



Best Corporate Governance
2014, 2015, 2016 and 2017
AFGHANISTAN



Bank of the Year
2012, 2013, 2014, 2015 and 2016
AFGHANISTAN



AIB

بانك بين الملى
افغانستان

Afghanistan
International Bank

Your Partner for Growth

Annual Report 2016



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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.

Since being founded in 2004, Afghanistan International Bank has become established as an industry leader, and is now widely acknowledged to be the nation's most respected and trusted financial institution.

From inception, the Bank's major objective has been to assist in developing the Afghan economy and to conduct business in accordance with international stands of governance and integrity. Now, AIB has evolved as an enduring institution that combines international expertise with intimate local knowledge and a deep-rooted understanding of customer needs.

The many awards received from authoritative industry bodies is independent endorsement of AIB's success in achieving its goals.



Firstly, I congratulate the management and staff of AIB for their outstanding performance in another year of political, economic, and security challenges in the environment in which the Bank operates.

The security situation especially was a significant issue for the Bank, in Kabul and in several provincial capitals. Despite these challenges, AIB had a very successful 2016 (as detailed in the CEO's report). Unfortunately, we do not see major improvements in the overall situation going into 2017. Hence, the Bank will continue to maintain a conservative posture for the foreseeable future.

As I have stated in previous annual reports, AIB's success continues to be driven by its reputation for integrity, good governance, and attention to customer needs. Our position as the most respected financial institution and the bank of choice in Afghanistan has grown stronger.

We are the leader in deposits (more than 30 percent of all deposits in the banking system), profitability (most profitable bank by far), and return on equity (more than 13 percent, substantially above other Afghanistan banks and the world average for banks). The Board has declared a gross dividend of \$5 million based on 2016 results, equal to AFN 11.17 per share.

The Board and management outlined six key strategic objectives for the Bank in 2016:

- Achieve world-class standards in anti-money laundering and compliance
- Complete the new head office building by the end of 2016
- Focus on organisation and human resource development

- Position for the future in under-served markets and product offerings: Shariah banking, small business banking, and electronic banking
- Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing
- Maintain financial stability and satisfactory returns

These objectives are important to the Bank in maintaining its leadership and market positioning. I summarise our progress:

Achieve world-class standards in anti-money laundering and compliance

With the aid of an external consultant, management implemented new systems and procedures for AML. Staff training was completed and a reporting dashboard put in place. The Compliance Committee was also established and an upgraded filtering and transaction monitoring system went live. The Board will monitor performance quarterly.

Complete the new head office building by the end of 2016

Significant progress was made on the building during the year. However, delays in finalising the facade contract resulted in the occupation date being extended to mid 2017.

Focus on organisation and human resource development

This has become a key priority for the Bank, with the objective of developing the capabilities and competencies of senior Afghan staff to replace expatriate management over the next five to ten years and to generally build staff competencies. To this end, the Bank is implementing a customer-focused organisational structure and has promoted several Afghan staff to leadership positions. We are appointing a deputy CEO with a strong business development background to drive market initiatives. Human resource capabilities have been further strengthened in early 2017, by hiring a senior specialist executive to overhaul personnel processes and to put in place comprehensive succession planning.

Position for the future in under-served markets and product offerings: Shariah banking, small business banking, and electronic banking

The Bank initiated several new products and enhanced its electronic banking capabilities during 2016 to better serve small/medium size businesses and consumers. While these initiatives will have limited impact on the Bank's overall revenues in the near term, they will position AIB for future growth in emerging market segments. This is basically an investment in the future.

Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing

AIB has for many years had US dollar clearing relationships with two international banks: Standard Chartered Bank and Commerzbank. In fact, AIB is the only Afghan bank with direct clearing correspondent relationships. In May we were notified by Commerzbank that they will only handle payments to Germany.

This was a senior management policy decision that affects many banks across Asia. AIB's Board and management have been actively pursuing other correspondent relationships. However, in this era of sanctions and money-laundering penalties, there are few large international banks willing to take on clearing for emerging market institutions. At this point, we do not believe that our relationship with Standard Chartered Bank is cause for concern.

Maintain financial stability and satisfactory returns

The Board has established a target of at least 13.5 percent for minimum return on equity. Management has implemented a number of cost savings and is continuing to look for opportunities to improve staffing levels, staff efficiency, and business processes – including strengthening the credit process. To help achieve this, a new chief risk officer was hired during the year and we are considering hiring a chief credit officer during 2017.

The Board of Supervisors continued to provide oversight and strategic guidance to management during the year. The Board met 13 times in 2016: four in-person meetings and nine conference calls. In particular, the Board focused on the strategic agenda mentioned earlier, as well as closely monitoring the security situation in the country.

Other notable events during 2016 include:

- For the fifth consecutive year, *The Banker* magazine voted AIB 'Best Bank in Afghanistan'. We are proud of this honour, which reflects the professionalism of our Bank.
- For the fourth consecutive year, AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.
- In April, Mr Guy Mallett resigned as CEO due to personal considerations. Mr Mallett had been with AIB for four years in a variety of positions. The Board wishes him well in his future endeavours. Mr Anthony Bamed, a long-time advisor to the Bank and also head of the Audit Committee, became CEO. Mr Said Arab Khan, who was a professional auditor partner with KPMG, has taken over as Audit Committee chair. AIB again took a stand at the SWIFT International Banking Operations Seminar, held this year in Geneva, Switzerland. Mr Bamed and two of the Bank's Afghan staff met many banks there who expressed interest in working with AIB in a variety of ways.

- Due to a change in Central Bank regulations, a new Nominating Committee was formed to identify and vet candidates for Board and senior management positions. This committee was very active during the latter part of the year due to three significant senior management appointments, as well as seeking potential Board candidates. There are now six Board committees: Risk; Planning and Strategy; Remuneration, Nominating, Investment, and Audit. Committee activities are highlighted elsewhere in this report.

The Asian Development Bank (ADB) sold its remaining 7.5 percent stake to the other two shareholders, resulting in Horizon Associates and Wilton Holdings each holding 50 percent of AIB. With the planned exit of ADB, Mr Hasib Ahmed, ADB's shareholder representative since 2005, stepped down from the Board in February. He will be missed due to his knowledge and deep commitment to the success of AIB.

The final terms and conditions for the International Finance Corporation (IFC) to purchase a 15 percent stake in the Bank, once concluded, will be presented to the Afghanistan Central Bank for approval. Under the terms of the agreement, IFC will purchase 7.5 percent from the two existing shareholders and 7.5 percent through the issue of new shares. This investment will take place in two tranches over two years.

In 2012, AIB acquired 100 percent of the operation of Standard Chartered Bank in Afghanistan for \$3 million. This amount has been on the Bank's books as goodwill. However, our current auditor, Ernst and Young, has determined that according to IFRS 3 on Business Combinations, the acquisition should have been carried at fair market value. The resulting revaluation requires AIB to restate our financial statements for 2015 and 2016. There is no material impact on the Bank's financial position.

As I noted earlier, it is unclear whether conditions in Afghanistan will improve in 2017. Each year I find myself stating the same cautious words about the political, security, and economic conditions in Afghanistan. However, that is the reality of the situation and the prospects for 2017 seem little different.

In closing, I again thank the staff of the Bank as well as my fellow Board members for their support and their dedication to the institution.



Ronald Stride
Chairman



AIB is maintaining its well-established status as Afghanistan's leading financial institution in terms of deposits, total assets, and profitability.

The Bank's 2016 results reflect its influence as a positive force within the domestic economy and its virtually exclusive role in providing the international services that are so vital to trade finance.

Despite the continuation of a depressed market environment, budget targets for the year were exceeded by 20 percent, even though loan recovery was negatively affected by the arduous and very lengthy process for foreclosure and obtaining vacant possession. Commercial lending was subdued at the beginning of the year but the last quarter saw an increase of 12.5 percent in outstanding credits.

Revenue increased by 5 percent to AFN 2.06 billion (2015: AFN 1.96 billion). Non-interest income accounted for 48 percent of total revenue, underlining the value of strong correspondent partnerships and sound regulatory compliance. Compound annual revenue growth since 2010 now stands at 13.2 percent.

With expenses being contained at forecast levels, the 25 percent net profit margin equates to earnings per share of AFN 17.30 (2015: AFN 16.26), and 13.31 percent return on equity.

Assets declined by 6 percent to AFN 58.19 billion (2015: AFN 61.92 billion), bringing compound annual asset growth since 2010 to 19.82 percent. Deposits also declined by 6.76 percent, from AFN 58.00 billion to AFN 54.00 billion. The decline in assets and deposits is largely attributable to the appreciation of the Afghani, resulting in a fall in dollar deposits in Afghani terms.

Total capital increased from AFN 3.6 billion to AFN 3.9 billion. Our capital adequacy ratio of 14.72 percent and 67.01 percent liquidity are very satisfactory by domestic and international standards. AIB believes it retains the highest score of all private sector 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.

AIB recognises the importance of Islamic finance, both as a service to customers and as a contributor to the national economy. The Bank therefore continues to expand its activities in this sector, supporting core services with Islamic options. Four more Shariah-compliant windows were opened during 2016 – two in Kabul at Mirwais Maidan and Khairkhana branches, and one each in the cities of Jalalabad and Herat. Seminars to explain AIB Shariah banking products were conducted in Mazar, Jalalabad and Herat provinces. Expansion of the branch network was limited, opening new outlets at Sinafar in Mazar and Kandahar, bringing the total to 36.

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.

During the year, we intensified efforts to increase our loans to small businesses borrowing between \$50,000 and \$600,000. We work with the Afghan Credit Guarantee Foundation, an initiative of the German Investment and Development Corporation, which guarantees up to 72 percent of credit facilities up to \$600,000. Through TV advertising and the branch network, we have almost doubled the number of such loans from 26 to 46. The total outstanding grew by 60 percent from \$5.38 million to \$8.65 million. By virtue of rigorous cash flow-based analysis and close monitoring, arrears are virtually non-existent – also indicative of borrowers' appreciation of this much-valued service. A dedicated unit has been established to serve this market segment, effective from January, 2017.

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

Commerzbank now restricts payments to Germany, but the arrangement with Standard Chartered is unchanged. We have also opened an account with State Commercial Bank of Turkmenistan to ensure smooth and fast payments for oil imports. Again, at time of writing, AIB is the only Afghan bank to have an account with a Turkmenistan bank, a very significant asset as it enables fuel imports for Afghan and NATO military needs as well as United Nations agencies, NGOs, and general use.

Although we were unable to secure more correspondent arrangements in 2016, this remains a priority objective, supported by continuing efforts to ensure that our 'know your customer' and anti-money laundering procedures and processes comply with the highest international standards. We invested more than \$1.25 million in 2016 to upgrade our compliance-related procedures, working with consultants to develop human resources and technical capabilities such as installation of Oracle's Financial Crime and Compliance Management.

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators. Our correspondent banks recognise AIB as the only Afghan bank to achieve this, a crucially important factor that underpins their relationships with us. AIB engaged specialist international consultants to undertake quarterly reviews in 2016 and this will be repeated in 2017.

Such commitment to international standards enhances 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.

In developing our services for individual customers, several new card products were launched during 2016: pre-paid Youth and Haj cards and the Classic credit card. The Haj card is MasterCard branded and does not need an AIB account. It is designed for Haj pilgrims to Saudi Arabia. The Youth card is also MasterCard branded and is designed for users aged between 18 and 30. Both are secured by chip and PIN and can be used for ATM cash withdrawals and point-of-sale payments. The Classic card has a minimum limit and gives customers the benefits of credit card ownership. It is 3-D secure with PIN feature.

ATM functionality has been enhanced with the introduction of a talking machine that guides customers through their transactions, saving the need to call the helpline if they are unfamiliar with the process.

A new Teacher Loan targets school and university personnel, providing a welcome facility for buying home appliances or meeting other funding needs. The loan portfolio has already reached more than AFN 2.75 million.

Product bundling initiated in 2016 is designed for the sale of two or more products or services as a single offering, usually at a price advantage.

On the IT front, penetration testing by two external specialist firms found no weaknesses in the Bank's system. In addition to the domestic disaster recovery sites, an off-shore disaster recovery site has been established in Europe.

The Chief Operating Officer attended a SWIFT course in Europe and, by implementing recommendations made there, was able to ensure that AIB is compliant with SWIFT requirements. To further improve governance, we physically separated departmental functions and introduced one-time password logins for online transactions. Reconciliation of ATM transactions, now numbering more than 1.25 million a year, has been automated.

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

In human relations, and in line with the Bank's commitment to excellence and helping promising employees with further education, 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. We appointed a Head of Human Resources at the beginning of 2017 who brings extensive international experience to the training and development of Afghan staff for executive management positions.

In keeping with the Bank's commitment to good corporate citizenship, AIB continued to support projects that have a beneficial impact on the communities where we operate. To benefit female students, we again contributed to the Women of Afghanistan Organisation and the American University of Afghanistan, as well as donating to Save the Children, Shamsa Orphanage, and Amiri Medical Complex.

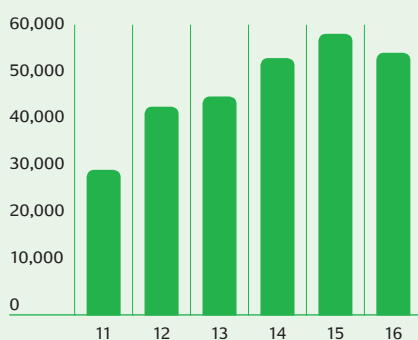
In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support; to our loyal customers for their patronage; and to our management and employees for their dedication and hard work throughout 2016.



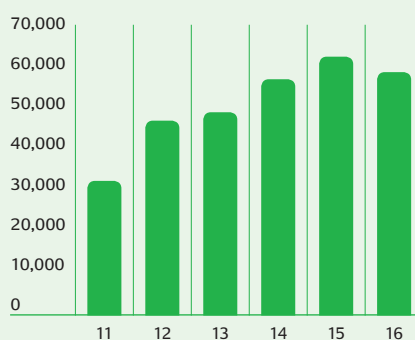
Anthony Barsed
Chief Executive Officer

AIB's consistent performance is evident in key metrics for the past five years, particularly capital growth and earnings per share.

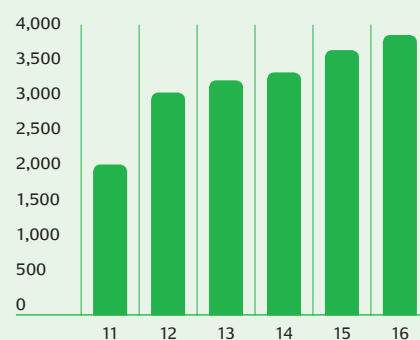
Deposits
(AFN millions)



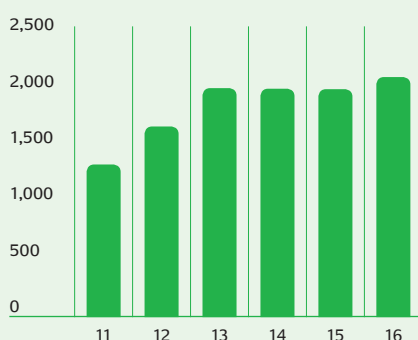
Total assets
(AFN millions)



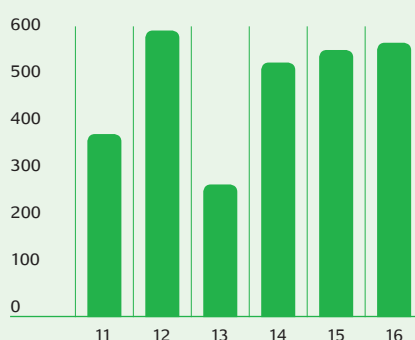
Capital growth
(AFN millions)



Revenues
(AFN millions)



Net Profit before tax
(AFN millions)



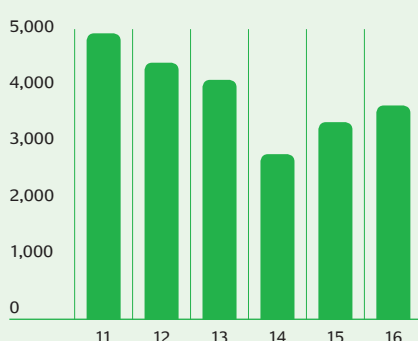
568mn

Net profit before tax

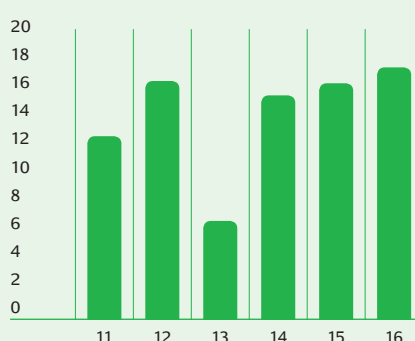
17.3

Earnings per share

Advances
(AFN millions)



Earnings per share
(AFN)



Several factors contributed to reduced economic activity in Afghanistan during 2016, but growth is expected to gradually pick up over the coming years.

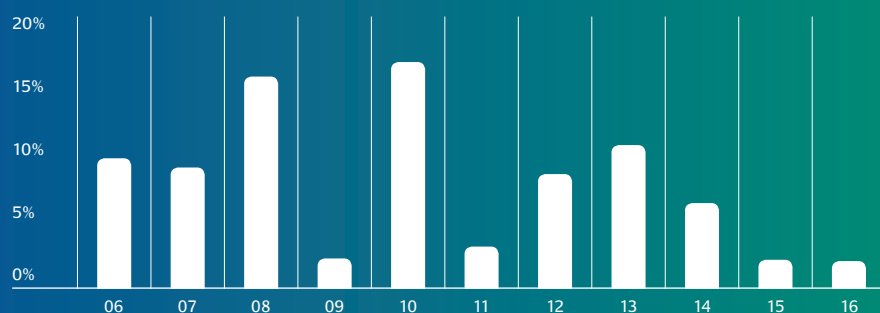
Afghanistan's economy faced significant challenges in 2016, due to low economic growth, limited access to finance, increased unemployment, lack of security, political instability, weak governance, and corruption – all of which hampered economic activity. The country still relies on foreign donor grants.

The gross domestic product (GDP) in Afghanistan grew 2.10 percent last year. Annual GDP growth averaged 11.12 percent from 2003 to 2015, reaching an all-time high of 28.60 percent in 2003 and a record low of 2.10 percent in 2015.*

The inflation rate was 6.69 percent in October 2016. Average inflation was 4.12 percent between 2005 and 2016, reaching an all-time high of 13.97 percent in April 2011 and a record low of -18.39 percent in May 2009. Per capita income in 2016 was estimated at \$623.90.

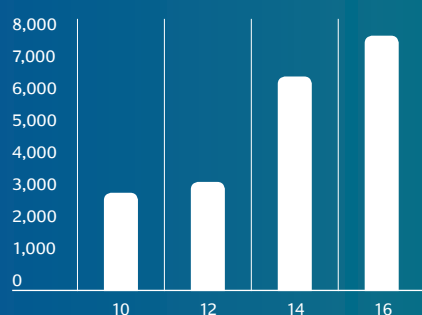
* GDP Annual Growth Rate in Afghanistan is reported by the Central Statistics Organization.

Afghanistan GDP Annual Growth Rate

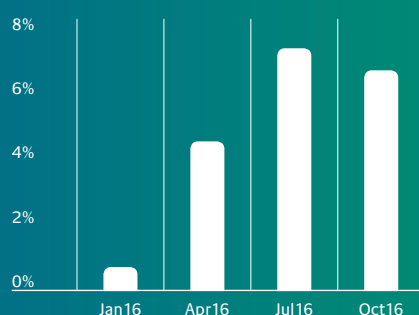


Source: World Bank, Central Statistics Organization of Afghanistan.

Afghanistan Imports 2010-2016
(USD millions)



Afghanistan Inflation Rate 2016



Banks' lending to the private sector continued to decline over the past three years. Total banking sector loans dropped slightly to \$613 million in December 2016 compared to \$747 million in 2015, and \$818 million in 2014. Banking sector lending is not projected to rise much faster as banks tighten credit standards in the face of a deteriorating economy. Meanwhile, the banking sector's total deposits grew up to \$3.82 billion compared to last year.

The exchange rate decreased in the first two quarters of the year by 3.8 percent and 0.3 percent respectively, followed by an increase of about 2.0 percent in the third quarter. Foreign exchange reserves declined throughout most of 2015, before increasing in the first half of 2016 to \$7.4 billion (or around nine months of imports). This increase was largely due to the decline in imports, resulting from weakening demand.

Afghanistan secured its financial assistance for the next four to five years, with \$3.5 billion per year pledged at the Brussels conference 2016. The government also received the same level of annual assistance from Tokyo (\$3.9 billion per year) for Afghan economic reform, Afghan national development framework, rule of law public finance management and anti-corruption, regional efforts to support a political process towards peace, and cross-border economic cooperation with countries to enhance future relationships.

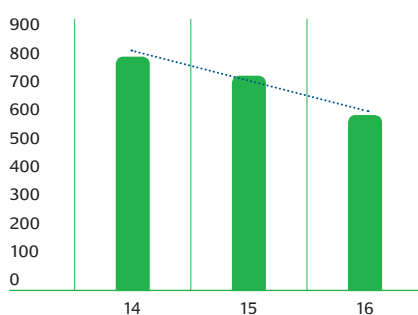
Afghanistan and Turkmenistan inaugurated the Lapis Lazuli railway in November 2016. This railway will improve freight links from Central Asia across the Caspian Sea to the Caucasus, Turkey, and Europe. The first freight train from China was welcomed into the northern rail port at Hairatan on 7 September 2016. The Afghan China Silk Road and internal train network are at tendering stage. This includes opening the Chahbahar port in Iran, making an excellent alternative trade route for Afghanistan trade and finance.

Along with the continuing deterioration of the security situation, the country is facing a humanitarian crisis. More than 5,000 displaced Afghans are returning from Pakistan every day, and in lower numbers from Iran and Europe, especially from Germany. Managing and protecting displaced populations is even harder in a country that lacks safety nets, and is also suffering from a severe economic crisis that has pushed at least 1.3 million additional Afghans into poverty.

Economic growth is expected to gradually pick up over the coming years, from 1.8 percent in 2017 to 3.6 percent in 2019. Stronger growth in future years is predicted with improvements in security, political stability, reform progress, and continued high levels of aid.

Sources:
1. World Bank database
2. Da Afghanistan Bank
3. IMF

Banks' lending to private sector
(USD millions)



Source: Da Afghanistan Bank



Ronald Stride

Independent Director, Chair of the Board of Supervisors, Chair of the Planning and Strategy Committee, Member of the Remuneration Committee, the Nominating Committee, the Risk Committee, and the Investment 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 Planning and Strategy Committee, the Nominating Committee, and the Risk 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 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, Chair of the Remuneration Committee and the Nominating Committee, Member of the Planning and Strategy Committee

Ms John has been a member of the AIB Board since 2004. She brings more than 30 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 Senior 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.

**Hamidullah A. Mohib**

Shareholder-appointed Member of the Board of Supervisors, Member of the Remuneration Committee, the Nominating Committee, and the Risk Committee

Mr Mohib has been a member of the Board since 2005. 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.

**Salman Shoaib**

Independent Director, Chair of the Investment Committee, Member of the Remuneration Committee and Nominating Committee

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

**Aditya Srivastava**

Independent Director, Chair of the Risk Committee, Member of the Planning and Strategy Committee and the Investment Committee

Mr Srivastava has been a Board member since August 2012. He is 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 Société Générale where he was GCC head of project finance and corporate relationships. Mr Srivastava holds a Master's degree in economics from the Delhi School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.

Good corporate governance is a key factor in the success of AIB, and has been a major contributor to establishing the Bank's reputation for integrity, high service standards, and financial performance.

Philosophy of governance

AIB endeavours to enhance shareholder value, to ensure compliance with international best practices for financial institutions, and to protect the interests of all stakeholders – whether shareholders, customers, employees, regulators, or the public at large. The Bank complies with all the legal and regulatory requirements of Afghanistan, but also formulates and adheres to strong corporate governance practices that exceed regulatory stipulations.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Supervisors. In this role, the Board ensures that the management of the Bank meets the requirements and obligations of good governance.

Shareholders

The Bank has two shareholders, each with 50 percent ownership. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business interests and relationships 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 %
Horizon Associates	Mohammed Abraham Mohib	Holding Company	Delaware, USA	Lutfullah Rahmat	50.00
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Hamidullah A. Mohib	50.00

Board of Supervisors

The primary purpose of the Board of Supervisors is to formulate the overall strategic and financial objectives of the Bank, to monitor these objectives and ensure they are met, and to the greatest extent possible, oversee the management and mitigation of the risks associated with operating a financial institution in Afghanistan. Upholding good corporate governance is key to achieving the Bank's goals, and the Board ensures that best practices are maintained.

The Board comprises the Chairman, two 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, again in line with regulations and international governance standards.

The single Board vacancy results from the resignation of Mr Hasib Ahmed, following the Asian Development Bank's selling of its final stake in AIB during 2016. This position will be filled at the annual general meeting of shareholders in early 2017. Brief biographical profiles of the six 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 two shareholder representatives are appointed by the respective shareholders of the Bank and represent the interests of these shareholders.

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

The Board has six committees: the Remuneration Committee, the Risk Committee, the Investment Committee, the Nominating Committee, the Planning and Strategy Committee, and the Audit Committee. 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.

Committees meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. Board committee meetings are attended by the Chief Executive Officer. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in later sub-sections of this report.

In 2016 the Board met 13 times. During each meeting, the Board monitored the financial performance of the Bank as well as the status of non-performing loans and operational risks.

Each quarter, the Board reviewed the anti-money laundering/compliance dashboard to ensure the Bank's adherence to the policies and procedures established for this function by outside experts. The Bank has invested significant resources in compliance. This investment has resulted in very satisfactory implementation of these policies and procedures, although more needs to be done.

The Board also addressed the six major objectives for the year that were highlighted by the Chairman in his message:

- Achieve world-class standards in anti-money laundering and compliance
- Complete the new head office building by the end of 2016
- Focus on organisation and human resource development
- Position for the future in under-served markets and product offerings
- Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing
- Maintain financial stability and satisfactory returns

Planning and Strategy Committee

The Planning and Strategy Committee is the committee of the Board of Supervisors responsible for AIB's strategic plans and annual business plans and budgets. Specifically, the committee provides:

1. Oversight of the strategic direction of the Bank and preparation of its three-year strategic plan
2. Development, adoption, and modification of the Bank's annual business and financial plan
3. Response to external developments and factors, such as changes in the economy, competition, security, and political situation, that impact the Bank's strategy
4. Examination and recommendation of acquisitions, joint ventures, and strategic alliances
5. Liaison with external experts and consultants as required
6. Development of early warning 'event and response' framework
7. Examination of such matters as the Board may from time to time determine.

During 2016 the committee met four times, with a primary focus on approving and monitoring the annual business plan and budget of the Bank. The committee also reviewed the impact of fee increases on the Bank's business; plans to reduce security and leasing costs; actions to increase cross-selling opportunities; and improvements in branch profitability. These initiatives increased revenue and reduced costs for the Bank.

The committee also reviewed the impact of the new Law of Banking in Afghanistan on the operations, policies, and procedures of the Bank to ensure compliance with the Law. Finally, the committee approved a contingent organisation structure in the event of a security emergency.

As the political, security, and business sentiment situation in Afghanistan is unlikely to improve substantially in the near term, the committee recommended a conservative approach to business plans and updating the Bank's strategic plan to reflect these conditions.

The committee's members are: Ronald Stride (Chairman and independent director), Aditya Srivastava (independent director), Veronica John (independent director), and Lutfullah Rahmat (shareholder-appointed director).

Risk Committee

The Board's committee to provide comprehensive oversight and best practices in risk governance and risk management comprises Aditya Srivastava (Chairman and independent member), Hamidullah A. Mohib, Lutfullah Rahmat, and one independent Board member – Ronald Stride.

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 completed a financial crime compliance/AML project with the assistance of a reputed external firm to ensure 'know your customer', AML, and CTF processes are best in class. 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. A new chief risk officer has been appointed to further strengthen the risk function.

The committee was pleased to note that the external consultancy that 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 2017 to ensure that the balance between risk and return is maintained.

Investment Committee

The Investment Committee comprises three directors, all of whom are independent, including the Chairman, Salman Shoaib. The other members are Ronald Stride and Aditya Srivastava.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed-income securities, and also management of liquidity including placements with other banks. 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 recently took an active role in reviewing placements.

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 was established under the Law of Banking in Afghanistan then in place. In 2016, the amended Law of Banking in Afghanistan was enacted, requiring the Audit Committee to become a committee of the Board of Supervisors. The Board of Supervisors is, however, allowed to appoint members to the Audit Committee who are not members of the Board of Supervisors. Any non-member of the Board of Supervisors is 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 audit, accounting, or banking.

Dr Patrick Asea assumed the position of acting chairman following the resignation of Mr Anthony Barned on becoming CEO. Dr Asea resigned on leaving Afghanistan, and in August Mr Said Arab Khan, retired senior partner of KPMG, was appointed chairman.

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 2016, 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 reviewed the Bank's annual budget and business plan and recommended the payment of an interim dividend to the Board of Supervisors.

The committee regularly monitors and assesses the role and effectiveness of the internal audit function.

The committee receives quarterly reports from major operational segments of the Bank, which are reviewed at every quarterly Audit Committee meeting. The reports include the key performance indicators of different segments and 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. Any significant audit issues were also 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 2016, the committee regularly focused on the controls and issues related to anti-money laundering and counter-terrorism financing.

Remuneration Committee (formerly the Compensation Committee)

The committee comprises four directors, three of whom are independent, including the Chair, Veronica John. The other members are Ronald Stride, Salman Shoaib, and Hamidullah A Mohib.

The committee's remit was reviewed during the year, to ensure compliance with the amended Law of Banking in Afghanistan, as well as the revised Corporate Governance Regulations. This resulted in the creation of a separate Nominating Committee to oversee matters relating to the appointment of Board members and recruitment of executive management, while the Remuneration Committee adopted a slightly revised charter, with its role focused on two key areas:

- Establish the compensation philosophy and structure for the executive management, and oversee and evaluate their performance relative to the approved goals set in line with this structure
- Review and make recommendations regarding the compensation policy for members of the Board of Supervisors

In this role, the committee establishes guidelines for base salary, bonus, and fringe benefits for each executive, and recommends to the Board any changes to the compensation structure.

During 2016, the committee met four times in person and held one conference call.

The committee reviewed and recommended for Board approval the compensation packages for new executive appointments, in line with current policy. The committee also reviewed, and reported to the Board, the performance of senior management through a formal goal-setting and monitoring mechanism.

It also reviewed progress with the reorganisation of the HR function and recommended for Board approval a cost of living increase applicable to all staff effective from 2017. The committee will continue in 2017 to monitor the implementation of an updated HR policy, which will better conform to international practices, and oversee the review of the executive management compensation policy and guidelines.

Nominating Committee

The Nominating Committee was formed during the year in compliance with new regulations in Afghanistan, and comprises five directors, the majority of whom are independent, including the Chair, Veronica John. The other members are Ronald Stride, Salman Shoaib, Hamidullah A Mohib, and Lutfullah Rahmat. Two members of the committee are designated as representing employees and two as representing shareholders.

In 2016, the committee focused on the composition of the senior management team, overseeing the development and recruitment actions required to bring the team to a full complement with the optimal balance of skills and experience. In particular, the committee was involved in the selection process for a number of key appointments, not least the Bank's new CEO and DCEO. Focus continued on the development of several 'high flyer' Afghan staff identified as demonstrating the potential to grow into executive management within AIB, in line with the future vision for the Bank.

The committee received updates during the year on progress of initiatives to ensure the Bank's female staff have access to enhanced working opportunities and that there is satisfactory support for working mothers.

The committee also made recommendations on the composition of the Board's committees and considered succession planning for the Board of Supervisors, also overseeing the development of a checklist to better guide the future evaluation of candidates proposed for appointment.

Committee meetings and attendance records

Key: ⊙ Attended ○ Absent ⊖ was not a member during this period

Board	12 Jan 2016	9 Feb 2016	19 Mar 2016	12 Apr 2016	21 May 2016	30 June 2016	19 July 2016	2 Aug 2016	27 Aug 2016	20 Sept 2016	18 Oct 2016	19 Nov 2016	13 Dec 2016
Ronald Stride, Chairman	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○
Salman Shoaib	⊙	○	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hasib Ahmed	○	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖

Planning and Strategy Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Ronald Stride, Chairman	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	○	⊙	⊙

Risk Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Aditya Srivastava, Chairman	⊙	○	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	○	⊙	⊙	○

Investment Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Salman Shoaib, Chairman	⊙	⊙	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	○	⊙	⊙

Remuneration Committee (formerly the Compensation Committee)	25 Feb 2016	18 Mar 2016*	20 May 2016*	26 Aug 2016	18 Nov 2016
Veronica John, Chair	⊙	⊙	⊙	⊙	⊙
Ronald Stride	○	⊙	⊙	⊙	⊙
Salman Shoaib	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	○	⊙	⊙	○

Nominating Committee	18 Mar 2016*	20 May 2016*	26 Aug 2016	18 Nov 2016	6 Dec 2016
Veronica John, Chair	⊙	⊙	⊙	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙	⊙
Salman Shoaib	⊙	⊙	⊙	⊙	○
Hamidullah A. Mohib	○	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊖	⊖	⊙	⊙	⊙

Audit Committee	29 Feb 2016	3 May 2016	21 Sept 2016	12 Nov 2016
Said Arab Khan, Chairman	⊖	⊖	⊙	⊙
Patrick Asea, Acting Chairman	⊙	⊙	⊖	⊖
Marion Day	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙

* Denotes joint meeting of the Remuneration and Nominating Committee.

Anthony Barned

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

Mr Barned assumed the CEO position in April 2016, having already worked with the Bank in an advisory role and as chairman of the Audit Committee for the previous seven years. He brings with him over 40 years of international commercial banking experience with the Barclays group and Bank of Ceylon, and as a consultant with Booz Allen & Hamilton. He is an Associate of the Chartered Institute of Bankers, London.

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.

Omer Omery

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

Mr Omery has more than 10 years of banking experience with AIB, from managing a regional branch to electronic banking, marketing, and retail banking. He also spent three years in a managerial position with the United Nations Organisation. He holds 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 Postgraduate Diploma in Islamic Banking & Finance from the Alhuda Institute in Lahore, Pakistan.

Mohammad Taofiq Mir

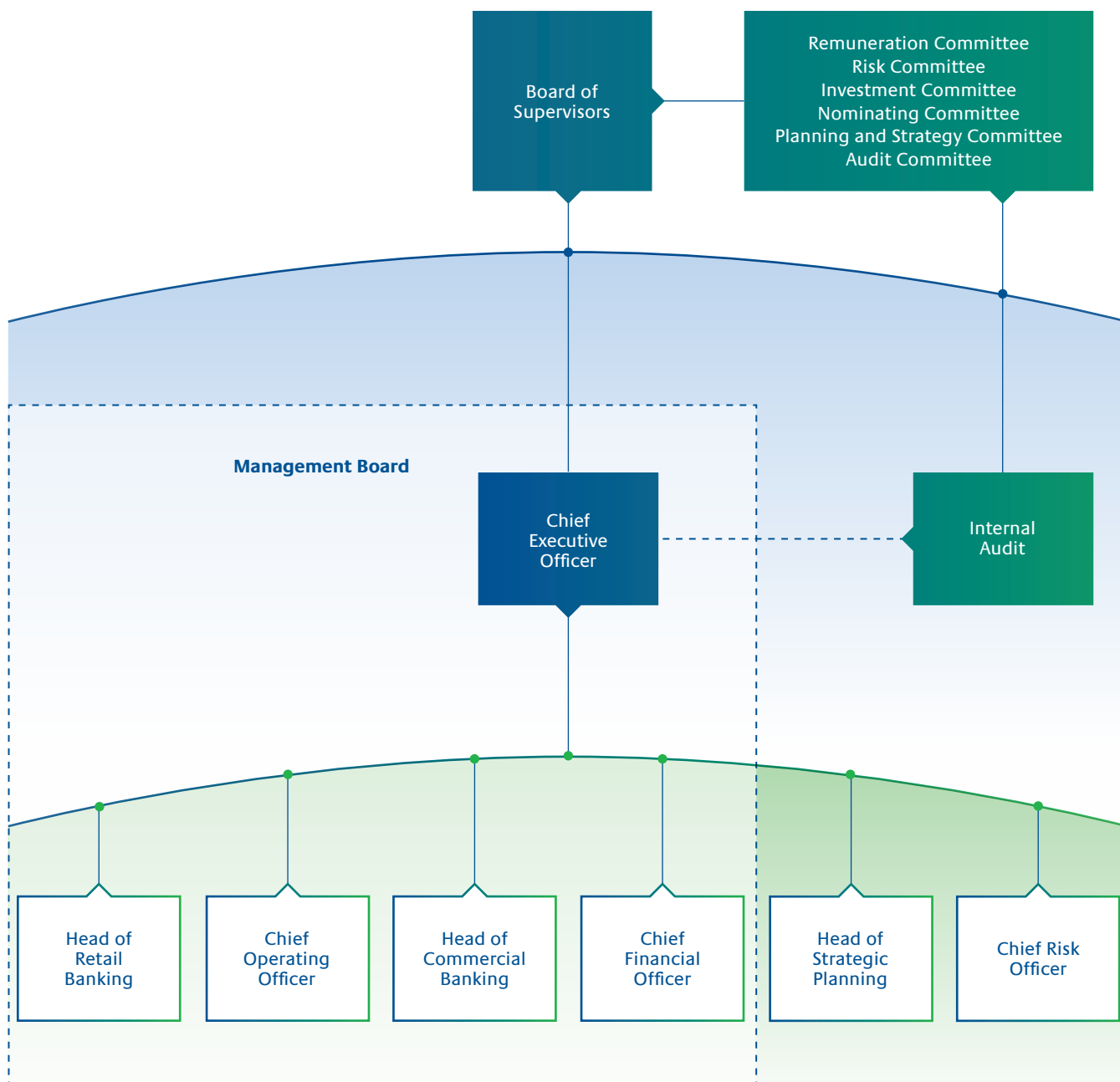
Head of Strategic Planning

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.

Adil Razzak

Chief Risk Officer

Mr Razzak has 18 years' experience in the finance industry, mainly in the banking sector. He has served in risk, audit, and compliance positions in various banks in Pakistan including SCB, NIB, and JS Bank. He holds a Bachelor's degree in Administration and is a Public Finance Accountant. He is a certified FRM from GARP and a PRM holder from PRMIA.



AIB has a well-established reputation for distinguished performance, maintained in 2016 by again recording a successful year despite difficult market conditions, and continuing its unbroken sequence of winning industry awards.



CFI.co 'Best Corporate Governance award'

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



Sibos (SWIFT International Banking Operations Seminar)

The Bank exhibited at Sibos for the second time



The Banker magazine

AIB wins Banker magazine's 'Bank of the Year Afghanistan' award for the fifth 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

The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the third consecutive year.

AIB wins 'Best Corporate Governance, Afghanistan' in the 2014 CFI.co awards.

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 again wins the CFI.co 'Best Corporate Governance, Afghanistan' award 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 for the first time.

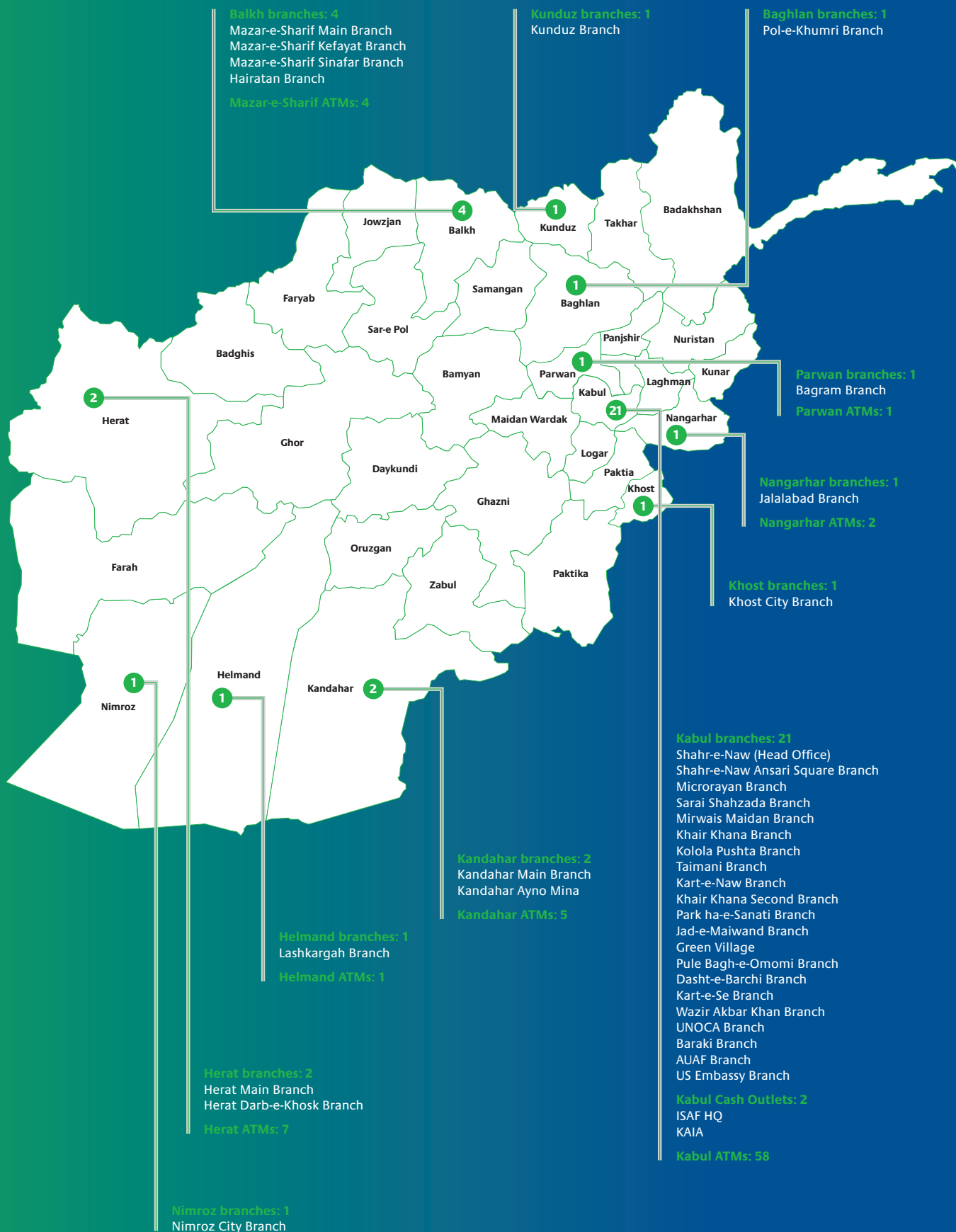
2016

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

The structural shell of the Bank's new Head Office is completed and fit-out begins.

The Bank exhibits at Sibos for the second time.

AIB Branch Network





AIB

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افغانستان

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