



Best Corporate Governance
2014, 2015, 2016, 2017 and 2018
AFGHANISTAN



Bank of the Year
2012, 2013, 2014, 2015, 2016 and 2017
AFGHANISTAN



AIB

بانك بين الملى
افغانستان

Afghanistan
International Bank

Your Partner for Growth

Annual Report 2017



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.

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From inception in 2004, Afghanistan International Bank's major objective has been to assist in developing the Afghan economy and to conduct business in accordance with international standards of governance and integrity. The many awards received from authoritative industry bodies is independent endorsement of AIB's success in achieving its goals, notably being named *The Banker* magazine's 'Bank of the Year, Afghanistan' for six consecutive years from 2012 to 2017.

AIB is now well-established as an industry leader, and widely acknowledged to be the nation's most respected and trusted financial institution. Its growth as an enduring institution combines international expertise with intimate local knowledge and a deep-rooted understanding of customer needs.



Despite the political, security, and economic conditions that existed in Afghanistan during the year, I am pleased to report that the Bank's financial performance in 2017 was highly successful, with all major financial targets being achieved.

Unfortunately, we do not see significant improvements in the overall situation in Afghanistan going into 2018. Hence, the Bank will continue to maintain a conservative position for the foreseeable future.

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 become stronger over time.

In 2017, the Board and management continued to pursue the strategic agenda developed over the past several years. Following is a summary of the progress the Bank has made during 2017 against these objectives:

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

In 2017, with the assistance of an external consultant, management continued to improve implementation of policies and procedures involving these compliance functions. Staff training continued during the year, as well as monitoring to ensure procedures were followed. The Compliance Committee was also established.

The full Board received quarterly reports on key indicators regarding this programme. The project team will continue into 2018 as there is more work to be done. As one can imagine, implementing world-class procedures in AML and FCC affects AIB's staff and our customers. In 2018 management will bolster the Compliance Department's capabilities to act as a second line of defence for this important function.

Complete the new head office building in June 2017

Unfortunately, due to a number of circumstances beyond the Bank's control, the head office building was delayed beyond the June target date.

However, staff will begin to move into the new building in March 2018. This will be a major milestone in the Bank's development as this building will reflect the important position AIB holds in the banking system in Afghanistan.

Focus on organisation and human resource development

This initiative continued to be a key long-term priority, with the objective of developing the capabilities and competencies of senior Afghan staff to replace expatriate management over the next three to five years, and to generally build staff competencies across the Bank. To this end, several senior Afghan staff have been promoted to executive positions with increased responsibilities. We continued to overhaul personnel administration, job descriptions, and job grading, and to put in place a comprehensive succession planning programme. All senior management had staff training and development objectives in their annual goal statement.

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

This initiative is intended to position AIB in the small business and consumer segments in the long term. There has been uplift in business as a result of actions taken by management over the past year, and we expect to see increased business especially in Afghani currency deposits and Shariah loans. A lending programme for small businesses met with moderate success, mainly due to reluctance of businesses to borrow. This initiative is basically an investment in the future.

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

AIB continued its correspondent banking relationship with Standard Chartered Bank during the year. At this point, we see no threat to that relationship; however, management has stepped up the search for another correspondent bank. This is not easy due to Afghanistan's poor risk profile among international banks. Management has begun to open direct accounts with banks in major trading partner countries to serve customers' payment needs in those countries.

Maintain financial stability and satisfactory returns

AIB had a successful financial 2017 and our forecast for the next three years shows slightly higher profitability, mainly stemming from our very strong fee-based business (49 percent of AIB's revenues are from fees and foreign exchange activities).

During 2017, the Board had several changes in its composition and membership:

- Veronica John resigned from her director position on 31 December due to ill-health. We were particularly saddened to learn of her death in January 2018. Ms John made an invaluable contribution to AIB over 14 years. The shareholders, Board, and management offer our heartfelt condolences to her family, and record our appreciation for her tenure as a director.

- Salman Shoaib resigned from the Board during 2017. Mr. Shoaib served on the Board for five years from 2012 and was chair of the Investment Committee. I thank him sincerely for his contribution to the Board and the Bank.

- Samuel Sidiqi and Hugo Minderhoud joined the Board as directors in late 2017. Messrs Sidiqi and Minderhoud bring extensive governance and banking experience to the Board.

- The Investment Committee was folded into the Planning and Strategy Committee to streamline meetings and the Board structure.

- The Audit Committee will be joined by Mr. Minderhoud to strengthen its oversight role.

As a result, the Board will have six members and five committees going into 2018: Risk, Remuneration, Nominating, Planning and Strategy, and Audit. The activities of these committees are highlighted in another section of this report.

The Board met 12 times in 2017: four in-person meetings and eight conference calls. In particular, the Board focused on the strategic agenda mentioned above, as well as closely monitoring the security situation in the country.

The Board and senior management undertook a three-year strategic planning exercise during 2017. A three-year time horizon was chosen due to the political, security, and economic uncertainties in the country. A longer horizon involved too much guesswork under the circumstances. Key points in the plan are:

- Afghanistan will continue to get by over the next three years, although the overall situation in the country will not provide much economic growth. However, this provides an opportunity for AIB to consolidate its position as the leading bank by addressing selective market opportunities and continuing to strengthen internal capabilities:

- Take market share in lending from weak competitors
- Invest in segments that have potential future growth, for example, small and mid-sized companies
- Build external and internal capabilities for improving service to customers and strengthening systems, processes, and people skills

- Internally, investment in staff training is a key area of focus over the three years.
- Building the Audit Department's capability to become the third line of defence for management and the Board is another priority for management, in line with international best practice.
- Finally, the plan calls for achieving 15 percent return on equity.

The final terms and conditions for the Internal Finance Corporation (IFC) to purchase a 7.5 percent stake in the Bank from existing shareholders was completed in late 2017, and shares were exchanged between the shareholders in November. The IFC will invest another 7.5 percent through the issuance of new shares. This second investment will take place within the next two years.

Other highlights of 2017 include:

- For the sixth consecutive year The Banker magazine voted AIB 'Best Bank in Afghanistan'. We are proud of this honour, which reflects the professionalism of the Bank.

- For the fifth consecutive year, AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.

- For the third year, AIB took a stand at the SWIFT International Banking Operations Seminar (SIBOS) held in Toronto, Canada. Two of the Bank's Afghan staff attended the conference, in addition to our CEO, Mr. Barned. At the conference, several international banks expressed interest in working with AIB in a variety of ways.

As I noted earlier, it is unclear whether conditions in Afghanistan will improve in 2018. 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. 2018 appears to be no different.

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



Ronald Stride
Chairman



At a time when the combined balance sheet of the overall banking system is shrinking, I am pleased to be able to advise that AIB expanded in a number of areas during 2017.

60.93bn

Assets increased by
4.7 percent

2.27bn

Revenue increased by
13 percent

Assets increased by 4.7 percent to AFN 60.93 billion (2016: AFN 58.19 billion), bringing compound annual asset growth since 2010 to 15.18 percent. The increase was led by a 4.0 percent rise in deposits to AFN 56.26 (AFN 54.08 billion). Commercial lending was subdued throughout the year.

Revenue increased by 13 percent to AFN 2.27 billion (AFN 2.02 billion). Non-interest income accounted for 49 percent of total revenue, the growth being led by the 37 percent increase in outward international transfers to AFN 3.03 billion from AFN 2.22 billion in 2016.

The volume of outward transfers grew to 31,500 transactions, while AIB also received 37,500 inward transfers totalling AFN 2.37 billion. Together, these transactions underline the value of strong correspondent partnerships and sound regulatory compliance.

Active management of the Bank's bond portfolio also contributed to growth, generating revenue of AFN 0.36 billion. Total revenue was also assisted by the liquidation of real estate collateral for just under AFN 0.32 billion, even though loan recovery was negatively affected by the arduous and very lengthy process for foreclosure and obtaining vacant possession.

Operating expenses increased by 20 percent, as was anticipated when preparing the budget, driven by: additions to executive management and engagement of new staff in expectation of opening the new head office branch; increased costs relating to compliance and professional advisors (44 percent); and a rise in security costs (28 percent).

With both revenues and expenses being in line with budget, the Bank was able to achieve a 14 percent increase in pre-tax profit to AFN 0.646 billion (AFN 0.567 billion). Net profit showed a reduction of 31 percent to AFN 0.358 billion (AFN 0.519) following a one-off income tax provision based on the assessment order for the financial years 2012, 2013, and 2014. Included is one major business expense related to a Department of Justice action in the USA (see note 14.1), not allowed as a deductible expense by the tax department of the Ministry of Finance. The Bank considers this ruling arbitrary in nature and has filed an appeal which is still pending.

Subject to approval at the annual general meeting, the final dividend will be AFN 0.42 billion (interim: AFN 0.412 billion), bringing total distribution to shareholders to AFN 0.832 billion for the year. This equates to dividend per share of AFN 27.73.

Total equity after payment of the interim dividend decreased by 2.0 percent from AFN 3.90 billion to AFN 3.84 billion. Our capital adequacy ratio of 15.42 percent and 65.92 percent liquidity ratio are very satisfactory by domestic and international standards.

Business initiatives

Despite a quiet year for generating new loans in corporate and institutional banking, we were able to participate in a number of development projects by providing performance guarantees and other related support to international construction companies. These totalled AFN 3.74 billion, relating to 14 projects including roads, railways, and telecommunications.

Our Business and Community Banking units, which are responsible for the small and middle market segment as well as development finance, signed a \$25 million memorandum of understanding with the Afghanistan Industrial Association to support local production and manufacturing companies, using conventional and Islamic structures. I am pleased to be able to mention here that with excellent collaboration between the Bank's lending units and our Shariah banking unit, we are experiencing a significant increase in requests for Shariah-compliant loans.

To assist our customers with their international trade transactions, we have Standard Chartered Bank as our major international clearing bank, as well as correspondent banking relationships with State Commercial Bank of Turkmenistan and Asaka Bank in Uzbekistan. The latter support bilateral trade with two major trading partners, and we are also working towards a correspondent relationship with a British bank and a Russian bank.

Having experienced slow loan growth through much of the year, in the last quarter AIB developed a product to promote borrowing among medium-sized manufacturing companies where previously the cost and collateral requirements made access to loans challenging.

AIB introduced loans of AFN 7 million to AFN 35 million at 7.5 percent annual interest, designed to promote local products and encourage manufacturers to expand and create more jobs. The facility is available only in Afghani currency as a term loan of up to three years, payable in monthly instalments. These loans are guaranteed by the Afghan Credit Guarantee Foundation (ACGF), established with funding from the German government and USAID and subsequently from the World Bank, to facilitate access to finance for Afghan small and medium enterprises. ACGF's participation allows AIB to reduce both its interest rate and collateral requirement.

As I indicated earlier, AIB's loan portfolio did not expand in 2017. AIB believes that one reason for this is that Da Afghanistan Bank, the central bank, is over-regulating the banking sector. A typical example is the focus on collateral as the primary requirement for loan approval. AIB believes that collateral requirements should be a decision for the Bank's Board and management – for example, enabling loans to exporters who have no need to own real estate and are therefore unable to provide collateral.

Although our commercial lending departments were relatively quiet, Consumer Banking implemented a series of initiatives designed to enhance customer care and add to the ease and simplicity of doing business with AIB.

Extended opening hours – from 8am to 8pm – now apply at four branches, one in Kabul and three in provinces (Mazar, Herat, and Kandahar). We also plan to open a 'smart' branch in Kabul where all cash activities will be handled by interactive teller machines (ITMs) – the modern version of the traditional ATM. Fast-deposit and pay-in counters have also been established in large branches and all ATMs are now equipped with anti-skimming protection. Added functionalities include inter-account transfers and cash deposits.

One centralised portal has been established for customer feedback, and all customer-facing employees were trained by an outsourced company in how best to facilitate customer needs. A new quality control team is now responsible for customer service improvement.

Electronic banking advances included e-commerce activation, enabling MasterCard acceptance on customers' websites. Consumer loan applications and card modifications are now available online.

We also launched a new Islamic credit card and introduced in-house printing and personalisation of all cards (chip and magstripe), speeding production and the turnaround time for delivery to customers. A new agreement with the World Food Programme enables direct payment to beneficiary families through a pre-paid card.

As in previous years, AIB undertook a thorough review and upgrade of crucial business operations, adopting the 'three lines of defence' approach based on best-practice policies and procedures for anti-money laundering, compliance, and internal audit. We have furthered strengthened our resources and capabilities in these areas, largely based on the 2015 guidelines for corporate governance stipulated by the Basel Committee on Banking Supervision.

The guidelines state that a risk governance framework should include well-defined organisational responsibilities for risk management, typically referred to as the three lines of defence:

- The business line
- A risk management function and a compliance function independent from the first line
- An internal audit function independent from the first and second lines

In conjunction with an internationally recognised expert – formerly global head of financial crime compliance for correspondent banking with a major international bank – we also focused closely on updating and improving data quality for 'know your customer' requirements and financial crime compliance. An anti-bribery and corruption policy was also developed and approved by the Board.

Further activities under the broad heading of rigorous compliance included installing new and more sophisticated software for transaction monitoring and comprehensive screening. This interfaces with our core banking system, analysing all daily entries and comparing them with certain benchmarks to check for irregularities.

Enhancements to corporate governance include a management information system for the Board of Supervisors and correspondent banks, generating detailed reports so that our improvements can be monitored quarterly, while the launch of an 18-month programme for financial crime compliance will enhance our capabilities even further. Together with risk tolerance measures for financial crime compliance, the Board carefully monitors and checks that the Bank conforms with requirements in every way.

Overall, these activities have helped achieve our goal of a high level of compliance implementation and control, especially in terms of the demanding requirements that are now imposed by our correspondent banks.

The Bank also participated in a number of domestic and international exhibitions and seminars. Domestically, we presented lending products to the top 70 Afghan traders and exporters, at the invitation of USAID to the US embassy, and also participated in a round table with HE Eklil Hakimi, Afghanistan's Minister of Finance, again presenting AIB lending products and services to traders and entrepreneurs. Wider community involvement extended to sponsoring conferences such as Business Expo, Youth to Business Forum, and the Afghanistan Industrial Festival.

Internationally, AIB was again represented at SIBOS, the annual conference, exhibition, and networking event organised by SWIFT for the financial industry. Held in Toronto, the event was an excellent opportunity to refresh existing relationships and establish new ones.

We also represented Afghanistan at the International Chamber of Commerce's Trade Finance Conference in London on a panel discussion of 'Access to Finance in Frontier Markets'.

We also participated in Afghanistan's 98th Independence Day celebrations in Dubai.

A first for AIB was coverage in *The Economist* magazine, which carried an article on AIB subtitled 'The value of a good reputation in a troubled country'. We continue to seek international media coverage, not only for AIB but to improve the image of Afghanistan.

Community

In keeping with AIB's commitment to good corporate citizenship, we continued to support projects that have a beneficial impact on the communities where we operate. We again contributed to Women for Afghan Women, a New York-based grassroots organisation concerned with human rights and women's rights in Afghanistan; to the American University of Afghanistan; and to Save the Children, Shamsa Children Village Orphanage, and Amiri Medical Complex.

Closer to home, the Bank has taken many wide-ranging steps to support its female employees, aiming to play a positive role in developing their careers and ambitions. For female staff, AIB has arranged:

- Work requirements to ensure that women are able to attend university at the same time as having a job
- Transport to and from homes, offices, and universities
- A comprehensive childcare system in all offices, freeing mothers to advance their careers

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. To our employees, I offer special thanks for their dedication and hard work throughout 2017 in what was a very challenging environment.



Anthony Barsed
Chief Executive Officer

Record pre-tax profit was the leading highlight of 2017's results.

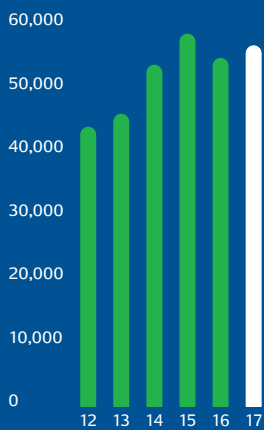
646mn

Net profit before tax

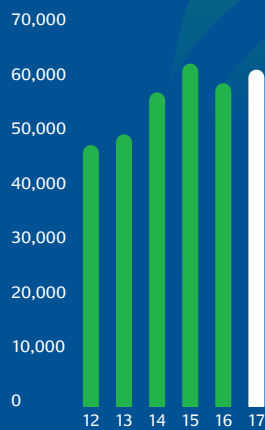
2.27bn

Revenue

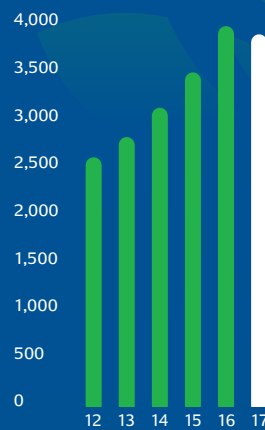
Deposits
(AFN millions)



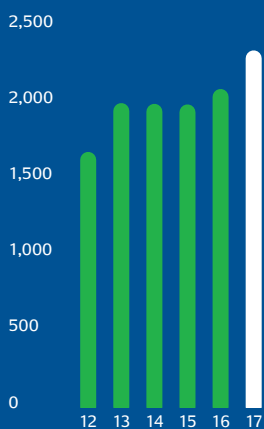
Total assets
(AFN millions)



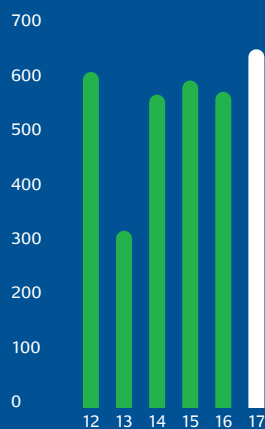
Capital growth
(AFN millions)



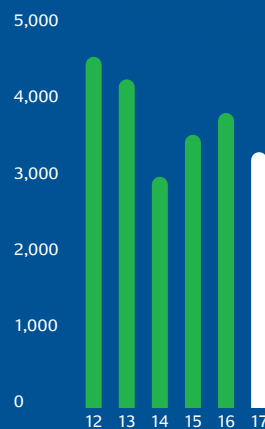
Revenues
(AFN millions)



Net profit before tax
(AFN millions)



Advances
(AFN millions)



Afghanistan's economic growth reflected a slightly upward trend during 2017.

However, due to the security situation and political instability, economic activity was still sluggish.

Gross domestic product (GDP) grew 3.60 percent, compared to an average of 11.12 percent between 2003 and 2016, reaching an all-time high of 28.60 percent in 2003 and a record low of 2.10 percent in 2016. Strong growth in the agricultural and industrial sectors was responsible for most of the 2017 improvement.

The inflation rate was 3.08 percent in December 2017, averaging 4.62 percent over 2016 and 2017. Inflation reached a record low of 0.70 percent in January 2016, and an all-time high of 7.37 percent in July. Per capita income in 2017 was estimated at \$663.

Exports in Afghanistan improved to \$596 million in 2017 from \$571.50 million in 2016.

Exports averaged \$486.66 million from 2008-09 until 2017, reaching an all-time high of \$596 million in 2017. However, due to presidential elections, exports recorded a low of \$376-388 million in 2013-2014. Exports account for around 20 percent of GDP, mainly carpets and rugs (45 percent); dried fruits (31 percent); and medicinal plants (12 percent). Core export partners are Pakistan (48 percent of total) and India (19 percent). Exports to India significantly increased in 2017, as well as to Russia (9 percent). Other export markets include Iran, Iraq, and Turkey.

Imports decreased to \$6,534 million in 2017 from \$7,723 million in 2016. Imports averaged \$6,422 million from 2008-09 until 2017, reaching an all-time high of \$9,069 million in 2013 and a record low of \$3,020 million in 2008-09.

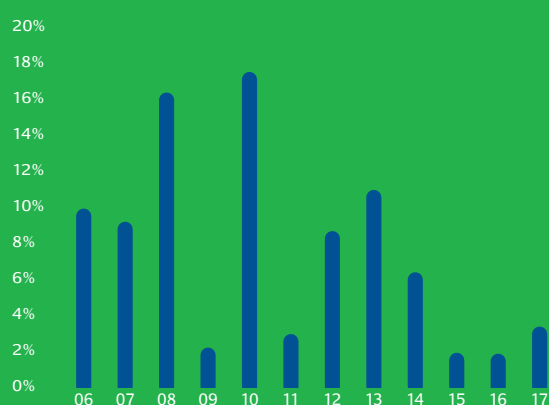
596mn

Exports in Afghanistan improved to \$596 million in 2017 from \$571.50 million in 2016

3.60

Gross domestic product (GDP) grew 3.60 percent

Afghanistan GDP annual growth rate (% pa)



Source: Central Statistics Organisation of Afghanistan.

Afghanistan inflation rate 2016-2017



Main imports are: petroleum (33 percent of total), machinery and equipment (15 percent), food items (14 percent), and base metals and related articles (9 percent). The main import partners are Pakistan (14 percent of total), Russia (13 percent), Uzbekistan (11 percent), Iran (9.1 percent), and China (9 percent). Others include Malaysia, China, Indonesia, Turkmenistan, Japan, Kazakhstan, and Middle Eastern countries.

Banks' lending to the private sector has continued to decline over the past three years. Total banking sector loans dropped slightly in 2017 to \$582 million, compared to \$613 million in 2016 and \$747 million in 2015. Banking sector lending is not projected to rise much faster as banks tighten credit standards in the face of a deteriorating economy. Meanwhile, banks' total deposits decreased to \$3.762 billion from \$3.82 billion the previous year.

The Afghani currency depreciated slightly by 1.49 percent against the US dollar in the first half of 2017. Foreign exchange reserves increased in September 2016, from AFN 477,665 million (\$6.851 billion) to AFN 512,160 million (\$7.345 billion), before dropping in December 2016 to AFN 500,916 million (\$7.185 billion) – equivalent to 13 months of imports. Overall reserves increased between March and December 2017, largely due to the decline in imports, resulting from weakening demand and slightly higher exports in 2017.

Afghanistan was removed from the grey list by the Financial Action Task Force (FATF) in 2017. FATF welcomed Afghanistan's significant progress in improving its AML/CFT regime and noted that it has established the legal and regulatory

framework to meet the commitments in its action plan regarding the strategic deficiencies that FATF had identified in June, 2012. Afghanistan is therefore no longer subject to FATF monitoring.

Economic development and the livelihood of Afghans will improve due to the Central Asia-South Asia power project (CASA 1000), the TAPI gas pipeline, the Salma Dam becoming operational, and construction of other small dams. The possible inclusion of Afghanistan in the Chinese-Pakistan Economic Corridor (CPEC) and Asian Development Bank (ADB) grants in the energy sector will further help GDP. ADB and the World Bank provide long-term support for national development projects, in health, women's empowerment, transport, energy, natural resources, and economic management.

ADB collective lending to Afghanistan totals almost \$1 billion and approved grants amount to \$3.3 billion. The country also secured its financial commitment from international donor communities for the next 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 Conference (\$3.9 billion per year).

Dependence on transit through neighbouring countries has been a historical challenge for Afghanistan, but with the establishment of the new Lapis Lazuli Corridor accord, the country has acquired a direct link to transport goods to Europe by road, rail, and sea. Goods will be transported through Turkmenistan, across the Caspian Sea to Azerbaijan, then Georgia, and across the Black Sea and through Turkey to the Mediterranean and Europe.

Similarly, The Sino-Afghan Special Railway Transportation connects Afghanistan to China's 'One Belt, One Road' trade corridor that links Uzbekistan, Kazakhstan. China has always shown interest in investment in the region and in fostering commercial ties with Afghanistan, especially in constructing railways, dams, roads, and housing; carrying out electricity projects; and importing Afghan hygiene products to the main Chinese markets.

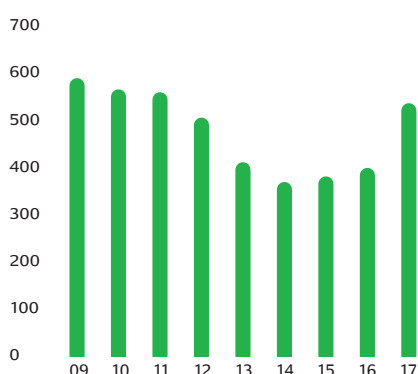
In addition, the Chabahar seaport is opening a gateway for trade with India and Afghanistan. The Afghan government received \$2,064 million from donors in 2016-17, against total commitment of \$2,894 million.

Along with the continuing deterioration of the security situation, the country is facing a humanitarian crisis. More than 296,000 Afghans returned from Pakistan and Iran in 2017; 202,000 were internally displaced by conflicts, and another 44,000 by natural disasters. The return of refugees from neighbouring countries will place further pressure on the economy over the next two years.

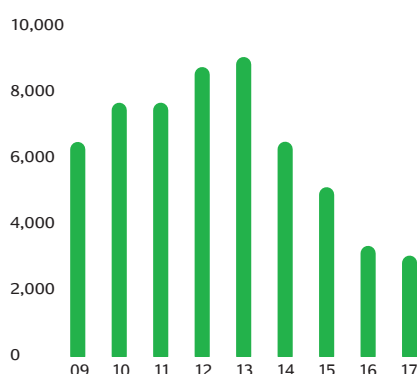
The 3.6 percent GDP growth in 2017 is projected to fall to 3.4 percent in 2018 and 3.1 percent in 2019. However, the US administration's new strategy for Afghanistan is expected to improve the security situation, economic growth, and political stability.

Sources: World Bank database, Da Afghanistan Bank, Asian Development Bank, Central Statistics Organisation of Afghanistan, IMF.

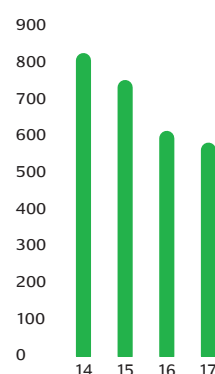
Afghanistan exports 2009-2017
(USD millions)



Afghanistan imports 2009-2017
(USD millions)



Banks' lending to private sector
(USD millions)



Source: Da Afghanistan Bank



Ronald Stride

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

Mr Stride spent most of his career with Booz Allen & Hamilton, the management consulting firm, where he was a senior vice-president and managing partner for Asia. He also served on the firm's Board of Directors in the USA. 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 from Providence College in the USA.

Hamidullah A. Mohib

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

Hugo Minderhoud

Independent Director, Member of the Audit Committee

Mr Minderhoud joined the board in December 2017. He is based in Tashkent, Uzbekistan where he is senior advisor to Ipak Yuli Bank Uzbekistan. He has worked in various capacities in Central Asia and the former Soviet Union since 1994, at first with ABN AMRO Bank, Netherlands; and since 2006 as independent financial advisor and board member of various banks and companies in the region.

He holds a law degree from Leiden University in The Netherlands.



Veronica John

Independent Director, Chair of the Remuneration Committee and the Nominating Committee, Member of the Strategy and Planning Committee

Ms John had been a member of the AIB Board since 2004. She resigned in 2017 due to ill-health, and sadly died early in 2018.

She had more than 30 years' experience in international finance, especially in emerging markets in Asia and the CIS, specialising in private equity funds, diversified fund of funds management, and investment banking. She was 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 graduated with a BA from Elmira College and an MBA from George Washington University.

Samuel Sidiqi

Independent Director, Member of the Remuneration Committee, Nominating Committee, and the Strategy and Planning Committee

Mr Sidiqi joined the Board in 2017. He is currently the Chief Executive Officer of NREC, a Middle East-focused real estate developer listed on the Kuwait Stock Exchange. He previously worked with Agility Logistics in Europe, America, Asia, and the Middle East, and began his career at Bain & Company where he advised Fortune 500 clients on strategy. Mr Sidiqi has an MBA from the Wharton School and an MA from the Lauder Institute, both of the University of Pennsylvania. He has bachelor's degrees in economics and political science from MIT and was a Fulbright Fellow.

Aditya Srivastava

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

Lutfullah Rahmat

Shareholder-appointed Member of the Board of Supervisors, Member of the Strategy and Planning 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 from Bombay University.

As a matter of principle and good business practice, AIB has conducted its banking business in an ethical, prudent, and professional manner, according to international standards of governance.

Philosophy of governance

AIB endeavours to enhance shareholder value; protect the interests of all stakeholders including shareholders, customers, employees, regulators, and the public at large; and ensure compliance with international best practices for financial institutions. The Bank complies with all legal and regulatory requirements of Afghanistan – but also formulates and adheres to strong corporate governance practices beyond what is mandated by regulators. In fact, ‘international’ in our name reflects the standard of performance we strive to achieve.

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 is meeting the requirements and obligations of good governance.

Shareholders

The Bank has three shareholders, each with an ownership percentage as shown in the table below. 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 has the right to appoint one individual to the Board of Supervisors.

Shareholder	Beneficial shareholder	Type of company	Incorporated	Board members	Ownership %
International Finance Corporation (IFC)	Not applicable	Global development institution	Washington, District of Columbia	No one appointed	7.50
Horizon Associates	Mohammed Abraham Mohib	Holding Company	Delaware, USA	Lutfullah Rahmat	46.25
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Hamidullah A. Mohib	46.25

Board of Supervisors

The major 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 by management; and to ensure that the risks associated with operating a financial institution in Afghanistan are managed and mitigated as far as possible. Ensuring the upholding of good corporate governance is key to the Bank achieving its goals, and the Board ensures that best practices are maintained.

The Board is composed of the Chairman, shareholder-appointed directors, and independent directors. The Chairman is an independent director, which complies with Central Bank regulations.

Independent Board members are in the majority, in line with regulations and international governance standards. According to the Articles of Association, each shareholder has the right to appoint one shareholder-designated director. The shareholders have agreed to a Board of Supervisors consisting of seven individuals. There are currently seven Board members: five independent and two shareholder-appointed. This reduced to six with the resignation of one independent director on 31 December 2017. It is the intention of the shareholders and the Board to fill this vacancy at the annual general meeting of shareholders to be held in March 2018. Brief biographical profiles of the seven current directors are included in this annual report.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. Shareholder-nominated directors are appointed by the respective shareholders of the Bank and represent the interests of these shareholders. There are currently two shareholder-appointed directors.

Finally, the independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world, as well as governance experience through having served on other boards. Independent directors and directors who are shareholder representatives are elected/appointed for terms of four years, but must stand for reappointment each year.

The Board has five committees: Remuneration; Nominating; Risk; Planning and Strategy; and Audit. Each committee has a Chairman and a formal charter to guide its activities.

The Board of Supervisors meets monthly: four times in person and the balance by conference call. The Committees of the Board 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 the following subsections.

In 2017, the Board met 12 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 into compliance, resulting in very satisfactory implementation of these policies and procedures, although more needs to be done.

In addition to routine matters conducted during the year, the Board and shareholders approved the purchase of 15 percent of the Bank by the Internal Finance Corporation (IFC). This acquisition reflects the sound position of AIB in Afghanistan and the Bank's commitment to help develop the economy of Afghanistan. We are proud that the IFC has chosen AIB as the commercial bank to invest in.

Another major achievement in 2017 was the completion of the Bank's second strategic plan. The first plan was formulated in 2012 to cover a period of five years. The new plan spans three years through 2020, and is focused on external market development and internal capability-building.

The Board and shareholders were planning to have the Bank's new headquarters building completed in 2016, but unfortunately, due to delays, the head office will now be occupied in the first quarter of 2018. We are excited about finally having our own headquarters building.

Planning and Strategy Committee

The committee is responsible for AIB's strategic plan and annual business plan and budget. It also monitors management's performance quarterly against plans. At its July meeting, the Board decided to merge the Planning and Investment Committees, as there was significant overlap in committee memberships and this action was deemed to more efficient in managing the affairs of the Bank.

In 2017, the committee met four times in person. Specific accomplishments during the year were:

- Developing a three-year strategic plan to cover the years 2018 to 2020
- Developing the business plan and budget for 2018
- Instituting planning by business unit/segment
 - Developing plans for each business unit: corporate and institutional, business banking, community banking, and consumer banking.
 - Developing profit and loss statements and balance sheets for each business unit
 - Establishing a method for monitoring each unit's plans
- Monitoring the investment portfolio, which yielded 2.63 percent (about \$5 million) in interest income in 2017
- Approving a plan to realise additional major contract guarantee business
- Approving model branch cost/benefit analysis to include staffing and organisation, physical layout, cost structure, service standards, and performance measures
- Approving a revised organisation structure for the Bank

As a part of its ongoing responsibilities, the committee monitored progress of the 2017 business plan and budget each quarter. As the political, security, and economic conditions in Afghanistan are not likely to improve in 2018, the committee has taken a conservative approach to planning the Bank's activities and finances.

Risk Committee

The Board's committee to provide comprehensive oversight and best practices in risk governance and risk management.

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

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 2018 to ensure that the balance between risk and return is maintained.

Audit Committee

The Audit Committee is responsible for overseeing financial reporting; compliance with risk management policies and procedures; internal controls; ethical behaviour; and management and functioning of the internal audit department. Consistent with previous years, in 2017 the committee assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan. The committee also reviews the Bank's annual budget and business plan, and recommends to the Board of Supervisors the payment of dividends. 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, reviewed at every quarterly committee meeting. The reports include the key performance indicators of different segments and issues related to operational and financial controls.

The committee discussed control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities. Significant audit issues were also brought to the committee's attention.

The committee is responsible for relationships with the external auditors, and meets them on completion of the annual audit and quarterly reviews. On the committee's recommendation, the Board of Supervisors approves the annual financial statements and three quarterly-reviewed condensed financial information. These meetings enable committee members to discuss matters relating to the external auditors' remit and issues arising from the audit.

During 2017, the committee regularly focused on the controls and issues related to anti-money laundering and countering financing of terrorism.

The committee currently has four members, all qualified and experienced in audit, accounting, or banking. Under Afghanistan banking regulations, the Board of Supervisors may appoint members to the Audit Committee who are not members of the Board of Supervisors.

Any individual who is proposed to join the committee is subject to the same fit and proper requirements as members of the Board of Supervisors. The committee currently has two non-board members.

Remuneration Committee

The Remuneration Committee has five major responsibilities:

- Establish compensation policies for the Bank's senior management to include base salary, fringe benefits, and bonus scheme.
- Establish performance goals for each member of senior management and monitor performance against these goals.
- Establish and review development and succession plans for senior management.
- Recommend to the full Board for final decision on matters relating to senior management compensation and bonus actions.
- Review and approve the Bank's human resource policies.

The committee has four members, three of whom are independent directors including the Chairperson, Veronica John. In 2017, the committee met four times in person in conjunction with Board meetings. Major undertakings by the committee during the year included:

- Reviewed action plan and timeline to upgrade all human resource functions: organisation of HR department, succession planning, skills gap analysis, career planning, job grading, performance management, training needs analysis, and employee on-boarding method.
- Approved revised senior management compensation policy.
- Reviewed, approved and monitored senior management goal statements.
- Reviewed and approved 2016 bonus and salary actions for senior management.
- Approved revised HR policy manual.
- Reviewed and approved amended staff compensation scheme covering pay scales, job grades, and the like.
- Approved succession and transition plan for CEO and key managers, and introduced corporate titles along with a revised organisation chart.
- Reviewed staff mortgage scheme.

Many of the agenda items tabled by the committee were directed towards installing a more professional HR function in the Bank and having comprehensive and transparent HR policies.

A challenge for AIB is the ability to deploy world-class human resource leadership and knowledge in a country lacking the depth of management skills necessary to achieve the Bank's objectives in this regard. This challenge has been further exasperated by regulations limiting the use of foreign management in the HR function.

Nominating Committee

The Nominating Committee works as a preparatory committee for the Board of Supervisors with respect to nomination and appointment of candidates to the Board of Supervisors, the Management Board, and other key senior managers as determined by the committee.

The committee is composed of five members of the Board of Supervisors, including the Chairman of the Board; two members representing employees; and two members representing shareholders. A majority of the members are independent. At least one-third of the Independent Directors of the Board are committee members.

In 2017, the committee met four times in person, in conjunction with Board meetings, and held a number of conference calls to interview Board candidates. The committee's major activities for 2017 were:

- Interviewing candidates to fill two Board positions. In all, five candidates were shortlisted and two were nominated for approval to the full Board, and subsequently to the shareholders and the Central Bank.
- The committee also reviewed and approved candidates to fill key management positions: Head of Banking, Head of Internal Audit, and Chief Risk Officer.
- The committee also developed a checklist for evaluating Board candidates.
- The committee nominated Mr. Hugo Minderhoud, a new director, to be a member of the Audit Committee.
- The committee also submitted existing Board members for re-appointment at the Annual General Meeting of shareholders.

Committee members spent considerable time and effort in 2017 due to the substantial number of positions to fill on the Board and in senior management.

Committee meetings and attendance records

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

Board	24 Jan 2017	21 Feb 2017	11 Mar 2017	18 Apr 2017	23 May 2017	20 June 2017	8 July 2017	22 Aug 2017	23 Sept 2017	16 Oct 2017	21 Nov 2017	9 Dec 2017
Ronald Stride, Chairman	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	○	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Salman Shoaib	⊙	○	⊙	⊙	○	⊘	⊘	⊘	⊘	⊘	⊘	⊘
Aditya Srivastava	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙
Samuel Sidiqi	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊙	⊙	⊙	⊙
Hugo Minderhoud	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊘	⊘	○

Planning & Strategy/ Planning, Strategy & Investment (from 23 Sept 2017)	10 Mar 2017	7 July 2017	22 Sept 2017	8 Dec 2017
Ronald Stride, Chairman	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙
Samuel Sidiqi	⊘	⊘	⊘	⊙

Risk Committee	10 Mar 2017	7 July 2017	22 Sept 2017	8 Dec 2017
Ronald Stride, Chairman	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙

Investment Committee (disbanded from 23 Sept 2017)	10 Mar 2017
Ronald Stride, Chairman	⊙
Salman Shoaib	⊙
Aditya Srivastava	⊙

Remuneration Committee	10 Mar 2017	7 July 2017	22 Sept 2017	8 Dec 2017
Ronald Stride, Chairman	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	○	⊙
Salman Shoaib	⊙	⊘	⊘	⊘
Samuel Sidiqi	⊘	⊘	⊘	⊙

Nominating Committee	24 Jan 2017	6 Feb 2017	8 Feb 2017	9 Feb 2017	11 Mar 2017	22 Sept 2017	8 Dec 2017
Ronald Stride, Chairman	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙	⊙	○	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙	⊙	⊙	○
Salman Shoaib	○	⊙	⊙	⊙	⊙	⊘	⊘
Samuel Sidiqi	⊘	⊘	⊘	⊘	⊘	⊘	⊙

Audit Committee	6 May 2017	12 Aug 2017	14 Nov 2017	28 Feb 2017	5 July 2017	21 Sept 2017	7 Dec 2017
Said Arab Khan, Chairman	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Marion Day	○	⊙	○	⊙	○	⊙	○
Hamidullah A. Mohib	⊙	○	⊙	⊙	⊙	⊙	⊙
Hugo Minderhoud	⊘	⊘	⊘	⊘	⊘	⊘	○

Management Profiles

Anthony Barned

Chief Executive Officer,
Chairman of Management Board

Mr. Barned assumed the position in April 2016, having worked with the Bank in an advisory role and chairing the Audit Committee for the previous seven years. He brings more than 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 a decade 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. He holds an MBA from the University of Liverpool, England.

Wissam Jarkassi

Chief Risk Officer

Mr. Jarkassi joined AIB in July, 2017. He holds a bachelor's degree in accounting, a master's in banking and capital markets, and is a certified financial risk manager. He has more than 16 years' banking experience in different areas, mainly credit. He was previously a senior consultant at Solution & More, the financial services specialist, and before that headed risk management at Banque Misr Liban in Lebanon.

Mohammad Taofiq Mir

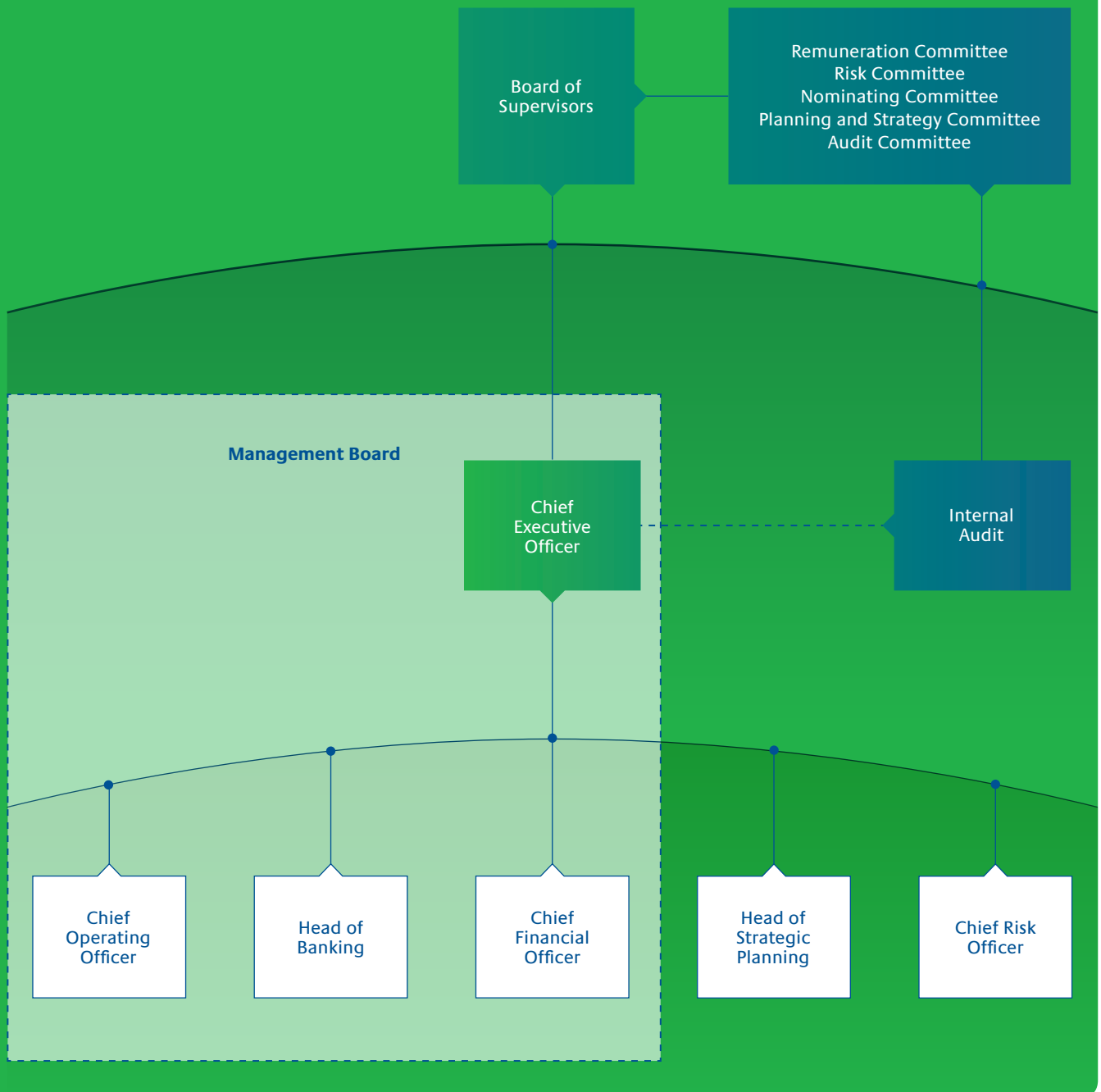
Head of Strategic Planning

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 also leads the Bank's programme to enhance anti-money laundering processes. Mr Mir holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Bishwajit Mazumder

Head of Internal Audit

Mr. Mazumder is a qualified chartered accountant, certified internal auditor, and certified information systems auditor. He also holds a law degree from India and is a USA-certified fraud examiner. He has more than 30 years' experience in banking in various institutions in different geographies and cultures, including more than a decade of heading internal audit.



AIB's history has been distinguished by consistent improvement in performance metrics, successive awards recognising its achievements, and establishing a well-earned reputation for sound governance and business integrity.



CFI.co 'Best Corporate Governance' award

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



Best Large Tax-Payer Award

Afghanistan's Ministry of Finance recognises large tax-payers with awards for their contribution to raising the level of tax compliance and developing economic activities



The Banker magazine

AIB wins Banker magazine's 'Bank of the Year, Afghanistan' award for the sixth consecutive year



Bibi Khadija Award

Honorary award presented by the Afghanistan Women Chamber of Commerce and Industry in recognition of AIB's work in supporting women's development

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 US\$2.6 million equity investment in AIB.

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

2005

Opening of first branch outside Kabul.

2006

Khalilullah Sediq joins as Chief Executive Officer.

2007

AIB shows annual profit for the first time.

2008

Appointed bankers to the American forces in Afghanistan.

2010

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

2011

Deposits exceed \$500 million.

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

2012

Deposits exceed \$800 million.

AIB acquires Standard Chartered Bank's business in Afghanistan.

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

2013

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

2014

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

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

The Bank begins building its 15,500 m² 12-storey head office.

2015

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

AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award 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 for the first time at SIBOS, the annual conference, exhibition and networking event organised by SWIFT for the financial industry.

2016

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

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

The Bank exhibits at SIBOS for the second time.

2017

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 sixth year running.

Construction of the Bank's new Head Office nears completion with occupancy expected in the first quarter of 2018.

The Bank exhibits at SIBOS for the third time.

AIB Branch Network

