NICO Holdings Plc

ANNUAL REPORT

2016

Contents

Annual Report 2016

NICO Holdings Plc

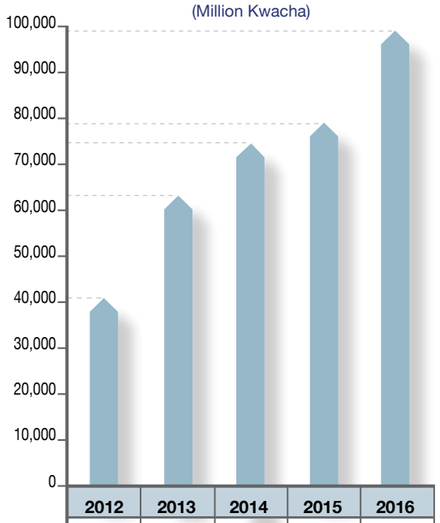
Mission Statement	*Vision*	*Our Values*
To create value for stakeholders	*To be the preferred financial service provider*	*Excellence, Integrity, Collaboration, Professionalism, Transparency*

Five Year Highlights

		2012	2013	2014 Restated	2015 Restated	2016
GROSS REVENUE	(MK' Million)	41,695	62,893	74,600	79,591	99,687
PROFIT BEFORE TAX	(MK' Million)	2,373	11,642	10,387	7,298	7,277
EARNINGS PER SHARE	(tambala)	42	548	323	243	121
NET DIVIDEND PAID	(MK' Million)*	250	563	1,596	939	626
NET DIVIDEND PER SHARE	(tambala)	24	54	153	90	60
TOTAL ASSETS	(MK' Million)	125,157	171,585	206,437	247,061	295,787
NET ASSETS	(MK' Million)	10,152	14,205	16,170	18,071	18,795
SHARE PRICE	(tambala)	1,430	1,780	3,250	2,800	1,700
NET ASSET VALUE PER SHARE	(tambala)	973	1,362	1,550	1,733	1,802
PRICE TO BOOK VALUE	(times)	1.5	1.3	2.1	1.6	0.9
PRICE EARNINGS RATIO	(times)	34.0	3.2	10.1	11.5	14.0
MARKET CAPITALISATION	(MK' Million)	14,915	18,566	33,899	29,205	17,732

* Dividend paid out of the year's profits

GROSS REVENUE
(Million Kwacha)



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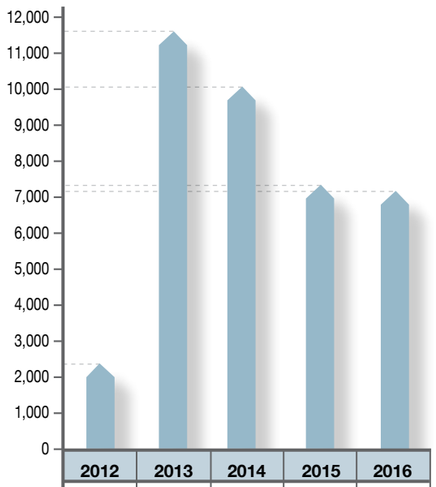
PROFIT BEFORE TAX
(Million Kwacha)



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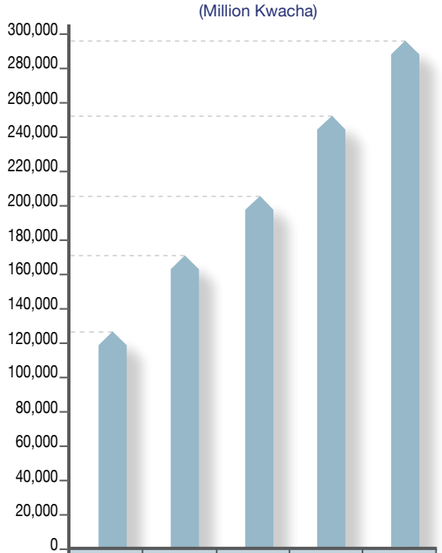
TOTAL ASSETS
(Million Kwacha)



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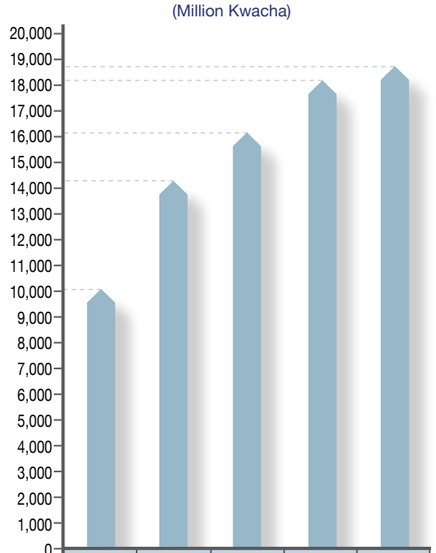
NET ASSETS
(Million Kwacha)



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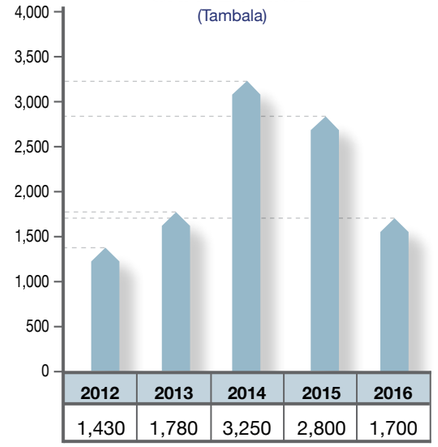
10,152	14,205	16,170	18,071	18,795

SHARE PRICE
(Tambala)



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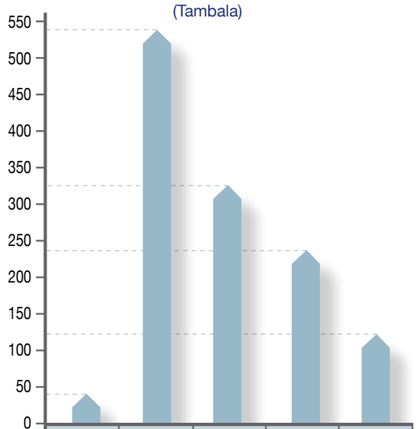
EARNINGS PER SHARE
(Tambala)



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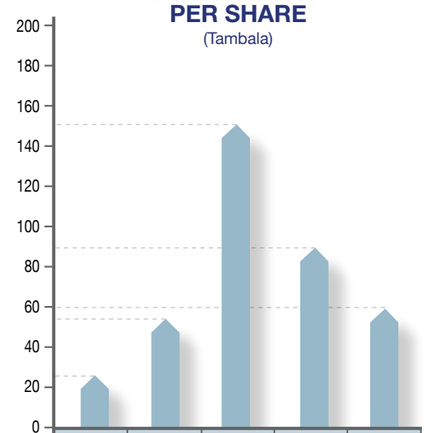
NET DIVIDEND PER SHARE
(Tambala)



2012	2013	2014	2015	2016
24	54	153	90	60

The Board of Directors

Summarised List of Shareholders

General Public (Malawian & Foreign)	C/O NICO Transfer Secretaries 19 Glyn Jones Road	P.O. Box 3173 Blantyre	Malawi	45.89%
NICO Employees Trust (Malawian & Foreign)	C/O NICO Transfer Secretaries 19 Glyn Jones Road	P.O. Box 3173 Blantyre	Malawi	1.1%
Botswana Insurance Holdings Limited (Botswana)	Plot 50374 Gaborone	P O Box 336 Gaborone	Botswana	25.10%
AFRICAP LLC (American)	791, Town and Country Blvd	Suite 250 Houston TX 77024-3925	USA	27.91%
				100.00%

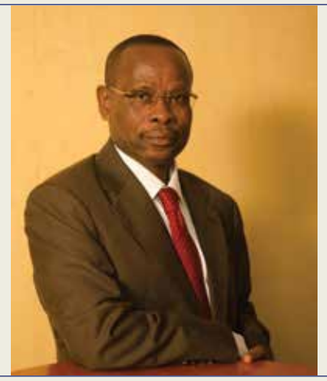
Board of Directors and Secretary

Mr Alaudin Salim Osman - Chairman

Mr Alaudin Osman holds a Master's degree in Mass Communication from the University of Leicester, United Kingdom. He is currently the Board Chairman of Capital Radio Malawi Limited which he founded in 1999. From 1994 to the year 2000 he worked as Press Secretary to the President of the Republic of Malawi. Previous to this he worked as Founding Editor and Managing Editor of the *Daily Times* Malawi; Chief Press Officer at the Ministry of Information & Broadcasting, Government of Botswana; Founding Editor of the *Botswana Gazette*; Deputy Editor-in-Chief of the Southern African Economist in Zimbabwe and Editor–in-Chief of the *Malawi Financial Post*. Between 1990 and 1991 he was the Malawi correspondent for Reuters and Deutsche Welle radio. Additional to these skills, the Board has benefited from Mr. Osman's congeniality - important in his role as the Chairman of the Board.

Mr. Vizenge Matumika Kumwenda - Managing Director

Mr Vizenge Kumwenda holds a Diploma in Business Studies, a Bachelor of Commerce Accountancy degree from the University of Malawi and 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 has worked with NICO Holdings Limited for a total of twenty-one years. He rose 'through the ranks' and was appointed Deputy Managing Director effective 1st January 2012, the position which he held until 31st December 2015 when he was appointed to take over as Managing Director of the Company, effective 1 January 2016. He sits on several Boards. He brings to the Board a breadth of experience and expertise in finance and insurance.



Mr Harold Andrew Richard Bijoux - Director

Mr. Harold Bijoux is a retired short term insurance manager. He has over 50 years' experience in the insurance Industry gained from the various insurance companies that he has worked with, including Santam Insurance Company and Guardian National Insurance in South Africa and has been appointed to various boards. He brings to the NICO Holdings Board a wealth of experience in the general insurance business and has enhanced the Board's technical oversight role in this area. Apart from other committees where he has added much value, Mr. Bijoux has also been a key member of the Audit and Finance Committee, bringing an insightful approach to matters brought before that committee.

Mr Robert Scharar- Director

Mr. Robert Scharar holds a degree in Business Accounting from University of Florida. He received his AA degree from Polk Community College. He has a Master's Degree in Business Administration and a JD 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). He 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 a seat on the Africap LLC Board and the Commonwealth International Series Trust, a US mutual fund group. He brings to the Board a combination of finance and legal skills. He has been a key member of the Group Risk Committee and the Group Investment Committee and instrumental in efforts to ensure effectiveness of these Committees.

Mr Sangwani Hara – Director

Mr Hara holds a Bachelor's Degree in Commerce (Accountancy) from the University of Malawi, 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 twenty-five years' experience in accounting, finance, general management 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 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 accounting, finance and general management. He is a key member of the Group Investment and Audit and Finance Committees where his analytical approach and orientation to detail adds value to those committee's work.

Mrs Catherine B Lesetedi – Director

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

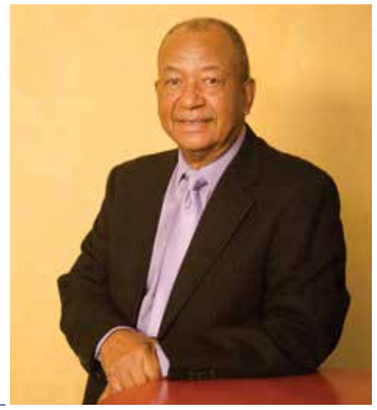
Mr Gaffar Hassam – Director

Mr. Gaffar Hassam is an Executive with Sanlam Emerging Markets (SEM) South, responsible for Namibia, Botswana, Malawi, Zambia and Zimbabwe. He is an MBA graduate of Oxford Brookes University, a Fellow of the Association of Chartered Certified Accountants (FCCA). Prior to this, Mr. Hassam was the Group Chief Executive Officer for Botswana Insurance Holdings Limited (BIHL) a position that he held from 1st December 2011 to February 2016. He joined BIHL in 2003 as Group Finance Manager and Company Secretary and held various roles including Chief Operating Officer. His career started with Press Corporation Limited and in 1997 he moved to PricewaterhouseCoopers in Malawi and Botswana before joining BIHL. Mr. Hassam brings to the Board a wealth of experience in the financial services industry gained over 20 years in the industry. The Board benefits from among other things his leadership and insightful approach to issues before the Board. He chairs the Audit and Finance Committee and is a member of both the Appointments and Remuneration Group Investment Committees.

Mrs Emily Makuta- Company Secretary

Mrs. Emily Makuta holds a Bachelor of Laws (Hons) Degree from the University of Malawi and a Masters Degree in International Economic Law from the University of Warwick, UK. She is a Chartered Secretary and an Associate of the Institute of Chartered Secretaries and Administrators (UK) and holds an International Diploma in Compliance from the Manchester Business School and the International Compliance Association. She previously worked in the banking sector, first in an investment, development and merchant banking environment plus legal support in pensions and later in a commercial banking environment. She thus has legal drafting, analysis and documentation experience and expertise; and also has substantive experience and expertise in investment banking, project finance, commercial transactions and negotiations. She has expertise in governance and compliance. Early in her career, she gained litigation experience from two busy legal firms.

Chairman's Statement



Alaudin Osman
Chairman

I present to you my report for 2016. As is explained in the Managing Director's statement, the business environment continued to be hostile to business as manifested by continued high market borrowing rates in the financial market. The negative growth of the All Share Index on the Malawi Stock Exchange bears testament to the hostile business environment in Malawi that generates 84% of the group turnover. This negative growth is now two years in a row. The business environment in Zambia, Mozambique, Tanzania and Uganda was not significantly different from that of Malawi.

NICO Group continued to focus on its strategy of strengthening and consolidating its business operations. Going forward in 2017, subject to economic outturn, some of the operations are expected to start turning around, others at a faster pace while others will do so at slower pace. Overall, the Group should gradually but steadily start regaining lost ground.

The Group registered Gross Revenues of MK100 billion (2015 MK80 billion). Total Assets at 31st December 2016 are at MK296 billion (2015; MK247 billion). Profit Before Tax for the year was MK7.2 billion a drop from MK7.3 billion for 2015. The after tax Group profit has been heavily weighed down by NBS Bank that registered a loss of MK4.8 billion After Tax. Excluding NBS Bank, overall the Group has registered a significant improvement from 2015 performance. Much Group effort has gone into ensuring that NBS Bank fully exploits its competitive advantages in the market so that it can resume making positive contribution to the Group. This is characterised by the Capital Raising that the bank is doing through a rights issue during the first half of 2017.

Despite the significant drop in Profit After Tax, the Group had strong cash flows such that it has been able to pay an interim dividend of MK0.40 per share on 28th April 2017. Directors have not proposed to pay a final dividend. The total dividend to be paid out of 2016 profits will therefore be MK0.40 per share (2015; MK0.90 per share). The share price for NICO Holdings Plc experienced a significant drop in 2016 closing at MK17 per share after opening at MK 28.00 per share. Board and management are hopeful that the efforts underway will result in the share price rebound and recovery in the performance of the Group both in terms of profit after tax and improved cash-flows.

Our relationships with BIHL and SEM are growing from strength to strength. NICO Group companies are leveraging on both companies in terms of management training, actuarial support, ICT support and various HR interventions and initiatives.

This report will be my last as I will be retiring at the end of the forthcoming AGM. I will have served on the board of NHL for ten years, five of which as Chairman of the Board. It has been a very satisfying experience to see the Group sail through during a period when the markets we are operating in have been turbulent requiring the Board, Management and staff to have undistracted focus on our businesses. While the headwinds are far from over, it is encouraging to note that the Group is much stronger to face the challenges ahead. I am particularly satisfied that the Group went through a smooth leadership transition during my time. After forty-one years of service to the Group, twenty in the CEO capacity, Mr. Felix Mlusu handed over the leadership to Mr. Vizenge Kumwenda as Managing Director with effect from 1st January 2016. Mr Kumwenda has since settled down very well and the Group has firmly embarked on a new era that promises to deliver increased value to all stakeholders of the Group. I retire a very happy man.

In closing, I wish to extend my highest appreciation to our clients across the Group for the trust and confidence in the NICO brand. Your continued support and patronage of our services is not taken for granted. Let me also thank my fellow directors on the Boards, management and staff across the group for their effort and hard work during 2016. I have no doubt of their continued dedication and commitment in 2017. Last but not least I extend my appreciation to our shareholders for their confidence and continued support.

Alaudin Osman
Chairman

Managing Director's Report

Vizenge Kumwenda
Managing Director

Overview

In terms of the business environment in Malawi where 84% of the revenues are generated, 2016 was a continuation of 2015. While the currency was relatively stable, interest rates were still high and prohibitive for most businesses. The average Prime lending rate for banks revolved around 36% (2015: 37%). Government activity remained constrained as its development partners continued to withhold direct budget support. Despite various publicised initiatives to address the problem, power outages continued to prove a big challenge for industry. The foregoing was epitomised by a GDP Growth of 2.7% (2015: 2.9%) and contraction of the Malawi All Share Index by 8.5% (2015 index also contracted by 2.2%). Besides Malawi, business environments in Zambia, Mozambique, Tanzania and Uganda that hosts our other businesses did not register any significant improvement- overall. In Tanzania, fiscal discipline improved. This is good news in the long-term though in the short-term it had the effect of contracting economic activity in the country. Mozambique was dominated by unprecedented levels of currency depreciation that averaged 62.1% (2015: 27.5%) with the instability and inflationary pressures that come with it. Zambia experienced peaceful general elections for the presidency and parliament but credit in the economy was very tight. Copper earnings fell in the first 9 months of 2016 from USD4 billion in 2015 to USD3.2 billion, a reduction of 20%.

As a leading financial services group, in 2016 NICO continued to play its role of providing affordable and effective financial and risk management solutions to both corporate and retail clients. We ensured that these solutions remained relevant to the businesses and lives of our clients.

In terms of financial performance, our businesses performed well especially when the challenging business environment as explained above is considered. Group revenues grow by 25% (2015: 7%).

Our cashflows strengthened and our total assets grew by 20% (2015: 20%). This is a reflection of the practical and effective business development and credit management strategies that are so crucial to our businesses. At the centre of our business strategies is our objective to serve our clients better either through improved customer service or through new products that aim at satisfying the evolving needs of our clients.

General Insurance Business

General Insurance business is operated in Malawi, Zambia and through Associate companies in Tanzania and Uganda.

The gross premium income for the general insurance business was MK29 billion (2015: MK22 billion). Net written premium income was MK11 billion (2015: MK10 billion). Profit before tax was MK3.2 billion (2015: MK2.3 billion representing a growth of 42%. Both loss and expense ratios improved though there is still room for improvement. NICO Zambia had a new CEO, Mr.Geoffrey Chirwa, with effect from 1st November 2016 following the retirement of Mr. Titus Kalenga on 31st March 2016. Geoffrey is a veteran insurer in the Zambian market with sixteen year's experience in the Zambia insurance market. Before joining NICO Zambia, Geoffrey was working as the CEO at the number one general insurance company in the Zambian market in terms of market share. I wish Titus Kalenga every happiness as he proceeds on a well-deserved retirement. Titus set up NICO Zambia from scratch and grew it into one of the top three general insurance company in the Zambian economy. I welcome Geoffrey in the NICO family and I am confident he is the appropriate leader to take NICO Zambia to another level.

Let me also welcome Mr.Donbell Mandala who has taken over as CEO at NICO General Insurance Company in Malawi with effect from 1st April 2017 following Mr.Eric Chapola's departure to take over as CEO at NICO Life Insurance Company Ltd. Before taking over, Donbell was the Chief Operating Officer for NICO General.

The general insurance business has prospects for significant improvement both on the top and bottom lines.

NBS Bank Limited

NBS Bank continued to be a preferred bank for certain market segments because of its unique product offering that is underpinned by an unparalleled nation-wide distribution network and a business approach aimed at taking banking services to its clients. This was evidenced by continued growth in its deposit base. This was so despite the challenges the bank faced because of regulatory capital constraints that it will address in 2017.

The bank rolled out a new Core Banking system called T24 in May 2016 as per plan. This was a massive project both in terms of capital investment (US$9 million) and demand on our staff to attend to this project. Implementation of the system has laid a firm foundation for improving customer service in terms of quality of the service and range of products we are able to offer our clients.

The new system change over exercise brought to light additional loan impairments that have been put through in 2016 financial statements. The bank also incurred significant once-off operational and legal expenses in the year. The capital restoration exercise has taken longer than originally envisaged. This negatively affected the interest income as the bank carried out minimal lending. All these factors combined made the bank incur a loss before tax of MK4.8 billion (2015: MK0.236 billion)

The bank is expected to raise at least MK10 billion capital through a rights issue in 2017. The bank has signed a technical services support agreement with Rabo Bank of Netherlands that will be effective from mid-2017. The bank has a new CEO, Kwanele Ngwenya, with effect from 1st April 2017 following the retirement of Ms.Bernadette Mandoloma on 31st March 2017. We wish Bernadette a restful retirement having been at the helm of the bank for the past four years. During her leadership the bank registered successes in various areas including growing the savings and current accounts funding base. Kwanele comes to NBS Bank with twenty years international commercial banking experience.

The bank has embarked on a transformation journey that is underpinned by a five year business plan covering the period 2017 to 2021. The objective of the plan is for the bank to regain its position among the top three banks in Malawi.

Life and Pensions Business

We operate the life and pensions business in Malawi and through, Sanlam Vida, an associate company in Mozambique in which we hold 34.3%.

The overall life and pensions premium income growth was marginal, a reflection of an environment of constrained economic activity. Individual Premium Income grew by 20% while Group premium income only grew by 8%. Group premium income suffered from non-payment of pension contributions because of cash-flow challenges faced by our clients especially in the public sector. Situation is likely to remain the same in the short term. Payments for policy holder benefits grew by 27%. Investment income flows grew by 52%. Profit before tax grew by 15%.

The strategy of making our products affordable to 'the ordinary man and woman' by leveraging on technology continued and it is working though there is still much potential yet to be exploited. Improving customer service was another area of focus. We worked hard to improve our operating efficiencies but there is still a long way to go before we reach our target. We are looking at enhancing our core business applications. This is fundamental if we are to achieve significant breakthroughs in our operating efficiencies. Initiatives to procure modern application systems are in progress.

Substantial improvement has been registered in the regulatory framework of the life and pensions business. This has been achieved through fast tracked programme of issuing directives by the regulator. Unfortunately, some of these directives have had elements of undesirable effect of introducing constraints to doing business. We have drawn the attention of the regulators to these undesirable effects.

Mr Osman Karim who was Chief Executive Officer of NICO Life insurance Company for the past five years up to 31st December 2016 has taken on new responsibilities at NICO Corporate Office pending his retirement at the end of 2017. Mr. Eric Chapola was appointed Chief Executive Officer of NICO Life Insurance Company replacing Mr. Karim,with effect from 1st April 2017. These movements are in line with our succession planning aimed at ensuring smooth leadership transition at NICO Life. Mr. Karim has done a great job at NICO Life highlighted by enabling the company to take full advantage of the benefits that came with the Pensions Act of 2010, implemented in full in 2012. The company will remain forever indebted to Mr Karim. Going forward, we are confident that Mr. Chapola has the expertise and experience that our life and pensions business requires to grow to new heights.

Asset Management

NICO Asset Managers continued to grow its client base and its service offering. Assets under management for the company have grown from MK 202 billion at the end of 2015 to MK250 billion at 31st December 2016. One of the main objectives of NICO Asset Managers is to be able to offer a full range of investment management services that would be required by clients of a premier asset manager. This objective distinguishes NICO Asset Managers Ltd from other asset managers on the market. NICO Asset Managers also boasts of a broad range of in-house expertise that is unparalleled on the market. In 2017, NICO Holdings Plc plans to go into partnership with an International Property Management and Development company, a strategic move that will enable NICO Asset Managers to offer better services to its existing clients and also those that plan to invest in quality property assets. Going forward NICO Asset Managers will continue to be the leading asset manager in Malawi that is able to provide investment management solutions in line with the unique needs of each client.

Strategic Partnership

The tripartite relationship between NICO Group on one hand, and Sanlam Emerging Markets (SEM) and Botswana Insurance Holdings Ltd (BIHL) on the other is working well for our businesses. We have received support from both SEM and BHIL. This has been in the areas of general management, training, strategy formulation and implementation, and actuarial services among others. We also have many other product-based partnerships that also continue to work well. All this is for the benefits of our clients. Strategic partnership is one pillar for doing business for the NICO Group. This will be so for the foreseeable future.

Staff Development and welfare

We continued to invest in our human resources. For 2016 the focus was on perfecting our performance and remuneration management systems aimed at improving productivity. Various training programmes were organised across the group aimed at promoting an entrepreneurial culture among our staff as well as improving customer service. We undertook several staff engagement initiatives aimed at improving staff satisfaction. We believe in looking at the needs of our staff holistically. This is key in our quest to attract and retain top talent.

Prospects

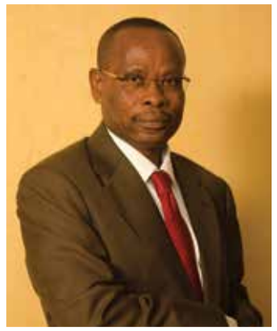
The Group is optimistic about its business prospects, a view that is strengthened by positive economic development indicators in Malawi. Inflation is on a downward trend. Maize output for the 2017 harvest season is expected to be much better than in 2016 to the extent there may be a surplus to national requirements. In such an environment, our asset management, general insurance, life insurance and pensions businesses are expected to thrive. Special attention will be given to turning around performance of our banking business . I am confident that the strategies we have put in place for this purpose will enable us achieve this objective. Overall, we are therefore looking forward to an improved group performance in 2017.

Appreciation

In closing, I wish to thank our clients, regulatory authorities and service providers at large for the continued support rendered to NICO Group. I also wish to thank the NICO Holdings Board of Directors for the guidance and direction they have given to me and my colleagues on the Executive Management team. Last, not least, I wish to thank our staff for their dedication to duty and hard work. They once again as expected, held the NICO brand high during very difficult economic times. I have no doubt they will continue to do so in 2017 and beyond.

Vizenge Kumwenda
Managing Director

Executive Management



Vizenge Kumwenda
Managing Director
FCCA, ACII, CPA, M.Sc (Fin),
B.Com (Acc), Dip. Bus.

Chifundo Chiundira
Chief Finance Officer
FCCA, CPA, B.Com (Acc),
Dip. Bus.

Emily Makuta
Company Secretary
LLB, (Hons), LLM, Ass. ICSA,
Int. Dip Compliance

Kwanele Ngwenya
Chief Executive Officer,
NBS Bank Limited
(from 1 April 2017)
M.Sc (Strategy), MBA

Donbell Mandala
Chief Executive Officer,
NICO General Insurance
Company Limited
(From 1 April 2017)
CII,MBA,B.Com

Eric Chapola
Chief Executive Officer,
NICO Life Insurance Company
Limited (from 1 April 2017)
Dip. Bus. Studies, ACII,
Chartered Insurer

Geoffrey Chirwa
Chief Executive Officer, NICO
Insurance Zambia Limited,
B.A (Hons), FLMI, FIIZA, ACII,
ACII,AFSI, AIRC, ARA

Clarence Gama
Chief Executive Officer, NICO
Technologies Limited
B.Sc IT

Emmanuel Chokani
Chief Investment Officer,
NICO Asset Managers Limited
FCCA, CPA, B.Acc.

2016 Events Highlights

Long-serving employees rewarded

Thirty-six long-serving NICO employees were rewarded at the end of the year. The staff members had served the company's various businesses for up to 25 years. NICO General Insurance awarded three members, NBS Bank rewarded 33.

NICO, Sanlam again recognise the support of journalists

Aston Gondwe, a business journalist from Malawi's national television network, MBC TV, was sponsored to attend the 2016 Sanlam Summer School for Financial journalism in Pretoria, South Africa. Aston was nominated for the training due to his hard work and enthusiasm for the job in promoting business news in the country. This is the third year NICO sends journalists to attend the training in South Africa.

In a similar gesture journalists from various media houses were invited to a special lunch at Ryalls Hotel - a token of appreciation from the NICO Group for a task well done by the guests in reporting NICO business support.

NICO General thanks brokers

NICO General Insurance Company Ltd, a subsidiary of NICO Holdings plc, awarded its brokers on 24 November 2016 as an honour for top broker performance. The ceremony was held at Protea Ryalls Hotel, a NICO investment in Blantyre. Brokers awarded were those making a significant contribution to NICO General business over the past 12 months and those who have maintained a profitable portfolio over a three year period. The candidates were judged and scored according to criteria set and assessed by a committee.

NICO commended for excellence in brand exhibition

NICO Group erected an exemplary exhibition booth at the second Malawi Trade & Investment Forum 2016. The forum was graced by the presence of the Vice President of the Republic of Malawi, Dr Saulos Chilima, who visited the NICO exhibition stand and commended the team for providing an impressive display. He also expressed his gratitude for the business NICO offers in boosting the national economy and for the efforts made in urban development such as the construction of shopping malls in Malawi's main cities.

NICO Asset Managers continue to support the blind

On 21 October 2016, NICO Asset Managers, a subsidiary of NICO Holdings plc, in partnership with Hope for the Blind cheered blind students at Stella Marris Secondary School in Blantyre. A cheque for over MK700 000 and assorted items such as school bags, bottles, containers, mathematical instruments and hardcover books were donated to students with special needs.

NICO Life Reach out to the Albino Community

NICO Life, a subsidiary of NICO Holdings plc, donated half a million Malawi Kwacha to the Association of People living with Albinism in Malawi (APAM).

The plight of people living with albinism in Malawi has drawn local and international community attention in recent months. Attacks have often resulted in their death and are clearly associated with ritual killing.

The donation was made to assist APAM with their operations to improve the security and movement of albinos in the light of the cruelty and violence directed at their members.

The donation was made during NICO Life Golf tournament in Lilongwe on 23rd July 2016.

Corporate Governance

The NICO Group recognises that good corporate governance is key in ensuring that the Group achieves its objectives for the benefit of its shareholders while taking cognisance 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 recognised corporate governance principles including the King Code of Governance Principles (King III Report). The company carries out periodic assessments of the adherence to the Code.

Board of Directors

The Board consists of seven directors, six 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 Board recognises 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 Group. In order to ensure thorough and focused attention on matters before it, the Board has the following standing Board committees:

Audit and Finance Committee

- Appointments and Remuneration Committee
- Group Investments 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 and Finance Committee

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

Appointments and Remuneration Committee

The committee is responsible for making recommendations to the Board on the company's framework of remuneration, staff development and succession planning. The committee makes recommendations to the Board regarding the appointment of new executive and non-executive directors and plays a role in the recruitment of executive management.

Group Investment Committee

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

Group Risk Committee

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

Company Secretary

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

Management Reporting

The Group has in place management reporting disciplines which include annual Strategy Review meetings attended by senior management team

which is involved in the preparation of annual budgets in the various operating entities. Monthly results and the financial status of operating entities are reported against approved budgets. Profit projections and cash flow are reviewed regularly, while working capital and borrowing levels are monitored on an ongoing basis.

Executive Committee

The Group has also in place a Group Executive Committee whose members comprise the managing director, the chief finance officer, the company secretary and the chief executive officers of the subsidiaries. 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.

Empowerment and Employment Equity

NICO Group continued to acknowledge and appreciate the high value on the abilities and contributions made by employees in the development and achievements of its businesses.

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

Safety Health and Environment

The safety of personnel and their health at the workplace remained a priority in the year under review.

The Group acknowledges that the HIV/Aids pandemic is a major challenge to the business community and is always ready and available to support HIV/Aids programmes 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 subsidiaries 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 where it provides full explanation of the implications of proposed resolutions.

Corporate Social Investment

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

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

NICO
Holdings
Plc

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

DIRECTORS' REPORT

For the year ended 31 December 2016

The Directors have pleasure in presenting their report and consolidated financial statements of NICO Holdings Plc (The Group) for the year ended 31 December 2016.

NATURE OF BUSINESS

The activities of the group are general insurance, life assurance and pension administration, banking, asset management and information technology. NICO Holdings Plc shareholding structure in subsidiary and associate 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
SFG Holdings (Zimbabwe) Limited	49.00	Short term insurance (Dormant)
NICO Life Insurance Company Limited	51.00	Life insurance and pension administration
NBS Bank Limited	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabrications & Manufacturers Limited	100.00	Property holding

Name of Associate Company	% Holding	Type of business
Sanlam General Insurance Uganda Limited	20.00	Short term insurance
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mocambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration

REGISTERED OFFICE

The physical address of the Company'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 statements of financial position, profit or loss and other comprehensive income, changes in equity, cash flows for the year then ended and associated accounting policies and notes.

PROFIT

The profit for the year attributable to equity shareholders of the group of **MK1.3 billion** (2015: MK2.5 billion) has been added to retained earnings.

DIVIDENDS

The Directors recommend a final dividend of **MK208 million** (2015: MK626 million) representing MK0.20 (2015: MK0.60 per ordinary share).

STAFFING

Staff complement for the group stands at **1,226** as at 31 December 2016, (2015: 1,134). 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 programmes through training both locally and internationally.

BOARD OF DIRECTORS AND SECRETARY

The following served as Directors and Secretary of the Company during the year:

Mr. Alaudin Osman	Chairman – Independent and Non-executive
Mr. Harold Bijoux	Non-executive Director
Mrs. Margaret Dawes	Non-executive Director (up to 26th January 2016)
Mr. Sangwani Hara	Independent and Non-executive Director
Mr. Gaffar Hassam	Non –executive Director (from 16th March 2016)
Mrs. Catherine Lesetedi	Non –executive Director (from 16th March 2016)

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2016

Mr. Robert Scharar	Non-executive Director
Mr. Tertius Stears	Non-executive Director (up to 18th March 2016)
Mr. Vizenge Kumwenda	Executive Director and Managing Director
Mrs. Emily Makuta	Company Secretary

During the year, the following changes took place in the composition of the Board of Directors of the Company:

Mrs Margaret Dawes resigned as a non-executive Director of the Company, effective 26th January 2016. The Board places on record its appreciation for the contributions made by Mrs Margaret Dawes during her tenure as Director of the Company.

Mr. Tertius Stears resigned as a non-executive Director of the Company, effective 18th March 2016. The Board places on record its appreciation for the contributions made by Mr. Tertius Stears during his tenure as a Director of the Company.

Mr Gaffar Hassam was appointed as a non-executive director of the Board of Directors of the Company effective 16th March 2016. The appointment was duly approved by the Registrar of Financial Institutions.

Mrs Catherine Lesetedi was appointed as a non-executive director of the board of directors of the Company effective 16th March 2016. The appointment was duly approved by the Registrar of Financial Institutions.

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 forthcoming 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 one-third, shall retire from office and can be re-elected if they are available.

SHAREHOLDING STRUCTURE

	2016 %	2015 %
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.

Board meetings - Meeting Attendance

Member	18-Mar-16	03-Jun-16	01-Sep-16	02-Dec-16
Mr. Alaudin Osman (Chairman)	√	√	√	√
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mr. Gaffar Hassam	√	√	√	A
Mr. Vizenge Kumwenda	√	√	√	√
Mrs. Catherine Lesetedi	√	√	√	√
Mr. Robert Scharar	√	√	√	√
Mr. Tertius Stears	√	N	N	N

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

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2016

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.

FINANCE AND AUDIT COMMITTEE

The Finance and Audit Committee is responsible for reviewing annual reports and financial statements. This committee also monitors the adequacy of accounting and internal control systems. Both external and internal auditors report to the Board of Directors through the Finance and Audit Committee. The committee consists of four non-executive Directors. The 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:-

Mr. Gaffar Hassam	(Chairperson) from 18th March 2016
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Mrs. Catherine Lesetedi	(Member)
Mr. Tertius Stears	(Chairperson) up to 18th March 2016

Mr. Tertius Stears upon his Board resignation ceased to be a member and chairperson of the Finance and Audit committee, effective 18th March 2016 and Mr. Gaffar Hassam was appointed member and chairperson effectively.

The committee met four times during the year.

Finance and Audit Committee- Meeting Attendance

Member	17-Mar-16	02- Jun-16	31-Aug-16	01-Dec-16
Mr. Gaffar Hassam	N	√	√	A
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mrs. Catherine Lesetedi	N	√	A	√
Mr. Tertius Stears	√	N	N	N

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

APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee acts as an independent Board Committee for issues relating to appointments of, and remuneration of, management and staff. The committee also reviews candidates for Board Appointments and Company and Group level. It consists of three non-executive Directors and the Managing Director. The committee meets at least twice a year. The members of the Appointments and Remuneration Committee are:

Mr. Robert Scharar	(Chairman)
Mrs. Margaret Dawes	(Member) up to 26th January 2016
Mr. Sangwani Hara	(Member)
Mr. Gaffar Hassam	(Member)
Mr. Vizenge Kumwenda	(Member)

The committee met four times during the year.

Appointments and Remuneration Committee - Meeting Attendance

Member	16-Mar-16	02- Jun-16	31-Aug-16	01-Dec-16
Mr. Robert Scharar	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mr. Gaffar Hassam	N	√	√	A
Mr. Vizenge Kumwenda	√	√	√	√

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

NICO HOLDINGS Plc *Consolidated Financial Statements*

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2016

GROUP INVESTMENTS COMMITTEE

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

Mr. Robert Scharar	(Chairman)
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Mr. Gaffar Hassam	(Member) from 16th March 2016

At a meeting held by the board of directors on the 16th March 2016, Mr. Gaffar Hassam was appointed member of the Group Investments Committee.

The committee met four times during the year:

Investments Committee- Meeting Attendance

Member	14-Mar-16	03- Jun-16	01-Sep-16	29-Nov-16
Mr. Robert Scharar	√	√	√	√
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	A	√	√	√
Mr. Hassam Gaffar	A	√	√	√

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

GROUP RISK COMMITTEE

The Group Risk Committee is responsible for overseeing risk management in the Group, including formulation of risk policy and direction for the Group. It consists of four non-executive directors. The Managing Director attends by invitation. The composition of the committee is as follows;

Mr. Robert Scharar	(Chairman)
Mr. Harold Bijoux	(Member)
Ms. Catherine Lesetedi	(Member) from 16th March 2016
Mr. Lucius Mandala*	(Member)

* Is an NBS Bank Limited Director representing the Bank's interest on the Group Risk Committee.

The committee met four times during the year.

Risk Committee- Meeting Attendance

Member	16-Mar-16	02- Jun-16	31-Aug-16	30-Nov-16
Mr. Robert Scharar	√	√	√	√
Mr. Harold Bijoux	√	√	A	√
Mr. Catherine Lesetedi	N	√	√	√
Mr. Lucius Mandala	√	√	√	A

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

At a meeting held by the board of directors on the 16th March 2016, Mrs. Catherine Lesetedi was appointed member of the Group Risk Committee.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2016

DIRECTOR'S INTEREST

None of the directors directly held shares in the Group as at 31 December 2016 (2015: 311,087 shares).

There were no other contracts between the Group and its directors nor were any arrangements to enable the directors of the Group acquire shares in the Group.

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

DIRECTOR'S REMUNERATION

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

		2016	2015
Directors' remuneration	- Executive (note 45)	(137,040)	(224,004)
	- Non executive (note 45)	(99,365)	(67,366)

AUDITOR'S REMUNERATION

During the year the total auditors remuneration was as analysed below:

		2016	2015
Auditors remuneration	- Audit fees	(170,064)	(113,234)
	- Disbursements	(5,565)	(8,046)
	- Other audit expenses	(3,169)	(6,326)

EXTERNAL AUDITORS

Messrs KPMG Chartered Accountants (Malawi) have expressed their willingness to continue in office as auditors in respect of the Group's 31 December 2017 financial statements and a resolution proposing their re-appointment will be tabled at the forthcoming Annual General Meeting.

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

19 June 2017

DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 31 December 2016

The directors are responsible for the preparation and fair presentation of the consolidated financial statements of NICO Holdings Plc, comprising the consolidated statements of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

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

In preparing the financial statements, the directors accept responsibility for the following:-

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

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Group to continue as a going concern and have no reason to believe that the businesses will not be going concerns in the year ahead.

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

Approval of financial statements

The consolidated financial statements of NICO Holdings Plc as identified in the first paragraph, were approved by the board of directors on 19 June 2017 and are signed on its behalf by.

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

19 June 2017

CERTIFICATE OF ACTUARY

For the year ended 31 December 2016

Deloitte.

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Actuarial & Insurance Solutions
Building 33
The Woodlands Office Park
20 Woodlands Drive
Woodmead Sandton
Docex 10 Johannesburg

Tel: +27 (0)11 806 5400
Fax: +27 (0)11 209 8200
www.deloitte.com

Certificate of the Actuary

We hereby certify that to the best of our knowledge and belief the liabilities under unmatured life, funeral, industrial, Deposit Administration, 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 2016.

Giles Waugh
FASSA, F.I.A

15 March 2017

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

For the year ended 31 December 2016

KPMG

KPMG
Public Accountants and Business Advisors
MASM House, Lower Sclater Road
P.O. Box 508
Blantyre, Malawi

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Website: www.kpmg.com/mw

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

Opinion

We have audited the consolidated financial statements of NICO Holdings Plc (the Group) set out on pages 36 to 118, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of NICO Holdings Plc as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

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 financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with these requirements and IESBA code. We believe 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

For the year ended 31 December 2016

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of long-term policyholder liabilities *See notes 3 (y)(i) and 42.8 to the consolidated financial statements.* The Group is involved in providing life insurance to customers. The valuation of long term policyholders' funds and technical reserves ("long-term policyholder liabilities") is the most significant risk in our audit. The valuation of the policyholder funds for insurance contracts is complex and requires judgement in respect of uncertain future outcomes especially when estimating lapse rates and morbidity and mortality experience. The determination of the technical reserves relies on judgement in determining the appropriateness of the valuation methodology used and the assumptions applied in determining the technical reserves. The valuation of long-term policyholder liabilities was regarded as a key audit matter due to: — The significance of these liabilities to the financial statements; and — The significant judgements and estimation involved in the determination of these liabilities.	Our procedures included, amongst others: — testing controls to assess the soundness of the control environment for the initiation, measurement and recording of policyholder funds and the allocation of income and expenditures to the various classes of businesses underwritten. — using the work of our own experienced actuarial experts, who worked with the audit team, we assessed and challenged whether the methodology, estimates and assumptions used by management in determining the value of the long term policyholders funds and technical reserves were appropriate and in accordance with industry standards and current market conditions. — assessing the policy data, used in the valuations, for completeness and accuracy. — reviewing, the economic assumptions used in the valuations for accuracy and appropriateness, particularly the discount rates and inflation rate; changes in tax due to legislation; lapse assumption; and policy renewal assumptions.

NICO HOLDINGS Plc *Consolidated Financial Statements*

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

For the year ended 31 December 2016

Existence and impairment of loans and advances to customers *See Notes 3(w), 3(n), 7 and 42.3.1 to the consolidated financial statements.* A significant part of the Group's business involves providing loans and advances to banking customers through its subsidiary, NBS Bank Limited (the Bank). *Existence of loans and advances to customers* During the year the Bank migrated to a new version of its core banking system. The existence of loans and advances to customers required significant auditor attention, particularly in respect of the loan book before and after migration, due to the differences disclosed in note 7. *Impairment of loans and advances to customers* In addition, the impairment of loans and advances to customers at year end was a focus area for our audit due to: — The magnitude of the balance of loans and advances in the consolidated financial statements, and — The judgement and the assumptions involved in calculating the allowance for impairment of the loans and advances, which is subject to high estimation uncertainty. Accordingly, we considered the existence and impairment of loans and advances to customers to be a matter of most significance to our audit of the consolidated financial statements.	Our audit procedures relating to the existence of loans and advances included the following: — requesting direct confirmations of the outstanding loan balances from a selection of customers to ensure the existence of the customer's loan. — selecting a sample of loans and advances and inspected the customer's credit files for evidence of the customer's existence, including inspecting identification documents and signed agreements. Our audit procedures relating to the impairment of loans and advances included the following; — testing the operating effectiveness of the relevant controls over the granting, monitoring, and recovery of loans and advances. In particular, we tested the key controls relating to extension of credit facilities to customers in terms of the Group's policy using a sample of loans and advances to customers. — challenging management's assessment of the reasonableness of the values attached to the security for the loans and advances to customers with reference to current market values. — challenging management's assessment of the adequacy of the allowance for impairment through our review of selected customer credit files. We inspected correspondence between the Group and the customers and assessed timeliness and adherence to credit facility signed contracts to assess the reasonableness of the cash flows that management used in their impairment calculations. — challenging management's assumptions used in the computation of allowance for impairment, and recalculated the impairment allowance based on these assumptions in order to assess the reasonableness of the impairment at year end. — considering whether the impairment process is in compliance with IAS 39 Financial Instruments: Recognition and Measurements, as well as with the provisions prescribed by the Reserve Bank of Malawi, the regulator.

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

For the year ended 31 December 2016

KEY AUDIT MATTER (CONTINUED)	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER (CONTINUED)
Measurement of insurance contract claims Incurred But Not Reported (IBNR) estimate and outstanding claims *See notes 3 (d), 3(y)(v), and 24 respectively to the consolidated financial statements.* A significant proportion of the Group's business involves registering, processing and paying claims to the insured who have entered into insurance contracts with the Group. *Claims Incurred But Not Reported (IBNR)* At each year end, the Group estimates the cost of IBNR claims that will only be reported after year end. In determining the IBNR claims estimate, the Group uses the pattern established in prior years and assumes that the historical claims development pattern will occur again in future, adjusted for current year developments. We focused our attention on the IBNR estimate given: — The subjective nature of the estimates made with regard to the adjusted historical claims development information, which involves judgement and estimation uncertainty; and — The complexity and subjectivity of the methodology used to determine the IBNR claims. *Insurance Contract Outstanding Claims* Insurance contract outstanding claims are unpaid claims registered by insurance contract policyholders before year end. We focused our attention on the insurance contract outstanding claims due to: — The significance of the insurance contract outstanding claims in the statement of financial position at year end, amounting to MK12.7 billion. — Insurance risks are unpredictable and the Group recognises that it is impossible to forecast, with absolute precision, future claims payable under existing insurance contracts. Often claimants may challenge the Group in respect of claims not registered. As such, a lot of subjectivity and judgement is made by management in deriving the insurance contract outstanding claims provision.	Our audit procedures relating to IBNR claims included the following: — using our knowledge of the industry and the Group, we assessed the methodology used by management to determine the IBNR claims, evaluated the reasonableness of the methodology applied and ensured that it was consistently applied across all classes of insurance. — in order to determine whether or not the methodology used to calculate the IBNR claims estimate was reasonable, we assessed whether or not the IBNR claims estimate for the prior year was reasonably accurate by verifying the actual payments made in the current year relative to the IBNR claims estimate made in the prior year. — based on our understanding of the methodology used to determine the IBNR claims estimate, we independently calculated the IBNR claims estimate for each class of insurance and compared our estimates to those calculated by the Group. — inspecting supporting documents for the amounts used to calculate the estimate and formed our own assessment as to whether or not the balances and the assumptions used were reasonable. — challenging management's assumptions in calculating the IBNR claims ratios for each class of insurance and independently assessed the accuracy of the ratios by calculating our own ratios for each class of insurance and comparing these to those calculated by the Group. Our audit procedures in respect of insurance contract outstanding claims included, amongst others: — inspecting documents, including insurance contracts, supporting the provision raised in respect of outstanding claims. — obtaining independent confirmations from the Group's external attorneys to evaluate whether all claims have been included in the outstanding claims provision, based on the assessment performed by the Group's in-house attorneys.

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

For the year ended 31 December 2016

Accordingly, we considered the measurement of the IBNR claims estimate and the provision for insurance contract outstanding claims to be a matter of most significance to our audit of the consolidated financial statements.	
Going concern *Refer to Note 49 to the financial statements.* Our audit attention focused on the directors' use of the going concern assumption given that the Group has a subsidiary, NBS Bank Limited (the Bank), which has reported that it faces conditions that indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Bank to continue as a going concern. The impact of the market and economic conditions in Malawi, including high interest rates and inflation, as well as depreciation of the local currency against all the major currencies, impacts the ability of customers to invest with the Bank. The directors' plans and strategies to realise profits in the Bank had not materialised by year end and the losses, recorded by the Bank, slowly eroded the Bank's capital base. The Bank operates in a regulated industry and the Reserve Bank of Malawi requires it to maintain minimum capital requirements. The Bank did not meet the minimum capital requirements as at 31 December 2016. The Reserve Bank of Malawi waived the requirement for the Bank to meet these capital requirements until the planned capital restoration (a rights issue) is concluded by June 2017. The ability of the Bank to continue as a going concern is ultimately dependent on the successful conclusion of the rights issue and implementation of the strategies described in note 49. The net asset value of the Bank, at MK6.8 billion, represents 21% of the Group's total net asset value as at 31 December 2016 which means that it represents a significant portion of the Group's core business. As a result, the ability of the Group to continue as a going concern, particularly assessing the impact of the Bank's material uncertainty on this ability, was a matter of most significance to our audit of the consolidated financial statements.	The key procedures we undertook to address this matter included: — assessing whether the directors' assumptions are reasonable and supportable in view of the Bank's and the Group's circumstances, and are consistent with the general economic environment and our understanding of the Bank and the Group. — challenging the cash flow projections in relation to market conditions and current levels of income and expenditure. — testing the sensitivity of the cash flow projections to changes in the assumptions used by the directors. — evaluating the directors' assessment of going concern at a Group level and their judgement about the impact of the material uncertainty on the Bank's ability to continue as a going concern at the Group level, as well as evaluating the directors' assessment that this does not give rise to a material uncertainty at the Group level.

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

For the year ended 31 December 2016

Other information

The directors are responsible for the other information. The other information comprises the Director's report, Directors' responsibility statement and 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 financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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.

NICO HOLDINGS Plc *Consolidated Financial Statements*

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

For the year ended 31 December 2016

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated 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.

KPMG

Gordon Tembo
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi
23 June 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of Malawi Kwacha

ASSETS	Note	2016	2015 Restated	2014 Restated
Cash and cash equivalents	5	38,753,794	45,991,620	29,843,055
Short-term investments	6	70,772,794	45,225,625	41,068,008
Loans and advances to customers	7	29,495,805	29,971,721	30,885,381
Income tax receivable	8 (c)	1,298,802	1,167,642	-
Other receivables	9	17,728,542	12,315,817	12,497,564
Lease receivables	10	95,230	119,478	136,708
Trade receivables	11	26,808,995	18,521,022	20,987,852
Deferred Acquisition Costs (DAC)	12	878,803	756,290	710,576
Inventories	13	258,224	204,026	196,889
Deferred tax assets	14	499,495	783,474	669,048
Investment in associate companies	15	1,196,667	1,168,519	664,330
Investment in government securities	16	20,044,987	13,660,482	5,268,460
Investment in equity shares	17	55,829,780	49,804,304	45,973,600
Loans and debentures	18	11,171,618	7,999,178	3,662,258
nvestment properties	19	7,451,719	6,795,261	6,006,046
Intangible assets	20	6,413,857	5,834,420	498,217
Property and equipment	21	7,087,473	6,741,805	7,369,181
Total assets		295,786,585	247,060,684	206,437,173
Trade and other payables	22	24,795,547	20,024,268	10,388,567
Deposits and customer accounts	23	63,802,965	60,888,676	48,314,263
Insurance contract payables	24	21,463,458	15,407,021	18,981,362
Income tax payable	8(c)	-	-	123,551
Unearned Premium Reserve (UPR)	25	10,511,738	8,407,494	8,031,431
Interest-bearing loans and borrowings	26	3,837,154	3,006,269	5,409,180
Deferred tax liabilities	14	2,749,449	977,493	1,211,978
Long-term policyholders liabilities	42.8.9	136,527,959	106,502,471	84,974,162
Total liabilities		263,688,270	215,213,692	177,434,494
EQUITY AND LIABILITIES				
Equity				
Issued share capital	27	52,152	52,152	52,152
Share premium	27	428,859	428,859	428,859
Revaluation reserve	27	239,660	196,579	196,579
Loan loss reserve	28(a)	5,034,124	4,732,578	1,044,787
Other reserves	28(b)	1,453,596	1,270,859	1,530,833
Retained earnings		11,587,007	11,390,816	12,916,973
Total equity attributable to equity holders of the Company		18,795,398	18,071,843	16,170,183
Non-controlling interest	29(a)	13,302,917	13,775,149	12,832,496
Total equity		32,098,315	31,846,992	29,002,679
Total equity and liabilities		295,786,585	247,060,684	206,437,173

These annual financial statements were approved for issue by the Board of Directors on 19 June 2017 and were signed on its behalf by:

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of Malawi Kwacha

REVENUE	Note	2016	2015 Restated
Gross written insurance premiums	30	52,654,157	41,165,868
Unearned premium adjustment	30	(396,795)	(90,329)
Gross earned insurance premiums		52,257,362	41,075,539
Fees and commission income	31	2,379,966	1,778,649
Income from banking operations	32	18,493,059	20,626,994
Investment income	33	26,556,210	16,109,575
Total operating revenue		99,686,597	79,590,757
Other income	34	111,811	133,400
Share of profit from associated companies	15	28,148	11,305
Total income		99,826,556	79,735,462
EXPENSES			
Insurance premium ceded to reinsurers	30	(17,014,241)	(12,311,598)
Net policyholders claims and benefits	35	(16,655,050)	(15,740,902)
Insurance contracts acquisition costs	36	(1,474,237)	(1,840,848)
Bank interest expense	37	(6,498,719)	(4,593,889)
Information technology consultancy costs	38(b)	(3,917)	(73,189)
Administrative expenses	38(a)	(26,518,093)	(23,341,193)
Profit before net finance costs and long term policyholders' benefits		31,662,299	21,833,843
Net finance costs	39	(147,613)	962,397
Long-term policyholders benefits	42.8.9	(24,237,650)	(15,498,132)
Profit before income tax expense		7,277,036	7,298,108
Income tax expense	8	(4,541,820)	(1,809,541)
PROFIT FOR THE YEAR		2,735,216	5,488,567
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings		129,959	-
Deferred tax on revaluation of land buildings		(45,486)	-
Items that are or may be reclassified to profit or loss			
Loss on available for sale assets		(179,161)	(2,432)
Deferred tax on available for sale assets		-	2,244
Translation difference on foreign subsidiary		247,976	(536,293)
Total other comprehensive income for the year net of tax		153,288	(536,481)
Total comprehensive income for the year		2,888,504	4,952,086
Profit for the year attributable to:			
Non-controlling interest		1,477,014	2,953,514
Owners of the parent Company		1,258,202	2,535,053
		2,735,216	5,488,567
Total comprehensive income for the year attributable to:			
Non-controlling interest		1,559,485	2,682,793
Owners of the parent Company		1,329,019	2,269,293
		2,888,504	4,952,086
Basic and diluted earnings per share (MK)	40	1.21	2.43

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of Malawi Kwacha

Reconciliation of movement in capital and reserves

Consolidated	Share capital	Share Premium	Revaluation reserves	Loan loss reserves	Translation reserve	Fair value reserve	General reserves	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2016	52,152	428,859	196,579	4,732,578	(165,297)	890,637	545,519	11,390,816	18,071,843	13,775,149	31,846,992
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	1,258,202	1,258,202	1,477,014	2,735,216
Other comprehensive income for the year											
Revaluation of land and buildings	-	-	66,279	-	-	-	-	-	66,279	63,680	129,959
Deferred tax on revaluation	-	-	(23,198)	-	-	-	-	-	(23,198)	(22,288)	(45,486)
Fair value on available for sale assets	-	-	-	-	-	-	-	(157,241)	(157,241)	(21,920)	(179,161)
Translation difference on foreign subsidiaries	-	-	-	-	205,338	-	-	-	205,338	42,638	247,976
Total other comprehensive income	-	-	43,081	-	205,338	-	-	(157,241)	91,178	61,110	153,288
Total comprehensive income for the year	-	-	43,081	-	205,338	-	-	1,100,961	1,349,380	1,539,124	2,888,504
Transfers within reserves											
Transfer from retained earnings /general reserves	-	-	-	301,546	-	-	-	(301,546)	-	-	-
Transfer from fair value reserve	-	-	-	-	-	(22,601)	-	22,601	-	-	-
Total transfers within reserves	-	-	-	301,546	-	(22,601)	-	(278,945)	-	-	-
Transactions with owners of the parent											
* Issue of shares in subsidiary	-	-	-	-	-	-	-	-	-	94,027	94,027
Dividends to equity holders (Note 41)	-	-	-	-	-	-	-	(625,825)	(625,825)	(2,105,383)	(2,731,208)
Total transactions with owners of the parent	-	-	-	-	-	-	-	(625,825)	(625,825)	(2,011,356)	(2,637,181)
Balance at 31 December 2016	52,152	428,859	239,660	5,034,124	40,041	868,036	545,519	11,587,007	18,795,398	13,302,917	32,098,315

* The change in non-controlling interest (NCI) is attributable to the re-capitalisation in NICO Zambia Insurance Limited where all shareholders participated and hence the proportion of equity held by NCIs did not change.

NICO HOLDINGS Plc Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

In thousands of Malawi Kwacha

Reconciliation of movement in capital and reserves

Consolidated	Share capital	Share Premium	Non-Revaluation reserves	Loan loss reserves	Translation reserve	Fair value reserve	General reserves	Retained earnings	controlling Total	interest	Total
Balance at 1 January 2015 (As previously stated)	52,152	428,859	196,579	1,044,787	101,549	883,765	545,519	13,116,324	16,369,534	13,024,028	29,393,562
Prior year adjustment	-	-	-	-	-	-	-	(199,351)	(199,351)	(191,532)	(390,883)
Balance at 1 January 2015 (As restated)	52,152	428,859	196,579	1,044,787	101,549	883,765	545,519	12,916,973	16,170,183	12,832,496	29,002,679
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	2,535,053	2,535,053	2,953,514	5,488,567
Other comprehensive income for the year											
Deferred tax on available for sale assets	-	-	-	-	-	2,244	-	-	2,244	-	2,244
Fair value on available for sale assets	-	-	-	-	-	(1,426)	-	-	(1,426)	(1,006)	(2,432)
Translation difference on foreign subsidiaries	-	-	-	-	(266,578)	-	-	-	(266,578)	(269,715)	(536,293)
Total other comprehensive income	-	-	-	-	(266,578)	818	-	-	(265,760)	(270,721)	(536,481)
Total comprehensive income for the year	-	-	-	-	(266,578)	818	-	2,535,053	2,269,293	2,682,793	4,952,086
Transfers within reserves											
Transfer from retained earnings/general reserves	-	-	-	3,687,791	-	-	-	(3,687,791)	-	-	-
Transfer from fair value reserve	-	-	-	-	-	6,054	-	(6,054)	-	-	-
Total transfers within reserves	-	-	-	3,687,791	-	6,054	-	(3,693,845)	-	-	-
Transactions with owners of the parent											
Arising on loss of control of subsidiary	-	-	-	-	(268)	-	-	571,372	571,104	127,538	698,642
Dividends to equity holders (Note 41)	-	-	-	-	-	-	-	(938,737)	(938,737)	(1,867,678)	(2,806,415)
Total transactions with owners of the parent	-	-	-	-	(268)	-	-	(367,365)	(367,633)	(1,740,140)	(2,107,773)
Balance at 31 December 2015	52,152	428,859	196,579	4,732,578	(165,297)	890,637	545,519	11,390,816	18,071,843	13,775,149	31,846,992

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2016	2015
Cash receipts from customers		60,787,214	72,241,897
Cash payments to clients employees and suppliers		(45,363,294)	(36,506,015)
Cash generated from operations		15,423,920	35,735,882
Income tax paid	8(c)	(3,354,131)	(3,393,419)
Net cash flows from operating activities		12,069,789	32,342,463
CASH FLOWS UTILISED IN INVESTING ACTIVITIES			
Proceeds disposal of property and equipment		24,135	47,084
Interest received		23,546,074	14,108,622
Dividend Received	33	1,727,732	1,512,209
Additions to property and equipment and intangible assets	20,21	(1,914,271)	(5,838,491)
Additions to investment properties	19	(2,989)	(162,079)
Disposal of government securities and loan and debentures	16,18	5,058,317	1,053,241
Additions to government securities	16	(10,299,691)	(9,533,613)
Additions to short term investments		(25,547,169)	(4,157,620)
Additions to equity shares	17	(1,638,275)	(970,243)
Additions to Investment in associates	15	-	(408,235)
Additions to loans and debentures	18	(8,547,933)	(5,143,526)
Net cash flows utilized in investing activities		(17,594,070)	(9,492,651)
CASH FLOWS UTILISED IN FINANCING ACTIVITIES			
Additions to long term borrowings	26	3,600,000	126,000
Repayment of long term borrowing	26	(2,825,011)	(4,123,166)
Dividend paid	41	(2,731,208)	(2,615,315)
Net cash flow utilised in financing activities		(1,956,219)	(6,612,481)
Net (decrease)/increase in cash and cash equivalents		(7,480,500)	16,237,331
Cash and cash equivalents at 1 January		45,991,620	29,843,055
Effects of changes in exchange rates		242,674	(88,766)
Cash and cash equivalents at 31 December	5	38,753,794	45,991,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

1. REPORTING ENTITY

NICO Holdings Plc (The Company) is a public Company incorporated in Malawi under the Companies Act, 2013 of Malawi. Formerly it was called National Insurance Company Limited. The address of the Company's registered office is: Chibisa House, 19 Glyn Jones Road, and P.O. Box 501, Blantyre, Malawi. The Consolidated financial statements for the year ended 31 December 2016 comprises the Company, its subsidiaries and associate companies (together referred to as the "Group"). The Company is listed on the Malawi Stock Exchange.

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

Name of subsidiary	% Holding	Type of business
NICO Insurance (Zambia) Limited	51.00	Short term insurance
NICO General Insurance Limited	51.00	Short term insurance
SFG Holdings (Zimbabwe) Limited	49.00	Short term insurance (Dormant)
NICO Life Insurance Company Limited*	51.00	Life insurance and pension administration
NBS Bank Limited	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabrications & Manufacturers Limited	100.00	Property holding

Name of Associate Company	% Holding	Type of business
Sanlam General Insurance Uganda Limited	20.00	Short term insurance
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mocambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration

* NICO Holdings Plc has management control of SFG Holdings with majority directors on the board with majority voting rights.

2. BASIS OF PREPARATION

2.1. *Basis of accounting*

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

Details of the Group's accounting policies, including changes during the year are included in notes 2.5 and 3.

2.2. *Basis of measurement*

The Consolidated 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.

2.2.1. *Use of estimates and judgements*

The preparation of consolidated 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, 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.

2. BASIS OF PREPARATION (CONTINUED)

2.2.1. Use of estimates and judgements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 42.8 - Valuation of long term policy holders' liabilities and technical reserves.
- Note 19 - Valuation of investment properties
- Note 7,11 and 17 - Valuation of investments in shares and loans receivables
- Note 17 - Non consolidation of investments in which shareholding exceeds 50%

2.2.2 Fair value measurement

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

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

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

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

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

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

NICO HOLDINGS Plc Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2016
In thousands of Malawi Kwacha

(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.

Determination of fair values

(ii) Available for sale financial instruments and financial instruments at fair value through profit or loss

The fair values of Available for sale financial instruments and financial instruments at fair value through profit or loss 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.

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.	The valuer makes professional judgement on adjustments as properties and locations are never the same mainly in situations where there are not much sale transactions taking place. Average rental yields used in the valuation are as follows: Commercial Property: 10.04% to 12.55%. Residential Property: 11.19% to 13.99%.	The estimated fair value would increase (decrease) if: • Expected average rental yields were higher (lower);or • If the market was not restricted to few capable buyers. On the basis of the general economic trends observed so far it appears unlikely that the sales market will improve in the near term unless a sustained reduction in interest rates take place.

The fair value measurements have been categorised as Level 3 for value based on inputs to the valuation techniques used. Total gains for the period recognised in other comprehensive income amounted to MK129.96 million under items that will not be reclassified to profit or loss – revaluation of land and buildings.

2. BASIS OF PREPARATION (CONTINUED)

2.3. *Functional and presentation currency*

These consolidated financial statements are presented in Malawi Kwacha, which is also the Company's functional currency. All financial information presented in Malawi Kwacha has been rounded to the nearest thousand.

2.4 *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. Reference should be made to note 49 which includes a detailed assessment by the Directors, on the ability of the Group to continue in business for the foreseeable future.

2.5 *Changes in accounting policy*

During 2016 the Group changed its accounting treatment of pension contributions from accruals basis to cash basis. Below is a table summarizing the change and the impact on the Group's statement of Financial Position.

A pension administrator would normally recognise pension contributions received based on a remittance from the scheme (employer), this would contain the details of all active employees and the amount contributed. The administrator previously accrued pension contributions using the previous month's remittance as an accrual of income to be received on the premise that the employers would always have a legal obligation to hand over the contributions to the administrator. Over the years the pension administrator continued to accrue pension contributions from debunked schemes that had not been remitting to the fund such that when accounting for policyholders' liabilities, the administrator carries a liability for the full outstanding contributions receivable.

However the pension administrator has no liability if the contributions have not been received. A liability should only be recognised when the cash has been received which therefore questions the recognition of the receivable. If there is no liability (i.e. no impact on the income statement), there should be no receivable and the existing receivable will be reversed. The reason for the change in accounting policy is to therefore provide more relevant and reliable information to the users of the financial statements.

The change is accounting policy has no effect on Earning per share.

Before change	After change
Premiums and pension contributions	***Pension contributions***
In respect of long term business and contracts with discretionary participation features, premiums and pension contributions are accounted for on a receivable basis and exclude any taxes or duties on the premium amount. The amounts net of reinsurance premiums are classified as liabilities and included in long term policyholders' liabilities.	Pension contributions are accounted for on a cash basis.

1 January 2016	As previously MK'000	Impact of change in reported MK '000	As restated in accounting policy MK'000
Trade Receivables	20,527,585	(2,006,563)	18,521,022
Long Term Policyholders liabilities	108,509,034	(2,006,563)	106,502,471
1 January 2015			
Trade receivables	23 793 718	(2 805 866)	20 987 852
Long-term policyholders liabilities	87 780 028	(2 805 866)	84 974 162

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2.6 *Prior period adjustments*

(i) During the year, it was determined that the written premiums ceded to reinsurers, reinsurance payables, income tax payable and deferred tax assets account balances in NICO Insurance (Zambia) Limited had been misstated in the prior years from 2010. These misstatements have been corrected as prior period adjustments in terms of IAS 8. The adjustments above arose as a result of the following errors noted:

Reinsurance payables and written premiums ceded to reinsurers

- Incorrect facultative rates had been entered in Premia information system ("Premia");
- No facultative rates entered in Premia;
- Reversals done by underwriting in Premia but not reflected in the general ledger;
- Duplicated payments made to reinsurers;
- Payments being made to reinsurer without confirmation of system balances.

As a result of the adjustments noted above, the recorded income tax and deferred tax has been amended.

Details of the adjustments in the account balances and impact of each line of the financial statements is detailed below:

Impact of correction of errors
Statement of financial position

1 January 2015	As previously reported MK'000	Impact of adjustment MK '000	As restated MK'000
Assets			
Deferred tax assets	635,644	115,845	751,489
Income tax receivable	-	93,790	93,790
Liabilities			
Insurance payables	(18,381,547)	(599,815)	(18,981,362)
Trade & Other Payables	(10,387,864)	(703)	(10,388,567)
Net impact		(390,883)	
Equity			
Retained earnings	13,116,324	(199,351)	12,916,973
Non -Controlling Interest	13,024,028	(191,532)	12,832,496
Net impact on Equity as at 1 January 2015		(390,883)	
1 January 2016			
Assets			
Deferred tax assets	676,493	106,981	783,774
Other Receivables	12,315,454	363	12,315,817
Income Tax Receivable	1,090,184	77,458	1,167,642
Liabilities			
Trade and Other Payables	(20,164,334)	140,066	(20,024,268)
Insurance payables	(14,770,686)	(636,335)	15,407,021
Net impact		(311,467)	
Equity			
Other Reserves	1,217,381	53,478	1,270,859
Retained earnings	11,603,143	(212,327)	11,390,816
Non-controlling interest	13,927,767	(152,618)	13,775,149
Net impact on Equity as at 1 January		(311,467)	

2. BASIS OF PREPARATION (CONTINUED)

2.6 *Prior period adjustments (continued)*

1 January 2016	As previously reported MK'000	Impact of adjustment MK '000	As restated MK'000
2016			
Statement of Profit or Loss			
Written premiums ceded to reinsurers	12,275,077	36,521	12,311,598
Income Tax Expense	(1,820,849)	11,308	(1,809,541)
Administration expenses	(23,340,963)	(230)	(23,341,193)
Net impact		47,599	

(ii) During the year 2016 the Group corrected the classification of equity financial instruments under disclosure note 42.5.2 from Available for sale to Fair value through profit or loss. Below is a table showing the change and impact.

Before change	After change
(iv) Equity instruments' heading	***(iv) Equity instruments' heading***
Available for sale	Fair value through profit or loss

1 January 2016	As previously reported MK'000	Impact of change in heading MK '000	As amended MK'000
Fair value through profit or loss equity instruments	38,690,161	10,554,121	49,244,282
Available for sale equity instruments	11,114,143	(10,554,121)	560,022

(iii) During the year 2016 the Group split the insurance liabilities in note 42.8.9 into insurance and investment contracts. Below is the analysis of the impact on disclosure note 42.5.2.

1 January 2016	As previously reported MK'000	Impact of split MK '000	Impact of changes heading MK'000	As amended MK'000
Financial assets at fair value Through profit or loss	38,690,161	83,827,564	10,554,121	133,071,846

3. 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

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee if it is exposed to, or, has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over investee. The financial statements of subsidiaries are included in the Consolidated Financial statements from the date that control commences until the date that control ceases. Uniform accounting policies have been applied throughout the Group.

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(ii) Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. The investments in associates are measured using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss, until the date on which significant influence ceases.

(iii) Non-controlling interest

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's interest therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests are allocated to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Non-controlling interest are measured as the present ownership proportionate share in the recognised amounts of the acquirees net assets.

(iv) Loss of control

Whe the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling Interest and other components of equity. Any resulting gain or loss, is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) 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.

(b) Revenue

Recognition and measurement

(i) Short-term insurance contracts

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

(ii) Reinsurance contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(b) Revenue (continueD)

(ii) Reinsurance contracts (continued)

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 is recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount in the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on the statement of financial position, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate. Net interest income includes fair value adjustments on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading. Dividends received on preference share investments form part of the Group's lending activities and are included in interest income.

(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

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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.

(c) 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.

(d) Claims

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

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

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

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

(e) 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.

(f) 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.

(g) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Liability adequacy test

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

(i) 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.

(j) Foreign currency

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.

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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.

(k) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group or Group and cost can be measured reliably. The carrying amount of the replaced component is derecognised. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Property and equipment (continued)

(iv) Depreciation recognised (continued)

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. It is depreciated.

(l) 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.

The Group as a lessor

(a) Finance lease

A lease is a finance lease if substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. All other leases are classified as operating leases.

The lessor records the amounts due from lessees under finance leases 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.

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases.

The difference between the amounts recognised as income and the contractual payments are recognised as an operating lease asset or liability (refer to note 10). This asset or liability is not discounted. Any contingent rents are recognised as income in the period they are earned.

The Group as a lessee

Operating lease

A lease is an operating lease if lessor effectively retains substantially all the risks and benefits of ownership. The Payments made under operating leases are recognised in profit or loss on a straight line basis over the period of the lease.

Assets leased in accordance with operating lease agreements are not recognised in the statement of financial position.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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(m) Intangible assets

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

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

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

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

(n) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate at the reporting date. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if and when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

Subsequent measurement financial assets

Held-to-maturity investments

Held to maturity investments comprise government securities which consists government stocks and treasury bills. If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale equity instruments are recognised directly in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Financial instruments (continued)

Financial instruments at fair value through profit or loss
A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments (assets) are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. These include equity securities and policyholders' loans.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. Subsequent to initial measurement, loans and receivables are accounted for at amortised cost using the effective interest method less impairment losses. Directly attributable transaction costs and fees received are capitalised to the value of the loan and amortised through interest income.

Loans and receivables include; other investments, loans receivables and other receivables and relate to receivables from the insurance businesses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, call deposits and money market investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

SUBSEQUENT MEASUREMENT-FINANCIAL LIABILITIES
Trade and other payables
Subsequent measurement is at amortised cost using the effective interest rate method.

Interest bearing borrowings
Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Financial guarantees
Financial guarantees are contracts that require the Group to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value and the initial value is amortised over the life of the guarantee. The guarantee liability is subsequently measured at the higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

Customers deposit accounts
Customer deposit accounts comprise current and savings accounts, foreign currency denominated, and term deposits accounts.

Customer deposit accounts are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

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The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Customer deposit liabilities are subsequently measured at their amortised cost using the effective interest method.

IMPAIRMENT
Financial assets
A financial asset not classified at fair value through profit or loss is assessed at the reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if there is objective evidence of impairment that indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issues will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for security.

Individually significant financial assets measured at amortised cost are tested for impairment on an individual basis. The remaining financial assets and those found not to be specifically impaired are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Available-for-sale financial assets
An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the loss is reversed through profit or loss.

Presentation of allowance for credit losses
Financial assets at amortised cost are stated in the statement of financial position after the deduction of allowances for credit losses. Losses are recognised in profit or loss and reflected in an allowance account against the financial assets.

Specific allowances, covering identified doubtful debts, are based on specific evaluations of loans and advances and take account of past loss experience, economic conditions and changes in the nature and level of risk exposure.

Loans and advances are written off once the probability of recovery becomes remote. The amounts required to fund the assessed level of allowances for credit losses are charged to profit or loss.

Reversal of impairment
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) Investment property

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

Subsequently, investment property is measured at fair value as determined by an independent registered valuer. Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction.

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.

(q) 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.

(r) Interest expense

Interest expense relates to interest on deposits held in the banking business and is 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 through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability. The effective interest rate is established on initial recognition of the financial liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid 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 liability.

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

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

(s) Income tax

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.

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.
- 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.

(t) 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

(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.

(u) 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.

(v) 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.

(w) 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.

(x) Other receivables

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

(y) Long term insurance contracts

(i) Recognition and measurement of Insurance Contracts

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

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

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

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(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Non-financial assets

Carrying amounts of non-financial assets, other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indications arise, then the asset recoverable amount is estimated. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that a loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

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

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

This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

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

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

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

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The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 31 December 2017 financial statements.

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

IFRS 16 Leases
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Disclosure Initiative (Amendments to IAS 7)
The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

	2016	2015

5. CASH AND CASH EQUIVALENTS

See accounting policy in Note 3 (n)

Bank balances	6,769,424	6,924,373
Short term deposits	31,984,370	39,067,247
Cash and cash equivalents as shown in the statement of cash flows	38,753,794	45,991,620

Included in cash and cash equivalents is the liquidity reserve deposit with the central bank amounting to **MK5.4 billion** (2015: MK5.9 billion) which is not available for use by NBS Bank Limited.
Interest rate on Bank balances was 7.05% (2015: 8.70%) and for short term deposits was 26.63% (2015: 23.96%).

6. SHORT TERM INVESTMENTS

See accounting policy in Note 3 (n)

Loans and debentures	578,130	253,557
Term deposits	8,603	7,894
Government securities	70,186,061	44,964,174
	70,772,794	45,225,625

Interest rates for Government Securities ranged from 13% to 29% (2015: 19.2% to 27.0%).

	2016	2015

7. LOANS AND ADVANCES TO CUSTOMERS

See accounting policy in Note 3 (w)

Loans and overdrafts	29,925,072	31,512,636
Lease contracts*	1,015,751	2,507,466
Mortgage advances	11,815,244	10,168,493
Total loans and advances	42,756,067	44,188,595
Impairment of loans and advances	(13,260,262)	(14,216,874)
	29,495,805	29,971,721
Net loans and advances are due to mature as follows:		
- Within one year	16,005,599	21,670,988
- After one year	13,490,206	8,300,733
	29,495,805	29,971,721
Movement on allowance for impairment:		
At beginning of the year	14,216,874	9,455,709
Amounts written off	(2,824,206)	(2,115,529)
Increase in impairment loss net of recoverable	1,867,594	6,876,694
	13,260,262	14,216,874

*Finance lease receivables:
Loans and advances to customers include the following finance lease receivables for leases of equipment where the group is a lessor:

Gross investment in finance lease receivables:		
Less than one year	417,108	1,361,134
Between one and five years	1,668,433	2,722,268
	2,085,541	4,083,402
Unearned finance income	(1,069,790)	(1,575,936)
Net investment in finance leases	1,015,751	2,507,466
Net investment in finance leases, receivable:		
Less than one year	95,508	569,145
Between one and five years	920,243	1,938,321
	1,015,751	2,507,466

For accounting classification and fair value, refer to Note 42.9.

Note: 2015 there was a transfer of MK633,239 suspended interest on overdrafts from provisions in other liabilities to provisions against impaired loans and advances.

The group's banking business applies risk based pricing on its products. The price is linked to the base lending rate with an interest spread of minus 200 to plus 1000 basis points. The applicable lending rates were 36% and 33% for 2015 and 2016, respectively. During the year the group's banking business upgraded its T24 core banking system from version R08 to R14 to improve the delivery of service and the equality of information or reporting purposes. As part of the migration process, the bank is still in the process of fine tuning the system to ensure the loan balances are correct. A reconciliation process was performed to reconcile the pre and post migration of the loan book where differences are being investigated. Meanwhile the difference have been fully provided for.

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	2016	2015

8. INCOME TAX EXPENSE

See accounting policy in Note 3 (s)

Recognised in profit or loss

(a) Current tax expense

		Restated
Current year tax at 30%	3,223,908	2,093,884
Deferred tax		
Temporary differences (Note 24)	1,317,912	(284,343)
	4,541,820	1,809,541

(b) Reconciliation of tax charge

		Restated
Profit before income tax expense	7,277,036	7,298,108
Income tax at 30% (2015: 30%)	2,183,111	2,189,432
Effect of non-taxable income/non taxable expenses	(24,638)	(545,400)
Effect of permanent differences	2,195,143	76,386
Capital gains tax	3,690	(49,050)
Dividend tax	162,386	152,211
Over provision in prior year	22,128	(14,038)
	4,541,820	1,809,541

(c) Tax payable/ (receivable) reconciliation

		Restated
Balance at 1 January	(1,167,642)	123,551
Charge for the year	3,223,908	2,097,121
Tax paid	(3,354,131)	(3,393,419)
Exchange rate differences	(937)	151
Tax credit due to loss of control	-	4,954
Balance at 31 December	(1,298,802)	(1,167,642)

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

9. OTHER RECEIVABLES

See accounting policy in Note 3 (x)

		Restated
Cheques in course of collection	2,577,012	2,677,853
Accrued investment income	1,124,580	607,407
Staff loans and advances	837,685	623,532
Prepayments	120,929	1,062,399
Amounts receivable from related parties	15,754	225,703
Client funds under management	11,460,145	6,488,743
Other non-trade receivables	1,592,437	630,180
	17,728,542	12,315,817

Advances to staff comprise **MK183 million** (2015: MK232 million) interest free loans and **MK567 million** (2015: MK391 million) at an interest rate of 9%, the remaining balance of **MK87 million** (2015: MK Nil) carries interest at commercial rates.

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9. OTHER RECEIVABLES (CONTINUED)

Included in other non-trade receivables are balances on suspense and clearing accounts amounting to K1.3 billion that the group's banking business uses in the clearing of transactions which, at the end of the year, have not yet been processed to their relevant accounts. The transactions mostly relate to transactions with customers, hence the inclusion in other assets. At the reporting date these accounts were analysed and where the recoverability of the balances was doubtful appropriate provisions were made. Certain transactions that were processed through these accounts were identified as fraudulent during the year. These transactions were written off and included in the provision for operational losses in note 38(a).

All of these other assets are consumable or recoverable within one year.

	2016	2015

10. LEASE RECEIVABLES

See accounting policy note 3(l)

Balance at 1 January	119,478	136,708
Lease rental receivable per IAS 17	(24,248)	(17,230)
Balance at 31 December	95,230	119,478
Analysis of balance is as follows:		
Receivable within 12 months	32,667	15,344
Receivable after 12 months	62,563	104,134
	95,230	119,478
Lease rental income recognised in revenue account:-		
- Lease rental per IAS 17	(24,247)	(17,230)
Amount included in rent received	(24,247)	(17,230)

The lease period will expire in 2019. Escalation clause used is 20%. The difference between rentals on straight line and actual basis has been accounted for as long lease receivable. The carrying value of the Investment Property on which the leases are recognised has been limited to the market value.

11. TRADE RECEIVABLES

See accounting policy in Note 3 (f),(i)

		Restated
Outstanding premiums	8,589,439	4,383,620
Reinsurance companies - Commission, UPR, IBNR	9,571,185	8,804,540
Reinsurance companies - Outstanding losses	8,169,024	4,859,579
Fees, rent and other receivables	479,347	473,283
	26,808,995	18,521,022

The balances for trade receivables are interest free and in the opinion of Directors, these balances approximate their fair value at the reporting date, because of their short term nature. Refer note 42.9 for accounting classification and fair values.

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	2016	2015

12. DEFERRED ACQUISITION COSTS (DAC)

See accounting policy in Note 3 (e)

Balance as at 1 January	756,290	710,576
Effects of exchange rate differences	377	1,235
Amount charged to profit or loss	-	(705,560)
Movement for the year	122,136	750,039
Balance as at 31 December	878,803	756,290

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 contracts.

13. INVENTORIES

See accounting policy in Note 3 (q)

Consumables	258,224	204,026

14. DEFERRED TAX ASSETS AND LIABILITIES

See accounting policy in Note 3 (s)

Recognised deferred tax

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

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property and equipment	-	(2,273)	725,678	258,330	725,678	256,057
Investment properties and equity shares	-	(3,516)	1,112,032	-	1,112,032	(3,516)
Accrued interest	-	-	890,628	564,792	890,628	564,792
Exchange losses	-	-	12,007	154,371	12,007	154,371
Other assets	(499,495)	(777,685)	9,104	-	(490,391)	(777,685)
Deferred tax (assets)/liabilities	(499,495)	(783,474)	2,749,449	977,493	2,249,954	194,019

2016

Movement during the year

	Balance as at 1 January 2016	Recognised profit and loss	Recog-nised OCI	Derecog-nised on loss of control	Effects exchange rates	Balance as at 1 December 2015
Summary deferred tax						
Property and equipment	256,057	400,647	45,486	-	23,488	725,678
Investment properties and equity shares	(3,516)	1,112,884	-	-	2,664	1,112,032
Accrued interest	564,792	325,836	-	-	-	890,628
Exchange gain/(losses)	154,371	(145,336)	-	-	2,972	12,007
Other assets	(777,685)	402,269	-	-	(114,975)	(490,391)
Deferred tax liabilities/(assets)	194,019	2,096,300	45,486	-	(85,851)	2,249,954

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14. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

2015 Restated Movement during the year	Balance as at 1 January 2015	Recognised profit and loss	Recog-nised OCI	Derecog-nised on loss of control	Effects exchange rates	Balance as at 1 December 2015
Summary deferred tax						
Property and equipment	308,399	(47,530)	-	-	(4,812)	256,057
Investment properties and equity shares	589,472	(589,147)	(2,244)	-	(1,597)	(3,516)
Accrued interest	314,107	250,685	-	-	-	564,792
Exchange gain/(losses)	(3,517)	185,596	-	-	(27,708)	154,371
Other assets	(665,531)	(424,585)	-	198,007	114,424	(777,685)
Deferred tax liabilities/(assets)	542,930	(624,981)	(2,244)	198,007	80,307	194,019

15. INVESTMENT IN ASSOCIATES

See accounting policy in Note 3 (a) ii

	Principle place of business/ Country of Incorporation	2016 Shareholding	2016 Amount	2015 Shareholding	2015 Amount
Sanlam General Insurance Uganda	Uganda	20%	219,524	20%	204,410
Sanlam General Insurance Tanzania	Tanzania	20%	521,514	20%	518,967
Sanlam Moçambique Vida Companhia de Seguros, SA	Mozambique	34.30%	455,629	34.30%	445,142
			1,196,667		1,168,519

The investments in Sanlam General Insurance Uganda and Tanzania are operating within the general insurance business whilst the investment in Sanlam Moçambique Vida Companhia de Seguros, SA is operating within the life insurance business. These are strategic to the entity'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 discharged in aggregate.

	2016	2015
Profit after tax	118,889	(60,532)
Other comprehensive income	-	-
Total comprehensive income	118,889	(60,532)

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2016 Movement during the year	As at 1 January	Transfer from subsidiary	Additions	Impairment loss	Share of profit	Balance at 31 Dec
Sanlam General Insurance Uganda Limited	204,410	-	-	-	15,114	219,524
Sanlam General Insurance Tanzania Limited	518,967	-	-	-	2,547	521,514
Sanlam Moçambique Vida Companhia de Seguros, SA	445,142	-	-	-	10,487	455,629
	1,168,519	-	-	-	28,148	1,196,667
2015						
Movement during the year						
Sanlam General Insurance Uganda Limited	204,410	-	-	-	-	204,410
Sanlam General Insurance Tanzania Limited	459,920	-	59,047	-	-	518,967
Sanlam Moçambique Vida Companhia de Seguros, SA	-	290,569	349,188	(205,920)	11,305	445,142
	664,330	290,569	408,235	(205,920)	11,305	1,168,519

The impairment loss in 2015 arose due to the cost of the investment being less than the net asset value of the investment.

The Group also has investments in the following associated companies through its various subsidiaries;

	2016 %	2015 %
Chichiri Shopping Centre Limited - (through NICO Life Insurance Company Limited)	54.26	54.26
NICO Properties Limited: - (through NICO Life Insurance Company Limited)	59.48	59.48
NICO Properties Limited: - (through NBS Bank Limited)	2.52	2.52
Lilongwe City Mall Limited (through NICO Life Insurance Company Limited)	52.67	52.67
Kang'ombe Investments Limited (through NICO Properties Limited)	40.00	40.00
Natswitch Limited (through NBS Bank Limited)	9.00	9.00

These investments are mainly through the Life and Pensions business. (In line with IAS 28, "Investments in Associates", the Group's share of the total recognised gains and losses of these associates have not been included in these Consolidated Financial statements). They are mutual investments and the shareholders portion in these investments is very minimal.

The investment in NICO Properties Limited is in the form of linked shares and debentures in the ratio of 1:99. The debenture is an unsecured non-convertible debenture redeemable on 31 December 2016. Interest on the debenture accrues quarterly in arrears at a rate that is determined using the rental and investment income collected, less taxes and other costs incurred in the management of the group whether paid or accrued. The sum so determined is the interest and the rate is determined by reference to the principal outstanding. NICO Properties Limited is not consolidated in NICO Group Financial statements as it is a Company that is largely owned through NICO Life Insurance Company Limited, which in turn is owned by both shareholders and policyholders.

	2016	2015

16. INVESTMENT IN GOVERNMENT SECURITIES

See accounting policy note 3(n)

Balance as at 1 January	13,660,482	5,268,460
Additions during the year	10,299,691	9,533,613
Effects of changes in exchange rates	163,803	(290,496)
Short term portion of investments	(3,818,035)	(324,373)
Eliminated on loss of control in subsidiary	-	(26,530)
Disposals during the year	(260,954)	(500,192)
Balance at 31 December	20,044,987	13,660,482
Investment in government securities comprised the following:-		
Local registered stocks	23,538,700	14,041,331
Repos	19,089,301	2,798,651
Treasury bills	41,975,398	35,475,342
Promissory notes	5,627,649	6,309,332
	90,231,048	58,624,656
The investments are due to mature as follows:		
- Within one year (note 6)	70,186,061	44,964,174
- After one year	20,044,987	13,660,482
	90,231,048	58,624,656

Interest rates for government securities range from **13.00% to 29.00%** (2015: 19.20% to 27.00%) and for loans and debentures range from **33% to 36%** (2015: 33.33% to 38.41%).
Treasury bills earned interest at an average rate of **25%** (2015: 24%). Treasury bills interest rates represent average yield rates on a 91 day, 182 day and 364 day bills are determined from time to time by Reserve Bank of Malawi, in line with monetary policy rate. It is the intention of the directors to hold treasury bills to maturity. They are measured at amortised cost.

17. INVESTMENT IN EQUITY SHARES

See accounting policy note 3(n)

Valuation		
Balance at 1 January	49,804,304	45,973,600
Purchases during the year	1,638,275	970,243
Effects of changes in exchange rates	7,137	7,938
Increase in fair value – shareholders	299,924	390,034
– policyholders	4,080,140	2,788,153
Eliminated on loss of control in subsidiary	-	(290,569)
Disposals during the year	-	(35,095)
Balance at 31 December	55,829,780	49,804,304

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	2016	2015

Equity shares in listed companies

Listed shares		
Blantyre Hotels Limited	898,475	429,122
Standard Bank Limited	23,336,383	20,523,018
Illovo Sugar Limited	2,302,561	3,219,560
Press Corporation Limited	1,401,841	1,388,861
Old Mutual Limited	1,032,914	898,354
National Bank of Malawi Limited	7,296,420	7,844,605
National Investment Trust Limited	306,877	496,420
First Merchant Bank Limited	206,968	170,445
TNM Limited	3,772,019	3,590,142
Mpico Limited	199,840	104,642
NICO Holdings Plc*	68,302	-
Airtel Networks Zambia Plc	29,726	24,992
Total listed shares	40,852,326	38,690,161

* These are shares held by Stansfield Motors Pension Scheme in NICO Holdings Plc and the investment is for policyholders.

Unlisted shares		
Lilongwe City Mall Limited	2,612,424	2,116,120
Plantation House Limited	31,344	33,185
Chibuku Products Limited	3,300,000	2,400,000
Telecom Holdings Limited	378,448	553,586
NICO Properties Limited	3,494,970	1,717,344
Chichiri Shopping Centre Limited	5,060,717	4,198,118
NATSWITCH Limited	15,000	15,000
Mwaiwathu Private Hospital	49,794	49,794
Special Automotive Underwriters of Zimbabwe (Private) Limited	23,880	21,911
Fortesa	10,877	9,085
Total unlisted shares	14,977,454	11,114,143
The movement in unlisted shares is as follows:		
Balance at 1 January	11,114,143	9,726,066
Purchases during the year	1,138,098	-
Increase in fair value	2,721,453	1,380,014
Effects of changes in exchange rates	3,761	8,063
Balance at 31 December	14,977,454	11,114,143

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.

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17. INVESTMENT IN EQUITY SHARES (CONTINUED)

Level 1 Fair Value

Listed shares amount to MK40.8 billion (2015: MK38.7 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 Plc valued at MK30 million (2015: MK25 million) whose prices are quoted on the Lusaka Stock Exchange. Dividend received from listed shares 1,537,532 (2015: 1,304,855).

Level 3 Fair Value

Unlisted equities amount to MK14.98 billion (2015: MK11.1 billion). They were valued based on net asset value as at 31 December 2016 by NICO Asset Managers Limited, a related party, on behalf of the Directors, except for Chibuku Products shares that were valued using dividend valuation model by Deloitte, Certified Public Accounts (Malawi). Dividend received from unlisted shares 187,126 (2015: 330,890).

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair values of unlisted equities, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between Key unobservable inputs and fair value measurement
Market Value of unlisted equities The net asset valuation is based on the net asset value of the investment adjusted by an estimated discount rate. The dividend valuation model considers the present value of expected future dividends discounted using an after tax risk adjusted target cost of capital.	Discount rate (2016: 30%; 2015: 35%). Forecast dividend growth rate (2016: 4%; 2015: 4%). Risk adjusted discount rate (2016: 17.5%; 2015: 17.5%).	The estimated fair value would increase (decrease) if the discount rate were lower (higher). The estimated fair value would increase (decrease) if The forecast dividend growth rate were higher (lower) The risk adjusted discount rate were lower (higher).

18. LOANS AND DEBENTURES

See accounting policy note 3(n)

	2016	2015
Amortised cost		
Balance at 1 January	7,999,178	3,662,258
Additions during the year	8,547,933	5,143,526
Short term portion of loans and debentures	(578,130)	(253,557)
Disposals during the year	(4,797,363)	(553,049)
Balance at 31 December	11,171,618	7,999,178

In the opinion of the Directors, the loans and debentures, all of which relate to Malawi registered companies are expected to realise at least amounts at which they are stated in the financial statements. All loans considered doubtful of recovery have been fully impaired. For accounting classification and fair values, refer to note 42.5.2(d).

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19. INVESTMENT PROPERTIES

See accounting policy in Note 3 (p)

At valuation	Freehold Investment Properties	Leasehold Investment Properties	Total
Balance at 1 January 2016	3,361,933	3,433,328	6,795,261
Effects of exchange differences	44,724	-	44,724
Additions during the year *	-	2,989	2,989
Fair value adjustment	251,100	357,645	608,745
Balance as at 31 December 2016	3,657,757	3,793,962	7,451,719
Balance at 1 January 2015	2,974,711	3,031,335	6,006,046
Effects of exchange differences	146,622	-	146,622
Additions during the year *	9,484	152,595	162,079
Disposals during the year	-	(8,230)	(8,230)
Fair value adjustment	231,116	257,628	488,744
Balance as at 31 December 2015	3,361,933	3,433,328	6,795,261

* Additions in both the current and prior year consisted of subsequent expenditure to existing properties.

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

	2016	2015
Rental income (note 33)	609,122	484,488
Direct operating expenses (maintenance costs)	10,615	8,808

Properties were revalued on open market basis on 31 December 2016 by Don Whayo BSC, MRCIS, MSIM, a Chartered Valuation Surveyor with Knight Frank on behalf of the Directors. Values were determined by reference to observable prices in the property market. The resultant surplus is taken to profit or loss.

The following table shows the valuation technique used in measuring the fair value of the investment property and revalued owner occupied property, as well as the significant unobservable inputs used.

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19. INVESTMENT PROPERTIES (CONTINUED)

Valuation technique

The valuation approach of Open Market Value was adopted as a result of a consideration of both the Income and Comparable approaches. The Income approach relies much on rental income of the property while 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 rental is benchmarked to market rentals that as opposed to rack end rentals that a subject property may be raking due to different varying factors. Similarly, rental yields used are those that are derived from actual sales on the market on similar properties within the period of the valuation.

Significant unobservable inputs

- The valuer makes professional judgement on adjustments as properties and locations are never the same mainly in situations where there are not much sale transactions taking place. Average rental yields used in the valuation are as follows:

Commercial Property: 10.04% to 12.55%.
Residential Property: 11.19% to 13.99%.

The occupancy rate is currently at 100% and the average market rental escalation is at 23%.

Inter-relationship between Key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- Expected average rental yields were higher (lower);
- The occupancy rates were higher (lower); or

The rental market is likely to remain reasonably strong on the back of inflationary pressures as landlords continue to hedge against inflation and currency depreciation. On the basis of the general economic trends observed so far it appears unlikely that the sales market will improve in the near term unless a sustained reduction in interest rates take place.

The fair value measurements have been categorised as Level 3 for value based on inputs to the valuation techniques used.

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

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

20. INTANGIBLE ASSETS

See accounting policy in Note 3 (m)

2016	Capital work in progress	Software	Total
Cost			
Balance as at 1 January	23,360	6,515,117	6,538,477
Effects of changes in exchange rates	-	-	-
Additions during the year	19,601	704,692	724,293
Derecognised on loss of control of subsidiary	-	-	-
Transfer from property and equipment (note 21)	(23,360)	153,209	129,849
Disposals during the year	-	(21,552)	(21,552)
Balance at 31 December	19,601	7,351,466	7,371,067

2015	Capital work in progress	Software	Total
Cost			
Balance as at 1 January	23,360	1,040,379	1,063,739
Effects of changes in exchange rates	-	(7,736)	(7,736)
Additions during the year	-	4,938,517	4,938,517
Derecognised on loss of control of subsidiary	-	(80,412)	(80,412)
Transfer from property and equipment (note 21)	-	629,860	629,860
Disposals during the year	-	(5,491)	(5,491)
Balance at 31 December	23,360	6,515,117	6,538,477
2016			
Amortisation			
Balance as at 1 January	-	704,057	704,057
Effects of changes in exchange rates	-	-	-
Charge for the year	-	253,153	253,153
Derecognised on loss of control of subsidiary	-	-	-
Eliminated on disposal	-	-	-
Balance at 31 December	-	957,210	957,210
2015			
Amortisation			
Balance as at 1 January	-	565,522	565,522
Effects of changes in exchange rates	-	(1,885)	(1,885)
Charge for the year	-	162,529	162,529
Derecognised on loss of control of subsidiary	-	(19,586)	(19,586)
Eliminated on disposal	-	(2,523)	(2,523)
Balance at 31 December	-	704,057	704,057
Carrying amount at 31 December 2016	19,601	6,394,256	6,413,857
Carrying amount at 31 December 2015	23,360	5,811,060	5,834,420

21. PROPERTY AND EQUIPMENT

See accounting policy in Note 3(k)

2016 Cost of valuation	Land and Buildings	Motor Vehicles	Furniture and Equipment	Capital work in progress - Buildings	Capital work in progress - Equipment	Total
Balance as at 1 January	2,590,135	678,324	7,373,212	14,006	730,656	11,386,333
Effects of changes in exchange rates	-	31,203	114,375	-	-	145,578
Additions during the year	42,824	83,519	1,006,417	25	57,193	1,189,978
Revaluation surplus	203,759	-	-	-	-	203,759
Transfers within classes of assets	1,000	-	265,963	-	(266,963)	-
Transfers to intangible assets (note 20)*	-	-	-	-	(129,849)	(129,849)
Disposals during the year	-	-	(49,804)	(11,518)	-	(61,322)
Balance as at 31 December	2,837,718	793,046	8,710,163	2,513	391,037	12,734,477
Analysed as follows:						
Valuation	1,633,356	-	-	-	-	1,633,356
Cost	1,204,362	793,046	8,710,163	2,513	391,037	11,101,121
	2,837,718	793,046	8,710,163	2,513	391,037	12,734,477

21. PROPERTY AND EQUIPMENT (CONTINUED)

2015 Cost of valuation	Land and Buildings	Motor Vehicles	Furniture and Equipment	Capital work in progress - Buildings	Capital work in progress - Equipment	Total
Balance as at 1 January	2,450,724	681,024	7,065,863	76,481	1,144,802	11,418,894
Effects of in exchange rates	-	253	(64,210)	-	-	(63,957)
Additions during the year	1,636	123,768	501,659	-	272,911	899,974
Revaluation surplus	75,300	-	-	-	-	75,300
Transfers within classes of assets	62,475	21,088	-	(62,475)	(21,088)	-
Transfers to intangible assets (note 20)	-	-	-	-	(629,860)	(629,860)
Derecognised on loss of control of subsidiary	-	(58,451)	(88,575)	-	-	(147,026)
Disposals during the year	-	(89,358)	(41,525)	-	(36,109)	(166,992)
Balance as at 31 December	2,590,135	678,324	7,373,212	14,006	730,656	11,386,333
Analysed as follows:						
Valuation	1,429,597	-	-	-	-	1,429,597
Cost	1,160,538	678,324	7,373,212	14,006	730,656	9,956,736
	2,590,135	678,324	7,373,212	14,006	730,656	11,386,333

Accumulated depreciation and impairment loss

2016						
Balance as at 1 January	88,844	371,043	4,184,641	-	-	4,644,528
Effects of changes in exchange rates	-	17,055	81,326	-	-	98,381
Charge for the year	59,183	86,438	813,606	-	-	959,227
Released on revaluation	(16,429)	-	-	-	-	(16,429)
Eliminated on disposal	-	-	(38,703)	-	-	(38,703)
Balance as at 31 December	131,598	474,536	5,040,870	-	-	5,647,004
2015						
Balance as at 1 January	46,891	414,946	3,587,876	-	-	4,049,713
Effects of changes in exchange rates	-	(6,621)	(46,931)	-	-	(53,552)
Charge for the year	49,585	80,297	744,167	-	-	874,049
Released on revaluation	(7,632)	-	-	-	-	(7,632)
Derecognised on loss of control of subsidiary	-	(32,049)	(62,699)	-	-	(94,748)
Eliminated on disposal	-	(85,530)	(37,772)	-	-	(123,302)
Balance as at 31 December	88,844	371,043	4,184,641	-	-	4,644,528
Carrying amounts						
At 31 December 2016	2,706,120	318,510	3,669,293	2,513	391,037	7,087,473
At 31 December 2015	2,501,291	307,281	3,188,571	14,006	730,656	6,741,805

* Transfers to intangible assets relate to capital work in progress which represents software implementation and upgrade costs, previously allocated under a wrong class of assets and is now corrected after determination of the appropriate classification.

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	2016	2015
If land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:		
Cost	1,204,362	1,160,538
Accumulated depreciation	(76,398)	(47,444)
Carrying amount	1,127,964	1,113,094

Total gains for the period recognised in other comprehensive income amount to MK129.959 million, and the gains are recognised under the revaluation of property and equipment line.

Land and buildings comprise freehold buildings and leasehold buildings, whilst furniture and equipment include fixtures and fittings, computer hardware and other equipment.

Land and buildings were revalued on open market basis on 31 December 2016 by an independent external valuer, Mr Don Whayo BSC, MRCIS, MSIM, a Chartered Valuation Surveyor with Knight Frank on behalf of the Directors.

The valuer acted as an independent valuer in accordance with the RICS (Royal Institute of Chartered Surveyors) valuation professional standards published in March 2014 and the international valuation Standards (ISV).

Values were determined by reference to observable prices in the property market.

22. TRADE AND OTHER PAYABLES

See accounting policy in Note 3 (n)

Restated		
Client funds payable	11,460,469	6,454,168
Trade payables	1,231,093	2,159,898
Accruals	9,349,673	9,118,039
Amounts due to related parties	52,727	79,907
Other non-trade payables	2,701,585	2,212,256
	24,795,547	20,024,268

23. DEPOSITS AND CUSTOMER ACCOUNTS

See accounting policy in Note 3 (n)

Repayable on demand	58,042,360	52,913,685
Repayable within three months or less	5,760,605	7,974,991
	63,802,965	60,888,676

Deposits from customers on savings, investment and term deposit accounts carried an interest rate ranging from 8.5% to 19.0%. Current accounts earn 0.34% (2015: 0.5%) when the balance is above K500, 000
Interest rates applicable for 2016 and 2015 for foreign currency denominated accounts were 2%, 2.25%, 3% and 1.5% for US dollar, British Pound, Euro and South African Rand deposits respectively.

	2016	2015

24. INSURANCE CONTRACT PAYABLES

See accounting policy in Note 3 (f), (i)

		Restated
Gross outstanding claims	12,719,325	9,104,539
Allowances for claims incurred but not reported (IBNR)	1,708,786	3,149,348
Total insurance contract outstanding claims	14,428,111	12,253,887
Due to re-insurance companies	7,035,347	3,153,134
Total insurance payables	21,463,458	15,407,021
Movement of total insurance contract outstanding claims:		
Balance at beginning of the year	12,253,887	11,400,118
Effects of changes in exchange rates	973,366	(205,772)
Claims incurred	20,414,161	20,311,440
Cash paid for claims settled in the year	(19,213,303)	(19,251,899)
Balance at end of the year	14,428,111	12,253,887
Movement of allowances for claims incurred:		
but not reported (IBNR):		
Balance at beginning of the year	3,149,348	2,801,370
Effects of changes in exchange rates	409,847	(261,121)
(Reversal)/additional allowance made during the year	(1,850,409)	609,099
Balance at end of the year	1,708,786	3,149,348

Process used to determine significant assumptions

Insurance risks are unpredictable and the company recognizes that it is impossible to forecast with absolute precision, future claims payable under existing insurance contracts. Over the period, the Company 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 company 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.

Claims Incurred But Not Reported (IBNR)

The IBNR provision is calculated by developing a trend over the past five years in which a ratio of prior year's IBNR to prior year's net premium is calculated and applied on current year's net premiums.

The levels of the IBNR provisions are assessed annually by management against the Company's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate.

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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.

	2016	2015

25. UNEARNED PREMIUM RESERVE (UPR)

See accounting policy in Note 3 (c)

General insurance fund at the beginning of the year	8,407,494	8,031,431
Effects of changes in exchange rates	965,040	(747,208)
UPR earned in the year	(9,047,081)	(8,006,816)
Charge in the year	10,186,285	9,130,087
General insurance fund at end of the year	10,511,738	8,407,494

26. INTEREST BEARING LOANS AND BORROWINGS

See accounting policy in Note 3(n)

NORSAD Finance Limited (Norsad)	-	2,634,054
Old Mutual Loan	3,600,000	-
Malawi Government	20,010	20,010
Malawi Housing Corporation Loan	59,421	178,265
Mega African Capital Limited Loan	126,000	126,000
Standard Bank Pension Fund	31,723	47,940
	3,837,154	3,006,269
Analysed as follows:		
Balance at 1 January	3,006,269	5,409,180
Additions during the year	3,600,000	126,000
Interest charge	43,621	268,893
Exchange losses	12,275	1,325,362
Repayments	(2,825,011)	(4,123,166)
Balance as 31 December	3,837,154	3,006,269
Terms and debt repayment schedule		
Due within 1 year	3,612,436	2,811,309
Due between 2 and 5 years	224,718	194,960
	3,837,154	3,006,269

In thousands of Malawi Kwacha

26. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Included in the loans of **MK3.8 billion** (2015: MK3 billion) are the following loans:-

(i) NORSAD Finance Limited (Norsad) Loan
NORSAD approved a loan of USD5 million to NBS Bank Limited on 23 January 2007 at an agreed fixed rate of 6.5% per annum of which USD4.5 million has been drawn. This loan has been repaid in full during the year.

(ii) Old Mutual Loan
NBS Bank Limited entered into a sale of part of its loan book with Old Mutual Limited (OML) for MK3.6 billion. Under the agreement the Bank is to remit all the cash flows from the sold book to OML. CDH Investment Bank Limited provided a guarantee on the sale. OML earns guaranteed interest of 5% above the 90 Day Treasury bill yield on the amount paid.

(iii) Malawi Government loan
The Malawi Government loan represents an International Development Association (a World Bank fund) credit which was loaned to Malawi Housing Corporation (MHC) for the construction of low cost housing. Interest on the loan, originally at 7% per annum, was suspended. The Group repays the loan through offsetting receipts by Malawi Housing Corporation to Malawi Government under the varied terms of the contract. The loan is secured through a guarantee by the Malawi Government.

(iv) Malawi Housing Corporation Loan
This is part of the syndicated loan to MHC on which the Malawi Government issued a Promissory Note. The balance on this loan represents portion of the promissory note that relates to NICO Life Insurance Company Limited. It is a pass-through arrangement where the repayments from Malawi Government on the promissory note will be channelled to this loan proportionately. The interest is linked to the 91-day Treasury bill rate, payable by the Malawi Government. The first repayment was in September 2013 and quarterly thereafter. The term of the loan is 5 years. It is secured by Malawi Government.

(v) Mega African Capital Limited Loan
This loan for MK126 million relates to a loan taken by the NICO Employee Share Ownership Scheme (ESOS) in September 2015 to purchase shares in NICO Holdings Plc. The loan which is denominated in United States Dollars is for a period of 5 years and bears interest at 10% per annum and is compounded annually. ESOS is not obliged to repay principal loan amount before the expiry of the repayment period. This loan is secured by the shares.

(vi) Standard Bank Pension Fund
MK32 million unsecured loan from Standard Bank Pension Fund for development of ICON 1 software. The loan is at an interest rate of 34%.

	2016	2015

27. CAPITAL AND RESERVES

See accounting policy in Note 3 (o)

(i) Share capital

Authorised:		
Number of authorised share capital ('000)	1,300,000	1,300,000
Nominal value (MK)	0.05	0.05
Authorised share capital (MK'000)	65,000	65,000
Issued and fully paid:		
Number of issued and fully paid share capital ('000)	1,043,041	1,043,041
Nominal value (MK)	0.05	0.05
Issued share capital (MK'000)	52,152	52,152
Total number of shares issued ('000)	1,043,041	1,043,041

	2016	2015

(ii) Share premium

	428,859	428,859

Share premium arose on issue of 1,043,041,000 ordinary shares above nominal value of MK0.05.

(iii) Revaluation reserve

Balance at 31 December	239,660	196,579

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

28 (A). LOAN LOSS RESERVE

	5,034,124	4,732,578

Loan loss reserve represents an appropriation from retained earnings as additional provision above those required by the International Financial Reporting Standards, to meet the requirements of the Reserve Bank of Malawi. The directors are of the opinion that the loan loss reserve is in accordance with the requirements of the Reserve Bank of Malawi.

28(B) OTHER RESERVES

		Restated
(i) General reserve	545,519	545,519
(ii) Fair value reserve	868,036	890,637
(iii) Translation reserve	40,041	(165,297)
Total other reserves	1,453,596	1,270,859

General reserve represents transfers from retained earnings, required by statute and other regulators as well as premium on sale of shares in a subsidiary and other reserve arising out of business combination or other transaction with owners of the business and other reserves arising out of business combination.

Fair value reserve represents fair value adjustment on available for sale financial assets.
Translation reserve represents retranslation difference arising on retranslation of foreign investments at the reporting date.

29. (A) NON-CONTROLLING INTEREST

Non-controlling interest represents minority position of the shares and reserves in NBS Bank Limited at 49.9%, NICO Life Insurance Company Limited at 49%, SFG Holdings (Zimbabwe) Limited at 51%, Sanlam Mozambique Vida Companhia de Seguros, SA at 30% NICO General Insurance Company Limited at 49% and NICO Insurance (Zambia) Limited at 49%.

In thousands of Malawi Kwacha

29. (A) NON-CONTROLLING INTEREST (CONTINUED)

The composition of non-controlling interest is as follows:-

	2016	2015 Restated
NBS Bank Limited	3,396,735	5,557,481
NICO General Insurance Company Limited	2,705,997	2,328,964
NICO Insurance Zambia Limited	766,565	422,110*
NICO Life Insurance Company Limited	7,081,404	6,061,028
SFG Holdings (Zimbabwe) Limited	(647,784)	(594,434)
Total	13,302,917	13,775,149
The movement is analysed as follows:-		
Balance as at 1 January	13,775,149	12,832,496
Profit for the year	1,477,014	2,953,514
Revaluation of land and buildings	63,680	-
Deferred tax on revaluation	(22,288)	-
Fair value on available for sale assets	(21,920)	(1,006)
Translation difference on foreign subsidiaries	42,638	(269,715)
Effect of loss of control	-	127,538
Issue of shares in subsidiary	94,027	-
Dividends paid	(2,105,383)	(1,867,678)
Balance as at 31 December	13,302,917	13,775,149

* The restatement is due to a prior period error, and this has been fully disclosed in note 2.6.

29(B) 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.

2016	Nico General Insurance Company Limited Malawi	Nico Life Insurance Company Limited Malawi	NBS Bank Limited Malawi	Nico Insurance Zambia Limited Zambia	Total
NCI percentage	49.00%	49.90%	49.90%	49.00%	
Non-current assets	7,282,957	140,436,019	28,004,480	1,677,384	177,400,840
Current assets	9,259,923	13,964,322	57,909,349	18,660,541	99,794,135
Non-current liabilities	(5,356,652)	(138,514,152)	(4,124,755)	(6,453,510)	(154,449,069)
Current liabilities	(5,663,785)	(1,434,344)	(74,981,989)	(12,319,998)	(94,400,116)
Net assets	5,522,443	14,451,845	6,807,085	1,564,417	28,345,790
Carrying amount of NCI	2,705,997	7,081,404	3,396,735	766,564	13,950,700
Revenue	14,887,952	47,141,596	17,205,059	16,544,829	95,779,436
Profit/(loss)	1,864,190	5,329,098	(4,330,153)	230,712	3,093,847
Other comprehensive income	(44,735)	-	-	84,473	39,738
Total comprehensive income	1,819,455	5,329,098	(4,330,153)	315,185	3,133,585

	Nico General Insurance Company Limited Malawi	Nico Life Insurance Company Limited Malawi	NBS Bank Limited Malawi	Nico Insurance Zambia Limited Zambia	Total
Profit (loss) allocated to NCI	891,533	2,611,258	(2,160,746)	154,441	1,496,486
Cash flows from/(to) operating activities	(116,247)	9,714,001	(1,326,697)	339,269	-
Cash flows (to)/from investment activities	(649,937)	(9,014,968)	(917,860)	(384,881)	-
Cash flows (to)/from financing activities, before dividends to NCI	(535,500)	(1,655,816)	965,946	(547,194)	-
Cash flows (to)/from financing activities-cash dividends to NCI	(514,500)	(1,590,883)	-	-	-
Net increase in cash and cash equivalents	755,408	17,596,426	2,198,193	29,139	-
2015					
NCI percentage	49.00%	49.00%	49.90%	49.00%	
Non-current assets	4,719,878	104,639,365	10,467,693	1,096,992	120,923,928
Current assets	11,573,935	16,026,294	73,249,872	10,460,714	111,310,815
Non-current liabilities	(4,935,528)	(107,423,236)	(2,791,410)	(6,144,181)	(121,294,355)
Current liabilities	(6,605,297)	(872,977)	(69,788,917)	(4,552,078)	(81,819,269)
Net assets	4,752,988	12,369,446	11,137,238	861,447	(29,121,119)
Carrying amount of NCI	2,328,964	6,061,028	5,557,481	422,110	14,369,583
Revenue	12,187,021	33,417,971	20,626,994	12,250,324	78,482,310
Profit/(loss)	1,652,125	4,717,997	(195,461)	(79,388)	6,095,273
Other comprehensive income	(1,706)	-	-	(346)	(2,052)
Total comprehensive income	1,650,419	4,717,997	(195,461)	(79,734)	6,093,221
Profit/(loss) allocated to NCI	808,705	2,311,819	(97,535)	(39,070)	2,983,919
Cash flows from/(to) operating activities	28,448	8,957,155	15,611,373	(145,173)	-
Cash flows from/(to) investment activities	1,747,131	123,958	(5,494,451)	723,144	-
Cash flows (to)/from financing activities, before dividends to NCI	(459,000)	(1,179,579)	(2,181,626)	-	-
Cash flows (to)/from financing activities-cash dividends to NCI	(441,000)	(1,113,321)	(199,702)	-	-
Net increase in cash and cash equivalents	532,772	5,464,084	4,513,455	927,439	-

30. INSURANCE PREMIUM

See accounting policy in Note 3(b)

	2016	2015
Gross written premium – short term insurance	28,536,110	21,979,000
Gross life insurance premium	7,094,922	6,029,788
Gross pension premium	17,023,125	13,157,080
	52,654,157	41,165,868
Unearned premium adjustment	(396,795)	(90,329)
Reinsurance premium	(17,014,241)	(12,311,598)
Net earned insurance premium	35,243,121	28,763,941

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	2016	2015

31. FEES AND COMMISSION INCOME

See accounting policy in Note 3(b)(viii)

Premium based fees	943,429	796,762
Fund management based fees	1,039,881	661,993
Information technology consultancy fees	6,872	42,501
Other fee income	389,784	277,393
	2,379,966	1,778,649

During the year the group's banking business upgraded its T24 core banking system from version R08 to R14 to improve the delivery of service and the quality of information or reporting purposes. As part of the migration process, the group's banking business is still in the process of fine tuning the system to ensure the upgrade recovers all the charges, fees and commissions where applicable. In instances where this does not occur, manual intervention is done.

32. INCOME FROM BANKING OPERATIONS

See accounting policy in Note 3(b)(iv)

Interest income on loans	6,112,464	12,121,219
Interest from government stocks	4,644,300	2,132,334
Gross interest from banking	10,756,764	14,253,553
Fees and commission income	5,965,013	4,231,494
Profit on foreign exchange transactions	1,771,282	2,141,947
	18,493,059	20,626,994

During the year the group's banking business upgraded its T24 core banking system from version R08 to R14 to improve the delivery of service and the quality of information or reporting purposes. As part of the migration process, the Group banking business is still in the process of fine tuning the system to ensure the upgrade calculates the interest correctly based on the set parameters.

A reconciliation process was performed to reconcile the pre and post migration of the loan book where differences are being investigated. Meanwhile the differences have been fully provided for.

33. INVESTMENT INCOME

See accounting policy in Note 3(b)(v)

Investment income from:-		
- Bank deposits	3,117,350	2,229,295
- Treasury bills	15,365,369	9,774,582
- Local registered stocks	255,485	138,707
- Loans and debentures	3,175,141	703,926
- Dividends from equity shares	1,727,732	1,512,209
Fair value adjustment of investment properties and shares	673,282	488,744
Rental income	609,122	484,488
Other interest income from other investments	2,459,593	1,299,531
	27,383,074	16,631,482
Investment expenses	(826,864)	(521,907)
Net investment income	26,556,210	16,109,575

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	2016	2015

34. OTHER INCOME

See accounting policy in Note 3 (b)(ix)

Profit on disposal of property and equipment	1,516	426
International Finance Corporation put option commission	50,079	61,281
Other sundry income	60,216	71,693
	111,811	133,400

35. NET POLICY HOLDERS CLAIMS AND BENEFITS

See accounting policy in Note 3(y)

Insurance claims and loss adjustment expenses	(20,414,161)	(20,311,440)
Recoveries from reinsurers	3,759,111	4,570,538
	(16,655,050)	(15,740,902)

36. INSURANCE CONTRACTS ACQUISITION COSTS

See accounting policy in Note 3(e)

Commission expenses paid	(1,545,226)	(1,859,121)
Changes in deferred acquisition costs	70,989	18,273
	(1,474,237)	(1,840,848)

37. BANK INTEREST EXPENSE

See accounting policy in 3(r)

		Restated
Fixed deposits	(3,526,855)	(2,106,290)
Investment deposits	(321,987)	(551,464)
Savings deposits	(2,649,877)	(1,936,135)
	(6,498,719)	(4,593,889)

38(A). ADMINISTRATIVE EXPENSES

Auditors' remuneration	- Audit fees	(170,064)	(113,234)
	- Disbursements	(5,565)	(8,046)
	- VAT	(3,169)	(6,326)
	- Other audit expenses	(26,915)	(13,143)
Directors' remuneration	- Executive (Note 45)	(137,040)	(224,004)
	- Non executive (Note 45)	(99,365)	(67,366)
	- Retirement expenses (Note 45)	-	(201,345)
Staff costs		(10,619,815)	(8,037,704)
Communication and accommodation expenses		(5,401,390)	(4,057,944)
Depreciation and amortisation		(1,205,863)	(1,036,578)
Sundry business charges		(3,896,528)	(1,920,241)
Impairment loss *		(2,075,354)	(6,241,731)
Provision for Operational losses		(1,288,000)	-
Repairs and maintenance		(1,589,025)	(1,330,366)
Other sundry expenses		-	(83,165)
		(26,518,093)	(23,341,193)

38(A) ADMINISTRATIVE EXPENSES (CONTINUED)

	2016	2015
*** Impairment loss is analysed as follows:**		
Subsidiary investments impairment provision	-	265,635
Invesment in associates (Note 15)	-	(205,920)
Loans and advances to customers	(1,867,594)	(6,243,454)
Other receivables	(207,760)	-
Insurance receivables	-	(57,992)
	(2,075,354)	(6,241,731)

38(B) INFORMATION TECHNOLOGY CONSULTANCY COSTS

	(3,917)	(73,189)

39. NET FINANCE (COSTS)/INCOME

See accounting policy in Note 3 (v)

Interest on loans	(40,471)	(32,239)
Exchange (loss)/gain	(107,142)	994,636
	(147,613)	962,397

40. BASIC AND DILUTED EARNINGS PER SHARE

See accounting policy in Note 3 (u)

The calculation of basic earnings per share at 31 December 2016 was based on profit attributable to ordinary shareholders of MK1,258,202 thousand (2015: MK2,535,053 thousand) and a weighted average number of ordinary shares outstanding of 1,043,041 thousand (2015: 1,043,041 thousand), calculated as follows:-

		Restated
Profit for the year MK'000	2,735,216	5,488,567
Non-controlling interest MK'000	(1,477,014)	(2,953,514)
Profit attributable to owners of the parent (MK'000s)	1,258,202	2,535,053
Weighted average number of ordinary shares in issue throughout the year ('000s)	1,043,041	1,043,041
Basic and Diluted Earnings per share (MK)	1.21	2.43

41. DIVIDENDS

The following dividends were declared and paid by the Group during the 2016 financial year.

Dividend declared	2,731,208	2,806,415
Dividend paid	2,731,208	2,615,315

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42. CAPITAL AND RISK MANAGEMENT

42.1 Capital Management

Effective capital management is an essential component of meeting the NICO Group's strategic objective of maximizing shareholder value. The management of the Group's capital base requires a continuous review of optimal capital levels,

The NICO Group has an integrated capital management approach. The amount of capital required by the various businesses is directly linked to their exposure to financial and operational risks. Risk management is accordingly an important component of effective capital management.

42.1.1 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.

42.1.2 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 NICO 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.

42.1.3 Capital Management - Life Business

The business requires significantly high levels of allocated capital. The optimization of long-term required capital is accordingly a primary focus area of the Group's capital management philosophy given the significant potential to enhance shareholder value.

The following main strategies are used to achieve this objective:

- Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk.
- Managing the impact of new business on capital requirements by limiting volumes of capital intensive new business.
- The asset mix of the long-term required capital also impacts the overall capital requirement. An increased exposure to hedged equity and interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. There is accordingly a trade-off between lower capital levels and the return on capital.
- Management of operational risk: Internal controls and various other operational risk management processes are used to reduce operational risk and commensurately the allowance for this risk in the calculation of required capital

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.1 Capital Management (continued)

42.1.4 Capital Management - Banking

In implementing current capital requirements, Reserve Bank of Malawi requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets as disclosed below. The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

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.

There are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

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 off balance sheet position exposure.

The bank'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.

(A) THE BANK'S REGULATORY CAPITAL POSITION AS AT 31 DECEMBER 2016 WAS AS FOLLOWS:-

Capital adequacy requirement

NBS Bank Limited has not met the minimum capital requirements per Basel 11 Capital Adequacy Directive as at 31 December 2016 as per the Reserve Bank of Malawi directive. The Bank's available Tier 1 and Tier 2 capital is required to be a minimum of 10% and 15% respectively (2015: 10% and 15% respectively), of its risk bearing assets and contingent liabilities. At 31 December 2016, the Bank's available capital was -6.7% for tier 1 (2015: 2.2%) and -6.7% for tier 2 (2015: 4.4%) of all its risk bearing assets and contingent liabilities.

Capital management	2016	2015
Paid up share capital	363,822	363,822
Share premium	2,323,895	2,323,895
Retained earnings prior years	(2,121,256)	(1,153,094)
Net Profit - Current period (60%)	(4,330,152)	(195,461)
Core capital (Tier 1 Capital)	(3,763,691)	1,339,162
Loan loss reserve	10,048,151	9,446,263
Revaluation reserves	552,017	552,017
Total capital (Tier 2 Capital)	6,836,477	11,337,442

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(B) PRUDENTIAL ASPECTS OF BANK LIQUIDITY

The Reserve Bank of Malawi issued the following guidelines on the management of liquidity:

-Liquidity Ratio 1: Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 30%.

As at 31 December 2016, the Bank's liquidity ratio 1 was 42% (2015:66%)

-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 2016, the bank's liquidity ratio 2 was 38% (2015: 62%).

In accordance with Section 27 of the Banking Act 2010, the Reserve Bank of Malawi has established the following requirement as at the reporting date:

(C) 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 15.5% of the preceding month's average total deposit liabilities. The Bank complied with this directive throughout the year 2016.

42.1.5 Capital management – Short-term Insurance and others

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 return 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 for 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.
- 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.

42.2 Risk Management

42.2.1 Risk governance structure

The Board of Directors has the overall responsibility for the Group's risk management framework and policies as well as monitoring the effectiveness and disclosure thereof in accordance with best practice.

The Group operates a decentralised business model environment, and all individual businesses take responsibility for all operational and risk related matters on a business level, within the set limits of the framework.

The Board has established a number of risk management and monitoring mechanisms operating within the Group as part of the overall risk management structure.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.2 Risk Management (continued)

42.2.1 Risk governance structure (Continued)

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 Bank's Asset and Liability Management Committee (ALCO) is responsible for ensuring that there is an equitable balance between the Bank's assets and liabilities. This is a management committee that meets regularly, and reports to the Finance and Audit Committee of the Bank.

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

42.2.2. Risk management framework

The Group's risk management policies are established to identify and analyse the risk 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
- Standards on implementing risk management within the groups business

The Group's Risk Committee provides an oversight role of ensuring compliance with the Group's risk management policies and procedures, and for ensuring the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Risk Committee is assisted in these functions by the Risk Management and Compliance Services function.

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42.3 Credit risk

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

For management purposes, credit risk arising on trading securities is managed independently but reported as a component of market risk exposure.

Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment on continuous basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgement 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 of 12 months 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;
d) No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable; and
e) Cash flows arising from security realisation have been assumed to arise at the end of the calendar year in which they are expected.

42.3.1 Banking

(a) Management of credit risk

The Board of Directors of the Bank has delegated responsibility for the management of credit risk to its Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the credit risk, including:

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Management Credit Committee, Head of Credit or the Board of Directors as appropriate.
- Reviewing and assessing credit risk, the Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the same review process.
- Limiting concentrations of exposure to counterparties, geographical location and industries (for loans and advances), and by issuer, credit rating band and market liquidity.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment may be required against specific credit exposures.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (continued)

42.3.1 Banking (Continued)

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Each business unit is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Credit Risk Officer who reports on all credit related matters to management. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.
- Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit.

(b) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:-

	Loans and advances to customers		Investment securities	
	2016	2015	2016	2015
Carrying amount	29,495,805	30,140,392	17,360,732	13,786,071
Individually impaired*	26,226,247	27,952,846		-
Allowance for impairment	(13,260,262)	(14,216,874)	-	-
	12,965,985	13,735,972	-	-
Individually impaired*				
7-12 months	1,938,233	3,776,848		-
13-24 months	1,200,869	3,798,353		-
> 24 months	23,087,145	20,377,645	-	-
Total	26,226,247	27,952,846	-	-
Allowance for impairment	(13,260,262)	(14,216,874)	-	-
	12,965,985	13,735,972	-	-
Allowance for impairment				
Specific impairment	(12,965,985)	(14,056,105)	-	-
Collective impairment	-	(160,769)	-	-
	12,965,985	(14,216,874)	-	-
Past due not impaired				
4-6 months	4,821,478	4,451,390	-	-
	4,821,478	4,451,390	-	-
Neither past due nor impaired				
Watch list **				
Low risk	11,708,342	11,953,030	-	-
Total	11,708,342	11,953,030	17,360,732	13,786,071
Total carrying amount	29,495,805	30,140,392	17,360,732	13,786,071

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* Individually impaired means those loans that have specific indicators of being impaired (i.e. default, state of financial affairs, etc.), which could also be referred to as non-performing loans. The amount represents the carrying amount of such assets before taking into account the related impairment.

** Watch list refers to performing loan facilities that are being closely monitored by the bank for the purpose of impairment loss identification.

Neither past due nor impaired assets comprise current assets between one to three months.

(c) Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement.

(d) Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Furthermore, impairment may not be appropriate on the basis of past repayment history of the customer and current repayment arrangements and effort being put forward to pay.

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Banks except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against money market investments, and no such collateral was held at the period end.

The bank does not use the property and equipment that is held as collateral for loans for its operations. In case of default the collateral can be sold to recover the outstanding debts.

(e) Estimated fair value of collateral and other security enhancement held against financial assets is shown below:

	Loans and advances to customers	
	2016	2015
Against individually impaired		
Property	21,149,897	25,871,717
Equipment	823,077	1,306,186
Against past due but not impaired		
Property	6,084,057	9,409,020
Equipment	702,733	1,138,664
Against neither past due nor impaired		
Property	5,942,600	6,137,526
Equipment	830,276	1,407,591
Total collateral held	35,532,640	45,270,704

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (continued)

42.3.1 Banking (Continued)

Other collateral held includes moveable assets, receivables and share certificate pledged.

The bank's policy is to pursue the timely realisation of the collateral in an orderly manner. The bank does not use any non-cash collateral for its own operations. The bank does not have any collateral that is sold or re-pledged. Their terms of coverage involve an event of default before foreclosure can commence. Upon foreclosure the bank does not take possession of the security but merely initiates the recovery through finding prospective buyers. The bank therefore leaves assets in possession of the clients until the sale is concluded, upon which the bank collects its monies within its rights of recovery.

(f) The Bank monitors concentrations of credit risk by sector and by geographic location. Analysis of concentrations of credit risk at the reporting date is shown below:-

	Loans and advances to customers		Investment securities	
	2016	2015	2016	2015
Carrying amount	29,495,805	30,140,392	17,360,732	13,786,071
Banking operations:				
Retail customers	14,124,891	18,943,002	-	-
Corporate customers	10,185,093	11,197,390	-	-
Bank	5,185,821	-	17,360,732	13,786,071
	29,495,805	30,140,392	17,360,732	13,786,071
Concentration by location:				
Northern Region	1,037,441	1,719,527	-	-
Central Region	5,384,066	7,870,694	-	-
Southern Region	23,074,298	20,550,171	17,360,732	13,786,071
	29,495,805	30,140,392	17,360,732	13,786,071

Concentration by location for loans and advances is measured based on the location of the branch holding the asset which has a correlation with the location of the borrower. Loans and advances to customers have been disclosed under note 7.

(g) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a borrower to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Bank's Asset and Liability Committee (ALCO). ALCO is a management committee.

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42.3.2 Insurance and others

(a) Management of credit risk

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.

The Group's financial instruments do not represent a concentration of credit risk, because the Group deals with a variety of major Banks and its trade receivables are spread among a number of major reinsurance companies, customers and geographic areas. Credit risk concentration is based on the location of the Branch holding the Asset which has correlation with the location of the borrower.

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.

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 risk within a single re-insurer.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(b) Exposure to credit risk

The maximum credit exposure to credit risk at the reporting date was as follows:

	2016	2015
Outstanding premiums (note 11)	8,589,439	6,390,183
Reinsurance companies	17,740,209	13,664,120
Others	479,347	473,283
Total	26,808,995	20,527,586

(c) Impairment losses

The aging of outstanding premiums at the reporting date was:

	Gross	
	2016	2015
Not past due	7,012,494	5,046,668
Past due 7–9 months	1,605,635	888,303
Past due 10 – 12 months	67,591	255,485
More than one year	438,684	725,633
Total	9,124,404	6,916,089
Neither past due not impaired outstanding premiums comprise:		
Current	7,102,494	5,046,668

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (continued)

42.3.2 Insurance and others (continued)

(c) Impairment losses (continued)

Impairment	Gross 2016	Gross 2015
Not past due	-	-
Past due 7 – 9 months	-	-
Past due 10 – 12 months	(151,844)	(94,627)
More than one year	(383,124)	(431,279)
	(534,968)	(525,906)
Net outstanding premiums	8,589,439	6,390,183

The movement in the allowance for impairment in respect of insurance receivable during the year was as follows:

	2016	2015
Balance at 1 January	(525,906)	(524,040)
Change in control	-	(1,866)
Impairment loss recognised in profit or loss	(9,062)	-
Balance at 31 December	(534,968)	(525,906)

42.4 Liquidity risk

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.

42.4.1 Banking

(a) Management of liquidity risk

The Bank'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 Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial 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 investment securities, loans and advances to Banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank 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 daily liquidity position is monitored and regular 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 Asset and Liability Committee (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.

(b) Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from Banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Reserve Bank of Malawi.

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(c) Residual contractual financial liabilities

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The totals approximate the carrying amount of the assets and liabilities.

Financial Assets At 31 December 2016	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
Cash and bank balances	23,610,542	-	-	-	23,610,542
Money market investments	-	1,739,778	15,338,700	282,254	17,360,732
Loans and advances	14,745,988	1,577,336	4,820,762	8,351,719	29,495,805
Equity investments	-	-	-	48,665	48,665
Other assets	-	-	-	16,141,352	16,141,352
Total assets	38,356,530	3,317,114	20,159,462	24,823,990	86,657,096
Financial Liabilities					
Current and savings accounts	46,864,540	-	-	-	46,864,540
Term deposit accounts	2,900,414	2,860,191	5,920,293	46,308	11,727,206
Foreign currency denominated deposits	7,942,913	-	-	-	7,942,913
Long term loan	-	-	-	20,010	20,010
Short-term loans	-	3,600,000	-	-	3,600,000
Other liabilities	-	-	-	9,695,341	9,695,341
Total financial liabilities	57,707,867	6,460,191	5,920,293	9,761,659	79,850,010
Net liquidity gap	(19,351,337)	(3,143,077)	14,239,169	15,062,331	6,807,086
Cumulative liquidity gap	(19,351,337)	(22,494,414)	(8,255,245)	6,807,086	-

31 December 2015					
Cash and balances with banks	22,001,032	-	-	-	22,001,032
Investment securities	16,674,192	-	-	-	16,674,192
Loans and advances	10,456,276	1,118,478	3,418,368	15,147,270	30,140,392
Equity investments	-	-	-	48,665	48,665
Other assets	-	-	-	14,766,148	14,766,148
Total financial assets	49,131,500	1,118,478	3,418,368	29,962,083	83,630,429
Financial liabilities					
Current and savings accounts	41,852,938	-	-	-	41,852,938
Term deposit accounts	7,939,120	35,871	3,532,285	-	11,507,276
Foreign Currency denominated deposits	7,528,462	-	-	-	7,528,462
Long term loan	-	-	-	198,275	198,275
Short term loans	-	2,634,054	-	-	2,634,054
Other liabilities	-	-	-	8,937,467	8,937,467
Total financial liabilities	57,320,520	2,669,925	3,532,285	9,135,742	72,658,472
Net liquidity gap	(8,189,020)	(1,551,447)	(113,917)	20,826,341	10,971,957
Cumulative liquidity gap	(8,189,020)	(9,740,467)	(9,854,384)	10,971,957	-

The maturity gap analysis shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The Bank's Asset and Liability Committee (ALCO) manages this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily. The committee reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more of the variables.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.4 *Liquidity risk (continued)*

42.4.2 *Insurance and others*

The Group is exposed to daily calls on its available cash resources from claims. The Board sets limits on the minimum proportion of maturing funds available to meet such calls. The Group has significant liquid resources to cover its obligations. The following are the contractual obligations and maturities based on the remaining period at 31 December 2016 to the contractual maturity date, which may affect the liquidity of the Group.

Financial Assets 2016	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
Cash and balances with Banks	14,933,011	10,033	-	-	14,943,044
Investment securities	804,961	26,235,837	45,815,343	-	72,856,141
Loans and advances	-	-	9,989,389	1,753	9,991,142
Other assets	3,407,499	912,495	112,873	41,830	4,474,697
Total financial assets	19,145,471	27,158,365	55,917,605	43,583	102,265,024
Financial liabilities					
Term deposit accounts	-	11,414,088	-	-	11,414,088
Other borrowed funds	-	4,202	15,085	35,927	55,214
Other liabilities	1,559,463	4,213,634	7,062,135	52,719	12,887,951
Total financial liabilities	1,559,463	15,631,924	7,077,220	88,646	24,357,253
Net liquidity gap	17,586,008	11,526,440	48,840,385	(45,063)	77,907,771
Cumulative liquidity gap	17,586,008	29,112,449	77,952,834	77,907,771	-
2015					
Cash and balances with Banks	19,658,074	9,207	-	-	19,667,281
Investment securities	267,257	18,042,610	25,405,277	3,325,910	47,041,054
Loans and advances	-	-	7,411,246	-	7,411,246
Other assets	1,017,051	686,027	93,907	385,159	2,182,144
Total financial assets	20,942,382	18,737,844	32,910,430	3,711,069	76,301,725
Financial liabilities					
Current and savings accounts	-	6,491,292	-	-	6,491,292
Other borrowed funds	-	-	33,222	177,092	210,314
Other liabilities	1,541,779	6,241,699	8,432,034	4,052,495	20,268,007
Total financial liabilities	1,541,779	12,732,991	8,465,256	4,229,587	26,969,613
Net liquidity gap	19,400,603	6,004,853	24,445,174	(518,518)	49,332,112
Cumulative liquidity gap	19,400,603	25,405,456	49,850,630	49,332,112	-

42.5 *Market risk*

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.

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42.5.1 *Banking*

(a) Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in Management's ALCO. The ALCO is responsible for the development of detailed risk management policies (subject to review and approval by Finance and Audit Committee) and for the day-to-day review of their implementation.

(b) Exposure to interest rate risk – non trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The Management's ALCO is the monitoring body for compliance with these limits and manages the risks on day-to-day basis by monitoring activities on the market. A summary of the Bank's interest rate gap position on non-trading portfolios is given in 4.5.1(d) below.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves and a 50bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) was as provided in (d) below.

(c) Interest rate gap analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. The following is an analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position

The table below summarises the exposure to interest rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts categorised by the earlier of contractual pricing or maturity dates. The Group does not have an interest rate exposure on unrecognised items. All figures are in thousands of Malawi Kwacha.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.5 Market Risk (continued)

42.5.1 Banking (continued)

(c) Interest rate gap analysis (continued)

At 31 December 2016	Fixed Rate Instruments						
Assets subject to interest rate adjustment	Zero rate	Floating rate	0-3 months	3-6 months	6-12 months	Over 12 months	Total
Loans and advances:	-	29,563,022	-	-	-	-	29,563,022
Securities:	48,665	-	6,949,989	5,904,238	-	6,246,284	19,149,176
Other	-	12,942,557	-	-	-	-	12,942,557
Total rate sensitive assets (RSA)	**48,665**	**42,505,579**	**6,949,989**	**5,904,238**	**-**	**6,246,284**	**61,654,755**
Liabilities subject to interest rate adjustment:							
Demand accounts	-	22,593,963	-	-	-	-	22,593,963
Savings deposits	-	29,018,950	-	-	-	-	29,018,950
Term deposits	-	-	11,709,647	561,707	5,427	-	12,276,781
Other borrowings	-	-	-	3,600,000	-	-	3,600,000
Total rate sensitive liabilities (RSL)	-	51,612,913	11,709,647	4,161,707	5,427	-	67,489,694
Asset /Liability Gap	48,665	(9,107,334)	(4,759,658)	1,742,531	(5,427)	6,246,284	(5,834,939)
Cumulative Gap	48,665	(9,058,669)	(13,518,327)	(12,075,796)	(12,081,223)	5,834,939	-
Net position as a percent of total assets	79 %	14 %	8%	3 %	0 %	10%	(9) %
RSA as a percent of RSL	0 %	83 %	59%	142%	0 %	0 %	92 %
Interest gap	48,665	(9,107,334)	(4,759,658)	1,742,531	(5,427)	6,246,284	5,834,939
Impact on post tax profit or equity of an increase in the interest rate 3%	-	(191,254)	(99,953)	36,593	(114)	131,172	122,534
Impact on post tax profit or equity of a decrease in the interest rate 3%	-	191,254	99,953	(36,593)	114	(131,172)	(122,534)

As at 31 December 2015							
Loans and advances:	-	31,210,499	-	-	-	-	31,210,499
Securities:	-	-	2,888,121	4,591,039	5,714,250	3,480,782	16,674,192
Other	35,638,202	-	-	-	-	-	35,638,202
Total rate sensitive assets (RSA)	35,638,202	31,210,499	2,888,121	4,591,039	5,714,250	3,480,782	83,522,893
Liabilities subject to interest rate adjustment:							
Demand accounts	-	11,779,966	-	-	-	-	11,779,966
Savings deposits	-	24,197,524	-	-	-	-	24,197,524
Term deposits	-	-	7,974,991	397,080	3,135,205	-	11,507,276
Other borrowings	198,275	-	-	2,634,054	-	-	2,832,329
Other	22,263,232	-	-	-	-	-	22,263,232
Total rate sensitive liabilities (RSL)	22,461,507	35,977,490	7,974,991	3,031,134	3,135,205	-	72,580,327
Asset /Liability Gap	13,176,695	(4,766,991)	(5,086,870)	1,559,905	2,579,045	3,480,782	10,942,566
Cumulative Gap	13,176,695	8,409,704	3,322,834	4,882,739	7,461,784	10,942,566	-
Net position as a percent of total assets	16%	10%	(6%)	2%	3%	4%	13%
RSA as a percent of RSL	159%	87%	3%	151%	182%	-%	115%
Interest gap	13,176,695	(4,766,991)	(5,086,870)	1,559,905	2,579,045	3,480,782	10,942,566
Impact on post tax profit or equity of an increase in the interest rate 3%	-	(100,107)	(106,824)	32,758	54,159	73,096	229,794
Impact on post tax profit on equity of a decrease in the interest rate 3%	-	100,107	106,824	(32,758)	(54,159)	(73,096)	(229,794)

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Management compiled the sensitivity analysis based on the assumption that the interest rates move in the directions indicated above which are movements that managements deems reasonable based on the volatility of the relevant the base rate and the recent global interest rate trends.

Variable rate instruments expose the Group to interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk. The sensitivity impact is calculated at 70% of 10% of the interest rate gap. The 70% is applied to take into account tax effects.

(e) Currency risk

The Bank had the following significant foreign currency positions (all amounts expressed in millions of Malawi Kwacha):

At 31 December 2016	USD	GBP	Euro	ZAR	Total
Assets					
Balances with correspondent banks	9,613,679	436,260	562,923	92,190	10,705,052
Cash in vaults	632,075	8,678	19,974	53,106	713,833
Loans and advances to customers	1,701,764	101	4,061	-	1,705,926
Total assets	11,947,518	445,039	586,958	145,296	13,124,811
Liabilities					
Customer deposits	6,960,441	387,124	561,955	33,392	7,942,912
Other liabilities	5,817,663	-	-	-	5,817,663
Total liabilities	12,778,104	387,124	561,955	33,392	13,760,575
Net position	(830,586)	57,915	25,003	111,904	(635,764)
Sensitivity to projected profit on foreign exchange transactions					
Movement in foreign currency rates		(1000bp)	(2000bp)	1000bp	2000bp
Change in net income (MK'000)		(63,576)	(127,153)	63,576	127,153
Change in equity (MK'000)		(44,503)	(89,007)	44,503	89,007

At 31 December 2015	USD	GBP	Euro	ZAR	Total
Assets					
Balances with correspondent banks	10,553,359	772,122	623,906	141,578	12,090,965
Cash in vaults	515,883	11,800	20,084	78,999	626,766
Loans and advances to customers	2,429,507	110	2,407	2	2,432,026
Total assets	13,498,749	784,032	646,397	220,579	15,149,757
Liabilities					
Customer deposits	6,002,972	689,762	549,016	5,282	7,247,032
Short-term loans	2,634,053	-	-	-	2,634,053
Other liabilities	5,148,648	-	-	-	5,148,648
	13,785,673	689,762	549,016	5,282	15,029,733
Net position	(286,924)	94,270	97,381	215,297	120,024
Sensitivity to projected profit on foreign exchange transactions					
Movement in foreign currency rates		(1000bp)	(2000bp)	1000bp	2000bp
Change in net income (MK'000)		(12,002)	(24,005)	12,002	24,005
Change in equity (MK'000)		(8,402)	(16,803)	8,402	16,803

Management compiled the sensitivity analysis based on the assumption that the market moves in the directions indicated above which are movements that managements deems reasonable based on the volatility of the relevant economic climate and the Malawi Kwacha.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.5 Market Risk (continued)

42.5.2 Insurance and others

(A) INTEREST AND EQUITIES

The Group's operations are exposed to market risk. The risk arises from a change in fair value of the investments brought about by changes in interest rates and equity prices. Certain investments in equities are valued at fair value and are susceptible to market fluctuations.

The Group's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The Group's holdings are diversified across industries, and concentrations in any one organisation or industry are limited by parameters established by management and statutory requirements.

Short-term insurance contracts

For short-term insurance contracts, the Group has matched the insurance liabilities with cash and cash equivalents and money market instruments. The non-equity portion of the financial assets in this portfolio of the Group is characterised by interest rate risk.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

Long term insurance contracts

The Group's strategies on the management of investment risk is driven by the Group's investment objectives which are to achieve superior risk adjusted and inflation beating returns, to meet cash-flow needs of the Group and to obtain the best value in terms of administrative investment costs associated with the Group's investments. The Group's market risk is managed on a daily basis by the Asset Manager in accordance with policies and procedures in place. The Group's overall market positions are monitored on a quarterly basis by the Board of Directors.

(B) INTEREST RATE RISK

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.

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:

2016	Less than 1 year	1 year and above	Total
Financial assets			
Government Securities	51,217,013	20,720,526	71,937,539
Loans and debentures	53,534	9,989,389	10,042,923
Term deposits	13,838,252	-	13,838,252
Total Assets	65,108,799	30,709,915	95,818,714
Financial liabilities			
Bank overdraft	-	-	-
Net Assets	65,108,799	30,709,915	95,818,714

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2015	Less than 1 year	1 year and above	Total
Financial assets			
Government Securities	36,075,295	9,374,994	45,450,289
Loans and debentures	253,036	8,125,849	8,378,885
Term deposits	16,796,469	-	16,796,469
Total Assets	53,124,800	17,500,843	70,625,643
Financial liabilities			
Bank overdraft	-	-	-
Net Assets	53,124,800	17,500,843	70,625,643

An increase of 5% in interest rates as at the reporting date would have increased the net assets attributable to shareholders and policy holders by MK669.7 million. A decrease of 5% in interest rates would have had an equal but opposite effect.

(C) 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's exposure to currency risk is in respect to foreign investments for the purpose of seeking international diversification of investments and regional growth. Exposure to different foreign currencies at year end was in Zambia, Tanzania, Uganda, Zimbabwe and Mozambique.

The Group incurs foreign currency risk on reinsurance balances that are denominated in a currency other than the Malawi Kwacha and through its foreign subsidiaries. The currencies giving rise to this risk are primarily Zambia Kwacha (ZK) In respect of other monetary assets and liabilities held in currencies other than the Malawi Kwacha, the Group ensures that the net exposure is kept to a minimal level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances. Exposure to currency risk was as follows:

As at 31 December 2016	ZK	Total
Outstanding premiums	5,026,442	5,026,442
Due from reinsurance companies	12,333,103	12,333,103
Other	492,138	492,138
Total assets	17,851,683	17,851,683
Outstanding claims	6,462,076	6,462,076
Due to Reinsurance companies	6,184,379	6,184,379
Total liabilities	12,646,455	12,646,455
Net statement of financial		
position exposure	5,205,228	5,205,228
As at 31 December 2015		
Outstanding premiums	1,545,591	1,545,591
Due from reinsurance companies	7,324,025	7,324,025
Other	388,682	388,682
Total assets	9,258,298	9,258,298
Outstanding claims	3,477,807	3,477,827
Due to Reinsurance companies	1,522,535	1,522,535
Total liabilities	5,000,342	5,000,342
Net statement of financial position exposure	4,257,956	4,257,956

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.5 Market risk (continued)

42.5.2 INSURANCE AND OTHERS (CONTINUED)

(D) 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.

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.

		Carrying Amount			Fair value			
Consolidated		Designated at fair	Available					
2016	Note	value	for sale	Total	Level 1	Level 2	Level 3	Total
Deposit administration	42.8.9	104,936,692	-	104,936,692	-	-	104,936,692	104,936,692
Shares	17	55,402,216	427,564	55,829,780	40,852,326	-	14,977,454	55,829,780
Total		160,338,908	427,564	160,766,472	40,852,376	-	119,914,146	160,766,472
Restated								
2015								
Deposit administration	42.8.9	83,827,564	-	83,827,564	-	-	83,827,564	83,827,564
Shares	17	49,244,282	560,022	49,804,304	38,690,161	-	11,114,143	49,804,304
Total		133,071,846	560,022	133,631,868	38,690,161	-	94,941,707	133,631,868

Investment in unlisted companies are annually revalued by NICO Asset Managers (a related Group) on Net Asset Basis except for Chibuku Products which is independently valued by Deloitte, a firm of Chartered Accountants.

Measurement of fair values

The following table shows the valuation techniques used in in measuring level 3 fair values as well as the significant unobservable inputs used.

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Financial instruments measured at fair value.

Type	Valuation technique	Significant unobservable inputs
Unlisted equity securities	Net asset basis	Not applicable

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.

2016	Notes	Held to maturity	Loans and receivables	Other financial liabilities	Total
Government securities	16	90,239,651	-	-	90,239,651
Loans and debentures	18	-	11,749,748	-	11,749,748
Long term lease receivable	10	-	95,230	-	95,230
Loans and advances	7	-	16,005,599	-	16,005,599
Trade and other receivables	9,11	-	44,537,537	-	44,537,537
Cash and cash equivalents	5	-	38,753,794	-	38,753,794
		90,239,651	111,141,908	-	201,381,559
Financial liabilities not measured at fair value					
Interest bearing loan	26	-	-	3,837,154	3,837,154
Deposit and customer accounts	23	-	-	63,802,965	63,802,965
Trade payables	22	-	-	12,691,562	12,691,562
		-	-	80,331,681	80,331,681
Restated					
2015					
Financial assets not measured at fair value					
Government securities	16	58,300,283	-	-	58,300,283
Loans and debentures	18	-	8,252,735	-	8,252,735
Long term lease receivable	10	-	119,231	-	119,231
Loans and advances	7	-	28,332,603	-	28,332,603
Trade and other receivables	9,11	-	29,774,440	-	29,774,440
Cash and cash equivalents	5	-	45,991,620	-	45,991,620
		58,300,283	112,470,629	-	170,770,912
Financial liabilities not measured at fair value					
Interest bearing loan	26	-	-	3,006,269	3,006,269
Deposit and customer accounts	23	-	-	60,886,676	60,886,676
Trade payables	22	-	-	8,614,066	8,614,066
		-	-	72,507,011	72,507,011

42.6 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.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.2 Operation risk (continued)

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.

42.7 Short term insurance risks

42.7.1 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.

42.7.2 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.

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42.7.3 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.

42.7.4 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.

42.7.5 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.

42.7.6 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. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.8 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.

42.8.1 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.

42.8.2 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.

42.8.3 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 parallel, 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 risk

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.

(a) 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.

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(b) 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 or liability modelling is used to monitor this position on a regular basis. Details of default risk have been covered under the credit risk section.

Interest rate risk at the outset of the policy is priced using a risk discount rate, which may not stay the same over time. Long-term bonds are more sensitive to changes in interest rate than short-term bonds, and thus the Group ensures that they move in line with each other.

42.8.4 Long-term insurance contracts – with discretionary participation features

The Group writes policyholder benefits business with discretionary participation features.

The bonus payments are designed to distribute to policyholders the income on the assets funds based on a long term rate of return. The contracts provide more capital security to the policyholder than a unit-linked contract.

Management of risk

The Group has complete contractual discretion on the bonuses declared. In practice the Group considers policyholders' reasonable expectations when setting bonus levels.

42.8.5 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, and in the event of death covers, reinsurance arrangements are in place to protect the Group.

42.8.6 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.

42.8.7 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 administration	Low

Future shareholder entitlements

Assumed 20% of surplus from which bonuses are declared on individual life policies (with profit) plus 10% in respect of money available to fund bonuses to deposit administration policies and immediate annuities.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.8 Long term insurance risks (continued)

42.8.8 Sensitivity analysis

The Group is sensitive to the following factors:

Mortality

Mortality experience on group business remains favourable and the best estimate mortality assumption was maintained at 50%.

A decrease of 1% in mortality rate as at the reporting date would have increased profit attributable to shareholders by 1% while an increase of 1% in mortality rate would have had an equal but opposite effect.

AIDS

Currently the industry has not been significantly affected by the impact of AIDS. With free cover limits closely monitored the Group has been able to operate profitably. However, a major increase in the AIDS statistics by at least 5%, is likely to impact negatively on the business. Decline in the AIDS statistics is unlikely to cause significant change in the results.

Expenses

The unit acquisition and maintenance costs assumptions were reviewed to reflect the actual expenses incurred and the file size as at December, 2015. The group business maintenance expense margin was in the December 2016 valuation was maintained at 15% for all lines of group business to take credit for the better than assumed experience observed.

Interest rates

The Group is highly vulnerable to interest rates fluctuations. However, the risk is heavily mitigated by the diversity of the Group's investment portfolio. Hence it does not pose a significant risk.

Claims build-up

The Group does not maintain claims outstanding for a period of over 12 months.

42.8.9 Fund valuation

The Fund has been valued as at 31 December 2016 by an independent consulting actuary. The Financial Soundness Valuation has been used; this is a gross premium method of valuation. Reserves for the Deposit Administration business have been set equal to the value of the Investment Account. Group Life business which constitutes a small portion of business carries an Unearned Premium Reserve (UPR) of MK185 million (2015: MK251 million) and Incurred But Not Reported (IBNR) of MK805 million (2015: MK359 million). The balance of the liabilities has been based on projected cash flows taking into account expected mortality, expenses, market related investment returns, bonuses to be granted to policyholders' and current reinsurance arrangements.

Valuation of net assets has been taken as presented in the statement of financial position i.e. MK154.5 million (2015: MK123.7 million).

Additional reserves were held as follows:

- Investment Reserves calculated as 10% of the actuarial liability (excluding deposit administration liability and additional reserves).
- A Resilience Reserve was calculated as 85% of valuation interest and ignoring any possible management action in terms of reducing bonuses.
- Annuity mismatch reserve has been created to cushion future hard times where returns may fall below required level to meet the liabilities.
- Bonus Stabilisation Reserve is held at the valuation date to manage unallocated surplus funds. The unallocated surplus is being used to fund the over declaration of bonuses.

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

	2016	2015
(i) Insurance contracts		
Individual Life	9,675,713	7,849,452
Group Life	989,367	609,696
Annuities	4,674,174	2,955,036
Total	15,339,254	11,414,184
(ii) Investment contracts		
Deposit Administration	104,936,692	83,827,564
(iii) Technical reserves		
Annuity Mismatch	2,017,685	834,687
Data Reserves	48,378	39,247
Investment Reserves	1,522,093	1,137,322
Resilience Reserves	452,423	2,246,565
Unallocated Policyholders Reserves	12,211,434	7,002,902
Total	16,252,013	11,260,723
Long term policyholders' liabilities:		
Insurance contracts	15,339,254	11,414,184
Investment contracts	104,936,692	83,827,564
Technical reserves	16,252,013	11,260,723
Total long term policyholders' liabilities	136,527,959	106,502,471

b) Movements during the year

Balance at 1 January (restated)	106,502,471	84,974,162
Revaluation surplus net of deferred tax	3,781,275	3,590,813
Change in accounting policy (Note 2.6)	2,006,563	2,805,866
Derecognition on change in control	-	(366,502)
Long term policyholders' benefits	24,237,650	15,498,132
Balance at 31 December	136,527,959	106,502,471

c) The Fund has disclosed a surplus of MK 89.4 billion (2015: MK66.3 billion). On the advice of the consulting actuaries, the Group has allocated the surplus as follows:

Unallocated policyholders surplus brought forward	66,354,844	51,396,971
Surplus/deficit arising over the year:		
Individual life	625,757	58,912
Group life	2,298,195	1,257,226
Deposit administration	18,763,598	11,485,043
Managed funds	-	-
Annuity business	405,840	522,656
Derecognition on change in control	-	(122,313)
Shareholders' assets	978,988	1,733,309
Surplus before allocations (gross premium basis)	89,427,222	66,331,804

Individual life negative surplus relates to an increase in reserves.

42. CAPITAL AND RISK MANAGEMENT (CONTINUED)

42.8 Long term insurance risks (continued)

42.8.9 Fund valuation (continued)

The Actuaries further allocated the surplus as follows:-

	2016	2015
Surplus before allocations (gross premium basis)	89,427,222	66,331,804
Bonus- deposit administration (non-vested)	(14,200,731)	(10,335,573)
Surplus after allocation to policyholders but before allocation to shareholders	75,226,491	55,996,231
Shareholder's share of surplus as at 1 January	(10,284,451)	(8,551,355)
Surplus for the year to shareholders	(5,247,394)	(4,717,997)
Unallocated policyholders reserves	59,694,646	42,726,879
Surplus after allocation to policyholders but before allocation to shareholders	75,226,491	55,996,231
Less: Dividend paid during the year	(3,246,699)	(900,000)
Surplus per actuarial report	71,979,792	55, 096,231
Unallocated surplus of **MK59.7 billion** (2015:MK42.7 billion) has been retained in the Fund.		
Opening shareholders share of surplus as at 1 January	10,284,451	8,551,355
Allocation to shareholders	5,247,394	4, 717,997
Total shareholders funds in the Life Fund	15,531,845	13,269,352
Dividends paid	(1,080,000)	(900,000)
Shareholder's share of surplus as at 1 January	14,451,845	12,369,352
Dividend Payable	(1,354,570)	(2,166,604)
Balance of Life Fund as at 31 December	13,097,275	10,202,748

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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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
- Information Technology

General Insurance segment operate in Malawi, Zambia, Tanzania, and Uganda.

Investment Holding, Life Insurance and Pension segments operate in Malawi and Mozambique. Information Technology, Asset Management and Banking segments are only operated in Malawi.

The Banking sector monitors concentration of credit risk by sector and by geographic location

Concentration by Sector
- Retail
- Corporate
- Banks

Concentration by location
- Northern Region
- Central Region
- Southern Region

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.

43. OPERATING SEGMENTS (CONTINUED)

For the year ended 31 December 2016

In thousands of Malawi Kwacha

Reportable segments

	Life Insurance and Pension Business		General Insurance Business		Banking Business		Investment Holding		Asset Management		Information Technology Business		Eliminated on consolidation		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Gross revenue	50,797,056	33,532,727	31,395,264	24,415,096	18,493,059	20,626,995	3,801,032	2,917,408	3,650,403	2,039,711	470,200	279,314	(8,920,417)	(4,220,494)	99,686,597	79,590,757
Profit before tax	8,500,793	5,534,275	3,271,113	2,301,509	(4,854,868)	(236,237)	2,179,184	1,638,346	471,573	326,913	81,557	(199 172)	(2,372,316)	(2,067,526)	7,277,036	7,298,108
Profit after tax	5,329,098	4,613,294	2,094,902	1,572,737	(4,330,153)	(195,461)	1,667,218	1,493,661	307,,983	222,648	38,484	(150,786)	(2,372,316)	(2,067,526)	2,735,216	5,488,567
Other information																
Segment assets	154,400,341	120,803,508	39,272,643	30,046,376	85,913,829	83,717,565	7,074,884	6,280,152	12,236,043	7,041,494	174,096	188,851	(3,285,251)	(1,017,262)	295,786,585	247,060,684
Segment liabilities	139,948,496	107,458,595	33,455,945	25,597,496	79,106,744	72,580,327	787,727	743,990	11,692,226	6,624,659	85,898	139,137	(1,388,766)	2,069,488	263,688,270	215,213,692
Capital expenditure	114,847	180,521	670,137	119,776	917,860	5,494,451	26,263	13,464	74,212	23,728	6,071	6,551	-	-	1,809,390	5,838,491
Segment cash flows																
From/(to) operating activities	9,714,001	16,784,302	223,022	(351,565)	(2,247,964)	15,611,373	(472,312)	(764,319)	(2,080,988)	965,655	(78,360)	97,017	-	-	12,069,789	32,342,463
(To)/from investing activities	(9,014,968)	(7,657,343)	(1,034,818)	2,705,115	(4,492,521)	(5,494,451)	6,009	1,888,039	2,354,097	1,130,401	(4,520)	3,114	(2,372,316)	(2,067,526)	(17,594,070)	(9,492,651)
(To)/from financing activities	(3,246,699)	(2,312,900)	(1,050,000)	(900,000)	965,946	(4,473,442)	(816,782)	(862,665)	(181,000)	(131,000)	-	-	2,372,316	2,067,526	(1,956,219)	(6,612,481)

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Geographical segments

	Malawi		Zambia		Mozambique & Zimbabwe		Eliminated on consolidation		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Gross revenue	92,062,185	71,424,500	16,544,829	12,250,324	-	136,427	(8,920,417)	(4,220,494)	99,686,597	79,590,757
Profit before tax	9,179,961	9,534,436	469,391	(64,099)	-	(104,703)	(2,372,316)	(2,067,526)	7,277,036	7,298,108
Profit after tax	4,876,819	7,740,184	230,713	(79,388)	-	(104,703)	(2,372,316)	(2,067,526)	2,735,216	5,488,566
Other information										
Segment assets	277,906,490	234,325,383	18,773,508	11,557,706	2,391,838	2,194,857	(3,285,251)	(1,017,262)	295,786,585	247,060,684
Segment liabilities	241,077,111	199,087,533	20,337,925	10,696,258	3,662,000	3,360,413	(1,388,766)	2,069,488	263,688,270	215,213,692
Capital expenditure	1,285,551	5,761,033	523,839	77,458	-	-	-	-	1,809,390	5,838,491
Segment cash flows										
Cash flows from/(to) operating activities	11,730,520	32,487,636	339,269	(145,173)	-	-	-	-	12,069,789	32,342,463
Cash flows (to)/from Investing Activities	(14,836,873)	(8,148,269)	(384,881)	723,144	-	-	(2,372,316)	(2,067,526)	(17,594,070)	(9,492,651)
Cash flows (to)/from financing activities	(3,781,341)	(8,680,007)	(547,194)	-	-	-	2,372,316	2,067,526	(1,956,219)	(6,612,481)

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

	2016	2015

44. EMPLOYEE BENEFITS LIABILITIES

See accounting policy in note 3 (t)

Expense recognised in the profit or loss		
Pension costs	741,085	701,781

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 Group 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

Shares were allotted during the year were **Nil** (2015: 1,999,840).

45. RELATED PARTIES

The Group has a related party relationship with its Directors, Executive officers, subsidiaries, associates and Sanlam Emerging Markets Proprietary Limited (SEM).

Banking business

Transactions with key management personnel

Key management personnel have transacted with the Bank during the period as follows:

	Directors and their related parties	
	2016	2015
Advances	96,976	86,509
Deposits	40,113	9,060
Net balances	137,089	95,569

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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.

Advances to directors and parties related thereto are conducted at arm's length and deemed to be adequately secured. Advances to staff comprise **MK628 million** (2015: MK117 million) interest free loans and **MK154 million** (2015: MK391 million) at an interest rate of 9% the remaining balance carries commercial interest rates.

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. Consequently, an allowance for impairment losses of **MK276 million** (2015: MK154 million) has been made against low interest advances to employees. No other impairment losses have been recorded against loans to related parties.

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

Executive directors also participate in the Company's share option programme (refer note 44). As at 31 December 2016, the total number of shares of the Company owned by Executive Directors was **Nil** (2015: 311,087).

Key management personnel of the Insurance business have transacted with the business units during the year as follows:

	Directors and their related parties	
	2016	2015
Insurance premium	16,425	10,818

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 2016 there were no balances owing from Directors and Employees.

Key management personnel compensation:

Key management personnel compensation comprised the following:-

Consolidated	Executive Management		Non-executive Directors	
	2016	2015	2016	2015
Short term employee benefits	137,040	224,004	-	-
Directors' fees	-	-	99,365	67,366
Retirement expenses	-	201,345	-	-
	137,040	425,349	99,365	67,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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45. RELATED PARTIES (CONTINUED)

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

Related Party	Relationship	Type of transaction	Value of transactions 2016	Balance at year end 2016	Value of transactions 2015	Balance at year end 2015
Sanlam Emerging Markets (SEM)	Related company	Accrued income	(197,861)	-	-	197,861
		Actuarial fees	(73,225)	(23,286)	(64,296)	(61,629)
		Shared expenses	(16,934)	(12.966)	(5,539)	-
Sanlam General Insurance Uganda	Associate	Shared expenses	-	2,372	-	23,425
Sanlam General Insurance Tanzania	Associate	Shared expenses	1,974	(16,475)	-	(18,278)
Sanlam Mocambique Vida Companhia de Seguros, SA	Associate	Shared expenses	-	10,672	-	3,371
		Directors fees	1,664	2,710	1,767	1,046

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.

46. GROUP SUBSIDIARIES

(a) List of significant subsidiaries

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

	Principal place of business	Ownership interest 2016	Ownership interest 2015
NICO General Insurance Company Limited	Malawi	51%	51%
NICO Life Insurance Company Limited	Malawi	51%	51%
Group Fabricators & Manufacturers Limited	Malawi	100%	100%
NBS Bank Limited	Malawi	50.1%	50.1%
NICO Technologies Limited	Malawi	100%	100%
NICO Asset Managers Limited	Malawi	100%	100%
NICO Insurance Zambia Limited	Zambia	51%	51%

(b) List of significant associates

The table below provides details of the significant associates of the Company:

Sanlam General Insurance Tanzania Limited	Tanzania	20%	20%
Sanlam General Insurance Uganda Limited	Uganda	20%	20%
Sanlam Mozambique Vida Companhia de Seguros, SA	Mozambique	34.3%	34.3%

47. CONTINGENT LIABILITIES AND COMMITMENTS

The Group is a defendant to several cases which are outstanding in the courts of law. While liability is not admitted, if the defence against the actions is unsuccessful, then the Group would pay the claims estimated at **MK4.5 billion** (2015: MK663 million).

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The Group had commitments amounting to **MK3.2 billion** as at 31 December, 2016 (2015: MK2.4 billion) in respect of goods and services to be delivered to the Group. These commitments are to be funded from internal resources.

The Group entered into a Strategic partnership with International Finance Corporation (IFC), to raise additional capital of up to MK2 billion for NBS Bank Limited. NICO Holdings Plc and NBS Bank Limited then entered into an agreement concerning the payment of commission by NBS Bank Limited to NICO Holdings Plc in consideration of NICO Holdings Plc entering into a Put Option Agreement with International Finance Corporation (IFC). The Bank pays 2% annual commission to the Company on the base amount, in accordance with the terms of the agreement. This agreement was effective from 30 June 2011 and ends on the sixth anniversary. The extent of exposure to NICO Holdings Plc as at 31 December 2016 is **MK958 million** (2015: MK2.4 billion).

48. EXCHANGE AND INFLATION RATES

The average of the year-end buying and selling rates of the major foreign currencies most affecting the performance of the Group are stated below, together with the increase in the National Consumer Price Index, which represent an official measure of inflation.

Exchange Rates as at 31 December	2016	2015	2014
United States Dollar (USD) to Malawian Kwacha (MK)	724.1	664.4	468.9
United States Dollar (USD) to Zambian Kwacha (ZK)	9.9	11.0	6.4
United States Dollar (USD) to Ugandan Shilling (USH)	3,615.0	3,382.5	2,771.0
United States Dollar (USD) to Tanzanian (TSH)	2,180.0	2,159.0	1,737.0
United States Dollar (USD) to Mozambique Metical (MT)	70.7	47.4	33.3
South Africa Rand (ZAR) to Malawian Kwacha (MK)	54.1	42.7	40.8
British Pound (GBP) to Malawian Kwacha (MK)	889.2	984.8	728.5
Inflation rates as at 31 December (%)	20%	24.9%	24.2%

At the time of approving these financial statements, the exchange rates were as follows;

United States Dollar (USD) to Malawian Kwacha (MK)	724.1
United States Dollar (USD) to Zambian Kwacha (ZK)	9.2
United States Dollar (USD) to Ugandan Shilling (USH)	3,590
United States Dollar (USD) to Tanzanian (TSH)	2,238
United States Dollar (USD) to Mozambique Metical (MT)	60.3
South Africa Rand (ZAR) to Malawian Kwacha (MK)	56.6
British Pound (GBP) to Malawian Kwacha (MK)	924.7

At the time of approving the financial statements, the inflation rate was **12.3%** (2015: 24.9%).

49. GOING CONCERN AND SUBSEQUENT EVENTS

The directors have made and assessment of the ability of the Group to continue as a going concern. As reported in the financial statements of NBS Bank Limited (also referred to as the Bank), a Group subsidiary, for the year ended 31 December 2016 (as discussed below), there is a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. The directors have evaluated the impact that this may have on the group's ability to continue as a going concern.

The Bank

The Bank incurred a loss of **MK4.330 billion** for the year ended 31 December 2016 (2015: loss of MK195 million). The Bank has also made losses in the first 2 months of 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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49. GOING CONCERN AND SUBSEQUENT EVENTS (CONTINUED)

The Bank did not meet the Capital Adequacy Requirements as at 31 December 2016 per the Reserve Bank of Malawi (RBM) directive. The Directive requires Tier 1 and Tier 2 ratios to be a minimum of 10% and 15% respectively of all risk bearing assets and contingent liabilities. At 31 December 2016 the Bank's available capital was -6.7% for both tier 1 and tier 2 of all its risk bearing assets and contingent liabilities.

The Bank is undercapitalised with a capital shortfall of **MK11.8 billion** as at December 2016 and MK5.1 billion as at December 2015.

On 13 May 2016, the Reserve Bank of Malawi waived the Bank from meeting the capital requirements until the planned capital raising exercise is concluded by June 2017.

The directors of the Bank have prepared the financial statements using the basis of accounting applicable to a going concern because of the following steps being taken by the Shareholders, the Directors and key management of the Bank to address the situation:

(i) Re-capitalisation;

- On 29 December 2016 the shareholders of the Bank passed a resolution to recapitalise the bank through a rights issue for MK11.8 billion in order to achieve compliance with minimum capital requirements per Basel II Capital Adequacy Directive.
- The Board of Directors of NICO Holdings Limited (the parent company) issued a resolution dated 18 March 2016 to support the Bank in a rights issue option to recapitalize. Arising from this resolution, NICO Holdings Limited deposited with the Bank K2.7 billion as a non- refundable advance payment for the rights issue.
- Subsequent to the year end, the rights issue process has progressed and is at an advanced stage. The Bank has appointed CDH Investment Bank as the Lead Advisors on the Rights Offer; Wilson and Morgan as the Transaction Lead Advisors and Deloitte as the Reporting Accountants. A timetable for the process has been agreed by the members and a list of proposed underwriters is in place.

(ii) Future Strategies;

- The Bank has engaged the services of a Consultant, Rabo International Advisory Services (RIAS) in an agreement to cooperate on a technical assistance project where RIAS will offer advisory support to NBS in their transition into a healthy, well capitalised universal retail Bank.
- The Bank has reforecast its performance to December 2021 and has come up with revised strategies and budgeting. The Bank has set up cost management measures projecting total costs savings of up to K1.4 billion to June 2017.

The ability of the Bank to continue as a going concern is dependent on the successful conclusion of the rights issue and implementation of the strategies described above. These conditions indicate that there is a material uncertainty that may cast significant doubt on the ability of the Bank to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Impact on the Group's ability to continue as a going concern

Apart from the banking business, all the other core businesses have been contributing positively to the profitability and net asset position of the Group. The Group's ability to continue as a going concern is not affected by the performance of the Bank as the Bank has not contributed significantly to the operating cash flows of the Group for some time now. The directors have assessed that the material uncertainty in relation to the bank does not result in a material uncertainty that casts significant doubt on the ability of the Group as a whole to continue as a going concern, as the directors believe that the Group as a whole has the ability to realise its assets and discharge its liabilities in the normal course of business.

Accordingly, the directors have prepared the consolidated financial statements on the basis of accounting applicable to a going concern.

There are no further significant subsequent events beyond the events described in this note.

NICO Holdings Plc

SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

DIRECTORS' REPORT
For the year ended 31 December 2016

The Directors have pleasure in presenting their report and consolidated financial statements of NICO Holdings Plc for the year ended 31 December 2016.

NATURE OF BUSINESS
The major activity of the company is investment in subsidiary and associate companies and management of these subsidiary companies. NICO Holdings Plc's shareholding structure in Subsidiary and Associate 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
SFG Holdings (Zimbabwe) Limited	49.00	Short term insurance (Dormant)
NICO Life Insurance Company Limited	51.00	Life insurance and pension administration
NBS Bank Limited	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabrications & Manufacturers Limited	100.00	Property holding

Name of Associate Company	% Holding	Type of business
Sanlam General Insurance Uganda Limited	20.00	Short term insurance
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mocambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration

REGISTERED OFFICE
The physical address of the Company'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 company are set out in the accompanying statement of financial position, profit or loss and other comprehensive income, changes in equity, cash flows for the year then ended and associated accounting policies and notes.

PROFIT
The profit for the year attributable to equity shareholders of the Company of **MK1.9 billion** (2015: MK1.31 billion) has been added to retained earnings.

DIVIDENDS
A dividend of **MK625.8 million** (2015: MK938.7 billion) representing **MK0.60** per ordinary share (2015: MK0.90 per ordinary share) was paid during the year. The Directors are not recommending a final dividend (2015: 626 million) representing MK0.60 per ordinary share.

STAFFING
Staff complement for the Company stands at **18** as at 31 December 2016, (2015: 20). Human resource remains a major and key factor to the success of the Company. NICO Holdings Plc remains committed to professionalism by developing staff to their full potential. The Company has maintained staff development programmes through training both locally and internationally.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2016

BOARD OF DIRECTORS AND SECRETARY
The following served as Directors and Secretary of the Company during the year:

Mr. Alaudin Osman	Chairman – Independent and Non-executive
Mr. Harold Bijoux	Non-executive Director
Mrs. Margaret Dawes	Non-executive Director (up to 26th January 2016)
Mr. Sangwani Hara	Independent and Non-executive Director
Mr. Gaffar Hassam	Non –executive Director (from 16th March 2016)
Mrs. Catherine Lesetedi	Non –executive Director (from 16th March 2016)
Mr. Robert Scharar	Non-executive Director
Mr. Tertius Stears	Non-executive Director (up to 18th March 2016)
Mr. Vizenge Kumwenda	Executive Director and Managing Director
Mrs. Emily Makuta	Company Secretary

During the year, the following changes took place in the composition of the Board of Directors of the Company:

Mrs Margaret Dawes resigned as a non-executive Director of the Company, effective 26th January 2016. The Board places on record its appreciation for the contributions made by Mrs Margaret Dawes during her tenure as a Director of the Company.

Mr. Tertius Stears resigned as a non-executive Director of the Company, effective 18th March 2016. The Board places on record its appreciation for the contributions made by Mr. Tertius Stears during his tenure as Director of the Company.

Mr Gaffar Hassam was appointed as a non-executive director of the Board of Directors of the Company effective 16th March 2016. The appointment was duly approved by the Registrar of Financial Institutions.

Mrs Catherine Lesetedi was appointed as a non-executive director of the Board of Directors of the Company effective 16th March 2016. The appointment was duly approved by the Registrar of Financial Institutions.

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

	2016 %	2015 %
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.

Board meetings - Meeting Attendance

Member	18-Mar-16	03-Jun-16	01-Sep-16	02-Dec-16
Mr. Alaudin Osman (Chairman)	√	√	√	√
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mr. Gaffar Hassam	√	√	√	A
Mr. Vizenge Kumwenda	√	√	√	√
Mrs. Catherine Lesetedi	√	√	√	√
Mr. Robert Scharar	√	√	√	√
Mr. Tertius Stears	√	N	N	N

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

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.

FINANCE AND AUDIT COMMITTEE

The Finance and Audit Committee is responsible for reviewing annual reports and financial statements. This committee also monitors the adequacy of accounting and internal control systems. Both external and internal auditors report to the Board of Directors through the Finance and Audit Committee. The committee consists of four non-executive Directors. The 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:-

Mr. Gaffar Hassam	(Chairperson) from 18th March 2016
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Mrs. Catherine Lesetedi	(Member)
Mr. Tertius Stears	(Chairperson) up to 18th March 2016

Mr. Tertius Stears upon his Board resignation ceased to be a member and chairperson of the Finance and Audit committee, effective 18th March 2016 and Mr. Gaffar Hassam was appointed member and chairperson effectively.

The committee met four times during the year.

Finance and Audit Committee- Meeting Attendance

Member	17-Mar-16	02- Jun-16	31-Aug-16	01-Dec-16
Mr. Gaffar Hassam	N	√	√	A
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mrs. Catherine Lesetedi	N	√	A	√
Mr. Tertius Stears	√	N	N	N

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

APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee acts as an independent Board Committee for issues relating to appointments of, and remuneration of, management and staff. The committee also reviews candidates for Board Appointments and Company and Group level. It consists of three non-executive Directors and the Managing Director. The committee meets at least twice a year. The members of the Appointments and Remuneration Committee are:

NICO HOLDINGS Plc Separate Financial Statements

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 December 2016

APPOINTMENTS AND REMUNERATION COMMITTEE (continued)

Mr. Robert Scharar	(Chairman)
Mrs Margaret Dawes	(Member) up to 26th January 2016
Mr. Sangwani Hara	(Member)
Mr. Gaffar Hassam	(Member) (from 16th March 2016)
Mr. Vizenge Kumwenda	(Member)

The committee met four times during the year.

Appointments and Remuneration Committee - Meeting Attendance

Member	16-Mar-16	02- Jun-16	31-Aug-16	01-Dec-16
Mr. Robert Scharar	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mr. Gaffar Hassam	N	√	√	A
Mr. Vizenge Kumwenda	√	√	√	√

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

GROUP INVESTMENTS COMMITTEE

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

Mr. Robert Scharar	(Chairman)
Mr. Harold Bijoux	(Member)
Mr. Sangwani Hara	(Member)
Mr. Gaffar Hassam	(Member) from 16th March 2016

At a meeting held by the board of directors on the 16th March 2016, Mr. Gaffar Hassam was appointed member of the Group Investments Committee.

The committee met four times during the year:

Investments Committee- Meeting Attendance

Member	14-Mar-16	03- Jun-16	01-Sep-16	29-Nov-16
Mr. Robert Scharar	√	√	√	√
Mr. Harold Bijoux	√	√	√	√
Mr. Sangwani Hara	√	√	√	√
Mr. Hassam Gaffar	N	√	√	A

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

GROUP RISK COMMITTEE

The Group Risk Committee is responsible for overseeing risk management in the Group, including formulation of risk policy and direction for the Group. It consists of four non-executive directors. The Managing Director attends by invitation. The composition of the committee is as follows;

Mr. Robert Scharar	(Chairman)
Mr. Harold Bijoux	(Member)
Ms. Catherine Lesetedi	(Member) from 16th March 2016
Mr. Lucius Mandala*	(Member)

* Is an NBS Bank Limited Director representing the Bank's interest on the Group Risk Committee.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2016

The committee met four times during the year.

Risk Committee- Meeting Attendance

Member	16-Mar-16	02- Jun-16	31-Aug-16	30-Nov-16
Mr. Robert Scharar	√	√	√	√
Mr. Harold Bijoux	√	√	A	√
Mr. Catherine Lesetedi	N	√	A	√
Mr. Lucius Mandala	√	√	√	A

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

At a meeting held by the board of directors on the 16th March 2016, Mrs. Catherine Lesetedi was appointed member of the Group Risk Committee.

DIRECTOR'S INTEREST

None of the directors directly held shares in the Company as at 31 December 2016 (2015: 311,087 shares).

There were no other contracts between the Company and its directors nor were 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.

DIRECTOR'S REMUNERATION

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

		2016	2015
Directors' remuneration	- Executive (note 29)	(137,040)	(228,770)
	- Non executive (note 29)	(22,043)	(12,331)

AUDITOR'S REMUNERATION

During the year the total auditors remuneration was as analysed below:

		2016	2015
Auditors remuneration	- Audit fees	(20,936)	(15,058)
	- Disbursements	(1,869)	(1,088)
	- Other audit expenses	(5,175)	(5,403)

DONATIONS

Donations made during the year amounted to **MK4.6 million** (2015: MK15.3 million).

EXTERNAL AUDITORS

Messrs KPMG Chartered Accountants (Malawi) have expressed their willingness to continue in office as auditors in respect of the Company's 31 December 2017 separate financial statements and a resolution proposing their re-appointment will be tabled at the forthcoming Annual General Meeting.

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

19 June 2017

DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 31 December 2016

The directors are responsible for the preparation and fair presentation of the separate financial statements of NICO Holdings Plc, comprising the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the 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 Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

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

In preparing the 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 separate financial statements, subject to any material departures being disclosed and explained in the separate financial statements; and
- Preparation of separate financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for such internal controls as the directors determine is necessary to enable the preparation of 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 company's ability to continue as going concerns and have no reason to believe that businesses will not be going concerns in the year ahead.

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

Approval of financial statements

The separate financial statements of NICO Holdings Plc as identified in the first paragraph, were approved by the board of directors on 19 June 2017 and are signed on its behalf by:

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

19 June 2017

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

For the year ended 31 December 2016

KPMG
Public Accountants and Business Advisors
MASM House, Lower Sclater Road
P.O. Box 508
Blantyre, Malawi

Telephone: (265) 01 820 744 / 01 820 391
Telefax: (265) 01 820 575
E-mail: kpmg@kpmgmw.com
Website: www.kpmg.com/mw

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

Opinion

We have audited the separate financial statements of NICO Holdings Plc (the company) set out on pages 129 to 164 which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the separate financial position of NICO Holdings Plc as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

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 separate financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA code. We believe 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Impairment of investments in subsidiaries *See Notes 3(n), 10, 12 and 13 of the separate financial statements* As an investment holding company, one of the most significant assets held by the Company is its investment in subsidiaries, comprising the investment in shares in the subsidiary companies, amounts due from subsidiaries and the funds awaiting capitalisation, included in other receivables. As the investments in subsidiaries are measured at cost, the Company assesses these investments for impairment when there are indicators of impairment at year end. During the financial year, there were indicators of impairment for certain subsidiaries, including NBS Bank Limited, which required management to perform an impairment assessment at year end. This impairment assessment required the directors to make significant judgements, including assessing management strategies and projecting cash flows. The impairment of the Company's investments in subsidiaries was a key audit matter due to: — The significance of the investments recorded in the separate financial statements, and — The subjective nature of the estimation and judgement required when calculating the impairment to be reported in the separate financial statements.	**Our audit included:** — assessing whether there were any observable indications that a subsidiary's value had declined during the year, as well as determining whether there were any significant changes that were anticipated to take place in the near future that would have a direct impact on the value of the investment. — challenging management's assessment of the impairment, where required, by recalculating the individual subsidiaries' net asset values and comparing our recalculated amounts to management's impairment calculation. This included assessing whether the impairment assessment relating to the Company's investment in NBS Bank Limited included the funds awaiting capitalisation disclosed in note 13. — considering the current and future performance of the subsidiaries, as well as the projected future cash flows and strategies put in place by management to turn around the performance of the companies and/or enhance the net asset values, based on the understanding of the Group.
Valuation of investment in unlisted shares *See Notes 2.2.2, 3(d) and 3(g), 9 and 30.2.1 of the separate financial statements* The Company holds a significant investment portfolio consisting of investments in unlisted shares. The valuation of unlisted shares is performed by a related party valuation expert and a significant degree of judgement is applied in determining the appropriate valuation model used in the valuation assessment. The valuation of unlisted shares was regarded as a key audit matter due to: — The significance of the investments in the separate financial statements, and — The degree of judgement applied in the valuation, including the valuation model selected, and the estimation uncertainty that exists in determining the value of the shares.	Our audit procedures included, amongst others: — assessing the professional qualifications, competence, independence and experience of the valuation expert used for the valuation of the unlisted shares. — inspecting the valuation report received from the valuation expert and assessing the appropriateness of the assumptions applied by the valuer in the valuation of the unlisted shares. — assessing the reasonability of the valuation assumptions made for the investments by assessing the appropriateness of the basis on which the valuation expert carried out the valuation and reviewing the appropriateness of the data used in the valuation with reference to available actual and forecast data and information set out on the official National Statistics website.

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

For the year ended 31 December 2016

Other information

The directors are responsible for the other information. The other information comprises the Directors' report and Directors' responsibility statement, 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 separate financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi, and for such internal control as the directors determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

For the year ended 31 December 2016

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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.

KPMG

Gordon Tembo
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi
23 June 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of Malawi Kwacha

ASSETS	Note	2016	2015
Non-current assets			
Equipment and furniture	5	47,377	44,433
Intangible assets	6	36,831	83,881
Investment properties	7	51,000	47,000
Loans receivables	8	1,753	1,753
Investment in shares	9	355,019	489,446
Investment in subsidiary companies	10	1,419,531	1,402,740
Other receivables	13	2,731,693	-
Investment in associate companies	11	1,196,667	1,168,519
Total non-current assets		5,839,871	3,237,772
Current assets			
Amounts due from subsidiary and associated companies	12	248,981	460,932
Other receivables	13	36,403	278,851
Income tax receivable	26(c)	156,585	13,085
Cash and cash equivalents	14	404,793	1,648,435
Total current assets		846,762	2,401,303
Total assets		6,686,633	5,639,075
EQUITY AND LIABILITIES			
Equity			
Issued share capital	15	52,152	52,152
Share premium	15	428,859	428,859
Fair value reserves	16	(70,841)	63,585
Retained earnings		5,614,332	4,264,842
Total equity attributable to equity holders of the company		6,024,502	4,809,438
Non-current liabilities			
Interest-bearing loans and borrowings - long term	18	12,436	150,997
Total non-current liabilities		12,436	150,997
Current liabilities			
Amounts due to subsidiary and associated companies	12	16,475	19,437
Interest-bearing loans and borrowings – short term	18	19,287	33,222
Other payables	20	613,933	625,981
Total current liabilities		649,695	678,640
Total liabilities		662,131	829,637
Total equity and liabilities		6,686,633	5,639,075

These separate financial statements were approved for issue by the Board of Directors on 19 June 2017 and were signed on its behalf by:

Alaudin Osman
CHAIRMAN

Vizenge Kumwenda
MANAGING DIRECTOR

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of Malawi Kwacha

REVENUE	Note	2016	2015
Fee income	21	879,501	488,867
Investment income	22	2,917,554	2,399,091
		3,797,055	2,887,958
Fair value gain on investment properties	7	4,000	4,000
Total revenue		3,801,055	2,891,958
Other income	23	53,925	65,132
Share of profit from associated companies	11	28,148	11,305
Expenses			
Administrative expenses	24	(1,746,212)	(1,335,456)
Profit before finance income		2,136,916	1,632,939
Net finance (cost)/income	25	(21,099)	104,873
Profit before income tax expense		2,115,817	1,737,812
Income tax expense	26	(140,502)	(427,245)
Profit for the year		1,975,315	1,310,567
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Loss on available for sale assets (net of tax)		(134,426)	(94,141)
Total other comprehensive loss for the year net of tax		(134,426)	(94,141)
Total comprehensive income for the year		1,840,889	1,216,426
Basic and diluted earnings per share (MK)	27	1.89	1.26

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of Malawi Kwacha

	Share capital	Share premium	Fair Value Reserves	Retained Earnings	Total
Balance at 1 January 2016	52,152	428,859	63,585	4,264,842	4,809,438
Total comprehensive income					
Profit for the year	-	-	-	1,975,315	1,975,315
Other comprehensive income for the year					
Loss on available for sale assets (net of tax)	-	-	(134,426)	-	(134,426)
Total comprehensive income for the year	-	-	(134,426)	1,975,315	1,840,889
Transactions with owners of the company					
Dividends to equity holders (Note 17)	-	-	-	(625,825)	(625,825)
Total transactions with owners of the company	-	-	-	(625,825)	(625,825)
Balance as at 31 December 2016	52,152	428,859	(70,841)	5,614,332	6,024,502
Balance at 1 January 2015	52,152	428,859	157,726	3,893,012	4,531,749
Total comprehensive income					
Profit for the year	-	-	-	1,310,567	1,310,567
Other comprehensive income for the year					
Loss on available for sale assets (net of tax)	-	-	(94,141)	-	(94,141)
Total comprehensive income for the year	-	-	(94,141)	1,310,567	1,216,426
Transactions with owners of the company					
Dividends to equity holders (Note 17)	-	-	-	(938,737)	(938,737)
Transactions with owners of the company	-	-	-	(938,737)	(938,737)
Balance as at 31 December 2015	52,152	428,859	63,585	4,264,842	4,809,438

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		1,356,133	473,234
Cash payments to clients, employees and suppliers		(1,859,756)	(1,157,488)
Cash utilised in operations		(503,623)	(684,254)
Income taxes paid	26	(125,616)	(80,065)
Net cash utilised in operating activities		(629,239)	(764,319)
CASH FLOWS GENERATED FROM INVESTING ACTIVITIES			
Proceeds from disposal of equipment and furniture		1,671	120
Interest received *		539,008	351,765
Dividend received *	22	2,378,546	2,073,773
Purchase of other investments and loans receivables and investment in subsidiaries		(2,700,000)	(524,155)
Additions to equipment, furniture and intangible assets	5,6	(26,263)	(13,464)
Net cash flows generated from investing activities		192,962	1,888,039
CASH FLOWS UTILISED IN FINANCING ACTIVITIES			
Repayment of long-term borrowings		(182,593)	(49,928)
Dividend paid	17	(625,825)	(938,737)
Net cash flows utilized in financing activities		(808,418)	(988,665)
Net (decrease)/increase in cash and cash equivalents		(1,244,695)	135,055
Cash and cash equivalents at 1 January		1,648,435	1,493,161
Effects of changes in exchange rates		1,053	20,219
Cash and cash equivalents at 31 December	14	404,793	1,648,435
ADDITIONAL INFORMATION			
Increase in net working capital		(1,206,097)	48,962

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

In thousands of Malawi Kwacha

1. REPORTING ENTITY

NICO Holdings Plc ("The Company") is a public company incorporated in Malawi under the Companies Act, 2013 of Malawi. Formerly it was called National Insurance Company Limited. The address of the Company's registered office is: Chibisa House, 19 Glyn Jones Road, and P.O. Box 501, Blantyre, Malawi. The separate financial statements for the year ended 31 December 2016 comprise the Company. The Company is listed on the Malawi Stock Exchange. These are the Company's separate financial statements. The consolidated financial statements are available from NICO Holdings Plc located in Chibisa House on 19 Glyn Jones Road, P O Box 501, Blantyre, Malawi.

Where reference is made on the basis of preparation to Company, it should be interpreted as being applied to the Separate financial statements as the context requires.

The major activity of the company is subsidiary investment management. 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 Limited	51.00	Short term insurance
SFG Holdings (Zimbabwe) Limited	49.00	Short term insurance (Dormant)
NICO Life Insurance Company Limited	51.00	Life insurance and pension administration
NBS Bank Limited	50.10	Banking
NICO Technologies Limited	100.00	Information technology
NICO Asset Managers Limited	100.00	Asset management
Group Fabrications & Manufacturers Limited	100.00	Property holding

Name of Associate Company	% Holding	Type of business
Sanlam General Insurance Uganda Limited	20.00	Short term insurance
Sanlam General Insurance Tanzania Limited	20.00	Short term insurance
Sanlam Mocambique Vida Companhia de Seguros, SA	34.30	Life insurance and pension administration

2. BASIS OF PREPARATION

2.1. *Basis of accounting*

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

Details of the Company's accounting policies, including changes during the year are included in notes 3.

2.2. *Basis of measurement*

The 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 investment property are measure at their revalued amount.

2. BASIS OF PREPARATION (CONTINUED)

2.2. *Basis of measurement (continued)*

2.2.1. *Use of estimates and judgements*

The preparation of 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, 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 Separate financial statements can be found in the following notes:

- Note 7 - Valuation of investment properties
- Note 9 - Valuation of investments in shares

2.2.2 *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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company 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 Company 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.

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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.

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 Company 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.

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

DETERMINATION OF FAIR VALUES

Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company'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.

2.2.3. *Going concern basis of accounting*

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

2.2.4. *Functional and presentation currency*

These separate financial statements are presented in Malawi Kwacha, which is also the Company's functional currency. All financial information presented in Malawi Kwacha has been rounded to the nearest thousand unless otherwise stated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been consistently applied by the Company during the year.

(a) Revenue

RECOGNITION AND MEASUREMENT

(i) Interest income

Interest income is recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the Separate financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on the statement of financial position, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate. Net interest income includes fair value adjustments on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading. Dividends received on preference share investments form part of the company's lending activities and are included in interest income.

(ii) Investment income

Investment income comprises interest income on money market financial instruments, dividends from listed and unlisted companies, increase in fair value of investment property 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.

Interest income on money market financial instruments are recognised on an effective interest basis.

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease.

Fair value gains/losses on investment property are recognised in profit or loss.

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.

(iii) Non-interest revenue

Non-interest revenue includes fee income, profit on disposal of investments, property and equipment and recoveries of corporate expenses.

These are generally recognised on an incurred basis when the related services are provided or an execution of a significant act.

(b) Equipment and furniture

(i) Recognition and measurement

All equipment and furniture including motor vehicles are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use.

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(ii) Subsequent costs

The cost of replacing part of an item of equipment and furniture including motor vehicle are recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company or Company and cost can be measured reliably. The carrying amount of the replaced component is derecognised. Ongoing repairs and maintenance expenses are expensed in profit or loss.

(iii) Depreciation recognised

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

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

- 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.

(c) Intangible assets

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

Subsequent expenditure on software is capitalised only if it is probable that the expected future economic benefits that are attributable to the asset flow to the company and the cast 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.

(d) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if and when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

SUBSEQUENT MEASUREMENT - FINANCIAL ASSETS

Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale equity instruments are recognised directly in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value and are used by the Company in the management of its short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

SUBSEQUENT MEASUREMENT - FINANCIAL LIABILITIES

Other payables

Subsequent measurement is at amortised cost using the effective interest rate method.

Interest bearing borrowings

Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Financial guarantees

Financial guarantees are contracts that require the Company to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value and the initial value is amortised over the life of the guarantee. The guarantee liability is subsequently measured at the higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(e) Share capital and dividends

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.

(i) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

(ii) Dividend per share

The calculation of dividend per share is based on the ordinary dividends recognised during the period divided by the number of ordinary shareholders on the register of shareholders on the date of payment.

(f) Investment property

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

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Subsequently, investment property is measured at fair value as determined by an independent registered valuer. Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date wherein the parties had each acted knowledgeably, prudently and without compulsion. 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.

(g) Impairment

Financial assets

A financial asset not classified at fair value through profit or loss is assessed at the reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if there is objective evidence of impairment that indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issues will enter bankruptcy, economic conditions that correlate with the disappearance of an active market for security.

Individually significant financial assets measured at amortised cost are tested for impairment on an individual basis. The remaining financial assets and those found not to be specifically impaired are assessed collectively by grouping together the financial assets that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Available-for-sale financial assets

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

Presentation of allowance for credit losses
Financial assets at amortised cost are stated in the statement of financial position after the deduction of allowances for credit losses. Losses are recognised in profit or loss and reflected in an allowance account against the financial assets.

Reversal of impairment
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets
Carrying amounts of non-financial assets, other than investment property, and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indications arise, then the asset recoverable amount is estimated. An impairment loss is recognised if the estimated recoverable amount is less than the carrying amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that a loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, if no impairment loss had been recognised.

(h) Income tax

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.

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 Company 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.
- taxable temporary differences arising on the initial recognition of goodwill.

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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.

(i) 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 Company 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 Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

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

(iii) Other long-term employee benefits
The Company'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.

(j) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company 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.

(k) Finance costs

Finance costs comprising of interest expense is 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 through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability. The effective interest rate is established on initial recognition of the financial liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees, 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 of a financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Other receivables

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

(m) Foreign currency

Foreign currency transactions

Transactions in foreign currencies during the year are converted into Malawi Kwacha at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Malawi Kwacha at rates ruling at that date. The resulting differences from translation are recognised in the profit or loss in the year in which they arise. Non-monetary assets and liabilities that are denominated in foreign currencies that are measured at fair value are translated into functional currency at the spot exchange rate at the date that the fair value was determined. On retranslation, the resulting differences are recognised in profit or loss.

(n) Other investments

(i) Investment in subsidiary

Subsidiaries are entities controlled by the Company. The Company controls an investee if it is exposed to, or, has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over investee. Investments in subsidiaries are recognised at cost in the Company Separate financial statements less any impairment losses.

(ii) Investment in associate

Associates are entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. The investments in associates are measured using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the Separate financial statements include the Company's share of the profit or loss, until the date on which significant influence ceases.

(iii) Investment in securities and loans receivable

These comprise loans receivable and shares in unlisted equities.

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Company designates the loans and advances at fair value through profit or loss on initial recognition.

Investment in securities are initially measured at fair value plus, in case of investment in securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available for sale.

(o) Other reserves

Other reserves comprise fair value reserves which consists of the cumulated net change in the fair value of financial assets until the assets are derecognised or impaired.

(p) Administrative expenses

Expenditure is recognised in profit or loss as incurred.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these Separate financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services.* The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Company is currently in the process of performing a more detailed assessment of the impact of this standard on the Company and will provide more information in the year ending 31 December 2017 Separate financial statements. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9 Financial Instruments

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

This standard will have a significant impact on the Company, which will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Company.
The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its separate financial statements resulting from the application of IFRS 16.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

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

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its separate financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

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5. EQUIPMENT AND FURNITURE

See accounting policy in Note 3 (b)

Cost	Motor Vehicles	Furniture and Equipment	Total
2016			
Balance as at 1 January	12,605	101,850	114,455
Additions during the year	-	24,535	24,535
Disposals during the year	-	(14,930)	(14,930)
Balance as at 31 December	12,605	111,455	124,060
2015			
Balance as at 1 January	12,605	91,224	103,829
Additions during the year	-	13,464	13,464
Disposals during the year	-	(2,838)	(2,838)
Balance as at 31 December	12,605	101,850	114,455
Accumulated depreciation and impairment loss			
2016			
Balance as at 1 January	11,345	58,677	70,022
Charge for the year	1,260	18,366	19,626
Eliminated on disposal	-	(12,965)	(12,965)
Balance as at 31 December	12,605	64,078	76,683
2015			
Balance as at 1 January	8,824	45,458	54,282
Charge for the year	2,521	16,001	18,522
Eliminated on disposal	-	(2,782)	(2,782)
Balance as at 31 December	11,345	58,677	70,022
Carrying amounts			
At 31 December 2016	-	47,377	47,377
At 31 December 2015	1,260	43,173	44,433

There are no amounts of restrictions on title and equipment pledged as security for liabilities.
There are no contractual commitments for the acquisition of equipment.

6. INTANGIBLE ASSETS

See accounting policy in note 3 (c)

Cost	Software 2016	Software 2015
Balance at 1 January	128,866	128,866
Additions during the year	1,728	-
Disposals during the year	(21,553)	-
Balance at 31 December	109,041	128,866
Amortisation		
Balance at 1 January	44,985	18,157
Charge for the year	27,225	26,828
Balance at 31 December	72,210	44,985
Carrying amount at 31 December	36,831	83,881

There are no amounts of restrictions on title and intangible assets pledged as security for liabilities.
There are no items of intangible assets under construction.
There are no contractual commitments for the acquisition of intangible assets.

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7. INVESTMENT PROPERTIES

See accounting policy in note 3(f)

At Valuation	2016	2015
Balance at beginning of the year	47,000	43,000
Fair value adjustment	4,000	4,000
Balance at the end of the year	51,000	47,000

Investment properties comprise a number of commercial properties that are leased to third parties. Investment properties were revalued on the open market value basis by an independent professional valuer Don Whayo Bsc, MRICS MSIM, a Chartered Valuation Surveyor of Knight Frank on behalf of the directors on 31 December 2016.

The fair value measurements of investment properties have been categorised as level 3 fair values based on the inputs to the valuation techniques used. See note 3.8. Any increase or decrease in the carrying amount as a result of valuation is recognised in the statement of profit or loss.

The following table shows the valuation technique used in measuring the fair value of the investment property and revalued owner occupied property, as well as the significant unobservable inputs used.

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 both the Income and Comparable approaches. The Income approach relies much on rental income of the property while 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 rental is benchmarked to market rentals that as opposed to rack end rentals that a subject property may be raking due to different varying factors. Similarly, rental yields used are those that are derived from actual sales on the market on similar properties within the period of the valuation.	The valuer makes professional judgement on adjustments as properties and locations are never the same mainly in situations where there are not much sale transactions taking place. Average rental yields used in the valuation are as follows: Commercial Property: 10.04% to 12.55%. Residential Property: 11.19% to 13.99%. The occupancy rate is currently at 100% and the average market rental escalation is at 23%.	The estimated fair value would increase (decrease) if: • Expected average rental yields were higher (lower); • The occupancy rates were higher (lower); or The rental market is likely to remain reasonably strong on the back of inflationary pressures as landlords continue to hedge against inflation and currency depreciation. On the basis of the general economic trends observed so far it appears unlikely that the sales market will improve in the near term unless a sustained reduction in interest rates take place.

The fair value measurements have been categorised as Level 3 for value based on inputs to the valuation techniques used.
There are no amounts of restrictions on title and investment properties pledged as security for liabilities.
There are no contractual commitments for the acquisition of investment properties.

8. LOANS RECEIVABLE

See accounting policy in note 3(n) (iii)

	2016	2015
Balance at 1 January and 31 December	1,753	1,753

8. LOANS RECEIVABLE (CONTINUED)

This is a loan to NICO Employees Share Option Scheme. The loan receivable does not earn any interest. This note shows carrying amounts of other receivables which are not measured at fair value and does not include fair value information as, in the opinion of the directors, the carrying amounts are a reasonable approximation of the fair value. The Loan receivable matures after one year.

9. INVESTMENT IN SHARES

See accounting policy in note 3(n) (iii)

	2016	2015
Balance at 1 January	489,446	496,925
Fair value adjustment	(134,427)	(7,479)
Balance as at 31 December	355,019	489,446

Shares comprise unlisted equities. Unlisted shares were valued based on net asset value as at 31 December 2016 by NICO Asset Mangers Limited on behalf of the Directors.

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

Valuation technique	Significant unobservable inputs	Inter-relationship between Key unobservable inputs and fair value measurement
The net asset valuation method is based on the net asset value of the investment adjusted by an estimated discount rate.	Discount rates (2016:30%; 2015:35%)	The estimated fair value would increase (decrease) if the discount rate were lower (higher)

10. INVESTMENT IN SUBSIDIARY COMPANIES (AT COST)

See accounting policy in note 3(n) (i)

	Country of incorporation	2016 Shareholding %	2016 Amount	2016 Dividend received	2015 Shareholding %	2015 Amount	2015 Dividend received
NICO General Insurance Company Limited	Malawi	51	61,200	535,500	51	61,200	459,000
NICO Life Insurance Company Limited	Malawi	51	74,588	1,655,816	51	74,588	1,277,040
NICO Insurance Zambia Limited	Zambia	51	433,665	-	51	350,209	-
NICO Technologies Limited	Malawi	100	75,365	-	100	142,030	-
NICO Asset Managers Limited	Malawi	100	31,081	181,000	100	31,081	131,000
SFG Holdings (Zimbabwe) Limited	Zimbabwe	49	-	-	49	-	-
Group Fabricators & Manufacturers Limited	Malawi	100	58,500	-	100	58,500	-
NBS Bank Limited	Malawi	50.1	685,132	-	50.1	685,132	200,486
			1,419,531	2,372,316		1,402,740	2,067,526

NICO Holdings Plc has management control of SFG Holdings with majority directors on the board holding a majority of the voting rights.

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2016
Subsidiaries movement during the year

	As at 1 January	Additions	Impairment (loss)/gain	As at 31 December
NICO General Insurance Company Limited	61,200	-	-	61,200
NICO Life Insurance Company Limited	74,588	-	-	74,588
NICO Insurance Zambia Limited	350,209	83,456	-	433,665
NICO Technologies Limited	142,030	-	(66,665)	75,365
NICO Asset Managers Limited	31,081	-	-	31,081
Group Fabricators and Manufacturers Limited	58,500	-	-	58,500
NBS Bank Limited	685,132	-	-	685,132
	1,402,740	83,456	(66,665)	1,419,531

The addition relates to payments by the holding company to the Zambian Revenue Authority to settle tax liabilities on its behalf. The agreement was that NICO Zambia would not repay the parent whilst the parent account for this as an increase in investment without any impact on the equity holding.

2015
Subsidiaries movement during the year

	As at 1 January	Additions	Impairment (loss)/gain	As at 31 December
NICO General Insurance Company Limited	61,200	-	-	61,200
NICO Life Insurance Company Limited	74,588	-	-	74,588
NICO Insurance Zambia Limited	346,369	3,840	-	350,209
NICO Technologies Limited	19,100	175,000	(52,070)	142,030
NICO Asset Managers Limited	31,081	-	-	31,081
Group Fabricators and Manufacturers Limited	58,500	-	-	58,500
NBS Bank Limited	685,132	-	-	685,132
	1,275,970	178,840	(52,070)	1,402,740

The directors have performed an impairment assessment of the investments in subsidiaries as at 31 December 2016. As a result an impairment of **MK67 million** (2015: MK52 million) has been recognised on the investment in NICO Technologies Limited.

The company advanced MK2.7 billion in NBS Bank Limited which is non-refundable towards the recapitalisation of the bank and will also form part of the investment (Note 13). The directors have performed an impairment assessment of the combined investment in shares and the amount awaiting capitalisation and have considered that no impairment is required despite the Bank's poor performance and breach of the minimum capital requirements described in note 13. This is on the basis that subsequent to year end, the process to recapitalise the Bank has progressed as planned and the Bank is expected to generate positive projected cash flows resulting from increased business activities and other management strategies including cost saving in both short and long term.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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11. INVESTMENT IN ASSOCIATES

See accounting policy in note 3(n) (ii)

2016 Associates movement during the year	As at 1 January	Share of Profit	Balance at 31 Dec
Sanlam Moçambique Vida Companhia de Seguros, SA	412,889	10,487	423,376
Sanlam General Insurance Uganda Limited	210,199	2,547	212,746
Sanlam General Insurance Tanzania Limited	545,431	15,114	560,545
	1,168,519	28,148	1,196,667

2015 Associates movement during the year	1 January	Additions	Impairment reversal	Share of Profit/loss	Balance at 31 Dec
Sanlam Moçambique Vida Companhia de Seguros, SA	-	349,188	84,649	(20,948)	412,889
Sanlam General Insurance Uganda Limited	204,410	-	-	5,789	210,199
Sanlam General Insurance Tanzania Limited	459,920	59,047	-	26,464	545,431
	664,330	408,235	84,649	11,305	1,168,519

12. AMOUNTS DUE FROM/TO SUBSIDIARY AND ASSOCIATE COMPANIES

	2016	2015
Amounts due from Subsidiary and Associate companies		
NICO Life Assurance Company Limited	-	1,751
NICO Insurance Zambia Limited	210,839	385,059
NBS Bank Limited	12,445	10,769
NICO Technologies Limited	9,943	31,701
Sanlam General Insurance Uganda Limited	2,372	23,425
Group Fabricators Limited	-	3,810
Sanlam Moçambique Vida Companhia de Seguros, SA	13,382	4,417
	248,981	460,932
Amounts due to subsidiary and associate companies		
NICO Asset Managers Limited	-	1,159
Sanlam General Insurance Tanzania Limited	16,475	18,278
	16,475	19,437

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 expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

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

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	2016	2015

13. OTHER RECEIVABLES

See accounting policy in note 3(l)

Accrued investment income	3,393	10,659
Staff loans and advances	7,118	9,890
Prepayments	23,631	13,637
Amounts receivable from Sanlam Emerging Markets (SEM)	-	197,861
Other non-trade receivables	2,261	46,804
Funds awaiting capitalisation (NBS Bank)*	2,731,693	-
	2,768,096	278,851

* Funds awaiting capitalisation are non-refundable and are therefore classified as long term receivables.
In the opinion of Directors, the balances for other receivables approximate their fair value at the reporting date.

Note

Included in other receivables is an amount of MK2.7 Billion receivable from NBS Bank Limited. At year end, the Reserve Bank requested that NICO Holdings Plc should lead in the capitalisation of the Bank which has been falling below the minimum capital requirement as required by the Regulator in line with Basel II capital requirements. On 29 December 2016, at a special general meeting of the shareholders passed a resolution for a rights issue to raise the required capital to meet the minimum capital. The amount receivable by NICO Holdings Plc is treated as funds awaiting capitalisation. NICO Holdings Plc has no intention to recall the above amount together with interest that continues to accrue on it until the issuance of the right shares.

14. CASH AND CASH EQUIVALENTS

See accounting policy in note 3(d)

Bank balances	400,610	317,459
Short term deposits	4,183	1,330,976
Cash and cash equivalents as shown in the statement of cash flows	404,793	1,648,435

Interest rate for bank balances was **7.05%** (2015: 8.70%) and for short term deposits was **27.87%** (2015: 23.96%).

15. CAPITAL AND RESERVES

See accounting policy in note 3(e)

Share capital		
Authorised:		
Number of authorised share capital ('000)	1,300,000	1,300,000
Nominal value (MK)	0.05	0.05
Authorised share capital (MK'000)	65,000	65,000
Issued and fully paid:		
Number of issued and fully paid share capital ('000)	1,043,041	1043,041
Nominal value (MK)	0.05	0.05
Issued share capital (MK'000)	52,152	52,152
Total number of shares issued ('000)	1,043,041	1,043,041
Share premium	428,859	428,859

Share premium arose on issue of 1,043,041,000 ordinary shares above nominal value of MK0.05.

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	2016	2015

16. FAIR VALUE RESERVES

See accounting policy in note 3(o)

Fair value reserve	(70,841)	63,585
Total fair value reserves	(70,841)	63,585

Fair value reserve represents fair value adjustment on available for sale financial assets.

17. DIVIDENDS

See accounting policy in note 3(e)

The following dividends were declared and paid by the Company:-

MK0.60 per qualifying ordinary share (2015: MK0.90 per share)	625,825	938,737

18. INTEREST BEARING LOANS AND BORROWINGS

See accounting policy in note 3(d)

NBS Bank Limited	-	136,279
Standard Bank Pension Fund	31,723	47,940
	31,723	184,219
Analysed as follows:		
Balance at 1 January	184,219	169,257
Interest charge	17,822	32,239
Exchange losses	12,275	36,746
Repayments including interest	* (182,593)	(54,023)
Balance as 31 December	31,723	184,219
Terms and debt repayment schedule		
Due between 2 and 5 years – long term portion	12,436	150,997
Due within 1 year – short term portion	19,287	33,222
	31,723	184,219

The loan balance of MK32 million is an unsecured loan from Standard Bank Pension Fund for development of ICON 1 insurance software. The interest rate for the loan was at **34.0%.**

* The NBS Bank Limited loan of MK136 million for purchase of shares in Group Fabricators and Manufacturers Limited was repaid in full during the year.

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19. DEFERRED TAX ASSETS AND LIABILITIES

See accounting policy in note 3(h)

2016

Unrecognised deferred tax assets	Balance as at 1 Jan 2016	Movement during the year	Balance as at 31 Dec 2016
Equipment and furniture	-	21,727	21,727
Investment properties and shares	-	(419,111)	(419,111)
Accrued interest and other allowances	-	(64,643)	(64,643)
Deferred tax (asset)/liability	-	(462,027)	(462,027)

2015	Balance as at 1 Jan 2015	Recognised in profit or loss	Recognised in other comprehensive income	Balance as at 31 Dec 2015
Deferred tax assets and liabilities movement in the year:				
Equipment and furniture	34,165	(34,165)	-	-
Investment properties and shares	(376,540)	289,878	86,662	-
Accrued interest and other allowances	(19,699)	19,699	-	-
Deferred tax (asset)/liability	(362,074)	275,412	86,662	-

Deferred tax assets have been derecognised because it is not probable that future taxable profit will be available against which the company can use the benefits therefrom. Deferred tax arises from tax losses and the accumulated losses to 31 December 2016 were **MK462 million** (2015: MK362 million).

	2016	2015

20. OTHER PAYABLES

See accounting policy in note 3(d)

Audit fees	20,936	16,146
Staff costs payable	39,154	250,725
Business acquisition costs payable	246,607	161,812
Accruals	19,912	21,838
Non-resident tax payable on management fees	244,262	116,247
Deferred income	-	40,854
Other non-trade payables	43,062	18,359
	613,933	625,981

This note shows carrying amounts of other payables which are not measured at fair value and does not include fair value information as in the opinion of the directors, the carrying amounts are a reasonable approximation of the fair values.

21. FEES INCOME

See accounting policy in Note 3a(iii)

Management and shared services fees	853,893	464,309
Directors fees	25,608	24,558
	879,501	488,867

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	2016	2015

22. INVESTMENT INCOME

See accounting policy in Note 3a(ii)

Investment income from:-		
- Bank deposits	7,930	9,737
- Treasury bills	526,538	308,719
- Dividends from subsidiaries (note 10)	2,372,316	2,067,526
- Dividends from other investments	6,230	6,247
Other interest income from other investments	4,540	6,862
	2,917,554	2,399,091

23. OTHER INCOME

See accounting policy note 3a(iii) and 3(m)

Profit on disposal of property and equipment	476	64
International Finance Corporation put Option Commission	50,079	61,281
Other sundry income	3,370	3,787
	53,925	65,132

24. ADMINISTRATIVE EXPENSES

See accounting policy note 3(p)

Auditors remuneration	- Audit fees	(20,936)	(15,058)
	- Disbursements	(1,869)	(1,088)
	- Other audit expenses	(5,175)	(5,403)
Directors' remuneration	- Executive (note 29)	(137,040)	(228,770)
	- Non executive (note 29)	(22,043)	(12,331)
	- Retirement expenses β	57,764	(201,345)
Staff costs		(665,161)	(462,215)
Communication and accommodation expenses		(167,503)	(161,476)
Depreciation and amortisation		(46,851)	(45,350)
Sundry business charges		(115,221)	(90,587)
Impairment loss *		(430,808)	32,579
Repairs and maintenance		(124,876)	(60,547)
Other sundry expenses		(66,493)	(83,865)
		(1,746,212)	(1,335,456)

β Retirement expenses are accrued short term employee benefits i.e. remuneration expenses for the former Managing Director who retired on 31 December 2015 but his contract was still running up to 31 December 2016. For this reason, all his 2016 expenses were accrued and payable to him in line with his contract. Costs include salary, cash allowances, medical allowances and all other benefits that would have ordinarily been payable to him.

* Impairment loss is analysed as follows:		
Investments in subsidiaries (note 10)	(66,665)	(52,070)
Other receivables	(364,143)	-
Investment in associates (note 11)	-	84,649
Total	(430,808)	32,579

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	2016	2015

25. NET FINANCE (EXPENSE)/INCOME

See accounting policy in Note 3(k)

Interest expense on loans	(17,822)	(32,239)
Exchange (loss)/gain	(3,277)	137,112
	(21,099)	104,873

26. INCOME TAX

See accounting policy in Note 3(h)

(a) Recognised in profit or loss

Current tax expense		
Current year tax at 30% (2015: 30%)		
Capital gains tax		
Tax on disposal of shares/other	-	-
Deferred tax		
Temporary differences	(17,884)	275,412
Dividend tax	158,386	151,833
	140,502	427,245

(b) Reconciliation of tax charge

Profit for the year	1,975,315	1,310,567
Income tax expense/(credit)	140,502	427,245
Profit before tax	2,115,817	1,737,812
Tax at 30% (2015: 30%)	634,745	521,344
Non-deductible expenses	113,867	50,211
Disallowable income	(714,764)	(622,132)
Prior year overprovision	(71,920)	(156,649)
Tax effect of unrecognised tax losses	38,072	207,226
Deferred tax on temporary difference	-	275,412
Dividend tax at 10%	158,386	151,832
Capital Gains Tax	(17,884)	-
	140,502	427,245

(c) Tax payable/(receivable) reconciliation

Balance at 1 January	(13,085)	(84,853)
Charge for the year	(17,884)	151,833
Income tax paid	(125,616)	(80,065)
	(156,585)	(13,085)

27. BASIC AND DILUTED EARNINGS PER SHARE

See accounting policy note 3(j)

The calculation of basic earnings per share at 31 December 2016 was based on profit attributable to ordinary shareholders of **MK1,975,315** thousand (2015: MK1,310,567 thousand) and a weighted average number of ordinary shares outstanding of **1,043,041 thousand** (2015: 1,043,041 thousand), calculated as follows:-

Profit for the year MK'000	1,975,315	1,310,567
Profit attributable to equity holders (MK'000s)	1,975,315	1,310,567
Weighted average number of ordinary shares in issue throughout the year ('000s)	1,043,041	1,043,041
Basic and Diluted Earnings per share (MK)	1.89	1.26

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	2016	2015
28. EMPLOYEE BENEFITS LIABILITIES		
See accounting policy note 3(i)		
Employee share ownership scheme		
Expense recognised in the profit or loss		
Pension costs	38,363	28,862
Retirement expenses	*(57,764)	201,345
	(19,401)	230,207

* This is a reversal of a prior year overprovision.

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 Company 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 Company 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 Company.

The objective of the scheme is to motivate and encourage employees to identify themselves with the interests and aspirations of the NICO Company.

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

Shares allotted during the year were **Nil** (2015: 1,999,840).

29. RELATED PARTIES

The company has a related party relationship with its subsidiaries, associated entities, directors and key management personnel.

Key management personnel compensation:

Key management personnel compensation comprised the following:-

	Executive management		Non-executive directors	
	2016	2015	2016	2015
Short term employee benefits	137,040	228,770	-	-
Directors' fees	-	-	22,043	12,331
Retirement expenses	(57,764)	201,345	-	-
	79,276	430,115	22,043	12,331

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COMPANY SUBSIDIARIES

(a) List of significant subsidiaries

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

	Principal place of business	Ownership interest	
		2016	2015
NICO General Insurance Company Limited	Malawi	51%	51%
NICO Life Insurance Company Limited	Malawi	51%	51%
Group Fabricators & Manufacturers Limited	Malawi	100%	100%
NBS Bank Limited	Malawi	50.1%	50.1%
NICO Technologies Limited	Malawi	100%	100%
NICO Asset Managers Limited	Malawi	100%	100%
NICO Insurance Zambia Limited	Zambia	51%	51%

(b) List of significant associates

The table below provides details of the significant associates of the Company:

Sanlam General Insurance Tanzania Limited	Tanzania	20 %	20%
Sanlam General Insurance Uganda Limited	Uganda	20 %	20%
Sanlam Mozambique Vida Companhia de Seguros, SA	Mozambique	34.3 %	34.3%

Value of transactions and year end balances between NICO Holdings Plc and its related parties were as follows:-

Related Party	Relationship	Type of transaction	Value of transactions 2016	Balance at year end 2016	Value of transactions 2015	Balance at year end 2015
NICO Technologies Limited	Subsidiary	Technical Support	(45,554)	-	(54,822)	(3,700)
		Internal Audit fees	-	-	3,105	-
		Shared expenses	(56,330)	(3,587)	-	35,401
		Management fees	13,530	13,530	-	-
		Directors' fees	570	-	1,058	-
NICO Life Insurance Company Limited	Subsidiary	Group Life and pension	(66,245)	-	(50,809)	-
			230,795	-	223,437	-
		Management fees	-	-	10,098	1,751
		Internal Audit fees	(25,752)	-	(21,784)	-
		Rent	-	-	-	-
		Dividend income	1,655,816	-	1,277,040	-
		Directors' fees	2,261	-	3,492	-
NBS Bank Limited	Subsidiary	Banking services	37,459	-	14,714	-
		Shared expenses	-	12,445	-	10,769
		Dividend income	-	-	200,486	-
		Directors' fees	5,000	-	6,149	-

29. RELATED PARTIES (CONTINUED)

Related Party	Relationship	Type of transaction	Value of transactions 2016	Balance at year end 2016	Value of transactions 2015	Balance at year end 2015
NICO General Insurance Company Limited	Subsidiary	Insurance premium	(22,703)	-	(17,655)	-
		Management fees	266,960	-	-	-
		Internal Audit fees	-	-	6,270	-
		Directors' fees	2,527	-	2,976	-
		Dividend income	535,500	-	459,000	-
Sanlam General Insurance Uganda	Associate	Shared expenses	-	2,372	-	23,425
NICO Insurance Zambia Limited	Subsidiary	Management fees	282,606	294,381	287,848	382,733
		Internal audit fees	-	-	14,568	-
		Directors' fees	458	-	1,928	-
		Shared expenses	(29,146)	(83,542)	-	2,326
Sanlam General Insurance Tanzania	Associate	Shared expenses	1,974	(16,475)	-	(18,278)
NICO Asset Managers Limited	Subsidiary	Internal audit fees	-	-	3,289	-
		Management fees	60,000	-	10,657	-
		Directors' fees	1,792	-	1,824	-
		Dividend income	181,000	-	131,000	-
		Secretarial fees	8,539	-	(6,715)	(613)
		Shared expenses	14,872	-	-	3,620
		Corporate finance fees	(38,495)	-	(23,049)	(1,848)
		Investment management fees	(6,248)	-	-	-
Sanlam Mocambique Vida Companhia de Seguros, SA	Associate	Shared expenses	-	13,382	-	3,371
		Directors fees	1,664	-	1,767	1,046
Group Fabricators Limited	Subsidiary	Shared expense	-	-	-	3,810
Sanlam Emerging Markets (SEM)	Related company	Accrued income	-	-	-	197,861

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The amounts in brackets indicate that the goods/services were acquired by NICO Holdings Plc 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. 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.

30. CAPITAL AND RISK MANAGEMENT

30.1 Risk Management

30.1.1 Risk governance structure

The Board of Directors has the overall responsibility for the Company's risk management framework and policies as well as monitoring the effectiveness and disclosure thereof in accordance with best practice.

The Company operates a decentralised business model environment, and all individual businesses take responsibility for all operational and risk related matters on a business level, within the set limits of the framework.

The Board has established a number of risk management and monitoring mechanisms operating within the Company 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 Investments 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.

- **Internal Audit**
  Monitors adequacy and effectiveness of internal controls and risk management practices across the Company. Also provides assurance on all aspects of the business.

- **Company Risk and compliance Function**
  Coordinates the risk management processes and assisting the Company Risk Committee in aiding identification of risks.

30.1.2. Risk management framework

The Company's risk management policies are established to identify and analyse the risk faced by the Company, 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 Company's activities. The Company, 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.

30. CAPITAL AND RISK MANAGEMENT (CONTINUED)

30.1 Risk Management (continued)

30.1.2. Risk management framework (continued)

The main components of the Company Risk and policy are as follows:

- The Broad objectives and Philosophy of Risk Management in the Company
- The roles and responsibilities of the various functionaries in the Company tasked with risk management
- Standards on Implementing risk management within the Company's business

The Company's Risk Committee provides an oversight role of ensuring compliance with the Company's risk management policies and procedures, and for ensuring the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Risk Committee is assisted in these functions by the Risk Management and Compliance Services function.

30.2 Financial risk management

The company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk.

Credit risk

The risk of a financial loss to the company if counterparty to a financial contract or transaction fails to fulfill their contractual obligation.

The Board has delegated responsibility for the management of credit risk to the risk committee which has oversight of the credit risk.

At reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is presented by the carrying amount of each financial asset in the statement of financial position.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by class of financial instrument. The maximum exposure is shown gross before taking into account any collateral agreements or credit enhancements.

	Note	2016	2015
Loans receivable	8	1,753	1,753
Amounts due from group companies	12	248,981	460,932
Other receivables	13	2,744,465	265,214
Cash and cash equivalents	14	404,793	1,648,435
Total		3,399,992	2,376,334

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The exposure to credit risk relating to the respective financial instruments is mitigated as follows:

As at 31 December 2016

	Carrying amount	Net exposure to credit risk
Loans receivable	1,753	1,753
Amount due from group companies	248,981	248,981
Other receivables	2,744,465	2,744,465
Cash and cash equivalents	404,793	404,793
Total	3,399,992	3,399,992

As at 31 December 2015

Loans receivable	1,753	1,753
Amount due from group companies	460,932	460,932
Other receivables	265,214	265,214
Cash and cash equivalents	1,648,435	1,648,435
Total	2,376,334	2,376,334

The company monitors on an on-going basis the risk that counterparties to financial instruments might default on their obligations and by dealing with counterparties of good credit rating.

Liquidity risk

This is the risk that the company will encounter difficulties in meeting obligations associated with its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate assets at reasonable prices and in a timely manner.

Management of liquidity risk

The Board is responsible for managing overall liquidity by setting guidelines and limits for anticipated liquidity gaps. Liquidity position is monitored on a daily basis to ensure sufficient liquidity. The Board continually assesses liquidity risk by identifying and monitoring changes in funding requirements for business operations.

An analysis of the company's assets and liabilities based on the contractual period to maturity as at 31 December 2016 and 2015 is shown below:

As at 31 December 2016 Assets	Note	Up to 1 month	1 - 3 months	3-12 months	Over 1 year	Total
Loans receivable	8	-	-	-	1,753	1,753
Amounts due from group companies	12	248,981	-	-	-	248,981
Other receivables	13	2,744,465	-	-	-	2,744,465
Cash and cash equivalents	14	404,793	-	-	-	404,793
Total assets		3,398,239	-	-	1,753	3,399,992
Liabilities						
Interest bearing loan	18	-	4,202	15,085	12,436	31,723
Amount due to group companies	12	16,475	-	-	-	16,475
Other payables	20	613,933	-	-	-	613,933
Total liabilities		630,408	4,202	15,085	12,436	662,131
Liquidity gap		2,767,831	(4,202)	(15,085)	(10,683)	2,737,861

30. CAPITAL AND RISK MANAGEMENT (CONTINUED)

30.2 Financial risk management (continued)

As at 31 December 2015 Assets	Note	Up to 1 month	1 - 3 months	3-12 months	Over 1 year	Total
Loans receivable	8	-	-	-	1,753	1,753
Amounts due from group companies	12	460,932	-	-	-	460,932
Other receivables	13	265,214	-	-	-	265,214
Cash and cash equivalents	14	1,648,435	-	-	-	1,648,435
Total assets		2,374,581	-	-	1,753	2,376,334
Liabilities						
Interest bearing loan	18	4,636	5,197	23,389	150,997	184,219
Amount due to group companies	12	19,437	-	-	-	19,437
Other payables	20	625,981	-	-	-	625,981
Total liabilities		650,054	5,197	23,389	150,997	829,637
Liquidity gap		1,724,527	(5,197)	(23,389)	(149,244)	1,546,697

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and other price risk will affect the income or the value of the company's holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Interest rate risk

Interest rate risk is generally referred to as the exposure of the net interest income to adverse movements in interest rates as a result of assets and liabilities re-pricing at different times which has therefore a direct impact on the interest margins.

The company adopts a policy of ensuring that its exposure to changes in interest rates is on a fixed rate basis. This is achieved by entering into fixed-rate instruments. The Board monitors the movement of interest rates and takes necessary precautions to hedge.

The company's short term deposits and the interest bearing loans are all at fixed interest rate and are measured at amortised cost. The only variable-rate instruments are bank balances and their interest rate risk exposure is considered immaterial. As a consequence of the foregoing no sensitivity analysis has been disclosed. Interest rate risk exposure as on the reporting date is set out below:-

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As at 31 December 2016 Assets	Note	Up to 1 month	1 - 3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Bank balances	14	400,610	-	-	-	-	400.610
Short term deposits	14	4,183	-	-	-		4,183
Amounts due from group companies	12	-	-	-	-	248,981	248,981
Other receivables	13	-	-	-	-	2,744,465	2,744,465
Total assets		404,793	-	-	-	2,993,446	3,398,239
Liabilities							
Interest bearing loan	18	-	4,202	15,085	12,436	-	31,723
Amounts due to group companies	12				-	16,475	16,475
Other payables	20	-	-	-	-	613,933	613,933
Total liabilities		-	4,202	15,085	12,436	630,408	662,131
Interest Sensitivity Gap		404,793	(4,202)	(15,085)	(12,436)	2,363,894	2,736,964
As at 31 December 2015							
Assets							
Bank balances	14	317,459	-	-	-	-	317,459
Short term deposits	14	1,330,976	-	-	-	-	1,330,976
Amounts due from group companies	12	-	-	-	-	460,932	460,932
Other receivables	13	-	-	-	-	265,214	265,214
Total assets		1,648,435	-	-	-	726,146	2,374,581
Liabilities							
Interest bearing loan	18	4,636	5,197	23,389	150,997	-	184,219
Amounts due to group companies	12	-	-	-	-	19,437	19,437
Other payables	20	-	-	-	-	625,981	625,981
Total liabilities		4,636	5,197	23,389	150,997	645,418	829,637
Interest Sensitivity Gap		1,643,799	(5,197)	(23,389)	(150,997)	80,728	1,544,944

Currency risk

Currency risk or Foreign exchange risk arises on financial instruments that are denominated in a foreign currency. It relates to the exposure of the company's foreign exchange position to adverse movements in foreign exchange rates. The company manages this risk by adhering to internally set exposure limits which include holding minimal foreign currency cash levels in open positions.

Exposure to currency risk was as follows:

As at 31 December 2016	USD	Total
Bank balances	323,404	323,404
Total assets	323,404	323,404
Interest bearing loan	-	-
Total liabilities	-	-
Net statement of financial position exposure	323,404	323,404

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30. CAPITAL AND RISK MANAGEMENT (CONTINUED)

30.2 Financial risk management (continued)

30.2.1 Accounting classifications and fair values (continued)

Currency risk (continued)

Sensitivity to profit before tax and equity in relation to financial instruments denominated in foreign currency is as follows:

Movement in foreign currency	(1000bp)	(2000bp)	1000bp	2000bp
Movement in profit before tax	(32,340)	(64,680)	32,340	64,680
Movement in equity	(22,638)	(45,276)	22,638	45,276

Management has 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.

As at 31 December 2015	USD	Total
Bank balances	247,940	247,940
Total assets	247,940	247,940
Interest bearing loan	136,279	136,279
Total liabilities	136,279	136,279
Net statement of financial position exposure	111,661	111,661

Sensitivity to profit before tax and equity in relation to financial instruments denominated in foreign currency is as follows:

Movement in foreign currency	(1000bp)	(2000bp)	1000bp	2000bp
Movement in profit before tax	(11,661)	(22,332)	11,661	22,332
Movement in equity	(7,816)	(15,633)	7,816	15,633

The following information tables show the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The financial assets and liabilities not measured at fair value are measured at amortised cost.

2016	Note	Loans and receivables	Carrying amount Available for sale	Other financial liabilities	Fair value Level 1	Fair value Level 2	Level 3	Total
Financial assets measured at fair value								
Shares	9	-	355,019	-	-	-	355,019	355,019
Financial assets not measured at fair value								
Loans receivable	8	1,753	-	-	-	-	-	-
Other receivables	13	2,744,465	-	-	-	-	-	-
Cash and cash equivalents	14	404,793	-	-	-	-	-	-
		3,151,011	-	-	-	-	-	-
Financial liabilities not measured at fair value								
Interest bearing loan	18	-	-	31,723	-	-	-	-
2015								
Financial assets measured at fair value								
Shares	9	-	489,446	-	-	-	489,446	489,446
Financial assets not measured at fair value								
Loans receivable	8	1,753	-	-	-	-	-	-
Other receivables	13	265,214	-	-	-	-	-	-
Cash and cash equivalents	14	1,648,435	-	-	-	-	-	-
		1,915,402	-	-	-	-	-	-
Financial liabilities not measured at fair value								
Interest bearing loan	18	-	-	184,219	-	-	-	-

Measurement of fair values

The following table shows the valuation techniques used in 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	Net asset basis	Discount rates (**2016:30%**; 2015:35%)

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31. CONTINGENT LIABILITIES AND COMMITMENTS

The company entered into a Strategic partnership with International Finance Corporation (IFC), to raise additional capital of up to MK2 Billion for NBS Bank Limited. NICO Holdings Plc and NBS Bank Limited then entered into an agreement concerning the payment of commission by NBS Bank Limited to NICO Holdings Plc in consideration of NICO Holdings Plc entering into a Put Option Agreement with International Finance Corporation (IFC). The bank pays 2% annual commission to the company on the base amount, in accordance with the terms of the agreement. This agreement was effective from 30 June 2011 and ends on the sixth anniversary. The extent of commitment to NICO Holdings Plc as at 31 December 2016 is MK958 million (2015: MK2.4 billion).

32. EXCHANGE AND INFLATION RATES

Exchange Rates as at 31 December	2016	2015
United States Dollar (USD) to Malawian Kwacha (MK)	724.1	664.4
United States Dollar (USD) to Zambian Kwacha (ZK)	9.9	11.0
United States Dollar (USD) to Ugandan Shilling (USH)	3615.0	3,382.5
United States Dollar (USD) to Tanzanian (TSH)	2180.0	2,159.0
United States Dollar (USD) to Mozambique Metical (MT)	70.7	47.4
South Africa Rand (ZAR) to Malawian Kwacha (MK)	54.1	42.7
British Pound (GBP) to Malawian Kwacha (MK)	889.2	984.8
Inflation rates as at 31 December (%)	20%	24.9%

At the time of approving these Separate financial statements, the exchange rates were as follows;

United States Dollar (USD) to Malawian Kwacha (MK)	724.1
United States Dollar (USD) to Zambian Kwacha (ZK)	9.2
United States Dollar (USD) to Ugandan Shilling (USH)	3,590
United States Dollar (USD) to Tanzanian (TSH)	2,238
United States Dollar (USD) to Mozambique Metical (MT)	60.3
South Africa Rand (ZAR) to Malawian Kwacha (MK)	56.6
British Pound (GBP) to Malawian Kwacha (MK)	924.7

At the time of approving the separate financial statements, the inflation rate was **12.3%** (2015: 23.4%).

33. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date, no events have occurred which require adjustments to or disclosures in the separate financial statements.