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04/01/03 Daily mirror

CB's statutory examinations on Pramuka Bank - Part 3

Continued from yesterday

Further, the following observations have been made on the transactions carried in terms of the above Board decision:

(i) The property purchased from Mrs. M.R.M.S. Peiris (MRM) for Rs. 3,820,000

The purchase of property has taken place on 8 October 1997 for which PSDB has paid Rs. 3.82 million to Mrs. M.R.M.S. Peiris. On the same date, Mrs. Peiris has issued a CPR for the same amount against which PSDB has issued a Manager's cheque favouring "Share Subscription in Transit Account (Flex 01 - 5000241) and Mrs. M.R.M.S. Peiris had been issued PSDB share to the value of Rs. 3.82 million. Further. a fluctuating loan of Rs. 2.5 million has been granted to the MRM on 10 October 1997. The above property had been purchased by MRM on 14 May 1997 for Rs. 1,915,425 from Ranabima Property Sales (Pvt) Ltd. It is observed that the value of the property has almost doubled within five months to Rs 3.82 million from Rs 1.91 million. This significant increase in the value of the property is a concern.

(ii) The property purchased from Mrs. Nihiri Omitha Wickramanayake

On 3 November 1997, a land in Kandy has been purchased where the transfer deed has been signed on the same date. However, the valuation report for the above property is dated 20 November 1997, a date subsequent to the date of the transfer deed.

Further, in the Certificate of Identity, it is stated that the land inspected by me is identical with the land offered as security.

Purchase consideration has been paid to the seller on 29 December 1997, and the proceeds amounting to Rs. 3.9 million have been credited to the seller's flex account No.01 00500389 on 30 December 1997. The customer has withdrawn the entire amount on 31 December 1997, and has deposited same to the flex account No.0100500241 styled "Share Subscription in Transit" in respect of the purchase of PSDB shares in the names of Mrs. N.O.Wickramanayake (200,000 shares) and Mr. S.P. Wickramanayake (190, 000 shares).

The property purchased had been mortgaged to Seylan Bank Kandy branch for an advance of Rs. 1.1 million, and the mortgage bond has been cancelled and discharged only on 3 November 1998, exactly one year after the Bank purchased the property. This casts doubts as to why the bank purchased a property which has been mortgaged to another bank without obtaining the consent of the other bank concerned.

(iii) Valuation Reports of four properties purchased have been obtained subsequent to the purchase of the properties. This dilutes the strength of the valuation reports.

(iv) The purchase of above 9 (nine) properties has been ratified by the Board of Directors of PSDB at the meeting held on 13 December 1997. It was observed that the Board has approved the purchase of certain properties without obtaining a valuation report where the value is given as " valued around" in the Board minutes.

This indicates that the Board of Directors of PSDB has not acted in a responsible manner, and it appears that the action of the management of PSDB, including the Board of Directors, is detrimental to the interests of its depositors.

MD was of the view that there is no such basis of profit sharing and the full proceeds of the transactions come to the Bank. He agreed to submit a paper to the Board of Directors of the Bank to amend the decision depicted above.

BSD Comments

Examiner in charge stated that most of the properties had been purchased by way of transfer deeds during 15th of October to 20th of November. However, the monies had been paid during the month of December.

This casts the doubt as to whether the Bank has purposely made the transfer deeds. in order to overcome the Directions issued on 22nd November 2000, limiting banks acquiring immovable properties in excess of 10 per cent of the Bank's capital funds. He further added that valuations for the purpose of buying these properties were made on the request of Mr J V K Jayasooriya most of whose properties had been purchased by the Bank. Furthermore, the property related to Mrs Nihiri Omitha Wickramanayake had been mortgaged to Seylan Bank, Kandy branch as at the date of purchase, and the mortgage had been released only on 03.11.1998.

This also cast doubts as to why a bank has purchased a property, which had been assigned to a third party, without obtaining any letter of Comfort.

The Examiner was of the view that these properties have been purchased with all the lapses referred to above, only for the purpose of issuing shares of the Bank.

Concluded

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