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CENTRAL BANK OF SRI LANKA

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Press Release

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Financial Sector Consolidation Update - July 2014

The financial sector consolidation process made significant progress during July 2014.

- **Consolidation plans submitted to the Central Bank:** Proposed consolidation/merger/acquisition plans were submitted by banks and finance and leasing companies (NBFIs), and those were reviewed and evaluated by the Central Bank. The proposed plans included acquisitions with timelines and price indications, mergers between NBFIs, envisaged infusions of capital by present shareholders, and infusions of capital by new investors. Pursuant to the submission of such plans, the Central Bank management held meetings with members of the Boards of Directors and senior management of banks and NBFIs, with some of those meetings being with the intended merger/acquisition companies, on a joint basis. In the case of banks and NBFIs where mergers were agreed, discussions also covered the timelines for completion of the transactions and the way forward in the post integration period. The Central Bank also granted in-principle approval for

several consolidation arrangements. Overall, the progress so far was as follows:-

- Panel of Audit Firms completed Information Memoranda, Due Diligence Reports and Valuation Reports of 38 NBFIs.
 - The Central Bank shared these Reports with 40 prospective consolidation partners after entering into Non-Disclosure Agreements.
 - 57 NBFIs and 12 banks submitted plans for mergers/acquisitions and infusion of capital.
 - The Monetary Board approved 19 consolidation proposals, in-principle, and the respective companies were proceeding with the merger/acquisition processes.
 - 19 NBFIs completed the internal processes in order to submit their proposals for the approval of the Central Bank.
- **Continuation of transaction management:** The Panel of Audit Firms continued to assist in transaction management, by advising Banks and NBFIs on transactions as well as re. the smooth transitions after consolidation.
 - **Price guidance for consolidation process:** The Central Bank provided a price guidance for the proposed acquisitions/mergers on the basis of valuations carried out by the Audit Firms. This was done in order to facilitate the conclusion of transactions at reasonable values, and thereby prevent the creation of possible price bubbles, which could be unhealthy for financial system stability in the future.
 - **Micro finance sector:** Three institutions have so far been given in-principle approval to undertake micro-finance business with improved capital, widened asset bases and satisfactory governance structures and practices.
 - **On-going consolidation activities:** Mergers of DFCC Bank, DFCC Vardhana Bank PLC and the National Development Bank PLC, as well as Merchant Bank of Sri Lanka PLC, MBSL Savings Bank Ltd., and MCSL

Financial Services Ltd., continued to progress during the month. Amendments to the respective legislation and approvals necessary for successful completion of the transactions were being attended, while the services of expert firms were availed of, to ensure smooth transition. The work relating to the acquisitions of Lisvin Investments Ltd. by Assetline Leasing Company Ltd., and Asian Finance Ltd. by TKS Finance Ltd. also progressed.

- **Announcements of new transactions:** Certain banks and NBFIs made public announcements of agreed consolidation arrangements. These included the Commercial Bank of Ceylon PLC with Indra Finance Ltd., and Deshodaya Development Finance Company Ltd. with George Steuart Finance PLC.
- **Cancellation of leasing business licence:** The licence granted to Koshiba Leasing Co. Ltd., to engage in leasing business was cancelled by the Central Bank at the request of the company, since the company did not wish to continue its operations under the consolidation plan.
- **Inclusion of Central Investments and Finance PLC (CIFL) within the consolidation process:** During the month, the Court of Appeal dismissed the Stay Order issued against the CIFL re-structuring process. Consequently, the company has now been included within the master plan for consolidation, and the necessary action is due to be taken in the coming months to restructure the company, in accordance with a new plan that has to be developed.
- **Tax incentives:** 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 support the consolidation process were approved by the Monetary Board, and are due to be issued on receipt of the concurrence of the Ministry of Finance and Planning.

- **IMF reaction to the consolidation process:** The International Monetary Fund in its recently concluded Article IV Mission Report has expressed positive sentiment regarding the ongoing financial sector consolidation, highlighting that the programme offers a potential opportunity to increase the resilience of the system and contribute to more effective oversight.