

The New York Times Reprints

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit [www.nytreprints.com](http://www.nytreprints.com) for samples and additional information. [Order a reprint of this article now.](#)



January 30, 2011

# Losses at Afghan Bank Could Be \$900 Million

By ALISSA J. RUBIN and JAMES RISEN

KABUL, Afghanistan — Fraud and mismanagement at Afghanistan's largest bank have resulted in potential losses of as much as \$900 million — [three times previous estimates](#) — heightening concerns that the bank could collapse and trigger a broad financial panic in Afghanistan, according to American, European and Afghan officials.

The extent of these losses make it clear that keeping the bank afloat — something the government has said it is determined to do — would require large infusions of cash from an already strained budget.

Banking specialists, businessmen and government officials now fear that word of [Kabul Bank's](#) troubles could prompt a run on solvent banks, destroying the country's nascent banking system and shaking the confidence of Western donors already questioning the level of their commitment to Afghanistan.

The scandal has severe political and security implications. Investigators and Afghan businessmen believe that much of the money has gone into the pockets of a small group of privileged and politically connected Afghans, preventing earlier scrutiny of the bank's dealings.

The spotlight on how political and economic interests in Afghanistan are intertwined threatens to further undermine President [Hamid Karzai's](#) government. The bank is also the prime conduit for paying Afghan security forces, leaving the American military, which pays the majority of the salaries, looking for new banks to process the \$1.5 billion payroll.

As Afghan regulators struggle to find out where the money went, many officials and international monitors concede that the missing millions may never be recovered, raising questions of how the losses could be replaced to keep the bank from failing.

Afghan officials and businessmen have said the money was invested in a real estate bubble that has since burst in Dubai, as well as in dubious projects and donations to politicians in

Afghanistan. Millions of dollars have yet to be traced, and some of the money seems to have gone to front companies or individuals and then disappeared.

The Afghan Central Bank and American officials are conducting their own parallel investigations, but the problems are so serious that the [International Monetary Fund](#) has not yet renewed an assistance program to Afghanistan that expired in September, threatening an essential pillar of support to a government reliant on international largess as it battles a nine-year insurgency.

Many donor countries may have to delay aid to Afghanistan because of their own requirements that money go only to countries with I.M.F. programs in good standing, Western diplomats said.

Several officials described the bank as “too big to fail,” referring to its role in paying the salaries of hundreds of thousands of government employees.

While Afghan and American officials depict a crisis far worse than has been made public, State Department cables released by [WikiLeaks](#) show that Afghan and Western regulators were aware of many of the problems, but were most focused on the problem of terrorist financing, rather than the fraud scheme that was the main problem at Kabul Bank.

A stream of complaints about the bank's practices — many of them the problems that now threaten the bank's survival — are dutifully recorded in the cables, but diplomats, at least in 2009 and early 2010, seemed not to have realized the profound effect they could have on the financial system as a whole.

Although other banks here have had questionable loan practices, so far it is only Kabul Bank — where what amounts to an enormous fraud scheme was conducted over a period of years — whose troubles are sending tremors through the Afghan business community and worrying Western donors.

[Deloitte](#), a top United States accounting firm that had staffers in the Central Bank under a United States government contract over the last several years, either did not know or did not mention to American authorities that it had any inkling of serious irregularities at Kabul Bank. Deloitte was not responsible for auditing the bank's books; a spokesman for Deloitte did not respond to requests for comment.

In an interview this weekend, [Mahmoud Karzai](#), President Karzai's brother and a prominent investor in the Kabul Bank, said that the new president of Kabul Bank, Masood Musa Ghazi, told him in the last several days that there were approximately \$800 million in loans still

outstanding. These are potentially unrecoverable. Mr. Karzai said Mr. Ghazi told him that of that \$800 million, the bank's new management has negotiated agreements for the repayment of about \$300 million, but little has been repaid.

Mr. Ghazi, who was appointed after the Central Bank forced a change in the bank's management last fall, did not respond to phone calls or e-mails seeking comment, nor did anyone at Afghanistan's Central Bank.

Kabul Bank has extensive links to senior people in the Afghan government. In addition to Mahmoud Karzai, other shareholders included Haseen Fahim, the brother of the first vice president, and several associates of the family from the north of Afghanistan. Afghan officials said the bank poured millions into President Karzai's election campaign.

It is the loans and personal grants made by the bank to powerful people, including government ministers, that could prove the most explosive, Western and Afghan officials said. "If people who are thought to be clean and who were held up as 'good' by Western countries suddenly are caught with their fingers in the till, it will cause questions from donors," said a Western official in Kabul. "They will say, 'Why are we here?'"

Mahmoud Karzai said that he believed the bank's former chairman, Sherkhan Farnood, was responsible for the problems at the bank, saying that he often moved large amounts of money out of the bank on his own, with no oversight. Mr. Farnood could not be reached for comment on Sunday, and has declined to comment in the past. Mr. Karzai and Mr. Farnood were previously business partners, but had a falling-out over the operation of Kabul Bank.

While he was in charge, Mr. Farnood had total control over what loans were made and what money was moved out of Kabul Bank, Mr. Karzai said. He said he was told by the bank's managers that Mr. Farnood took about \$98 million out of Kabul Bank to finance the purchase and subsequent operations of Pamir Airways, a small passenger airline in Afghanistan.

In a cable from Sept. 26, 2009, posted by WikiLeaks, American diplomats said that competitor airlines complained that "Kabul Bank is using its deposit base to subsidize Pamir Air without its depositors' knowledge in an attempt to drive competitors out of business."

Mr. Karzai said that Mr. Farnood had been given space at Kabul Bank, where he was supposed to be helping the new management find the bank's missing money.

"I think the bank is working with him to figure out what happened to the money, because he knows whom he lent it to and he knows where it is," Mr. Karzai said. A spokeswoman for the

**United States Treasury Department** in Washington declined to comment on the American inquiry.

“The situation of Kabul Bank is extremely serious,” said a Western diplomat in Kabul. “What you can observe is that the loans were either to fictive operators who did not exist or they were for investments outside the country.”

“Some were loans or personal grants to people linked to one shareholder or another shareholder,” the diplomat said.

According to businessmen in Kabul, loans were made to people who were fronts for the real beneficiaries. “Sometimes they would bring a loan document to someone who was a gardener or a cleaner and just ask them to sign it, and they would pay him 500 Afghanis and the person could not read or write more than his name,” said a prominent businessman here with ties to the banking community.

“Then, when the new bank managers go to look for the money, they go to the gardener’s house and they look around and they see there is nothing worth \$100, and they have no idea where the money went.”

Caitlin Hayden, a spokeswoman for the American Embassy in Kabul, said that officials were working closely with the Afghan government, the I.M.F. and the **World Bank**. “Corrective action in response to any instance of abuse, poor banking practices or fraud is essential for public and international confidence in Afghan financial institutions and the development of Afghanistan’s financial sector,” she said.

In Lashkar Gah, the capital of Helmand Province , a Kabul bank branch has been shut down for a week because employees transferred \$1.3 million to Mr. Farnood, who was removed last fall for mismanagement.

In Kabul, the Ministry of Finance is putting out bids for a new bank to pay the salaries of the security forces, which previously had been paid exclusively through Kabul Bank, according to Col. John Ferrari, the head of training programs for **NATO’s** training mission here. Military officials say that none of the \$1.5 billion in payroll for the Afghan Army and the police has been reported missing. But concerns over the possibility that the bank could fail was one factor prompting the ministry to seek other banks to process payroll, Western officials said.

A WikiLeaks cable from last February suggested that payments were often delayed so the bank could make money on the overnight interest rates. In a Feb. 13, 2010, cable, Kabul

Bank is described as “the least liquid bank operating in Afghanistan” and its difficulty in raising cash was so great that it took “more than two days to process withdrawals and has delayed paying government employee salaries by two weeks in order to place those funds in overnight accounts to collect interest.”

*Rod Nordland and Ray Rivera contributed reporting from Kabul, and an Afghan employee of The New York Times from Helmand Province.*