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Depositors Panic Over Bank Crisis in Afghanistan

By **DEXTER FILKINS**

KABUL, Afghanistan — One of the principal owners of the Afghan bank at the center of an accelerating financial crisis here said depositors had withdrawn \$180 million in the past two days. He predicted a “revolution” in the country’s financial system unless the Afghan government and the United States moved quickly to help stabilize the bank.

Khalilullah Frozi, one of the two largest shareholders of Kabul Bank, said reports indicating that the institution had lost as much as \$300 million were overstated. But he predicted that if Afghan depositors continued to withdraw their money at the current rate, Kabul Bank would almost certainly collapse, undermining confidence in the nascent financial system the Afghans have been trying to build with American help.

“If this goes on, we won’t survive,” Mr. Frozi said in an interview. “If people lose trust in the banks, there will be a revolution in the financial system.”

Afghan leaders promised to guarantee deposits in an attempt to arrest the panic, which began earlier this week when the country’s top banking officials demanded the resignations of Mr. Frozi, the bank’s chief executive, and the bank’s chairman, Sherkhan Farnood.

Afghan and American officials say the two men **presided over the bank in a reckless and freewheeling manner**, doling out millions to allies of President **Hamid Karzai** and pouring money into risky investments that crashed.

The bank’s troubles — and the corruption associated with them — are posing a direct challenge to the country’s fledgling financial system, which was built under American guidance after the collapse of the **Taliban** government in 2001. Kabul Bank, which counts a brother of President Karzai among its politically connected shareholders, illustrates the intertwining of political and economic interests in **Afghanistan**. Afghan and American regulators said the bank’s political connections had shielded it from scrutiny until now.

If the loss of confidence spreads beyond Kabul Bank, it seems almost certain to strain the resources of the Afghan government — and make it more likely that the United States will be forced to intervene. There were no indications yet that the panic was spreading, but American and Afghan officials said other Afghan banks might face similar troubles.

For now, American officials ruled out any financial assistance. They said they were providing technical assistance to the Afghan government, but nothing more.

“We are taking no steps to bail out Kabul Bank,” said a White House spokesman, Tommy Vietor. “We support the Afghan Central Bank’s efforts to uphold international standards on transparency and its decisive action in response to reports of fraud at the Kabul Bank.”

In a news conference, President Karzai promised that the Afghan government would guarantee all deposits at the threatened institution. The Afghan government had already given Kabul Bank more than \$100 million to ensure that it could pay the salaries of about 250,000 public employees, other Afghan officials said. The bank administers the payments for the government.

“People don’t need to be worried,” Mr. Karzai said. “We’ve got enough cash to support the bank.

“Even if the whole financial system in Afghanistan collapses, we have enough money to support it,” he said.

Mr. Karzai, who appeared with Secretary of Defense [Robert M. Gates](#), said the crisis had been invented by the Western press, which he said had raised baseless fears among Afghans.

“The Western press has been covering it in a negative and provocative way,” he said of Kabul Bank’s troubles.

Still, it was not clear that the Afghan government had the legal authority to guarantee Afghan deposits, or the financial wherewithal to shore up the banking system if confidence were to collapse. Mr. Frozi said Kabul Bank retained about \$1.1 billion in deposits. That figure alone would equal about a quarter of Afghanistan’s foreign currency reserves, which Mr. Karzai said totaled \$4.8 billion. Afghan officials said the bank had \$2 billion in assets, and \$120 million in capital.

Most Afghans do not keep their money in the banking system, and Kabul Bank is tiny by international standards. But creating a credible and stable banking system is an important goal of the American-led effort in the country, which is seeking to help Afghanistan develop a modern economy.

Kabul Bank, one of the biggest private financial institutions that sprang up after the fall of the Taliban, stands at the very center of Afghanistan's political and economic elite. One of Mr. Karzai's brothers, Mahmoud, is a major shareholder, as is Haseen Fahim, the brother of the Afghan first vice president. The bank lent Mr. Fahim, a prominent businessman, as much as \$100 million, officials say.

The bank helped finance President Karzai's re-election campaign last year, giving him as much as \$14 million, according to a former senior Afghan official. Mr. Frozi denied that.

Mr. Karzai chose the bank to administer much of the government's payroll, which Mr. Frozi described as one of the bank's most lucrative fields of business.

In the interview, Mr. Frozi said he was mystified by the abrupt loss of confidence in his bank. He conceded that many of the bank's investments had lost money, but he said that none of them were irrecoverable. The biggest mistake, he said, was the decision by his partner, Mr. Farnood, to buy \$160 million worth of villas and office buildings in Dubai, in the United Arab Emirates, at the height of the real estate bubble in 2007.

The next year, the market collapsed. Many of the villas are occupied by prominent Afghans, like former Vice President Ahmed Zia Massoud and Mahmoud Karzai.

"Nobody could have predicted the crisis," Mr. Frozi said.

Kabul Bank also lent \$100 million to Haseen Fahim. His brother, [Muhammad Fahim](#), the Afghan first vice president, has been calling bank officials repeatedly this week from Germany to try to save whatever he can of his family's money, two Afghans close to the bank said.

The troubles at Kabul Bank, which tie the Fahim and Karzai families together, could strain the alliance between President Karzai and Vice President Fahim. Mr. Fahim, an ethnic Tajik who fought against the Taliban, provides crucial political support to Mr. Karzai's government.

Mahmoud Karzai said that he thought the bank could weather the crisis, and that the collapse of confidence that unfolded over the past few days was unwarranted.

"This is nothing but a panic," Mr. Karzai said. "People are under the impression that the bank is failing, and it's not."

Rod Nordland and Sharifullah Sahak contributed reporting.

