

RELEASE IN FULL

From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Sunday, May 29, 2011 1:44 PM
To: H
Subject: Re: Afghan Bank Commission Absolves Karzai Brother (NYT)

Yes I did. Have put in inquiries.

From: H [mailto:HDR22@clintonemail.com]
Sent: Sunday, May 29, 2011 01:37 PM
To: Sullivan, Jacob J
Subject: Fw: Afghan Bank Commission Absolves Karzai Brother (NYT)

Assume you've seen this.

From: Mills, Cheryl D [mailto:MillsCD@state.gov]
Sent: Sunday, May 29, 2011 12:52 PM
To: H
Subject: Fw: Afghan Bank Commission Absolves Karzai Brother (NYT)

From: OpsNewsTicker
Sent: Sunday, May 29, 2011 12:48 PM
To: NEWS-Afghanistan; NEWS-Mahogany
Cc: SES-O_Shift-II; SES-O_OS; SES-O_SWO; SES-O_Shift-III
Subject: Afghan Bank Commission Absolves Karzai Brother (NYT)

KABUL (New York Times) — A commission appointed by President Hamid Karzai to assess responsibility for the massive fraud at Kabul Bank issued its report on Sunday, absolving the president's brother of any blame.

Mahmoud Karzai was among the bank's politically connected shareholders and insiders who took out a total of \$925 million in loans, often with no collateral or even documentation, the commission's chairman, Azizullah Ludin, announced at a news conference here. Only \$347 million of that amount is so far expected to be repaid, he said.

At the same time, the report suggested that loans to politically connected figures were even more widespread than previously known. Mr. Ludin said that 207 borrowers took out undocumented loans, including many members of Parliament and government ministers.

Mr. Ludin said "three or four" sitting cabinet members had received dubious loans. He did not identify them, but he did name Gen. Abdul Rashid Dostum, the military chief of staff and a leading Northern Alliance member, as taking out about \$100,000 in unsecured loans.

He said the president's brother, Mahmoud Karzai, had paid off his loans, news welcomed by Mr. Karzai although the case remained murky. Abdul Qadir Fitrat, a Central Bank governor, recently told Parliament that

Mr. Karzai still owed the bank \$22 million, which Mr. Karzai denied.

Differences between the Central Bank and the presidential commission underpinned the report, which tried to shift the blame for the fiasco to the Central Bank, as well as to international auditors paid for by American aid programs, for what often amounted to looting of the bank's deposits.

Mr. Ludin was particularly critical of Mr. Fitrat, the Central Bank governor.

"It's very easy to be national hero in Afghanistan," Mr. Ludin said Sunday, clearly referring to Mr. Fitrat. "Some officials of the Central Bank are involved in this issue, and those who were guilty in this case are now in charge of the affairs in Kabul Bank."

After news of the scandal threatened to destroy the bank, Afghanistan's largest, destabilize the country's financial system and drive away foreign aid, President Karzai vowed last year that the government would stand by the bank and prevent it from failing.

Last month, the government announced its plan to overhaul the bank, splitting it in two. One entity, the New Kabul Bank, would take over the bank's branches, deposits and good loans, and the other would be a receivership office set up to try to collect on the bad loans.

Mr. Ludin did not release the text of the report, which he said was the president's prerogative. He said the president would decide whether any criminal or other action would be taken based on its recommendations.

He did however quote liberally from the report, and took care to absolve the bank's two most politically prominent borrowers, Mr. Karzai and Abdul Hassin Fahim, the brother of the powerful first vice-president. Officials had previously said that Mr. Fahim's loans totaled as much as \$100 million, but Mr. Ludin said his commission had been assured by him that he had agreed to pledge enough property to cover his obligations.

On Mr. Karzai, a businessman with dual Afghan-American nationality, the commission accepted his view that he had paid off all of his obligations to the bank, \$4.2 million. "He is not guilty," Mr. Ludin said. "He has no problem."

The other \$18 million charged to Mr. Karzai comprised an \$8 million loan to buy a villa on Palm Island in Dubai, a \$6 million loan to buy shares in the bank, and accumulated interest of about \$4 million.

Mr. Karzai maintains that the deed to that villa was in the name of the bank's chairman, Shirhan Farnood, and that he was only a tenant there. And he says that since the bank has been in effect taken over by the government, his obligations to pay for shares in the bank have been erased.

Reached by telephone, he reiterated his claim that he had completely paid off his Kabul Bank loans, and said the report had exonerated him. He said Mr. Fitrat, the Central Bank governor, had apologized to him for publicly saying he owed \$22 million, and that Mr. Fitrat had accepted Mr. Karzai's accounting. "He told me I'm clean," Mr. Karzai said.

However, a spokesman for Mr. Fitrat denied that he had apologized. "It's not true and we reject this allegation," said the spokesman, Emal Ashur. As to whether Mr. Karzai still owed the bank money, Mr. Ashur referred questions to the bank's Receivership Office.

A spokesman for that office, Nesar Ahmad Yousefzai, said the receivers were not yet able to divulge how much any individuals owed the bank.

Informed of Mr. Fitrat's denial, Mr. Karzai lashed out. "The incompetency in this government is beyond comprehension, from my brother on down," he said. "Basically my brother has licensed 600,000 people to rob the rest of the population," he added, referring to the estimated number of government employees.

Mr. Ludin said the commission discovered that Kabul Bank had \$925 million in questionable loans, including \$338 million in accumulated interest. Of those loans, \$467 million were made without any guarantees or even paperwork or documentation. Only \$49 million of the bank's loans were considered good loans that were properly performing.

The scandal, which led to a brief run on the bank last year, threatened to damage the entire economy and scared off the foreign aid that keeps the government running. Without that aid, Afghanistan has only \$1 billion in annual revenues, so it was unclear how its government could cover the bank's obligations.

International donors made it clear they were unwilling to bail out the bank, and the International Monetary Fund made addressing the bank's problems a condition before foreign aid money could resume. No one has been charged or prosecuted in connection with the bank so far.

The State Department has cancelled a contract with Deloitte, the international accounting firm, in Afghanistan, after the department's inspector general reported that it had ignored signals of trouble at the bank for two years.

Mr. Ludin blamed for the bank's problems inadequacies in international accounting practices, and the Central Bank's failure to heed warnings made to it a year ago by Afghanistan's intelligence service.

Mr. Ludin was previously appointed by Mr. Karzai to head the Independent Electoral Commission during the 2009 presidential race. Mr. Ludin was widely criticized for claiming the race was free and fair, despite condemnation from the international community.

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