

Equity Control

24 Jun, 2009 06:43:22

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## **Sri Lanka Seylan Bank would be attractive with larger stake: NDB chief**

June 24, 2009 (LBO) - There would be more interest in Sri Lanka's Seylan Bank if a larger equity stake than one third is offered to a strategic investor, the head of cash-rich NDB Bank which dropped out of the race said.

The banking regulator, Central Bank, is selling a third stake in of Seylan's equity after a run on deposits was triggered by the collapse of a firm in its controlling Ceylinco group.

"If they wanted serious bids by other banks they should be allowing all of the shares up (for sale), because a bank wouldn't invest in another to manage it, they would invest as a part of a process of consolidation," says NDB Chief Executive Eran Wickramaratne.

Though five parties, including NDB Bank, expressed interest in the bank, only one, a consortium led by Lanka Orix Leasing Company (LOLC), finally submitted a bid.

JKH, Sampath Bank and a construction firm, which were also short listed, also didn't bid.

Instead of announcing Seylan's new strategic partner on 16 June according to an original timeline, the Central Bank announced that the selection process was still on.

Sri Lanka's tight bank holding rules, where individuals and firm's need monetary board approval to control more than 10 percent and 15 percent respectively in a bank, are at the heart of the issue.

Wickramaratne says rules need relaxing to encourage industry consolidation which will lead to lower operating costs.

"The environment today is different," says Wickramaratne.

"Today we have a - relatively speaking - stronger corporate governance framework for financial services, particularly for banks and therefore we don't need to be regulated only through bank ownership."

Wickramaratne had previously been involved in merging ABN Amro Bank's local unit to NDB.

Ceylinco group chief Lalith Kotelawala and connected parties control 23 percent of Seylan Bank, which will shrink to 15 percent after the central bank issues new shares to Seylan's strategic investor, diluting holdings of original shareholders.

A number of share trusts will control over 17 percent of the banks equity after dilution.

"I think there is acknowledgement now from the regulator, that maybe the limit should be higher, and I'm saying we should go down that road," says Wickramaratne.

The cash rich NDB group could benefit from the low cost deposit mobilization ability of the 92-branch Seylan network.

Core capital at NDB Bank - the group's main business - tops 13 percent of risk weighted assets while its Tier I and Tier II capital tops 16 percent, way above the 10 percent regulatory minimum.

It also runs a lean operation. Its income as a percentage of cost at 43 percent is much lower than the industry average of 57 percent.

"One of the main issues in driving the cost down is scale. Banking is a scale driven industry," says Wickramaratne.

He contends that banks have "irrationally" duplicated infrastructure.

Sri Lanka has 14 ATMs and 10 bank branches for every one hundred thousand people, a far higher concentration than other South Asian countries.

"In Sri Lanka we have not got scale yet. We are over banked, and I'm measuring it in terms of cost and irrational duplication of infrastructure," he said.

NDB Group profits rose 30 percent to 455 million rupees in the March 2009 quarter this year. It's also planning new branches in North and the East of the island.