



BANK OF UGANDA

Bank Resolutions and Financial Stability: The Ugandan Experience

Supervision Directorate – Bank of Uganda

Mission: To Foster Price Stability and a Sound Financial System



Presentation Outline

- Introduction
- Bank Resolution Cycle
- Resolution Decision
- Bank Resolution framework in Uganda
- Resolution Experience in Uganda
- Impact on Financial Stability
- Enablers
- Lessons learned





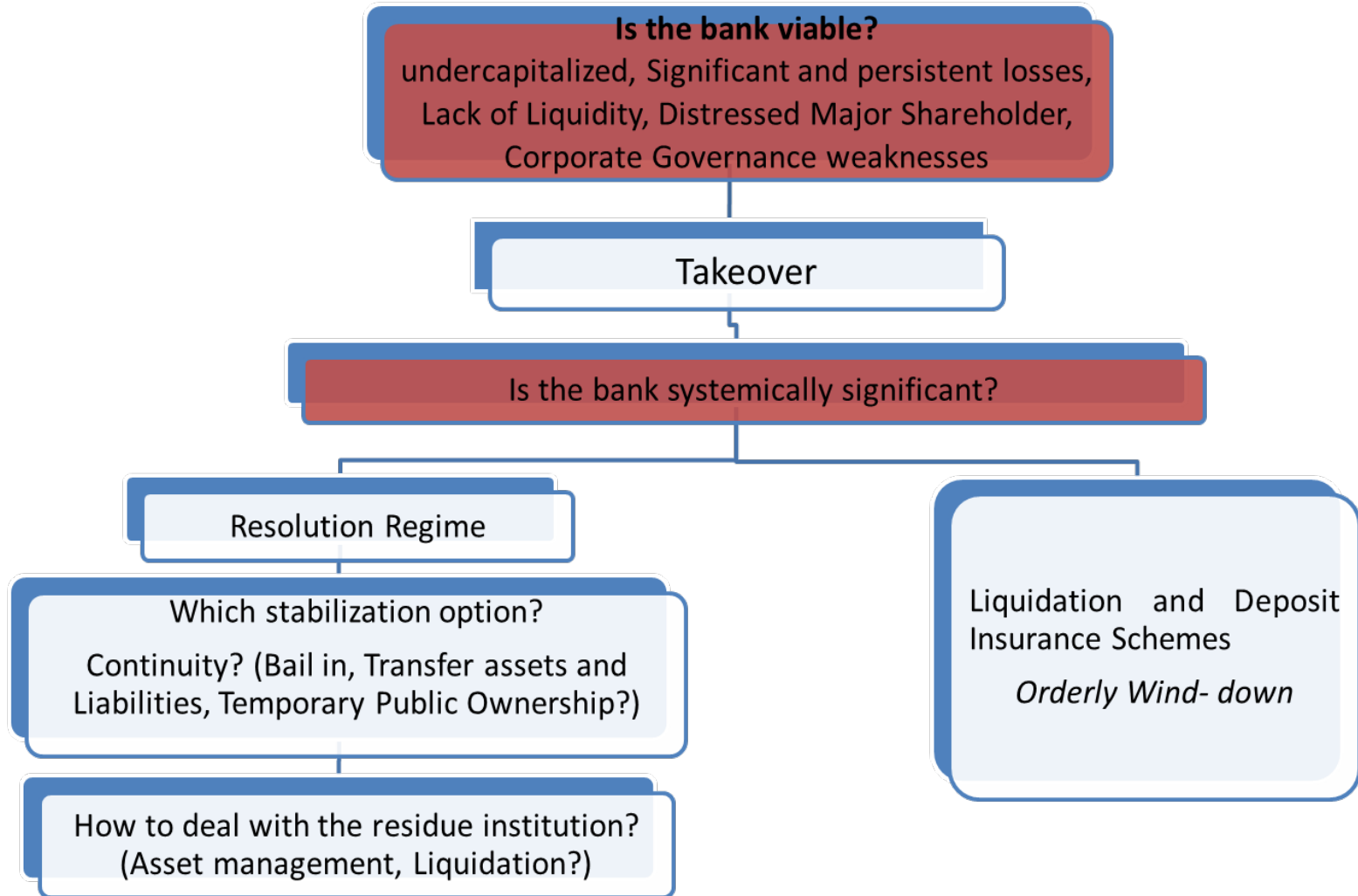
Introduction

Effective resolution regime - orderly resolution without **severe systemic disruption** or exposing depositors to the risk of loss (*FSB Key Attributes of Resolution Regimes...*)

1. Scope
2. Resolution Authority
3. Resolution Powers
4. Set-off, netting, collateralization, segregation of client assets
5. Safeguards
6. Funding of firms in Resolution
7. Legal framework conditions for cross border cooperation
8. Crisis management groups
9. Institution specific cross border cooperation Agreements
10. Resolvability Assessments
11. Recovery and Resolution Planning
12. Access to Information sharing



Bank Resolution Cycle





Bank resolution Decision...

Objectives

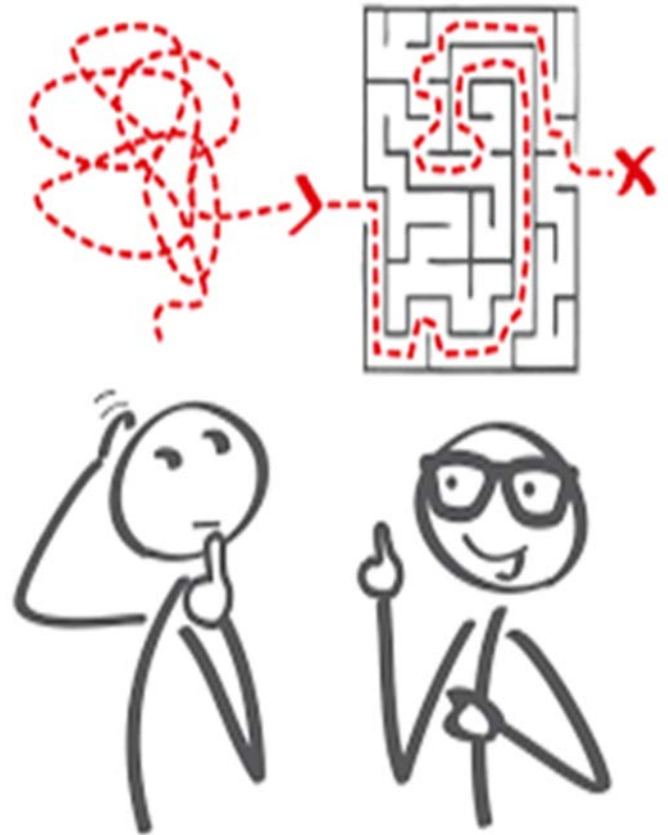
- Continuity of Critical Functions
- Avoid Contagion
- Financial Stability
- Market Discipline
- Minimal usage of Public Funds
- Safeguard Depositors & Covered Investors

Triggers

- Failing or Likely to Fail?
- No alternative private solution is feasible to avoid failure
- Resolution is in Public Interest

Principles

- Covered depositors fully protected
- “Par condicio creditorum” ie Equal treatment of Creditors
- Replace Management & Directors
- Resolution burden shared with Shareholders





Bank Resolution framework in Uganda

- ❖ Legal – **Financial Institutions Act, 2004.**
- ❖ Risk & problem Identification – **Risk Based Supervision Manual and supervisory cycle**
- ❖ Information Sharing with Peers – **Memorandum of Understandings**
- ❖ Communication strategy & Confidentiality – **Code of conduct**
- ❖ A sound and comprehensive framework for bank resolution – **Problem SFI Resolution Guidelines (under development)**
- ❖ Sufficient resources – **Human and Financial Resources**





Resolution Experience

| Bank | Resolution date | Triggers | Resolution type / Process | Challenges |
|------------|------------------|---|---|--|
| Crane Bank | October 20, 2016 | <ul style="list-style-type: none"> • Significant Undercapitalization • Insolvency • Failure to recapitalize within a specified period. | <ul style="list-style-type: none"> • BOU takeover of Management & Board • Statutory Management (Oct 2016-Jan 2017) with Liquidity Support • Conduct of Forensic Audit • Receivership in January 2017 • Purchase of Assets & Assumption of Liabilities • Confidential Settlement & Release Agreement (CSRA) with “key” shareholder • Residual Assets & Liabilities with BOU as Receiver • Filing of HCCS 493 of 2017 • Receivership on-going. | <ul style="list-style-type: none"> • Procedural mistakes (during statutory management & receivership) • Failed implementation of the CSRA • Drawn out Court processes, HCCS 493 of 2017 & now Misc Appl. 320 of 2019 ruling, that is under Appeal. • Parliamentary probe led to resource diversion • Incomplete Records & Documentation for liquidity Support |



Resolution Experience in Uganda

| Bank | Resolution date | Triggers | Resolution type | Challenges |
|---------------------------|-----------------|--|--|--|
| Global Trust Bank | July 25, 2014 | <ul style="list-style-type: none"> Accumulated losses reflecting inability to grow organically Shareholder fatigue from repeated capital calls Serious regulatory concerns related to Governance & Management | <p>Statutory take over & closure by Bank of Uganda</p> <p>Purchase of Assets & Assumption of Liabilities Agreement</p> <p>Liquidation (<i>from closure to-date</i>)</p> | <ul style="list-style-type: none"> Numerous legal suits against Bank Declining performance of “Assets in Escrow” |
| National Bank of Commerce | Sept. 27, 2012 | <ul style="list-style-type: none"> Shareholder disputes on ownership that resulted in Court Action. Loss making for two consecutive years led a 2nd erosion of Regulatory Capital in less than 12 months. Serious regulatory concerns related to Governance & Management | <p>Interim Management oversight</p> <p>Statutory take over & closure by Bank of Uganda</p> <p>Purchase of Assets & Assumption of Liabilities Agreement</p> <p>Liquidation (<i>from closure to-date</i>) but never implemented.</p> | <ul style="list-style-type: none"> Injunction against Liquidation process Long court process Purchasing Bank, subsequently sold under P & A – Incomplete records of “Assets in Escrow” “Asset wasting” with low recoverability |



Impact on Financial Stability

- Critical success factor for resolution option - financial stability especially contagion
- Preferred resolution approach - Purchase of Assets & Assumption of some of the liabilities
- Over the period June 2012 – June 2019, total assets of commercial banks grew by 110.4 percent to USh.30.3 trillion in June 2019.
 - ❑ **Gross loans & advances** grew by 88.9 percent to USh.13.6 trillion
 - ❑ **Customer deposits** grew by 115.5 percent to USh.20.9 trillion growth.





Impact on Financial Stability

Table 1: Financial Soundness Indicators

| | Jun-12 | Jun-13 | Jun-14 | Jun-15 | Jun-16 | Jun-17 | Jun-18 | Jun-19 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Capital Adequacy | | | | | | | | |
| Core Capital (USh. Trillion) | 1.9 | 2.2 | 2.5 | 2.7 | 3.0 | 3.5 | 3.8 | 4.3 |
| Core capital/RWA (%) | 18.3 | 21.3 | 20.3 | 18.8 | 19.0 | 21.4 | 19.7 | 19.6 |
| Total capital/RWA (%) | 20.7 | 24.3 | 22.8 | 21.2 | 21.7 | 23.6 | 21.8 | 21.3 |
| Asset quality | | | | | | | | |
| Gross Loans & Advances (USh. Trillion) | 7.2 | 7.7 | 8.8 | 10.5 | 10.9 | 11.0 | 12.2 | 13.6 |
| NPLs to total gross loans (%) | 3.9 | 4.0 | 5.8 | 4.0 | 8.3 | 6.2 | 4.4 | 3.8 |
| Earnings & profitability (YoY) | | | | | | | | |
| Return on assets (%) | 4.4 | 3.3 | 2.1 | 2.8 | 2.2 | 2.2 | 2.8 | 2.9 |
| Return on equity (%) | 29.5 | 20.3 | 12.8 | 17.7 | 13.8 | 11.9 | 16.7 | 16.1 |
| Liquidity | | | | | | | | |
| Customer Deposits (Ush. Trillion) | 9.7 | 10.4 | 12.4 | 4.5 | 15.5 | 17.1 | 19.3 | 20.9 |
| Liquid assets/ Total deposits (%) | 38.9 | 41.1 | 46.0 | 46.4 | 43.4 | 50.1 | 46.6 | 45.5 |

The recent bank resolutions have not raised financial stability concerns as the credit quality has remained satisfactory, and banks in Uganda continue to hold adequate capital and liquidity buffers.



Enablers (1)

- Distressed FI resolution guided by least disruption to wider Financial Sector.
- Ring fence Subsidiary operations from its parent. (*subsidiary vs branches licensing model*)
- Information Sharing channels & common Supervision protocols between peer regulators – Effective cross-border bank resolution.
- Multi stakeholder involvement - central bank, deposit insurer and Ministry of Finance (or treasury).



Enablers (2)

- Regular Legislative reform & review of regulatory and supervisory practices needed to strengthen bank resolution frameworks.
- Ready access to regularly maintained institutional profiles & data for timely decision making
- Process confidentiality, Maintain focus on FI resolution & prompt and relevant response to the media.
- Effective management of expectations & minimizing uncertainty - employees of the resolved institution



Lessons learned...



Crisis Prevention

- Risk Identification
- Early Warning Indicators (EWI)
- Strengthen Off-site & On-site surveillance
- Real-time Data & Analytics

Early Intervention

- Corrective Actions & Follow up
- FI Conduct & Management Behavior change
- Rules vs Discretion
- Risk mitigation

Crisis Management

- Document policy, procedures & Responsibilities
- Compliance & adherence
- “Future proofing” regulatory framework
- Financial Sector Regulator Cooperation



... Questions?

