



AIB

بانك بين الملى
افغانستان

Afghanistan
International Bank

Your Partner for Growth

Annual Report 2014



Best Corporate
Governance
AFGHANISTAN



Bank of the Year
2012/2013/2014
AFGHANISTAN



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Our Vision

We aspire to remain the most reputable financial institution and bank of choice in Afghanistan.

From the time of its foundation in 2004, Afghanistan International Bank has been recognised as a pioneering leader in the country's banking sector. Now, a decade later, we have become firmly established as Afghanistan's most trusted and respected financial institution.

This status is underlined by having two major international clearing banks as correspondents – the only private bank in Afghanistan to do so – and repeated international awards that reflect our commitment to the highest industry standards and global best practice.

Our Mission

Our mission is to foster economic development in Afghanistan, to be a catalyst for growth, and ultimately contribute to the prosperity of the country and its people.

We strive to adhere to international best practices in corporate governance, financial and risk management (including anti-money laundering and 'know your customer'), customer service, operations, information technology, and internal controls. A major factor in our success is dedication to staff development and training within a culture of integrity and professionalism.

Our Future

Through our financial performance and the specific investments we have made in our people and infrastructure, AIB has become a positive emblem for achievement and transformation, despite its challenging environment.

As we look ahead to our second decade, we remain committed to enabling a better future for Afghanistan and we are proud to play a role in shaping the opportunities that lie ahead.



I am pleased to report that 2014 was a very good year for Afghanistan International Bank (AIB), given the uncertain political, economic, and security environment that was the nationwide norm over the period.

Net income before tax at year-end exceeded AFN 563 million (\$9.7 million at current exchange rates), capital adequacy ratio was 14.94 percent, and return on equity stood at 15.9 percent. More important, total deposits grew by 17 percent to AFN 52.90 billion (\$907 million) – just short of our target of being a \$1 billion institution.

We believe several factors are attributable to this deposit growth: a flight to safety by customers; AIB's ability to offer US dollar clearing through our correspondent banks – a distinct competitive advantage; and providing better customer service than our competitors.

Our 2014 financial performance showed significant improvement over weaker than normal results in 2013. The two cases that led to the Bank having to make significant reserve provisions in 2013 are now under control. Management is taking aggressive measures to recover the funds owed to the Bank and expects a positive resolution in the near future.

As stated in my report last year, the Board of Supervisors is focusing on four priorities: corporate governance, operational excellence, customer satisfaction, and financial stability. Additional measures have since been undertaken in each of these priorities. In terms of corporate governance, initiatives were:

- A rewrite of the Articles of Association, completed in April, that better defines the responsibilities of shareholders, directors, and management. The amended Articles have been submitted to the Central Bank for approval.
- A Deputy Chief Executive Officer (DCEO), Guy Mallett, was hired in the early part of 2014. The DCEO's role is to manage the internal operations of the Bank, specifically customer-facing activities and back-office operations. Mr Mallett has extensive banking experience and will be a candidate to replace the current CEO on his retirement in early 2015.
- The Board reviewed and commented on a new head office organisation structure proposed by management. This structure will focus the Bank's resources on customers and their banking needs.

Management conducted a survey to identify ways to improve customer satisfaction. As a result, several initiatives were undertaken, including reducing queue times in branches and streamlining transaction processing. Customer service also benefited from implementation of a new version of our core banking platform.

This new system provides additional capabilities including a Shariah banking module, enabling the introduction of a fully compliant Shariah banking unit during the year. We are optimistic that this initiative will be well received by the market.

Due to the uncertain situation in Afghanistan, business sentiment was cautious in 2014. To ensure that the Bank could respond to adverse events should they occur, a contingency plan was developed that defined specific actions to be taken in the event of a material downturn in the business. This plan was developed by management under the guidance of the Planning and Strategy Committee of the Board. Fortunately, none of the contingency actions had to be undertaken. However, loan volume did suffer from the economic uncertainty in the market and non-performing loans did have an uptick, albeit not significantly.

One of the main challenges facing the banking system in Afghanistan is the related issues of anti-money laundering (AML) and violation of sanctions. As regulators have taken increasingly tough positions in penalising banks for violations in these two areas, major international clearing banks are scrutinising their correspondent relationships to ensure that they are AML and sanctions compliant.

As a result, these clearing banks are terminating relationships with their non-compliant correspondents all over the world. Afghanistan is no exception, and major international banks have closed their US dollar accounts for all private Afghan banks except AIB. We have been able to continue relationships with our two clearing banks due to our stringent adherence to meeting AML and sanction requirements. Some of the pressure in this regard was helped by the Government of Afghanistan signing the international AML accords. Management and the Board are working diligently to maintain our correspondent relationships as well as search for new relationships. AIB plans to commission outside experts in 2015 to conduct analysis and evaluation of compliance systems and procedures relating to anti-money laundering, sanctions, and terrorist financing.

AIB's plan to build a Head Office with suitable space to meet the Bank's growth requirements over the foreseeable future took a major step forward in 2014. The shell of the building is scheduled for completion towards the end of 2015. Construction of the frame will be followed by mechanical, electrical, and plumbing works. All going well, the Head Office will be completed in 2016.

Before the next phase begins, however, management and our contractors will review the building's design to ensure that high-security protection is incorporated.

In recognition of AIB's governance model and operational excellence, we were awarded 'Best Bank of the Year, Afghanistan 2014' by The Banker magazine, the third successive year we have received this award. And, Corporate Finance International selected AIB for its 'Best Corporate Governance, Afghanistan' award.

Further international recognition came in a silver award from the League of American Communications Professionals for the overall design and content of AIB's 2013 annual report, and a gold award for 'Best Letter to Shareholders'.

With their purchase of the Afghanistan Investment Partners Corporation's (AIPC) 25 percent stake in AIB and a portion of the Asian Development Bank's (ADB) holdings, Wilton Holdings and Horizon Associates now each own 46.25 percent of AIB, with ADB retaining 7.5 percent.

The reductions in ownership were made in accordance with each organisation's objectives and do not reflect concerns regarding AIB's soundness. ADB plans to continue its current level of ownership for another three years. Mr Gokan Erkal (AIPC's shareholder representative) stepped down from the Board in early 2014 and we take this opportunity to thank him for his contributions.

As 2015 unfolds, we are guardedly optimistic that the banking environment in Afghanistan will improve. This view is driven by two factors: the successful elections and peaceful transition of government during 2014, and the signing of the security agreement with the United States and European countries. These events should help to stabilise the country and improve economic conditions as aid agencies are likely to continue their support of the Afghan government.

As in the past, I extend my personal thanks and gratitude to my fellow Board members and the management and staff of AIB for their hard work, diligence, and dedication to making the Bank the successful institution it has become.



Ronald Stride
Chairman



Despite the difficult business environment, AIB again performed very commendably on behalf of customers and stakeholders. At the end of 2014, the Bank emerges strengthened and ready to face the opportunities ahead as the new Afghan administration takes office.

Business conditions during the year were affected by the presidential elections in April, which were followed in June by a run-off between the two leading candidates, with the outcome further delayed while the results were verified under international supervision.

The Independent Election Commission finally named the winner in September, and although the process was protracted, this was the first time in Afghanistan's history that power was democratically transferred. Business sentiment was understandably subdued while the establishment of the new government was awaited.

After a 13-year presence, NATO withdrew combat troops, being replaced at the end of 2014 by a 'training and support' mission, another indicator of the ongoing transition in Afghanistan.

Yet despite the exceptionally difficult market environment, AIB continued to record improvements across virtually all key metrics:

- Assets grew by 17 percent to AFN 56.23 billion (2013: AFN 48.11 billion), bringing compound annual asset growth since 2008 to 27 percent.
- Deposits also grew by 17 percent, from AFN 45.12 billion to AFN 52.90 billion. In dollar terms, assets briefly topped \$1 billion towards the end of 2014, closing the year at just under \$1 billion.
- Revenue was unchanged at AFN 1.96 billion, driven by 7 percent growth in fee and foreign exchange business to AFN 817 million (AFN 761 million) that accounted for 41 percent of total revenue. Compound annual revenue growth since 2008 now stands at 16 percent.

- AIB is also the only financial institution in Afghanistan to have two major international clearing banks (Standard Chartered Bank and Commerzbank) as correspondents, providing our customers with speedy international transfers and making a vital contribution to the Bank's substantial growth in forex business.

- The Bank's bond portfolio of AFN 8.56 billion is all rated investment grade, with 73 percent maturing in three years or less.

Budget targets for the year were met, with the exception of loan recoveries, negatively affected by the poor real estate market, and interest income, which suffered from the generally depressed economy. Non-interest income contributed 45 percent of total income and was substantially above budget. Commercial lending was very subdued, indicative of the increasingly conservative market attitude to political, economic, and security concerns.

Expenses were contained at forecast levels, and the 24.8 percent net profit margin (12.2 percent) equates to earnings per share of AFN 16.16 (AFN 7.99) and 15.90 percent return on equity (8.64 percent). The Bank's net asset value per share now stands at AFN 102.59 (AFN 93.00).

Total capital increased from AFN 2.77 billion to AFN 3.07 billion. Our capital adequacy ratio of 14.94 percent and our 90 percent liquidity are still very satisfactory, by domestic and international standards. AIB believes it scores highest of all Afghan banks in its 'CAMEL' rating – the acronym for the five key components of a bank's condition: Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

As the Chairman mentioned, AIB achieved prominent international recognition in the form of major awards. The Banker magazine again ranked AIB 'Best Afghan Bank' during its annual awards ceremony in London, while our commitment to strong corporate governance earned us the Corporate Governance Award, Afghanistan, 2014 from Capital Finance International (CFI.co) as part of its worldwide awards programme for the financial services industry.

The Banker is the world's premier banking and finance resource publication. Read in more than 180 countries, it has been providing global financial intelligence since 1926 and has built a reputation for objective and incisive reporting on major events. CFI.co's global panel of judges reported that they were impressed by our conduct and commitment to healthy and far-reaching corporate governance programmes.

Operationally, we received approval from the Central Bank regulators to create a Shariah-compliant window for Islamic banking and introduced this service in Kabul, offering customers the choice of Shariah or conventional products. We plan to expand the product range in 2015.

Our payroll lending product, launched in 2013, continued to be well accepted and showed sustained customer demand. The facility includes fast access to general-purpose personal loans at competitive rates for payroll account holders.

Our 'Home Equity' loan for retail customers enables them to realise equity value from their wholly owned properties or, in some cases, to acquire a secondary property. A pilot scheme was successfully introduced in 2014 and will be followed up with full-scale advertising and marketing early in 2015.

AIB's Platinum and Titanium credit cards, first introduced for VIP customers early in 2013, were later made available to the open market and showed steady growth in 2014, with total issuance by year-end in line with targets. Further product improvement is planned for 2015.

Prepaid MasterCard and China Union Pay (CUP) cards also showed steady demand, particularly from business travellers. Used as charge cards, they are readily available to business users and consumers without having to undergo credit checks. More than 60,000 debit cards have also been issued.

Our new call centre and phone banking services became fully operational during 2014, giving customers a range of functions such as balance checking, accessing an account mini statement, requesting a chequebook, stopping a cheque, changing PIN code, and obtaining the latest foreign exchange rates.

As well as automated response services, two call centre agents are available to provide general product information, deal with lost debit and credit cards, and handle complaints.

The number of ATMs increased from 43 to 55, in response to the increasing demand for automated banking. This is reflected in the volume of ATM transactions for the year, now totalling more than one million.

Our core banking IT system was successfully upgraded, and we maintained our emphasis on business continuity as a vital resource that will enable us to cope with adverse contingencies. We already have an overseas-based disaster recovery site (DRS) that backs up the domestic DRS, protecting against potential vulnerabilities at the domestic site and head office. Business contingency plan testing continues to show that the Bank could operate effectively from its domestic DRS, with the cross-border back-up site providing an extra level of security.

Staff training has always been a priority, and in this respect 2014 was no exception. As well as in-house training at head office and branch level, a total of 24 employees undertook Pakistan's National Institute of Banking and Finance (NIBAF) courses such as Business Communication, Accounting, Commercial Banking, Know Your Customer, Electronic Banking, Islamic Banking, Basel Capital Accord, and Risk Management in Banks.

The Bank sponsored two employees – one male and one female – who graduated from the MBA course conducted by the American University in Afghanistan, which has accepted a new AIB-sponsored participant for the next MBA course.

In keeping with the Bank's commitment to good corporate citizenship, AIB is committed to the support of projects that have a beneficial impact on the communities where we operate.

We again contributed to the restoration of the Blue Mosque in Mazar-e-Sharif, sponsored the Afghanistan national football team in the South Asia Championship, sponsored the Asia Society Luncheon Programme, and donated to the development of Ghazni province.

Looking ahead, we expect a slow start to 2015 but a return of confidence during the second half of the year.

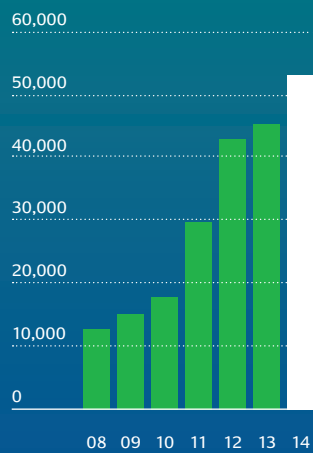
In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support, to our loyal customers for their patronage, and to our management and employees for their dedication and hard work throughout 2014.



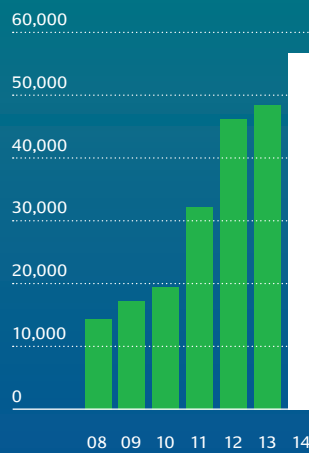
Khalilullah Sediq
Chief Executive Officer

AIB believes it scores highest of all Afghan banks in its ‘CAMEL’ rating – the acronym for the five key components of a bank’s condition: Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

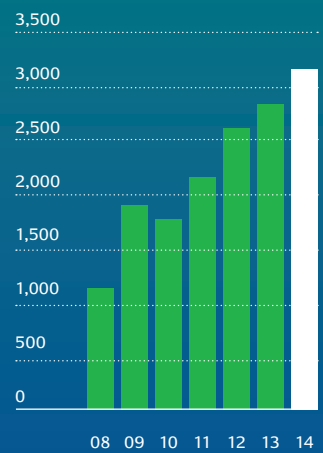
Deposits (AFN millions)



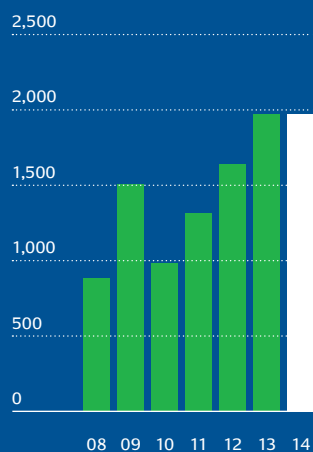
Total assets (AFN millions)



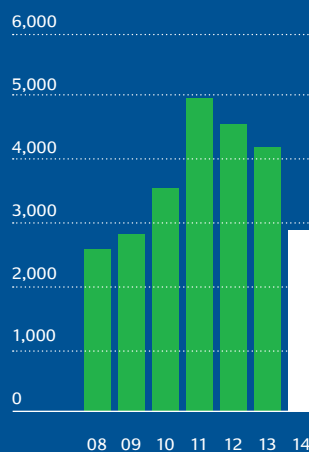
Capital growth (AFN millions)



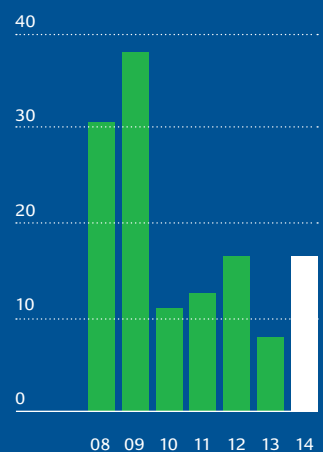
Revenues (AFN millions)



Advances (AFN millions)

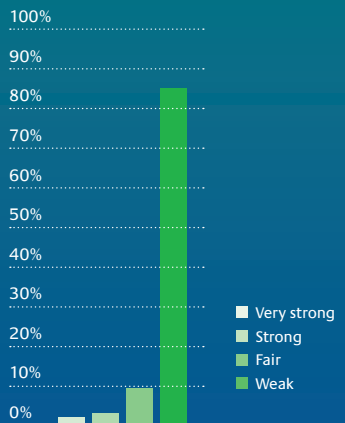


Earnings per share (AFN)

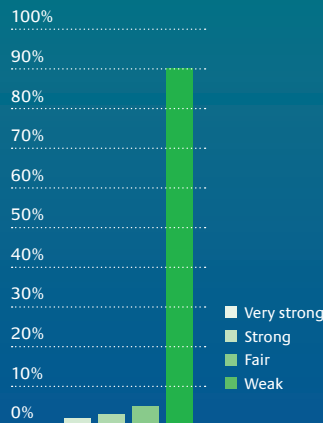


Afghanistan's economy faced severe headwinds in 2014. Foreign aid was drastically scaled back as foreign forces withdrew. This left key sectors lacking investment, weakened domestic demand, drove up unemployment, and came close to pushing an already fragile economy to a halt.

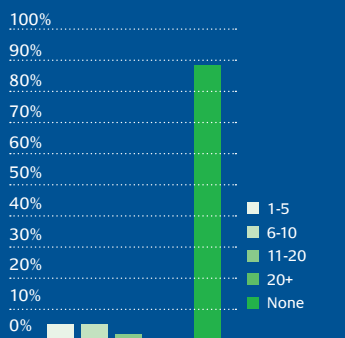
How would you assess the overall business climate?



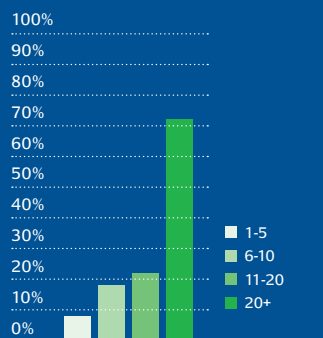
How would you assess the current strength of your business?



How many employees do you intend to hire in the next six months?



How much has your confidence in the economy decreased in the past six months compared to the same period last year?



Annual growth in gross domestic product (GDP) in 2014 is expected to be 0-1 percent according to the Central Bank, and 1.4 percent according to the World Bank. This represents a sharp drop from a robust growth of 12 percent in 2012 and 3.5 percent in 2013. Political uncertainty stemming from the long delay in forming a government has exacerbated the economic slowdown and contributed to uncertainty, thereby hurting consumer and business confidence.

In February, Afghanistan was downgraded by the Financial Action Task Force to 'dark grey', narrowly avoiding being blacklisted. In June, after passing anti-money laundering/combating the financing of terrorism legislation, Afghanistan was upgraded to the 'grey' list. However, the threat of blacklisting remains real and the impact on the Bank a serious concern.

In response to these developments, and to better understand the downside risks and explore possible mitigating options, the Board commissioned a study of the impact of a blacklisting on the Afghan economy. Management subjected the Bank's AML processes to an independent risk assessment by Ernst & Young to identify vulnerabilities and areas for improvement in the Bank's systems.

The sharp slowdown in the economy, the drawn out presidential election, and the lack of a functioning government depressed the overall performance of the banking sector. Net lending to the private sector – equivalent to only 4 percent of GDP – was flat in 2014 and remains modest even by regional standards. This reflects the scarcity of profitable lending opportunities, given limited information available on potential borrowers and the difficulty in realising collateral or collecting loans from delinquent borrowers.

According to the World Bank, the percentage of working capital financed by external sources is about 5 percent in Afghanistan compared to 24 percent in South Asia. Fewer than 10 percent of firms in Afghanistan have a bank loan, compared to 35 percent in South Asia, and only 40 percent have a checking account against South Asia's 80 percent.

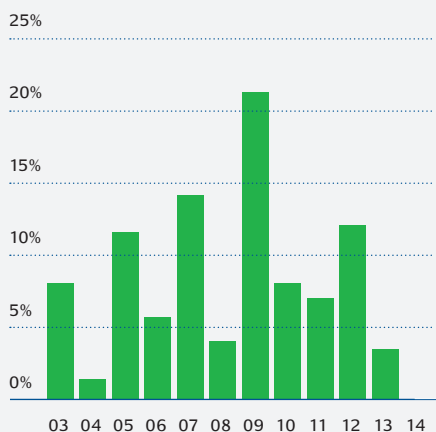
Although 2014 has been a challenging year, we remain in good shape to support our customers and the growth opportunities remain compelling. As we enter this new and difficult phase, we will continue to drive value for our shareholders, making use of our competitive strengths and the opportunities that exist in this market.

There were some bright spots in an otherwise difficult year. The Afghani was relatively stable, depreciating by only 0.9 percent against the US dollar. This was a positive development following the sharp 10.3 percent decline in 2013. International reserves remained at a comfortable level of about \$7 billion, equivalent to 7.1 months of imports. Inflation was in single digits (5 percent year-on-year in December 2014) for the second successive year, largely due to a good harvest and relatively benign international commodity prices.

The business community welcomed President Ghani's directive to government officials to immediately reopen the Kabul Bank case, recover stolen funds, hold accountable those involved in the theft, and move ahead with privatising the successor, New Kabul Bank.

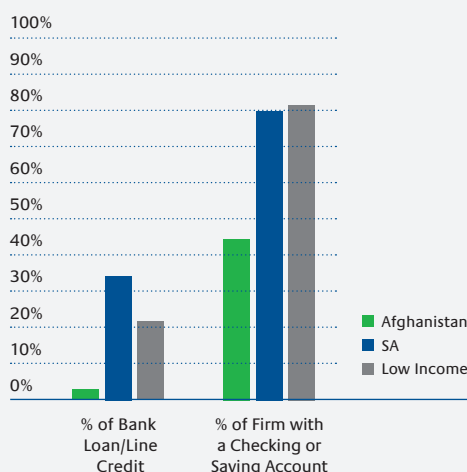
Outgoing President Karzai enacted the long-delayed Mineral Law, giving a much-needed boost to potential investors in this important sector.

Annual GDP growth



Source: Da Afghanistan Bank and International Monetary Fund

Firms' use of Bank Financial Services



¹Ronald Stride

Independent Director, Chairman of the Board of Supervisors, Member of the Compensation Committee, Member of the Risk Committee, Member of the Strategy and Planning Committee

Mr Stride spent most of his career with Booz Allen & Hamilton, the management consulting firm, where he was a senior vice-president and managing partner for Asia. He also served on the firm's Board of Directors in the US. Mr Stride has been a member of AIB's Board since November, 2009. He is currently a member of several business boards as well as chairing a large Singapore-based charity – Food from the Heart. Until recently he was president of the American Association of Singapore, a position he held for five years. He received his BA degree from Providence College in the USA.

²Hamidullah A. Mohib

Shareholder-appointed Member of the Board of Supervisors, Compensation Committee Member, Risk Committee Member

Mr Mohib has been a member of the Board since 2005 and sits on the Compensation and Risk Committees. He is an executive director at Mohib Holdings, responsible for strategic planning and treasury operations for the group's various activities in Central Asia and the Middle East. Mr Mohib was educated at King's University College at the University of Western Ontario.

³Lutfullah Rahmat

Shareholder-appointed Member of the Board of Supervisors, Member of the Strategy and Planning Committee

Mr Rahmat is past-chairman of AIB and has been a member of the Board since the Bank's inception in 2004. He is also managing director of the Rahmat Group, the Karachi-based company that has Star Textile Mills Ltd as its principal member; president of Rahmat Fruit Processing Corporation and Rahmat Corrugation Corporation in Afghanistan; and a partner in the sole agents for Samsung Electronics and Appliances in Afghanistan. He graduated with a BCom degree from Bombay University.

⁴Hasib Ahmed

Shareholder-appointed Member of the Board of Supervisors, Chairman of the Risk Committee, Member of the Strategy and Planning Committee, Member of the Investment Committee

Mr Ahmed has been a Board member since November, 2005 and chairs the Risk Committee. He is currently Principal Investment Specialist at the Asian Development Bank, where he heads the Private Sector Microfinance Programme. Previously to this, he worked for 26 years with Citibank in a wide variety of positions in institutional and corporate banking, principally in New York and the Middle East. Mr Ahmed holds a Bachelor's degree in economics from Punjab University, Pakistan.

⁵Veronica John

Independent Director, Chairperson of the Compensation Committee

Ms John has been a member of the AIB Board since 2004, bringing more than 20 years' experience in international finance, especially in emerging markets in Asia and the CIS, including private equity funds, diversified fund of funds management, and investment banking. She is a senior advisor to Diamond Dragon Advisors, a private equity general partner advisory and fund placement business. She was also chief executive of IDFC Capital, an emerging markets private equity fund of funds business, and was a member of the Asian Development Bank team that founded AIB. Ms John holds a BA degree from Elmira College and an MBA from George Washington University.

⁶Brian Dickie

Independent Director, Chairman of the Strategy and Planning Committee

Mr Dickie joined AIB's Board in 2012. He has served as chairman or non-executive director of numerous companies in Europe, North America, and the Middle East, and is currently a senior advisor to Investcorp, the Bahrain-based investment company. He was previously a managing director in Investcorp's London office and president of TXU Energy in Dallas, Texas. For much of his career Mr Dickie was a management consultant with Booz Allen & Hamilton, where he also served as president and chief operating officer from 1993 to 1998. A native of Northern Ireland, he is a graduate of Oxford University and Harvard Business School.

⁷Salman Shoaib

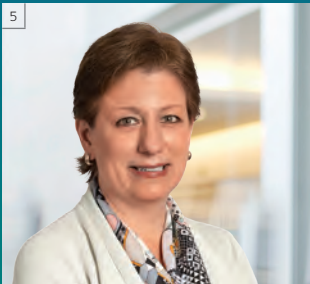
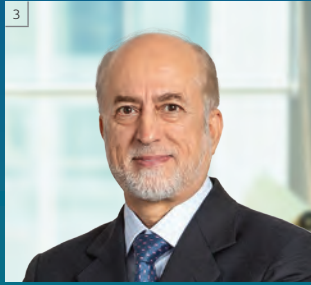
Independent Director, Chairman of the Investment Committee

Mr Shoaib joined the AIB Board in 2012. He is based in Singapore and is managing director of a funds management company, having spent 16 years with Crédit Suisse in New York, London, Hong Kong, and Singapore, holding positions that included head of asset management for Asia Pacific. He has a BA degree in Economics from Brown University, and an MPhil degree in Finance from Cambridge University.

⁸Aditya Srivastava

Independent Director, Member of the Risk Committee

Mr Srivastava has been a Board member since August 2012. He joined Wasl Asset Management in 2008 as general manager of business development, currently responsible for the strategy and business development activities of this Government of Dubai-owned corporation with interests in property, hospitality, and leisure. Before joining Wasl, he had a 20-year career in banking, the last 10 years with Société Générale where he was GCC head of project finance and corporate relationships. Mr Srivastava holds a Master's in Economics from the Delhi School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.



The shareholders and Board of Supervisors are committed to a high level of corporate governance, and to ensuring that the Bank’s management practices are always aligned with the principles of good governance.

Shareholders

The Bank has three shareholders, two holding 46.25 percent each and one with 7.5 percent. The shareholders operate under a policy of non-interference in management decisions and the Bank’s operations. The positive reputation and widespread business and Government relations of the Bank’s shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder appoints one person to the Board of Supervisors.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership %
Asian Development Bank (ADB)	N/A	Development Bank	Manila, Philippines	Hasib Ahmed	7.50
Horizon Associates	Mohammed Abraham Mohib	Holding Company	Delaware, USA	Hamidullah A. Mohib	46.25
Wilton Holdings	Lutfullah Rahmat Izzatullah Rahmat Nasrullah Rahmat	Holding Company	Cayman Islands	Lutfullah Rahmat	46.25

Board of Supervisors

The main purpose of the Board of Supervisors is to ensure that the Bank’s overall strategic and financial objectives are met, and that the risks associated with a financial institution operating in Afghanistan are managed and monitored.

The Board of Supervisors comprises the Chairman, three shareholder representatives, and four independent directors. The Chairman is also an independent director, in compliance with Central Bank regulations. Independent Board members are in the majority, in line with international governance standards. Brief biographical profiles of the eight current directors are included in this annual review.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. The three shareholder representatives are appointed by the respective shareholders of the Bank and represent the interests of these shareholders.

Finally, the independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world as well as governance experience. Independent directors and directors who are shareholder representatives are appointed every four years.

The Board has established four committees: Compensation, Risk, Investment, and Planning and Strategy. A fifth committee, Audit, reports directly to the shareholders as specified in the Law of Banking in Afghanistan and Central Bank regulations. Each committee has a formal charter to guide its activities.

The Board of Supervisors meets monthly: four times in person and the balance by conference call. The Board committees meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. The Audit Committee meets four times annually. Board committee meetings are attended by the Chief Executive Officer and the Chairman of the Audit Committee. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in the ‘Governance Report and AIB Committees’ section.

Strategy and Planning Committee

The Strategy and Planning Committee’s mission is to provide oversight to AIB’s strategic planning and annual budgeting and planning processes, as well as the development of major new initiatives. Its members are: Brian Dickie (Chairman), Ronald Stride (both independent directors), Lutfullah Rahmat, and Hasib Ahmed.

In 2014, the committee oversaw projects related to head office reorganisation, new products for small business and retail customers, enhancement of management information systems, customer service improvements, and development of a contingency budget based on various scenarios.

The committee also made quarterly assessments of performance against the 2014 budget and business plan, and reviewed the proposed budget and business plan for 2015.

Risk Committee

The Board’s committee to provide comprehensive oversight and best practices in risk governance and risk management comprises Hasib Ahmed (Chairman), Hamidullah A. Mohib, and two independent Board members – Ronald Stride and Aditiya Srivastava.

The principal role of the committee is to review the Bank's risk exposure under different products. This encompasses foreign exchange positions, assets and liabilities, capital adequacy, credit and market risk, and sovereign risk. The committee also reviews performance of the classified and non-performing loan portfolio and, most importantly, reviews and submits to the Board of Supervisors all the Bank's policies associated with risk management. Finally, the committee identifies unacceptable risk conditions to the full Board for consideration and action.

During 2014, the committee mandated the introduction of a monitoring system to identify any increases in credit risk, and received regular reports on steps taken to improve the Bank's 'know your customer' (KYC) and anti-money laundering (AML) compliance. The results of third-party reviews of the Bank's IT security systems and the implementation of improvement recommendations were also monitored.

As the Bank's present external auditors had served the maximum term allowed by the Central Bank, the committee considered a proposal from management to appoint a new firm and made a recommendation to the Board.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the risk profile of the Bank. This approach will continue in 2015 to ensure the balance between risk and return is maintained.

Compensation Committee

The Compensation Committee comprises three directors, two of whom are independent, including the Chairperson, Veronica John. The other members are Ronald Stride and Hamidullah A. Mohib.

The principal role of the committee is to establish compensation policy for the Chief Executive Officer, members of the Management Board, and other senior managers. These guidelines include base salary, bonus, and fringe benefits. The committee also reviews the performance of senior management through a formal goal-setting and monitoring mechanism. Yearly bonuses are established based on the Bank's financial performance against the annual budget and individual management achievement of their goals. The committee also reviews human resource policies and procedures for employees.

The committee reports to the Board and shareholders on the targets, goals, and performance of management as well as proposed changes to the compensation structure and policies and procedures. The contracts for the Chief Executive Officer and independent directors are also determined by the committee and reported to the Board and shareholders.

In 2014, the committee completed the recruitment of a new Chief Executive Officer as part of a broader succession plan that will take place in early 2015. Other activities during the year included changing the methodology for calculating executive management bonuses, approving a medical insurance scheme for the staff (the first such scheme to be introduced by any Afghan company), approving the selection of a new Chief Risk Officer, and overseeing initiatives to equalise compensation of Afghan and expatriate senior managers and to elevate the focus on retaining and hiring more female professionals.

Investment Committee

The Investment Committee comprises three directors, two of whom are independent, including the Chairman, Salman Shoaib. Other members are Hasib Ahmed and Aditya Srivastava (independent), who was appointed to the committee on the resignation Gokhan Erkhali. The Chairman of the Bank attends meetings as an ex-officio member.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed-income securities. Its principal role is to oversee the Bank's investment policy and to ensure this is modified and executed in the context of the Bank's risk and capital parameters. In this regard, the committee works with the Board and management to develop investment policies, oversee investment of the Bank's funds, and monitor the mandate and performance of independent asset managers hired by the Bank.

In 2014, the committee reviewed quarterly reports on the performance of the two Asset Managers against pre-set return on investment targets. The Committee also met the Asset Manager to understand developments in the fixed income markets.

The committee provided guidance to management on adjusting risk parameters to improve yield and ensure that the Bank's fixed-income portfolio remained in compliance with regulations from the Central Bank. It sought approval from the full Board when required and highlighted issues that required attention.

Audit Committee

The Audit Committee is established under the Banking Act in Afghanistan. The committee reports directly to the shareholders and the committee's Chairman, and its members are appointed at the annual general meeting of shareholders. Appointments are for not more than four years and may be renewed for like periods. Members of the committee are subject to the same fit and proper requirements as members of the Board of Supervisors. The committee has three members, all qualified and experienced in accounting or banking, and is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. In 2014 the committee assessed and approved the annual internal audit plan, including budget and resources. Progress was also monitored regularly.

The committee is responsible for relationships with the external auditors and meets them on completion of the annual audit and quarterly reviews. On the recommendation of the Audit Committee, the Board of Supervisors approves the Bank's financial statements. The Committee reviewed the appointment of new external auditors for 2015, recommending the terms of engagement and fees for Board approval.

In 2014 the committee scrutinised impairment charges on loans and advances, reviewing recovery efforts and monitoring possible impact of legal actions relating to operational losses, although the Bank has not been named in such actions. The committee continued to regularly assess the progress being made with regulatory compliance controls, including know your customer, anti-money laundering, and fraud.

Meetings are usually held four times a year (as in 2014) in person and in conjunction with Board meetings. The Chief Executive, Deputy Chief Executive, and other Management Board members attend the meeting on invitation. Minutes are presented at the next Board meeting, when the committee Chairman reports on matters requiring Board attention.

Khalilullah Sediq

**Chief Executive Officer,
Chairman of the Management Board**

Mr Sediq has 30 years' experience as a central banker and a commercial banker in Afghanistan and America. He joined Da Afghanistan Bank, the Central Bank of Afghanistan, in 1971 and held senior management positions in most departments, serving as Governor from 1990 to 1991. Mr Sediq was with Sun Trust Bank in the USA before returning to Afghanistan in 2006 to become Chief Executive Officer of Afghanistan International Bank, turning a loss-making bank into the most profitable and most respected in Afghanistan. He is also Chairman of Afghanistan Banks Association, a director of Harakat (Afghanistan Investment Climate Facility Organisation), and a director of the Afghanistan Institute of Banking and Finance. Mr Sediq holds a BA degree in macroeconomics from Kabul University.

Guy Mallett

**Deputy Chief Executive Officer,
Member of Management Board**

Mr Mallett joined AIB in 2014, having previously worked with the Bank in an advisory capacity. He brings with him 38 years of international commercial banking experience, gained with the Barclays and Fortis groups, predominantly in frontier and emerging markets. He is a graduate of the London School of Economics.

Lalit Kumar Jha

**Chief Finance Officer,
Member of Management Board**

Mr Jha holds a Bachelor's degree in commerce and is a qualified chartered accountant with more than 20 years' experience, mainly in the banking sector. He has been CFO at AIB since 2010, having previously been senior vice-president at Dresdner Bank, New Delhi, and head of accounts and taxation at Bank of Tokyo Mitsubishi UFJ, New Delhi.

Asadullah Fayzi

**Chief Operating Officer,
Member of Management Board**

Mr Fayzi holds the dual positions of CIO and COO, having joined AIB at its inception in 2004 as head of IT, and having previously been IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds an MSc in telecommunications from Istanbul Technical University, Turkey.

Khurram Sikander

Head of Internal Audit

Mr Sikander joined AIB in 2011 as Head of Internal Audit. He was previously with Aga Khan Development Network (AKDN), where he worked in internal audit, internal controls, and risk and compliance. He has also served on the Board of Directors of an AKDN institution. Mr Sikander is a member of the UK Association of Chartered Certified Accountants and an associate member of the Association of Certified Fraud Examiners.

Omer Omery

Head of Retail Banking

Mr Omery has nine years' experience with AIB, from managing a regional branch to electronic banking, marketing, small business loans, and general branch management. He also spent three years in a managerial position with the United Nations Organisation. He is a candidate for an MBA in International Business from the University of Liverpool, England.

Tamsil Rashid

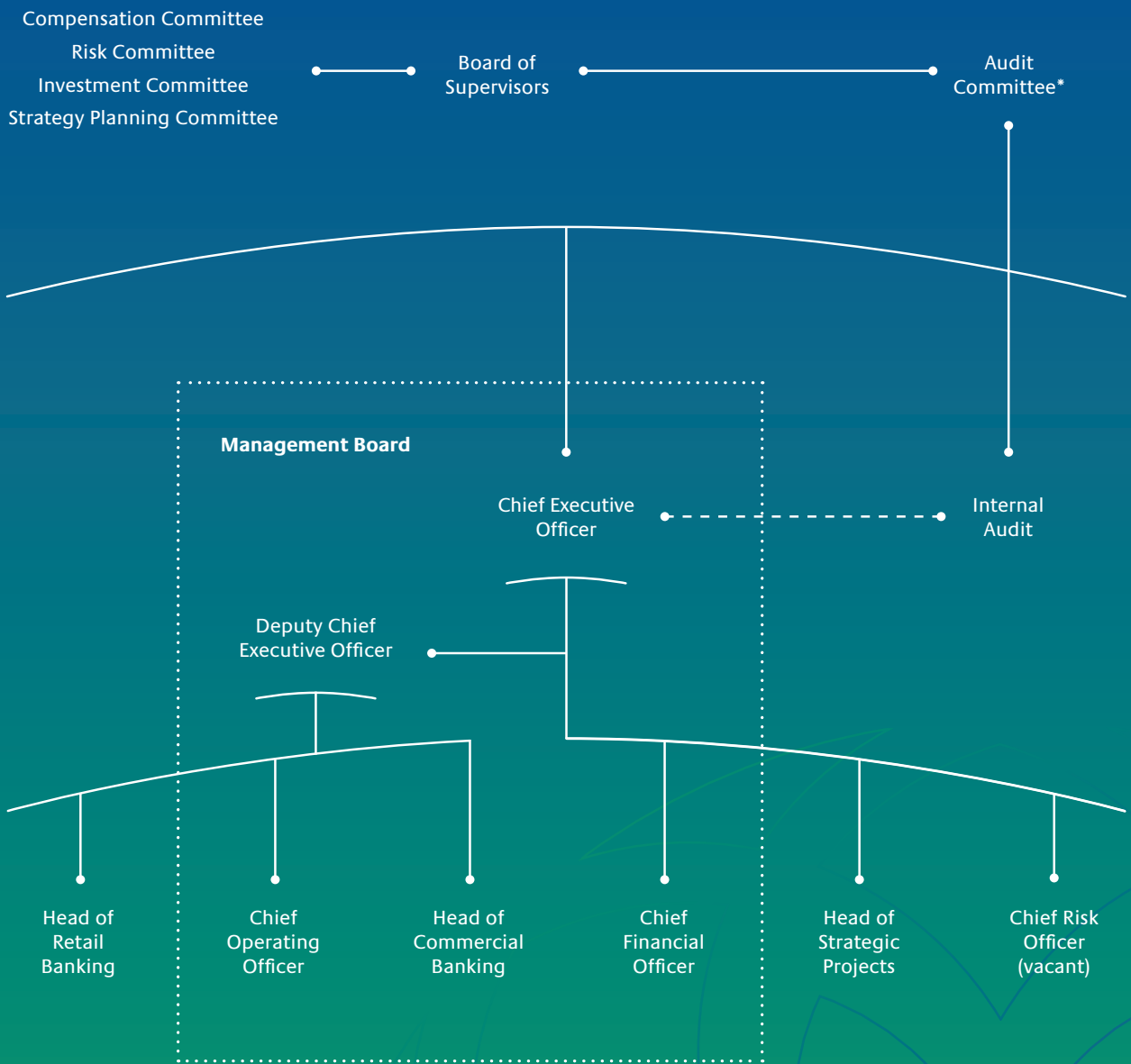
**Head of Commercial Banking,
Member of Management Board**

Mr Rashid has close to 30 years' experience in commercial, development, and Islamic banking, having begun his career with Habib Bank and later joining the Bank of Khyber in Pakistan, where he rose to senior vice-president and divisional head of credit management. Mr Rashid holds an MPA degree, majoring in economics, and a diploma from the Institute of Bankers in Pakistan.

Mohammad Taofiq Mir

Head of Strategic Projects

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and was Head of Retail Banking before becoming Head of Special Projects in 2014. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.



* Reports directly to shareholders

2014
Cards launched featuring new branding



MC Platinum Credit Card



MC Titanium Credit Card



MC Prepaid Card



CUP Prepaid Card



MC Gift Card



2014
AIB wins *Banker* magazine's *Bank of the Year Afghanistan* award for the third consecutive year



2014
Nominated by the World Bank, AIB wins *Best Corporate Governance, Afghanistan* at the CFI.co awards



2014
AIB wins League of American Communications Professionals' Gold Award for *Best Letter to Shareholders* and Silver Award for the overall 2013 annual report

2004
AIB signs a Management Services and Technical Assistance Agreement with ING Institutional and Government Advisory Services BV, the independent advisory unit of Netherlands-headquartered ING Wholesale Banking. This agreement expired in September 2007, ING having fulfilled its mandate.

Asian Development Bank's Board of Directors approves a \$2.6 million equity investment in AIB.

ADB enters into an agreement with three other investors to form the shareholders group, each owning 25 percent equity.

2005
Opening of first branch outside Kabul.

2006
Khalilullah Sediq joins as Chief Executive Officer.

2007
AIB shows annual profit for the first time.

2008
Appointed bankers to the American forces in Afghanistan.

2010
AIB pays first dividend to shareholders, with total distribution of \$10 million.

2011
Deposits exceed \$500 million.
Site of 4,550 m² purchased for development of new head office, a 12-storey property with total built area of roughly 15,500 m².

2012
Deposits exceed \$800 million.
AIB acquires Standard Chartered Bank's business in Afghanistan.

The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

2013
The Banker magazine again designates AIB as 'Bank of the Year' in Afghanistan.

2014
After being nominated by the World Bank, AIB wins 'Best Corporate Governance, Afghanistan' in the 2014 CFI.co awards.
The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the third consecutive year.
The Bank begins building its 15,500 m² 12-storey head office.

