



AIB

بانك بين الملى
افغانستان

Afghanistan
International Bank



Best Corporate Governance
2014 and 2015
AFGHANISTAN



Bank of the Year
2012/2013/2014/2015
AFGHANISTAN

Your Partner for Growth

Annual Report 2015



Contents

- 2 Chairman's Report
- 4 CEO's Management Review
- 6 Tribute to Khalilullah Sediq
- 7 Financial Highlights
- 8 Economic and Banking Sector Outlook
- 10 Profile: Board of Supervisors
- 12 Governance Report and AIB Committees
- 14 Management Profiles
- 15 Organisation
- 16 History and Performance of AIB
- 17 AIB Branch Network
- 18 Financial Statements

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.

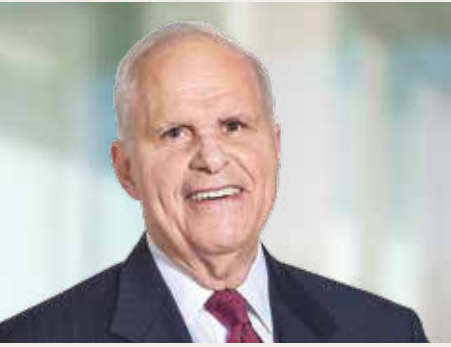
In our second decade of operation, we remain committed to enabling a better future for Afghanistan and we are proud to play a role in shaping the opportunities that lie ahead.



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

Over the last 12 years, AIB has built an enduring institution that combines international expertise with intimate local knowledge, giving the Bank a deep-rooted understanding of customers' needs that is grounded in the highest international standards and best practices.

From inception, the major objective of the Bank has been to assist in developing the Afghan economy and to conduct business in accordance with international governance standards. Its success in this regard is reflected in the many prestigious awards received from authoritative industry bodies.



A handwritten signature in black ink that reads "Ronald Stride". The signature is fluid and cursive.

Ronald Stride
Chairman

In 2015, AIB continued to fulfil its vision of being a modern, international, and high-quality institution. Underlying this vision is the Bank's dedication to integrity, high service standards, achieving world-class financial performance, and attention to the financing needs of our customers, as reflected in our tagline 'Your Partner for Growth'.

Some examples of this dedication to high standards are:

- We are well into implementation of a year-long project to bring our anti-money laundering and financial crimes compliance processes and systems up to world standards.
- AIB is the only private commercial bank in Afghanistan to have correspondent banking relationships with two major international banks, Commerzbank and Standard Chartered Bank, allowing quick and reliable foreign currency clearing services.
- We have asset management and placement relationships with a number of international financial institutions, demonstrating their trust in AIB.
- We remain the bank of choice for Afghanistan companies and individuals: AIB holds one-third (circa \$850 million) of all deposits in the Afghanistan banking system, reflecting the general community's high esteem for our Bank.

- AIB is also the bank of choice for the international community in Afghanistan, including the United Nations, embassies, aid agencies, and the like.

- The Bank continues to win awards for excellence in governance and banking performance, as mentioned below.

- KPMG, our auditors for financial year 2015, have given AIB a clean opinion without reservations, as highlighted in this document.

AIB remains committed to building the banking system and developing the economy in Afghanistan. Notwithstanding this objective, business sentiment was relatively subdued during the year, due to continued political uncertainties and security concerns. The Taliban insurgency situation has not improved and there has been no meaningful progress in peace talks. Security concerns were further exacerbated by the Taliban's attack on the city of Kunduz late in the year.

We expect our new twelve-storey head office building to be ready for occupancy in late 2016, an event to which we are all looking forward.

The significant drop in the value of the Afghani currency further accelerated the trend to a dollar-based economy. The exchange rate lost about 18 percent in 2015, putting upward pressure on prices. This devaluation, coupled with the ongoing government stalemate regarding cabinet appointments and parliamentary elections, has eroded confidence in the economy.

Growth in gross domestic product in 2015 is expected to be 1.9 percent, which is an improvement from slightly more than 1.0 percent in 2014. A rise to 2.8 percent is forecast for 2016 before settling at around 5.0 percent in 2018.

However, even with this backdrop of political and security difficulty, AIB performed well financially. The Bank achieved a return on equity of 15.28 percent and met its profit before tax objective of AFN 589 million. Profit performance was driven by strong fee income revenue from transfers and foreign exchange, which increased significantly year on year.

2015 was marked by several significant milestones:

- For the fourth consecutive year, AIB received The Banker magazine's 'Best Bank in Afghanistan' award.
- For the second successive year, AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.
- In May, Mr Khalil Sediq, the Chief Executive Officer of AIB, retired and subsequently joined the Central Bank of Afghanistan as Governor. Mr Sediq was instrumental in building AIB into the highly respected institution that it is today (see tribute highlighting his many contributions to AIB). Needless to say, the AIB community of shareholders, Board directors, management, and staff are proud of Mr Sediq's appointment to the Central Bank, and we wish him every success in his new position. Mr Guy Mallett, the Deputy Chief Executive Officer of AIB, took over the position of CEO after Mr Sediq's departure.
- AIB's new twelve-storey head office building had reached the ninth floor by December. Another key milestone was the awarding of the mechanical, electrical, and plumbing contract. We expect the building to be ready for occupancy in late 2016, an event to which we are all looking forward.

- AIB took a stand at the SWIFT International Banking Operations Seminar (Sibos), the world's premier financial services conference, exhibition, and networking event. AIB's presence drew much attention as this was the first time an individual Afghan bank had its own stand.

- A new Law of Banking was put into effect in mid-2015. This contains a major shift in governance duties and responsibilities from shareholders to the Board of Supervisors. Many other changes include lending limits and board of supervisor composition. In my view these changes are positive for the banking sector in Afghanistan, strengthening the role of boards in governance.

The Board of Supervisors continued to provide significant oversight to management of the Bank. The Board held twelve regular meetings during the year: four in person and eight by conference call. The committees of the Board (Risk, Compensation, Investment, and Strategy and Planning) also met regularly to discuss major issues in greater detail. A report from each committee is contained in this Annual Report.

The Board approved revisions to the Articles of Association of the Bank, as well as numerous policies and procedures and senior management compensation matters. In addition to the anti-money laundering and compliance improvements mentioned earlier, IT security was also upgraded and the Board reviewed and approved changes in the organisation structure.

Mr Dickie, an independent director since 2012 and chair of the Strategy and Planning Committee, stepped down from the Board during 2015. I thank Brian for his contributions to the Board and the Bank, and wish him well.

As 2015 came to a close, the International Finance Corporation is in final negotiation to purchase 15 percent of AIB: 7.5 percent from the Bank's two major shareholders, Wilton Holdings and Horizon Associates, and 7.5 percent through the issuing of new shares by the Bank. This investment will take place in two tranches over a two-year period.

The Asian Development Bank (ADB) continued to hold a 7.5 percent stake in AIB at the year-end; however, I anticipate that ADB will sell its shareholding to Wilton and Horizon in the very near future. Accordingly, Hasib Ahmed, the shareholder-representative director for ADB, will resign from the Board.

Mr Ahmed has been a director since 2005, and has been a major contributor to the Board and the Bank due to his extensive knowledge and understanding of banking.

He will be missed, and I join the shareholders and other Board members in wishing him well in his future endeavours. I also note that ADB was a founding shareholder of AIB and has actively participated in the governance of the Bank since its inception. ADB's exit has been planned for some time.

At this time it is difficult to forecast what will happen in the Afghan economy in 2016. The release of donor funds by the International Monetary Fund and the World Bank will enable aid agency funds to flow into Afghanistan, greatly helping the economy.

Another potential bright spot could be the positive impact of the United Nations lifting economic sanctions on Iran. This action could bring about renewed trade between Iran and Afghanistan; however, it will take some time before there is clarity on when and what types of transactions and payments can be accepted through the international payment mechanisms.

For 2016, the Board and management have decided to remain rather conservative in the financial outlook for the Bank, and in the annual planning process we have anticipated sustaining a return on equity of around 13 percent for the 2016 fiscal year. To safeguard against any unforeseen adverse conditions that might affect the Bank's financial integrity, management has developed two fallback scenarios in the 2016 plan, to be used only if conditions in the country deteriorate.

As in the past, I extend my personal thanks and gratitude to my fellow Board members and to the management and staff of AIB for their hard work, diligence, and dedication to making the Bank the successful institution it has become over the past 12 years.

Ronald Stride
Chairman



Guy Mallett
Chief Executive Officer

As AIB advances into its second decade, the Bank's international stature continues to grow while we also expand our influence as a positive force within the domestic economy.

Further progress on both fronts during 2015 was cause for satisfaction.

AIB is today the only private commercial bank in Afghanistan to have major clearing banks as correspondents – Standard Chartered Bank and Commerzbank – providing our customers with much-needed safe and speedy international transfers, and facilitating the finance of trade.

Our achievements in this area have not gone unnoticed in international banking circles, and we are optimistic about securing more correspondent arrangements with other leading global institutions. This goal was supported in 2015 by an intensive review and upgrade of 'know your customer' and anti-money laundering procedures and processes to ensure that we comply with the highest international standards. We are also upgrading our compliance-related IT systems.

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators, and we have engaged specialist international consultants to ensure we succeed. Our correspondent banks recognise AIB as the only Afghan bank to achieve this and have indicated that they are prepared to expand their relationships with us.

Such abilities enhance our role as a vital intermediary in enabling Afghanistan trade flows, stimulating the domestic economy, and in turn making a vital contribution to the Bank's substantial growth in foreign exchange business.

While moving into a higher league of international banks and banking, AIB maintained its well-established trend of domestic growth during 2015, despite a depressed market environment for most of the year.

- Assets grew by 9.64 percent to AFN 61.65 billion (2014: AFN 56.23 billion), bringing compound annual asset growth since 2009 to 24 percent. Deposits also grew by 9.62 percent, from AFN 52.9 billion to AFN 58.00 billion.

- Revenue remained the same as last year at AFN 1.96 billion (2014: AFN 1.96 billion). Non-interest income accounted for 46 percent of total revenue, underlining the value of strong correspondent partnerships and sound regulatory compliance. Compound annual revenue growth since 2009 now stands at 4.5 percent.

Budget targets for the year were generally met, but the poor condition of the real estate market negatively affected loan recoveries. Commercial lending was subdued, indicative of the increasingly cautious market attitude during this time of weak business confidence.

Assets

61.65bn ▲ 9.64%

Assets grew by 9.64 percent to AFN 61.65 billion (2014: AFN 56.23 billion), bringing compound annual asset growth since 2009 to 24 percent.

With expenses being contained at forecast levels, the 27 percent net profit margin equates to earnings per share of AFN 17.46 (2014: AFN 16.66), and 15.28 percent return on equity.

Total capital increased from AFN 3.07 billion to AFN 3.4 billion. Our capital adequacy ratio of 13.59 percent and 87 percent liquidity are very satisfactory by domestic and international standards. AIB believes it retains the highest score of all Afghan banks in its 'CAMEL' rating – the acronym for five key components of a bank's health: capital adequacy, asset quality, management, earnings, and liquidity.

Being based in an Islamic country, it is only logical for AIB to support its core services with Islamic options. During 2015, we established three Shariah-compliant windows: in Kabul at Head Office branch and in the cities of Kandahar and Mazar. Expansion of the branch network was limited, opening new branches at Sinafar in Mazar and at the American University Afghanistan in Kabul, bringing the total to 34.

However, expansion of electronic channels continued apace, introducing the new self-service internet banking platform that enables customers to manage their banking transactions from anywhere. This supports the growing popularity of internet banking, with the number of users increasing by 71 percent to 9,198.

Customer service was further enhanced by expansion of AIB's ATM network, already the largest in the country, adding four more to bring the total to 64. Our ATMs are multi-currency, offering the Afghani and US dollar as standard, as well as the euro in certain locations. The range of ATM services has been expanded to include balance enquiries and mini-statements, and the hours for call centre and phone banking services extended from 8:30am to 11:00pm.

Our MasterCard-branded Platinum and Titanium credit cards have shown steady progress since their launch in 2013, with more than 700 issued. Debit cards in issue, which do not require users to undergo credit checks, now number more than 70,000. Our prepaid cards, including the prepaid MasterCard and China Union Pay, have more than doubled to over 3,300.

Demand for retail lending products also grew steadily, despite the unfavourable market conditions. Our payroll loan provides small general-purpose funding for the acquisition of consumer goods, while the home equity loan enables customers to leverage the capital value of their primary homes to buy a secondary property and/or make improvements to their existing houses. Portfolios have grown respectively by 72 percent and more than 100 percent.

AIB's commitment to support small and medium enterprises, clearly under-served by Afghanistan's banking sector as a whole, continues to gather momentum. Our drive into this market gives priority to servicing established businesses involved in strategic economic sectors – such as manufacturing and import substitution – and reinforces our role as a growth engine for national development.

The SME loan portfolio now comprises 20 borrowing businesses. By virtue of rigorous cash flow-based analysis and close monitoring, no loans are in arrears – also indicative of borrowers' appreciation of this much-valued service.

On the IT front, the Bank was awarded the 2015 Transformation Award from Baar, Switzerland for its successful implementation of fully automated processes for card issuance, renewal, tracking of fees due, and recording all transactions.

Ensuring that services to customers continue uninterrupted is a vitally important resource, so the Bank's Business Continuity Plan was again successfully tested and upgraded.

In human relations, and in line with the Bank's commitment to excellence and helping promising employees with further education, AIB sponsored four staff members, one female and three male, to continue their post-graduate studies at the American University of Afghanistan.

Professional training was maintained at all levels and reached a record number of employees through courses ranging from basic banking induction to specialist areas such as accounting, electronic banking, risk management, information technology, and communications skills.

The formation of an internal gender committee (an initiative strongly encouraged by the Bank's Supervisory Board) will support the increased presence of female staff in positions of responsibility within the Bank.

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 2015.

Guy Mallett
Chief Executive Officer

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators, and we have engaged specialist international consultants to ensure we succeed.



Ronald Stride
Chairman

Khalilullah Sediq
Former Chief
Executive Officer

Khalil Sediq stepped down as Chief Executive Officer of Afghanistan International Bank during 2015 to become Governor of Da Afghanistan Bank, the central bank of Afghanistan.

Mr Sediq joined AIB in 2006 when our Bank was still in its infancy, and in the next eight years developed AIB into one of the largest and most respected financial institutions in the country.

His banking knowledge, his personal integrity, and his understanding of customers were strengths he brought to the position of CEO. Such strengths were instrumental not only in building AIB, but in creating a culture of integrity, good governance, respect for the institution, professionalism, and dedication to customer needs.

Mr Sediq's leadership was so well known that people referred to AIB as 'Khalil's bank'.

One of the key events during his tenure was taking on the US Army's banking accounts in Afghanistan during 2008, an achievement in which he played a personal role.

This reflected the international community's trust in Mr Sediq and AIB, and was the beginning of the Bank's advancement.

He also oversaw AIB's purchase of Standard Chartered Bank's business in Afghanistan in 2012, another major point in the Bank's development. He leaves a strong, well-managed institution.

I had the good fortune and privilege of working with Mr Sediq for more than five years and I know that I speak for our shareholders, management, staff, and my fellow directors in thanking him for his contributions to AIB, and in wishing him continued success in the position of Governor of Da Afghanistan Bank.

Ronald Stride
Chairman

Key metrics reflect AIB's trend of sustained performance over the past five years, particularly the growth in deposits, assets, and capital resources that are fundamental strengths of the Bank.

Deposits

58bn

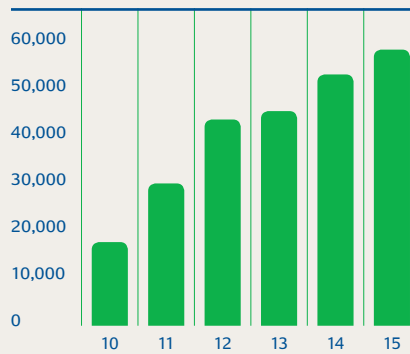
▲ 9.6%

Capital growth

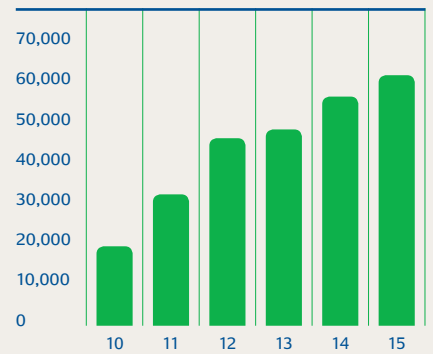
3.42bn

▲ 11.3%

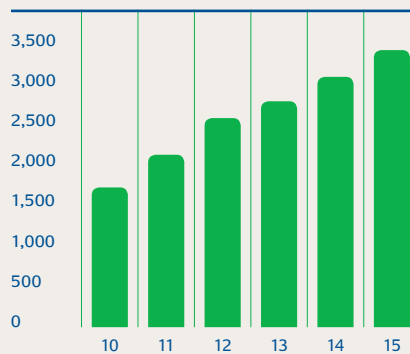
Deposits (AFN millions)



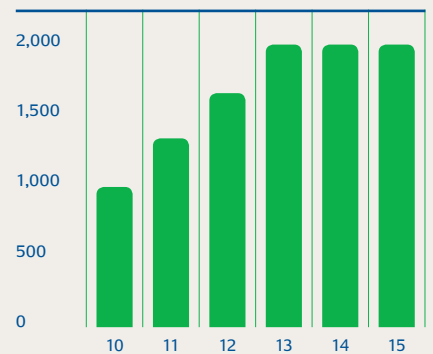
Total assets (AFN millions)



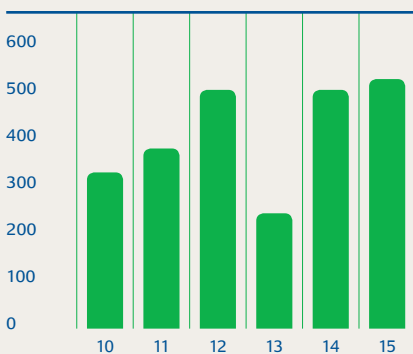
Capital growth (AFN millions)



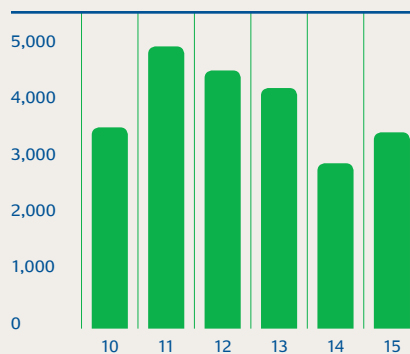
Revenues (AFN millions)



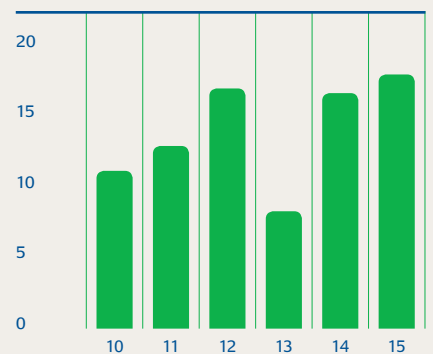
Net Profit (AFN millions)



Advances (AFN millions)



Earnings per share (AFN)

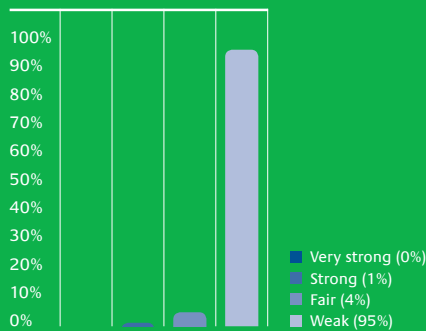


Afghan economy faced stressful times in 2015 as the effects of renewed domestic insurgency and an acute collapse in business confidence were compounded by slowing global trade.

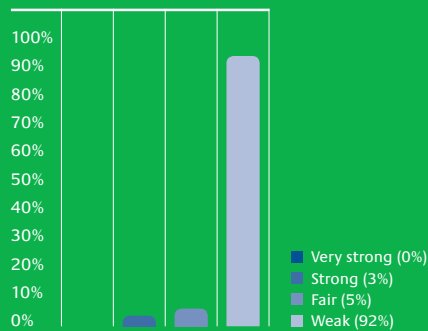
A slowing global economy added to the difficulties. Annual growth in gross domestic product (GDP) in 2015 is expected to be a meagre 1.9 percent – up from just over 1.0 percent in 2014 – and is projected to rise slightly to 2.8 percent in 2016 before levelling off around 5.0 percent in 2018.

The heady days of double-digit economic growth, fuelled by foreign aid and military spending that followed the fall of the Taliban regime, appear to be gone for the foreseeable future. The exchange rate – a bellwether economic indicator – continued to lose value in 2015, falling by about 18 percent over the year and putting upward pressure on prices.

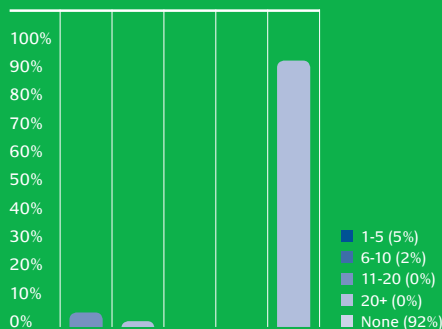
How would you assess the overall business climate?



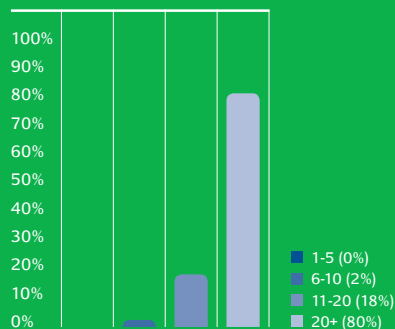
How would you assess the current strength of your business?



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?



Source: American University of Afghanistan Survey

In 2015, economic hardship, increasing insecurity, and concern regarding the country's future prompted a huge wave of migration, with about 146,000 Afghan migrants arriving in Europe, syphoning an estimated \$1.5 billion from the economy. Government forces have been hard-pressed to contain the Taliban insurgency, fighting on without rest despite the severe constraints of being under-trained and under-equipped. As a result, the Taliban is now in control of more territory than at any time since 2001.

The banking sector continued to perform poorly overall as the ripple effects of the economic slow-down were felt. Bank lending to the private sector continued to decline over the year.

Credit to the private sector continued its precipitous decline that began in the second half of 2014, and dropped by 5.3 percent (year-on-year) over the first nine months of 2015. Total banking sector loans contracted sharply to \$747 million in September 2015 compared to \$818 million one year earlier, and are not projected to rise much faster as banks tighten credit standards in the face of a deteriorating economy. Asset quality also left much to be desired. The ratio of non-performing loans increased from 6.3 percent in June 2014 to 13.8 percent in June 2015, leading to a total loss of \$14 million in the first seven months of 2015.

The response of the Afghan business community to the downturn will have implications for the health of the banking sector. During periods of economic decline, whether widespread as Afghanistan is experiencing or cyclical for a particular type of business, nascent enterprises are most likely to bear the brunt.

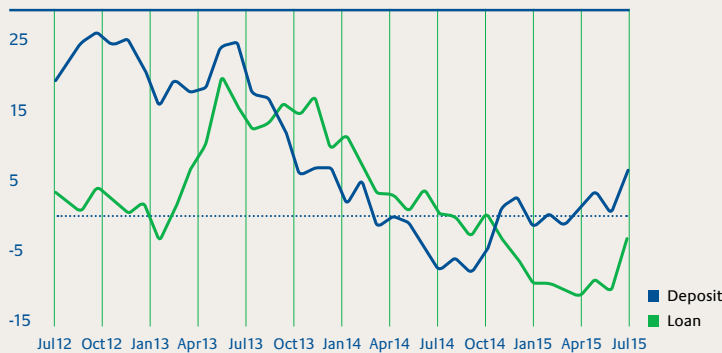
Yet the fact that conditions are changing opens up opportunities for resourceful firms to outsmart larger competitors who, during a downturn, carry on business as usual or are unable to adapt quickly – except to fire employees.

Such innovative firms can:

- Gain market share from competitors unable to adjust to changing market conditions.
- Maintain a strong cash flow throughout the downturn, in contrast to other companies that may have liquidity problems.
- Become leaner, more cost-effective, and more efficient – better positioned to do well when the market improves.

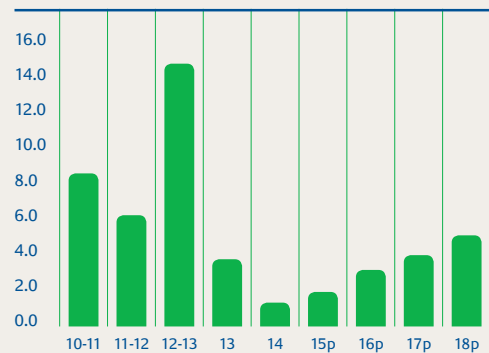
The challenge for AIB is to identify such firms, design new financial products for them, and re-engineer internal operations to better monitor their performance.

Growth in banks' loans to private sector remained anaemic



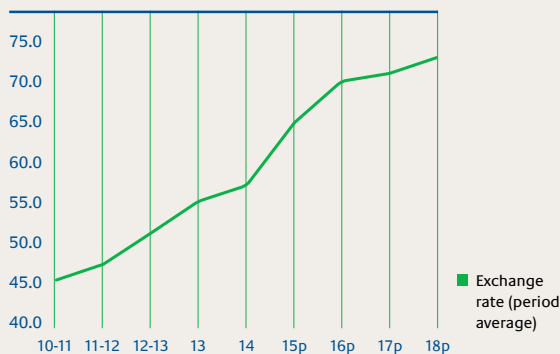
Note: The uptick in loans in July was a one-time event.
Source: Da Afghanistan Bank, World Bank and author's own projections

Real GDP growth (%) will remain in single digits for the foreseeable future



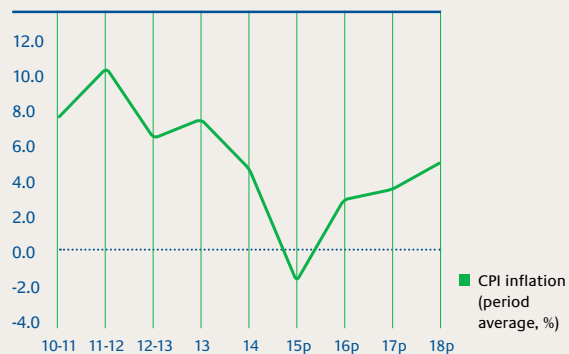
Source: Da Afghanistan Bank, World Bank and author's own projections (p)

The AFN/USD exchange rate continued its decline



Source: Da Afghanistan Bank and author's own projections (p)

After monetary tightening by DAB, inflation looks set to resurge in 2016



Source: Da Afghanistan Bank and author's own projections (p)

PROFILE: BOARD OF SUPERVISORS



Salman Shoaib

Independent Director,
Chairman of the Investment
Committee, Member of the
Compensation 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 Cr dit 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, Member
of the Strategy and Planning
Committee, Member of the
Investment Committee

Mr Srivastava has been a Board member since August 2012. He is currently the Chief Commercial Officer of Wasl Asset Management Group, a Government of Dubai-owned corporation with interests in property, hospitality and leisure. Before joining Wasl in 2008, he had a 20-year career in banking, the last 10 years with Soci t  G n rale 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.

Hamidullah A. Mohib

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

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.



Ronald Stride

Independent Director, Chairman of the Board of Supervisors, Chairman of the Strategy and Planning Committee, Member of the Compensation Committee, Member of the Risk 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. He was formerly president of the American Association of Singapore, a position he held for five years. Mr Stride received his BA degree from Providence College in the USA.

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. She brings more than 20 years' experience in international finance, especially in emerging markets in Asia and the CIS, and specialises in private equity funds, diversified fund of funds management, and investment banking. She is a Managing Director at 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, 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 hold a Bachelor's degree in Economics from Punjab University, Pakistan.

The Shareholders and Board of Supervisors continue to uphold a high level of corporate governance, 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 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	7.5
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 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, three shareholder representatives, and three 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 seven 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: the Compensation Committee, the Risk Committee, the Investment Committee, and the Strategy and Planning 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 following subsections.

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: Ronald Stride (Chairman and independent director), Aditya Srivastava (independent director), Lutfullah Rahmat, and Hasib Ahmed.

During 2015, the committee spent the majority of its efforts in guiding and overseeing the business plan of AIB. The Bank faced uncertain market conditions and a drop in business confidence in 2015, and it was therefore important to closely monitor the goals of the Bank to ensure financial performance and stability.

Additionally, the committee monitored relationships with AIB's two correspondent banks to ensure that the Bank meets the requirements of these correspondents. Another key focus of the committee during the year was progressing Sharia banking. To that end, a three-year Sharia banking growth plan was approved. Finally, as 2016 appears to be another year of uncertainty for the Afghan economy, the plan for next year will contain two fallback scenarios based on various economic and security outlooks.

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 Aditya 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 consideration and action.

The Board and the Shareholders of AIB place high priority on implementing, maintaining, and developing the highest standards in Anti Money Laundering (AML) and Counter Terrorism Financing (CTF). During the year, AIB initiated a Financial Crime Compliance/AML project by appointing an external firm to help AIB further strengthen its KYC, AML, and CTF processes. The committee introduced a measure to ensure the early detection of borrowers who appear to be having problems in their business. The committee also oversaw other key initiatives during the year, including an external consultant completing a Credit Risk review of the Bank's loan portfolio, with recommendations currently being implemented, as well as refinements to the Bank's business continuity plan.

The committee was pleased to note that the external consultancy that had conducted an IT penetration audit had commended AIB's IT architecture, and provided assurance that the Bank would be able to withstand an external attack on its systems.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the Bank's risk profile. This approach will continue in 2016 to ensure the balance between risk and return is maintained.

Compensation Committee

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

The Compensation Committee has two principal roles: (1) to establish compensation policy for the Chief Executive Officer, members of the Management Board, and other senior managers; and (2) recruitment of Board members and senior management.

In 2015, the committee focused on the composition of the senior management team, identifying the development and recruitment actions necessary in order to adopt a suitable organisational structure and Management Board composition for the future. As part of this succession planning, increased focus was placed on the development of several 'high flyer' Afghan staff identified as demonstrating the potential to grow into executive management within AIB. This emphasis is in line with the desire of the Board and shareholders that the majority of the Bank's senior management will ultimately be Afghan.

The committee oversaw the progression of initiatives, such as childcare support for working mothers, and engagement by management with female staff to ensure access to an enhanced working environment and opportunities.

Also during 2015, the committee provided guidance on the redrafting of executive management employment contracts, with the goal of equalising expatriate and Afghan employees' compensation and benefits. This activity will be concluded in 2016.

In its role of setting compensation policy, the committee establishes guidelines for base salary, bonus, and fringe benefits for each executive, and recommends to the Board and shareholders any changes to the compensation structure. The committee also reviews, and reports to the Board and shareholders, the performance of senior management through a formal goal-setting and monitoring mechanism. During the year, the committee recommended an amendment to the methodology of calculating the executive management bonus pool and suggested changes to HR Policy, which will be finalised in 2016 and then will better conform to international practices.

Investment Committee

The Investment Committee comprises three directors, two of whom are independent, including the Chairman, Salman Shoib. The other members are Hasib Ahmed and Aditya Srivastava (independent). The Chairman of the Board 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.

The committee conducted ongoing reviews of the performance of the two Asset Managers against pre-set return on investment targets. The committee commented on the performance of the Managers, and made recommendations to management on potential steps to enhance performance or achieve objectives, including adjusting risk parameters to improve yield and ensure that the Bank's fixed-income portfolio remained in compliance with regulations from the Central Bank.

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.

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. In 2015, the committee assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan during the year. The committee also monitors and assesses the role and effectiveness of the Internal Audit function.

The committee receives reports on a quarterly basis from major operational segments of the Bank, which are reviewed at every quarterly Audit Committee meeting. The reports included the key performance indicators of different segments and the issues related to operational and financial controls.

At its quarterly meetings, the committee discussed control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities. In addition, any significant audit issues were brought to the committee's attention.

The committee is also 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 Financial Statements of the Bank. These meetings allow committee members to discuss matters relating to the external auditors' remit and issues arising from the audit.

During 2015, the committee focused on the controls and issues related to Anti-Money Laundering and Countering Financing of Terrorism. The Regulator's report was also reviewed, along with actions taken by management for implementing recommendations of the Regulator.

Guy Mallett

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

Mr Mallett joined AIB in 2014, having previously worked with the Bank in an advisory capacity. He brings with him 40 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 The First MicroFinanceBank, Pakistan, an institution of the Aga Khan Development Network (AKDN), for eight years, where he worked in senior positions in internal audit, finance, risk management and compliance. He has also served on the Board of Directors of Aga Khan Grants and Review Board of Pakistan, an AKDN institution. Mr Sikander is a member of the UK Association of Chartered Certified Accountants and is pursuing membership of the Chartered Professional Accountants, Ontario, Canada.

Omer Omery

Head of Retail Banking

Mr Omery has ten years of banking 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 has completed an MBA from the University of Liverpool, England.

Tamsil Rashid

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

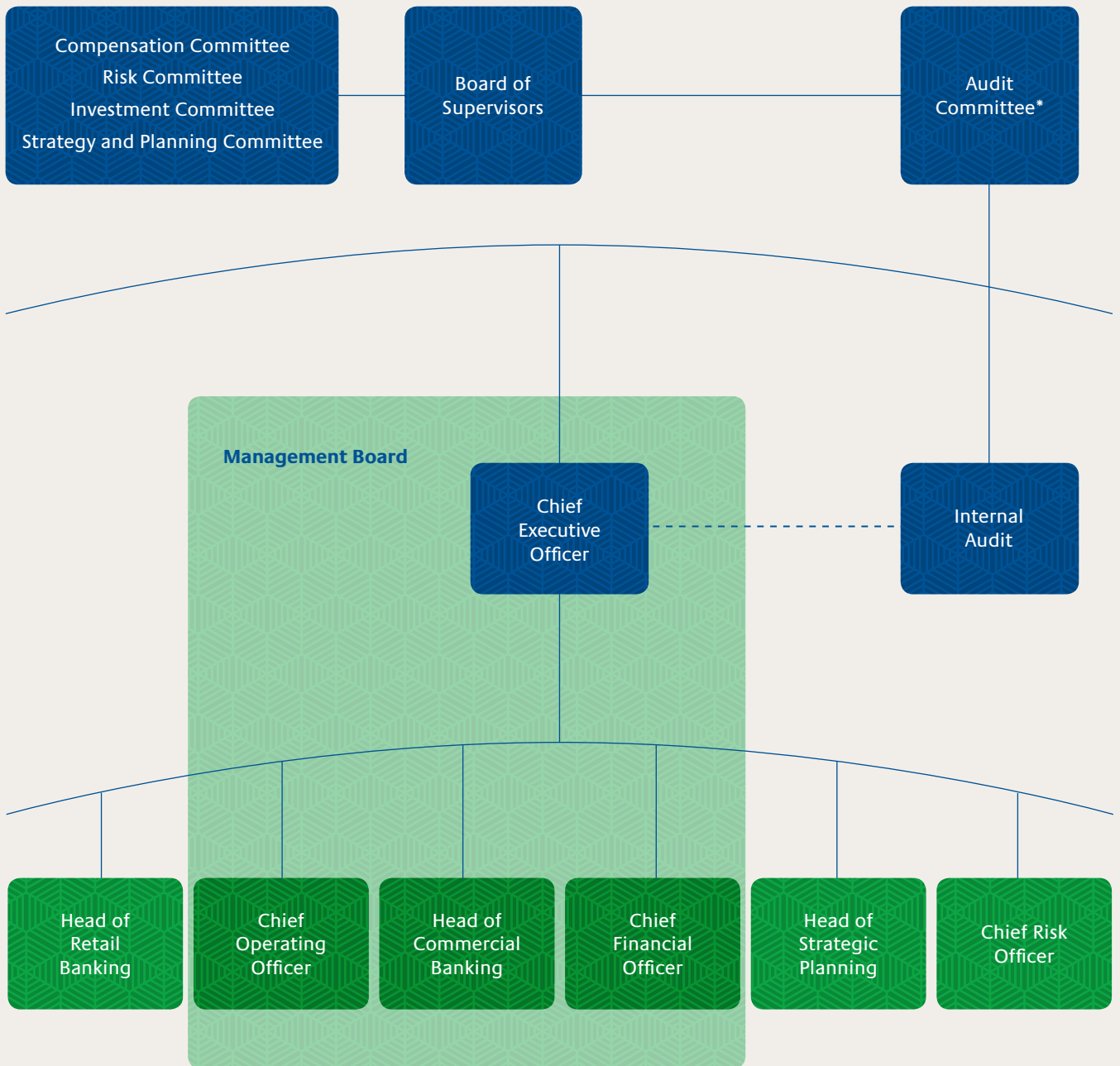
Mr Rashid has close to 30 years' experience in commercial, development, and Islamic banking, having begun his career with Habib Bank and later joining the Bank of Khyber in Pakistan, where he rose to senior vice-president and divisional head of credit management. Mr Rashid holds an MPA degree, majoring in economics; a Diploma Associate from the Institute of Bankers Pakistan; and more recently obtained a Post-graduate Diploma in Islamic Banking & Finance from the Alhuda Institute in Lahore, Pakistan.

Mohammad Taofiq Mir

Head of Strategic Planning

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 Strategic Planning in 2014. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

ORGANISATION



* Reports directly to shareholders

During 2015, AIB maintained its well-established reputation for distinguished performance, recording a successful year in difficult market conditions and receiving more awards for its pioneering achievements.



Sibos (Swift International Banking Operations Seminar)

The Bank exhibits at Sibos (Swift International Banking Operations Seminar) for the first time



AIB wins the CFI.co 'Best Corporate Governance,

AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the second consecutive year



The Banker magazine

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

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.

2015

Khalilullah Sediq retires as CEO to become Governor of Da Afghanistan Bank (Afghanistan's Central Bank).

AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the second consecutive year, and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fourth year running.

Construction of the Bank's new Head Office reaches the ninth floor.

The Bank exhibits at Sibos (Swift International Banking Operations Seminar) for the first time.

AIB BRANCH NETWORK

