

Note on the Liquidation of Imperial Bank Limited, In Receivership (IBLIR)

Imperial Bank Limited was a medium sized bank in Kenya with about 50,000 customers, 31 branches and an asset base of over Kshs 70.3 bn. The bank's Profit Before Tax (PBT) grew by a 5-year CAGR of 127.9% to Kshs 2.0 bn in 2014, from Kshs 0.9 bn in 2010. On 9th December 2021, the Central Bank of Kenya (CBK) [announced](#) that it had approved the liquidation of Imperial Bank Limited In Receivership (IBLIR), in order to pave way for the sale of IBLIR's remaining assets to settle any existing debts to depositors and creditors. Imperial Bank Limited was put under receivership by CBK on 13th October 2015 due to irregularities and malpractices in the bank which exposed depositors, creditors and the banking sector to financial risk.

Some of the other banks that have been liquidated in recent times include:

- i. Dubai Bank Kenya Limited, which was placed under [receivership](#) on the 14th August, 2015 due to liquidity challenges and capital deficiencies. The Kenya Deposit Insurance Corporation (KDIC) was appointed the receiver after Dubai Bank breached the daily cash reserve ratio requirement for a period of one month and failed to honor their financial obligations, including Kshs 48.2 mn due to Bank of Africa Kenya Limited. Dubai Bank's liquidation was [announced](#) on 24th August 2015, after KDIC recommended in a report to CBK that liquidation was only the only feasible option. KDIC began payment of up to Kshs 100,000.0 per account in September 2015. According to data by [CBK](#) as of December 2014, Dubai Bank had 7,043 accounts which means that the maximum payout from KDIC was Kshs 0.7 bn and 40.2% of the total customer deposits of Kshs 1.7 bn. The remaining balance of Kshs 1.0 bn is payable from the bank's liquidation proceeds. We estimate that 88.1% of the depositors were paid in full as 6,205 accounts held balances of less than Kshs 100,000.0 at the time of receivership.,
- ii. Chase Bank Limited, which was put under receivership on 7th April 2016, and, its liquidation [announced](#) on 16th April 2021. The bank was placed under receivership after facing liquidity challenges due to a run on the bank following inaccurate social media reports coupled with the resignation of its two directors, the Bank's Board Chairman and Group Managing Director. Chase Bank Limited was a medium sized bank in Kenya with over 170,000 customers, 62 branches and an asset base of over Kshs 100.0 bn. We expect total recoveries of Kshs 59.6 bn out of the total Kshs 76.1 bn in deposits held by Chase Bank Limited In Receivership; resulting in a potential loss of Kshs 16.5 bn and a 78.3% recovery rate. Please see our [Note on the Liquidation of Chase Bank Limited, In Receivership \(CBLIR\)](#) for a detailed analysis,
- iii. Charterhouse Bank, whose liquidation was [announced](#) on 7th May 2021, with the Kenya Deposit Insurance Corporation (KDIC) being appointed as the liquidator in order to protect the interest of the bank's depositors, its creditors, and other stakeholders. The bank had been under statutory management since 23rd June, 2006 over severe violations of the Banking Act relating to lending, accuracy of returns submitted to CBK, and failure to obtain account opening documentation for a number of customers. Charterhouse Bank had assets totaling Kshs 4.0 bn and 4,669 deposit accounts with deposits totaling Kshs 2.9 bn, as of 2006. KDIC [announced](#) on 31st May 2021 that it had begun paying up to Kshs 500,000.0 for each insured deposit account. Given the total number of accounts of 4,669, the maximum payout from KDIC is estimated to be Kshs 2.3 bn, or 80.5% of the total deposits.

In a bid to help understand the liquidation process and what it means this note shall cover the following;

- i. Imperial Bank Limited Business Restructuring,
- ii. Analysis on the potential loss to be incurred by Imperial Bank Limited In Receivership (IBLIR) Depositors, and,

iii. Conclusion.

A. Imperial Bank Limited Business Restructuring

As highlighted in our [Note on the Liquidation of Chase Bank Limited, In Receivership \(CBLIR\)](#) there are several options that an insolvent company, including a bank, may pursue in order to protect the interests of all stakeholders and meet their obligations. The options available include;

- a. **Administration** - This process is headed by an Administrator, a certified Insolvency Practitioner, who may be appointed by an administration order of the court, unsecured creditors, or a company or its directors. An administrator of a company is required to perform the administrator's functions in the interests of the company's creditors as a whole,
- b. **Receivership** – A firm's creditors may appoint an independent certified Insolvency Practitioner to act as a fiduciary ('receiver') for the firm to realize and sell the firm's assets and help settle the outstanding debts. In the banking sector, the CBK can put banks under receivership as in the case of Imperial Bank and Chase Bank. The Kenya Deposit Insurance Act, No. 10 of 2012, allows the CBK to appoint the Kenya Deposit Insurance Corporation (KDIC) as the sole and exclusive receiver of any institution,
- c. **Company Voluntary Arrangements** - This arrangement is entered into when a company is insolvent and the directors, administrator or liquidator as the case may be, propose to the company's shareholders and its creditors on the best way to save the company from liquidation. Key to note, banking and insurance companies are not legally allowed to pursue this option, and,
- d. **Liquidation** – Liquidation is a common insolvency proceeding whereby a company is wound up after all its assets and liabilities are identified in order to pay off creditors to the much extent possible. Liquidation proceedings can be initiated by a court in Kenya or can be voluntary in nature where the company members or creditors make a liquidation application.

To read more on Business Restructuring, kindly visit our topical on [Business Restructuring Options](#).

Imperial Bank

The Imperial Bank Limited's liquidation process began in October 2015 and the key highlights are indicated below:

1. **Receivership** - On 13th October 2015, the bank was [put under receivership](#) after its board of directors brought to the attention of the Central Bank of Kenya (CBK) IBL's inappropriate banking practices. This led to remedial actions by the regulator in order to safeguard the interest of both depositors and creditors. Following the announcement of the bank' receivership, the Capital Markets Authority suspended the listing of the Kshs 2.0 bn Imperial Bank corporate bond on the Nairobi Securities Exchange (NSE),
2. **First Disbursement of Funds to Depositors** - In December 2015, KCB Group and Diamond Trust Bank Kenya (DTB-K) [agreed](#) to facilitate the payments of up to a maximum of Kshs 1.0 mn, to each Imperial Bank depositor with the aim of paying out 44,300 depositors in full, representing 88.6% of the total depositors. As of [March 2016](#) and following the verification process and funds disbursement, a total of 39,860 depositors had been paid in full. The deposits repaid totaled Kshs 6.8 bn – representing 11.7% of the total deposits,
3. **Second Disbursement of Funds to Depositors** - In November 2016, CBK [announced](#) that KDIC had entered into an agreement with NIC Bank, where it was expected that depositors would be granted structured access to around 40.0% of the remaining amount of verified deposits above Kshs 2.5 mn. NIC Bank revealed in its [FY'2016 Annual Report](#) that it had paid a more than Kshs 10.0 bn to IBLIR depositors as part of the agreement with KDIC. This translates to 17.2% of the total deposits and took the cumulative payout ratio to 28.9%,

4. **Third Disbursement of Funds to Depositors** - In December 2016, CBK [announced](#) that KDIC had commenced a third disbursement of funds to verified Imperial Bank Limited (IBL) depositors allowing them access to a maximum of 10.0% of their remaining deposits, subject to a minimum of Kshs 200,000.0 or the actual deposit amount for balances below Kshs 200,000.0. If all depositors claimed their 10.0% deposit, this translates to a maximum payout of Kshs 4.1 bn in this third disbursement and takes the total deposit reimbursements to Kshs 20.9 bn or 36.0% of total deposits that went under receivership,
5. **Acquisition of Assets by KCB Group** – In May 2020, CBK [announced](#) the acquisition of Imperial Bank’s assets and assumption of liabilities worth Kshs 3.2 bn each by KCB Group effective 2nd June 2020. The move will see Imperial Bank depositors paid a total of Kshs 3.2 bn over a period of 4 years as follows:
 - a) 12.5% on completion of signing of the agreement,
 - b) 12.5% on the first anniversary of the signing, and,
 - c) 25.0% each on the second, third and fourth anniversaries respectively
 Interest rates payable on deposit balances will be in line with existing deposit products. Inclusive of the Kshs 3.2 bn expected to be fully paid from KCB Group, the aggregate amount paid to Imperial Bank’s depositors will be Kshs 24.1 bn and 41.5% of the total deposits, and,
6. **Liquidation** – In December 2021, CBK [announced](#) that it had approved the liquidation of Imperial Bank Limited In Receivership, (IBLIR,) in order to pave way for the sale of IBLIR’s remaining assets to settle any existing debts to depositors and creditors. This followed the recommendation by Kenya Deposit Insurance Corporation (KDIC), the receiver, to liquidate the bank, coupled with a report from an external auditor that ascertained that winding down the lender was the only feasible option based on the weak status of IBLIR’s financial position.

B. Analysis on the potential loss to be incurred by IBLIR Depositors

In this section, we analyze the expected total recoveries from the Imperial Bank Limited’s restructuring process. From the acquisition of liabilities by KCB Group, clients will recover Kshs 3.2 bn and if the liquidation is to go ahead, each of the account holders who still have unpaid deposit balances could get payment from KDIC of up to Kshs 500,000.0. The summary below shows how much depositors stand to get in total through the receivership and liquidation processes and assumes maximum payout during each disbursement announced by the CBK and from the KCB-acquired liabilities:

Item	Details
Total Amount of IBLIR Deposits*	Kshs 58.1 bn
First Disbursement of Funds to Depositors through KCB and DTB banks	Kshs 6.8 bn
Second Disbursement of Funds to Depositors through NCBA bank	Kshs 10.0 bn
Third Disbursement of Funds to Depositors	Kshs 4.1 bn
Deposit Amount transferred to KCB Group and expected to be fully recovered	Kshs 3.2 bn
Sub-Total	Kshs 24.1 bn
Maximum no. of accounts to receive KDIC insured amount of Kshs 500,000.0 each	4,300.0
Maximum amount to be paid by KDIC after liquidation	Kshs 2.2 bn
Total Deposits Repayable	Kshs 26.3 bn
Total Potential Loss after the liquidation	Kshs 31.8 bn

*Figure as of June 2015

Key take-outs from the table above are;

- a. 45,700 deposit accounts, equivalent to 91.4% of depositors accessed their funds in full; implying that 4,300 accounts (8.6% of total accounts) did not access all of their funds. These outstanding deposit accounts will receive deposits worth Kshs 500,000.0 each, based on the [KDIC's unprecedented cover per depositor that took effect from July 2020](#), which increased depositors' cover to Kshs 500,000.0 from Kshs 100,000.0,
- b. The total recovery rate is expected to be 45.2% of total deposits after taking into account the maximum amount payable by KDIC after liquidation. This still leaves a significant loss ratio of 54.8% or Kshs 31.8 bn loss that depositors have to bear, and,
- c. The paid amounts do not include other creditors such as the Kshs 2.0 bn corporate bond that IBLIR, then Imperial Bank, floated in September 2015. It is also key to note that Imperial Bank had listed the Kshs 2.0 bn corporate bond just a month before its eventual collapse, which exposes the regulator for the bonds issuance, the Capital Markets Authority, CMA, to scrutiny as the listing should not have proceeded under the institution's financial health.

Below we look at the combined table for the total recoveries in Chase Bank and Imperial Bank, which are two of the most recent banks to be liquidated in Kenya:

Item	Chase Bank	Imperial Bank	Total
Total Amount as at time of Receivership	Kshs 76.1 bn	Kshs 58.1 bn	Kshs 134.2 bn
Amount recovered from restructuring efforts and acquisition of assets and liabilities	Kshs 57.1 bn	Kshs 24.1 bn	Kshs 81.2 bn
Maximum amount to be paid by KDIC after liquidation	Kshs 2.5 bn	Kshs 2.2 bn	Kshs 4.7 bn
Total Deposits Repayable	Kshs 59.6 bn	Kshs 26.3 bn	Kshs 85.9 bn
Total Potential Loss after the liquidation	Kshs 16.5 bn	Kshs 31.8 bn	Kshs 48.3 bn
Recovery Rate	78.3%	45.2%	64.0%

Key take-outs from the table above are;

- a. The combined recovery rate is expected to be 64.0% for the two banks; Imperial Bank and Chase Bank, highlighting that the restructuring processes were indeed successful to an extent, and, that the statutory management and takeover by CBK in both banks was necessary in order to protect depositors' interests,
- b. The acquisition of assets and liabilities in the restructuring of the two banks has proved to be an effective method of deposits recovery for the two struggling lenders. This is where a financially sound bank acquires assets from a struggling bank together with liabilities matching the assets' worth. For instance, according to [SBM Bank \(Kenya\) FY'2018 Annual Report](#), the bank acquired Kshs 57.1 bn worth of deposits from Chase Bank Limited In Receivership (CBLIR), which represents 75.0% of customer deposits leading to the high rate of recovery for Chase Bank's depositors, and,
- c. In both banks, financial malpractice were the key reason for their downfall and unfortunately it is the depositors who bear the most loss from these malpractices. The total potential loss is Kshs 48.3 bn. This highlights the importance of having good corporate governance structures around financial providers and a strict regulator to ensure prudent management.

C. Conclusion

Commercial banks play a crucial role in any economy by providing financial intermediary services including credit provision, providing a savings platform for institutions and individuals alike, and facilitating exchange of money between different parties. It is therefore very important that the banking system remains trusted, reliable and steadfast enough to withstand inevitable financial storms. Receivership and Liquidation of banks causes a drop in confidence in the banking system in Kenya, and we believe it is commendable that CBK has been active through various press releases, in communicating to all stakeholders the necessitating reasons and recovery strategies for banks such Chase Bank and Imperial Bank that have had to undergo restructuring. However, we believe that CBK needs to be more transparent in the restructuring processes especially in releasing the financial positions and actual amounts for deposits payable at any point, outstanding loans and the restructured banks' financial positions at the time of liquidation. Additionally, CBK should put in sufficient mechanisms to protect depositor's funds through better supervision of the banking sector to ensure no future losses in value by bank depositors