

# NITL

The National Investment Trust Limited



Annual Report 2014



# Annual Report 2014

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### **The National Investment Trust Limited Annual Report 2014**

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**Investment Policy**

The principal objective of the Company is to provide a vehicle to facilitate broad public participation in a diverse portfolio of equity investments, bonds, property and equity of property companies and money market investments in Malawi.

The Company's investment portfolio is managed by an independent fund manager, NICO Asset Managers Limited, whose management is subject to the overall direction of the Board of Directors of the Company. The Fund Manager has day-to-day control and discretion in the management of the investment portfolio in accordance with the investment policy. The investment portfolio is managed with a view to providing shareholders with a return by way of both annual income and capital growth. Subject to cash flow considerations, net after tax income, other than income from investment switches and unrealised net gains on the investment portfolio, is distributed to shareholders.

The Board of Directors recognises that there will always be risk present in any portfolio of investments but has adopted an investment policy which seeks to minimize that risk by defining permitted investments and placing limits on the extent of exposure to individual investments as follows:-

***Equities***

Up to 100% of the investment portfolio may be invested in equities provided that no more than 40% of the portfolio may be invested in any single listed company and no more than 10% of the portfolio may be invested in any single unlisted company. Further limitations on investment in equities of property companies are set out below.

***Bonds***

Up to 25% of the investment portfolio may be invested in public or private sector bonds provided that no more than 10% of the portfolio may be invested in any single bond issue or series of bonds of a single private sector issuer. It is a requirement that bonds must have a fixed redemption date and period to redemption of not more than ten years. Private sector bonds must be fully secured and public sector bonds must be guaranteed by the Government of Malawi.

***Property and Equity of Property Companies***

Up to 25% of the investment portfolio may be invested in properties or equity of property companies provided that no more than 10% of the investment portfolio may be invested in any single property investment.

***Cash Equivalents***

No restrictions are placed on short-term investments in the form of Treasury Bills, Reserve Bank Bills or deposits with licensed financial institutions.

***Restrictions***

The Fund Manager may not without the consent of the majority of the Board of Directors: acquire or dispose of any unlisted equities or bonds or enter into a contract on behalf of the Company to acquire or dispose of any unlisted equities or bonds, borrow money in the name of the Company, or pledge any property or assets belonging to the Company or create charges or mortgages thereon.

## **Fund Manager's Report**

### **Review of the Year**

#### **ECONOMIC INDICATORS**

The economy has been slowly recovering since the devaluation of the Malawi Kwacha in 2012, registering a growth of 6.1% in 2013. The average forecast real GDP growth for 2014 is 5.5% following the pickup in growth in 2013. Risks to economic growth in 2014 are delays in donor funding, high inflation rates, and high lending rates as they reduce private sector activity.

The stock market registered a good return of 32% in the period under review, driven by favorable performance by most of the listed companies. Interest rates on the money market reduced significantly compared to the previous year owing to improved liquidity levels especially in the last two quarters ending 30 September 2014. Treasury bill rates averaged 23.1% in the year ended September 2014 which is marginally below the inflation rate of 23.4%, which resulted in negative real returns on the money market.

Total reserves stood at US\$756 million (3.96 months of import cover) in foreign exchange reserves as at 30 September 2014 compared to US\$739 million (3.87 months of import cover) as at 30 September 2013. The local currency recorded some subdued appreciation in value during the tobacco marketing season as a result of the Reserve Bank of Malawi's monetary policy implementation, but is now on the decline. This may have inflationary effects going forward.

#### **INVESTMENT PORTFOLIO**

Total assets for the company grew by 36.61% in the year from K5.54 billion to K7.57 billion. The equity portfolio recorded significant growth of 37.85% with an overall fair value gain of K1.9 billion. The performance of the portfolio was driven by good performance in Illovo Sugar Malawi Limited, Standard Bank Limited and National Bank of Malawi Limited.

In January 2014, The Reserve Bank of Malawi implemented Basel II as a guiding tool for operations of the financial sector. Implementation of Basel II resulted into an upward revision of minimum regulatory capital ratios with Tier I ratio being revised to 10% from 6% and the Tier II ratio increasing to 15% from 10%. All banks were required to meet their capital adequacy ratios under Basel II by 30 June 2014.

National Bank of Malawi Limited (NBM) continues to record good performance. After tax profits in the half year ended 30 June 2014 increased by 10% compared to the same period in the previous year. Dividend received from NBM increased by 45% during the year.

Standard Bank Malawi Limited also recorded a good performance in the year. After tax profits in the half year ended 30 June 2014 increased by 8% compared to the same period last year. Dividends received from Standard Bank of Malawi Limited are 90% lower than the previous year as they did not pay a final dividend for the 2013 financial year in order to comply with the Basel II capital requirements. They did however issue bonus shares to all shareholders.

First Merchant Bank Limited (FMB) continues to record a stable performance. After tax profits for the half year ended 30 June 2014 declined slightly by 2.6% compared to the same period in the previous year. Dividends received from FMB have increased by 121% compared to the previous year.

NBS Bank Limited recorded a satisfactory performance as it continues to recover from challenges faced in 2012. Profit after tax increased by 132% in the half year to 30 June 2014 compared to the same period in 2014. However no dividend was received from NBS Bank Limited in the year.

NICO Holdings Limited (NICO) has sold 49% of its holding in the general insurance companies to a strategic partner, Sanlam Emerging Markets (SEM). Profit after tax increased by 14% in the half year to 30 June 2014

compared to the same period in 2014. Dividends received from NICO were significantly higher by 663% than the previous year as the company paid out a special dividend.

Telecom Networks Malawi Limited (TNM) recorded a 230% increase in net profit after tax in the half year to 30 June 2014 compared to the same period in the previous year. In the half year, the company implemented a major coverage expansion project for the network and invested in data network coverage hence improving network quality and rate of new subscriber acquisitions. Dividends received from the company increased by 88%.

Illovo Sugar Malawi Limited recorded a 2.6% decrease in profit after tax during the half year ended 30 September 2014. Sales into the domestic market were ahead of target, but sales into regional markets tracked well below expectations mainly as a result of cheap international sugar being imported into the region and severe import license restrictions implemented by the Zimbabwean authorities. Adverse market pricing pressure has also impacted sales revenue from the EU markets. Overall sugar sales for the full year are expected to match those achieved in the previous year. Dividends received from the company increased by 24%.

Press Corporation Limited (PCL) recorded a 44% growth in after tax profits for the half year ended 30 June 2014. The financial services segment remains the main driver of the Group's results with the telecommunications segment also reporting exceptional results. The dividend received from PCL increased by 47%.

On the property investments, Malawi Property Investment Company Limited (MPICO) recorded a 61% increase in after tax profit for the half year ended 30 June 2014 from the same period in the previous year. The proposed opening of the Gateway Mall is expected to boost earnings for the company. The company has paid a dividend in the year after not paying a dividend for two years.

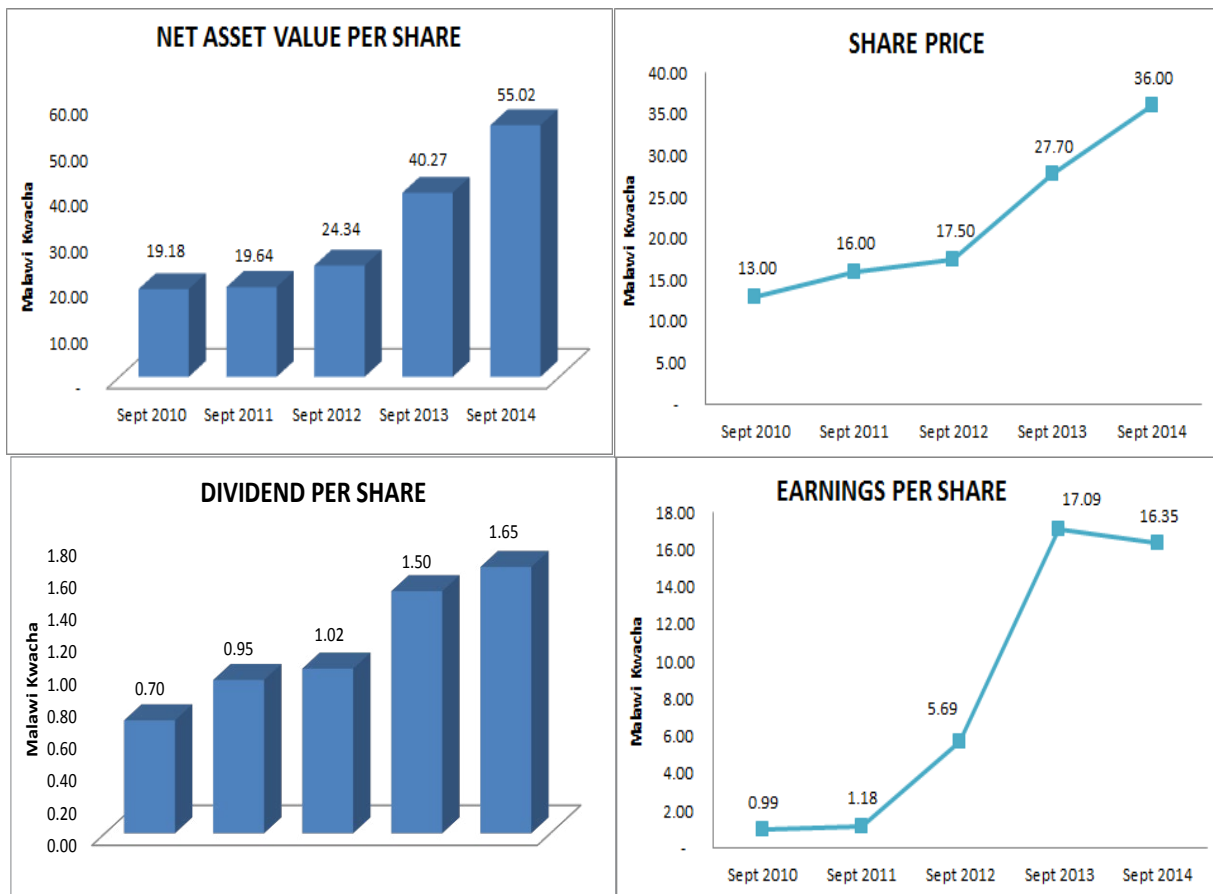
Kang'ombe Investments Limited recorded a 15% increase in net profits in the nine months ended September 2014 compared to the previous year. The dividend received from the company increased by 55% from the previous year.

Auction Holdings Limited recorded a good performance in the period on account of improved earnings from tobacco, despite making losses in some of its subsidiaries. The after tax profits for the year ended 31 March 2014 increased by 216% from the previous year. Going forward, the company's performance is to be driven by the diversification of the company's revenue base. The company paid a dividend in the year having not paid one in the previous year.

Dairiboard Malawi Limited recorded a loss in the eight months ended 30 August 2014 but expects to make a profit by year end. The company increased its capital expenditure in order to improve the quality of its products as there had previously been high levels of recalls of products from the market. Dividends received from Dairiboard decreased by 44% from the previous year.

The portfolio recorded a 9.69% increase in net dividend income and a 22% increase in interest income.

The net asset value per share of the company as at 30 September 2014 stood at K55.02 compared to the Malawi Stock Exchange quoted share price of K36.00. The earnings per share as at close of the year stood at K16.35. Refer to tables below for 5 year historical movements in the above parameters.



## OUTLOOK

The monetary policy rate was adjusted to 25.0% from 22.5% in October 2014 as inflation has been on the increase and the Malawi Kwacha continues to depreciate rapidly. Commercial banks have already started revising their base lending rates in response to the increase in the monetary policy rate. In the short to medium term, interest rates are expected to increase due to the decrease in liquidity and the increase in the monetary policy rate. Authorities are also implementing a tight monetary policy as indicated in the minutes of the recent monetary policy committee meeting that took place on 31 October 2014. Although mid-year results are favorable, economic events subsequent to this have increased uncertainty and may impact the stock market performance.



NICO Asset Managers Limited  
21 November 2014

## Directors' Report

### *Nature of Business*

The Company is a closed end collective investment scheme established with the objective of providing investors with the opportunity to invest in a diversified portfolio of equity investments, bonds, property and equity of property companies and money market investments in Malawi. The Company is licensed by the Registrar of Financial Institutions in accordance with the Securities Act through the Reserve Bank of Malawi. The Company's investment policy, which has been fully complied with during the year, appears on page 1.

### *Share Capital*

Details of the current authorised and issued share capital are set out in note 8. An analysis of shareholders by type and holding is set out on page 31.

### *Dividends*

An interim dividend of **55 tambala per share** (2013: 45 tambala) was paid on 4 July 2014 to shareholders registered in the Company's share register on 27 June 2014. The directors recommend a final dividend of **110 tambala per share** (2013: 105 tambala) for declaration at the forthcoming Annual General Meeting.

### *Directors*

The following directors served in office during the year under review and five Board meetings were held.

	Attendance	Attendance Record %
<b>Served All Year</b>		
Mr. D. Kamwaza	5/5	100
Mr. L. Kondowe	4/5	80
Mr. R. Mdeza	5/5	100
Mr. P. Nkata	5/5	100
Mr. G. Msisha	4/5	80
<b>Retired During the Year</b>		
Ms. A. Konyani (up to 21 December 2013)	2/2	100
Mrs. V. Masikini (up to 21 December 2013)	2/2	100
<b>Appointed During the Year</b>		
Mr. F. Changaya (since 21 February 2014)	2/3	67
Mrs. E. Gondwe (since 21 February 2014)	3/3	100
Mr. G. Chimimba (since 21 February 2014)	3/3	100

All directors are non-executive.

The regulations governing collective investment schemes stipulate that the majority of directors of the Company must not be affiliated persons. None of the directors are affiliated persons.

In terms of the Company's articles of association Mr. D. Kamwaza, P. Nkata and G. Msisha will retire at the forthcoming Annual General Meeting. All of the retiring directors are eligible for re-election, but Mr. D. Kamwaza will not be seeking re-election.

Other than as disclosed in note 18 to the financial statements, none of the directors held a direct or indirect interest in the shares of the Company as at the reporting date.



## Directors' Report (cont'd)

### *Statement on corporate governance*

The Company has a unitary board of directors comprising eight non-executive directors. There are no executive directors.

The Board complies with the major principles of modern corporate governance as contained in the Code of Best Practice for Corporate Governance in Malawi (The Malawi Code II).

The Board meets at least four times a year. Adequate and efficient communication and monitoring systems are in place to ensure that the directors receive all relevant information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the Company's operations, and in ensuring that the Company fully complies with relevant legal, ethical and regulatory requirements.

In accordance with The Malawi Code II, the Board regularly assesses its performance and effectiveness as a whole as well as that of individual Directors.

### *Board Committees*

#### a) Finance and Audit Committee

The Finance and Audit Committee comprised Mr. R. Mdeza, B. Comm, FCCA, CPA(Mw), Mr. G. Chimimba, FCCA, CPA(Mw), and Mr. G. Msisha, LLB, MA (Econs), BA (Econs). The Committee, which conducts its business in accordance with detailed terms of reference, does the following:

- monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgments contained in them;
- reviews the Company's internal financial controls to ensure the operation of adequate systems and control processes to safeguard the Company's assets;
- reviews the Company's policies and procedures to ensure they adequately address compliance and regulatory issues;
- oversees the Company's relationship with its external auditor and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process;
- makes recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment and remuneration of external auditors.

During the year under review the Finance and Audit Committee held three meetings. There were no disagreements between the Finance and Audit Committee and the Board of Directors.

	<b>Attendance</b>	<b>Attendance Record %</b>
R. Mdeza	3/3	100
G. Msisha	2/3	67
G. Chimimba	3/3	100

**Directors' Report (cont'd)****b) Investment Committee**

The Board appointed an Investment Committee whose role is to supervise and assist the investment managers of the Company in their investment decisions. The managers report to the Investment Committee on all investment purchases and disposals and also have to seek prior authorisation from the Committee before undertaking transactions with a value in excess of K20 million. Transactions with a value in excess of K40 million require approval of the Board of Directors. During the year under review, three Investment Committee meetings were held.

	<b>Attendance</b>	<b>Attendance Record %</b>
L.Kondowe	3/3	100
E. Gondwe	2/2	100
A. Konyani	1/1	100 (Up to 21 Dec 2013)

**c) Appointments and Remuneration Committee**

This Committee comprised three non-executive directors as listed below. The Committee reviews on a regular basis the composition, size and balance of the full Board to ensure that the Board is not lacking in skills or experience and adequately represents the interests of the shareholders as a whole. Additionally, the Committee deliberates on the appropriate level of remuneration of directors to be recommended for approval by the shareholders in general meeting. This Committee also makes recommendations to the Board on the appointment and contractual terms of appointment of the Fund Manager. The committee held two meetings during the year which were attended as follows:

	<b>Attendance</b>	<b>Attendance Record %</b>
P. Nkata	2/2	100
F. Changaya	2/2	100
V.H. Masikini	1/1	100 (Up to 21 Dec 2013)

***Ethical Standards***

The Board is fully committed to ensuring the Company's affairs are conducted with integrity and that the highest ethical standards are maintained.

***Director's fees***

Currently, the chairman receives an annual fee of K1,100,000 and directors receive an annual fee of K1,000,000 each, together with sitting allowances at the rate of K54,000 for the chairman and K44,000 for other directors for each meeting attended.

At the forthcoming annual general meeting, it will be proposed that fees and sitting allowances be increased based on recommendations from the Appointments and Remuneration Committee of the Board.

***Management***

The Company has an agreement with NICO Asset Managers Limited for a period of two and a half years commencing from 1 April 2012, under the terms of which NICO Asset Managers Limited is contracted as sole managers of the Company. This agreement expires on 31 December 2014. The board renewed the contract for the next 3 years and 4 months, from 1 January 2015 to 30 April 2018.

Subject to the overall policy and direction of the Board, the Fund Manager has day-to-day administrative and general control and discretion in the management of the funds and investments of the Company throughout the term of the agreement, in accordance with the investment policy.

**Directors' Report (cont'd)**

Specific duties of the Fund Manager include:

- To ensure adequate administrative, secretarial, accounting, financial and internal control systems are maintained;
- To ensure the establishment of acceptable custodial arrangements to ensure the safe custody of the Company's assets.

NICO Asset Managers Limited is licensed as an investment/portfolio manager by Reserve Bank of Malawi under the authority vested in it by the Securities Act.

***Custodian***

All scrip of the company is held by Standard Bank of Malawi Limited.

***Change of Year End***

National Investment Trust Limited (NITL) is a collective investment scheme regulated by the Securities Act, 2010 amongst other laws. According to the laws under which it is regulated, NITL is supposed to have a financial year ending on 31 December. To change the year end date from 30 September to 31 December, NITL will have to extend its usual 12 month period to run to 31 December, therefore having a 15 month financial year ending 31 December 2015. The Board already approved the proposed change of year end, and this will be tabled at the forthcoming AGM for approval by the members of the company.

***Independent auditors***

The auditors for the year ending 30 September 2014 were KPMG. For the year ending 31 December 2015, audit firms were invited to bid for the position of external auditors for NITL, and Deloitte were successful in their bid. They will be presented for appointment as external auditors for NITL for the year ending 31 December 2015 at the forthcoming Annual General Meeting.



D. J. Kamwaza  
**Chairman**

**21 November 2014**



R. E. Mdeza  
**Director**

**Statement of Directors' responsibilities  
For the year ended 30 September 2014**

The Malawi Companies Act, 1984, Cap. 46:03 requires the directors to prepare financial statements for each financial year, which give a true and fair view of affairs of the company as at the end of the financial year and of the operating results and cash flows for that year. The directors are responsible for preparing the company's financial statements in accordance with Malawi Companies Act, 1984, Cap: 46:03, and International Financial Reporting Standards (IFRS).

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with IFRS when preparing financial statements subject to any material departures disclosed and explained in the financial statements;
- prepare the company's financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the company and of their operating results and cash flows.

**Approval of the financial statements**

The financial statements of the company as indicated above, were approved by the board of directors on **21 November 2014** and are signed on its behalf by:



D.J. Kamwaza  
**Chairman**



R.E. Mdeza  
**Director**



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## **Independent Auditor's Report to the members of The National Investment Trust Limited**

We have audited the accompanying financial statements of The National Investment Trust Limited, which comprise the statement of financial position as at 30 September 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 15 to 30.

### ***Directors' responsibility for the financial statements***

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the provisions of the Malawi Companies Act, 1984 and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatements due to fraud or error.

### ***Auditor's responsibilities***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control systems relevant to the entity's preparation of the financial statements 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 entity's internal control systems. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements, give a true and fair view of the financial position of The National Investment Trust Limited as at 30 September 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the provisions of the Malawi Companies Act 1984.

**Certified Public Accountants and Business Advisors  
Blantyre**

**28 November 2014**

**Statement of financial position  
As at 30 September 2014**

*In thousands of Malawi Kwacha*

<b>Assets</b>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	5	220,393	211,271
Prepaid expenses		2,714	1,387
Dividends receivable		13,870	7,517
Interest receivable		1,622	3,096
Income notes	6	-	1
Equity investments	7	7,336,109	5,321,663
<b>Total assets</b>		<b>7,574,708</b>	<b>5,544,935</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	8	2,700	2,700
Share premium	8	169,550	169,550
Retained earnings	8	7,255,666	5,263,956
<b>Total shareholders' equity</b>		<b>7,427,916</b>	<b>5,436,206</b>
<b>Liabilities</b>			
Accrual for withholding tax on dividends		1,095	752
Income tax payable		8,285	11,643
Trade and other payables	9	52,609	48,069
Deferred tax liability	10	84,803	48,265
<b>Total liabilities</b>		<b>146,792</b>	<b>108,729</b>
<b>Total equity and liabilities</b>		<b>7,574,708</b>	<b>5,544,935</b>

The financial statements of the Company were approved by the Board of Directors on **21 November 2014** and were signed on its behalf by:



D. J. Kamwaza  
**Chairman**



R.E. Mdeza  
**Director**

**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>Revenue</b>			
Net dividend income	11	283,107	258,101
Scrip dividend	11	101,151	-
Interest income	12	33,164	27,085
Fair value gain on equity investments	13	<u>1,905,164</u>	<u>2,112,274</u>
<b>Net revenue</b>		<u><b>2,322,586</b></u>	<u><b>2,397,460</b></u>
<b>Expenditure</b>			
Auditor's remuneration - fees		5,243	4,252
Directors' remuneration – fees		7,600	5,785
- allowances		2,732	2,152
Directors' Travel & Lodging		2,722	1,210
Management fees	14	30,357	19,915
Listing expenses		8,687	4,585
Transfer secretarial fees		7,698	9,793
Communication costs		1,028	2,764
Consultancy fees		3,303	253
Other expenses		<u>1,043</u>	<u>382</u>
<b>Total expenditure</b>		<u><b>70,413</b></u>	<u><b>51,091</b></u>
<b>Profit before taxation</b>		<b>2,252,173</b>	<b>2,346,369</b>
Income tax expense	15	<u>(44,463)</u>	<u>(38,774)</u>
<b>Profit for the year</b>		<u><b>2,207,710</b></u>	<u><b>2,307,595</b></u>
<b>Earnings per share (tambala)</b>			
Basic and diluted	16	<u><b>1,635</b></u>	<u><b>1,709</b></u>

**Statement of changes in equity**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

	<b><u>Share capital</u></b>	<b><u>Share premium</u></b>	<b><u>Retained earnings</u></b>	<b><u>Total</u></b>
<b>At 1 October 2012</b>	2,700	169,550	3,114,311	3,286,561
Dividends paid to Shareholders	-	-	(157,950)	(157,950)
Profit for the year	<u>-</u>	<u>-</u>	<u>2,307,595</u>	<u>2,307,595</u>
<b>At 30 September 2013</b>	<b><u>2,700</u></b>	<b><u>169,550</u></b>	<b><u>5,263,956</u></b>	<b><u>5,436,206</u></b>
<b>At 1 October 2013</b>	2,700	169,550	5,263,956	5,436,206
Dividends paid to Shareholders	-	-	(216,000)	(216,000)
Profit for the year	<u>-</u>	<u>-</u>	<u>2,207,710</u>	<u>2,207,710</u>
<b>At 30 September 2014</b>	<b><u>2,700</u></b>	<b><u>169,550</u></b>	<b><u>7,255,666</u></b>	<b><u>7,427,916</u></b>



**Statement of cash flows**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>			
Dividends received		306,500	304,698
Interest received		<u>34,638</u>	<u>25,106</u>
		341,138	329,804
Operating expenditure paid		<u>(66,852)</u>	<u>(51,946)</u>
		274,286	277,858
Taxes paid		<u>(41,032)</u>	<u>(28,646)</u>
<b>Net cash from operating activities</b>		<u>233,254</u>	<u>249,212</u>
<b>Cash flows used in investing activities</b>			
Purchase of shares		<u>(8,132)</u>	<u>(10,020)</u>
<b>Net cash used in investing activities</b>		<u>(8,132)</u>	<u>(10,020)</u>
<b>Cash flows to financing activities</b>			
Dividends paid		<u>(216,000)</u>	<u>(157,950)</u>
Net increase in cash and cash equivalents		9,122	81,242
Cash and cash equivalents at beginning of year		<u>211,271</u>	<u>130,029</u>
<b>Cash and cash equivalents at end of year</b>	5	<u>220,393</u>	<u>211,271</u>

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**1. Reporting entity**

National Investment Trust Limited is a limited liability company domiciled and incorporated in Malawi under the Malawi Companies Act, 1984.

The address of the Company's registered office is Chibisa House, 19 Glyn Jones Road, Post Office Box 910, Blantyre, Malawi.

**2. Basis of preparation**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the provisions of the Malawi Companies Act 1984.

**(b) Nature of business**

To provide a vehicle to facilitate broad public participation in a diverse portfolio of equity investments, bonds, property and equity of property companies and money market investments in Malawi.

**(c) Basis of measurement**

The financial statements are prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss. The methods used to measure fair values are discussed further in note 19.

**(d) Functional and presentation currency**

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

**(e) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 19.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**3. Significant accounting policies**

The accounting policies set out below have been consistently applied by the Company and are consistent with those used in the previous year.

**(a) Financial instruments**

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value less transaction costs and subsequently measured as described below:

**(i) Fair value measurement**

The determination of fair values of financial assets is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments. Some of the models include price earnings ratios for unlisted investments. For these financial instruments, inputs into models are market observable.

The value produced by a technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

**(ii) Identification and measurement of impairment**

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

The Company considers evidence of impairment of financial instruments at amortised cost at both a specific asset and collective level. All individually significant financial assets and those known to be impaired are assessed for specific impairment. All assets assessed but found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified together with all other assets not individually assessed by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired includes default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the related financial asset. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**3. Significant accounting policies (continued)**

**(a) Financial instruments (continued)**

**(iii) Derecognition**

Financial assets are de-recognised when the Company has transferred the right to receive the contractual cash flows in which substantially all the risks and rewards of ownership of the financial assets are transferred or when the contractual rights to cash flows from the assets expire. Financial liabilities are de-recognised when the obligation is extinguished.

**(iv) Cash and cash equivalents**

Balances with banks comprise demand deposits and other short term highly liquid instruments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are subsequently measured at cost.

**(v) Treasury bills**

Treasury bills (including repos) are classified as held for trading and are initially and at subsequent reporting dates measured at fair value. Gains or losses arising from changes in fair value are included in profit or loss.

**(vi) Other financial assets**

Other financial assets which include dividends receivable and income notes are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less impairment.

The amortised cost is the amount at which the financial asset is measured at initial recognition less principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

**(vii) Trade and other payables**

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

**(viii) Equity investments**

The Company's equity investments are classified as investments held for trading, and are measured at subsequent reporting dates at fair value. Gains or losses arising from changes in fair value are included in profit or loss.

**(ix) Offsetting**

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

Income and expenses are presented on net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

**(b) Revenue recognition**

Interest income is recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest method. Dividend income is recognised when the Company has an unconditional right to receive the income (for quoted equity investments, this is usually the date on which trading in the underlying investment becomes "ex-dividend").

**(c) Expenses**

All expenses, including management fees are recognised in profit or loss on an accrual basis.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**3. Significant accounting policies (continued)**

**(d) Taxation**

Taxation expense comprises current tax (including taxation withheld on dividend income) and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized in equity, in which case it is recognised in other comprehensive income.

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 is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognized 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.

Current tax and deferred tax liabilities and assets are offset in the statement of financial position only if the Company has a legal right to settle on a net basis and they relate to the same tax authority.

Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the asset will 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 realized.

**(e) Earnings per share**

The Company is listed on the Malawi Stock Exchange and therefore presents basic and diluted earnings per share data for its ordinary shares. 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 shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

**(f) New standards and interpretations not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 30 September 2014, and have not been applied in preparing these financial statements:

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

The company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 October 2013.

The adoption of these new and revised standards and interpretations did not have a significant impact on the financial statements of the company.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**3. Significant accounting policies (continued)**

*Standards and interpretations in issue but not effective*

Effective for the financial year commencing 1 October 2014

- IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRS 10, IFRS 12 and IAS 27 amendment Investment entities
- IFRIC 21 Levies
- Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

Effective for the financial year commencing 1 January 2015

- IFRS 9 Financial Instruments

**(g) Segment reporting**

The fund manager reports to the Board on a quarterly basis the income and expenditure and investment portfolio performance of the company as a whole. Based on the nature of the business there is only one segment and there are no separate geographical or operational segments.

**4. Determination of fair values**

The company's equity investments and disclosures require determination of fair value for both financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes as described in note 19. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that financial asset or liability.

- **Other receivables**

The fair value of other receivables is estimated as the present value of the future cash flows discounted at market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

- **Equity investments**

The fair value of equity investments traded on the stock market is determined with the reference to the quoted prices of the securities at the reporting date. Valuation of unquoted equity securities is determined using valuation techniques.

<b>5. Cash and cash equivalents</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Funds at call and on deposit	<b>184,405</b>	179,345
Balances with banks	<b><u>35,988</u></b>	<u>31,926</u>
Total cash and cash equivalents	<b><u>220,393</u></b>	<u>211,271</u>
The deposits with various Malawian Banks earned interest at rates ranging from <b>14.5% to 34.75%</b> (2013: from 17% to 25%).		
<b>6. Income notes</b>		
African Lotteries Limited – at cost	<b>2,850</b>	2,850
Impairment allowance	<b><u>(2,850)</u></b>	<u>(2,849)</u>
	<b><u>=</u></b>	<u>1</u>

The Company's policy for recognition of impairment losses is described in note 3a (ii). An impairment loss allowance of **K2.850 million** (2013: K2.849 million) was being carried in respect of an investment in African Lotteries Limited, an unlisted company. In 2014, the remaining balance of K1,000 has been completely written off because the company's license was revoked and it is no longer a trading entity.

**Notes to the financial statements**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

<b>7. Equity investments</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Cost	<b>404,030</b>	395,899
Cumulative adjustment to fair value	<b><u>6,932,079</u></b>	<u>4,925,764</u>
Fair value	<b><u>7,336,109</u></b>	<u>5,321,663</u>

Fair value of equity investments is analysed as follows:

	<b><u>2014</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Listed:</b>	<b><u>Cost</u></b>	<b><u>Fair value</u></b>	<b><u>Fair value</u></b>
First Merchant Bank Limited	<b>13,620</b>	<b>21,282</b>	22,397
Illovo Sugar (Malawi)Limited	<b>33,828</b>	<b>2,383,637</b>	1,994,472
MPICO Limited	<b>18,961</b>	<b>30,960</b>	15,480
National Bank of Malawi Limited	<b>42,414</b>	<b>1,368,204</b>	979,965
NBS Bank Limited	<b>41,720</b>	<b>779,142</b>	494,090
NICO Holdings Limited	<b>5,365</b>	<b>235,587</b>	127,469
Press Corporation Limited	<b>29,061</b>	<b>645,855</b>	346,303
Standard Bank Limited	<b>28,334</b>	<b>1,238,895</b>	829,415
Telekom Networks Malawi Limited	<b><u>5,527</u></b>	<b><u>11,054</u></b>	<u>5,527</u>
<b>Total Value of Listed Equity Investments</b>	<b><u>218,830</u></b>	<b><u>6,714,616</u></b>	<u>4,815,118</u>
<b>Unlisted:</b>			
Auction Holdings Limited	<b>21,944</b>	<b>154,981</b>	59,432
Dairiboard Malawi Limited	<b>17,256</b>	<b>46,512</b>	82,113
Kang'ombe Investment Limited	<b><u>143,000</u></b>	<b><u>420,000</u></b>	<u>365,000</u>
<b>Total Value of Unlisted Equity Investments</b>	<b><u>182,200</u></b>	<b><u>621,493</u></b>	<u>506,545</u>
<b>Total Value of Equity Investments</b>	<b><u>401,030</u></b>	<b><u>7,336,109</u></b>	<u>5,321,663</u>
<b><u>Adjustment to fair value:</u></b>			
At beginning of year		<b>4,925,764</b>	2,813,490
Fair value gains during the year		<b><u>2,006,315</u></b>	<u>2,112,274</u>
At end of year		<b><u>6,932,079</u></b>	<u>4,925,764</u>

The company purchased 240,000 shares in First Merchant Bank Limited during the year at a total cost of K3.6 million, 10,000 shares in National Bank Limited at a cost of K2.2 million and 6,000 shares in Standard Bank of Malawi Limited at a cost of K2.4 million. In addition, Standard Bank of Malawi Limited declared a bonus issues of 281,757 in Standard Bank of Malawi Limited shares valued at K102 million.

The valuation for the unlisted equity investments has been done by NICO Asset Managers Limited who are also the Fund managers on behalf of the Board using various valuation techniques.

**Notes to the financial statements**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

**7. Equity investments (cont'd)**

At the reporting date the equity investment portfolio comprised:

	<b>Percentage shareholding</b>		<b>Number of shares</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Auction Holdings Limited	<b>5.0</b>	5.0	<b>45,716,970</b>	45,716,970
Dairiboard Malawi Limited	<b>22.8</b>	22.8	<b>228,000</b>	228,000
First Merchant Bank Limited	<b>&lt;0.1</b>	<0.1	<b>1,418,792</b>	1,178,792
Kang'ombe Investment Limited	<b>25.0</b>	25.0	<b>500,000,000</b>	500,000,000
MPICO Limited	<b>0.7</b>	0.7	<b>7,739,977</b>	7,739,977
National Bank of Malawi Limited	<b>1.2</b>	1.2	<b>5,700,853</b>	5,690,853
NBS Bank Limited	<b>5.2</b>	5.2	<b>38,006,945</b>	38,006,945
NICO Holdings Limited	<b>0.8</b>	0.8	<b>8,413,800</b>	8,413,800
Press Corporation Limited	<b>1.4</b>	1.4	<b>1,731,515</b>	1,731,515
Standard Bank Malawi Limited	<b>1.3</b>	1.3	<b>3,099,331</b>	2,811,574
Telekom Networks Malawi Limited	<b>&lt;0.1</b>	<0.1	<b>2,763,500</b>	2,763,500

**8. Capital and reserves**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

**Share capital**

	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b><u>K</u></b>	<b><u>K</u></b>
<i>Authorised share capital</i>		
150,000,000 ordinary shares of 2 tambala each	<b><u>3,000</u></b>	<b><u>3,000</u></b>
<i>Issued and fully paid</i>		
135,000,000 ordinary shares of 2 tambala each	<b><u>2,700</u></b>	<b><u>2,700</u></b>

**Share premium**

Share premium of **K169.55 million** (2013: K169.55 million) relates to the amount in excess of the nominal share price paid for during the initial share offer to the public.

**Retained earnings**

Included in the reported retained earnings of **K7.26 billion** (2013: K5.26 billion) are unrealised gains on the changes in fair value of equity investments held at fair value through profit or loss net of related deferred taxation totalling **K6.85 billion** (2013: K4.88 billion) which are not distributable in terms of the Companies Act and profits on investments switches totaling **K192.8 million** (2013: K192.8 million) which are not distributable in terms of the company's investment policy.



**Notes to the financial statements**  
**For the year ended 30 September 2014**  
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<b>9. Trade and other payables</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Accrued operating expenses	<b>18,649</b>	20,819
Unclaimed dividends payable to shareholders	<b><u>33,960</u></b>	<u>27,250</u>
Total creditors	<b><u>52,609</u></b>	<u>48,069</u>

**10. Deferred tax liabilities**

Deferred tax is calculated, in full, on all temporary differences using the enacted tax rate of **30%** (2013: 30%). The movement on the deferred tax account is as follows:

	<b><u>2014</u></b>			<b><u>2013</u></b>	
	<b><u>Asset</u></b>	<b><u>Liability</u></b>	<b><u>Net</u></b>	<b><u>Asset</u></b>	<b><u>Liability</u></b>
Investment in listed shares	190	-	190	-	(3,713)
Investment in unlisted shares	-	<b><u>(36,728)</u></b>	<b><u>(36,728)</u></b>	-	<b><u>(44,552)</u></b>
	<b><u>190</u></b>	<b><u>(36,728)</u></b>	<b><u>(36,538)</u></b>	<b><u>-</u></b>	<b><u>(48,265)</u></b>

<b><u>Deferred tax movement 2014</u></b>	<b><u>Balance</u></b>	<b><u>Recognised in</u></b>	<b><u>Balance</u></b>
	<b><u>1/10/2013</u></b>	<b><u>profit or loss</u></b>	<b><u>30/09/2014</u></b>
Investment in listed shares	3,713	(190)	3,523
Investment in unlisted shares	<b><u>44,552</u></b>	<b><u>36,728</u></b>	<b><u>81,280</u></b>
	<b><u>48,265</u></b>	<b><u>36,538</u></b>	<b><u>84,803</u></b>

<b><u>Deferred tax movement 2013</u></b>	<b><u>Balance</u></b>	<b><u>Recognised in</u></b>	<b><u>Balance</u></b>
	<b><u>1/10/2012</u></b>	<b><u>profit/loss</u></b>	<b><u>30/09/2013</u></b>
Investment in listed shares	3,403	309	3,713
Investment in unlisted shares	<b><u>12,886</u></b>	<b><u>31,666</u></b>	<b><u>44,552</u></b>
	<b><u>16,289</u></b>	<b><u>31,975</u></b>	<b><u>48,265</u></b>

**Notes to the financial statements**  
**For the year ended 30 September 2014**  
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<b>11. Dividend income</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Auction Holdings Limited	4,500	-
First Merchant Bank Limited	1,135	515
Dairiboard Malawi Limited	4,560	8,209
Illovo Sugar (Malawi) Limited	149,991	120,803
Kang'ombe Investment Limited	29,000	18,750
MPICO Limited	155	-
National Bank of Malawi Limited	82,917	57,250
NICO Holdings Limited	15,397	2,019
Press Corporation Limited	18,181	12,398
Standard Bank Malawi Limited	6,602	65,706
Telekom Networks Malawi Limited	415	221
<b>Total dividend income (gross)</b>	<b>312,853</b>	<b>285,871</b>
Dividend tax deducted/withheld	<b><u>(29,746)</u></b>	<b><u>(27,770)</u></b>
Net dividend income	<b><u>283,107</u></b>	<b><u>258,101</u></b>
<b>Scrip dividend*</b>		
Standard Bank Malawi Limited	<b><u>101,151</u></b>	<b><u>-</u></b>
<b>Total scrip dividend</b>	<b><u>101,151</u></b>	<b><u>-</u></b>

**\*Note:** The scrip dividend represents bonus shares issued by Standard Bank Limited valued at **K101 million**. These have been classified as scrip dividend because they are non-distributable.

<b>12. Interest income</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Funds at call and on deposit	<b><u>33,164</u></b>	<b><u>27,085</u></b>
<b>13. Net fair value gain on equity investments</b>		
Net increase in fair value of unlisted equity investments	114,948	129,625
Net increase in fair value of listed equity investments	<b><u>1,790,216</u></b>	<b><u>1,982,649</u></b>
<b>Net increase in fair value of equity investments</b>	<b><u>1,905,164</u></b>	<b><u>2,112,274</u></b>
<b>Represented by:</b>		
Increase in fair value of unlisted equity investments	150,548	129,625
Decrease in fair value of unlisted equity investments	<b><u>(35,600)</u></b>	<b><u>-</u></b>
<b>Net increase in fair value of unlisted equity investments</b>	<b><u>114,948</u></b>	<b><u>129,625</u></b>
Increase in fair value of listed equity investments	1,794,931	1,982,649
Decrease in fair value of listed equity investments	<b><u>(4,715)</u></b>	<b><u>-</u></b>
<b>Net increase in fair value of listed equity investments</b>	<b><u>1,790,216</u></b>	<b><u>1,982,649</u></b>
<b>Net increase in fair value of equity investments</b>	<b><u>1,905,164</u></b>	<b><u>2,112,274</u></b>

**Notes to the financial statements**  
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<b>14. Management fees</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Fee payable	<b>25,348</b>	16,629
Value added tax	<b><u>5,009</u></b>	<u>3,286</u>
	<b><u>30,357</u></b>	<u>19,915</u>

Management fees are computed in accordance with the Fund Manager's agreement. The fees are computed as a percentage of the net assets of National Investment Trust Limited (NITL) and the total dividends declared to its shareholders in each financial year. The fees to NICO Asset Managers Limited is payable quarterly on account of 80% of the fees based on quarterly management accounts payable within one month of the quarter end, and the balance is payable based on post year end audited accounts upon certification by independent auditors.

<b>15. Income tax expense</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Current income tax @ <b>30%</b> (2013: 30%)	<b>7,925</b>	6,799
Deferred income tax (Note 10)	<b><u>36,538</u></b>	<u>31,975</u>
	<b><u>44,463</u></b>	<u>38,774</u>
Income tax using company income tax rate of <b>30%</b> (2013: 30%)	<b>684,662</b>	712,242
Non deductible expenditure	<b>18,974</b>	14,001
Non taxable element of fair value increase in investments	<b>(565,317)</b>	(601,708)
Dividends received	<b><u>(93,856)</u></b>	<u>(85,761)</u>
	<b><u>44,463</u></b>	<u>38,774</u>
<b>Income tax in profit or loss</b>	<b><u>44,463</u></b>	<u>38,774</u>

In 2008 the company had applied to Malawi Revenue Authority (MRA) to have its incurred expenditure allowable for deduction for tax purposes. MRA ruled against the application and the company appealed. In 2014, the Board of Directors decided to drop the matter on the basis that similar companies to NITL were being taxed the same way.

**Notes to the financial statements**  
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**16. Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share at 30 September 2014 was based on the profit attributable to ordinary shareholders of **K2.21 billion** (2013: K2.31billion) and the weighted number of ordinary shares in issue at 30 September 2014 of **135,000,000** (2013: 135,000,000).

	<u>2014</u>	<u>2013</u>
Profit attributable to ordinary shareholders	<b>2,207,710</b>	2,307,595
Weighted number of ordinary shares in issue ('000)	<b>135,000</b>	135,000
Earnings per share (tambala)	<u><b>1.635</b></u>	<u>1.709</u>

**Diluted earnings per share**

The diluted earnings per share are equal to the basic earnings per share as there are no dilutive potential ordinary shares.

**17. Financial risk management**

**Overview**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- 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, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has developed risk management policies principal among which is the Investment Policy outlined on page 1 of this Annual Report. The Investment Committee and the Fund Manager are expected to adhere at all times to the Investment Policy. The Investment Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks 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's Board Finance and Audit Committee oversees how management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Finance and Audit Committee is assisted in its oversight role by the Fund Managers' internal audit department which undertakes reviews of risk management controls and procedures, the results of which are reported to the Finance and Audit Committee.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**17. Financial risk management (continued)**

**Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's interest, income notes receivable and cash and cash equivalents. Money market investments are limited to deposits with licensed financial institutions.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another asset. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it has sufficient liquidity to meet liabilities, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company maintains sufficient funds in liquid money market investments to meet foreseeable operating expenses.

The Company's financial instruments include investments in unlisted equity investments, which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the financial position of any particular issuer. Unlisted investments represent **8.2%** (2013: 6.7%) of the year end investment portfolio valuation.

The Company's Investment Policy sets maximum permitted limits for investments in unlisted equities.

Compliance position as at 30 September	<b>Permitted limit</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
1. Equities			
% of portfolio invested in equities	100%	<b>97%</b>	96%
% of portfolio in individual listed company	40%	<b>32%</b>	36%
% of portfolio in individual unlisted company	10%	<b>6%</b>	6%
2. Bonds			
% of portfolio invested in bonds	25%	<b>Nil</b>	Nil
% of portfolio in bonds of single private sector issues	10%	<b>Nil</b>	Nil
3. Property			
% of portfolio invested in property companies/equities	25%	<b>6%</b>	7%
% of portfolio in a single property investment	10%	<b>6%</b>	7%
4. Cash equivalents	100%	<b>3%</b>	4%
5. Speculative investments	Nil	<b>Nil</b>	Nil

**Notes to the financial statements**  
**For the year ended 30 September 2014**  
*In thousands of Malawi Kwacha*

**17. Financial risk management (continued)**

**Liquidity risk (continued)**

	<b>Due Within 1 month</b>	<b>Total</b>	<b>Fair Value</b>
<b>30 September 2014</b>			
<b>Financial liabilities</b>			
Accrued operating expenses	<u>18,649</u>	<u>18,649</u>	<u>18,649</u>
<b>30 September 2013</b>			
Financial liabilities			
Trade and other payables	<u>20,819</u>	<u>20,819</u>	<u>20,819</u>

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity and commodity prices will affect the Company'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 optimizing the return on risk.

The Company's market risk is managed on a daily basis by the Fund Manager in accordance with policies and procedures in place. The Company's overall market positions are monitored by the Finance and Audit Committee and reported on a quarterly basis to the Board of Directors.

**(a) Currency risk**

As the Company has no significant foreign denominated financial assets, save for a fully impaired US dollar denominated income note, and has no foreign denominated financial liabilities, the Company's income and operating cash flows are substantially independent of changes in foreign exchange rates.

**(b) Interest rate risk**

The Fund Manager is not permitted to borrow funds without the sanction of the Board of Directors who, in turn, may not, unless sanctioned by an ordinary resolution of shareholders, borrow in excess of the aggregate of the Company's share capital and reserves. However, since incorporation, the Directors have not exercised their borrowing powers and, accordingly, the Company is not exposed to interest risk on borrowings.

At the reporting date, the Company has only invested in fixed rate financial instruments. The company does not account for any fixed rate financial instruments at fair value as the debt securities market is fairly illiquid. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity.

**(c) Equity price risk**

Equity price risk arises from the Company's held for trading equity investments. The Company seeks to manage individual equity price risk through diversification of its investments within its Investment Policy guidelines on individual investments and/or broad classes of investments. The Fund Manager and the Investment Committee manage risk on an ongoing basis. Due to the nature of its business, the Company is always exposed to overall market price risk.

**Notes to the financial statements****For the year ended 30 September 2014****17. Financial risk management (continued)****(c) Equity price risk (continued)****Sensitivity analysis – equity price risk**

The carrying value, at 30 September 2014, of shares listed on the Malawi Stock Exchange (MSE) represents **89%** (2013: 87%) of the Company's total asset value. Although not directly correlated, it could be expected that the overall value of this portfolio would move broadly in line with movements in the MSE Domestic Share Index. The domestic share index on 30 September 2014 was **11040.46** (2013: 8349.14). An overall increase of 0.5% in share prices would have resulted in a capital gain of **K 33.6m** (2013: K24.1m) recognized in profit or loss. An overall decrease of 0.5% in share prices would have resulted in a capital loss of identical magnitude. The small percentage has been used because the market has been relatively illiquid over the past twelve months. The analysis is performed on the same basis for 2013 and assumes that all other variables remain the same.

**Capital management**

The Board's policy is to maintain a strong capital base to maintain investor and market confidence. Capital consists of share capital, share premium and retained earnings. The Board also monitors the level of dividends to shareholders.

The Board's policy is to maintain its capital base in real terms by not distributing unrealised fair value gains on revaluation of investments or realised profit on sale of equity investments.

**18. Related parties****Fund Manager**

The Company entered into a management agreement with NICO Asset Managers Limited, a licensed investment/portfolio manager. Management fees for the year amounted to **K30.4million** (2013: K19.9million). Included in trade and other payables at 30 September 2014, is management fees payable of **K9.3 million** (2013: K10.9 million).

As required by the Malawi Stock Exchange listing rules, NICO Asset Managers Limited as the fund manager is required to hold a minimum of 5% of the issued share capital of the Company. NICO Asset Managers Limited does not hold any shares in NITL. The Company was granted an exemption by the Malawi Stock Exchange to allow NICO Asset Managers Limited to act as fund managers.

At 30 September 2014, various pension funds and entities whose assets are managed by NICO Asset Managers Limited held **15,814,245** (2013: 16,077,245) shares in the Company.

**Directors' fees**

Total directors' fees are disclosed in the statement of profit or loss and other comprehensive income.

**Directors' interests**

As at 30 September 2014, the total direct and indirect interests of the directors and related parties thereto in the issued share capital of the Company were as follows:

	<u>2014</u>	<u>2014</u>	<u>2013</u>
	<b>Indirect</b>	<b>Direct</b>	<b>Total</b>
D.J. Kamwaza	-	<b>120,000</b>	110,000
R.E. Mdeza	-	<b>95,200</b>	95,200
G. Msisha	-	<b>100,000</b>	100,000
G. Chimimba*	<b>1,063,105</b>	<b>440,000</b>	440,000

\*Note: The indirect interests for Director Guy Chimimba represent shareholding in NITL by his close family members.

**Notes to the financial statements**  
**For the year ended 30 September 2014**

**19. Critical accounting estimates and judgements**

**19.1 Fair values of financial instruments**

Many of the Company's financial instruments are measured at fair value on the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates.

For the majority of the Company's financial instruments, quoted market prices are readily available. However, certain financial instruments for example, unlisted equity investments are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same (subject to the appropriate adjustments).

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision.

For certain financial instruments, including other receivables and other payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

The carrying amounts of all the Company's financial assets and financial liabilities at the reporting date approximated their fair values.

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value by valuation. The different levels have been defined as follows:-

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liabilities that are not based on observable data.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
<b>30 September 2014</b>			
Listed equity investments	6,714,616	-	6,714,616
Unlisted equity investments	<u>-</u>	<u>621,493</u>	<u>621,493</u>
	<u>6,714,616</u>	<u>621,493</u>	<u>7,336,109</u>
<b>30 September 2013</b>			
Listed equity investments	4,815,118	-	4,815,118
Unlisted equity investments	<u>-</u>	<u>506,545</u>	<u>506,545</u>
	<u>4,815,118</u>	<u>506,545</u>	<u>5,321,663</u>

Valuation techniques include net present value and discounted cashflow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include benchmark interest rates, equity prices, foreign currency exchange rates and expected price volatilities and correlations.

**19.2 Impairment of financial assets**

The company follows the guidance of IAS 39 to determine when a financial asset is impaired. This determination requires significant judgement. In making this judgement, the company evaluates, among other factors, the duration and extent to which the fair value of an income note is less than its cost: and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cashflow.



**Notes to the financial statements**  
**For the year ended 30 September 2014**

**19. Critical accounting estimates and judgements (continued)**

**19.3 Income taxes**

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

**20. Contingencies**

At the reporting date there were no contingent assets or contingent liabilities.

**21. Capital commitments**

At the reporting date there were no capital commitments which were authorized or contracted.

**22. Segment reporting**

Income and expenditure of the company is reported in the statement of comprehensive income. The company only has one segment due to the nature of its business.

**23. Exchange rates and inflation rates**

	<u>2014</u> K	<u>2013</u> K
United States Dollars (USD)	<b>412.70</b>	371.47
South African Rand (ZAR)	<b>36.59</b>	36.82
Inflation rates as at 30 September	<b>23.7</b>	21.7

At the time of signing these financial statements the exchange rates for the Malawi Kwacha to the United States Dollar moved to **K497.96** while the exchange rate for the Malawi Kwacha to the South African Rand had moved to **K45.19**.

**24. Subsequent events**

There have been no significant events subsequent to the reporting date requiring adjustments and/or disclosures in the financial statements.

### Details of Shareholders

The number of shareholders in NITL was **1,351** as at 30 September 2014 compared to 1,389 as at 30 September 2013.

#### Analysis by number of shares held:

<u>Number of shares held</u>	<u>2014</u>	<u>Number of shareholders</u> <u>2013</u>	<u>Total holding</u> <u>2014</u>	<u>2013</u>
1 - 5000	467	480	1,192,320	1,239,002
5001 – 10000	238	246	2,155,730	2,220,517
10001 – 25000	222	217	4,004,500	3,890,658
25001 – 50000	163	171	6,430,430	6,717,806
50001 – 100000	123	130	10,750,000	11,387,057
100001 - 200000	54	62	8,201,520	9,429,516
200001 - 500000	43	45	13,057,600	14,407,606
500001 - 1000000	20	17	13,666,500	11,541,492
1000001 – 99,999,999	21	21	75,541,400	74,166,346
Grand total	<u>1,351</u>	<u>1,389</u>	<u>135,000,000</u>	<u>135,000,000</u>

#### Analysis by shareholder type:

<u>Type</u>	<u>Number of holders</u>	<u>Number of shares held</u>	<u>% of total shares</u>
Insurance / Assurance	6	3,024,400	0.44
Non-resident companies/individuals	11	1,992,950	0.52
Banks / Nominees	14	30,304,167	1.04
Investment / Trusts	15	8,205,575	1.11
Pension / Provident funds	25	24,931,989	1.85
Other resident entities	21	14,852,629	2
Resident Individual	<u>1,259</u>	<u>51,688,290</u>	<u>93.04</u>
Total	<u>1,351</u>	<u>135,000,000</u>	<u>100</u>

The largest shareholders in the company at 30 September 2014 were:

<u>Shareholders name</u>	<u>Number of shares</u>	<u>% of total number of shares</u>
First Merchant Bank Limited	25,766,628	19.09
First Merchant Bank Pension Fund	8,346,409	6.16
NICO Life Company Limited	7,098,130	5.26
NBM Pension Fund	6,181,465	4.58
Press Trust	4,795,000	3.55
National Bank of Malawi Limited	4,086,371	3.03
Livingstone Exports Limited	2,900,000	2.15
Escom Pension Fund	1,891,187	1.40

## NOTES

NOTES



# NITL

The National Investment Trust Limited

