

NAMAL INCOME FUND

Interim Report

For the Six months ended 30th September 2016

National Asset Management Limited
Union Bank Building,
64, Galle Road, Colombo 03.
Phone : 2445911 Fax : 2445903 Email : info@namal.lk

NAMAL INCOME FUND
Interim Report 2016

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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 2016.

Performance review

The NIF generated a return of 5.94% for the six month period under review. Interest income for the period decreased by Rs.0.19m to Rs 8.31m. Net operating profit for the period increased to Rs. 9.39m from Rs. 4.99m over the corresponding period in 2015. Rs. 2.52m was distributed to unit holders over the period.

Market Review

The Central Bank adopted a tighter monetary policy stance for 1HFY17 ending its loose monetary policy stance that was initiated in December 2012. In January 2016 the Central Bank revised up the Statutory Reserve Ratio (SRR) by 150bp to 7.5%. This was followed by the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) also being revised up by 100bp each, 50bp in February, followed by a further 50bp in July to end at 7.00% and 8.50% respectively. As a result, short term yield curve displayed an upward shift with the Benchmark 12 month Treasury bill auction yield increasing by 21 basis points to 10.11% over the six month period under review. FI's were net sellers during the period with foreign holdings of government securities as a percentage of total government securities decreasing by 40bp to end at 6.7% as of 30th September 2016 from 7.1% in December 2015.

On the economic front, the Balance of Payment improved recording a surplus of USD 356.0m in the first seven months of the year, compared to a deficit of USD 1.2b the prior year. Trade deficit widened by 0.7% to USD 4.8b, owing to a 5.6% YoY drop in export, which was partially offset by a 2.9% decline in imports. However, earnings from tourism and workers' remittances increased during the period by 16.7% YoY (USD 1.9b) and 3.8% YoY (USD 4.2b), respectively.

Portfolio composition

NIF has a policy of investing a minimum of 20% of assets in government securities /repurchase (repo) transactions. While corporate debt / asset backed securities (rated BBB- or higher) could be invested up to a maximum of 80% of assets, Bank deposits are limited to a maximum of 50% of assets.

As at 30 September 2016, the Fund had a 54.02% allocation to debentures and 45.98% allocation in repos.

Sincerely,

The Fund Management Team

15th November 2016

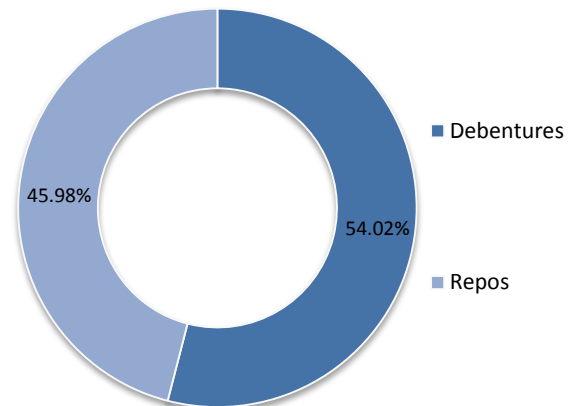
Performance Comparison

	6M* (%)	12M (%)	24M (%)	36M (%)
NIF	12.19	7.02	5.32	6.95

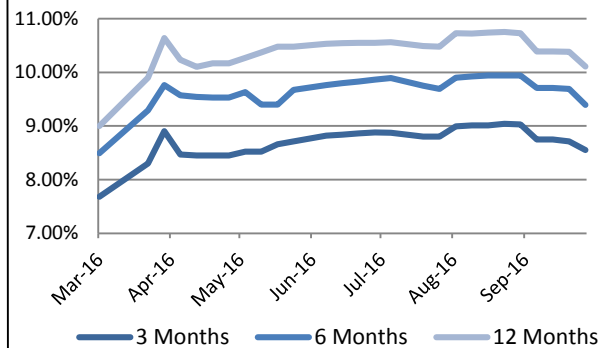
* Period ending 1st April 2016 - 30th September 2016

*Annualised returns

Asset Allocation



Treasury Bill rates



Source: Central Bank of Sri Lanka

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STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended September

	Notes	2016 Rs.Mn	2015 Rs.Mn
INVESTMENT INCOME			
Interest income	11.1	8.31	8.51
Net change in unrealised gains/(losses) on financial assests held for trading	8.2	2.25	(2.06)
Total investment income		<u>10.57</u>	<u>6.45</u>
EXPENSES			
Management and Registrar fees		(0.61)	(0.93)
Trustee and Custodian fees		(0.21)	(0.21)
Audit fee and expenses		(0.21)	(0.26)
Other expenses		(0.15)	(0.05)
Total operating expenses		<u>(1.17)</u>	<u>(1.45)</u>
Net operating profit		9.39	4.99
FINANCE COST			
Interest expense		-	-
Distribution to Unit Holders	12	(2.52)	(2.60)
PROFIT AFTER DEDUCTIONS AND BEFORE TAX		6.87	2.40
Income tax expense		(0.17)	(0.18)
PROFIT AFTER DISTRIBUTIONS AND TAX		<u>6.70</u>	<u>2.22</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		6.70	2.22

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STATEMENT OF FINANCIAL POSITION

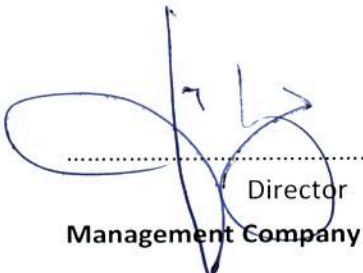
As at 30th September

ASSETS	Notes	2016 Rs.Mn	2015 Rs.Mn
Cash and cash equivalents		2.91	3.83
Financial assets - Held for trading	8	84.81	95.44
Financial assets - Loans and receivable	9	72.34	49.92
Other Receivable		-	10.00
Income tax recoverable		7.11	6.89
Total assets		<u>167.16</u>	<u>166.08</u>
 UNIT HOLDERS' FUNDS & LIABILITIES			
LIABILITIES			
Accrued expenses	10	<u>0.35</u>	<u>0.35</u>
Total liabilities (Excluding net assets attributable to Unit Holders)		0.35	0.35
 UNIT HOLDERS' FUNDS			
Net assets attributable to Unit Holders		166.81	165.74
		<u>167.16</u>	<u>166.08</u>

Signed on behalf of the Management Company



 Director
Management Company



 Director
Management Company

NAMAL INCOME FUND***Interim Report 2016*****Statement of Movements in Unitholder's Fund****For the six month period ended September**

	2016 Rs.Mn	2015 Rs.Mn
UNIT HOLDERS' FUNDS AT THE BEGINNING OF THE YEAR	161.18	199.77
Increase in net assets attributable to unit holders	6.70	2.22
Received on unit creations	0.17	0.22
Payments on unit redemptions	(1.24)	(36.47)
UNIT HOLDERS' FUNDS AT THE END OF THE YEAR	166.81	165.74

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NOTES TO THE FINANCIAL STATEMENTS

For the 06 month period ended 30th September

- 1 All figures are unaudited. Where necessary comparative figures have been adjusted to confirm with the changes in presentation in the current period.
- 2 Income is recognised on an accrual basis.
- 3 Interest on repurchase agreements is shown together with the applicable notional tax credit which is set off against the income tax payable by the fund.
- 4 The profit and income of the fund is liable for income tax at the rate of 10% for the year of assessment 2016/2017 as specified in part A of the second schedule to the Inland Revenue Act No. 10 of 2006.
- 5 There are no material Contingent Liabilities or contingent Assets which require disclosure in the financial statements.
- 6 No circumstances have arisen since the Balance Sheet date, which would require adjustments or disclosure in the Financial Statements.

	2016	2015
7. Net Asset Value per unit as at September 30 (Rs.)	12.66	12.22
No of Units as at 30th september	12,605,661.50	12,998,529.90

8. FINANCIAL ASSETS - HELD FOR TRADING

	2016	2015
	Rs.Mn	Rs.Mn
Debt securities - Government Treasury bills	-	-
Debt securities - Quoted debentures (8.1)	84.81	95.44
	84.81	95.44

8.1 Quoted debentures

	2016	2015
	Rs.Mn	Rs.Mn
Hatton National Bank PLC	6.64	6.92
Central Finance Company PLC	3.55	8.52
Lion Brewery	-	3.18
Lion Brewery	3.13	3.24
Lion Brewery	4.18	4.36
Hayleys	-	10.63
Merchant Bank of Sri Lanka	5.51	5.64
National Development Bank	5.95	6.15
Nations Trust Bank	15.19	15.72
Richard Peris	2.53	2.55
Hemas	2.80	2.90
DFCC Bank	10.99	11.01
DFCC Bank	14.17	14.61
MTD Walkers	10.18	-
	84.81	95.44

8.2 Net change unrealised gains/(losses) on financial assets held for trading

	2016	2015
	Rs.Mn	Rs.Mn
Debt securities - Quoted debentures	2.25	(2.12)
Debt securities - Government Treasury bills	-	0.06
	2.25	(2.06)

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NOTES TO THE FINANCIAL STATEMENTS

For the 06 month period ended 30th September

	2016	2015
	Rs.Mn	Rs.Mn
9. FINANCIAL ASSETS - LOANS AND RECEIVABLES		
9.1 Investments in Fixed Deposits		
Commercial Leasing Company PLC	-	19.25
	<u>-</u>	<u>19.25</u>
9.2 Repurchase agreements		
Union Bank	-	25.21
DFCC Bank	-	5.45
First capital Treasuries PLC	50.81	-
Commercial Bank	21.52	-
	<u>72.34</u>	<u>30.67</u>
9.3 Other Receivable		
Debenture Application	-	10.00
	<u>-</u>	<u>10.00</u>
	<u>72.34</u>	<u>59.92</u>

10 ACCRUED EXPENSES

	2016	2015
	Rs.Mn	Rs.Mn
Fund manager and Registrar fee payable	0.10	0.10
Trustee and Custodian fee payable	0.03	0.03
Audit fee payable	0.17	0.16
Other payable	0.05	0.05
	<u>0.35</u>	<u>0.35</u>

11 INVESTMENT INCOME

	2016	2015
	Rs.Mn	Rs.Mn
11.1 Interest income on,		
Interest on Treasury bill repurchase agreements (12.2)	2.84	1.50
Interest on Treasury bills	-	0.61
Interest on fixed deposits	-	0.28
Interest on commercial papers	-	0.61
Interest on debentures	5.42	5.47
Interest on saving accounts	0.06	0.04
	<u>8.31</u>	<u>8.51</u>

11.2 Interest income on Treasury bill repurchase agreements, Treasury bills and Treasury bonds have been recognised gross of notional taxes.

12. DISTRIBUTION

The fund has not announced an income distribution during the quarter ended September 30, 2016.

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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 & Notries Public 216, De Saram Place Colombo 10
Managers & Registrars	National Asset Management Limited (NAMAL) Union Bank Building 64,Galle Road Colombo 03

National Asset Management Limited

Board of Directors (30th September 2016)

Mr. Alexis Lovell	Chairman
Mr. Indrajit Wickramasinghe	Director
Mr. Palitha Gamage	Director
Mr. Tyrone de Silva	Director
Mr. Malinda Samaratunga	Director
Mr. Wijenanada Dambawinne	Director
Mr. Suren Madhanayake	Director
Mr. Avancka Herat	Director
Ms. Khoo Siew Bee	Director