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Da Afghanistan Bank
Financial Supervision Department

October 11, 2009

CEOs of Licensed Commercial Banks and General Managers of Branches of Foreign Banks

The Financial Supervision Department of Da Afghanistan Bank (DAB, the central bank) would like to advise all commercial banks operating in Afghanistan that after issuance of this circular no bank should originate any standby letters of credit, guarantees, or credit substitutes that would cause the bank to exceed the limits on large exposure. Banks will treat both products same as credit. The exposure limit prescribed in the Large Exposure Regulation is 15% of the regulatory capital (4 percent of the assets of a branch of a foreign bank). As Article 6.3.1 of the regulation states,

"No bank is permitted to grant credit to a single obligor or group of related obligors, if as a result of that action the exposure to that obligor or group exceeds 15 percent of regulatory capital, or increases the amount by which the exposure already exceeds 15 percent of regulatory capital. The corresponding limitation for an Afghanistan branch of a foreign bank is 4 percent of the total assets of the branch."

It is important for banks to understand precisely the meaning of "credit," for the purposes of judging compliance with the Regulation. According to Article 6.1.2.D, "credit" includes:

"...any guarantee issued...For the purposes of this regulation, "guarantees" include financial and performance-based standby letters of credit as well as other guarantees."

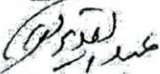
No instrument should be issued for an indefinite period of time, or with no maximum stated on the monetary amount that the bank would be obligated to pay the third party in the event of non-performance by the customer.

Role of readily-marketable collateral. Banks are also reminded that they may exceed the limitations on large exposures only for credits to a single obligor or group of related obligors that are fully secured by readily-marketable collateral. The precise definition of "readily-marketable collateral" is given in Article 6.1.2.K of the regulation, and banks are encouraged to consult the regulation.

Participation of loans, guarantees, or other credit substitutes among banks; role of DAB.
From time to time, DAB receives requests from banks or bank customers (or potential customers) to "approve" loans or credit substitutes that exceed the limitations on large exposures, or to get involved in negotiations between banks and their potential customers. Banks are reminded that this is not the proper role of DAB, as the financial sector regulatory authority. DAB has neither the authority nor the inclination to "approve" transactions that violate regulatory norms. Nor should potential bank customers approach DAB seeking advance "approval" for transactions that would violate regulatory norms.

Instead, banks are encouraged to work together with potential customers in structuring large credits or credit substitutes, dividing the business amongst themselves so that no bank would violate the large exposures limitation.

Sincerely yours



Abdul Qadeer Fitrat
The Governor, Da Afghanistan Bank