



THE FRENCH LOCAL GOVERNMENT FUNDING AGENCY

AGENCE FRANCE LOCALE  
SUSTAINABILITY BOND FRAMEWORK



JANUARY 2020



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# 1. INTRODUCTION

## 1.1. BACKGROUND

The creation of Agence France Locale was authorized by the law No. 2013-672 of July 26, 2013 for the separation and regulation of banking activities, following which AFL was effectively created on October 22, 2013, the date on which its constituent act was signed.

The Agence France Locale Group (AFL Group) is organized around a two-fold structure consisting of Agence France Locale - Société Territoriale (“AFL-ST,” the parent company with the status of financial company) and of Agence France Locale (“AFL”, the subsidiary, a specialized credit institution). The Agence France Locale Group is formed by the combination of these two companies. The purpose of its two-tier governance is to separate the operational management, handled by the specialized credit institution (AFL), from the shareholders’ representation and financial strategy, handled by AFL-ST. This separation of responsibilities makes it possible to avoid any intervention by member local and regional authorities in AFL’s day-to-day management activities, ensure stakeholders’ accountability for their tasks, and maintain adequate control and monitoring mechanisms.

Accordingly, AFL’s supervisory board has adopted a rule stating it must be comprised of a majority of independent members. In so doing, shareholders accept and acknowledge that it is important for banking and financial professionals to be responsible for the oversight of the credit institution.

**The main tasks of AFL-ST, the Group’s parent company, are as follows:**

- ✓ Representation of shareholders;
- ✓ Management of the guarantee mechanism;
- ✓ Proposing members of the credit institution’s Supervisory Board for appointment by the shareholders;
- ✓ Setting of major strategic guidelines and the risk appetite framework; and
- ✓ Promotion of the model among local authorities, jointly with AFL, to increase the number of shareholder members.

**The main tasks of AFL, a credit institution more than 99.99% owned by AFL-ST, are as follows:**

- ✓ Granting of credit exclusively to shareholder member regional and local authorities
- ✓ Fund-raising on capital markets, and
- ✓ Day-to-day operational management of financial activities;

In a more detailed approach, Agence France Locale business model benefits from (i) a robust structure and (ii) a customer centric model.

### A robust structure

AFL is an investment financing facility for French local authorities in which they are the exclusive shareholders through AFL-ST, the majority shareholder and over 99.9% owner of AFL. Like the local authorities financing agencies in Northern Europe<sup>1</sup> which have existed for several decades, and agencies in New Zealand or Japan, AFL was established to be a long-term player in the financing of local investments. Whilst integrating French law constraints, the AFL model is broadly inspired by the Nordic agencies, and more specifically the Swedish and Finnish agencies, which have been financing local authorities in their respective countries since the end of the 1980s. This model, based on pooling the needs of local authorities and their credit ratings, enables them to have a sufficient size to borrow from the capital markets, through bond issues in particular, in order to grant simple fixed- or floating-rate loans to local authority shareholders.

The optimization of financing costs in the capital markets is based on AFL's high credit rating, which is built on a solid financial position, the quality of its balance sheet assets and a two-tier first-demand guarantee mechanism (Member guarantee and ST guarantee)

This two-tier mechanism allows the beneficiaries of these guarantees<sup>2</sup>, which includes the holders of bonds issued by AFL, to have the option of both (i) calling on the local authorities that are Group members as guarantors, and/or (ii) calling the "ST Guarantee" which offers the advantage of simplicity in the form of a one-stop shop.

It should also be noted that, in compliance with its statutory provisions, the "ST Guarantee" may be called on behalf of the financial creditors at the request of AFL under the terms of a protocol between the two companies. The purpose of this mechanism for third parties to call on direct beneficiaries of the "Member Guarantee" is to be able to mobilize guarantees to prevent non-compliance with the regulatory ratios or an event of default.

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<sup>1</sup> The local and regional authority financing agencies in Northern Europe are: BNG and NWB in the Netherlands, created in 1914 and 1954 respectively, Kommuninvest in Sweden created in 1986, KBN in Norway created in 1926, MuniFin in Finland created in 1989/1993, and Kommunekredit in Denmark created in 1899.

<sup>2</sup> The guarantee models are accessible on the AFL Group's internet site: [www.agence-France-locale.fr](http://www.agence-France-locale.fr).

Apart from credit risk to local authorities, all of AFL's financial risks (other credit risks, currency risks, interest rate risks and liquidity risks) are meant to be limited, supervised or even neutralized.

With respect to prudential requirements that are imposed on AFL in respect of banking regulations, AFL is monitored for the use of equity capital at the consolidated level and for liquidity at the lending institution level as well as at the consolidated level.

The AFL Group has set a solvency ratio for equity capital (Common Equity Tier One at AFL-ST level) at 12.5% minimum (9.878% regulatory limit).

Regulatory requirements for the leverage ratio must be subject to differentiated processing for development banks as part of the new CRR. The latter should authorize development banks such as AFL to exclude certain assets such as development loans from their leverage exposure.

### A customer centric model

The AFL Group was designed to better serve its customers on three levels.

Firstly, through AFL's unique status as credit institution with its shares held by its borrowers: this enables the borrowers to ensure that their interests are at the heart of the AFL Group's objectives, through their position as shareholders of the ST. ST's responsibility is to pursue the Group's strategy, promote the interests of all borrowers and pool their interests for the benefit of all local authorities.

Secondly, since its creation, AFL has chosen to implement online services that combine efficiency and speed and ensure users the highest levels of security to better meet the needs of its member borrowers.

Finally, a team dedicated to the relationship with local authorities sees to it that each of their specific expectations is met.

## 1.2. AFL'S SUSTAINABILITY AMBITION

Fully owned by French Local Authorities, Agence France Locale's mission is to provide members with cost-efficient and stable funding to finance their investment needs. As per the budgetary "Golden Rule", French Local Authorities may only borrow to finance their investment expenditures. AFL's unique business model lies in the fact that Local Authorities are both exclusive shareholders and exclusive borrowers of the agency. In an increasingly constrained environment in which investment must be preserved to ensure the continuity of a high-quality public service, this model allows AFL to play a critical role in supporting public infrastructure investments.

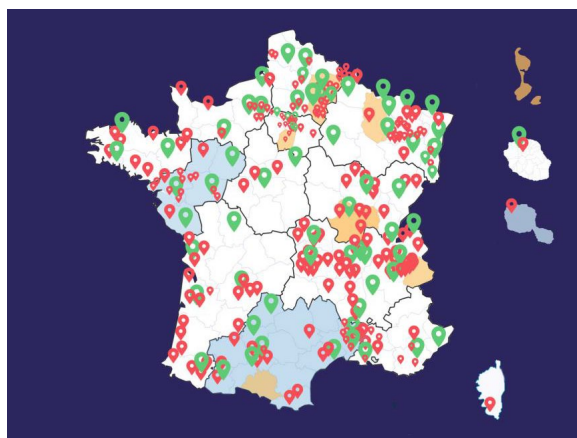
AFL is one of the largest lenders to the French local government sector with more than 3.4 Bn EUR of signed loans as of December 2019 (including circa 1 Bn EUR in 2019). Members currently fund 25% of their needs through AFL, demonstrating their confidence in AFL's long-term support. AFL Group targets a 25% market share of total French local authorities' funding needs in the long term.

Given the general interest of its mission and its long-term view, sustainability is at the very heart of AFL's business model.

In order to formalize and disclose its overall contribution to sustainable goals, AFL has launched in 2019 a dedicated ESG project. It aims at analyzing and summarizing the wide range of sustainable leverages addressed by AFL and to illustrate its 5 main commitments:

1. Committed to the long-term development of territories
2. Actively committed to improving financing to French local authorities
3. Aware of the responsibility of banks in the economy
4. Simple, robust, and efficient in its operations
5. Transparent in its rules and products

Focusing on credit activities, AFL is guided by the principle of fairness in financing local authorities as shareholders. By essence and through its status, AFL supports Local Authorities of every size and type.



**As of December 31st, 2019, AFL Group had 352 shareholders.**

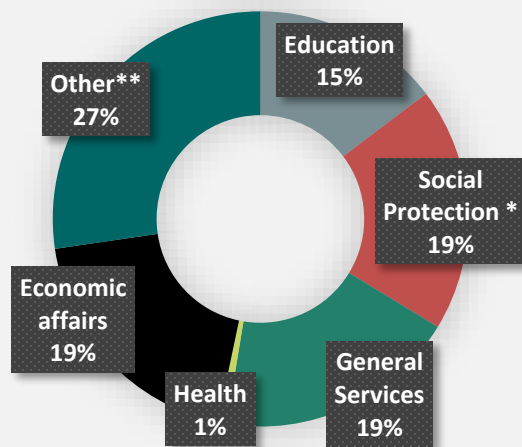
AFL members include:

- ✓ 2 regions
- ✓ 7 departments,
- ✓ 11 metropolis (representing more than half of the 21 French Metropolis)

### **Local authorities, essential partners towards achieving the SDGs**

The French local public sector plays a key role for sustainable growth and social infrastructure investment with a wide range of responsibilities. French local governments account for close to 70% of all French public sector investments. French Local Authorities are indeed the competent authorities setting strategic guidelines to pursue the objectives of sustainable development, in its social, economic and environmental dimensions.

## % OF SUBNATIONAL GOVERNMENT EXPENDITURE



\* Social protection expenditure includes both capital and current expenditure. \*\* Other: housing and community amenities; security and public order; recreation, culture and religion; environmental protection.

Source: OECD (2018), *Subnational governments in OECD Countries: Key Data*

The main categories of French Public Local Authorities investment expenditures are:

- ✓ economic affairs and transport,
- ✓ social protection (mainly the municipalities and the departments)
- ✓ and public services and education.

local governmental bodies established by the previous decentralisation reforms (1982-83 decentralisation laws, 2003-04 laws and 2010 territorial reform).

As set out in Appendix, they now have specialized competences:

- ✓ **Regions:** economic development (aid schemes for SMEs, innovation, internationalization), territorial planning, environmental protection, regional transport, high schools and vocational training;
- ✓ **Departments:** social solidarity and territorial cohesion (social welfare for families, elderly, disabled, insertion, secondary schools, support to rural municipalities).
- ✓ **Municipalities:** Municipal competences include primary education, town planning, municipal roads, urban public transport, social support for families and youth, municipal police, housing, drinking water and sanitation, waste, culture, sport, etc.

**As a major partner to Local Authorities, AFL plays a decisive role in contributing to France's Sustainable Growth through the financing of Local Public Authorities.**

Cities and regions are ideally positioned to transform the broad 2030 Sustainability Agenda into concrete and efficient measures supporting a sustainable growth. The 17 United Nations' Sustainable Development Goals and 169 targets of the 2030 Agenda

must be achieved at global, national and subnational levels. All the SDGs have targets directly related to the local and regional level.

Local Authorities can approach goals and targets in a pragmatic way, adapt them into their own context and help their citizens understand how local action contributes to their achievement. The achievement of the SDGs depends, more than ever, on the ability of local and regional governments to promote integrated, inclusive and sustainable territorial development.

In this context, Local Authorities along with AFL have a key role to play in contributing to SDGs and AFL has the ambition to fully participate to that end.

### 1.3. RATIONALE FOR SUSTAINABILITY BONDS ISSUANCE

In essence, its mission being to provide financing to the French local public sector's investments, AFL has an environmental and social responsibility and contributes to the achievement of several UN SDGs.

AFL Group is further developing its funding strategy to align it with its ambition and its contribution to the financing of French local territories' sustainable development. To capture the whole spectrum of Local Authorities' competencies, AFL has decided to issue Sustainability Bonds as a substantial part of its toolbox for funding sustainable investments. AFL is convinced that Sustainable Bonds are an effective tool to channel investments towards assets that have both environmental and social benefits and to provide transparency to investors.

In addition, promoting local ownership of national strategies is essential. AFL is particularly well positioned to amplify Local Authorities' contribution to France's sustainable growth, improve at national level the recognition of Local Authorities' ownership of the SDG and foster Local Authorities' sustainable investments.

Guided by the principle of fairness in financing Local Authorities as shareholders whatever their size, AFL is in addition particularly well positioned to tackle the challenges of the widening territorial gap. In that sense, the issuance of Sustainability bonds is a unique opportunity to showcase Local Authorities' contribution to the



reduction of the territorial gap and Sustainable Development more broadly, whatever their size or type. As such, AFL membership encompasses several entities of less than 1000 habitants, from all parts of French territories, including from the less favored areas (former industrial areas, remote mountain areas...).

In the long run, AFL is convinced that it can participate to empowering Local Authorities to promote their contribution to SDG. The reporting exercise is notably a powerful way to promote local and regional champions for their involvement in the achievement of the SDG and France's roadmap.

AFL's Sustainability Bonds also seek to meet investors' demand with a particular focus on responsible investments.

## 2. AFL'S SUSTAINABILITY BOND FRAMEWORK

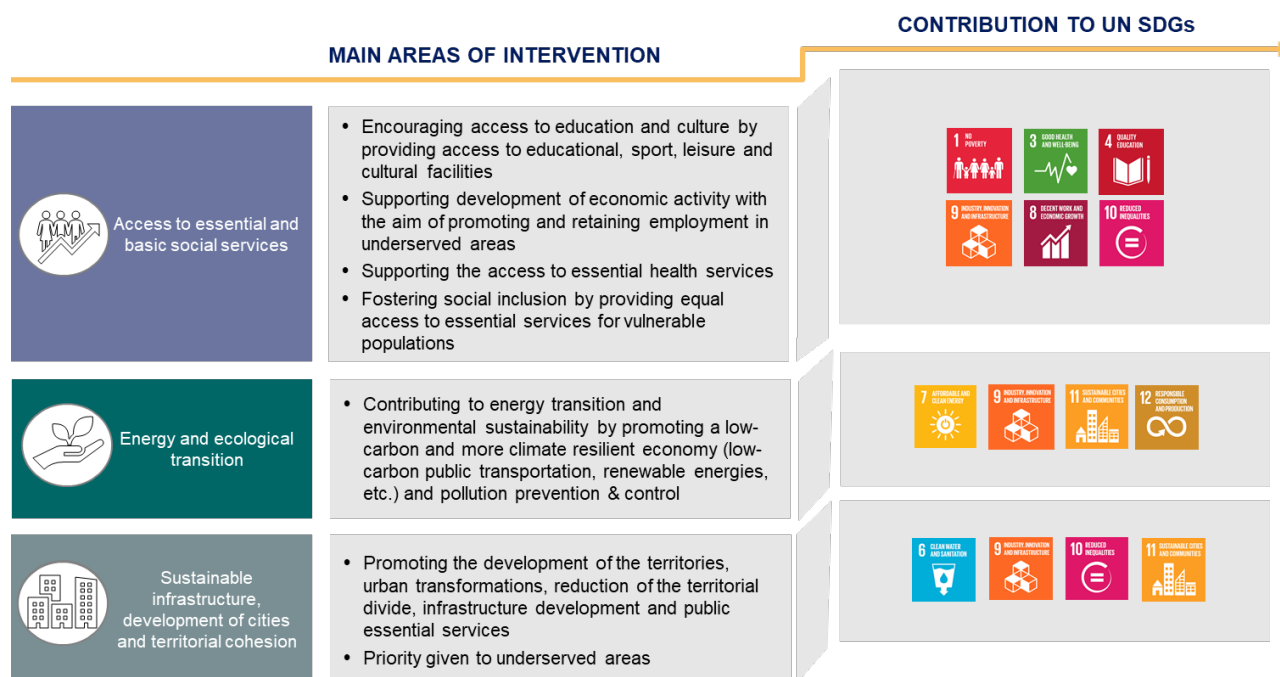
In line with best market practices, AFL has prepared this Sustainability Bond Framework in accordance with the ICMA Green Bond Principles (2018), Social Bond Principles (2020) and Sustainability Bond Guidelines (2018).

The Sustainability Bond Guidelines are a set of voluntary guidelines which recommend transparency and disclosure and promote integrity in the development of the Sustainability Bond market by clarifying the approach for issuing Sustainability Bonds. In line with the ICMA Sustainability Bond Guidelines 2018, AFL's Sustainability Bond Framework is presented through the following key pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

Under this Framework, AFL has elected to issue Sustainability Bonds with a focus on the following areas:

1. Access to essential and basic social services
2. Energy and ecological transition
3. Sustainable infrastructure, development of cities and territorial cohesion



## 2.1. USE OF PROCEEDS

An amount equivalent to the net proceeds of the Sustainability Bond issuance will be exclusively used to finance or refinance<sup>3</sup>, in whole or in part, Eligible Expenditures that fall within the 10 Eligible Categories defined below.

The identification of Eligible Expenditures consists in determining within each targeted Local Authorities<sup>4</sup> annual budget, the share of it which is fully dedicated to investments in eligible categories according to the eligibility criteria as listed below. Then, this percentage is applied to the loans granted in the considered year by AFL to the corresponding Local Authority (see detailed methodology in section 2.2).

Eligible expenditures exclude :

- Expenditures older than three calendar years from the date of issuance of the Bond.
- Expenditures which have been (or could be) already refinanced through Local Authorities' own Green/Social and/or Sustainability Bonds
- Expenditures that benefit from European Union financings
- Additional sectorial exclusions detailed in the following pages

Underserved local Authorities\* will benefit from a particular focus.

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<sup>3</sup> AFL will communicate the expected refinancing share before each issuance.

<sup>4</sup> Under Section 2, "Targeted local Authorities" or "Local Authorities" refer to any local authority member and client of AFL

<sup>5</sup> <https://www.observatoire-des-territoires.gouv.fr/observatoire-des-territoires/fr>

<sup>6</sup> <https://www.insee.fr/en/metadonnees/definition/c1616>

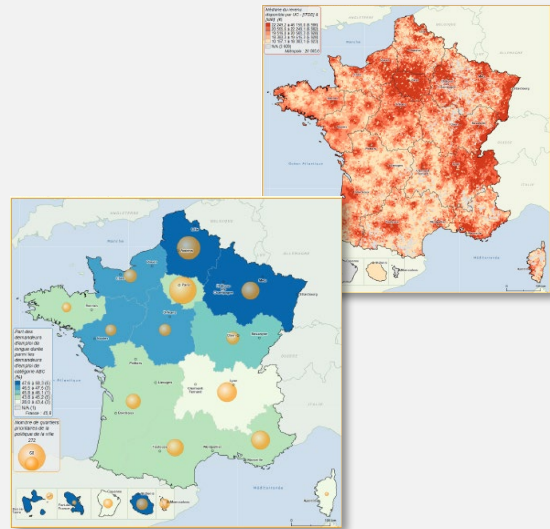
<sup>7</sup> <https://www.insee.fr/en/metadonnees/definition/c2114>

<sup>8</sup> <https://www.insee.fr/en/metadonnees/definition/c1320>

<sup>9</sup> <https://www.observatoire-des-territoires.gouv.fr/observatoire-des-territoires/en/zones-de-revitalisation-rurale-zrr>

\*: **Underserved Local Authority** is defined as any Local Authority which is ranked within the bottom third based on an internal scoring which is derived from public data and statistics, including:

- ✓ Rate of unemployment <sup>5</sup>
- ✓ Share of long-term unemployed people <sup>6</sup>
- ✓ Share of the population living in a priority neighborhood <sup>7</sup>
- ✓ Poverty rate <sup>8</sup>
- ✓ As the case may be, classification received such as revitalization municipalities <sup>9</sup> or any other relevant criteria allowing to refine the scoring



Source: Observatoire des Territoires

# 1. ACCESS TO ESSENTIAL AND BASIC SOCIAL SERVICES



1.1

Education and culture

### Eligibility criteria

The (re)financing of expenditures that:

- Provide access to educational infrastructure and services for all
- Provide access to sport, leisure and cultural infrastructure and services for all

### Target population

All population of the targeted Local Authorities

### Examples of eligible expenditures / investments

- Construction of new schools, campus, student housing, including school sports facilities, providing accessible and affordable services to the population
- Financing the renovation, upgrade, safety, seismic retrofitting and energy efficiency of existing public schools and public universities buildings
- Financing public libraries, archives and museums



1.2

Employment

### Eligibility criteria

The (re)financing of expenditures that support development of economic activity with the aim of promoting and retaining employment in underserved local authorities\*, including but not limited to:

- Socio economic development and advancement of territories
- Development of territorial attractiveness and competitiveness
- Support to economic insertion
- Support to social and solidarity-based enterprises

### Target population

Underserved Local Authorities\*

### Examples of eligible expenditures / investments

- Financing initiatives promoting the attractiveness of territories.
- Financing professional transition trainings



1.3

Access to essential health services

### Eligibility criteria

The (re)financing of expenditures that improve the capacity of Local Authorities to provide public healthcare services for all

### Target population

All population of the targeted Local Authorities

### Examples of eligible expenditures / investments

- Financing the construction, development, maintenance or renovation of healthcare facilities, medical equipment and technologies for the improvement and protection of public health
- Financing preventive health and social care services and facilities



1.4

Social inclusion

### Eligibility criteria

The (re)financing of expenditures that:

- Provide access to essential care infrastructure and services for elderly people, people with disabilities, dependent persons
- Provide access to child care facilities and services
- Provide financial support to low-income families

### Target population

Vulnerable population groups (youths, elderly people, low-income families, people with disabilities, people at risk of social exclusion, etc.)

### Examples of eligible expenditures / investments

- Construction of facilities aimed at providing specialized assistance for elderly people
- Provision of specialized assistance and facilities for people with disabilities
- Financing nurseries and kindergartens



## 2. ENERGY AND ECOLOGICAL TRANSITION



2.1

### Low-carbon public transportation

#### Eligibility criteria

-Development, construction, and/or maintenance of low-carbon public transportation infrastructure including:

- Rail infrastructure
- Motor-free mobility such as cycling and pedestrian infrastructure
- Zero direct emissions public bus <sup>10</sup>

-Development, construction, and/or maintenance of multi-modal transportation infrastructure for underserved Local Authorities\*

#### Exclusion criteria

- transportation expenditures related to air transports are excluded.
- road, river, and maritime transports, are excluded in the absence of information allowing to confirm the environmental benefits <sup>11</sup> of the budget line of the Local Authority

#### Examples of eligible expenditures / investments

- Financing the construction, equipping, or maintenance of low-carbon public transportation facilities, such as any new rail facilities for public use, multimodal links or cycleways



2.2

### Pollution Prevention & Control

#### Eligibility criteria

The (re)financing of expenditures that contribute to pollution prevention & control including, but not limited to:

- soil remediation
- waste prevention, reduction and recycling

#### Exclusion criteria

Average expenditures related to landfill are excluded <sup>12</sup>

#### Examples of eligible expenditures / investments

- Financing public waste management facilities for waste reduction and recycling
- Financing prevention and awareness initiatives for waste reduction and recycling



2.3

### Renewable Energy

#### Eligibility criteria

The (re)financing of expenditures that support the development of renewable energy with the aim of promoting energy transition and contributing to climate change mitigation.

Eligible Renewable energy sources include:

- Wind energy
- Solar energy

#### Exclusion criteria

Expenditures related to (i) hydropower, biomass biofuel, geothermal (ii) heating and cooling urban networks, and (iii) non-renewable energy sources are excluded

#### Examples of eligible expenditures / investments

- Financing the construction, equipping, or maintenance of renewable energy infrastructure.



<sup>10</sup> Public bus expenditures will be considered eligible only on the basis of available information allowing to confirm the alignment with the EU Taxonomy criteria for Public transport.

[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf)

<sup>11</sup> The environmental benefits will be assessed against the corresponding the EU Taxonomy technical criteria, when available

### 3. SUSTAINABLE INFRASTRUCTURE, DEVELOPMENT OF CITIES AND TERRITORIAL COHESION



3.1

Sustainable water and wastewater management

**Eligibility criteria**

The (re)financing of expenditures that:

- improve existing sanitation facilities and sewers
- improve wastewater treatment performance and provide better access to drinking water
- improve flooding mitigation

**Examples of eligible expenditures / investments**

- Financing water network construction, maintenance and upgrade
- Financing wastewater treatment plants, such as sewage networks, wastewater treatment plants, on-site sanitation facilities



3.2

Affordable Housing

**Eligibility criteria**

The (re)financing of expenditures that:

- support social housing organisations
- support tenants to access housing
- provide other social support related to housing

**Target population**

Social housing organisations, beneficiaries of rental assistance support schemes

**Examples of eligible expenditures / investments**

- Financing social housing
- Financing subsidies to social housing organisations
- Financing financial-aid programs to support tenants



3.3

Affordable and sustainable infrastructure

**Eligibility criteria**

The (re)financing of expenditures that support the development of quality and sustainable infrastructures for all in underserved Local Authorities\*, including but not limited to:

- development of public infrastructures supporting the improvement of living conditions in urban and/or rural agglomerations of underserved area
- construction, rehabilitation, maintenance of public buildings, lighting and infrastructure

**Target population**

Underserved Local Authorities\*

**Examples of eligible expenditures / investments**

- Financing the renovation, upgrade, safety of existing public buildings and public infrastructure
- Financing facilities supporting rural development
- Financing public lighting



<sup>12</sup> Exclusion by applying to the amount of the Local Authority's budget line "Waste management" a haircut rate corresponding to the average share of landfilled wastes vs. total volume of treated wastes within AFL's Local Authorities members.

## 2.2. PROCESS FOR EVALUATION AND SELECTION

The Process for evaluation and selection will ensure that the proceeds of AFL Sustainability Bonds are allocated to finance or refinance eligible expenditures that meet the criteria and objectives set out above in section 2.1 Use of Proceeds.

### Governance and process for the evaluation and selection of the Eligible Expenditures

The evaluation and selection process for Eligible assets will be carried out internally by AFL Sustainability Bond committee (the “Sustainability Bond Committee” - SBC) composed of representatives of:

- Credit department
- Credit analysis department
- Investor relations department
- Risk-Compliance-Control department
- CSR representative

On an ongoing basis, eligible Use of Proceeds from AFL’s portfolio of loans will be identified and reviewed by the Sustainability Bond Committee. To do so, the Sustainability Bond Committee will either:

#### *1- Estimate the share of eligible expenditures within each Local Authority’s preliminary budget*

- ✓ screen all the loans granted in a given year to Local Authorities<sup>13</sup>, the corresponding year’s annual Preliminary Budget<sup>14</sup> for the considered Local Authority and identify Eligible expenditures against the Eligibility Criteria set out in AFL’s Sustainability Bond Framework (see 2.1. Use of Proceeds). Only investment expenditures<sup>15</sup> are considered; all the current/operational expenditures of the Local Authority are excluded from the scope of analysis (as AFL’s loan can only be used to finance investments according to the Budgetary Golden Rule <sup>16</sup>)

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<sup>13</sup> Local Authorities (“Local Authorities” or “Targeted local Authorities”) are any local authority member and client of AFL, located in France metropolitan area or oversea

<sup>14</sup> Available either through (i) OpenGouv Data, (ii) AFL credit process department, or (iii) Local Authorities’ institutional websites. Note that actual administrative accounts of Local Authorities could also be used in the event where sufficient granularity is provided to proceed to the aforementioned methodology

<sup>15</sup> For the avoidance of doubt, investment expenditures can include “hard” expenses (e.g. construction/renovation/purchases, etc...) and “soft” expenses (e.g. equipment/infrastructure subsidies, social programmes etc...)

<sup>16</sup> It is to be noted that Local Authorities are legally bound to audit their accounts, which ensures the robustness of the expenditure classification used in the above-mentioned methodology.



- ✓ calculate the share of eligible expenditures within the overall investment budget of the Local Authority and apply it to AFL's loan disbursed
- ✓ sum all the eligible loans and add the amount to the overall portfolio of eligible loans to be allocated to AFL's Sustainability Bonds.

Every year, the Sustainability Bond Committee commits to check the realization rate of the Preliminary Budget against the actual administrative account to ensure the percentage of eligible Expenditures faithfully reflects Local Authorities' contribution to Sustainable Development.

## *2- Select loans dedicated to specific infrastructure investments or specific expenditures*

AFL's overall portfolio of eligible loans could also include loans dedicated to specific infrastructure investments or specific expenditures based on the analysis of Local Authorities' Annex Budgets, provided that such loans align with the Eligibility Criteria set out in AFL's Sustainability Bond Framework.

The Sustainability Bond Committee will review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary (for instance, if a loan is repaid or ceases to be eligible). The Committee will also be responsible for managing any future updates to the Sustainability Bond Framework. Any changes to the Sustainability Bond Framework will be published on AFL's website: [www.agence-france-locale.fr](http://www.agence-france-locale.fr). The traceability of the decisions will be ensured throughout the process, through meeting minutes that will be redacted for each Sustainability Bond Committee meeting.

## **ESG Risks monitoring system**

All Public Local Authorities financed by AFL are located in France. By law, French Public Local Authorities are committed to the highest standards in environmental, social and ethical matters. As such, all of AFL's loans are used to finance investments which meet the most stringent ESG standards.

Nevertheless, an ongoing risk monitoring process is implemented within AFL:

- ✓ **Governance risks** are monitored through a controversies analysis process. This process involves both Compliance department, Credit department and Credit Committee. It is carried out and reviewed regularly in order to mitigate the risk of non-conformity. This process has two limbs:
  - Direct collection of information by credit teams, in charge of maintaining a high level of knowledge about AFL's client and about the perimeter financed

- Automatic collection of information through two dedicated tools (one about regular information about anything that may happen in the local government perimeter – the other about information focused on law suits) – credit and compliance teams receive on a regular basis (at least monthly) this extensive press-based information about AFL clients – This information is analysed by both teams to assess the materiality of any identified governance matters

In case of any material <sup>17</sup> Governance related controversy occurring and impacting a financed Local Authority, AFL commits to exclude the expenditures related to this Local Authority and to replace them by other eligible expenditures.

- ✓ **Environmental and social risks** monitoring: the collection and analysis process is the same as Governance risk monitoring process described here before, performed with the same tools and by the same teams on a day to day basis. There, a dedicated focus will be made on E&S risks during information analysis phases. Information will be synthesized to the Sustainability Bond Committee, on a regular basis or with a specific alert if required by the situation. In case of any material (materiality being assessed on an expert based approach and documented by the Sustainability Bond Committee) Environmental or social controversy occurring and impacting a specific Eligible Category of expenditures of a financed Local Authority, AFL commits to replace the specific disputable expenditures by another eligible expenditures.

## 2.3. MANAGEMENT OF PROCEEDS

Net proceeds will be tracked through AFL’s internal accounting system.

AFL commits to reach full allocation within two years of the Sustainability Bond issuance. Pending the full allocation of the net proceeds, or in the event that the proceeds are allocated to a loan that is repaid, proceeds will be held in compliance with AFL stringent investment policy until they can be allocated to eligible loans as outlined in Section (2.2). AFL policies in terms of treasury management encompasses two main rules:

- ✓ 70% minimum of high-quality liquid assets (HQLA)
- ✓ Securities at least rated A- and issued by only Supranational Institutions, Sovereigns and government-related entities from the European Economic Area, North America and internally approved countries

While any AFL Sustainability Bonds are outstanding, in the case of divestment or cancellation of a loan to which proceeds have been allocated, AFL will reallocate on a

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<sup>17</sup> Material controversy should be based on reliable source and induce a severe impact

best effort basis the proceeds to other eligible loans that comply with the Eligibility Criteria, as soon as reasonably practicable.

## 2.4. REPORTING

AFL intends to produce an Allocation and Impact report at least annually until full allocation of the Sustainability bond proceeds and thereafter if there are any material changes in this allocation. The report will include the following information:

### Allocation

- ✓ Total funds distributed per AFL's (i) main areas of intervention and (ii) Eligible categories
- ✓ Total funds used for refinancing or allocated to new loans
- ✓ Amount of unallocated proceeds (if any)

### Impact

- ✓ Number, type, and geographical distribution of local authorities financed
- ✓ Contribution of the proceeds to the relevant UN Sustainable Development Goals (SDGs)

When feasible, additional information will be disclosed in the form of case studies, detailing the contribution of AFL's loan for a given Local Authority, through relevant environmental and social impact metrics.

As part of the structuring of its CSR capabilities, AFL initiated a data collection project aimed at gathering relevant environmental and social impact metrics from Local Authorities. AFL will endeavor to report on such metrics when data will become available.

The allocation and impact reporting will be reported in a dedicated Sustainability Bond Report that will be made available via AFL's website: [www.agence-france-locale.fr](http://www.agence-france-locale.fr).

## 2.5. EXTERNAL REVIEW

### Second-Party Opinion

Prior to issuance, AFL has commissioned Vigeo Eiris to conduct an external review of its Sustainability Bond Framework and issue a Second Party Opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines.

The Second Party Opinion will be made available on AFL's website: [www.agence-france-locale.fr](http://www.agence-france-locale.fr).

### External Review

AFL will make public on its website a limited or reasonable assurance report provided by its external auditor or any other appointed independent third party on an annual basis. For each reporting, the auditors will verify:

- ✓ that an amount equivalent to the net proceeds of the Sustainability Bond has been allocated in compliance (in all material respects) with the Eligibility Criteria defined in this Framework.
- ✓ the number of local authorities financed and the contribution of the proceeds to the SDGs, as defined in the section 2.4 of this Framework.

APPENDIX: RESPONSIBILITIES OF FRENCH LOCAL GOVERNMENT AUTHORITIES REGARDING ENVIRONMENTAL & SOCIAL MANAGEMENT

Local Public Authorities	Level of competencies / responsibilities of local public governments regarding Environmental & Social management <i>As defined in the French Law of town and country planning (NOTRe - 7 August 2015<sup>18</sup>)</i>
Region	<p><b><u>Regions' role related to Town and Country planning has been reinforced:</u></b></p> <ul style="list-style-type: none"> <li>- Production of the <b>Regional Plan</b> of town and <b>country planning, sustainable development</b> and <b>territories equality</b> (STRADDET)</li> <li>- Production of the <b>Regional Plan</b> of <b>waste management and prevention</b></li> <li>- Management of <b>Regional passenger transportation</b> (notably: rail)</li> <li>- Building, renovation and management of <b>high schools</b></li> <li>- Implementation of a <b>Regional air quality plan</b></li> <li>- Classification of <b>Regional natural reserves</b></li> </ul> <p>On the strength of the legislative provisions, the Region is a head / conductor of the ecological and energy transition and develops tools to accelerate the implementation of concrete projects throughout the regional territory. Strengthening solidarities and social links is also at the heart of every Region's priorities.</p>
Department	<p><b><u>Departments have authorities notably on social subjects:</u></b></p> <ul style="list-style-type: none"> <li>- Child Welfare, Maternal and Child protection, Adoption, <b>Support to low income families</b></li> <li>- <b>Socioeconomic advancement and empowerment of people with disabilities</b></li> <li>- Creation and management of <b>elderly care centres</b> or of <b>care systems at home for the elderly</b></li> <li>- Management of the <b>minimum revenue allocation</b></li> <li>- Building, renovation and management of <b>secondary schools</b></li> <li>- Fight against <b>energy poverty</b></li> <li>- <b>Water management</b> (taking into account the priorities defined by the municipalities)</li> <li>- Students transportation (outside cities)</li> </ul>
Grouping of municipalities & Cities & Metropolis	<p><b><u>Municipalities &amp; Grouping of municipalities have authorities on the following topics:</u></b></p> <ul style="list-style-type: none"> <li>- <b>Low carbon mobility</b></li> <li>- Urban planning, Space organization and <b>local development</b></li> <li>- <b>Waste water management</b> and <b>waste management</b></li> <li>- Building, renovation and management of <b>primary and Secondary schools</b></li> </ul> <p>Inter-municipal body (EPCI) oversees the coordination of social housing policy and urban planning over the municipalities of its area.</p>

<sup>18</sup> <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000030985460&categorieLien=id>

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At the same time, the principle of shared competences has been maintained in cross-cutting areas. Thus "skills in culture, sports, tourism, promotion of regional languages and public education are shared between municipalities, departments, regions and communities with special status"<sup>19</sup>

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<sup>19</sup> Article L.1111- 4 Code Générale des Collectivités Territoriales