



# ISLAMIC FINANCE AND THE PRINCIPLES FOR RESPONSIBLE BANKING

THOUGHT LEADERSHIP SERIES PART 3 - JUNE 2021

Sponsors & Partners



## DEFINED TERMS

**AAOIFI** - Accounting and Auditing Organization for Islamic Financial Institutions

**Al Baraka** - Al Baraka Banking Group in Bahrain

**ASEAN** - Association of Southeast Asian Nations

**BPMB** - Bank Pembangunan Malaysia Berhad

**CIBAFI** - General Council for Islamic Banks and Financial Institutions

**CSR** - Corporate Social Responsibility

**DDCAP** - DDCAP Group™

**DFI** - Development Finance Institution

**FCA** - Financial Conduct Authority

**Gatehouse** - Gatehouse Bank

**GEFI** - Global Ethical Finance Initiative

**GHG** - Greenhouse Gas

**GIB UK** - Gulf International Bank UK

**GRI** - Global Reporting Initiative

**IF** - Islamic finance

**IFI** - Islamic finance institution

**IFRS** - International Financial Reporting Standards

**ISRA** - International Shari'ah Research Academy for Islamic Finance

**JB** - Jaiz Bank

**MIND** - Measuring Impact to National Development

**OIC** - Organisation of Islamic Cooperation

**PMF** - Performance Measurement Framework

**PRA** - Prudential Regulation Authority

**PRB or the Principles** - UN Principles for Responsible Banking

**PRI** - UN Principles for Responsible Investment

**SASB** - Sustainability Accounting Standards Board

**SDGs** - UN Sustainable Development Goals

**SR** - Social Responsibility

**SRI** - Sustainable and Responsible Investment

**UKIFC** - Islamic Finance Council UK

**UNEP FI** - United Nations Environment Programme Finance Initiative

**WG** - Working Group

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## FOREWORD

The need to achieve the UN Sustainable Development Goals (SDGs) on the 2030 Agenda gains urgency every year, with 2021 marking a decisive year for climate and nature. Seminal UN Conferences on climate (COP 26) and biological diversity (COP 15) are at the top of the international policy agenda as the world increasingly accelerates action on these critical challenges.

As the world continues to face the major planetary crises of climate, nature loss, pollution and social issues, all strands of society - including the finance sector - need to take immediate and ambitious action to transform our economies towards a positive future for people and planet. Banks across the world have a collective power to move the needle on the most crucial topics of our time through their lending and investment activities and through their relationships with clients across all sectors of the economy on activities from corporate finance to retail banking.

Against this backdrop, the UN Principles for Responsible Banking provide an all-important framework for the global banking system and - as highlighted in this report - are a positive mechanism to allow institutions engaged in Islamic finance to effectively collaborate, learn from peers, and forge a positive future for stakeholders and society. The Principles enable banks, including the Islamic finance community, to pool collective knowledge and accelerate a positive global transition in line with the SDGs and the Paris Agreement.

UNEP FI welcomes this comprehensive report and analysis of the penetration rate and engagement of Islamic finance institutions with the Principles for Responsible Banking. We look forward to welcoming more Institutions engaged in Islamic finance, growing our community in the Organisation of Islamic Cooperation (OIC) member states, and we recognize the need for further engagement and participation amongst these institutions.

This series of reports also sheds light on the natural alignment of the *Maqasid al Shari'ah* with many areas of the SDGs. Frameworks such as the Principles for Responsible Banking can provide an accelerated pathway for Islamic finance institutions to meet the SDGs, furthering their journey of positive impacts on society and the environment, while continuing to enhance stakeholder value.



**Eric Usher**  
Head of United Nations  
Environment Programme Finance Initiative

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## INTRODUCTION

This report is the third in a four-part thought leadership series delivered by the Islamic Finance Council UK (UKIFC) in partnership with the International Shari'ah Research Academy for Islamic Finance (ISRA) and the Global Ethical Finance Initiative (GEFI). The series is intended to inspire Islamic finance institutions (IFI) to embrace the SDGs and demonstrate to the world that consideration for people, planet and purpose can sit alongside profit and form the heart of the next generation of Islamic financial products. The UKIFC is committed to supporting the Islamic finance (IF) sector's engagement with the SDGs and has launched a Global Islamic Finance & UN SDGs Taskforce<sup>1</sup>. The UKIFC has unique experience and skills to help organisations through capacity building, business case development, reporting and impact measurement (see Appendix 1 for more details).

The first report of the series, 'Islamic Finance and the SDGs: Framing the Opportunity', was published in May 2020 and provided an introduction to the SDGs within the context of IF. Key conclusions included:

- There has been limited participation from the IF sector in leading UN initiatives (such as Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB or the Principles) and Principles for Sustainable Insurance that support financial institutions seeking to align with the SDGs.
- To achieve SDG targets, Islamic Development Bank Member Countries will need annual funding of between US\$700 billion and US\$1 trillion, which represents around 40% of the total global SDG financing gap.
- Commercial opportunities for the IF sector include tapping into emerging global liquidity pools seeking SDG-aligned products and increasing tactical alignment with development bank funders.
- Alignment with the SDGs supports the *tayyib* (wholesome) concept which contends that the focus of IF products and services should be on the evaluation of wider societal impact rather than an overly legalistic analysis of Shariah compliance.
- With assets expected to reach US \$3.8 trillion in 2022, through its adeptness at innovative financial structuring, IF is particularly well placed to create innovative instruments that will drive capital towards the SDGs.

The second report of the series, 'Islamic Finance and the Principles for Responsible Investment', was published in March 2021 and provided an overview of the engagement of IF with the PRI. Key conclusions included:

- Whilst a small number of organisations are making significant progress there is a pressing need to raise awareness in OIC member states and beyond, of responsible investing and the 'triple bottom line' benefits to be achieved by integrating Shariah compliance with ESG strategies.
- With OIC countries amongst those in greatest need of SDG investment more work must be done to raise awareness and inspire practical action when it comes to IFs and the SDGs.

- Only 12 of the 57 OIC member states contained organisations which were PRI signatories. Despite the OIC member states having a collective population of over 1.82 billion (24% of the total world population) only 1% of the 3,575 PRI worldwide signatories are based within them.
- Despite the natural synergy between IF and the SDGs, less than half of the PRI signatory IFIs reviewed mention the SDGs in detail on their websites and associated documents.
- Analysis of 12 PRI signatories highlighted that even amongst those IFIs engaged in responsible investing there is a lack of (a) consistency when it comes to taxonomy and (b) a generally agreed approach to measurement and reporting.
- There is an opportunity for PRI signatories to collaborate in developing a clear and consistent approach in these areas that can help position Shariah-compliant ESG engagement as a beacon of responsible investment.
- There is an opportunity for the PRI to enhance its activities by means of greater engagement with the IF investment community.

This report uses the PRB to underpin an analysis of IFIs engaged in responsible banking. The final report in the series will present views on the SDGs from leading global Shariah scholars.

## KEY FINDINGS

This report provides an analysis of responsible banking in the IF sector, assessing the level of engagement with the PRB amongst financial institutions in OIC member states as well as other financial institutions involved in IF. The information in this report is based on publicly available information from the PRB website and a review of the websites of nine (six of which were interviewed) financial institutions that are either fully Shariah compliant or have a prominent Islamic 'window'.

The headline findings from the report include:

### Responsible Banking in OIC Member States

- 49 of the 57 OIC member states do not have any PRB signatory organisations.
- Of the 61 countries having PRB signatory organisations, 13.1% are OIC member states.
- Within the 8 OIC member states there are 22 signatory organisations, located in Africa (50.0%), Europe (27.3%) and Asia (22.7%).
- When the PRB was launched in 2019, 14.3% of the founding signatories were based in OIC member states. Now only 10.0% of the 221 PRB worldwide signatories are based within OIC member states despite the OIC member states having a collective population of over 1.82 billion (24% of the total world population).

### Analysis of PRB Signatories involved in IF

- 38 PRB signatories offer IF products and services, which equates to 17.2% of all PRB signatories.
- The majority of IFIs that are PRB signatories, 27 of the 38 organisations, are based outside OIC member states, across Europe, Asia, Africa, Oceania and the Americas.
- Only 3 of the 38 institutions offering IF products or services are fully Shariah-compliant, namely Al Baraka Banking Group (Al Baraka) (Bahrain), Gatehouse Bank (UK) and Jaiz Bank (Nigeria).
- The most popular Islamic product / service offered by non-OIC member states signatories is corporate finance, with 40.7% of signatories offering this. Amongst OIC member states the most popular product / services are personal banking and personal, business and corporate banking, at 27.3%.
- As at 13<sup>th</sup> April 2021, 24 of the 38 signatories offering IF products and services had submitted their first PRB reports.
- The websites of 9 signatories were reviewed, selected because they are either fully Shariah compliant or have a prominent Islamic 'window' within a conventional bank. Only two (CIMB and Gatehouse Bank) of the six banks reviewed in depth (as undernoted) had prominent mentions of the PRB on their website, the majority of banks only referring to their involvement in the PRB as part of the press release when they announced becoming signatories. The approach to the SDGs also varied from simply referring to the SDGs in the press release announcing the IFI becoming PRB signatories to tailored goals linked to the SDGs, an impact assessment framework mapped to the SDGs and business strategies built around the SDGs.



- Detailed case studies were undertaken for six of the organisations selected for website review: Al Baraka, BPMB, CIMB, Gatehouse Bank, Gulf International Bank (UK) (GIB UK) and Jaiz Bank. The six signatory banks were generally positive about the PRB, noting that it provides a framework for collective action and encourages collaboration and sharing of 'best practice'. There was general agreement that guidance around sustainability reporting for IF should be developed, the preference among those interviewed being tailored IF guidance built on existing resources rather than something separately developed for an IFI.
- The PRB should increase its activities within OIC member states. Given the mutual benefits of becoming PRB signatories to both IFIs and the responsible banking industry, increasing engagement should be treated as a priority.

## RESEARCH APPROACH

For the purposes of this report the PRB, as the leading global framework for responsible banking, have been used to identify and review a cohort of IFs engaged with the SDGs. Having launched in September 2019 there has been so far only a limited window for banks to commit to the PRB and, as momentum builds, it is anticipated that more banks will become signatories over the coming years.

Within the PRB website there is an option to download a full list of signatories<sup>2</sup> in the form of an Excel table containing the following information:

- Signatory Bank
- Country
- Date Signed
- First Reporting Due
- Contact Details
- First Reporting Submitted
- Report Link
- End of 4-year Implementation Period
- Withdrawal from the Initiative
- Removal from the Signatories List by the Banking Board.

As at 13<sup>th</sup> April 2021 there were 221 signatories. This excludes First City Monument Bank and Keystone Bank, both from Nigeria, that were removed from the signatory list in October 2020. The list was analysed in detail to identify the 22 PRB signatories based in OIC member states and 27 PRB signatories based in non-OIC member states that are involved in IF. Whilst it is acknowledged that IFs may engage in sustainable banking without being a PRB signatory, the scope of this report is limited to PRB signatories only. Firstly, we have analysed the PRB signatories within OIC members states and secondly, we have analysed PRB signatories offering IF products and services from both OIC and non-OIC member states.

The primary purpose of this report is to increase awareness and inspire practical action amongst IFs in relation to the SDGs. However, there are also multiple conventional financial institutions involved in IF to varying degrees. Accordingly, this report focuses on both fully Shariah-compliant banks and also select conventional banks with a well-established Shariah offering. Whilst it is recognised this is not comprehensive, this focused approach has identified 9 relevant organisations with a recognised presence in IF which have been analysed in depth.

The analysis included an audit of the websites of each of the 9 banks. The websites (including articles, reports and policies available on the sites) were reviewed in detail to gain an insight into how each bank has approached questions of responsible banking, sustainability, SDGs and reporting.

Thereafter in-depth interviews were undertaken with senior representatives from 6 of the 9 banks, providing detailed insights which form the basis of the case studies contained within.

## OVERVIEW OF THE PRB

The PRB were publicly launched by 30 Founding Banks in September 2019 at an event held during the United Nations General Assembly.

The PRB is a unique framework for ensuring that the strategies and practices of signatory banks align with the vision society has set out for its future as outlined in the SDGs and the Paris Climate Agreement. Signatories share a belief that *“only in an inclusive society founded on human dignity, equality and the sustainable use of natural resources, can our clients and customers and, in turn, our businesses thrive.”*<sup>3</sup>

As of 13<sup>th</sup> April 2021, 221 banks were on the PRB signatory list, leading the way towards a future in which the banking community makes the kind of positive contribution to people and the planet that society expects. These banks, which represent more than a third of the global banking industry, have committed to take three key steps which will enable them to continuously improve their impact and contribution to society:


1. Analyse their current impact on people and planet;
2. Based on this analysis, set targets where they have the most significant impact, and implement them; and
3. Publicly report on progress.

Eighteen months after signing, signatory banks must report on:

- their impact;
- how they are implementing the Principles;
- the targets they have set; and
- the progress they have made.

Within four years, signatory banks must have met all of these requirements.

The Principles provide the framework for a sustainable banking system, and help the industry to demonstrate how it makes a positive contribution to society. They embed sustainability at the strategic, portfolio and transactional levels, and across all business areas. The Principles are as follows:

 <p><b>PRINCIPLE 1: ALIGNMENT</b></p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>	 <p><b>PRINCIPLE 2: IMPACT &amp; TARGET SETTING</b></p> <p>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.</p>	 <p><b>PRINCIPLE 3: CLIENTS &amp; CUSTOMERS</b></p> <p>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.</p>
 <p><b>PRINCIPLE 4: STAKEHOLDERS</b></p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p><b>PRINCIPLE 5: GOVERNANCE &amp; CULTURE</b></p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p><b>PRINCIPLE 6: TRANSPARENCY &amp; ACCOUNTABILITY</b></p> <p>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.</p>

At the time of writing the United Nations Environment Programme Finance Initiative (UNEP FI) was expected to publish a Collective Progress Report in September 2021 to demonstrate how Signatories as a group are bringing about positive change worldwide.

## **PRB and the SDGs**

The PRB aims to align banks with society's goals as expressed in the SDGs and the Paris Climate Agreement. Signatory banks must develop at least two targets that address the most significant impacts they have identified. The targets must be ambitious enough to objectively bring the bank's business and portfolio into alignment with their targeted SDGs and the Paris Climate Agreement.<sup>3</sup>

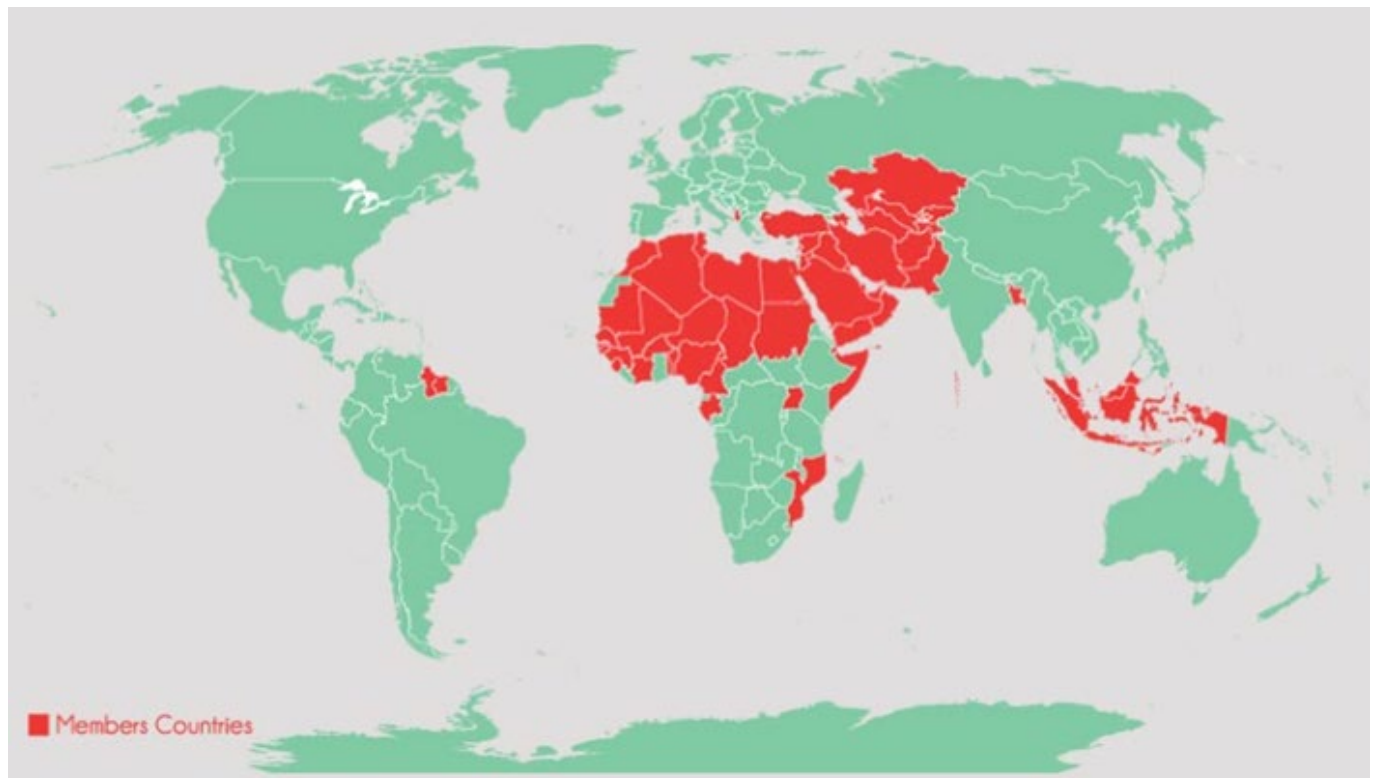
Principle 1 in particular requires signatories to align their business strategies with the SDGs, focusing efforts on where they have the most significant impact. This can be achieved by:

- Explicitly integrating the SDGs into business strategies and key business decisions, including capital allocation decisions.
- Identifying and assessing where a bank's portfolio and service offerings generate, or could potentially generate, the most significant positive and negative environmental, social and economic impacts.
- Identifying focus areas, setting and publishing targets that align a business with and ensure the bank's significant contribution to the objectives and targets set out in the SDGs.

## OVERVIEW OF ORGANISATION OF ISLAMIC COOPERATION (OIC) MEMBER STATE ENGAGEMENT

To investigate the level of engagement with the SDGs within Muslim countries, an analysis of PRB signatories based in OIC member states was undertaken. With 57 member states spread across four continents the OIC is the second largest inter-governmental organisation after the UN. It provides the collective voice of the Muslim world, endeavouring to safeguard and protect its interests in the spirit of promoting international peace and harmony among the peoples of the world.<sup>4</sup> As shown in Chart 1 below, OIC member states represent a significant proportion of the 'Global South' (i.e. regions outside Europe and North America, mostly (though not all) low-income and often politically or culturally marginalised).

**Chart 1 – OIC Member States<sup>5</sup>**



This analysis is focused on general participation in PRB within Muslim jurisdictions and does not differentiate between conventional and IFIs.

## ANALYSIS OF OIC SIGNATORIES

PRB signatories are located across 61 countries which includes 8 (13.1%) OIC member states. In total there are 22 PRB signatory organisations spread across these 8 OIC countries, comprising 14.0% of the total 57 OIC states.

Table 1 below highlights the split of the 22 OIC signatories by country. This shows a concentration of 50.0% of OIC PRB signatories in Africa (i.e. Nigeria, Egypt, Morocco and Togo), 27.3% in Europe (i.e. Turkey) and 22.7% in Asia (i.e. Bahrain, Bangladesh and Malaysia). It is noted that two Nigerian banks (First City Monument Bank and Keystone Bank) were removed from the list of signatories in October 2020 due to non-compliance with UNEP FI membership requirements.

TABLE 1 – PRB Signatories in OIC Member States

HQ Country	No. of PRB Signatories
Turkey	6
Nigeria	5
Egypt	4
Bahrain	2
Malaysia	2
Bangladesh	1
Morocco	1
Togo	1
<b>TOTAL</b>	<b>22</b>

When the PRB was launched in 2019, as indicated in Table 2, 19 (14.3%) of the 133 founding signatories were based in OIC member states (as of September 2019 there were 135 signatories, 2 being subsequently removed). As at 13th April 2021, OIC member states accounted for just over 10.0% or 22 of the 221 PRB signatories. Whilst there was strong initial engagement within OIC member states the uptake since the launch has been limited to five additional institutions (i.e. Ahli United Bank B.S.C and Al Baraka in Bahrain, BPMB in Malaysia, Ecobank in Togo and Isbank in Turkey) indicating a higher growth rate across non-OIC member states.

TABLE 2 – PRB Founding Signatories in OIC Member States

Bank	OIC Member State
IDLC Finance Ltd	Bangladesh
Arab African International Bank	Egypt
Alexbank	Egypt
Banque Misr	Egypt
CIB	Egypt
CIMB	Malaysia
Bank of Africa BMCE Group	Morocco
Access	Nigeria
First City Monument Bank**	Nigeria
Jaiz Bank	Nigeria
Keystone Bank**	Nigeria
Polaris Bank	Nigeria
Wema Bank INC	Nigeria
Zenith	Nigeria
Garanti Bank	Turkey
Sekerbank	Turkey
Development investment Bank of Turkey	Turkey
TSKB	Turkey
Yapi Kredi	Turkey

\*\*Removed from the PRB Signatory list

This section has provided an overview of the levels of engagement in the PRB amongst financial institutions in OIC member states. Although the PRB has had limited penetration in OIC member states it is a new initiative and as momentum builds more institutions are expected to become involved.

## ANALYSIS OF ISLAMIC FINANCE SIGNATORIES

### Geographical Proliferation

This section will now give a more detailed analysis of PRB signatories that offer IF products and services. The analysis is based on desk-based research which included reviewing the websites of PRB signatories as well as identifying articles on third party websites. The research found there are 38 institutions offering IF. This equates to 17.2% of all PRB signatories. Of the 38 institutions 28.9% are based in OIC member states (See Table 3) with 71.1% based in non-OIC member states (See Table 4).

TABLE 3 – PRB Signatories in OIC Member States Offering IF Products or Services

Bank	OIC Member State
Ahli United Bank B.S.C.	Bahrain
Al Baraka	Bahrain
IDLC Finance Ltd	Bangladesh
Arab African International Bank	Egypt
Banque Misr	Egypt
CIB	Egypt
CIMB	Malaysia
BPMB	Malaysia
Jaiz Bank	Nigeria
Ecobank	Togo
Garanti Bank	Turkey

Egypt has 3 PRB signatories offering IF products and services and this means Egypt accounts for 27.2% of the institutions offering IF in OIC member states and 7.8% of the total number of signatories offering IF.



TABLE 4 – PRB Signatories in Non OIC Member States Offering IF Products or Services

Bank	Non OIC Member State
ANZ	Australia
National Australia Bank	Australia
BNP Paribas	France
Credit Agricole SA	France
Natixis	France
Societe Generale	France
Commerzbank AG	Germany
Deutsche Bank AG	Germany
Mizuho Financial Group	Japan
MUFG	Japan
Nomura Holdings, Inc.	Japan
Shiga Bank	Japan
Sumitomo Mitsui Financial Group	Japan
KCB	Kenya
Sberbank of Russia	Russia
ABSA	South Africa
Standard Bank	South Africa
Credit Suisse	Switzerland
J.Safra Sarasin	Switzerland
Lombard Odier Group	Switzerland
Pictet	Switzerland
UBS AG	Switzerland
Gatehouse Bank	UK
GIB UK	UK
Lloyds Banking Group	UK
Standard Chartered	UK
CITI	USA

The majority of PRB signatories offering IF are based in non-OIC member states. An analysis of Table 4 highlights that 42.1% of the total number of PRB signatories providing IF are located in Europe (i.e. France, Germany, Russia, Switzerland and UK), 13.2% are in Asia (i.e. Japan), 7.9% in Africa (i.e. Kenya and South Africa) and 5.3% in Oceania (i.e.

Australia). The Americas (i.e. USA) accounts for 2.6% with the remaining 28.9% located in OIC member states (see Table 3).

## Islamic Finance Offering

Whilst 38 institutions have been identified as offering IF products or services, only Al Baraka (Bahrain), Gatehouse Bank (UK) and Jaiz Bank (Nigeria) are fully Shariah-compliant. Within Table 5 below all three fully Shariah-compliant banks fall within the personal, business and corporate category. Al Baraka is licensed as an Islamic wholesale bank by the Central Bank of Bahrain offering retail, corporate, treasury and investment banking services. Gatehouse Bank offers Shariah-compliant ethical savings, home finance, buy-to-let finance and commercial property finance. Finally, although Jaiz Bank's strategic business focus is mainly on retail banking it also offers corporate and commercial banking services.

The fully Shariah-compliant banks account for 7.9% of PRB signatories offering IF and 1.4% of total signatories. 15.8% of the total PRB signatories are therefore conventional banks providing Islamic offerings through Shariah-compliant 'windows'.

Table 5 below provides an overview of the types of Islamic products and services offered by PRB signatories.

Although not fully Shariah-compliant, Standard Chartered, CIMB Group and Sberbank of Russia have the most comprehensive IF offerings and therefore join Gatehouse Bank and Jaiz Bank within the Personal, Business and Corporate category.

Through its Saadiq Islamic banking network Standard Chartered offers fully Shariah-compliant products for individuals (i.e. personal banking, priority Banking and Private Banking) and companies (i.e. financial markets, transaction banking and corporate finance). CIMB Islamic is CIMB Group's Islamic banking and financial services franchise that offers an extensive suite of Shariah-compliant products and services for individuals (i.e. consumer banking products, investment solutions and Islamic wealth management) and business banking (corporate banking and treasury markets product and services).

TABLE 5 – Islamic Products and Services Offered by PRB Signatories

SERVICES	SIGNATORY LOCATION OIC Member State	SIGNATORY LOCATION Non-OIC Member State	TOTAL
Corporate Finance	1	11	12
Personal Banking	3	4	7
Business Banking	1	4	5
Personal, Business and Corporate	3	3	6
Investment	2	3	5
Personal Wealth Management	0	2	2
Development Finance	1	0	1
<b>Total</b>	<b>11</b>	<b>27</b>	<b>38</b>

31.6% of the PRB signatories involved in IF offer corporate finance services and it is notable that all of these banks, with the exception of Arab African International Bank, are based in non-OIC member states. This group includes global powerhouses such as BNP Paribas, CITI, Credit Agricole SA, Deutsche Bank AG and Societe Generale which specialise in Shariah-compliant services such as treasury and structured products, debt capital markets (incl. trust and agency services), syndicated financing, project financing, export and trade finance, bilateral facilities, brokerage and currency structures. Further details of the banks offering specific services can be found in Appendix 2.

## PRB Reporting

Based on the signatory list on the date the research was undertaken (13<sup>th</sup> April 2021)<sup>6</sup>, 24 of the 38 signatories offering IF products and services had submitted their first PRB reports. The status of the other signatories can be seen in Table 6; further detail can be found in Appendix 2. Links to the reports are available on the latest PRB signatory list.<sup>2</sup>

TABLE 6 – Status of PRB Reporting as at 13<sup>th</sup> April 2021

Status	Number of Banks
Submitted	24
Overdue and not submitted	5
Due in April 2021	3
Due later in the year	6
<b>Total</b>	<b>38</b>

Gatehouse Bank is the only fully Shariah-compliant signatory to submit a first PRB report. Al Baraka's and Jaiz Bank's report were both due as at 13<sup>th</sup> April 2021 but it is understood that Jaiz Bank has subsequently submitted its PRB report.

## WEBSITE REVIEW

This section of the report explores the extent to which selected banks communicate their focus on responsible banking and sustainability on their websites. The institutions chosen for the desk-based review are listed in Table 7 below. These institutions were selected on the basis that each institution is either fully Shariah-compliant or is a prominent Islamic 'window' within a conventional bank; further information can be found in Appendix 3. Details on how they reference PRB on digital channels, what terminology they use on their websites and how they communicate their approach to the SDGs can be found in Appendix 4.

TABLE 7 – Website review of reference to PRB and SDGs

BANK	Reference to PRB	Reference to SDGs	Explicitly map progress / targets to SDGs
ABSA	News article	Y	N
Ahli United Bank B.S.C.	News article	Y only in PRB news article	N
Al Baraka	News article	Y	Y (SDGs 1, 3, 4, 5, 7, 8 and 9)
BPMB	No mention	Y	Y (SDGs 7, 8, 9 10 and 13)
Banque Misr	News article	Y	N
CIMB	Prominent on website	Y	Y (SDGs 8, 9, 10, 12, 13, 15 and 16)*
Gatehouse Bank	Prominent on website	Y	Y (SDGs 3, 8, 10, 11, 12, 13, 15, 16)
GIB UK	News article	Y only in PRB news article	N
Jaiz Bank	Mentioned in facebook post	Y	N

\*noted as Direct Impact SDGs, CIMB has also noted 9 Indirect Impact SDGs.

At the time of research, there were a range of approaches taken by the banks in promoting their status as PRB signatories, the majority referencing it in a news article / press release at the time of signing which can be hard to find on the website. CIMB and Gatehouse Bank have prominent references to the PRB on their websites whereas the BPMB had no obvious references to the PRB on its website.

It is evident that some of the banks, such as ABSA, Al Baraka and CIMB, have tried to differentiate themselves by leveraging their engagement with PRB to position themselves as regional leaders.

Following a review of the relevant banks' websites a range of approaches towards the SDGs was identified with some banks only referring to the SDGs as part of their PRB signatory announcement (Ahli United Bank B.S.C. and GIB UK) while others have mapped goals and business strategies to the SDGs.

Al Baraka has stated goals around creating jobs and funding education, healthcare and sustainable energy projects that are uniquely designed to link with specific SDGs.

BPMB claims to have championed and pioneered the adoption of an innovative impact assessment framework— Measuring Impact to National Development (MIND) which targets five SDGs. BPMB states that it is committed to being sector agnostic and focuses on impact delivery when financing projects while aligning itself with Government initiatives and the SDGs. It has an evaluation tool that is a two-dimensional matrix, with one axis showing financial viability and the other showing the impact on the national development agenda as well as the SDGs. Its aim is to only finance projects that rate highly on both Impact to Nation/SDGs and Impact to Financial Sustainability.

CIMB has a 'Forward23' strategy prioritising seven of the SDGs. It has completed a target setting exercise based on five pillars including: Sustainable Action, Sustainable Business, Corporate Social Responsibility, Governance and Risk and Stakeholder Engagement and Advocacy and has noted how they map to the SDGs.

Gatehouse Bank first mapped the impact needs of the UK against the related SDGs and then developed a business strategy that focuses on the most salient environmental, social and economic impacts that arise from its business activities. The three key areas identified were environmental impact, social impact and economic impact and each of these was linked to the relevant SDGs. Gatehouse Bank is now in the process of implementing the actions highlighted in its 'Impact Areas' report.

## ISLAMIC FINANCE PRB SIGNATORIES CASE STUDIES

The analysis in previous sections was based on information publicly available on the websites of the PRB signatories active in IF. To further broaden the picture, in-depth interviews were conducted with senior representatives of six of the organisations from the nine identified above.

The interviews provided deeper insights on the organisations' focus on sustainability, engagement with the PRB, approach to the SDGs and reflections on their sustainability journey. The interviews also explored how the PRB process has impacted their ability to transform culture, develop new products and services and improve financial returns at the same time as having a positive impact upon people and the planet.

### Organisations selected:

1. Al Baraka
2. BPMB
3. CIMB
4. Gatehouse Bank
5. GIB UK
6. Jaiz Bank

### PRB Engagement with Islamic Finance

It was noted that historically one of the main challenges hindering IFIs' contributions to the SDGs was a lack of a combined approach and guidance on collective action, with institutions instead undertaking individual efforts. Therefore, PRB was well received as it provided uniformity so that the action could be amplified collectively rather than institutions acting on a standalone basis.

The signatory banks were generally positive about their experiences and interactions with the PRB, noting that the PRB structure had a lot of flexibility. The signatory banks generally complimented the PRB stating that the tools, training and digital resources provided were extremely helpful and that the UNEP FI were very responsive. GIB UK noted however that their journey to implementing the PRB has not been straightforward as it was not developed with GIB UK's unique business model in mind.

One of the main benefits of the PRB noted by signatory banks was the opportunity to collaborate and learn from other banks about their sustainability journey, to connect with like-minded organisations and form partnerships. New signatory banks benefit from practical examples provided by existing signatories allowing banks to be kept informed on best practice. The banks also said that it helped them feel part of a global network committed to achieving sustainability.

The PRB provides a useful framework for setting milestones, tracking progress and disclosing commitments. It encourages banks to be disciplined and have a robust system in place for meeting their PRB commitments.

The benefits of signing up to PRB also include an opportunity to fast-track the bank's journey to sustainability.

One of the main challenges in implementing PRB was that it required a significant change in mindset within the signatory bank. Some of the signatory banks have appointed a dedicated team / individual to be responsible for sustainability and Corporate Social Responsibility.

The UKIFC convenes a Taskforce that is specifically looking at a collective approach to agreement and alignment from IFIs. It provides a leadership role in understanding current positions and forming a collective view on reporting to PRB.

### **Islamic Finance and the SDG Reporting**

The signatory banks stated that in their view the principles of IF are largely aligned with the SDGs. It was noted that IF is stricter than the SDGs in certain instances; for example a gaming company may very well operate under the SDG framework but would not be compliant under Islamic rules due to gambling potentially being an addiction that negatively affects family life / values and society as a whole. It was also noted that IF has a strict requirement that there must be positive impact and that IFIs will not subscribe to SDGs if there is an overall negative impact (even if there is some positive gain).

The IF market is working on promoting sustainability reporting, CIBAFI is creating sustainability guidelines and AAOIFI is developing sustainability reporting. The global financial markets are seeking uniformity around reporting and some banks' view was that while IFIs can use existing guidance, addenda / additional guidance and requirements could be added specifically for IFIs. It was suggested that IFIs could adopt the Global Reporting Initiative (GRI) subject to a few additional requirements. Some banks expressed reluctance for IF to develop an entirely new set of guidelines as this would involve significant duplication of existing guidance, but stated that currently there was not enough guidance tailored to IF and this should be developed further.

There is also a UNEP FI reporting WG looking at a PRB / GRI comparison including the IF perspective, considering the potential issues, next steps to take and guidance. The suggestion is to adopt one reporting body / standard and commit to it so that there is a standardised approach.

## CASE STUDIES

The following section includes the opinions and information provided during discussions with the six organisations selected. The interviewees were asked to comment on their organisations approach to sustainability, PRB engagement, the SDGs and sustainability reporting as well as provide details on any products that are SDG aligned. The information included in the interview notes below about the date the IFI became a PRB signatory and the PRB Report Status is based on information from the signatory section of the PRB website.<sup>2</sup>

### Al Baraka Banking Group

PRB Signatory since October 2019



### Focus on Sustainability

In line with its vision, sustainability and social responsibility have always been key pillars of Al Baraka's business model. Al Baraka is committed to offering banking and financial services in a responsible manner, and taking into account how useful such services can be to the economy and society.

The values of sustainable finance have always been part of IF. There is overwhelming alignment of the SDGs with the *Maqasid Al Shariah* (the objectives of Shariah), creating common ground between IF and the SDGs.

#### SR Journey:

Social Responsibility (SR) is part of Al Baraka's core values, and this was primarily inspired by Al Baraka's late founder, Sheikh Saleh Kamel. Sheikh Saleh always believed that Islamic banking must contribute to the real economy guided by the Quranic principle of *E'mar al Ard*. This concept means social and economic development of the planet that we, as humanity, are entrusted with by way of our role as trustee and custodian of this planet, including all of its natural and economic resources. Various internal stakeholders reinforced, supported and remain committed to implementing this vision. These stakeholders include the Board of Directors, the Unified Shariah Board, the Board Social & Sustainable Finance Committee, the Group CEO, the subsidiary banks and their respective internal stakeholders.

Keeping in view the success of Al Baraka Goals 2016-2020 (discussed below), the Board committee's name was changed to "Sustainability and SR", and subsequently to "Social & Sustainable Finance". This is to keep Al Baraka's vision in line with the global trends, as well as to highlight how sustainability and SR continue to advance internally.

#### SR Governance:

While Al Baraka has been improving its SR strategies since its inception, it started enhancing the governance framework from 2012 onwards by establishing a Board SR committee. The mandate of the Board SR committee is to provide overall guidance for the SR activities across Al Baraka. Following Al Baraka, Al Baraka subsidiaries adopted a



similar governance framework. In 2012, Al Baraka also started publishing a dedicated SR annual report.

### **Mapping & Alignment:**

Based on the vision of its late founder, Al Baraka remains focussed on its role in society, and continues to offer sustainable and responsible finance. Al Baraka therefore considers itself as a triple-bottom-line financial institution. From 2012, Al Baraka started evaluating its balance sheet for social and economic impact. This was done based on the available data for various sectors and economic activities that Al Baraka finances. In addition, in 2015, Al Baraka added an alignment strategy to provide target-based financing to sectors that are consistent with the vision of its late founder. This was the birth of Al Baraka Goals (2016-2020), discussed further below.

### **SR Reporting:**

Measuring and reporting sustainability has been a challenging and evolving process. There was no framework available that was suitable for the areas of impact that Al Baraka focused on. Al Baraka started reporting its impact through four broad programs: philanthropic, *Qard Hasan*, economic opportunities, and the time volunteered by staff for social causes.

Unifying the reporting framework across Al Baraka was one of the key challenges, it was overcome with gradual improvements in capacity. Over the years, Al Baraka has made significant progress to align its operational strategies to be consistent with sustainability.

The key success during this process was that the subsidiaries started seeing value of the sustainability alignment strategies. Al Baraka is now working on a second iteration of sustainability linked Al Baraka Goals to cover the period from 2021 to 2025.

## **Engagement with PRB**

Since the adoption of the SDGs, IFIs have been exploring how they can contribute towards the sustainable development funding gap, and how to be part of a transformation plan for banking to assist in achieving the SDGs. One of the main challenges hindering IFIs' contributions to the SDGs was lack of a combined approach and guidance on collective action; institutions were instead looking at individual efforts. Therefore, PRB was well received as it provided uniformity of approach so that impact in the sector could be amplified rather than institutions acting on an isolated basis.

Al Baraka was excited about PRB as it provides a unified framework not only for the IFIs but also to the global banking industry for collective impact. Al Baraka was the first bank in West Asia to sign up to PRB. Al Baraka saw how its progress on sustainability was both compatible as well as conceptually and fundamentally aligned with PRB. Al Baraka followed the PRB process, which was similar to Al Baraka's existing strategy of Al Baraka Goals. Al Baraka was ready to move ahead with sustainability action when it signed up to PRB. The existing "Al Baraka Goals" helped Al Baraka as they were aligned with the values and the process of PRB, meaning that the Al Baraka Goals could advance with greater impact.

As PRB is housed at UNEP FI, which has been in place since the 1990s, it has a huge amount

of experience in working with the financial markets and with climate finance. After becoming a PRB signatory, the team at Al Baraka did not find any problems adopting the PRB recommendations. The PRB structure was easy to implement as there was a lot of flexibility as to how Al Baraka could structure its contribution to sustainability. Al Baraka's overall experience with PRB has been quite smooth and Al Baraka found the PRB team very responsive. Al Baraka also found the tools, training and digital resources from PRB extremely helpful. Al Baraka continued benefitting from the training and development opportunities (especially in environmental and climate risk management) offered by UNEP FI. Al Baraka appreciates UNEP FI's continued support.

## Approach to the SDGs

Al Baraka views the business and sustainability as being complementary to, and being inseparable from, each other. As a result, Al Baraka enhances shareholder value while simultaneously adding value to society and the environment.

Generally, every transaction in IFs must add value to society. This should be achieved by following a *Maqasid* methodology, which, historically, may have not been applied in a structured way. However, the SDGs provide a unique framework for IFs to align their *Maqasid*-based core values in their transformation strategy. Combining SDGs and *Maqasid*-based strategies offer a great opportunity for IFs to maximise value for shareholders, society and the environment.

## Reporting

IF has been in existence for over 40 years. As it is being integrated into the global financial markets, IF has grown rapidly.

The global financial markets are looking for uniformity around sustainability reporting and there are several initiatives currently being pursued. There are many collaborations taking place on reporting sustainability and impact. Climate related financial disclosures and ESG reporting are becoming more sophisticated. For instance, SASB and GRI are collaborating in several areas including carbon accounting. IFRS has started a consultation process on sustainability reporting. The IF market is also promoting sustainability reporting. CIBAFI is creating a sustainability guide, and AAOIFI a sustainability standard.

With many new initiatives being explored by both the global financial markets and IF around sustainability reporting, both seem to be moving towards it at the same time — unlike in some other areas where IF has had to catch up.

## Products

Al Baraka believes that the ethical principles of IF are a force for good. As the largest Islamic banking network in the world, Al Baraka fully appreciates its responsibility to revitalise communities and is committed to creating new employment opportunities, supporting small businesses, developing affordable housing, funding quality education and healthcare, financing sustainable energy projects, and embracing diversity and inclusion.

Al Baraka supports these objectives through its flagship initiative Al Baraka Goals (2016-2020) that pledged US\$ 822 million in financing towards seven of the SDGs. Announced in November 2015, the Al Baraka Goals pledged:

- Help create over 51,000 jobs.
- Finance over US\$434 million for healthcare projects.
- Finance over US\$191 million for educational projects.
- Finance over US\$197 million for sustainable energy projects (during 2019-2020).

Al Baraka hopes that industry-wide collective efforts will help reduce carbon emissions within the IF markets. Al Baraka is convinced that supporting sustainable development is not only impactful but it also makes complete sense for future business growth for IFIs.

Business teams across Al Baraka are given guidance as well as annual and 5-year targets to finance appropriate projects and sectors that are in line with Al Baraka Goals, resulting in portfolio alignment with the sustainable finance themes. Al Baraka has reported meeting its financing targets one year earlier than planned, and is now working on its second iteration of Al Baraka Goals to cover the period from 2021 to 2025.

## PRB Report Status

No report available on PRB site.

**BPMB**

PRB Signatory since May 2020



## Focus on Sustainability

Historically, BPMB has been operating the way most banks operate i.e. it grants financing to customers involved in various sectors of the economy. There was some criticism levelled at BPMB that it operated too much like a commercial bank. BPMB took the criticism seriously and critically evaluated its operating model. Subsequently, BPMB underwent a paradigm shift that resulted in looking beyond financial aspects when processing applications.

BPMB now evaluates and understands the impact the project being financed will have. In 2019, BPMB embarked on a 3 year strategic transformation plan to support Malaysia's continuing developmental needs that have shifted towards creating a meaningful and sustainable impact to the economy, society and environment.

In collaboration with the World Bank, BPMB mapped its portfolio against the 17 SDGs and at the end of the process, 5 SDGs were found to be most relevant. BPMB decided to anchor its impact assessment framework to these 5 SDGs and it developed a framework

called MIND (Measuring Impact on National Development), which measures every project against the 5 SDGs, namely:

- SDG 7 – Affordable and clean energy
- SDG 8 – Decent work and economic growth
- SDG 9 – Industry, innovation and infrastructure
- SDG 10 – Reduced inequality
- SDG 13 – Climate action

Over the last year, BPMB has been using the framework to make informed credit decisions. The framework generates a score based on a project's social and environmental impact and also its financial standing. The issue BPMB had to address was whether it would reject projects that do not achieve a specified minimum score. In this regard, BPMB decided that in the initial stages there will not be a specified minimum score for projects to be eligible for financing. However, there will come a time in the near future when BPMB would expect projects to achieve a specified minimum score in order to be eligible for financing from BPMB.

The Central Bank has been very supportive of the work at BPMB and it encourages financial industry players to play a more active role in the sustainability journey of the nation. BPMB has been making the necessary changes to expand its developmental role, very much in line with the Central Bank's views on how Development Finance Institutions (DFIs) should evolve.

## Engagement with PRB

The inspiration to sign up to PRB was mainly due to 2 major factors:

- (i) The journey to sustainable financing (in line with PRB).
- (ii) Fully fledged Islamic development finance (Shariah aligned with PRB).

It was an opportunity for BPMB to interact with other organisations on the sustainability journey.

One of the challenges BPMB faced in achieving PRB was that it required significant change in mind-set. BPMB had a list to help focus on the required changes. The paradigm shift needed to embrace the following changes from:

- Profit driven to impact driven
- Deal seekers to financing advocates (understanding the country's needs and advocating projects to make financing available)
- Risk mitigation to success maximisation (facilitate success of transactions rather than just focusing on risk)
- Products to solutions (IF will play a big role – term financing product but with IF risk sharing concepts)

- Financier to catalyst
- Reporting on compliance to actively advocating in different sectors

The bank embraced integrated reporting in FY 2019/20 and has continued on this basis. There were some gaps in the first-year but BPMB is committed to improving quality over time.

## Approach to the SDGs

The SDGs are relevant to BPMB although some are more relevant to the Government and policy makers.

BPMB anchored its impact framework to SDGs 7, 8, 9, 10 and 13. There were discussions around which SDGs it should focus on. For now, it is committed to ensuring the business promotes the 5 SDGs mentioned above but with the expectation that more will be added in the future.

With regards to whether the SDGs are aligned with IF, there are no conflicts between the two. As a result there is no issue if BPMB, as an IFI, decides to subscribe to the SDGs. The synergies are real and if an IFI decided to commit to the SDGs, it would not cause any problems.

As at May 2021 BPMB was 72% Islamic and expected to be 82/83% Islamic by Q3 2021. Most customers were happy to move to Shariah-compliant structures with a few legacy customers (c18%) remaining on conventional deals.

From BPMB's experience, the SDGs are quite clear and easy to understand and engagement with the World Bank has helped to build capacity.

## Reporting

The representative from BPMB stated that he did not believe there was sufficient guidance from IF industry bodies on the SDGs / PRB about reporting and engagement but it is not an issue as other non-IF bodies provide guidance. As with regards to uniformity on the reporting front, there is no need to duplicate what is already available and it would be a challenge for IF to develop a whole new set of guidelines.

## Products

BPMB does not have specific sustainability products. The entire business operation is geared towards driving sustainable finance. BPMB previously had a sector focus on Infrastructure, O&G, Maritime & Technology but is now sector agnostic.

## PRB Report Status

No report available on PRB site.

### Focus on Sustainability

In 2019, CIMB Group launched a 5-year strategic plan to drive the progressive growth of the group. One of the key pillars of the strategic plan, which was highlighted as a material deliverable and a key pillar for growth during stakeholder engagement, was sustainable practice and sustainable finance. Today, sustainability is clearly embedded in CIMB's strategies and serious efforts are being carried out to ensure the best sustainability practices are implemented internally and embraced externally by clients and customers.

For CIMB Group, sustainability is about maximising positive impact and eliminating or reducing negative impact to the community and environment arising from CIMB's operations, products and services. CIMB aspires to meet the demands of future generations and serve a broad range of stakeholders including customers, regulators, civil societies and shareholders. Each stakeholder has certain expectations of CIMB and CIMB needs to balance these expectations sustainably to ensure it achieves prosperity with positive impacts on the planet and its people. CIMB focuses both internally at its direct impact (for example, its consumed energy, water and waste management) as well as externally through financing products and services (for example, financing a factory which has some environmental impact).

CIMB Islamic was the first to embrace this approach, which is aligned with Islamic principles of achieving *Maqasid* (objectives) of Sharia, which requires avoidance of *Mafsada* (negative impact) and promotion of *Maslaha* (positive impact). CIMB Group is now expanding the scope to encompass a broader range of impacts and goals and extending this to the entire group. The current Covid-19 pandemic has created more awareness of environmental and social impacts and highlighted the causal links between the financial sector and the environmental impacts.

In terms of measuring the impacts of sustainability practices, CIMB uses various measures and tools to track the positive and negative impacts and these are reported in its annual Sustainability Report. Currently, sustainable financial products are still relatively small, around 1% of the total financing portfolio, but the demand is growing rapidly.

Research data shows that companies which are sustainability-driven are performing better, have less physical and transitional risk and are able to adapt to current requirements. They also cause less negative impacts to the environment and society. CIMB helps clients to future-proof their businesses from negative impacts and nudge them to view this as a business opportunity, not just a compliance cost. For instance, illegal waste disposal by irresponsible manufactures can cause river pollution and lead to serious water disruptions, thus impacting their own businesses as well as others. Ultimately, this may cause various climate risk challenges to the banks if negative actions taken by their clients are not constrained.

## Engagement with PRB

CIMB was one of the founding members of the PRB in 2018 and joined the global movement to promote and develop sustainable finance business globally. Banks need to measure impact in a way that is transparent and by using the correct taxonomy. Engaging UNEP FI and other global organisations has helped CIMB to build capacity and deliver better sustainability outcomes and impacts.

CIMB participated in the drafting of the PRB and this provided an opportunity to be with like-minded people and to share ideas in a cohesive manner. As signatories to the PRB, member banks need to disclose the commitments made and set milestones to track their progress. A lot of work goes into ensuring CIMB's commitments are realised and a robust system is in place to track and report accurately on the progress made.

## Approach to the SDGs

The SDGs are useful for aligning positive impact to a set of universally accepted goals. But in measuring impact, we need to measure both the positive and negative impact. For example, installing solar panels creates positive impact by replacing carbon-intensive energy with clean energy. But, the production of the solar panel system has caused a negative impact due to greenhouse gas emissions, and this negative impact has to be taken into account to achieve a net positive impact position.

The PRB signatories will usually pick the SDGs relevant to their country needs and demands. CIMB for instance, has chosen SDG 2, 4, 9, 12, 13, 15, 16 and 17 as key focus areas for impact creation.

For Islamic banks, most of the SDGs are in harmony with Islamic finance principles, though there are some areas where Islamic finance may differ. For example, a gaming company may be acceptable under the SDG framework unless they cause any negative impact like employing child labour. But a gaming company would not be compliant under Islamic law, due to gambling being a potential addiction that negatively affects family life, values and society as a whole.

PRB provide a broad framework but leave it to the banks to decide about measuring the positive and negative impact.

## Reporting

On the regulatory side, there is no need for AAOFIF / IFSB, to draft an Islamic equivalent of the SDGs or PRB. CIMB can use what is already out there and then come up with addendums / additional guidance and requirements for IFIs. For instance regarding GRI, IFIs can adopt the current rules subject to a few additional requirements. There could also be a more strict SDGs for IFIs.

## Products

CIMB focuses on both reducing the negative impacts as well as increasing positive impacts in its financing products and services. The impacts encompass environmental, social as well as governance issues.

Through the risk categorisation framework, CIMB has analysed all relevant ESG risks arising from all the economic sectors and sub-sectors that it finances and has categorised each of the sectors as high medium and low risk. All high risk sectors will have to undergo an enhanced sustainability due diligence to identify, assess and recommend the best course of action to address and remedy the environmental concerns that have been identified. The financing will only be granted if the client agrees to the remedial action plans over a defined timeline, which will be tracked and monitored by the bank. This mechanism allows CIMB to manage the environmental risks in a structured manner.

Contemporaneously, CIMB also has clear targets to shift the financing portfolio towards certain positive impact areas like renewable energy, circular economy, affordable homes, green-certified properties, hybrid or electric vehicles, microfinance, SMEs and so on. Many of the positive products and services carry incentives for clients in the form of lower financing charges or rebates for meeting the sustainability targets through sustainability-linked loans. There are also deposit products that allocate certain percentage of the income made by the bank for sponsoring positive impact activities across environmental and social causes.

## PRB Report Status

CIMB's FutureForward Sustainability Report 2019 filed with PRB in March 2020. The report provides an overview of CIMB's purpose statement and values, its Forward23 Strategy (see Appendix 4) and the Group profile. It then looks in detail at the Sustainability Leadership, Sustainability Principles & Strategies, Value Creation, Performance Data, Benchmarking and External Assurance.

[cimb-2019-sustainability-report.pdf](#)

## Gatehouse Bank

PRB Signatory since September 2019



gatehousebank

## Focus on Sustainability

Gatehouse Bank believes that sustainability is about creating a positive future for all.

The Bank is a British Shariah-compliant Bank, meaning that it follows a set of principles derived from Islamic teachings which promote fair play and ensure that its customers'



financial affairs are handled responsibly. Its core product offering enables sustainable economic activities through an exclusion list that prohibits the funding of sectors that are against Shariah Principles and risk counteracting society's goals.

Islamic finance principles require that all of the Bank's investments involve real assets such as real estate. This helps enable more sustainable economic activity and buffer society from some of the well documented negative impact of higher risk investment products. Building upon this core ethical position to achieve strong sustainability performance was a natural next step for Gatehouse Bank.

In 2019, Gatehouse's discussions with UKIFC (an early endorser of the PRB) were primarily about Gatehouse's existing ethical position and this helped build Gatehouse's awareness through networking and engagement. Becoming aware of PRB and being one of its early endorsers helped Gatehouse to engage with the wider context of, and trends in, sustainable development in the banking industry.

It should be noted that IFIs tend to have Sustainability (S) and Governance (G) embedded quite strongly in their model but the Environmental (E) element is often not as developed when it comes to "sustainability in ESG".

Sustainability at Gatehouse was primarily driven by Charles Haresnape (CEO) and the executive team, who were introduced to PRB by GEFI. The Bank recognised the potential to further develop its ethical position, in line with increasing interest in sustainability from customers i.e. consumers who have a growing awareness and want financial Institutions to play a part in a sustainable future.

Gatehouse is at the early stages of its sustainability journey. It has conducted a bank wide consultation exercise to identify the environmental, social and economic impact areas and ambitions for future sustainability action across Gatehouse.

In 2020, having identified some of the priority environmental needs of the UK to be climate and emissions, Gatehouse made the decision to voluntarily report on the greenhouse gas emissions of its internal operations. Its operational carbon footprint (including Scope 1, Scope 2 and selected Scope 3 Greenhouse Emission categories under the GHG protocol) has now been externally certified to ISO 14064-3. Gatehouse has now set a target to become carbon neutral in its operations by 2022 to PAS 2060 standards, demonstrating its commitment to sustainability.

## **Engagement with PRB**

The opportunity to become a signatory to the PRB came at a time when Gatehouse Bank was looking to expand its ethical position beyond Shariah compliance to include environmental considerations and an enhanced level of alignment and relevance to the broader sustainable development context.

Various large and small banks were already involved with PRB and Gatehouse felt it had a place there. Some banks were at a similar stage in considering sustainability and others were far more advanced. There was an opportunity for the banks new to PRB to learn and understand from practical examples and engage with the global community of peer

signatory banks. PRB was also an opportunity to further raise Gatehouse's profile by getting involved and to fast-track Gatehouse's journey to sustainability. Gatehouse appointed a dedicated individual to look at Sustainability and Corporate Social Responsibility (CSR), as it recognised that becoming a member of the PRB would require additional resources.

There are multiple WGs in PRB and it is a great opportunity to get on calls with peers from across the globe to work together to develop guidance around best practice in sustainability.

The challenge on the other hand was that the expectations from PRB were significant for a small bank like Gatehouse. Gatehouse considers it has an important role in advocating for smaller banks or those newer to sustainability to ensure that the PRB recognise that banks are at different starting points when it comes to sustainability, but that all have a vital role to play in improving the impact of the banking industry on society and the environment.

Gatehouse colleagues responded positively to PRB. They felt Gatehouse was part of a global commitment to be a responsible bank, and in addition to play their part in supporting a sustainable future for all. Being a signatory to the PRB is helping to build greater understanding within Gatehouse about sustainability issues and helps nurture a culture of responsible banking at all levels.

The PRB provides support and a framework through which Gatehouse can take action over the next four years to create value for society. By playing its part, Gatehouse aims to attract and retain customers, clients and talent.

## Approach to the SDGs

Using the UNEP FI Portfolio Analysis tool, developed by signatory banks, Gatehouse identified the key areas of need in the region in which they operate (the UK) and mapped these against the SDGs. They then assessed their internal operations and business activity in the context of these priority environmental, social and economic need areas, identifying important next steps required to further align their activity with the SDGs.

Gatehouse sees a natural alignment with the principles of Islamic finance and the SDGs. This is because the Islamic economic model takes into account the concept of both excluding funding for certain activities that have the potential to cause harm (e.g. SDG 3 Good Health and Well-being) and not offering speculative financial products (e.g. SDG 8 Decent Work and Economic Growth).

The next step for Gatehouse is to strengthen its alignment to the environmentally focused SDGs.

## Reporting

In 2020 Gatehouse conducted a bank wide consultation exercise to understand how its current ethical position aligns with society's goals and to identify where it can strengthen this alignment. The outputs of this were published in the 2020 Impact Areas report, which was the Bank's first sustainability focused report.

Gatehouse is not linked to AAOFI / IFSB etc. There is a UKIFC PRB WG looking at a collective approach from Islamic Banks' (agreement and alignment). This WG provides a leadership role in understanding current positions and getting a collective view on reporting to PRB. There is also a UNEP FI reporting WG which has mapped the PRB reporting requirements against the GRI standards.

Gatehouse will align its sustainability reporting with the GRI Standards in 2021.

## Products

Gatehouse is a British Shariah-compliant bank, it has developed products that ensure its activities fulfil Shariah criteria, and are therefore socially responsible.

Gatehouse is committed to innovating and developing products that drive sustainability. Given the important role that creating new woodlands plays in the effort to combat climate change and supporting biodiversity, the Bank recently launched a range of savings product called "Green Saver" accounts.

For every Green Saver account opened or renewed, the Bank plants a tree to support new woodlands. The Green Saver product was developed by the Bank working with Forest Carbon, the UK's leading developer of voluntary carbon woodland schemes. Green Saver woodland planting is certified by the UK Government's Woodland Carbon Code and associated carbon credits for the trees are publicly registered on behalf of Gatehouse savings customers.

## PRB Report Status

Gatehouse Bank filed a Self-Assessment report in March 2021 on its progress towards implementing the PRB. The report submitted by Gatehouse Bank follows the 'PRB Reporting and Self-Assessment Template' provided by PRB; the template goes through each of the six principles in turn, and under each principle there are a few (one to four) questions asking signatories to describe, show, explain or provide details how they have met aspects of the requirements. Gatehouse Bank has answered each of the questions and provided a link to where the relevant information can be found, including its 2020 Impact Areas Report, Sustainability Strategy, Shari'ah Compliance, Corporate Governance, community engagement and more.

**GIB UK**

PRB Signatory since February 2020

The logo for GIB (Gatehouse Islamic Bank) features the letters 'GIB' in a bold, sans-serif font. The letter 'i' is lowercase and has a small yellow square above its dot. The letters 'G' and 'B' are uppercase and black.

## Focus on Sustainability

GIB UK's focus on sustainability started in 2018 following the appointment of Katherine Garrett-Cox as Managing Director and Chief Executive Officer. Given the commonalities

between IF and sustainability, Katherine was keen to ensure an integrated approach between the two that would allow GIB UK's clients to have a greater positive impact.

GIB UK considers sustainability in both its strategy and its practices; be it the treasury and banking services or operations. The treasury and banking's business strategy is aligned with the principles and objectives of sustainable development. Sustainability is embedded across all the offerings.

GIB UK believes that banks play a critical role in stimulating a more sustainable way of doing business. They are centrally placed (through credit and investment decisions) to influence and fund the transition of industries to more sustainable approaches. GIB UK believes banks should reflect the needs of society which expects them to be clear about how their products create value to stakeholders.

As GIB UK serves clients predominantly in the Middle East and Gulf Cooperation Council regions, where sustainability as a concept is typically not as well developed, the approach has been driven internally from the top. A critical success factor in embedding sustainability into GIB UK's culture has been putting colleagues at the heart of the transition.

Measuring sustainability / responsible banking performance is challenging for GIB UK as the bank's treasury and banking business does not lend but only takes liabilities and facilitates transactions such as FX. However, GIB UK has established a number of sustainability related targets (carbon emissions reduction and counterparties' sustainability scores) that it reports annually.

## **Engagement with PRB**

GIB UK was eager to sign up to PRB following the benefits it found being a signatory of the PRI in 2018. Some of the benefits included connecting GIB UK with other like-minded organisations, forming partnerships with them and keeping GIB UK abreast of best practices. In addition, it felt that by signing up early to PRB, it would have a greater opportunity to shape it.

However, GIB UK has not found PRB straightforward as it was not designed with GIB UK's unique business model in mind. Nevertheless, GIB UK is committed to embed PRB principles within its treasury and banking business to maximum positive impact.

## **Approach to the SDGs**

GIB UK is a great advocate of financial institutions aligning their business practices with the SDGs. On the investment side, GIB UK's investment strategy is directly aligned with 14 of the 17 SDGs. On the treasury and banking side, its work is focused on SDG 17: partnership for the goals.

GIB UK believes that the SDGs and IF are aligned and has published a short paper on this topic: [https://gibam.com/assets/Islamic-Finance\\_09.20\\_2020-09-14-164738.pdf](https://gibam.com/assets/Islamic-Finance_09.20_2020-09-14-164738.pdf)

For instance, the principles of directing funds to the real economy, risk and profit sharing and the avoidance of excessive risk and speculation are all aligned with the SDGs.

## Reporting

IF industry bodies have been working on the reporting side. However, currently GIB UK does not believe there is enough guidance for the IF industry. It will be beneficial to have common reporting standards regarding the SDGs / PRB tailored for the IF sector. However, the implications of this are unclear. GIB UK is keen to work together with others in the industry to prepare useful guidance.

## Products

It is not possible to design sustainability-specific products for GIB UK's banking business, given the nature of its business lines. Rather, GIB UK ensures that sustainability-consideration is embedded across how it delivers products and services.

## PRB Report Status

GIB UK filed a Self-Assessment Report in April 2021, the format and approach of which is identical to that used by Gatehouse Bank (see above). GIB UK has used the 'PRB Reporting and Self-Assessment Template' provided by PRB and has answered each of the questions in turn and provided references to where further information can be found including its Annual Report and Accounts, Sustainability Report and its TCFD report.

### Jaiz Bank

PRB Signatory since September 2019



## Focus on Sustainability

The focus on sustainability for Jaiz Bank (JB) is like any IFI: sustainability complements the overarching intention to improve welfare. Trust has been given to JB by the Creator and everyone has a responsibility. PRB and the SDGs provide a template as to what JB could be doing better and are useful for its existing and ongoing approach.

JB's direct involvement in sustainability started in 2012, when \$20m dollars were injected into the Jaiz Charity and Development Foundation to support social and community development projects like the provision of water in some localities of Nigeria where there are supply difficulties, improvement of primary healthcare services, provision of food to communities displaced by internal insurgencies and other emergency interventions.

## Engagement with PRB

The motivation for joining the PRB was that it is a platform for banks working in the global community to collaborate and discuss ideas for best practice. JB believes that there is so much to learn / achieve through working towards the common goals that

humanity needs to address. PRB showcases initiatives to attract partners and provides opportunities to work together to deliver on the principles. The ideas promoted by PRB around inclusiveness are significant to JB's work in Nigeria.

JB believes that doing good is good but being part of PRB also provides opportunities to create value for participating organisations. It allows participating institutions to onboard new customers and offer variant services.

The idea of signing up to PRB was driven from the top. JB is keen to be part of a global community. Since becoming a PRB signatory, the overall experience has been good. There are knowledge sharing sessions, guidance on how to adopt and implement sustainability best practices.

On the other hand, the challenges include paucity of quality data and measuring tools.

## Approach to the SDGs

The current global challenges cannot be solved by Governments alone. The Government should provide some legislation / incentives to encourage others to take opportunities to address the SDGs.

Financial inclusion is a key enabler of the SDGs; it can be used to improve standards of living and to reduce poverty. There is a challenge to addressing this in Nigeria due to the micro nature of the opportunities but there is potential to grow and become sustainable. JB believes in doing good and getting loyal customers to achieve long term patronage.

It is important to address issues which can disrupt businesses, for example climate change, equity in society and welfare. The SDGs provide a win/win business opportunity.

There is a strong alignment between the SDGs and IF. Everything within IF (resources/people based on trust) is accountable to God. IF encourages the handling of the environment with care – do not disrupt it as it is also meant for future generations. IF focuses on being more responsible/taking trust more seriously.

The SDGs fundamentally work well with IF – *Maqasid Al Shariah* – Goals of Shariah – preservation of life, property, family, well-being, intellect of society.

## Reporting

On the issue of reporting, JB believes that a lot more can be achieved as there is not much guidance from the IF industry. During Covid-19 there has been many more webinars organised and JB would like to see some guidelines soon to provide underpinning literature and information as to how to handle the matter.

## Products

JB has four products around commercial interaction with the environment:

1. **Direct intervention** – JB provides capital for women (women have highest incidence of financial exclusion in Nigeria) to grow their business (micro level where commercial banks do not usually operate). There has been JB Board commitment from inception (from a sustainable perspective – not just a commercial or corporate focus). Women are the most vulnerable group. A 2-year pilot programme is being run; it was originally in one location to provide seed capital to women in some of the remotest communities (1,000 women) and has now been scaled up to 4 locations totalling more than 5,000 women. JB provides a profit-sharing-loss-bearing funding as seed capital. JB also provides *Takaful* insurance to cover day-to-day risks such as fire, accident, death, and theft at no charge. There is expected to be further scaling of the project post Covid-19. There are regular meetings conducted to monitor progress and enhance understanding of current realities for the women involved in the pilot, e.g. supporting children in going to school. There is work being completed around changing habits including cooking with eco-friendly stoves. JB has found that physical intervention is easier to change behaviour.
2. **Green Account** – linked to recycling. JB currently has over 1,268 Green Accounts created as part of a pilot programme. The target for the accounts is to recycle over 150,000 kg of waste which would have normally gone into landfill, thus creating a healthier environment.
3. **Ihsan** – JB provides customer with the opportunity to donate to support charitable causes / create capability through businesses.
4. JB started a pilot working with an NGO in 2019 with 1 farmer / 1 ha. The NGO organises farmers to improve their skills/use inputs to increase output and JB provides finance. The pilot will be scaled up during the dry season. JB is also working with Micro and Small-scale Leather Craft Manufacturers to produce bags in a more structured manner (using a cooperative to buy and share equipment), increase output, quality and reduce waste. JB is looking for scalable products to increase participation.

## PRB Report Status

Jaiz Bank filed a Self-Assessment Report in April 2021, the format and approach of which is identical to that used by Gatehouse Bank and GIB UK (see above). Jaiz Bank has used the 'PRB Reporting and Self-Assessment Template' provided by PRB and has answered each of the questions in turn and provided references to where further information can be found in its Sustainability Report.

## REFLECTIONS ON THE SUSTAINABILITY JOURNEY

The interviews presented a timely opportunity for the selected signatories to reflect upon their interactions with PRB and wider sustainability journey in order to share their lessons with peers considering following a similar path.

### Stakeholder Engagement

The six PRB signatories were asked how Shariah scholars, employees and clients responded to their commitment to responsible banking.

- **Shariah Scholars**

Shariah scholars were generally very supportive of sustainable banking and finance as it is in line with IF and is an ultimate objective of Shariah. However, the focus is still currently more upon ensuring that the underlying products, transactions and services (i.e. contractual aspects) will not contravene Shariah principles. When it comes to the sustainability discussion / output they are usually not involved and some banks have said that this will need to change. For others, their internal Shariah experts are part of the WG from across the organisation but more in an engagement function rather than governance (regarding PRB for instance). Others have stated that most issues around sustainability are embedded in the contracts and scholars are always alert as to whether or not the business is going to be harmful to society / environment.

- **Employees**

The results were ultimately positive although the journeys were often different. For some signatories, it took a long time for employees (mainly from an education and awareness perspective) to understand what was required of them as data and other reports had to be developed and there was a lot of back and forth to achieve clarification and verification which took months. While the senior management team are fully aware of the context and are committed to the cause, some challenges resided in colleagues not in senior management in getting them to embrace the “new” concept. For others, employees were content by their organisation’s decision to commit to sustainable and responsible banking / PRB and they felt that signing up for PRB formalises their firm’s commitment to sustainability. In some organisations, there is a continuous discussion between employees and the organisation around every aspect of sustainability and its principles, for example, responsible energy consumption, reducing individual as well as corporate carbon footprints, etc.

- **Clients**

Some banks continue to work on awareness and demonstrating that innovative ideas stem from within the bank and not just the sustainability team. For some signatories most of their clients are engaged in already although there is a lot of effort required in becoming sustainable. One of the six signatories interviewed was approached by a number of external organisations to learn about the firm’s experience in implementing PRB. Others are now looking to engage more with their clients and roll out sustainability products in 2021 as their progress on engagement was impacted by the pandemic. Overall, the response from the clients perspective was better than expected as some banks are currently seeing a shift towards a more sustainable journey.



## Advice for Other IFI's

The interviewees offered advice to IF institutions not currently engaged in sustainable banking, key aspects of this advice have been summarised as follows:

- IFIs by nature are sustainable and socially responsible; therefore embracing sustainability principles would enable IFIs to more robustly demonstrate a stronger commitment to Islamic banking principles. IFI's already consider activities that are and are not allowed by reference to socially unacceptable practices and therefore they are already somewhat committed to being sustainable and socially responsible. The full integration of formal sustainable and socially responsible banking is just a question of time.
- However, IFIs should not assume that by having a Shariah compliance committee this equates to sustainability. IFIs should look beyond permissibility i.e. from *halal* to *tayyib* (pure).
- Sustainability is in growing demand among consumers so IFIs need to keep up with the future of banking. Banks should engage with its customers around sustainability, which could be part of a 5-year plan.
- Sustainable banking not only helps achieve a greater good in society and the environment, but it could also present organisations with a number of profitable opportunities. If there is less friction and disruption from societal or environmental problems, business will more likely grow and be sustainable for the benefit of all stakeholders. While banks spend a lot of time discussing sustainable and responsible finance they often say that they find it challenging. However, arguably there is too much focus on problems and challenges, rather than solutions and opportunities.
- The PRB provide principles that are aligned to the SDGs which provide an opportunity for banks to play a role in developing a sustainable world. As humans we are entrusted with what God has given us and therefore, we should safeguard our environment so that it is secure for future generations.
- PRB is a great opportunity to work with UN (global leaders) and learn from peer banks with extensive experience (assessing, reporting and improving impact on community). IFIs are already achieving a lot in terms of sustainability so why not sign up to a global framework. There is an opportunity for IFIs to show the world that they can behave responsibly and adhere to global principles that are not specific to IF.

## CONCLUSION

This report has used the PRB global framework to analyse current levels of engagement amongst IFIs in relation to responsible banking and the SDGs.

Whilst a comparatively small number of organisations have become PRB signatories, the report has highlighted the pressing need to raise awareness and drive further action in OIC member states and beyond. PRB was only launched in September 2019 so to date there has been a limited window for banks to commit to the PRB. As momentum builds, it is anticipated that more banks will become signatories of the PRB in the future.

Although the principles of IF are broadly aligned with the SDGs, only four of the nine institutions selected for review as being either fully Shariah-compliant or a prominent Islamic 'window' within a conventional bank publicly promote the use of the SDGs either as a framework for strategy, an impact assessment tool or to set tailored goals. The remaining five make little or no reference to the SDGs on their websites.

During in depth interviews with six of the nine IFIs, the banks noted their commitment to sustainability and the SDGs. The banks stated that the PRB was useful for promoting collective action and learning from the experiences of other PRB signatories. The PRB has a number of WGs with a focus on IF which the signatories found useful. A number of banks expressed the need for greater guidance on sustainability reporting tailored for IFIs.

Further research could be undertaken concerning IFIs involved in responsible banking but which are not PRB signatories.

The feedback from the IFI PRB signatories interviewed during this research was generally positive about the PRB and therefore it would be interesting to understand why more IFIs have not become signatories. Also, research on the impact of Shariah compliant products (offered by both PRB signatories and non-PRB signatories) compared with SDG-aligned products offered by conventional financial institutions could be undertaken.

PRB signatories are currently underrepresented in OIC member states, suggesting the PRB should increase its activities within OIC member states. Awareness of the PRB in OIC member states could be increased through WGs, targeted awareness and outreach activities. Given the mutual benefits of becoming PRB signatories to both IFIs and the responsible banking industry, increasing engagement should be treated as a priority. It is hoped this report can contribute both to understanding the process involved and to exploring meaningful ways forward.

## SPONSORS



gatehousebank

Gatehouse Bank is an award winning Shariah compliant bank offering savings products and finance for UK commercial and residential real estate, in addition to sourcing and advising on UK real estate investments with a focus on the build to rent sector. We offer a genuine alternative to conventional banks, with products that are transparent, fair and socially responsible. Founded in 2007, the bank is based in London and Milton Keynes and is a subsidiary of Gatehouse Financial Group Limited. In 2019 Gatehouse Bank committed to strategically aligning with the SDGs by becoming a founding signatory of the UN Principles for Responsible Banking. Gatehouse Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Prudential Regulation Authority and the Financial Conduct Authority (FCA).

### NORTON ROSE FULBRIGHT

Norton Rose Fulbright's global Islamic finance lawyers have long-standing experience in delivering pioneering legal advice on Islamic finance transactions for IFIs, conventional banks and corporates. With more than 30 years of experience in Islamic finance law, our lawyers have a wealth of knowledge across a range of Shariah-compliant structures, including market-leading experience in Sukuk transactions, Murabaha, Istisna'a, Ijara and Musharakah financings and Takaful deals. The members of our Islamic finance group also bring with them industry expertise and are members of our banking and structured finance, international securities, aviation, shipping, projects, acquisition finance and collective investments practice areas. As well as having significant transactional experience, our lawyers regularly advise clients on Shariah governance matters including the establishment of Shariah supervisory boards. Based in the world's economic hubs and key Islamic finance centres across Europe, the United States, Canada, Latin America, Asia, Australia, Africa and the Middle East, our lawyers provide legal advice to governments worldwide on legislation concerning Islamic finance products.



Headquartered in central London, with representative offices in the Dubai International Financial Centre and Kuala Lumpur and a presence in Saudi Arabia, DDCAP Group™ (DDCAP) is a leading market intermediary and financial technology and systems solutions provider to the Islamic financial services industry. Founded in 1998, DDCAP was the first market intermediary established specifically to support the growth and development of the Islamic finance industry. Over the past 20 years DDCAP has become a leading provider of responsible asset facilitation services to institutional clients from both Islamic and conventional markets, across a diverse range of Sharia'a compliant products and instruments in both the primary and secondary markets. In tandem with its adherence to Sharia'a stipulation, DDCAP aspires to connect to the global Islamic financial market responsibly and has developed systems technology to deliver against that aspiration. DDCAP's multi award winning Asset Facilitation Technology Platform, ETHOS AFP™, is a bespoke real-time trading platform with 24hour coverage, enabling clients worldwide to purchase commodities and other physical assets via a secure, web-based portal. ETHOS AFP™ encompasses Sharia'a and business focused operational requirements across treasury, capital markets, asset management,

client consumer banking portfolios and takaful. ETHOS AFP™ infrastructure also supports DDCAP's stated intention to incorporate Sustainable and Responsible Investment (SRI) and financing principles within its business services and practices, including its supply of commodity and other physical assets. DDCAP recognises that organisations and firms across our industry are working to translate their own vision into responsible, sustainable policies and procedures that produce positive social and environmental outcomes as well as delivering financial results. In addition to evolving our own services and technologies to meet the growing demand from global issuers and investors seeking to integrate SRI principles within their core financing, investment and allocation strategies, we are actively engaging with other stakeholders to encourage global initiatives, standards and best practice. DDCAP has been a member of the RFI Foundation, an industry body established to expand responsible finance by incorporating the positive screening strengths of the SRI industry with the governance and regulatory advances of Islamic finance, since 2015. In 2016, DDCAP became one of the first Islamic financial sector signatories to the UN supported PRI and in April 2020, DDCAP Limited became a Stakeholder Endorser to the UNEP FI Principles for Responsible Banking, making it the first Islamic finance market intermediary to obtain this status. Last year DDCAP was also honoured to be asked to join The Global Islamic Finance & UN SDGs Task Force established by UKIFC.

### The UKIFC and the SDGs

The UKIFC is a specialist not-for-profit advisory and development body focused on promoting and enhancing the global Islamic and ethical finance industry.

Having identified a number of synergies the UKIFC has been at the forefront of positioning IF within the broader ethical finance umbrella. By following Shariah principles we believe that IF is intrinsically interwoven with ethical finance values and strategies. Over the last 10 years we have pioneered a number of internationally acclaimed and award-winning initiatives that have critically reviewed the ethical credentials of IF to help the sector better understand how it integrates into the wider ethical finance movement.

The emergence of the SDGs has posed a challenge to the financial services sector. Financing the SDGs is a complex task as it requires an unprecedented coordination between public sector organisations and private institutions. It requires reform to global financial regulation and meaningful commitment from financial institutions. With a step-change required in private investment financial institutions have been trying to understand and define their role in delivering the SDGs whilst making a commercial return.

Although momentum has built and progress is now being made in the conventional finance sector, despite what would appear to be a natural alignment in many areas with the *Maqasid al Shariah*, a lack of knowledge and understanding has held back widespread adoption of the SDGs by IFs.

With assets currently at US \$2.5 trillion and expected to reach US \$3.8 trillion in 2022, IF through its adeptness at innovative financial structuring, is well placed to create instruments that drive capital towards the SDGs.

At the UKIFC, we decided to take proactive steps to assist the global IF sector to better understand and engage with the SDGs. By joining the dots between IFs, business opportunities and the SDGs we are committed to support and encourage the sector to use the SDG framework to drive positive growth.

In 2019 the UKIFC became the first advisory body dedicated to IF to endorse the UNEP FI's PRB. Also in 2020, we launched a Global IF and UN SDGs Taskforce with the support of the UK Government. A new group of leading IF figures has been brought together by the UKIFC to draw up measures to encourage greater adoption of the SDGs. The Taskforce will have 24 months to come up with proposals on how to increase awareness and drive practical action within the sector.

As we enter the decade of delivery of the SDGs, this thought leadership series, delivered in partnership with ISRA, is intended to inspire IFs to embrace the SDGs and showcase to the world that consideration for people, planet and purpose sits at the heart of IF. ISRA equally shares a commitment to the SDGs and is particularly well placed to encourage Shariah scholars to engage with the SDGs.

Through partnering with GEFI and the UNDP and building internal capacity, the UKIFC have developed unique insights and skill sets, coupling strong in-depth knowledge of mainstream sustainability, responsible and ethical finance together with IF. We can assist



our clients and stakeholders in successfully responding to the challenges raised by the SDGs:

1. What is it? Enhance understanding through training, capacity building and thought leadership
2. Why do SDGs matter to my business? Developing the business case
3. How do we do this? Advising on mapping business processes, impact measurement and reporting.

We hope that you find this report useful and we welcome interest from individuals and organisations willing to amplify our message and / or participate in future collaborations.

## APPENDIX 2

### Products offered by IFIs – Further Details

Within Africa Shariah-compliant personal banking products and services are available from PRB signatories in South Africa (ABSA and Standard Bank), Egypt (Banque Misr) and Chad (through Togo headquartered Ecobank). Ahli United Bank offers Personal Banking services in Bahrain. Typical products include current, deposit and saving accounts, credit cards, financing, *takaful*, International banking, investments and wills. Swiss headquartered Credit Suisse can create Shariah-compliant portfolios for ultra-high net worth clients.

In terms of business banking, which typically includes commodity *murabaha* finance and commodity *murabaha* deposit products, Granati Bank (Turkey) is the only bank based in an OIC member state. Commerzbank AG (Germany), Lloyds Banking Group (UK), Mizuho Financial Group (Japan) and KCB (Kenya) are the other PRB signatories that offer business banking products.

Swiss-based Lombard Odier Group, J.Safra Sarasin and UBS offer Islamic wealth management services with, on the investment side, Pictet (Switzerland) offering an Emerging Corporate Bond with up to 20% of its assets in Sukuk, CIB (Egypt) manage an Islamic Equity Fund and IDLC Finance (Bangladesh) manage its Asset Management Shariah Fund. Nomura Holdings obtained its Islamic fund management licence in Jan 2009 with Nomura Islamic Asset Management in Malaysia now the global hub for Islamic asset management business for the group. Finally Shiga Bank in Japan formed a business relationship with Halal Japan Business Association in 2015 played a part in the planning of the “PNB- INSPiRE Ethical Fund 1 investment business limited liability partnership” that targets the growth of companies through the Halal business.

### PRB Reporting – Further Details

Of the PRB signatories in OIC member states offering IF products and services, Banque Misr, CIB (Commercial International Bank), CIMB Bank Berhad and Garanti BBVA have all submitted their first reports. First reports for IDLC Finance Limited and AAIB (Arab African International Bank) were due in March but have yet to be submitted, with the Ecobank report due this month and Ahli United Bank B.S.C (July 2021) and BPMB (November 2021) due later this year.

As well as Gatehouse Bank, 19 other PRB signatories offering IF products and services in non-OIC member states have submitted their first reports. They are Absa Bank Ltd, ANZ (Australia and New Zealand Banking Group), BNP Paribas, Commerzbank, Crédit Agricole, Credit Suisse, Deutsche Bank, GIB UK, J. Safra Sarasin, Lloyds Banking Group, Mizuho Financial Group, MUFG (Mitsubishi UFJ Financial Group), NAB (National Australia Bank Ltd.), Natixis, Société Générale, Standard Bank of South Africa Ltd, Standard Chartered, Sumitomo Mitsui Financial Group (SMBC) and UBS Group.

Citigroup Inc and KCB (Kenya Commercial Bank) have yet to submit their reports that were due in March 2021. The Pictet Group report is due now and reports for Shiga Bank, Nomura Holdings, Inc., Lombard Odier Group and Sberbank of Russia are due at a later date.

## APPENDIX 3

### Banks Offering IF – selected for website review

BANK	ISLAMIC FINANCE INFO
ABSA	Absa Islamic banking has not only developed Shariah-compliant products, but it has adopted an end-to-end Shariah process with all products and detailed embedded processes approved and certified by an independent Shariah Supervisory Board.
Ahli United Bank B.S.C.	Ahli United Bank Shariah-compliant Islamic banking activities are offered through its Islamic Banking subsidiary AUBK, Islamic banking associate UBCI and dedicated Islamic banking branches/'windows' at AUB Bahrain, AUBUK and through its associate Ahli Bank S.A.O.G
Al Baraka	Al Baraka is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on Bahrain Bourse and NasdaqDubai. It is a leading international Islamic banking group.
BPMB	BPMB's ambition is to become a full-fledged IFI. Islam offers guidelines and principles on how to manage economic development in a sustainable way for the betterment of human life while simultaneously preserving environmental interests. These tenets also cover banking practices, with Shariah-compliant financing and solutions that are in line with the national development agenda. As at 31 December 2019, 68.5% of BPMB's financing portfolio comprises Islamic financing.
Banque Misr	Banque Misr was the first Public Sector bank in Egypt to establish dedicated branches for Islamic transactions, to provide all banking, financial and trading activities for all sorts of economic and financial activities, according to the rules of Islamic Shariah. The funds of such branches are completely separate from those of the remainder of Banque Misr.
CIMB	CIMB Islamic is CIMB Group's Islamic banking and financial services franchise, with an extensive suite of innovative Shariah-compliant products and services. It operates in parallel with the Group's universal banking platform.
Gatehouse Bank	Gatehouse Bank follows a set of principles, derived from Islamic teachings, which promote fair play and ensure that customers' financial affairs are handled responsibly. The principles affect three main areas: <ul style="list-style-type: none"> <li>• Interest</li> <li>• Use of funds</li> <li>• Risk</li> </ul>
GIB UK	GIB UK operates an Islamic banking 'window', Gulf International Bank Islamic Banking.
Jaiz Bank	Jaiz Bank Plc is a non-interest bank in Nigeria operating under Islamic banking principles. It is the first non-interest bank established in Nigeria.



### Promoting the PRB

Signing the PRB allows institutions to publicly demonstrate their commitment to sustainable banking and their desire to build a more sustainable financial system. The website review therefore sought to determine which of the selected organisations mention the PRB and how accessible it is to visitors.

The following organisations make specific references to their PRB signatory status through their digital channels:

- ABSA - *“one of the first African banks to commit to the UNEP FI Principles for Responsible Banking. With our declaration to the PRB, we affirm and express our willingness to assume an active leadership role in bringing about sustainable changes in Africa.”*
- Ahli United Bank B.S.C – *“Subscribing to the UN’s Principles of Responsible Banking is a natural next step for AUB, giving us the opportunity to reaffirm our commitment to holding ourselves to the highest standards, and a much-needed platform to collaborate with like-minded banks in making a positive impact and improving people’s quality of life without compromising that of future generations”*
- Al Baraka – *“the first bank in the West Asia region to officially sign the new PRB which aligns with our commitment to sustainable banking and finance.”*
- Banque Misr – *“Banque Misr Amongst the First International Banks Taking Part in United Nations Principles for Responsible Banking”*
- CIMB – *“the only ASEAN bank and the founding signatory. As a signatory, CIMB has also signed the Collective Commitment to Climate Action, which sets out concrete and time-bound actions that banks will take to scale-up their contribution and align their lending with the objectives of the Paris Agreement on climate.”*
- Gatehouse Bank – *“The Principles for Responsible Banking fit with the Bank’s ethical approach to finance and more importantly, will enable us to continuously review and develop our approach as a responsible provider.”*
- GIB UK - *“At GIB UK, we are conscious of the mark we leave, and we are reaffirming our commitment by working alongside the PRB to continue to provide our services responsibly.”*
- Jaiz Bank - *“With our declaration to the PRB, which is in tandem with our business philosophy, we affirm our commitment towards ensuring impactful sustainable development.”*

CIMB and Gatehouse Bank have prominent references to the PRB on their websites whilst others, such as ABSA, Ahli United Bank B.S.C., Al Baraka, Banque Misr and GIB UK, have press releases or news articles on their website that can be difficult to find. The only notable mention of the PRB from Jaiz Bank is within a Facebook post.

It is evident that some of the banks, such as ABSA, Al Baraka and CIMB, have tried to differentiate by leveraging their engagement with PRB to position themselves as regional leaders.

At the time of research BPMB had no obvious references to the PRB on its websites.

## Terminology

The lack of a common language and agreed taxonomy has led to a proliferation of terms and acronyms deployed across the global financial services sector in relation to responsible banking. ASBA, Banque Misr and CIMB all lead with 'sustainability' with Al Baraka extending this to use 'sustainability and social responsibility'. GIB UK mentions 'sustainability' and 'sustainable development' within the context of its CSR approach to good corporate citizenship and sound business management. Details of BPMB's latest strategy can be found in its Annual Integrated Report 2019 which highlights how the bank is moving forward as a 'sustainable organisation' embracing 'sustainability' and supporting 'sustainable development'. Gatehouse Bank leads with 'responsible banking' and Jaiz Bank leads with 'ethical banking'. Ahli United Bank B.S.C does not include an overarching term on its website.

## Approach to the SDGs

### ABSA

In its Group Sustainability Policy<sup>7</sup> ABSA refers to the SDGs as "the universal goals to end poverty, protect the planet and drive shared prosperity" and makes the following commitments:

- *"Absa Group will follow a systematic approach by conducting a portfolio analysis and identifying impact areas for goal prioritisation in order to minimise negative impacts and contribute positively to society and the environment through its business decisions, lending practices and direct operations."*
- *Absa Group will set and publish targets on material issues in alignment with the PRBs."*

The Group Sustainability Policy notes that *"Promoting the SDGs is inherently positive."*

### Ahli United Bank B.S.C.

The only reference to the SDGs on the Ahli United Bank B.S.C. website was in the news coverage associated with the organisation's signing up to the PRB.

### Al Baraka

Al Baraka believes *"that Global Goals of Sustainable Development and IF are based on inherent shared values that Al Baraka will continue to follow and cherish."* Through its flagship Al Baraka Goals (2016-2020)<sup>8</sup> initiative Al Baraka has prioritised its focus for Sustainability and Social Responsibility activities on:

- Creating Jobs: 51,000
- Funding Education: USD 191million
- Funding Healthcare: USD 434million
- Funding Sustainability Energy Projects (2019-2020): USD 197million

The Al Baraka Goals are uniquely designed to link with the following SDGs:



## BPMB

BPMB's Impact in Mind – Annual Integrated Report 2019<sup>9</sup> sets out BPMB's new strategy to evolve beyond the traditional sectors by aligning with the Malaysian Government's priorities to achieve sustainable and inclusive growth and the SDGs. By embracing sustainability as a business approach BPMB aims to create long-term value while making a positive impact in the ecological, social and economic environment.

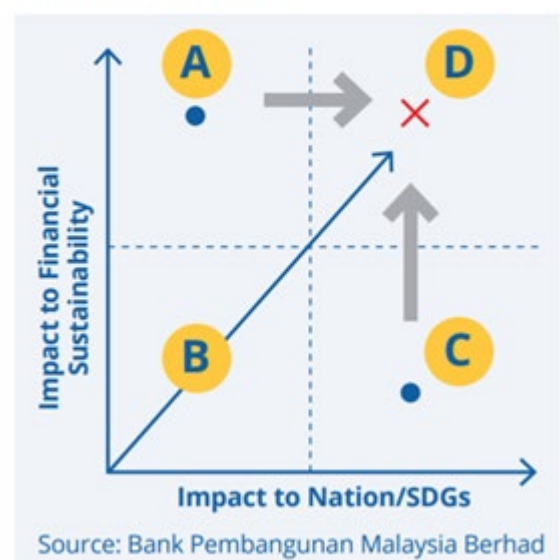
In line with its commitment to move from four focus sectors to a sector agnostic SDG impact focus in 2019 BPMB championed and pioneered the adoption of an innovative impact assessment framework— MIND. MIND promotes concerted action across all business dealings, where BPMB has targeted the following five SDGs:

- SDG 7 – Affordable and clean energy
- SDG 8 – Decent work and economic growth
- SDG 9 – Industry, innovation and infrastructure
- SDG 10 – Reduced inequality
- SDG 13 – Climate action

One of the bank's milestones in 2020 was to fully implement the new Performance Measurement Framework (PMF) - a system of evaluation that assesses projects beyond financial viability, capturing the impact created as a result of the bank's development activities. It will score projects across a two-dimensional matrix, with one axis showing financial viability and the other showing the impact on the national development agenda as well as the UN SDGs. Ideally, the bank aims to finance all future projects that lie in Quadrant D, rated high on both Impact to Nation / SDGs and Impact to Financial Sustainability.

BPMB's new sector agnostic focus aligns with the Malaysian Government's initiatives and key global developments with an emphasis on digitalisation, inclusivity and sustainability. In

### Impact Quadrants



terms of the operating environment and outlook for sustainability BPMB has included the following in its Impact in Mind – Annual Integrated Report 2019<sup>9</sup> :

#### *“Impact*

- To achieve economic growth through sustainable development is perceived as the most innovative money-saving tool for the economy in general.*
- This principle shapes future decision making as BPMB will be sector agnostic, emphasising on impact delivery when financing projects while aligning itself with Government initiatives and the SDGs.*

#### *Risks and Opportunities*

- The growing importance of sustainability demands that BPMB lends only for appropriate corporate activities that are in line with the SDGs, such as those with minimal adverse environmental impact or those that mitigate climate change. Failure to do so may increase our credit and reputational risks. (Risk)*
- By adopting the SDGs agenda, BPMB can mitigate various environmental, developmental and social risks through sound lending practices. (Opportunity)*

#### *Strategic Response*

- BPMB has established a task force to champion and pioneer the assessment of the potential impact of its lending practices by developing the MIND framework.*
- The Sustainable Development Financing Fund (RM1 billion) was established to support the Government’s effort to implement the SDGs.*
- Going forward, the goal of BPMB is to invest in sustainable projects and to maximise impact of development to the nation.”*

#### Banque Misr

Banque Misr makes reference to the SDGs on in the news coverage associated with the organisation’s signing up to the PRB and in its Annual Sustainability Report.

#### CIMB

As outlined in its Future Forward Sustainability Report 2019<sup>10</sup> sustainability is one of the strategic pivots of CIMB’s Forward23 strategy that aims for the bank to become a visible ‘shaper’ of sustainability practices in the ASEAN community by 2023. The report states that *“while it is important to operate in the context of local issues and solutions, we need to also understand systemic challenges and global trends. Our intent is to align our regional sustainability efforts with the Group’s overall goals, global issues and expectations of stakeholders.”*

Further to a strategic exercise undertaken in 2018, CIMB prioritised seven SDGs:

The following factors were taken into consideration when CIMB was prioritising SDGs, in



alignment with its focus areas and business impact.



As part of its approach to sustainable action CIMB is committed to creating positive impacts through its day-to-day business which has involved promoting sustainable practices across operations and processes group-wide and setting preliminary indicators of measuring impact for the 5-year Sustainability Roadmap 2023. A comprehensive target-setting exercise based on all the five pillars including how they map to the SDGs (below) is currently in progress. Meanwhile, its aspiration is to progressively demonstrate sustainability leadership across ASEAN.

- Sustainable Action (SDGs 8, 10, 12 and 13)
- Sustainable Business (SDGs 8, 9, 10, 12, 13 and 15)
- Corporate Social Responsibility (SDGs 3, 8, 10 and 13)
- Governance and Risk (SDGs 8, 9, 10, 13, 15 and 16)
- Stakeholder Engagement and Advocacy (SDGs 8, 9, 10, 13, 16 and 17)

## Gatehouse Bank

Gatehouse Bank has committed to aligning its business strategy with the SDGs and its Impact Areas report (May 2020)<sup>11</sup> has enabled the bank to understand where it is on its sustainability journey. By mapping the impact needs of the UK against the related SDGs Gatehouse Bank has been able to define the context of sustainable development and align its business strategy with society's goals. To ensure resources are deployed effectively for the most positive impact, Gatehouse Bank's responsible business strategy focuses on the most salient environmental, social and economic impacts that arise from its business activities.

### 1. Environmental Impact

The environmental impact depends on how the business activities affect the quality and efficient use of the Earth's water, air, soil, biodiversity and ecosystems, climate and waste. The highest priority environmental impact needs for the UK are consumption of raw materials, emissions, and biodiversity and ecosystems. The related SDGs are:



#### Internal operations

- GHG emissions of internal operations
- Procurement policy
- Investments in funds and sukuk

#### Business activities

- Build-to-Rent Funds
- Real Estate Investment Advisory
- Commercial and Residential Property Finance
- Approach to climate risk

## 2. Social Impact

Social impact depends on how business activities influence the availability, affordability and quality of water, food, housing, health and sanitation, education, employment, energy, mobility, information, and culture and heritage. The priority impact need for the UK is housing and the related SDGs are 3 and 11. Based on its business activities and impact as an employer in the financial industry Gatehouse Bank has chosen to also focus on SDG 8 Decent Work and Economic Growth.



### Internal operations

- People development
- Procurement policy

### Business activities

- Exclusion of socially harmful activities
- IF and the SDGs
- Building and funding homes
- Approach to products

## 3. Economic Impact

Economic impact depends on the value created for people and society through Gatehouse Bank's contribution to an inclusive and healthy economy. Impact areas that relate to economic impact include social mobility, inequality, ease of doing business, gender inequality, economic convergence, justice, strong institutions, and peace and stability. The UK's priority impact needs are inequality and social mobility, and the related SDGs are SDG 3 and SDG 10. Based on its business activities and impact as an employer in the financial industry, Gatehouse Bank has chosen to also focus on SDG 16.



### Internal operations

- Risk & compliance
- Diversity & inclusion

## Business activities

- Products & services
- Foreign investment
- Regional development

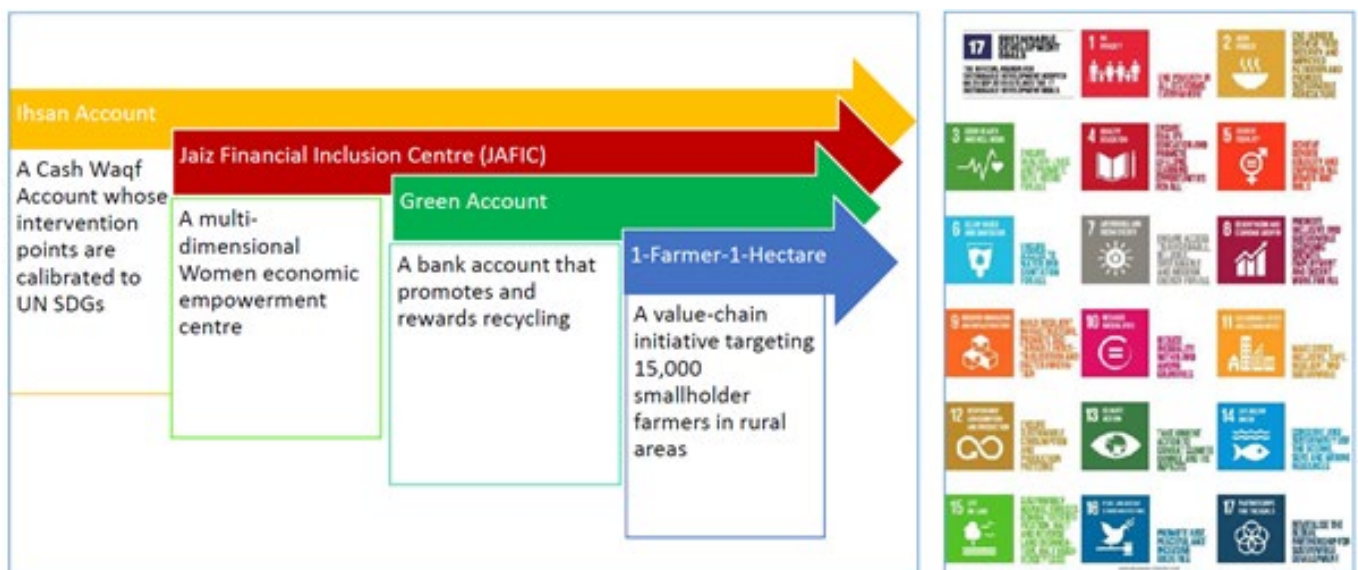
Gatehouse Bank's immediate next steps are to begin implementing the actions highlighted in their Impact Areas report and it will be interesting to see how performance is measured and reported over the coming years.

## GIB UK

The only reference to the SDGs on the GIB UK website was in the news coverage associated with the organisation's signing up to the PRB.

## Jaiz Bank

Jaiz Bank's Sustainability Report 2019<sup>12</sup> highlights that the bank has implemented "sustainability reporting with focus on the call to action for business contribution towards SDGs to end poverty, protect the planet, ensure peace and prosperity." At the Global IF and UN SDGs Taskforce in July 2020 Jaiz Bank CEO Hassan Usman presented further detail on how the bank is engaging with the SDGs. The following examples were provided:





## ENDNOTES

1. Global Islamic Finance SDG Taskforce - Islamic Finance Council UK ([ukifc.com](http://ukifc.com))
2. <https://www.unepfi.org/banking/bankingprinciples/signatories/>
3. <https://www.unepfi.org/banking/bankingprinciples/more-about-the-principles/>
4. <https://www.oic-oci.org/>
5. <https://www.mapsofworld.com/answers/world/what-is-the-organization-of-the-islamic-cooperation/#>
6. [https://www.unepfi.org/wordpress/wp-content/uploads/2021/02/Signatories\\_list-for-PDF\\_2903.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2021/02/Signatories_list-for-PDF_2903.pdf)
7. [https://www.banktrack.org/download/sustainability\\_policy\\_16/200612\\_sustainabilitypolicyapril2020.pdf](https://www.banktrack.org/download/sustainability_policy_16/200612_sustainabilitypolicyapril2020.pdf)
8. <https://www.albaraka.bh/en-gb/corporate-social-responsibility/sdg-goals/>
9. [https://www.bpmb.com.my/documents/21475/0/BPMB\\_AR2019\\_Spread.pdf/eb222744-d912-4693-9f02-2cd24af111f0](https://www.bpmb.com.my/documents/21475/0/BPMB_AR2019_Spread.pdf/eb222744-d912-4693-9f02-2cd24af111f0)
10. <https://www.cimb.com/content/dam/cimb/group/documents/investor-relations/annual-reports/2019/cimb-2019-sustainability-report.pdf>
11. <https://www.gatehousebank.com/downloads/20200716-Impact-Areas-Report-May-2020.pdf>
12. <https://onlineservices.jaizbankplc.com/i3root/upload/Sustainability%20Report.pdf>



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- UN SDGs – stakeholder endorser of the UN Principles for Responsible Banking and expertise in advising, capacity building and monitoring tools for all financial institutions (specialist tool kit for Islamic financial institutions)
- Advising on integrating Islamic with broader ethical finance strategies for product design to widen product appeal
- Advising conventional ethical finance bodies on adding an Islamic finance dimension to tap into new markets
- Planning, organising and supporting Islamic, ethical and interfaith finance events/conferences for publicity, product launches, educational and awareness purposes

[www.ukifc.com](http://www.ukifc.com)



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The Global Ethical Finance Initiative (GEFI) has become the hub at the centre of the ethical finance movement. We undertake advocacy through curating independent conversations across a broad coalition of financial services stakeholders, as well as research and delivering practical projects. We are the partner for action on ethical finance. @finance4change

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