ONE NICO

it's clear

...that NICO has the knowledge and expertise to help you achieve your goals.

2022 ANNUAL REPORT

NICO

CONTENTS

KEY FINANCIAL HIGHLIGHTS

27% REVENUE **MK304.4 Billion**

105% PROFIT AFTER TAX **MK37.6 Billion**

23% TOTAL ASSETS **MK1.2 Trillion**

33.5% RETURN ON EQUITY

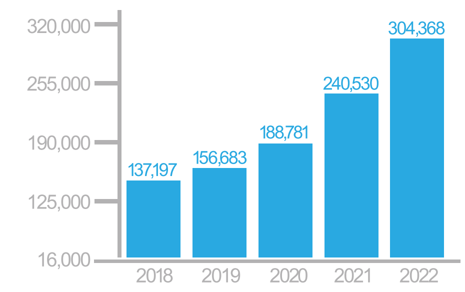
85% DIVIDENDS DECLARED AND PROPOSED **MK63 Billion**

105% EARNINGS PER SHARE **MK19.10**

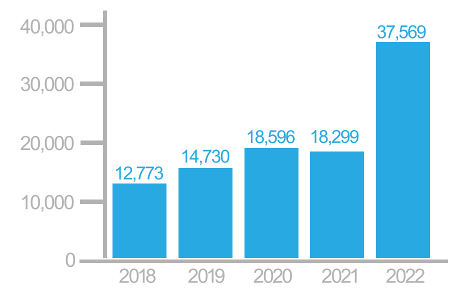
	2018	2019	2020	2021	2022
Gross Revenue (MK'million)	137,197	156,683	188,781	240,530	304,368
Profit Before Tax (MK'million)	16,076	21,491	26,468	26,879	49,698
Profit After Tax (MK'million)	12,774	14,730	18,596	18,299	37,569
Profit After Tax Attributable to Owners of the Parent Company (MK'million)	6,510	8,011	10,004	9,736	19,925
Earnings Per Share (Tambala)	624	768	959	933	1,910
Dividend Declared and Proposed (MK'million)	1,773	1,982	2,399	3,389	6,258
Dividend Per Share (Tambala)	170	190	230	325	600
Total Assets (MK'million)	443,632	539,646	701,344	939,990	1,151,879
Net Assets Attributable to Owners of the Parent Company (MK'million)	25,749	31,845	39,978	48,248	65,482
Share Price (Tambala)	4,300	4,850	5,200	5,500	6,000
Net Asset Value Per Share (Tambala)	2,469	3,053	3,833	4,626	6,278
Price to Book Value (Times)	2	2	1	1	1
Price Earnings Ratio (Times)	7	6	5	6	3
Market Capitalisation (MK'million)	44,851	50,587	54,238	57,365	62,582
****Dividend paid analysed as follows**					
First Interim Dividend	626	626	699	782	1,043
Special 50th Anniversary Dividend	0	0	0	521	0
Second Interim Dividend	834	887	1,179	1,460	4,172
Final Dividend	313	469	521	626	1,043
TOTAL	**1,773**	**1,982**	**2,399**	**3,389**	**6,258**

KEY FINANCIAL HIGHLIGHTS (continued)

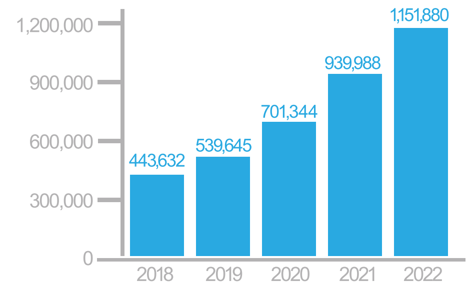
Total Revenue (MK' Million)



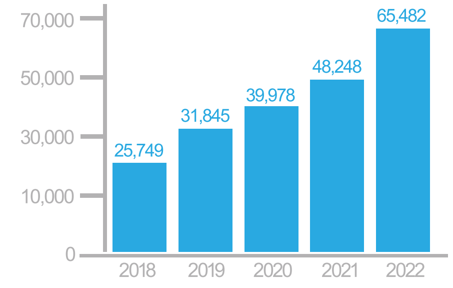
Profit After Tax (MK' Million)



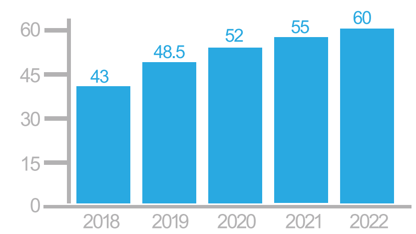
Total Assets (MK' Million)



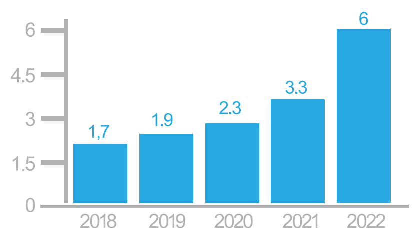
Net Assets Attributable to owners of the parent company (MK' Million)



Share Price (MK)



Dividend Per Share: Net of Tax (MK)



SOME OF OUR KEY MILESTONES

Over 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.

2022

NICO is your dependable one-stop financial services partner

BOARD OF DIRECTORS

MR. GAFFAR HASSAM (46)

Chairman

Mr. Gaffar Hassam is a Regional Executive for Sanlam Pan Africa – Life Insurance. He is responsible for Sanlam's investments in Angola, Ghana, Malawi, Mozambique, Zambia, and Zimbabwe. Previously looked after Botswana and Namibia. He also sits on the Boards of Sanlam investments in the CIMA Region. He has been in the financial services industry for more than 25 years in Director, Executive, and Senior Management roles.

He holds an MBA (Oxford Brookes) and is a Fellow of the Association of Chartered Certified Accountants (FCCA). He has in-depth knowledge and experience in Life and General Insurance, Banking, Micro-lending, and Asset Management.

He has held roles as, Director, CEO, CFO, COO, Company Secretary, Project Management, Strategy Transformation, and Business Integration. The experience also gives him in-depth knowledge of the various countries and cultures. The Board benefits from among other things his leadership and insightful approach to issues before the Board.

MR. VIZENGE KUMWENDA (62)

Group Managing Director

Mr. Vizenge Kumwenda is the 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 some of the Boards of NICO Holdings Plc 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 Ltd. Mr. Kumwenda is a proponent of Servant Leadership. He likes stretching boundaries, challenging the 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 Chartered Accountant and Associate of the Chartered Insurance Institute (UK). He brings to the Board a breadth of experience and expertise in finance and Insurance.

BOARD OF DIRECTORS (continued)

MR. ROBERT SCHARAR (75)

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 Appointments and Remuneration Committee.

Mr. Scharar holds a BSBA (Accounting) from the University of Florida. He received his AA degree from Polk Community College. He has a Master's 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 (79)

Non-executive Director

Mr. Harold Bijoux is a retired short-term insurance manager. He has over 50 years of 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 and GRE Group in Zambia. He has sat on various listed Company Boards in Zimbabwe and Malawi.

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 and Finance Committee bringing an insightful approach to matters brought before the Committee.

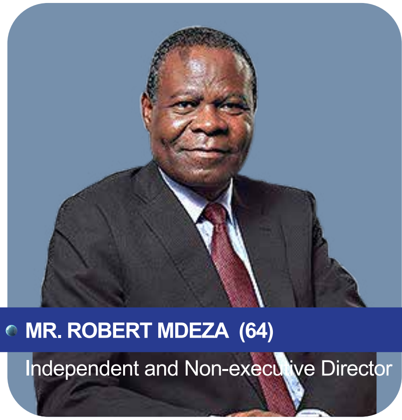
BOARD OF DIRECTORS (continued)

MS. CATHERINE B LESETEDI (56)

Non-executive Director

Ms. Catherine Lesetedi is the 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). Ms. Lesetedi is also an Associate of the Insurance Institute of South Africa.

She brings to the Board expertise in life insurance, finance, and risk management. She is the Chairperson of the Group Risk Committee. Her analytical and objective approach, coupled with her zeal to bring out the best in executives and her entrepreneurial approach to the business, is invaluable to NICO Holdings.



MR. ROBERT MDEZA (64)

Independent and Non-executive Director

Mr. Robert Mdeza holds a Bachelor's Degree in Commerce (Accountancy) and a Diploma in Business Studies from the University of Malawi. He is a fellow of the Association of Chartered Certified Accounts of the United Kingdom and a member of the Institute of Chartered Accountants in Malawi. He holds a Certificate in Training and Development from Abingdon College in the United Kingdom.

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, Mr. Mdeza held various positions in finance rising to the position of General Manager of Finance and Company Secretary for Manica Malawi Limited, Mwaiwathu Private Hospital Limited, and Petroleum Importers Limited. From November 2005 to August 2011. Mr. Mdeza served as General Manager for Petroleum Importers Limited and from September 2011 to February 2017, he served as Chief Executive Officer of National Oil Company of Malawi Limited. He briefly served as the Chief Executive Officer for Lilongwe Handling Company Limited from 1st March to 31st August 2017. Mr. Mdeza has throughout his career served on various Boards. He brings to the Board vast experience in accounting, general management, and leadership.

BOARD OF DIRECTORS (continued)

DR. ELLIAS NGALANDE BANDA (68)

Independent and Non-executive Director

Dr. Ellias Ngalande holds a Ph.D. in Economics and a Master of Arts in Political Economy obtained from Boston University, United States of America (USA). He also holds a master's degree in Development Economics from the University of Strathclyde, Scotland, and earned his bachelor's Degree in Social Science from the University of Malawi, Chancellor College.

Dr. Ngalande started his career as a lecturer at the University of Malawi, Chancellor College before moving to the Ministry of Finance as Secretary to the Treasury, and the Reserve Bank of Malawi as Governor. In July 2006, Dr. Ngalande took up a position as Executive Director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). He completed his tour of duty at MEFMI in June 2014. Later from January 2020 to June 2021, Dr. Ngalande served FDH Bank Plc as its Managing Director.

Dr. Ngalande has a breadth of expertise and experiences relevant to the businesses of the NICO Group. He brings to the Board strong leadership skills and provides insight into Board discussions on matters of economics- critical contributions in the ever-evolving and challenging economic environment.

DR. CANDIDA NAKHUMWA (48)

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 a 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, she joined the Farmers Union of Malawi as a Director of Agribusiness and Marketing, and from June 2014, held the position of Director of Research, Policy, and Partnerships. She held this position until September 2018 when she took up a job as Country Director for the Agriculture Transformation Initiative - the position she holds to date. She is responsible for strategic partnerships with the government, private sector, development partners, academia, farmers, civil society, and other partners - domestic, regional, and international in the agriculture sector. She works closely with these partners to develop structured value chains that will promote transformation and inclusive growth. She has extensive experience in agricultural marketing, agribusiness, policy analysis, and policy advocacy. She brings to the Board skills in management, leadership, and insights into the market economy.

BOARD OF DIRECTORS (continued)

MR. SANGWANI HARA (56)

Independent and Non-executive Director

Mr. Sangwani Hara holds a Bachelor's Degree in Commerce (Accountancy from the University of Malawi, The Polytechnic. He is also a graduate of Emile Woolf Accountancy College, London, United Kingdom where he obtained his Chartered certified accountancy qualification.

He has over thirty years of experience in Accounting, Finance, 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 working as Head of Finance for Africa Division for Dhunseri Petrochem & Tea (pte) Limited which has its headquarters in Singapore.

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

MRS. NATASHA NSAMALA (47)

Independent and 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.

Mrs. Nsamala 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 the Institute of Chartered Accountants in Malawi.

She 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 and is the chairperson of the Audit Committee.

BOARD OF DIRECTORS (continued)

MRS. ANGELA KANDANI (39)

Company Secretary

Mrs. Angela Kandani is a legal practitioner with over 14 years of practicing experience. She holds a Bachelor of Law (Hons) Degree from the University of Malawi and an LLM from the University of the Western Cape, South Africa. In 2019 she obtained certification as a Certified Anti Money Laundering Specialist from the Association of Certified Anti-Money Laundering Specialists (ACAM) and she has recently achieved an advanced certification in regulatory compliance from the International Compliance Association. She has worked in the Insurance industry for 6 years and early in her career gained litigation experience in two busy legal firms.

SUMMARISED LIST OF SHAREHOLDERS

Africap LLC
(American)

27.91%

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

Botswana Insurance Holdings Limited
(Botswana)

25.10%

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

NICO Employees Trust
(Malawian and Foreign)

1.10%

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

General Public
(Malawian and Foreign)

45.89%

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

CHAIRMAN'S STATEMENT

Mr. Gaffar Hassam

Dear Shareholders,

Across the globe, 2022 was another year of significant challenges: a terrible war in Ukraine and the world felt the effects of global economic uncertainty, including higher energy and food prices, mounting inflation rates and volatile markets, and, of course, COVID-19's lingering impacts. The Malawi economy was badly affected by Cyclone Ana. The Kwacha devalued by 25% in May 2022, consequently, annual inflation increased significantly. In addition, the market experienced an acute shortage of forex which negatively impacted import of raw materials and finished goods.

Despite the challenges, I am extremely proud of the resilience that our business showed and of what our dedicated employees have achieved, collectively and individually. Throughout these challenging past few years, we never stopped doing all the things we should be doing to serve our clients and our communities.

Committed to our Purpose

We are committed to creating shared value for our stakeholders by providing financial services to enhance quality of life. We could not do this without the loyalty of our employees, business partners and investors. In this challenging year, we thank our employees for their admirable dedication in keeping us on track. We are also grateful for the support of our business partners, our consumers, and the communities where we operate. We thank you, our shareholders, for your continued trust in us to stay the course.

CHAIRMAN'S STATEMENT (continued)

Sustained Results Delivery

Even in a year as challenging as 2022, we continued to deliver. We stayed focused on bringing fast-paced innovations to market, enhancing our digital capabilities, investing in our brands, and managing our portfolio. Highlights from 2022 include the following:

- **Profit after tax** increased by an impressive **105%** to **MK37.6 billion.**
- **Revenue** increased by **27%** to **MK304.5 billion.**
- Dividends increased by **85%** to **MK6.3 billion.**
- **Market Share Price** increased by **MK55** at the beginning of the year to **MK66** at the end of the year and above **MK150** post the publication of these strong results.
- **A strong statement of financial position.**

Customer Service and Digitalization

Our key brand message revolved around "It's Clear", meaning It's Clear that NICO is the go-to one-stop financial solutions provider. The message positioned NICO Group as a pioneer in the financial services industry with unapparelled expertise and product diversity that will improve our customers' lives.

The NICO Group remains committed to delivering relevant and affordable financial solutions that give customers peace of mind in times of their greatest need and help meet their goals.

Digitalization remains a key focus area. We automated loan processes for retail customers to improve turnaround times. Customers can make online applications to get their loans within minutes. The operating systems for NBS bank and NICO Asset Managers are being upgraded. The system upgrades will significantly enhance the customer experience for both entities.

Dividends

The Group's Dividend policy is to distribute;

a. 75% of Dividends received relating to the financial year under consideration; Less:
  - capital expenditure;
  - loan repayments due;
  - funds allocated to new investments; and
  - operational requirements.

b. 100% of dividends received (net of tax withholding) from portfolio investment (investments where NICO Holdings has significant holding but they are not subsidiaries or associates of NICO Holdings) and Special Dividends to mop-up excess capital in the group businesses.

The Group makes regular dividend distributions during the year to assist with cashflow needs of shareholders.

In line with the strong financial performance, the Company increased the dividend payment by 84.6% to 6.00 Kwacha per share as indicated below.

	Year to Dec 2022	
	Kwacha per share	Total K' Million
First interim dividend	1.00	1,043
Second interim dividend	3.50	3,651
Final dividend	1.5	1,564
Total	**6.00**	**6,258**

	Year to Dec 2021	
	Kwacha per share	Total K' Million
First interim dividend	0.75	782
Special 50th Anniversary dividend	0.50	521
Second interim dividend	1.40	1,460
Final dividend	0.60	626
Total	**3.25**	**3,389**

CHAIRMAN'S STATEMENT
(continued)

Board Oversight

Our Board of Directors continued to provide valuable guidance on our strategy, business performance and sustainability agenda. The Board regularly reviews the governance structures to ensure robust checks and balances to effectively deal with any potential risks that include conflict of interest and others in the Group. We maintained our practice of adding diverse experience and expertise throughout the Group and subsidiaries. The Directors continued to be trained on various subjects to enable them to execute their responsibilities on the Board.

Caring for Our Communities

As a leading financial services Group of companies in Malawi, and a responsible corporate citizen, NICO continues to support initiatives that uplift underprivileged communities in the areas of education, health, sports, and building partnerships for economic impact. Sadly, the country continues to be affected by natural calamities, which require joint efforts between government and the private sector to reach out to the affected citizens. A total of MK508 million was deployed to support the various initiatives during the year.

- MK42 million was channeled towards reaching out to flood victims of Cyclone Ana. In March of 2023, the country faced a devastating Cyclone Freddy. NICO reached out with MK200 million towards relief initiatives for the affected families. The Board extends its deepest condolences to all that were affected.
- MK162 million was committed towards the education sector where MK100 million was channeled to the renovation of student's hostels at LUANAR, MK40 million towards a fundraising cause for needy students at various colleges in the country, and MK22 million for tuition fees and mentorship programs for college students, secondary school girls, and for visually impaired students through Hope for the Blind organization.
- MK6.5 million was donated to the health sector towards the procurement of a solar unit to power medical equipment at Soche Adventist Health Service, and a donation of assorted items to women in maternity wards of several health centres within Blantyre.
- MK30.5 million was channeled to various institutions that call for transformative leadership conversations aimed to bring positive economic impact for the country.
- MK60 million was donated to the SADC Regional Games hosted in the country. This was in response to a call from government for corporate institutions to hold hands to host the games to showcase Malawi to the world. MK 6 million was channeled towards other sports activities.

Focus for 2023

The business environment is likely to be more challenging in the year ahead. However, despite the challenges, the Board remains confident that solid foundations are in place to continue delivering strong sustainable financial results. The Board will amongst other issues focus on.

- Delivering on the **Growth Strategic Agenda**; and
- **Succession implementation** for key roles in the Group for which incumbent individuals will be retiring.

It's clear, NICO Group is the one-stop-shop for all your financial needs.

Zikomo!

Gaffar Hassam
Chairman

GROUP MANAGING DIRECTOR'S REPORT

Mr Vizenge Kumwenda

GROUP PERFORMANCE

The NICO Group recorded profit after tax of MK37.57 billion representing an increase of 105% year-on-year. The outstanding performance stemmed from firstly growth of customer deposits in the banking business which supported an increase in loans and advances to customers and money market instruments. Secondly, the Life insurance business recovered from the COVID-19 impact of MK3 billion in 2021 and registered growth especially in credit life on the back of increased loan books in the banking sector. Thirdly, the Asset Management business grew significantly as a result of an increase of Funds Under Management and better yields on government papers. Gross revenue went up from MK240.7 billion to MK304.5 billion representing an increase of 27% year-on-year.

Total assets of the Group closed at MK1.15 trillion up from MK939 billion in 2021. Asset growth was driven by growth of customer deposits in the banking and asset management businesses.

GROUP MANAGING DIRECTOR'S REPORT (continued)

SEGMENTAL PERFORMANCE

Segmental Contribution to Group Profit After Tax

Description	31-Dec 2022 MK' Million	31-Dec 2021 MK' Million	%
Life insurance	14,597	8,653	69%
Pension administration	670	440	52%
General insurance	1,489	549	171%
Banking	18,905	7,692	146%
Asset management	2,730	1,403	95%
Holding company	6,031	6,542	(8%)
Other segments	(127)	(97)	31%
Total	**43,832**	**25,332**	**73%**
Elimination of dividend income from group companies	(6,708)	(6,883)	3%
Group profit after tax	**37,569**	**18,299**	**105%**

General Insurance

The general insurance business in Malawi registered net written premium growth of 17.7% to MK 13.3 billion (2021: MK 11.3 billion). The modest premium growth was due to reduction in insurance covers and policy extensions by some clients in the year. The business registered profit after tax of MK1.7 billion, an increase of 111% from MK787.4 million in the prior year due to an improved underwriting performance emanating from lower loss ratio. The business registered an underwriting profit of MK533 million compared to a loss of MK1.4 billion in 2021. In the prior year, the business was affected by a very high loss ratio. It is especially pleasing to report that the general insurance business in Malawi facilitated payments of more than MK13 billion towards restoration of power plants and sugar estates infrastructure that was damaged by Cyclone Ana. Upon full assessment, total payments are expected to be at least MK25 billion.

The business in Zambia registered net written premium growth of 5% to ZMW181.7 million . The business registered a loss after tax of ZMW5.8 million compared to a loss after tax of ZMW5.9 million in 2021. The loss in the current year was due to an increase in loss ratio especially from motor class and higher operating costs.

Life Insurance

NICO Life Insurance's total premium income was MK 67.5 billion which represented a 24% growth over 2021 income of MK 54.5 billion. This growth was attributed to acquisition of new business. The business registered a 69% growth in profit after tax to MK 14.6 billion from MK 8.7 billion in 2021. The growth in profitability was a result of better claims experience in 2022 compared to prior year. In 2021 the business was heavily affected by significant increase in death claims largely driven by the COVID 19 pandemic.

The associate company in Mozambique registered satisfactory performance in revenue and profit. It is pleasing to report that the Company paid a dividend out of its 2021 profits.

Pension Administration

NICO Pension Services Limited is licensed to offer pension administration services and act as a corporate trustee for pension schemes. The company currently offers pension administration services and is also a corporate trustee for various pension funds.

The Company registered 23% growth in revenue in the year to MK4.0 billion (2021: MK 3.2 billion) driven by an increase in administration fees from new business, organic growth, increase in pension funds under management and pension contribution arrears received from various schemes. Profit after tax was MK 670.0 million in 2022 representing an increase of 52% on the MK 440.0 million profit reported in 2021.

Banking

The bank delivered a strong performance in 2022 driven by growth of all income lines including the customer deposits, loan book and money market investments, coupled with a reduction in cost of funding. The bank grew its balance sheet by MK98.9 billion from MK363.3 billion in 2021 to MK462.2 billion in 2022. Customer deposits grew by 67% to MK376.5 billion (2021: MK224.9 billion). Loans and advances grew by 68% to close at MK 137.8 billion (2021: MK82.2 billion).

GROUP MANAGING DIRECTOR'S REPORT (continued)

Money market investments grew by 14% to MK220.0 billion (2021: MK193.1). Net interest income rose by 67% to MK 51.4 billion (2021: MK 30.8 billion) while non-interest income grew by 27% to MK14.2 billion (2021: MK11.1 billion). Forex trading income was up 36% year-on-year despite an acute shortage of forex in the country. Impairment charges fell from MK3.19 billion to MK2.98 billion due to enhanced portfolio management representing a decrease of 7%. Profit after tax went up by an impressive 146% to MK18.9 billion from MK7.7 in 2021.

Asset Management

NICO Asset Managers Limited ("NAML") manages a significant portion of funds under management in Malawi.

During the year under review, the business registered a 61% growth in revenue at MK 25.0 billion (2021: MK 15.6 billion). Revenue growth was mainly driven by increases in interest income, securities trading income, and fees from managed funds. Profit after tax for the year was MK2.7 billion compared to MK1.4 billion registered in 2021. NAML registered growth in assets under management of 19% in the year to MK 869.4 billion (2021: MK 709.6 billion).

Holding Company

Included in the Holding Company result, is impairment of investments in the telecommunications sector of MK821 million.

Technology

The core business of NICO Technologies Ltd is to serve NICO Group Companies with their ICT services requirement. Due to enhanced capacity of the company developed over the years, it has extended its services to third party clients on a selected basis. Going forward the company intends to grow its portfolio of third-party clients.

Joint Venture

ERIS Properties Mw Limited, a joint venture between NICO Holdings plc and Eris Properties Group of South Africa, is the infrastructure development and property services company in the Group serving both group and third-party clients. As reported in the last year, the company is at the center of the 180 bed Ryalls Hotel project in Lilongwe. Construction of the hotel begun in November 2022 .

Strategic Alliances

The partnerships with Sanlam Emerging Markets (SEM) and Botswana Insurance Holdings Ltd (BIHL) continue. The two partners provide expertise and exposure to the Group especially in areas where expertise is lacking in the local market. This also applies to Africap which works closely with NICO Asset Managers Limited and (now) NICO Capital Limited in Corporate Finance.

Further, Rabobank of the Netherlands has been helping NBS Bank to grow its Agri business, to drive the financial inclusion agenda, to improve its processes and procedures through digitalization projects. Rabobank is also assisting NBS Bank to grow its SME portfolio by linking it to international partners that have expertise and grant funding for SMEs .

STAFF DEVELOPMENT AND WELFARE

The Group continued to run programmes aimed at fully implementing its Employee Value Proposition (EVP) which started in 2021. The EVP is an embodiment of NICO Group's ongoing effort aimed at ensuring that our employees are holistically provided for. The Group's employees participated in an employee survey to measure satisfaction levels and issues arising from the survey are being addressed. It is pleasing to note that employees' satisfaction with various aspects of work in the Group is consistently improving year-on-year.

BUSINESS SYSTEMS

The Group decided a few years ago that it will have the best core business systems in all its business to support digitalization and enhance customer experience. I have reported before on the new core systems in NICO Life and NICO Pensions. In this regard, I am glad to report that another core business system project is underway at NICO Asset Managers to replace the old system. Further, a review of the core banking system at NBS Bank is underway. Further detail on that review will be shared in my future reports.

GROUP MANAGING DIRECTOR'S REPORT (continued)

BUSINESS ENVIRONMENT OUTLOOK

A business environment outlook has been shared in the Chairperson's report. I remain confident in the ability of the management teams in our businesses to find answers to the sternest challenges that lie in the year ahead and to seize opportunities. Above everything, I am convinced that we will serve our customers to the best of our abilities and help them create value despite the anticipated challenging environment.

APPRECIATION

I would like to express my appreciation to the Board for the continued guidance and to all other stakeholders for supporting the NICO Group in 2022. To my colleagues in management together with our staff, we have shown that we can deliver beyond expectation. I encourage each and everyone to continue bringing their best to make this Group great.

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

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

EMILY MAKUTA
Group General Counsel and
Head of Compliance
NICO Holdings PLC
LLB (Hons), LLM,
Int. Dip Compliance

THOKOZANI PHOKOSO
Group Head of Risk
NICO Holdings PLC
Bsc (Hons), FCCA, MBA, CA(M)

DICKENS CHAULA
Group Head of
Human Resources
NICO Holdings PLC
BSoc. Sc.

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

THOKOZILE KUWALI
Group Head of Internal Audit -
NICO Holdings PLC
MBF, BACC, FCCA,
CIA, CFSA, CRMA

ANGELA KANDANI
Company Secretary
NICO Holdings PLC
LLB(hons),LLM,CAMS,
Int.Adv.Cert.Compliance

EXECUTIVE MANAGEMENT
(continued)

KWANELE NGWENYA

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

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.

ELLEN NYASULU

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

CLARENCE GAMA

Chief Executive Officer
NICO Technologies Limited
BSc IT

GERALD CHIMA

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

DANIEL DUNGA

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

DAVID MOYO

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

KEITH MUMBA

Acting Chief Executive Officer
NICO Insurance (Zambia) Limited
BA, MBA, ACII, FIIZA Chartered Insurer

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 of Governance Principles. The company carries out periodic assessments of the adherence to the Code.

Board of Directors

The Board consists of ten directors, nine 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 company 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 Company's vision and uphold its values. Board members will therefore act in the best interest of the Company 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 Risk Committee

The Chairs 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 discussing 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.

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.

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 the 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.

CORPORATE GOVERNANCE (continued)

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 General Counsel and Head of Compliance, the Group Head of Risk, the Group Head of Human Resource Management, the Group Head of Marketing and Customer Experience, the Chief Executive Officers of the subsidiary companies and the Company Secretary. The Committee meets 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

The 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 and strives to afford all staff members opportunities to realise their full potential and advance their careers. The Group is committed to providing 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.

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.

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.

Transaction Between Sanlam and Allianz

Shareholders are hereby notified that Sanlam - who is a substantial shareholder of BIHL who in turn hold 25.10% of NICO Holdings shares and Allianz, one of the world's leading insurers and Asset Managers, have agreed to combine their current and future operations across Africa through the creation of a Joint venture. The Joint venture that will be created will then take over Sanlam's shareholding in NICO Life, NICO General, NICO Pension and NICO Zambia which are subsidiary companies of NICO Holdings. The Shareholding of NICO Holdings in these businesses will remain unchanged.

The joint venture will house the business units of both Sanlam and Allianz in the African countries where one or both companies have a presence. South Africa is excluded from the agreement. The combination of Sanlam's expertise in Africa with Allianz's global capabilities and insurance solutions aims to increase Life and General Insurance penetration , accelerate product innovation and drive financial inclusion in high growth African markets.

The agreement is subject to certain conditions precedent including but not limited to the receipt of required approvals from competition authorities, financial/ insurance regulatory authorities and any customary conditions that Sanlam and or Allianz would be required to fulfill for each jurisdiction.

CORPORATE GOVERNANCE

Corporate Social Investment

As a leading financial services Group of companies in Malawi and a responsible corporate citizen, NICO continues to support initiatives that uplift underprivileged communities in the areas of education, health, sports, and building partnerships for economic impact. A total of MK308 million was deployed to support the various CSR initiatives.

The country continues to be affected by natural calamities, which require joint efforts between government and the private sector to reach out to the affected citizens. In the year, MK42 million was channeled towards reaching out to flood victims of Cyclone Ana. MK162 million was committed towards the education sector, where MK100 million was channeled to the renovation of student's hostels at LUANAR, MK40 million towards a fundraising cause for needy students at various colleges in the country, and MK22 million for tuition fees and mentorship programs for college students, secondary school girls, and for visually impaired students through Hope for the Blind organization. MK6.5 million was donated to the health sector towards the procurement of a solar unit to power medical equipment at Sache Adventist Health Service, and a donation of assorted items to women in maternity wards of several health centres within Blantyre.

MK 30.5 million was channeled to various institutions that call for transformative leadership conversations aimed to bring positive economic impact for the country. MK60 million was sponsored to the SADC Regional Games held in the country in the year. This was a call from government to corporate institutions to hold hands to host the SADC games to uphold Malawi on the regional map. MK 6 million was channeled towards other sports activities.

In March of 2023, the country faced a devastating cyclone that left over 600 people deceased and over 126,000 households displaced. NICO further reached out with MK200 million towards relief initiatives for the citizens.

NICO IN THE COMMUNITY

it's clear

...that big ideas require experienced partnerships.

As the leading financial services Group of Companies in Malawi, NICO continues to immensely contribute to the country's economic growth by providing a range of financial solutions that help individuals and institutions to achieve their goals. NICO remains a reliable and responsible corporate entity that supports initiatives that uplift underprivileged communities in the areas of education, health, sports, and builds partnerships for economic impact that support development at the national level.

NICO has been providing families with solutions that ensure that they continue to live comfortably even after their retirement through through our tailored solutions in banking, general insurance, asset management, corporate finance advisory, life insurance and pension administration businesses. To enhance our offering to clients and providing holistic solutions that are in line with national development initiatives, the Group invested in the infrastructure development and information technology industries.

Currently, ERIS Properties is managing the development of a 4-star hotel in Lilongwe at the Lilongwe Golf Club. The hotel is scheduled to be completed in 2025. The hotel will not only change the face of Lilongwe, but will significantly contribute to improving tourism in the country. Our ICT solutions continue to provide advanced digital platforms that ease business operations.

A friend in need

The country continues to be affected by natural calamities, which require joint efforts between the government and well-wishers to reach out to the affected citizens. In 2022, NICO joined government efforts to reach out to flood victims of Cyclone Ana which left several families homeless. NICO donated various relief items to the victims through World Vision. In March of the same year, the country registered its first Cholera case and by December, the cases had increased to 13,054. The NICO Group joined efforts to curb the disease and sponsored assorted medical items worth MK20 million in January 2023. In March 2023, the country faced a devastating cyclone that left over 600 people deceased and over 126,000 households displaced. NICO reached out with MK200 million towards relief programs for the citizens.


Cyclone Ana Donation


Cholera Donation


Cyclone Freddy Donation

NICO IN THE COMMUNITY (continued)

Youth Programmes: Education and Sports

NICO Group is committed to promoting better education in the coutry. MK100 million was channeled to the renovation of student hostels at Lilongwe University of Agriculture and Natural Resources (LUANAR). Tuition fees continue to be a challenge to most scholars in the country. The Group continues to support initiatives that help underprivileged students to fulfill their education needs. MK40 million was donated towards a fundraising initiative for needy students at various colleges in the country. A further MK22 million for tuition fees and mentorship programs for college students, secondary school girls, and visually impaired students was donated through various educational institutions. MK60 million was sponsored to the youth SADC Regional Games held in the country in the year. This was following a call from the governmnet to corporate institutions to join efforts in hosting the SADC games to uphold Malawi on the regional map.

Health

Apart from the MK20 million which was channeled to curb the Cholera outbreak, NICO Group has further reached out to the health sector. NICO assisted with a solar power unit to Adventist Health Centre to help power some of their key laboratory equipment. Women in various health centers within Blantyre were assisted with various assorted items that would help them with their new babies.

Client Appreciation Programmes

Our customers have always been at the center of our business operations. Several initiatives to ensure great customer experience and appreciation were implemented. As our commitment to continuously improve our customer service, a well-documented customer charter was published and placed at all our customer points and on our websites. Our Call Centre remains a platform for our customers to contact us from anywhere in the country.

Golf remains an important event in the year. This creates a platform for NICO executives to network with key stakeholders. The winning team of the annual ONE NICO Golf Challenge was flown to Sun City, South Africa, as part of the prize and our appreciation for the support they give to NICO Group, which includes NBS Bank and ERIS Properties. Our property management business, ERIS Properties, continues to hold customer appreciation activations at Chichiri Shopping Centre, and Lilongwe City Mall.


One NICO Executive Golf Challenge winners in Sun City, South Africa

NICO IN THE COMMUNITY (continued)

Partnerships for Economic Impact

As a proudly indigenous brand, NICO is committed to supporting various conversations that are promoting economic growth for the country. The Group is focused on identifying opportunities and partnerships that will positively impact the growth of the Malawian economy and improve the quality of life for Malawians.

The Group channeled funds towards several summits that called for transformative leadership conversation on the country's economy among others, the Economic Impact Summit, National Commission for Science and Technology Conference, ICT Association of Malawi Conference, Insurance Institute of Malawi Conference, Bankers Association of Malawi and Institute of People Management in Malawi Conference.

Staff Engagements

The Group treated its staff members to a fun, interactive family day. The events took place in all three regions, Blantyre, Lilongwe, and Mzuzu to accommodate all staff members and their families. The objective of the family day was to appreciate the employees and further acknowledge the contributions that they are making towards pushing the performance of the Group. Family members were also recognized for supporting the employees every day in their homes. The event included various games – physical and board, health walks, motivational and health talks, and music entertainment.

The Group also held staff strategy cascades to ensure full alignment and understanding from everyone on the role they have to play in order to achieve the set Group strategic goals.

Staff Engagements

The Communication Campaign

Our key brand message revolved around "It's Clear" showing that It's Clear that NICO is the go-to one-stop financial solutions provider. The Group has a wide range of financial solutions that meet the various needs of our clients.

It's clear that NICO is a tried and tested financial solutions provider that continues to develop diverse and life-changing solutions that will guarantee achievement of one's lifetime goals.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

DIRECTORS' REPORT

The directors have the pleasure of presenting their report together with the audited consolidated and separate financial statements of NICO Holdings plc (the Group) for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES OF THE GROUP

The activities of the Group are general insurance, life assurance, pension administration, banking, asset management, corporate finance advisory, 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
NICO Pension Services Limited	51.00	Pension administration
NICO Capital Limited	100.00	Corporate finance Advisory
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 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

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

DIRECTORS' REPORT
For the year ended 31 December 2022

Continued

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 K19.8 billion (2021: K9.8 billion) has been added to retained earnings.

DIVIDEND

During the year, the Group paid a first interim dividend relating to the year 2022 of K1 043 million at K1.00 per share (2021: K782 million at K0.75 per share). In 2021 the Group paid a special dividend of MK521 million in commemoration of the 50th Anniversary of NICO Group existence. The Board of Directors at its meeting of 31 March 2023 resolved to pay a second interim dividend relating to 2022 profits of K4 172 million at K4.00 per share (2021: K1 460 million at K1.40 per share). The directors will be recommending a final dividend of K1 043 million at K1.00 per share (2021: K 626 million at K0.60 per share) at the forthcoming Annual General Meeting. The total dividend relating to 2022 profits has been proposed to be K6 258 million at K6.00 per share (2021 Actual: K3 389 million at K3.25 per share). In terms of actual dividend declared the Group declared a total of MK3, 129 million in the year 2022 (2021: MK3,003 million).

STAFFING

Staff complement for the Group stood at 1 157 as at 31 December 2022 (2021: 1 140). 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.

BOARD OF DIRECTORS AND SECRETARY

Mr. Gaffar Hassam	-	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
Dr. Candida Nakhumwa	-	Independent and Non-executive Director
Mrs. Natasha Nsamala	-	Independent and Non-executive Director
Mr. Robert Scharar	-	Non-executive Director
Dr. Elias Ngalande	-	Independent and Non-executive Director
Mr. Vizenge Kumwenda	-	Group Managing Director
Mrs. Angela Kandani	-	Company Secretary

DIRECTORS' REPORT
For the year ended 31 December 2022

Continued

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

	2022 %	2021 %
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.

The Board met five times in the year.

Main Board meetings - Meeting Attendance

Members	25 Mar 22	23-May-22	2-Jun-22	26-Aug-22	2- Dec-22
Mr. Gaffar Hassam (Chairman)	√	√	√	√	√
Mr. Harold Bijoux	√	√	√	A	√
Mr. Sangwani Hara	√	√	√	√	√
Mr. Vizenge Kumwenda	√	√	√	√	√
Ms. Catherine Lesetedi	A	√	√	√	√
Mr. Robert Scharar	√	√	√	A	√
Mr. Robert Mdeza	√	√	√	√	√
Ms. Natasha Nsamala	√	√	√	√	√
Dr. Candida Nakhumwa	√	√	A	A	√
Dr Elias Ngalande	√	√	√	√	√

Key:
√ = Attendance
A = Apology

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.

DIRECTORS' REPORT

For the year ended 31 December 2022

Continued

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 four 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 Finance and Audit Committee were as follows:

Ms. Natasha Nsamala	(Chairperson)
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Mr. Robert Mdeza	(Member)

The committee met six times during the year.

Audit Committee- Meeting Attendance

Member	23 Mar 22	13 Apr 22	30 May 22	7-Jun-22	24-Aug-22	22-Nov -22
Mr. Harold Bijoux	√	√	√	√	A	√
Mr. Sangwani Hara	√	√	√	√	√	√
Ms. Natasha Nsamala	√	√	√	√	√	√
Mr. Robert Mdeza	A	√	√	√	√	√

Key:
√ = Attendance
A = Apology

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 Company and Group level. The committee consists of nine 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. Robert Mdeza	(Member)
Dr. Candida Nakhumwa	(Member)
Mr. Robert Scharar	(Member)
Ms. Daisy Kambalame*	(Member)
Mr. Isaac Songea	(Member)
Dr. Mathews Mtumbuka*	(Member)
Mr. Tayemu Masikini*	(Member)
Mr. Vizenge Kumwenda	(Member)

*Doreen Chanje is a NICO General Company Director representing the company's interest, Mr. Isaac Songea represents the interest of NICO Life Insurance Company Limited. Mr. Tayemu Masikini is a NICO Technologies Limited Director representing the company's interest and Dr. Mathews Mtumbuka is a NICO Pensions Services Limited Director representing the company's interest on the Group Appointments and Remuneration Committee.

DIRECTORS' REPORT

For the year ended 31 December 2022

Continued

GROUP APPOINTMENTS AND REMUNERATION COMMITTEE (Contiued)

**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 six times during the year.

Group Appointments and Remuneration Committee - Meeting Attendance

Members	10-Mar-22	19-May-22	20-May-22	28-Jul-22	18-Aug-22	25-Nov-22
Mr. Robert Scharar	√	√	√	√	√	√
Ms. Doreen Chanje	√	√	√	√	√	√
Mr. Chifundo Chiundira	√	√	√	√	√	√
Mr. Robert Mdeza	√	√	√	A	√	√
Dr. Candida Nakhumwa	√	√	√	√	√	√
Mr. Isaac Songea	√	√	√	√	√	√
Dr. Mathews Mtumbuka	√	A	√	√	A	√
Mr. Vizenge Kumwenda	√	√	√	√	√	√
Mr. Tayemu Masikini	√	√	√	√	√	√

Key:
√ = Attendance
A= Apology

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 seven Non-Executive Directors. The Group Managing Director and Group Head of Risk attends by invitation. The composition of the committee is as follows:

Ms. Catherine Lesetedi*	(Chairperson)
Dr. Candida Nakhumwa	(Member)
Mr. Jonathan Kara*	(Member)
Mr. Robert Scharar	(Member)
Mr. Anurag Saxena*	(Member)
Mr. Chifundo Chiundira	(Member)
Mr. Tayemu Masikini*	(Member)

The committee met four times during the year.
Group Risk Committee- Meeting Attendance

Members	16-Mar-22	25-May-22	11 Aug 22	21 Nov 22
Mr. Robert Scharar	√	√	√	√
Dr. Candida Nakhumwa	√	√	√	√
Mr. Jonathan Kara	√	√	√	√
Ms. Catherine Lesetedi	√	√	√	√
Mr. Chifundo Chiundira	√	√	√	√
Mr. Anurag Saxena	√	√	√	√
Mr. Tayemu Masikini	√	√	√	√

Key:
√ = Attendance
A = Apology

DIRECTORS' REPORT

For the year ended 31 December 2022

Continued

GROUP RISK COMMITTEE (Continued)

* Mr. Jonathan Kara is a NICO General Company Limited Director representing the company's interest and Ms. Catherine Lesetedi is a NICO Life Company Limited Director representing the company's interest and Mr. Tayemu Masikini is a NICO Technologies Limited Director representing the Company's interest and Mr. Anurag Saxena is an NBS Bank plc Director representing the Bank's interest on the Group Risk Committee.

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 2022 an electronic mode of Board Evaluation was utilised.

DIRECTORS' INTERESTS

Mr. Sangwani Hara directly held 39 707 shares (2021: 39 707 shares) in the Company.
Mr. Sangwani Hara indirectly holds 6 200 000 shares through Continental Asset Managers Nominees.
(2021: 5 000 000).
Mr. Sangwani Hara indirectly holds 2 000 000 shares through NICO Asset Managers Nominees
(2021: 1 200 000).

J & J Nsamala Trust indirectly held 6 259 686 shares in the company (2021: nil) through Continental Asset Managers Nominees. J & J Nsamala Trust directly held 125 0000 shares in the company (2021: nil).Mrs. Natasha Nsamala is a Trustee in the Trust.

Ubuntu Limited held 219 500 shares in the company (2021: 219 500). Mrs. Natasha Nsamala is a shareholder and Director in Ubuntu Limited.

WOP VJ Trust indirectly held 50 305 142 shares (2021: 50 305 142) in the company. The Trust belongs to Mr. V Kumwenda and his family who are also the beneficiaries. 42 346 173 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

For the year ended 31 December 2022

Continued

DIRECTORS' REMUNERATION

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

			2022 K'000	2021 K'000
Directors' remuneration	-	Executive (note 13)	457 109	377 937
	-	Non- executive (note 13)	311 832	257 930

CONTRACT WITH THE GROUP MANAGING DIRECTOR

The Group engages some of its Executives on a contract basis. Performance is continually reviewed, and renewal of contracts is based on satisfactory performance. In prior year the Board has approved renewal of the contract for the Group Managing Director for another period of five years. 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 forthcoming Annual General Meeting to re-appoint Deloitte as auditors in respect of the audit of the consolidated and separate financial statements for the year ending 31 December 2023.

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
Ms. Meg Kajiyanike	Independent and Non-executive Director
Mr. Kudakwashe Mukushi	Non-executive Director
Mr. Emmanuel Banda	Independent and Non-executive Director
Mr. James Masumbu	Independent and Non-executive Director
Mr. Marsha Machika	Company Secretary

NICO Life Insurance Company Limited

Mr. Vizenge Kumwenda	Chairman
Ms. Catherine Lesetedi	Non-executive Director
Mr. Isaac Songea	Independent and Non-executive Director
Mr. John Melrose	Independent non-executive Director
Mr. Ryan Scharar	Non-executive Director
Ms.Daisy Kambalame	Independent and Non-executive Director
Mr. Mayamiko Tembo	Company Secretary

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

DIRECTORS' REPORT

For the year ended 31 December 2022 — Continued

NICO General Insurance Limited

Mr. Chifundo Chiundira	Chairman
Mr. Harold Bijoux	Non-executive Director
Ms. Doreen Chanje.	Independent and Non-executive Director
Mr. Leonard Chikadya	Independent and Non-executive Director
Mr. Jonathan Kara	Independent and Non-executive Director
Dr Tobias Doyer	Non-executive Director
Mr. Maxwel Chilikhuma	Independent and Non-executive Director
Mr. Mayamiko Tembo	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 Grange	Non-executive Director (Up to August 2022)
Dr Tobias Doyer	Non-executive Director (From 27 October 2022)
Dr Tukiya Mabula	Non-executive Director
Mr. Michael Mundashi	Non-executive Director
Wilson & Cornhill Advocates	Company Secretary

NICO Asset Managers Limited

Mr. Louis Sibande	Chairman
Mr. Chifundo Chiundira	Non-Executive Director
Mr. Wilson. Chirwa	Independent and Non-executive Director
Mr. John. Suzi Banda	Independent and Non-executive Director (Up to 18 July 2022)
Mr. Ryan Scharar	Non-executive Director
Mr. Kudakwashe Mukushi	Non-executive Director
Ms. Rute Petautchere	Independent and Non-executive Director
Mrs. M Chipembere	Company Secretary

NICO Technologies Limited

Dr. Matthews Mtumbuka	Chairman
Mr. Louis Sibande	Non-executive Director
Mr Tayemu Masikini	Independent and Non-executive Director
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. Angela Kandani	Company Secretary

NICO Pensions Limited

Mr. Vizenge Kumwenda	Chairman
Dr. Mathews Mtumbuka	Independent and Non-executive Director
Ms. Phyles Kachingwe	Independent and Non-executive Director
Ms. Catherine Lesetedi	Non-executive Director
Mr Alexius Nampota	Independent and Non-executive Director (up to 22 December 2022)
Mr. Mayamiko Tembo	Company Secretary

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

DIRECTORS' REPORT

For the year ended 31 December 2022 — Continued

NICO Capital Limited

Mr. Vizenge Kumwenda	Chairman
Mr. Gaffar Hassam	Non-executive Director
Mr. Robert Scharar	Non-executive Director
Ms. Natasha Nsamala	Independent and Non-executive Director
Dr. Candida Nankhumwa	Independent and Non-executive Director
Dr. Nyovani Madise	Independent and Non-executive Director
Ms. Angela Kandani	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 13 to the consolidated and separate financial statements.

	Name of Company	2022 K 000	2021 K 000
1	NICO Holdings plc	85 051	63 924
2	NBS Bank plc	29 707	22 943
3	NICO Life Insurance Limited	38 281	37 236
4	NICO General Insurance Limited	55 120	46 567
5	NICO General Insurance (Zambia) Limited	31 571	32 757
6	NICO Asset Managers Limited	32 226	26 835
7	NICO Technologies Limited	8 611	7 560
8	NICO Pension Services Limited	15 872	12 946
9	NICO Capital Limited	15 393	7 162
	Total	311 832	257 930

EXTERNAL AUDITOR'S REMUNERATION

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

	Name of Company	2022 K 000	2021 K 000
1	NICO Holdings plc	99 581	84 975
2	NBS Bank plc	184 834	128 674
3	NICO Life Insurance Limited	98 775	64 396
4	NICO General Insurance Limited	64 770	62 250
5	NICO General Insurance (Zambia) Limited	104 023	48 058
6	NICO Asset Managers Limited	36 514	30 526
7	NICO Technologies Limited	11 272	9 971
8	NICO Pension Services Limited	12 521	11 853
9	NICO Capital Limited	12 081	8 000
	Total	624 371	448 703

DIRECTORS' REPORT

For the year ended 31 December 2022

Continued

DONATIONS

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

	Name of Company	2022 K 000	2021 K 000
1	NICO Holdings plc	-	1 050
2	NBS Bank plc	128 728	84 917
3	NICO Life Insurance Limited	5 290	2 000
4	NICO Insurance (Zambia) Limited	1 167	2 184
5	NICO Asset Managers Limited	58 212	25 540
6	NICO Technologies Limited	2 250	4 800
7	NICO General Insurance Limited	9 000	-
	Total	204 647	120 491

DIRECTORS' INTERESTS (Excluding NICO Holdings plc)

Mr. Sangwani Hara directly held 105 876 shares (2021: 105 876 shares) in NBS Bank plc and indirectly held 4 309 885 shares in NBS Bank plc through Continental Asset Management Nominees (2021: nil shares).

Mr. Robert Mdeza directly held 18 895 shares in NBS Bank plc (2021: 18 895) and directly held 200 000 shares in Icon Properties plc (2021: 200 000).

Dr. Candida Nakhumwa directly held 230 000 shares in ICON Properties plc (2021: 230 000).

Mrs. Natasha Nsamala directly held 39 100 shares in NBS Bank plc (2021: 39 100 shares).

J & J Nsamala Trust indirectly held 15 443 322 shares in NBS Bank plc through NICO Asset Nominees (2021: 21 000 000 shares). Mrs. Natasha Nsamala is a Trustee in the Trust.

J & J Nsamala Trust indirectly held 11 545 460 shares in NBS Bank plc through Continental Asset Managers Nominees (2021: Nil share). Mrs. Natasha Nsamala is a Trustee in the Trust.

Ubuntu Limited held 1 238 000 shares in NBS Bank plc (2021: 1 238 000) and 581 000 shares in ICON Properties plc (2021: 581 000). Mrs. Natasha Nsamala is a shareholder and Director in Ubuntu Limited.

WOP V J Trust held 10 000 023 (2021: 5 000 023 shares) shares in NBS Bank Plc. The Trust belongs to Mr. V Kumwenda and his family who are also the beneficiaries. 9 739 593 of these shares are on account of Continental Asset Management Nominees.

WOP VJ Trust indirectly held 23 858 000 (2021: 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
MR. VIZENGE KUMWENDA

DIRECTOR
MRS. NATASHA NSAMALA

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 2022 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 consolidated and separate 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 Malawi 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 and the Company maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and ensure the consolidated and separate financial statements comply with the Malawi 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 consolidated and separate financial statements; and
- Preparation of consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume the Group and the 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 consolidated and separate 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 Group and the Company will not be a going concern 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 Malawi 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 12 April 2023 and are signed on its behalf by:

DIRECTOR
MR. VIZENGE KUMWENDA

DIRECTOR
MRS. NATASHA NSAMALA

CERTIFICATE OF THE ACTUARY

For the year ended 31 December 2022

iAC | INDEPENDENT ACTUARIES & CONSULTANTS

Certificate of the Actuary

I hereby certify that to the best of my knowledge and belief and based on the audited financials for the year ended 31 December 2022, 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 2022.

Edwin Splinter
Statutory Actuary
Fellow of the Actuarial Society of South Africa
16 February 2023

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 54 to 202 which comprise the consolidated and separate statements of financial position as at 31 December 2022, 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 2022, 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 Malawi 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 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.

Partners: NT Uka VW Beza CA Kapenda
Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT

Continued

Key audit matters *(Continued)*

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 K5.6 billion, and K2.2 billion respectively as disclosed in note 17 to the consolidated and separate 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. We further concluded that the financial statements disclosures in relation to valuation of unlisted equity investments were appropriate.
Valuation of long-term policyholder liabilities and insurance technical reserves (Consolidated financial statements)	
Life Insurance Business: As included in notes 42.9.8 the policyholder liabilities and insurance technical reserves amounting to K373.8 billion and K49.6 billion respectively, have been considered to be an area where significant judgements were applied. In determining the policyholder liabilities and insurance technical reserves, management applies judgement and assumptions to estimate the liabilities and reserve amounts. The determination of the policyholder liabilities and insurance technical reserves was considered a matter of utmost significance to our current year audit due to significant judgements and estimates made in determining mortality rates, morbidity rates, lapse rates, expenses and interest rates.	To address the key audit matter, we carried out the following audit procedures: ***Life Insurance procedures*** • Obtained an understanding of management's process to calculate the long-term policyholder liabilities and insurance technical reserves; • Checked the design and implementation of the relevant controls around the valuation of long-term policyholder liabilities and technical reserves; • Checked the accuracy and completeness of underlying data inputs used in the valuation; and • Involved our internal actuarial specialist to validate the accuracy of the actuarial liability by evaluating: • the methodology used to calculate the liability is as per IFRS 4 which permits application of the Standard of Actuarial Practice 104 ("SAP 104"); • where the liability is required to be set equal to the assets backing the liability, validate that the liability is set correctly;

INDEPENDENT AUDITOR'S REPORT

Continued

Key audit matters *(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) (Continued)	
	• data used to calculate the liability is complete and accurate; • assumptions used in the liability calculation are reasonable and in line with experience observed on the business; • models used in the liability calculation are free from error, have been run with the correct parameters, and that results tie back to the reported liability; and • whether the movement in the liability from last year is reasonable given the changes to the data, models and results. We concluded that long-term policyholder funds and insurance technical reserves in the life business are properly valued. We further concluded that the financial statements disclosures in relation to the valuation of policyholder liabilities and insurance technical reserves were appropriate
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 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 2022, insurance liabilities, DAC, IBNR and UPR were K2.1 billion, K43.2 billion, and K15.1 billion respectively. These have been disclosed in notes 11, 25 and 26 to the consolidated and separate 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*** • 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, 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. We further concluded that the financial statements disclosures in relation to the valuation of policyholder liabilities and insurance technical reserves were appropriate.

INDEPENDENT AUDITOR'S REPORT

Continued

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Determination of Expected Credit Losses for Loans and Advances (Consolidated Financial Statements)	
Staging of loans and advances is a significant component in determining the Expected Credit Losses (ECL) as such inaccurate staging would have a significant impact on ECL output. The Group is exposed to loans and advances book of K141.2 billion as at 31 December 2022 as disclosed under note 7 to the consolidated and separate 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: a) **The Group's large exposure loans and advances** The Group's large exposures contribute 41% of the Bank's loans and advances included in note 7 to the consolidated financial statements. b) **Stage 1 loans** The Group's loans are concentrated under stage 1. Stage 1 loans contribute 95% of the gross loan amount. The migration of loans and advances from stage 1 to stage 2 depends on both qualitative and quantitative factors. 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 K3.4 billion as at 31 December 2022. We therefore consider this as a key audit matter.	• 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 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. *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 Group's accounting policy and IFRS 9 requirements. **Stage 1 loans** • We sampled through the stage 1 loans and advances; and • Tested whether an exposure currently classified in Stage 1 was appropriately in Stage 1 and did not meet any SICR criteria to transfer to Stage 2. Our work on staging for large exposure loans, stage 1 loans and loans under AIP 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. We further concluded that the financial statements disclosures in relation to impairment of loans and advances were appropriate.

INDEPENDENT AUDITOR'S REPORT

Continued

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of treasury notes (Consolidated Financial Statements)	
As included in note 16 the value of investments in treasury notes (Government securities) amounting to K172.2 billion has been considered to be an area where significant judgements were applied. In determining the value of investments in treasury notes, management applies judgement and assumptions to calculate the investment's fair value. The determination of the fair value of investments in treasury notes was considered a matter of utmost significance to our current year audit due to significant judgements and estimates made in determining the risk factors and yield curve.	We performed the following procedures: • Obtained an understanding of management's process to calculate the value of investment in treasury notes; • Checked the design and implementation of controls over the valuation of investment in treasury notes; • Checked the accuracy and completeness of underlying data inputs used in the valuation calculation; and • Involved our internal valuation specialists to review: - discount rates applicable to Malawian treasury notes; - the risk factors a reasonable market participant would consider including changes in credit, liquidity and other risk factors; and - re-perform the computation of the fair value of selected treasury notes based on the projected future cashflow and the discount rate valuation method against the requirements of IFRS 13. Based on the work done, we concur with management that the judgements and assertions used in the valuation of investments in treasury notes were appropriate and the disclosures pertaining to the investments in treasury notes were found to be appropriate in terms of the relevant accounting standards. We further concluded that the financial statements disclosures in relation to the valuation of treasury notes of were appropriate.

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 Malawi 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.

INDEPENDENT AUDITOR'S REPORT

Continued

Other information ***(Continued)***

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.

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 Malawi 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 and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company 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 and the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and 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 and/or the Company to cease to continue as a going concern;

INDEPENDENT AUDITOR'S REPORT

Continued

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

- 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 and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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.

Deloitte

Chartered Accountants
Nkondola Uka

Partner

15 April 2023

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022

	Notes	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
ASSETS					
Cash and cash equivalents	5	96 525 115	88 616 964	9 642 156	5 976 873
Short-term investments	6(a)	4 820 632	3 271 849	-	-
Placements	6(b)	54 316 201	28 454 738	-	-
Loans and advances to customers	7	137 796 120	82 182 625	-	-
Income tax recoverable	8(c)	3 972 377	4 070 368	1 349 588	1 126 206
Other receivables	9(a)	12 580 688	22 751 702	539 932	389 747
Client fund under management	9(b)	134 738 817	95 041 405	-	-
Insurance receivables	10	7 628 845	7 114 954	-	-
Reinsurance assets	10	37 960 040	14 091 830	-	-
Deferred Acquisition Costs (DAC)	11	2 117 291	1 876 650	-	-
Inventories	12	212 169	137 415	-	-
Amounts due from related parties	13(c)	-	-	318 778	106 574
Investment in subsidiary companies	13(b)	-	-	9 063 446	9 063 446
Investment in associate companies	15(a)	1 508 017	1 165 632	1 508 017	1 165 632
Investment in joint venture	15(b)	137 211	99 921	137 211	99 921
Investment in government securities	16	396 696 998	361 032 011	-	-
Investment in equity shares	17	227 015 464	194 920 529	2 178 920	2 789 673
Loans and debentures	18	1 213 370	7 328 852	1 753	1 753
Investment properties	19	4 453 524	4 060 610	178 000	158 000
Deferred tax assets	14	6 589 902	2 229 693	-	-
Right-of-use assets	20.1	3 151 262	3 939 922	55 596	82 245
Intangible assets	21	5 735 641	6 615 295	10 560	16 501
Property and equipment	22	12 709 758	10 986 877	55 670	53 051
TOTAL ASSETS		1 151 879 442	939 989 842	25 039 627	21 029 622

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022

Continued

	Notes	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
EQUITY AND LIABILITIES					
Equity					
Issued share capital	28(a)	52 152	52 152	52 152	52 152
Share premium	28(b)	428 859	428 859	428 859	428 859
Revaluation reserve	28(c)	405 278	244 825	-	-
Other reserves	28(e)	2 661 043	2 112 818	1 142 349	1 733 102
Retained earnings		61 934 715	45 409 806	17 718 062	14 834 248
Total equity attributable to equity holders of the company		65 482 047	48 248 460	19 341 422	17 048 361
Non-controlling interest	29	50 736 221	37 420 029	-	-
Total equity		116 218 268	85 668 489	19 341 422	17 048 361
Liabilities					
Deposits and customer accounts	24	355 830 188	210 665 104	-	-
Trade and other payables	23(a)	46 179 759	109 973 233	3 296 477	1 105 473
Client fund payables	23(b)	134 735 595	94 805 819	-	-
Amounts due to related parties	13(c)	-	-	-	2 697
Insurance contract payables	25	43 182 743	18 618 854	-	-
Unearned Premium Reserve (UPR)	26	15 078 217	14 483 046	-	-
Interest-bearing loans and borrowings	27	9 406 986	11 018 904	2 291 667	2 750 000
Long-term policyholders' liabilities	42.9.8	422 933 598	386 379 904	-	-
Lease liabilities	20.2	5 062 540	5 619 323	110 061	123 091
Deferred tax liabilities	14	3 251 548	2 757 166	-	-
Total liabilities		1 035 661 174	854 321 353	5 698 205	3 981 261
TOTAL EQUITY AND LIABILITIES		1 151 879 442	939 989 842	25 039 627	21 029 622

These consolidated and separate financial statements were approved and authorized for issue by the Board of Directors on 12 April 2023 and were signed on its behalf by:

DIRECTOR
MR. VIZENGE KUMWENDA

DIRECTOR
MRS. NATASHA NSAMALA

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
REVENUE					
Gross written insurance premiums	30	120 109 061	92 961 820	-	-
Unearned premium adjustment	30	(756 260)	601 472	-	-
Gross earned insurance premiums		119 352 801	93 563 292	-	-
Fees and commission income	31	11 118 609	7 910 743	3 138 939	2 214 617
Income from banking operations	32	91 310 519	58 819 598	-	-
Interest income	33(a)	29 926 024	35 638 995	871 648	620 613
Other Investment income	33(b)	52 660 269	44 597 391	7 058 736	7 129 748
Total operating revenue		304 368 222	240 530 019	11 069 323	9 964 978
Other income	34	81 941	174 399	63 108	85 529
Share of profit from associated companies	15(a)	342 385	197 522	342 385	197 522
Share of profit from joint venture	15(b)	37 290	1 819	37 290	1 819
Total income		304 829 838	240 903 759	11 512 106	10 249 848
EXPENSES					
Reinsurance premium	30	(30 680 628)	(23 325 607)	-	-
Investment expenses	33	(5 314 528)	(4 559 368)	(91 301)	-
Net policyholders claims and benefits	35	(76 238 948)	(50 232 229)	-	-
Insurance contracts acquisition costs	36	(7 275 756)	(4 290 346)	-	-
Interest expense	37	(39 311 390)	(26 612 130)	-	-
Administrative expenses	38a	(54 527 991)	(41 644 868)	(4 444 594)	(2 868 660)
Impairment losses on financial assets	38b	(4 011 211)	(3 219 120)	-	
Long-term policyholders' benefits	42.9.8b (i)	(36 553 694)	(58 423 528)	-	-
Profit before net finance costs		50 915 692	28 596 563	6 976 211	7 381 188
Net finance costs	39	(1 218 064)	(1 717 855)	(464 395)	(366 942)
Profit before income tax expense		**49 697 628**	**26 878 708**	**6 511 816**	**7 014 246**
Income tax expense	8(a)	(12 128 232)	(8 580 050)	(498 881)	(472 028)
PROFIT FOR THE YEAR		37 569 396	18 298 658	6 012 935	6 542 218

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2022 Continued

	Notes	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation of land and buildings		170 607	(391 151)	-	-
Deferred tax on revaluation of land and buildings		144 006	148 350	-	-
		314 613	(242 801)		
Items that are or may be reclassified to profit or loss					
Gains on financial assets designated at FVTOCI		549 026	1 651 868	(590 753)	850 552
Translation difference on foreign subsidiary		524 566	779 214	-	-
Total other comprehensive income/(loss) for the year net of tax		1 388 205	2 188 281	(590 753)	850 552
Total comprehensive income for the year		38 957 601	20 486 939	5 422 182	7 392 770
Profit for the year attributable to:					
Non-controlling interest		17 644 215	8 563 092	-	-
Owners of the parent company		19 925 181	9 735 566	5 422 182	6 542 218
		37 569 396	18 298 658	5 422 182	6 542 218
Total comprehensive income for the year attributable to:					
Non-controlling interest		18 594 693	9 212 459	-	-
Owners of the parent company		20 362 908	11 274 480	6 012 935	7 392 770
		38 957 601	20 486 939	6 012 935	7 392 770
Basic and diluted earnings per share (MK)	40	19.10	9.33		

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share Capital K'000	Share premium K'000	Revaluation reserves K'000	Translation reserve K'000	Fair value reserve K'000	Loan loss reserve K'000	General Reserve K'000	Retained earnings K'000	Total K'000	controlling interest K'000	Total K'000
Group											
Balance at 1 January 2022	52 152	428 859	244 825	(681 996)	2 249 295	-	545 519	45 409 806	48 248 460	37 420 029	85 668 489
Profit for the year	-	-	-	-	-	-	-	19 925 181	19 925 181	17 644 215	37 569 396
Other comprehensive income for the year											
Gain on property revaluation	-	-	160 453	-	-	-	-	-	160 453	154 160	314 613
Financial assets designated at FVTOCI	-	-	-	-	9 745	-	-	-	9 745	539 281	549 026
Translation difference on foreign Subsidiaries	-	-	-	267 529	-	-	-	-	267 529	257 037	524 566
Total other comprehensive income	-	-	160 453	267 529	9 745	-	-	-	437 727	950 478	1 388 205
Total comprehensive income for the year	-	-	160 453	267 529	9 745	-	-	19 925 181	20 362 908	18 594 693	38 957 601
Transfers within reserves											
Loss loans reserve transfer	-	-	-	-	-	270 951	-	(270 951)	-	-	-
Dividends to equity holders (Note 41)	-	-	-	-	-	-	-	(3 129 321)	(3 129 321)	(5 278 501)	(8 407 822)
Total transactions with owners of the parent	-	-	-	-	-	270 951	-	(3 400 272)	(3 129 321)	(5 278 501)	(8 407 822)
Balance at 31 December 2022	52 152	428 859	405 278	(414 467)	2 259 040	270 951	545 519	61 934 715	65 482 047	50 736 221	116 218 268

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2022

Continued

	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	controlling interest K'000	Total K'000
Group										
Balance at 1 January 2021	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
Profit for the year	-	-	-	-	-	-	9 735 566	9 735 566	8 563 092	18 298 658
Other comprehensive income for the year										
Loss on property revaluation	-	-	(123 829)	-	-	-	-	(123 829)	(118 972)	(242 801)
Financial assets designated at FVTOCI	-	-	-	-	1 265 344	-	-	1 265 344	386 524	1 651 868
Translation difference on foreign Subsidiaries	-	-	-	397 399	-	-	-	397 399	381 815	779 214
Total other comprehensive income	-	-	(123 829)	397 399	1 265 344	-	-	1 538 914	649 367	2 188 281
Total comprehensive income for the year	-	-	(123 829)	397 399	1 265 344	-	9 735 566	11 274 480	9 212 459	20 486 939
Transfers within reserves										
Transfer to/from revaluation reserve	-	-	(200 419)	-	-	-	200 419	-	-	-
Transactions with the owners of the Company	-	-	(200 419)	-	-	-	200 419	-	-	-
Issue of shares in subsidiaries	-	-	-	-	-	-	-	-	1 217 332	1 217 332
Dividends to equity holders (Note 41)	-	-	-	-	-	-	(3 004 117)	(3 004 117)	(4 950 588)	(7 954 705)
Total transactions with owners of the parent	-	-	-	-	-	-	(3 004 117)	(3 004 117)	(3 733 256)	(6 737 373)
Balance at 31 December 2021	52 152	428 859	244 825	(681 996)	2 249 295	545 519	45 409 806	48 248 460	37 420 029	85 668 489

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2022

Continued

	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 2022	52 152	428 859	1 733 102	14 834 248	17 048 361
Profit for the year	-	-	-	6 012 935	6 012 935
Other comprehensive income for the year					
Financial assets designated at FVTOCI	-	-	(590 753)	-	(590 753)
Total comprehensive income for the year	-	-	(590 753)	6 012 935	5 422 182
Transactions with the owners of the Company					
Dividends to equity holders (Note 41)	-	-	-	(3 129 121)	(3 129 121)
Total transactions with owners of the parent	-	-	-	(3 129 121)	(3 129 121)
Balance at 31 December 2022	52 152	428 859	1 142 349	17 718 062	19 341 422
Company					
Balance at 1 January 2021	52 152	428 859	882 550	11 295 988	12 659 549
Profit for the year	-	-	-	6 542 218	6 542 218
Other comprehensive income for the year					
Financial assets designated at FVTOCI	-	-	850 552	-	850 552
Total comprehensive income for the year	-	-	850 552	6 542 218	7 392 770
Transactions with the owners of the Company					
Dividends to equity holders (Note 42)	-	-	-	(3 003 958)	(3 003 958)
Total transactions with owners of the parent	-	-	-	(3 003 958)	(3 003 958)
Balance at 31 December 2021	52 152	428 859	1 733 102	14 834 248	17 048 361

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

For the year ended 31 December 2022

		Group		Company	
	Note	2022 K'000	2021 K'000	2022 K'000	2021 K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		301 819 670	186 805 226	2 994 177	2 154 714
Cash payments to the employees and suppliers		(282 802 712)	(92 531 206)	(3 469 772)	(2 923 556)
Interest paid	27	(1 988 721)	(1 510 121)	(463 263)	(363 151)
Cash generated from/(used in) operations		17 028 237	92 763 899	(938 858)	(1 131 993)
Income tax paid	8(c)	(15 686 337)	(10 499 318)	(722 263)	(926 916)
Net generated from/(used in) operating activities		1 341 900	82 264 581	(1 661 121)	(2 058 909)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds disposal of property and equipment		61 398	108 226	248	366
Interest received		56 070 195	39 953 799	764 005	455 454
Dividend received	33	5 383 979	5 908 478	7 042 453	6 575 039
Additions to property and equipment and intangible assets	21, 22	(4 873 638)	(5 152 019)	(19 048)	(19 630)
Additions to investment properties	19	(12 416)	(86 167)	-	-
Disposal of government securities	16	87 693 797	58 239 493	-	-
Disposal of loan and debentures	18	4 836 842	7 736 842	-	-
Additions to government securities	16	(141 955 940)	(173 554 215)	-	-
Additions to equity shares	17	(6 355 492)	(1 746 486)	-	(1 041 781)
Disposals of equity shares	17	15 152 207	4 468 288	-	-
Net cash generated from/(used in) investing activities		16 000 932	(64 123 761)	7 787 658	5 969 448
CASH FLOWS UTILISED IN FINANCING ACTIVITIES					
Issue of additional shares in subsidiary		-	1 217 332	-	-
Additions to long term borrowings	27	-	2 000 000	-	-
Repayment of long-term borrowings	27	(1 711 124)	(1 259 104)	(458 333)	-
Repayment of lease liabilities	20.2	(1 175 561)	(994 416)	(13 030)	(15 289)
Dividend paid	41	(4 757 937)	(7 109 008)	(2 012 853)	(2 672 761)
Net cash used in financing activities		(7 644 622)	(6 1 45 196)	(2 484 216)	(2 688 050)
Net increase in cash and cash equivalents		9 698 210	11 995 624	3 642 321	1 222 489
Cash and cash equivalents at 1 January		88 616 964	76 655 978	5 976 873	4 737 872
Effects of changes in exchange rates		(1 790 059)	(34 638)	22 962	16 512
Cash and cash equivalents at 31 December	5	96 525 115	88 616 964	9 642 156	5 976 873

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022 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 property management and development 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
NICO Pension Services Limited	51.00	Pension administration
NICO Capital Limited	100.00	Corporate Finance advisory
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	% Holding	Type of business
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

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 1 January 2022.

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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

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

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements *(Continued)*

Effective date	Standard, Amendment or Interpretation
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.
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).

2.2 Standards and Interpretations in issue, not yet effective

At the date of authorization of these consolidated and separate financial statements, the following relevant standards and interpretations were in issue but not yet effective:

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 reporting periods beginning on or after 1 January 2024	Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

2.2 Standards and Interpretations in issue, not yet effective *(Continued)*

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2024	Non-current Liabilities with Covenants (Amendments to IAS 1) The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.
Annual reporting periods beginning on or after 1 January 2023	Amendments to IFRS 17 Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are: • Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. • Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk. • Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination. • Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level. • Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements. • Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives. • Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held. • Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

2.2 Standards and Interpretations in issue, not yet effective *(Continued)*

Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.
Annual reporting periods beginning on or after 1 January 2023	Definition of Accounting Estimates (Amendments to IAS 8) The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.
Annual reporting periods beginning on or after 1 January 2023	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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.

2.3 Adoption of IFRS 17

IFRS 17 Insurance contract will impact the measurement of premium and insurance liabilities. actuarial methodologies and disclosure requirements have been prepared to be implemented by the Group. The implementation team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments and, where applicable, aligns the policy and methodology papers accordingly. The tax implications regarding the adoption of IFRS 17 have been considered.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022

Continued

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

2.3 Adoption of IFRS 17 *(Continued)*

The IFRS 17 implementation team will focus on the following key areas during 2023:

- Refine disclosures for transition, interim financial statements, and annual financial statements;
- Refine remaining internal financial controls to ensure accuracy of reporting;
- Finalise the management reporting format and key performance measures;
- Roll Out of Reporting Systems and data validation tools;
- Finalise Data validation of insurance systems and introduction of control changes in information processing; and
- Engage external auditors for the sign-off of December 2022 results under IFRS 17.

Transition approach

The Group will apply IFRS 17 as of 1 January 2023 on a fully retrospective basis for all its portfolios. Comparative figures for 2022 will be restated as required by the transitional provisions of IFRS 17.

Any adjustments to the carrying amounts of insurance and reinsurance assets and liabilities at the date of transition will be recognized in the opening balance of retained earnings.

Estimated impact of adopting IFRS 17

The Group has not completed its assessment of the impact of initial application of IFRS 17 on its financial statements as at 1 January 2022 (the transitional impact).The impact on the statement of comprehensive income for 2022 is in the process of being finalized. The estimated Transitional impact may still be impacted by :

- the new accounting policies, assumptions, judgements, and estimation techniques; and
- the new systems and associated internal controls have not been fully operational.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022

3. Basis of preparation *(Continued)*

3.2 Basis of measurement *(Continued)*

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:

- Note 42.9.8 - Valuation of long-term policy holders' liabilities and technical reserves.
- Note 19 - Valuation of investment properties
- Note 17 and 18 - Valuation of investments in shares and loans receivables
- Note 15 (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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. Basis of preparation *(Continued)*

3.2 Basis of measurement *(Continued)*

3.2.2 Fair value measurement *(Continued)*

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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(a) Basis of consolidation *(Continued)*

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 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*
(a) Basis of consolidation *(Continued)*

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.

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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

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 recognised 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.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(b) Business combinations *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(c) Investments in associates and Joint Ventures *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(d) Interests in joint operations *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(f) Revenue *(Continued)*

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.

(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; and
- Interest on held-to-maturity money market investments at amortised cost on an effective interest basis.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(f) Revenue *(Continued)*

(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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(h) Claims *(Continued)*

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 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, policyholder's 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(l) Liability adequacy test *(Continued)*

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.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

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.

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(o) Property and equipment *(Continued)*

ii) Subsequent costs *(Continued)*

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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(p) Leases *(Continued)*

(i) The Group as lessee *(Continued)*

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(p) Leases *(Continued)*

(i) The Group as lessee *(Continued)*

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.

(q) Intangible assets

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(q) Intangible assets *(Continued)*

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

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. 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) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. 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 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.

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets *(Continued)*

(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 not held for trading); 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.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and effective interest method *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and effective interest method *(Continued)*

(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 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

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)*

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;
- 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; and
- 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 ensure that the criteria are capable

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)*

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.

(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;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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)*

- 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;

- **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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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 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.

(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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets *(Continued)*

(ix) Forward-looking information *(Continued)*

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 statements

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(r) Financial instruments (Continued)

Financial assets (Continued)

(xi) Modification of financial assets

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 effective interest. If the difference in present value is greater than

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.

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)*

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 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.

10% the Group deems the arrangement is substantially different leading to derecognition.

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.

3. Basis of preparation *(Continued)*

3.5 Significant accounting policies *(Continued)*

(r) Financial liabilities and equity (Continued)

(ii) Equity instruments *(Continued)*

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

<u>Initial recognition and measurement</u>

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.

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.

<u>Financial liabilities measured subsequently at amortised cost</u>

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.

<u>Foreign exchange gains and losses</u>

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*
3.5 Significant accounting policies *(Continued)*

(r) Financial liabilities and equity *(Continued)*
(iii) Financial liabilities *(Continued)*
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 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.

(v) Investment property
Investment property is property held either to earn rental income or capital appreciation or for both,

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation *(Continued)*
3.5 Significant accounting policies *(Continued)*

(v) Investment property *(Continued)*
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.

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(x) Taxation *(Continued)*

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.

(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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(y) Employee benefits (Continued)

(ii) Defined contribution plans *(Continued)*

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.

(ac) Other receivables

Other receivables comprise prepayments, cheques in course of collection, accrued income, staff loans and advances. Other receivables that are financial assets 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(ad) Long term insurance contracts (Continued)

(i) Recognition and measurement of Insurance Contracts *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(ad) Long term insurance contracts *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

3. Basis of preparation (Continued)

3.5 Significant accounting policies (Continued)

(ae) Non-financial assets (Continued)

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.

(ag) Investment – linked insurance funds

The Group has elected to carry investments in associated undertakings held by investment insurance funds at fair value through profit or loss. Investment in associated undertakings are valued using appropriate valuation techniques. These techniques may include price earnings multiples, discounted cash flows or the adjusted value of similar completed transactions.

The group has elected to measure its investments in Blantyre Hotels plc and ICON Properties plc at fair value through profit or loss.

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 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 4.1.1

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

4.1 Critical judgements in applying accounting policies *(Continued)*

Business model assessment *(Continued)*

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, 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 as disclosed in Note 43.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

4.1 Critical judgements in applying accounting policies *(Continued)*

4.1.5 Forward looking information *(Continued)*

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, 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

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).

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

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

4.2 Key sources of estimation uncertainty *(Continued)*

4.2.3 Impairment testing *(Continued)*

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 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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

5. Cash and cash equivalents

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
Cash and bank balances	16 437 985	7 571 492	5 976 872	3 610 435
Balance with the Reserve Bank of Malawi excluding mandatory reserve balance	2 695 015	15 290 383	-	-
Mandatory reserve deposits with the Reserve Bank of Malawi	12 409 224	7 518 230	-	-
Balances with other banks	10 183 107	6 303 415	-	-
Short term deposits	54 799 785	51 933 444	3 665 284	2 366 438
Cash and cash equivalents	96 525 115	88 616 964	9 642 156	5 976 873

Balances with the Reserve Bank of Malawi are held at a zero interest rate (2021: nil). Balances due from other banks relate to bank balances with correspondent banks on which interest at a rate of 0.5% (2021: 0.5%) per annum is earned. Interest rate on bank balances was 4% (2021: 3%) and for short term deposits was 7.5% (2021: 8.0%).

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 42.4.1.

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
(a) Financial assets carried at amortised cost				
Government securities (note 16)	4 820 632	3 271 849	-	-

Interest rates for Government securities ranged from 17.9% to 27.5% per annum (2021: 16.58% to 23.25%).

	Group	
	2022 K'000	2021 K'000
(b) Placements		
NICO Asset Managers Limited	10 292 621	10 277 397
Reserve Bank of Malawi	36 966 378	17 577 144
Continental Discount House Limited	-	600 197
ECO Bank	2 053 092	
National Bank of Malawi plc	5 004 110	-
Total placements	54 316 201	28 454 738

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

6. Short term investments *(Continued)*

(b) Placements *(Continued)*

Placements earned average interest rate of 10.7% (2021: 13.5%). Most of the placements for 2022 were in foreign currency hence a lower yield rate

	Group 2022 K'000	Group 2021 K'000
7. Loans and advances to customers		
Loans and overdrafts	135 004 056	79 900 225
Lease receivables	1 426 777	1 558 683
Mortgage advances	4 763 821	3 712 974
Total gross loans and advances	141 194 654	85 171 882
Expected credit losses (note 42.4.1)	(3 398 534)	(2 989 257)
Net loans and advances	137 796 120	82 182 625
Gross loans and advances are due to mature as follows:		
• Within one year	49 391 026	20 191 113
• After one year	91 803 628	64 980 769
	141 194 654	85 171 882
Movement on allowance for impairment:		
At beginning of the year	2 989 257	2 143 452
Amounts written off	(2 567 193)	(2 347 298)
Increase in impairment loss net of recoveries	2 976 470	3 193 103
	3 398 534	2 989 257

The staging analysis of expected credit losses is part of note 42.4.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

7. Loans and advances to customers *(Continued)*

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 spread of 0 to plus 13.5%. The applicable base lending rate /reference rate averaged 12.13% and 17.30% for 2021 and 2022 respectively.

Finance lease receivables

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

Gross investment in finance lease receivables:

	Group 2022 K'000	Group 2021 K'000
Less than one year	163 414	90 639
Between one and five years	1 383 923	2 308 499
	1 547 337	2 399 138
Unearned finance income	(120 560)	(840 455)
Net investment in finance leases	1 426 777	1 558 683
Net investment in finance leases receivable:		
Less than one year	180 637	75 976
Between one and five years	1 246 140	1 482 707
	1 426 777	1 558 683

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 facilities are secured through the financed assets and in some occasions additional security is required.

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
8. Income tax expense				
Recognised in profit or loss				
(a) Current tax expense				
Current year tax at 32% (2021: 30%)	14 701 598	7 310 166	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

8. Income tax expense *(Continued)*

	Group		Company	
	2022	2021	2022	2021
	K'000	K'000	K'000	K'000
Deferred tax				
Temporary differences (note 14)	(3 589 109)	589 117	-	-
Dividend tax at 10% (2021: 10%)	1 015 743	680 767	498 881	472 028
	12 128 232	8 580 050	498 881	472 028
(b) Reconciliation of tax charge				
Profit before income tax expense	49 547 362	26 878 708	6 511 816	7 014 246
Income tax at 30%	14 864 209	8 063 612	1 953 545	2 104 274
Effect of higher Zambia tax rate at 35% in 2021*	-	(10 940)	-	-
Effect of permanent differences **	(3 751 720)	(153 389)	(1 953 545)	(2 103 404)
Dividend tax	1 015 743	680 767	498 881	472 028
	12 128 232	8 580 050	498 881	472 028
The effective tax rate	24%	32%		

*Effective 1 January 2022 the cooperate tax rate in Zambia was reduced to 30% from 35%.
**These mainly relate to tax effect of exempt life insurance profits, dividend income and other disallowable income and expenses.

(c) Tax recoverable

Balance at 1 January	(4 070 368)	(1 503 211)	(1 126 206)	(671 318)
Charge for the year	15 717 341	7 990 933	498 881	472 028
Prior year adjustment	103 393	-	-	-
Tax paid	(15 686 337)	(10 499 318)	(722 263)	(926 916)
Exchange rate differences	(36 406)	(58 772)	-	-
Balance as at 31 December	(3 972 377)	(4 070 368)	(1 349 588)	(1 126 206)

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

9a. Other receivables

Accrued investment income	1 774 045	1 870 824	347 982	223 817
Staff loans and advances	332 180	471 186	64 281	37 750
Prepayments	2 424 317	2 866 167	54 633	56 352
Sundry receivables	7 864 418	10 262 136	73 036	71 828
Commercial paper	-	6 500 000	-	-
Rent receivable	185 728	781 389	-	-
Total	12 580 688	22 751 702	539 932	389 747

Sundry receivables include proceeds receivable from court case of K1.4 billion, unclaimed withholding taxes of K2.0 billion (2021: K1.7 billion), receivable proceeds from sale of land K297 million (2021: K297 million), and loans to policyholders K291 million (K355 million). Loans to policy holders are given only to policies that qualify for surrender value and the loan is capped at 70% of surrender value.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

9b. Client funds under management

	Group		Company	
	2022	2021	2022	2021
	K'000	K'000	K'000	K'000
	134 738 817	95 041 405		
Movement in allowance for impairment				
At the beginning of the year	1 286 950	-	-	-
Net increase in allowance for credit losses	864 358	1 286 950	-	-
At the end of the year	2 151 308	1 286 950	-	-

The directors made an assessment of expected credit losses and policy holder loans and noted that the expected credit losses were immaterial.

Clients funds under management are third party funds invested by NICO Nominees. The related payable balances are included in note 23b to these consolidated and separate financial statements. Client funds under management earned an average interest of 16.84% (2021: 14.50%).

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.

10. Insurance receivables

	Group	
	2022	2021
	K'000	K'000
Insurance premium receivables (i)	8 181 801	7 476 874
Re - insurance contract assets (ii)	38 167 361	4 282 263
Gross insurance receivables	46 349 162	21 759 137
Less: Expected Credit Losses		
Insurance premium receivables	(552 956)	(361 920)
Reinsurance receivables	(207 321)	(190 433)
Balance as at 31 December	45 588 885	21 206 784
Movement in allowance for impairment		
At the beginning of the year	552 353	356 267
Effects of exchange rates	35 594	36 694
Net increase in allowance for credit losses	172 330	159 392
	760 277	552 353

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

10. Insurance receivables *(Continued)*

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

	Group	
	2022	2021
	K'000	K'000
Insurance brokers and agents	5 302 172	5 071 898
Direct clients	746 582	787 714
Outstanding life premiums	2 133 047	1 617 262
	8 181 801	7 476 874
Expected credit losses	(552 956)	(361 920)
Total	7 628 845	7 114 954

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:

			2022	2021
	Gross	ECL	Net amount	Net amount
	K'000	K'000	K'000	K'000
Not past due	5 058 435	(366 227)	4 692 208	5 045 601
7 – 9 months	1 197 629	(8 118)	1 189 511	704 552
10 – 12 months	1 925 737	(178 611)	1 747 126	1 364 801
Total	8 181 801	(552 956)	7 628 845	7 114 954

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

10. Insurance receivables *(Continued)*

(ii) Re-insurance contract assets
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.

	Group	
	2022	2021
	K'000	K'000
Reinsurance companies - Commission, UPR, IBNR	10 255 325	10 778 149
Reinsurance companies - Outstanding losses	27 912 036	3 504 114
	38 167 361	14 282 263
Less expected credit loss	(207 321)	(190 433)
Total	37 960 040	14 091 830

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

11. Deferred Acquisition Costs (DAC)

Balance as at 1 January	1 876 650	1 391 870
Effects of changes in exchange rates	64 421	102 860
Reclassification from other payables	-	298 234
Movement for the year	176 220	83 686
Balance as at 31 December	2 117 291	1 876 650

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.

12. Inventories

Consumables	213 841	146 147
Less: provision for obsolete inventories	(1 672)	(8 732)
Balance at 31 December	212 169	137 415

13. Amounts due from/(to) related parties

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

13. Amounts due from/(to) related parties *(Continued)*

Banking business

Transactions with key management personnel
Directors, management and employees and their immediate relatives have transacted with the Bank during the year as follows:

	Directors and their related parties 2022 K'000	Employees 2022 K'000	Directors and their related parties 2021 K'000	Employees 2021 K'000
Advances	246 014	6 443 307	49 500	4 663 870
Deposits	(12 034)	(379 596)	(9 081)	(503 048)
Net balances	233 980	6 063 711	40 419	4 160 822

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 K296 million (2021: K214 million) interest free loans and K6 147 million (2021: K4,450 million) loans at an interest rate 9% and reference rate (which averaged 12.13%) 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 K620 million (2021: K399 million)

Executive Directors own shares in the Company through Millennium Holdings Limited. The shareholders comprise executive Directors, past and present senior managers of the Company. Millennium Holdings Limited holds 1.4 million shares (2021: 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 44). As at 31 December 2022, the total number of shares of the Company owned by the Executive Director through the Company's share option program was Nil (2021: Nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

13. Amounts due from/(to) related parties *(Continued)*

Insurance business

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

	Directors and their related parties 2022 K'000	Directors and their related parties 2021 K'000
Insurance premium	12 269	13 178

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 2021 there were no balances owing from directors and employees (2021: Nil).

Key management personnel compensation:

Key management personnel compensation comprised the following: -

	Group			
	Executive Directors 2022 K'000	Executive Directors 2021 K'000	Non-executive Directors 2022 K'000	Non-executive Directors 2021 K'000
Directors' remuneration	457 109	377 937		-
Directors' fees	-	-	311 832	257 930
	457 109	377 937	311 832	257 930

Value of transactions and year end balances with associated companies are as follows: -

Related Party	Relationship	Type of transaction	Value of transactions 2022	Balance at year end 2022	Value of transactions 2021	Balance at year end 2021
Sanlam Pan Africa(SPA)	Common investee	Actuarial fees	-	-	(125 667)	81 000
		Director fees	-	-	(4 654)	
Sanlam General Insurance Tanzania	Associate	Directors fees	-	-	1 522	409

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

13. Amounts due from/(to) related parties *(Continued)*

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.

(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 2022	Number of Wholly owned subsidiaries 2021
NICO Asset Managers Limited	Asset Management	Malawi	1	1
NICO Technologies Limited	Information Technology	Malawi	1	1
Group Fabricators and Manufacturers Limited	Property Holding	Malawi	1	1
NICO Capital Limited	Corporate Finance Advisory	Malawi	1	1
			4	4

Name of entity	Principal Activity	Place of Incorporation	Number of Non-Wholly owned subsidiaries 2022	Number of Non-Wholly owned subsidiaries 2021
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
NICO Pension Services Limited	Pension Administration	Malawi	1	1
			5	5

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

b) Investment in subsidiary companies (at cost)

	Country of Incorporation	2022 Shareholding %	2022 Amount K'000	2022 Dividends received K'000	2021 Shareholding %	2021 Amount K'000	2021 Dividends received K'000
Company							
NICO General Insurance Company Limited	Malawi	51	61 200	790 500	51	61 200	459 000
NICO Life Insurance Company Limited	Malawi	51	74 588	2 284 800	51	74 588	2 728 500

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

13. Amounts due from/(to) related parties *(Continued)*

	Country of Incorporation	2022 Shareholding %	2022 Amount K'000	2022 Dividends received K'000	2021 Shareholding %	2021 Amount K'000	2021 Dividends received K'000
NICO Insurance Zambia Limited	Zambia	51	1 336 880	-	51	1 336 880	-
NICO Technologies Limited	Malawi	100	75 365	-	100	75 365	-
NICO Asset Managers Limited	Malawi	100	31 081	1 300 000	100	31 081	1 800 000
Group Fabricators and Manufacturers	Malawi	100	58 500	-	100	58 500	-
NBS Bank plc	Malawi	50.1	6 590 332	2 332 919	50.1	6 590 332	1 895 496
NICO Capital Limited	Malawi	100	300 000	-	100	300 000	-
NICO Pension Services Company Limited	Malawi	51	535 500	-	51	535 500	-
			9 063 446	6 708 219		9 063 446	6 882 996

	As at 1 January 2022 K'000	As at 31 December 2022 K'000
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	1 336 880	1 336 880
NICO Technologies Limited	75 365	75 365
NICO Asset Managers Limited	31081	31 081
Group Fabricators and Manufacturers Limited	58 500	58 500
NBS Bank plc	6 590 332	6 590 332
NICO Capital Limited	300 000	300 000
NICO Pension Services Company Limited	535 500	535 500
	9 063 446	9 063 446

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

13. Amounts due from/(to) related parties *(Continued)*

	As at 1 January K'000	Additions K'000	Disposals K'000	As at 31 December K'000
2021				
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	741 781	-	1 336 880
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
NICO Capital Limited	-	300 000	-	300 000
NICO Pension Services Company Limited	-	535 500	-	535 500
	7 486 165	1 577 281	-	9 063 446

The Directors have performed an impairment assessment of the investments in subsidiaries as at 31 December 2022. No impairment has been recognised.

	Company 2022 K'000	2021 K'000
(c) Amounts due from subsidiaries, associate companies and joint venture companies		
(i) Amounts due from subsidiary companies		
NICO Insurance (Zambia) Limited	1 281	1 622
Group Fabricators and Manufacturers Limited	17 386	7 410
NBS Bank plc	50 600	56 616
NICO Pension Services Company Limited	2 923	1 533
NICO Asset Managers Limited	-	1 523
NICO Capital Limited	186 875	-
NICO Life Insurance Company Limited	1 543	-
NICO Technologies Limited	3 263	-
(ii) Amounts due from equity accounted companies		
Eris Properties Malawi Limited	54 907	37 460
Sanlam Mozambique Vida Companhia de Seguros SA	-	410
Total	318 778	106 574
(iii) **Amounts to subsidiaries, associate companies and joint venture companies**		
(iii) Amounts due from associate companies		
Sanlam Mozambique Vida Companhia de Seguros SA	-	2 697

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

13. Amounts due from/(to) related parties *(Continued)*

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 recognised 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.

14. Deferred tax assets and liabilities

Group

Recognised deferred tax

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

	Assets 2022 K'000	Assets 2021 K'000	Liabilities 2022 K'000	Liabilities 2021 K'000
Property and equipment	230 588	114 019	885 127	1 014 907
Investment properties and equity shares	(742 441)	(695 799)	-	-
Accrued interest	(2 931 183)	259 058	2 707 709	1 589 378
Other assets	(3 146 866)	(1 906 971)	(341 288)	152 881
Deferred tax (assets)/liabilities	(6 589 902)	(2 229 693)	3 251 548	2 757 166

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	Balance as at 31 December K'000
2022					
Movement of deferred tax asset					
Property and equipment	114 019	234 391	(117 822)	-	230 588
Investment properties and equity shares	(695 799)	(46 642)	-	-	(742 441)
Accrued interest	259 058	(3 190 241)	-	-	(2 931 183)
Other assets	(1 906 971)	(1 073 295)	-	(166 600)	(3 146 866)
Deferred tax (assets)/liabilities	(2 229 693)	(4 075 787)	(117 822)	(166 600)	(6 589 902)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

14. Deferred tax assets and liabilities *(Continued)*

	Balance as at 1 January K'000	Recognised Recognised in profit and loss K'000	Recognised in equity K'000	in other comprehensive Income K'000	Balance as at 31 December K'000
Movement of deferred tax liability					
Property and equipment	1 014 907	(130 916)	(27 346)	28 482	885 127
Investment properties and equity shares					
Accrued interest	1 589 378	1 118 331	-	-	2 707 709
Other assets	152 881	(500 737)	-	6 568	(341 288)
Deferred tax (assets)/liabilities	2 757 166	486 678	(27 346)	35 050	3 251 548
2021					
Movement of deferred tax asset					
Property and equipment	331 526	(26 268)	(191 239)	-	114 019
Investment properties and equity shares	-	(695 799)	-	-	(695 799)
Accrued interest	(184 395)	443 453	-	-	259 058
Other assets	(1 797 118)	(26 106)	-	(83 747)	(1 906 971)
Deferred tax (assets)/liabilities	(1 649 987)	(304 720)	(191 239)	(83 747)	(2 229 693)
Movement of deferred tax liability					
Property and equipment	1 174 185	(241 140)	-	81 862	1 014 907
Investment properties and equity shares	-	-	-	-	-
Accrued interest	460 844	1 128 534	-	-	1 589 378
Other assets	100 061	6 443	-	46 377	152 881
Deferred tax (assets)/liabilities	1 735 090	893 837	-	128 239	2 757 166

The Group's operations are principally in Malawi and Zambia tax jurisdictions, with Zambia having only one subsidiary. For the rest of subsidiaries in Malawi, the tax law does not allow set-off of amounts of income tax recoverable or payable amongst companies, be it related companies. Deferred tax assets have mainly arisen from deductible temporary differences, except for the Zambia subsidiary where a portion of its deferred tax asset was attributable to tax losses. The deferred tax asset attributable to tax losses was MK225.4 million (2021: MK24.2 million). Tax losses arose in 2020, 2021 and 2022. The group has assessed that the Zambia subsidiary will turn around and generate taxable profits in the foreseeable future. At the reporting date the Group assessed that each of its subsidiaries with a net deferred tax asset position would be able to generate sufficient future taxable profits against which the deferred tax assets would be utilised.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

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

(a) Investment in associate

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

Principal Activity	Place of Incorporation	Number of Associates 2022	2021
Long term Insurance	Mozambique	1	1
	Total	1	1

	Principle place of business/ country of incorporation	2022 Shareholding	2022 Amount	2021 Shareholding	2021 Amount
Sanlam Vida Companhia de Seguros, SA -	Mozambique	34.30%	1 508 017	34.30%	1 165 632
			1 508 017		1 165 632

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

	Sanlam Vida 2022 K'000	2021 K'000
Non-current assets	8 878 389	7 343 832
Current assets	1 941 292	1 165 419
Non-current liabilities	(2 884 384)	(133 804)
Current liabilities	(3 995 444)	(2 943 686)
Net assets	3 939 854	5 431 761
Revenue	13 292 816	10 031 366
Profit/(loss)	998 207	575 865
Total comprehensive income	998 207	575 865
Percentage shareholding	34.3%	34.3%
Share of associates profit	342 385	197 522

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

15. Investment in associate, joint venture and unconsolidated structured entities *(Continued)*

(a) Investment in associate (Continued)

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.

	Group/Company	
	2022	**2021**
	Sanlam Mozambique Vida Companhia de Serugos Limited	**Sanlam Mozambique Vida Companhia de Serugos Limited**
	K'000	**K'000**
As at 1 January	1 165 632	968 110
Share of profit	342 385	197 522
Balance at 31 December	1 508 017	1 165 632

(b) Investment in joint venture

Principal activity	Place of incorporation	Number of joint ventures	
		2022	2021
		K'000	K'000
Property management and development	Malawi	1	1
	Total	1	1

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

Summarised financial information	ERIS Properties Malawi	
	2022	2021
	K'000	K'000
Non current assets	51 792	50 570
Current assets	644 823	487 330
Non current liabilities	(394 585)	(25 529)
Current liabilities	(37 212)	(319 723)
Net assets	264 818	192 648
Revenue	1 076 337	602 876
Profit	74 580	3 637
Total comprehensive income	74 580	3 637
Percentage shareholding	50%	50%
Share of profit	37 290	1 819

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

15. Investment in associates, joint ventures and unconsolidated structured entities (Continued)

	As at 1 January	Share of profit	As at 31 December
Group/Company	**K'000**	**K'000**	**K'000**
2022			
ERIS Properties Malawi Limited	99 921	37 290	137 211
2021			
ERIS Properties Malawi Limited	98 102	1 819	99 921

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

(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.

	2022	2021
	%Holding	% Holding
ICON Properties plc (through NICO Life Insurance Company Limited)	56.16	59.35

The Group owns 56.16% (2021: 59.35%) of the shares in ICON Properties plc. However, the ownership of the investment is shared between shareholder and policyholders at 6.7% and 93.3% respectively. The shares are listed on the Malawi Stock Exchange.

The group does not appoint the majority of the directors to the boards of these entities, and does not have the ability to direct their relevant activities."

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

Summarised Financial Information

	ICON Properties plc	
	2022	2021
	K'000	K'000
Non-current assets	102 246 359	81 810 499
Current assets	6 274 476	10 204 542
Non-current liabilities	(4 763 675)	(2 538 279)
Current liabilities	(1 673 966)	(1 660 518)
Net assets	102 083 194	87 816 244

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

15. Investment in associates, joint ventures and unconsolidated structured entities (Continued)

Summarised Financial Information (Continued)

	ICON Properties plc	
	2022	2021
	K'000	K'000
Revenue	22 640 553	12 253 552
Profit	15 781 513	8 793 069
Total comprehensive income	15 781 513	8 793 069

Details of amounts relating to unconsolidated entity are as follows:

Income	2022	2021
	K'000	K'000
Rental income	5 159 820	4 883 381
Interest income	2 775 186	2 917 823
Other income	459 320	356 542
Dividend income	-	2 535
Fair value gains or losses	14 246 227	4 117 315
Total income	22 640 553	12 277 596

Assets
Investments – maximum exposure

	2022	2021
	K'000	K'000
Investment in equity shares	1 759 680	2 008 394

The related market values of the shares have been included under note 17 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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

16. Investment in government securities

	Group	
	2022	2021
	K'000	K'000
The investments are due to mature as follows:		
• Within one year (note 6)	4 820 632	3 271 849
• After one year	396 696 998	361 032 011
	401 517 630	364 303 860
Investment in government securities comprised the following: -		
Financial assets designated FVTPL*		
Treasury notes	172 153 156	164 743 783
	172 153 156	164 743 783
Financial assets at amortized cost**		
Treasury notes	199 388 355	163 069 368
Treasury bills	22 567 288	30 340 872
Promissory notes	7 408 831	6 149 837
	229 364 474	199 560 077
Total	401 517 630	364 303 860

**Movement of financial assets designated FVTPL*

Balance as at 1 January	164 743 783	137 121 284
Additions during the year	106 754 682	76 686 610
Fair value adjustment	(17 692 704)	632 872
Disposals during the year	(81 652 605)	(49 696 983)
Balance at 31 December	172 153 156	164 743 783

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.

The bootstrapping method was used for the purpose of constructing the discounting curve used to discount expected future cashflows at each respective cashflow date. This method is a statistical technique for estimating quantities about a population by averaging estimates from multiple small data samples. These samples are constructed by drawing observations from a large data sample one at a time and returning to the data sample after they have been chosen.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

16. Investment in government securities (Continued)

***Movement of financial assets at amortized costs*

	Group	
	2022	2021
	K'000	K'000
Balance as at 1 January	199 560 077	110 827 731
Effects of exchange rates	519 767	133 348
Additions during the year	35 201 258	96 867 605
Short term portion of investments	-	386 616
Movement in accrued interest	141 735	(106 103)
Expected credit loss	(17 171)	(6 610)
Disposals during the year	(6 041 192)	(8 542 510)
Balance at 31 December	229 364 474	199 560 077

Interest rates for government securities ranged from 17% to 27.5% (2021: 16.58% to 23.25%).

Treasury bills earned interest at an average rate of 19% (2021: 14%). 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.

17. Investment in equity shares

	Group		Company	
	2022	2021	2022	2021
	K'000	K'000	K'000	K'000
Investment in equity shares				
Valuation				
Balance at 1 January	194 920 529	163 956 274	2 789 673	1 709 768
Purchases during the year	6 355 492	1 746 486	-	-
Effects of changes in exchange rates	2 597	5 483	-	-
Increase/(decrease) in fair value - shareholders	5 407 144	3 857 104	(610 753)	1 079 905
- policyholders	35 481 909	29 823 470	-	-
Disposals during the year	(15 152 207)	(4 468 288)	-	-
Balance as at 31 December	227 015 464	194 920 529	2 178 920	2 789 673

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

17. Investment in equity shares *(Continued)*

	Group			
				2022
Listed shares	***Number of shares***	***% shareholding***	***Share Price***	
Blantyre Hotels plc**	266 572 960	32	11	2 924 305
Standard Bank plc	41 117 044	17	2 000	82 240 667
Airtel	130 921 256	1	57	7 415 380
Illovo Sugar plc	762 080	-	540	411 523
Press Corporation plc	6 222 012	5	2 181	13 572 510
Old Mutual plc	1 020 009	7	985	1 004 709
National Bank of Malawi plc	30 181 158	6	1 542	46 540 855
National Investment plc	8 859 245	7	125	1 107 317
FMB Capital Holding plc	6 733 275	-	111	746 451
Telekom Networks Malawi plc	940 573 745	9	14	13 168 032
Mpico plc	61 838 656	3	21	1 276 350
Airtel Networks Zambia Plc	12 500	-	-	12 615
NICO Holdings plc*	42 543 717	4	60	2 552 623
ICON Properties	3 751 682 822	56	12	44 832 610
NBS Bank plc	70 787 661	2	34	2 406 780
FDH Bank plc	67 304 595	1	17	1 169 081
Sunbird Tourism Limited	109 000	-	92	10 035
Total listed shares				221 391 843

				2022
Listed shares	***Number of shares***	***% shareholding***	***Share Price***	
Blantyre Hotels plc**	289 862 200	35	11	3 191 383
Standard Bank plc	44 982 694	19	1 400	62 975 772
Airtel	140 210 000	1	40	5 608 400
Illovo Sugar plc	798 127	0	300	239 438
Press Corporation plc	6 461 765	5	1 900	12 277 354
Old Mutual plc	926 847	6	2 100	1 946 369
National Bank of Malawi plc	31 328 762	7	810	25 380 057
National Investment plc	8 420 815	6	95	799 809
FMB Capital Holding plc	6 131 879	-	80	490 550
Telekom Networks Malawi plc	908 562 917	9	22	20 824 262
Mpico plc	45 088 184	2	21	933 325
Airtel Networks Zambia Plc	12 500	-		10 863
NICO Holdings plc*	42 111 818	4	55	2 316 150
ICON Properties	3 964 637 882	59	13	51 104 182
NBS Bank plc	18 536 779	1	23	424 492
FDH Bank plc	75 000 000	1	16	1 185 750
Total listed shares				189 708 156

*These are shares held by Deposit Administration fund by NICO Pensions on behalf of policyholders.
** Ownership of investments in these shares is between shareholders and policyholders is 20% and 80% of the 31.57%, respectively. Consequently the group has no significant influence on the investment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

17. Investment in equity shares *(Continued)*

	Group		Company	
	2022	2021	2022	2021
	K'000	K'000	K'000	K'000
Unlisted shares				
Reconciliation of carrying amounts of unlisted investments (level 3 fair value)				
Balance at 1 January	5 212 373	3 406 468	2 789 673	1 709 768
Increase in fair value	411 248	1 805 905	(610 753)	1 079 905
Balance as at 31 December	5 623 621	5 212 373	2 178 920	2 789 673
Analysis of unlisted shares				
Chibuku Products Limited	3 300 000	2 347 000	-	-
Telecom Holdings Limited (MTL/OCL)	211 900	1 086 652	197 899	1 060 652
Natswitch Limited	111 000	30 000	-	-
Swift	19 700	19 700	-	-
Mwaiwathu Private Hospital Limited	294 000	322 000	294 000	322 000
Sanlam Uganda	1 680 000	1 400 000	1 680 000	1 400 000
Fortesa	7 021	7 021	7 021	7 021
Total unlisted shares	5 623 621	5 212 373	2 178 920	2 789 673
Total investment in equity shares	227 015 464	194 920 529	2 178 920	2 789 673

The fair value gains in unlisted shares are recognised in investment income in profit/loss under note 33 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 2022 on behalf of the Directors by Enerst and Young using net asset model, discounted free cash flow, Net Asset Value (NAV) and market multiples approach. Listed shares have been valued using Malawi Stock Exchange prices as at 31 December 2022.

Level 1 Fair Value

Listed shares amount to K221.4 billion (2021: K189.6 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 K12.6 million (2021: K11.0 million) whose prices are quoted on the Lusaka Stock Exchange.

Level 3 Fair Value

Unlisted equities for the Group amounted to K5.6 billion (2021: K4.6 billion) while for the Company amounted to K2.2 billion (2021: K2.8 billion). The unlisted shares were valued by Ernest and Young as at 31 December 2022 based on discounted cashflows and adjusted net asset value valuation approach.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

17. Investment in equity shares *(Continued)*

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 Discounted Cash Flow for some of the unlisted investments.

Unlisted Investment	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Sanlam General Insurance Uganda: MK1.68 billion (2021: MK1.40 billion)	The Discounted Cash Flow (DCF) valuation method was used. The DCF 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 (2022: 26.8% and 27.9% High; 2021: 22.5%).23.7% Low and 23.7 High) Specific risk premia (SRP) of between 2% and 3%.	The higher(lower) the discount rate, the lower (higher) the fair value. If the discount rate growth was 5 per cent higher/lower while all other variables were held constant, the carrying amount would increase/ decrease by K84 million (2021: increase/decrease by K70 million).
Chibuku Products Limited; MK3.30 billion (2021: MK2.35 billion)	The market multiples (MM) approach valuation methodology was used. Commonly used approaches under the MM method to value manufacturing businesses are the EV/ Sales and P/E multiple approaches.	Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the beverages industry, ranging from 4% to 6% (2021: 8% to 12%).	The higher the revenue growth rate, the higher the fair value. If the revenue growth was 5 per cent higher/lower while all other variables were held constant, the carrying amount would increase/ decrease by K136 million (2021: increase/decrease by K115 million).
Malawi Telecommunications Ltd (MTL), Open Connect Ltd (OCL) and Mwaiwathu Private Hospital Ltd. Total carrying amount of MK0.51 billion (2021: MK1.41 billion)	Net Asset Value	N/A	N/A

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

18. Loans and debentures

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
Group				
Designated at FVTPL				
Balance at 1 January	7 328 852	14 071 221	-	-
Fair value gain	(1 278 640)	1 349 859	-	-
Short term portion of loans and debentures	-	(355 386)	-	-
Disposals during the year	(4 836 842)	(7 736 842)	-	-
Balance at 31 December	1 213 370	7 328 852	-	-
Designated at amortised cost				
Balance at 1 January	-	-	1 753	1 753
Balance at 31 December	-	-	1 753	1 753
Total	1 213 370	7 328 852	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 42.4.2.

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 5 year floating rate equivalent to 182 days Treasury bill plus 1.8% interest rate per annum was advanced to Telekom Networks Malawi Plc in 2017. The balance as at 31 December 2022 is nil (2021: K4.1 billion). The loan was secured by a debenture. The loan has matured and was fully settled in the year.

(b) A five-year K3.5 billion floating rate loan guaranteed by the Malawi Government was advanced to Electricity Supply Commission 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. The balance as at 31 December 2022 was K1.2 billion (2021: K1.9 billion).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

19. Investment properties

	Group Freehold investment properties K'000	Group Leasehold investment properties K'000	Group Total K'000	Company Freehold investment properties K'000	Company Total K'000
Group					
2022					
At valuation					
Balance at 1 January	701 303	3 359 307	4 060 610	158 000	158 000
Effects of exchange rates	38	-	-	-	-
Additions	-	12 416	12 416	-	-
Fair value adjustment	20 000	360 460	380 460	20 000	20 000
Balance as at 31 December	721 341	3 732 183	4 453 524	178 000	178 000
2021					
At valuation					
Balance at 1 January	688 240	2 771 903	3 460 143	145 000	145 000
Effects of exchange rates	63	-	63	-	-
Transfer from property, plant and equipment	-	280 000	280 000	-	-
Additions	-	86 167	86 167	-	-
Fair value adjustment	13 000	221 237	234 237	13 000	13 000
Balance as at 31 December	701 303	3 359 307	4 060 610	158 000	158 000

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

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
Rental income (Note 33b)	382 861	625 882	2 660	4 700
Direct operating expense (maintenance costs)	-	9 638	-	-

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

19. Investment properties *(Continued)*

Valuation basis

Properties were revalued on open market basis on 31 December 2022 by Nickson C Mwanyali, Bsc,(Est,Man), Adv. Dip (Bus Mngt), MSIM,, a Chartered Valuation Surveyor with Knight Frank on behalf of the directors. The valuer is an independent valuer not connected with the Group. Values were determined by reference to observable prices in the property market. There has been no change to the valuation technique during the year. The resultant surplus is taken to profit or loss. The fair value measurements have been categorized as Level 3 for value based on income capitalization technique. The Group has assessed that the highest and best use of his properties does not differ from their current use.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value Measurement
Income Capitalisation Approach	**Capitalisation rates 5%-12% % (2021: 9% - 12%)**	The estimated impact of a change in the following significant unobservable inputs would result in a change in the independent valuers' valuation as follows: • K338 million to K727 million (2021: K365 million to MK528 million) for the Group and K9 million-K20 million (2021: K14 million- K19 million) for the company if the capitalisation rate were higher (lower);
	Market Rent Growth ranged from 9% to 10% (2021: 9% to 13%)	• K376 million – K418 million (2021: K365 million-K528 million) for the Group and MK18 million-K20 million (2021: K8 million: K16 million) for the Company if the expected market rental growth were lower (higher).

20. 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

20. Leases (Group as a lessee) *(Continued)*

	GROUP 2022 K'000	GROUP 2021 K'000	COMPANY 2022 K'000	COMPANY 2021 K'000
20.1 Right-of-use assets				
Cost				
At 1 January	8 087 526	6 184 843	163 373	163 373
Effects of exchange rate	152 644	202 401	-	-
Additions	485 822	1 700 282	-	-
Disposals	(39 547)	-	-	-
At 31 December	8 686 445	8 087 526	163 373	163 373
Accumulated depreciation				
At 1 January	4 147 604	2 719 883	81 128	55 590
Effects of exchange rate	96 015	80 902	-	-
Charge for the year	1 305 423	1 357 579	26 649	25 538
Disposals	(13 859)	(10 760)	-	-
At 31 December	5 535 183	4 147 604	107 777	81 128
Carrying amount	3 151 262	3 939 922	55 596	82 245
Amounts recognized in profit and loss are as follows:				
Finance charges on lease liabilities	913 914	922 475	21 186	20 303
Depreciation expense on right-of-use assets	1 305 423	1 357 579	26 649	25 538

The Group leases buildings and the average lease term is 3 years (2021: 3 years).

	GROUP 2022 K'000	GROUP 2021 K'000	COMPANY 2022 K'000	COMPANY 2021 K'000
20.2 Lease liabilities				
Cost				
At 1 January	5 619 323	4 558 865	123 091	138 380
Effects of exchange rate	125 669	127 174	-	-
Additions	396 503	1 765 593	-	-
Finance charges	913 914	922 475	21 186	20 303
Repayments of finance charges	(817 308)	(760 368)	(21 186)	(20 303)
Repayments of lease liabilities	(1 175 561)	(994 416)	(13 030)	(15 289)
At 31 December	5 062 540	5 619 323	110 061	123 091
Maturity analysis				
Due within 1 year or less	1 832 462	2 181 703	21 186	16 813
Due between 2 and 5 years	3 230 078	3 427 803	88 875	106 278
Due after 5 years	-	9 817	-	-
At 31 December	5 062 540	5 619 323	110 061	123 091

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

21. Intangible assets

Group	Capital work in progress K'000	Software K'000	Total K'000
2022			
Cost			
Balance as at 1 January	842 413	12 170 567	13 012 980
Effects of changes in exchanges rates	-	166 240	166 240
Additions during the year	1 021 109	191 540	1 212 649
Capitalisation (note 22)	(486 613)	88 724	(397 889)
Disposal during the year	-	(422 113)	(422 113)
Balance at 31 December	1 376 909	12 194 958	13 571 867
2021			
Cost			
Balance as at 1 January	513 936	9 912 502	10 426 438
Effects of changes in exchanges rates	-	268 370	268 370
Additions during the year	1 220 922	1 111 488	2 332 410
Capitalisation	(878 207)	878 207	-
Disposal during the year	(14 238)	-	(14 238)
Balance at 31 December	842 413	12 170 567	13 012 980
2022			
Amortisation			
Balance as at 1 January	-	6 397 685	6 397 685
Effects of changes in exchanges rate	-	72 436	72 436
Charge for the year	-	1 528 797	1 528 797
Eliminated on disposal	-	(162 692)	(162 692)
Balance at 31 December	-	7 836 226	7 836 226
2021			
Amortisation			
Balance as at 1 January	-	4 777 742	4 777 742
Effects of changes in exchanges rate	-	92 699	92 699
Charge for the year	-	1 532 677	1 532 677
Eliminated on disposal	-	(5 433)	(5 433)
Balance at 31 December	-	6 397 685	6 397 685
Carrying amount at 31 December 2022	1 376 909	4 358 732	5 735 641
Carrying amount at 31 December 2021	842 413	5 772 882	6 615 295

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

21. Intangible assets *(Continued)*

Company	Software K'000	Total K'000
2022		
Cost		
Balance as at 1 January	137 220	137 220
Balance at 31 December	137 220	137 220
2021		
Cost		
Balance as at 1 January	126 233	126 233
Additions during the year	10 987	10 987
Balance at 31 December	137 220	137 220
2022		
Amortisation		
Balance as at 1 January	120 719	120 719
Charge for the year	5 941	5 941
Balance at 31 December	126 660	126 660
2021		
Amortisation		
Balance as at 1 January	116 421	116 421
Charge for the year	4 298	4 298
Balance at 31 December	120 719	120 719
Carrying amount at 31 December 2022	10 560	10 560
Carrying amount at 31 December 2021	16 501	16 501

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

22. Property and equipment

	Land and buildings	Motor vehicles	Furniture and equipment	Capital work in progress buildings	Capital work in progress equipment	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Group						
Cost or valuation						
2022						
Balance as at 1 January	2 423 798	1 553 462	18 318 570	-	157 833	22 453 663
Effects of changes in exchange rates	20 564	32 513	112 927	-	-	166 004
Additions during the year	89 965	472 959	2 469 955	-	628 111	3 660 990
Revaluation surplus	125 035	-	(47 408)	-	-	77 627
Transfer from intangible assets*	-	-	684 502	-	(286 613)	397 889
Disposals during the year	-	(115 699)	(1 666 809)	-	-	(1 782 508)
Balance as at 31 December	2 659 362	1 943 235	19 871 737	-	499 331	24 973 665
Analysed as follows:						
Valuation	1 237 045	-	-	-	-	1 237 045
Cost	1 422 317	1 943 235	19 871 737	-	499 331	23 736 620
	2 659 362	1 943 235	19 871 737	-	499 331	24 973 665
2021						
Balance as at 1 January	3 711 226	1 285 540	15 792 052	9 139	214 277	21 012 234
Effects of changes in exchange rates	29 704	37 231	201 767	-	-	268 702
Transfer to investment properties	(280 000)	-	-	-	-	(280 000)
Additions during the year	-	189 457	2 322 758	-	307 334	2 819 549
Revaluation (loss)/surplus	(608 863)	96 900	120 812	-	-	(391 151)
Capitalisation	-	-	363 778	-	(363 778)	-
Disposals during the year	(428 269)	(55 666)	(482 597)	(9 139)	-	(975 671)
Balance as at 31 December	2 423 798	1 553 462	18 318 570	-	157 833	22 453 663
Analysed as follows:						
Valuation	1 112 010	-	-	-	-	1 112 010
Cost	1 311 788	1 553 462	18 318 570	-	157 833	21 341 653
	2 423 798	1 553 462	18 318 570	-	157 833	22 453 663

*Relates to the transfer of capital expenditure on security system which was initially classified as intangible assets in prior year but subsequently reclassified as property and equipment in line with IAS 38 paragraph 4

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

22. Property and equipment *(Continued)*

	Land and buildings	Motor vehicles	Capital Furniture and equipment	Capital work in progress buildings	work in progress equipment	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Group						
Accumulated depreciation and impairment losses						
2022						
Balance as at 1 January	35 721	856 038	10 575 027	-	-	11 466 786
Effects of changes in exchange rates	-	15 138	28 000	-	-	43 138
Charge for the year	47 074	277 498	2 145 962	-	-	2 470 534
Released on revaluation	(44 750)	-	-	-	-	(44 750)
Disposals	-	(105 325)	(1 566 476)	-	-	(1 671 801)
Balance as at 31 December	38 045	1 043 349	11 182 513	-	-	12 263 907
Group						
Accumulated depreciation and impairment losses						
2021						
Balance as at 1 January	85 733	679 729	8 528 440	-	-	9 293 902
Effects of changes in exchange rates	-	30 455	98 501	-	-	128 956
Charge for the year	51 213	199 063	2 256 346	-	-	2 506 622
Released on revaluation	(87 897)	-	-	-	-	(87 897)
Disposals	(13 328)	(53 209)	(308 260)	-	-	(374 797)
Balance as at 31 December	35 721	856 038	10 575 027	-	-	11 466 786
Carrying amounts						
At 31 December 2022	2 621 317	899 886	8 689 224	-	499 331	12 709 758
At 31 December 2021	2 388 077	697 424	7 743 543	-	157 833	10 986 877

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

22. Property and equipment *(Continued)*

Company	Motor vehicles K'000	Furniture and equipment K'000	Total K'000
Cost			
2022			
Balance as at 1 January	45 730	223 815	269 545
Additions during the year	-	21 787	21 787
Balance as at 31 December	45 730	245 602	291 332
2021			
Balance as at 1 January	45 730	215 172	260 902
Additions during the year	-	8 643	8 643
Balance as at 31 December	45 730	223 815	269 545
Accumulated depreciation and impairment losses			
2022			
Balance as at 1 January	44 044	172 450	216 494
Charge for the year	1 010	18 158	19 168
Balance as at 31 December	45 054	190 608	235 662
2021			
Balance as at 1 January	34 898	140 291	175 189
Charge for the year	9 146	32 159	41 305
Balance as at 31 December	44 044	172 450	216 494
Carrying amounts			
At 31 December 2022	676	54 994	55 670
At 31 December 2021	1 686	51 365	53 051

If land and buildings were stated on the historical cost basis the carrying amounts would be as follows:

	Group 2022 K'000	2021 K'000
Cost	1 422 317	1 311 788
Accumulated depreciation	(38 045)	(35 721)
Carrying amount	1 384 272	1 276 067

Total losses for the period recognised in other comprehensive income amount to K611 (2020: nil).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

22. Property and equipment *(Continued)*

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 2022 by an independent external valuer Nickson C Mwanyali, Bsc,(Est,Man), Adv. Dip (Bus Mngt), MSIM, with Knight Frank on behalf of the Directors. The valuer is an independent valuer not connected with the Group. The valuer acted as an independent valuer in accordance with the RICS (Royal Institute of Chartered Surveyors) valuation professional standards published in 2022 and the International Valuation Standards (ISV).

Values were determined by reference to unobservable prices in the property market. There has been no change to the valuation technique during the year. The group has assessed that the highest and best use of its property does not differ from its current use

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.

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.	Capitalization rates of between 7% to 11% (2021: 5% to 10%)	If the capitalization rate was higher or lower by 1 % the estimated fair value would increase (decrease) by K11.4 million (2021: K11.12 million) 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 there is a reduction to the currently high interest rates.

The fair value measurements of land and buildings have been categorised as level 3 fair values based on the inputs to the valuation techniques used.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
23a. Trade and other payables				
Interbank borrowings	15 557 356	8 443 691	-	-
Open market operations	9 994 686	88 208 322	-	-
Trade payables	1 975 246	2 323 441	-	-
Accruals	516 151	1 163 671	160 155	125 305
Dividend payable (note 41)	3 981 082	331 197	1 447 465	331 197
Other payables	14 155 238	9 502 911	1 688 857	648 971
Balance 31 December	46 179 759	109 973 233	3 296 477	1 105 473

Interbank borrowings are short term funding available from the local banks who have excess liquidity to place onto the market. This is used to cover any short term liquidity needs of the banks, the average rate was 13.14% per annum (2021:11.75%).

Open Market Operations (OMOs) relate to reverse repos with Reserve Bank of Malawi (RBM) which are instruments used by RBM to inject liquidity back into the market. The RBM stopped issuing new OMOs in 2022 and the MK9.99 billion represents OMOs that were yet to mature.

Included in other payables for the group is staff bonus provision of K5.1 billion (2021: K2.27 billion), deferred bank loan arrangement fees of K2.1 billion (2021: K1.2 billion) and PAYE and other taxes of K1.3 billion (2021: K0.9 billion).

23b. Client funds payable	134 735 595	94 805 819	-	-

Client funds payable are third party funds invested by NICO Nominees. The funds attracted an interest at an average rate of 14.18% (2020: 12.06%) per annum

	Group 2022 K'000	Group 2021 K'000
24. Deposits and customer accounts		
Repayable on demand	355 410 408	209 415 383
Repayable within three months or less	419 780	1 249 721
Balance at 31 December	355 830 188	210 665 104

Deposits from customers on savings, investment and term deposit accounts carried an interest rate ranging from 1% to 15.03% (2021: 1% to 14.7%) per annum. Current accounts earned interest of 0.5% per annum on balances above K5,000,000, for the year ended 31 December 2022 which is unchanged from prior year. The foreign currency denominated accounts attract an interest rate of 0.32% (2021: 0.30%) per annum.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

25. Insurance contract payables

	Group 2022 K'000	Group 2021 K'000
Gross outstanding claims	35 670 788	11 137 632
Allowances for claims incurred but not reported (IBNR)	3 502 965	3 157 347
Total insurance contract outstanding claims	39 173 753	14 294 979
Due to re-insurance companies	4 008 990	4 323 875
Balance 31 December	43 182 743	18 618 854
Movement of total insurance contract outstanding claims:		
Balance at beginning of the year	14 294 979	13 454 153
Effects of changes in exchange rates	295 795	1 349 663
Claims incurred	111 040 959	52 593 127
Cash paid for claims settled in the year	(86 457 980)	(53 101 964)
Balance 31 December	39 173 753	14 294 979
Movement of allowances for claims incurred: but not reported (IBNR):		
Balance at beginning of the year	3 157 347	2 576 941
Effects of changes in exchange rates	127 093	192 096
Additional allowance made during the year	218 525	388 310
Balance 31 December	3 502 965	3 157 347

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 standardised 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

25. Insurance contract payables *(Continued)*

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.

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.

26. Unearned Premium Reserve (UPR)

	2022 K'000	2021 K'000
General insurance fund at the beginning of the year	14 483 046	11 134 497
Effects of changes in exchange rates	1 132 261	1 800 074
Reclassification from trade payable	-	1 043 788
Movement during the year	(537 090)	504 687
General insurance fund at end of the year	15 078 217	14 483 046

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 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

27. Interest bearing loans and borrowings

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
CDH Investment Bank Limited	324 812	524 971	-	-
Continental Asset Management Limited	2 291 667	2 750 000	2 291 667	2 750 000
NBM Capital Markets Limited	5 006 411	5 002 576	-	-
NICO Asset Managers Limited	1 784 096	2 741 357	-	-
	9 406 986	11 081 904	2 291 667	2 750 000
Analysed as follows:				
Balance at 1 January	11 018 904	10 223 352	2 750 000	2 750 000
Additions during the year	-	2 000 000	-	-
Interest charge	1 988 721	1 564 777	463 263	363 151
Interest paid	(1 988 721)	(1 510 121)	(463 263)	(363 151)
Loan repaid	(1 611 918)	(1 259 104)	(458 333)	-
Balance as at 31 December	9 406 986	11 081 904	2 291 667	2 750 000
Terms and debt repayment schedule				
Due within 1 year	1 169 853	2 946 079	916 667	2 750 000
Due between 2 and 5 years	8 237 133	8 072 825	1 375 000	-
	9 406 986	11 018 904	2 291 667	2 750 000

Included in the loans of K11.0 billion (2020: K10.2 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

In June 2019 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. Effective 1 July 2022 the bond was rolled over into a Floating Rate Amortising Facility for the principal amount of MK2.75 billion for purposes of cashflow management. The loan is secured by a floating charge over all assets of NICO Holdings plc.

Interest and principal are payable quarterly in arrears and commenced on 30 September 2022. 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. NICO Holdings plc has the option of early repayment of the outstanding principal and accrued interest with no less than 60 days notice to Continental Asset Management, with no penalty for early repayment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

27. Interest bearing loans and borrowings *(Continued)*

(iii) 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. A further drawdown of MK2 billion was processed in 2021. All the notes are repriced semi-annually at 182 T-bill of the last public auction before the start of the day count plus 550 to 650 basis points. The Bank has an option of earlier repayment.

(iv) The NICO Asset Managers Limited loan
This is a syndicated loan borrowed by the Group's banking business, arranged by NICO Asset Managers Limited. It is a 5-year floating rate loan raised purely to fund a huge ticket transaction entered into in June 2019. 91 days T-bill plus 6% or headline inflation plus 4%. It was not raised to form part of the total capital of the Groups banking business.

28. Capital and reserves

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 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.

	Group	
	2022 K'000	2021 K'000
(c) Revaluation reserve		
Balance at 31 December	405 278	244 825

The revaluation reserve relates to property and comprises the cumulative increase in the fair value at the reporting date

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

28. Capital and reserves *(Continued)*

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
(e) Other reserves				
(i) General reserve	545 519	545 519	-	-
(ii) Fair value reserve	2 259 040	2 249 295	1 142 349	1 733 102
(iii) Translation reserve	(414 467)	(681 996)	-	-
(iv) Loan loss reserve	(270 951	-	-	-
Total other reserves	2 661 043	2 112 818	1 142 349	1 733 102

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 financial assets through other comprehensive income. Translation reserve represents retranslation difference arising on retranslation of foreign investments at the reporting date.

Loan loss reserve represents an appropriation from retained earnings as additional provision above those requires by the International Financial Reporting Standards, to meet the requirements of the Reserve Bank of Malawi.

29. 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	
		2022	2021	2022	2021
	%	%	K'000	K'000	K'000
NICO Insurance Zambia Limited	Zambia	49	49	(85 817)	(116 845)
NICO Life Insurance Limited	Malawi	49	49	7 152 512	4 240 002
NICO General Insurance Limited	Malawi	49	49	815 573	385 841
NBS Bank plc	Malawi	49.9	49.9	9 433 709	3 838 494
NICO Pension Services Limited	Malawi	49	-	328 238	215 600
Total				17 644 215	8 563 092

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

29. 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 Pension Services Company Limited, NICO General Insurance Company Limited and NICO Insurance (Zambia) Limited.

	Group	
	2021	**2020**
	K'000	**K'000**
The composition of non-controlling interest is as follows:-		
NBS Bank plc	18 903 833	11 932 770
NICO General Insurance Company Limited	5 146 821	4 414 998
NICO Insurance (Zambia) Limited	1 590 179	1 403 639
NICO Life Insurance Company Limited	23 765 331	18 666 803
NICO Pension Services Company Limited	1 330 957	1 001 819
Total	50 736 221	37 420 029
The movement is analysed as follows:-		
Balance as at 1 January	37 420 029	31 940 826
Profit for the year	17 644 215	8 563 092
Revaluation of land and buildings	(154 160)	(118 972)
Fair value on financial assets	539 281	386 524
Translation difference on foreign subsidiaries	257 037	381 815
Purchase of shares in subsidiary	-	1 217 332
Dividends paid	(5 278 501)	(4 950 588)
Balance as at 31 December	50 736 221	37 420 029

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

29. Non-Controlling interest *(Continued)*

2022	**NICO General Insurance Company Limited**	**NICO Life Insurance Company Limited**	**NICO Pension Services Company Limited**	**NBS Bank Plc**	**NICO Insurance Zambia Limited**	**Total**
Location	**Malawi**	**Malawi**	**Malawi**	**Malawi**	**Zambia**	
NCI Percentage	49.00%	49.00%	49.00%	49.90%	49.00%	
Non-current assets	9 473 632	401 831 122	1 477 364	370 760 795	6 033 919	789 576 832
Current assets	46 553 122	66 478 824	1 647 189	92 539 647	9 600 495	216 819 277
Non-current liabilities	(10 809 338)	(421 430 052)	(46 920)	(387 885 048)	(8 614 851)	(828 786 209)
Current liabilities	(34 713 699)	1 620 781	(363 231)	(37 531 961)	(3 774 300)	(74 762 410)
Net assets	10 503 717	48 500 675	2 714 402	37 883 433	3 245 263	102 847 490
Carrying amount of NCI	5 146 821	23 765 331	1 330 057	18 903 833	1 590 179	50 736 221
Revenue	26 380 697	130 071 424	4 032 163	91 389 738	29 954 553	281 828 575
Profit/(loss)	1 664 434	14 596 964	669 874	18 905 228	(251 768)	35 584 732
Other comprehensive income	1 384 455	287 607	-	(278 243)	26 479	1 420 298
Total comprehensive income	3 048 889	14 884 571	669 874	18 626 985	(225 289)	37 005 030
Profit allocated to NCI	815 573	7 152 512	328 238	9 433 709	(85 817)	17 644 215
Total comprehensive income allocated to NCI	1 493 956	7 293 440	328 238	9 294 866	(72 845)	18 337 655
Cash flows from operating activities	(1 695 131)	(17 428 914)	949 536	35 691 543	1 093 983	22 001 279
Cash flows (utilised in)/ from investing activities	206 972	29 078 530	(123 022)	(29 662 518)	(439 281)	(939 319)
Cash flows utilised in financing activities, before dividends to NCI	(727 496)	(1 197 866)	(28 534)	(3 911 690)	(445 560)	(6 311 146)
Cash flows used in financing activities- cash dividends to NCI	(603 435)	(1 109 794)	-	(2 323 802)	-	(4 037 031)
Net (decrease)/increase in cash and cash equivalents	568 431	9 341 956	797 980	(206 467)	209 142	10 711 042

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

29. Non-Controlling interest *(Continued)*

2021	NICO General Insurance Company Limited	NICO Life Insurance Company Limited	NICO Pension Services Company Limited	NBS Bank Plc	NICO Insurance Zambia Limited	Total
Location	**Malawi**	**Malawi**	**Malawi**	**Malawi**	**Zambia**	
NCI Percentage	49.00%	49.00%	49.00%	49.90%	49.00%	
Non-current assets	6 519 863	368 851 637	1 484 872	288 609 060	4 623 731	670 089 163
Current assets	24 016 302	59 361 429	892 136	75 810 577	8 189 932	168 270 376
Non-current liabilities	(10 219 028)	(386 708 830)	(80 134)	(237 946 591)	(8 265 534)	(643 220 117)
Current liabilities	(11 312 309)	(3 408 132)	(252 345)	(102 559 679)	(1 678 775)	(119 211 240)
Net assets	9 004 828	38 096 104	2 044 529	23 913 367	2 869 354	75 928 182
Carrying amount of NCI	4 412 366	18 667 091	1 001 819	11 932 770	1 405 983	37 420 029
Revenue	28 006 531	121 154 481	3 267 664	60 625 193	18 894 806	231 948 675
Profit/(loss)	787 431	8 653 065	440 001	7 692 372	(238 455)	17 334 414
Other comprehensive income	716 346	(431 248)	-	76 916	182 597	544 611
Total comprehensive income	1 503 777	8 221 817	440 001	7 769 288	(55 858)	17 879 025
Profit allocated to NCI	385 841	4 240 002	215 600	3 838 494	(116 845)	8 563 092
Total comprehensive income allocated to NCI	736 851	4 028 690	215 600	3 876 875	(27 370)	8 830 645
Cash flows (utilised in)/ from operating activities	(2 779 974)	2 892 914	1 002 355	14 574 660	1 110 534	16 800 489
Cash flows (utilised in)/ from investing activities	5 403 159	13 622 261	(890 771)	655 587	(2 653 997)	16 136 239
Cash flows utilised in financing activities, before dividends to NCI	(523 970)	(2 226 275)	(42 615)	(2 478 616)	1 498 830	(3 772 646)
Cash flows used in financing activities- cash dividends to NCI	(441 000)	(2 107 000)	-	(1 888 088)	-	(4 436 088)
Net (decrease)/increase in cash and cash equivalents	1 658 215	12 181 900	68 969	10 863 543	(44 633)	24 727 994

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

		Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
30.	**Insurance premium**				
	Gross written premium-short term insurance	52 835 246	40 785 617	-	-
	Gross life insurance premium	18 187 681	13 710 519	-	-
	Gross pension premium	49 086 134	38 465 684	-	-
		120 109 061	92 961 820	-	-
	Unearned premium adjustment	(756 260)	601 472	-	-
	Reinsurance premium	(30 680 628)	(23 325 607)	-	-
	Net earned insurance premium	88 672 173	70 237 685	-	-
31.	**Fees and commission income**				
	Premium based fees	4 200 274	1 817 087	-	-
	Fund management based fees	5 328 930	4 419 472	-	-
	Information technology fees	851 843	963 277	-	-
	Other fee income	737 562	710 907	3 138 939	2 214 617
		11 118 609	7 910 743	3 138 939	2 214 617
32.	**Income from banking operations**				
	Interest income on loans	26 310 936	14 151 874	-	-
	Interest from government stocks	50 916 503	35 360 426	-	-
	Gross interest from banking	77 227 439	49 512 300	-	-
	Fees and commission income	8 039 447	4 869 753	-	-
	Profit on foreign exchange transactions	6 043 633	4 437 545	-	-
		91 310 519	58 819 598	-	-
33.	**Investment income**				
33a	**Interest**				
	Bank deposits	5 290 434	5 464 582	72 053	29 330
	Treasury bills	13 957 406	7 746 882	799 595	591 283
	Local registered stocks	9 464 148	19 970 567	-	-
	Loans and debentures	1 153 695	2 426 864	-	-
	Other interest income from other investments	60 341	30 100	-	-
	Total interest income from investments	29 926 024	35 638 995	871 648	620 613
33b	**Other**				
	Dividends from equity shares	5 383 979	5 908 478	7 042 453	6 575 039
	Dividends in specie	-	-	-	535 500
	Fair value adjustment of shares	40 044 490	31 891 199	-	-
	Fair value adjustment of investment properties	360 460	221 237	-	-
	Gain on term deposits designated at FVPTL	6 488 479	5 950 595	13 623	14 509
	Rental income	382 861	625 882	2 660	4 700
	Total other investment income	52 660 269	44 597 391	7 058 736	7 129 748
33c.	**Investment expenses**	(5 314 528)	(4 559 368)	(91 301)	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
34. Other income				
(Loss)Profit on disposal of property and equipment	(9 471)	107 511	248	366
Other sundry income	91 412	66 888	62 860	85 163
	81 941	174 399	63 108	85 529
35. Net policyholders claims and benefits				
Insurance claims and loss adjustment expenses	(110 878 760)	(50 673 041)	-	-
Recoveries from reinsurers	34 639 812	440 812	-	-
	(76 238 948)	(50 232 229)	-	-
36. Insurance contracts acquisition costs				
Commission expenses paid	(7 437 139)	(4 167 218)	-	-
Changes in deferred acquisition costs	161 383	(123 128)	-	-
	(7 275 756)	(4 290 346)	-	-
37. Interest expense				
Fixed deposits**	(12 298 900)	(7 084 843)	-	-
Interest expense on managed funds*	(15 243 760)	(9 922 089)	-	-
Investment deposits**	(446 976)	(345 236)	-	-
Savings deposits**	(11 321 754)	(9 259 962)	-	-
	(39 311 390)	(26 612 130)	-	-

*This represents interest expenses paid to the clients from the funds invested and managed by the Group on their behalf. (Refer to note 23b).

** Interest expenses incurred by the Group in its normal banking operations.

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
38a. Administrative expenses				
Auditors' remuneration -Audit fees	(624 371)	(448 703)	(99 581)	(84 975)
Other audit expenses and disbursements	(110 252)	(46 225)	(19 881)	(10 487)
Directors' remuneration: Executive (note 13)	(457 109)	(377 937)	(457 109)	(377 937)
Directors' remuneration: Non-executive (note 13)	(311 832)	(257 930)	(85 051)	(63 924)
Staff costs	(29 441 727)	(18 840 503)	(2 876 167)	(1 585 913)
Communication and accommodation expenses	(7 807 371)	(6 615 926)	(209 071)	(129 334)
Depreciation and amortisation	(3 999 331)	(4 039 299)	(25 109)	(45 602)
Amortisation of right of use asset	(1 305 423)	(1 357 579)	(26 649)	(25 538)
Sundry business charges	(4 156 489)	(5 059 350)	(260 640)	(262 134)
Repairs and maintenance	(6 314 086)	(4 601 416)	(385 336)	(282 816)
	(54 527 991)	(41 644 868)	(4 444 594)	(2 868 660)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
38b. Impairment losses on financial assets				
Loans and advances (note 7)	(2 976 470)	(3 219 120)	-	-
Client funds under management (note 9b)	(864 358)	-	-	-
Insurance receivables (note 10)	(172 330)	-	-	-
Other receivables	1 947	-	-	-
Total impairment losses on financial assets	(4 011 211)	(3 219 120)	-	-
39. Net finance costs				
Interest on loans	(524 536)	(446 033)	(463 263)	(363 151)
Interest on lease liabilities	(888 746)	(898 439)	(21 186)	(20 303)
Exchange gains/(losses)	195 218	(373 383)	20 054	16 512
	(1 218 064)	(1 717 855)	(464 395)	(366 942)

40. Basic and diluted earnings per share

The calculation of basic earnings per share at 31 December 2022 was based on profit attributable to ordinary shareholders of K19 925 181 (2021: K9 735 566) and a weighted average number of ordinary shares outstanding of 1 043 041 thousand (2021: 1 043 041 thousand) calculated as follows: -

	Group 2022	Group 2021
Profit for the year K'000	37 569 396	18 298 658
Non-controlling interest K'000	(17 644 215)	(8 563 093)
Profit attributable to owners of the parent (K'000)	19 925 181	9 735 566
Weighted average number of ordinary shares in issue throughout the year ('000)	1 043 041	1 043 041
Basic and diluted earnings per share (K)	19.10	9.33

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

	Group		Company	
	2022 K'000	2021 K'000	2022 K'000	2021 K'000
41. Dividends				
Unpaid dividends at the beginning of the year	331 197	-	331 197	-
Dividends declared in the year	8 407 822	7 954 705	3 129 121	3 003 958
Dividends paid	(4 757 937)	(7 109 008)	(2 012 853)	(2 672 761)
Unpaid dividend at the end of the year*	3 981 082	331 197	1 447 465	331 197

*The unpaid dividends related to dividend payable to Sanlam Emerging Markets (Pty) Limited, Africap LLC and Botswana Insurance Holdings Limited. The dividends were unpaid due to unavailability of foreign currency in the market. The amount is included in note 23a to these consolidated and separate financial statements.

42. Risk Management

42.1 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 risk management 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.1 Risk governance structure *(Continued)*

- **Credit Committee and Asset Liability Committee** *(Continued)*
  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.

- **Group Risk Management and Compliance Function**
  Coordinates the risk management processes and assisting the Group Risk Committee in aiding identification of risks.

42.2 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 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 Risk Committee is assisted in these functions by the Risk Management and Compliance Services functions.

42.3 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.3 Capital Risk Management *(Continued)*

various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

42.3.1 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.

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.

42.3.2 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.

42.3.3 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.3 Capital Risk Management *(Continued)*

42.3.3 Capital Risk Management - Life Business *(Continued)*

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:

	2022 K'm	2021 K'm
Minimum capital		
Share capital	33	33
Share premium	1 358	1 358
Total	1 391	1 391

Solvency margin	With waiver		Without waiver	
	2022 %	**2021 %**	**2022 %**	**2021 %**
Life fund	100	106	100	100
Shareholder's fund	1 377	1 295	639	506
Whole company	190	183	140	128

The company has been granted special dispensation to comply with the Minimum Capital and Solvency Directive by 24 November 2024. 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.

The company has met the minimum capital for life insurers and solvency ratio for life fund, shareholders fund and for the whole company, with and without the waiver, in the year.

42.3.4 Capital Risk Management – Banking Business

Regulatory capital

The Reserve Bank of Malawi sets and monitors capital requirements for the banking operations.

In implementing current capital requirements, Reserve Bank of Malawi requires the banking business to maintain a prescribed ratio of total capital to total risk-weighted assets as below.

The Group's banking business 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 reflect the varying levels of risk attached to assets and exposures not recognized in the statement of financial position.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*
42.3 Capital Risk Management *(Continued)*

42.3.4 Capital Risk Management – Banking Business *(Continued)*

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's banking operations have complied with all externally imposed capital requirements throughout the year.

There has been no material changes in the Group's management of capital during the year.

The Group's banking operations regulatory capital position as at 31 December 2022 was as follows: -

Capital Adequacy Requirement

	Consolidated and Separate	
	2022	**2021**
Tier 1 capital	**K'000**	**K'000**
Capital management		
Share capital and share premium	13 559 473	13 559 474
Retained earnings and other reserves	23 562 566	9 567 575
Total tier 1 capital	37 122 040	23 127 049
Tier 2 capital		
Revaluation reserve on property, loan loss reserve less 50% of investment in a subsidiary	4 941 061	4 977 726
Total tier 2 capital	4 941 061	4 977 726
Total regulatory capital	42 063 101	28 104 775
Risk weighted assets	198 138 605	148 151 667
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	18.78%	15.61%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	21.28%	18.97%

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%.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*
42.3 Capital Risk Management *(Continued)*

42.3.4 Capital Risk Management – Banking Business *(Continued)*

Prudential Aspects of Bank's Liquidity *(Continued)*

As at 31 December 2022 the Bank's liquidity Ratio 1 was 40.09% (2021: 31.55%)

- 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 2022 the Bank's Liquidity Ratio 2 was 40.10% (2021: 31.50%)

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 2022.

42.3.5 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.

Management regard share capital, share premium, perpetual preference shares, retained earnings, Long term debt and other reserves as 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:

	2022	**2021**
Solvency margin	**K'000**	**K'000**
Net assets available to meet solvency	5 680 330	4 987 915
Net premium	13 255 209	11 299 709
Solvency margin (%)	42.9	44.1
Minimum requirement by regulator (Reserve Bank of Malawi) (%)	20	20

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.3 Capital Risk Management *(Continued)*

42.3.5 Capital management – Short-term Insurance Business *(Continued)*

	2022	2021
Solvency margin	K'000	K'000
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

(a) 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;

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	
	2022	**2021**
	K'000	**K'000**
Total shareholder funds	3 351 083	2 985 200
Minimum required share capital	568 751	490 785
Company issued share capital	807 684	696 964
Excess	238 932	206 179
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 met the minimum solvency margins as required by Section 36(2) of the Insurance Act, 1997 (as amended). The Company recorded a solvency margin of 14.5% (2021: 15%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 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.

42.4.1 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-22			31-Dec-21
		Gross	Net	Net	
	Note	Amount	Impairment	Amount	Amount
Balance with central bank	5	15 104 238	1 525	15 102 713	22 808 614
Short term deposits	6a	54 553 325	1 018	54 552 307	51 933 444
Placements with other banks	6b	54 316 201	5 432	54 310 769	28 454 738
Local registered stocks	16	371 541 511	481 234	371 060 277	327 813 150
Promissory notes	16	7 408 831	710	7 408 121	6 149 836
Treasury Bills	16	22 567 288	2 476	22 564 812	30 340 872
Loans and advances to customers - loans & overdrafts	7	134 996 641	2 976 936	132 019 705	76 983 121
Loans and advances to customers - finance lease	7	1 426 777	45 216	1 381 561	1 566 408
Loans and advances to customers - mortgage advances	7	4 771 236	376 382	4 394 854	3 633 096
Insurance receivables	10	46 574 844	985 959	45 588 885	21 206 784
Loans and debentures	18	1 213 370	-	1 213 370	7 328 852
Client funds under management	9	136 890 125	2 151 308	134 738 817	95 041 405
Other trade receivables	9	2 140 223	180 450	1 959 773	19 885 535
TOTAL RECOGNISED		853 504 610	7 208 646	846 295 964	693 145 855
Loan commitments		4 446 819	4 447	4 442 372	6 304 258
Letters of credit and guarantee		17 625 152	17 625	17 607 527	20 339 645
TOTAL UNRECOGNISED		22 071 971	22 072	22 049 899	26 643 903
TOTAL		875 576 581	7 230 718	868 345 863	719 789 758

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.1 Exposure of credit risk *(Continued)*

Credit Risk Exposure based on stage of asset per IFRS 9

Stage 1: 12 Month ECL	Note	31-Dec-22 Gross Amount	31-Dec-22 Impairment	31-Dec-22 Net Amount	31-Dec-21 Net Amount
Balance with central bank		15 104 238	1 525	15 102 713	22 808 614
Short term deposits		54 553 325	1 018	54 552 307	51 933 444
Placements with other banks		54 316 201	5 432	54 310 769	28 454 738
Local registered stocks		371 541 511	481 234	371 060 277	327 813 150
Promissory notes		7 408 831	710	7 408 121	6 149 836
Treasury Bills		22 567 288	2 476	22 564 812	30 340 872
Loans and advances to customers - loans & overdrafts		129 463 699	1 196 985	128 266 714	74 880 763
Loans and advances to customers - finance lease		1 298 944	5 312	1 293 632	1 390 603
Loans and advances to customers - mortgage advances		3 589 444	-	3 589 444	2 989 039
Outstanding premiums		45 237 645	760 277	44 477 368	20 861 762
Loans and debentures		1 213 370	-	1 213 370	7 328 852
Client funds under management		136 890 125	2 151 308	134 738 817	95 041 405
Other trade receivables		2 140 223	180 450	1 959 773	19 885 535
Total recognised		845 324 844	4 786 727	840 538 117	689 878 613
Loan commitments		4 446 819	4 447	4 442 372	6 304 258
Letters of credit and guarantee		17 625 152	17 625	17 607 527	20 339 645
Total unrecognised		22 071 971	22 072	22 049 899	26 643 903
Total		867 396 815	4 808 799	862 588 016	716 522 516

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For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

Stage 2: Lifetime ECL

	31-Dec-22 Gross Amount K'000	31-Dec-22 Impairment K'000	31-Dec-22 Net Amount K'000	31-Dec-21 Net Amount K'000
Loans and advances to customers - loans & overdrafts	3 505 079	268 937	3 236 142	1 108 401
Loans and advances to customers - finance lease	56 051	3 339	52 712	-
Loans and advances to customers - mortgage advances	397 547	-	397 547	170 636
Insurance receivables	1 337 199	225 682	1 111 517	345 022
Total recognised	5 295 876	497 958	4 797 918	1 624 059
Stage 3: Lifetime ECL				
Loans and advances to customers - loans & overdrafts	2 027 863	1 511 014	516 849	993 957
Loans and advances to customers - finance lease	71 782	36 565	35 217	175 805
Loans and advances to customers - mortgage advances	784 245	376 382	407 863	473 421
Total recognised	2 883 890	1 923 961	959 929	1 643 183

42.4.2 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 2021 K'000	Net movement during the year K'000	Loss allowance as at 31 December 2022 K'000
Balance with central bank	2 302	(777)	1 525
Short term deposits	1 529	(511)	1 018
Placements with other banks	2 845	2 587	5 432
Local registered stocks	430 788	50 446	481 234
Promissory notes	598	112	710
Treasury Bills	3 714	(1 238)	2 476
Loans and advances to customers - loans & overdrafts	2 833 485	143 451	2 976 936
Loans and advances to customers - finance lease	64 332	(19 116)	45 216
Loans and advances to customers - mortgage advances	91 440	284 942	376 382
Insurance receivables	552 353	433 606	985 959
Client funds under management	1 286 915	864 358	2 151 308
Other trade receivables	118 654	61 796	180 450
Loan commitments	6 311	(1 864)	4 447
Letters of credit and guarantee	20 360	(2 735)	17 625
Total recognised	5 415 661	1 815 057	7 230 718

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.2 Allowances for impairment *(Continued)*

Stage 1:12 month ECL

	Loss allowance as at 31 December 2021 K'000	Net movement during the year K'000	Loss allowance as at 31 December 2022 K'000
Balance with central bank	2 302	(777)	1 525
Short term deposits	1 529	(511)	1 018
Placements with other banks	2 845	2 587	5 432
Local registered stocks	430 788	50 446	481 234
Promissory notes	598	112	710
Treasury Bills	3 714	(1 238)	2 476
Loans and advances to customers- loans & overdrafts	6 144	1 190 841	1 196 985
Loans and advances to customers- finance lease	0	5 312	5 312
Loans and advances to customers- mortgage advances	0	0	0
Insurance Receivable	521 335	238 942	760 277
Client Funds under Management	1 286 950	864 358	2 151 308
Other trade receivables	118 654	61 796	180 450
Loan commitments	6 311	(1 864)	4 447
Letters of credit and guarantee	20 360	(2 735)	17 625
	2 401 530	2 407 269	4 808 799

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.2 Allowances for impairment *(Continued)*

Stage 2: Lifetime ECL

	Loss allowance as at 31 December 2021 K'000	Net movement during the year K'000	Loss allowance as at 31 December 2022 K'000
Loans and advances to customers- loans & overdrafts	2 143 173	(1 874 236)	268 937
Loans and advances to customers- finance lease	-	3 339	3 339
Insurance receivables	31 018	194 664	225 682
	2 174 191	(1 676 233)	497 958
Stage 3: lifetime ECL			
Loans and advances to customers- loans & overdrafts	684 168	826 846	1 511 014
Loans and advances to customers- finance lease	64 332	(27 767)	36 565
Loans and advances to customers- mortgage advances	91 440	284 942	376 382
	839 940	1 084 021	1 923 961

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.3 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 K'000	30-59 days K'000	60-89 days K'000	90-180 days K'000	More than 181 days K'0000	Gross carrying amount K'000	Loss allowance K'000	Total K'000
2022								
Balance with central bank	15 104 238	-	-	-	-	15 104 238	(1 525)	15 102 713
Short term deposits	45 711 512	3 169 826	-	1 355 792	4 316 195	54 553 325	(1 018)	54 552 307
Placements with other banks	54 316 201	-	-	-	-	54 316 201	(5 432)	54 310 769
Treasury Notes	366 782 590	-	-	-	4 758 922	371 541 512	(481 234)	371 060 278
Promissory notes	7 408 831	-	-	-	-	7 408 831	(710)	7 408 121
Treasury Bills	20 430 971	-	108 454	-	2 027 863	22 567 288	(2 476)	22 564 812
Loans and advances to customers - loans and overdrafts	134 924 859	-	-	-	71 782	134 996 641	(2 976 936)	132 019 705
Loans and advances to customers - finance lease	1 426 777	-	-	-	-	1 426 777	(45 216)	1 381 561
Loans and advances to customers -mortgage advances	3 986 991	-	-	-	784 245	4 771 236	(376 382)	4 394 854
Insurance receivables	41 407 960	1 072 120	1 389 894	1 252 629	1 452 241	46 574 844	(985 959)	45 588 885
Loans and debentures	1 393 820	-	-	-	-	1 393 820	-	1 393 820
Client funds under management	136 890 125	-	-	-	-	136 890 125	(2 151 308)	134 738 817
Other trade receivables	1 985 963	-	84 051	17 929	52 280	2 140 223	(180 450)	1 959 773
Total	831 590 388	4 241 946	1 582 399	2 626 350	13 463 528	853 504 611	(7 208 646)	846 295 965
Loan commitments	4 446 819	-	-	-	-	4 446 819	(4 447)	4 442 372
Letters of credit and guarantee	17 625 152	-	-	-	-	17 625 152	(17 625)	17 607 527
Total unrecognised	22 071 971	-	-	-	-	22 071 971	(22 072)	22 049 899
Total	853 662 359	4 241 946	1 582 399	2 626 350	13 463 528	875 576 582	(7 230 718)	868 345 864

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 — Continued

42. Risk Management *(Continued)*

42.4 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 K'000	30-59 days K'000	60-89 days K'000	90-180 days K'000	More than 181 days K'0000	Gross carrying amount K'000	Loss allowance K'000	Total K'000
2021								
Balance with central bank	22 810 916	-	-	-	-	22 810 916	(2 302)	22 808 614
Short term deposits	51 934 972	-	-	-	-	51 934 972	(1 529)	51 933 443
Placements with other banks	28 457 583	-	-	-	-	28 457 583	(2 845)	28 454 738
Treasury Notes	328 243 939	-	-	-	-	328 243 939	(430 788)	327 813 151
Promissory notes	6 150 434	-	-	-	-	6 150 434	(598)	6 149 836
Treasury Bills	30 236 132	-	108 454	-	-	30 344 586	(3 714)	30 340 872
Loans and advances to customers - loans and overdrafts	74 886 907	3 251 574	-	-	1 678 125	79 816 606	(2 833 485)	76 983 121
Loans and advances to customers - finance lease	1 390 603	-	-	-	240 138	1 630 741	(64 332)	1 566 409
Loans and advances to customers -mortgage advances	2 989 039	170 636	-	-	564 861	3 724 536	(91 440)	3 633 096
Insurance receivables	17 161 576	1 214 983	1 523 158	528 254	1 331 167	21 759 138	(552 353)	21 206 785
Loans and debentures	7 328 852	-	-	-	-	7 328 852	-	7 328 852
Client funds under management	94 335 355	-	-	-	1 993 000	96 328 355	(1 286 950)	95 041 405
Other trade receivables	20 004 189	-	-	-	-	20 004 189	(118 654)	19 885 535
Total	685 930 497	4 637 193	1 631 612	528 254	5 807 291	698 534 847	(5 388 990)	693 145 857
Loan commitments	6 310 569	-	-	-	-	6 310 569	(6 311)	6 304 258
Letters of credit and guarantee	20 360 005	-	-	-	-	20 360 005	(20 360)	20 339 645
Total unrecognised	26 670 574	-	-	-	-	26 670 574	(26 671)	26 643 903
Total	712 601 071	4 637 193	1 631 612	528 254	5 807 291	725 205 421	(5 415 661)	719 789 760

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.4 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

2022	Balance with central bank	Short term deposits	Placements with other banks	Local registered stock	Promissory notes	Treasury Bills	Loans and advances to customers	Insurance receivables	Loans & debentures	Client fund under management	Other trade receivables	Loan commitments	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	K'000
Carrying amount														
Concentration by sector														
Agriculture, forestry, fishing and hunting	-	-	-	-	-	-	17 368 764	133 030	-	-	6 764	-	-	17 508 558
Mining and quarrying	-	-	-	-	-	-	2 780	172 090	-	-	10	-	-	174 879
Manufacturing	-	-	-	-	-	-	11 281 833	212 719	-	-	5 431	-	-	11 499 983
Electricity, gas, water and energy	-	-	-	-	-	-	14 351 553	2 155 843	1 213 370	-	2 066	-	-	17 722 832
Construction	-	-	-	-	-	-	2 932 815	42 953	-	-	5 655	-	-	2 981 423
Wholesale and retail trade	-	-	-	-	-	-	9 987 084	202 921	-	-	4 939	-	-	10 194 944
Restaurants and hotels	-	-	-	-	-	-	1 266 561	117 735	-	-	4 529	-	-	1 388 825
Transport, storage and communications	-	-	-	-	-	-	1 389 949	231 282	-	-	6 542	-	-	1 627 773
Financial services	15 104 238	54 553 325	54 316 201	371 541 511	7 408 831	22 567 288	5 450 320	40 715 090	-	136 890 125	436 160	-	-	708 983 089
Community, social and personal services	-	-	-	-	-	-	73 634 140	786 895	-	-	90 814	-	-	74 511 849
Real estate	-	-	-	-	-	-	123 582	101 541	-	-	487	-	-	225 610
Other sectors	-	-	-	-	-	-	3 405 273	1 702 745	-	-	1 576 826	4 446 819	17 625 152	28 756 815
Total carrying amount	15 104 238	54 553 325	54 316 201	371 541 511	7 408 831	22 567 288	141 194 654	46 574 844	1 213 370	136 890 125	2 140 223	4 446 819	17 625 152	875 576 581

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42. Risk Management (Continued)
42.4 Credit Risk Management (Continued)

42.4.4 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

2021	Balance with central bank K'000	Short term deposits K'000	Placements with other banks K'000	Local registered stock K'000	Promissory notes K'000	Treasury Bills K'000	Loans and advances to customers K'000	Insurance receivables K'000	Loans & debentures K'000	Client fund under management K'000	Other trade receivables K'000	Loan commitments K'000	Letters of credit and guarantee K'000	Total K'000
Carrying amount														
Concentration by sector														
Agriculture, forestry, fishing and hunting	-	-	-	-	-	-	19 483 728	703 973	-	-	-	-	-	20 187 701
Mining and quarrying	-	-	-	-	-	-	84 238	20 175	-	-	-	-	-	104 413
Manufacturing	-	-	-	-	-	-	6 546 950	80 271	-	-	-	-	-	6 627 221
Electricity, gas, water and energy	-	-	-	-	-	-	8 810 314	714 959	1 904 000	-	-	-	-	11 429 273
Construction	-	-	-	-	-	-	2 103 035	69 622	-	-	-	-	-	2 172 657
Wholesale and retail trade	-	-	-	-	-	-	9 762 215	231 915	-	-	-	-	-	9 994 130
Restaurants and hotels	-	-	-	-	-	-	651 738	227 162	-	-	-	-	-	878 900
Transport, storage and communications	-	-	-	-	-	-	1 404 805	176 704	5 424 852	-	-	-	-	7 006 361
Financial services	22 808 613	51 933 444	28 454 738	327 813 151	6 149 836	30 340 872	8 400 358	15 411 868	-	95 041 405	-	-	-	586 354 285
Community, social and personal services	-	-	-	-	-	-	24 590 670	1 711 423	-	-	-	-	-	26 302 093
Real estate	-	-	-	-	-	-	344 574	12 503	-	-	-	-	-	357 077
Other sectors	-	-	-	-	-	-	-	1 846 209	-	-	19 885 535	6 304 258	20 339 645	48 375 647
Total carrying amount	22 808 613	51 933 444	28 454 738	327 813 151	6 149 836	30 340 872	82 182 625	21 206 784	7 328 852	95 041 405	19 885 535	6 304 258	20 339 645	719 789 758

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.5 Cash and cash equivalents

The Group's cash and cash equivalents are held with financial institution counterparties that have high credit ratings.

42.4.6 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.

42.4.7 Placements

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 2022 the placements were done by the group's banking business with the Reserve Bank of Malawi, financial institutions and a Malawi Government agency.

42.4.8 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.

42.4.9 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.10 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.

42.4.11 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.

42.4.12 Investment in shares

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.

42.4.13 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 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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42.4.14 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

The table below summarises the principal macro-economic indicators included in the economic scenarios used at December 31, 2022 for the year 2022 for Malawi which is the country here the Group operates and therefore is the country that has a material impact on ECLs.

List of macro-economic variables used	Definition	Scenario	2022	2021
Nominal GDP	(US$ at PPP)	Base	26.32	23.95
		Favourable	26.58	24.19
		Worst	25.80	23.35
		Weighted	26.24	23.818
Real GDP	(US$)	Base	1 612 365.0	1 580 628.9
		Favourable	1 628 488.7	1 596 435.2
		Worst	1 580 278.7	1 541 113.2
		Weighted	1 607 527.9	1 571 935.5
Real private consumption	(US$)	Base	1 524 305.0	1 506 158.2
		Favourable	1 539 548.1	1 521 219.8
		Worst	1 493 971.3	1 468 504.2
		Weighted	1 519 732.1	1 497 874.3
Exchange rate	Malawi kwacha per USD (average)	Base	1 266.50	850.90
		Favourable	1 253.84	872.17
		Worst	1 291.96	829.63
		Weighted	1 270.30	848.77
Lending interest rate	Average borrowing rate on loans	Base	26.0	23.0
		Favourable	25.7	20.7
		Worst	26.5	24.2
		Weighted	26.1	22.9
Public debt	USD value of sovereign debt	Base	7 889 279.0	5 957 858.6
		Favourable	7 731 493.4	5 808 912.1
		Worst	8 047 853.0	6 255 751.5
		Weighted	7 897 168.3	6 017 437.2
Deposit interest rate	Average interest rate on deposits	Base	8.0	10.3
		Favourable	8.2	10.8
		Worst	7.8	9.8
		Weighted	8.0	10.3
GDP per head	($ at PPP)	Base	1 270.0	1 190.0
		Favourable	1 282.7	1 201.9
		Worst	1 244.7	1 178.1
		Weighted	1 266.2	1 188.81
Goods: exports	USD value of good exported	Base	0.95	1.10
		Favourable	0.97	1.10
		Worst	0.93	1.00
		Weighted	0.95	1.07
Goods: exports	USD value of good imported	Base	(2.81)	(2.99)
		Favourable	(2.84)	(2.92)
		Worst	(2.75)	(3.14)
		Weighted	(2.80)	(3.021)
Effective interest rate	Percentage	Base	0.30	1.10
		Favourable	0.30	1.10
		Worst	0.30	1.10
		Weighted	0.30	1.10

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years. Probabilities of the three scenarios occurring in 2023 and beyond have been attached to the three forecast scenarios based on management view of the future economic outlook. A weighted average ECL for the three scenarios has been derived as follows; Base case 30%; Worse case 50% and Favourable case 30%; (2022: Base case 30%; Worse case 50% and Favourable case 20%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.4 Credit Risk Management *(Continued)*

42.4.15 Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified with the aim of arriving at a repayment plan that enables the counterparty to settle the outstanding liability without significant difficulty. Such modified or restructured facilities are flagged in the Bank's core Banking system to enable ease of identification. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL)

modified during the period	**Year ended 2021 K 000**	**Year ended 2020 K 000**
Gross carrying amount before modification	2 084 499	657 210
New restructures	5 077 095	3 908 553
Loss allowance before modification	(14 603)	(2 145 848)
Net amortised cost before modification	7 146 991	2 419 915
Repayment post modification	(3 883 488)	(335 417)
Net amortised cost after modification	3 263 503	2 084 498

42.5 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 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.5 Liquidity Risk Management *(Continued)*

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.

	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
2022						
Assets						
Cash and cash equivalents	96 525 115	-	-	-	96 525 115	96 525 115
Short term investments	-	4 820 632	-	-	4 820 632	4 820 632
Government securities	51 678 223	26 564 662	42 072 935	276 381 178	396 696 998	396 696 998
Placements with other banks	54 316 201	-	-	-	54 316 201	54 316 201
Loans and advances to customers	3 202 237	19 002 810	27 185 979	151 880 127	201 271 153	137 796 120
Insurance receivables	1 336 307	867 820	1 266 119	4 711 555	8 181 801	8 181 801
Investment in equity shares	-	-	-	227 015 464	227 015 464	227 015 464
Loans and debentures	-	-	-	(1 213 370)	1 213 370	1 213 370
Client fund under management	44 202 903	21 078 368	58 243 576	11 213 970	134 738 817	134 738 817
Other receivables	8 054 859	201 344	2 120 726	-	10 376 929	12 580 668
Total assets	259 315 845	72 535 636	130 889 335	672 415 664	1 135 156 480	1 073 885 206
LiabilitiesTrade and other payables	39 095 923	46 974	1 873 530	5 006 411	46 022 838	46 179 759
Client fund payable	55 148 578	33 724 038	33 096 267	12 766 712	134 735 595	134 735 595
Deposits to customers	328 370 731	47 468 493	3 776 184	249 918	379 865 326	355 830 188
Insurance contract payables	1 354 269	2 840 101	32 158 333	6 830 040	43 182 743	43 182 743
Interest bearing loans and Borrowings	23 609	403 337	1 211 589	8 547 946	10 186 481	9 406 986
Long-term policy holders liabilities	-	-	-	423 933 598	422 933 598	423 933 598
Total liabilities	423 993 110	84 482 943	72 115 903	456 334 625	1 036 926 581	1 012 268 869
Net liquidity gap	**(164 677 265)**	**(11 947 307)**	**58 773 432**	**216 081 039**	**98 229 899**	
Cumulative liquidity gap	**(164 677 265)**	**(176 624 572)**	**(117 851 140)**	**98 229 899**		

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For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.5 Liquidity Risk Management *(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
2021						
Assets						
Cash and cash equivalents	88 616 964	-	-	-	88 616 964	88 616 964
Government securities	9 023 475	6 418 112	21 687 906	442 607 972	479 737 465	364 265 958
Placements with other banks	-	-	-	28 454 738	28 454 738	28 454 738
Loans and advances to customers	3 365 068	330 611	16 495 434	108 480 211	128 671 324	82 182 625
Insurance receivables	3 203 230	1 698 914	1 749 299	825 431	7 476 874	7 476 874
Investment in equity shares	-	-	-	194 920 529	194 920 529	194 920 529
Loans and debentures	-	-	3 228 000	4 100 852	7 328 852	7 328 852
Client fund under management	3 521 699	22 365 319	69 154 387	-	95 041 405	95 041 405
Other receivables	9 000 085	11 946 747	1 804 870	-	22 751 702	22 751 702
Total assets	116 730 521	42 759 703	114 119 896	779 389 733	1 052 999 853	891 039 647
Liabilities						
Trade and other payables	8 475 061	96 577 799	4 920 373	-	109 973 233	109 973 233
Client fund payable	15 700 721	33 728 294	39 068 595	6 308 209	94 805 819	94 805 819
Deposits to customers	120 899 242	104 687 598	1 222 199	102 190	226 911 229	210 665 104
Insurance contract payables	1 349 268	2 840 101	5 420 201	9 009 284	18 618 854	18 618 854
Interest bearing loans and Borrowings	15 223	31 511	2 899 349	10 397 325	13 343 408	11 018 904
Long-term policyholders liabilities	-	-	-	386 379 904	386 379 904	386 379 904
Total liabilities	146 439 515	237 865 303	53 530 717	412 196 912	850 032 447	831 461 818
Net liquidity gap	**(29 708 994)**	**(195 105 600)**	**60 589 179**	**367 192 821**	**202 967 406**	
Cumulative liquidity gap	**(29 708 994)**	**(224 814 594)**	**(164 225 415)**	**202 967 406**		

42.6 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.6 Market Risk Management *(Continued)*

42.6.1 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.

	USD	GBP	EURO	ZAR	TOTAL
Consolidated	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
At 31 December 2022					
Assets					
Balances with correspondent banks	951 521	7 450 906	2 336 911	21 898	10 761 236
Cash balances	898 591	1 374 065	40 466	1 380	2 314 502
Loans and advances to customers	676 997	-	-	-	676 997
Outstanding premiums	345 120	-	-	-	345 120
Due from Reinsurance companies	1 892 236	-	-	-	1 892 236
Other Receivables	17 452 891	-	-	6	17 452 897
Total assets	22 217 356	8 824 971	2 377 377	23 284	33 442 988
Liabilities					
Customer deposits	986 752	24 748 905	2 372 084	15 375	28 123 116
Outstanding claims	828 898	-	-	-	828 898
Due from Reinsurance companies	236 202	-	-	-	236 202
Other liabilities	1 530 988	1 986 592	45	-	3 517 625
Total liabilities	3 582 840	26 735 497	2 372 129	15 375	32 705 841
Net position	(18 634 516)	(17 910 526)	5 248	7 909	737 147

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)	(73 714)	(215 810)	73 714	147 429	
Change in equity (K'000)	(51 600)	(103 200)	51 600	103 200	

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For the year ended 31 December 2022 Continued

42. Risk Management *(Continued)*

42.6 Market Risk Management *(Continued)*

42.6.1 Currency risk *(Continued)*

	USD	GBP	EURO	ZAR	TOTAL
Consolidated	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
At 31 December 2021					
Assets					
Balances with correspondent banks	2 189 341	475 429	2 355 944	38 939	5 059 653
Cash balances	1 755 530	14 943	81 930	86 085	1 938 488
Loans and advances to customers	643 691	-	-	-	643 691
Outstanding premiums	134 070	-	0.00	-	134 070
Due from Reinsurance companies	227 743	-	-	-	227 743
Other Receivables	11 896 781	-	5 840 923	6	17 737 710
Total assets	16 847 156	490 372	8 278 797	125 030	25 741 355
Liabilities					
Customer deposits	11 817 627	772 282	2 975 375	24 698	15 589 982
Outstanding claims	305 629	-	-	-	305 629
Due from Reinsurance companies	266 918	-	-	-	266 918
Other liabilities	8 490 525	9 209	29	12	8 499 775
Total liabilities	20 880 699	781 491	2 975 404	24 710	24 662 304
Net position	(4 033 543)	(291 119)	5 303 393	100 320	1 079 051

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)	(107 905)	(215 810)	107 905	215 810	
Change in equity (K'000)	(75 534)	(151 067)	75 534	151 067	

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

42. Risk Management *(Continued)*

42.6 Market Risk Management *(Continued)*

42.6.1 Currency risk (Continued)

	USD K'000	GBP K'000	EURO K'000	ZAR K'000	TOTAL K'000
Company					
At 31 December 2021					
Assets					
Balances with banks	80 260	-	-	-	80 260
Total assets	80 260	-	-	-	80 260
Liabilities					
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Net position	80 260	-	-	-	80 260
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)	8 026	16 052	(8 026)	(16 052)	
Change in equity (MK'000)	5 618	9 019	(4 509)	(9 019)	
At 31 December 2022					
Assets					
Balances with banks	64 422	-	-	-	64 422
Total assets	64 422	-	-	-	64 422
Liabilities					
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Net position	64 422	-	-	-	64 422
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)	6 442	12 884	(6 442)	(12 884)	
Change in equity (MK'000)	4 509	9 019	(4 509)	(9 019)	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

42. Risk Management (Continued)

42.6 Market Risk Management (Continued)

42.6.2 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.

Exposure to equity price risk

As at 31 December 2022 the Group had the following financial assets that are exposed to equity risk.

	2022 K'000	2021 K'000
Financial assets		
Blantyre Hotels plc	2 924 305	3 191 383
Standard Bank Malawi plc	82 240 667	62 975 772
Airtel Malawi plc	7 415 380	5 608 400
Illovo Sugar Malawi plc	411 523	239 438
Press Corporation plc	13 572 510	12 277 354
Old Mutual plc	1 004 709	1 946 369
National Bank of Malawi plc	46 540 855	25 380 057
National Investment Trust plc	1 107 317	799 809
FMB Capital Holdings plc	746 451	490 550
Telekom Networks Malawi plc	13 168 032	20 824 262
Mpico plc	1 276 350	933 325
Airtel Networks Zambia plc	12 615	10 863
ICON Properties plc	44 832 610	51 104 182
NICO Holdings plc (held by Administration Fund)	2 552 623	2 316 150
NBS Bank plc	2 406 780	424 492
FDH Bank plc	1 169 081	1 185 750
Sunbird Tourism Limited	10 035	-
Total listed shares	221 391 843	189 708 156

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:

	2022 K'000	2021 K'000
Increase/decrease in equity	22 139 149	18 970 816
Increase/decrease in profit or loss	22 139 149	18 970 816

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)
42.6 Market Risk Management (Continued)
42.6.2 Other price risk (Continued)
Exposure to equity price risk (Continued)

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.

42.6.3 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.

Exposure to interest rate risk

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 2022						
Financial assets						
Cash and cash equivalents	88 302 457	8 217 158	5 500	-	96 525 115	96 525 115
Placements with other banks	54 316 201	-	-	-	54 316 201	54 316 201
Loans and advances to Customers	3 202 237	19 002 810	115 591 073	-	137 796 120	137 796 120
Client funds management	44 202 902	21 078 368	58 243 576	11 213 971	134 738 817	134 738 817
Other receivables	-	-	-	12 801 246	12 801 246	12 801 246
Insurance receivables	-	-	-	7 628 845	7 628 845	7 628 845
Government securities	27 730 372	24 469 625	349 317 633	-	401 517 630	401 517 630
\Investment in equity shares	-	-	-	227 015 464	227 015 464	227 015 464
Loans and debentures	-	-	1 213 370	-	1 213 370	1 213 370
Total assets	217 754 169	72 767 961	524 371 152	258 659 526	1 073 552 808	1 078 152 882

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)
42.6 Market 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 2022						
Financial liabilities						
Trade and other payables	-	25 552 040	-	20 470 798	46 022 838	46 179 759
Client funds payables	55 148 578	33 724 038	33 096 267	12 766 712	134 735 595	134 735 595
Deposits and customer accounts	304 335 593	47 468 493	4 026 102	-	355 830 188	355 830 188
Insurance Payables	-	-	-	43 182 743	43 182 743	43 182 743
Interest bearing loans and borrowings	23 609	70 825	9 312 552	-	9 406 986	9 406 986
Long-term policyholders liabilities	-	-	317 607 584	105 326 014	422 933 598	422 933 598
Total financial liabilities	359 507 780	106 815 396	364 042 505	181 746 267	1 012 111 948	1 012 268 869
Interest sensitivity gap	(141 753 611)	(34 047 435)	160 328 647	76 913 251	61 440 860	65 884 013
31 December 2021						
Financial assets						
Cash and cash equivalents	87 985 848	631 116	-	-	88 616 964	88 616 964
Short-term investments	-	-	3 271 849	-	3 271 849	3 271 849
Placements with other banks	-	28 454 738	-	-	28 454 738	28 454 738
Loans and advances to Customers	3 365 068	330 611	78 486 946	-	82 182 625	82 182 625
Client funds management	3 521 699	22 365 319	69 154 387	-	95 041 405	95 041 405
Other receivables	-	-	-	22 751 702	22 751 702	22 751 702
Insurance receivables	-	-	-	21 206 784	21 206 784	21 206 784
Government securities	15 243 894	19 479 971	326 308 146	-	361 032 011	361 032 011
Investment in equity shares	-	-	-	194 920 529	194 920 529	194 920 529
Loans and debentures	-	-	7 328 852	-	7 328 852	7 328 852
Total assets	110 116 509	71 261 755	484 550 180	238 879 015	904 807 459	904 807 459
31 December 2021						
Financial liabilities						
Trade and other payables	-	96 577 799	-	13 395 434	109 973 233	109 973 233
Client funds payables	15 700 721	33 728 294	39 068 595	6 308 209	94 805 819	94 805 819
Deposits and customer accounts	104 653 119	104 687 598	1 324 387	-	210 665 104	210 665 104
Insurance Payables	-	-	-	18 618 854	18 618 854	18 618 854
Interest bearing loans and borrowings	15 223	31 511	10 972 170	-	11 018 904	11 018 904
Long-term policyholders liabilities	-	-	299 393 763	86 986 141	386 379 904	386 379 904
Total financial liabilities	120 369 063	235 025 202	350 758 915	125 308 638	831 461 818	831 461 818
Interest sensitivity gap	(10 252 554)	(163 763 447)	133 791 265	113 570 377	73 345 641	73 345 641

42. Risk management (Continued)

42.6 Market 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	interest bearing K'000	Total K'000
Company					
31 December 2022					
Financial assets					
Cash and cash equivalents	9 642 156	-	-	-	9 642 156
Amount due from group companies	-	-	-	318 778	318 778
Other receivables	-	-	-	485 299	330 496
Total financial assets	9 642 156	-	-	804 077	10 446 233
Financial liabilities					
Trade and other payables	-	-	-	3 098 462	3 098 462
Interest bearing loans and Borrowings	-	-	2 291 667	-	2 291 667
Total financial liabilities	-	-	2 291 667	3 098 462	5 390 129
Interest sensitivity gap	**9 642 156**	**-**	**(2 291 667)**	**(2 294 385)**	**(5 056 104)**
Company					
31 December 2021					
Financial assets					
Cash and cash equivalents	5 976 873	-	-	-	5 976 873
Amount due from group companies	-	-	-	106 574	106 574
Other receivables	-	-	-	330 496	330 496
Total financial assets	5 976 873	-	-	437 070	6 413 943
Financial liabilities					
Trade and other payables	-	-	-	1 105 473	1 105 473
Amounts due to Group companies	-	-	-	2 697	2 697
Interest bearing loans and Borrowings	-	-	2 750 000	-	2 750 000
Total financial liabilities	-	-	2 750 000	1 108 170	3 858 170
Interest sensitivity gap	**5 976 873**	**-**	**(2 750 000)**	**(671 100)**	**(2 555 773)**

42. Risk management (Continued)

42.7 *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.

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For the year ended 31 December 2022 — Continued

42. Risk management (Continued)

42.7 *Accounting classifications and fair values* (Continued)

Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Group	Note	Financial instruments designated at FVTPL	Financial instruments designated at FVTOCI	Total	Fair value Level 1	Level 2	Level 3	Total
			K'000	K'000	K'000	K'000	K'000	K'000
2022								
Financial Assets								
Investment in government securities	16	172 153 156	-	172 153 156	-	-	172 153 156	172 153 156
Investment in equity shares	17	221 391 843	5 623 621	227 015 464	221 391 843	-	5 623 621	227 015 464
Loan and debentures	18	1 213 370	-	1 213 370	-	-	1 213 370	1 213 370
Investment Property	19	4 453 524	-	4 453 524	-	-	4 453 524	4 453 524
Total		399 211 893	5 623 621	404 835 514	221 391 843	-	183 443 671	404 835 514
Financial Liabilities								
Long-term policyholder liabilities	42.9.8	317 607 584	-	317 607 584	-	-	317 607 584	317 607 584
Total		**317 607 584**	**-**	**317 607 584**	**-**	**-**	**317 607 584**	**317 607 584**
2021								
Financial Assets								
Investment in government securities	17	164 743 783	-	164 743 783	-	164 743 783	-	164 743 783
Investment in equity shares	18	189 708 156	5 212 373	194 920 529	189 708 156	5 212 373	-	194 920 529
Loan and debentures	19	7 328 852	-	7 328 852	-	7 328 852	-	7 328 852
Total		361 780 791	5 212 373	366 993 164	189 708 156	177 285 008	-	366 993 164
Financial Liabilities								
Long-term policyholder liabilities	43.9.8	299 393 763	-	299 393 763	-	-	299 393 763	299 393 763
Total		**299 393 763**	**-**	**299 393 763**	**-**	**-**	**299 393 763**	**299 393 763**

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For the year ended 31 December 2022 — Continued

42 Risk management (Continued)

42.7 *Accounting classifications and fair values* (Continued)

Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Company	Note	Financial Equity instruments designated at FVTOCI	Equity instruments designated at FVTPL	Financial assets designated 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
2022									
Shares	17	2 178 920	-	-	2 178 920	-	-	2 178 920	2 178 920
Investment property		178 000	-	-	178 000	-	-	178 000	178 000
Total		2 356 920	-	-	2 356 920	-	-	2 356 920	2 356 920
2021									
Shares	17	2 789 673	-	-	2 789 673	-	-	2 789 673	2 789 673
Total		2 789 673	-	-	2 789 673	-	-	2 789 673	2 789 673

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	Refer to Note 17	Refer to Note 17
Government Treasury notes	Refer to note 16	Refer to note 16

42. Risk management (Continued)

42.7 *Accounting classifications and fair values* (Continued)

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 2022					
Cash and cash equivalents	5	-	-	96 525 115	96 525 115
Short-term investments	6	-	-	4 820 632	4 820 632
Placements with other banks	6(b)	-	-	54 316 201	54 316 201
Loans and advances to customers	7	-	-	137 796 120	137 796 120
Client funds under management	9(b)	-	-	134 738 817	134 738 817
Other receivables	9(a)	-	-	12 580 688	12 580 688
Insurance receivables	10	-	-	7 628 845	7 628 845
Government securities	16	172 153 156	-	224 543 842	396 696 998
Shares	17(a)	221 391 843	5 623 621	-	227 015 464
Financial liabilities					
Trade and other payables	23	-	-	45 981 741	45 981 741
Client funds payable	23	-	-	134 735 595	134 735 595
Deposits and customer accounts	24	-	-	355 830 188	355 830 188
Insurance contract payables	25	-	-	43 182 743	43 182 743
Interest bearing loans and borrowings	27	-	-	9 406 986	9 406 986
Long-term policyholders liabilities	42.9.8	362 329 689	-	60 603 909	422 933 598
31 December 2021					
Cash and cash equivalents	5	-	-	88 616 964	88 616 964
Short-term investments	6	-	-	3 271 849	3 271 849
Placements with other banks	6(b)	-	-	28 454 738	28 454 738
Loans and advances to customers	7	-	-	82 182 625	82 182 625
Client funds under management		-	-	95 041 405	95 041 405
Other receivables	10	-	-	22 751 702	22 751 702
Insurance receivables	11	-	-	21 206 784	21 206 784
Government securities	17	164 743 783	-	196 288 228	361 032 011
Shares	18(a)	189 708 156	5 212 373	-	194 920 529
Financial liabilities					
Trade and other payables	24	-	-	109 973 233	109 973 233
Client funds payable		-	-	94 805 819	94 805 819
Deposits and customer accounts	25	-	-	210 665 104	210 665 104
Insurance contract payables	26	-	-	18 618 854	18 618 854
Interest bearing loans and borrowings	28	-	-	11 018 904	11 018 904
Long-term policyholders liabilities	43.9.9	342 502 512	-	43 877 392	386 379 904

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

42. Risk management (Continued)

42.8 Other Risk Management

42.8.1 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:

- 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.

42.8.2 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)

42.8 Other Risk Management (Continued)

42.8.3 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 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.

42.8.4 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.

42.8.5 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.

42.8.6 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)

42.8 Other Risk Management (Continued)

42.8.7 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.

42.9 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.

42.9.1 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.

42.9.2 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.

42.9.2 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

42. Risk management (Continued)
42.9 Long term insurance risks (Continued)

42.9.3 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.

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.

42.9.4 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.

42.9.5 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2022 Continued

42. Risk management (Continued)
42.9 Long term insurance risks (Continued)

42.9.6 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

42.9.7 Major assumptions

A brief summary of the main assumption changes has been included below:

Inflation, investment return, risk discount rate

The inflation and investment return assumptions are based on the long-term fixed investment return assumption.

The unit cost inflation assumption and risk free investment return assumption have been set at 26.2% and 29.2%, respectively. The risk free investment return assumption is consistent with the 5-year point on the risk free yield curve at the end of December 2022.The risk discount rate has been increased from 30.0% to 36.2% to maintain a 700 basis point gap to the risk free investment return assumption.

Expenses

The Individual Life (IL) unit maintenance cost assumption increased from K29 377 to K 66 377. The IL unit acquisition cost assumption increased from K 84 345 to K 82 831. The above increase in the maintenance unit expenses assumption resulted in an (shareholder) expense reserve being set up to fund the overrun of expenses relative to what can reasonably be recovered in charges made to individual life participating policyholder funds.

The Annuity unit maintenance cost assumption was maintained at K40 000. The Annuity unit acquisition cost assumption was maintained at K34 523.

The Group Life and Group Funeral expense ratio assumptions (as % gross earned premium) increased from 15.5% to 19.5% while year 2+ expense ratio was maintained at 15.5%

The Credit Life expense ratio assumption (as % gross earned premium) increased to 14.5% from 13.96%.

Mortality and loss ratios

The assumed year 1 Claim Ratio's for Group Life and Group Funeral business decreased from 50.62% to 33.5% while the year 2+ (long-term) Claim Ratio increased from 30.5% to 33.5%. The assumed year 1 and year 2 Loss Ratios for Credit Life business were maintained at 30%.

The Individual mortality assumption was maintained at 100% of SA85-90 Heavy mortality. The Annuity mortality assumption was maintained at 100% of a (55) mortality table.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)

42.9 Long term insurance risks (Continued)

Margins for prudence are added on products where a prospective reserve is held. Some of these margins are compulsory under SAP 104 (Standard of Actuarial Practice 104) as set out in the table below:

Assumption	Margin
Mortality	7.5% increase for risk business.
Lapse	25% (e.g. if the best estimate is 10%, the margin is 2.5%), (increase or decrease, depending on which alternative increases liabilities).
Surrenders increases	10% (increase or decrease, depending on which alternative liabilities).
Expense inflation	10% (of estimated escalation rate).
Charges against investment return	25 basis points in the management fee or an equivalent asset-based or investment performance-based margin.

42.9.8 Long term policyholders' funds and technical reserves

The Financial Soundness Valuation Model has been used to value policyholder liabilities. 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 (2022: K343 305 million2021: K325 472 million). Group Life and Credit Life business, which constitutes a small portion of reserves, carries an Unearned Premium Reserve (UPR) of K386 million (2021: K127 million), an Incurred But Not Reported (IBNR) reserve of K1 981 million (2021: K2 365 million) disclosed under insurance contracts (Group Life and Credit Life). The balance of the liabilities has been based on projected cash flows taking into account expected mortality, expenses, market related investment returns bonus to be granted to policyholders and current reinsurance arrangements (2022: K77 518 million; 2021: K58 416 million).

a) The position of the fund as at 31 December 2022 (after allocation of surplus) is as follows:

Summary of long-term policyholders' liabilities

	GROUP	
	2022	**2021**
	K'000	**K'000**
Insurance contracts	60 603 909	43 877 392
Investment contract	317 607 584	299 393 763
Technical reserves	44 722 105	43 108 749
	422 933 598	386 379 904
The details are shown in the subsequent workings.		
i) Insurance contracts		
Individual life	37 168 109	25 645 187
Group life	2 366 859	2 492 421
Annuities	21 068 941	15 739 784
Total	60 603 909	43 877 392

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

42. Risk management (Continued)

42.9 Long term insurance risks (Continued)

42.9.8 Long term policyholders' funds and technical reserves (Continued)

	GROUP	
	2022	**2021**
	K'000	**K'000**
ii) Investment contracts		
Deposits administration	317 607 584	299 393 763
Total policyholders liabilities		
Insurance contracts	60 603 909	43 877 392
Investment contracts	317 607 584	299 393 763
Total long term policyholders' funds	378 211 493	343 271 155

42.9.8 Long term policyholders' funds and technical reserves

ii) 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.

	GROUP	
	2022	**2021**
	K'000	**K'000**
Data reserves	-	610 595
Investment reserves	-	421 424
Unallocated reserves	44 722 105	42 076 731
	44 722 105	43 108 750
b) (i) Movements during the year		
At the beginning of the year	343 271 156	294 059 742
Transfer to policyholder	36 553 695	58 423 528
Transfer to technical reserves	(6 613 356)	(9 212 114)
At the beginning of the year	378 211 495	343 271 156

The contributions and related investment income are transferred to the policyholders' account by debiting profit or loss and crediting the reserve.

42. Risk management (Continued)
42.9 Long term insurance risks (Continued)

42.9.8 Long term policyholders' funds and technical reserves (Continued)

	GROUP	
	2022	2021
	K 000	K 000
ii) Technical reserves		
At the beginning of the year	43 108 749	33 896 635
Transfer from long term policyholders' funds	1 613 356	9 212 114
At the end of the year	44 722 105	43 108 749

A final posting of transfer to reserves is carried out upon considering actual liability determined by the company and as assessed by the actuary.

43. 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.

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.

43. Operating segments (Continued)

General Insurance segment operate in Malawi, Zambia 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

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

43 Operating segments (Continued)

43. Operating segments (Continued)

	Long Term Insurance & Pension		Short term insurance		Banking		Investment		Asset management		Information technology		Eliminated on consolidation		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	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	K'000	K'000	K'000
Gross revenue	134 103 587	119 422 147	60 064 468	46 901 337	91 389 738	60 625 193	11 420 976	10 031 771	23 285 913	15 569 022	2 895 695	2 082 279	(18 792 155)	(19 101 730)	304 368 222	240 530 019
Profit Before Tax	16 826 694	12 367 609	2 268 811	997 076	26 960 488	11 489 687	6 309 192	6 844 023	3 920 005	2 018 799	120 657	44 510	(6 708 219)	(6 882 996)	49 697 628	26 878 708
Profit after Tax	15 266 838	9 093 066	1 489 298	548 972	18 905 228	7 692 372	5 810 142	6 416 628	2 729 965	1 402 603	76 144	28 013	(6 708 219)	(6 882 996)	37 569 396	18 298 658
Other Information																
Segment Assets	471 425 597	428 213 066	71 742 335	43 431 193	463 300 446	364 419 637	24 949 401	21 075 593	138 737 087	96 590 838	1 200 160	1 083 316	(19 475 584)	(17 200 809)	1 151 879 442	939 989 842
Segment Liabilities	420 710 212	390 449 441	57 674 865	31 479 331	425 417 009	340 506 270	4 786 631	3 036 281	136 234 401	95 518 118	790 739	747 049	(9 461 892)	(7 415 137)	1 035 661 174	854 321 353
Capital Expenditure	675 975	1 678 462	549 415	165 852	3 018 565	(549 573)	284 619	19 630	31 597	8 974	313 467	138 380	-	-	4 873 638	1 461 725
Segment Cashflows																
From Operating Activities	(16 479 378)	3 895 269	2 789 114	(1 675 564)	35 691 543	105 422 327	(1 774 598)	(2 148 263)	(14 751 865)	(12 004 743)	591 735	225 502	(4 724 651)	(11 449 947)	1 341 900	82 264 581
From Investing Activities	28 955 508	2 731 490	(235 050)	2 749 162	(29 662 518)	(91 287 013)	7 785 377	5 826 523	17 907 276	13 326 902	(305 215)	(137 175)	(8 444 446)	(7 333 650)	16 000 932	(64 123 761)
From Financing Activities	(2 336 194)	(4 375 890)	(1 776 491)	539 984	(6 235 492)	(3 271 771)	(2 485 253)	(2 386 550)	(1 316 127)	(1 816 324)	(203 284)	(140 360)	6 708 219	5 305 715	(7 644 622)	(6 145 196)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

43 Operating segments (Continued)

GEOGRAPHICAL SEGMENTS

	Malawi 2022 K'000	Malawi 2021 K'000	Zambia 2022 K'000	Zambia 2021 K'000	Eliminated 2022 K'000	Eliminated 2021 K'000	Total 2022 K'000	Total 2021 K'000
Gross revenue	293 205 824	240 736 943	29 954 553	18 894 806	(18 792 155)	(19 101 730)	304 368 222	240 530 109
Profit/(loss) Before Tax	56 726 560	33 980 502	(320 713)	(218 798)	(6 708 219)	(6 882 996)	49 697 628	26 878 708
Profit after Tax	44 603 017	25 420 113	(325 402)	(238 459)	(6 708 219)	(6 882 996)	37 569 396	18 298 658
Other Information								
Segment Assets	1 155 639 447	944 295 623	15 715 579	12 895 028	(19 552 938)	(17 200 809)	1 151 879 442	939 989 842
Segment Liabilities	1 032 733 916	851 792 181	12 389 151	9 944 309	(9 539 742)	(7 415 137)	1 035 661 175	854 321 353
Capital Expenditure	4 529 302	1 437 756	344 336	23 969	-	-	4 870 897	1 461 725
Segment Cashflows								
From Operating Activities	4 972 568	92 603 994	1 093 983	1 110 534	(4 724 651)	(11 449 947)	1 341 900	82 264 581
From Investing Activities	24 884 659	(54 136 114)	(439 281)	(2 653 997)	(8 444 446)	(7 333 650)	16 000 932	(64 123 761)
From Financing Activities	(13 907 281)	(12 949 741)	(445 560)	1 498 830	6 708 219	5 305 715	(7 644 622)	(6 145 196)

The Group did not earn revenues from a single customer that was ten percent or more of Group's total revenues

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022 Continued

44. Employee benefits liabilities

	Group 2022 K'000	Group 2021 K'000	Company 2022 K'000	Company 2021 K'000
Expense recognised in the profit or loss				
Pension costs	2 095 582	1 841 036	136 476	114 316

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

3 148 200 shares were allotted to qualifying employees in 2022. The shares will be vested over a four year period as noted above. No Shares were allotted in 2021.

45. Contingent liabilities and commitments

(a) Capital commitments

As at 31 December 2022, the authorised but not yet contracted for capital commitments for property and equipment were K16.3 billion (2021: K5.4 billion). These capital commitments are to be funded from internal resources.

45. Contingent liabilities and commitments (Continued)

(b) Contingent liabilities

(i) 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 K8.2 billion (2021: K4.5 billion). Included in the K8.2 billion are the following cases and claims;

- 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; and
- A claim by the Malawi Revenue Authority of K3.1 billion following a tax audit in NICO Life Insurance Company Limited. The Group is disputing the claim and has made an appeal to the Commissioner General.

(ii) The contractual amounts of the Group's off-balance sheet position financial instruments that commit it to extend credit to customers are as follows:

	Group	
	2022	2021
	K'000	K'000
Acceptances and letters of credit	385 612	344 000
Currency swaps	16 383 689	-
Guarantees and performance bonds	3 590 704	3 476 411
	20 360 005	3 820 411

46. Subsequent Events

Cyclone Freddy made landfall in Southern Malawi on 11th of March 2023, bringing in torrential rains and heavy winds that has caused devastating floods in Malawi and Mozambique. The flooding has caused damage to road infrastructure, bridges, dwelling houses, electricity grinds and generating power plants. There has been significant human suffering and loss of life in the path of the cyclone. A state of national disaster was declared by Malawi Government on 13 March 2023 and a humanitarian response is underway.

An assessment is being done to determine the extent of the damage to infrastructure and the Group's general insurance business in Malawi is engaging all its clients that may have suffered damage so as to estimate value of loss. Lives have been lost due to severe flooding, land slides and damaging impact of the heavy rains on property. There is a likelihood of insurance claims will be lodged due to loss of lives and this will impact the Group through its life insurance business. However, an assessment of extent of possible financial impact to the Group is not yet available.

47. 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	
	2022	2021
United States Dollar (USD) to Malawian Kwacha (MWK)	1 026.09	817.3
United States Dollar (USD) to Zambian Kwacha (ZMW)	18.1	16.5
United States Dollar (USD) to Ugandan Shilling (USH)	3 720.2	3 546
United States Dollar (USD) to Tanzanian (TSH)	2 334.1	2 306
United States Dollar (USD) to Mozambique Metical (MT)	63.2	63.8
South Africa Rand (ZAR) to Malawian Kwacha (MK)	62.36	58.7
British Pound (GBP) to Malawian Kwacha (MK)	1 273.95	1 002.6
Inflation rates as at 31 December (%)	25.78	11.5

At the date of approval of these financial statements, the above noted exchange and inflation rates had moved as follows:

United States Dollar (USD) to Malawian Kwacha (MWK)	1 026.09
United States Dollar (USD) to Zambian Kwacha (ZMW)	21.40
United States Dollar (USD) to Ugandan Shilling (USH)	3 780.00
United States Dollar (USD) to Tanzanian (TSH)	2 340.00
United States Dollar (USD) to Mozambique Metical (MT)	64.12
South Africa Rand (ZAR) to Malawian Kwacha (MK)	59.16
British Pound (GBP) to Malawian Kwacha (MK)	1 309.15
Inflation (February 2023)	26.7%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Continued

48. Environmental, Social and Governance (ESG)

Climate Change and impact on the Group

Cyclones remain a threat in Malawi with southern region mostly hit. The business may be impacted due to loss of clients' lives, damage to property and general disruption of various supply chains that lead to disruption of operations. The disruptive impact of cyclones to the economy means that economic fundamentals are less predictable and volatility is introduced to business planning and operations.

In 2022 Tropical Storm Ana caused heavy flooding in a number of districts in Malawi especially in the Southern Region due to a lot of heavy rainfall and strong winds. The Government declared a State of National Disaster on 26 January 2022. Cyclone Ana affected the country's food security as farms were adversely impacted by the floods. Apart from the impact on agriculture productivity the storm also caused damage to the power generation plant at Kapichira. Kapichira is one of the country's main source of electricity generation representing almost 23 per cent of Malawi's total installed capacity. Efforts to rehabilitate the power station affected is in progress. In 2022 the Group, through the general insurance business in Malawi facilitated payments in excess of MK13 billion towards restoration of power plants and sugar infrastructure that was damaged by Cyclone Anna.

Supporting our communities

The Group wants as many people as possible to benefit from access to financial services.

The Groups banking business continues to see growing demand from many customers for more digital ways to bank. Investment in technology means more customers who have access to digital tools are able to use mobile banking channels to take advantage of accessible features. To reinforce its drive towards financial inclusion, the Groups banking business through its Agency Banking arm "Bank Pafupi" and its ongoing partnership with Financial Access for Rural Markets Smallholders and Enterprises (FARMSE) prioritised a plan to increase availability and visibility of the channel and educate local communities about the value of banking formally. The Group continues its expansion drive closing 2022 with 1,993 agents from 1,441 agents in December 2021.

The Group through its Life insurance business offers a low premium product to ensure financial inclusion of the masses and launched Zampira Funeral cover towards the of 2022.

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 of Governance Principles. The company carries out periodic assessments of the adherence to the Code.

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