

Report on

Kabul Bank Asset Recovery

Prepared by

the Government of the Islamic Republic of

Afghanistan and Da Afghanistan Bank

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Introduction

This report updates the December 21, 2012 report on Kabul Bank asset recovery. Since the last report, we have continued to implement an asset recovery process for each of the beneficiaries (individuals or corporations) identified in the Kabul Bank Receiver and the forensic audit reports and we have made major progress on the judicial front.

Asset Recoveries

Recoveries between December 21, 2012 and March 31, 2013 amounted to US\$ 4.6 million¹, increasing total recoveries during the Kabul Bank Conservatorship & Receivership from US\$137.7 million on December 21, 2012 to US\$142.3 million on March 31, 2013.² There remain impediments to the recovery process that include difficulty finding buyers for some of the assets, slow settlement of the sale of villas in Dubai because of needed repairs and a lengthy bureaucratic process of ownership transfer in Dubai, identifying legal documentation on property ownership, appeals of the verdicts in criminal cases, and completion of investigations of other individuals suspected of benefitting from the fraud in Kabul Bank. Total claims as of March 31, 2013 amounted to US\$835 million including interest accrued since 31 August 2010. Recoveries amounted to US\$142.3 million during conservatorship and Receivership, while approved reductions amounted to US\$96.1 million, bringing the balance of loan claims against individuals and companies to \$ 747.1 million. The balance includes interest accrued but unallocated to customers, and other assets needing additional research prior to disposition. Eight villas (Dubai properties) are sold (US\$ 31 million) and the money is in the process of transfer.

Status of New Kabul Bank

In the past three months, the privatization of New Kabul Bank has progressed. In January, five expressions of interest were received, but subsequently only one bid was actually submitted. That bid did not meet the technical requirements of the tender offer. We are trying again to sell NKB and have approached parties that have expressed earlier an interest in buying NKB but decided not to make a

¹ This includes cash recoveries of US\$3.08 million and a court ordered deposit offset realized through the settlement process in the amount of US\$1.491 million.

² This total includes US\$16 million of transfers scheduled, but not made, by Kabul Bank. When Kabul Bank entered into conservatorship, these transfers were cancelled. This amount has been included in cash recoveries in earlier reports to the government and media. This balance also includes rental payments of US 449,000 and the offset of US1.5 million mentioned below in relation to Kabul Neft.

bid, to sound them out on their continued interest in NKB. We are considering either direct discussion with interested parties that will allow us to address concerns expressed by some potential investors, or another tender offer. We will conduct the sale in a transparent manner. As noted in our previous report, the final balance sheet will be based on the balance sheet prepared by external auditors.

Update of the legal process

The criminal trials related to Kabul Bank were held between November 2012 and January 2013. The Special Tribunal began its deliberations at public hearings at the Kabul Court of Appeals and these hearings were open to the public, and reported on widely by domestic and international media. The Special Tribunal issued verdicts in March convicting all those charged with criminal offences. The two main architects of the fraud were convicted with jail sentences of five years each and fines of about US\$800 million. The other defendants charged with criminal offences were also convicted and received jail sentences of six months to four years. The verdicts will be appealed. The tribunal noted there are 29 additional individuals identified (but not yet indicted) for investigation for suspected involvement in Kabul Bank crimes. These convictions are likely to facilitate more efficient domestic and international asset recovery and a report of these convictions will be transmitted to foreign jurisdictions to supplement our earlier requests for mutual legal assistance.

Kabul Receiver has referred 13 cases to the Financial Disputes Resolution Commission (FDRC). Judgments on 10 cases have been made by the FDRC, which ruled in favor of the receivership in all these cases. The judgments made amount to US\$348 million in total. Zakhira, Kabul Neft, shares and share injection is under process in FDRC.

Zakhira is a physical asset built by Kabul Bank. Receivership has attempted to auction the property on three different occasions with no result and now has referred this asset to FDRC for a decision on ceding the asset to the government for its use in exchange for a reduction in the obligation of the ministry of finance. Kabul Neft is a loan asset with multiple borrowing entities. A portion of the debt was paid through the offset of a deposit account under a court order. The remaining balance of the obligation has been referred to FDRC for a decision on the liability of the remaining borrowers. In the case of the share loans and the

ownership position of the former shareholders, the decision is under consideration by the FDRC.

As reported in our September 2012 report, we have issued mutual legal assistance (MLA) requests to the United Arab Emirates, the United Kingdom, Switzerland, India and France. The Attorney General's Office (AGO) is following up on these requests.

Independent Public Inquiry

As noted in our previous report, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (IMEC) published its inquiry into the Kabul Bank crisis on November 28, 2012 <http://mec.af/en/publ-en>. The report contained a comprehensive list of recommendations in the areas of governance, regulatory supervision and enforcement, criminal investigation, judicial proceedings, recoveries, the sale of New Kabul Bank, and monitoring of the implementation of its recommendations. On March 11, 2013, we issued our response to the report, committing to address the recommendations in the report, in particular through the Economic Crimes Task Force, which was established in February 2013, and the implementation of our economic crimes strategy.

Conclusion

We continue to work to resolve Kabul Bank and to address the issues resulting from Kabul's Bank failure. Afghanistan has made significant progress in recovering assets and resolving the bank. We will continue our work with the international community to resolve Kabul Bank and maximize asset recoveries in order to curb economic crime, safeguard the financial sector, minimize the cost to the Afghan government and people, and foster the rule of law. We remain committed to pursuing the resolution of civil and any remaining criminal issues and working to trace the proceeds of crime held in Afghanistan and abroad.