



THE REPUBLIC OF UGANDA

SPECIAL AUDIT REPORT OF BANK OF UGANDA ON DEFUNCT BANKS

OFFICE OF THE AUDITOR GENERAL

KAMPALA

AUGUST 2018

TABLE OF CONTENTS

ABBREVIATIONS.....	IV
EXECUTIVE SUMMARY	V
1.0 INTRODUCTION.....	1
1.1 Background to the Special Audit.....	1
1.2 Objectives of the Audit	3
1.3 Specific Audit Objectives.. ..	3
1.4 Scope and Nature of the Audit	3
1.5 Methodology.....	3
1.6 Limitations and Subsequent Events	4
1.7 Restriction on Distribution of the Report	4
1.8 Legal Advice	4
2.0 DETAILED FINDINGS OF THE SPECIAL AUDIT	5
2.1 Availability of records on Teefe Trust Bank	5
2.2 Preparation of key documentation necessary for winding up of the defunct banks.....	6
2.3 Management of assets by BOU after closure	6
2.3.1 Asset movement schedules/ledgers.....	8
2.3.2 Sale of customer Loans	10
2.3.3 Funds due from foreign banks.....	12
2.3.4 Greenland Equity Investments	13
2.3.5 Utilisation of cash balances on the recovery account	13
2.4 Management of liabilities by BOU after closure.....	14
2.4.1 Settlement of Claims . . .	15
2.4.2 Customer deposit liabilities	15
2.4.2.1 Reconciliation of paid customer deposits and contributions	16
2.4.2.2 Memorandum of understanding for GOU intervention of UGX.91.221bn to settle customer deposits.....	16
2.4.2.3 Refund of contributions	17
2.5 Liquidation costs	19
2.6 Judicial Commission of Inquiry into closure of banks	21
2.7 Global Trust Bank.....	23
2.7.1 Guidelines for selection of the buyer under purchase and assumption arrangement	26
2.7.2 Sale of Performing Loans at a discount	27
2.7.3 Reconciliation of Inventory report and the book values in the agreement	28
2.7.4 Management of Assets in Escrow	29
2.7.5 Follow up of assets retained by BOU after Purchase & Assumption.....	29

2.7.6	Settlement of GTBU creditor claims	31
2.7.7	Legal cases against GTBU	33
2.7.8	Cost of Liquidation of GTBU	33
2.8	National Bank of Commerce.....	33
2.8.1	Sale of secured performing loans at a discount	35
2.8.2	Land sold at a discount to Crane bank.....	36
2.8.3	Assets retained by BOU	37
2.8.4	Delay in the liquidation process of NBC.....	41
2.8.5	Liquidation costs	43
2.9	Crane Bank Limited	43
2.9.1	Lack of guidelines for selection of the buyer under purchase and assumption arrangement	48
2.9.2	Valuation of assets and liabilities at the time of sale	49
2.9.3	Loans and advances transferred to DFCU	50
2.9.4	Statutory Management	52
2.9.4.1	Terms of service of the Statutory Manager (SM)as per appointment letter.....	52
2.9.4.2	Preparation of financial statements during statutory management.....	53
2.9.4.3	Plan to revive CBL	54
2.9.4.4	BOU support to CBL during statutory management	54
2.9.5	Excluded assets and liabilities	64
2.9.6	Preparation of a Statement of affairs.....	66
	Appendix 1: Detailed schedules of liability	67
	Appendix 2: Global Trust Bank – Litigation Cases	69
	Appendix 3: CBL Assets and liabilities transferred.....	77
	CBL Appendix 4: Reconciliation of Liquidity Support to CBL.....	77
	Schedule A-Documents Reviewed	79
	Schedule B-Persons Interviewed	80

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.

The committee specifically requested the Auditor General to provide assurance on; the status of the banks at closure, cost of liquidation, assets and liabilities of the aforementioned banks at closure and current status, 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, undercapitalisation and 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 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.
3	Greenland Bank	1 st April 1999	Insolvency and violation of certain provision 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 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 - BOU liquidators report 1 dated 19 th July 1999 - Progress report II dated 12 th August 1999 - Progress report III dated 15 th 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

that the loans were sold at a discount. I was unable to determine the criteria used by BOU in deriving the sale value.

BOU management explained that estimating the recoverable amount of a closed bank's loan portfolio cannot be done with precision. Because of uncertainty in the recoverable value and the costs related to recovery, it is always true that any buyer will be unwilling to pay the full book value of a portfolio of bad debts. It is inevitable that these portfolios will always be sold at a discount.

2.3.3 Funds due from foreign banks

Section 33(5)(a) of FIS 1993 states that where the Central Bank decides to liquidate a financial institution, it shall realise the assets of the insolvent financial institution. In order to realise the funds due from foreign banks, the liquidator will formally communicate to the closed bank's correspondent bank about the closure and ensure that the funds are recovered.

A review of the Statements of affairs of ICB and Greenland bank revealed that the banks had UGX.6,641,367,000 on foreign accounts as at 30th June 2016 (over 17 years after closure). Refer to the table below;

Table 7: Showing amounts held on foreign accounts

Bank	Amount as at date of closure	Amount as at 30th June 2016(UGX)	Date closure	Duration from closure to 30th June 2016
ICB	750,425,000	44,672,000	18 th September 1998	17 years
Greenland Bank	3,193,173,660	6,596,695,000	1 st April 1999	17 years
Cooperative Bank	1,313,102,394	0	19 th May 1999	17 years
Total	5,256,701,054	6,641,367,000		

Source: Statements of affairs from BOU

I was not availed with details of the type of foreign accounts held and their respective Certificates of bank balances and as such I could not establish the reconciled balance as at 30th June 2016.

Furthermore, a review of *note 6.3* of the Statement of affairs of Greenland Bank as at 30th June 2016 revealed that BOU made a full provision of UGX.6.596bn¹¹ to write off funds from six(6) foreign accounts. However, I could not verify the basis for the full provision.

¹¹ Greenland Bank Statement of Affairs as at 30th June 2016 page 8

BOU management explained that following the conclusion of a court case relating to Greenland bank funds due from Foreign accounts filed in London UK , funds (less costs of the legal suit) amounting to UGX.2,616,462,000 were realized and posted onto the loan recovery account for Greenland Bank, in full and final settlement.

I confirmed that UGX.2,616,462,000 recovered from the Court case was credited on the Greenland bank Limited loan recovery and collection account no: 312.233001.1 on 31st March 2015¹² and the balance is not recoverable. At the time of writing this report the liquidator had not recovered the funds worth UGX.44,672,000 due from ICB foreign accounts.

2.3.4 Greenland Equity Investments

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

A review of the Greenland Bank Statement of affairs as at 30th June 2016 indicated that the bank had an Equity investment in African Export-Import Bank (Egypt) worth USD.45,000 which had accumulated dividends of USD.22,410 as at 30th November 2015. However, BOU had not sold off the shares.

BOU management explained that the process of selling the shares commenced on October 30th 2017 and is awaiting response from Afrexim bank on sale of the shares.

2.3.5 Utilisation of cash balances on the recovery account

Section 30(3)(b)&(c) of the FIS 1993 provides that in case of a liquidation under this Section, the depositors shall be entitled to first claim and thereafter all other creditors shall be ranked in accordance with the law relating to insolvent companies under the Companies Act. The Board of Directors of the financial institution shall, before paying creditors holding direct claims and with the approval of the Central Bank, make arrangements as are necessary to ensure a pro rata distribution among holders of claims that are likely to be reduced to judgement in a court.

A review of the Statements of affairs relating to ICB, Cooperative bank and Greenland bank as at 30th June 2016 revealed that a total of UGX.19,536,310,000

¹² Greenland bank Limited loan recovery and collection account no 312 233001 1 on 31st March 2015

was still held on the closed banks recovery accounts. I also observed that as at 12th February 2018, the balances had reduced to UGX.19,363,685,364 as indicated in the table below.

Table 8: Showing the balances on the recovery accounts

Bank	Balances as at 30 th June 2016	Balances as at 12 th February 2018 ¹³
ICB	47,397,000	12,256,744
Co-operative Bank	5,335,863,000	5,246,289,573
Greenland Bank	14,153,050,000	14,105,139,047
Total	19,536,310,000	19,363,685,364

Source: Statements of affairs and recovery accounts from BOU

Although some funds were available to settle the obligations, the Liquidator (BOU) had not made any further distribution to the creditors since 2008¹⁴. As at 30th June 2016, the outstanding liabilities stood at UGX.147,057,397,000 as detailed in table 9 below.

BOU management explained that the available funds will be utilized during the winding up process. The cash balances were not fully utilized because there were a number of outstanding court cases against the liquidated banks and pending creditor claims presenting potential liability.

2.4 **Management of liabilities by BOU after closure**

I reviewed the Statements of affairs, Inventory reports, and verification reports to establish whether all liabilities at closure and all creditor claims after closure were properly ascertained, recorded and settled in line with Section 34(3) of the FIS 1993.

The Statements of affairs as at 30th June 2016 of the three (3) closed banks indicated that liabilities amounting to UGX.147,057,397,000 were still outstanding¹⁵ from a total liability of UGX.207,656,796,459 held at closure. **Details are in the table 9 and appendix 1.** Overall the process of settling liabilities has taken over 17 years and this has affected the winding up process of these banks.

Table 9: Showing liabilities at closure and as at 30th June 2016

Bank	Amount at Closure	Amount as at 30 th June 2016
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
Total	207,656,796,459	147,057,397,000

Source: Statements of affairs from BOU

¹³ Balances as per the recovery account statements

¹⁴ Greenland Bank Statement of affairs as at 30th June 2016 pg 12

¹⁵ Appendix 1 refers - Liabilities of the closed banks from closure to 2016

I reviewed the status of liabilities from the time of closure of the banks up to the recent Statement of affairs (30th June 2016) and observed the following;

2.4.1 Settlement of Claims

Section 102 of FIA 2004 requires the Liquidator to publish an advert in a local newspaper of national circulation calling upon all creditors Secured and Unsecured including depositors to submit to the Central Bank or the Liquidator within one month from the date of publication a statement of the amount claimed and the particulars of the claim.

BOU has an internal process of verifying liabilities of closed banks before settlement of claims. This involves; carrying out inventory of the banks upon closure, placing an advert on a reputable media, registration of claims by the liquidator (BOU), constitution of a verification committee to study the claims submitted by the various claimants and make a recommendation on how much/many creditor claims should be honoured or rejected.

The liabilities were verified by BOU verification committee and some claims settled resulting into an outstanding balance of UGX.147,048,397,000 as at 30th June 2016.

Included in UGX.147bn is UGX 14.89bn not owed to the DPF hence the liabilities are misstated as noted in **issue 2.4.2.3 of this report.**

2.4.2 Customer deposit liabilities

Section 30(3)(b) of the FIS 1993 provides that in case of a liquidation under this Section, the depositors shall be entitled to first claim and thereafter all other creditors shall be ranked in accordance with the law relating to insolvent companies under the Companies Act.

A review of the Inventory reports and Statements of affairs of the three (3) closed banks revealed that the customer deposits amounted to UGX.134,987,688,744 at closure. The memo ref EDS122.6B dated 31st October 2008¹⁶ indicated that the depositors of the three(3) closed banks were verified and paid in full as pledged by government (except Government accounts and insiders accounts identified as per

¹⁶ BOU internal memo Ref EDS 122 6B –Distribution of closed banks' liquidation proceeds iro depositors' claims

provisions of section 36(3) of FIS 1993). Details of settlement of depositors are as per the table below;

Table 10: Showing customer deposits

Bank	Gross Deposits as at 31.12.2005	Payable deposits excluding Gov't accounts and Withheld insiders (UGX.17.5bn) as at 31.12.2005	Verified deposits
Cooperative	58,582,635,000	58,582,635,000	55,647,504,742
ICB	18,498,201,000	6,672,998,468	5,122,506,159
Greenland	48,887,900,000	43,026,361,000	40,303,460,420
Total	125,968,736,000	108,281,994,468	101,073,471,321

Source: BOU memo ref EDS122 6B and Statement of affairs as at 31/12/2005 from BOU

The following were observed;

2.4.2.1 Reconciliation of paid customer deposits and contributions

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). Refer to the table below.

Table 11: Showing source of funds used to settle the depositors

Bank	GOU ¹⁷ (bn)	DPF ¹⁸ (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 38 838 was not availed

I was unable to reconcile the variance of UGX.3.461bn arising from the difference between the total contributions to depositors of UGX.104.532bn and total verified depositors of UGX.101.073bn.

2.4.2.2 Memorandum of Understanding for GOU intervention of UGX.91.221bn to settle customer deposits

Section 34(3) of the FIS 1993 requires the Minister from time to time, in consultation with the Central Bank and by notice in the Uganda Gazette, fix the size of the fund sufficient to protect the interests of the depositors to be made up by contributions under Section 35 and may authorise the Central Bank to borrow any

¹⁷ MOFPED communication refunding of payments made to account holders of closed banks

¹⁸ Confirmation of balance of the defunct banks reference ACC 414 3 dated 6th March 2017

such amounts as it may require for temporary purposes of making up deficiency in the fund pending collection of contribution.

In line with the above law, GOU and BOU came up with an intervention policy in May 1997¹⁹ which provided that when a bank is liquidated, BOU commitment to depositors would be limited to the UGX.3m per depositor (Secured deposits) covered under the Deposit Insurance Scheme (DIS).

According to the financial statements of the DIF for the six years ended 30th June 2000²⁰ (from 30th June 1994 to 30th June 2000), the balance of DIF at the time of closure was only UGX.5.841bn.

According to the DPF audited financial statements for years ended 31st December 2006, 2009, 2010, 2012 and 30th June 2017²¹, the total insured deposits of the three(3) closed banks was UGX.41.152bn.

Therefore the DIF was insufficient to cover the total insured depositors. Consequently, Government intervened with a contribution of UGX.91.221bn in July 2001 to settle both Insured and Uninsured deposits of the three (3) closed banks. However, I was not provided with the Memorandum of Understanding to enable me assess the terms of lending to BOU and how the funds would be repaid.

BOU management explained that there is no MoU between Government and BOU in relation to the Government contribution towards refund of depositors. Management further explained that the DPF is now a separate legal entity under the amended FIA 2004, with its own Board of Directors and Management.

2.4.2.3 Refund of contributions

- **Refund of DPF contributions-UGX.3.151bn**

Section 36(5) of the FIS 1993 provides that upon payment of the protected deposit, the Fund shall be entitled to receive from the financial institution or Liquidator (BOU) an amount equal to the payment made by the Fund (contribution) to the protected deposits.

¹⁹ GOU and BOU intervention policy dated 21st May 1997

²⁰ DIF financial statement for the six years ended 30th June 2000 pg9

²¹ DPF financial statements for the years ended 31st December 2006, 2009, 2010, 2012 and 30th June 2017

According to the BOU and DPF records, a sum of UGX.3.151bn was paid from the DPF towards the Insured depositors of the three (3) closed banks (**See table 11 above**). However, I noted that a sum of UGX.25.063bn²² obtained from the sale of closed banks assets was used to refund the DPF by the Liquidator (BOU). This resulted into an excess refund of UGX.21.912bn which should have been used to offset Government contribution towards Insured depositors as detailed in the table below.

Table 12: Showing a variance between DPF contributions and refunds

Bank	Amount contributed by the DPF (bn)	Amount refunded to the DPF(bn)	Balance due to GOU (bn)
	A	B	(B-A)
The Co-operative Bank Limited	1 073	20.105	19 032
International Credit Bank Ltd	0 279	0.808	0 529
Greenland Bank	1.799	4 15	2.351
Total	3.151	25.063	21.912

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

A review of note 11 and 12 of the DPF financial statements as at 30th June 2017²³ revealed that the DPF still owed GOU a balance of UGX.19.75bn in relation to Government contribution towards settlement of Insured deposits. This amount is still held at DPF account in BOU and will be disbursed to government after the conclusion of the liquidation exercise of the three (3) closed banks.

I further noted that although the Statements of affairs of the three (3) closed banks as at 30th June 2016 indicated that the banks owed UGX.14.89bn to the DPF (as per the table below), the DPF financial statements for the financial years ended 31st December 2009, 2010, 2012 and 30th June 2017 indicated that the three (3) closed banks did not owe the DPF hence the liabilities are misstated.

Table 13: Showing DPF liability

Bank	2016(bn)
Greenland	11 410
Cooperative	3.480
ICB	0
Total	14.89

Source Statements of affairs as at 30th June 2016 from BOU

²² Confirmation of balances of defunct banks ref ACC 414 3 dated 6th march 2017

²³ DPF financial statements as at 30th June 2017

- **Refund of GOU contribution-UGX.91.221bn**

According to BOU management, Government contribution was to be refunded from the asset recovery account following the sale of the assets of the closed banks.

I reviewed the Statements of affairs of the three (3) closed banks as at 30th June 2016 and the DPF financial statements as at 30th June 2017 and noted that UGX.68.376bn was still outstanding as indicated in the table below.

Table 14: Showing the outstanding government claim

Government claim	Total outstanding (bn)
ICB	11.969
Cooperative	11.086
Greenland	25.571
Due from the 3 closed banks (subtotal)	48.626
Due from the DPF	19.750
Total	68.376

Source: Statement of affairs from BOU and DPF financial statements as at 30th June 2017

As indicated above, UGX.19.75bn is still held at BOU and the amount will be disbursed after the conclusion of the liquidation exercise of the three (3) closed banks. However, UGX.48.626bn (in the table above) payable by the three (3) closed banks will not be fully recovered since the remaining assets of the Insolvent banks are insufficient to settle all the creditor claims.

- **Refund of BOU contribution-UGX.2.059bn**

According to the BOU memo ref EDS122.6B dated 31st October 2008, BOU's contribution of 2.059bn was in respect of additional depositor paid after 30th June 2001 whose claims were mainly related to items caught in transit at the date of each bank's closure. BOU's contribution was fully recovered from the fund due to Government at the time of distribution.

2.5 Liquidation costs

Section 106(1) of the FIA 2004 provides that a Liquidator shall keep proper financial ledgers and financial records in a manner prescribed by the Central Bank in which shall be recorded all financial transactions relating to the liquidation.

BOU closure procedures require the Liquidator to maximise collections and minimise liquidation costs. The primary goal of bank's forced liquidation is to meet claims of

liquidated bank's creditors in a short period of time in line with Section 105 (1) (b) of FIA 2004.

However I noted, that BOU did not maintain financial ledgers in relation to the liquidation costs.

BOU management indicated²⁴ that the recovery account records all details relating to liquidation costs, creditor claims settled and proceeds from sale of assets. However, the recovery account provided did not have a clear description of transactions relating to liquidation costs. I could not therefore confirm the accumulated liquidation costs reported in the Statements of affairs as at 30th June 2016. Details are shown in the table below;

Table 15: Showing total liquidation costs

Bank	Total liquidation cost	Paid liquidation cost	Outstanding Liquidation cost
ICB	2,725,178,759	2,654,897,959	70,280,800
COOPERATIVE	7,076,115,000	6,960,808,000	115,307,000
GREENLAND	8,219,188,000	8,219,188,000	0
TOTAL	18,020,481,759	17,834,893,959	185,587,800

Source: Statements of affairs as at 30th June 2016 from BOU

2.5.1 Amounts due to Bank of Uganda

Prior to closure, BOU injected a sum of UGX.25.677bn into two closed banks (ICB and Greenland Bank Limited) to avert a run on the banks. According to the Statements of affairs of the closed banks as at 30th June 2016, a sum of UGX.21.931bn has been outstanding and due to BOU for a period of over 17 years as indicated in the table below.

Table 16: Showing borrowings due to bank of Uganda

Bank	Classification of liability	1998 (bn)	1999(bn)	2001(bn)	2002(bn)	2005(bn)	2016(bn)
ICB	Borrowings at Bank of Uganda	1 624	0	1.917	1.917	1 917	1 355
Greenland Bank Limited	Due to Bank of Uganda	0	24.053	24 053	24 208	24 208	20 576
Total							21.931

Source: statements of affairs from BOU

²⁴ OAG and BOU discussion on information request and agreed position dated 20th and 23rd April 2018

BOU management explained that BOU has already recovered some of the money lent to the closed bank through the pro rata distribution to creditors. Just like any other creditor, the balances are unrecoverable.

2.6 Judicial Commission of Inquiry into closure of banks

On 3rd August 1999, the Judicial Service Commission was tasked by Parliament to investigate the closure of Greenland, ICB and Cooperative Banks.

On 7th November 2000, the Commission of Inquiry submitted a report to Parliament for debate.

The report highlighted deficiencies in the operations of the financial institutions and gaps in the Financial Institutions Statute (FIS, 1993) and consequently, made recommendations that resulted into FIA, 2004 as summarized in the table below. A number of these recommendations were included in the Financial Institutions Act (FIA 2004) and are being implemented.

Table 17: showing Commission's recommendations and adoption in the FIA

S/n	Subject	Recommendation	Relevant section of the FIA, 2004
1.	Capitalization ²⁵	To raise the Minimum capital requirements for operating financial institution and continuously review the minimum capital requirements.	Section 26-28 Section 29-45
2.	BOU supervision ²⁶	To strengthen the prudential regulation and supervision of banks and to strengthen BOU's intervention policy towards failed banks in order to protect deposits and public funds. Standardize Loss Provisioning - Ageing of advances should be strictly applied for automatic trigger of computerised loan loss provisioning This will give corrective recognition of income and will motivate the banks to push for collection of non-performing assets (NPAs) which they consider recoverable.	Section 79-95
3.	Shareholding	In addressing the ownership and management of financial institutions BOU should address the issue of fit and proper shareholders and management and also impose restrictions on the right of a person to control financial institutions.	Section 18-25

²⁵ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 3 4

²⁶ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 2 6

4.	Corporate governance ²⁷	In addressing the Corporate Governance, BOU should clearly state the various roles of Board of Directors, Internal and External Auditors so that they are well defined. The position of chairman of the Board should not be executive and should therefore be separate from that of the Managing Director or Chief Executive Officer. The appointment of external auditors should continue to be approved by BOU and should be a reputable firm of accountants and should be automatically changed after every five years.	Section 52 - 77
5.	Financial statements	To clearly defined disclosure and transparency requirements for financial institutions in the area of accounts and financial statements	Section 46-51
6	Review and Strengthening the Deposit Protection fund ²⁸	Management of the Deposit Protection Fund should be transformed in to an autonomous scheme with overall oversight by BOU. The Administering Body of the Scheme should be a Board of Trustees. Success of the Fund would be greatly enhanced by a vigorous, creative and professional invest policy of the Funds' assets.	Section 108 and Section 108 FIA amendment Act
7.	Insider lending ²⁹	BOU should limit and continuously monitor Insider transactions.	Section 34
8.	Fraud and forgeries ³⁰	BOU should ensure that internal controls are designed with the banks and tested on an ongoing basis to minimise fraud and forgeries. Prosecute the suspects of fraud.	Section 77
9.	Management Information systems (MIS) ³¹	To facilitate bank supervision of MIS, all head Offices of banks in Uganda should be connected to BOU for online real time data collection for off-site inspection.	
10.	Credit Reference Bureau ³²	Consideration should be given to preparing, debating, and passing comprehensive legislation on consumer protection. Pursuant to such legislation, BOU (or other appropriate agency) would then establish a Credit reference Bureau to govern the banking industry in accordance with the principles enshrined in the consumer protection law.	Section 78
11.	Rating of banks ³³	Establish period rating mechanisms for banks.	Section 109 (7)
	Licensing ³⁴	Examine suitability and capacity of applicant to engage in commercial banking. Vet applications for branches with reference to capital	Section 4-17

²⁷ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 2 1 to 7 2 3

²⁸ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 3 12

²⁹ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 3 5

³⁰ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 2 5

³¹ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 3 1

³² Judicial Commission of Inquiry into closure of banks, November 2000 section 7 4 1

³³ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 4 3

³⁴ Judicial Commission of Inquiry into closure of banks, November 2000 section 7 3 2

		Curtail family banks: impose maximum shareholding per "family"	
--	--	--	--

Source: Judicial Commission of Inquiry into closure of banks, November 2000

Section 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.

Under the purchase and assumption arrangement, the Central Bank did not use the DPF to pay depositors of the closed 3 banks as all customer liabilities were assumed by the respective purchasers. This is in line with Section 111C of the FIA 2016 as amended, which provides that payments out of the fund are restricted to the insured deposits. In the case of purchase and assumption arrangement, the insurance cover of the existing customers is moved to the new and assuming bank.

2.7 Global Trust Bank

Global Trust Bank (GTBU) was closed on 25th July 2014 due to undercapitalization and Corporate Governance weaknesses among other reasons. BOU took over the management of GTBU in line with Section 88(1) of the Financial Institutions Act 2004. In line with Section 95(1) (b) of the Financial Institutions Act 2004, BOU and DFCU arranged for the purchase of assets and assumption of all or some of the liabilities of GTBU.

On 25th July 2014, BOU and DFCU signed a Purchase of assets and Assumption of liabilities agreement³⁵ where certain assets were transferred and liabilities assumed by DFCU as per Article 10.2. The remaining assets were to be retained by BOU.

The P&A further provides that Assets in Escrow (part of the Loan Portfolio of GTBU not assumed by the purchaser as detailed in Annex C) will be managed by the purchaser as an agent of the Liquidator. Any proceeds realized from the Assets in Escrow worth UGX.21,430,201,395 **(as indicated in the table 22 below)** shall be

³⁵ GTBU Purchase of assets and assumption of liabilities agreement

shared between the Liquidator and the Purchaser at a ratio of 65% and 35% respectively.

The balance of the assets worth UGX.23,091,758,200 were retained and managed by BOU. **The table 23 below refers.**

Article 3.4 of Purchase of assets and Assumption of liabilities agreement states that the purchaser shall on the payment date pay to the Liquidator any excess of the value of the assets transferred in excess of the liabilities and the reverse shall apply. Therefore the net amount payable by GTBU to DFCU was UGX.2,021,252,389 arising from the difference between assets purchased and liabilities assumed. **(Refer to the tables 18 and 19 below).**

BOU undertook a reconciliation of the transactions of the GTB accounts thus reducing the net payable by UGX.95,125,833. Consequently, GTBU (In Receivership) paid UGX.1,926,126,556 to DFCU on 8th August 2014.

Table 18: Showing transferred assets as per agreement

Asset Transferred	Price as % of Book Value	Book Value(UGX)	Price (UGX)
Performing Loans & Overdraft	80%	28,287,640,820	22,630,112,656
Treasury Securities at current value less WHT on Interest	100%	40,358,656,237	40,044,516,230
	Less WHT 20% of SHS 1 57bn	(314,140,007)	
BOU Forex acc balances	100%	690,885,170	690,885,170
BOU current acc	100%	5,590,305,062	5,590,305,062
Total assets transferred			68,955,819,118

Source: Purchase of Assets and Assumption of Liabilities Agreement from BOU

The Inventory report as at the time of closure (25th July 2014), indicated that the total liabilities amounted to UGX.75,541,021,000³⁶ out of which UGX.70,977,071,507 was assumed by DFCU as indicated in the table below. The balance of the liabilities was to be settled by the Liquidator after verification.

Table 19: Showing transferred liabilities plus accrued interest as per agreement

Type of liability		Amount transferred
Deposit Liabilities	Fixed Deposits	39,725,835,051
	Current accounts	15,770,272,684
	Savings accounts	14,796,225,606
Total Deposit liabilities		70,292,333,341
Other Liabilities	Fixed deposits interest up to 30 08 2014	514,869,783
	Written off Loan recovery costs	169,868,383

³⁶ GTB Inventory report as at 25th July 2014 prepared in November 2014

Total other Liabilities		684,738,166
Total Liabilities transferred		70,977,071,507

Source. Purchase of assets and Assumption of liabilities Agreement from BOU

On 16th December 2014³⁷, DFCU returned non-performing loans to the liquidator (BOU) totaling to UGX.5,971,114,379 in accordance with the Article 8.3 of the P&A. Consequently, GTBU (in Receivership) was to pay UGX.4,776,891,503 to DFCU which is 80% of the book value of the returned portfolio³⁸. This amount was settled as per the table below.

Table 20 showing transfer and payment for the assets in Escrow for GTBU

Item	Amount (UGX)	Amount (UGX)
80% of the portfolio transferred to the managed book		4,776,891,503
Less: adjustments		
Branch property and equipment transferred	(782,255,000)	
Prepaid rent	(452,396,404)	
Unpaid cheque (USD4,000)	(10,540,000)	
Subtotal of the Adjustment		(1,245,191,404)
Total amount due to DFCU Bank Ltd paid on 30/12/2014³⁹		3,531,700,099

Source GTB Memo ref EDS 122 10R dated 23rd December 2014 from BOU

The Statement of affairs as at 31st December 2017 which provides an overview of the bank's assets and liabilities on liquidation was prepared by BOU and audited by PKF.

I reviewed the Purchase of assets and Assumption of liabilities agreement, Inventory report, Loan recovery and collection account, Verification reports and Statement of affairs of GTBU;

- 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).
- To establish whether the liquidator appropriately managed the sale of the assets and accounted for the funds resulting from the sale.
- To establish whether all liabilities at closure and all creditor claims after closure were properly recorded and settled in line with FIA 2004 (Sections 102, 105 and 106)
- To ascertain the total cost of liquidation of the defunct banks.

³⁷ DFCU Letter to director of commercial banking date 16th December 2014

³⁸ DFCU bank ltd transfer and payment for the Assets in Escrow for GTB Memo ref EDS 122 10R dated 23rd December 2014

³⁹ GTBU loan recovery and collection account no. 324 233001 1 30th December 2014

My scope did not extend to assessing the management of assets purchased and liabilities assumed by DFCU.

I observed the following;

2.7.1 Guidelines for selection of the buyer under purchase and assumption arrangement

Section 95(1) (b) of the FIA 2004, states that the Central Bank shall within 12 months from taking over as a Receiver arrange for the purchase of assets and assumption of all or some of the liabilities by other financial institutions.

I observed that there were no guidelines/regulations or policies in place to guide the identification of the purchasers of GTBU. There were also no guidelines to determine the procedures to be adopted by the Central Bank in the sale of assets and transfer of assets or liabilities of the defunct banks to DFCU.

Interaction with BOU management indicated that the process of selecting the buyer commences by identifying and inquiring with potential purchasers in the industry and sharing with them preliminary information on the bank to be closed. Once the potential buyer expresses credible interest to purchase the bank, the buyer is required to sign a confidentiality agreement in order to obtain further information on the targeted bank to facilitate the sale.

I was not provided with records of the procurement process to ascertain the bid requirements, offers made, list of bidders, evaluation criteria, evaluation report and negotiation minutes leading to the P&A agreement.

In the absence of guidelines and procurement records, I could not ascertain whether BOU selected and evaluated the bids in line with the evaluation criteria.

In their response, BOU management stated that the circumstances of each bank resolution differ and cannot always be predicted in advance, For example, the nature of the global financial crisis which erupted in 2007-2008 took all bank regulators by surprise and required solutions which could not have been anticipated before the crisis. Drawing up a set of internal policies to guide a P&A and the selection and

evaluation of bids is unlikely to be helpful and could be counterproductive if it impedes the flexibility of the BOU to act expeditiously to resolve a failed bank in the manner which is least disruptive and damaging to public confidence and stability of the banking system.

2.7.2 Sale of Performing Loans at a discount

Section 95(3) of the FIA 2004 states that in determining the amount of assets that is likely to be realized from the financial institution's assets, the receiver shall—

- (a) Evaluate the alternatives on a present value basis, using a realistic discount rate;
or
- (b) Document the evaluation and the assumptions on which the evaluation is based, including any assumptions with regard to interest rates, asset recovery rates, inflation, asset holding and other costs.

Article 3.1 of the P&A⁴⁰ states that the liquidator hereby sells, assigns, transfers, conveys and delivers to the purchaser the rights, title benefits and interests of GTBU in and to the assets transferred, in an aggregate amount equal to the sum total indicated in ANNEX A.

According to ANNEX A⁴¹ of the P&A, Performing Loans and Overdrafts were transferred at UGX.22,630,112,656 representing 80% of the book value of UGX.28,287,640,820. This implies that DFCU acquired the loan portfolio at 20% discount.

Interviews with BOU management indicated that the transfer price was agreed upon after negotiations with the purchaser, however negotiations minutes of the P&A were not provided. Furthermore, the evaluation of the alternatives and assumptions on which the evaluation was based were not provided for verification. Therefore I could not determine the justification for transferring the Performing loans at a 20% discount.

Management explained that estimating the recoverable amount of a closed bank's loan portfolio cannot be done with precision. Because of uncertainty in the recoverable value and the costs related to recovery, it is always true that any buyer

⁴⁰ GBTU Purchase of assets and Assumption of liabilities agreement pg3

⁴¹ GBTU Purchase of assets and Assumption of liabilities agreement pg15

will be unwilling to pay the full book value of a portfolio of bad debts. It is inevitable that these portfolios will always be sold at a discount.

2.7.3 Reconciliation of Inventory report and the book values in the agreement

Section 89(3) of the FIA 2004 states that the Central Bank shall as soon as possible after taking over management of a financial institution, appoint an auditor at the cost of the financial institution to make an inventory of the assets and liabilities of the financial institution and submit a report to the Central Bank.

I reconciled the book values of assets and liabilities in the Inventory report with those in sales agreement signed at the bank closure date. I noted variances in the book value amounts of transferred assets and assumed liabilities when I compared details in the Purchase of assets and Assumption of liabilities agreement signed on 25th July 2014, and the Inventory report position as at 25th July 2014. For example, loans and overdrafts and government securities differed as indicated in the table below.

Table 21: Showing variance between book values as per Inventory report and Agreement

Asset	Book value amount as per Inventory report	Book value amounts as per agreement	Variances
Loans and overdrafts	38,996,191,952	38,174,464,825	821,727,127
Government securities	40,139,325,000	40,358,656,237	(219,331,237)
Total asset variance			602,395,890
Liabilities			
Current accounts	15,751,077,349	15,770,272,648	(19,195,299)
Savings accounts	14,805,129,769	14,796,225,606	8,904,163
Fixed deposit accounts	39,906,847,924	39,725,835,051	181,012,873
Total liability variance			170,721,737

Source: Assets and Liabilities Inventory report and Purchase of Assets and Assumption of Liabilities Agreement from BOU

BOU management explained that the figures in the inventory could not match with the actual customer deposits and loan listings a basis upon which the P&A was arrived at. The customer deposits and loan listings were used in the P&A because they had the necessary detail. Management further explained that GTBU supervision reports had indicated inaccurate financial reporting which justifies the variances.

2.7.4 Management of Assets in Escrow

Section 7.1 of the P&A refers to Assets in Escrow as those managed by the purchaser as an agent of the Liquidator for the purposes of collection. Total Assets in Escrow amounted to UGX.21,430,201,395⁴² as shown in the table below;

Table 22: Showing assets in Escrow

ASSET IN ESCROW (LOANS)	AMOUNT
Non-performing loans	8,324,981,701
Portfolio 60 to 89 days past due	836,692,492
Written-off loans	11,543,377,390
Overdrawn Accounts below UGX.500,000	725,149,812
Total	21,430,201,395

Source Purchase of assets and assumption of liabilities agreement-Annex C from BOU

Furthermore Section 7.2 of the P&A states that any proceeds realized from the Assets in Escrow shall be shared between the Liquidator and the Purchaser at the ratio of 65%:35% respectively.

According to the monthly collection report from DFCU, a total of UGX.6,297,004,097 has been collected as at December 2017. 65% of these collections amounting to UGX 4,093,052,663 has so far been recovered and transferred to GTBU recovery account in BOU. The balance of UGX.15,133,197,298 was yet to be recovered.

2.7.5 Follow up of assets retained by BOU after Purchase & Assumption

According to the Inventory report, I noted that assets worth UGX.23,091,758,200 were retained by BOU upon completion of the P&A as detailed in table below;

Table 23: Showing assets retained by BOU

Asset Type	Amounts at closure (2014) as per inventor report
Cash Balances	6,615,852,200
Amounts due from other banking Institutions.	2,389,619,000
Other Assets	5,191,561,000
Amounts due from group companies.	9,378,000
Property and Equipment	5,683,386,000
Intangible Assets	758,781,000
Deferred Tax	2,443,181,000
Total	23,091,758,200

Source GTBU Inventory report from BOU

The following were observed;

i. Cash balances

⁴² GTBU Purchase of assets and assumption of liabilities agreement page 6

According to the Guidelines on closure of deposit taking institutions endorsed and disseminated by the DCB, all the cash holding by both the cashiers and the vault officer will be counted, recorded and signed for by all responsible institution's officers and the BOU officer-in-charge. The money will be lodged into the strong room in the presence of the BOU officer-in-charge. BOU will arrange for transfer of the money to the Central Bank in a bullion van and ensure all locks and strong room is checked for any cash.

A review of the documents related to GTBU cash collected at takeover revealed that GTBU had 23 branches at the time of takeover. I reviewed cash count certificates countersigned by each party (BOU and GTBU) for the 23 GTBU branches at takeover and confirmed that cash amounting to UGX.6,615,852,200 was collected and deposited on GTBU loan recovery and collection account no: 324.233001.1. This account had a balance of UGX.5,204,415,000 as at 31st December 2017.

ii. Amounts due from other banking Institutions.

Amounts due from other banking institutions worth UGX.2,389,619,000 was collected and deposited on GTBU loan recovery and collection account. Details are in the table below.

Table 24: showing amounts due from other banking institutions

S/n	Bank	Amount
1	KCB Bank (U) Limited	32,808,638
2	Centenary Bank	202,159,122
3	Deutsche bank AG, London	1,726,066,297
4	Mercantile Bank	428,585,041
	Total	2,389,619,098

Source. GTBU Inventory report from BOU

iii. Property/equipment retained at BOU

BOU hired M/s Quickway Auctioneers and Court Bailiffs to sell the valued assets that were retained by BOU (GTBU assets in liquidation). The schedule of property and equipment auctioned revealed that UGX.879,257,549 was realized from the sale of 423 property and equipment and the proceeds transferred to the recovery account⁴³.

⁴³ GTBU schedule of property and equipment auctioned

I also noted that some property and equipment was used to offset amounts payable to DFCU. For example Branch property and equipment valued at UGX.782,255,000 were transferred to DFCU and paid by offsetting the amount payable to DFCU⁴⁴.

According to the statement of affairs as at 31st December 2017, the balance of property and equipment retained by BOU had moved from UGX.5.683bn⁴⁵ at the time of closure to nil as at the date of statement of affairs. However in a communication ref QWAC/60/14 dated 4th December, 2017⁴⁶ the auctioneer recommended M/s Meys Consulting Engineers and Valuers to revalue 119 pieces of equipment which were not sold during an auction held in November 2014 because the offers received were far below the reserve price. At the time of writing this report, these items had not been revalued and therefore the resale process had not commenced.

BOU management explained that revaluation of the assets is part of the winding up process.

iv. Amounts due from group companies

According to the Inventory report⁴⁷ the status of the amounts due from group companies amounting UGX.9,378,000 could not be ascertained due to absence of supporting transaction documents. In absence of supporting documents, I could not establish the correctness of the amounts due from related parties.

BOU management explained that BOU did not find documents in Global Trust bank relating to these transactions at closure. These amounts will be netted off from balances due to shareholders.

2.7.6 Settlement of GTBU creditor claims

Section 102 of the Financial Institutions Act 2004 states that the Central Bank or its appointed liquidator shall, within a period not exceeding forty five days from the date of publication of the intention to liquidate a financial institution, for the purpose of making an estimate of the debts and liabilities of the financial institution, publish in a

⁴⁴ Transfer and payment for the assets in Escrow for GTBU

⁴⁵ GTB inventory report

⁴⁶ Quickway Auctioneers request to revalue unsold movable assets

⁴⁷ GTB Inventory report dated November 2014 page 28

local newspaper of national circulation a notice calling upon all creditors, secured and unsecured, including depositors, to submit to the Central Bank or the liquidator within one month from the date of publication, a statement of the amount claimed and the particulars of the claim.

According to the statement of affairs as at 31st December 2017 outstanding liabilities reduced to UGX.2,051,862,000⁴⁸ which comprised of claims verified and recommended for payment, claims pending verification and liquidation expenses.

I noted that BOU published a notice on 2nd September 2014 calling upon all creditors to submit to the liquidator within one month from the date of publication, a statement of the amount claimed and the particulars of the claim. A verification committee was subsequently instituted to verify claims and produced a verification report summarized in the table of creditor claims below.

Table 25: showing total registered claims

s/n	Description	Amount
1	Claims verified and paid	1,775,127,526
2	Claims verified and recommended for payment	226,275,503
3	Rejected claims	754,477,906
4	Claims pending verification	1,071,240,698
	Total	3,827,121,633

Source: schedule of creditor claims from BOU

According to the statement of affairs as at 31st December 2017 and the schedule of creditor claims, the total claims amounted to UGX.3,827,121,633 and all had been verified as at 31st December 2017⁴⁹. Included in the total claims are outstanding claims worth UGX.226,275,503 that were verified and recommended for payment. However these claims have not been settled despite GTBU in receivership holding a balance of UGX.5,204,415,000 on a recovery account as at 31st December 2017⁵⁰. Failure to settle verified claims delays the winding up process resulting into high liquidation and management costs.

BOU management explained that the approved creditors amount of UGX.226,275,503 have not furnished BOU with account details for their payments. As part of the winding up process, the liquidator will issue a final call for all the claims not paid as well as those claims pending full verification on account of missing supporting documentary evidence.

⁴⁸ Statement of affairs as at 31st December 2017 page 7

⁴⁹ Statement of affairs as at 31st December 2017 page 21

⁵⁰ Statement of affairs of GTBU for the period ended 31st December 2017 note 7-page 11

2.7.7 Legal cases against GTBU

Article 13.2 of the Purchase of assets and Assumption of liabilities agreement⁵¹ provides that from and after the payment date, the liquidator shall indemnify, hold harmless and defend the purchaser from and against all claims, court cases, losses, liabilities, demands and obligations which the purchaser may incur or suffer arising out or resulting from any liability of GTBU not assumed by the purchaser.

A review of legal reports revealed that there were number of court cases⁵² against Global Trust Bank which may affect the assets taken over by the Purchaser and BOU. It may also increase the liabilities that will eventually be settled by BOU. **Appendix 2 refers.**

The court cases may hinder full recovery of assets and increase the liabilities to be settled by BOU hence delaying the winding up process.

2.7.8 Cost of Liquidation of GTBU

A review of the statement of affairs of GTBU for the period ended 31st December 2017 was done to ascertain the total liquidation costs incurred from the time of closure to 31st December 2017⁵³. It was noted that a sum of UGX.754,346,000 was incurred by BOU as liquidation costs as indicated in the table below.

Table 26: Showing total litigation costs

	Particulars	Amount
1.	Auditors remuneration	120,000,000
2.	*Estimated winding up fees	60,000,000
3.	*Estimated liability from ongoing litigations	165,000,000
4.	Lawyers' fees	409,346,000
	Total litigation costs	754,346,000

Source: Statement of affairs of GTBU for the period ended 31st December 2017 page 18 from BOU

2.8 National Bank of Commerce

National Bank of Commerce (NBC) was closed on 27th September 2012 due to undercapitalization among other reasons. BOU took over the management of NBC in line with Section 88(1) (a) & (b) of the Financial Institutions Act 2004 and subsequently placed NBC under liquidation, pursuant to Section 89 (2) (f) & Section 99 (1) of the Act. In line with Section 95(b) of the Financial Institutions Act 2004, BOU arranged for the Purchase of Assets and Assumption of Liabilities of NBC.

⁵¹ Purchase of assets and assumption of liabilities agreement page 9

⁵² Appendix 2 showing GTBU legal cases

⁵³ Statement of affairs of GTBU for the period ended 31st December 2017 page 18

On 27th September 2012, BOU and Crane Bank Limited signed a Purchase of Assets and Assumption of liabilities agreement⁵⁴ where certain assets were transferred and liabilities assumed by Crane Bank Limited as per Article 2 and 3 of the agreement.

Article 3 of the Addendum to the agreement, stated that the Liquidator shall on the payment date pay to the purchaser a sum of UGX.285,133,824 being the value of the Liabilities transferred in excess of the assets as detailed in tables 27 and 28 below.

Table 27: Showing transferred assets as per agreement

Asset Transferred	Price as % of Book Value	Book Value(UGX)	Price (UGX)
Secured Performing Loans	70%	297,771,411	208,439,988
Treasury Securities	99.97%	8,780,482,861	8,777,541,035
Land	75%	400,000,000	300,000,000
Total assets transferred		9,478,254,272	9,285,981,023

Source: Purchase of Assets and Assumption of Liabilities Agreement from BOU

Table 28: Showing transferred liabilities as per agreement

Type of liability	Type of account	Amount transferred
Total Time Deposits	Fixed Deposits	630,189,343
Demand and Savings Deposits	Current Accounts	4,712,832,262
	Savings Accounts	4,228,102,242
Total Liabilities transferred		9,571,123,847

Source: Purchase of Assets and Assumption of Liabilities Agreement from BOU

On 25th October 2012, BOU engaged PWC (an audit firm) to compile inventory of assets and liabilities of NBC as at 27th September 2012 (date of takeover). Subsequently, PWC prepared an Inventory report which was submitted on 15th January 2013. Total assets and liabilities are as per table 29 and 30 below.

Table 29: Showing total assets as per Inventory report

Asset Type	Amounts at closure (2017) as per Inventory report
Cash and Balances with Bank of Uganda	4,227,952,000
Placement with other banks (Nostro)	982,160,000
Government securities (including interest of UGX.194,181,000)	8,836,427,000
Loans and advances to customers	1,760,421,000
Other Assets	409,531,000
Property and Equipment	5,526,899,000
Total assets	21,743,390,000

Source: Assets and Liabilities Inventory report from BOU

⁵⁴ Purchase of assets and assumption of liabilities agreement

Table 30: Showing total liabilities as per Inventory report

Liabilities	Amounts at closure (2017) as per Inventory report
Customer Deposits	9,571,115,000
Other Liabilities	1,943,650,000
Total liabilities	11,514,765,000

Source. Assets and Liabilities Inventory report from BOU

The statement of affairs which provides an overview of the bank's assets and liabilities on liquidation had not been prepared because the interim court order had been issued restraining BOU from taking any further steps in liquidation and sale of NBC or its business or assets to any person including Crane Bank Ltd.

I relied on the P&A agreement, Inventory report, NBC bank statements and other correspondences related to the takeover;

- 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).
- To establish whether the liquidator appropriately managed the sale of the assets and accounted for the funds resulting from the sale.
- To establish whether all liabilities at closure and all creditor claims after closure were properly recorded and settled in line with FIA 2004 (Sections 102, 105 and 106).
- To ascertain the total cost of liquidation of the defunct banks.

2.8.1 Sale of secured performing loans at a discount

Section 95(3) of the FIA 2004 states that in determining the amount of assets that is likely to be realized from the financial institution's assets, the receiver shall—

- (a) Evaluate the alternatives on a present value basis, using a realistic discount rate; or
- (b) Document the evaluation and the assumptions on which the evaluation is based, including any assumptions with regard to interest rates, asset recovery rates, inflation, asset holding and other costs.

Article 3.1 of the P&A⁵⁵ provides that in consideration of the purchaser's assumption of the liabilities, the liquidator hereby sells, assigns, transfers, conveys and delivers

⁵⁵ NBC Purchase of assets and Assumption of liabilities page 3

to the purchaser the rights, title benefits and interests of NBC in and to the assets transferred, in an aggregate amount equal to the sum total indicated in ANNEX A.

According to ANNEX A of the Addendum to the P&A⁵⁶ the Secured Performing Loans were transferred at UGX.208,439,988 representing 70% of the book value of UGX.297,771,411. This implies that CBL acquired the loan portfolio at a discount of 30%.

Interviews with BOU management indicated that the transfer price was agreed upon after negotiations with the purchaser⁵⁷, however negotiations minutes of the P&A were not provided for verification. Therefore I could not determine the justification for transferring assets at a discount.

BOU management explained that estimating the recoverable amount of a closed bank's loan portfolio cannot be done with precision. Because of uncertainty in the recoverable value and the costs related to recovery, it is always true that any buyer will be unwilling to pay the full book value of a portfolio of bad debts. It is inevitable that these portfolios will always be sold at a discount.

2.8.2 Land sold at a discount to Crane bank

According to the addendum to the P&A⁵⁸, Land worth UGX.400,000,000 was transferred to Crane Bank at UGX.300,000,000. A review of the Inventory report revealed that the net book value of the leasehold land as at 27th September 2012 was UGX.646,000 with a leasehold improvement worth UGX.1,529,537,000. I noted that the land was transferred at less than improved value of land by 80%.

BOU management explained that the forced sale value was UGX.310,000,000. However because of the court injunction⁵⁹, the sale was never consummated nor did physical hand over to CBL take place. Given that CBL is now in receivership, the asset will revert to NBC and will be dealt with once injunction is lifted.

⁵⁶ NBC addendum to Purchase of assets and Assumption liabilities agreement page 5

⁵⁷ OAG and BOU discussion on NBC audit information request and agreed position on 19th April 2018

⁵⁸ NBC addendum to Purchase of assets and Assumption liabilities agreement page 5

⁵⁹ Constitutional application No. 01 of 2013

2.8.3 **Assets retained by BOU**

According to the addendum to the P&A⁶⁰ assets worth UGX.12,413,467,589 were retained by BOU after takeover as indicated in the table below.

Table 31: Showing assets retained by BOU

Asset Type	Amounts at closure (2017) as per Inventory report
Cash and Balances with Bank of Uganda	4,227,952,000
Placement with other banks (Nostro)	982,160,000
Gross loans and advances to customers (UGX 1,964,697,000 less UGX.297,771,411)	1,666,925,589
Other Assets	409,531,000
Property and Equipment (UGX.5,526,899,000 less UGX.400,000,000)	5,126,899,000
Total Assets	12,413,467,589

Source. OAG analysis of P&A and Inventory report from BOU

I reviewed the assets and noted the following;

(i) Cash and Balances with Bank of Uganda

A review of the P&A agreement revealed that cash available at the time of takeover was retained by BOU.

Immediately after closure of NBC, BOU opened a loan recovery and collection account on which to deposit cash collections at takeover, proceeds from recovery of outstanding loans and sale of assets retained by BOU. NBC had clearing accounts maintained in Uganda shilling and USD before NBC was taken over.

I also reviewed the cash count memorandums, NBC clearing account, NBC current account and correspondences and instructions to determine whether all cash available at takeover was collected and banked intact and noted the following;

- On 27th September 2012, BOU staff carried out cash count at the time of takeover witnessed by representatives of NBC from both Kabale⁶¹ and Kampala⁶² branches which totaled to UGX.963,688,087. On 5th October 2012 and 18th October 2012, all the funds were banked on the NBC loan recovery and collection account number 315.233001.1 in BOU as indicated in the table below;

⁶⁰ NBC addendum to Purchase of assets and Assumption liabilities agreement page 5

⁶¹ NBC kabale cash count memorandum and submission sheet to the currency center

⁶² NBC Kampala cash submission sheet to currency center

Table 32: Showing cash available at takeover and banked

Branches	Cash available at takeover (UGX)	Cash available at inventory date (UGX)	Cash banked on recovery account (UGX)	Date of banking
Kampala	535,006,000	535,006,000	535,006,000	5 th October 2012
Kabale	428,682,087	428,682,087	428,682,087	18 th October 2012
Totals	963,688,087	963,688,087	963,688,087	

Source: Inventory report and loan recovery and collection account from BOU

- On 31st October 2012, all the funds in foreign currency at takeover equivalent to UGX.375,753,000 were translated and banked on the NBC loan recovery and collection account number 315.233001.1 in BOU as indicated in the table below;

Table 33: Showing cash in foreign currency at takeover

branch	Cash available at takeover/inventory date				Cash banked on recovery account
	USD	GBP	EURO	KES	
Kampala	117,195	2,910	2,980	142,250	
Kabale	13,506	865	4,715	8,900	
Totals	130,701	3,775	7,695	151,150	
UGX equivalent	330,809,000	15,445,000	25,009,000	4,490,000	375,753,000

Source: Inventory report, loan recovery and collection account and cash count memorandums' from BOU

- On 1st October 2012, BOU transferred from NBC USD Bankers Clearing Account number 315.228011.1 and NBC Current Account number 315.228001.1 funds totaling to USD.860,401.78, GBP.433.00 and EURO.585.28 to support CBL in the payment of foreign currency deposits taken over from NBC. CBL paid back the equivalent in Uganda shillings UGX.2,176,200,710 to the NBC current account 315 228001.1 at BOU on the same day.

BOU management explained that CBL had taken over forex deposits and wished to acquire forex assets. It therefore requested BOU to allow it acquire the NBC forex cash at BOU. This was not in the P&A and that is the reason they had to pay that forex.

- I noted that 3 credits were made on the NBC current account number 315.228001.1 after closure amounting to UGX.2,527,842,035 as indicated in the table below. However these funds have not been transferred to the loan recovery and collection account.

Table 34: Showing movement of funds on the recovery account

Date of transaction	Details	Funds not deposited on the recovery account
28/09/2012	Credits in the NBC current account after closure	88,154,186
1/10/2012	Credits in the NBC current account after closure	2,176,200,710
2/10/2012	Credits in the NBC current account after closure	263,487,139
	Total	2,527,842,035

Sources: NBC current account and loan recovery and collection account from BOU

BOU management explained that these balances have never been transferred to the NBC recovery and collection account because of the court injunction suspending activity in NBC liquidation and the funds are still on the current/clearing account.

(ii) NBC Nostro Accounts and placements with Domestic banks

Section 100(2) (k) of the FIA 2004 requires the liquidator to generally realize the assets of the insolvent financial institution including funds held in banks abroad. The bank closure procedures also require the Central Bank to formerly communicate to the closed bank's correspondent bank (Nostro and Vostro accounts) about the closure and ensure no further dealings.

- A review of the Inventory report revealed that NBC had UGX.464,571,000 on 6 foreign accounts in 2 banks as at 27th September 2012 (closure date). Refer to the table below. At the time of writing this report, the funds had not been remitted to the NBC loan recovery and collection account.

Table 35: Showing Cash held in Nostro Accounts

s/n	Foreign bank	Foreign bank account	Currency	Amount in Foreign Currency	Amount
1	Arab Investment bank	10000416	EUR	2,779	9,031,000
2	Arab Investment bank	10000408	USD	164,624	416,636,000
3	Giro Commercial Bank	10000076	EUR	6,647	21,602,000
4	Giro Commercial Bank	10000084	GBP	2,487	8,082,000
5	Giro Commercial Bank	10000057	KES	145,314	4,317,000
6	Giro Commercial Bank	10000068	USD	1,937	4,903,000
	TOTAL				464,571,000

Source. NBC Inventory report from BOU

BOU management explained that the balances were not transferred because the bank resolution process was halted but the balances are still at the correspondent banks.

- Similarly, a sum of UGX.517,589,000 was held in 3 domestic banks at the time of takeover as indicated in the table below. On 4th March 2013, UGX.535,973,164 was recovered from the GTBU fixed deposit of UGX.500,000,000.

Table 36: Showing placements with domestic Banks

S/N	Bank	Account	Amount in UGX
1	Global Trust Bank	N/A	500,000,000
2	Diamond Trust Bank	0103052009	7,963,000
3	Post Bank	N/A	9,626,000
	TOTAL		517,589,000

Source: NBC Inventory report from BOU

At the time of writing this report, UGX.17,589,000 due from Diamond Trust and Post Bank had not been recovered from the domestic banks.

(iii) **Recovery of NBC assets in Escrow**

According to Article 7 of the P&A signed between BOU and CBL to take over the assets of NBC the purchaser (CBL) was required to take-over the management of NBC Assets in Escrow as an agent of the Liquidator for purposes of debt collection. Any proceeds realized from the Assets in Escrow (table below) were to be shared between the Purchaser and the Liquidator at the ratio of 65%:35% respectively⁶³.

Table 37: Showing NBC Assets in Escrow

S/n	Details	Amount
1	Unsecured Performing Loans	499,287,894
2	Secured Non-Performing Loans	338,555,840
3	Unsecured non-performing loans	676,641,667
	Total	1,514,485,401

Source: NBC purchase and assumption agreement from BOU

Therefore NBC in receivership was to receive a total UGX.530,069,890 (35% of the total Assets in Escrow) upon full recovery of the assets in Escrow.

I reviewed the NBC loan recovery and collection account statement for the period 5th October, 2012 to 18th April, 2018 and observed that UGX.349,573,866 was recovered from NBC Assets in Escrow leaving a balance of UGX.180,496,024 as shown in the table below;

Table 38: Showing recoveries from NBC assets in Escrow

S/n	Recovery date	Recovery period	Amount recovered
1	31/12/13	January 2013 to December 2013	67,146,265
2	29/9/2014	January 2014 to 16 th August 2014	240,928,483
3	30/6/15	17 th August 2014 to 29 th June 2015	41,499,118
			349,573,866
	Expected recoveries		180,496,024

Source: NBC loan recovery and collection account from BOU

⁶³ NBC addendum to the Purchase & Assumption dated 27th September 2012 pg 6

I also reviewed the agreement between BOU and DFCU for the purchase of assets and assumption of liabilities of CBL and noted that the agreement did not address the responsibilities of the management of NBC Assets in Escrow which was previously managed by CBL.

BOU management explained that BOU as receiver of CBL is to get details of the remaining assets in Escrow from DFCU bank for further management.

2.8.4 Delay in the liquidation process of NBC

I noted that the Court proceedings^{b4} had taken over 5 years since takeover of NBC by BOU and had resulted into additional costs incidental to winding up and has also delayed the process of sale of property and settlement of claims as explained in the examples below;

- BOU retained all NBC property and equipment worth UGX.5,526,899,000 as indicated in the table below;

Table 39 showing NBC property and equipment

Description	Amount (UGX)
Computer equipment	272,511,000
Furniture	1,167,908,000
Office equipment	951,677,000
Software implementation	955,839,000
Fixtures and fittings	594,615,000
Leasehold improvement	1,529,537,000
Leasehold land	646,000
Motor vehicles	54,166,000
Total assets retained	5,526,899,000

Sources: NBC loan recovery and collection account from BOU

BOU management indicated that some assets were in BOU premises while others were in the warehouse in Kampala and NBC Kabale branch premises. I noted that the assets were depreciable assets, thus the longer the liquidator takes to dispose them, the lower the recoverable amount.

- Furthermore BOU paid from the NBC loan recovery and collection account a sum of UGX.864,953,372 to cater for rent, utilities and security as detailed in the table below.

Table 40: Showing expenditures after takeover of NBC

Date	Description	Payee	Amount
5-Nov-12	NBC head office on Yusuf Lule	Property services ltd	261,879,085
2-Jan-13	Utility bill 15/11/2012	NWSC	444,902

^{b4} Constitutional application No 01 of 2013

2-Jan-13	201127	UMEME LIMITED	5,149,857
7-Feb-13	DEC 2012 FX8352	UMEME LIMITED	4,656,934
7-Feb-13	FX8352	NWSC	467,380
7-Feb-13	FEE FX 8352	PROPERTY SERVICES LTD	269,425,958
12-Mar-13	WATER-26/02/2013	NWSC	247,316
12-Mar-13	28/2/2013-71173	UMEME LIMITED	3,114,445
15-May-13	13-Apr	UMEME LIMITED	10,036,154
17-May-13	FX 8666	PROPERTY SERVICES LTD	347,729,611
30-Jun-13	Tirupati Industrial park		18,367,644
27-Mar-14	RENT 6 MONTHS ENDING		20,090,645
8-May-15	90&91 FOR 6 MONTHS (01/04-30/09/2015)		25,533,029
30-Jun-15	JUNE 2015-GUARDS		2,250,000
17-Mar-16	TENANCY IFO WARE HOUSE		14,313,551
16-May-16	TENANCY AND RENT PAYMENT APR -SEPT 2016		14,121,626
4-Nov-16	TENANCY FOR W 90 AND RENT PAYMENT		54,635,108
10-Nov-16	TENANCY FOR W 91 AND RENT PAYMENT		29,900,992
28-Nov-16	NBC BUILDING OCTOBER		2,325,000
9-Mar-17	GUARDING		1,425,000
10-Apr-17	EXPENSES FOR GUARDING FORMER NBC		1,425,000
8-May-17	EXPENSES FOR GUARDING FORMER NBC		1,575,000
14-Jul-17	GUARDING		375,000
11-Sep-17	GUARDING		1,500,000
11-Oct-17	TENANCY AGREEMENT FOR WARE HOUSE UNIT 90		30,818,220
2-Nov-17	GUARDING		2,100,000
6-Dec-17	GUARDING		2,925,000
TOTAL			864,953,372

Sources: NBC loan recovery and collection account from BOU

- According to the Inventory report, NBC had creditor claims worth UGX.1,943,650,000. However, these claims have not been settled as a result of the Court order⁶⁵ that halted the winding up process.
- According to the Inventory report, NBC had **Other assets** (mainly prepaid expenses) amounting to UGX.409,531,000. However, these assets could not be recovered due to the court order that halted the winding up process

BOU management explained that an interim order was issued on 28th September 2012 (a day after the takeover) restraining BOU from taking any further steps in liquidation and sale of NBC or its business or assets to any person including Crane Bank Ltd and suspending the Managing Director of NBC. According to the interim

⁶⁵ Constitutional application No 01 of 2013

order, this instruction shall remain in force for 90 days or such other period as this Court may order.

Furthermore, BOU management indicated that the Court order had been extended and that the case was still ongoing. The ruling extended the interim order until the final determination of the constitutional application no.38 of 2012 or until further orders of the Constitutional Court⁶⁶.

2.8.5 Liquidation costs

Section 99(3) of the FIA 2004 states that notwithstanding anything in the Companies Act, where any proceeding for the liquidation of a financial institution is commenced under this section, the Central Bank or any other person appointed by the Central Bank shall be the liquidator of the financial institution. Section 106(1) of the FIA 2004 requires the liquidator to keep proper financial ledgers and financial records in a manner prescribed by the Central Bank in which shall be recorded all financial transactions relating to the liquidation. BOU as the liquidator was expected to prepare and submit proper financial ledgers and records to facilitate the winding up process.

I noted that the liquidator did not prepare a statement of affairs for NBC and thus I could not ascertain the total cost of liquidation and whether the drawings from the recovery account after closure were eligible.

BOU management indicated that the non-preparation of the statement of affairs was due to an interim injunctive order restraining the liquidator from implementing the order the resolution of NBC that was served on 28th September 2012.

2.9 Crane Bank Limited

Background

On 16th August 2016⁶⁷, BOU signed an MOU with CBL requiring the bank to address its capital inadequacy and directed CBL to recapitalize with UGX.172bn by end of October 2016. CBL paid USD.8,000,000 (equivalent to UGX.27bn) in 3 installments between 23rd August and 13th October 2016. USD.3,000,000 was credited on a CBL settlement account number 317.144035.1 in BOU and USD.5,000,000 was credited

⁶⁶ Constitutional application No 01 of 2013

⁶⁷ MOU BOU signed an MOU with CBL requiring the bank to address its capital inadequacy

on a CBL USD account number 1001025020000001. The funds were recognized as equity '*shareholders contribution towards capital*' in CBL compilation of inventory of assets, liabilities and equity as at 20th October 2016.

Subsequently, the following events took place leading to the placing of CBL under statutory management and eventual completion of the P&A between BOU and DFCU for the transfer of assets and assumption of liabilities of CBL.

- On 16th October 2016⁶⁸, CBL applied for a facility of USD.115m from BOU as a lender of last resort to help sort out CBL immediate and longer term liquidity issues.
- On 17th October 2016⁶⁹, BOU assessed the application and approved a maximum facility of UGX.79.2bn repayable over a one year period from the date of this offer in quarterly installments at an interest rate of CBR plus 5% margin and that the facility shall solely be secured by third party collaterals of substantial value and BOU will not accept branch premises as security for the loan facility.
- On 19th October 2016⁷⁰, CBL appealed to BOU to reconsider the following;
 - To provide the facility in US Dollars at 2% per annum since most of the outstanding depositor concerns are in US Dollars.
 - To waive any margin on interest since a high interest rate will compound the Bank's liquidity challenge.
 - To enhance the amount since FIA permits BOU to lend more than what has been availed.
- On 20th October 2016, BOU took over the management of Crane Bank Limited (CBL) pursuant to sections 87(3) and 88(1)(a) and (b) of the FIA.

Pursuant to section 89(2) (g) of the FIA 2004, BOU in a letter ref GOV.122.10G⁷¹ dated 20th October, 2016 appointed the Statutory Manager to manage, control and direct the affairs of CBL.

⁶⁸ Application for a facility by CBL Shareholders of USD 115m dated 16th October 2016

⁶⁹ Approval of the UGX 79 2bn facility ref EDS 122 10G dated 17th October 2016

⁷⁰ Appeal to reconsider the facility of USD 115m ref CM/BOU/07/16 dated 19th October 2016

⁷¹ Letter appointing the statutory manager ref GOV 122 10G

- On 21st October 2016, BOU commenced the injection of liquidity support to CBL up to 9th January 2017 totaling to UGX.478.8bn.
- On 28th October 2016, BOU engaged PWC to compile inventory of assets and liabilities of CBL as at 20th October 2016 (date of takeover). Subsequently, PWC prepared an Inventory report which was submitted to BOU on 21st December 2016. The details of the assets, liabilities and equity as contained in the Inventory report are as per tables 41, 42 and 43 below.

Table 41: Showing total assets as per Inventory report

Asset Type	Amounts as at 20th October 2016.
Cash and Balances with Central Banks	78,745,732,000
Deposits and balances due from other Banking Institutions	10,003,963,000
Derivatives at Fair Value through Profit or Loss	471,860,000
Government Securities	168,473,514,000
Corporate Bonds	1,772,496,000
Investment in Equity shares	14,750,398,000
Loans and advances to customers (net)	768,019,675,000
Other assets	9,954,796,000
Corporate tax receivable	13,408,013,000
Property and equipment	72,549,964,000
Operating Lease prepayments	11,598,442,000
Intangible assets	7,498,668,000
Good will	690,392,000
Investment in subsidiaries	33,769,427,000
Total assets	1,191,707,340,000

Source: Inventory report – Compilation of assets, liabilities and equity from BOU

Table 42: Showing total liabilities as per Inventory report

Liabilities	Amounts as at 20th October 2016.
Customer Deposits	977,187,338,000
Deposits and balances due to other banking institutions	67,469,787,000
Other borrowings	230,245,319,000
Other liabilities	27,929,999,000
Deferred tax liability	19,823,477,000
Total liabilities	1,322,655,920,000

Source: Inventory report – Compilation of assets, liabilities and equity from BOU

Table 43: Showing total equity and reserves as per Inventory report

Liabilities	Amounts at closure as per Inventory report
Share capital	210,000,000,000
Shareholders contribution towards capital	27,021,890,000
Accumulated losses	(370,976,908,000)
Fair value reserve	3,006,438,000
Total equity and reserves	(130,948,580,000)

Source: Inventory report – Compilation of assets, liabilities and equity from BOU

- On 28th October 2016, BOU engaged PWC to carry out a forensic review of CBL focusing on a 48 month period before statutory management which was completed on 13th January 2017.
- On 28th November 2016, BOU engaged MMAKS Advocates' to provide transaction advice to take over CBL.
- On 9th December 2016, BOU through MMAKS Advocates invited 13 bidders to bid for the purchase of assets and assumption of liabilities of CBL. Between 12th and 15th December 2016, BOU issued the Inventory report to 6 bidders after signing a confidential agreement for them to undertake due diligence on the assets and liabilities of CBL. Subsequently on 20th December 2016, two(2) bids were received and evaluated.
- On 27th December 2016 BOU engaged KPMG to audit CBL annual report and financial statements for the year ended 31st December 2016.

Pursuant to Section 94 of the FIA, BOU placed CBL under receivership on 20th January 2017.

In line with Section 95(1)(b) of the Financial Institutions Act 2004, BOU entered into a Purchase of Assets and Assumption of liabilities agreement⁷² with DFCU on the 25th January, 2017 where all assets were transferred and liabilities assumed by DFCU except for the excluded assets and liabilities as per schedule 2 and 3 of P&A as detailed below. On the same day, BOU signed a UGX.200bn liability agreement with DFCU to settle the assumed liability within 30 months commencing 1st October 2017.

Excluded Assets

- The rights of CBL to claim against its shareholders, directors or other parties for wrongs done prior to takeover date (CBL shareholders interest)
- The rights of CBL to claim against its shareholders, directors or other parties in respect of losses occasioned by irrecoverable and or unrecovered loans advanced or managed imprudently and subsequently written off.
- The right of CBL to recover insider loans that have been identified and amount to UGX.63.6bn (Insider loans)

⁷² Purchase of assets and assumption of liabilities agreement

- Any credit or refund of any tax in respect of supplies made to or by CBL or profits or gains made or deemed to have been made by CBL, in each case before the completion date

Excluded Liabilities

- The amount owed by CBL under the BOU facility in excess of the sum of UGX.200bn
- Terminal benefits and all employment dues of employees terminated by the Buyer within 2 months from the completion date
- Tax liabilities of whatsoever kind to the extent that they do not relate directly to the assets and/or the liabilities
- Liability for payment of ground rent in respect of the Meera Investment Limited (MIL) properties to the completion date and rent in respect of the other properties rented by CBL prior to the completion date
- Any other liabilities of CBL not known by the parties at the completion date

DFCU agreed with BOU to pay UGX.200bn liability within 30 months commencing 1st October 2017 and was to provide security in form of treasury bills (with less than 91 days maturity) on the completion date.

I relied on the P&A agreement, Inventory report, Crane bank (in receivership) account statements and other correspondences related to the takeover;

- To establish whether a proper inventory of the assets and liabilities was undertaken at takeover by BOU.
- To establish whether the Receiver (BOU) appropriately managed the sale of the assets of CBL in Receivership.
- To establish whether the statutory manager performed his functions in line with Section 90(4) of the FIA.
- To establish whether all liabilities at takeover were properly recorded and settled in line with FIA 2004 (Sections 102, 105 and 106).

The findings below are based on the above specific objectives.

2.9.1 Lack of guidelines for selection of the buyer under purchase and assumption arrangement

Section 95(1)(b) of the FIA 2004, provides that the Central Bank shall within 12 months from taking over as a receiver arrange for the purchase of assets and assumption of all or some of liabilities by other financial institutions.

I observed that there were no guidelines/regulations or policies in place to guide the identification of the purchasers of defunct banks. 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.

A review of documentation revealed that the process of selecting the buyer commenced by identifying potential purchasers in the industry and sharing preliminary information on the bank to be closed. Once the potential buyers expressed credible interest to purchase the bank, they were required to sign a confidentiality agreement in order to obtain further information on the bank to be sold.

According to the minutes for the special Board meeting held on 27th January 2017 BOU received expression of interest from 13 institutions and signed non-disclosure agreements with them. Subsequently, BOU forwarded the report of the inventory of the assets and liabilities of CBL to the interested institutions and requested them to submit their bids. Out of the 13 institutions, only 2 submitted bids (M/s Aethel Partners LLP and DFCU) to BOU. The bids were evaluated and DFCU was awarded.

However I was not provided with the negotiation minutes leading to the P&A agreement. In the absence of guidelines and negotiation minutes, I could not determine how BOU selected the best evaluated bidder and how the terms in the P&A were determined.

BOU management explained that the circumstances of each bank resolution differ and cannot always be predicted in advance, for example, the nature of the global financial crisis which erupted in 2007-2008 took all bank regulators by surprise and required solutions which could not have been anticipated before the crisis. Drawing up a set of internal policies to guide a P&A and the selection and evaluation of bids is unlikely to be helpful and could be counterproductive if it impedes the flexibility of

the BOU to act expeditiously to resolve a failed bank in the manner which is least disruptive and damaging to public confidence and stability of the banking system.

2.9.2 Valuation of assets and liabilities at the time of sale

Section 95 (3) (a) and (b) of the FIA 2004 provides that in determining the amount of assets that is likely to be realized from the financial institution's assets, the receiver shall evaluate the alternatives on a present value basis, using a realistic discount rate or document the evaluation and the assumptions on which the evaluation is based, including any assumptions with regard to interest rates, asset recovery rates, inflation, asset holding and other costs.

On 10th April 2018, I requested for the P&A agreement indicating details of the assets and liabilities transferred to the purchaser (DFCU) to enable me assess whether the CBL assets and liabilities were transferred after taking into account the requisite valuation. I noted that BOU did not carry out a valuation of the assets and liabilities of CBL. In absence of the valuation, I could not establish how the terms for the transfer of assets and liabilities in the P&A were determined.

In a meeting with the outgoing EDS on the progress of the special audit held on 13th June 2018 at BOU⁷³, the EDS explained that BOU did not carry out a valuation of the assets and liabilities of CBL but relied on the Inventory report and due diligence undertaken by DFCU to arrive at the P&A. **Appendix 3 refers.**

I also noted that the P&A⁷⁴ did not have complete details of assets and liabilities transferred to DFCU with their corresponding values; I was therefore unable to establish the status of assets and liabilities transferred to DFCU.

Although, I was provided with a soft copy of details of values of assets and liabilities transferred to DFCU and those retained by BOU, the information provided by BOU lacked details of loans and advances transferred to DFCU and evidence of a valuation of the assets before sale hence it was insufficient to respond to my observation.

⁷³ Minutes of the meeting with the outgoing EDS on the progress of the special audit held on 13th June 2018 at BOU

⁷⁴ BOU and DFCU P&A for CBL assets and liabilities

2.9.3 Loans and advances transferred to DFCU

At the time of takeover by BOU, CBL net loans amounting to UGX.768bn constituted 65% of the total assets. According to the P&A Article 1.1.1(ix)⁷⁵, the loans and advances of CBL were transferred to DFCU except the insider loans referred to in schedule 2 of the P&A⁷⁶.

In a meeting with the outgoing EDS on the progress of the special audit held on 13th June 2018 at BOU⁷⁷, the EDS explained that BOU relied on the Inventory report and due diligence undertaken by DFCU to arrive at the P&A.

According to the CBL Inventory report as at 20th October 2016⁷⁸ (position at the start of statutory management), CBL had Gross loans and advances of UGX.1,096,351,522,000 and made provisions for impairment of loans and advances of UGX 328,331,847,000 resulting into net loans and advances of UGX.768,019,675,000 as detailed in table below.

Table 44: showing Net Loans and advances as at 20th October 2016

Details	Amount (UGX)
Gross loans	709,667,290,000
Overdrafts	386,684,232,000
Gross loans and advances	1,096,351,522,000
Less provisions for impairment of loans and advances	
General provisions (0.8% of gross loans and advances)	(9,084,679,000)
Specific provisions	(295,520,248,000)
Interest in suspense	(23,726,920,000)
Total Provisions	(328,331,847,000)
Net loans and advances	768,019,675,000

Source: Report on Compilation of the inventory of assets, liabilities and Equity of CBL as at 20th October 2016 from BOU

DFCU received the CBL Inventory report on 12th December 2016⁷⁹ and undertook due diligence whose results were incorporated in a bid for the purchase of all the assets and assumption of the liabilities of CBL submitted to BOU on 20th December 2016⁸⁰.

According to the DFCU Bid, the due diligence conducted indicated net loans and advances of UGX.576,014,756,000 and the bad book (fully provisioned for and

⁷⁵ BOU and DFCU P&A for CBL assets and liabilities page 4

⁷⁶ BOU and DFCU P&A for CBL assets and liabilities page 21

⁷⁷ Minutes of the meeting with the outgoing EDS on the progress of the special audit held on 13th June 2018 at BOU

⁷⁸ Report on Compilation of the inventory of assets, liabilities and Equity of CBL as at 20th October 2016, note 2.3.9 page 16

⁷⁹ Nyonyi Project bidders and Potential bidders - status

⁸⁰ Bid for the Purchase of all the assets and assumption of the liabilities of CBL dated 20th December 2016 page 11

written off loans) of UGX.485,114,000,000 as detailed in the table below based on the following assumptions and adjustments.

- (i) The additional provisions arising from non-performing book as reviewed and determined in accordance with DFCU's due diligence of UGX.115,202,951,000 and
- (ii) 10% discount on the standard book (Net value of loans and advances per CBL Inventory report) of UGX. 76,801,968,000.

Table 45: showing value of loans and advances as per DFCU Due diligence report

Details	Inventory report as 20/10/2016 (bn)	DFCU bid as at 20/12/2016 (bn)	Loans transferred to DFCU as at 27/1/2017 (bn)
Net loans and advances	768	768	529
Adjustments for additional provisions arising from non-performing loans	-	(115)	-
Discount 10%	-	(76)	-
Net Loans	768	576	529
Bad book (fully provisioned and written off loans)	328	485	570
Gross Loans and advances	1,096	1,061	1,159*

Source: Bid for the Purchase of all the assets and assumption of the liabilities of CBL dated 20th December 2016 from BOU

*the figure includes the CBL insider loans which were not taken over by DFCU

According to the bid, DFCU offered deferred cash consideration of up to UGX.200bn based on net recoveries of the bad book (UGX.485bn)⁸¹. Additionally, the recoveries of the bad book would be used to settle CBL liability to BOU to a maximum of UGX.200bn⁸².

Consequently, DFCU agreed to assume the BOU facility to CBL up to a maximum of UGX.200bn as per section 2.2 and schedule 3 of the P&A⁸³.

According to the BOU memo from EDS to Governor ref. EDS 122.10G dated 31st July 2017, the 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 loans of

⁸¹ Bid for the Purchase of all the assets and assumption of the liabilities of CBL dated 20th December 2016 page 8

⁸² Bid for the Purchase of all the assets and assumption of the liabilities of CBL dated 20th December 2016 page 11

⁸³ Purchase of all the assets and assumption of the liabilities of CBL section 2.2-page 8 and schedule 3-page 22

UGX.200bn and bridge the shareholder's deficit of UGX.439.72bn at the date of takeover⁸⁴.

I could not establish how the consideration of UGX.200bn was derived from the bad book of UGX.570.38bn.

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

2.9.4 Statutory Management

On 20th October, 2016 BOU appointed the statutory manager to manage, control and direct the affairs of CBL. Section 90(4) of the FIA required the statutory manager to perform the following duties;

- a) Trace and preserve all the property and assets of the institution;
- b) Recover debts and other sums of money due and owing to the institution;
- c) Evaluate the capital structure and management of the institution and recommend to the Central Bank any restructuring or re-organization which he or she considers necessary.
- d) Enter into contracts in the ordinary course of the business of the institution, including raising of funds by borrowing.
- e) Issue a new balance sheet and profit and loss accounts; and
- f) Any other duties that may be assigned to him or her by the Central Bank.

I reviewed the duties of the Statutory Manager to assess his performance during the statutory management period and the following issues were noted;

2.9.4.1 Terms of service of the Statutory Manager (SM) as per appointment letter

On 10th April, 2018 I requested for the appointment letter and the terms of reference of the Statutory Manager (SM) to establish total emoluments due to him, the reporting lines and key deliverables among others for the period of service.

⁸⁴ Assets and liabilities of Crane bank before take over by DFCU and of DFCU bank at the date of takeover of CBL , ref EDS 122 10G dated 31 July 2017

BOU provided the appointment letter which indicated that the terms of services were to be issued in a separate letter⁸⁵. The letter indicating the terms of service was provided, however, it did not stipulate the Statutory Managers' key deliverables and as such I could not establish on which deliverables the Statutory Manager's performance was measured.

BOU management explained that the terms of service referred to in the appointment letter was the letter of remuneration of the Statutory Manager. The duties of the statutory manager are stipulated in the Financial Institutions Act, 2004 and BOU did not find it necessary to replicate the law within the appointment letter.

2.9.4.2 Preparation of financial statements during statutory management

Section 90(4) (f) of the FIA requires the statutory manager to issue a new balance sheet and profit and loss accounts.

The report on the compilation of inventory of assets, liabilities and equity as at 20th October 2016 indicated that CBL had total assets of UGX.1,191,707,340,000 total liabilities of UGX.1,322,655,920,000 and a negative total equity and reserves of UGX.130,948,580,000 at the start of the statutory management period. During statutory management, BOU injected liquidity support of UGX.466,626,262,000.

The Statutory Manager was therefore expected to prepare a new balance sheet and profit and loss report on events of the statutory management period from 20th October 2016 to 20th January 2017 when CBL was put under Receivership.

The Statutory manager prepared CBL annual report and financial statements for the year ended 31st December 2016. BOU engaged KPMG to audit the financial statements⁸⁶.

The annual report and financial statements for the year ended 31st December 2016 provided were neither signed by BOU nor the Auditors. Furthermore BOU did not provide financial statements for the period 1st January 2017 to 25th January 2017 (P&A completion date) thus I could not establish the details and values of assets and liabilities transferred to DFCU.

⁸⁵ Terms of service of the Statutory Manager

⁸⁶ BOU responses to the amended draft management letter ref DGV 907 dated 2nd July 2018

In absence of the signed financial statements, I was unable to rely on the accounts to establish the financial performance of CBL during statutory management and its financial position as at 31st December 2016.

2.9.4.3 Plan to revive CBL

Section 89(5) of the FIA states that the central bank shall exercise statutory management over a financial institution for the minimum time necessary to bring the financial institution into compliance with prudential standards.

In achieving the above function, Section 90(4)(c) of the FIA 2004 requires the statutory manager to evaluate the capital structure and management of the institution and recommend to the Central Bank any restructuring or re-organization which he or she considers necessary and which, subject to the provisions of any other written law, may be implemented by him or her on behalf of the institution.

On 10th April 2018, I requested for the reports of the statutory manager and details of the funds injected into CBL prior to take over (purpose of injection, amount to be injected, procedures and approval of the intended injection, recovery plan and how the injected funds were to be managed) to establish the efforts taken by the statutory manager to revive CBL.

BOU management did not provide a plan or assessment detailing efforts to return the bank into compliance with prudential standards despite funding of UGX.478.8bn being injected into CBL. In absence of the plan or assessment to revive CBL, I could not provide assurance as to whether Sections 89(5) and 90(4)(c) of the FIA 2004 was complied with.

BOU management explained that when BOU took CBL into statutory management, it was found to be grossly insolvent. It is not possible to revive a bank with this level of insolvency and restore it to full compliance with capital adequacy and other requirements. Therefore BOU pursued other means to resolve the bank.

2.9.4.4 BOU support to CBL during statutory management

Process of injection of funds into CBL

I observed that BOU did not have a documented process of injection of funds to support CBL operations during the statutory management. From the review of

documentation provided and interaction with management, I documented the process of injection of funds into CBL by BOU as follows;

Process required that a request is initiated by the Statutory Manager to DCB requesting for liquidity support to meet CBL customer demands and other intervention costs related to statutory management. The requests for liquidity support were in form of;

- Outward TT payments
- Outward RTGS payments
- Cash requirements
- Clearing of cheques and
- Letters of Credit

Upon receipt of the request, DCB would forward the request to EDS who would seek approval from the DG.

Upon approval of the request, EDS would direct EDF or DC to transfer funds to CBL depending on the nature of the transaction.

The payments would then be processed through either a UGX CBL funding account number.317.144033.1 or USD CBL funding account number 317.144034.1 in BOU as follows;

- Funds to cater for outward TTs and LC payments would be credited on account number 3582025085001 in Standard Chartered Bank New York.
- Funds to cater for RTGs and clearing of cheques would be credited on CBL accounts held in BOU.
- Funds to cater for cash requirements would be accessed at cash centres across the country by a representative from CBL.

My scope limited me to only;

- Establishing how the Statutory Manager evaluated the capital structure and management of the institution and recommendation made to the Central Bank of any restructuring or re-organization in accordance with Section 90 (4)(c) of the FIA 2004.
- Establishing how much was requested by the Statutory Manager and approved for support by BOU.

- Ascertaining how much funds were injected into CBL during the statutory management period.
- Determining the source of funding, how the funds were drawn from BOU and transferred to CBL accounts.
- Establishing how BOU was to recover the injected funds from CBL and how much has been recovered to-date.

In assessing the above, I was unable to examine CBL operations during Statutory Management to determine that the funds injected reflected the liquidity shortfall at the time.

Although I was able to review and verify the approved requests for liquidity support together with the supporting schedules, I did not review payments made by CBL to the bonafide account holders and/or respective beneficiaries using the injected funds.

In respect to intervention costs, my scope did not extend to assessing how the service providers were appointed by BOU and evaluating the value for money for the services provided. Therefore I could not justify the costs incurred.

Therefore my findings are based on the scope defined above and the information availed;

a. Liquidity support and other intervention costs

Section 89(1) of the FIA 2004, states that the Central Bank shall, on taking over management of a financial institution under section 88 of FIA, have exclusive powers of management and control of the affairs of the financial institution. In achieving the above function, Section 90(4) (d) of the FIA 2004 requires the statutory manager to enter into contracts in the ordinary course of the business of the institution, including raising funds by borrowing on such terms as he or she may consider reasonable.

During the statutory management period, BOU injected funds amounting to UGX.478,830,609,910⁸⁷ for the purpose of liquidity support and other intervention activities. Out of this amount, UGX.466,626,262,000⁸⁸ was requested by the Statutory Manager and injected into CBL between 21st October 2016 and 9th January 2017 as liquidity support. The requests for liquidity support were in form of telegraphic transfers (TTs), Real Time Gross Settlement (RTGS), cash requirements, clearing of cheques and Letters of Credit (LCs). The balance of UGX.12,204,347,910 was spent by BOU on other intervention activities such as compilation of Inventory report, forensic review and investigation, IT support and legal consultancies.

I reviewed the requests for funds by the Statutory Manager, BOU-CBL funding accounts statements, BOU-DFCU receivable account statements, Inventory report, forensic investigation report, BOU Board minutes related to the resolution of CBL, P&A agreement between BOU and DFCU and the UGX.200bn liability agreement between BOU and DFCU and noted the following;

- **Source of funding**

BOU injected into CBL a sum of UGX.478.8bn for liquidity support and other intervention costs. I enquired into the source of funding for this purpose.

In the exit meeting held on 22nd June 2018 at OAG, BOU management explained that as a lender of last resort, the funds were sourced from within BOU in order to provide liquidity support and maintain financial stability⁸⁹.

- **Reconciliation of Liquidity support to CBL during Statutory Management**

The schedule for liquidity support indicated that a sum of UGX.466,626,262,000 was injected in CBL.

A review of the requests made by the Statutory Manager revealed that UGX.459,507,273,000⁹⁰ was approved by the DG to cater for items such as telegraphic transfers (TTs), Real Time Gross Settlement (RTGS), cash

⁸⁷ BOU-CBL funding account statements (UGX account no 317 144033 1 and USD account no 317 144034 1) and BOU DFCU reconciliation of liquidity support after 31/12/2016 (UGX 50 2bn)

⁸⁸ Liquidity support to fund CBL operations

⁸⁹ Minutes of the exit meeting held on 22nd June 2018 at OAG

⁹⁰ Urgent funds requirements for CBL by Statutory manager

requirements, clearing and letters of credit (LCs) as indicated in the table below. This therefore resulted into a variance of UGX.7,118,989,000.

Appendix 4 refers.

Table 46 showing liquidity support to CBL

S/n	Request details	Amount drawn
1	Telegraphic transfers (TTs) and LC payments	229,949,567,000
2	Real Time Gross Settlement (RTGS)/clearing	141,326,766,000
3.	Cash requirement requests	88,230,940,000
	Total amount drawn	459,507,273,000

Source: urgent funds requirement requests by Statutory Manager

I noted that the variance of UGX.7,118,989,000⁹¹ was as a result of foreign currency gains and losses during the time of injection

- **Other intervention costs**

A sum of UGX.12,204,347,910 was spent by BOU on other intervention activities.

A review of Board minutes, BOU correspondences and interviews with BOU management revealed that in the resolution of CBL by BOU, BOU undertook a number of activities such as; Compilation of an inventory of assets, liabilities and equity of CBL, Investigation and Forensic Review, Information Technology Security Testing and Disaster Recovery Gap Assessment, Provision of IT Technical Support and recruitment and use of a Transaction adviser, BOU special exercises and statutory management costs.

I reviewed the contracts signed between BOU and the service providers, performance reports, invoices, receipts and a detailed statement of account showing the payments made for their services to date to enable establish the total intervention costs incurred on the resolution of CBL and outstanding liability if any. A sum of UGX.12,204,347,910 has been spent on these activities to-date as per the table below.

Table 47: Showing other intervention costs incurred by BOU

Service provider	Activities undertaken and Justification	Total Payments (UGX)
PWC -Compilation of an inventory of assets, liabilities and equity of CBL	Apply their expertise in order to compile an inventory of the assets, liabilities and equity of CBL.	345,087,788
PWC - Investigation and Forensic Review	Use their expertise to conduct a forensic audit for purposes of determining the banks accurate net worth in view of the gross inaccuracies in statutory reporting identified during the BOU on-site examination.	936,495,046

⁹¹ Crane bank Ltd Funding Account UGX Account Number 317 144033 1

KPMG- Information Technology Security Testing and Disaster Recovery Gap Assessment	KPMG was engaged to manage the bank's IT resources at the time of entry and takeover of the bank. To conduct a high level assessment of the robustness as well as the security of CBL's core banking system (T24) To identify the required interventions to implement a fully functional Disaster Recovery facility as well as to perform a vulnerability assessment of the bank's computing environment	428,892,011
KPMG- Provision of Information Technology Technical Support	Following the takeover, BOU engaged KPMG to provide IT support to BOU team because BOU IT team did not have a competent and experienced resource with requisite expertise regarding CBL's core banking system (T24). The confidentiality of the information could mostly be guaranteed by using an independent resource. It was also difficult to rely on the staff of CBL.	190,479,847
KPMG- Provision of IT Technical Support	The fees were billed as work progressed and was based on the time required by the individuals assigned to the engagement plus direct out of pocket expenses and VAT	302,254,958
MMAKS Advocates- Transaction adviser	Offer legal advice during intervention, resolution of CBL and advice on the sale of CBL assets and assumption of liabilities	914,272,722
MMAKS Advocates	Commission (5%) of monies recovered from CBL shareholders	3,073,618,674
Terminal benefits		5,117,386,364
SEMAGANDA & ASSOCIATES	Valuation and surveying of Mr Sudhir Ruparelia's properties - 11n050	133,854,299
MERIDIAN SURVEYORS-	Surveying Of Mr. Sudhir Ruparelia's properties - 11n050	21,500,000
Cohen and Collins Solicitors and Notaries	Legal services (HK\$37,977.55)	17,433,000
Facilitation	Facilitation for the special exercise (CBL)	720,406,401
Ultimate security	Payment to (Statutory Manager Emoluments) – Guard fees	2,666,800
	Total	12,204,347,910

Source: BOU documentation

- **Recovery of the injected funds**

In the event that Central Bank intervenes in the failed bank, Section 93 of the FIA 2004 guides that all costs of management by the Central Bank shall be payable by the financial institution and shall be a debt due from the financial institution to the Central Bank.

BOU injected into CBL a sum of UGX.478.8bn for liquidity support and other intervention costs. Therefore this amount became a liability of CBL to BOU.

A sum of UGX.126bn had been recovered leaving a balance of UGX.352.7bn as per the table below;

Table 48: showing recoveries of the injected funds

Sources of recovery	Amount to be recovered	Amount recovered	Balance due
DFCU - 200bn liability	200,000,000,000	98,359,207,091	101,640,792,909
DFCU - 50 2bn liquidity support after 31 st December 2016	50,206,522,909	27,762,209,084	22,444,313,825
CBL in Receivership	228,624,087,001	0	228,624,087,001
Total	478,830,609,910	126,121,416,175	352,709,193,735

Source: P&A, CSRA agreement, BOU-DFCU Limited receivable accounts statement, schedule of liquidity support to CBL and CBL funding account statements and CBL settlement account

According to BOU management, the injected funds were to be recovered through the P&A and claims against CBL shareholders.

The following were observed;

i. Recovery of UGX.200bn liability from DFCU

Article 2.1 of the P&A provides that on and subject to the terms of this agreement, the buyer hereby assumes the liabilities of CBL with effect from the completion date and agrees to fully discharge the same on their due dates (if any) for payment.

Schedule 3 of the P&A 'summary of excluded liabilities' provides that the amount owed by CBL under the BOU facility to be paid by DFCU shall not exceed UGX.200bn.

Pursuant to schedule 3 of the P&A, BOU signed an agreement with DFCU for the settlement of the UGX.200bn assumed liability on 25th January, 2017⁹² where DFCU agreed to settle the liability within 30 months commencing 1st October 2017. Further, DFCU was to provide security in form of treasury bills (with less than 91 days maturity) on the completion date.

I noted that the two parties were complying with the terms of the agreement.

⁹² BOU-DFCU UGX 200bn liability agreement

According to BOU-DFCU limited receivable account statement number 305.144037.1 held in BOU, DFCU has so far paid UGX.98.3bn in 4 instalments as indicated in the table below. At the time of writing this report, a sum of UGX.101.7bn out of the UGX.200bn liability was outstanding.

Table 49: Showing settlement of the UGX.200bn liability

Sn	Date of payment	Details	Amount paid
1	1/07/2017	Being recognition of fair value adjustments on DFCU receivable as at 30 June 2017	39,436,233,994
2	4/10/2017	DFCU 1 st settlement on loan	18,922,973,097
3	31/12/2017	Being receipt of 2 nd instalment from DFCU	20,000,000,000
4	31/03/2018	Being receipt of 3 rd instalment from DFCU	20,000,000,000
		Total	98,359,207,091

Source: BOU-DFCU Limited receivable accounts statement from BOU

ii. Omission of interest from the UGX.200bn liability agreement between BOU and DFCU

According to the UGX.200bn liability agreement, BOU agreed that DFCU pays the assumed liability over a period of 30 months commencing the 1st day of October 2017. However I noted that the agreement did not provide for interest on the outstanding debt despite the long repayment period. As a result, BOU recognised a loss of UGX.39.478bn in the statement of profit or loss and other comprehensive income,⁹³ and note 22-Loans and advances to commercial banks⁹⁴. BOU based this computation on significant assumption in determining the fair valuation of UGX.200bn due from DFCU bank which was discounted using estimated Treasury Bonds over the two and half year repayment period.

Omission of interest on the outstanding debt in the liability agreement meant that BOU will bear the risk of loss arising from inflation and time value of money.

According to the Board minute no.3758.1 '*consideration of the brief on the Crane Bank resolution*' part 5 of the special board meeting no.335 held on 27th January 2017⁹⁵, BOU Board resolved that UGX.200bn assumed liability would accrue interest at the Central Bank Rate (CBR) on

⁹³ Statement of profit or loss and other comprehensive income for the period ended 30th June 2017 page 93

⁹⁴ Note 22-Loans and advances to commercial banks page 130

⁹⁵ Special board meeting no 335 held on 27th January 2017 page 3

a reducing balance basis and to be recovered from the claims to be made by BOU on the Shareholders.

I observed that the Board position to charge interest on the UGX.200bn liability assumed by DFCU could not be included in the P&A and the UGX.200bn liability agreements with DFCU since these were signed two days before the Board meeting. In the exit meeting held on 22nd June 2018 at OAG, BOU management explained that the Board was only informed to ratify the decisions made by management since the Board delegates powers to the Governor to make such decisions.

BOU management further explained that the Board resolved to recover the said interest from the shareholders of CBL and not from DFCU. The purchase and Assumption agreement had already been signed.

iii. Recovery of Liquidity support injected into CBL after 31st December 2016 of UGX.50.2bn from DFCU

Article 4.2 of the P&A⁹⁶, DFCU agreed to reimburse BOU the total amount of the liquidity support to CBL after 31st December 2016 applied to settle customer deposits and or issue of new loans.

Article 4.5 of the P&A⁹⁷ required that for amounts payable under clause 4.2 above, if a sum payable is in excess of UGX.25bn, the buyer will pay UGX.25bn to the Receiver within 7 days from the last day of the adjustment period and the outstanding amount payable within 3 months from the last day of adjustment period.

Requests by the statutory manager and review of UGX CBL funding account number.317.144033.1 or USD CBL funding account number 317.144034.1 bank statements indicated that a sum of UGX.50.2bn was injected into CBL as liquidity support after 31st December 2016 as shown in the table below.

⁹⁶ CBL Purchase & Assumption agreement page 8

⁹⁷ CBL Purchase & Assumption agreement page 9

Table 50: Showing amount injected after 31/12/2016

s/n	Date	Amount injected
1	3/1/2017	22,041,350,000
2	4/1/2017	7,526,591,000
3	9/1/2017	20,638,582,000
	Total	50,206,523,000

Source: schedule of liquidity support to CBL and CBL funding account statements from BOU

According to BOU management the UGX.50.2bn was settled as per the reconciliation in the table below;

Table 51: Showing settlement of the UGX.50.2bn injected after 31st December 2016

DUE FROM DFCU	UGX	UGX	Basis as per P&A
Balance as at December 31 2016	419,084,016,212		
Balance as at January 27 2017	469,290,539,121		
January Funding (difference)	50,206,522,909	50,206,522,909	
Less:			
Operating expense – January 2017	3,194,862,847		Clause 4.1
Terminal benefits	4,890,313,754		Clause 5.3 and schedule 3
Terminal benefits (air tickets-expatriates)	227,072,610		Clause 5.3 and schedule 3
Shareholder's funds (USD.3,000,000)	10,183,540,000		Clauses 1 1 17 and 2 1
Funds in respect of Non Performing Assets (Guarantees)**	22,444,313,825		Clause 4 2(ii) and 4 4
	40,940,103,036	(40,940,103,036)	
Balance Due from DFCU Bank Ltd (arising from reconciliation of the CBL funding Account)		9,266,419,873	
Add			
Amount collected by DFCU on Insider accounts (UGX)	3,925,000		Schedule 2
Amount debited off CBL accounts by BOU between October and January 2017 ⁹⁸	(307,664,787)	(303,739,787)	Schedule 2
Amount to be paid by DFCU		8,962,680,086	

Source: Computation of the Amount Debited off DFCU bank Limited's Accounts from BOU

** According to Clause 4 4 the funds in respect of Non-performing Assets (Guarantees) of UGX.22.4bn were to be settled by DFCU from time to time based on recoveries from the assets. At the time of writing this report, these funds had not been recovered.

⁹⁸ Repayment of credit facilities October 2016 to January 26th 2017

On 9th May 2017, the reconciled amount of UGX.8,962,680,086 was credited on the CBL Settlement Account UGX number 317.144035.1.

2.9.5 Excluded assets and liabilities

BOU entered into a Purchase of Assets and Assumption of liabilities agreement with DFCU where all assets were transferred and liabilities assumed by DFCU except the excluded assets and liabilities as per schedule 2 and 3 of P&A. I reviewed schedule 2 and 3 of the P&A to establish whether recoveries are being made from the excluded assets and whether all the excluded liabilities are being settled. The following issues were observed;

Excluded assets

The following issues were noted;

i. CBL insider loans of UGX.63.6bn

According to schedule 2 of the P&A agreement between BOU and DFCU⁹⁹ and BOU report on compilation of the inventory of assets, liabilities and equity of CBL as at 20th October 2016¹⁰⁰, Insider loans amounting to UGX.63,612,647,000 formed part of the excluded assets. The agreement indicated that these were to be recovered by BOU.

At the time of writing this report, BOU had collected a sum of USD.1,141,102 (equivalent to UGX.4,119,341,355) from these loans leaving a balance of UGX.59,493,305,645. The loan files and the collateral¹⁰¹ are still in BOU custody.

ii. BOU claims against CBL shareholders

According to schedule 2 of the P&A agreement between BOU and DFCU; the rights of CBL to claim against its shareholders, directors or other parties for wrongs done prior to takeover date (CBL shareholders interest) and for any losses occasioned by irrecoverable and or unrecovered loans advanced or managed imprudently and subsequently written off would remain with the Receiver (BOU).

⁹⁹ Schedule 2 of the BOU and DFCU P&A for CBL assets and liabilities – excluded assets page 21

¹⁰⁰ BOU report on compilation of the inventory of assets, liabilities and equity of CBL as at 20th October 2016 page 21

¹⁰¹ CBL list of insider credit files

In a Special Board meeting no.335 held on 27th January 2017, the BOU Board observed that the forensic audit instituted by BOU and undertaken by PWC identified related party transactions amounting to USD.97m and insider loans of UGX.63.6bn¹⁰². Subsequently, the Board recommended that BOU recovers the funds from the CBL shareholders.

At the time of writing this report, BOU had collected a sum of USD.15.5m (approximately UGX.55.9bn) from the CBL shareholders.

iii. Tax refunds

According to schedule 2 of the P&A, any credit or refund of any tax in respect of supplies made to or by CBL or profits or gains made or deemed to have been made by CBL, in each case before the completion date were excluded from the P&A and therefore not taken over by DFCU. The tax refund could not be established because financial statements for the period ending 31st December 2016 prepared by BOU were not signed by both BOU and the Auditor. Besides, accounts for the period between 1st January 2017 and 25th January 2017 (P&A completion date) had not been prepared at the time of writing this report. I could not therefore establish the tax refund due to CBL in Receivership.

BOU management explained BOU had procured PWC to audit the Crane Bank limited for the period between 1st January 2017 and 25th January 2017.

Excluded Liabilities

According to Schedule 3 of the P&A agreement, excluded liabilities included, terminal benefits, tax liabilities, liability for payment of ground rent in respect of the Meera Investment Limited (MIL) properties, rent in respect of the other properties rented by CBL prior to the completion date and any other liabilities of CBL not known by the parties at the completion date.

A review of schedules of terminal benefits and correspondences between BOU and DFCU relating to reimbursement of terminal benefits indicated that UGX.5,117,386,364 was incurred as terminal benefits for CBL staff.

¹⁰² Special board meeting no 335 held on 27th January 2017 page 4

However I could not establish status of other excluded liabilities since the financial statements for the period ending 31st December 2016 prepared by BOU were not signed by both BOU and the Auditor. Additionally, accounts for the period between 1st January 2017 and 25th January 2017 (P&A completion date) had not been prepared at the time of writing this report.

BOU management explained BOU had procured PWC to audit the Crane Bank limited for the period between 1st January 2017 and 25th January 2017.

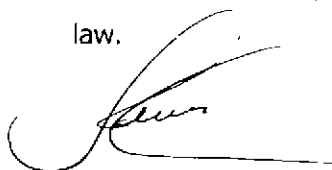
2.9.6 Preparation of a Statement of affairs

Section 99(3) of the FIA 2004 states that notwithstanding anything in the Companies Act, where any proceeding for the liquidation of a financial institution is commenced under this Section, the Central Bank or any other person appointed by the Central Bank shall be the liquidator of the financial institution.

Section 106(1) of the FIA 2004 requires the liquidator to keep proper financial ledgers and financial records in a manner prescribed by the Central Bank in which shall be recorded all financial transactions relating to the liquidation.

BOU as the liquidator was expected to prepare a statement of affairs for CBL in receivership but this was not done.

BOU management explained that CBL is still under receivership and has not yet progressed into liquidation. At the appropriate time, following completion of the current court cases, a statement of affairs will be prepared in accordance with the law.



John F.S. Muwanga

AUDITOR GENERAL

KAMPALA

27th August, 2018

Appendix 1: Detailed schedules of liability

Bank	Classification of liability	1998 (bn)	2001(bn)	2002(bn)	2005(bn)	2016(bn)
International Credit Bank Limited	Customer deposits	16 693	18 498	18 498	0	0
	Government claims	0	0	0	18 498	11 969
	Balances due to local commercial banks	1 009	1 028	1 028	1 028	0.733
	Balances due to banks outside Uganda	10 697	10.697	10.697	0	0
	Administered funds	1.295	1.295	1 295	1 295	0.915
	Borrowings at Bank of Uganda	1 624	1 917	1 917	1 917	1 355
	Bills payable	0.776	0.730	0 730	0	0
	Other liabilities	0 777	2.667	2 728	24 232	3 389
	Provisions	3.008	3.570	3 634	0	0
	Contingent Liabilities crystallized	4 339	13 081	13 081	0	0
	Accrued Audit costs	0	0	0	0	0 07
	Total liabilities	40.218	53.483	53.608	46.97	18.431

Bank	Classification of liability	1999(bn)	2001(bn)	2002(bn)	2005(bn)	2016(bn)
The Co-operative Bank Limited	Customer deposits	53 382	56 31	0	0	0
	Other liabilities and provisions	9 304	10 961	5.939	0	0
	Administered funds	2.521	2.508	2.508	0	0
	Liquidation expenses	0	4 450	4 999	6 960	0.115
	Deposit insurance fund	0	0	15.860	23 586	3 480
	Government of Uganda	0	0	32 266	21.894	11.086
	PAYE	0	0	0 334	0	0
	NSSF	0	0	0 066	0	0
	Corporation tax	0	0	1 518	0	0
	Claims verified and recommended for payment	0	0	0	2.916	0 979
	Claims pending Verification	0	0	0	3 973	0.821
	Total	65.207	74.229	63.49	59.329	16.481

Bank	Classification of liability	1999 (bn)	2002 (bn)	2005 (bn)	2016 (bn)
Greenland Bank Limited	Customer deposits	64 912	3 684	3 496	0
	Commitments due to other banks.	9.207	9 207	9 207	7 322
	Deposit protection fund	0	15 559	15 561	11 410
	Liquidation expenses	0	6.884	8.219	0
	Other Creditors.	0	0	0	0 122
	Other Unsecured Creditors	0	2.162	2.629	27 430
	NSSF Fund Contribution	0	0 008	0 008	0 007

	Ministry of Finance	0	22 869	22.869	25 571
	Due to Bank Of Uganda	24 053	24 208	24 208	20.576
	Bank of Uganda on account of depositors	0	4.120	4 571	0
	Other bank of Uganda claims	0	0 106	0 106	0
	UCB- Interbank placements	0	16.938	16 938	16 938
	Administered Funds	0	2.759	2 759	2.759
	Interest Payable and other Liabilities	4 055	0 295	0.295	0
	Total liabilities	102.227	108.799	110.866	112.135

Appendix 2: Global Trust Bank – Litigation Cases

Lawyer	Parties	Description of the matter	Estimate of the Financial Exposure (Damages and Cost of the Suit) (UGX)	Legal Fees(UGX)	Current status as at 28.02.2018
Bowmans	LAILA LUBEGA VERSUS ALI LUBEGA & GLOBAL TRUST BANK (U) LTD, HIGH COURT CIVIL SUIT NO. 118 OF 2010 (LIQUIDATION)	The suit was instituted by Laila Lubega against her husband Ali Lubega and Global Trust Bank Ltd for a declaration that the mortgage on property comprised in Kyadondo Block No. 250 plot 112 which is their matrimonial property executed between Ali Lubega and Global Trust Ltd is null and void; an order for release of the certificate of title of the said mortgaged property; an order for a permanent injunction restraining the defendant's or their agents from interfering with the quiet possession and enjoyment of the mortgaged property; an order for general damages, and costs of the suit	13,000,000	4,566,000	On going
	MUHAMMAD KIWUWA MUSOKE VERUSGLOBAL TRUST BANK LIMITED (IN LIQUIDATION), HIGH COURT CIVIL SUIT NUMBER 187 OF 2017	Muhammad Kiwuwa Musoke filed a suit against Silver Spoons Ltd and Global Trust seeking jointly and severally general damages for trespass, mesne profits and costs of the suit for encroachment on his land on block 244 plot at 76 3% GTBU filed a written statement of defence wherein it states that the plaintiff does not disclose a cause of action as against it and that the suit is barred by limitation.	165,000,000	5,782,0001	On going
	HABIB BIN MUSA	Habib Bin Musa instituted this suit against GTBU and others	In the event that	37,046,1001	On going

	<p>VERSUS GLOBALTRUSTBANK,HIGH COURT, (IN SHUFURAH TRANSPORTERS (U) LTD,ABDUL KATEETE, KARIM TAYEBWA, BABU TRUST ASSOCIATES, CIVIL SUIT NO. LD 11 OF 2013 (MBARARA)</p>	<p>for, among others fraud. Habib contends that GTBU together with the rest of the defendants fraudulently created a mortgage on his property comprised in LRV 3639 Folio 6 Plot 48 Mbarara Municipality without his knowledge. The property was pledged to GTBU by Shufurah Transporters Ltd and Abdul Kateete who it is alleged fraudulently obtained a power of attorney from Karim Tayebwa, Habib's errand boy. GTBU filed a defence denying any involvement in the alleged fraud, if any</p>	<p>the case is decided against GTBU, the mortgage shall be invalidated by the court and certificate of title of the mortgaged property returned to the Estate</p>	<p>(outstanding)</p>	
	<p>ASIKU DAVID VERSUS GLOBAL TRUST BANK LIMITED & 3 OTHERS, CIVIL SUIT NO. 020 of 2009</p>	<p>Joy Amagura acquired a loan from GTBU Ltd which she defaulted to repay. GTBU realised the security situated at Lumumba Cell River Oil Division Arua. The plaintiff purchased the land from the 2nd defendant's Property and Asset Recovery Trust. The 3rd defendant refused to hand over possession hence this suit.</p>	<p>20,000,000</p>	<p>Nil</p>	<p>On going</p>
	<p>ONYUTHI COLLINS VS GLOBAL TRUST BANK,CIVIL SUIT NO 007 OF 2014</p>	<p>Onyuthi Collins instituted this suit against GTBU for, among others, breach of agreement, refund of UGX.3,317,000 and an order for GTBU to pay the costs of the suit.</p>	<p>10,000,000</p>	<p>Nil</p>	<p>On-going(Out of court settlement was agreed upon)</p>
<p>MMAKS Advocates</p>	<p>Florence Obua vs Global Trust Bank</p>	<p>The plaintiff seeks to recover damages for alleged unlawful dismissal, unpaid salary, assault and unlawful blocking of her account.</p>			<p>The matter was transferred to the Industrial Court which is yet to fix the matter for hearing. We have in the meantime applied for dismissal of the matter for want of prosecution.</p>

Global Trust Bank Ltd vs Mugarura Yusuf t/a PAL supermarket	The company is seeking the recovery of UGX.179,657,590 plus interest from the defendant. The defendant was advanced a credit facility which he failed to service hence the default. The defendant claims that he settled the debt and no money is outstanding from him.			The hearing of this matter is ongoing.
Yusuf Mugarura t/a PAL supermarket vs Global trust bank ltd	This matter is related to H.C.C.S No.6 of 2013 In this suit, the plaintiff filed an action seeking the payment of UGX.16,620,241 being the auctioneer's fees charged for recovery of part of the loan. The company filed a defence in this matter which is well founded and should succeed			The hearing of this matter is ongoing
Alpha Tango Technical Services and Security Systems Ltd vs Global Trust Bank Ltd and Another	In this suit, the plaintiff seeks for a reversal of the sale (by the Company) of mortgaged property to the 2 nd defendant on the basis that the property was allegedly undervalued on sale. The company filed a defence contending that the plaintiff failed to service the loan borrowed from it. The company was therefore left with no option, but to realize the security held after properly advertising the property The company's defence is well founded and should succeed	6,200,000		The case is ongoing
Global Trust Bank Ltd vs Northern Engineering power & Tower construction ltd & 2 others	This is an action by the company against the defendants for the recovery of UGX.180,405,074 plus interest at the contractually agreed rates. The 2 nd defendant, Mark Atuhaire has since paid UGX.100,000,000 and the company released him from liability.	6,700,000		The suit proceeded against the 1st and 3rd defendants and the company is awaiting judgement.
Katambaki Tukahirwa Irene & Another vs Global Trust Bank Ltd	The plaintiff seeks to reverse the realisation of the security by the company by challenging the mortgage deed and process of realisation. The company filed a defence contending that mortgage is valid and the realisation process was undertaken upon the 2 nd and 3 rd defendant's failure to settle their indebtedness.	9,400,000		The company's defence is well founded and should succeed

	Global Trust Bank Ltd vs Mawenzi Investments Ltd	The company filed this originating summons to determine whether it is entitled to recover its UGX 305,000,000 through sale of the security being defendant's property.			We are following up to have the originating summons fixed for hearing
J B Byamugisha	Kalwoya Cranimer vs GTBU, Babu Trust Associates & Serwanga Yosiya Sekitoleko	<p>The plaintiff was advanced a loan of UGX.40,000,000 upon security of the land comprised in Kyandondo Block 236, Plot 2641 situated in Bweyogerere. He defaulted in his loan payments and the bank recalled the loan and demanded for full payment in a letter dated January 1, 2013. The bank instructed the 2nd defendant to demand for payment of the whole amount outstanding (UGX.27,126,564 as at 15th January, 2013) He made 2 payments in the total sum of UGX 1,900,000 but these were insufficient to remedy the default. The 2nd defendant advertised the property for sale and the 3rd defendant was the successful bidder with a bid price of UGX.60,000,000. The 2nd defendant and the 3rd defendant executed a sale agreement.</p> <p>The plaintiff seeks nullification/cancellation of the sale, a reconciliation of the mortgage account, an order allowing him to pay the actual balance on the mortgage account, an order cancelling the 3rd defendant's name from the certificate of title and reinstating his name. In the alternative, an order that he paid adequate compensation and/or the actual market value of his land less any actual balance on his mortgage account, general damages, interest and costs. The land was transferred to the 3rd defendant, who donated a power of attorney to a third party and the said party mortgaged the suit land to Finance Trust Bank Ltd</p> <p>The bank's defence is that the property was sold as a result of the breach of the credit facility and that at the time of filing the suit, the property had been sold. Also, that the 2nd</p>			On going

Kisembo Godfrey vs Kyomya Byemaro John, GTBU (In Liquidation) & The Commissioner of Land Registration	vs	<p>defendant is a non-existent legal entity</p> <p>The plaintiff's claim is that he donated a power of attorney to the 1st defendant to obtain a loan from Equity Bank. At the time, the land was developed with a residential house in which he was residing with his family. Subsequently, he demanded for a return of his title after the 1st defendant had assured him that he had completed repaying the loan and was only awaiting a release of mortgage from the bank. He conducted a search and established that the 1st defendant had transferred the land into his name and mortgaged it to Post Bank without his knowledge and authorisation. The 1st defendant defaulted in repaying the loan and the bank commenced with foreclosure. Plaintiff contends that the transfer and mortgage were illegal and fraudulent. He seeks special damages and mesne profits, a declaration that the transfer and mortgage were illegal and fraudulent, cancellation of the entries on the certificate of title, nullification of the sale.</p>			Foreclosure was ordered by the High Court in originating summons
Semakula Isaac vs Beatrice Osinde Likonda, Paulo Osinde Likonda, The Commissioner Land Registration & GTBU	vs	<p>Plaintiff's claim is that he purchased the suit property but before he could transfer it into his name, he approached the 1st and 2nd defendants who are husband and wife to lend his money. He executed a money lending agreement with them and deposited his land title and transfer forms with the 1st and 2nd defendants as security. After repaying the loan, he demanded for his said documents but to no avail. He conducted a search at the lands registry and established that the 1st and 2nd defendants transferred the land into his name using the said transfer forms and later forged his signature and transferred the land into 2nd defendant's name, who later mortgaged the land to Commercial MicroFinance Ltd, which was taken over by 4th defendant. He claims that the transfer of the land was fraud. The 1st defendant wrote to the bank</p>			Court registry to retrieve the file from archives to ascertain its status

		stating that she was unable to continue servicing the loan and the 2 nd defendant had passed on and requested the bank to realise its security.			
The Registered Trustees of Church of Uganda Nebbi Diocese vs Global Trust Bank Ltd & Commercial Micro Finance Ltd		The plaintiff's claim is that by a sale agreement dated 12 th May, 2008, St. Peter's Church, Paidha, whose affairs are managed by the Plaintiffs, purchased land located in Zingili village, Paidha Town Council from the 2 nd defendant, which subsequently became 1 st defendant for a consideration of UGX 5,200,000. However, the defendant, in breach of the sale agreement, failed to give it vacant possession. The plaintiff seeks a recovery of the purchase price, general damages, interest and costs.			To ascertain status from the court.
Osaga Yasin vs GTBU		Plaintiff's claim is that he is the registered proprietor of a Canter motor vehicle registration No. UAE 199B. He claims that he went to the defendant's offices to discuss the issues of his loan on 26 th August, 2008, the defendant's agents/employees/manager arrested and detained him in their offices for over 5 hours and thereafter escorted him to his motor vehicle with a security guard, put him at gun point, confiscated his motor vehicle and caused it to be driven to Paidha Police Station where it was still being detained as at 24 th February, 2010 when he filed the suit. He claims special damages for loss of business in the sum of UGX 200,000 per day, transport of UGX 240,000 to Paidha to follow up on the matter, UGX 72,000 for meals, general damages, interest and costs. Plaintiff's advocate submitted a claim in the sum of UGX 438,312,000 to the liquidator. The case is before a chief magistrate, whose pecuniary jurisdiction is limited to UGX 50m.			On going
Greg Waggoner vs Global Trust Ltd & Musa Sentono		Plaintiff's claim is that the 2 nd defendant hacked into his e-mail account and conned the plaintiff into remitting various sums of money on various dates to the 2 nd defendant's			Registry failed to trace the file to ascertain its status.

		<p>dormant account held with the 1st defendant. He claims that the bank was negligent in hastily paying out money deposited on 1st defendant's dormant account without verifying the source of funds, authenticity of transactions or carrying out a KYC on 2nd defendant. He seeks recovery of the sum of USD 8,773.66 equivalent to UGX.25m, general and exemplary damages, interest and costs.</p> <p>The bank's defence is that it was not negligent and did not owe a fiduciary duty to the plaintiff. The 2nd defendant as its customer was entitled to withdraw monies from his account. It was not aware of the 2nd defendant's dubious activities and the plaintiff did not inform the bank of the same. The bank account was not dormant and there was no legal impediment which prevented the 2nd defendant from transacting on it. Further, the plaintiff was contributorily negligent in not carrying out a due diligence to know whom he was dealing with, he did not consult his attorney, Epielu George and that he responded to an e-mail from a person whom he did not know.</p>			
<p>Mubezi Paul Ntambi vs Commercial Micro Finance Ltd, GTBU & Kalisa Stephen</p>	<p>Plaintiff's claim is that he purchased motor vehicle registration no. UAJ 919T Toyota corona from one Leku James, who had bought the same from the 3rd defendant and had since 2008 been using it for the business of car hire services. The vehicle was transferred to the plaintiff, who possesses the duplicate log book. He claims that the 3rd defendant gave him false information that he obtained a duplicate log book because had lost the original. Without plaintiff's knowledge, 3rd defendant pledged the log book as security for a loan from 1st defendant. In December 2009, 1st defendant's agents seized the motor vehicle and moved it to their parking yard. He seeks recovery of the motor vehicle and moved it to their parking yard. He seeks a recovery of</p>				<p>The registry failed to trace the file to enable us to ascertain its status</p>

		the motor vehicle and claims UGX.6M special damages, general damages, interest and costs. The bank acknowledges that the 3 rd defendant obtained the loan and pledged the motor vehicle as security but denies the rest of the contents of the plaint.			
--	--	--	--	--	--

Appendix 3: CBL Assets and liabilities transferred

S/n	Assets	PWC as at 20/10/2016 (UGX.Bn)	DFCU as at 27/1/2017
1	Cash and balances with BOU	78.75	56.36
2	DUE FROM Banking Institutions	10.00	11.96
3	Derivatives at fair value	0.47	0
4	Government securities	168.47	166.54
5	Corporate bonds	1.77	0.60
6	Investment in equity shares	14.75	14.17
7	Net loans and advances	768.02	529.92
8	Other assets	9.95	7.56
9	Corporate tax receivable	13.41	0
10	Property and Equipment	72.55	79.22
11	Operating lease prepayments	11.60	11.31
12	Intangible assets	7.50	0
13	Goodwill	0.69	0
14	Investment in subsidiaries	33.77	34.32
	Total Assets	1191.7	911.96
	Liabilities		
1	Customer	977.19	674.96
2	Due to banking Institutions	67.47	37.14
3	Due to Bank of Uganda	18.62	200
4	Other borrowings	211.62	109.13
5	Other liabilities	27.93	36.48
6	Deferred Tax Liability	19.82	0
	Total liability	1322.65	1057.71
	Equity and Reserves		
1	Share capital	210.00	210.00
2	Shareholders Capital contribution	27.02	15.84
3	Accumulated losses	(370.98)	(439.78)
4	Fair value reserve	3.01	2.32
5	Regulatory reserve	0	0
	Total Equity and Reserve	(130.95)	(211.62)
	Other liabilities not taken over by BFCU	0	228.1
	Shareholders' deficit at takeover		(439.72)

CBL Appendix 4: Reconciliation of Liquidity Support to CBL

REF. No	Date of request	Date of Approval	Request	USD	UGX/USD-UGX equivalent ('000)	Number of Beneficiaries
A1	21-Oct-16	21-Oct-16	To serve crane bank branches		77,500,000	46
A1	21-Oct-16	21-Oct-16	To obtain cash dollars from local banks against RTGS to pay US dollar depositors	2,000	6,888,880	
A2	24-Oct-16	24-Oct-16	Clearing		5,500,000	

A2	24-Oct-16	24-Oct-16	Outward RTGS payments		10,600,000	42
A3	24-Oct-16	24-Oct-16	Outward USD TT payments through new York	5,870	20,276,389	99
A3	24-Oct-16	24-Oct-16	Letters of Credit Payments	3,780	13,057,027	
A3	24-Oct-16	24-Oct-16	Outward USD RTGS Payments (Funds required in Bank of Uganda)	1,900	6,563,056	37
A4	25-Oct-16	26-Oct-16	Outward USD TT payments through new York	3,890	13,452,048	
A4	25-Oct-16	26-Oct-16	Outward USD RTGS Payments (Funds required in Bank of Uganda)	4,950	17,117,645	29
A4	25-Oct-16	26-Oct-16	Cash requirement	1,000	3,458,110	
A5	26-Oct-16	27-Oct-16	Outward USD RTGS Payments (Funds required in Bank of Uganda)	1,670	5,783,861	29
A6	27-Oct-16	28-Oct-16	Outward USD TT payments through New York	1,900	6,580,536	
A6	27-Oct-16	28-Oct-16	Outward USD RTGS Payments (funds required in Bank of Uganda)	900	3,117,096	
A6	28-Oct-16	28-Oct-16	Outward RTGS		5,000,000	
A6	28-Oct-16	28-Oct-16	Cash requirement Kampala		3,900,000	
A6	28-Oct-16	28-Oct-16	Cash requirement Mbale		700,000	
A6	28-Oct-16	28-Oct-16	Cash requirement Jinja		400,000	
A7	31-Oct-16	31-Oct-16	Outward USD TT payments	1,850	6,410,528	20
A7	31-Oct-16	31-Oct-16	Outward USD RTGS Payments (funds required in bank of Uganda)	1,350	4,677,953	13
A7	31-Oct-16	31-Oct-16	Outward RTGS		5,600,000	
A7	31-Oct-16	31-Oct-16	Cash required (Mbale and Jinja)		1,400,000	
A9	1-Nov-16	1-Nov-16	Outward USD TT payments through New York	1,260	4,371,381	
A9	1-Nov-16	1-Nov-16	Outward RTGS Payments (funds required in Bank of Uganda)	220	763,257	
A9	1-Nov-16	1-Nov-16	Funds required in RTGS account in BOU	500	1,734,675	
A10	2-Nov-16	2-Nov-16	Outward USD TT payments through New York	1,030	3,580,579	37
A11	4-Nov-16	4-Nov-16	Outward USD TT payments through New York	1,160	4,049,931	18
A11	4-Nov-16	4-Nov-16	Funds required in RTGS Account in BOU	1,410	4,922,761	6
A11	4-Nov-16	4-Nov-16	Cash required	250	872,830	
A12	7-Nov-16	7-Nov-16	Outward USD TT payments through New York	5,775	20,278,566	20
A12	7-Nov-16	7-Nov-16	Funds required in RTGS Account in BoU	610	2,141,978	8
A13	9-Nov-16	9-Nov-16	Outward USD TT payments through standard chartered bank New York	3,256	11,436,374	3
A13	9-Nov-16	9-Nov-16	Funds required in RTGS account in bank of Uganda	425	1,492,770	8
A14	10-Nov-16	10-Nov-16	Outward USD TT Payments through standard chartered bank new York	1,892	6,658,913	18
A14	10-Nov-16	10-Nov-16	Funds required	114	401,224	8
A15	11-Nov-16	11-Nov-16	Outward USD TT payments through standard chartered bank New York	290	1,024,590	16
A15	11-Nov-16	11-Nov-16	Outward USD RTGS payments/clearing/cash	209	738,412	2
A16	14-Nov-16	14-Nov-16	Outward USD TT payments through standard chartered bank New York	629	2,231,786	17

A17	16-Nov-16	16-Nov-16	Outward USD TT payments through standard funds required in New York	933	3,340,168	5
A18	17-Nov-16	17-Nov-16	Outward USD TT payments through standard chartered bank	579	2,078,176	20
A19	23-Nov-16	23-Nov-16	Funds requirement		10,290,000	
	23-Nov-16	23-Nov-16	Outward USD TT payments through standard chartered Bank New York	4,326	15,677,986	22
A20	24-Nov-16	24-Nov-16	Provision for clearing RTGs/EFT		10,000,000	18
A20	25-Nov-16	25-Nov-16	Outward USD TT payments through standard chartered Bank	1,413	5,125,573	30
A21	28-Nov-16	28-Nov-18	Provision for cash/clearing/RTGS		10,000,000	4
A21	28-Nov-16	28-Nov-16	Outward USD RTGS payments/clearing/cash	852	3,089,233	6
A22	30-Nov-16	30-Nov-16	Outward USD RTGS payments/clearing/cash	289	1,048,966	2
A23	2-Dec-16	2-Dec-16	Outward USD TT payments through standard chartered Bank New York	1,259	4,568,911	46
A24	7-Dec-16	7-Dec-16	Outward USD TT payments through Standard Chartered Bank New York	1,562	5,645,412	13
A25	12-Dec-16	12-Dec-16	Outward USD TT payments through chartered Bank New York	3,710	13,302,799	28
A26	13-Dec-16	13-Dec-16	Outward USD TT payments through standard chartered Bank New York	822	2,938,420	30
A27	15-Dec-16	15-Dec-16	Outward USD TT payments through New York	1,093	3,929,816	19
A28	16-Dec-16	16-Dec-16	Outward USD TT payments through standard chartered bank New York	3,308	11,866,821	21
A29	23-Dec-16	23-Dec-16	Outward USD TT payments through New York	599	2,139,928	21
A29	19-Dec-16	22-Dec-16	Outward USD TT payments through New York	1,547	5,526,658	22
A29	21-Dec-16	21-Dec-16	Outward USD TT payments through New York	663	2,368,568	27
A29	22-Dec-16	23-Dec-16	outward USD TT payments	472	1,686,220	
A30	28-Dec-16	29-Dec-16	NSSF Fixed Deposit		10,000,000	1
A31	27-Dec-16	29-Dec-16	Payment of Letters of Credit	6,170	22,042,325	5
A32	3-Jan-17	3-Jan-17	Outward USD TT payments through New York	2,080	7,526,397	12
A33	9-Jan-17	9-Jan-17	Outward USD TT payments through New York	1,867	6,776,743	
A33	9-Jan-17	10-Jan-17	Provision clearing/cash/EFT/RTGS		13,855,000	10
	Total				459,507,273	

Schedule A-Documents Reviewed

S/n	Document reviewed	Purpose
1	Financial Institutions Act 2004 and the Financial Institutions Statue 1993.	<ul style="list-style-type: none"> • To confirm whether the inventory count was properly undertaken • To confirm whether the statutory manager performed his duties as expected. • To ascertain whether the procedures for preparing the Inventory reports at closure were followed. • To confirm whether all the liabilities were supported with schedules and settled in line with Sections 105 and 106 of the FIA. • To establish whether funds into and out of the DPF were properly

		managed.
2	Purchase and assumption agreements	<ul style="list-style-type: none"> To isolate assets taken over by BOU and how they were recorded and accounted for. To isolate liabilities taken over by BOU and how they were recorded and settled
3	Statements of affairs	<ul style="list-style-type: none"> To establish whether the liabilities were properly recorded with detailed schedules. To establish the Variances between the Inventory report and statement of affairs and followed up through inquiry and document review To establish the total cost arising out of the liquidation process. To ascertain the total cost incurred on liquidation and whether the costs were eligible
4	Inventory reports	<ul style="list-style-type: none"> To establish whether the inventory was prepared in accordance with FIA/FIS procedures To establish whether the liabilities were properly recorded with detailed schedules. To establish the Variances between the Inventory report and statement of affairs and followed up through inquiry and document review.
5	Bank statements/recovery account statements	<ul style="list-style-type: none"> To ascertain the total cost incurred on liquidation and whether the costs were eligible.

Schedule B-Persons Interviewed

Sn	Person interviewed	Purpose
1	Deputy Governor BOU	To obtain responses to the matters raised in the draft management letter
2	Statutory Manager CBL	To obtain responses to the matters raised in the draft management letter.
3	Legal Counsel BOU	To obtain responses to the matters raised in the draft management letter.
4	Incoming Executive Director Supervision BOU	To obtain information on the resolution of the defunct banks
5	Outgoing Executive Director Supervision BOU	To ascertain the process of CBL resolution
6	Director Commercial Bank	To discuss the process of resolution for ICB, Greenland and Cooperative
7	Deputy Director Commercial Bank	To discuss the process of resolution of NBC
8	7 Senior Principal Bank Officers	To obtain information on the resolution of the defunct banks
9	Chief Executive Officer DPF	To understand the application of the DPF in the resolution of the defunct banks.
10	Head of Administration and Liaison DPF	To understand the application of the DPF in the resolution of the defunct banks.
11	Chairman CBL group	To obtain clarification on the information submitted by CBL shareholders to the Auditor General.
12	Director CBL group	To obtain clarification on the information submitted by CBL shareholders to the Auditor General.
13	CBL lawyer/advisor	To obtain clarification on the information submitted by CBL shareholders to the Auditor General.
14	CBL consultant	To obtain clarification on the information submitted by CBL shareholders to the Auditor General.