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CENTRAL BANK OF SRI LANKA

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Press Release

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Financial Sector Consolidation Update – April 2014

Satisfactory progress was made in the consolidation process during the month of April 2014. All banks and finance and leasing companies (NBFIs) submitted their broad plans on consolidation and greater participation in economic activities. The Central Bank reviewed the broad plans submitted by the banks and NBFIs and another round of one-on-one meetings are to be held with the respective banks and NBFIs to discuss these plans further. Banks and large NBFIs have shown interest in merging/acquiring many smaller NBFIs and have initiated Board level discussions with the shortlisted merger/acquisition counterparts. To facilitate these discussions, due diligence and valuation reports of the respective NBFIs available with the Central Bank have been released to the interested parties, upon completing the necessary legal documentation. Several strategic investors who have shown interest in infusing fresh capital to banks and NBFIs have also initiated their preliminary assessments of the respective banks and NBFIs.

The DFCC Bank and the National Development Bank PLC continued the preliminary work relating to the merger. The Merchant Bank of Sri Lanka PLC, MBSL Savings Bank Limited and MCSL Financial Services Limited have also initiated

action on the merger of the three entities with the view of forming a single licensed finance company. In addition, approval has been granted by the Central Bank for several NBFIs operating within financial groups to proceed in the process of being merged.

In the meantime, the process of preparing the Information Memoranda (IM), Due Diligence Reports (DDs) and valuation of NBFIs is expected to be completed by the appointed audit firms during the first week of May. These reports based on financial data will form the basis for negotiations between the interested parties and target NBFIs. At the same time, the Inland Revenue (Amendment) Act No 8 of 2014 and Value Added Tax (Amendment) Act No 7 of 2014 have been enacted by the Parliament giving effect to the budget proposal on financial sector consolidation. The Central Bank is in the process of finalizing the Guidelines on taxation as required by these Acts. These Guidelines will provide clarity on the proposed tax incentives for the financial sector consolidation process and further motivate the stakeholders of the consolidation process. The Central Bank has also initiated action to review the existing regulatory framework of banks and NBFIs to ensure that it is strengthened to address the challenges that will arise along with the consolidation of the financial sector.

The Central Bank continued to exchange views with all stakeholders of the consolidation process while providing clarifications to queries raised by different parties. The Governor and other senior officials of the Central Bank also participated in several forums on financial sector consolidation organized by external parties during the month.