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CENTRAL BANK OF SRI LANKA

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Press Release

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Financial Sector Consolidation Update – March 2014

Considerable progress has been made in the consolidation process during the month of March 2014. Several banks and finance and leasing companies (NBFIs) have shortlisted potential merger/acquisition counterparts and are carrying out internal evaluations on such companies. The Central Bank has also approved in principle, certain possible consolidation activities amongst a few banks and finance companies. At the same time, the National Development Bank PLC and DFCC Bank have entered into a Memorandum of Understanding in order to proceed with their merger process.

Several audit firms who were appointed by the Central Bank to carry out due diligence and valuation of the companies are in the process of finalising their reports. The Central Bank has continuously liaised with the selected audit firms to deal with any issues arising in connection with the due diligence and valuation processes, in order to ensure timely completion of these assignments.

In the meantime, several strategic investors have indicated their willingness to infuse fresh capital to some of the banks and NBFIs, and such investments are expected to strengthen the balance sheets of those entities while enabling them to expand their business operations. The Central Bank has also granted approval in principle, for such strategic investments.

The Central Bank has continued to maintain a close dialogue with all stakeholders of the consolidation process, while senior Central Bank officials have also participated at various public fora on financial sector consolidation, in order to clarify various matters pertaining to the consolidation process.

Over the past few days, in keeping with the Central Bank's request, banks and NBFIs have commenced submitting their broad plans on consolidation and greater participation in the economic activities, thereby adhering to the already announced time line of 31 March 2014. These plans are to be reviewed by the Central Bank within the coming week, and suitable responses due to be sent thereafter.