ACRA

SUSTAINABLE DEVELOPMENT

SOCIAL BONDS

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ACRA CONFIRMS COMPLIANCE OF EDB'S BOND WITH ICMA'S SOCIAL BOND PRINCIPLES

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PRESS RELEASE

COMPLIANCE OF THE ISSUE WITH THE ICMA'S SOCIAL BOND PRINCIPLES

ACRA confirms that the KZT 20 bln 3-year bond issued by Eurasian Development Bank (hereinafter, EDB, or the Issuer) at Astana International Exchange and Kazakhstan Stock Exchange on November 5, 2021 complies with all the basic components of the ***ICMA's Social Bond Principles (2021 edition) (the 2021 SBP)***. The area in which proceeds will be used (the project funded through the bond issue pursues the objectives that fall within the ICMA project category, namely, constructing affordable basic infrastructure and achieving a positive social effect, including new jobs and higher accessibility of transport infrastructure for local residents), process of evaluating and selecting projects, management of proceeds and reporting presented in the ***Green and Social Debt Instruments Framework*** (hereinafter, the Framework) [1] are fully in line with the 2021 SBP criteria, and consequently the bond issue can be considered as social.

[1] https://eabr.org/upload/iblock/724/ESG-Bonds_04.10.2021_3_rus.cleaned.pdf.

KEY ISSUE TERMS

Issuer	**EDB**
Issuer's credit rating	**AAA(RU), outlook Stable**
Actual issuer	**EDB**
Instrument type, series and other identification data	**Exchange-traded interest-bearing non-convertible social bond**
Issue volume	**KZT 20 bln**
ISIN	**KZ2D00008174**
Placement date	**November 5, 2021**
Maturity date	**November 5, 2024**

Sources: ACRA, Issuer's data

EDB is an International Financial Institution (IFI) established to promote the economic growth, expansion of trade, and economic relations between some of the member states of the Commonwealth of Independent States (CIS) later known as Eurasian Economic Union (hereinafter, the EAEU). The member states of EDB are the Russian Federation (65.97%), the Republic of Kazakhstan (32.99%), the Republic of Belarus (0.99%), the Republic of Tajikistan (0.03%), the Republic of Armenia (0.01%), and the Kyrgyz Republic (0.01%).

The Issuer is actively involved in the sustainable development agenda:

- According to the Issuer's updated strategy for 2022–2026, green and social finance is a priority development area of EDB;
- In 2020, the Issuer became a shareholder of AIFC Green Finance Centre;
- The Issuer has established a dedicated green and social bond directorate;
- The Issuer has adopted the ***Environmental and Social Policy*** drawn up in line with the best practices of development banks;
- The Issuer has drawn up and approved the ***Green and Social Debt Instruments Framework***;
- The Agency notes that the Issuer's experience in financing major infrastructure projects in EAEU countries, SME development programs, and microloans through partner banks are very important in the context of the social bond issue.

KEY ASSESSMENT FACTORS

The Issuer provided ACRA with documents containing project eligibility criteria that can be included in the social bond issue, project selection process, approaches to managing proceeds, and reporting. Having reviewed these documents, ACRA made conclusions on the compliance of the bond issue with the four components of the 2021 SBP.

Use of proceeds

The objectives of the issuance of social bonds are clearly formulated and comply with the 2021 SBP. The proceeds from the issuance of these bonds will be used to finance a project that meets the criteria specified in the Framework.

For the purposes of the assessed issue, the Issuer has identified the project as:

- Motor road construction and operation (*the Republic of Kazakhstan*); sector: transport infrastructure.

100% of proceeds from the bond issuance will be used exclusively for the project that falls under the ICMA project category **Affordable Transport Infrastructure** as per the 2021 SBP.

This category is specified in the Issuer's Framework.

The Issuer provided the Agency with: (1) a detailed description of the project approved for financing through the bond issue; (2) key project specifications; (3) data on the total volume of financing for the project; (4) timing of financing; (5) the project's environmental and social action plan, and an interim progress report; (6) a description and rationale of social benefits to be achieved through the project.

The environmental and social action plan covers the following areas:

- Evaluation and management of environmental and social impacts;
- Personnel and working conditions;
- Rational use of resources, environmental pollution prevention and control;
- Protection of health and safety of local residents;
- Land acquisition, involuntary resettlement and economic displacement;
- Conservation of biological diversity and sustainable management of natural resources;
- Cultural heritage;
- Information disclosure and communications with stakeholders.

For each of the above areas, actions/measures, applicable requirements, resources and persons in charge, deadlines and performance criteria are specified. The status of each activity is also shown. According to the interim report on the implementation of the plan presented to the Agency, most of the activities have been completed or pending approval. Therefore, in the Agency's opinion, social and environmental risks of the project are mitigated to the maximum extent for this type of infrastructure projects.

The following positive social effects of the projects are determined by the Issuer:

1. New jobs.
2. Improved quality of life of local communities.

According to the Issuer, over 1,500 jobs were created by the end of 2021 as part of the project. The project provides for the priority recruitment of female employees and representatives of vulnerable groups of the population. In some periods, due to the temporary nature of work, the number of jobs could deviate up or down.

According to the Issuer's estimates, about 70% of jobs were opened to local residents who were employed for various jobs in the region of the project; both unskilled employees and skilled personnel were hired. Accordingly, subject to some reservations, local residents can be regarded as beneficiaries of this project.

Qualitative effects of the project include:

- Transit motor vehicles bypassing urban areas, which improves the quality of life in a number of nearby areas;
- More convenient transport services for adjacent districts and cities;
- Lower negative environmental impact of motor vehicles due to the removal of traffic flows outside urban areas;

- Higher speed limits and safety of motor vehicles thanks to modern construction standards.

The Agency considers the quantitative and qualitative effects of the project presented by the Issuer from to be sufficient for the project to be recognized as social, taking into account the infrastructure needs of the Republic of Kazakhstan, as well as the level of development of green and social finance practices in the country.

Process for project evaluation and selection

The Issuer has adopted a transparent and reasonable procedure for evaluating and selecting projects, which is described in the Framework.

All projects that are financed/refinanced by EDB using proceeds from the issuance of social bonds undergo a thorough evaluation and selection procedure carried out by a dedicated division of the Issuer. The ESG risk management division also assesses projects for compliance with the social criteria established by the Framework.

All projects selected by the Issuer for financing a project through the issuance of social bonds must meet the following criteria indicated in the Framework:

- The Issuer's credit committee has approved the decision to finance a project;
- The project is not socially hazardous and it does not belong to the category of projects that have an extremely negative environmental and social impact, in accordance with the Issuer's Environmental and Social Responsibility Policy;
- The project falls within the ICMA categories in terms of social projects;
- The project has passed additional verification or environmental audit (if necessary) with the involvement of external environmental and technical consultants;
- The project has received a positive opinion from the ESG risk management division;
- The project meets the criteria for social projects defined in the Issuer's Framework.

In general, in accordance with the current procedure for evaluating and selecting projects, all projects financed/refinanced by the Issuer go through a multistage evaluation and selection process, including an analysis of environmental and social impact, which is taken into account when making the final decision on the financing for any project (and not only projects that are financed / refinanced through the issue of social bonds).

In addition, the Framework states that EDB shall be guided by the ***Environmental and Social Responsibility Policy***, which provides for the refusal to finance socially hazardous activities.

All projects selected by the Issuer for the assessed issue are categorized as Affordable Basic Infrastructure according to the 2021 SBP and relate to the following UN SDGs:

- SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable.
- SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

In ACRA’s opinion, the described algorithm evidences an efficient process of project evaluation and selection and corresponds to the best market practices.

Management of proceeds

The procedure for managing proceeds from the issuance of social bonds is outlined in the Framework.

The EDB has adopted the following mechanism for managing proceeds from the issuance of social bonds:

- For each year following the reporting year, the Issuer's division in charge, guided by the relevant internal procedure, determines the volumes of issues of social bonds in line

with the categories of projects specified in the Framework, and draws up a preliminary register of social bond issues in accordance with the general plan of activities;
- On a quarterly basis, the Issuer's division in charge keeps records of issued loans or approved loan applications that correspond to the categories of projects specified in the Framework and have passed the procedure for evaluating and selecting projects (including refinanced projects) and draws up a register of social projects of the Issuer;
- After social bonds are issued, an amount equal to the net proceeds from such transactions is allocated to this internal register in the order of issue;
- The register of social bonds is reviewed regularly (at least once a quarter). The EDB has indicated in its Framework that it intends to maintain the aggregate amount of projects financed / refinanced through the issuance of social bonds at a level not less than the aggregate par value of outstanding social bonds;
- In accordance with the procedure adopted by the EDB, the register of social bond issues will contain information sufficient to identify each issue in order to comply with the register of social projects of the Issuer;
- When the par value of outstanding social bonds exceeds the value of projects financed / refinanced though bond issuance, the amount of such excess is allocated in accordance with the Issuer's liquidity management policy;
- The division in charge of the selection of projects eligible for the issuance of social bonds monitors, on a six-month basis, the intended use of borrowed funds for projects financed / refinanced from loans included in the register of social projects of the Issuer. If, based on the results of such monitoring, EDB comes to the conclusion that such use does not meet the intended purpose, then the project is excluded from the register of social projects;
- Within the quarter following the repayment of the loan included in the register of social projects of the Issuer or exclusion of the loan from the register of social projects of the Issuer, the EDB replaces this loan with another loan (meeting the requirements of the Framework) so that the total amount of loans included in this register is not less than the total par value of outstanding social bonds.

In ACRA’s opinion, the procedure for managing proceeds fully comply with the 2021 SBP and the best market practices among development banks who are social bond issuers.

Reporting

According to the Framework, the Issue shall publish, on an annual basis, the following two reports:

- Allocation of Proceeds Report;
- Impact Report (report describing the social impact of financed / refinanced projects).

The Allocation of Proceeds Report shall indicate the following:

- The par value of the Issuer's social bonds issued over the past calendar year with an indication of their key terms;
- The amount of allocated net proceeds from the Issuer's social bonds issued in the corresponding calendar year;
- The amount of unallocated proceeds from the Issuer's social bonds issued in the corresponding calendar year;
- Projects eligible under the Issuer's Framework broken down by country and category.

As part of the impact report, EDB undertakes to publish, on an annual basis, information on the expected and/or actual (if applicable) social impact of projects financed / refinanced through the issuance of the Issuer's social bonds.

The Framework provides sample indicators that the Issuer is willing to disclose in its Impact Report. For the project selected for this issue, such indicators (from among those presented by the Issuer) may include:

- Number of jobs created as part of the project;
- Reduction of the unemployment rate in municipalities where the project is being implemented;
- Reduction in the cost of transportation, and the transportation costs of local manufacturers.

In the Agency’s opinion, the above procedure fully complies with the 2021 SBP and meets the practices common among development banks.

Additional assessment factors

Organizational structure and strategy

According to the Issuer, the loan financed through this issue of social bonds is being disbursed by EDB's project directorates, in particular, the transport directorate. In addition, in accordance with the Issuer's internal procedures, the ESG risk management division is involved in the evaluation and selection of projects. According to the updated Strategy, a dedicated green and social project directorate has also been established by the Issuer, which also has plans to assess social projects.

For this issue of social bonds, the Issuer determined the goal of construction and operation of a motor road in the Republic of Kazakhstan (sector: transport infrastructure).

For the purposes of verifying this issue, the Issuer has provided the Agency with full information on the project.

The Agency positively assesses the fact that, as part of its Development Strategy for 2022–2026, the Issuer intends to strengthen the component of assessing the effects of its activities on promoting the implementation of the SDGs in determining the priorities of project work. In particular, EDB analyzed the SDGs, to which the Issuer will contribute directly or indirectly.

The Issuer has not joined any sustainable development initiatives, which has a constraining effect on the assessment.

The Agency also highly assesses the overall quality of the Issuer's corporate governance and strategic planning, in view of its new Development Strategy for 2022–2026.

Financial feasibility of projects

The Agency estimates the economic viability of the projects as high.

KEY ASSUMPTIONS

- Targeted use of proceeds from the issuance of social bonds;
- Achievement of social effects declared by the Issuer.

ASSESSMENT COMPONENTS

Compliance of the issue with the 2021 SBP: **yes**.

Assessment score: **SR1**.

ADDITIONAL INFORMATION

The assessment of the project financed as part of the social bond issue of Eurasian Development Bank for compliance with internationally recognized principles and standards in the field of social financing, as well as of the bonds themselves — for compliance with the 2021 SBP — have been performed based on the Methodology for Assessing Social Debt Obligations and Sustainable Development Debt Obligations with regard to social bond assessment.

ACRA has published its opinion on the compliance of the projects refinanced by Eurasian Development Bank with internationally recognized principles and standards in the field of social financing, and on the compliance of the bonds of Eurasian Development Bank with the 2021 SBP for the first time. The compliance assessment may be revised within one year following the publication date of this press release.

ACRA's opinion on the compliance of the project financed by Eurasian Development Bank with internationally recognized principles and standards in the field of social financing, and also on the compliance of the bonds of Eurasian Development Bank with the 2021 SBP is based on data provided by Eurasian Development Bank, information from publicly available sources, and ACRA's own databases. The assessment of compliance of the project financed by Eurasian Development Bank with internationally recognized principles and standards in the field of social financing, and of the compliance of the bonds of Eurasian Development Bank with the 2021 SBP was solicited, and Eurasian Development Bank participated in the assessment process.

In assigning the assessment, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

No conflicts of interest were identified in the course of the assessment process.

The assigned assessment is not a credit rating.

ACRA

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