



AIB بانک بین المللی افغانستان
AFGHANISTAN INTERNATIONAL BANK

Your Partner for Growth

Annual Report 2012



Contents

- 2 Chairman's Statement
- 4 CEO's Statement
- 7 History and Performance of AIB
- 8 Financial Highlights
- 9 Competitor Analysis 2011
- 10 Managing Growth in a Volatile Economy
- 12 Profile: Board of Supervisors
- 14 Governance Report
- 15 AIB Committees
- 16 Management Profiles
- 17 Organization
- 18 AIB Branch Network
- 19 Financial Statements

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 ten years AIB has built an enduring institution that combines international expertise with local knowledge, giving us a deep-rooted understanding of customer needs that is grounded in the highest international standards and 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 tenth 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.



Excellent performance far outstrips the market

Reflecting on 2012, I am gratified to state that Afghanistan International Bank continued its positive trajectory.

The Bank's financial performance was excellent even though there was softness in commercial lending, as customers in Afghanistan are becoming more conservative – reflecting political, security, and economic uncertainties.

That said, the Bank's pretax profit grew by 31 percent to \$11.6 million and total assets by 43 percent to just below \$900 million at year-end. Based on this growth, we aspire to become a \$1 billion bank in assets within the next one to two years.

Compared to the overall banking sector in Afghanistan, AIB's performance was outstanding. To put this in perspective, total assets stood at \$4.19 billion in 2012, up 10.52 percent from \$4.01 billion a year earlier. As noted above, AIB's assets grew by 43 percent and we now have about 22 percent of total assets in the banking sector. AIB's loans remained stable in 2012 and stood at \$87 million at year-end.

Undoubtedly, the highlight of the year was the successful acquisition and integration of Standard Chartered Bank's Afghanistan business into AIB. This project has resulted in a new and significant group of international agencies and companies becoming customers of our Bank. We worked with different units of SCB around the globe to ensure a seamless customer transition. I extend my sincere thanks and appreciation to the staff, especially in Information Technology, Operations, and Finance, who helped achieve this milestone for AIB.

As you may recall from my message in 2011, our shareholders approved the expansion of the Board of Supervisors from six to nine members. This was undertaken to meet the Central Bank of Afghanistan's regulation stipulating that the Board of Supervisors of a bank must have a majority of independent directors, and to comply with generally accepted standards of good governance. I am pleased to announce the addition of Aditya Srivastava, Salman Shoaib, and Brian Dickie to the Board. This brings the number of independent directors to five. (Please refer to a later section of this report for profiles of the new directors.)

Coincident with the expansion of the Board, we have established two new Board committees: Strategy and Planning, and Investment.

- Strategy and Planning Committee will focus on annual plans and longer-term strategies. Thinking through scenarios post 2014 is especially important due to the announced reduction in coalition military forces at that time. The committee has hired outside experts to define scenarios and perform stress tests on the Bank's balance sheet and profit and loss statement to measure the effect of different emerging circumstances.
- AIB has a relatively significant investment portfolio stemming from the Bank's large deposit base. Hence the Board believed it prudent to establish an Investment Committee to ensure effective policies and oversight. Management has been requested to build a fixed income monitoring capability within the Bank.

More detailed description of these committees and their activities is given in a later section of this report.

AIB has made significant progress with building a new head office. The Bank has outgrown the current head office premises, and the Board, shareholders, and management concluded that the best course of action was to build a standalone facility in Kabul. Architectural drawings have been submitted for approval to the Kabul municipal government and site preparation is under way. Plans call for construction to begin in the summer of 2013. The Board has formed a temporary committee to provide oversight and guidance to management during the construction of the building.

Another critical role of the Board is to monitor the performance of the Bank's senior managers to ensure that their performance achieves overall objectives as well as each individual's goals. This monitoring is done through a formal goal-setting mechanism.

An important objective in this regard is the development of Afghan staff within AIB to take leadership positions and to eventually replace expatriate managers. I am therefore pleased to report that two Afghan staff were promoted to senior management positions in Information Technology/ Operations and Retail Banking during the year. This is the first time that individuals who began their careers at AIB have been promoted to such senior positions.

What does the future hold for Afghanistan and AIB? There will clearly be a period of readjustment as foreign military forces leave the country. We are optimistic that foreign aid will continue with the aim of developing the economy and infrastructure but at what level is uncertain. In 2012, an estimated 97 percent of Afghanistan's roughly \$15.7 billion gross domestic product came from international, military, and development aid sources and spending in the country by foreign troops. Much also depends on the presidential election in early 2014 and an orderly hand-over of government. In particular for the banking sector, the challenge will be to generate adequate returns in a low interest environment without taking on undue risk. As I indicated earlier, we are monitoring developments closely to ensure we are prepared for any contingency.

I extend my thanks to our shareholders for their continuing support of the Board and management. I also take this opportunity to express my heartfelt gratitude to the management and staff of AIB for their hard work and dedication to the success of the institution.



Ronald Stride
Chairman



Achievements contradict market trend

In a year when Afghanistan's banking sector continued to have challenges and fraud scandal dominated the headlines, AIB was a beacon of growth and integrity.

Counter to the prevailing trend, the Bank recorded significant gains across virtually all areas of operations, while further strengthening fundamental indicators such as capital adequacy and liquidity.

Revenue rose by almost 23 percent to \$31 million (2011: \$25.2m), deposits by 44 percent to \$828 million (\$575m), and fee and foreign exchange income by 8.0 percent to \$10.8 million (\$10m) – contributing 35 percent of total revenue.

The 31 percent net profit margin for the year equates to earnings per share of \$0.32 and 19.6 percent return on equity. The Bank's net asset value per share now stands at \$1.64.

Total capital grew by 22 percent to \$49 million, and with a capital adequacy ratio of 16 percent, and 91 percent liquidity, 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.

The rise in the value of deposits reinforces the steep upward trend, showing compound annual growth of 59 percent between 2006 and 2012. Revenue has followed a similar pattern, with compound growth of 35 percent over the same period, while capital grew by a compounded 42 percent.

In taking over Standard Chartered Bank's business in Afghanistan, we added \$150 million in deposits and 12,000 customers. As part of the arrangement AIB will maintain a strategic alliance with Standard Chartered, allowing both institutions to serve clients doing business in Afghanistan, locally and from offshore.

Our performance achieved prominent international recognition with the award of Best Afghan Bank 2012 from The Banker during its annual awards ceremony in London. The Banker is the world's premier banking and finance resource. 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.

The award reflects AIB's commitment to international best practice and governance standards, and its success in extending top-quality banking services to businesses and individuals in Afghanistan. AIB has almost doubled its branch network in only two years, and this expansion continued in 2012 with the addition of three new branches – two in Kabul and one in Helmand – bringing the total to 35 and further reinforcing the Bank's coverage in all major cities and provinces.

Customer numbers are growing proportionately. At year-end, the total customer accounts base was 113,700, up from 74,767 in 2011. The number of corporate accounts increased from 12,500 to 19,600 and individual accounts from 51,000 to 94,100. The growth in customer numbers is also reflected in the total volume of transactions, up from 465,630 to 581,972.

Use of online banking and ATMs increased correspondingly, with close to 50 ATMs now operational. Point-of-sale machines in shops and branches – for purchases and cash advances – enhance customer convenience while enabling the Bank to increase its deposits from retail vendors. Introduction of SMS banking and investment in a call centre will further improve accessibility to AIB services.

We developed three new business lines in 2012 – a special facility for SME customers, payroll lending, and home equity lending. These products will be fully launched in 2013.

Introducing the SME facility maintains our emphasis on helping to develop this sector, extending customised assistance to small manufacturers and supply chain providers.

Employers and employees will benefit from the new payroll lending system which gives borrowers speedy approval for personal loans. Home equity lending was developed in response to market demand and is expected to be a very popular means for customers to realise funds from their domestic property assets.

The introduction of AIB's Platinum and Titanium credit cards was well received by VIP customers, and launch of an unembossed MasterCard debit card will contribute to controlled expansion in this segment.

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

Commercial lending was relatively subdued in 2012, indicative of the increasingly conservative market attitude to political, economic, and security concerns. Nevertheless, Commercial Banking maintained its income levels.

The main ratings agencies continued to assign 'investment grade' status to the Bank's \$92 million total bond portfolio, of which more than 80 percent matures in three years or less.

The employee complement grew from 530 to 606 during the year, a 14 percent increase. 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, staff members undertook specialist professional education in India and Pakistan, working closely with Pakistan's National Institute of Banking and Finance (NIBAF). A total of 14 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.

Top-quality information technology is a prerequisite for sustained growth, and AIB operations are based on platforms and systems that are recognised as global best practice for banks. Four staff have attained certification in 'IT Infrastructure Library' (ITIL) which, under the auspices of the UK Treasury, provides a cohesive set of best practices. The software used by AIB meets the standards established by the Wolfsberg Group of 11 international banks for anti money laundering (AML) monitoring. AIB is believed to be the only bank in Afghanistan to operate an automated filtering system that checks accounts and inward and outward transactions against the requirements of OFAC (Office of Foreign Assets Control of the US Department of the Treasury). Further IT security uses the Symantec system to control and monitor USB ports as well, providing virus and malware protection.

Business continuity is also an ongoing priority and IT capability has been designed and implemented to cope with all adverse contingencies. 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 a further level of security.

In keeping with the Bank's commitment to good corporate citizenship, AIB continued to undertake projects that have a beneficial impact on the communities where it operates. In addition to funding food and educational materials for the School for Orphans, the Bank made donations to the Radio Voice of Women and contributed to the restoration of the Blue Mosque in Mazar.

In closing, I extend my congratulations to the management board and staff for all their hard work and dedication during 2012 and the performance achieved on behalf of the Bank. We also pay tribute to our customers, whose loyal support underpins the Bank's continued success.



Khalilullah Sediq
Chief Executive Officer



AIB Head Office in Kabul



Khalilullah Sediq, CEO of Afghanistan International Bank, receiving the 'Bank of the Year, Afghanistan' award at The Banker Awards 2012 in London.



Kandahar Branch



Jalalabad Branch



Herat Branch

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: 12 storey property with total built area of roughly 15,500 m².

2012

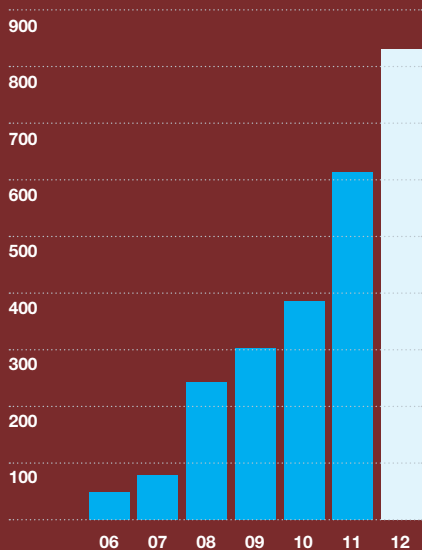
Deposits exceed \$800 million.

AIB acquires Standard Chartered Bank's business in Afghanistan.

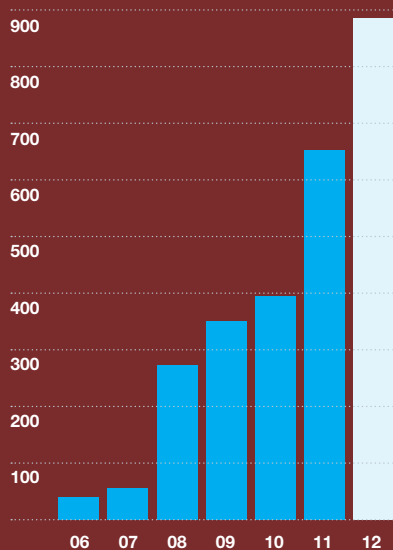
The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

AIB's continued growth is clearly illustrated by the upward trend in key indicators between 2006 and 2012.

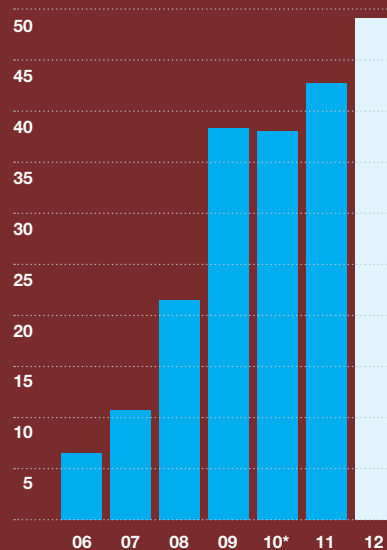
Deposits
(US\$ millions)



Total assets
(US\$ millions)

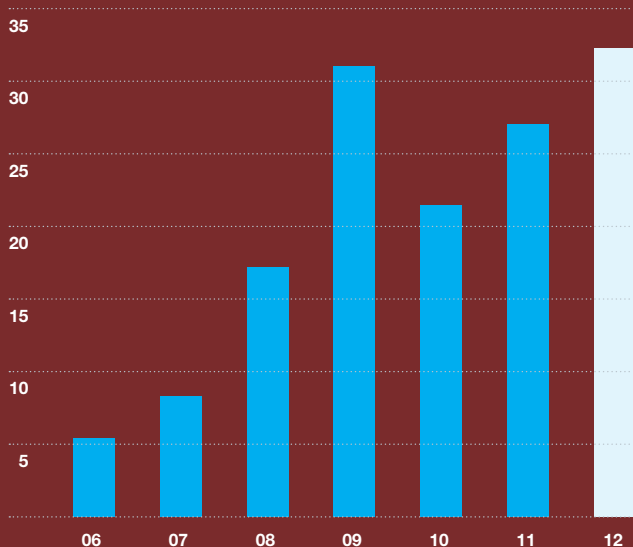


Capital growth
(US\$ millions)



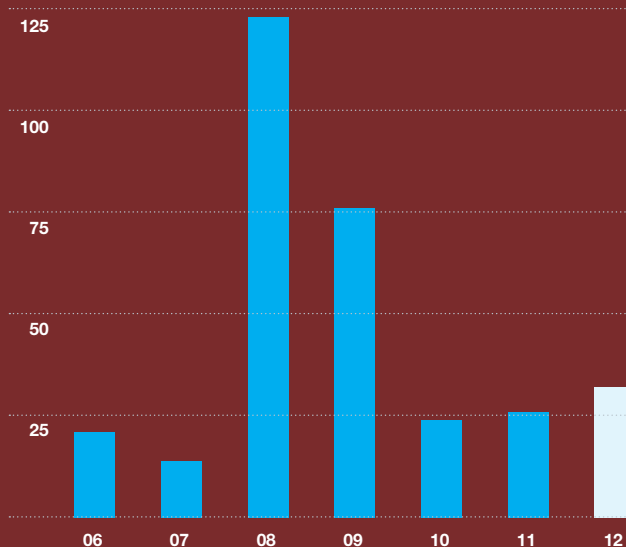
* 2010 dividend paid US\$10 million

Revenues
(US\$ millions)



High revenue in 2009 benefited from the central bank paying double digit interest on the 180 days notes it issued. The rate was reduced substantially in 2010

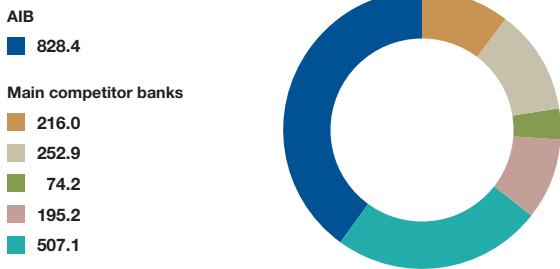
Earnings per share
(US\$ cents)



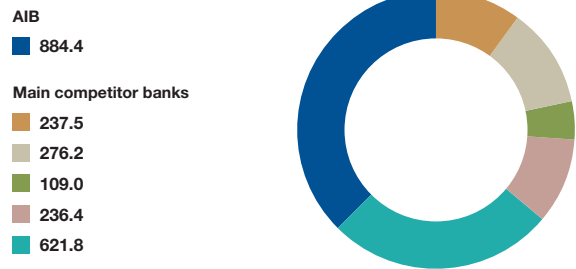
Number of shares:
7.5 million (2006), 10 million (2007), 10 million (2008), 20 million (2009 & 2010), 30 million (2011 & 2012)

AIB's growth has positioned the Bank to be the leading financial institution in Afghanistan in terms of deposits, total assets, and profitability.

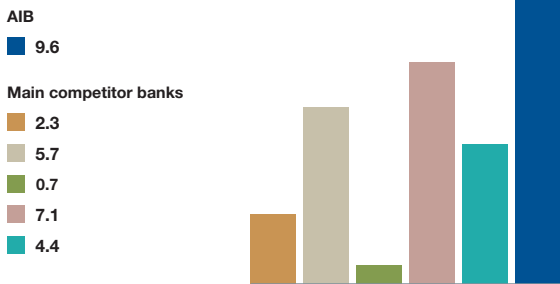
Deposits (US\$ millions)



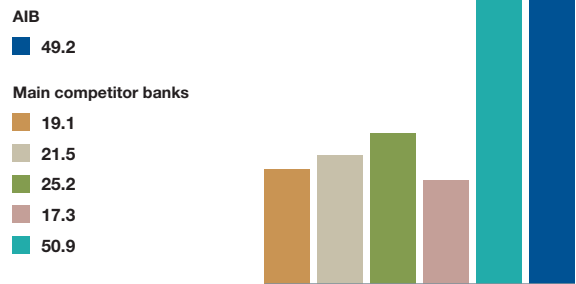
Total assets (US\$ millions)



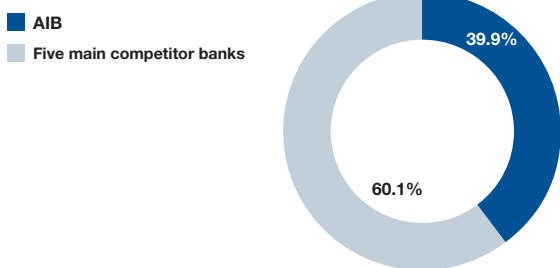
Profit (US\$ millions)



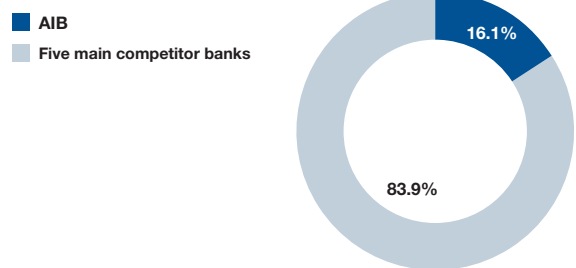
Equity (US\$ millions)



Market share, deposits

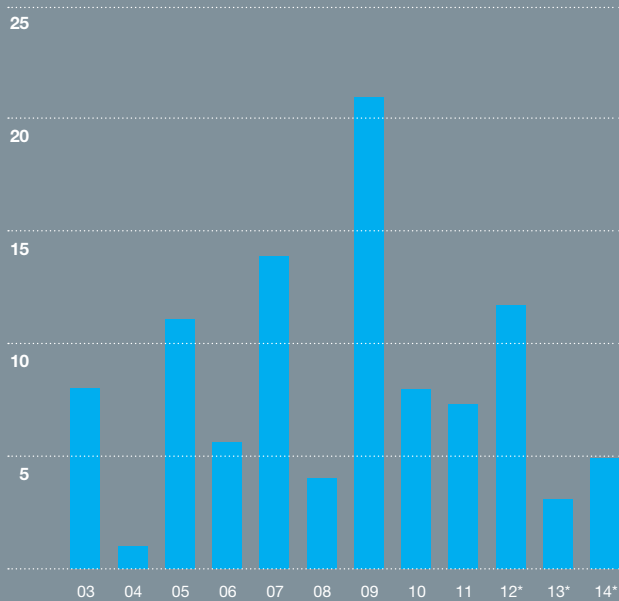


Market share, loans



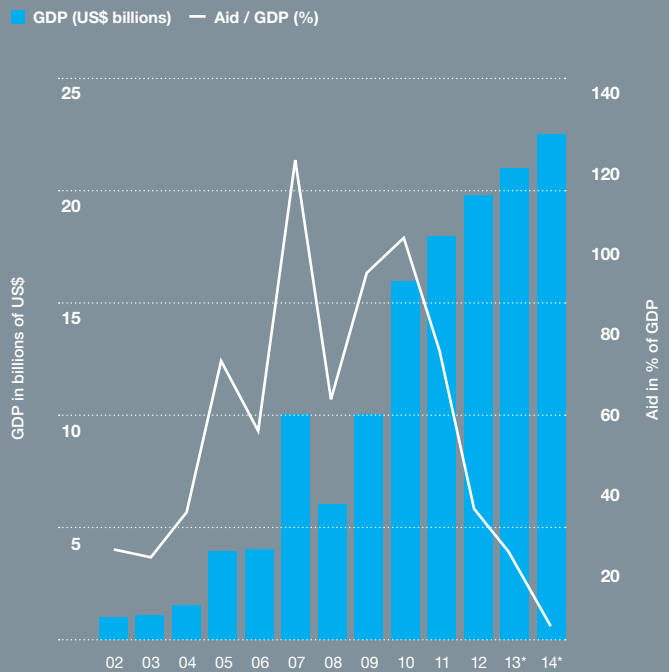
Afghanistan has sustained robust economic growth for the past decade, averaging 10 percent annually since 2002 and becoming one of the best performers in South Asia.

Annual GDP growth percentage



Source: Da Afghanistan Bank and International Monetary Fund
* Projected

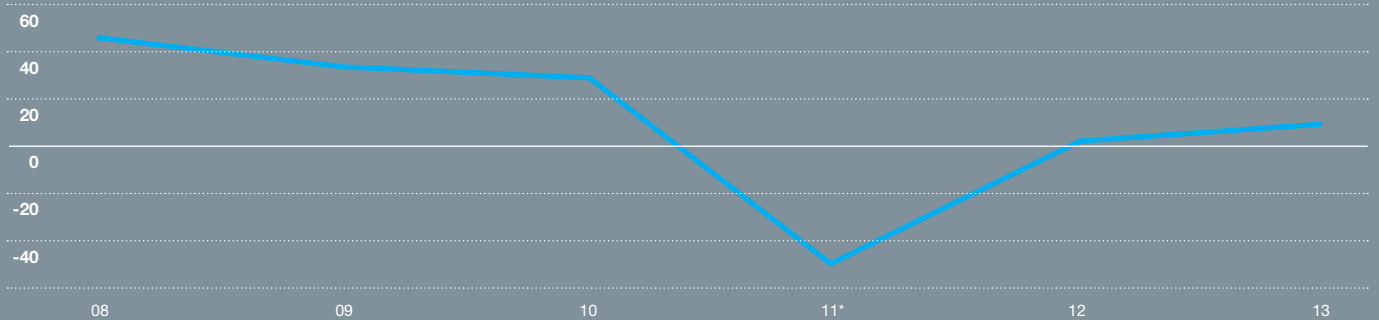
Foreign aid as percent of GDP 2002 to 2014



Source: Da Afghanistan Bank and International Monetary Fund
* Projected

Net credit to the private sector

(12 month percentage change)



Source: Da Afghanistan Bank
* The decline in 2011 reflects bad loans at a bankrupt bank

This positive economic growth trend was maintained in 2012 when the economy grew 11.8 percent – a significant increase from a year earlier when real GDP growth was 7.3 percent. GDP per capita stood at \$576 at the end of 2012. The sharp rise in 2012 economic growth was mostly due to the agricultural sector, where good rains led to bumper harvests across the country. The good harvest also slowed inflation to 4.6 percent in July 2012 on a year-on-year basis, although it had edged up to 6.4 percent by year end.

Agriculture (which accounts for about 35 percent of GDP) was the fastest-growing sector, recording growth of about 14.2 percent, followed by the services sector at 12 percent.

Household consumption accounted for 5 percent of the year's GDP growth and was largely driven by the security economy and donor spending, which continued to generate strong demand for jobs, goods and services, and housing construction.

Longer-term projections are less positive of sustaining the growth trend of the past decade. The three transitions taking place in 2014 economic, political, and security could lead to a drop in economic performance with real GDP growth slowing from the average of 10 percent per year over the past decade to 3.1 percent in 2013, 4.7 percent in 2014, and 4.9 percent in 2015.

Donor support in 2012 continued to be strong, facilitating a further buildup of gross international reserves to about \$6.8 billion (equivalent to six months of imports) and up by close to 10 percent from \$6.2 billion in 2011. The foreign aid numbers are staggering. An estimated 97 percent of Afghanistan's roughly \$15.7 billion gross domestic product comes from international military and development aid and spending in the country by foreign troops.

Since 2002 donor pledges for Afghanistan amount to \$119 billion, including \$16 billion pledged at the Tokyo Ministerial conference in July 2012 and \$14 billion pledged at the Chicago NATO summit in May 2012. While these recently announced pledges are promising, reported data projects a decline in the volume of foreign aid between 2012 and 2014, with the \$6.4 billion provided in 2012 decreasing to \$4.5 billion in 2013 and \$797 million in 2014.

The Afghani has depreciated against the US dollar – mostly due to lower foreign capital inflows as aid and military spending were scaled back in anticipation of the 2014 troop withdrawals. The nominal exchange was highly volatile in 2012, starting the year at AF49 per USD and hitting a mid-year low of AF55 before ending slightly up at AF52.5.

Developments in international financial markets have also had an impact, and the crises of recent years – in the Eurozone, the US fiscal cliff, and fears of a UK triple-dip recession – have not only depressed global financial market activity but have had knock-on effects on the profitability of Afghan banks (AIB apart).

Actions by developed country central banks, such as 'quantitative easing' by the US Federal Reserve and large-scale liquidity injections by the European Central Bank, have stabilised developed economies but lowered yields on interest rates.

Against this background, the key macroeconomic challenge facing the Afghan Government is how to manage declining aid, mitigate the adverse impacts, and put aid and spending on a more sustainable long-term path.

With respect to the banking sector, the main challenge appears to be where to achieve inflation-beating returns in a low interest rate world, without taking on too much risk.

AIB's Board, through its Risk Management and Strategy and Planning committees, is putting in place mechanisms to rigorously monitor the rapidly changing economic conditions so as to better manage the downside risks and identify opportunities.

Net lending to the private sector is slowly recovering from the Kabul Bank crisis and the yield on capital notes is at its lowest levels in years.

In the face of these developments, AIB's Board will continue to seek inflation-beating returns in a low interest rate world, without taking on too much risk, so as to maximise shareholder value.

Overall, we are guardedly optimistic that Afghanistan will find a way to meet the challenges of the post-2014 environment. This view is evidenced by the investments we plan to make in our institution.

Notes:

- Banking industry numbers are annualised to take account of the shift from March-March to December-December reporting.
- Specific banking sector data is for end-November, 2012.



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 Kings 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 fund management, and investment banking. She is a senior advisor to Mekong Capital, a Vietnam-focused private equity fund. 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 has business interests in retail and trading, 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 2008-2009. 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 a Master's degree as well a Bachelor's 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 major shareholders, each with an equal ownership percentage. 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 | 25 |
| 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 | 25 |
| Wilton Holdings | Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat | Holding Company | Cayman Islands | Lutfullah Rahmat | 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, four shareholder representatives, and four independent directors. The Chairman is also an independent director, in compliance with Central Bank regulations. The shareholders and Board recruited three new members during 2012, bringing the total independent Board members to five. Independent Board members are now 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 16 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.

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.

In 2012, the role of the committee was expanded to include primary responsibility for the recruitment of independent board members and the Chief Executive Officer whenever required. The committee has also worked with the Management Board to broaden senior executives' appraisals to include a review of attributes to ensure that performance expectations extend beyond just financial performance.

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.

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 its consideration and action.

During 2012, the committee approved the liquidity policy of the Bank, established guidelines for the investment of surplus funds, and developed a strategy for lending. The committee, working with management, oversaw the restructuring of the loan portfolio in light of risk conditions in Afghanistan.

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.

The committee held its inaugural meeting in November, where it discussed preliminary planning scenarios for post-2014 and reviewed the proposed budget and business plan for 2013.

Investment Committee

The Investment Committee comprises three directors – Salman Shoaib (Chairman and independent director), Hasib Ahmed, and Gokhal Erkan. The committee held its inaugural meeting in November.

The committee's mandate covers allocation of funds to a portfolio of fixed income bonds and securities, and oversight of such investments. 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 parameters.

The committee works with the Board to set investment policy, approve investment of the Bank's funds, and monitor the mandate and performance of independent asset managers hired by the Bank. It seeks approval from the full Board when required and highlights issues that require attention.

During the year, the committee selected Julius Baer to manage a portfolio of fixed income securities in addition to Emirates NBD.

Audit Committee

The Audit Committee is established under the Banking Act in Afghanistan. The committee reports directly to the shareholders and the Bank'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. In 2012 the committee had five 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, compliance, ethics, and management and functioning of internal audit. It is also responsible for maintaining an appropriate relationship with the external auditors and meets with them on the completion of the annual audit and quarterly reviews.

Meetings are usually held four times a year (as in 2012) in person and in conjunction with Board meetings. The meetings are attended by the Chief Executive, Head of Internal Audit, and appropriate Management Board members. Minutes are presented at the next Board meeting when the committee chairman reports on issues requiring Board attention.

Management Profiles

Khalilullah Sediq

Chief Executive Officer
Member of 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 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 19 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 Limited 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 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

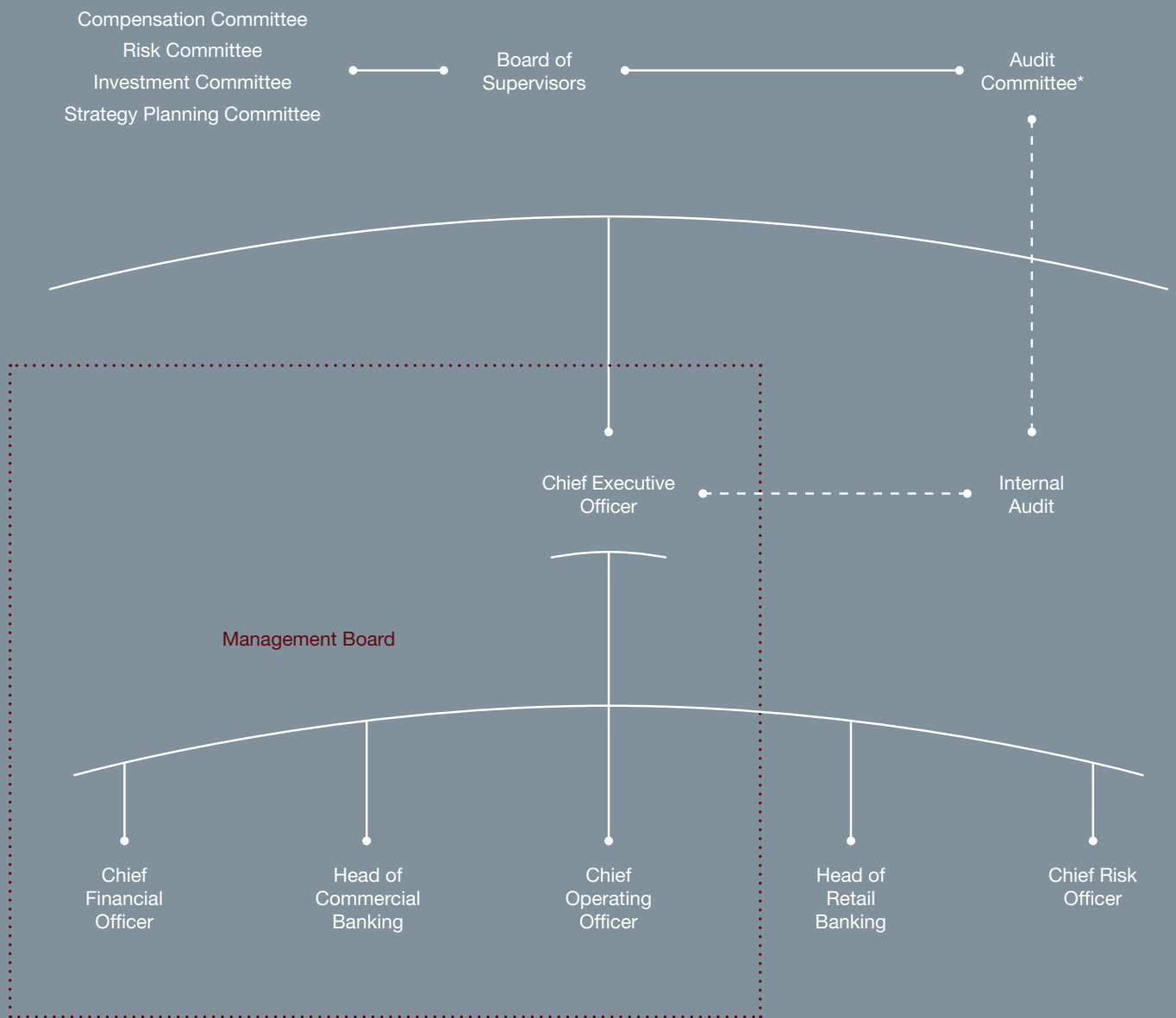
Mr Sikander joined AIB in 2011 as Head of Internal Audit. He was previously with Aga Khan Development Network (AKDN), where he worked in internal audit, internal controls, and risk and compliance, also serving as a director of AKDN institutions. Mr Sikander is a member of the UK Association of Chartered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

Taofiq Mir

Head of Retail Banking

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

Organization



* Reports directly to shareholders

