

**BANK CRISIS**

# Detectives grill former NBK

Two ex-Chase Bank managers also questioned by police for the second time

By CYRUS OMBATI AND MOSES NJAGIH

Four former National Bank of Kenya (NBK) top managers were yesterday questioned by police over claims of banking malpractices. This came as senators criticised the closure of Chase Bank.

Chase Bank's Group Managing Director Duncan Kabui and Chairman Zafarullah Khan were also quizzed by the detectives for the second time in three days. The managers, who were accompanied by their lawyer Cecil Miller, left the Directorate of Criminal Investigations after nine hours.

The former NBK officials were led by lawyer Paul Muite when they presented themselves before the Directorate of Criminal Investigations as directed by Inspector General of Police Joseph Boinnet.

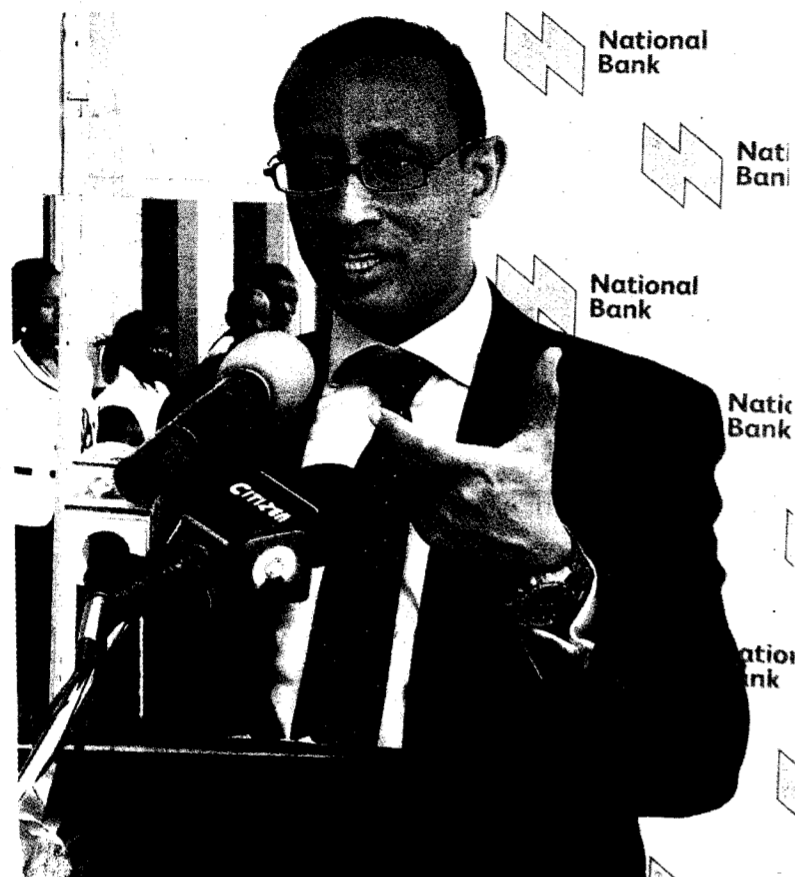
Asked NBK Managing Director Muneer Ahmed, chief finance officer Chis Kisire, chief credit officer George Jaba, and acting chief finance officer Vycliffe Kivunira spent more than eight hours with the detectives answering questions regarding lending bills in office.

The bank made a loss of Sh1.2 billion in the last financial year. Police are investigating claims of bad practices that could have contributed to the losses. Sources said they all denied any wrongdoing.

Officials said ICT director Mohammed Abdalla and executive director Boniface Biko were away but promised to present themselves later.

Their identification documents, including passports, were confiscated by police.

Director of Criminal Investigations (DCI) Ndegwa Muhoro said they were still talking to various parties in the case before they decide on possible



Former National Bank Managing Director Muneer Sheikh Ahmed speaks during the official opening of the Kericho branch. (PHOTO: FILE/STANDARD)

charges to be preferred, if any.

"This is a long process that is progressing well. We have opened investigation files and it will take time to know the way forward because there are many other people to talk to," he said.

And the Senate Finance Committee yesterday criticised the "speedy action" by Central Bank of Kenya Governor Patrick Njoroge to shut down the troubled Chase Bank.

The committee said the decisive move, plus the closure in the past of two other banks - Dubai and Imperial Banks - had occasioned more harm to the innocent depositors, as opposed to the institution's directors

who should be punished.

Committee Chairman Billow Kerrow, who is also the Mandera senator, said that when a financial institution is going under, the Central Bank should first focus on the interests of

**“The Governor should not be using a Bazooka to kill a fly... We're wondering whether his action was taken in the best interest of depositors-Senator Mutahi Kagwe**

**SENATORS' FURY OVER BANKING CRISIS**

• Kagwe accused the CBK Governor of overreacting by closing Chase Bank

• Kerrow said the closure of the three banks had led to withholding of over Sh150 billion of depositors' money

• Kilonzo proposed the State should attach the properties of managers and directors to ensure they do not flee

• Elachi questioned why auditors gave banks clean bills of health only for them to go under in a matter of months

depositors, who are always at risk of losing their savings in the event of a closure. "Inasmuch as the bank directors have a responsibility as well the management to ensure safety and custody and always be responsible for the losses, we are concerned that the CBK Governor has acted in a hasty and irrational manner," said Kerrow.

Nyeri Senator Mutahi Kagwe accused Njoroge of overreacting, saying while directors of the bank should be punished for poor insider-lending regime, it did not necessarily mean that Chase Bank should have been closed.

**GOVERNOR OVERREACTING**

"The Governor should not be using a Bazooka to kill a fly. He is overreacting. We are wondering whether his action was taken in the best interest of depositors. We know what happens in this country when a bank is closed," said Kagwe.

Kerrow said the closure of the three banks had led to withholding of over Sh150 billion of depositors' money, which had a big impact on the stability of the economy.

The senators further urged the CBK Governor to probe possible connivance between regulatory officials and Chase Bank management, saying the irregularities cannot have been

without the knowledge of some elements in CBK.

"CBK is not a scarecrow in a maize field. It is supposed to provide cushion to depositors," said Machakos Senator Mutula Kilonzo Jr.

Kilonzo proposed that while the criminal process against managers and directors responsible for the mess was ongoing, the State should attach their properties to ensure they do not flee.

Kilonzo said it was questionable that the Chase Bank mess was not detected earlier, adding that former Governor Andrew Mulei had installed a comprehensive system to flag anomalies.

"Kenyans paid dearly for this system that is supposed to do trouble-shoot in the banking industry. It can only be that some people within CBK are conniving with those keen on looting depositors' funds and we need to see these elements punished," he said.

Senate Majority Whip Beatrice Elachi questioned how auditors had given banks clean bills of health only for them to go under in a matter of months.

"There has to be a collusion that also ropes in auditors, otherwise how does such a mess happen when auditors had given such a clean bill on the financial institution?" she posed.

On Friday, Boinnet issued arrest orders against two Chase Bank managers and six senior managers at the equally troubled National Bank after they all defied an order to surrender themselves to the police.

Mr Boinnet had ordered the arrests, accusing the managers of engaging in unethical conduct, including illegal lending to themselves and to their cronies in disregard of all guidelines.

"I have, therefore, ordered the immediate arrest of the following persons, or in lieu, they must present themselves to the Directorate of Criminal Investigations headquarters by 3.30pm today (Friday)."

Zafarullah and Kabui spent the better part of Saturday at DCI headquarters. Chase Bank was placed under receivership last Thursday.

**[MARUBE OGEGA] OPINION**

## How to avert another bank crisis

started with Dubai Bank, then came Imperial Bank. But who would have imagined that Chase Bank, the prominent Kenyan relationship bank, would have been the next patient to be wheeled into the "ICU Emergency Room" by Central Bank of Kenya (CBK)?

For two years in a row, that is 2014 and 2015, Chase Bank has been honoured as the "Best Company to Work For in Kenya" by Deloitte.

Having positioned itself as the one-stop SME bank of choice by alluring and courting up to a million customers both in Kenya and the diaspora with very competitive financial products and suave marketing brand equity, she was no doubt the darling 'skin' of the banking sector.

It was the bank of choice for several investment clubs (chamas), young

and upwardly mobile professionals who connected well with the vibrancy of the Chase brand as well as lawyers - what with the dazzling "Wakili Account" on offer?

Its e-banking and m-banking platforms were world-class. Yet ironically, it is these same platforms that would later turn out to haunt the bank as they became the leading channel of capital flight, precipitating a financial haemorrhage of a record Sh8 billion in a single day.

The CBK Prudential Guidelines allow a bank to lend internally to staff and directors to a maximum of 25 per cent of core capital.

In the case of Chase Bank, the core capital is Sh11 billion, whereas the insider loans amounted to Sh13 billion, inferring that internal borrowing had skyrocketed to 118 per cent of core

capital. This is a gross contravention of the "Banking Marriage Act" (read CBK Prudential Guidelines). In fact, it is alleged that one director alone could have personally secured a Sh7 billion loan, approximately 64 per cent of the entire bank's core capital. It is such "clandestine affairs" that are largely blamed for catalysing the bank's liquidity quagmire.

**THE WAY FORWARD**

According to the provisions of International Accounting Standard No. 39 (IAS 39), loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, should be classified as available-for-sale (IAS 39.9).

All the three banking crises that

Kenya has witnessed in the past nine months have been dogged by boardroom wrangles that have ended up making these banks ungovernable and seeking the intervention of the CBK.

Going forward, it will be vital for the regulators, both the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK), to do a fresh vetting of the management and directors of the boards of all the banks and financial institutions and disqualify those who are unfit to hold the fiduciary duties on behalf of the shareholders, depositors, customers and the public interest.

These managers and directors should then pay a visit to the Directorate of Criminal Investigations (DCI) and seek clearance by obtaining a certificate of good conduct. They ought

to equally renew their ethics clearance certificates from the EACC on an annual basis.

They should also annually file their individual returns as well as those of their spouses and immediate family members to both CBK and CMA, detailing their financial dealings with the banks they represent in order to avert Kenya's banking financial meltdown.

The writer is the Founder & CEO of Burnley & Co, a business strategy consulting firm that advises financial institutions, investors, entrepreneurs, NGOs and development partners in the areas of corporate finance, financial inclusion, business valuation, financial modelling, taxation, audit, risk management & corporate governance.

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**BANK CRISIS**

# bosses for eight hours

## Mortgage lender joins list of firms interested in buying bank

By MOSES MICHIRA

Mortgage lender Housing Finance (HF) yesterday joined the list of firms interested in acquiring the troubled Chase Bank.

HF will be bidding to bail out Chase Bank alongside Equity Bank, Sidian (owned by Centum Investments) and Kenya Commercial Bank, which also confirmed its interest yesterday.

"Yes, we are interested (in acquiring Chase Bank). We are in very early stages of the talks," HF Group Managing Director Frank Ileri told the Standard yesterday.

Chase Bank, which collapsed last Thursday and was placed under the management of the Kenya Deposit Insurance Corporation, had a strong business model, fashioning itself as the enterprises' lender.

Soon after its doors shut, previous

rival banks showed interest in acquiring the business by injecting the requisite cash in exchange for a stake.

"KCB is open to the potential consolidation in the market, but nothing specific has been pinned down. We continue to pursue various options and opportunities and cannot specifically discuss a particular entity," KCB spokesperson Judith Odhiambo said yesterday.

At the time it was taken over, its total customer deposits were estimated at Sh96 billion mobilised from more than 55,000 clients.

It also had 55 branches around the country, which would enhance its appeal to the prospective buyers. HF with Sh70 billion worth of assets was established over 50 years ago and has operated purely as a home financier and developer for most of its life, before a regulatory review allowed it to provide commercial banking ser-



Clients of Chase Bank along Mombasa's Mol Avenue ponder their fate. This is after the Central Bank of Kenya closed the bank's operations by placing it under receivership for 12 months. (PHOTO: MAARUFU MOHAMED/STANDARD)

vices about four years ago.

Such an acquisition could help it broaden its business in commercial banking, including collecting deposits through current and savings accounts, and offering regular loans

in addition to its fledgling mortgage

business. A wide branch network would work to boost mobilisation of customer deposits, which offer the cheapest source of funds for lenders.

HF is thought to be attracted by the clientele at Chase Bank that consist mostly of investment groups.

## Mombasa MCAs in dilemma

By PATRICK BEJA

A crisis is brewing in the Mombasa County Assembly following reports members operated personal accounts at Chase Bank.

Reports indicate that the assembly guaranteed each member a loan of Sh3 million during the 2013-2014 financial year, after which they opened accounts at Chase.

According to officials, the MCAs opened personal accounts while the assembly guaranteed the funds, which were to be used to either buy cars or pay mortgages.

Earlier, sources at the county government had indicated that the assembly had opened its own an account with the bank; but this version was later discounted.

Assembly Finance Committee Chairman Mohamed Hatimy explained that the MCAs had personal accounts with the bank through which the money for servicing the loans was channelled, but denied knowledge of the assembly having any account with the bank.

"I know the assembly had served as a guarantor for the loans," he said.

**UNIVERSITY OF NAIROBI ALUMNI ASSOCIATION**

The University of Nairobi Alumni Association would like to notify its members of the new Office Bearers (Board of Directors) after successful Annual General Meeting (AGM) held on Saturday, 9th April 2016 in Taifa Hall, University of Nairobi

**NEW BOARD MEMBERS**

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**UNIVERSITY OF NAIROBI**

**VICE CHANCELLOR CONGRATULATES ALUMNI**

The Vice Chancellor, Prof. Peter M.F. Mbithi congratulates University of Nairobi Alumni Association for holding a successful Annual General Meeting that culminated in the election of new office bearers.

"We shall give them full support and work with them to achieve the dream of transforming the University into a World Class Centre of Scholarly Excellence."

**PETER M.F. MBITHI, PhD, EBS**  
**VICE CHANCELLOR**  
**AND**  
**PROFESSOR OF VETERINARY SURGERY**

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