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CENTRAL BANK OF SRI LANKA

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Press Release

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Financial Sector Consolidation Update – June 2014

The consolidation process had made progress as planned, and during June 2014, almost all banks and finance and leasing companies (NBFIs) had finalized their consolidation plans and submitted their proposed merger/acquisition plans to the Central Bank. These plans will now be reviewed by the Central Bank with a view to facilitating the respective companies to proceed further.

- Banks and NBFIs, while negotiating with the shortlisted merger/acquisition counterparts, also maintained a close dialogue with the special unit of the Central Bank. In addition, as requested by the Central Bank, the Panel of Audit Firms continued their transaction management activities to facilitate the negotiation process between financial institutions in an independent manner.
- Work relating to the mergers that have already commenced, i.e., DFCC Bank and the National Development Bank PLC, and Merchant Bank of Sri Lanka PLC, MBSL Savings Bank Ltd. and MCSL Financial Services Ltd. continued to progress with the assistance of external consultants, where necessary. In the

meantime, formal approval of the Monetary Board was granted for Assetline Leasing Company Ltd. to acquire Lisvin Investments Ltd., and for TKS Finance Ltd to acquire Asian Finance Ltd. At the same time, several NBFIs falling within the same group also continued the consolidation process while initial approval was granted for the mergers of a few other NBFIs as well.

- The Monetary Board also approved of providing funding support to certain NBFIs through the Sri Lanka Deposit Insurance and Liquidity Support Scheme in order to further strengthen the financial condition of those entities. Such support is expected to enable these entities to attract suitable merger/acquisition counterparts or strategic investors.

- The Guidelines on taxation in terms of the Inland Revenue (Amendment) Act No 8 of 2014 and Value Added Tax (Amendment) Act No 7 of 2014 on the tax incentives to promote the consolidation process were also finalized, and discussions with the Ministry of Finance and Planning are currently underway. These guidelines are expected to be released to banks and NBFIs shortly.

- During the month, the Central Bank continued to maintain a close dialogue with all stakeholders of the process, including having a discussion with the representatives of the Ceylon Bank Employees' Union.