-
NBS Bank plc	Malawi	50.1	6 590 332	1 166 459	50.1	6 590 332	-
			7 486 165	5 072 021		7 486 165	3 596 000

Notes to the Financial Satements

For the year ended 31 December 2020

14. Related parties (Continued)

	As at 1 January K'000	Additions K'000	Disposals K'000	As at 31 December K'000
2020				
Subsidiaries movement during the year				
NICO General Insurance Company Limited	61 200	-	-	61 200
NICO Life Insurance Company Limited	74 588	-	-	74 588
NICO Insurance Zambia Limited	595 099	-	-	595 099
NICO Technologies Limited	75 365	-	-	75 365
NICO Asset Managers Limited	31 081	-	-	31 081
Group Fabricators and Manufacturers Limited	58 500	-	-	58 500
NBS Bank plc	6 590 332	-	-	6 590 332
	7 486 165	-	-	7 486 165

	As at 1 January K'000	Additions K'000	Disposals K'000	As at 31 December K'000
2019				
Subsidiaries movement during the year				
NICO General Insurance Company Limited	61 200	-	-	61 200
NICO Life Insurance Company Limited	74 588	-	-	74 588
NICO Insurance Zambia Limited	595 099	-	-	595 099
NICO Technologies Limited	75 365	-	-	75 365
NICO Asset Managers Limited	31 081	-	-	31 081
Group Fabricators and Manufacturers Limited	58 500	-	-	58 500
NBS Bank plc	7 446 951	-	(856 619)	6 590 332
	8 342 784	-	(856 619)	7 486 165

Notes to the Financial Satements
For the year ended 31 December 2020

14. Related parties (Continued)

The Directors have performed an impairment assessment of the investments in subsidiaries as at 31 December 2020. No impairment has been recognised.

	Company	
	2020 K'000	2019 K'000
c. Amounts due from Group Companies		
i. Amounts due from subsidiary companies		
NICO Insurance (Zambia) Limited	-	118 092
NBS Bank plc	14 458	-
ii. Amounts due from equity accounted companies		
Eris Properties Malawi Limited	29 295	-
Sanlam General Insurance Tanzania Limited	6 804	-
Sanlam Mozambique Vida Companhia de Seguros SA	532	-
Total	51 089	118 092

	Company	
	2020 K'000	2019 K'000
d. Amounts due to Group Companies		
i. Amounts due to associate companies		
Sanlam General Insurance Tanzania Limited	-	3 491
Sanlam Mozambique Vida Companhia de Seguros SA	-	2 440
Total	-	5 931

All outstanding balances with these related parties are short-term and are priced on an arms' length basis. None of the balances are secured. No loss allowance has been recognized for amounts due from related parties. An assessment of amounts due from related parties indicated no risk of default as amounts are settled normally within 3 months.

In the opinion of Directors, these balances approximate their fair value at the reporting date due to their short term nature.

Notes to the Financial Satements
For the year ended 31 December 2020

15. Deferred tax assets and liabilities

Group

Recognised deferred tax
Deferred tax (assets) and liabilities are attributed to the following:

	Assets		Liabilities	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Property and equipment	331 526	210 206	1 174 185	1 376 571
Investment properties and equity shares	-	-	-	(444 575)
Accrued interest	(184 395)	-	460 844	2 008 956
Other assets	(1 797 116)	(2 178 101)	100 062	(101 103)
Deferred tax (assets)/liabilities	(1 649 985)	(1 967 895)	1 735 091	2 839 849

15. Deferred tax assets and liabilities (Continued)

Deferred tax movement analysis:

	Balance as at 1 January K'000	Recognised in profit and loss K'000	Recognised in equity K'000	Recognised in other Comprehensive Income K'000	Effects exchange rates K'000	Balance as at 31 December K'000
2020						
Movement of deferred tax asset						
Property and equipment	210 206	118 425	2 895	-	-	331 526
Accrued interest	-	(184 395)	-	-	-	(184 395)
Other assets	(2 178 101)	327 906	-	(58 528)	111 607	(1 797 116)
Deferred tax (assets)/liabilities	(1 967 895)	261 936	2 895	(58 528)	111 607	(1 649 985)
Movement of deferred tax liability						
Property and equipment	1 376 571	(158 979)	-	-	(43 407)	1 174 185
Investment properties and equity shares	(444 575)	444 575	-	-	-	-
Accrued interest	2 008 956	(1 548 112)	-	-	-	460 844
Other assets	(101 103)	245 310	-	-	(44 145)	100 062
Deferred tax (assets)/liabilities	2 839 849	(1 017 206)	-	-	(87 552)	1 735 091

15. Deferred tax assets and liabilities (Continued)

Deferred tax movement analysis:

	Balance as at 1 January K'000	Recognised in profit and loss K'000	Recognised in equity K'000	Effects exchange rates K'000	Balance as at 31 December K'000
2019					
Movement of deferred tax asset					
Property and equipment	58 911	140 680	10 615	-	210 206
Investment properties and equity shares	(191 427)	191 427	-	-	-
Other assets	(4 290 560)	2 101 566	-	10 893	(2 178 101)
Deferred tax (assets)/liabilities	(4 423 076)	2 433 673	10 615	10 893	(1 967 895)
Movement of deferred tax liability					
Property and equipment	1 196 171	178 019	-	2 381	1 376 571
Investment properties and equity shares	-	(444 575)	-	-	(444 575)
Accrued interest	1 732 743	276 213	-	-	2 008 956
Other assets	(59 308)	(37 372)	-	(4 423)	(101 103)
Deferred tax (assets)/liabilities	2 869 606	(27 715)	-	(2 042)	2 839 849

Notes to the Financial Satements

For the year ended 31 December 2020

16. Investment in associates, joint ventures and unconsolidated structured entities

a. Investment in associates

The composition of the Group's associates is the following:

Principal Activity	Place of Incorporation	Number of Associates	
		2020	**2019**
Short term insurance	Tanzania	1	1
Long term Insurance	Mozambique	1	1
	Total	2	2

	Principle place of business/ country of incorporation	2020 Shareholding	2020 Amount	2019 Shareholding	2019 Amount
Sanlam Vida Companhia de Seguros, SA	Mozambique	34.30%	968 110	34.30%	756 922
Sanlam General Insurance Tanzania Limited	Tanzania	20%	-	20%	1
			968 110		756 923

Notes to the Financial Satements

For the year ended 31 December 2020

16. Investment in associates, joint ventures and unconsolidated structured entities (continued)

The table below shows the summarised financial statements of the associates:

	Sanlam Vida		Sanlam Tanzania	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Non-current assets	5 093 326	4 090 544	302 810	390 067
Current assets	1 649 253	2 198 649	8 449 917	9 434 922
Non-current liabilities	(158 343)	(222 016)	(179 121)	-
Current liabilities	(1 989 130)	(2 533 328)	(7 207 034)	(8 768 286)
Net assets	4 595 106	3 533 849	1 366 572	1 056 703
Revenue	7 846 146	6 383 995	9 008 372	2 505 957
Profit/(loss)	615 707	534 863	(783 918)	234 257)
Total comprehensive income/(loss)	615 707	534 863	(783 918)	(234 257)
Percentage shareholding	34.3%	34.3%	20%	20%
Share of associates profit/(loss)	211 188	183 458	(156 784)	(46 851)

The investment in Sanlam General Insurance Tanzania is operating within the general insurance business whilst the investment in Sanlam Vida Companhia de Seguros, SA is operating within the life insurance business. These are strategic to the Group's activities and core lines of business.

The investments in associates are not material to the result of the Group and as such the following is disclosed in aggregate.

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16. Investment in associates, joint ventures and unconsolidated structured entities (continued)

Group/Company	2020		2019		
	Sanlam Mozambique Vida Companhia de Serugos Limited K'000	Sanlam General Insurance Tanzania Limited K'000	Sanlam Mozambique Vida Companhia de Serugos Limited K'000	Sanlam General Insurance Uganda Limited K'000	Sanlam Insurance Tanzania Limited K'000
As at 1 January	756 922	1	573 464	348 619	303 070
Additions	-	-	-	9 766	-
Share of profit/(loss)	211 188	-	183 458	119 798	-
Impairment reversal	-	231 706	-	-	(303 069)
Transfer to classified as held for sale (note 8)	-	(231 707)	-	-	-
Transfer to shares	-	-	-	(478 183)	-
Balance at 31 December	968 110	-	756 922	-	1

b. Investment in joint venture

Principal activity	Place of incorporation	Number of joint ventures 2020 K'000	2019 K'000
Property management and development	Malawi	1	1
	Total	1	1

Notes to the Financial Satements
For the year ended 31 December 2020

16. Investment in associates, joint ventures and unconsolidated structured entities (continued)

The table below show the summarised financial statements of the joint venture

Summarised financial information	ERIS Properties Malawi 2020 K'000	2019 K'000
Non current assets	62 279	77 218
Current assets	435 927	353 347
Non current liabilities	(31 313)	(27 187)
Current liabilities	(275 058)	(249 141)
Net assets	191 835	154 237
Revenue	538 998	403 648
Profit	38 757	30 346
Total comprehensive income	38 757	30 346
Percentage shareholding	50%	50%
Share of profit	19 378	15 173

Group/Company	As at 1 January K'000	Share of profit K'000	As at 31 December K'000
2020			
ERIS Properties Malawi Limited	78 724	19 378	98 102
2019			
ERIS Properties Malawi Limited	63 551	15 173	78 724

Eris Properties Malawi Limited is a Joint Venture between NICO Holdings plc and ERIS SA Limited. Its primary activities are property management and development.

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16. Investment in associates, joint ventures and unconsolidated structured entities (continued)

c. Unconsolidated Structured entity

These investments are mainly through the Life and Pensions business. They are mutual investments and the shareholders portion in these investments is very minimal at less than 10%.

The unconsolidated and structured entity in the Group is ICON Properties plc

	2020 %Holding	2019 % Holding
ICON Properties plc (through NICO Life Insurance Company Limited)	63	63

ICON's business operations consist of 3 principal segments: property letting services, property management and property development.

Summarised Financial Information

	ICON Properties plc	
	2020 K'000	2019 K'000
Non-current assets	75 735 910	57 981 236
Current assets	6 108 684	21 534 831
Non-current liabilities	(1 213 518)	(2 754 499)
Current liabilities	(201 426)	(2 004 471)
Net assets	80 429 650	74 757 097
Revenue	14 170 348	11 829 845
Profit	9 319 937	6 935 899
Total comprehensive income	9 319 937	6 935 899
Details of amounts relating to unconsolidated entity are as follows:		
Income		
Interest income	2 846 523	2 230 235
Dividend income	2 311	2 496
Fair value gains or losses	6 027 430	4 070 974
Total income	8 876 264	6 303 705

These amounts have been included under investment income, note 34 (Investment income) to the financial statements.

Notes to the Financial Satements
For the year ended 31 December 2020

16. Investment in associates, joint ventures and unconsolidated structured entities (continued)

c. Unconsolidated Structured entity (Continued)

Assets

Investments – maximum exposure	2020 K'000	2019 K'000
Investment in equity shares	2 019 902	1 728 523

The Group's exposure in the unconsolidated structured entity is to the extent of the shareholders' fund proportion, which is 3.93% (2019: 3.93%) of the market value of its shares in ICON Properties plc

The related market values of the shares have been included under note 18 to the financial statements.

Nature of risks associated with unconsolidated structured entity

The Group has risks associated with these unconsolidated structured entities through the investments as analyzed below:

Risk exposure associated with these investments include financial risks: liquidity, market, interest default risks and impairment of the properties under the investments.

Liquidity - having granted income notes there is a risk that the companies may not have adequate cashflows to fund interest repayment as it falls due and therefore subsequent default of the income notes.

Market - having a significant portfolio of the investments in the property, development, management and letting, there is a risk that due to competition rental rates may decline or stagnate thereby reducing income.

Impairment loss may arise due to declining values in the invested properties under management due to dynamic changes in market forces.

Overall the positive net asset position as shown in table above indicates that overall exposure is remote and only limited to the assets.

Notes to the Financial Satements
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17. Investment in government securities

	Group 2020 K'000	Group 2019 K'000
The investments are due to mature as follows:		
• Within one year (note 6)	104 803 273	82 450 899
• After one year	143 145 742	105 795 981
	247 949 015	188 246 880
Investment in government securities comprised the following:		
Financial assets designated FVTPL*		
Local registered stocks	137 121 284	103 967 952
	137 121 284	103 967 952
Financial assets at amortized cost**		
Local registered stocks	104 795 028	60 108 480
Treasury bills	5 745 953	19 521 546
Promissory notes	286 750	4 648 902
	110 827 731	84 278 928
Total	247 949 015	188 246 880

**Movement of financial assets designated FVTPL*

	Group 2020 K'000	Group 2019 K'000
Balance as at 1 January	103 967 952	97 218 691
Additions during the year	98 220 486	67 604 946
Reclassified from loans and debentures	-	(10 527 216)
Fair value adjustment	(12 101 944)	11 290 291
Disposals during the year	(52 965 210)	(61 618 760)
Balance at 31 December	137 121 284	103 967 952

The fair valuation of these treasury notes is done by management in consultation with the consulting actuaries from Sanlam Emerging Markets (Pty) Limited, who utilise best practise methods based on expertise within the wider Sanlam Group. It involves application of judgement in determining the most appropriate valuation basis and assumptions.

Notes to the Financial Satements
For the year ended 31 December 2020

17. Investment in government securities (Continued)

***Movement of financial assets at amortized costs*

	Group 2020 K'000	Group 2019 K'000
Balance as at 1 January	84 278 928	40 935 755
Additions during the year	26 656 831	52 796 729
Short term portion of investments	-	(322 891)
Reclassified from loans and debentures	274 080	-
Fair value adjustment	(8 245)	(9 344)
Disposals during the year	(373 863)	(9 121 321)
Balance at 31 December	110 827 731	84 278 928

Interest rates for government securities ranged from 8.52% to 22.5% (2019: 6% to 14%).

Treasury bills earned interest at an average rate of 10.63% (2019: 9.69%). Treasury bills interest rates represent average yield rates on a 91-day, 182-day and 364-day bills as determined from time to time by Reserve Bank of Malawi, in line with monetary policy rate.

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
18. Investment in equity shares				
Investment in equity shares				
Valuation				
Balance at 1 January	141 080 945	123 303 854	1 520 487	1 072 025
Purchases during the year	3 773 498	5 905 697	-	-
Transfer from associates (Note 16(a))	-	478 183	-	478 183
Effects of changes in exchange rates	(6 356)	(3 673)	-	-
Increase/(decrease) in fair value				
- shareholders	1 191 052	1 177 807	189 281	(29 721)
- policyholders	19 837 766	13 042 797	-	-
Disposals during the year	(1 920 631)	(2 823 720)	-	-
Balance as at 31 December	163 956 274	141 080 945	1 709 768	1 520 487

Notes to the Financial Satements
For the year ended 31 December 2020

18. Investment in equity shares (Continued)

	Group				Company	
	2020 Shareholding (%)	2020 K'000	2019 Shareholding (%)	2019 K'000	2020 K'000	2019 K'000
Analysis of investment in shares						
Listed shares						
Blantyre Hotels plc	34.52	3 750 814	34.52	3 753 713	-	-
Standard Bank plc	19.89	48 844 439	19.89	34 079 320	-	-
Airtel	1.27	3 923 076	0.00	3 923 076	-	-
Illovo Sugar plc	0.11	64 258	0.11	122 160	-	-
Press Corporation plc	5.29	8 328 229	5.29	8 904 000	-	-
Old Mutual plc	5.96	2 039 381	7.25	2 317 491	-	-
Quilter plc	0.00	-	0.01	362 150	-	-
National Bank of Malawi plc	6.71	20 363 850	6.69	16 407 300	-	-
National Investment Trust plc	6.24	799 574	6.54	706 080	-	-
FMB Capital Holding plc	0.25	135 147	1.72	3 169 716	-	-
Telekom Networks Malawi plc	8.61	17 353 511	7.56	19 745 214	-	-
MPICO plc	1.96	946 848	1.96	880 569	-	-
NICO Holdings plc*	4.04	2 189 824	4.04	2 042 011	-	-
ICON Properties plc	62.71	51 397 005	62.71	43 982 768	-	-
NBS Bank plc	0.64	400 399	0.64	250 250	-	-
Nedbank	0.00	-	0.00	234 701	-	-
Airtel Networks Zambia plc	0.00	13 452	20 698	-	-	
Total listed shares		160 549 807		136 978 141	-	-

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Unlisted shares				
Chibuku Products Limited	1 600 000	2 360 000	-	-
Telecom Holdings Limited (MTL/OCL)	595 000	738 886	548 000	566 269
Natswitch Limited	30 000	30 000	-	-
Swift	19 700	19 700	-	-
Mwaiwathu Private Hospital Limited	294 000	310 277	294 000	310 277
Sanlam Uganda	856 890	633 064	856 891	633 064
Fortesa	10 877	10 877	10 877	10 877
Total unlisted shares	3 406 467	4 102 804	1 709 768	1 520 487
Total investment in equity shares	163 956 274	141 080 945	1 709 768	1 520 487

*Investment in NICO Holdings plc is through Deposit Administration Fund (NICO Pensions).

Notes to the Financial Satements
For the year ended 31 December 2020

18. Investment in equity shares (Continued)

The fair value gains in unlisted shares are recognised in investment income in profit/loss under note 34 as part of the fair value adjustment of investment properties and shares.

In the current year shares in unlisted companies have been valued as at 31 December 2020 on behalf of the Directors by Enerst and Young using net asset model, discounted free cash flow and maintainable earning model. Listed shares have been valued using Malawi Stock Exchange prices as at 31 December 2020.

Level 1 Fair Value
Listed shares amount to K161 billion (2019: K137 billion). In measuring fair value the Group has used observable market related data. The fair value is based on quoted prices on the Malawi Stock Exchange except for shares in Airtel Networks Zambia plc valued at K13.4 million (2019: K20.7 million) whose prices are quoted on the Lusaka Stock Exchange.

Level 3 Fair Value
Unlisted equities for the Group amounted to K3.4 billion (2019: K4.1 billion) while for the Company amounted to K1.7 billion (2019: 1.5 billion). The unlisted shares were valued by Ernest and Young as at 31 December 2020 based on net asset value.

Valuation techniques and significant unobservable
The following table shows the valuation technique used in measuring the fair value of the investment in shares, as well as the significant unobservable inputs used. The valuation expert adopted a Net Asset Value Approach as well as the Discounted Cash Flow.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The Net Asset Value valuation method takes into account the company's net asset value or fair market value of its total assets minus its total liabilities. It does not take into account the historic, current and future earnings generation of the business.	N/A	N/A
The Discounted Cash Flow valuation method uses future free cash flow projections and discounts them to arrive at a Present value estimate, which is used to derive the intrinsic value of the company. It also factors in the debt position as well as capital expenditure plans.	Discount rates (2020: 23.5%; 2019: 21.9%).	The estimated fair value would increase (decrease) if the discount rate were lower (higher).

Notes to the Financial Satements
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19. Loans and debentures

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Group				
Designated at amortised cost				
Balance at 1 January	324 608	770 943	1 753	1 753
Additions during the year	336 809	-	-	-
Expected credit loss	-	(1 207)	-	-
Disposals during the year	(609 037)	(505 664)	-	-
Accrued interest redeemed	(52 380)	60 536	-	-
Balance at 31 December	-	324 608	1 753	1 753
Designated at FVTPL				
Balance at 1 January	23 222 506	15 196 649	-	-
Fair value gain	330 870	-	-	-
Additions during the year	12 000 000	13 500 000	-	-
Reclassification to shares	-	151 780	-	-
Short term portion of loans and debentures	-	-	-	-
Disposals during the year	(21 482 155)	(5 625 923)	-	-
Balance at 31 December	14 071 221	23 222 506	-	-
Total	14 071 221	23 547 114	1 753	1 753

The above disclosed loans and debentures are receivable from Malawi registered companies hence no exposure to exchange rate movement. Expected credit loss has been determined for all loans, refer to note 43.4.2.

In the opinion of the directors, the loans receivable, are expected to be realised in full at maturity date. At the reporting date, the most significant loans (excluding interest) are:

a. A seven-year K5.4 billion floating rate note was advanced to First Capital Bank plc (FCB) on 3 June 2016 carrying a floating rate equivalent to 91 days treasury bill plus 3% interest per annum. FCB settled this loan in full as at 31 December 2020 (2019: K5.4 billion).
b. An amortising five-year loan of K500 million was advanced to Stansfield Motors Limited on 21 July 2016 at an interest rate of 31%. The balance of the loan as at 31 December 2020 is K345 million (2019: K345 million). The company was liquidated and the outstanding balance was provided for.
c. K4.1 billion floating rate loan was advanced to Telekom Networks Malawi plc in 2017. The balance as at 31 December 2020 is K4.1 billion (2019: K4.1 billion).

Notes to the Financial Satements
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19. Loans and debentures (Continued)

d. A short-term loan of K10 billion was advanced in 2019 to Illovo Sugar (Malawi) Plc carrying a fixed rate equivalent to 182 days Treasury bill rate. As at December 2020, the balance is at K7 billion (2019: K10 billion).
e. K3.5 billion floating rate loan was advanced to Electricity Supply Corporation of Malawi at 91 days Treasury bill plus 6% or at a floating rate of NBS Bank plc base lending rate per annum whichever is higher and to be reset quarterly using the rate at the beginning of the quarter. The coupon rate shall be subject to a floor equivalent to the latest available inflation rate plus 2% or 91 days Treasury bill rate plus 1% whichever is higher.

20. Investment properties

	GROUP			COMPANY	
	Freehold investment properties K'000	Leasehold investment properties K'000	Total K'000	Leasehold investment properties K'000	Total K'000
Group					
2020					
At valuation					
Balance at 1 January	677 321	2 671 016	3 348 337	134 000	134 000
Effects of exchange rates	(81)	-	(81)	-	-
Fair value adjustment	11 000	58 787	69 787	11 000	11 000
Additions	-	42 100	42 100	-	
Balance as at 31 December	688 240	2 771 903	3 460 143	145 000	145 000
2019					
At valuation					
Balance at 1 January	664 364	2 366 336	3 030 700	121 000	121 000
Effects of exchange rates	(43)	-	(43)	-	-
Fair value adjustment	13 000	265 282	278 282	13 000	13 000
Additions	-	39 398	39 398	-	-
Balance as at 31 December	677 321	2 671 016	3 348 337	134 000	134 000

20. Investment properties (Continued)

The amounts recognised in profit or loss in respect of investment properties are:

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Rental income (note 34)	293 119	442 338	4 518	4 680
Direct operating expense (maintenance costs)	11 356	11 000	-	-

Valuation basis
Properties were revalued on open market basis on 31 December 2020 by Don Whayo BSC Dip (Urb Man) BA MSIM MRICS, a Chartered Valuation Surveyor with Knight Frank on behalf of the directors. Values were determined by reference to observable prices in the property market. The resultant surplus is taken to profit or loss.

The fair value measurements have been categorised as Level 2 for value based on inputs to the valuation techniques used.

There are no amounts of restrictions on title and investment properties pledged as security for liabilities.

There are no contractual commitments for the acquisition of investment properties.

21. Leases (Group as a lessee)

The Group and the company has lease contracts for various items of plant, machinery, vehicles, land and buildings used in its operations. Leases of plant and machinery generally have lease terms between 3 and 5 years, land and buildings between 2 and 13 years (largely with options for renewal) while motor vehicles have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group has options to purchase certain leased assets at the end of the lease term.

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21.1. Right-of-use assets

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cost				
At 1 January	3 807 662	3 310 600	182 499	-
Additions	2 577 058	695 093	-	182 499
Disposals	(199 877)	(198 031)	(19 126)	-
At 31 December	6 184 843	3 807 662	163 373	182 499
Accumulated depreciation				
Recognised in initial application as at 1 January	1 672 002	904 589	30 416	-
Charge for the year	1 145 086	965 444	25 174	30 416
Disposals	(97 205)	(198 031)	-	-
At 31 December	2 719 883	1 672 002	55 590	30 416
Carrying amount	3 464 960	2 135 660	107 783	152 083
Amounts recognized in profit and loss are as follows:				
Finance charges on lease liabilities	700 435	490 427	19 636	22 812
Depreciation expense on right-of-use assets	1 145 086	965 444	25 174	30 416

The Group leases buildings and the average lease term is 3 years (2019: 3 years).

Notes to the Financial Satements
For the year ended 31 December 2020

21. Leases (Group as a lessee) (Continued)

21.2 Lease liabilities

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cost				
At 1 January	2 743 486	2 706 449	170 768	-
Effects of exchange rate	220 538	-	-	-
Additions	2 415 742	705 168	(19 126)	182 499
Finance charges	700 435	490 427	19 636	22 812
Repayments	(1 521 336)	(1 158 558)	(32 898)	(34 543)
At 31 December	4 558 865	2 743 486	138 380	170 768
Maturity analysis				
Due within 1 year or less	1 401 347	754 613	23 908	30 416
Due between 2 and 5 years	3 125 182	1 962 153	114 472	140 352
Due after 5 years	32 336	26 720	-	-
At 31 December	4 558 865	2 743 486	138 380	170 768

22 Intangible assets

	Capital work in progress K'000	Software K'000	Total K'000
Group			
2020			
Cost			
Balance as at 1 January	495 849	8 435 452	8 931 301
Effects of changes in exchanges rates	-	(340 295)	(340 295)
Additions during the year	909 626	954 401	1 864 027
Capitalisation	(891 539)	891 539	-
Disposal during the year	-	(28 595)	(28 595)
Balance at 31 December	513 936	9 912 502	10 426 438
2019			
Cost			
Balance as at 1 January	102 800	6 855 928	6 958 728
Effects of changes in exchanges rates	-	(38 250)	(38 250)
Additions during the year	448 049	885 829	1 333 878
Capitalization	(55 000)	55 000	-
Transfer from property and equipment (note 23)	-	676 945	676 945
Balance at 31 December	495 849	8 435 452	8 931 301

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22 Tangible assets

	Capital work in progress K'000	Software K'000	Total K'000
2020			
Amortisation			
Balance as at 1 January	-	3 657 969	3 657 969
Effects of changes in exchanges rate	-	(80 324)	(80 324)
Charge for the year	-	1 210 279	1 210 279
Eliminated on disposal	-	(10 182)	(10 182)
Balance at 31 December	-	4 777 742	4 777 742
2019			
Amortisation			
Balance as at 1 January	-	2 586 756	2 586 756
Effects of changes in exchanges rate	-	(32 206)	(32 206)
Charge for the year	-	1 103 419	1 103 419
Balance at 31 December	-	3 657 969	3 657 969
Carrying amount at 31 December 2020	513 936	5 134 760	5 648 696
Carrying amount at 31 December 2019	495 849	4 777 483	5 273 332

	Software K'000	Total K'000
Group		
2020		
Cost		
Balance as at 1 January	123 733	123 733
Additions during the year	2 500	2 500
Balance at 31 December	126 233	126 233
2019		
Cost		
Balance as at 1 January	123 733	123 733
Balance at 31 December	123 733	123 733

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22 Tangible assets (Continued)

	Software K'000	Total K'000
2020		
Amortisation		
Balance as at 1 January	112 926	112 926
Charge for the year	3 495	3 495
Balance at 31 December	116 421	116 421
2019		
Amortisation		
Balance as at 1 January	109 644	109 644
Charge for the year	3 282	3 282
Balance at 31 December	112 926	112 926
Carrying amount at 31 December 2020	9 812	9 812
Carrying amount at 31 December 2019	10 807	10 807

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23. Property and equipment

	Land and buildings K'000	Motor vehicles K'000	Furniture and equipment K'000	Capital work in progress buildings K'000	Capital work in progress equipment K'000	Total K'000
Group						
Cost or valuation						
2020						
Balance as at 1 January	1 976 752	1 018 837	12 445 456	9 534	670 972	16 121 551
Effects of changes in exchange rates	(38 012)	(49 737)	(243 684)	-	-	(331 433)
Additions during the year	1 753 969	404 295	2 042 724	7 614	1 378 512	5 587 114
Revaluation surplus	19 000	-	-	-	-	19 000
Capitalisation	-	-	1 842 823	(7 616)	(1 835 207)	-
Disposals during the year	(483)	(87 855)	(295 267)	(393)	-	(383 998)
Balance as at 31 December	3 711 226	1 285 540	15 792 052	9 139	214 277	21 012 234
Analysed as follows:						
Valuation	1 720 873	-	-	-	-	1 720 873
Cost	1 990 353	1 285 540	15 792 052	9 139	214 277	19 291 361
	3 711 226	1 285 540	15 792 052	9 139	214 277	21 012 234
2019						
Balance as at 1 January	1 248 503	982 121	11 808 991	7 208	259 375	14 306 198
Effects of changes in exchange rates	(20 118)	(24 628)	(170 078)	-	-	(214 824)
Additions during the year	167 812	116 014	1 779 998	30 826	415 851	2 510 501
Revaluation surplus	553 555	-	-	-	-	553 555
Capitalisation	27 750	-	-	(27 750)	-	-
Transfers to intangible assets (note 22)	-	-	(649 195)	-	-	(649 195)
Disposals during the year	(750)	(54 670)	(324 260)	(750)	(4 254)	(384 684)
Balance as at 31 December	1 976 752	1 018 837	12 445 456	9 534	670 972	16 121 551

23. Property and equipment (continued)

Group (Continued) 2019 (Continued)	Land and buildings K'000	Motor vehicles K'000	Furniture and equipment K'000	Capital work in progress buildings K'000	Capital work in progress equipment K'000	Total K'000
Analysed as follows:						
Valuation	1 701 873	-	-	-	-	1 701 873
Cost	274 879	1 018 837	12 445 456	9 534	670 972	14 419 678
	1 976 752	1 018 837	12 445 456	9 534	670 972	16 121 551
Group						
Accumulated depreciation and impairment losses						
2020						
Balance as at 1 January	30 044	610 615	7 431 076	-	-	8 071 735
Effects of changes in exchange rates	-	(35 994)	(172 505)	-	-	(208 499)
Charge for the year	55 761	182 118	1 377 554	-	-	1 615 433
Disposals	(72)	(77 010)	(107 685)	-	-	(184 767)
Balance as at 31 December	85 733	679 729	8 528 440	-	-	9 293 902
Group						
Accumulated depreciation and impairment losses						
2019						
Balance as at 1 January	7 763	527 059	6 425 528	-	-	6 960 350
Effects of changes in exchange rates	-	(15 157)	(49 332)	-	-	(64 489)
Charge for the year	22 281	146 921	1 231 074	-	-	1 400 276
Disposal	-	(48 208)	(176 194)	-	-	(224 402)
Balance as at 31 December	30 044	610 615	7 431 076	-	-	8 071 735
Carrying amounts						
At 31 December 2020	3 625 493	605 811	7 263 612	9 139	214 277	11 718 332
At 31 December 2019	1 946 708	408 222	5 014 380	9 534	670 972	8 049 816

23 Property and equipment (continued)

	Motor vehicles K'000	Furniture and equipment K'000	Total K'000
Company			
Cost			
2020			
Balance as at 1 January	44 378	182 866	227 244
Additions during the year	1 352	32 306	33 658
Balance as at 31 December	45 730	215 172	260 902
2019			
Balance as at 1 January	44 378	136 048	180 426
Additions during the year	-	49 232	49 232
Disposals during the year	-	(2 414)	(2 414)
Balance as at 31 December	44 378	182 866	227 244
Accumulated depreciation and impairment losses			
2020			
Balance as at 1 January	25 888	111 054	136 942
Charge for the year	9 010	29 237	38 247
Balance as at 31 December	34 898	140 291	175 189
2019			
Balance as at 1 January	17 012	87 162	104 174
Charge for the year	8 876	26 146	35 022
Disposals during the year	-	(2 254)	(2 254)
Balance as at 31 December	25 888	111 054	136 942
Carrying amounts			
At 31 December 2020	10 832	74 881	85 713
At 31 December 2019	18 490	71 812	90 302

Notes to the Financial Satements
For the year ended 31 December 2020

23 Property and equipment (continued)

If land and buildings were stated on the historical cost basis the carrying amounts would be as follows:

	Group	
	2020 K'000	**2019 K'000**
Cost	244 835	274 879
Accumulated depreciation	(85 733)	(30 044)
Carrying amount	159 102	244 835

Total gains for the period recognised in other comprehensive income amount to nil (2019: K52.3 million).

Land and buildings comprise freehold buildings and leasehold buildings whilst furniture and equipment include fixtures and fittings computer hardware and other equipment.

Land was revalued on open market basis on 31 December 2020 by an independent external valuer Mr. Don Whayo BSC Dip (Urb Man) BA MSIM MRCIS a Chartered Valuation Surveyor with Knight Frank on behalf of the Directors. The valuer acted as an independent valuer in accordance with the RICS (Royal Institute of Chartered Surveyors) valuation professional standards published in March 2014 and the international valuation Standards (ISV).

Values were determined by reference to observable prices in the property market.

Valuation techniques and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair values of land and buildings, as well as the significant unobservable inputs used. The valuation expert adopted a Market Value approach.

Notes to the Financial Satements
For the year ended 31 December 2020

23 Property and equipment (continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The valuation approach of Open Market Value was adopted as a result of a consideration of the Comparable approach and the residual value. The Comparable approach relies on recent sales data and all relevant factors pertaining to the property like age of the buildings and remaining lease life for the land. The residual value is defined as the estimated amount an entity would currently obtain from disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful life. In providing the residual values it has been assumed that the entity is not contemplating disposal of any of the properties in the foreseeable future.	• The valuer makes professional judgement on adjustments as properties and locations are never the same mainly in situations where there are not much sale transactions taking place.	The estimated fair value would increase (decrease) if: • Expected average rental yields were higher (lower); or • If the market was not restricted to few capable buyers. On the basis of the general economic trends observed so far it appears unlikely that the sales market will improve in the near term unless a sustained reduction in interest rates take place.

The fair value measurements have been categorised as Level 2 for value based on inputs to the valuation techniques used.

Notes to the Financial Satements
For the year ended 31 December 2020

24 Trade and other payables

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Client funds payable*	64 340 889	39 273 668	-	-
Trade payables	1 092 756	1 506 506	-	-
Accruals**	30 099 992	14 613 154	103 114	24 060
Other non-trade payables	7 986 246	2 679 825	810 322	396 521
Balance 31 December	103 519 883	58 073 153	913 436	420 581

* Client funds payable are third party funds invested by NICO Nominees. The funds attracted an interest at an average rate of 11.8%% (2019: 12.7%) per annum.

** Included in accruals is unearned income on local registered stocks of nil (2019: K5.9 billion), interbank takings of K29.7 billion (2019: K5.0 billion) and other accruals of K4.2 billion (2019: K3.7 billion). Interbank takings attracted interest at an average rate of 12.46% (2019:12.57%).

25. Deposits and customer accounts

	Group	
	2020 K'000	2019 K'000
Repayable on demand	150 474 220	106 853 386
Repayable within three months or less	2 672 198	32 754
Balance at 31 December	153 146 418	106 886 140

Deposits from customers on savings, investment and term deposit accounts carried an interest rate ranging from 4% to 13.9% (2019: 8.5% to 16%) per annum. Current accounts earned interest of 0.5% per annum for balances above K500,000, for the year ended 31 December 2019 and 0.1% per annum for balances above K1,000,000 for the year ended 31 December 2020. The foreign currency denominated accounts attract an interest rate of 0.03% (2019: 0.03%) per annum.

26. Insurance contract payables

	Group	
	2020 K'000	2019 K'000
Gross outstanding claims	10 877 212	9 000 032
Allowances for claims incurred but not reported (IBNR)	2 576 941	2 073 105
Total insurance contract outstanding claims	13 454 153	11 073 137
Due to re-insurance companies	3 697 092	3 733 721
Balance 31 December	17 151 245	14 806 858

Notes to the Financial Satements
For the year ended 31 December 2020

26 Insurance contract payables (continued)

	Group	
	2020 K'000	2019 K'000
Movement of total insurance contract outstanding claims:		
Balance at beginning of the year	11 073 137	12 104 446
Effects of changes in exchange rates	(992 385)	(638 912)
Claims incurred	38 533 037	24 040 665
Cash paid for claims settled in the year	(35 159 636)	(24 433 062)
Balance 31 December	13 454 153	11 073 137
Movement of allowances for claims incurred: but not reported (IBNR):		
Balance at beginning of the year	2 073 105	1 571 936
Effects of changes in exchange rates	(48 498)	(22 391)
Additional allowance made during the year	552 334	523 560
Balance 31 December	2 576 941	2 073 105

Process used to determine significant assumptions
Insurance risks are unpredictable and the Group recognizes that it is impossible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over the period, the Group developed a methodology that is aimed at establishing insurance provisions that have an above average likelihood of being adequate to settle all its insurance obligations.

Reported claims
Claims provisions are based upon previous claims' experience, knowledge of events, the terms and conditions of the relevant policies and on interpretation of circumstances.

Each reported claim is assessed on a separate case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The Group employs staff experienced in claims handling and rigorously applies standardized policies and procedures for claims assessment.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are therefore reviewed regularly and updated if new information becomes available.

Claims Incurred But Not Reported (IBNR)
The IBNR provision consists of a best estimate reserve and an explicit risk margin. The best estimate represents the expected value of the insurance liabilities i.e. the mean in a range of possible outcomes in the development of unreported claims and the future development of case reserves.

Notes to the Financial Satements
For the year ended 31 December 2020

26 Insurance contract payables (continued)

Claims Incurred But Not Reported (IBNR) (Continued)
The levels of the IBNR provisions and the risk margins are assessed annually by management against the Group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margins expressed as a percentage of premiums written, represents the IBNR assumption for each financial year.

As these methods use historical claims development information, they assume that the historical claims development pattern will occur again in future. There are reasons why this may not be the case. Such reasons include:

– change in processes that affect the development/recording of claims paid and incurred;
– economic, legal, political and social trends;
– changes in mix of business; and
– random fluctuations, including the impact of large losses.

The provision for the reported claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries. The calculation of the reinsurance recoveries considers the type of risk underwritten, the year in which the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

27 Unearned Premium Reserve (UPR)

	Group	
	2020 K'000	**2019 K'000**
General insurance fund at the beginning of the year	9 424 492	9 401 233
Effects of changes in exchange rates	(1 020 901)	(484 911)
Movement during the year	2 730 906	508 170
General insurance fund at end of the year	11 134 497	9 424 492

The Group's insurance business raises a reserve for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the Group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance using a time proportionate basis (1/365th basis method).

The reserves for unearned premiums are determined at gross level and thereafter the reinsurance impact is recognized. Deferred Acquisition Costs and Deferred Acquisition Revenue are recognised on a basis that is consistent with the related reserves for unearned premiums.

Notes to the Financial Satements
For the year ended 31 December 2020

28 Interest bearing loans and borrowings

	Group		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
CDH Investment Bank Limited	665 331	-	-	-
Continental Asset Management Limited	2 750 000	2 750 000	2 750 000	2 750 000
NBM Capital Markets Limited	3 001 477	2 964 526	-	-
NICO Asset Managers Limited	3 806 544	4 898 719	-	-
	10 223 352	10 613 245	2 750 000	2 750 000
Analysed as follows:				
Balance at 1 January	10 613 245	3 718 343	2 750 000	3 698 333
Additions during the year	765 510	10 713 461	-	2 750 000
Interest charge	1 528 939	1 154 080	362 213	595 106
Exchange losses	-	299 167	-	299 167
Repayments	(2 684 342)	(5 271 806)	(362 213)	(4 592 606)
Balance as at 31 December	10 223 352	10 613 245	2 750 000	2 750 000
Terms and debt repayment schedule				
Due within 1 year	168 708	-	-	-
Due between 2 and 5 years	10 054 644	10 613 245	2 750 000	2 750 000
	10 223 352	10 613 245	2 750 000	2 750 000

Included in the loans of K10.2 billion (2019: K10.6 billion) are the following loans:-

i. CDH Investment Bank
This is a 4 year floating rate loan raised in March 2020 by NICO Technologies Limited to enable the acquisition of server infrastructure. Interest is payable monthly in arrears. The loan is priced at the floating rate of the market reference rate plus a margin of 0.5%.

ii. Continental Asset Management (CAM) loan
NICO Holdings plc issued a 3-year floating rate bond to Continental Asset Management of K2.75 billion whose proceeds were used to repay foreign currency denominated loan in order to reduce its foreign currency exposure. Each NICO bond note will mature in its entirety 3 years from the date of issue subject to optional early redemption by the Issuer. The loan is secured by a floating charge over all assets of NICO Holdings plc.

Interest is payable quarterly in arrears and commenced on 30 September 2019. The interest rate for the notes are offered on a Floating Rate basis to be repriced quarterly with interest being the published average yield for 91day Treasury Bills in the auction immediately preceding the repricing date plus 350 basis points.

Interest is paid quarterly at the end of the calendar quarter on 31 March, 30 June, 30 September and 31 December.

28 Interest bearing loans and borrowings (Continued)

iii. Malawi Government loan

The Malawi Government loan relates to an International Development Association (a World Bank fund) credit which was loaned to Malawi Housing Corporation (MHC) for the construction of low cost housing. Interest on the loan, originally at 7% per annum, was suspended. The loan was repaid in 2019.

iv. The NBM Capital Markets Limited loan

This is a 5 year-floating rate loan raised in June 2019 to increase the Group's banking business total capital to enable it to execute its lending strategy. Interest rate is at 16.5% per annum. The Group has an option of earlier repayment.

v. The NICO Asset Managers Limited loan

This is a syndicated loan borrowed by the Group's banking business, arranged by NICO Asset Managers. It is a 5-year floating rate loan raised purely to fund a huge ticket transaction entered into in June 2019. Interest rate is at 16.5% per annum. It was not raised to form part of the total capital of the Groups banking business.

29. Capital and reserves

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
a. Share capital				
Authorised:				
Number of authorised share capital ('000)	1 300 000	1 300 000	1 300 000	1 300 000
Nominal value (K)	0.05	0.05	0.05	0.05
Authorised share capital (K'000)	65 000	65 000	65 000	65 000
Issued and fully paid:				
Number of issued and fully paid share capital ('000)	1 043 041	1 043 041	1 043 041	1 043 041
Nominal value (K)	0.05	0.05	0.05	0.05
Issued share capital (K'000)	52 152	52 152	52 152	52 152
b. Share premium	428 859	428 859	428 859	428 859

Share premium arose on issue of 1 043 041 096 ordinary shares above nominal value of K0.05.

29 Capital and reserves (Continued)

	Group	
	2020 K'000	2019 K'000
c. Revaluation reserve		
Balance at 31 December	569 073	569 073

The revaluation reserve relates to property and comprises the cumulative increase in the fair value at the reporting date.

	Group		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
d. Other reserves				
i. General reserve	545 519	545 519	-	-
ii. Fair value reserve	983 951	1 052 371	882 550	461 564
iii. Translation reserve	(1 079 395)	(803 072)	-	-
Total other reserves	450 075	794 818	882 550	461 564

General reserve represents transfers from retained earnings, required by statute and other regulators as well as premium on sale of shares in a subsidiary and other reserve arising out of business combination or other transaction with owners of the business and other reserves arising out of business combination.

Fair value reserve represents fair value adjustment on available for sale financial assets. Translation reserve represents retranslation difference arising on retranslation of foreign investments at the reporting date.

30 Non-Controlling interest

Details of subsidiaries of the Group where there is a material non-controlling interest are disclosed below:

Name of subsidiary	Principal place of business	Proportion of ownership interests		Profit/loss allocated to non controlling interests	
		2020 %	2019 %	2020 K'000	2019 K'000
NICO Insurance Zambia Limited	Zambia	49	49	(317 803)	140 479
NICO Life Insurance Limited	Malawi	49	49	4 543 414	3 541 676
NICO General Insurance Limited	Malawi	49	49	848 302	894 267
NBS Bank plc	Malawi	49.9	49.9	3 517 826	2 142 494
Total				8 591 739	6 718 916

Notes to the Financial Satements
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30 Non-Controlling interest (Continued)

Non-controlling interest represents minority position of the shares and reserves in NBS Bank plc, NICO Life Insurance Company Limited, NICO General Insurance Company Limited and NICO Insurance (Zambia) Limited.

	Group	
	2020 K'000	**2019 K'000**
The composition of non-controlling interest is as follows:-		
NBS Bank plc	9 943 982	7 656 204
NICO General Insurance Company Limited	4 120 875	3 780 273
NICO Insurance (Zambia) Limited	371 650	954 940
NICO Life Insurance Company Limited	17 504 319	14 251 777
Total	31 940 826	26 643 194
The movement is analysed as follows:-		
Balance as at 1 January	26 643 194	22 120 408
IFRS transitional adjustment	-	(129 844)
Profit for the year	8 591 739	6 718 916
Revaluation of land and buildings	-	190 895
Fair value on available for sale assets	12 261	84 238
Translation difference on foreign subsidiaries	(265 487)	(168 418)
Purchase of shares in subsidiary	-	570 999
Dividends paid	(3 040 881)	(2 744 000)
Balance as at 31 December	31 940 826	26 643 194

Notes to the Financial Satements
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30. Non-Controlling interest (Continued)

NCI in subsidiaries
The following table summarises the information relating to the Company's subsidiaries that have material non-controlling interest (NCI) before any intra-Group eliminations.

2020	**Nico General Insurance Company Limited**	**Nico Life Insurance Company Limited**	**NBS Bank Plc**	**Nico Insurance Zambia Limited**	**Total**
Location	**Malawi**	**Malawi**	**Malawi**	**Zambia**	
NCI Percentage	49.00%	49.00%	49.90%	49.00%	
Non-current assets	8 327 258	319 189 028	72 449 471	1 279 016	401 244 773
Current assets	20 775 766	45 414 355	146 643 730	8 747 992	221 581 843
Non-current liabilities	(9 035 817)	(328 145 226)	(164 823 036)	(5 330 859)	(507 334 938)
Current liabilities	(11 657 257)	(735 058)	(34 342 345)	(3 937 681)	(50 672 341)
Net assets	8 409 950	35 723 099	19 927 820	758 468	64 819 337
Carrying amount of NCI	4 120 876	17 504 319	9 943 982	371 649	31 940 826
Revenue	22 366 248	100 546 595	47 078 781	13 583 853	183 575 477
Profit	1 731 229	9 272 275	7 049 751	(648 578)	17 404 677
Other comprehensive income	163 877	-	(136 567)	-	27 310
Total comprehensive income	1 895 106	9 272 275	6 913 184	(648 578)	17 431 987
Profit allocated to NCI	848 302	4 543 414	3 517 826	(317 803)	8 591 739
Total comprehensive income allocated to NCI	928 602	4 543 414	3 449 679	(317 803)	8 603 892
Cash flows from operating activities	229 812	13 462 749	46 269 904	90 995	60 053 460
Cash flows (utilised in)/from investing activities	(925 976)	(7 132 915)	(30 721 457)	269 940	(38 510 408)
Cash flows utilised in financing activities, before dividends to NCI	(700 176)	(1 117 140)	(4 303 844)	(282 054)	(6 403 214)
Cash flows used in financing activities- cash dividends to NCI	(588 000)	(1 050 773)	(1 161 901)	-	(2 800 674)
Net (decrease)/increase in cash and cash equivalents	(1 984 340)	4 161 921	10 082 702	78 881	12 339 164

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30. Non-Controlling interest (Continued)

NCI in subsidiaries (Continued)

2019	Nico General Insurance Company Limited	Nico Life Insurance Company Limited	NBS Bank Plc	Nico Insurance Zambia Limited	Total
Location	**Malawi**	**Malawi**	**Malawi**	**Zambia**	
NCI Percentage	49%	49%	49.9%	49%	-
Non-current assets	4 455 284	270 362 131	49 243 606	1 394 912	325 455 933
Current assets	19 583 865	38 622 337	109 511 366	9 414 049	177 131 617
Non-current liabilities	(8 186 842)	(277 530 079)	(129 865 651)	(3 570 841)	(419 153 413)
Current liabilities	(8 137 466)	(2 369 130)	(13 546 227)	(5 283 263)	(29 336 086)
Net assets	7 714 841	29 085 259	15 343 094	1 948 857	54 092 051
Carrying amount of NCI	3 780 273	14 251 777	7 656 204	954 940	26 643 194
Revenue	21 094 386	87 073 566	34 447 889	14 626 893	157 242 734
Profit	1 825 034	7 227 910	4 457 610	286 693	13 797 247
Other comprehensive income	201 322	-	382 555	-	583 877
Total comprehensive income	2 026 356	7 227 910	4 840 165	286 693	14 381 124
Profit allocated to NCI	894 267	3 541 676	2 142 494	140 479	6 718 916
Total comprehensive income allocated to NCI	992 914	3 541 676	2 318 979	140 479	6 994 048
Cash flows from/(utilised in) operating activities	1 795 731	16 361 592	(19 235 016)	367 612	(710 081)
Cash flows from/(utilised in) investing activities	3 625 067	7 317 704	(2 630 406)	(308 149)	8 004 216
Cash flows (utilised in) from financing activities, before dividends to NCI	(535 500)	(2 362 794)	6 914 142	(180 687)	3 835 161
Cash flows used in financing activities- cash dividends to NCI	(514 500)	(2 229 500)	-	-	(2 744 000)
Net increase in cash and cash equivalents	4 370 798	19 087 002	(14 951 280)	(121 224)	8 835 296

Notes to the Financial Satements
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	Group		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
31. Insurance premium				
Gross written premium-short term insurance	32 612 670	32 392 599	-	-
Gross life insurance premium	18 781 970	13 583 028	-	-
Gross pension premium	34 337 330	30 318 560	-	-
	85 731 970	76 294 187	-	-
Unearned premium adjustment	(1 017 971)	(335 417)	-	-
Reinsurance premium	(16 892 494)	(16 912 265)	-	-
Net earned insurance premium	67 821 505	59 046 505	-	-
32. Fees and commission income				
Premium based fees	1 623 432	1 649 908	-	-
Fund management based fees	3 293 953	2 304 017	-	-
Information technology fees	671 640	440 707	-	-
Other fee income	806 761	551 284	1 913 449	1 467 222
	6 395 786	4 945 916	1 913 449	1 467 222
33. Income from banking operations				
Interest income on loans	11 126 617	7 089 122	-	-
Interest from government stocks	25 444 212	18 327 156	-	-
Gross interest from banking	36 570 829	25 416 278	-	-
Fees and commission income	6 948 547	7 315 805	-	-
Profit on foreign exchange transactions	3 521 536	1 644 704	-	-
	47 040 912	34 376 787	-	-
34. Investment income				
Investment income from:				
- Bank deposits	634 200	625 845	11 105	10 961
- Treasury bills	2 717 180	567 665	280 068	88 428
- Local registered stocks	16 161 918	15 862 660	-	-
- Loans and debentures	4 153 154	2 280 020	-	-
- Dividends from equity shares	3 771 435	3 401 583	5 072 021	3 607 125
Fair value adjustment of investment properties	88 787	384 282	11 000	13 000
Fair value adjustment of shares	20 604 225	14 156 864	-	154 881
Gain on term deposits designated at FVPTL	2 598 011	2 429 514	12 925	-
Rental income	293 119	442 338	4 518	4 680
Other interest income from other investments	(392 075)	4 311 794	-	6 992
	50 629 954	44 462 565	5 391 637	3 886 067
Investment expenses	(3 016 414)	(3 060 959)	-	(299 168)
Net investment income	47 613 540	41 401 606	5 391 637	3 586 899

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	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
35. Other income				
Profit/(loss) on disposal of property and equipment	72 799	(4 664)	-	325
Other sundry income	8 209	682 925	27 534	618 230
Recoveries *	-	795 851	-	-
	81 008	1 474 112	27 534	618 555
**** Recoveries analysed as follows:***				
Loans recoveries	-	810 194	-	-
Other receivables written off recoveries	-	(14 343)	-	-
Balance 31 December	-	795 851	-	-
36. Net policyholders claims and benefits				
Insurance claims and loss adjustment expenses	(39 105 043)	(33 458 279)	-	-
Recoveries from reinsurers	4 995 484	5 706 202	-	-
	(34 109 559)	(27 752 077)	-	-
37. Insurance contracts acquisition costs				
Commission expenses paid	(3 355 545)	(3 066 121)	-	-
Changes in deferred acquisition costs	128 355	3 575	-	-
	(3 227 190)	(3 062 546)	-	-
38. Bank interest expense				
Fixed deposits	(10 428 989)	(5 794 884)	-	-
Investment deposits	(270 225)	(216 817)	-	-
Savings deposits	(2 929 802)	(1 669 386)	-	-
	(13 629 016)	(7 681 087)	-	-
39. Administrative expenses				
Auditors' remuneration - Audit fees	(484 074)	(423 318)	(79 238)	(74 666
Other audit expenses and disbursements	(54 316)	(38 130)	(44 698)	(3 036)
Directors' remuneration - Executive (note 14)	(376 377)	(273 730)	(376 377)	(273 730)
- Non executive (note 14)	(197 111)	(160 287)	(62 132)	(40 730)
Staff costs	(16 764 403)	(15 406 308)	(1 356 518)	(862 459)
Communication and accommodation expenses	(6 816 724)	(5 280 934)	(104 226)	(157 878)
Depreciation and amortisation	(3 101 652)	(2 429 468)	(41 742)	(38 465)
Amortisation of right of use asset	(1 164 694)	(1 062 707)	(25 174)	(30 416)
Sundry business charges	(4 361 548)	(2 659 604)	(239 706)	(491 272)
Repairs and maintenance	(5 093 130)	(4 360 573)	(199 578)	(190 005
	(38 414 029)	(32 095 059)	(2 529 389)	(2 162 657

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	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
40. Net finance costs				
Interest on loans	(438 006)	(595 106)	(362 212)	(595 106)
Interest on Lease Liabilities	(688 728)	(506 587)	(19 636)	(22 812)
Exchange gain/(loss)	(22 888)	162 517	12 448	44 164
	(1 149 622)	(939 176)	(369 400)	(573 754)

41. Basic and diluted earnings per share

The calculation of basic earnings per share at 31 December 2020 was based on profit attributable to ordinary shareholders of K10 171 686 000 (2019: K8 010 906 000) and a weighted average number of ordinary shares outstanding of 1 043 041 thousand (2019: 1 043 041 thousand) calculated as follows:-

	Group 2020	Group 2019
Profit for the year K'000	18 595 721	14 729 822
Non-controlling interest K'000	(8 591 739)	(6 718 916
Profit attributable to owners of the parent (K'000)	10 003 982	8 010 906
Weighted average number of ordinary shares in issue throughout the year ('000)	1 043 041	1 043 041
Basic earnings per share (K)	9 .59	7.68

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
42. Dividends				
Dividends declared and paid	4 605 672	4 517 170	2 054 791	1 773 170
Dividends declared and unpaid*	490 000	-	-	-
Total dividend declared	5 095 672	4 517 170	2 054 791	1 773 170

*The unpaid dividends related to dividend payable to Sanlam Emerging Markets (Pty) Limited. The amount is include in noted 24 to these financial statements.

Notes to the Financial Satements
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43 Risk management

43.1 Risk governance structure

The Board of Directors has the overall responsibility for the Group's risk management framework and policies as well as monitoring the effectiveness and disclosure thereof in accordance with best practice.

The Group operates a decentralised business model environment, and all individual businesses take responsibility for all operational and risk related matters on a business level, within the set limits of the framework.

The Board has established a number of risk management and monitoring mechanisms operating within the Group as part of the overall risk management structure.

The key ones are illustrated below;

- **Group Risk Committee**

Develops Group risk management framework, policies and provides overall oversight across the Group, coordinates reporting and improves risk management across the Group.

- **Group Investment Committee**

Determines and monitors appropriate investment strategies for the Group.

- **Finance and Audit Committee**

Assists the Board in providing assurance on the policies and procedures and the financial reporting processes.

- **Credit Committee and Asset Liability Committee**

Identifies, measures and controls credit risk exposure in the banking operations.

The Group's Asset and Liability Management Committee (ALCO) is responsible for ensuring that there is an equitable balance between the Group's assets and liabilities. This is a management committee that meets regularly, and reports to the Finance and Audit Committee.

- **Actuarial Committee**

Monitors and reports on key risks affecting life insurance operations. Determines capital requirements of the life operations and the potential impact of strategic decisions, by using appropriate modelling technics.

- **Treasury function**

Manages the liquidity risks for banking operations, and reports to management and the board regularly.

- **Internal Audit**

Monitors adequacy and effectiveness of internal controls and risk management practices across the Group. Also provides assurance on all aspects of the business.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.1 Risk governance structure (Continued)

- **Group Risk and compliance Function**

Coordinates the risk management processes and assisting the Group Risk Committee in aiding identification of risks.

43.2 Risk management framework

The Group's risk management policies 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 policies and 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 stakeholders understand their roles and obligations.

The main components of the Group Risk and Policy are as follows:

- The Broad objectives and Philosophy of Risk Management in the Group;
- The roles and responsibilities of the various functionaries in the Group tasked with risk management; and
- Standards on implementing risk management within the Group's businesses.

The Group's Risk Committee provides an oversight role of ensuring compliance with the Group's risk management policies and procedures, and for ensuring the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Risk Committee is assisted in these functions by the Risk Management and Compliance Services function.

43.3 Capital Risk Management

Effective capital management is an essential component of meeting the NICO Group's strategic objective of maximizing shareholder value. The management of the Group's capital base requires a continuous review of optimal capital levels,

The NICO Group has an integrated capital management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

43.3.1 Capital Allocation

The NICO Group businesses are each allocated an optimal level of capital and are measured against appropriate return hurdles.

The level and nature of the supporting capital is determined by regulatory capital requirements as well as business risks and growth considerations.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.3.1 Capital Allocation (Continued)

The NICO Group's approach to ensure appropriate working capital levels are as follows:

- The Group's internal dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and
- Performance targets are set for other Group operations based on an expected return of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

Any capital in excess of requirements, and not optimally utilized, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of the Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy.

Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

43.3.2 Discretionary Capital

Any capital in excess of requirements, and not optimally utilized, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of the Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy.

Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

43.3.3 Capital Risk Management - Life Business

Life insurance operations require significantly higher levels of allocated capital than the pension administration business. The optimization of long term required capital is a primary focus area of the business while maintaining appropriate solvency levels.

The following main strategies are used to achieve this objective:

- Appropriate matching of assets and liabilities for the policy holder;
- Due regard is given to liquidity risk management, where funds are managed in line with the investment strategy;
- The asset mix of the long-term required capital. The balance sheet represents the overall risk and expected return on assets;
- The company ensures efficient selection of reinsurance exposure; and
- Internal controls and other operational risk management processes are used to reduce operational risk.

NICO Life Insurance Company Limited

The Reserve Bank of Malawi Directive on Minimum Capital and Solvency prescribes a minimum capital of K1 billion and a minimum solvency ratio of 100% for life fund and Shareholders funds and 120% for the company as a whole. Below is the company's compliance positions:

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk mamnagement (Continued)

43.3.3 Capital Risk Management - Life Business (Continued)

NICO Life Insurance Company Limited(Continued)

	2020 K'm	2019 K'm
Minimum capital		
Share capital	33	33
Share premium	1 357	1 357
Total	1 390	1 390

Solvency margin	With waiver		Without waiver	
	2020 %	2019 %	2020 %	2019 %
Life fund	110	100	100	100
Shareholders fund	1 645	2 364	566	589
Whole company	175	161	121	112

The company has been granted special dispensation to comply with the Minimum Capital and Solvency Directive by 26 November 2023. The waiver allows for reduced risk charges on equity investments of more than 30% in listed and unlisted companies, and on investments in unlisted securities and collective investment schemes and other assets. With the waiver, the company has met the minimum capital for life insurers and solvency ratio for life fund, shareholders fund and for the whole company.

43.3.4 Capital Risk Management – Banking Business

Regulatory capital

The Reserve Bank of Malawi sets and monitors capital requirements for the Group as a whole.

In implementing current capital requirements, Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets as below.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.; and
- Tier 2 capital, which includes qualifying liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments such as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.3.4 Capital Risk Management – Banking Business (Continued)
Regulatory capital(Continued)
reflect the varying levels of risk attached to assets and exposures not recognized in the statement of financial position.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There has been no material changes in the Group's management of capital during the year.

The Bank's regulatory capital position as at 31 December 2020 was as follows: -

Capital Adequacy Requirement
The Bank's available Tier 1 and Tier 2 capital is required to be a minimum of 10% and 15% respectively, of its risk bearing assets and contingent liabilities. At 31 December 2020, the Bank's available capital was 17.52% (2019: 19.05%) for tier 1 and 20.52% (2019: 23.53%) for tier 2 of all its risk bearing assets and contingent liabilities.

	2020 K'000	2019 K'000
Capital management		
Paid up share capital	1 455 291	1 455 291
Share premium	12 104 183	12 104 183
Movement in loan loss reserve	-	36 126
Retained earnings prior periods	651 580	(3 080 761)
Net profit for the year (100%)	7 049 752	4 457 610
Less Dividend paid	(2 328 458)	-
Core capital (Tier 1 Capital)	18 932 348	14 972 449
Revaluation reserves	400 036	400 036
FVOCI reserves	(136 567)	-
Subordinated debt	3 001 477	3 001 065
Total capital (Tier 2 Capital)	22 197 294	18 373 550

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.3.4 Capital Risk Management – Banking Business (Continued)
Prudential Aspects of Bank's Liquidity
The Reserve Bank of Malawi issued the following guidelines on the management of liquidity:

Liquidity Ratio 1
Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 30%. As at 31 December 2020, the Bank's liquidity Ratio 1 was 53.93% (2019: 75.85%)

Liquidity Ratio 2
Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

As at 31 December 2020, the Bank's Liquidity Ratio 2 was 53.93% (2019: 75.83%).

In accordance with the Banking Act, the Reserve Bank of Malawi in its supervisory role, has established the following requirement as at the reporting date:

Liquidity Reserve Requirement
The Bank is required to maintain a liquidity reserve amount with Reserve Bank of Malawi, calculated on a weekly basis, of not less than 3.75% of the preceding month's average total deposit liabilities. The Bank complied with this directive throughout the year.

43.3.5 Capital management – Short-term Insurance Business

The Group aims to maintain capital balances that are sufficient to meet operating and strategic obligations. The objectives are to maintain the Group's ability to continue as a going concern, while supporting the optimisation of returns relative to risks. The major objective to be achieved when managing short term capital are as follows;

- To comply with the statutory capital requirements required by regulators of the insurance market where the Group operates;
- To provide adequate return shareholders & benefits of other stakeholders;
- To protect policyholders against adverse results that may affect the solvency of the Group and therefore its ability to meet its financial obligations; and
- To ensure sufficient capital is available to fund the Group's capital and strategic requirements.

Regulatory solvency position
In each country in which the Group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.3.5 Capital management – Short-term Insurance Business (Continued)
Regulatory solvency position(Continued)
Management regard share capital, share premium, perpetual preference shares, retained earnings, Long term debt and other reserves as capital.

a. NICO General Insurance Company Limited

Solvency Margin and minimum capital
The Reserve Bank of Malawi Directive on Minimum Capital and Solvency prescribes a minimum capital of K750 million and a minimum solvency ratio of 20% defined as being a percentage of adjusted net assets the insurer bears to the net written premium for the corresponding period. Below are the entity's compliance position:

	2020 K'000	2019 K'000
Solvency margin		
Net assets available to meet solvency	4 606 261	4 515 759
Net premium	11 488 871	10 650 815
Solvency margin (%)	40.1	42.4
Minimum requirement by regulator (Reserve Bank of Malawi) (%)	20	20
Paid up capital		
Share capital	9 000	9 000
Share premium	1 195 618	1 195 618
Total paid up capital	1 204 618	1 204 618
Minimum requirement by regulator (Reserve Bank of Malawi): As at 31 December	750 000	750 000

b. NICO Insurance (Zambia) Limited

The Group manages the capital in NICO Insurance (Zambia) Limited with the following objectives;

To comply with the insurance capital requirements that the regulator has set for the insurance market. In this respect the Group manages its capital on a basis of not less than 100% of its minimum capital position presented in the table below. Management considers the quantitative threshold of 100% sufficient to maximise shareholders' return and to support the capital required to write its businesses in Zambia;

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.3.5 Capital management – Short-term Insurance Business (Continued)
b. NICO Insurance (Zambia) Limited (Continued)
To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

Minimum capital
The defined Group capital includes equity and the share premium.

	Group	
	2020 K'000	2019 K'000
Total shareholder funds	815 596	4 515 759
Minimum required share capital	364 920	525 987
Company issued share capital	450 676	746 953
Excess	153 303	220 967
Excess as % of minimum capital	42%	42%

The Company is compliant with the externally imposed capital requirement in accordance with Section 41 of the Insurance Act of Zambia, which is currently K10 million (Zambian Kwacha).

Solvency Margin
The Company did not meet the minimum solvency margins as required by Section 36(2) of the Insurance Act, 1997 (as amended). The Group recorded a solvency margin of -17% (2019: 17%). In order to comply with solvency requirements, the Board approved recapitalization of the Company and communicated to the Regulator in Zambia.

43.4 Credit Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk arises principally from its holding position of cash and cash equivalents, loans and advances to customers and banks, insurance receivables and investment securities.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)
43.4.1 Exposure of credit risk

The carrying amount of financial assets represents the maximum credit exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

			31-Dec-20		31-Dec-19
	Note	Gross Amount	Impairment	Net Amount	Net amount
Balance with central bank	5	8 890 107	897	8 889 210	4 926 268
Short term deposits	6a	46 727 634	-	46 727 634	-
Placements with other banks	6b	11 819 512	1 182	11 818 330	8 035 031
Local registered stocks	17	242 206 468	290 156	241 916 312	60 108 480
Promissory notes	17	286 750	-	286 750	4 648 902
Treasury Bills	17	5 746 425	472	5 745 953	19 521 546
Loans and advances to customers- loans & overdrafts	7	54 202 206	1 892 110	52 310 096	34 030 414
Loans and advances to customers- finance lease	7	1 697 270	122 802	1 574 468	1 384 141
Loans and advances to customers - mortgage advances	7	5 278 698	128 540	5 150 158	3 146 950
Outstanding premiums	11	6 480 779	356 267	6 124 512	5 352 845
Loans and debentures	19	14 071 221	-	14 071 221	23 547 114
Other trade receivables	10	73 768 280	6 085	73 762 195	40 679 971
TOTAL RECOGNISED		471 175 350	2 798 511	468 376 839	205 381 662
Loan commitments		3 781 649	1 198	3 780 451	2 029 262
Letters of credit and guarantee		3 820 411	2 022	3 818 389	3 424 737
TOTAL UNRECOGNISED		7 602 060	3 220	7 598 840	5 453 999
TOTAL		478 777 410	2 801 731	475 975 679	210 835 661

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

Credit Risk Exposure based on stage of asset per IFRS 9

Stage 1: 12 Month ECL

		31-Dec-20		31-Dec-19
	Gross Amount K'000	Impairment K'000	Net Amount K'000	Net amount K'000
Balance with central bank	8 890 107	897	8 889 210	4 926 268
Short term deposits	46 727 634	-	46 727 634	-
Placements with other banks	11 819 512	1 182	11 818 330	8 035 031
Local registered stocks	242 206 468	290 156	241 916 312	60 108 480
Promissory notes	286 750	-	286 750	4 648 902
Treasury Bills	5 746 425	472	5 745 953	19 521 546
Loans and advances to customers- loans & overdrafts	50 469 174	1 334 391	49 134 783	31 372 219
Loans and advances to customers - finance lease	1 290 890	45 181	1 245 709	876 910
Loans and advances to customers - mortgage advances	4 735 984	-	4 735 984	2 386 236
Outstanding premiums	5 742 323	262 814	5 749 509	5 352 845
Loans and debentures	14 071 221	-	14 071 221	23 547 114
Other trade receivables	73 768 280	6 085	73 762 195	40 679 971
Total recognised	465 754 768	1 941 178	463 813 590	201 455 522
Loan commitments	3 781 649	1 198	3 780 451	2 029 262
Letters of credit and guarantee	3 820 411	2 022	3 818 389	3 424 737
Total unrecognised	7 602 060	3 220	7 598 840	5 453 999
Total	473 356 828	1 944 398	471 412 430	206 909 521

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

Credit Risk Exposure based on stage of asset per IFRS 9

Stage 2: Lifetime ECL	Gross Amount K'000	31-Dec-20 I mpairment K'000	Net Amount K'000	31-Dec-19 Net Amount K'000
Loans and advances to customers - loans & overdrafts				
Loans and advances to customers - finance lease	615 651	98 787	516 864	774 989
Loans and advances to customers - mortgage advances	74 056	8 947	65 109	204 840
Other trade receivables	226 528	-	226 528	222 676
Total recognised	916 235	107 734	808 501	1 202 505
Stage 3: Lifetime ECL				
Loans and advances to customers- loans & overdrafts	3 117 381	458 932	2 658 449	1 883 206
Loans and advances to customers - finance lease	332 323	68 674	263 649	302 391
Loans and advances to customers - mortgage advances	316 186	128 540	187 646	538 038
Outstanding premiums	738 456	93 453	645 003	-
Total recognised	4 504 346	749 599	3 754 747	2 723 635

43.4.2 Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of expected loss on both impaired and non-impaired loans. An analysis of the movement of the loss allowance for each portfolio is included in the tables below.

Summary

	Loss allowance as at 31 December 2019 K'000	Net movement during the year K'000	Loss allowance as at 31 December 2020 K'000
Balance with central bank	497	400	897
Placements with other banks	804	378	1 182
Local registered stocks	231 651	58 505	290 156
Promissory notes	463	(463)	-
Treasury Bills	1 963	(1 491)	472
Loans and advances to customers- loans & overdrafts	2 941 874	(1 049 764)	1 892 110
Loans and advances to customers - finance lease	254 982	(132 180)	122 802
Loans and advances to customers - mortgage advances	281 005	(152 465)	128 540
Outstanding premiums	291 151	65 116	356 267
Other trade receivables	84 562	(78 477)	6 085
Loan Commitments	1 198	-	1 198
Letters of credit and guarantee	2 022	-	2 022
	4 092 172	(1 290 441)	2 801 731

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)
43.4.2 Allowances for impairment (Continued)

Stage 1:12 month ECL	Loss allowance as at 31 December 2019 K'000	Net movement during the year K'000	Loss allowance as at 31 December 2020 K'000
Balance with central bank	497	400	897
Placements with other banks	804	378	1 182
Local registered stocks	231 651	58 505	290 156
Promissory notes	463	(463)	-
Treasury Bills	1 963	(1 491)	472
Loans and advances to customers - loans & overdrafts	280 375	1 054 016	1 334 391
Loans and advances to customers - finance lease	34 968	10 213	45 181
Outstanding premiums	291 151	65 116	356 267
Other trade receivables	84 562	(78 477)	6 085
Loan Commitments	1 198	-	-
Letters of credit and guarantee	2 022	-	2 022
	929 654	1 108 197	2 037 851
Stage 2:12 month ECL			
Loans and advances to customers - loans & overdrafts	70 348	28 439	98 787
Loans and advances to customers - finance lease	1 189	7 758	8 947
	71 537	36 197	107 734
Stage 3: lifetime ECL			
Loans and advances to customers - loans & overdrafts	2 591 151	(2 132 219)	458 932
Loans and advances to customers - finance lease	218 825	(150 151)	68 674
Loans and advances to customers - mortgage advances	281 005	(152 465)	128 540
	3 090 981	(2 434 835)	656 146

43 Risk manegement (Continued)

43.4 Credit Risk Management (Continued)

43.4.3 Credit risk profiling

The Group primarily uses ageing analysis to identify an increase in significant risk. This is the case mainly for loans and advances to customers. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	0-29 days	30-59 days	60-89 days	90-180 days	More than 181 days	Gross carrying amount	Loss allowance	Total
	K'000	K'000	K'000	K'000	K'0000	K'000	K'000	K'000
2020								
Balance with central bank	8 890 107	-	-	-	-	8 890 107	(897)	8 889 210
Short term deposits	42 121 077	3 345 069	456 861	804 627	-	46 727 634	-	46 727 634
Placements with other banks	11 819 512	-	-	-	-	11 819 512	(1 182)	11 818 330
Treasury Notes	99 460 765	-	9 937 000	-	132 808 703	242 206 468	(290 156)	241 916 312
Promissory notes	-	-	-	-	286 750	286 750	-	286 750
Treasury Bills	5 637 971	-	108 454	-	-	5 746 425	(472)	5 745 953
Loans and advances to customers								
- loans and overdrafts	50 469 174	615 651	-	-	3 117 381	54 202 206	(1 892 110)	52 310 096
Loans and advances to customers								
- finance lease	1 290 890	74 056	-	-	332 324	1 697 270	(122 802)	1 574 468
Loans and advances to customers								
-mortgage advances	4 735 984	226 528	-	-	316 186	5 278 698	(128 540)	5 150 158
Outstanding premiums	1 604 030	1 179 585	1 127 060	423 752	2 146 352	6 480 779	(356 267)	6 124 512
Loans and debentures	-	-	-	7 071 221	7 000 000	14 071 221	-	14 071 221
Other trade receivables	19 774 907	3 536 407	17 010 367	20 540 506	12 906 093	73 768 280	(6 085)	73 762 195
Loans commitments	3 781 649	-	-	-	-	3 781 649	(1 198)	3 780 451
Letters of credit and guarantee	3 820 411	-	-	-	-	3 820 411	(2 022)	3 818 389
Total	253 406 477	8 977 296	28 639 742	28 840 106	158 913 789	478 777 410	(2 801 731)	475 975 679

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

43.4.3 Credit risk profiling (Continued)

	0-29 days	30-59 days	60-89 days	90-180 days	More than 181 days	Gross carrying amount	Loss allowance	Total
	K'000	K'000	K'000	K'000	K'0000	K'000	K'000	K'000
2019								
Balance with central bank	4 926 765	-	-	-	-	4 926 765	(497)	4 926 268
Placements with other banks	8 035 835	-	-	-	-	8 035 835	(804)	8 035 031
Local registered stocks	60 340 131	-	-	-	-	60 340 131	(231 651)	60 108 480
Promissory notes	4 649 365	-	-	-	-	4 649 365	(463)	4 648 902
Treasury Bills	19 523 509	-	-	-	-	19 523 509	(1 963)	19 521 546
Loans and advances to customers								
- loans and overdrafts	31 652 594	387 396	346 732	111 209	4 474 357	36 972 288	(2 941 874)	34 030 414
Loans and advances to customers								
- finance lease	911 878	112 196	47 511	46 322	521 216	1 639 123	(254 982)	1 384 141
Loans and advances to customers								
-mortgage advances	2 386 236	143 345	79 331	-	819 043	3 427 955	(281 005)	3 146 950
Outstanding premiums	2 446 277	1 745 034	-	858 834	593 851	5 643 996	(291 151)	5 352 845
Loans and debentures	-	-	-	-	23 547 114	23 547 114	-	23 547 114
Other trade receivables	40 764 533	-	-	-	-	40 764 533	(84 562)	40 679 971
Loans commitments	2 030 460	-	-	-	-	2 030 460	(1 198)	2 029 262
Letters of credit and guarantee	3 426 759	-	-	-	-	3 426 759	(2 022)	3 424 737
Total	181 094 342	2 387 971	473 574	1 016 365	29 955 581	214 927 833	(4 092 172)	210 835 661

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43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

43.4.4 Distribution of credit exposures by sector

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due sector.

Notes to the Financial Satements
For the year ended 31 December 2020
43 Risk management (Continued)
43.4 Credit Risk Management (Continued)

43.4.4 Distribution of credit exposures by sector (Continued)

2020	Balance with central bank	Short term deposits	Placements with other banks	Local registered stock	Promissory notes	Treasury Bills	Loans and advances to customers	Outstanding premiums	Loans & debentures	Other trade receivables	Loan Comm-itments	Letters of credit and guarantee	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Carrying amount													
Concentration by sector													
Agriculture, forestry, fishing and hunting	-	-	-	-	-	-	3 531 718	748 926	-	-	-	-	4 280 644
Mining and quarrying	-	-	-	-	-	-	660 729	53 207	-	-	-	-	713 936
Manufacturing	-	-	-	-	-	-	5 125 393	70 660	7 000 000	-	-	-	12 196 053
Electricity, gas, water and energy	-	-	-	-	-	-	12 884 349	686 336	2 640 000	-	-	-	16 210 685
Construction	-	-	-	-	-	-	2 681 397	75 422	-	-	-	-	2 756 819
Wholesale and retail trade	-	-	-	-	-	-	14 988 128	236 050	-	-	-	-	15 224 178
Restaurants and hotels	-	-	-	-	-	-	1 264 318	297 607	-	-	-	-	1 561 925
Transport, storage and communications	-	-	-	-	-	-	1 295 747	261 497	4 100 000	-	-	-	5 657 244
Financial services	8 889 210	46 727 634	11 818 330	241 916 312	286 750	5 745 953	4 108 743	551 416	-	-	-	-	320 044 349
Community, social and personal services	-	-	-	-	-	-	11 206 523	931 356	-	-	-	-	12 137 879
Real estate	-	-	-	-	-	-	634 035	12 503	-	-	-	-	646 538
Other sectors	-	-	-	-	-	-	653 642	2 199 532	331 221	73 762 195	3 780 451	3 818 389	84 545 430
Total carrying amount	8 889 210	46 727 634	11 818 330	241 916 312	286 750	5 745 953	59 034 722	6 124 512	14 071 221	73 762 195	3 780 451	3 818 289	475 975 679

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43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

43.4.4 Distribution of credit exposures by sector

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due sector.

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)

43.4.4 Distribution of credit exposures by sector (Continued)

2019	Balance with central bank	Short term deposits	Placements with other banks	Local registered stock	Promissory notes	Treasury Bills	Loans and advances to customers	Outstanding premiums	Loans & debentures	Other trade receivables	Loan Comm-itments	Letters of credit and guarantee	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Carrying amount													
Concentration by sector													
Agriculture, forestry, fishing and hunting	-	-	-	-	-	-	2 936 932	525 020	-	-	-	-	3 461 952
Mining and quarrying	-	-	-	-	-	-	192 446	12 442	-	-	-	-	204 888
Manufacturing	-	-	-	-	-	-	1 411 095	222 960	10 000 000	-	-	-	11 634 055
Electricity, gas, water and energy	-	-	-	-	-	-	15 020 150	699 339	3 500 000	-	-	-	19 219 489
Construction	-	-	-	-	-	-	1 441 333	69 550	-	-	-	-	1 510 883
Wholesale and retail trade	-	-	-	-	-	-	10 627 302	246 709	345 000	-	-	-	11 219 011
Restaurants and hotels	-	-	-	-	-	-	337 109	176 591	-	-	-	-	513 700
Transport, storage and communications	-	-	-	-	-	-	249 597	362 122	4 100 000	-	-	-	4 711 719
Financial services	4 926 268	-	8 035 031	60 108 480	4 648 902	19 521 546	3 145 194	750 867	5 602 114	-	-	-	106 738 402
Community, social and personal services	-	-	-	-	-	-	2 740 457	448 554	-	39 147 605	-	-	42 336 616
Real estate	-	-	-	-	-	-	365 859	91 533	-	-	-	-	457 392
Other sectors	-	-	-	-	-	-	94 031	1 747 158	-	1 532 366	2 029 262	3 424 737	8 827 554
Total carrying amount	**4 926 268**	**-**	**8 035 031**	**60 108 480**	**4 648 902**	**19 521 546**	**38 561 505**	**5 352 845**	**23 547 114**	**40 679 971**	**2 029 262**	**3 424 737**	**210 835 661**

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)
43.4.5 Cash and cash equivalents

The Group's cash and cash equivalents are held with financial institution counterparties that have high credit ratings.

43.4.6 Government securities

The Group's investments in government securities are issued by the Malawi government and are considered secure. Reputable financial institutions are used for investing and cash handling purposes within the group's strict guidelines on investments and institution exposure limits.

43.4.7 Placements with other banks

The Group invested in liquid short term assets. These do not pause a risk of default due to the high credit rating of the counterparties. For 2020 and 2019 the placements were done by the group's banking business with the Reserve Bank of Malawi.

43.4.8 Loans and advances to customers

For its banking business, the Group uses an internal credit risk rating system called Credit Quest and risk categories range from PN1 to PN9, PN1 representing the lowest credit risk whilst PN9 the highest credit risk. The system utilises a combination of numerical data and qualitative information to assign a rating to each counterparty.

All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Ageing analysis;
- Extent of utilisation of granted limit especially excess over limits;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, employment history; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, management accounts, changes in the financial sector the customer operates in.

The Group uses ageing as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower. The information used is both internal and external depending on the portfolio assessed.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.4 Credit Risk Management (Continued)
43.4.9 Clients funds under management

These are fixed income investments on behalf of various clients, principally in fixed deposits. The counter parties are banks with good credit rating.

43.4.10 Insurance receivables

The Group determines counter-party credit quality by performing an internal analysis, and seeks to avoid unacceptable concentration of credit risk to Groups of counter-parties, to business sectors, product types, and geographical segments.

Amounts receivable in terms of short-term insurance business are secured by the underlying value of unpaid policy benefits in terms of the policy contract. An appropriate level of allowances for credit losses is maintained. Granting of credit is based on laid down approved guidelines and procedures; there is an arrangement allowing for payment over a longer period, provided that failure to pay within the said agreed period should result in cancellation of the unexpired insurance period. In preparing these financial statements, the Directors have considered the recoverability of these amounts and are of the opinion that the amounts are recoverable in full.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a re-insurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of re-insurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The Group ensures that there is no significant concentration of risk within a single re-insurer.

43.4.11 Investments in equity shares

Investments are allowed only in liquid securities and only with counterparties that have a good credit rating and business ventures that are profitable. Given their good credit ratings, the Group does not expect any counterparty to fail to meet its obligations.

43.4.12 Investment in shares and income notes

These investment in shares and income notes have been made with counterparties of good credit rating. As a consequence the Group does not expect the counterparties to fail to meet their obligations.

43.4.13 Loans and debentures

The loans and debentures have been entered into with counterparties of good credit rating. As a consequence the Group does not expect the counterparties to fail to meet

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)
43.4 Credit Risk Management (Continued)

43.4.13 Loans and debentures (Continued)
its obligations. In the opinion of the directors, the loans receivables, all of which, are due from Malawi registered companies are expected to be realised in full at maturity date

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43.4.14 Forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group's ALCO is supplied with external information on critical macroeconomic variables that may have a material impact on the performance of various credit portfolios. The typical sources include the European Investment Unit (EIU), the World Bank and International Monetary Fund country reports, National Statistical Office and Reserve Bank of Malawi reports. The Group's approach to forward-looking information is to develop scenarios for the next 12 months. ALCO then approves one scenario that best captures likely movements in key variables that may have an impact on the performance of various credit portfolios. The scenarios are fed into IFRS 9 models.

The table below highlights the key forward-looking macroeconomic scenarios included in the models as at 31 December 2020 and 31 December 2019.

2020
For all advances except credit cards

Event Description	Probability	PD+EAD adjustment	LGD
GDP expected to increase, money supply stable	50.00%	-0.16%	-1.18%
Exchange rate increasing, inflation slightly increasing	30.00%	0.63%	2.37%
Policy rate stable and base rate stable	20.00%	0.32%	1.18%

For credit cards

Event description	Probability	PD adjustment	LGD adjustment
GDP expected to increase, money supply stable	40.00%	-2.63%	-0.79%
Exchange rate increasing, inflation slightly increasing	60.00%	5.26%	0.79%

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)
43.4 Credit Risk Management (Continued)

43.4.14 Forward-looking information (Continued)

2019
For all advances except credit cards

Event Description	Probability	PD+EAD adjustment	LGD
GDP Growth expected to be stable, money supply increasing, policy rate and base rate decreasing	15.00%	-2.88%	-5.39%
Exchange rate increasing, inflation increasing	5.00%	0.72%	10.79%
2020 expected to be similar to 2019	80.00%	0.00%	0.00%

For credit cards

Event description	Probability	PD adjustment	LGD adjustment
GDP Growth expected to be stable, money supply increasing, policy rate and base rate decreasing	10.00%	-1.71%	-1.61%
Exchange rate increasing, inflation increasing	25.00%	6.86%	1.61%
2020 expected to be similar to 2019	65.00%	0.00%	0.00%

43.5 Liquidity Risk Management

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations arising from its financial liabilities. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

Management of liquidity risk
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 Group's treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Money market investments, loans and

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.5 Liquidity Risk Management (Continued)
Management of liquidity risk (Continued)

advances to banks and other inter-company facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Group's banking business has an Asset and Liability Management Committee (ALCO) which is responsible for ensuring that there is an equitable balance between assets and liabilities. Daily liquidity position is monitored and liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of operating units. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Maturity profiles

The table below shows maturity profiles of financial and insurance assets and liabilities. It shows some periodic mismatches between financial and insurance assets and liabilities. From time to time management manages this mismatch by setting guidelines and limits for anticipated liquidity gaps. The Board sets limits on the minimum proportion of maturing funds available to meet any calls. The Group has significant liquid resources to cover its obligations.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.5 Liquidity Risk Management (Continued)
Maturity profiles (Continued)

	Up to 1 month K'000	1 – 3 month K'000	3 – 12 months K'000	Over 1 year K'000	Total K'000	Carrying amount K'000
2020						
Assets						
Cash and cash equivalents	76 655 978	-	-	-	76 655 978	76 655 978
Government securities	1 693 349	2 268 894	16 350 487	227 914 447	248 227 177	248 227 177
Placements with other banks	5 666 932	6 151 398	-	-	11 818 330	11 818 330
Loans and advances to customers	5 760 087	2 465 161	26 364 833	46 598 761	81 188 842	59 034 722
Other receivables	193 803	76 132 000	316 029	-	76 641 832	76 641 832
Outstanding Premiums	1 598 705	1 454 527	3 380 855	46 692	6 480 779	6 124 512
Investment in equity shares	-	-	-	163 956 274	163 956 274	163 956 274
Loans and debentures	-	-	7 001 221	7 070 000	14 071 221	14 071 221
Total assets	91 568 854	88 471 980	53 413 425	445 586 174	679 040 433	656 530 046
Liabilities						
Trade and other payables	34 743 841	64 335 888	3 755 536	684 618	103 519 883	103 519 883
Deposits to customers	81 069 191	70 963 085	1 135 387	1 349 629	154 517 292	153 146 418
Insurance contract payables	2 497 243	3 814 962	9 737 969	2 021 071	18 071 245	17 151 245
Interest bearing loans and borrowings	-	-	168 708	10 054 644	10 223 352	10 223 352
Long-term policyholders liabilities	-	-	-	327 956 376	327 956 376	327 956 376
Total liabilities	118 310 275	139 113 935	14 797 600	342 066 338	614 286 148	611 997 274
Net liquidity gap	**(26 741 421)**	**(50 641 955)**	**38 615 825**	**103 519 836**	**64 752 285**	-
Cumulative liquidity gap	**(26 741 421)**	**(77 383 376)**	**(38 767 551)**	**64 752 285**		

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43 Risk management (Continued)

43.5 Liquidity Risk Management (Continued)
Maturity profiles (Continued)

	Up to 1 month K'000	1 – 3 month K'000	3 – 12 months K'000	Over 1 year K'000	Total K'000	Carrying amount K'000
2019						
Assets						
Cash and cash equivalents	50 331 795	-	-	-	50 331 795	50 331 795
Government securities	1 331 883	280 034	84 071 564	128 294 275	213 977 756	188 246 880
Placements with other banks	8 035 031	-	-	-	8 035 031	8 035 031
Loans and advances to customers	10 973 949	2 090 477	2 212 138	32 663 578	47 940 142	38 561 505
Other receivables	39 976 590	8 191 043	-	-	48 167 633	48 167 633
Outstanding Premiums	1 428 540	3 253 872	603 386	67 047	5 352 845	5 352 845
Investment in equity shares	-	-	141 031 245	49 700	141 080 945	141 080 945
Loans and debentures	124 901	256 255	10 214 601	12 951 357	23 547 114	23 547 114
Total assets	112 202 689	14 071 681	238 132 934	174 025 957	538 433 261	503 323 748
Liabilities						
Trade and other payables	53 719 492	-	2 924 661	1 429 000	58 073 153	58 073 153
Deposits to customers	80 419 796	39 375 411	1 521 117	82 751	121 399 075	106 886 140
Insurance contract payables	1 191 498	6 063 644	5 245 634	2 306 082	14 806 858	14 806 858
Interest bearing loans and borrowings	-	-	-	10 613 245	10 613 245	10 613 245
Long-term policyholders liabilities	-	-	-	275 770 561	275 770 561	275 770 561
Total liabilities	135 330 786	45 439 055	9 691 412	290 201 639	480 662 892	466 149 957
Net liquidity gap	**(23 128 097)**	**(31 367 374)**	**228 441 522**	**(116 175 682)**	**57 770 369**	
Cumulative liquidity gap	**(23 128 097)**	**(54 495 471)**	**173 946 051**	**57 770 369**		

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.6 Market Risk Management

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

43.6.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Group is exposed to currency risk through transactions denominated in foreign currencies, its foreign investments, and through the foreign exchange trading book of its banking business.

Management of currency risk
The Group ensures that the net exposure is kept to an acceptable level by transacting in foreign currencies at spot rates where necessary to address short term imbalances.

The Group's banking business has a foreign exchange business policy and a foreign exchange risk management policy. The policies have exposure limits, limits for investments, trading limits and levels of authorization of foreign currency transactions. Forex exposure positions are regularly monitored by Treasury department and senior management. The policy for trading book exposure is that the position should be almost square. In the banking book, assets and liabilities mismatch is minimised. Most of the foreign currency borrowings by the Group are hedged by foreign currency loans to customers, to minimize risk exposure.

Currency risk exposure
The Group had the following significant foreign currency denominated monetary assets and liabilities.

Consolidated	**USD K'000**	**GBP K'000**	**EURO K'000**	**ZAR K'000**	**TOTAL K'000**
At 31 December 2020					
Assets					
Balances with correspondent banks	4 157 551	473 241	4 963 695	45 208	9 639 695
Cash balances	56 051	11 986	27 710	20 930	646 677
Loans and advances to customers	1 435 062	-	-	-	1435 062
Other assets	409 646	-	-	-	409 652
Total assets	6 588 310	485 227	4 991 405	66 144	12 131 086

43 Risk management (Continued)

43.6 Market Risk Management (Continued)

43.6.1 Currency risk exposure (Continued)

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000
Liabilities					
Customer deposits	8 669 299	450 641	3 019 622	13 774	12 153 336
Other liabilities	1 235	13 421	476	-	15 132
Total liabilities	8 670 534	464 062	3 020 098	13 774	12 168 468
Net position	(2 082 224)	21 165	11 971 307	52 370	(37 382)

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	(1 000bp)	(2 000bp)	1 000bp	2 000bp
Change in income (K'000)	3 738	7 476	(3 738)	(7 476)
Change in equity (K'000)	2 617	5 233	(2 617)	(5 233)

Group
At 31 December 2019

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000
Assets					
Balances with correspondent banks	2 376 951	467 096	1 331 698	8 604	4184 349
Cash balances	923 900	15 058	68 620	108 582	1 116 160
Loans and advances to customers	1 775 453	130	4 548	-	1 780 131
Outstanding Premiums	2 054 661	-	-	-	2 054 661
Due from Reinsurance Companies	3 145 505	-	-	-	3 145 505
Other assets	1 877 369	-	-	-	1 877 369
Total assets	**12 153 839**	**482 284**	**1 404 866**	**117 186**	**14 158 175**
Liabilities					
Customer deposits	4 176 023	496 530	1 389 193	16 415	6 078 161
Outstanding claims	3 602 377	-	-	-	3 602 377
Due from Reinsurance Companies	1 374 609	-	-	-	1 374 609
Other liabilities	116 104	-	388	17 202	133 694
Total liabilities	9 269 113	496 530	1 389 581	33 617	11 188 841
Net position	2 884 726	(14 246)	15 285	83 569	2 969 334

43 Risk management (Continued)

43.6 Market Risk Management (Continued)

43.6.1 Currency risk (Continued)

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	(1 000bp)	(2 000bp)	(1 000bp)	(2 000bp)
Change in income (K'000)	(296 933)	(593 866)	296 933	593 866
Change in equity (K'000)	(207 853)	(415 706)	207 853	415 706

Management compiled the sensitivity analysis based on the assumption that the market moves in the directions indicated above which are movements that management deems reasonable based on the volatility of the relevant economic climate and the Malawi Kwacha.

Company
At 31 December 2020

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000
Assets					
Balances with banks	371 956	-	-	-	371 956
Total assets	371 956	-	-	-	371 956
Liabilities					
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Net position	371 956	-	-	-	371 956

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	1 000bp	2 000bp	(1 000bp)	(2 000bp)
Change in income (K'000)	37 196	74 391	(37 196)	(74 391)
Change in equity (MK'000)	26 037	52 074	(26 037)	(52 074)

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43 Risk management (Continued)
43.6 Market Risk Management (Continued)

43.6.1 Currency risk (Continued)

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000
At 31 December 2019					
Assets					
Balances with banks	266 510	-	-	-	266 510
Total assets	266 510	-	-	-	266 510
Liabilities					
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Net position	266 510	-	-	-	266 510

Sensitivity to projected profit on foreign exchange transactions

Movement in foreign currency rates	(1 000bp)	(2 000bp)	(1 000bp)	(2 000bp)
Change in income (K'000)	26 651	53 302	(26 651)	(53 302)
Change in equity (MK'000)	18 656	37 311	(18 656)	(37 311)

43.6.2 Other price risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Group is exposed to price risk as it maintains equity shares traded on the Malawi Stock Exchange and Zambia Stock Exchange.

Management of other price risk

The Group manages price risk by constructing a diversified portfolio of equity shares. The Group will therefore ensure that its portfolio is well diversified so as to minimise any risk of loss resulting from a concentration of investments in one asset, asset class or sector. Although price risk specific to a stock can be minimized through diversification, market risk cannot be diversified away.

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For the year ended 31 December 2020

43 Risk management (Continued)
43.6 Market Risk Management (Continued)

43.6.2 Other price risk (Continued)

Exposure to equity price risk

As at 31 December 2020 the Group had the following financial assets that are exposed to equity risk.

	2020 K'000	2019 K'000
Financial assets		
Blantyre Hotels plc	3 750 814	3 753 713
Standard Bank Malawi plc	48 844 439	34 079 320
Airtel Malawi plc	3 923 076	-
Illovo Sugar Malawi plc	64 258	122 160
Press Corporation plc	8 328 229	8 904 000
Old Mutual plc	2 039 381	2 317 491
Quilter plc	-	362 150
National Bank of Malawi plc	20 363 850	16 407 300
National Investment Trust plc	799 574	706 080
FMB Capital Holdings plc	135 147	3 169 716
Telekom Networks Malawi plc	17 353 511	19 745 214
Mpico plc	946 848	880 569
Airtel Networks Zambia plc	13 452	20 698
ICON Properties plc	2 189 824	43 982 768
NICO Holdings plc (held by Administration Fund)	51 397 005	2 042 011
NBS Bank plc	400 399	250 250
Nedbank Group Limited	-	234 701
Total listed shares	160 549 807	136 978 141

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43 Risk management (Continued)
43.6 Market Risk Management (Continued)

43.6.2 Other price risk (Continued)

Equity price sensitivity analysis

A sensitivity analysis in relation to the exposure for a plus or minus 10% movement in price will be as follows:

	2020 K'000	2019 K'000
Increase/decrease in equity	16 054 981	13 697 814
Increase/decrease in profit or loss	16 054 981	13 697 814

The movement used in the sensitivity analysis is based on a history of price movements on the various counters over the past year with current months receiving more weight.

Management also consider the current and projected performance of individual counters in line with market conditions.

43.6.3 Interest rate risk management

The Group holds significant interest-bearing financial assets and is therefore subjected to significant exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the Group are invested in short-term repurchase agreements with maturity of up to one month.

The Group's interest rate risk is managed on a daily basis by the Asset Manager in accordance with policies and procedures set up by the Board. The Group's overall interest rate risks are monitored on a quarterly basis by the Board of Directors. Where the interest rate risks are not in accordance with the investment policy or guidelines of the Group, the Asset Manager will rebalance the portfolio.

Notes to the Financial Satements
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43 Risk management (Continued)
43.6 Market Risk Management (Continued)
43.6.3 Interest rate risk management (Continued)
Exposure to interest rate risk (Continued)

The following table details the Group's exposure to interest rate risks. It includes the Group's assets and trading liabilities sensitive to interest rates at fair values, categorised by the earlier of contractual pricing or maturity date, measured by carrying value of the assets and liabilities:

	Less than 1 month K'000	1 – 3 month K'000	3 months above K'000	Non-interest bearing K'000	Total K'000	Carrying amount K'000
31 December 2020						
Financial assets						
Cash and cash equivalents	76 024 862	631 116	-	-	76 655 978	76 655 978
Short-term investments	-	1 295	105 080 140	-	105 081 435	105 081 435
Placements with other banks	-	-	11 818 330	-	11 818 330	11 818 330
Loans and advances to Customers	5 760 087	2 465 161	50 809 474	-	59 034 722	59 034 722
Other receivables	3 536 407	6 566 924	49 786 849	16 751 652	76 641 832	76 641 832
Insurance receivables	-	-	-	20 694 940	20 694 940	20 694 940
Government securities	408 000	9 937 000	132 800 742	-	143 145 742	143 145 742
Investment in equity shares	-	-	-	163 956 214	163 956 214	163 956 214
Loans and debentures	-	-	14 071 221	-	14 071 221	1163 956 274
Total assets	85 729 356	19 601 496	364 366 756	201 402 866	671 100 474	671 100 474
31 December 2020						
Financial liabilities						
Trade and other payables	40 999 228	19 686 029	27 084 065	15 750 561	103 519 883	103 519 883
Deposits and customer accounts	-	151 996 305	2 485 016	-	154 481 321	153 146 418
Insurance Payables	-	-	-	18 071 245	18 071 245	17 151 245
Interest bearing loans and borrowings	-	-	10 223 352	-	10 223 352	10 223 352
Long-term policyholders liabilities	-	-	255 353 128	72 603 248	327 956 376	327 956 376
Total financial liabilities	40 999 228	171 682 334	295 145 561	106 425 054	614 252 177	611 997 274
Interest sensitivity gap	44 730 128	(152 080 838)	69 221 195	94 977 812	56 848 297	59 103 200

Notes to the Financial Satements
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43 Risk management (Continued)
43.6 Market Risk Management (Continued)
43.6.3 Interest rate risk management (Continued)
Exposure to interest rate risk (Continued)

	Less than 1 month K'000	1 – 3 month K'000	3 months above K'000	Non-interest bearing K'000	Total K'000	Carrying amount K'000
31 December 2019						
Financial assets						
Cash and cash equivalents	50 326 257	5 538	-	-	50 331 795	50 331 795
Short-term investments	-	1 602 205	82 482 784	49 700	84 134 689	84 134 689
Placements with other banks	8 035 031	-	-	-	8 035 031	8 035 031
Loans and advances to customers	34 950 708	1 116 511	5 972 147	-	42 039 366	38 561 505
Other receivables	39 688 766	-	-	8 478 867	48 167 633	48 167 633
Insurance receivables	-	-	-	16 693 727	16 693 727	16 693 727
Government securities	-	46 044 000	59 751 981	-	105 795 981	105 795 981
Investment in equity shares	-	-	-	141 080 945	141 080 945	141 080 945
Loans and debentures	-	-	23 547 114	-	23 547 114	23 547 114
Total assets	133 000 762	48 768 254	171 754 026	166 303 239	519 826 281	516 348 420
Financial liabilities						
Trade and other payables	39 268 668	-	-	18 804 485	58 073 153	58 073 153
Deposits and customer accounts	-	119 218 063	1 533 682	-	120 751 745	106 886 140
Insurance Payables	-	-	-	14 806 858	14 806 858	14 806 858
Interest bearing loans and borrowings	-	-	10 613 245	-	10 613 245	10 613 245
Long-term policyholders liabilities	-	-	-	214 990 307	214 990 307	275 770 561
Total financial liabilities	39 268 668	119 218 063	12 146 927	248 601 650	419 235 308	466 149 957
Interest sensitivity gap	93 732 094	(70 449 809)	159 607 099	(82 298 411)	100 590 973	50 198 463

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)
43.6 Market Risk Management (Continued)

	Less than 1 month K'000	1 - 3 month K'000	3 months above K'000	Non-interest bearing K'000	Total K'000
Company					
31 December 2020					
Financial assets					
Cash and cash equivalents	4 737 827	-	-	-	4 737 827
Amount due from group companies	-	-	-	51 089	51 089
Other receivables	-	-	-	157 173	157 173
Total financial assets	4 737 827	-	-	208 262	4 946 089
Financial liabilities					
Trade and other payables	-	-	-	913 436	913 436
Amounts due to Group companies	-	-	-	-	-
Interest bearing loans and Borrowings	-	-	2 750 000	-	2 750 000
Total financial liabilities	-	-	2 750 000	913 436	3 663 436
Interest sensitivity gap	**4 737 827**	**-**	**(2 750 000)**	**(705 174)**	**1 282 653**
31 December 2019					
Financial assets					
Cash and cash equivalents	2 551 121	-	-	-	2 551 121
Amount due from group companies	-	-	-	118 092	118 092
Other receivables	-	-	-	96 005	96 005
Total financial assets	2 551 121	-	-	214 097	2 765 218
Financial liabilities					
Trade and other payables	-	-	-	425 972	425 972
Amounts due to Group companies	-	-	-	-	-
Interest bearing loans and Borrowings	-	-	2 750 000	-	2 750 000
Total financial liabilities	-	-	2 750 000	425 972	3 175 972
Interest sensitivity gap	**2 551 121**	**-**	**(2 750 000)**	**(211 875)**	**(410 754)**

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.7 Accounting classifications and fair values

Fair value hierarchy

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 below under the heading Level 3. For financial assets that are traded 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 i.e. as process or indirectly i.e. derived from 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.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.7 Accounting classifications and fair values (Continued)

	Note	Financial instruments designated at FVTPL	Financial instruments designated at FVTOCI	Total	Fair value		
					Level 1	Level 3	Total
	K'000	K'000	K'000	K'000	K'000	K'000	
Group							
2019							
Deposit administration	43.9.9	255 353 128	-	255 353 128	-	255 353 128	255 353 128
Shares	18	160 549 807	3 406 467	163 956 274	160 549 807	3 406 467	163 956 274
Total		415 902 935	3 406 467	419 309 402	160 549 807	258 759 595	419 309 402
2019							
Deposit administration	43.9.9	214 990 307	-	214 990 307	-	214 990 307	214 990 307
Shares	18	139 560 458	1 520 487	141 080 945	136 978 141	4 102 804	141 080 945
Total		354 550 765	1 520 487	356 071 252	136 978 141	219 093 111	356 071 252

	Note	Financial instruments designated at FVTOCI	Financial instruments designated at FVTPL	FVTPL	Total	Fair value			
						Level 1	Level 2	Level 3	Total
		K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
2020									
Shares	18	-	1 709 767	-	1 709 767	-	-	1 709 767	1 709 767
Total		-	1 709 767	-	1 709 767	-	-	1 709 767	1 709 767
2019									
Shares	18	-	1 520 487	-	1 520 487	-	-	1 520 487	1 520 487
Total		-	1 520 487	-	1 520 487	-	-	1 520 487	1 520 487

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.7 Accounting classifications and fair values (Continued)

Measurement of fair values

The following table shows the valuation techniques used in measuring level 3 fair values as well as the significant unobservable inputs used.

Financial instruments measured at fair value.

Type	Valuation technique	Significant unobservable inputs
Unlisted equity securities	Government Treasury notes	Refer to Note 18
Refer to note 17	Refer to Note 18	Refer to note 17

Financial instruments not measured at fair value

The following table provides the categories of financial instruments. It does not provide fair value information where the carrying amounts approximate their fair values.

	Note	Fair value through profit or loss K'000	Fair value through other comprehensive income K'000	Amortised cost K'000	Total carrying amount K'000
31 December 2020					
Cash and cash equivalents	5	-	-	76 655 978	76 655 978
Short-term investments	6	-	-	105 081 435	105 081 435
Placements with other banks	6(b)	-	-	11 818 330	11 818 330
Loans and advances to customers	7	-	-	59 034 722	59 034 722
Other receivables	10	-	-	76 641 832	76 641 832
Insurance receivables	11	-	-	20 694 940	20 694 940
Government securities	17	137 121 284	-	110 827 731	247 949 015
Shares	18(a)	160 549 807	3 406 467	-	163 956 274
Financial liabilities					
Trade and other payables	24	-	-	103 519 883	103 519 883
Deposits and customer accounts	25	-	-	153 146 418	153 146 418
Insurance contract payables	26	-	-	17 151 245	17 151 245
Interest bearing loans and borrowings	28	-	-	10 223 352	10 223 352
Long-term policyholders liabilities	43.9.9	289 249 763	-	38 706 613	327 956 376

*Other receivables excludes prepayments amounting to K7.5 billion.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.7 Accounting classifications and fair values (Continued)
Financial instruments not measured at fair value (Continued)

	Note	Fair value through profit or loss K'000	Fair value through other comprehensive income K'000	Amortised cost K'000	Total carrying amount K'000
December 2019					
Cash and cash equivalents	5	-	-	50 331 795	50 331 795
Short-term investments	6	-	-	1 683 790	1 683 790
Placements with other banks	6(b)	-	-	8 035 031	8 035 031
Loans and advances to customers	7	-	-	38 561 505	38 561 505
Other receivables	10	-	-	40 679 971	40 679 971
Insurance receivables	11	-	-	16 693 727	16 693 727
Government securities	17	103 967 953	-	84 278 927	188 246 880
Shares	18(a)	139 560 458	1 520 487	-	141 080 945
Financial liabilities					
Trade and other payables	24	-	-	58 073 153	58 073 153
Deposits and customer accounts	25	-	-	106 886 140	106 886 140
Insurance contract payables	26	-	-	14 806 858	14 806 858
Interest bearing loans and borrowings	28	-	-	10 613 245	10 613 245
Long-term policyholders liabilities	43.9.9	214 990 307	-	60 780 254	275 770 561

43.8 Other Risk Management

43.8.1 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 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 and are faced by all business entities.

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 to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group's standards for the management of operational risk in the following areas:

43 Risk management (Continued)

43.8 Other Risk Management (Continued)

43.8.1 Operational risks (Continued)

- Requirement for appropriate segregation of duties, including independent authorisation of transactions designed to ensure the correctness, completeness and validity of all transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

43.8.2 Risk management objectives and mitigating insurance risk

The primary insurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Group also has exposure to market risk through its insurance and investment activities.

The Group manages its insurance risk through underwriting limits; approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses and scenario analyses.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

43.8.3 Underwriting strategy

The underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. Most general insurance contracts are

43 Risk management (Continued)

43.8 Other Risk Management (Continued)

43.8.3 Underwriting strategy (Continued)

annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal. The Group has the right to re-price and change the risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Only extensive expertise, well maintained data resources, and selective underwriting based on this information can produce risk adequate prices and conditions. Through selective underwriting, client focused claims handling and good reserving methods, the Group endeavours to minimise risks.

43.8.4 Reinsurance strategy

The Group obtains reinsurance cover to reduce risks from single events or accumulation of risk that could have a significant impact on the current year earnings or the Group's capital. This cover is placed on the local and international reinsurance market. The Group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programme and the net exposure of the Group.

The core components of the reinsurance programme comprise:

- A surplus treaty which covers fire, accident, engineering and marine risks. The cover ranges from material damage and business interruption arising from fire and allied perils and any other physical accidental loss (All risks policies).
- An excess of loss cover for fire, accident, engineering and marine. It also includes all risks policies, and catastrophe, which provides protection to limit losses on each and every loss and every risk or series of losses or occurrence of one event.
- A motor, accident and liabilities excess of loss which covers motor (own damage and property damage and third liabilities arising there from), and general public and products liability, miscellaneous accident, fidelity guarantee and professional indemnity cases.
- A bonds and guarantees quota share treaty covering performance, advance payment, maintenance, bid, customs and transit bonds.

43.8.5 Reinsurance risk

The Group cedes insurance risk to limit exposure to underwriting losses under various agreements. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Group's evaluation of the specified risk, subject in certain circumstances to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the re-insurer agrees to reimburse the ceded proportion in the event the claim is paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any re-insurer fails to meet the obligations it assumes.

Notes to the Financial Satements

For the year ended 31 December 2020

43 Risk management (Continued)

43.8 Other Risk Management (Continued)

43.8.6 Claims development

The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to pre-determined time scales dependent on the nature of the insurance contract. The Group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims (run-off risk). To manage run-off risk the Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices.

Consequently, the Group has a history of positive claims development, i.e. the reserves created over time proved to be sufficient to fund the actual claims paid.

43.8.7 Concentration of insurance risks and policies mitigating the concentrations

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's resources. The Group monitors the concentration of risk by geographical segment and class of business.

The Group has exposure to all major lines of insurance business with very limited exposure to specialised areas of insurance. This exposure is consistent with the market and the Group's reinsurance policy limits the losses in any one class of business.

43.9 Long term insurance risks

The primary insurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to life, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Group also has exposure to market risk through its insurance and investment activities.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses and scenario analyses.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Notes to the Financial Satements

For the year ended 31 December 2020

43 Risk management (Continued)

43.9 Long term insurance risks (Continued)

43.9.1 Underwriting strategy

The underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

43.9.2 Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. It buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

43.9.2 Reinsurance risk

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

43.9.3 Long-term insurance contracts – Immediate annuities

This type of annuity is purchased with a single premium at outset and is paid to the policyholder for the remainder of his/her lifetime. Annuities may be level, or escalate at a fixed rate, or be in line with a suitable price index.

Payments are often guaranteed to be paid for a minimum term regardless of survival (e.g. 5 or 10 years).

Profit arises when mortality and investment experience are better than expected. All risks and rewards associated with this type of product accrue to shareholders.

Management of risks: The main risks associated with this product are longevity and investment risks. Longevity risks arise as the annuities are paid for the lifetime of the policyholder, and this risk is managed through the initial pricing of the annuity. Investment risk depends on the extent to which the annuity payments under the contracts have been matched by suitable assets.

The key risks are managed through sensible pricing and product design. Reinsurance underwriting is not used for this product.

Mortality risk: The pricing assumption is based on both historic in-house and industry available information on mortality experience for the population of policyholders including allowance for future mortality improvements. The mortality will differ between the retirement, voluntary and joint life annuitant.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.9 Long term insurance risks (Continued)
43.9.3 Long-term insurance contracts – Immediate annuities (Continued)

Investment risk: With this type of product the lump sum premium is available for the Group to invest at the start of the contract. The asset mix will consist of corporate bonds and gilts with varying redemption dates. The income earned on the investment will not usually be sufficient to cover the annuity and the expense outgo, so each year part of the lump sum will be disinvested, which should coincide with (match) the redemption dates, in order to balance the fund. If annuitants die as expected then the fund will decline to zero just as the last annuitant dies (perfect matching). However, in most cases annuitants will not die as expected therefore the Group will need to buy and sell assets as necessary throughout the term of the policy to minimise the risk of mismatch.

Asset/liability modelling is used to monitor this position on a regular basis. Details of default risk have been covered under the credit risk section.

43.9.4 Long-Term Insurance Contracts – Individual Life

The Group writes individual life business. The policies are designed so as to distribute benefits to the policyholder.

Management of Risk

The Group uses properly developed rates as far as advised by the Actuary on life cover, and in the event of death covers, reinsurance arrangements are in place to protect the Group.

43.9.5 Short-term Insurance – Group Life

The Group writes short-term Group life business. The policies are designed to indemnify the insured in the event of death.

Management of Risk

The Group uses rates that take cognisance of the mortality/claims experience of the Group as well as the market. Reinsurance arrangements are also in place to protect the Group on large claims.

43.9.6 Concentration of risk

The Group's risk analysis is largely driven by the classes of business written;

Business Class	Risk Rating
Immediate Annuity	High
Group Life	High
Individual Life	Medium
Deposit Admin	Low

Notes to the Financial Satements
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43 Risk management (Continued)

43.9 Long term insurance risks (Continued)

43.9.7 Major assumptions

General Investment Return Estimated at 20% net of tax.

Other

	Individual Life	Annuities	Credit Life
Mortality	100% of SA85-90 Heavy	100% of a (55)	35% of gross earned premium
AIDS	100% HA2M/HA2F	N/A	N/A
Expenses/policy	- Maintenance K18 878 per policy. - Acquisition K32 678 - per policy.	Maintenance K40 000 per policy per annum. - Acquisition K34 523 per policy.	8.25% of Gross Earned Premium
IBNR	N/A	N/A	Retrospective reserve 2 months premium.

Sensitivity Analysis

The Group is sensitive to the following factors:

Mortality

- Mortality experience on risk business increased by a margin of 7.5%.
- A decrease of 1% in mortality rate as at the reporting date would have increased profit attributable to shareholders by 1% while an increase of 1% in mortality rate would have had an equal but opposite effect.

AIDS

Currently the industry has not been significantly affected by the impact of AIDS. With free cover limits closely monitored the Group has been able to operate profitably. However, a major increase in the AIDS statistics by at least 5%, is likely to impact negatively on the business. Decline in the AIDS statistics is unlikely to cause significant change in the results.

Expenses

The unit acquisition and maintenance costs assumptions were reviewed to reflect the actual expenses incurred and the file size as at December, 2020. The Group business maintenance expense margin was in the December 2019 valuation was decreased from 16% to 13% for all lines of Group business to take credit for the better than assumed experience observed.

43 Risk management (Continued)

43.9 Long term insurance risks (Continued)
43.9.7 Major assumptions (Continued)

Interest rates
The Group is highly vulnerable to interest rates fluctuations. However, the risk is heavily mitigated by the diversity of the Group's investment portfolio. Hence it does not pose a significant risk.

Claims build-up
The Group does not maintain claims outstanding for a period of over 12 months.

43.9.8 Long term policyholders' funds and technical reserves

The policyholders' funds have been valued as at 31 December 2020 by an appointed statutory actuary, Edwin Splinter (FASSA) on behalf of the Directors. The Financial Soundness Valuation Model Method has been used; this is a gross premium method of valuation. Reserves for the Deposit Administration business have been set equal to the value of the investment account. Group Life business which constitutes a small portion of reserves, carries an Unearned Premium Reserve (UPR) of K151 million (2019: K141 million), an Incurred But Not Reported (IBNR) reserve of K1 205 million (2019: K562 million) disclosed under insurance contracts (Group life) and a data reserves of Knil (2019: K97 million). The balance of the liabilities has been based on projected cash flows taking into account expected mortality, expenses, market related investment returns, bonuses to be granted to policyholders' and current reinsurance arrangements.

a. The position of the fund as at 31 December 2020 (after allocation of surplus) is as follows:

Summary of long-term policyholders' liabilities

	Group	
	2020 K'000	2019 K'000
Insurance contracts	38 706 613	33 526 449
Investment contract	255 353 128	214 990 307
Technical reserves	33 896 635	27 253 805
	327 956 376	275 770 561

The details are shown in the subsequent workings.

Notes to the Financial Satements
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43 Risk management (Continued)

43.9 Long term insurance risks (Continued)
43.9.8 Long term policyholders' funds and technical reserves (Continued)

Summary of long-term policyholders' liabilities (Continued)

	Group	
	2020 K'000	2019 K'000
i. Insurance contracts		
Individual life	24 664 493	20 848 914
Group life	1 356 657	703 339
Annuities	12 685 463	11 974 196
Total	38 706 613	33 526 449
ii. Investment contracts		
Deposits administration	255 353 128	214 990 307
Total policyholders liabilities		
Insurance contracts	38 706 613	33 526 449
Investment contracts	255 353 128	214 990 307
Total long term policyholders' funds	294 059 741	248 516 756

iii. Technical reserves
Additional reserves were held as follows:

- Investment reserves on Non-participating Annuity business for the risk of future reductions in the yield curve.
- Unallocated reserves relates to bonus stabilisation reserve for the participating products and shareholder discretionary reserves. This is created to cushion future adverse investment performance.

Notes to the Financial Satements
For the year ended 31 December 2020

43 Risk management (Continued)

43.9 Long term insurance risks (Continued)
43.9.8 Long term policyholders' funds and technical reserves (Continued)
iii. Technical reserves (Continued)

	Group	
	2020 K'000	**2019 K'000**
Annuity mismatch	-	1 078 794
Data reserves	611 000	707 844
Investment reserves	3 698 000	-
Unallocated reserves	29 588 000	25 467 167
	33 897 000	27 253 805
b)(i) Movements during the year		
At the beginning of the year	248 516 756	203 123 413
Transfer to policyholder	52 185 816	48 542 864
Transfer to technical reserves	(6 642 830)	(3 149 521)
At the beginning of the year	294 059 742	248 516 756

The contributions and related investment income are transferred to the policyholders' account by debiting profit or loss and crediting the reserve.

	Group	
	2020 K'000	**2019 K'000**
ii) Technical reserves		
At the beginning of the year	27 253 805	24 104 284
Transfer from long term policyholders' funds	6 642 830	3 149 521
At the end of the year	33 896 635	27 253 805

A final posting of transfer to reserves is carried out upon considering actual liability determined by the company and as assessed by the actuary.

44. Operating segments

Segment results that are reported to the Group's CEO (being the Chief Operating Decision Maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax assets and liabilities.

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44 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Executive Committee to make decisions about resource allocation to the segment and assess its performance and for which discrete information is available.

Inter-segment pricing is determined on an arms' length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Reportable segments
The Group comprises the following main reportable segments:

- Life Insurance and Pension business;
- General Insurance business;
- Banking business;
- Investment Holding;
- Asset Management; and
- Information Technology.

General Insurance segment operate in Malawi, Zambia, Tanzania, and Uganda.

Investment Holding, Life Insurance and Pension segments operate in Malawi and Mozambique. Information Technology, Asset Management and Banking segments are only operated in Malawi.

The Banking sector monitors concentration of credit risk by sector and by geographic location

Concentration by Sector
- Retail
- Corporate
- Banks

Concentration by location
- Northern Region
- Central Region
- Southern Region

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44 Operating segments (Continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Long Term Insurance & Pension		Short term insurance		Banking		Investment		Asset management		Information technology		Eliminated on consolidation		Total	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Gross revenue	97 591 670	84 373 386	35 888 612	35 659 668	47 078 781	34 447 889	7 318 505	5 082 064	10 703 293	8 468 717	1 374 850	981 407	(14 191 474)	(12 330 052)	185 764 237	156 683 079
Profit Before Tax	12 236 243	9 720 773	1 769 725	3 029 182	9 974 719	6 868 367	4 664 052	3 286 501	2 973 026	2 094 383	90 047	87 340	(5 239 727)	(3 596 000)	26 468 085	21 490 546
Profit after Tax	9 272 275	7 227 910	1 082 651	2 111 727	7 049 751	4 457 610	4 291 207	3 057 073	2 081 193	1 416 801	58 371	54 701	(5 239 727)	(3 596 000)	18 595 721	14 729 822
Other Information																
Segment Assets	364 603 383	308 984 468	39 130 032	34 848 110	219 093 201	158 754 972	16 478 595	13 654 939	67 349 544	42 260 780	1 170 225	543 353	(6 480 330)	(19 400 757)	701 344 650	539 645 865
Segment Liabilities	328 880 284	279 899 209	29 961 614	25 184 412	199 165 381	143 411 878	3 273 211	3 131 264	65 667 761	40 710 191	843 315	274 803	1 634 161	(11 453 973)	629 425 727	481 157 784
Capital Expenditure	2 450 121	270 285	115 832	534 938	3 855 099	2 714 007	36 158	49 232	86 116	58 786	907 815	43 788	-	-	7 451 141	3 671 036
Segment Cashflows																
From Operating Activities	13 462 749	61 945 967	320 807	2 163 343	46 269 904	(19 448 765)	(740 257)	(482 922)	(5 675 508)	(1 425 431)	775 868	(6 859)	14 380 967	(9 167 250)	68 794 530	33 578 083
From Investing Activities	(7 132 915)	(38 266 671)	(656 036)	3 316 918	(30 721 457)	(2 416 657)	5 344 479	4 274 439	5 918 018	3 184 589	(906 860)	(30 645)	(6 163 903)	(4 269 347)	(34 418 674)	(34 207 374)
From Financing Activities	(2 167 913)	(4 592 294)	(1 570 230)	(1 230 687)	(5 465 745)	6 914 142	(1 942 232)	(3 329 862)	(1 964 510)	(754 356)	(7 220)	(7 260)	5 072 021	3 596 000	(8 045 829)	595 683

Notes to the Financial Satements
For the year ended 31 December 2020

44 Operating segments (Continued)

GEOGRAPHICAL SEGMENTS	Malawi 2020 K'000	Malawi 2019 K'000	Zambia 2020 K'000	Zambia 2019 K'000	Eliminated 2020 K'000	Eliminated 2019 K'000	Total 2020 K'000	Total 2019 K'000
Gross revenue	186 371 858	154 386 238	13 583 853	14 626 893	(14 191 474)	(12 330 052)	185 764 237	156 683 079
Profit Before Tax	32 429 537	24 624 540	(721 725)	462 006	(5 239 727)	(3 596 000)	26 468 085	21 590 546
Profit after Tax	24 484 026	18 039 128	(648 578)	286 694	(5 239 727)	(3 596 000)	18 595 721	14 729 822
Other Information								
Segment Assets	697 797 872	548 237 661	10 027 008	10 808 961	(6 480 330)	(19 400 757)	701 344 650	539 645 865
Segment Liabilities	618 523 026	483 751 653	9 268 540	8 860 104	1 634 161	(11 453 973)	629 425 727	481 157 784
Capital Expenditure	7 401 256	3 191 582	49 885	479 454	-	-	7 451 141	3 671 036
Segment Cashflows								
From Operating Activities	54 322 568	42 377 721	90 995	367 612	14 380 967	(9 167 250)	68 794 530	33 578 083
From Investing Activities	(28 424 711)	(29 629 878)	269 940	(308 149)	(6 163 903)	(4 269 347)	(34 318 674)	(34 207 374)
From Financing Activities	(12 835 796)	(2 819 630)	(282 054)	(180 687)	5 072 021	3 596 000	(8 045 829)	595 683

The Group did not earn revenues from a single customer that was ten percent or more of Group's total revenues.

Notes to the Financial Satements
For the year ended 31 December 2020

	Group 2020 K'000	Group 2019 K'000	Company 2020 K'000	Company 2019 K'000
45. Employee benefits liabilities				
Expense recognised in the profit or loss				
Pension costs	1 055 341	982 499	74 711	58 826

The Pension Fund is a defined contribution plan. Under this plan, employer's liability is limited to the pension contributions.

Employee Share Ownership Scheme

On 16 August 1996, the shareholders approved establishment of a Trust for an employee share ownership scheme. In terms of Malawi Stock Exchange rules, a maximum of up to 4% of the equity in the company may be held by the Trust. However, upon listing, arrangements were made for the Trust to acquire 2% of the equity. Options have been granted to employees of the Group based on length of service and positions of employees exercisable at a determined price. Option holders are only entitled to exercise their options if they are in the employment of the NICO Group and in accordance with the trust deed and rules. Employees are eligible if they have served for at least two years and occupy an established position in the Group.

The objective of the scheme is to motivate and encourage employees to identify themselves with the interests and aspirations of the NICO Group.

The periods in which the option shares may be acquired up to the maximum percentage specified after the expiry of minimum period computed from the date of grant and set out against the relevant percentages.

Maximum %	Minimum Period
25%	12 months
50%	24 months
75%	36 months
100%	48 months

No Shares were allotted during both current and prior years.

46 Contingent liabilities and commitments

a. Capital commitments

As at 31 December 2020, there were no contracted but not yet incurred capital commitments. The authorised but not yet contracted for commitments as at 31 December 2020 were K16.2 billion (2019: K7.6 billion). These commitments are to be funded from internal resources.

b. Contingent liabilities

The Group is a defendant to several cases which are outstanding. The cases include those relating to tax claims and claims from civil proceedings which are in courts. While liability is not admitted, if the defense against the actions is unsuccessful, then the Group would pay the claims estimated at K4.5 billion (2019: K5 billion). Included in the K5 billion is a case of K3.5 billion which the group won in 2019 and is now subject of an appeal. The outcome of these cases are subject of the determination by the courts.

47 Events after the reporting period

Effective 1 January 2021, Nico Life Insurance Company Limited transferred its stake in Nico Pension Services Limited to NICO Holdings plc and Sanlam Emerging Markets (Pty) Limited in the ratios of 51% and 49% respectively. NICO Holdings plc acquired direct control of NICO Pensions Services Limited and as a result, NICO Pensions Services Limited will be directly consolidated in NICO Holdings plc.

48. Exchange and inflation rates

The average of selling and buying exchange rates at year end of major foreign currencies affecting the performance of the group and company are stated below, together with the increase in the National Consumer Price Index which represents an official measure of inflation.

	Group	
	2020	**2019**
United States Dollar (USD) to Malawian Kwacha (MWK)	772.3	737.6
United States Dollar (USD) to Zambian Kwacha (ZMW)	42.3	13.8
United States Dollar (USD) to Ugandan Shilling (USH)	3 645	3 665
United States Dollar (USD) to Tanzanian (TSH)	2 319	2 298
United States Dollar (USD) to Mozambique Metical (MT)	73.6	62.3
South Africa Rand (ZAR) to Malawian Kwacha (MK)	56.4	52.7
British Pound (GBP) to Malawian Kwacha (MK)	1 101.4	967.8
Inflation rates as at 31 December (%)	7.6	10.4

As at 14 April 2020 the above noted exchange and inflation rates had moved as follows:

United States Dollar (USD) to Malawian Kwacha (MWK)	785.2
United States Dollar (USD) to Zambian Kwacha (ZMW)	22.2
United States Dollar (USD) to Ugandan Shilling (USH)	3 620
United States Dollar (USD) to Tanzanian (TSH)	2 319
United States Dollar (USD) to Mozambique Metical (MT)	56.1
South Africa Rand (ZAR) to Malawian Kwacha (MK)	1 130.7
British Pound (GBP) to Malawian Kwacha (MK)	
Inflation (February 2020)	8.3%

YEARS ANNIVERSARY

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NICO

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