03/01/03 Daily mirror

CB's statutory examinations on Pramuka Bank - Part 2

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Continued from yesterday.

Maintenance of the security Documents

The security documents are filed as loose-leaves. There is no folio to register the movement of security documents of the file. In addition, there is no way to find out whether the Bank has obtained the required security documents or not. The Bank would not be able to realize the mortgaged assets due to non-availability of the documents (due to loss or damage). Further, it was observed that there have been delays of submission of documents to Land Registry for the registrations. In such an instance, the Bank may lose the priority in case of insolvency of the borrower.

Appointment of Compliance Officer violating the of Secrecy Provisions

PSDB appointed an officer who is not an employee of the Bank as the compliance officer of the Bank. The appointment of a non-employee as the compliance officer leads to a position where the Bank has to divulge its information to a third party, which is a violation of Section 77 of the Banking Act. This has been since rectified after it was brought to the notice of the management.

MD stated that with the appointment of the GM of the Bank as compliance officer who should independently review the operations of the Bank, the position has now been corrected.

Transparency of the transactions between the PSDB & Pramuka Management & Financial Services Ltd. (PRAMFIS)

(l) As at 31st August 1999, PRAMFIS did not enjoy any credit facilities from PSDB. However, following irregularities have been observed in relation to the transactions involving PRAMFIS:

(i) A loan of Rs 30 million has been credited to the Flex Account No.01009000026 of Mr P J A Fernando on 23rd March 1999.

(ii) The purpose of the loan is stated as construction of an extension to the present residence and is categorised under Housing Loans and the loan is payable over a period of 10 years.

(iii) Of the loan proceeds amounting to Rs 30 million, Rs 20 million has been transferred to Flex Account No.01005000013 styled 'Pramuka Holdings Ltd' on 24th March 1999 by a CPR issued by the borrower. On the same date, the amount of Rs 20 million has been transferred to the Flex Account No.01005000004 of PRAMFIS. A business relationship between the two companies is not apparent.

(iv) The loan has been approved by the Chairman on 14th July 1999 and the offer letter is dated 21st July 1999 after a lapse of 4 months from the date of disbursing funds, i.e. 23rd March 1999. However, the customer's (Mr P J A Fernando) Flex Account No.01009000026 has been credited with the loan proceeds amounting to Rs 30 million on 23rd March 1999. Loan is repayable in 120 installments of Rs 250,000 each and the first installment was due in April 1999 according to the disbursement made. As per the offer letter dated 21st July 1999, repayment of loan installments was to commence one month from the date of release of the loan. However, as at 31st December 1999 no repayments were received and the outstanding remained at Rs 30 million, i. e. 9 installments in arrears. The borrower has paid 2 instalments subsequently and as at 31st March 2000 outstanding stood at Rs 29.5 million (still 10 instalments in arrears).

(2) (i) A loan of Rs 10 million has been approved to Miss P N R Fernando on 9th August 1999 by the Chairman, PSDB. The borrower is the chairperson of Minolinks Marketing (Pvt) Ltd.

(ii) The purpose of the loan is stated as part finance of the purchase of a house and property at Cinnamon Gardens.

(iii) The loan was granted to be repayable in 60 equal monthly instalments of Rs 166,666 commencing from August 2000 after the grace period of one year.

(iv) The security offered for the loan is stated as primary mortgage of Rs 10 million over property at 53/2, Gregory's Road, Cinnamon Gardens which is the property said to be purchased by the borrower.

(v) On perusal of the security documents relevant to the loan. it was observed that the property mentioned above is owned by PRAMFIS, and PRAMFIS has purchased the property on 27th July 1999. PRAMFIS has mortgaged the property as the surety to the loan granted to Ms P N R Fernando. There are no grounds to believe that the borrower would obtain the loan but not have the property transferred in her name, if the loan was to purchase the property.

(vi) Further, it was observed that the memo dated 4th August 1999 sent to the Chairman by the AGM/Establishments states that he has arranged the property concerned to be purchased in the name of PRAMFIS to have a better safeguard for PSDB, and PRAMFIS would sign the mortgage as surety mortgagor.

(vii) It was also observed that the loan proceeds of Rs 10 million have been credited to the borrower's Flex Account No.101009000134 on 9th August 1999 and have been withdrawn on the same day by CPR No.50111.

Further, a Rs 10 million has been deposited to the Flex Account No.01005000241 styled 'Share are Subscriptions in Transit' on the same date at the same time in respect of the purchase of PSDB shares by Minolinks Marketing (Pvt) Ltd, Manisha (Pvt) Ltd and Universal Links (Pvt) Ltd which are companies of Manisha Group. Ms P N R Fernando is the chairperson of Minolinks Marketing (Pvt) Ltd.

Both withdrawal of loan proceeds and deposit of money to the Share Subscription Account have taken place on the same date at the same time after normal banking hours.

(viii) Above transactions give rise to 'suspicion whether the PSDB has granted this Rs 10 million, to purchase its own shares, since the involvement of PRAMFIS is of concern and this has been arranged by AGM/Establishments who was responsible for share issues of PSDB and who had no involvement in credit operations of the Bank.

(ix) At the Board meeting held on 22 July 2000, Board of Directors of PSDB has resolved to purchase the same property, i.e. 53/2, Gregories Road, Colombo 7 for Rs 40 million which is stated valued at Rs 41 million by Mr V R M Peiris.

(x) However, the valuation report of Mr V R M Peiris is dated 28 July 2000 and the date of inspection/valuation of the property is stated as 27 July 2000. The Board decision to purchase the said property has been taken on an earlier date, i.e. 22 July 2000, stating the value as Rs 41 million valued by Mr V R M Peiris. This dilutes the strength of the valuation report.

Summary of supervisory concerns arising from the above irregularities:

(i) Disbursement of loan proceeds prior to approval and before completing security documentation.

(ii) Absence of a post credit monitoring system to ensure that the loan proceeds are used for the purpose for which the loan was approved.

(iii) Granting housing loans against property owned by third parties.

(iv) Incomplete and poor standard in security documentation.

(v) Unconvincing valuation reports.

(vi) The value of the property has increased by Rs 13.0 million to Rs 41.0 million from Rs 28.0 million as at 27th July 2000.

The MD agreed to examine and reply the concerns expressed by the BSD on the same

14. Property Development and Allotment of PSDB shares

Following irregularities are observed in connection of the property development scheme:

(I) The profit sharing basis approved by the Board of Directors is questionable, since the Bank has to bear the total cost of developing the land, in addition to the purchase cost only to receive a 30% of the profit on sale. The basis of allocating 50% of the profit to the previous owners who do not bear any cost of developing or has a title is also questionable. Since owners are to invest in the shares of PSDB, this may be considered as a devious mode of increasing the share capital to comply with statutory requirements.

To be continued.