ACRA CONFIRMS COMPLIANCE OF EURASIAN DEVELOPMENT BANK'S BONDS WITH THE GREEN BOND PRINCIPLES OF THE INTERNATIONAL CAPITAL MARKET ASSOCIATION

VLADIMIR GORCHAKOV
Deputy Director, Sustainable Development Risk Assessment Group
+7 (495) 139 04 80, ext. 132
vladimir.gorchakov@acra-ratings.ru

AGATHA POSTNOVA
Expert, Sustainable Development Risk Assessment Group
+7 (495) 139 04 80, ext. 157
agatha.postnova@acra-ratings.ru

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

ACRA confirms that the bond issue of Eurasian Development Bank (hereinafter, the Issuer, or EDB) complies with all the basic components of the ***Green Bond Principles (GBP) of the International Capital Market Association (ICMA)*** as amended in 2021 (2021 GBP). The use of proceeds (projects financed/refinanced under the bond issue are directed toward achieving goals corresponding to the categories of ICMA projects and have a positive environmental impact); the process of project evaluation and selection, approaches to managing proceeds, and the Issuer's reporting as described in EDB's document ***"Green and Social Debt Instruments Framework"*** (hereinafter, the Framework)[1] fully meet 2021 GBP criteria. Therefore, ACRA considers the assessed bond issue to be green.

KEY ISSUE PROPERTIES

Issuer	**Eurasian Development Bank**
Issuer's credit rating	**AAA(RU), outlook Stable**
Actual issuer	**Eurasian Development Bank**
Type, series and other identification signs of securities	**Exchange-traded interest-bearing non-convertible green bonds**
Issue volume	**KZT 20 bln**
ISIN	**KZ2D00008083**
Placement start date	**September 21, 2021**
Maturity date	**September 21, 2024**

Sources: ACRA, Issuer's data

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

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:

- In 2019, the Board of EDB approved a program for financing projects in the field of renewable energy sources (RES) for 2020–2024;
- According to the updated strategy of the Issuer for 2022–2026, green financing is identified as one of EDB's priority development areas; within this area, key international principles have been determined, which the Issuer will be guided by when issuing green financial instruments, as well as priority environmental goals;
- In 2020, the Issuer became a shareholder of the Green Finance Center, a subsidiary of the Astana International Financial Center (AIFC);
- The Issuer has a specialized green project directorate;
- The Issuer has adopted the ***Environmental and Social Policy***, developed on the basis of the best practices of development banks;
- The Issuer has developed and approved the ***Policy for the Issue of Green and Social Debt Instruments***;
- The Agency notes that the Issuer's experience in financing projects in the field of renewable energy is of particular importance in terms of the analyzed issue of green bonds. In 2020, EDB provided financing for three new projects for the construction of renewable energy generating facilities in Kazakhstan with an installed capacity of 110 MW.

KEY ASSESSMENT FACTORS

The Issuer provided ACRA with documents containing the eligibility criteria for projects that can be included in the issuance of the Company's green bonds, the project selection process, and approaches to managing proceeds and reporting. ACRA made conclusions on the compliance of the bond issue with the four 2021 GBP components.

Use of proceeds

The objectives of the issue of the Issuer's green bonds are clearly formulated and comply with 2021 GBP. The proceeds from the issuance of these bonds will be used exclusively to finance/refinance projects that correspond with the criteria specified in the Framework.

The Issuer has identified the following as projects for the purposes of the assessed issue:

- Project 1: construction of a 50 MW wind farm (*Republic of Kazakhstan*);
- Project 2: construction and operation of street lighting networks to improve the overall energy efficiency of the street lighting network (*Republic of Kazakhstan*);
- Project 3: modernization of a hydroelectric power plant with a capacity of 126 MW, which helps to reduce the discharge of pollutants into water bodies (*Republic of Kazakhstan*);
- Project 4: construction of a solar power plant with a capacity of 100 MW (*Republic of Kazakhstan*).

Therefore, 100% of proceeds from the issuance of these bonds will be exclusively used on projects falling under the following ICMA project categories as per 2021 GBP:

- Renewable Energy (projects 1 and 4);
- Energy Efficiency (project 2);
- Sustainable Water and Wastewater Management (project 3).

These categories are specified in the Framework.

The Issuer provided the Agency with: (1) a complete list of projects approved for financing/refinancing as part of the issue; (2) data on key technical parameters of each project; (3) data on the total amount of financing for each project; (4) financing timelines; (5) internal opinions of the Issuer and reports of external consultants (where applicable); (6) description of the achieved environmental effects from the implementation of projects and their justification.

For each of the projects, a written opinion (including reports from external consultants) was received from the Issuer, which states that the assessed projects do not cause significant damage to the environment at their locations.

The Issuer determined the following as a positive environmental effect for each project:

- Projects 1 and 4: increasing the share of electricity generation from renewable sources in the total volume of electricity produced in the Republic of Kazakhstan;
- Project 2: reduction of electricity consumption by 70% of the initial level for a given settlement;
- Project 3: reduction of the discharge of pollutants (in this case, turbine oil) into water bodies by more than ten times.

The Agency considers the calculations presented and the key assumptions made by the Issuer to calculate the expected environmental effect from the implementation of projects to be acceptable.

Process of evaluating and selecting projects

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

All projects that EDB finances/refinances using funds from the issuance of green bonds undergo an additional evaluation and selection procedure by the responsible department of the Issuer. The ESG risk management unit also assesses for compliance with the taxonomies and categories of green projects that EDB is targeting under the adopted Framework.

All projects selected by the Issuer for financing/refinancing using funds from the issuance of green bonds must meet the following criteria in accordance with the Framework:

- The project is approved for financing by the credit committee;
- The project does not involve socially hazardous activities and is not categorized as a project that has an extremely negative impact on the environment, in accordance with the Issuer's Environmental and Social Responsibility Policy;
- The project complies with one or more national and/or foreign taxonomies, as well as ICMA categories used by the Issuer without any additional criteria, or the project complies with one or more national and/or foreign taxonomies based on the fulfillment of additional criteria (in this case, an additional opinion of the Issuer and an external consultant (if necessary) on the fulfillment of the criteria is prepared);

- The project has passed an additional verification or environmental audit (if necessary) with the involvement of external environmental and technical sector-specific consultants;
- The project has received a positive conclusion from the division responsible for ESG risk management;
- The project meets the criteria for green or social projects defined by the Framework.

In general, in accordance with the adopted mechanism for the assessment and selection of the Issuer's projects, all projects financed/refinanced by it go through several stages of assessment and selection. This includes an analysis of environmental and social impact indicators of all projects, which must be taken into account when making the final decision on the provision of financing to any project (not only those financed/refinanced through the issuance of green bonds).

In addition, the Framework states that EDB is guided by the ***Environmental and Social Responsibility Policy***, which provides for the refusal to finance socially hazardous activities and projects that have a negative and irreversible impact on the environment.

All projects selected by the Issuer for the assessed issue belong to the 2021 GBP categories "Renewable Energy", "Energy Efficiency" and "Sustainable Water and Wastewater Management" and correspond to the following UN SDGs:

- SDG 6: Ensure availability and sustainable management of water and sanitation for all;
- SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all;
- SDG 13: Take urgent action to combat climate change and its impacts.

In ACRA's opinion, the described algorithm indicates that the process of evaluating and selecting projects is effective and corresponds to market practices.

Management of proceeds

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

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

- For each year following the reporting year, the responsible division of the Issuer, guided by the internal procedure, determines the volumes of issues and placement of green bonds in accordance with the project categories specified in the Framework, and compiles a preliminary register of green bond issues in accordance with the general action plan;
- On a quarterly basis, the responsible division of the Issuer keeps records of issued loans or approved applications that correspond to the categories of projects specified in the Framework, and which have passed the project evaluation and selection procedure (including for refinanced projects) and forms a register of the Issuer's green projects;
- After the issuance of green bonds, an amount equal to the net proceeds from these transactions is distributed to this internal register in the order of issue;
- The green bond register is regularly (at least once a quarter) revised. EDB has indicated in its Framework that it intends to maintain the total amount of projects financed/refinanced through the placement of green bonds at a level not less than the total par value of outstanding green bonds;

- In accordance with the procedure adopted by the EDB, the green bond register will contain information sufficient to identify each issue of green bonds in order to comply with the Issuer's register of green projects;
- During periods when the par value of outstanding green bonds exceeds the value of projects financed/refinanced as part of the placement of bonds, the excess amount is placed according to the Issuer's general liquidity management policy;
- The division responsible for the selection of projects applicable for the issuance of green bonds, on a semi-annual basis, monitors the targeted spending of borrowed funds for projects financed/refinanced using loans included in the Issuer's register of green projects. If, based on the results of monitoring the targeted use of funds, EDB comes to the conclusion that it does not meet the intended purpose, then the project is excluded from the register of green and social projects;
- During the quarter following the repayment of the debt of a loan included in the register of the Issuer's green projects, or after excluding a loan from the register, EDB replaces this loan with another loan (meeting the requirements of the Framework) so that the total sum of loans included in the register is not less than the total par value of outstanding green and/or social bonds.

In ACRA's opinion, the procedure for managing proceeds fully complies with 2021 GBP and the best market practices among development banks that are green bond issuers.

Reporting

According to the approved Framework, the Issuer undertakes to publish two types of reports on an annual basis:

- Report on the distribution of funds;
- Impact report (a report containing information on the environmental impact of financed/refinanced projects).

The report on the distribution of funds will contain the following information:

- The par value of the Issuer's green bonds issued over the past calendar year, indicating their key properties;
- The amount of allocated net proceeds from the Issuer's green bonds issued in the corresponding calendar year;
- The amount of unallocated proceeds from the Issuer's green bonds issued in the corresponding calendar year;
- Breakdown by country and category of eligible projects in accordance with the Issuer's Policy.

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

The Issuer's Framework provides examples of indicators which it is ready to report on in the impact report. For the projects selected for this issue, examples of such indicators (from among those provided by the Issuer) are:

- *For projects 1 and 4:* 1) full installed capacity of generating facilities powered by RES; 2) annual electricity production from RES; 3) annual reduction in direct greenhouse gas emissions by replacing fossil fuel-powered capacities;
- *For project 2*: 1) annual energy savings; 2) annual reduction of indirect greenhouse gas emissions by reducing electricity consumption;

– *For project 3*: 1) reducing the discharge of contaminated and/or untreated wastewater.

In the Agency's opinion, the above procedure fully complies with 2021 GBP and is in line with the practices of development banks.

Additional assessment factors

Organizational structure and strategy

According to the Issuer, loans financed/refinanced from this issue of EDB's green bonds are provided by its project directorates, in particular, the Energy Directorate. In addition, in accordance with the Issuer's internal procedures, the division responsible for ESG risk management is involved in the assessment and selection of projects. According to the updated Strategy, a specialized directorate for green projects has also been created in the structure of the Issuer.

The Issuer defined the following objectives as part of the analyzed issue of green bonds: 1) financing the construction of generation facilities operating on the basis of RES, including solar power and/or wind; 2) modernization of a hydroelectric power plant (with the declared effect of decreasing the discharge of pollutants); and 3) upgrading urban street lighting systems to improve the overall energy efficiency of the street lighting network.

For the purposes of verifying this issue, the Issuer provided the Agency with complete information on all projects, including reports from technical consultants.

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 impact of its activities on promoting the implementation of the SDGs when defining project priorities. In particular, EDB analyzed SDGs, the achievement of which the Issuer will contribute to directly or indirectly.

At the time of the assessment, the Issuer had not joined any sustainability initiatives, which had a limiting effect on the assessment.

The Agency also highly rates the overall quality of the Issuer's corporate governance and strategic planning in connection with the adoption of its new Development Strategy for 2022–2026.

Financial feasibility of projects

The Agency assesses the financial feasibility of the projects as high.

KEY ASSUMPTIONS

– Targeted use of proceeds from the issuance of bonds;

– Achievement of the environmental effects stated by the Issuer.

ASSESSMENT COMPONENTS

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

Assessment score: **GR1**.

REGULATORY DISCLOSURE

The assessment of the projects financed/refinanced as part of the green bond issue of Eurasian Development Bank for compliance with internationally recognized principles and standards in the field of ecology and/or green financing, as well as of the bonds themselves — for compliance with 2021 GBP — have been performed based on the Methodology for Green Debt Obligation Assessment with regard to green bond assessment.

ACRA has published its opinion on the compliance of the projects financed/refinanced by Eurasian Development Bank with internationally recognized principles and standards in the field of ecology and/or green financing, and on the compliance of the bonds of Eurasian Development Bank with 2021 GBP 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 projects financed/refinanced by Eurasian Development Bank with internationally recognized principles and standards in the field of ecology and/or green financing, and also on the compliance of the bonds of Eurasian Development Bank with 2021 GBP 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 projects financed/refinanced by Eurasian Development Bank with internationally recognized principles and standards in the field of ecology and/or green financing, and of the compliance of the bonds of Eurasian Development Bank with 2021 GBP 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 discovered in the course of the assessment process.

ACRA

PRESS RELEASE

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