

ARAB AFRICAN INTERNATIONAL BANK

6th ANNUAL EP REPORT

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EQUATOR PRINCIPLES

Done by: Perihan Abdel Ghaly – Senior Sustainability Specialist

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Introduction

Arab African International Bank (AAIB) considers the Environmental and Social (E&S) risks associated to its activities to better control their impact and promote sustainable E&S practices. AAIB has been committed to annual public reporting integrating the Equator Principles; a set of guidelines adopted by financial institutions for determining, assessing, and managing E&S risks when financing projects and running business operations. AAIB's commitment in implementing E&S principles into their operations is testified through recognition from external parties for their sustainability programs. In 2016, AAIB has received "Best Bank for CSR in the Middle East" Award from Euromoney and "Best CSR Bank in Egypt" from Global Business Outlook.

AAIB has been reporting based on the updated framework that requires the categorization of projects and implementation of principles within each project. AAIB acknowledge their obligation to report annually on transactions that have Financial Closure. However, in regards to the period being covered in this report; May 1, 2015 and April 30, 2016 the bank has no financial closure neither in project finance nor in corporate credit.

Accordingly, this report is to cover the AAIB – EP reporting period for 2015/2016 that reflects AAIB's adherence and compliance with the Equator Principles Governance Rules. Although there is no financial closure for the period being reported, the report illustrates that AAIB has been taking active steps in further consolidating a stronger infrastructure to advance EP implementation and integration within the bank's operations.

The report will cover the following points:

- Revising the E&S Risk Policy that ensures the incorporation of the Equator Principles in AAIB's credit and risk management policies and procedures
- Developing the Organization Structure to accommodate the mandate of the Equator Principles Reviewers (e.g. responsibilities and staffing) business lines, and senior management in the transaction review process
- Capacity Building and Training;

Implementing the EP on Projects Financed by the Bank is carried out through AAIB's E&S Risk Policy & Procedures, and Organization Structure Roles & Responsibilities, along with Training & Capacity Building

Updating the E&S Risk Policy

The E&S policy was introduced in 2009 to ensure that all financial decisions regarding internal operations as well as external transactions should adhere to the EP principles. In this, the decision criteria prolonged to include not only financial returns but environmental and social returns as well.

The policies and procedures outline the detailed manner in which AAIB corporate finance projects will abide by the Equator Principles. The procedures also identified how the responsibilities, in the implementation of these principles, were apportioned between various departments concerned and committees, where applicable. The policies are updates according to the regular changes in the EP governance rules.

In 2016, AAIB has been moving forward in implementing EP through updating and revising policies, procedures, and standards for financing projects. AAIB has been taking active steps in further consolidating a stronger infrastructure to advance EP implementation and integration within the bank's operations. The infrastructure is being built around the E&S Policy, Organizational Structure, Roles and Responsibilities of EP taskforce along with Capacity Building.

The policy manifests the bank's new commitments in doing business and is being embedded in the culture to be a building block for the bank's sustainable growth strategy. It is a robust policy that acts as a reference to review transactions financed that helps staff advice clients and promotes responsible ways of doing business. The updated E&S policy guarantees creating value for shareholders while generating value for the broader society.

Organization Structure Updated Roles and Responsibilities

AAIB started deepening its structure to involve a taskforce with systematic roles and responsibilities. The Sustainability Unit was has been recognized as an active department in the structure that works cross-functionally with all other departments from which the taskforce was being assigned. It now expands its role from communication within the Marketing Department to disseminate information regarding implementing and monitoring EP throughout the bank.

Along with the Sustainability Unit, Corporate Credit and Risk Management Departments, the Audit Department are in the process of integrating EP in their audit reports to act as a second eye in monitoring any violation of principles within the operations. AAIB believe integrating EP in auditing reports will facilitate and harmonize compliance of all departments.

Equator Principles – Integrating ESG considerations in Core Business activities

E&S Management System

The AAIB- EP compliance process are being implemented internally in AAIB as early as 2009 through a task force who has the required technical and operational knowledge to embed and monitor the ESG (Environment, Social and Governance) parameters into the bank operations to transform the conventional banking into sustainable banking and finance. The task force consists of:

Sustainability Specialists

The sustainability Unit Specialists are the EP project owners. They are in charge of implementing and reporting on the Equator Principles, follow-up and monitor the endorsement process. The Sustainability communicates the final report after the Risk Officer verifies the report against the current governance rules and reporting standards.

Relationship Manager (RM)

These principles serve the credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Signatories are required to evaluate the environmental and social impact of projects exceeding USD 10 (Ten) million Dollars based on the policies and guidelines of the World Bank and the International Finance Corporation (IFC). The RM is in charge of seeking consent from the client to publicly disclose the report on both AAIB and EP websites.

From another side the RM is responsible for educating the bank's corporate clients on the significance of social impact and environmental conservation for project finance activities.

Risk Officer

The risk department is in charge of revising, complying and approving the final report in regards with the project finance activities in cooperation with the Sustainability Unit. The risk department verifies the report standards against EP most recent governance rules.

Top Management (Vice Chairman and Managing Director)

The Top Management is highly involved and approves the final report that certifies the Bank's commitment towards the EP by publishing the EP report on AAIB and EP website. Adherence to the Principles allows AAIB to work with customers on the management of environmental and social policy related issues to their investments. To comply with the EP, AAIB has established internal guidelines in 2010, to evaluate the environmental and social risks associated with the projects financed by the bank.

E&S Training and Capacity Building

During October and November 2009, AAIB took leap steps in working internally through educating and training our corporate and risk staff, whilst also creating awareness externally to other financial intuitions to start taking the initiative of financing projects while taking in consideration environmental and social risk assessment.

With a view to motivating public advocacy on ESG related causes and creating better awareness on social and environmental concerns, AAIB formed an association with the International Finance Corporation (IFC) in 2010. The objective of this collaboration was to provide training to our credit and risk staff. We conducted workshops centered on ESG for peer banks in the Corporate and Risk departments to create awareness on non-traditional risk management; the workshops witnessed 90% attendance from peer banks in Egypt.

The years 2015 and 2016 witnessed a variety of training programs that AAIB provided to various departments and different managerial levels. The vision of our training programs embraces a multidimensional approach to sustainable business. Provided programs included environmental related trainings such as “Certified Expert in Climate & Renewable Energy” and “The Future of Energy in Egypt” as well as SME related trainings such as “Certified Expert In SME Finance”, “SME Corporate Credit Analysis”, “Financing SME’S”, “SME Banking Egypt: Road Map for the future”, “Risk Management For SME Banking”, “An Innovation Approach to SME development in Egypt” “, “Micro Finance Conference”, “SANAD Micro & SME Banking Seminar”, and “SANAD Micro & SME Banking Summer Academy”.

AAIB believes that such programs contribute to building abilities and values that will enable our people to improve their performance and achieve their objectives in furtherly embedding sustainability into the bank’s operations.

AAIB & Industry Advocacy: MOSTADAM First Platform to Promote Sustainable Finance in Egypt

In 2016 MOSTADAM Platform partnered with Frankfurt School of Finance and Management in Germany to certify 35 candidates in SMEs Finance; Climate & Renewable Energy Finance Experts representing 11 banks in Egypt, Netherlands and Somaliland.

MOSTADAM is the first platform promoting for Sustainable Finance in the Financial Sector in Egypt and the MENA region to enact and promote sustainable finance through capacity building and policy advocacy in Egypt and the MENA region. The platform was launched in 2014 by AAIB (funder & Co—founder), UNDP (Co-founder) and Egyptian Corporate Responsibility Center (UN Global Compact Focal point in Egypt as Managing Partner). The platform has various arms such as research, training & development, stakeholders’ management, regulatory advocacy & policies & procedures.