

Second-Party Opinion

AAIB Sustainability Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the AAIB Sustainability Bond Framework is credible, impactful and aligned with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. The eligible categories are: Renewable Energy; Energy Efficiency; Environmentally Sustainable Management of Living Natural Resources and Land Use – Climate Smart Agriculture; Environmentally Sustainable Management of Living Natural Resources and Land Use – Aquaculture; Clean Transportation; Green Buildings; Sustainable Water and Wastewater Management; Pollution Prevention and Control; Marine Pollution; Sustainable Ports; Sustainable Marine Transport; Marine Ecosystem Management, Conservation and Restoration; Sustainable Coastal and Marine Tourism; Access to Essential Services; Affordable Housing; Employment Generation; Food Security and Sustainable Food Systems; Socioeconomic Advancement and Empowerment; and Women in the Economy. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12 and 14.



PROJECT EVALUATION AND SELECTION AAIB's Sustainable Assets Committee will be responsible for the evaluation and selection of eligible projects in line with the Framework's eligibility criteria. The committee is composed of members from the Treasury and Capital Markets, Sustainable Finance, E&S Risk departments, and certified subject matter experts. AAIB works with its customers to identify and manage potential environmental and social risks. Sustainalytics considers the risk management process to be adequate and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS The Sustainable Finance Department will be responsible for managing and tracking the allocation of proceeds using a Sustainability Bond Registry and will ensure that the aggregate nominal amount of all eligible projects included in the sustainable asset portfolio meet or exceed the principal amount of outstanding sustainable bonds issued under the Framework. AAIB intends to fully allocate proceeds within 24 months of issuance. Pending full allocation, unallocated proceeds will be held in cash, cash equivalents or other high quality liquid assets. Sustainalytics considers the management of proceeds to be in line with market practice.



REPORTING AAIB commits to report on the allocation of proceeds and corresponding impact on an annual basis until full allocation. The allocation and impact report will be published on the Bank's website. Sustainalytics considers the allocation and impact reporting commitments as aligned with market practice.

Second-Party Opinion

Reviewed by:
 | **SUSTAINALYTICS**

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Introduction

Arab African International Bank (“AAIB” or the “Bank”) is a financial services group established in 1964 and headquartered in Cairo, Egypt. AAIB offers a range of financial services, covering retail and corporate banking, SMEs, transaction banking solutions, investment banking, brokerage services, asset management, private equity, leasing, mortgage financing and micro-enterprise solutions.¹ AAIB operates in Egypt and the UAE and, as of December 2023, the Bank had total assets amounting to USD 17.5 billion and 3,025 employees.²

AAIB has developed the AAIB Sustainability Bond Framework dated June 2024 (the “Framework”) under which it intends to issue green, social and sustainability bonds and loans, and use the proceeds to finance or refinance, in whole or in part, existing and future projects intended to contribute to Egypt’s transition to a low-carbon economy and to promote socioeconomic development.

The Framework defines eligibility criteria in the following 13 environmental categories:

1. Renewable Energy
2. Energy Efficiency
3. Environmentally Sustainable Management of Living Natural Resources and Land Use – Climate Smart Agriculture
4. Environmentally Sustainable Management of Living Natural Resources and Land Use – Aquaculture
5. Clean Transportation
6. Green Buildings
7. Sustainable Water and Wastewater Management
8. Pollution Prevention and Control
9. Marine Pollution
10. Sustainable Ports
11. Sustainable Marine Transport
12. Marine Ecosystem Management, Conservation and Restoration
13. Sustainable Coastal and Marine Tourism

The Framework defines eligibility criteria in the following six social categories:

14. Access to Essential Services
15. Affordable Housing
16. Employment Generation
17. Food Security and Sustainable Food Systems
18. Socioeconomic Advancement and Empowerment
19. Women in the Economy

AAIB engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), Social Bond Principles 2023 (SBP),³ Green Loan Principles 2023 (GLP) and Social Loan Principles 2023 (SLP)⁴. The Framework will be published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

¹ AAIB, at: <https://www.aaib.com/>

² Ibid.

³ The Sustainability Bond Guidelines, Green Bond Principles and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁴ The Green Loan Principles and Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/#> and <https://www.lsta.org/content/social-loan-principles-slp/>

⁵ The AAIB Sustainability Bond Framework will be available on AAIB’s website at: <https://www.aaib.com/about/financial-reports>

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA, and the Green Loan Principles 2023 and Social Loan Principles 2023, as administered by LMA, APLMA, and LSTA;
The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.16, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of AAIB's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. AAIB representatives have confirmed (1) they understand it is the sole responsibility of AAIB to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and AAIB.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that AAIB has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Sustainability Bond Framework

Sustainalytics considers the AAIB Sustainability Bond Framework to be credible, impactful and aligned with the four core components of the GBP, SBP, GLP and SLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories are aligned with those recognized by the GBP, SBP, GLP and SLP. The eligible categories are: Renewable Energy; Energy Efficiency; Environmentally Sustainable Management of Living Natural Resources and Land Use – Climate Smart Agriculture; Environmentally Sustainable Management of Living Natural Resources and Land Use – Aquaculture; Clean Transportation; Green Buildings; Sustainable Water and Wastewater Management; Pollution Prevention and Control; Marine Pollution; Sustainable Ports; Sustainable Marine Transport; Marine Ecosystem Management, Conservation and Restoration; Sustainable Coastal and Marine Tourism; Access to Essential Services; Affordable Housing; Employment Generation; Food Security and Sustainable Food Systems; Socioeconomic Advancement and Empowerment; and Women in the Economy.
 - Sustainalytics notes that AAIB has established a two-year look-back period for its refinancing of operational expenditures, which is in line with market practice.

- AAIB has communicated to Sustainalytics that the Bank has implemented measures to ensure that double counting does not take place for instruments issued under the Framework.
- Under the Renewable Energy category, AAIB may finance or refinance the development, transmission, construction, installation, operation, acquisition, maintenance, upgrades and associated costs for renewable energy generation projects in accordance with the following criteria:
 - On-shore and off-shore wind power.
 - Photovoltaic and concentrated solar power (CSP) projects where at least 85% of the electricity is generated from solar energy sources.
 - Hydrogen production through electrolysis powered by renewables, very low carbon electricity with average carbon intensity at or below 100 gCO₂e/kWh, or from sustainably sourced biomass, biogas, renewable natural gas or landfill gas. This may include hydrogen storage facilities such that financing is pro-rated according to the share of low-carbon hydrogen stored. Additionally, production facilities financed under the Framework will rely solely on renewable energy.
 - AAIB has communicated to Sustainalytics that biomass procured will be certified by one of the following certifications: i) Forest Stewardship Council (FSC);⁷ ii) Programme for the Endorsement of Forest Certification (PEFC);⁸ iii) ISCC Biomass Certification;⁹ iv) Sustainable Biomass Program (SBP);¹⁰ v) Better Biomass;¹¹ or vi) an equivalent national certification.¹² Sustainalytics notes that while the SBP certification allows demonstration of sustainable biomass sourcing and provides a methodology to calculate GHG emissions savings, it does not prescribe minimum percentage of savings versus a fossil fuel baseline as observed in other credible biomass schemes.
 - The Bank may finance the production of hydrogen using grid electricity or technology which may support material GHG emissions reduction relative to the production of brown hydrogen, including consideration of scope 3 emissions, if material. Sustainalytics notes that hydrogen production from water electrolysis has the potential to reduce emissions significantly in comparison with conventional pathways of hydrogen production, i.e. steam reforming of natural gas or light ends recovery. Sustainalytics encourages AAIB to favour the sourcing of low-carbon intensity sources for electrolysis and to report, where feasible, on such intensity.
 - Sustainalytics notes that the Bank may also finance the production of hydrogen through steam reforming of natural gas where the CO₂ emissions are captured and stored or utilized.
 - Sustainalytics notes that the Framework adopts CertifHy's definition for eligible hydrogen, with a carbon intensity of 4.37 tCO₂/t of H₂ (60% below the carbon intensity of hydrogen produced from natural gas), and views positively the use of a threshold and the reliance on industry guidelines to establish the applicable level.¹³
 - Sustainalytics acknowledges that many decarbonization pathways rely on the use of hydrogen, and that the production of lower-carbon hydrogen will support the climate transition in a variety of industrial sectors. Sustainalytics further recognizes that blue hydrogen can act as a pertinent interim solution for scaling up hydrogen production while also noting that the deep decarbonization of hydrogen production will require a shift away from reliance on fossil fuels.

⁷ FSC: <https://fsc.org/en>

⁸ PEFC: <https://pefc.org/>

⁹ ISCC Solid Biomass NL: <https://www.iscc-system.org/certification/iscc-certification-schemes/iscc-solid-biomass-nl/>

¹⁰ SBP: <https://sbp-cert.org/>

¹¹ Better Biomass: <https://betterbiomass.nl/en/>

¹² Sustainalytics' assessment is limited to the certifications outlined in the Framework.

¹³ Certifhy, "What is Certifhy?", at: https://www.certifhy.eu/wp-content/uploads/2021/10/CertifHy_folder_leaflets.pdf

- Sustainalytics encourages the Bank to ensure long-term sequestration of captured CO₂ and to report on the final use or the adopted storage solutions on a periodic basis.
- Sustainalytics is of the opinion that these expenditures are suitable for transition financing. AAIB will ensure that borrowers considered have a decarbonization strategy in place to facilitate the transition towards a low-carbon hydrogen economy by producing hydrogen through electrolysis using renewable energy sources. Where not available, AAIB will collaborate with the borrower to develop such a transition strategy.
- Hydropower projects that: i) became operational after 2019 and have life cycle emissions intensity at or below 50 gCO₂e/kWh and power density greater than 10 W/m²; or ii) became operational before the end of 2019 and have life cycle emissions intensity at or below 100 gCO₂e/kWh and power density greater than 5 W/m². For all new hydropower projects and the renovation of existing hydropower projects that lead to an increase in capacity, an environmental and social impact assessment will be conducted by a credible third party to ensure that no significant environmental and social risks, negative impacts or controversies are identified.
- Biofuel and biogas derived from waste feedstocks, including agricultural residues such as oilseed crops, palm, sugar and starch crops, animal residues, food waste, algae sludge, wastepaper, bagasse, wastewater and sewage sludge excluding wastewater from fossil fuel operations.
 - Although the use of livestock residue for biomass energy may improve the environmental performance of some agricultural operations, livestock farming has a significant carbon and water footprint that is not addressed using livestock by-products in energy generation. Furthermore, such farming techniques may contribute to land degradation, biodiversity loss and deforestation. Nevertheless, Sustainalytics considers the use of residues from day-to-day operations of existing facilities for energy generation to provide positive impacts in the short term.
 - The Bank has confirmed to Sustainalytics: i) the exclusion of residues from animal fats, oil and other animal processing by-products, and manure from industrial-scale livestock operations; and ii) palm oil will be Roundtable on Sustainable Palm Oil (RSPO)¹⁴ certified.
 - Sustainalytics notes that the feedstock will be separated into recyclables and non-recyclables before production.
- Biofuel and biogas derived from non-waste feedstock including wood products, micro- and macroalgae and other microbial biomass certified by the Roundtable on Sustainable Biomaterials (RSB)¹⁵ and the International Sustainability and Carbon Certification Plus Programme (ISCC)¹⁶ with life cycle carbon emissions intensity lower than 100 gCO₂e/kWh on average over five years and life cycle emissions at least 65% lower than the fossil fuel baseline.
 - The Framework specifies additional criteria whereby the feedstock will be separated into recyclables and non-recyclables before production.
- Geothermal energy projects where the life cycle GHG emissions from the electricity generated are lower than 100 gCO₂e/kWh.
- Projects related to electricity transmission that support at least 90% renewable electricity. For grids that transmit less than 90% renewable electricity, Sustainalytics notes that the Bank uses a pro-rata approach to only finance expenditures that are proportional to the share of renewable energy in the grid and limits investments to projects where the share of renewable energy in the grid is expected to increase,¹⁷ which Sustainalytics considers aligned with market practice. In addition to the above,

¹⁴ RSPO: <https://rspo.org/>

¹⁵ RSB: <https://rsb.org/>

¹⁶ ISCC: <https://www.iscc-system.org/>

¹⁷ For grids that largely integrate very-low-carbon electricity with limited scope for expanding the share of non-nuclear very low-carbon electricity, financing under the Framework will not decrease the current share.

- the Bank may consider the following criteria for such projects: i) renewable energy transmitted will fulfil the MDB Common Principles Energy Sector criteria;¹⁸ ii) transmission of new nuclear energy will not be financed; and iii) demonstration that activities involving the interconnection of electrical systems will not significantly increase GHG emissions over the short or medium term.
- Brownfield energy efficiency improvement projects in accordance with the electricity transmission criteria.
 - Manufacture, supply chain, distribution and import of related technology and equipment, including turbines, solar panels, inverters and storage batteries. Sustainalytics notes that technologies financed under the Framework will be limited to those associated with renewable energy production.
 - Sustainalytics considers the expenditures under this category to be aligned with market practice.
- Under the Energy Efficiency category, AAIB may finance or refinance acquiring, manufacturing, replacing, redesigning or refurbishing energy-efficient technologies, products, contracting services and systems, in accordance with the following criteria:
- Energy efficiency solutions for manufacturing facilities that meet one of the following criteria: i) the facility achieves a reduction of at least 20% in absolute energy consumption; ii) the facility achieves a reduction of at least 25,000 tCO₂e/year in GHG emissions; iii) the facility achieves a reduction of at least 50 GWh/year in electricity consumption; or iv) process efficiency projects that lead to a 20% reduction in energy consumption per unit of production. This is in line with market practice.
 - IT equipment, household appliances and lighting that demonstrate at least 20% energy savings compared to the initial performance of the product or certified by energy efficiency labels, such as Energy Star;¹⁹ the EU Energy Label A, B (A+++ or A++ under the old system); or on the Most Efficient Energy Star annual list of white appliances.²⁰ Sustainalytics notes that AAIB's reliance on EU energy labels to define eligibility in this category is consistent with the EU Taxonomy Climate Delegated Act. Additionally, for appliances certified under Energy Star, Sustainalytics is unable to opine positively on the expenditure given the broad range of products under the scheme with varying requirements, while also noting that household appliances and hardware are resource-intensive products with the Energy Star label focusing only on energy efficiency during usage.
 - Energy management systems certified under ISO 50001. AAIB has confirmed to Sustainalytics that the Bank excludes the certification process from financing. This is in line with market practice.
 - Energy-efficient products preapproved under the European Product Registry for Energy Labelling (EPREL),²¹ including LED lighting, energy storage systems, insulation material, solar water heating, heat pumps, and cogeneration practices.
 - Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. AAIB has confirmed to Sustainalytics that refrigerants used for heat pumps will have a global warming potential (GWP) below 675, which is in line with the EU Taxonomy. AAIB has confirmed that such projects will measure refrigerant leakage and include measures to monitor leaks, such as leak detection alarm systems, regular leak detection inspections, and equipment maintenance and cleaning.
 - Energy storage systems will be directly connected to renewable energy or connected to a grid that meets one of the following criteria: i) more than 67% of the newly enabled generation installed capacity in the system will have emissions below 100 gCO₂e/kWh, measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period;

¹⁸ World Bank, Common Principles for Mitigation Finance Tracking, at:

<https://documents1.worldbank.org/curated/en/514141645722484314/pdf/Common-Principles-for-Climate-Mitigation-Finance-Tracking.pdf>

¹⁹ Energy Star: <https://www.energystar.gov/>

²⁰ Energy Star, "ENERGY STAR Most Efficient 2024", at: https://www.energystar.gov/products/most_efficient

²¹ EPREL List: <https://eprel.ec.europa.eu/screen/home>

- or ii) the average system emissions factor is below 100 gCO₂e/kWh over a rolling five-year period.
- The Bank has confirmed that financing for cogeneration plants will be limited to those that are either: i) powered by CSP, solar thermal or biomass waste; or ii) powered by geothermal energy or bioenergy from non-waste with emissions below 100 gCO₂e/kWh. The following criteria apply for feedstock: i) feedstock will be certified by the RSB and the ISCC; or ii) production will not take place on land with high biodiversity in the last 10-15 years, in competition with food production nor deplete carbon pools.
- AAIB has confirmed the exclusion of technologies and systems that are designed or intended to improve the energy efficiency of processes that are carbon-intensive (such as production processes in hard-to-abate industries) or are powered by fossil fuels.
- Sustainalytics views these expenditures as aligned with market practice.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use – Climate Smart Agriculture category, the Bank aims to finance expenditures that support sustainable agriculture, in accordance with the following criteria:
 - Techniques and technologies for sustainable agriculture including climate-smart crops such as affordable seeds,²² improved water use and management, polytunnels, shade netting, sustainable mechanization,²³ regenerative agricultural practices, including compost, agroforestry and conservation farming, and integrated pest management. Financing under the Framework will be limited to projects that demonstrate: i) at least a 20% productivity improvement without increasing GHG emissions per unit of product; ii) at least a 20% GHG emissions intensity reduction per unit of product for brownfield and green field operations; iii) at least a 20% reduction in post-harvest losses; or iv) reduction of the vulnerability to climate change impacts. Sustainalytics considers such financing to be aligned with market practice.
 - The category excludes expenditures related to inorganic or synthetic fertilizers, pesticides and herbicides, which Sustainalytics considers to be aligned with market practice.
 - Sustainable agriculture and aquaculture units that are certified by Aquaculture Stewardship Council (ASC);²⁴ Roundtable on Sustainable Biomaterials (RSB);²⁵ Bonsucro;²⁶ or schemes with equivalent performance standards.²⁷ Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications in the Framework and encourages the Bank to report on any specific schemes and certifications it intends to use.
 - Climate-smart agricultural techniques and technologies, including biological crop protection and drip irrigation.
 - Integrated Cropland-Livestock-Forestry systems (ICLFS) dedicated to smallholder farmers.²⁸
 - Sustainalytics recognizes that Integrated cropland-livestock-forestry systems (ICLFS) and agroforestry projects encompass a diversified production strategy that aims to enhance agricultural productivity, and have been demonstrated to reduce the vulnerability of farmers (particularly smallholder farmers) to environmental shocks, including climate change. However, such integrated projects could face certain barriers,²⁹ especially related to their

²² Sustainalytics considers the financing of affordable seeds to be more impactful from a social perspective given the limited environmental impact associated with such financing.

²³ AAIB has confirmed that motorized vehicles or equipment financed will have direct net zero emissions.

²⁴ ASC: <https://www.asc-aqua.org/>

²⁵ RSB: <https://rsb.org/>

²⁶ Bonsucro: <https://bonsucro.com/what-is-certification/>

²⁷ Sustainalytics' assessment is limited to the certifications outlined in the Framework.

²⁸ AAIB employs FAO's definition of smallholder farmers. FAO, "Smallholders and Family Farmers", at: <https://www.fao.org/family-farming/detail/en/c/273864/>

²⁹ The adoption of integrated crop-livestock systems is influenced by several factors, including the "costs of adoption versus non-adoption, supply chain infrastructure, biophysical suitability, availability of skilled labour, access to information and know-how, as well as the willingness to diversify production." Land Use Policy, Determinants of crop-livestock integration in Brazil: Evidence from the household and regional levels: https://www.bu.edu/gdp/files/2018/02/Gil_Garrett_et_al_2016_Determinants-of-ICLS.pdf

effective adoption at the farm level, as well as their overall potential for achieving a net reduction in methane emissions resulting from livestock production.³⁰ Sustainalytics notes that the financing of other animal husbandry activities is excluded from the Framework.

- Biomass projects including the production of biomaterials, bioenergy and biofuels in accordance with the following criteria:
 - Production of biomaterials excluding biobased plastics. AAIB has confirmed to Sustainalytics that the Bank will ensure sustainable sourcing of all materials. AAIB has communicated to Sustainalytics that biomaterials will be certified by one of the following certifications: i) FSC; ii) PEFC; iii) ISCC Biomass Certification; iv) SBP;³¹ v) Better Biomass; or vi) equivalent national certification.³² Sustainalytics notes that while the SBP certification allows demonstration of sustainable biomass sourcing and provides a methodology to calculate GHG emissions savings, it does not prescribe a minimum percentage of savings versus a fossil fuel baseline as seen in other credible biomass schemes.
 - Bioenergy and biofuel production derived from waste feedstocks including agricultural residues, wastes, residues and their byproducts, wastewater and sewage sludge excluding wastewater from fossil fuel operations, certified by the RSB and the ISCC.
 - These expenditures are in line with market practice.
- Under the Environmentally Sustainable Management of Living Natural Resources and Land Use – Aquaculture category, AAIB may finance or refinance the following:
 - Sustainable fisheries and waste management measures that are certified by the Marine Stewardship Council Fisheries Standard (MSC).³³
 - The Framework notes that introduced species or technologies will not contribute to the degeneration of native ecosystems or fisheries.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Clean Transportation category, AAIB may finance and refinance electric, hydrogen, hybrid, plug-in hybrid or biofuel powered transport according to the following criteria:
 - Passenger cars with emissions intensity up to 75 gCO₂/km; buses with emissions intensity up to 50 gCO₂/pkm; and passenger rail with direct emissions up to 50 gCO₂/pkm. AAIB has communicated that it will follow the Worldwide Harmonized Light Vehicles Test Procedure (WLTP) to determine emissions from the vehicles financed under the Framework.
 - Production of biofuels in alignment with the criteria under the Renewable Energy category.
 - Sustainalytics considers investments under this category to be aligned with market practice.
- Under the Green Buildings category, AAIB may finance or refinance the development, construction, installation, operation, acquisition, mortgage, maintenance, upgrades and associated costs of residential and commercial buildings in Egypt in accordance with the following criteria:
 - New or existing buildings that have achieved one of the following minimum certification levels: i) EDGE Certified;³⁴ ii) BREEAM Good;³⁵ iii) LEED Silver;³⁶ iv) Green Star level four;³⁷ v) Energy Water Performance level six;³⁸ or vi) a green building

³⁰ IPCC, Land-Climate Interactions: https://www.ipcc.ch/site/assets/uploads/2019/08/2c.-Chapter-2_FINAL.pdf

³¹ SBP: <https://sbp-cert.org/>

³² Sustainalytics' assessment is limited to the certifications outlined in the Framework.

³³ MSC: <https://www.msc.org/standards-and-certification/fisheries-standard>

³⁴ EDGE: <https://edgebuildings.com/>

³⁵ BREEAM: <https://breeam.com/>

³⁶ LEED: [https://www.usgbc.org/leed#:~:text=LEED%20\(Leadership%20in%20Energy%20and,used%20green%20building%20rating%20system.](https://www.usgbc.org/leed#:~:text=LEED%20(Leadership%20in%20Energy%20and,used%20green%20building%20rating%20system.)

³⁷ Green Star: <https://www.gbcsa.org.za/certify/green-star-sa/green-star-africa/>

³⁸ Green Building Council South Africa, "Energy Water Performance", at: <https://gbcsa.org.za/certify/energy-water-performance/>

- certification with equivalent performance recognized by multilateral development banks with a minimum performance of one EPC class above national requirements.³⁹
- Sustainalytics considers that the BREEAM Good, LEED Silver, Green Start Level four and Energy Water Performance level six certifications alone are not sufficient to guarantee the energy efficiency improvement of buildings. The Bank has confirmed that it will limit financing to buildings that achieve these certification levels to renovations resulting in at least a 20% energy efficiency improvement over the pre-renovation baseline.
 - Noting that retrofits that result in performance improvements of 20% may provide some environmental benefits, Sustainalytics considers market practice to ensure that retrofits achieve emissions or energy performance improvements of at least 30%.
 - Sustainalytics notes that it is market expectation to specify all eligible schemes and certifications, and encourages the Bank to report on any specific schemes and certifications it intends to use.
 - The Bank confirmed that it will limit financing to retrofitting expenditures, which is in line with market practice.
- Under the Sustainable Water and Wastewater Management category, AAIB may finance or refinance water treatment and efficiency projects:
 - Retrofitting of existing facilities that leads to at least 20% water efficiency gains.
 - Water recycling, reuse and efficiency projects including drip irrigation systems and rainwater harvesting tanks that result in at least 20% water efficiency gains.
 - Water supply, wastewater treatment and advanced tertiary treated sewage measures and water sanitation systems. Sustainalytics notes that the Bank may also finance desalination facilities that are powered by low-carbon sources, such as renewables or where the average carbon intensity of the electricity used for desalination is below 100 gCO₂e/kWh. Sustainalytics notes that an appropriate waste management plan for brine disposal will be in place for the desalination facilities.
 - Marine resources protection projects including marine spatial planning for the protection of coastal and marine ecosystems, restoration of natural resources, such as coral reefs, mangroves, coastal wetlands, salt marshes, river embankments and seagrasses. AAIB has confirmed to Sustainalytics that the plant and tree species used for afforestation or reforestation will be native or well adapted to local conditions.
 - Sustainalytics considers expenditures under this category to be aligned with market practice.
 - Under the Pollution Prevention and Control category, the Bank may finance or refinance:
 - Greenfield or reconstruction of projects to convert waste to energy, capture landfill gas, support recycling, or reduce the amount of waste produced or sent to landfill. AAIB has communicated to Sustainalytics that the source of waste will be municipal solid waste.
 - For the incineration of municipal solid waste, the Framework specifies that segregation of recyclable waste, non-combustible and non-hazardous materials will be carried out before energy conversion.⁴⁰
 - For landfill gas capture, AAIB has communicated to Sustainalytics that the landfill will be non-operational with a high gas capture efficiency of more than 75%. Sustainalytics notes that recovering methane produced from a closed landfill will not prolong the lifespan of the landfill and is a key strategy to reduce methane emissions from waste.
 - AAIB has confirmed that landfill gas capture will not be used for flaring.
 - Nature-based solutions that naturally sequester carbon, such as afforestation, and marine, wetland and peatland conservation. The Framework notes that afforestation

³⁹ Sustainalytics' assessment is limited to the certifications expressly cited in the Framework.

⁴⁰ Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine two of the main objectives of a zero-waste circular economy, i.e. waste prevention and recycling. Additionally, for such projects to have low emissions intensities, the composition of residual waste, particularly fossil carbon content, is a crucial consideration. However, Sustainalytics also notes that due to constraints on recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends AAIB to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.

- projects will use tree species that are well adapted to the site conditions and a sustainable management plan certified by FSC or PEFC will be in place.
- Design, development, production and use of materials, components and products that are upcycled, reusable, recyclable, certified or compostable in accordance with the following criteria:
 - R&D, including pilot projects, for products, processes and technologies using bio-based materials such as biopolymers and bioplastics.
 - Procurement of recycled, waste or resource-efficient materials as inputs.
 - Production of new resource-efficient low-carbon products that use bio-based materials certified by RSB.
 - Procurement of bio-based raw materials as an input, where sustainable sourcing is ensured. AAIB has communicated to Sustainalytics that bio-based raw materials are considered sustainably sourced if they: i) are renewable; ii) do not negatively impact food security; iii) do not result in destruction of critical ecosystems, loss of habitat for endangered species or other negative impacts on the environment, such as that on biodiversity, land use or water quality; iv) do not result in burden-shifting within the value chain; and v) do not involve unacceptable social conditions related to human rights, responsible labour practices, fair operating practices, or community involvement and development.
 - Production of aluminium-based consumer products, such as beverage cans according to the following criteria: i) 90% or more of the input is recycled aluminium; or ii) 75-90% of the input is recycled aluminium and the remaining (primary) aluminium has a carbon intensity lower than 2.5 tCO₂e/t.
 - Sustainalytics considers financing under this category to be in line with market practice.
- Under the Marine Pollution category, the Bank may finance or refinance investments related to the research, design, development and implementation of measures to manage, reduce, recycle and treat plastic, pollution or chemical wastes in coastal and river basin areas, including wastewater management, solid waste management, resource efficiency and circularity, and non-point source pollution management projects.
- Sustainalytics notes that financing of resource efficiency and circular economy will consist of waste prevention and reduction activities on coastal and river basin areas.
 - The Framework notes that solid waste management facilities will support segregation of waste. Additionally, AAIB has confirmed to Sustainalytics that: i) electronic waste recycling will not be financed under the Framework; ii) chemical recycling of plastic will not be financed under the Framework; and iii) vehicles financed will comply with an emissions intensity threshold of 75 gCO₂/km based on the Worldwide Harmonized Light Vehicles Test Procedure (WLTP) or equivalent test procedures, if and where applicable.
 - Sustainalytics notes that the Framework excludes treatment of wastewater from fossil fuel operations.
 - Sustainalytics views investments under this category to be aligned with market practice.
- Under the Sustainable Ports category, AAIB may finance or refinance investments in the research, design, development and implementation of water and waste management and reduction measures in shipping yards, ports and related infrastructure, including alternative maritime power (AMP) and bunkering facilities.
- The Framework restricts financing of bunkering facilities to those suitable for biofuels, hydrogen, ammonia and ethanol.
 - Sustainalytics notes that financing will not be directed towards ships or infrastructure for or related to ships that: i) run on conventional heavy fuel oil or bunker fuel; ii) run on low-sulphur heavy fuel oil; iii) run on marine diesel oil; iv) are cargo ships, oil tankers or vessels transporting solely or mostly (in mass) coal and oil; v) are tank containers which transport fossil fuels or fossil fuels blended with alternative fuels; or vi) are vessels for the construction of marine renewables that may be used for other purposes, such as offshore oil and gas activities.

- Sustainalytics views investments under this category to be aligned with market practice.
- Under the Sustainable Marine Transport category, the Bank may finance or refinance sustainable shipping investments related to the research, design, development and implementation of water and waste management and reduction measures in shipping vessels.
 - AAIB has confirmed to Sustainalytics that for retrofits of ships to switch fuels to a low-carbon alternative or increase efficiency, only the retrofit costs will be eligible for financing under the Framework.
 - The Framework notes that financing will not be directed towards ships or infrastructure for or related to ships that: i) run on conventional heavy fuel oil or bunker fuel; ii) run on low-sulphur heavy fuel oil; iii) run on marine diesel oil; iv) are cargo ships, oil tankers or vessels transporting solely or mostly (in mass) coal and oil; v) are tank containers which transport fossil fuels or fossil fuels blended with alternative fuels; vi) are vessels for the construction of marine renewables that may be used for other purposes, such as offshore oil and gas activities
 - AAIB has communicated to Sustainalytics that the treatment of wastewater from fossil fuel operations is excluded from financing under the Framework.
 - Sustainalytics considers these investments to be aligned with market practice.
- Under the Marine Ecosystem Management, Conservation and Restoration category, AAIB may finance or refinance projects that reduce GHG emissions from the degradation of marine ecosystems or other water-based ecosystems. AAIB has communicated to Sustainalytics that project examples under this category include nature-based solutions projects that naturally sequester carbon, such as habitat restoration and conservation of coastal and marine habitats. Sustainalytics views activities under this category as aligned with market practice.
- Under the Sustainable Coastal and Marine Tourism category, AAIB may finance or refinance projects for the protection, conservation, recovery, restoration and sustainable management of biodiversity and natural landscapes, and sustainable tourism services that contribute towards terrestrial and aquatic biodiversity conservation, such as the protection of coastal, marine and watershed environments, as well as sustainable coastal and marine tourism.
 - The Bank has communicated to Sustainalytics that financing under this category may include projects in areas such as the Sinai peninsula, the Red Sea coast and the Mediterranean sea, through: i) programmes for energy and water efficiency at coastal tourism facilities; ii) initiatives to enhance marine ecosystem and biodiversity and afforestation, rehabilitation and restoration of forests and conservation areas; iii) procurement of recycled and resource-efficient building materials and other structural components for the development of touristic premises; and iv) use of marine spatial planning for sustainable tourism development.
- Sustainalytics acknowledges the potential benefits that some tourist activities may offer, such as through improved public awareness and protection of certain natural habitats. However, Sustainalytics' opinion is that tourism activities offer limited potential for net environmental benefit given the overall impacts associated with such activities such as high fresh water use, high use of local resources and land degradation.^{41,42,43} In case of development of touristic premises, Sustainalytics encourages AAIB to limit financing to the development of visitor centres or similar facilities, and exclude financing towards expenditures such as resorts and boat operators.
- Under the Access to Essential Services category, AAIB may finance or refinance the following expenditures for new or existing non-profit and public sector education, healthcare and childcare organisations that provide services to all regardless of ability to pay:
 - Education projects include:
 - Construction, maintenance or renovation of education facilities that are accessible and affordable to all segments of the population.

⁴¹ Camarda, D. et al, (2003), "Environmental impacts of tourism", Options Méditerranéennes: Série A. Séminaires Méditerranéens, at: <https://tamug-ir.tdl.org/server/api/core/bitstreams/37b999eb-8b4e-4498-9f79-356836edc0cd/content>

⁴² Gössling, S. et al, (2011), "Tourism and water use: Supply, demand, and security. An international review", Tourism Management, at: https://adaptecca.es/sites/default/files/documentos/complementarios/goessling_vatten_och_turism.pdf

⁴³ Shiji, O, (2016), "Tourism and Environmental Degradation: a Threat to World's Economic Development", EPRA International Journal of Economic and Business Review, at: <https://eprajournals.com/IJES/article/8779/download>

- Access to tertiary, vocational or technical skills training including construction and maintenance of educational institutions and materials for students or faculty.
- Healthcare projects include:
 - Construction, maintenance or renovation of healthcare facilities that are accessible and affordable to all segments of the population.
 - Procurement of equipment and development of facilities that aim to improve the standards of technology of healthcare.
 - Research and development of vaccines and medicines for communicable and non-communicable diseases affordable to all aimed to address discernible needs, including undertreated diseases, essential medicines and major diseases.
 - Financial risk protection including subsidized universal healthcare services and the development of large-scale medicinal facilities aimed to achieve universal health coverage.
- Development, construction or renovation of childcare facilities that are accessible to all segments of the population.
- Sustainalytics considers that investments under this category will enhance the availability and accessibility of essential infrastructure and services to the general population and therefore, considers this category to be socially impactful in the Egyptian context.
- Under the Affordable Housing category, AAIB may finance or refinance the construction of affordable housing and mortgages dedicated to affordable housing following income thresholds defined by the Public Social Housing Program (PSH) and New Urban Communities Authority (NUCA).
 - The NUCA and PSH define low-income individuals as those whose household income is less than EGP 10,000 (EUR 196) per month for individuals and EGP 14,000 (EUR 274) for households. Sustainalytics notes that Egypt's monthly median income in 2021 was EGP 6,748 for women and 7,644 for men in 2021.⁴⁴
 - Sustainalytics considers it good practice to target individuals and couples whose income is less than the country's median income. Therefore, targeting individuals and couples with a household income of EGP 10,000 and EGP 14,000 represents a minor deviation from market expectation, because it is slightly above Egypt's median income. Sustainalytics further notes that while the Framework provides criteria for the identification of target populations, it does not provide information related to the affordability mechanisms to guarantee access to the target populations. Sustainalytics recognizes the potential positive impact of developing affordable housing to target populations under the Framework, but encourages the Bank to report on the affordability mechanisms and social impact achieved as part of its annual reporting commitments.
- Under the Employment Generation category, AAIB may finance or refinance the following expenditures:
 - Programmes designed to prevent or alleviate unemployment, including SME financing and microfinancing, vocational and skills training.
 - MSMEs⁴⁵ located in underserved and low- and moderate-income regions or owned or controlled by women, marginalized niches of the community or youth⁴⁶; and projects that promote the formalization and growth of MSMEs, including access to affordable credit at preferential rates, payment and saving accounts.

⁴⁴ Statista, "Average weekly wage in Egypt from 2021, by gender and sector", (2023), at: <https://www.statista.com/statistics/1297888/average-weekly-wage-in-egypt-by-gender-and-sector/>

⁴⁵ AAIB refers to the definition from the International Finance Corporation on MSMEs. IFC, "IFC's Definitions of Targeted Sectors", at: <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors>

⁴⁶ Programs considered aim to be designed to prevent or alleviate unemployment stemming from socioeconomic crises, climate transition projects or other considerations for a "just transition". Such provision or promotion could include SME financing and microfinancing, vocational and skills training.

- Sustainalytics considers that expenditures under this category will support skill development, support employment generation and economic development, and therefore, considers them to be socially impactful.
- Under the Food Security and Sustainable Food Systems category, AAIB may finance or refinance the following projects dedicated to small-scale producers, farmers,⁴⁷ pastoralists and fishers:
 - Climate-resilient agricultural practices such as advanced harvesting techniques.
 - Equipment and facilities to reduce food loss and waste, and improve productivity, such as storage, transportation, processing and cooling facilities, infrastructure, packaging and marketing systems. Sustainalytics notes that vehicles financed under this category will meet the criteria under the Clean Transportation category.
 - Sustainalytics considers that investments under this category will support the availability and accessibility of food in the Egyptian context and, therefore, views these expenditures to be socially impactful.
- Under the Socioeconomic Advancement category, AAIB may finance or refinance expenditures to enhance access to affordable basic infrastructure in rural and underdeveloped areas which either have no access or limited access to such infrastructure, and microfinance.
 - Affordable basic infrastructure includes:
 - Construction, maintenance and renovation of equipment for water supply infrastructure, such as pipe work.
 - Installation or upgrade of water treatment infrastructure, excluding the treatment of wastewater from fossil fuel operations.
 - Construction of bulk infrastructure to provide access to safe and affordable drinking water.
 - Construction, maintenance, renovation to sanitation facilities, such as toilets and bulk sewage infrastructure.
 - Public transportation infrastructure, including roads and bridges to increase connectivity in remote or socioeconomically disadvantaged areas.
 - Development and improvement of pedestrian infrastructure, including sidewalks for public use, bridges and tunnels, aimed to increase access to community facilities.
 - Development of transmission and distribution infrastructure aimed at increasing access to areas where there is limited or no access. AAIB has confirmed that projects financed will follow the criteria for electricity transmission projects under the Renewable Energy category.
 - Microfinance projects include:
 - Loans extended to small and medium-sized businesses and non-financial banking institutions (NBFIs) that offer loans to low- and moderate-income individuals, women, marginalized niches of community or underserved regions in rural areas where access to finance is currently limited. AAIB confirmed to Sustainalytics that the loans offered include preferential terms, such as lenient repayment terms, settlement agreements and payment conditions, and that the Bank will adhere to responsible lending practices defined in the Principles of Responsible Banking.⁴⁸ Sustainalytics encourages AAIB to limit financing to NBFIs, through a robust due diligence process, focused on extending loans that offer explicit financial advantages and have well defined responsible lending practices to avoid predatory lending.
 - Sustainalytics considers that investments under this category will support socioeconomic advancement among the Egyptian population and therefore, views these expenditures to be socially impactful.
- Under the Women in the Economy category, AAIB may finance or refinance projects that aim to provide women and women-owned MSMEs⁴⁹ improved access to financial services, including

⁴⁷ AAIB employs FAO's definition of smallholder farmers. FAO, "Smallholders and Family Farmers", at: <https://www.fao.org/family-farming/detail/en/c/273864/>

⁴⁸ UNEP FI, "About the Principles", at: <https://www.unepfi.org/banking/more-about-the-principles/>

⁴⁹ The Bank defines women-owned MSMEs as those that are: i) at least 51% owned by a woman; or ii) are at least 20% owned by a woman; and fulfil one of the following criteria: a) have at least one woman in a senior executive role (e.g. Chief Executive Officer, Chief Operating Officer, President, Vice-

affordable credit, payment and saving accounts, and non-financial services, including financial literacy and business skill training. The Bank will adhere to responsible lending practices defined in the Principles for Responsible Banking⁵⁰ when providing loans to the targeted population. Sustainalytics considers that investments under this category will improve access to finance for women-owned MSMEs and enhance financial security for women in Egypt, and therefore views them to be socially impactful.

- Project Evaluation and Selection:
 - The Sustainable Assets Committee will be responsible for the evaluation and selection of eligible projects in line with the Framework’s eligibility criteria. The committee is comprised of members from the following departments of the Bank: Treasury and Capital Markets, Sustainable Finance, E&S Risk, and certified subject matter experts.
 - AAIB works with its customers to identify and manage potential environmental and social risks. Furthermore, projects associated with the eligible assets are assessed against AAIB’s Credit Policy and Environmental and Social Risk Management Policy. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with requirements under the GBP and SBP. For additional detail, see Section 2.
 - Based on the establishment of a dedicated committee for project evaluation and selection and the presence of a risk management system, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
 - The Sustainable Finance Department will be responsible for managing and tracking the allocation of proceeds using a Sustainability Bond Registry and will ensure that the aggregate nominal amount of all eligible projects included in the sustainable asset portfolio meets or exceeds the principal amount of outstanding sustainable bonds issued under the Framework.
 - AAIB intends to fully allocate proceeds within 24 months of issuance. Pending full allocation, unallocated proceeds will be held in cash, cash equivalents or other high-quality liquid assets.
 - Based on the use of an internal tracking system and disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - AAIB commits to report on the allocation of proceeds and corresponding impact on an annual basis until full allocation. The allocation and impact report will be published on the Bank’s website.
 - Allocation reporting will include the total amount of proceeds allocated by eligible loan or asset, the number of eligible loans and assets to which proceeds have been allocated, the balance of unallocated proceeds, the total amount of allocated proceeds per eligible category, the share of the amount of new financing versus refinancing, and the geographical distribution of the assets at a country or regional level.
 - Impact reporting may include quantitative metrics such as GHG emissions avoided (in tCO₂e/year), number of affordable housing units and number of eligible projects, among others.
 - Based on the commitments to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Sustainability Bond Framework aligns with the four core components of the GBP, SBP, GLP and SLP.

Section 2: Sustainability Strategy of AAIB

Contribution to AAIB’s sustainability strategy

AAIB focuses on the following environmental and social areas in its sustainability strategy: i) green financing initiatives; ii) SME and healthcare financing projects; and iii) participation in global sustainability initiatives.

President or other senior executive management role); and (ii) if they have a board of directors or other managing board or committee, at least 30% of the members of such board or committee are women; and where such ownership by women is real, substantial, in proportion to the interest owned, and continuing, going beyond the pro-forma ownership of the business as reflected in the ownership documents.

⁵⁰ UNEP FI, “About the Principles”, at: <https://www.unepfi.org/banking/more-about-the-principles/>

AAIB has financed 11 renewable energy projects in the Middle East and North Africa region since 2016, including Benban Solar Park, Aswan, Egypt, which is one of the world's largest solar farms with 1.65 GW capacity.⁵¹ In addition, in March 2021, AAIB signed a long-term loan agreement of EGP 200 million (USD 4.2 million) with Libra Capital⁵² to finance renewable energy projects in Egypt. In November 2022, AAIB, European Reconstruction and Development Bank, and Agence Française de Développement signed an agreement to finance USD 30 million worth of clean energy until 2027. Furthermore, AAIB has partnered with Green Economy Financing Programme⁵³ to finance renewable energy, energy efficiency, water and wastewater and sustainable land management projects in 2024.⁵⁴

The Bank has established a team that specializes in SMEs and offers advisory services in dedicated business centres in Egypt. Additionally, AAIB collaborated with Ahl Masr Foundation⁵⁵ during the Covid-19 pandemic and supported the financing of four intensive care units, 6,480 pieces of medical gear such as personal protective equipment and a quarantine hospital with a 150 beds capacity.⁵⁶

AAIB became a signatory to the UN Global Compact in 2005 and has reported on its progress towards the Ten Principles on human rights, labour, environment and anti-corruption in its annual progress report.^{57,58} The Bank is also a founding member of the Principles of Responsible Banking established in 2019, and has been reporting on its progress on the six UNEP-FI Principles.⁵⁹

Based on the above, Sustainalytics recognizes AAIB's overall sustainability performance and notes that the AAIB Sustainability Bond Framework is expected to further the Bank's action in key environmental and social priorities. Sustainalytics further notes that AAIB is in the process of developing a sustainability strategy and encourages the Bank to establish quantifiable and time-bound targets for its sustainability goals, and report on its progress.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to generate positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving land use and biodiversity; emissions, effluents and waste generated in construction; occupational health and safety; community relations associated with activities carried out by businesses financed; the exacerbation of inequalities if underserved groups are not appropriately targeted; and predatory lending and business ethics.

Sustainalytics is of the opinion that AAIB is able to manage and mitigate potential risks through implementation of the following:

- AAIB has in place an environmental and social risk management screening process (ESRM) which is based on the IFC Performance Standards⁶⁰ and the Equator Principles⁶¹ and applies to all new borrowers and to any new bookings to an existing customer under the AAIB's portfolio. The ESRM includes an environmental and social due diligence process, as well as a list of businesses and activities that are excluded from financing. The ESRM allows the Bank to classify potential transactions into three categories based on their environmental and social risk level: i) Category A: High Risk; ii) Category B: Medium Risk; and iii) Category C: Low Risk. The respective category is determined through an assessment of eight performance standards, namely: i) social and environmental assessment and management system; ii) labour and working conditions; iii) pollution prevention and abatement; iv) community health, safety and security; v) land acquisition, involuntary resettlement; vi) biodiversity conservation and sustainable natural resource management; vii)

⁵¹ AAIB, "Responsible Banking "Sustainability and Social Responsibility at AAIB", at: <https://www.aaib.com/news/csr>

⁵² Libra Group, "Libra Capital", at: <https://www.libra.com/what-we-do/uncategorized/libra-capital/>

⁵³ Green Economy Financing Facility (GEFF): <https://ebrdgeff.com/about-seff/#:~:text=The%20GEFF%20programme%20operates%20through,providing%20simple%20lines%20of%20finance.>

⁵⁴ AAIB, "Principles for Responsible Banking, Self-Assessment Report 2022", at: https://www.aaib.com/pdfs/prb_report.pdf

⁵⁵ Ahl Masr Foundation: <https://ahl-masr.ngo/en/>

⁵⁶ AAIB, "Principles for Responsible Banking, Self-Assessment Report 2022", at: https://www.aaib.com/pdfs/prb_report.pdf

⁵⁷ AAIB, "Responsible Banking "Sustainability and Social Responsibility at AAIB", at: <https://www.aaib.com/news/csr>

⁵⁸ The UN Global Compact, "Arab African International Bank", at: <https://unglobalcompact.org/what-is-gc/participants/713-Arab-African-International-Bank>

⁵⁹ AAIB, "Principles for Responsible Banking", at: <https://www.aaib.com/news/csr>

⁶⁰ IFC, "IFC's Performance Standards on Environmental and Social Sustainability", at: <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

⁶¹ Equator Principles, "ARAB AFRICAN INTERNATIONAL BANK (1 MAY 2022 – 31 MARCH 2023)", at: <https://equator-principles.com/report/arab-african-international-bank-1-may-2022-31-march-2023/>

indigenous peoples; viii) cultural heritage. If a company or project is marked as Category A or Category B, the borrower needs to provide an environmental and social action plan (ESAP) including mitigation measures, corrective action plans, monitoring measures, management of risk and related schedules. In addition, the Bank requires an external consultant to conduct an environmental or social impact assessment and review the ESAP and consultation process documentation.⁶²

- Regarding predatory lending, AAIB ensures that consumer finance loans and microfinance loans are compliant with the Egyptian Consumer Financing Law (Law No. 18 2020), which requires loan providers to provide transparency on the loan terms, including the duration of the repayment term, interest rate and the number, amount and repayment conditions. Loan providers must also abide by Egypt's Financial Regulatory Authority's (FRA) regulation on creditworthiness, governance, opening and closing branches, and combating money laundering and terrorism finance.^{63,64} In Egypt, the financing of MSMEs is governed by FRA's Responsible Pricing regulation.⁶⁵ In addition, AAIB ensures loans are compliant with Egypt's Micro Finance Law no 141 (2014) which requires microfinance providers to have in place rules to protect debtors' rights such as provide caps for micro finance for each customer, disclose loan requirements and check creditworthiness.⁶⁶
- With respect to business ethics, AAIB's Code of Conduct outlines the Bank's procedures to prevent, detect, manage and mitigate unethical business practices related to bribery, insider trading, receiving gifts and conflicts of interest. In case of suspected misconduct, the Bank requires its employees to report to the relevant supervisor or related director following its whistleblowing tool.⁶⁷
- The Bank has been a signatory to the Equator Principles since 2009, indicating the presence of strong environmental and social governance systems to mitigate environmental and social risks associated with projects intended to be financed and refinanced under the Framework.⁶⁸

Based on these policies, standards and assessments, Sustainalytics is of the opinion that AAIB has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognized by the GBP, SBP, GLP or SLP. Sustainalytics has focused on one below where the impact is specifically relevant in the local context.

Impact of financing green buildings in Egypt

In 2021, the buildings and construction sector accounted for 34% of the global energy demand and was responsible for 37% of the global carbon emissions.⁶⁹ To meet the objectives of the Paris Agreement's 1.5°C scenario, direct and indirect CO₂ emissions from the buildings sector need to decrease by 50% and 60% respectively by 2030, relative to 2020.⁷⁰ For the sector to reach net zero emissions by 2050 under this scenario, all new buildings and nearly 20% of the world's existing building stock would need to be net zero⁷¹ by 2030, and the energy consumed by buildings per square metre would need to decline by approximately 35% by 2030 from a 2022 baseline.^{72,73}

⁶² AAIB has shared its Environmental and Social Policy with Sustainalytics confidentially.

⁶³ Rizk, L., (2020), "The New Egyptian Consumer Financing Law", Lexology, at: <https://www.lexology.com/library/detail.aspx?q=efd222a5-34ab-4c28-b39d-f0d2b779d202>

⁶⁴ FRA, "Jurisdiction: Egypt", at: <https://sustainableinsuranceforum.org/wp-content/uploads/2020/11/Egypt-Financial-Regulatory-Authority-FRA.pdf>

⁶⁵ FRA, "Responsible Pricing", at: https://www.fra.gov.eg/itags/efsa_en/index_en.jsp

⁶⁶ Hashish, M., (2018), "Microfinance Law in Egypt", Soliman, Hashish & Partners, at: <https://www.shandpartners.com/microfinance-law-in-egypt/>

⁶⁷ AAIB has shared the Code of Conduct with Sustainalytics confidentially.

⁶⁸ Equator Principles, "ARAB AFRICAN INTERNATIONAL BANK (1 MAY 2022 – 31 MARCH 2023)", at: <https://equator-principles.com/report/arab-african-international-bank-1-may-2022-31-march-2023/>

⁶⁹ UN Environment Programme, "Global Status Report for Buildings and Construction", (2022), at: https://globalabc.org/sites/default/files/inline-files/2022%20Global%20Status%20Report%20for%20Buildings%20and%20Construction_0.pdf

⁷⁰ UN Environment Programme, "Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector – UN report", (2020), at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

⁷¹ The IEA defines zero-carbon-ready buildings as highly energy-efficient and resilient buildings that either use renewable energy directly or rely on a source of energy supply that can be fully decarbonized, such as electricity or district energy. The zero-carbon-ready concept includes operational and embodied emissions. IEA, "Roadmap for Energy-Efficient Buildings and Construction in the Association of Southeast Asian Nations", (2022), at: <https://www.iea.org/reports/roadmap-for-energy-efficient-buildings-and-construction-in-the-association-of-southeast-asian-nations/executive-summary>

⁷² IEA, "Renovation of near 20% of existing building stock to zero-carbon-ready by 2030 is ambitious but necessary", (2022), at: <https://www.iea.org/reports/renovation-of-near-20-of-existing-building-stock-to-zero-carbon-ready-by-2030-is-ambitious-but-necessary>

⁷³ IEA, "Buildings", at: <https://www.iea.org/reports/buildings>

In Egypt, as of 2021 the residential buildings sector was responsible for 58% of the total electric power consumption.⁷⁴ Furthermore, emissions in the building sector increased by more than 39% between 2005 and 2019,⁷⁵ and the construction sector is anticipated to grow at an annual average rate of 10.6% between 2023 and 2026.

Under its Second Updated Nationally Determined Contribution (NDC), Egypt has committed to reduce its GHG emissions by 37% (equivalent to 70 MtCO_{2e}) from a business-as-usual scenario in the electricity sector. To reach these targets, Egypt has implemented the following strategies: i) promoting the use of renewable, clean energy and energy efficiency measures in existing and new establishments; ii) installing rooftop photovoltaic panels for electricity generation, 5,300 solar water heaters, and expanding the use of LED lighting in residential sector 2030; iii) expanding on energy efficiency labels and specifications for appliances; iv) activating the energy efficiency codes for new buildings and voluntary green building guidelines; and v) developing 16,960 residential units according to green building standards by 2030.^{76,77}

Based on the above, Sustainalytics is of the opinion that AAIB’s financing of green buildings is expected to contribute towards the decarbonization of the national building stock and support Egypt’s efforts towards its emissions reduction targets.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Sustainability Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Environmentally Sustainable Management of Living Natural Resources and Land Use – Climate Smart Agriculture	2. Zero Hunger	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
Environmentally Sustainable Management of Living Natural Resources and Land Use – Aquaculture	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

⁷⁴ EDGE Buildings, “Egypt Green Building Snapshot 2023”, at: <https://edgebuildings.com/wp-content/uploads/2024/03/IFC0077-2024-Egypt-Green-Building-Market-Maturity-Sheet.pdf>

⁷⁵ European Parliament, “Egypt’s Policies”, (2022) at: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/738187/EPRS_BRI\(2022\)738187_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/738187/EPRS_BRI(2022)738187_EN.pdf)

⁷⁶ UNFCCC, “Egypt’s Second Nationally Determined Contributions”, (2023) at: <https://unfccc.int/sites/default/files/NDC/2023-06/Egypt%20Updated%20First%20Nationally%20Determined%20Contribution%202030%20%28Second%20Update%29.pdf>

⁷⁷ EDGE Buildings, “Egypt Green Building Snapshot 2023”, at: <https://edgebuildings.com/wp-content/uploads/2024/03/IFC0077-2024-Egypt-Green-Building-Market-Maturity-Sheet.pdf>

		vulnerable situations, women, children, persons with disabilities and older persons
Green Buildings	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Pollution Prevention and Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Marine Pollution	14. Life Below Water	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution
Sustainable Ports	6. Clean Water and Sanitation 9. Industry, Innovation and Infrastructure	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Sustainable Marine Transport	6. Clean Water and Sanitation 9. Industry, Innovation and Infrastructure	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Marine Ecosystem Management,	6. Clean Water and Sanitation	6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

Conservation and Restoration	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Sustainable Coastal and Marine Tourism	14. Life Below Water	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Access to Essential Services	3. Good Health and Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
	10. Reduce Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Employment Generation	8 Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Food Security and Sustainable Food Systems	2. Zero Hunger	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round
Socioeconomic Advancement and Empowerment	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

Conclusion

AAIB has developed the AAIB Sustainability Bond Framework under which it may issue green, social and sustainability bonds and loans, and use the proceeds to finance or refinance, in whole or in part, existing and future projects intended to contribute to Egypt's transition to a low-carbon economy and to promote socioeconomic development.

The AAIB Sustainability Bond Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Framework is aligned with the overall sustainability strategy of AAIB and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12 and 14. Sustainalytics is of the opinion that AAIB has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that AAIB is well positioned to issue green, social and sustainability bonds and loans, and that the AAIB Sustainability Bond Framework is robust, transparent and in alignment with the four core components of the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2023, Green Loan Principles 2023 and Social Loan Principles 2023.

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