

NAMAL INCOME FUND

Interim Report

For the Six months ended 30th September 2012

National Asset Management Limited
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NATIONAL INCOME FUND
Interim Report 2012

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Dear Investor,
We take pleasure in presenting the interim report of the NAMAL Income Fund (NIF) for the six months ended 30th September 2012.

Performance review

The NIF generated a return of 4.93% over the six month period under review. Interest income increased by Rs. 3.3m to Rs. 20.6m driven by higher interest rates throughout the review period. Total return for the period increased 106.4% to Rs. 23.1m from Rs. 11.2m.

Market Review

Benchmark 12 month TB yields rose by 170bps to 13% while 3 month and 6 month Treasury bill yields rose to 11.4%(+30bps) and 12.6% (+151bps), respectively. The CBSL took a hawkish stand on monetary policy at the beginning of the year and continued to maintain its tightening cycle during period under review. Inflationary pressures continued persist with CCPI (annual average) rising to 6.5% by September 2012.

Balance of Payment (BOP) situation looks much stronger due to policy responses. The trade deficit contracted from USD 861m in March to USD 513m by September 2012 as imports fell sharply as a result of steeper devaluation of the Rupee and adjustments of import taxes. Total worker remittances improved to USD 4.4b (+16.4% YoY) and earnings from tourism amounted to USD 711m (+23% YoY) for the period ended 30th September.

Portfolio composition

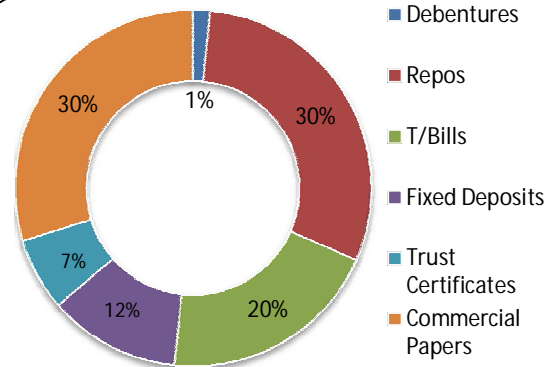
NIF has a policy of investing a minimum of 50.0% of assets in government securities or repurchase (repo) transactions thereon, with the remainder in corporate debt. In contrast to the 0.30% rise in three month Treasury bill yields, our commercial paper yields have increased by around 1.50% on average, indicating widening credit spreads. Bond yields were rising until September, when they declined sharply, and subsequently increased again. As at 30 September 2012, the Fund had a 50.2% allocation to government securities / repos, 30% to commercial papers, with the remainder in bank deposits, trust certificates, and a debenture. We have kept the maturity profile short and avoided purchasing bonds in anticipation of rising interest rates in 2013.

Sincerely,
The Fund Management Team
6 December 2012

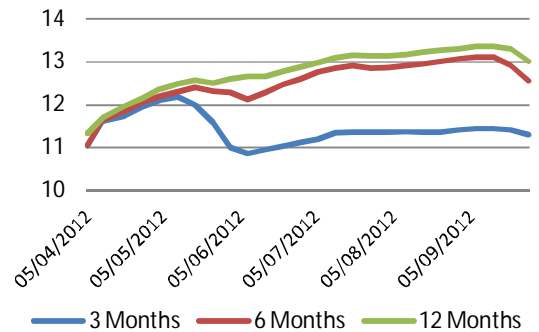
Performance Comparison

	YTD (%)	12M (%)	24M (%)	36M (%)
NIF	4.93	8.22	15.84	26.72

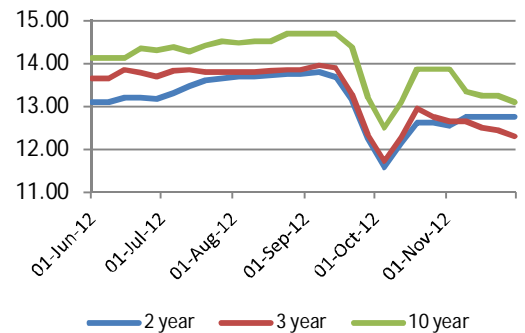
Asset Allocation



Treasury Bill rates



Bond rates



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STATEMENT OF TOTAL RETURN

For the six months ended 30th September

	2012 Rs Mn	2011 Rs Mn
INCOME		
Interest Income	<u>20.62</u>	<u>17.30</u>
	20.62	17.30
DIRECT EXPENSES		
Bank Charges	(0.01)	(0.01)
Manager's & Registrar's Fees	(2.76)	(2.29)
Trustee & Custody Fees	(0.21)	(0.20)
Audit Fees	(0.15)	(0.13)
Sundry Expenses	<u>(0.08)</u>	<u>(0.06)</u>
	(3.21)	(2.69)
Net Income before Taxation	17.41	14.61
Taxation	<u>(1.74)</u>	<u>(1.47)</u>
Net Income after Taxation	15.67	13.14
Net realised gains/ (loss) for the period	0.04	0.01
Net unrealised appreciation/ (depreciation) for the period	1.00	(2.01)
Net gains/(loss) on investments	<u>1.04</u>	<u>(2.00)</u>
Total earnings for the period	16.71	11.14
Income equalisation		
Income received on units created	9.87	0.19
Income paid out on units redeemed	(3.48)	(0.14)
	6.39	0.05
Total Return for the period	<u>23.10</u>	<u>11.19</u>

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BALANCE SHEET

As at 30th September

	2012	2011
	Rs Mn	Rs Mn
Investments		
Treasury Bonds	0.00	29.94
Debentures - Listed	5.27	6.70
Treasury Bills	69.19	-
Commercial Papers	102.04	-
Deposits	40.00	-
Trust Certificates	<u>18.97</u>	<u>158.57</u>
	235.47	195.21
Current Assets		
Cash & Bank Balances	0.49	0.32
Treasury Bill Repurchase Agreements	103.77	100.55
Income Tax Recoverable	4.97	3.09
Accrued Income	<u>6.15</u>	<u>3.13</u>
	115.38	107.09
Current Liabilities		
Management Fees Payable	0.48	0.37
Trustee & Custody Fees Payable	0.03	0.04
Audit Fees Payable	0.11	0.11
Other Payables	<u>0.05</u>	<u>0.05</u>
	0.67	0.57
NET CURRENT ASSETS	<u>114.71</u>	<u>106.52</u>
ASSETS EMPLOYED	<u>350.18</u>	<u>301.73</u>
Represented By :		
Capital Account		
Unit Capital	318.34	279.11
Net realised gains	0.20	0.23
Net unrealised gains	<u>4.86</u>	<u>6.52</u>
	323.40	285.86
Undistributed Income Carried Forward	<u>26.78</u>	<u>15.87</u>
	<u>350.18</u>	<u>301.73</u>

Signed on behalf of the Management Company



Director



Director

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STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

For the Six months ended 30th September

	2012 Rs Mn	2011 Rs Mn
Balance brought forward at the beginning of the period	299.20	301.84
Movement due to Sale and Purchase of Units		
Received on creation of units	94.69	3.71
Payments on cancellation of units	(50.55)	(2.50)
	44.14	1.21
Net increase/(decrease) in unit holders' fund from investment activities	6.84	(1.32)
Balance carried forward at the end of the period	350.18	301.73
Net Assets Value per Unit		
Applicable to 31,801,348.9 units as at 30.09.2012	11.01	
Applicable to 27,882,237.9 units as at 30.09.2011		10.82

NOTES TO THE ACCOUNTS

- (a) All figures are provisional and unaudited
- (b) Income is recognised on accrual basis
- (c) Interest on government securities is shown together with the applicable notional tax credit which is set off against the income tax payable by the fund.
- (d) Forward pricing methods being used in creating and redeeming units
- (e) The profit and income of the fund are liable for income tax at the rate of 10% for the year of assessment 2012/2013 as specified in part A of the Second Schedule to the Inland Revenue Act No. 10 of 2006.

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DISTRIBUTION TABLE

1st April 2011 to 30th September 2012

	UNIT CAPITAL	NET REALISED GAINS/ (LOSS)	NET UNREALISED APPRECIATION/ (DEPRECIATION)	NET INCOME	TOTAL
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Balance as at 01.04.2012	274.19	0.23	3.79	20.98	299.19
Movement due to creation & redemption of Units	44.14				44.14
Capital					
Capital Adjustment			0.63		0.63
Income Equalisation				6.39	6.39
Capital Gains/ (Loss)		0.03			0.03
Net Income earned during the period				15.67	15.67
Appreciation/ (Depreciation) During the period		(0.06)	0.45		0.39
Distribution				(16.26)	(16.26)
Balance as at 30.09.2012	318.33	0.20	4.87	26.78	350.18

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LISTED SECURITIES

As at 30th September 2012

LISTED DEBENTURES	No. of Debentures	Market Value Rs Mn	% of Assets
Lanka Orix Leasing Company	60,000	5.27	1.48%
Hatton National Bank Ltd. (14.20%)	-	-	-
Market Value before Coupon Interest		5.27	1.48%
Coupon Interest		0.02	0.01%
Grand Total		5.29	1.48%

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SUMMARY OF ASSETS

As at 30th September 2012

	Principal Amount Rs Mn	Market Value Rs Mn	% of Assets
Listed Securities			
Listed Debentures	<u>5.27</u>	<u>5.29</u>	<u>1.48%</u>
Sub Total	5.27	5.29	1.48%
Other Investments and Receivables			
Treasury Bill Repurchase agreements	103.77	103.85	29.15%
Treasury Bills	67.61	69.19	19.42%
Deposits	40.00	40.95	11.49%
Trust Certificates	19.09	22.69	6.37%
Commercial Papers	102.04	102.76	28.84%
Other Receivables	11.06	11.06	3.10%
Cash	<u>0.49</u>	<u>0.49</u>	<u>0.14%</u>
Sub Total	344.06	350.99	98.52%
Grand Total	<u>349.33</u>	<u>356.28</u>	<u>100.00%</u>

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CORPORATE INFORMATION

Trustee & Custodian	Deutsche Bank AG 86, Galle Road Colombo 03
Auditors	Ernst & Young Chartered Accountants 201, De Saram Place Colombo 10
Bankers	Deutsche Bank AG 86, Galle Road Colombo 03
Lawyers	F J & G De Saram Attorneys-at-Law & Notaries Public 216, De Saram Place Colombo 10
Managers & Registrars	National Asset Management Limited (NAMAL) 64, Union Bank Building, Galle Road, Colombo 03

National Asset Management Limited
Board of Directors
(30th September 2012)

Mr. Alexis Lovell	Chairman
Mr. Ajith Wijesekera	Deputy Chairman
Mr. Anil Amarasuriya	Director
Mr. Jitendrakumar Warnak	Director
Ms. Khoo Siew Bee	Director
Mr. Avancka Herat	Director
Mr. Nihal Fonseka	Director
Mr. Tyrone de Silva	Director
Ms. Manohari Gunawardh	(Alternate)