

BOC to Handhold Seylan Bank

Seylan Bank, which is part of the Ceylinco Group, faced a fund crisis recently but the Central Bank intervened and entrusted the bank's management to Bank of Ceylon. Umani Siriwardena traces the development:

The year 2008 would have ended on a negative note for the financial industry in Sri Lanka if not for the timely intervention of Sri Lankan financial authority, the Central Bank of Sri Lanka (CBSL), which came to the rescue of Seylan Bank by vesting the management of the bank with the Bank of Ceylon and appointing a board of directors. CBSL decided on this course of action after the Seylan Bank was in difficulty following the decision by Ceylinco Group chairman Lalith Kotelawala to divest Ceylinco shares in Seylan Bank to settle the depositors of Golden Key Credit Card Company, which faced a financial crisis due to mismanagement of funds and large withdrawals from Seylan Bank. The customers had lost confidence in the Ceylinco Group following the closure of Golden Key Credit Card Company.

Central Bank Governor Ajith Nivard Cabraal said that the customers of the bank should continue to transact with the bank and need not fear as CBSL has taken steps to ensure stability of the bank. He added that CBSL fully supported the new partnership and will ensure that normalcy is restored speedily. The employees of Seylan Bank will continue to serve the bank under its CEO Ajita Pasqual. Former general manager of National Savings Bank, Eastman Narangoda, was appointed as the chairman of Seylan Bank PLC while Lalith Withana, Nihal Jayamanna PC and Neomal Gunawardena were appointed as directors.

SEQUENCE OF EVENTS

The sequence of events unfolded with an unexpected move by Kotelawala saying that he will divest the group's stake in the bank (about 23-24% or more). Pasqual said there were two parties interested in buying the stock and one of them was a foreigner.

Kotelawala needed money to settle claims of depositors of Golden Key Credit Card Company, which had accepted deposits and issued credit cards. The deposits attracted high rates of interest. There were also allegations of mismanagement of the company and liquidity crisis forced the company to close its doors in late December. There were rumors in the market about the status of the company and depositors, taking a cue from the Sakvithi scandal company, began large scale withdrawal of funds and in a short period of time, the company was not in a position to meet the fund demands. Golden Key Credit Card Company is not a finance company, but it collects deposits and issues credit cards.

Kotelawala, according to Ceylinco Group sources,

came to know about the crisis only when anxious depositors told him that the cheques they had received from the company by way of return of deposits had been bouncing. The company sources also said while officially the company books showed a deposit base of Rs 5.9 billion, it was actually around Rs 26 billion. The company could not meet the withdrawal demands from some of its large investors. The company's estimated depositor base is 10,000 customers.

INVESTIGATION

At an internal inquiry, the company's CEO Khavan Perera denied any financial misappropriation, personal gains or that the company had been maintaining two sets of books. According to sources, he being a director of 40 companies of the Ceylinco Group, had been transferring funds from the company to other group companies. An internal audit into the functions of the company launched by Seylan Bank found that no proper audited accounts have been maintained by the company. The inquiry now will question the auditors responsible for the account, Messrs Laurie Muthukrishna & Company. The CID has already begun a probe into the crisis. Detectives said that CEO Khavan Perera gave a voluntary statement to the CID admitting that there was some mismanagement of funds.

The company had invested in several ventures some of which are not profitable in the current economic climate. It remained open through the week for depositors to collect forms to get the details of their investment as there were problems with the current data base. Banking analysts said that despite the assurance given by Kotelawala, the company would find it difficult to meet all the liabilities as the amount due to the depositors is huge. The most profitable company in the group is Ceylinco Insurance, but since this is a listed company in the Colombo Stock Exchange, the group cannot withdraw money without shareholders' approval.

Though Kotelawala owns just over 1% of Seylan Bank shares, his companies, through direct, indirect and cross holdings, own a sizable stake in the bank. His move to divest the group's stake came amidst concerns from CBSL about the impact on deposits at the Seylan Bank, which was founded two decades ago by Kotelawala. According to banking sources, though there is interest shown by banks to buy the shares of Seylan Bank, the CBSL will not process the applications until the internal issues are sorted out.

