Principles for Responsible Banking

2021 Report

Arab African International Bank
About this Report:

This report marks the first report for Arab African international Bank (AAIB) on its implementation of the United Nations Environment Programme Finance Initiative’s (UNEP FI) Principles for Responsible Banking (PRB). The report highlights the actions AAIB undertook to implement the Principles and to create value for all its stakeholders’ groups, especially with the impact of the Covid-19 pandemic.

In 2018, AAIB joined forces with UNEP FI and 29 banks around the globe to develop and introduce the PRBs. Later in 2019, AAIB and 129 other international banks signed Principles and committed to its implementation. The signatories, representing one-third of the total assets of all banks worldwide, agreed that they will align their business strategies with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

Since 2003, AAIB has followed an aggressive growth strategy that found expression not only in achieving profits but also in creating value to all stakeholders. We have come to believe that managing a bank is not just about numbers, it is about sustainable finance, where society and the environment are at the heart of profit making. Over a decade ago, AAIB set a clear course for its future; one that revolved around a vision to achieve unprecedented growth.

For more than a decade, the Bank had made remarkable footsteps in key areas. While the journey started as strategic philanthropy, the Bank early committed to key renowned frameworks including the United Nations Global Compact (UNGC), the Equator Principles (EP) and the United Nations Environment Programme Finance Initiative (UNEP FI) to enhance and guide its business activities. Adding to this, AAIB integrated the Environmental and Social (E&S) dimensions into its risk management framework related to Project Finance and Project related Corporate Loans based on its commitment to the EP. Adding to this, AAIB succeeded in financing environmentally sound projects including renewable energy and energy efficiency projects across Egypt.

In 2021, AAIB launched its 2021-25 strategy. The new strategy revolves around digital transformation, which will lead to increasing accessibility and better resource optimization. With the launch of the new strategy, emergence of new models and changing stakeholders’ interests, the Bank is working to align its sustainability strategy and targets with the new developed strategy.
About AAIB:

AAIB started out in 1964 with US$ 100,000,000 paid up capital, where it was established by a special law as the first Arab multinational bank in Egypt. The main shareholders were Kuwait Investment Authority (KIA) & Central Bank of Egypt (CBE), each owning 49.37% in a joint-venture format. These powerful institutions lend in valuable support and credibility to the financial services offered by the bank. Currently, AAIB has 92 local branches & 3 foreign ones in UAE & Lebanon.

Whilst undertaking a mission of achieving limitless growth, AAIB's foresight in terms of social consciousness became reality as early as 2003, with a belief that brands must be inspirational in a socially responsible manner.

AAIB embraced a transformative idea of Corporate Social Responsibility (CSR) being an engrained component of AAIB’s Core Values System. Applying this with a distinctively unique approach, AAIB set the trend for Sustainable Finance with Value Creation.

The Bank's growth was propelled in 2008 with the establishment of four subsidiaries; Arab African Investment Holding (AAIH), Arab African Investment Management (AAIM), Arab African International Securities (AAIS), Arab African International Mortgage Finance (AAIMF) and Arab African International Leasing (AAIL). The establishment of which transformed AAIB from a Bank to a full-fledged Financial Group.

Building for future success takes speed, strength and the determination to keep moving forward and our eyes in AAIB are steadfastly on our objective: becoming a digital organization that leads in the marketplace of the future. We’re gaining ground in our multi-year transformation initiative, adding new capabilities for serving a demanding client base in innovative new ways, and fulfilling their expectations for convenience and personalization. In the coming years, we will be working on the aligning and integrating the Global Goals with our digital transformation strategy, taking into consideration the needs of various stakeholders’ groups.
Purpose and Values

Across all our relationships with our stakeholders, AAIB will be inspired and guided by a set of values that will shape our mindset and behavior to ultimately define and distinguish our identity.

| CUSTOMER DELIGHT | • We place our customers at the center of all our activities. |
|                 | • We provide benchmarks for exclusive standards of customer service. |
| DISTINCTION     | • We initiate to differentiate and innovate to lead. |
|                 | • We commit to distinguished performance across all our deliverables. |
| DYNAMISM        | • We embrace speed to deliver. |
|                 | • We endeavor to stay ahead of the market. |
| EMPOWERMENT     | • We encourage self-development and individual initiatives. |
|                 | • We assume ownership and accountability. |
| INTEGRITY       | • We highly value our code of ethics. |
|                 | • We prize transparency, confidentiality and self-discipline. |
| PASSION         | • We have passion for excellence in all our undertakings. |
|                 | • We put our heart into the business. |
| PATRIOTISM      | • We measure our performance not only by our financial growth, but also by our contribution to the Egyptian community. |
|                 | • We pledge to make a positive impact in our communities. |
Managing Director & Vice Chairman’s Statement

“While AAIB continues to build up momentum on its path to digital transformation, it is also committed to making significant strides in its responsible banking journey”

It gives me great pleasure to connect with you for the first time and to present Arab African International Bank’s opening report on its implementation of the Principles for Responsible Banking (PRBs).

Despite the unfortunate circumstances caused by COVID-19 impacting societies and economic activities in 2020, AAIB managed to uphold its commitment to serving its stakeholders and protecting their interests while addressing community needs. The bank has successfully launched its new digital transformation strategy, which will guide our responsible banking strategy in the coming years. With a customer-centric and innovative approach to banking, we are committed to work hard to deliver a personalized experience to our clients.

While AAIB continues to build up momentum on its path to digital transformation, it is also committed to making significant strides in its responsible banking journey. Our SMEs portfolio has been growing in size and diversity. Additionally, our bank has introduced its Solar Energy Loan to its consumer banking clients and provided long-term loan agreement worth EGP 200m to finance renewable energy projects. Furthermore, the bank has managed to support the health and well-being of its clients, and employees during these tumultuous times.

As a founding signatory of the PRBs together with a large part of key recognized global players, we believe that the Principles, through their reinforcement of coalition and collaboration, pave the way for a sustainable future. As AAIB steadily advances on its renewed journey of digital transformation, we will continue to reinforce our responsible banking practices, deliver on our commitments, and enhance our efforts to better serve our stakeholders.

Sherif Elwy
Managing Director & Vice Chairman
Principle One: Alignment

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AAIB has been a leader in full-service banking in Egypt for more than 50 years, and one of the country’s fastest-growing banks in profitability over the past decade. We have built a strong franchise serving top-tier clients with offering a broad range of banking and financial services, including consumer, corporate and institutional banking and wealth management services.


In 2003, AAIB began its journey toward sustainability. The goal is to make sustainable living commonplace, fueled by the organization’s wider strategy for business growth through excellence. Our powerful vision is reflected in a series of initiatives calling for the adoption of a new concept of sustainable finance. By supporting a range of philanthropic activities, we are able to give back to the community. We have also shifted our focus from the single to the triple bottom line, and integrated the Environmental, Social and Governance (ESG) approach into our policies, systems and structures.

With local, regional and global emphasis on the importance of financial inclusion and providing clients with digital solutions, growing our consumer banking business continues to be a top priority for AAIB. In this sense, AAIB launched its 2021-25 strategy that revolves around digital transformation, which will lead to increasing accessibility and better resource optimization. With the launch of the new strategy, emergence of new models and chaining stakeholders’ interests, the Bank is working to align its sustainability strategy and targets with the new developed strategy to ensure its best focuses on and fits our stakeholders’ needs.
Principle Two:
Impact & Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.
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We acknowledge the role of the banking sector in accelerating development and creating positive impacts in societies where they operate. As financial intermediaries, our most significant impacts result from our financing and lending activities. In this sense, AAIB considers the way it conducts business with an eye on creating positive impacts and mitigating negative impacts while contributing to the SDGs.

Environmental & Social Risk Management

Since banks are the backbone of the economy, they have a substantial impact on the environment and the society. This impact results mainly from its financing and lending activities, which entails broadening risk management interpretation beyond the traditional risk management definition including credit risk, market risk, operational risk and liquidity risk to include Environmental & Social (E&S) risks such as climate change, income inequality and more constituting sources of major financial tremors and instability. To this end, AAIB joined the Equator Principles (EP) in 2009, which has been the main guideline for determining, assessing and managing social and environmental risks in project-related transactions. AAIB extended its commitment to the EP to apply the fourth version (EP IV) which added some criteria to project-related corporate loans and added project-related refinance and project-related acquisition finance to the traditional scope that included project finance, project-related corporate loans and bridge loans. AAIB’s commitment to the EP is supported by robust internal policies, procedures, staff engagement and annual reporting. To this end, the bank has introduced an E&S Risk Policy that is updated continually to ensure coping with emerging E&S challenges and best practices. The Policy is guided by the EP and other internationally recognized E&S standards.
Environmental & Social Revenue Streams

AAIB recognizes its role in converting environmental and social threats into opportunities. We undertook an integrated approach that focuses not only on financial growth, but also on safeguarding the environment and community through our products and services. Our goal is to drive long-term sustainable growth with one eye on development priorities, protecting the environment and the community, as well as delivering measurable benefits to the economy.

Corporate & Institutional Banking

In addition to managing E&S risks, as a bank, we are well placed to finance projects with sound environmental, social and economic impacts through diversifying our portfolio in terms of size and sector. This involves directing capital flows to sound environmental projects including renewable energy and energy efficiency as well as developing business models to fit the needs of Micro, Small and Medium Enterprises (MSMEs).

Our Corporate and Institutional (C&I) Banking strategy is to continue to grow our portfolio through reaching out to various economic sectors and extending our services to a continuously increasing and diversified clientele base. We’ve refocused our C&I banking functions to meet our clients’ needs fast and flexibly. Today, we serve our longstanding large corporate clients but also mid-cap companies and Small and Medium-sized Enterprises (SMEs).

The Bank has been financing a wide array of projects representing diverse sectors. These projects in addition to their economic contribution, contribute to environmental and social development. From a socio-economic perspective, AAIB has been supporting several industries that drive other sectors and hence and contribute to employment and job creation. These include real estate, contracting, hotels and tourism and textile. In addition, our portfolio includes medical equipment and pharmaceuticals, food and beverages, financial institutions and more.

With climate change and global warming recognized not only for their negative environmental impact but for their social and economic ones, and since Egypt has a great potential in renewable energy and thus climate mitigation and adaptation, we acknowledge our role as banks in facilitating the transition to a low carbon economy. Attempting to achieve sustainable and inclusive growth aligned with the SDGs and Paris Climate Agreement goals by providing services that enable transition and adaptation, AAIB signed a long-term loan agreement worth EGP 200m with Enara Group’s subsidiary Libra Capital to finance renewable energy projects in March 2021. This comes in light of the role of banks in financing the transition to a low carbon economy and
encouraging institutions and individuals to adopt sustainable practices. It also comes in light of banks acting as the financing arm for all sectors that affect the environment and society.

While Egypt’s largest companies have been our bread and butter, we have expanded our reach with a banking team dedicated to the needs of SMEs. Our SME loan portfolio nearly tripled in size over 2019. Our SMEs division offers an array of services including Medium &/or Long-Term Finance, -Short Term Finance of Working Capital, Trade Finance and Specialized Debt Finance. Our portfolio is diversified in terms of sectors that contribute to economic development and job creation including tourism and hotels, food and beverages, trade, services, wood manufacturing, contracting and medical, where the latter two constitute the largest percentage of the portfolio. The percentage of growth of AAIB SMEs portfolio segregated to direct & indirect from 22 September 2019 to 11 April 2021 are 78% and 117% respectively.

**Microfinance**

Moving to the micro segment, AAIB’s microfinance subsidiary Sandah, launched in July 2018, provided essential economic fuel to thousands of small borrowers in 2019. Sandah began the year with three branches and expanded to 10 branches by year-end, disbursing nearly EGP 300 million to more than 10,000 borrowers. Customer care, a diverse product menu and fast turnaround time distinguish Sandah from conventional microlenders. The intersection of banking excellence with progress on shared national goals like financial inclusion and support for small-scale entrepreneurship

**Consumer Banking**

Believing that banks are vital economic intermediaries, AAIB is working on creating synergies with its customers, encouraging them to move towards sustainable practices and accompanying them in their transition towards more sustainable lifestyles through our products and services. In this, AAIB introduced its Solar Energy Loan to its consumer banking clients. The product aims at contributing to Sustainable Development Goal SDG) 7 (Ensure access to affordable, reliable, sustainable and modern energy for all) and, consequently, SDG 13 (Take urgent action to combat climate change and its impacts), as well as the objectives of the Paris Agreement on climate change. In addition to climate-related targets, transition to solar brings as well related to health, employment and cost-savings benefits.
Principle Three: Clients & Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
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Managing Clients’ Satisfaction:

We seek through an active and transparent dialogue with our clients to listen, analyze and develop our operations to enhance the level of client satisfaction and meet their expectations. AAIB wants to make sure that whenever a customer does business with the bank, the client has a gratifying experience across all touch points including branches, website and call center.

Serving clients well isn’t limited to delivering superior client service and experience, we want our clients to make better financial decisions that enable them to satisfy their needs and reach the best possible financial well-being.

AAIB affirms and supports the right of customers to provide feedback and to have their complaints heard and promptly acted upon. To ensure their interests and suggestions are taken into consideration, the Bank has an effective Complaint Management team which receives complaints from various channels such as; social media, web mail, branches and call center.

Enhancing Clients’ Experience:

Meeting customer expectations starts with understanding what matters to them most. We’ve listened and redesigned our retail banking value proposition, launching new products and service strategies that address our clients’ needs and improve their experiences. Putting this into action, we completely restructured our HR systems and policies in line with our revamped service delivery model, and made key hires to support our goals—and our clients’.

Fostering Client Education:

Consumer education also buttressed our reputation for looking out for our customers’ best interests. For an example, we ran a campaign on our social media channels to raise consumer awareness of electronic fraud. We also invested significant time in preparation for the launch of a new core banking system, which will strengthen the foundation for our digital service strategy now and onward.
Engaging Clients in Sustainable Practices:

We aim to support our clients with the transition plans to achieve a more sustainable future through sustainable economic activities. To this end, we are developing products and services that meet environmental and financial needs.

In 2020, AAIB introduced its Solar Energy Loan to its consumer banking clients to empower them to move to sustainable practices and behaviors, part of our broader effort to create a market for renewable energy in Egypt. The product was designed in recognition that energy efficient homes have reduced utility bills and therefore will have lower ongoing costs, thus are lower risk investments because they reduce the financial burden on home-owners on the long-run. It was also designed with the perspective of encouraging clients to help in the transition to a low carbon economy.

Supporting our Clients during Covid-19

Our customers are at the heart of everything we do, so we have been working to ensure they are kept safe, supported and satisfied. To ensure their safety, all employees and clients entering the branches are required to wear face masks and have their temperatures screened. Adding to this, plexiglass shields were placed on all customer service desks in all branches to maintain social distancing and protect our colleagues and customers. We also installed sanitization towers at the entrances of our branches so that clients entering can sanitize both their hands and shoes. In addition, our Business Continuity Manual has been put into action to ensure that we provide seamless and uninterrupted services with no delays during the pandemic and thereafter.

Additionally, acknowledging that it is not just a health crisis but a socioeconomic one as well, AAIB followed the comprehensive range of support initiatives introduced by the Central Bank of Egypt during the Covid-19 outbreak. AAIB postponed secured and unsecured loan installments and credit card minimum payments for six months automatically with no commission or late payment fees. In addition, to make transactions easier for clients, all ATM cash withdrawals and balance inquiry fees have been exempted and debit card limits for cash withdrawals and purchases have been raised. Adding to this, all Point of Sale fees have been waived among all merchant clients.

The Bank also conducted awareness campaigns on its social media platforms to provide its clients with safety tips to follow not only in banking transactions, but also in their daily activities among which were using masks and disinfect-ants and promoting contactless payments.
Principle Four:

Stakeholders

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**Principle 4: Stakeholders**

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

Believing in the importance of SDG 17 “Partnership for the Goals” we have been joining forces with civil society, public sector and peer banks worldwide to pave a way for responsible banking.

Our corporate social responsibility initiatives and sustainable business practices call for regular and active dialogue with internal and external stakeholders. Stakeholders’ engagement and collaboration is a key and has been recognized as a standalone goal among the SDGs to achieve environmental and social goals. AAIB maintains dialogue with stakeholders who strongly impact or are strongly impacted by its business activities and operations, particularly, clients, employees, regulator, peers, shareholders, civil society and the media.

For an example, in March 2002, AAIB partnered with, solar energy companies to introduce an environmental product to its retail clients. The Bank succeeded to introduce its Solar Energy Loan, a solution that enables its consumers banking clients to reduce their emissions and electricity bills on the long run.

Moreover, with the emergency of the COVID-19 pandemic, AAIB joined forces with Ahl Masr Foundation to withstand the pandemic through three mega projects. The first project was to fully purchase and install four intensive care units featuring state-of-the-art equipment, including ventilators to support all patients and ensure they receive the medical care they need. The second project involved providing medical staff in nine hospitals with 6,480 units of medical gears (known as personal protection equipment, or PPEs) given their role on the frontlines while standing up against the pandemic so they could operate safely in this critical period. The third initiative was to inaugurate a new, fully equipped quarantine hospital with the capacity of 150 beds to complement the initiatives and precautions undertaken by the Government to manage this crisis.
Principle Five: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.
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Serving Stakeholder Interests with Solid Governance

AAIB operates under the firm belief that good governance lays the foundation for sustainable growth. Creating sustainable value is a common goal shared by everyone at AAIB and this precept is supported by a strong corporate governance structure. Corporate governance is a key to AAIB’s success story: from how we run our business to how we form and nurture partnership with our stakeholders.

AAIB’s solid governance framework is designed to protect the interests of all stakeholders, to ensure compliance with regulatory requirements and to enhance organizational efficiency. This framework includes a healthy organizational structure that clearly segregates the roles and responsibilities of all parties. The framework also provides clear mandates for the board and its sub-committees, management, and management committees for running the business.

End of 2020, the Board of Directors consisted of eight qualified members: seven non-executive directors, and one executive director. This separation of the chairman and chief executive functions is consistent with best practices and Central Bank of Egypt (CBE) directions.

Fostering Sustainability Culture

AAIB continued to establish a strong structure with systematic roles and responsibilities to integrate sustainability in the bank’s functions. The Sustainability Department has been recognized as an active department in the bank that facilitates cross-functional coordination among all departments. The unit ensures the seamless integration of ESG across all functions as well as diligent reporting.
Policies that support our responsible banking strategy

**E&S Policy**

To safeguard its portfolio, the Bank has adopted an Environment and Social Policy, integrating environmental and social risks into its overall credit risk assessment framework. It is a robust policy that acts as a reference to review transactions we finance, helps staff advice clients, and promotes responsible ways of doing and financing business.

**Sustainability Policy:**

In 2020, we started drafting our Sustainability Policy, which will apply to all AAIB’s staff and subsidiaries. This policy is based on the UNEP FI’s PRB. It revolves around aligning AAIB’s strategy and business activities with the SDGs, the Paris Climate Agreement, and relevant national and regional frameworks, including Egypt Vision 2030.

**Main International Frameworks we support**

Our sustainability performance has been assessed by major sustainability rating frameworks. We use these assessments as guidelines to improve our future decisions, businesses and operations. In addition, these assessments along with our rankings and ratings compared to our local and international peers serve as a benchmark clarifying where we stand.

Since 2005, we have been forerunners opting to several international frameworks to assess our practices. AAIB is a signatory to the UN Global Compact (UNGC) which acts as the guideline for human rights, labor rights, environment, and anti-corruption; the Equator Principles which act as the main guideline for determining, assessing and managing social and environmental risks in project-related transactions and the United Nations Environmental Programme Finance Initiative (UNEP FI) under which AAIB collaborated with 29 banks around the globe to introduce the Principles for Responsible Banking (PRBs). The PRBs delineate the banking sector’s roles and opportunities in pursuing national and global goals articulated by Egypt Vision 2030, the Sustainable Development Goals, and the Paris Climate Agreement.

- **UNEP FI PRBs:** AAIB is a founding signatory of the UNEP FI’s PRBs.
- **UNGC:** AAIB is committed to responsible business practice in line with the 10 Principles of the UNGC, which are categorized under four principles of human rights, labor rights, environment and anti-corruption.
- **EP:** AAIB analyzes the E&S risks of its financing activities under the scope of the EP
Principle Six: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals.
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A central part of our disclosure is this annual PRB reporting. We have been undertaking many activities to strengthen our commitment to responsible banking. In addition to our commitment to the EP and the Ten Principles of the UNCG, our commitment to the PRB was an important step to ensure we address the areas that matter the most to our stakeholders. With our new digital transformation strategy, we will work on identifying our areas of most significant impacts and setting our targets in future reports to enhance our implementation of the Principles.