

FOR IMMEDIATE RELEASE

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**ICRA Lanka reaffirms the ratings of
First Capital Treasuries PLC**

ICRA Lanka Limited, subsidiary of ICRA Limited, a group company of Moody's Investors Service, has reaffirmed the issuer rating of [SL]A- (pronounced SL A minus) with stable outlook for First Capital Treasuries PLC (FCT or the company). ICRA Lanka has also reaffirmed the issue rating of [SL]BBB+ (pronounced SL triple B plus) with stable outlook for the LKR 500 Mn subordinated unsecured redeemable debenture programme of the company.

The ratings continue to factor in FCT's position as one of the leading standalone primary dealer in Sri Lanka with an established track record, franchise and clientele. The ratings also factor in the prudent internal control and processes, along with adequate risk management systems put in place, which is commensurate in relation to the risks intrinsic to the primary dealer business. ICRA Lanka notes that while the portfolio of the company has modest credit risk, as almost all the exposure are towards treasury securities, the same however is susceptible to adverse movements in interest rates. The ratings factor the improvement in the capitalization profile of the company as the portfolio moderated; the regulatory capital adequacy ratios remain well above the minimum requirements and the gearing has improved (9.93 times as in June 2017 vis-à-vis 15.38 in September 2016). However, the ratings take cognizance of the short term nature of the borrowing profile and the relatively significant ALM maturity mismatch carried by the company. ICRA Lanka is also cognizant of the increasing regulatory supervision and controls on the PD industry driven by recent market developments. ICRA Lanka will continue to monitor these market and regulatory developments and the impact of the same on the credit profile of the company.

FCT's portfolio as on June 30, 2017 stood at about LKR 21.2 Bn. The same has moderated from LKR 29.6 Bn on September 30, 2016. The portfolio consists of treasury bills, bonds and reverse repos, which do not carry credit risk and are highly liquid assets. The company is expected to deal only with government securities going forward also. However, FCT is exposed to interest rate risk as the portfolio is marked to market based on systemic interest rates; weighted average portfolio duration was moderate at about 1.19 (in years) in June 2017.

In line with the moderation of the portfolio, capitalization profile of the primary dealer has improved recently, where the gearing has reduced to 9.93 times as in June 2017 vis-à-vis very high levels of 15.38 times in September 2016. Regulatory capital adequacy ratio remained at 41.23% for overall capital and 32.80% for core capital; regulatory minimum is 10% for total capital adequacy for PDs in Sri Lanka. The funding profile of FCT, similar to most of the PDs, largely consists of repo borrowings (97% of the total borrowings represented by repo borrowings, as in June 2017). The short term nature of the borrowings result in significant ALM mismatches in short term maturity buckets; however the liquidity risk is minimal due to highly liquid nature of the portfolio and availability of adequate funding lines for PDs.

During FY2017, the company's overall profitability improved significantly supported by the interest income opportunities available during the period; consequently net profit for FY2017 improved (LKR 344 Mn vis-à-vis LKR 11 Mn during the previous fiscal year). Net interest income for FY2017 was LKR

453 Mn, while the net trading gains for the same period was modest at LKR 8 Mn and gain on fair valuation of financial investments was LKR 25 Mn. During the 3M ended June 30, 2017 FCT was able to record PAT of LKR 285 Mn during the period, the key driver of profitability was gain on fair valuation of financial investments LKR 139 Mn, because of the decline in interest rates in the primary market. During the quarter ended June 2017, net trading gains was LKR 79 Mn, while the contribution from the net interest income was LKR 109 Mn.

Company Profile

Incorporated in year 1982, FCT is a licensed primary dealer in government securities in Sri Lanka. The company is 94.44% held by First Capital Limited, while First Capital Limited is in-turn 99.90% held by First Capital Holdings PLC. First Capital Holdings PLC is 78.14% held by Dunamis Capital PLC, which is the ultimate parent of FCT.

During FY2017, FCT reported a net profit of LKR 344 Mn on a total asset base of LKR 21.9 Bn vis a vis a net profit of LKR 11 Mn on a total asset base of LKR 15.3 Bn during the same period previous fiscal year.

In the three months ended June 30, 2017 the company reported a net profit of LKR 285 Mn on a total asset base of LKR 21.4 Bn.

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