Financial sustainability

The CEB thinks about financial sustainability from a dual perspective: on the one hand, the Bank makes sure that borrowing and lending operations are viable in the long term, i.e. sustainability of its own business model. On the other hand, with the issuance of Social Inclusion Bonds, the CEB contributes to the development of the market for sustainable financial products and offers a way for socially-responsible investors to support projects with an explicit positive social impact.

Ensuring the CEB’s financial soundness

In 2018, as in previous years, no arrears or impairments were recorded; this was the result of the CEB’s stringent risk management and compliance with best banking standards and practices, such as the Basel Committee recommendations on Banking Supervision.

More specifically, the three main rating agencies confirmed the CEB’s strong standing in their 2018 published assessments. The CEB has a high rating, which mirrors its strong financial profile, the support of its shareholders and its stringent risk management policy. In September 2018, Fitch Ratings affirmed the CEB’s long term rating at “AA+” outlook stable, in July Moody’s affirmed its Aa1 rating with stable outlook and in June 2018, Standard & Poor’s affirmed the AA+ rating with a positive outlook (on 15 February 2019, Standard & Poor’s upgraded the CEB’s rating from “AA+, outlook positive” to “AAA outlook stable”).

The CEB’s Social Inclusion Bond Framework

With the issuance of its first Social Inclusion Bond in 2017, the CEB set out guiding principles for its social bonds, summarised in the Social Inclusion Bond Framework. In essence, this framework defines the key investment areas to be supported by a bond’s proceeds (i.e. social housing for low-income persons, education and vocational training as well as support to MSMEs for the creation and preservation of viable jobs), and details the process for project evaluation and selection, the management of proceeds, as well as the reporting on the bond’s financing and outputs.

Those provisions also commit the Bank to reach out for an independent assessment on the alignment between the bond to be issued and the Social Bond Framework itself. This “Second Opinion” checks the social quality of the loan portfolio, and its alignment with both the CEB’s overall sustainability objectives and the International Capital Market Association’s Social Bond Principles.

As a founding member of the ICMA Social Bond Working Group, the CEB helped develop the Social Bond Principles and contributed to a sub-working group on impact reporting. Leveraging the knowledge gained through this exchange, the Bank is working to integrate the Sustainable Development Goals (SDGs) into its upcoming bond reporting in early 2019.
Reporting on the impact of the CEB’s first Social Inclusion Bond

As positive social and environmental impact is core to sustainable finance in general and to the CEB’s Social Bonds in particular, transparent reporting on “output, outcome and impact” is paramount to investors.

In 2018, the CEB therefore started to report in detail, through dedicated communication channels, on its first Social Inclusion Bond issued in early 2017 (see “Social Inclusion Bond Report”). The information published one year after the bond issuance was reviewed by an independent auditor.

There are strict criteria for projects being financed through the CEB’s 2017 Social Bond. In line with the CEB’s Social Bond Framework (see “The CEB’s Social Inclusion Bond Framework”), the bond dedicated 30% of the total € 500 million to social housing, 8% to education and 62% to micro, small and medium-sized enterprises (MSMEs). All in all, projects in eleven countries were supported through the Social Bond (see the figure below).

Measuring what outputs and outcomes have been achieved: Social Inclusion Bond 2017
With the financing obtained about 2,300 social housing units were built, 210 education facilities supported improving the learning environment for 57,000 students, and 12,000 MSMEs financed with an estimated 14,000 jobs preserved or created.

Issuing a second Social Inclusion Bond in 2018

Backed by strong interest from the responsible investment community in the inaugural bond offering in 2017, the CEB launched a second Social Inclusion Bond in 2018 and, going forward, is going to offer a bond of this type each year.

Based on the Bank’s existing Social Inclusion Bond Framework, the 2018 bond again helps to finance projects with a focus on social housing, education and vocational training as well as MSMEs.

The seven-year, € 500 million bond was issued in March 2018 and once again attracted a wide range of socially responsible investors, significantly broadening the Bank’s investor base.

In line with its commitment to transparency, the CEB will publish an overview of the eligible social loans and their social outputs and outcomes in early 2019.

For more information, please see the dedicated press release.

“We want to create a momentum in this social bond segment and try to bring the market to our objective, which is to enhance social cohesion in Europe.”

— Rolf Wenzel, CEB Governor