

Second-Party Opinion

Council of Europe Development Bank

Social Inclusion Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Council of Europe Development Bank ("CEB") Social Inclusion Bond Framework aligns with the four core components of the Social Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds (i) Social Housing for Low-Income Persons, (ii) Education and Vocational Training, (iii) Supporting Micro, Small & Medium Enterprises (MSMEs) for the Creation and Preservation of Viable Jobs and (iv) Health are aligned with those recognized by the Social Bond Principles and aim to achieve positive socio-economic outcomes. Sustainalytics considers that the projects financed will lead to positive social impacts and advance the UN Sustainable Development Goals, in particular, 3, 4, 8 and 11.



PROJECT EVALUATION / SELECTION CEB's internal process in evaluating and selecting projects is carried out in conformity with the political and social aims of the Council of Europe. Borrower's are responsible for submitting loan applications for potential projects, which are then screened for compliance with the eligibility criteria before approval. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS CEB's processes for management of proceeds are handled by the Finance department. Proceeds will be placed in CEB's treasury pending allocation and further allocated to existing or new loans. As long as any proceeds remain unallocated, they will be managed in line with the standard processes of CEB's treasury until full allocation. Proceeds will be fully allocated within 24 months and may finance projects/activities with a maximum lookback period of 24 months. This is in line with market practice.



REPORTING CEB intends to report on the allocation of proceeds through the publication of a Social Inclusion Bond Report on its website on an annual basis until full allocation. Allocation reporting will include a summary of the allocation of proceeds per sector of action and per year of disbursement and, for each sector of action, the distribution of the proceeds by year of disbursement and per country. An independent auditor will review CEB's allocation of proceeds, which is considered market best practice. In addition, CEB is committed to reporting on relevant impact metrics. Sustainalytics views CEB's allocation and impact reporting as aligned with market practice.

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Issuer Location Paris, France

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Introduction

Council of Europe Development Bank (“CEB” or the “Bank”) is a multilateral development bank with an exclusively social mandate. Through the provision of financing and technical expertise for projects with a high social impact in its 41 Member States, it actively promotes social cohesion and strengthens social integration in Europe.

CEB has developed the Council of Europe Development Bank Social Inclusion Bond Framework (the “Framework”) under which it intends to issue multiple social bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that aim to provide positive social impact in the following four areas:

1. Social Housing for Low-Income Persons
2. Education and Vocational Training
3. Supporting MSMEs for the Creation and Preservation of Viable Jobs
4. Health

CEB engaged Sustainalytics to review the Council of Europe Development Bank Social Inclusion Bond Framework, dated April 2020, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2018 (SBP).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of CEB’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion on the Council of Europe Development Bank Social Inclusion Bond Framework and should be read in conjunction with that Framework.

¹ The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>.

² The Council of Europe Development Bank Social Inclusion Bond Framework is available on Council of Europe Development Bank’s website at <https://coebank.org/en/investor-relations/funding/>.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Council of Europe Development Bank Social Inclusion Bond Framework

Sustainalytics is of the opinion that the Council of Europe Development Bank Social Inclusion Bond Framework aligns with the four core components of the SBP 2018. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories, Social Housing for Low-Income Persons, Education and Vocational Training, Supporting MSMEs for the Creation and Preservation of Viable Jobs and Health, are aligned with those recognized by the SBP 2018. The projects and activities funded through this Framework may be located in any of the 41 CEB Member States.³
 - Social housing for low-income persons will include construction, refurbishment/renovation and conversion of buildings into low-income housing, corresponding to social housing criteria defined by the relevant national legislation. In the absence of satisfactory regulations, the CEB's criteria as presented in the process for project evaluation and selection apply as well as the criteria for social housing for low-income persons, as defined in section 3.1.1 of the Bank's Framework. Sustainalytics views the development of affordable housing and the targeting of low-income and/or underserved populations as contributing to a positive social impact and notes the strong criteria outlined in the Framework.
 - Education and vocational training may include projects which provide educational and vocational opportunities, as well as the development of basic infrastructure. Projects and activities may range from financing programmes to train unemployed and disadvantaged populations to the construction and/or rehabilitation of education facilities. In order for a private institution to be considered eligible within this category it must be state approved with recognition of diplomas at a national level to ensure that access and affordability are maintained. Sustainalytics positively views investments into education infrastructure and vocational training and acknowledges CEB's commitment to ensuring affordable access to educational/vocational training for citizens of CEB Member Countries.
 - MSME financing is intended to create and preserve jobs within the MSME⁴ sector, which is the dominant employment sector across CEB Member Countries. CEB gives priority to MSME initiatives which are supported by Member State government agencies. In order to be eligible for potential funding, borrowers will need to demonstrate a clear commitment to positive social impact and an ability to on-lend to the targeted MSMEs that are commercially sound and economically viable. CEB prioritizes support for smaller MSMEs and those with limited, less favorable, or no access to credit. Sustainalytics recognizes the broad importance of MSME financing and acknowledges that the Bank has established robust exclusionary criteria to ensure that there will be no financing of any MSMEs involved in potentially controversial activities.
 - Health financing will be aimed at projects related to healthcare infrastructure that aim to benefit the general public in both public and private, state-approved establishments, which must ensure universal access to healthcare for all patients. Some examples of specific activities that may be carried out include the construction, renovation and refurbishment of hospitals and healthcare infrastructure as well the improvement of facilities for the elderly and disabled and the purchase of modern medical equipment. A portion of these proceeds can be aimed at the mobilization of additional expertise and support to address pandemic situations.
 - CEB has established a lookback period of 24 months for refinancing.

³ Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Republic of Moldova, Romania, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and Turkey.

⁴ CEB uses the same definition of MSMEs as the European Union (EU Commission Recommendation 2003/361/EC), which may be updated from time to time. Article 2(1) of the Annex to Recommendation 2003/361/EC says the following: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."

Council of Europe Development Bank Social Inclusion Bond Framework

- **Project Evaluation and Selection:**
 - CEB's internal process in evaluating and selecting projects is carried out in conformity with the political and social aims of the Council of Europe. The Administrative Council approves the projects, based upon a technical and financial opinion of the Governor and an admissibility opinion of the Secretary General of the Council of Europe with respect to the conformity of the project with the aims of the Council of Europe. Loans are granted according to specific technical and social development criteria outlined in the Framework and in strict conformity with environmental, procurement and compliance guidelines and policies. CEB is committed to ensuring the quality and social impact of the projects through its active involvement during the entire project cycle. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- **Management of Proceeds:**
 - CEB's processes for the management of proceeds are handled by the Finance department. Proceeds will be placed in CEB's treasury pending allocation and allocated to existing or new loans. CEB will manage the proceeds by applying a notional equivalence approach between the Social Inclusion Bond proceeds and the Eligible Social Loans financed by the relevant Social Inclusion Bond. As long as any proceeds have not been allocated, they will be managed in line with the standard processes of CEB's treasury until full allocation. CEB intends to fully allocate proceeds within 24 months. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - CEB intends to report on the allocation of proceeds through the publication of a Social Inclusion Bond Report, on its website, on an annual basis until full allocation. Allocation reporting will include a summary of the allocation of proceeds per sector of action and per year of disbursement and, for each sector of action, the distribution of the proceeds by year of disbursement and per country. An independent auditor will review CEB's allocation of proceeds, which is considered market best practice. In addition, CEB is committed to reporting on relevant impact metrics, such as number of jobs created or preserved, number of healthcare facilities upgraded, number of patients served etc. For an exhaustive list of social impact indicators, please refer to Appendix 1: Social Bond/ Social Bond Programme - External Review Form. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2018

Sustainalytics has determined that the Council of Europe Development Bank Social Inclusion Bond Framework aligns to the four core components of the SBP 2018. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Strategy of CEB

Contribution of Framework to Council of Europe Development Bank's sustainability strategy

As Europe's largest social development bank, CEB plays a pivotal role in financing social projects, responding to emergency situations, and contributing to improved livelihoods of disadvantaged population groups. The CEB fulfills its mission through a strategic framework, a multi-annual Development Plan,⁵ the current version covers the period 2020 – 2022. The Development Plan sets out sectorial lines of action as approved by the CEB's Administrative Council and confirmed by its Governing Board, and includes the following:

- **Inclusive growth:** working to guarantee access to economic opportunities and ensure a prosperous future for all,
- **Support to vulnerable groups:** helping to integrate the most vulnerable citizens and nurture a more diverse society,
- **Environmental sustainability:** supporting a liveable society that promotes environmental sustainability, mitigates, and adapts to climate change.

The activities that will be financed through under the Framework will primarily contribute to the first two sectorial lines of action described above, inclusive growth and support to vulnerable groups. Furthermore, it is worth noting that, outside the activities being funded under the Framework, the CEB actively pursues environmental sustainability as well, but none of the projects financed under the Framework are specifically

⁵ CEB, "Development Plan", (2020), at: https://coebank.org/media/documents/Web_Development_Plan_2020_2022.pdf

relevant to that category. With that said, Sustainalytics is of the opinion that the activities and projects financed under the Framework will contribute to the implementation of CEB's Development Plan and contribute to positive social impact.

Well positioned to address common social and environmental risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are recognized by the SBP, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social impacts. Some key risks associated with the eligible projects could include land-use change, stakeholder engagement and worker health and safety.

As a European financial institution, Sustainalytics recognizes that the financing of projects and activities carried out under this Framework will not be directly implemented by CEB, but rather projects and activities will be implemented by different authorities/entities in different Member States. However, CEB has implemented risk management policies and procedures in relation to its lending portfolio. For example, CEB requires borrowers (and these to require their sub-contractors) to comply with relevant CEB policies⁶ and legislation (e.g. with respect to procurement, environmental and social safeguards, human rights and integrity). Additionally, the Bank has thus developed a Risk Management Framework to ensure consistency with international best practices for risk policies for identifying, assessing, reporting, monitoring and managing risk exposure. The Risk Management Framework is underpinned by the following principles:

- To develop and foster a sound risk culture across the whole organization;
- To establish a risk appetite as a strategic decision tool for monitoring the Bank's risk profile;
- To strive to implement all relevant best banking practices;
- To identify, understand and assess all material risks inherent to the Bank's activities, products, funding sources and transactions on an ongoing basis.

Based on the above, Sustainalytics is of the opinion that CEB has adequate risk management policies in place and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by the SBP. Sustainalytics has focused on two below where the impact is specifically relevant.

Strengthening Health Sector Resilience in Pandemic Situation

The Charter of Fundamental Right of the European Union acknowledges the universal right of access to preventive health care and the right to benefit from medical treatment.⁷ However, healthcare differences between and within the COE Member States continue to undermine equal and universal access.⁸ For example, in 2017, the number of physicians⁹ per hundred thousand inhabitants ranged from 186.8 in Turkey to 606.6 in Greece.¹⁰ In addition, in 2017, the full-time equivalents nursing professionals and midwives per hundred thousand inhabitants varied from 54.8 in Romania to 815.3 in Norway.¹¹ By financing the construction, renovation and modernization of healthcare infrastructure, such as hospitals and neighborhood healthcare centers, CEB can help Member States increase their capacity and access to affordable, quality healthcare.

⁶ CEB, "Projects and loans policies and guidelines", at: <https://coebank.org/en/about/policies-and-guidelines/projects-and-loans-policies-and-guidelines/>
⁷ Article 35.

Official Journal of the European Communities, "Charter of Fundamental Rights of the European Union", (2000), at: https://www.europarl.europa.eu/charter/pdf/text_en.pdf

⁸ Council of Europe, "Health", at: <https://www.coe.int/en/web/compass/health>

⁹ Physicians include general practitioners, other generalist medical practitioners, general pediatricians, gynecologists and obstetricians, psychiatrists, medical group of specialists and other specialists not elsewhere classified.

Eurostat, "Healthcare personal statistics – physicians", (2019), at:

¹⁰ Eurostat, "Healthcare personal statistics – physicians", (2019), at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Healthcare_personnel_statistics_-_physicians

¹¹ Eurostat, "Healthcare personnel statistics - nursing and caring professionals", (2019), at: https://ec.europa.eu/eurostat/statistics-explained/index.php/Healthcare_personnel_statistics_-_nursing_and_caring_professionals#Healthcare_personnel

Furthermore, by providing financing for emergency medical equipment, the mobilization of additional expertise, and the rehabilitation and transformation of healthcare spaces, CEB can help reduce equipment shortages and improve CEB Member States' ability to respond to pandemic situations. For example, the pandemic situation following the spread of the coronavirus disease 2019 ("COVID-19") is putting the CEB Member States' healthcare systems under pressure. Member States' capacity to effectively respond to this pandemic has varied significantly, demonstrating the need for increased resilience and improved health systems. In the European Economic Area ("EEA"),¹² with the current mitigation measures, the risk of exceeding health and social systems' capacity in the following weeks is considered high.¹³ Several key areas are currently experiencing constraints or shortages, such as ventilator availability, personal protective equipment, sampling and laboratory materials affecting diagnostic capacity and shortages of space due to increased needs for triage and isolation of suspected cases. In addition, CEB's commitment to provide assistance to vulnerable populations, such as the elderly, is pertinent due to the nature of the COVID-19 which has a significantly higher mortality rate for elderly patients.¹⁴

Based on the above, Sustainalytics is of the opinion that CEB's financing of healthcare and related infrastructure will provide positive social impact by increasing access to healthcare and by improving Member States' capacity to respond to healthcare crises.

Supporting MSMEs to Preserve and Create Employment

MSMEs represent 99% of all businesses in the EU and provide two-thirds of the total private sector employment, highlighting their contribution to economic growth and employment in the COE Member States.¹⁵ By providing access to finance for MSMEs, such as through direct lending and on-lending instruments included, CEB's lending can generate several positive effects for MSMEs. For example, the EU's credit guarantees for MSMEs from 2002 to 2016 enabled beneficiaries to grow more rapidly than non-beneficiaries in terms of assets, sales and employment.¹⁶ Additionally, regarding employment levels, the impact on growth was estimated to be between 8 to 30%,¹⁶ further highlighting the importance of MSME's role in providing stable employment.

To further contextualize the importance of MSME financing and job preservation, the COVID-19 pandemic has seriously disturbed CEB Member States' economies, demonstrating the importance of businesses' resilience. For instance, in Norway, unemployment rate surged from 2.3% to 10.4% in a month.¹⁷ It has been estimated that for each month of strict containment measures, GDP may decline by 2 percentage points.¹⁸ Also, before the COVID-19 outbreak, a significant share of MSMEs in the Eurozone were already at risk.¹⁹ This situation explicates the fragility of the economy and the need for resilient businesses that can sustain through financial hardships.²⁰ As such, Sustainalytics is of the opinion that the above-mentioned credit facilities provided by CEB could further contribute to the growth of MSME's and the preservation of employment.

Alignment with/contribution to SDGs

The United Nations' Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The bonds issued by CEB under the Framework advance the following SDG goals and targets:

¹² The European Economic Area ("EEA") is comprised of the 27 EU member states and three European Free Trade Association (EFTA) states (Iceland, Liechtenstein, and Norway).

¹³ European Centre for Disease Prevention and Control, "Risk assessment on COVID-19, 8 April 2020", (2020), at: <https://www.ecdc.europa.eu/en/current-risk-assessment-novel-coronavirus-situation>

¹⁴ Liu., K., et al, (2020), "Clinical features of COVID-19 in elderly patients: A comparison with young and middle-aged patients.", Journal of Infection, at: <https://www.ncbi.nlm.nih.gov/pubmed/32171866>

¹⁵ European Commission, "Internal Market, Industry, Entrepreneurship and SMEs", at: https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

¹⁶ Brault, J., et Signore S., (2019), « The real effects of EU loan guarantee schemes for SMEs: A pan-European assessment", EIF Working Paper Series 2019/56, at: <https://ideas.repec.org/p/zbw/eifwps/201956.html>

¹⁷ Le Monde, « Coronavirus : en Europe, la bataille pour éviter le chômage de masse », (2020), at :

https://www.lemonde.fr/economie/article/2020/03/27/coronavirus-en-europe-la-bataille-pour-eviter-le-chomage-de-masse_6034586_3234.html

¹⁸ OECD, "Tackling Coronavirus (COVID-19) - SME Policy Response", (2020), at: https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

¹⁹ Euler Hermes, "COVID-19: Quarantine economics", (2020), at: https://www.eulerhermes.com/en_global/economic-research/insights/covid-19-quarantined-economics.html

²⁰ ILO, "COVID-19 and the world of work: Impact and policy responses", (2020), at:

https://www.ilo.org/wcmsp5/groups/public/--dgreports/--dcomm/documents/briefingnote/wcms_738753.pdf

Council of Europe Development Bank Social Inclusion Bond Framework

Use of Proceeds Category	SDG	SDG target
Social Housing for Low-Income Persons	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Education and Vocational Training	4. Quality Education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
Supporting MSMEs for the Creation and Preservation of Viable Jobs	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Health	3. Good Health & Well-Being	<p>3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all</p> <p>3.D Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks</p>

Conclusion

CEB has developed the Council of Europe Development Bank Social Inclusion Bond Framework under which it will issue social bonds and use the proceeds to finance and refinance social housing, education, MSMEs support and health sector related expenditures in the CEB's Member States. Sustainalytics considers that the projects funded by the social bond proceeds will provide positive social impact, such as assisting Member States in tackling the adverse health crises and preserving employment.

The Council of Europe Development Bank Social Inclusion Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Council of Europe Development Bank Social Inclusion Bond Framework is aligned with the overall sustainability strategy of the Bank and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 8 and 11. Additionally, Sustainalytics is of the opinion that CEB has implemented adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Council of Europe Development Bank is well-positioned to issue social bonds and that the Council of Europe Development Bank Social Inclusion Bond Framework is robust, transparent, and in alignment with the core components of the Social Bond Principles 2018.

Appendices

Appendix 1: Social Bond/Social Bond Programme External Review Form

Section 1. Basic Information

Issuer name:	Council of Europe Development Bank
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Council of Europe Development Bank Social Inclusion Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 22, 2020
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify):</i> | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds (i) Social Housing for Low-Income Persons, (ii) Education and Vocational Training, (iii) Supporting MSMEs for the Creation and Preservation of Viable Jobs and (iv) Health are aligned with those recognized by the Social Bond Principles that seek to achieve positive socio-economic outcomes for target populations. Sustainalytics considers that the projects financed in the eligible categories will lead to positive social impacts and advance the UN Sustainable Development Goals, in particular SDGs 3, 4, 8 and 11.

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Affordable Basic Infrastructure Services | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment Generation & Improved Livelihoods (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other <i>(please specify)</i> . |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

CEB's internal process in evaluating and selecting projects is carried out in conformity with the political and social aims of the Council of Europe. Borrowers are responsible for submitting loan applications for potential projects, which are then screened for compliance with the eligibility criteria before approval. Sustainalytics considers the project selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Council of Europe Development Bank Social Inclusion Bond Framework

Information on Responsibilities and Accountability

- | | |
|---|--|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

CEB's processes for management of proceeds are handled by the Finance department. Proceeds will be placed in CEB's treasury pending allocation and further allocated to existing or new loans. As long as any proceeds remain unallocated, they will be managed in line with the standard processes of CEB's treasury until full allocation. Proceeds will be fully allocated within 24 months and may finance projects/activities with a maximum lookback period of 24 months. This is in line with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

CEB intends to report on the allocation of proceeds through the publication of a Social Inclusion Bond Report on its website on an annual basis until full allocation. Allocation reporting will include a summary of the allocation of proceeds per sector of action and per year of disbursement and, for each sector of action, the distribution of the proceeds by year of disbursement and per country. An independent auditor will review CEB's allocation of proceeds, which is considered market best practice. In addition, CEB is committed to reporting on relevant impact metrics. Sustainalytics views CEB's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Council of Europe Development Bank Social Inclusion Bond Framework

Information reported:

- Allocated amounts
- Social Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify):

Sector of action	Social impact indicators
Social housing for low-income persons	Number of dwellings (construction/renovation) Number of Beneficiaries
Education and vocational training	Number of schools (construction/renovation) Number of students
Supporting MSMEs for the creation and preservation of viable jobs	Number of MSMEs, number of jobs preserved Number of jobs created
Health	Number of healthcare facilities upgraded Loan breakdown per buildings and equipment delivered and Number of patients served

Council of Europe Development Bank Social Inclusion Bond Framework

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input checked="" type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Allocation reporting | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://coebank.org/en/investor-relations/funding/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. **Second Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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