



## Lanka Rating Agency

### Issuer Profile

**Profile** Fixed Income Investment II (Pvt) Ltd (FII II ) is the legal entity that will be borrowing funds from investors by way of trust receipts which are collateralized with treasury bonds. This arrangement is considered as a true securitization.

**Ownership** FII II is a 100% owned subsidiary of Capital Alliance Holdings Limited (CALH)

**Governance** Mr. Tharindra Kulasinghe has been appointed as the Director by CALH. KPMG will be the external auditors and Nithya Partners are the lawyers. Peoples Bank will be the trustee/custodian to the issue.

**Management** Management of the Company will be steered by CALH.

**Business Risk** During FY23, the interest rates have picked up a reverse trajectory. The bond is expected to receive strong demand considering the declining interest rates has begun. Since there is a voluntary domestic debt optimization program underway, the possible potential haircuts on the Government securities will have an impact on bond's yield and maturity. The management has incorporated measures to minimize the capital loss arising due to this. In case of a restructuring, the offering documents shall also reflect accordingly.

**Financial Risk** The Company bears minimal credit risk as the securitization is for the Government of Sri Lanka's long-term fixed rate treasury bonds, that is around less than 10 years maturity. The interest rate fluctuation can impact the value of the bond and give rise to market risk. The interest rate and market risk will remain with the trust certificate investor in case of early redemption. The tranche's simple annualized return is approximately 21.87% which can be obtained only if the certificates are held to maturity. The existence of curing period provides support to the structure.

### Instrument Rating Considerations

**About The Instrument** Fixed Income Investment II will buy T bonds and securitize them. FII II will issue trust receipts to investors against these securitized bonds. The total size of the fund is LKR 2.758Bn (Face Value) with a weighted average gross return of 21.87% on the trust certificates, net of fees, if held to maturity.

**Relative Seniority/Subordination Of Instrument** The instrument is secured senior debt.

**Credit Enhancement** There will be no credit enhancement furthered since it is already secured via treasury bonds.