



THE REPUBLIC OF UGANDA

SPECIAL AUDIT REPORT OF BANK OF UGANDA ON DEFUNCT BANKS

OFFICE OF THE AUDITOR GENERAL

KAMPALA

AUGUST 2018

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ABBREVIATIONS

Detailed descriptions and explanations of terms and abbreviations relevant to this report are listed below. These descriptions and explanations however serve to clarify our report and are not intended to be authoritative.

BOU	Bank of Uganda
CBL	Crane Bank Limited
CSRA	Confidential Settlement and Release Agreement
DC	Director Currency
DCB	Director Commercial Banking
DDCB	Deputy Director Commercial Banking
DG	Deputy Governor
DIF	Deposit Insurance Fund
DIS	Deposit Insurance Scheme
DPF	Deposit Protection Fund
EDF	Executive Director Finance
EDS	Executive Director Supervision
FIA	Financial Institutions Act
FIS	Financial Institutions Statute
GBP	Great Britain Pound
GOU	Government of Uganda
GTBU	Global Trust Bank (Uganda) Limited
ICB	International Credit Bank
MoFPED	Ministry of Finance, Planning and Economic Development
NBC	National Bank of Commerce
NRAC	Nile River Acquisition Company
P&A	Purchase of Assets and Assumption of Liabilities
PKF	Pannell Kerr Forster
PwC	PricewaterhouseCoopers
SPBO	Senior Principal Banking Officer
UGX	Uganda Shillings
USD	United States Dollar

EXECUTIVE SUMMARY

Background to the special audit

In a letter ref AB:70/288/01 dated 28th November 2017, the Parliamentary Committee on Commissions, Statutory Authorities and State Enterprises (COSASE); requested the Auditor General to undertake a special audit on the closure of commercial banks by Bank of Uganda.

The committee specifically requested the Auditor General to provide assurance on; the status of the banks at closure, cost of liquidation, status of assets and liabilities of the aforementioned banks from closure to date, non-performing assets, non-recoverable assets and liquidators.

Section 11 and 17 of the Financial Institutions Statute (FIS) 1993 and Financial Institutions Act (FIA) 2004 respectively mandate the Central Bank to revoke a licence of a financial Institution if it is satisfied that the financial institution has ceased to carry on business, declared insolvent, gone into liquidation, wound up, undercapitalised or dissolved.

Section 95 (1) of the FIA requires that the Central Bank shall, within twelve months from the date of taking over as a Receiver, consider and implement any or all of the following options either singly or in combination;

- arrange a merger with another financial institution
- arrange for the purchase of assets and assumption of all or some of the liabilities by other financial institutions;
- arrange to sell the financial institution;
- liquidate the assets of the financial institution.

In pursuit of its mandate, BOU has closed seven (7) banks since 1993 as detailed below.

Table Showing the financial institutions closed and reasons for closure

s/n	Bank	Year of closure/ Takeover	Reasons for closure	Liquidation agent and period	Action taken	Status to-date
1	Teefe Bank	1993	Insolvency	-	Liquidate the assets of the financial institution	Closed
2	International Credit Bank Limited	18 th September 1998	Poor liquidity and Insolvency	KPMG September 1999 to September	Liquidate the assets of the financial institution.	Closed and the process of winding up is ongoing

				2001 and thereafter handed over to BOU		
3	Greenland Bank	1 st April 1999	Insolvency and violation of certain provisions of FIS	Deloitte and Touche 27 th April 1999 to October 2000 and thereafter handed over to BOU	Liquidate the assets of the financial institution	Closed and the process of winding up is ongoing
4	The Co-operative Bank	19 th May 1999	Continued poor performance and non-compliance with regulatory capital adequacy requirements	KPMG April 2000 to August 2001 and thereafter handed over to BOU	Liquidate the assets of the financial institution	Closed and the process of winding up is ongoing
5	National bank of commerce (NBC)	27 th September 2012	Undercapitalisation	BOU	Arranged for the purchase of assets and assumption of all or some of the liabilities by other financial institutions,	Closed The process of winding up was halted by Court injunctive order.
6	Global Trust Bank	25 th July 2014	Undercapitalisation and Corporate governance weaknesses	BOU	Arranged for the purchase of assets and assumption of all or some of the liabilities by other financial institutions,	Closed and the process of winding up is ongoing
7	Crane Bank Limited	20 th October 2016	Under-capitalisation	BOU	Arranged for the purchase of assets and assumption of all or some of the liabilities by other financial institutions;	Closed, BOU had not commenced the process of winding up.

Source: Supervision reports and statement of affairs from BOU

Objectives of the Audit

The main objective of the audit was to assess the status of the assets and liabilities of the closed financial institutions.

Specific Audit Objectives

- To establish whether proper inventory of the assets and liabilities of the banks was undertaken at closure in line with Section 89(3) of the FIA 2004 and Section 32(3) of the FIS 1993.
- To establish whether the Liquidator appropriately managed the sale of the assets and accounted for the funds resulting from the sale and whether the Receiver appropriately transferred assets and liabilities under the Purchase and Assumption arrangement.
- To establish whether all liabilities at closure and all creditor claims after closure were properly ascertained, recorded and settled in line with FIA 2004 (Sections 102, 105 and 106) and FIS 1993 (Section 34(3)).
- To ascertain whether the funds from DPF/DIS were properly used to settle insured deposits of closed banks in line with Section 34(3) of FIS and Sections 105 and 108 of the FIA.
- To ascertain the total cost of liquidation of the defunct banks.
- To establish whether the Statutory Manager performed the functions in line with Section 90(4) of the FIA 2004 and ascertain the total cost incurred by BOU during the intervention period.
- To carry out any other procedures that may be appropriate in the circumstances.

Scope and Nature of the Audit

The audit covered the statutory role of BOU in closing the seven (7) financial institutions with major focus on management of assets and liabilities at closure to date. The audit also involved evaluating the process of winding up and ascertaining the current status.

Summary of Key Findings

Records on Teefe Trust Bank

- I was not availed with the Inventory report, loan schedules, customer deposit schedules and statements of affairs of Teefe Trust Bank to enable me to fulfil the specific audit objectives. Due to this limitation, I could not assess the status of the assets and liabilities of Teefe Trust Bank from closure to date.

Transfer of assets and liabilities under the Purchase and Assumption arrangement

- I observed that there were no documented guidelines/regulation or policies in place for the identification of the purchasers of the 3 defunct banks (GTB, NBC and CBL) closed using the purchase and assumption arrangement. There were also no guidelines to determine the procedures to be adopted by the Central Bank in the sale/transfer of assets and liabilities of the defunct banks to the identified purchaser. In the absence of guidelines, I could not establish the basis used to select the purchaser and determining the values of assets and liabilities transferred by BOU to the purchaser.
- I noted that BOU did not carry out a requisite valuation of assets and liabilities of the three defunct banks (GTB, NBC and CBL) resolved using the purchase and assumption arrangement at the time of signing the P&A. In absence of the valuation and or documented evaluation of alternatives and assumptions used, I could not establish how the terms for the transfer of assets and liabilities in the P&A were determined.

Management of assets of the defunct banks

- **Asset movement schedules**

Asset movement schedules for Greenland bank, ICB and Cooperative Bank indicating details of assets at closure, assets sold, selling price, period sale, unsold assets, performing and non-performing loans from time of closure to the year 2001 when the liquidation role was outsourced were availed. However, for the period starting 2002 when the liquidation role was directly performed by BOU, no asset movement schedules were availed. Therefore I could not adequately verify the movement of assets of the 3 banks from UGX.117.6bn at closure to UGX.19.7bn as at 30th June 2016.

- **Sale of assets at a discount**

BOU sold assets worth UGX.164bn of five defunct banks (ICB, Greenland, Cooperative, GTB and NBC) however, it was noted that the assets were sold at a discount of 80% yielding UGX.32bn as indicated in the table below. In the case of ICB, Greenland Bank and Cooperative Bank, the total loan portfolio sold of UGX.135bn included Secured loans of UGX.34.5bn which had valid, legal or equitable mortgage on the real property and were supported with legal documentation but were sold to Nile River Acquisition Company at a 93% discount.

Further, it was noted that there was a delay in disposing the assets as the assets were sold in 2007 despite the banks closing in 1998 and 1999.

Negotiation minutes detailing the evaluation of alternatives and assumptions for the sale of GTB and NBC assets were not provided and as such I could not determine the basis for transferring assets at a discount.

Table showing assets sold at a discount for 5 defunct banks

BANK	Assets	BOOK VALUE	SALE PROCEEDS	DISCOUNT OFFERED
ICB, Greenland and Cooperative Bank	Loans	135,054,430,888	8,898,736,349	93%
GTBU	Loans and overdrafts	28,287,640,820	22,630,112,656	20%
NBC	Secured performing loans	297,771,411	208,439,988	30%
	Land	400,000,000	300,000,000	25%
Total		164,039,843,119	32,037,288,993	80%

Source GTB P&A, NBC P&A and agreement signed between BOU and NRAC from BOU

- **Recovery of non-performing loans of CBL**

According to the Purchase and Assumption agreement signed between BOU and DFCU, clause 1.1.1(ix) provides that all loans and advances of CBL were transferred to DFCU except the insider loans referred to in schedule 2 of the P&A. At the time of P&A the non-performing loans (bad book) was UGX.570.38bn out of the gross loans of UGX.1,159bn. This bad book was transferred to DFCU to provide a resource for repayment of the assumed liability of UGX.200bn and bridge the shareholder's deficit of UGX.439.72bn at the date of takeover. I could not establish how the consideration of UGX.200bn was derived from the bad book of UGX.570.38bn. DFCU has so far paid UGX.98.3bn of the UGX.200bn liability.

Further, I was not provided with the schedule of loans and the corresponding collateral transferred to DFCU. As such I was unable to establish the values and categories of loans transferred (performing loans, non-performing loans and fully provisioned/written off loans (bad book)).

- **Recovery of non-performing loans of GTB and NBC**

According to the Purchase and Assumption agreements signed between BOU and the purchasers (CBL and DFCU) to take over the assets and assume liabilities of the insolvent banks (NBC and GTB), the Purchasers were required to manage the Assets in Escrow (non-

performing and performing loans that remained with the insolvent bank) on behalf of BOU for purposes of debt collection. Any proceeds realized from the Assets in Escrow were to be shared between the Purchaser and BOU at agreed ratios. I noted that at the time of writing this report, UGX.4.442bn had been recovered from Assets in Escrow leaving a balance of UGX.10.017bn as shown in the table below;

Table showing recoveries on NBC and GTB Assets in Escrow

Details	Bank	Commission to the purchaser	Amount	Expected recovery	Recoveries
Performing Loans and Non-Performing Loans	NBC	65%	1,514,485,401	530,069,890	349,573,866
Non-performing loans	GTB	35%	21,430,201,395	13,929,630,906	4,093,052,663
Total			22,944,686,796	14,459,700,796	4,442,626,529

Source: NBC purchase and assumption agreement from BOU

- **Funds due from foreign banks**

A sum of UGX.3,467,753,732 due from Cooperative and GTB foreign banks at closure was recovered by BOU and deposited on their respective loan recovery and collection accounts. Similarly, a sum of UGX.2,616,462,000 out of UGX.6,596,695,000 due from the six (6) Greenland bank foreign accounts as at 30th June 2016 was recovered as full and final settlement following the conclusion of a court case filed in London.

However, UGX.464,571,000 on six(6) NBC foreign accounts had not been recovered by BOU because the liquidation process was halted by a court order. In addition, UGX.44,672,000 due from eight(8) ICB foreign accounts as at 30th June 2016 had also not been recovered.

- **Greenland Bank equity investment**

Greenland Bank equity investment in African Export-Import Bank (Egypt) worth USD.45,000 had accumulated dividends of USD.22,410 as at 30th November 2015, however, the liquidator (BOU) had not sold off the shares and therefore the funds have not been recovered.

Management of liabilities of the defunct banks

- **Outstanding liabilities of the defunct banks**

It was noted that liabilities amounting to UGX.503.76bn were still outstanding as at the time of writing this report from a total liability of UGX.1,617bn held at closure as detailed in the table below. The process of settling liabilities for ICB, Cooperative Bank and Greenland Bank

has taken over 17 years and this has affected the winding up process of these banks despite the three (3) banks in Receivership holding cash balances of UGX.19.5bn on their recovery accounts as at 30th June 2016.

The process of settling GTB creditors' claims was still ongoing pending full verification on account of missing supporting documentary evidence. Settlement of NBC creditor claims had not commenced as a result of the Court order that halted the winding up process.

CBL outstanding liabilities are funds that were injected by BOU during statutory management and according to BOU these will be recovered from DFCU bank and BOU claims against CBL shareholders.

Table showing liabilities as at closure and at the last date of the statement of affairs

Bank	Amount at Closure/intervention	Amount outstanding as at the last date of the statement of affairs
ICB	40,219,554,000	18,434,839,000
Cooperative	65,208,335,334	16,484,366,000
Greenland	102,228,907,125	112,138,192,000
GTBU	75,541,020,000	2,051,862,000
NBC	11,514,765,000	1,943,650,000
CBL	1,322,655,920,000	352,709,193,735*
TOTAL	1,617,368,501,459	503,762,102,735

Source. Statements of affairs from BOU

* BOU injected funds amounting to UGX 478,830,609,910 less amount settled by DFCU

- **Settlement of customer claims**

The depositors worth UGX.101.073bn of Cooperative bank, ICB and Greenland bank were verified and paid in full as pledged by government. The funds used to pay depositors were obtained from four (4) sources namely; GOU, DPF, BOU and insolvent bank-Cooperative (bank assets were used to pay its own customers) as per the table below.

Despite Government intervening with a contribution of UGX.91.221bn in July 2001 to settle both insured and uninsured deposits of the three (3) closed banks, there was no Memorandum of Understanding to enable me assess the terms of lending to BOU and how the funds would be repaid.

Table showing source of funds used to settle the depositors

Bank	GOU (bn)	DPF (bn)	BOU (bn)	Cooperative (bn)	Total contribution to depositors (bn)
Cooperative	49,126,648,621	1,073,231,645	1,137,399,703	8,101,734,669	59,439,014,638
ICB	3,257,282,358	279,745,829	450,000,000	0	3,987,028,187
Greenland	*38,837,069,021	1,799,792,511	471,734,636	0	2,271,527,147
Total	91,221,000,000	3,152,769,985	2,059,134,339	8,101,734,669	104,534,638,993

Source MOFPED communication refunding of payments made to account holders of closed banks, memo reference ACC 414 3 dated 6th March 2017 and BOU memo ref EDS122 6B from BOU

*The schedule to support the balancing figure of UGX 38.836 was not availed

Following the verification by BOU, customer deposits totalling UGX.101.073bn were verified but UGX.104.532bn was paid resulting into a variance of UGX.3.461bn. At the time of writing this report, this variance had not been reconciled.

- **Refund of contributions made towards settling customer claims**

A sum of UGX.96.431bn was contributed by DPF, GOU and BOU towards settling the insured and uninsured depositors of Cooperative bank, ICB and Greenland bank (See table below) and was to be refunded following the sale of assets of the closed banks. However, only UGX.28.055bn was refunded by the liquidator (BOU) leaving a balance of UGX.68.376bn. Government is unlikely to recover the outstanding balance since only UGX.19.7bn has been set aside to clear the outstanding claim pending conclusion of the liquidation exercise.

Table showing refund of amount contributed to settle customer deposits

Bank	Amount contributed (bn)	Amount refunded (bn)	Outstanding balance (bn)
DPF	3.151	3.151	0
GOU	91.221	22.845	68.376
BOU	2.059	2.059	0
	96.431	28.055	68.376

Source Confirmation of balances of defunct banks ref ACC 414 3 dated 6th march 2017 from BOU

- **BOU intervention costs to support the closed banks before closure**

Prior to closure, BOU injected a sum of UGX.504.507bn into three closed banks (Greenland, ICB and CBL) to avert a run on the banks. As at the time of writing this report, a sum of UGX.374.64bn was outstanding and due to BOU as indicated in the table below. The outstanding balance relating to Greenland Bank and ICB is unrecoverable according to BOU. According to BOU management, the balance of the funds injected into CBL will be recovered from DFCU Bank and BOU claims against CBL shareholders.

Table showing intervention costs by BOU

s/n	Banks	Amount injected (UGX) bn	Amount recovered (UGX) bn	Amount outstanding (UGX) bn
1.	Greenland	24.053	3.477	20.576
2.	ICB	1.624	0.269	1.355
3.	CBL	478.830	126.121	352.709
	Total	504.507	129.867	374.64

Source: Statements of affairs of Greenland and ICB, BOU-CBL funding accounts and BOU-DFCU Limited receivable accounts statement from BOU

Liquidation costs of the defunct banks

- A bank in Receivership is required to pay all expenses of liquidation and a liquidator is required to maintain proper financial records, maximize collections and minimize liquidation costs in the liquidation process as provided by Sections 105 and 106 of the FIA 2004. I noted a sum of UGX.18.774bn was incurred by the Liquidator (BOU) as liquidation costs as indicated in the table below. Liquidation costs incurred on NBC and CBL could not be ascertained since BOU had not commenced the process of liquidation.

Table showing liquidation costs of the defunct banks

Bank	Total liquidation cost
ICB	2,725,178,759
COOPERATIVE	7,076,115,000
GREENLAND	8,219,188,000
GTBU	754,346,000
NBC	0
CBL	0
TOTAL	18,774,827,759

Source: Statements of affairs of ICB, Cooperative, Greenland and GTBU and contracts, invoices, receipts and detailed statement of account of CBL from BOU

It was further observed that BOU did not maintain full ledgers in relation to liquidation costs of ICB, Cooperative bank and Greenland bank. Therefore, I could not confirm the total liquidation costs for these three (3) banks.

Statutory management of CBL

• Plan to revive CBL

CBL was placed under statutory management from 20th October 2016 to 20th January 2017. During this period, the Statutory Manager did not prepare a plan detailing efforts to return the bank into compliance with prudential standards despite BOU injecting UGX.478.8bn to support the operations of CBL. In absence of any documented assessment to revive the

bank, I could not provide assurance as to whether Sections 89(5) and 90(4)(c) of the FIA 2004 was complied with.

- **Preparation of CBL financial statements**

The Statutory Manager prepared CBL annual report and financial statements for the year ended 31st December 2016 but these were neither signed by BOU nor the Auditors. Furthermore, the Statutory Manager did not provide financial statements for the period 1st January 2017 to 25th January 2017 (P&A completion date). I was therefore unable to ascertain the financial performance of CBL during statutory management and its financial position as at 25th January 2017. As such, I was also unable to establish the details and values of assets and liabilities transferred to DFCU.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

27th August, 2018

DETAILED REPORT OF THE AUDIT ON THE RESOLUTION OF DEFUNCT BANKS BY BANK OF UGANDA

1.0 INTRODUCTION

1.1 Background to the Special Audit

In a letter ref AB:70/288/01 dated 28th November 2017, the Parliamentary Committee on Commissions, Statutory Authorities and State Enterprises (COSASE); requested the Auditor General to undertake a special audit on the closure of commercial banks by Bank of Uganda.

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Section 95 (1) of the FIA requires that the Central Bank shall, within twelve months from the date of taking over as a receiver, consider and implement any or all of the following options either singly or in combination;

- arrange a merger with another financial institution
- arrange for the purchase of assets and assumption of all or some of the liabilities by other financial institutions;
- arrange to sell the financial institution;
- Liquidate the assets of the financial institution.

In pursuit of its mandate, BOU has closed seven (7) banks since 1993 as detailed below.

Table 1: Showing the financial institutions closed and reasons for closure

s/n	Bank	Year of closure/ Takeover	Reasons for closure	Liquidation agent and period	Action taken	Status to-date
1	Teefe Bank	1993	Insolvency	-	Liquidate the assets of the financial institution	Closed
2	International Credit Bank Limited	18 th September 1998	Poor liquidity and Insolvency	KPMG September 1999 to September 2001 and thereafter handed over to BOU	Liquidate the assets of the financial institution	Closed and the process of winding up is ongoing.
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6	Global Trust Bank	25 th July 2014	Undercapitalisation and Corporate governance weaknesses	BOU	Arranged for the purchase of assets and assumption of all or some of the liabilities by other financial institutions;	Closed and the process of winding up is ongoing.
7	Crane Bank Limited	20 th October 2016	Under-capitalisation	BOU	Arranged for the purchase of assets and assumption of all or some of the liabilities by other financial institutions,	Closed. BOU has not commenced the process of winding up

Source: supervision reports and statement of affairs from BOU

1.2 Objectives of the Audit

The main objective of the audit was to assess the status of the assets and liabilities of the closed banks.

1.3 Specific Audit Objectives

- To establish whether proper inventory of the assets and liabilities of the banks was undertaken at closure in line with Section 89(3) of the FIA 2004 and Section 32(3) of the FIS 1993.
- To establish whether the liquidator appropriately managed the sale of the assets and accounted for the funds resulting from the sale and whether the Receiver appropriately transferred assets and liabilities under the Purchase & Assumption arrangement.
- To establish whether all liabilities at closure and all creditor claims after closure were properly ascertained, recorded and settled in line with FIA 2004 (Sections 102, 105 and 106) and FIS 1993 (Section 34(3)).
- To ascertain whether the funds from DPF/DIS were properly used to settle insured deposits of closed banks in line with Section 34(3) of FIS and Sections 105 and 108 of the FIA.
- To ascertain the total cost of liquidation of the defunct banks.
- To establish whether the Statutory Manager performed his functions in line with Section 90(4) of the FIA 2004 and ascertain the total cost incurred by BOU during the intervention period.
- To carry out any other procedures that may be appropriate in the circumstances.

1.4 Scope and Nature of the Audit

The audit covered the statutory role of BOU in closing the seven (7) financial institutions with major focus on management of assets and liabilities from closure to date. The audit also involved evaluating the process of winding up and to ascertain the current status.

1.5 Methodology

I conducted this special audit in accordance with the Office of the Auditor General Forensic Investigations and Special Audit Guide, 2014. During the audit, I designed and performed procedures that I considered appropriate under the circumstances to enable me gather evidence to support my findings and draw reasonable conclusions

where necessary. My audit followed lawful evidence gathering techniques and procedures including, but not limited to the following;

a. **Document Review:**

Documents relating to the banks resolution process were reviewed to ascertain the status of the banks during closure and after the closure. The schedule of the documents reviewed is indicated in **Schedule A**.

b. **Interviews:**

I conducted a number of interviews with BOU staff that were involved in the resolution of the Defunct Banks as indicated in **Schedule B**. The interviews were held for purposes of gaining more understanding and knowledge on the specific operations and processes undertaken by BOU in the execution of the its statutory mandate on closure of financial institutions.

1.6 Limitations and Subsequent Events

I have attempted to include all information relevant to the closure of the defunct banks. However, it is possible that documents and information exist which were not made available to me, or which I was unable to locate. Any documents or information brought to my attention subsequent to the date of this report which would affect the findings listed in the report, may require my findings to be adjusted and qualified accordingly.

1.7 Restriction on Distribution of the Report

This report was prepared solely for the purposes of reporting my findings to the Parliament of the Republic of Uganda. Therefore, its contents should not be utilized for any other purpose without my prior written consent. No part shall be quoted, referred to or disclosed in whole or in part, by any third party without my prior consent.

1.8 Legal Advice

Although my report may contain references to relevant laws and legislation, I do not provide legal opinion on the compliance with such laws and my findings in this report are not to be construed as providing legal advice. My reference to the relevant laws is intended solely to facilitate the determination of applicable facts which may be relevant to the interpretation and/or application of such laws. Should such

interpretation require legal advice, I recommend that independent legal advice is obtained.

2.0 DETAILED FINDINGS OF THE SPECIAL AUDIT

The findings in this report are arranged in 3 sections.

- A. The first section of this report highlights issues raised on Teefe Trust Bank as guided by the 1969 Banking Act where BOU took over as a Receiver and liquidated the assets of this financial institution.**

- B. The second section of this report highlights issues raised on Banks closed as guided by the FIS 1993 where BOU took over as a Receiver and liquidated the assets of these financial institutions. These include Greenland Bank, Cooperative Bank and International Credit Bank.**

- C. The third section of this report highlights issues raised on Banks closed as guided by the FIA 2004 where BOU arranged for the Purchase of assets and Assumption of all or some of the liabilities by other financial institutions. These include Global Trust Bank, National Bank of Commerce and Crane Bank.**

Section A

The first section of this report highlights issues raised on Teefe Trust Bank as guided by the 1969 Banking Act where BOU took over as a Receiver and liquidated the assets of this financial institution.

2.1 Availability of records on Teefe Trust Bank

On 30th January 2018 and 10th April 2018, I requested for documentation relating to all closed banks¹ specifically the Inventory report, loan schedules, customer deposit schedules, statement of affairs and any reports supporting assets and liabilities taken over by BOU. However I was not availed with sufficient documentation relating to Teefe Trust Bank to enable me fulfil the specific audit objectives.

BOU management explained that it will continue to search in the archives to get all the information.

¹ Letter addressed to the Director Commercial Banking requesting for audit information by OAG dated 30th January 2018

Because of this limitation, I could not assess the status of the assets and liabilities of Teefe Trust Bank from closure to date.

Section B

The second section of this report highlights issues raised on Banks closed as guided by the FIS 1993 where BOU took over as a Receiver and liquidated the assets of these financial institutions. These include Greenland Bank, Cooperative Bank and International Credit Bank.

2.2 Preparation of key documentation necessary for the winding up of the defunct banks

BOU Management is responsible for the preparation of the Inventory reports, Statement of affairs and liquidation reports of the liquidated bank in accordance with FIS 1993 and FIA 2004. BOU Management is also responsible for maintaining proper accounting records that disclose with reasonable assurance the state of affairs of the closed bank and safeguarding the bank's assets.

BOU provided all the Inventory reports (except that of ICB), Statements of affairs (as determine by BOU) and liquidation reports of the liquidated banks.

The findings below are based on the review of the Statements of affairs, the Inventory reports, liquidation reports provided by BOU together with other documentation provided.

2.3 Management of assets by BOU after closure

Section 33(5) (d) of the Financial Institutions Statute 1993 provides that on winding up the affairs of the insolvent financial institution, BOU should eliminate the interests of shareholders and may purchase, sell or transfer assets in order to recover the maximum amount on a pro rata distribution to depositors and creditors of an insolvent financial institution.

The Statements of affairs for the three(3) banks show that at closure the banks had assets worth UGX.117,691,652,159 comprising of cash, loans, property and equipment, equity investment, amounts due from related parties and balances due from other banks. According to BOU management, some of the assets were sold and the proceeds used to settle liabilities. As at 30th June 2016, the asset position had

reduced to UGX.19,729,181,000 mainly representing cash held on the recovery account as detailed in the table 2a and 2b below.

Table 2a: Showing total assets from closure to 30th June 2016

Bank	Date of closure	Assets at closure	Assets as at 30 th June 2016
ICB	18 th September 1998	18,447,921,000	92,069,000
Cooperative	19 th May 1999	60,933,131,038	5,335,863,000
Greenland	1 st April 1999	38,310,600,121	14,301,249,000
Total		117,691,652,159	19,729,181,000

Source: Statements of affairs from BOU

Note The loans assets included the total assets at closure are recorded at net of doubtful debt in table 2b below

Table 2b: Showing loan assets at closure

BANK	GROSS AMOUNT	PROVISIONS FOR DOUBTFUL DEBT	NET AMOUNT included in total assets at closure (table 2a)
Greenland	54,771,197,426	36,779,329,023	17,991,868,403
Cooperative	37,614,151,196	11,346,883,119	26,267,268,077
ICB	14,061,924,000	-	14,061,924,000
TOTAL	106,447,272,622	48,126,212,142	58,321,060,480

Source: Inventory report and statements of affairs from BOU

The three (3) closed banks had Gross loans amounting to UGX.106,447,272,622 at the time of bank closure. In November 2007, Loans with a book value of UGX.135,054,430,888 (with accumulated interest) were sold to Nile River Acquisition Company (NRAC) as indicated in the table below;

Table 3: Showing total loans assets from closure to 30th June 2016

Bank	Reports	Loans and overdraft as per the financial and investigation reports	Net book value of Loans sold to NRAC as at 5 th November 2007
ICB	ICB reports and financial statement for the period ended 31st December 2001	14,061,924,000 ²	21,116,137,610
Cooperative	Cooperative bank final report dated 24th August 2001	37,614,151,196 ³	47,486,731,702
Greenland	Financial statements audit and investigation of Greenland bank as at 31 st March 1999	54,771,197,426 ⁴	66,451,561,576
Total		106,447,272,622	135,054,430,888

Source: Statements of affairs from BOU

I reviewed the Inventory reports, Statements of affairs, recovery accounts statements, sale agreements and the relevant sections of the FIS/FIA to establish whether the Liquidator appropriately managed the sale of the assets and accounted for the funds resulting from the sale.

² ICB reports and financial statement by Jasper - Semu Associates for the period ended 31st December 2001 (figure excludes provisions) pg 24

³ Cooperative bank final report by KPMG dated 24th August 2001 (figure excludes provisions) pg 5

⁴ Financial statements audit and investigation of Greenland bank as at 31st March 1999 by Deloitte and Touche (figure excludes provisions) pg 19

The following matters were observed;

2.3.1 Asset movement schedules/ledgers

Section 33(5)(a) of FIS 1993 provides that where the Central Bank decides to liquidate a financial institution, it shall realise the assets of the insolvent financial institution. In doing so, the Liquidator is required to keep proper financial ledgers and financial records in which shall be recorded all financial transactions relating to the liquidation.

Period when the liquidation role was outsourced

BOU appointed agents as Receivers to liquidate the assets of the closed banks and were required to prepare and submit proper financial ledgers and records to facilitate the winding up process.

In letters dated 30th January 2018, 20th February 2018 and 10th April 2018, I requested for the liquidation records and reports to enable me assess the movement in assets from closure to date. The records show that for the period when liquidation process was being managed by appointed agents of the Liquidator(BOU), the agents regularly submitted liquidation reports including detailed asset movement schedules to the Central Bank as indicated in the table below;

Table 4: Showing liquidation agents and the period when they prepared reports

S/N	Bank	Year of closure/ Takeover	Liquidation agent	Reports submitted
1	ICB	18 th September 1998	KPMG	ICB in liquidation final report dated 30 th September 2001
2	Greenland	1 st April 1999	Deloitte and Touche	Greenland bank ltd in receivership/liquidation <ul style="list-style-type: none"> - BOU liquidators report 1 dated 19th July 1999 - Progress report II dated 12th August 1999 - Progress report III dated 15th November 1999 - Greenland bank ltd in liquidation final hand over report dated May 2001
3	Co-operative	19 th May 1999	KPMG	Cooperative bank in liquidation final report dated 24 th August 2001

Source statements of affairs

Period when the Central Bank was a liquidator

The period starting 2002 when the liquidation role was performed directly by BOU, no detailed asset movement schedule/ledgers indicating assets at closure, assets sold, selling price, period of sale, assets not sold, performing and non-performing loans were provided to support asset movements in the statements of affairs for the three (3) closed banks.

For instance, although the statements of affairs as at 30th June 2016⁵ indicated that all the physical assets and customer loans had been sold, BOU records indicated that the liquidator did not sell some of the assets (3 land titles) previously owned by Co-operative bank as shown in the table below. According to BOU, the titles are still in custody of the Central Bank.

Table 5: Showing unsold Co-operative bank assets

Registered Proprietor	Volume	Folio	Block	Plot No	Location
Cooperative Bank	130		2042	16	Masindi Port Rd. Masindi
Cooperative Bank	241	237			Mutungo
Cooperative Bank	240	237			Mutungo

Source: BOU correspondence

Because of the incomplete asset movement schedules, I was not able to verify the movement of assets from UGX.117,691,652,159 at closure to UGX.19,729,181,000 as stated in the Statement of affairs as at 30th June 2016.

BOU management explained that it undertakes to provide the full list of all the recoveries made against loans for the three(3) closed banks. They further indicated that the three(3)title deeds for the Cooperative Bank Ltd listed in table above were not sold because of ownership disputes between the bank and a sitting tenant on a leased property in Masindi and because the two(2) plots in Kampala were just roads connecting other plots that were subdivided from a larger piece of land.

⁵ Statements of affairs of ICB (pg 9) Greenland (pg6) and Cooperative Bank (pg5)

2.3.2 Sale of Customer loans

Section 33(5) (d) of the Financial Institutions Statute 1993, requires the liquidator to sell or transfer assets in order to recover the maximum amount so as to settle claims of an insolvent financial institution.

Delay to sale loan assets

BOU sold majority of loans for the three(3) banks in 2007 despite the banks closing in 1998 and 1999. Details of loans that were sold prior to 2007 were not provided for verification.

BOU management explained that the initial recourse of a Liquidator is to try and recover the loans and a substantial part of the portfolio was recovered. It was only after these efforts had been exhausted that the liquidator made a decision to sell the loans however a number of challenges including protracted legal suits and encumbered collateral derailed BOU from selling off customer loans expeditiously.

Sale of loan assets at a discount

In 2006, BOU designed a strategy to exit the liquidation of the three (3) closed banks which involved; assessment, evaluation, packaging and bulk selling of the remaining assets of the closed banks so that the proceeds can be distributed among creditors. Subsequently, BOU carried out a competitive procurement process including public advertisement, evaluation of bidders and selection of a suitable firm to implement the strategy.

According to a letter ref.EDS.122.6A⁶, M/S J.N. Kirkland & Associates was contracted by BOU on 17th January 2007 to implement an exit strategy for closed banks' liquidation. The assignments commenced on January 29, 2007 and were expected to be accomplished within 16 weeks, ending May 2007.

According to a letter ref.EDS.B.65A dated 24th May 2007⁷, JN Kirkland & Associates evaluated the remaining assets of the closed banks and identified a suitable firm, M/s Octavian Advisors, LP which expressed interest to purchase these assets at USD.10.0m from BOU Following further negotiations with BOU, M/s Octavian Advisors, LP registered Nile River Acquisition Company in order to transact with BOU.

⁶ BOU letter ref EDS 122 6A dated 25th September 2007

⁷ BOU letter ref EDS B 65A dated 24th May 2007

In December 2007, BOU signed an agreement with Nile River Acquisition Company (NRAC)⁸ to sell the debt portfolio of Greenland Bank, ICB and Cooperative bank at USD.5.25m (UGX.8,898,736,349). The debt portfolio comprised of Secured, Poorly secured, Unsecured and Unknown loans amounting to UGX.135,054,430,888⁹. The details of the loan portfolio are in table below. The sale of the loans to NRAC resulted in a variance of UGX.126,155,694,539.

Table 6: Showing the loans sold to Nile River Acquisition Company

BANK	LOAN TYPE	PRINCIPAL	ACC INTEREST	TOTAL LOAN
ICB	NOT SECURED	3,943,062,667	6,519,651,913	10,462,714,580
	POORLY SECURED	2,921,320,393	5,540,326,883	8,461,647,276
	SECURED	536,245,991	510,386,806	1,046,632,797
	UNKNOWN	1,132,241,607	12,901,350	1,145,142,957
	SUB TOTAL	8,532,870,658	12,583,266,952	21,116,137,610
CO-OPERATIVE	NOT SECURED	5,698,477,978	8,900,872,847	14,599,350,825
	POORLY SECURED	805,041,919	928,523,035	1,733,564,954
	SECURED	10,056,230,916	13,960,141,344	24,016,372,260
	UNKNOWN	6,681,294,448	456,149,215	7,137,443,663
	SUB TOTAL	23,241,045,261	24,245,686,441	47,486,731,702
GREENLAND	NOT SECURED	14,909,909,096	28,066,214,869	42,976,123,965
	POORLY SECURED	2,793,672,289	5,671,349,248	8,465,021,537
	SECURED	3,502,973,476	6,002,560,447	9,505,533,923
	UNKNOWN	4,957,748,282	547,133,869	5,504,882,151
	SUB TOTAL	26,164,303,143	40,287,258,433	66,451,561,576
GRAND TOTAL		57,938,219,062	77,116,211,826	135,054,430,888

Source: Signed agreement between BOU and Nile River Acquisition Company

The loan portfolio sold included secured loans of UGX.34,568,538,980 which had valid, legal or equitable mortgage on the real property and were supported with legal documentation¹⁰. I noted that the contract price of UGX.8.898bn represented 26% of the total secured loan portfolio and 7% of the total loan portfolio implying

⁸ Agreement signed between BOU and Nile River Acquisition Company

⁹ Refer to the Agreement Article 6 7(B) schedules

¹⁰ Definition of secured loans as per NRAC debt purchase and transfer agreement December 2007 page 9