



AIB

بانك بين المللي
افغانستان

Afghanistan
International Bank

Annual Report 2013

Your Partner for Growth



Bank of the year
2013/2014
AFGHANISTAN



Best Corporate
Governance
AFGHANISTAN

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A decade of trust built on understanding

Afghanistan International Bank was founded in 2004 and has since established itself as a pioneering leader in Afghanistan's banking sector. We have become the country's most respected and trusted financial institution.

Over the past 10 years, AIB has built an enduring business that combines international expertise with local knowledge, giving us a deep-rooted understanding of customer needs that is grounded in the highest industry standards and global best practice.

Our Vision

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

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 10th anniversary, 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.

Exceptional performance

AIB's financial performance has been exceptional over the past few years, having realised considerable growth in assets, deposits, profits, and capital.

Best Corporate Governance

AIB has been proud of its corporate governance model, especially for a bank operating in a frontier economy. Just before going to press, AIB learned that Corporate Finance International, the prestigious London based organisation, awarded AIB Best Corporate Governance, Afghanistan, 2014 in recognition of our successful governance structure.



Over the past few years, Afghanistan International Bank has engaged in institutional building initiatives that focus on four areas: corporate governance, operational excellence, customer satisfaction, and financial stability. The objectives are twofold: to build the leading financial institution in Afghanistan; and to ensure that AIB has the fundamental structure and competence to meet the challenges that Afghanistan and the Bank might well face over the next several years.

The Board has instituted a number of governance improvements, including defining clear responsibilities for shareholders, the Board of Supervisors, and management. The Board has been expanded to nine members, five of whom are independent directors. To further provide clarity, the Articles of Association are being modified to define what constitutes an independent director. The Board has also created four committees that are responsible for detailed analysis of compensation and succession, strategy and planning, investments, and risk. All four committees are headed by Board members with in-depth experience in these fields.

The Bank has strengthened its planning process, which now includes specific business objectives with corresponding assignment of responsibilities to individual executives through a goal-setting mechanism, as well as preparation of financial budgets. Bonuses paid to executives are closely linked to the Bank's overall performance and each executive meeting his own goals. I am pleased to report that many of the key initiatives in the 2013 business plan were met by management. These included pilot programmes for small business loans, treasury products, and expansion of our consumer-related payroll products. The Board and management have also taken steps to strengthen the management team which will be joined by an experienced Deputy Chief Executive Officer early in 2014.

In 2013, management developed a three-year strategic plan to guide the Bank through a period that might prove to be volatile. This plan calls for a relatively conservative outcome for 2014 with growth improving in 2015 and 2016. A contingency plan is also in place, to be triggered if the macro situation in the country deteriorates materially.

AIB is also devoted to improving operational performance and customer service. To this end, the Bank undertook several initiatives in 2013 and plans to engage an outside consultancy in 2014 to re-engineer its customer-facing and back-office processes. Integration of the Standard Chartered Bank's business in Afghanistan into AIB continues to exceed expectations, with customers expressing satisfaction with the quality of the transition.

To ensure that the Bank has sufficient capacity to meet business growth expected by management over the next decade, a project to build a new head office in central Kabul began in 2011. Development of the new building progressed during 2013 but has been delayed due to changes in design and delays in receiving approvals. However, preparatory site-works have been completed and we are optimistic that construction will begin during 2014.

AIB's financial performance has been exceptional over the past few years, having realised considerable growth in assets, deposits, profits, and capital. The Bank's capital adequacy ratio has also been significantly above regulatory requirements.

In 2013, AIB experienced modest growth in revenues, deposits, assets, and capital. However, profitability was affected by two unexpected events. One of these involved a customer who is accused by the US Department of Justice of an alleged fraud on a contract in Afghanistan; the second was the default of a relatively significant loan. Both cases required AIB to make provisions to offset the potential losses. As a result, bottom line results were negatively impacted. Management believes that some, if not all, of the funds owed to the Bank will be recovered in the future.

In recognition of our institution-building initiatives, AIB was named Afghanistan Bank of the Year by *The Banker* magazine for the second successive year. Just before going to press, AIB learned that Corporate Finance International, the prestigious London based organization, awarded AIB Best Corporate Governance – Afghanistan, 2014 in recognition of our successful governance structure. Naturally, we are very proud of these awards and I thank the Bank's staff for making such recognition possible. Likewise, AIB has been proud of its corporate governance model, especially for a bank operating in a frontier economy.

I stress that the Bank's shareholders, Board, and management are mindful of the challenges facing Afghanistan in the next few years. A number of scenarios have been developed and a plan has been formulated around what we believe to be the most likely outcome. Security, political, and economic factors were considered during this exercise and a set of early warning indicators have been developed as monitoring mechanism. All these actions have been undertaken to ensure that the Bank is in a strong position to address any potential issues that might arise over the near future.

As 2013 came to a close, the Asian Development Bank (ADB) sold 20 percent of its shares to Wilton Holdings and Horizon Associates, leaving ADB with a 20 percent ownership stake. A further sale of 20 percent of its share to Wilton Holdings and Horizon Associates is planned for early 2014, reducing ADB's shareholding to 15 percent.

A third transaction is in process and will likely close early in 2014. Wilton Holdings and Horizon Associates are purchasing the 25 percent shareholding of Afghan Investment Partners Corporation. When these transactions are finalised, Wilton and Horizon's shareholdings in AIB will increase to 42.5 percent each. These transactions reflect corporate priorities and investment decisions of the respective shareholders.

In closing, I extend my thanks to the shareholders, Board members, management, and staff of AIB for your effort and dedication over the past year.



Ronald Stride
Chairman

Achieving targets

We achieved almost all our budget targets for the year, notably in loan and treasury interest income, while containing expenses to forecast levels.

AFN 1,965 million

AIB was able to increase revenue by almost 20 percent to AFN 1,965 million (2012: AFN 1,636 m), largely due to a 35 percent rise in fee and foreign exchange income to AFN 761 million (AFN 564m) that contributed 39 percent of total revenue. Deposits increased by five percent to AFN 45,120 million (2012: AFN 43,142 m) and showed compound annual growth of 55 percent between 2007 and 2013.



In a testing year for the Afghanistan economy and the banking sector in particular, AIB achieved a highly credible performance. Uncertainty arising from ongoing political and security transitions inhibited growth and led to a considerable slow-down in economic activity and private investment.

Nevertheless, AIB was able to increase revenue by almost 20 percent to AFN 1,965 million (2012: AFN 1,636 m), largely due to a 35 percent rise in fee and foreign exchange income to AFN 761 million (AFN 564m) that contributed 39 percent of total revenue. Deposits increased by five percent to AFN 45,120 million (2012: AFN 43,142 m) and showed compound annual growth of 55 percent between 2007 and 2013. Compound revenue growth over the same period reached 30 percent. The main rating agencies continued to assign 'investment grade' status to the Bank's total bond portfolio of AFN 7,640 million. To be conservative in the face of uncertainties, more than 81 percent of this portfolio matures in three years or less.

Despite making provisions for potential losses, we achieved almost all our budget targets for the year, notably in loan and treasury interest income, while containing expenses to forecast levels. The 12.2 percent net profit margin for the year equates to earnings per share of AFN 7.99 and 8.64 percent return on equity. The Bank's net asset value per share now stands at AFN 93.

Total capital increased from AFN 2,560 million to AFN 2,775 million. Our capital adequacy ratio of 14 percent and our 89 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.

AIB is also the only financial institution in Afghanistan to have two of the OECD country-based international banking groups as correspondents. These relationships provide our customers with speedy international transfers.

Our performance in 2013 achieved prominent international recognition in the form of two major awards. *The Banker* magazine ranked AIB 'Best Afghan Bank' for the second year in succession during its annual awards ceremony in London, and our commitment to strong corporate governance earned us the Corporate Governance Award, Afghanistan 2014, from Capital Finance International (CFI.co) as part of its world-wide 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, commenting: "AIB is a worthy winner and an excellent example to the wider business community in the country."

Growth in customer numbers continues. At year-end, the total customer account base was 120,129, up from 113,700 in 2012. The number of corporate accounts increased from 19,600 to 20,605 and individual accounts from 94,100 to 99,524. The increase in customer numbers is also reflected in the total volume of transactions, up from 465,630 to 581,972. Use of online and automated banking increased correspondingly with 43 ATMs now operational, 212 point-of-sale machines installed in shops, and 28 in branches for customer cash advances.

We are very conscious of the vital role of small business in economic development and are committed to fostering a culture of entrepreneurship in Afghanistan. Small business continued to be a prime area of focus, developing six products that will be formally launched for this segment in 2014 in response to clear business needs that we have identified. Our new products will provide much-needed assistance to small manufacturers and supply chain providers.

Employers and employees are benefiting from our new payroll lending product, which includes fast access to general purpose personal loans at competitive rates for our payroll account holders.

In response to market demand, we have developed and are introducing our 'Home Equity' loan for retail customers. This facility is designed to enable our customers to realise equity value from their wholly-owned properties for making home improvements or, in some cases, to acquire a second property.

AIB's Platinum and Titanium credit cards, first introduced for VIP customers early in 2013, have now been made available to the open market. The cards have been very well-received, with total issuance by year-end in line with targets.

We have also successfully launched our MasterCard and China Union Pay (CUP) prepaid cards. The CUP cards are proving particularly attractive to businesses travellers trading with China. Used as charge cards, they are readily available to business users and consumers without having to undergo credit checks.

The bank is planning to launch its new unembossed debit card under the MasterCard label in the course of 2014. It will be available to all account holders for use domestically and internationally.

We have made good progress with our move to create a Shariah-compliant window for Islamic banking and are awaiting approval from the Central Bank regulators. AIB will then offer customers the choice of Shariah or conventional products.

Commercial lending was relatively subdued in 2013, indicative of the increasingly conservative market attitude to political, economic, and security concerns. Nevertheless, Commercial Banking maintained its income levels.

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Electronic banking facilities and customer usage continue to grow. Free SMS services now provide a wide range of customer benefits, from balance enquiry to automatic alerts of account activity. Implementation of the new call centre and phone banking service is close to completion, giving customers prompt answers to any queries they may have about the Bank and their accounts. On-line banking offers the convenience of secure funds transfer and account management, and is an increasingly popular option with customers.

Business continuity is an ongoing priority and IT capability has been designed and implemented to cope with adverse contingencies. An upgrade of the core banking systems is under way and will be completed mid 2014.

An overseas-based disaster recovery site (DRS) backs up the domestic DRS, protecting against potential vulnerabilities at the domestic site and head office. Business contingency plan testing has demonstrated that the Bank could operate effectively from its domestic DRS, with the cross-border back-up site providing an extra level of security.

The employee complement grew by six percent from 606 to 643 in 2013. Female staff now account for roughly 10 percent of the total. In keeping with the growth in numbers, training remained a major focus.

As well as in-house training at head office and branch level, three staff members selected for fast-track career development benefited from specialist professional education with Pakistan's National Institute of Banking and Finance (NIBAF). In all, a total of 21 employees undertook NIBAF courses such as Business Communication, Accounting, Commercial Banking, Know Your Customer, Electronic Banking, Islamic Banking, Basel Capital Accord, and Risk Management in Banks.

In keeping with the Bank's commitment to good corporate citizenship, AIB continues to undertake projects that have a beneficial impact on the communities where it operates. We sponsored the Kabul Municipality's fourth academic and research seminar on Milad-e-Kabul (Kabul birth), and maintained our financial support for the Education and Employment Center and the restoration of the Blue Mosque in Mazar.

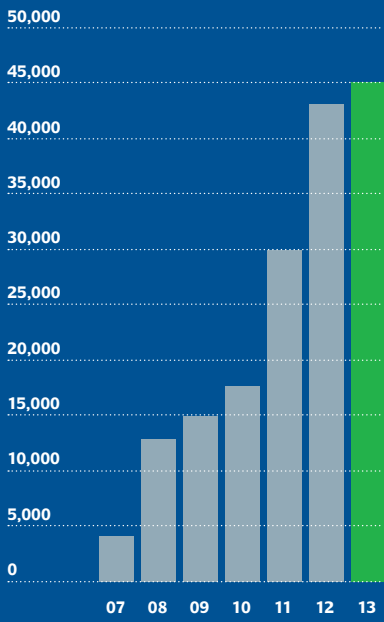
In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support, to our loyal customers for their patronage, and to our management and employees for their dedication and hard work throughout 2013.



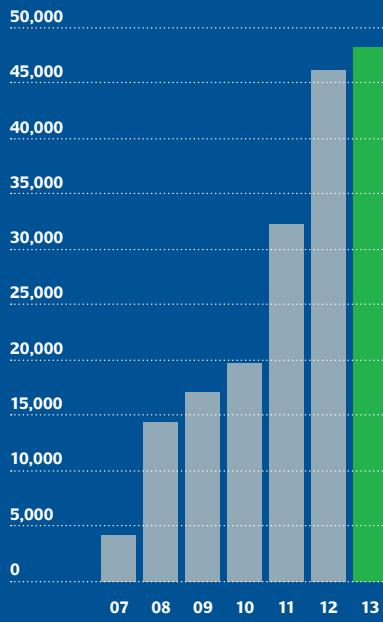
Khalilullah Sediq
Chief Executive Officer

AIB's growth over the recent past has positioned the Bank to be the leading financial institution in Afghanistan in terms of revenues, equity, total assets, and deposits.

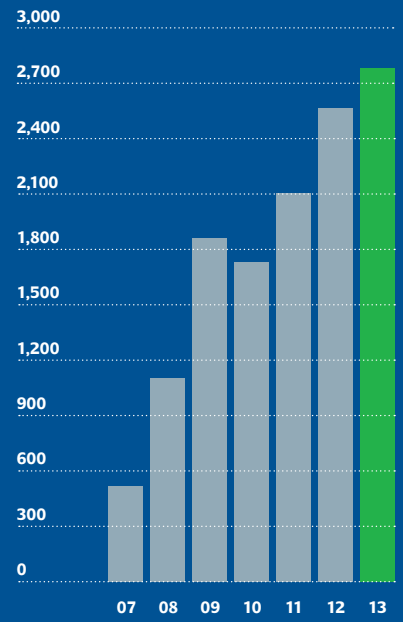
Deposits (AFN millions)



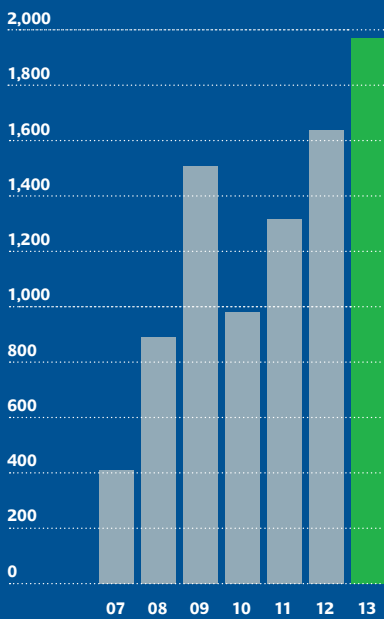
Total assets (AFN millions)



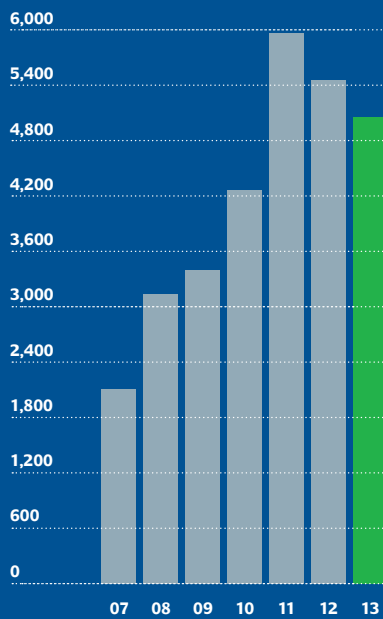
Capital growth (AFN millions)



Revenues (AFN millions)



Loans and overdrafts (AFN millions)

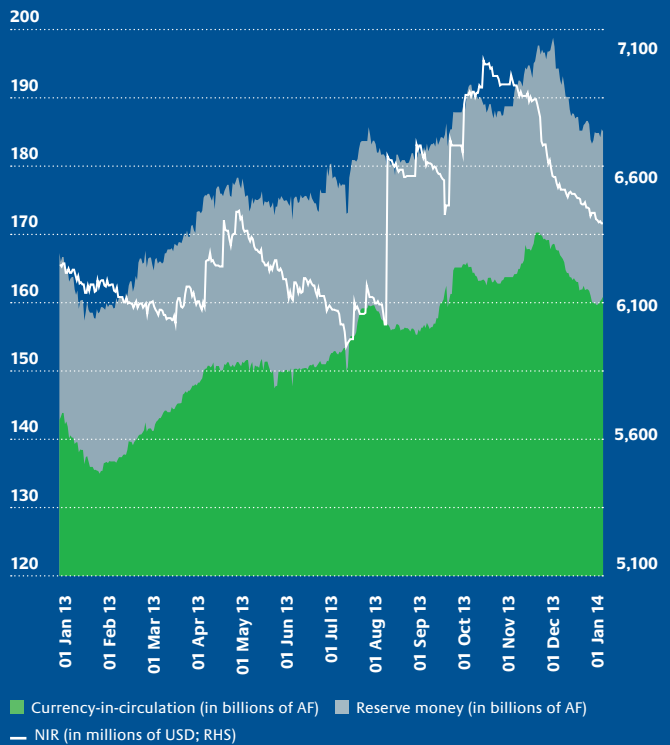


The amount of foreign reserves (net international reserves) held by the Central Bank is a key indicator of financial stability because it marks the country's ability to withstand capital flight. Foreign reserves stood at \$6.9 billion at the beginning of December, 2013, slightly above the \$6.2 billion considered sufficient to buffer any negative shocks.

Daily average exchange rate of AF per USD



Reserve money and net international reserves (NIR)



Afghan economic growth fell by more than 10 percentage points in 2013, down to 3.1 percent from 14.4 percent a year earlier. This dramatic decline marks the bursting of an economic bubble that had been inflated by a decade of extraordinarily high security spending and foreign aid, now winding down with the withdrawal of NATO forces in 2014.

The slowdown in aggregate economic performance was exacerbated by high-profile terrorist attacks in the heart of Kabul, political uncertainty surrounding the April 2014 presidential election, and disagreements among key allies concerning negotiations with the Taliban. Collectively, these factors clouded the economic outlook and depressed private sector expectations.

The impact of the decline in foreign aid is being felt unevenly across the country. Because of the choices made by donors, and the predominant role of stabilisation and military spending, the conflict-affected provinces have had significantly higher per capita aid than the more peaceful (and often poorer) provinces. As a result, the slowdown in aid has begun to be felt more acutely in the conflict-affected areas and in urban centres, which have lost jobs as military bases and provincial reconstruction teams close. In urban centres, such as Kabul, wage levels of higher-qualified people are declining due to fewer opportunities in donor-financed projects.

In a major blow to Afghan hopes for high and sustainable economic growth, security concerns have prompted Chinese investors to demand a review of a landmark \$3 billion dollar contract to produce copper at Aynak. A smaller but symbolically important oil project in northern Afghanistan has also ground to a halt, raising doubts as to whether Afghanistan can realise the 'Silk Road' scenario of high and sustainable growth driven by exploitation of its considerable wealth of natural resources.

The Afghan economy remains highly dollar-dependent, making the dollar exchange rate of the Afghani an important barometer of private sector expectations. The Afghani continued its downward trend in 2013, depreciating by 11.25 percent against the dollar as the economy slowed and political uncertainty fuelled capital flight. A weakening currency makes imports more expensive and should boost exports, leading to a narrowing of the trade deficit. However, we observed the opposite in 2013, with the trade deficit widening to \$8.3 billion from \$6.0 billion in 2012.

The lack of a positive export response to the exchange rate depreciation is worrisome because it underscores the fact that Afghanistan's export base has relatively few tradable products and these are heavily concentrated in a few markets. Dry fruits, which account for around one-third of official exports, declined by 21 percent, and carpet exports, another major item, nearly halved to \$23 million. The strong depreciation of the Pakistani rupee against the US dollar may have accounted for lower demand for Afghan carpets. Pakistan is traditionally the most important market for Afghan carpets, where they are processed and exported to European markets. The declining trend in dry fruits exports, however, seems to indicate a loss of competitiveness in important EU markets.

The amount of foreign reserves (net international reserves) held by the Central Bank is a key indicator of financial stability because it marks the country's ability to withstand capital flight. Foreign reserves stood at \$6.9 billion at the beginning of December, 2013, slightly above the \$6.2 billion considered sufficient to buffer any negative shocks. The demand for money, measured by the level of reserve money, was weak in 2013 reflecting the slowing economy.

Systemic risk in the banking sector is a major concern in Afghanistan where a shock to an important bank can pose risks to otherwise sound banks. In that respect, the Afghan banking sector appears to be recovering slowly from the Kabul Bank crisis of 2010. Sector profits grew to AF 649 million in 2013, up from a loss of AF 1.71 billion in 2012. This was reflected in a slight improvement in return on assets to 0.30 percent, up from -0.99 percent in 2012.

Loans and deposits in the banking system also showed marked improvement with total gross loans increasing by 19.34 percent and deposits by 9.96 percent to AF 207.30 billion. The banking system as a whole was adequately capitalised, although a few problem banks were undercapitalised or only marginally so. One state-owned bank that has a capital adequacy ratio of less than 12 percent was given forbearance from the central bank until it is privatised, while two other banks have capital adequacy ratios close to the minimum threshold (12 percent of risk weighted assets).

The banking industry faces four pressing challenges:

- How to maintain double-digit returns on equity as adverse factors threaten profitability? The business landscape has changed and in the foreseeable future there will be a fundamentally lower ROE environment. This will be driven by a combination of revenue compression and changing capital and liquidity requirements as the central bank moves to strengthen the ability of banks to withstand periods of market stress, mounting cost pressures from critically needed investments (such as IT), and an increase in the costs of doing business in Afghanistan (heightened security spending).
- What kind of new products and sources of revenues are needed for retail and corporate clients in an environment of slow private-sector growth and heightened risk?
- How to grow a banking system hampered by the lack of high-quality and experienced staff to manage customer-facing units and the back office?
- How to attract and maintain quality customers as competition intensifies through willingness to reduce returns?

The fragile security environment has been the single most binding constraint to private-sector investment and private-sector-led growth. Prospects for the economy will therefore depend on Afghanistan's success in achieving peace, stability, and reconciliation and how banks respond to the changing business environment.

Profile: Board of Supervisors

Ronald 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 and 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.

Hamidullah 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.

Lutfullah 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.

Veronica 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.

Hasib 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 based in Manila, having previously had 26 years' experience 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.



Brian 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.

Salman 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.

Aditya 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.

Gokhan Erkal

Shareholder-appointed Member of the Board of Supervisors, Member of the Investment Committee

Mr Erkal was a member of the team that founded AIB and has been a Board member since 2004 except for 2008-09. He is a partner in an Istanbul-based private equity fund focusing on clean energy investments and has extensive experience in business development, project finance, and investment, in Turkey and emerging markets. He also has previous banking experience, with Ottoman Bank in London and as vice-president, project finance at Garanti Bank. Mr Erkal holds Bachelor's and Master's degrees in civil engineering.



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 four shareholders, each with a holding of between 20 percent and 27.5 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	20
Afghanistan Investment Partners Corporation (AIPC)	Nemat Khwaja, Zaher Yaqubie	Investment Company	Delaware, USA	Gokhan Erkal	25
Horizon Associates	Mohammed Abraham Mohib	Holding Company	Delaware, USA	Hamidullah A. Mohib	27.5
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Lutfullah Rahmat	27.5

Board of Supervisors

The major 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, four 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 nine 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 four 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 judgment 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: the Compensation Committee, the Risk Committee, the Investment Committee, and the Planning and Strategy Committee. A fifth committee, the Audit Committee, 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 ‘AIB Committees’ section.

Management Board

The Board has delegated day-to-day operational responsibilities to the Chief Executive and the Management Board. The Management Board is a formal entity with its role and responsibilities defined in the Law of Banking in Afghanistan and Central Bank regulations. The Board comprises: the Chief Executive, Head of Commercial Banking, Chief Operating Officer, and Chief Financial Officer. The Management Board meets frequently concerning matters of policy, procedures, and operations. Brief biographical profiles of Management Board members are given on page 14 of this report.

In addition to the Management Board, the management structure of the Bank includes the Head Office Credit Committee, the Head Office Risk Committee, and the Head Office Asset Liability Management Committee. All three operate under defined charters and sets of policies and procedures approved by the Board of Supervisors and the shareholders.

AIB Committees

Compensation Committee

The Compensation Committee comprises three directors, two of whom, including the chairperson, are independent. Its members are Veronica John (Chairperson), 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.

During the year, the committee completed the recruitment of a Deputy Chief Executive Officer who will join the bank in January, 2014, developed a plan for the recruitment of a new CEO on the retirement of the present CEO in 2015, designed a process for the selection of new directors, and approved an amended HR policy.

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, asset 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 its consideration and action.

The dramatic change in the business environment and market sentiment in 2013 made for a challenging year, particularly in managing risk and the need for constant vigilance. Close contact with customers, the market, and government agencies is absolutely critical. During the year, the committee approved policies covering investments in trade finance, developed guidelines for financing fuel traders, and developed and implemented the Bank's fraud policy and underwriting standards. Working with management, the committee initiated a review of the Bank's loan portfolio by an independent consultant and developed a process that enables consistent monitoring.

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 2013, the committee approved planning scenarios for post-2014 and a related set of leading indicators designed to help AIB determine which scenario is unfolding. The committee also approved a three-year strategic plan, reviewed performance against the 2013 budget and business plan quarterly, and reviewed the proposed budget and business plan for 2014.

Further activities included approval of the introduction of new products, analysing the cost of funds and profitability of deposits, and evaluating approaches to improve operational efficiency and improve customer service.

Investment Committee

The Investment Committee comprises three directors – Salman Shoaib (Chairman and independent director), Hasib Ahmed, and Gokhal Erkan.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed income bonds. Its principal role is to oversee the Bank's investment policy and to ensure it is modified and executed appropriately in the context of the Bank's risk and capital specifications.

During 2013 the committee worked with the Board and management to improve and keep current the investment policy, analyse and approve alternative investments of the Bank's surplus funds, monitored the mandate of the independent asset managers hired by the Bank and met them to discuss their performance, ways of increasing yields, and alternative investments. The committee seeks approval from the full Board when required and highlights issues that require attention.

In November, the committee assumed responsibility for approving the allocation of investable funds between different asset classes.

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. Appointments are for not more than four years and may be renewed for like periods. Members of the Board of Supervisors or the Management Board may not serve on the Audit Committee. Members of the committee are subject to the same fit and proper requirements as members of the Board of Supervisors. The committee began 2013 with five members but two left Afghanistan during the year. The remaining members are all qualified and experienced in accounting or banking.

The Audit Committee is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. It is also responsible for relationships with the external auditors and meets them on completion of the annual audit and quarterly reviews.

Meetings are usually held four times a year (as in 2013) in person and in conjunction with Board meetings. The meetings are attended by the Chief Executive Officer, Head of Internal Audit, and designated Management Board members. Minutes are presented at the next Board meeting when the committee chairman reports on issues 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 to 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.

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.

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.

Rakesh Jethwani

Chief Risk Officer

Mr Jethwani joined AIB in 2011 as Chief Risk Officer. He has 30 years' experience in banking, with a specialisation in credit and risk management obtained during his service with Punjab National Bank in India. He holds a dual executive MBA in risk management and international finance and is a Certified Associate of the Indian Institute of Bankers.

Khurram Sikander

Head of Internal Audit

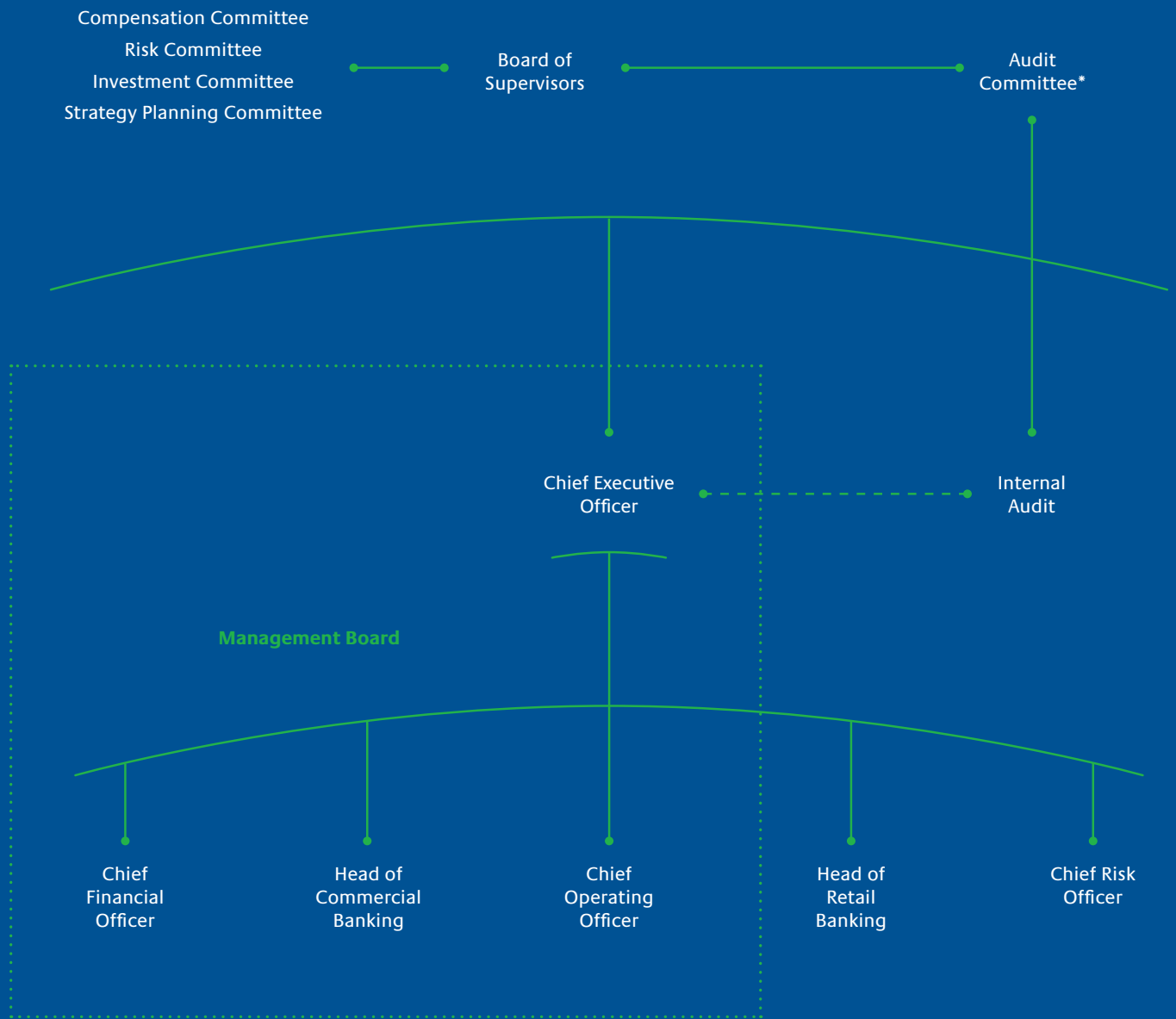
Mr Sikander joined AIB in 2011 as Head of Internal Audit. He was previously with Aga Khan Development Network (AKDN), where he worked in internal audit, internal controls, and risk and compliance, also serving as a director of AKDN institutions. Mr Sikander is a member of the UK Association of Chartered Certified Accountants.

Mohammad Taofiq Mir

Head of Retail Banking

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and held a number of positions related to retail banking before becoming General Manager, Retail Banking in 2012. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Organization



* Reports directly to shareholders



AIB Head Office in Kabul



Herat Branch



Kandahar Branch



Jalalabad Branch



Khalilullah Sediq, CEO of Afghanistan International Bank, receiving the 'Bank of the Year, Afghanistan' award at The Banker Awards 2013 in London.

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.

2009

Moved to new head office building in Kabul.

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.

After being nominated by the World Bank, AIB wins Best Corporate Governance, Afghanistan 2014 in the CFI.co awards.

