

## SECOND PARTY OPINION<sup>1</sup>

### ON THE SUSTAINABILITY OF AGENCE FRANCE LOCALE'S SUSTAINABILITY BOND FRAMEWORK

January 2020

#### SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter the "Second Party Opinion" or "SPO") on the sustainability credentials and management of the Sustainability Bonds<sup>2</sup> ("Bonds") to be issued under the Sustainability Bond Framework ("Framework") prepared by Agence France Locale (the "Issuer" or "AFL").

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology, to the latest version of the International Capital Market Association's Green Bond Principles (the "GBP") and Social Bond Principles (the "SBP") voluntary guidelines edited in June 2018.

Our opinion is built on the review of the following components:

- 1) **Issuer:** we assessed the Issuer's Sustainability strategy, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>3</sup>.
- 2) **Framework:** we assessed the Framework, including the analysis of the coherence between the Framework and the Issuer's strategy and commitments, the Framework's alignment with the four core components of the GBP & SBP 2018, and its potential contribution to sustainability.

Our sources of information are multichannel, combining information gathered from (i) public sources, press content providers and stakeholders, (ii) from Vigeo Eiris exclusive ESG rating database, and (iii) information provided by the Issuer through documents and interviews conducted with Issuer's managers and stakeholders involved in the preparation of the Framework via a telecommunications system.

We carried out our due diligence assessment from July 23<sup>rd</sup> to January 9<sup>th</sup>, 2019. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. We consider that the information made available enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

#### VIGEO EIRIS' OPINION

AFL mission is to finance loans for local Authorities, based on their annual preliminary budget lines categories for investment, not identifying in detail what are the projects financed in the end.

**Vigeo Eiris is of the opinion that the Sustainability Bond Framework of AFL is aligned with the four core components of the Green and Social Bond Principles 2018.**

**We express a reasonable assurance<sup>4</sup> (our highest level of assurance) on the Issuer's commitments and on the Framework's contribution to sustainability, except for 2 out of the 10 eligible categories ("2.2. pollution prevention and control", and "3.3 affordable and sustainable infrastructures") for which we express a moderate assurance, due to unclear management of the inherent risks or to unclear environmental/social benefits.**

##### 1) Issuer (see Part I):

- ▶ We reach overall a moderate -almost good- level of assurance on AFL's ability to effectively integrate and manage its most material ESG risks as they arise from the nature of its activities. Our assurance is reasonable in the Social and Governance pillars, while moderate on the Environmental pillar.
- ▶ As of today, AFL does not face any stakeholders-related ESG controversies.
- ▶ AFL is also not involved in any of the 15 controversial activities screened under our methodology.

<sup>1</sup> This opinion is to be considered as the "Second Party Opinion" described in the GBP voluntary guidelines (June 2018 Edition) edited by the International Capital Market Association ([www.icmagroup.org](http://www.icmagroup.org)).

<sup>2</sup> The "Sustainable Bonds" are to be considered as the bonds to be potentially issued, subject to the discretion of the Issuer. The name "Sustainability Bonds" has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

<sup>3</sup> The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine and Tobacco.

<sup>4</sup> Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section of this document):  
Level of Performance evaluation: Advanced, Good, Limited, Weak.  
Level of Assurance: Reasonable, Moderate, Weak.

## 2) Framework (see Part II):

- ▶ The Issuer has formalised a Sustainability Bond Framework (“Framework”, which last updated version was provided to Vigeo Eiris on December 20<sup>th</sup>, 2019) and committed to make it publicly accessible on AFL’s website before the Bonds’ issuance date, in line with best market practices.
- ▶ We are of the opinion that the Framework is coherent with the main sustainability issues of its sector, with AFL’s sustainability priorities and commitments; and it contributes to achieve these commitments.

### Use of Proceeds

- ▶ An amount equivalent to the net proceeds of the Bonds will exclusively finance and/or refinance, in full or in part, expenditures corresponding to loans to French Local Authorities dedicated to finance annual budget lines investments, falling under ten Eligible Categories, namely: Education and culture; Employment, Access to essential health services; Social inclusion; Low-carbon public transportation; Pollution prevention and control; Renewable energy; Sustainable water and wastewater management; Affordable Housing; and Affordable and sustainable infrastructure. We consider that the Eligible Categories of expenditures are overall clearly defined, except for one category (“3.3 Affordable and sustainable infrastructure”). An area of improvement would be to clarify the content for this eligible category’s expenditures (ex: inclusion/exclusion criteria, threshold...).
- ▶ All the target populations for the social Eligible Categories have been clearly defined.
- ▶ The Eligible Categories of expenditures are intended to contribute to three main sustainability objectives, namely: Access to essential and basic social services, Energy and ecological transition; and Sustainable infrastructure, development of cities and territorial cohesion. These objectives are formalised in the Framework and considered clearly defined and relevant, except for two categories for which the defined objectives are partially relevant (“2.2 Pollution prevention and control” and “3.1 Sustainable water and wastewater management”).
- ▶ The Eligible Categories of expenditures are considered to provide clear expected environmental and social benefits, except for two categories (2.2 and 3.3) for which the expected benefits are partially clear. The Issuer has committed to communicate the benefits of each Bond issuance, however it has not committed it will assess neither where feasible to quantify the expected environmental and social benefits from the Bonds. An area for improvement includes to commit to assess and, where feasible, quantify estimated expected benefits for each Eligible Category.
- ▶ In addition, we consider the Eligible Categories are likely to contribute to ten United Nations’ Sustainable Development Goals (“SDG”s), namely: Goal 1. No Poverty; Goal 3. Good Health and Well-being; Goal 4. Quality Education; Goal 6. Clean Water and Sanitation; Goal 7. Access to affordable, reliable, sustainable energy; Goal 8. Decent Work and Economic Growth; Goal 9. Industry, Innovation and Infrastructure; Goal 10. Reduce inequality within and amongst countries; Goal 11. Sustainable Cities and Communities; and Goal 12. Sustainable Consumption and Production.
- ▶ The Issuer has transparently committed that the share of refinancing will be communicated before each issuance within the investor presentation package, and will be transparently communicated after the issuance in the annual reports. The issuer has also committed to respect a maximum lookback period of 36 months from the Bond’s issuance date, in line with market practice.

### Process for Project Evaluation and Selection

- ▶ The governance and the process for the evaluation and selection of the Eligible Expenditures are clearly defined and formalised in the Framework. We consider that the process is reasonably structured, transparent and relevant.
- ▶ The process relies on explicit eligibility criteria (selection and exclusionary), partially relevant to the objectives of the Eligible Categories.
- ▶ The identification and management of the material environmental and social risks associated with the Eligible Categories of expenditures are considered good regarding the borrowers, while limited (on the identification) and overall good (on the management) regarding the eligible expenditures.

### Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a transparent and documented allocation process.

### Reporting

- ▶ The reporting process and commitments appear to be good. The selected reporting indicators are clear and relevant regarding the allocation of proceeds, while partially clear and relevant for the environmental and social benefits (outcomes and impacts) as they do not cover the impacts of the Eligible Expenditures.

Agence France Locale has committed to support its Sustainability Bonds issuances with external reviews:

- **A pre-issuance consultant review:** the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Sustainability Bond Framework, based on pre-issuance assessment and commitments. The Issuer has committed to publish this SPO on its website,<sup>5</sup> before the Bonds' issuances.
- **An annual verification:** a limited or reasonable assurance report provided by its external auditor or any other appointed independent third party, annually and until full allocation of proceeds, to be made public on its website. For each report, the auditors will verify: (i) that an amount equal to the net proceeds of the Sustainability Bond has been allocated in compliance (in all material respects) with the Eligibility Criteria defined in the Issuer's Framework, and (ii) the number of local authorities financed and the contribution of the proceeds to the SDGs as defined in the section 2.4 of the Issuer's Framework.

*The Second Party Opinion is based on the review of AFL's Framework, according to the GBP and SBP voluntary guidelines (June 2018)*

Paris, January 16<sup>th</sup>, 2020

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#### **Disclaimer**

**Transparency on the relation between Vigeo Eiris and the Issuer:** : Vigeo Eiris has not carried out any audit mission nor consultancy activity for AFL. No established relation (financial nor commercial) exists between Vigeo Eiris and Agence France Locale.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

**Restriction on distribution and use of this opinion:** the Second Party Opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication are at the discretion of the Issuer, submitted to Vigeo Eiris approval.

<sup>5</sup> [www.agence-france-locale.fr/](http://www.agence-france-locale.fr/).

## DETAILED RESULTS

### Part I. ISSUER

Agence France Locale (AFL) is a French credit institution, created in 2013 and specialised in granting loans to local authorities (grouping of municipalities, cities and metropolis; departments; regions) who are shareholder members of AFL.

#### Integration of ESG factors in AFL's strategy and commitments

We reach overall a moderate - almost good- level of assurance on AFL's capacity to integrate its most material ESG factors in its strategy and to account on them.

Domain	Comments	Opinion
Environment	<b>We reach a moderate level of assurance on AFL's capacity to integrate its most material environmental factors in its strategy.</b>	Reasonable
	AFL has made references to environmental protection in corporate literature that cover reducing its direct environmental impacts and integrate environmental factors in the supply chain, namely reducing its energy consumption, CO2 emissions and integrating environmental factors in its lending policy.	Moderate
	In addition, AFL has set a travel policy for its employees that support the use of mass transportation and low carbon vehicles.	Weak
Social	<b>We reach a reasonable level of assurance on Agence France Locale's capacity to integrate its most material Social factors in its strategy.</b>	Reasonable
	AFL has made references to labour relations, promotion of career management, training and health and safety issues in its corporate literature. However, the Issuer lacks dedicated policies.	Moderate
	AFL has a formalised commitment to non-discrimination in its Procedure for Recruitment and has committed to respect the international bill of human rights.  The Issuer has included a formalised commitment to responsible relations with customers in its Shareholder Agreement and Credit Granting Policy which is assumed to be available for all relevant shareholders.	Weak
Governance	<b>We reach a reasonable level of assurance on Agence France Locale's performance in the Governance pillar.</b>	Reasonable
	AFL has set up and Audit Committee with a comprehensive role whose members have a financial background. ESG stakes are discussed by the Committee but the Company lacks formalized commitment in this regard.	Moderate
	AFL has issued a formalised commitment to preventing corruption and money laundering by applying the "Lutte Contre le Blanchiment et le Financement du Terrorisme" (LCB-FT) procedure of the French law.  The Company has integrated ESG information in its reporting but it is not published in a separated document.	Weak

#### Management of stakeholder-related ESG controversies

AFL does not face any stakeholder-related ESG controversies in the domains analysed by Vigeo Eiris.

#### Involvement in controversial activities

AFL is not involved in any of the 15 controversial activities screened under Vigeo Eiris methodology, namely: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels Industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

**Part II. ISSUANCE****Coherence of the issuance**

Context note: Lending is a key instrument for policy change and promoting national and international goals. The main objectives of Specific Purpose Banks and Agencies (SPBAs) are to promote local socio-economic development by financing investments, improving funding opportunities and enhancing employment in their country of operations. These efforts provide a direct contribution to human development and social well-being, which are fundamental objectives as underlined by the UN Sustainable Development Goals.

Through the integration of environmental and social risks in the assessments of loans, future investments and projects financing, SPBAs can influence customer behaviour towards more environmentally activities and support projects with a high social outcome. In addition, as public institutions, SPBAs can develop channels to boost private sector investments in the green and social economy.

**We are of the opinion that the Framework prepared by the AFL is coherent with the main sustainability issues of its sector, with AFL's main sustainability priorities and commitments; and that it contributes to the realisation of these commitments.**

Agence France Locale's mission is to provide its members Local Authorities with cost-efficient and stable funding to finance their investment needs. AFL is one of the largest lenders to the French local authorities sector with more than EUR 3 Billion of signed loans as of November 2019. Current AFL members fund 25% of their needs through AFL. AFL Group targets 25% of market share of total French Local Authorities' funding needs in the long term.

In 2019, AFL has launched a dedicated ESG project, which includes five main commitments, in particular:

- Contribute to the long-term development of the territories
- Improve financing to French local authorities
- Being aware of the responsibility of the banks in the economy
- Simplicity, robustness and efficiency of operations
- Transparency of rules and products.

AFL believes that Local Authorities have a key role to play in contributing to the SDGs through financing sustainable growth and social infrastructure investments and AFL has the ambition to fully participate to this contribution.

By issuing Sustainability Bonds to finance and refinance, in full or in part, sustainable investments in the areas of Access to essential services, Energy and ecological transition, and Sustainable infrastructure, development of cities and territorial cohesion, AFL coherently responds to the above-mentioned commitments and addresses the main issues of its sector in terms of environmental and social responsibility.

### Use of proceeds

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All the target populations for the social Eligible Categories have been clearly defined.

The Eligible Categories of expenditures are intended to contribute to three main sustainability objectives, namely: Access to essential and basic social services; Energy and ecological transition; and Sustainable infrastructure, development of cities and territorial cohesion. These objectives are formalised in the Framework and are considered clearly defined and overall relevant, except for two categories for which the defined objectives are considered partially relevant (“2.2 Pollution prevention and control” and “3.1 Sustainable water and wastewater management”).

The Eligible Categories of expenditures are considered to provide overall clear expected environmental and social benefits, except for two categories (2.2 and 3.3) for which the expected benefits are partially clear. The Issuer has committed to communicate the benefits of each Bond issuance, however it has not committed it will assess nor where feasible to quantify the expected environmental and social benefits from the Bonds. An area for improvement includes to commit to assess and, where feasible, quantify estimated expected benefits for each Eligible Category.

The Issuer has transparently committed that the share of refinancing will be communicated before each issuance within the investor presentation package, and will be transparently communicated after the issuance in the annual reports. The issuer has also committed to respect a maximum lookback period of 36 months from the Bond’s issuance date, in line with market practice.

The Eligible Expenditures are defined as

- AFL’s granting of loans to French Local Authorities, to finance some of their investment expenditures budget lines (i.e. not budget lines for operational expenditures), listed in the Local Authorities’ preliminary annual budget.
- The Local Authorities which can benefit from these loans are local authority members and client of AFL, located in France metropolitan area or oversea (including French Guyana, etc.)
- The eligible Expenditures for investment can be either “hard” expenditures (construction/renovation/purchases) and/or “soft” expenditures (equipment, subsidies, social programmes, etc.).
- All Eligible expenditures have to correspond to one or several of the budget lines gathered in the ten Eligible Categories defined by the Issuer in its Framework (see table below).

We have assessed the different Eligible Categories of Expenditures in the table below:

Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
Access to essential and basic social services	<b>1.1 Education and culture</b>	<p><b>Eligible Local Authorities' budget lines corresponding to this eligible category (as in the Issuer's Selection Methodology) :</b></p> <ul style="list-style-type: none"> <li>- Culture</li> <li>- Culture, sports et loisirs</li> <li>- Culture, jeunesse et loisirs</li> <li>- Culture, vie sociale, jeunesse et sports</li> <li>- Enseignement</li> <li>- Enseignement - formation</li> <li>- Enseignement, formation professionnelle, apprentissage</li> <li>- Formation professionnelle et apprentissage</li> <li>- Sport et jeunesse</li> <li>- Transports scolaires</li> </ul> <p><b>The Issuer defines as eligibility criteria for this category the following expenditures:</b></p> <ul style="list-style-type: none"> <li>- Provide access to educational infrastructure and services for all</li> <li>- Provide access to sport, leisure and cultural infrastructure and services for all</li> </ul>	<ul style="list-style-type: none"> <li>✓ Construction of new schools, campus, student housing, including school sports facilities, providing accessible and affordable services to the population</li> <li>✓ Financing the renovation, upgrade, safety, seismic retrofitting and energy efficiency of existing public schools and public universities buildings</li> <li>✓ Financing public libraries, archives and museums</li> </ul>	<p>The definition of the eligible expenditures is overall clear</p> <p>The target population has been clearly defined by the Issuer, as all the population of the targeted Local Authorities.</p> <p>The social objectives are considered clear and relevant ("encouraging access to education and culture by providing access to educational, sport, leisure and cultural facilities")</p> <p>The expected social benefits are clear.</p>
	<b>1.2 Employment</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Agriculture pêche, agro industrie</li> <li>- Agriculture, pêche et agro-alimentaire</li> <li>- Agriculture et pêche,</li> <li>- Aides agriculture et industries</li> <li>- Industrie, artisanat, commerce, autres services,</li> <li>- Industrie, commerce, artisanat</li> <li>- Aide énergie, induc manuf, BTP</li> <li>- Aide commerce et services marchands</li> <li>- Aides au tourisme</li> <li>- Développement touristique</li> <li>- Tourisme et thermalisme</li> <li>- Structure d'animation dév éco</li> <li>- Structure d'animation et de dév éco</li> <li>- Interventions économiques transversales</li> <li>- Interventions économiques</li> <li>- Rayonnement, attractivité territoire</li> <li>- Insertion éco et économie sociale solidaire</li> <li>- Foires et marchés</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financing initiatives promoting the attractiveness of territories.</li> <li>✓ Financing professional transition trainings</li> </ul>	<p>The definition of the eligible expenditures is overall clear.</p> <p>The target population has been clearly defined by the Issuer, as all populations living in underserved Local Authorities.</p> <p>The social objectives are considered clear and relevant ("Supporting development of economic activity with the aim of promoting and retaining employment in underserved areas").</p> <p>The expected social benefits are clear</p>

Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
		<p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Support development of economic activity with the aim of promoting and retaining employment in underserved local authorities<sup>6</sup>, including but not limited to:               <ul style="list-style-type: none"> <li>✓ Socio economic development and advancement of territories</li> <li>✓ Development of territorial attractiveness and competitiveness</li> <li>✓ Support to economic insertion</li> <li>✓ Support to social &amp; solidarity-based enterprises</li> </ul> </li> </ul>		
	<b>1.3 Access to essential health services</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Santé</li> <li>- Prévention Médico Sociale</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Activities that improve the capacity of Local Authorities to provide public healthcare services for all</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financing the construction, development, maintenance or renovation of healthcare facilities, medical equipment and technologies for the improvement and protection of public health</li> <li>✓ Financing preventive health and social care services and facilities</li> </ul>	<p>The definition of the eligible expenditures is clear.</p> <p>The target population has been clearly defined by the Issuer, as all the population of the targeted Local Authorities.</p> <p>The social objectives are considered clear and relevant ("Supporting access to health services").</p> <p>The expected social benefits are clear.</p>
	<b>1.4 Social inclusion</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Action sociale</li> <li>- APA Personnes dépendantes</li> <li>- RSA</li> <li>- Famille (personnes âgées, maternité, aides à la famille, personnes en difficulté)</li> <li>- Interventions sociales (Services handicapés, actions pour l'enfance, personnes en difficulté)</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Access to essential care infrastructure and services for elderly people, people with disabilities, dependant persons</li> <li>- Access to child care facilities and services</li> <li>- Provide financial support to low income families</li> </ul>	<ul style="list-style-type: none"> <li>✓ Construction of facilities aimed at providing specialized assistance for elderly people</li> <li>✓ Provision of specialized assistance and facilities for people with disabilities</li> <li>✓ Financing nurseries and kindergartens</li> </ul>	<p>The definition of the eligible expenditures is clear.</p> <p>The target population has been clearly defined by the Issuer, as vulnerable population groups (youths, elderly people, low income families, people with disabilities, people at risk of social exclusion, etc.)</p> <p>The social objectives are considered clear and relevant ("Fostering social inclusion by providing equal access to essential services for vulnerable population").</p> <p>The expected social benefits are clear.</p>

<sup>6</sup> Underserved Local Authorities are defined by the Issuer as any Local Authority which is ranked within the bottom third, based on internal scoring established by AFL derived from public data and statistics on the rate of unemployment; share of long-term unemployed people; share of the population living in a priority neighbourhood; poverty rate; authority classified as revitalization municipality or any other relevant criteria allowing to refine the scoring (see Issuer's Framework).



Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
Energy and ecological transition	<b>2.1 Low-carbon public transportation</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Environnement des infras de transport</li> <li>- Environnement infrastructures transports</li> <li>- Transport ferroviaire région. Voyageurs /</li> <li>- Transports ferroviaires de marchandises</li> <li>- Transport ferroviaire</li> <li>- Ferroviaire</li> <li>- Gares et autres infrastructures ferrovières</li> <li>- Circulations douces</li> <li>- Transports interurbains</li> <li>- Transports mixtes</li> <li>- Autres transports en commun</li> <li>- Liaisons multimodales</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Development, construction, and/or maintenance of <b>low-carbon public transportation</b> infrastructure including: <ul style="list-style-type: none"> <li>o Rail infrastructure</li> <li>o Motor-free mobility such as cycling and pedestrian infrastructure</li> <li>o Zero direct emissions public bus<sup>7</sup></li> </ul> </li> <li>- Development, construction, and/or maintenance of multi-modal transportation infrastructure <b>for underserved Local Authorities*</b></li> <li>- Exclusions : <ul style="list-style-type: none"> <li>o expenditures related to air transports are excluded</li> <li>o expenditures related to road, river, maritime transports are excluded in the absence of information allowing to confirm the environmental benefits of the budget line of the Local Authority<sup>8</sup></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ 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</li> </ul>	<p>The definition of the eligible expenditures is clear.</p> <p>The target population has been clearly defined by the Issuer, as all the population of targeted local authorities, and underserved local Authorities (for "multimodal transportation infrastructures" only).</p> <p>The environmental and social objectives ("contributing to energy transition and environmental sustainability by promoting a low-carbon and more climate resilient economy") are considered clear and overall relevant.</p> <p>The expected environmental and social benefits are clear.</p>
	<b>2.2 Pollution prevention and control</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Actions lutte contre la pollution</li> <li>- Actions prévention et sensibilisation</li> <li>- Action propreté urbaine et nettoyage</li> </ul> <p>Eligible at the condition of applying an haircut rate (see below)</p> <ul style="list-style-type: none"> <li>- Actions en matière de déchets</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financing public waste management facilities for waste reduction and recycling</li> <li>✓ Financing prevention and awareness initiatives for</li> </ul>	<p>The definition of the eligible expenditures is clear.</p> <p>The environmental objectives ("contributing to energy transition and environmental sustainability by promoting a low-carbon and more climate resilient economy") are considered clear but partially relevant.</p>

<sup>7</sup> Public bus expenditures will be considered eligible only on the basis of available information allowing to confirm the environmental benefits of the considered expenditures (i.e. electric bus or hybrid emitting less than 50 gCO<sub>2</sub>e/pkm until 2025, in line with the EU Taxonomy criteria for Public transport).

<sup>8</sup> The environmental benefits will be assessed against the corresponding EU Taxonomy technical criteria, when available.

Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
		<ul style="list-style-type: none"> <li>- Collecte et traitement des ordures ménagères</li> <li>- Traitement des déchets</li> <li>- Actions prévention et sensibilisation</li> <li>- Collecte des déchets</li> <li>- Tri, valorisation, traitement déchets</li> <li>- Propreté urbaine (for both EPCI level or at Municipalities levels)</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Activities that contribute to pollution prevention &amp; control, including but not limited to:               <ul style="list-style-type: none"> <li>o soil remediation,</li> <li>o waste prevention, reduction and recycling</li> </ul> </li> <li>- Exclusion of average expenditures related to landfill, by applying to the amount of some of the budget line for this category an hair cut rate corresponding to the average national share of wastes landfilled vs. total volume of wastes treated within AFL's Local Authorities members.</li> <li>- The issuer has also committed to monitor the ESG risks and controversies so to exclude Local Authorities with worst practices (globally or specific to waste management activities) have been identified.</li> </ul>	waste reduction and recycling	<p><i>An area of improvement would be to ensure the objective of low carbon economy is taken into account and promoted by using relevant selection or exclusion criteria and threshold (such as regarding waste incineration, etc ...)</i></p> <p>The expected environmental benefits are partially clear.</p> <p><i>Areas for improvement would be (i) to complete the eligibility criteria, in order to ensure the claimed environmental benefits of "soil remediation" is verified, and (ii) to apply to waste management an hair cut rate corresponding to the local share of wastes landfilled or incinerated (instead of a national share).</i></p>
	<b>2.3 Renewable Energy</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Energie photovoltaïque</li> <li>- Energie éolienne</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Activities 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:               <ul style="list-style-type: none"> <li>o Wind energy</li> <li>o Solar energy</li> </ul> </li> </ul> <p>Exclusion of expenditures related to</p> <ul style="list-style-type: none"> <li>- Hydropower, biomass, biofuel, geothermal</li> <li>- Heating and cooling urban networks</li> <li>- Non renewable energy sources</li> </ul>	<p>✓ Financing the construction, equipping, or maintenance of renewable energy infrastructure.</p>	<p>The definition of the eligible expenditures is clear.</p> <p>The environmental objectives ("contributing to energy transition and environmental sustainability by promoting a low-carbon and more climate resilient economy") are considered clear and relevant.</p> <p>The expected environmental benefits are clear.</p>

Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
Sustainable infrastructure, development of cities and territorial cohesion	<b>3.1 Sustainable water and wastewater management</b>	<p><b>Eligible Local Authorities' budget lines : <sup>2</sup></b></p> <ul style="list-style-type: none"> <li>- Politique de l'eau</li> <li>- Eau potable</li> <li>- Assainissement</li> <li>- Eaux pluviales</li> <li>- Lutte contre les inondations</li> <li>- Eau et assainissement</li> <li>- Aménagement des eaux</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <ul style="list-style-type: none"> <li>- Improve existing sanitation facilities and sewers</li> <li>- Improve wastewater treatment performance and provide better access to drinking water</li> <li>- Improve flood mitigation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financing water network construction, maintenance and upgrade</li> <li>✓ Financing wastewater treatment plants, such as sewage networks, wastewater treatment plants, on-site sanitation facilities</li> </ul>	<p>The definition of the eligible expenditures is overall clear.</p> <p><i>An area of improvement would be to specify the content of the budget line "Politique de l'eau".</i></p> <p>The target population has been clearly defined as all population in the financed Local Authority.</p> <p><i>An area of improvement would be to formalize it in the Issuer's framework.</i></p> <p>The social objectives ("promoting the development of territories, urban transformation, reduction of territorial divide, infrastructure development and public essential services") are considered clear and relevant, while the environmental objective are not defined.</p> <p><i>An area of improvement would be to specify the environmental objectives of this Eligible Category in the Issuer's Framework.</i></p> <p>The expected social / environmental benefits are clear.</p>
	<b>3.2 Affordable housing</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- (for regions) Sous-section 54 – Habitat / les aides au secteur locatif</li> <li>- (for Départements) Sous-section 77 – Logement / les aides au secteur locatif</li> <li>- (For Métropoles) Sous-section 55 – Logement /552 – Aide au secteur locatif</li> <li>- Sous-section 55 – Logement/ 554 – Aire d'accueil des gens du voyage</li> <li>- Sous-section 55 – Logement/ 555 – Logement social</li> <li>- (For EPCI and Municipalities) Section 7 – Logement/ 72 – Aide au secteur locatif</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as expenditures:</b></p> <ul style="list-style-type: none"> <li>- Supporting social housing organisations</li> <li>- Supporting tenants to access housing</li> <li>- Other social support related to housing</li> </ul>	<ul style="list-style-type: none"> <li>✓ Financing social housing</li> <li>✓ Financing subsidies to social housing organisations</li> <li>✓ Financing financial-aid programs to support tenants</li> </ul>	<p>The definition of the eligible expenditures is clear.</p> <p>The target population has been clearly defined, as social housing organisations, beneficiaries of rental assistance support schemes</p> <p>The social objectives ("priority given to underserved areas") are considered clear and relevant.</p> <p>The expected social benefits are clear.</p>

Agence France Locale's Framework				Vigeo Eiris analysis
Objective	Eligible categories	Eligibility criteria	Examples of eligible expenditures/investments	
	<b>3.3 Affordable and sustainable infrastructure</b>	<p><b>Eligible Local Authorities' budget lines :</b></p> <ul style="list-style-type: none"> <li>- Politique de la ville</li> <li>- Agglomérations et villes moyennes</li> <li>- Espace rural et autres espaces de dév.</li> <li>- Aménagement et développement urbain</li> <li>- Aménagement et développement rural</li> <li>- Eclairage public</li> <li>- Electrification</li> <li>- Opérations d'aménagement</li> <li>- Autres actions d'am. Urbain</li> <li>- Autres opérations d'aménagement urbain</li> <li>- Autres réseaux et services divers</li> </ul> <p><b>The Issuer defines its eligibility criteria for this category as:</b></p> <p>Under this category, only expenditures dedicated to underserved Local Authorities* are eligible.</p> <p>The projects will aim to develop quality and sustainable infrastructures for all in underserved Local Authorities including but not limited to:</p> <ul style="list-style-type: none"> <li>- Development of public infrastructures supporting the improvement of living conditions in urban and/or rural agglomerations of underserved area.</li> <li>- Construction, rehabilitation, maintenance of public buildings, lighting and infrastructure</li> </ul> <p>The Issuer reports that the affordability and sustainability of the infrastructures will be addressed through the monitoring on Environmental and Social controversies associated to the eligible budget lines and local authorities financed.</p>	<ul style="list-style-type: none"> <li>✓ Financing the renovation, upgrade, safety of existing public buildings and public infrastructure</li> <li>✓ Financing facilities supporting rural development</li> <li>✓ Financing public lighting</li> </ul>	<p>The definition of the eligible expenditures is partially clear.</p> <p><i>Areas for improvement would be (i) to specify the content of the eligible budget lines and (ii) to justify why the intended expenditures and infrastructures are "affordable" and "sustainable"</i></p> <p>The target population has been clearly defined, as all population located in Underserved Local Authorities*</p> <p>The social objectives ("promoting the development of territories, urban transformation, reduction of territorial divide, infrastructure development and public essential services" / "priority given to the underserved areas") are considered overall clear and relevant.</p> <p>The expected social benefits are partially clear.</p> <p><i>An area for improvement would be to complete the existing systems, in order to ensure all the eligible expenditures in these budget lines will respect minimum standards in terms of "affordability" (social), and "sustainability (social and/or environmental), such as exclusion of expenditures with significant inherent environmental risk or impact, or expenditures with low positive impact on the environment or on stakeholders, etc.</i></p>

In addition to the above opinion, other general areas of improvement relevant for most Eligible Categories would be :

- to distinguish in the Framework the list of eligibility criteria (i.e. for selection/exclusion) from the claimed expected social/environmental benefits for each Eligible Category
- where feasible, to quantify the estimated social/environmental benefits expected for the Eligible category of expenditures (targets).

In addition, we consider the Eligible Categories are likely to contribute to ten United Nations' Sustainable Development Goals ("SDG"s), namely: Goal 1. No Poverty; Goal 3. Good Health and Well-being; Goal 4. Quality Education; Goal 6. Clean Water and Sanitation; Goal 7. Access to affordable, reliable, sustainable energy; Goal 8. Decent Work and Economic Growth; Goal 9. Industry, Innovation and Infrastructure; Goal 10. Reduce inequality within and amongst countries; Goal 11. Sustainable Cities and Communities; and Goal 12. Sustainable Consumption and Production.

Eligible Green Assets Categories	UN SDGs identified	UN SDGs targets
1.1 Education and culture	SDG 4. Quality Education	4.1; 4.3
1.2 Employment	SDG 8. Decent Work and Economic Growth SDG 9. Industry, Innovation and Infrastructure SDG 10. Reduce inequality within and amongst countries	8.3, 8.5 9.5 10.1; 10.2
1.3 Access to essential health services	SDG 3. Good Health and Well-being	3.8
1.4 Social inclusion	SDG 1. No Poverty SDG 10. Reduce inequality within and amongst countries	1.4 10.1; 10.2
2.1 Low-carbon public transportation	SDG 9. Industry, Innovation and Infrastructure SDG 11. Sustainable Cities and Communities	9.1 11.2
2.2 Pollution prevention and control	SDG 11. Sustainable Cities and Communities SDG 12 Sustainable Consumption and Production	11.6 12.5
2.3 Energy transition and efficiency	SDG 7. Access to affordable, reliable, sustainable energy	7.2
3.1 Sustainable water and wastewater management	SDG 6. Clean Water and Sanitation	6.1; 6.3
3.2 Affordable housing	SDG 11. Sustainable Cities and Communities	11.1
3.3 Affordable and sustainable infrastructure	SDG 9. Industry, Innovation and Infrastructure SDG 10. Reduce inequality within and amongst countries SDG 11. Sustainable Cities and Communities	9.1 10.1; 10.2 11.2



UN SDG 1 Consists in ending poverty in all its forms everywhere. More precisely, SDG 1 targets by 2030 include:

- 1.4 Ensuring that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.



UN SDG 3 consists in ensuring healthy lives and promote well-being for all at all ages. More precisely, SDG 3 targets by 2030 include:

- 3.8 Achieving 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



UN SDG 4 consists in ensuring inclusive and equitable quality education and promote lifelong learning opportunities. More precisely, SDG 4 targets by 2030 include:

- 4.1 Ensuring that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes;
- 4.3 Ensuring equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university



UN SDG 6 consists in ensuring availability and sustainable management of water and sanitation for all. More precisely, SDG 6 targets by 2030 include:

- 6.1 Achieving universal and equitable access to safe and affordable drinking water for all;
- 6.3 Improving water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.



UN SDG 7 consists in ensuring ensure access to affordable, reliable, sustainable and modern energy for all. More precisely, SDG 7 targets by 2030 include:

- 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix



UN SDG 8 consists in promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. More precisely, SDG 8 targets by 2030 include:

- 8.3 Promoting development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encouraging the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
- 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value



UN SDG 9 consists in building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation. More precisely, SDG 9 targets by 2030 include:

- 9.1 Developing quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
- 9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending



UN SDG 10 consists in reducing inequality within and among countries. More precisely, SDG 10 targets by 2030 include:

- 10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average
- 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status



UN SDG 11 consists in making cities inclusive, safe, resilient and sustainable. More precisely, SDG 11 targets by 2030 include:

- 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
- 11.2 Providing access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons;
- 11.6 Reducing the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.



UN SDG 12 consists in ensuring sustainable consumption and production patterns. More precisely, SDG 12 targets by 2030 include:

- 12.5 Substantially reduce waste generation through prevention, reduction, recycling and reuse.

### Process for Projects Evaluation and Selection

**The governance and the process for the evaluation and selection of the Eligible Expenditures are clearly defined and formalised in the Framework. We consider that the process is reasonably structured, transparent and relevant.**

The process for evaluation and selection of Eligible Expenditures is clearly defined.

The evaluation and selection of Eligible Green Assets is based on overall relevant internal expertise with well-defined roles and responsibilities:

- AFL will create a Sustainability Bond Committee gathering representatives of the Departments of Credit, Credit Analysis, Investors relations, Risk-Compliance-Control, as well as CSR representatives
- The Sustainability Bond Committee will review and identify, on an ongoing basis, Eligible Expenditures from AFL's portfolio of loans by:
  - o Estimating the share of eligible expenditures within each Local Authority's preliminary budget
    - by screening the annual Preliminary Budget (only investment expenditures) for the considered Local Authority and identifying Eligible Expenditures corresponding to the Eligibility criteria set out in the framework.
    - Apply the calculated share of eligible expenditures within the overall investment budget of each Local Authority to AFL's loans disbursed to the same Local Authority (obtaining an eligible share of the Loan)
    - Sum all eligible loans in order to have an overall portfolio of eligible loans to which allocate AFL's Sustainability Bond proceeds.
  - o The portfolio of eligible loans could also include loans dedicated to specific infrastructure investments or expenditures, based on the analysis of the Local Authorities Annex Budgets, provided that such loans align with the Eligibility Criteria set out in AFL's Framework.
- The Sustainable Bond Committee will also be in charge of any future update of the Framework. Any change in the Framework will be published on AFL website.

The traceability and verification appear to be ensured throughout the process:

- Every year, the Sustainability Bond Committee will perform a review of the portfolio of Eligible Expenditures and will check the realisation rate of the Preliminary Budgets of the Local Authorities against the actual administrative accounts in order to ensure that the percentage of Eligible Expenditures correctly reflect Local Authorities 'contribution to Sustainable Development.
- The traceability of the decisions will be ensured throughout the process, through meeting minutes to be redacted for each Sustainability Bond Committee meeting.
- All the Local Authorities are legally bound to audit their accounts and their expenditure classification is verified.
- The issuer has also committed to have an independent external to verify on annual basis the compliance of the Eligible Expenditures with the eligibility criteria and process defined in the framework.

**The process relies on explicit eligibility criteria (selection and exclusionary), partially relevant to the objectives of the Eligible Categories.**

The Issuer has developed a Methodology to classify the budget lines of the Local Authorities, by type: "not eligible by nature", "eligible under condition", and "eligible by nature". The effective eligibility of the expenditures is assessed by AFL for each budget line of each financed Local Authority.

The eligibility criteria are based on the Eligible Categories defined in the Use of Proceeds section.

- Only investment expenditures are eligible. All current/operational expenditures are excluded.

- For the category “Affordable and sustainable infrastructure”, only underserved Local Authorities are eligible.
- Eligible Expenditures which have been (or could be) already refinanced through Local Authorities ‘own Green/Social/Sustainability Bonds and/or that benefit from European Union financings are excluded.
- Some of the Eligible Categories of expenditures follow additional exclusion criteria (see table)

Controversy monitoring process are in place, and can cause exclusion of a Local Authority or of an eligible expenditure:

- On governance risks, involving AFL’s Compliance Department, Credit Department and Credit Committee. An analysis of controversies is carried out and reviewed regularly in order to mitigate the risk of non-conformity and reputation for the AFL. In case of material governance related controversy, AFL commits to exclude the related Local Authority from this Sustainable Bond beneficiaries.
- On Environmental and Social risks, a monitoring is also in place. In case of material environmental/social controversy, the Issuer commits to exclude the related disputable expenditure and to replace it by another eligible expenditure.

*An area for improvement would be (i) to specify “severe impact” which defines the material controversies, in order to clarify when AFL will act or not and what would be the process/response implemented, and (ii) to specify the eligibility criteria for eligible categories 2.2 and 3.3.*

**The identification and management of the material environmental and social risks associated with the Eligible Categories of expenditures are considered good regarding the borrowers, while limited (on the identification) and overall good (on the management) regarding the eligible expenditures.**

All Local Authorities and investments/projects financed by AFL are located in France, which is one of the Designated Countries<sup>9</sup> of the Equator Principles, and are subject to its regulatory standards in ESG matters. The Issuer considers that it finances investments which are already meeting the highest standards in environmental and social matters.

AFL has also put in place an ongoing risk monitoring process, covering risks related to people and processes, internal systems and external events that could cause a financial (direct or indirect) or non-financial impact (in terms of human resources, reputation, legal risks and non-compliance on the organisation. AFL has also identified the type of events that could cause such impacts, including: internal and external fraud, employment, health and safety practices, relations with customers, products and business/commercial practices, damages to physical goods, systems dysfunction and interruption of activities, failures in execution, delivery and process management.

A Know Your Customer (KYC) analysis is carried out at selection and is reviewed regularly (depending on the level of risk from annually to every five years) where information is collected on the reputation of the local authority, covering existing sanctions, potential implication on money laundering, fraud and corruption. All Local Authorities to be financed by AFL go through an internal rating process, under the supervision of a « Comité de Risques Globaux » (Global Risks Committee) and of the Audit and Risk Committee within the Conseil de Surveillance (Supervisory Board) when they request to become member of AFL, as well as before any credit is granted to them by AFL. This rating includes quantitative and qualitative scorings. The quantitative scoring is based on the analysis of credit risks and on the analysis of some socio-economic indicators. It is complemented by a qualitative scoring, covering mainly governance criteria.

Controversy monitoring process are in place, at information phase and through an ongoing monitoring, with exhaustive coverage and support regarding both the governance risks and the environmental/social risks management, relying on the same process, team and tools. In case of material controversy<sup>10</sup>, AFL commits to exclude the related Local Authority from this Sustainable Bond beneficiaries (if governance related controversy) or the disputable expenditure (if Environmental/Social related controversy) and to replace it by an eligible expenditure.

We value that AFL has implemented additional process and means for some of the Eligible Categories of expenditures, in order to identify and manage material ESG risks inherent to some of the eligible expenditures (see above table in Use of Proceeds chapter).

<sup>9</sup> Countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.

<sup>10</sup> The Issuer states that “Material controversy should be based on reliable source and induce a severe impact” (framework, page 20).



*An area for improvement would be to specify and complete the “exclusion criteria” to be applied by the Issuer to each Eligible Category, in order to ensure clear social/environmental benefit are promoted for each category (in particular for category “2.2 Pollution prevention and control”).*

### **Management of proceeds**

**The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a transparent and documented allocation process.**

The allocation process is clearly defined:

- An amount equal to the net proceeds of the Bonds will be credited to the Issuer’s general treasury.
- The issuer has committed to fully allocate the Sustainability Bonds proceeds to Eligible Expenditures within 24 months from the date of issuance of a Bond, in line with best market practices.
- Pending the full allocation of the net proceeds, or in the event that the proceeds are allocated to an eligible loan that is repaid, the unallocated proceed will be held in compliance with AFL investment policy that follows two main rules:
  - In priority in cash, equivalent to 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. As such, unallocated part of the issuance is likely to be held in AFL account in Banque de France.
- While any AFL sustainability Bond is outstanding, in case of divestment or cancellation of a loan to which proceeds have been allocated, AFL has committed to reallocate on a best effort basis the proceeds to other eligible loans that comply with the Eligibility criteria, as soon as reasonably practical.

*An area for improvement is to define a maximum reallocation period.*

Traceability and verification of the proceeds appear to be ensured throughout the process:

- The Sustainability Bond Committee is responsible for tracking and verifying the allocation of proceeds to Eligible Expenditures and of determining if any changes are necessary.
- The allocation to Eligible Expenditures will be tracked by the Committee through AFL’s internal accounting system.
- An independent third party will verify that an amount equal to the net proceeds of the Sustainability Bond has been tracked and allocated in compliance with all material respects of the eligibility criteria defined in the Framework.

### **Monitoring & Reporting**

**The reporting process and commitments appear to be good. The selected reporting indicators are clear and relevant regarding the allocation of proceeds, while partially clear and relevant for the environmental and social benefits (outcomes and impacts) as they do not cover the impacts of the Eligible Expenditures.**

The process for monitoring, data collection, consolidation and reporting is clearly defined. It relies on relevant internal expertise and involves relevant departments of the Issuer:

- The Issuer states that the Sustainable Bond Committee (SBC) will be responsible for monitoring the allocation of proceeds (through the analysis of local authorities’ budgets and selection of Eligible Expenditures) and for collecting information from local authorities (on a sample basis). The SBC will also be responsible for monitoring of the data regarding the outputs, outcomes and impacts of the Eligible Expenditures and for creating the reports.

*An area for improvement is to formalise this commitment in the Issuer’s Framework.*

The Issuer has committed to report at least annually and until the full allocation of the proceeds and thereafter in case of material development<sup>11</sup>, in an Allocation and Impacts report. The report will be made available on AFL's website.

The Issuer commits to transparently communicate reporting indicators, at Eligible Category level and by main area of intervention, on:

- Allocation of proceeds: The selected reporting indicators are considered clear and relevant.

<b>Use of proceeds reporting indicators</b>
- Total amount of net proceeds distributed, per AFL's main areas of intervention and by Eligible Category
- Total funds used for refinancing or allocated to new loans
- Total amount of unallocated proceeds (if any)

*An area of improvement would include to report on the temporary placement of unallocated proceeds if any.*

- Environmental and social benefits: the selected reporting indicators are partially clear and relevant.

<b>Sustainability benefits reporting indicators</b>
- Number, type and geographical distribution of Local Authorities financed
- Contribution to the relevant UN Sustainable Development Goals (SDGs), based on internal methodology developed by AFL

The Issuer commits that, when feasible, it will disclose additional information 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 structuration of its CSR capabilities, the Issuer has initiated a data collection aimed at gathering relevant environmental and social impact metrics from the financed Local Authorities and will endeavour to report on such metrics when data will become available.

In addition, AFL has committed it will appoint an independent third party, which will verify the number of financed Local Authorities and the contribution of the proceeds to the relevant SDGs, on an annual basis and until full allocation of proceeds and thereafter if there is any material change in this allocation.

*Areas for improvement would be to include*

- *to commit to report on social and environmental results for each Eligible Categories of expenditures financed by the proceeds of the Bonds, where feasible*
- *to commit to be transparent on the calculation methodologies and assumptions used to calculate the reported social/environmental benefits and to report on the contribution to the SDGs.*
- *To be transparent on the share of the social/environmental benefits/evolutions measured for the financed projects, which are attributed to the proceeds of the Bond (as some budget lines can be cofinanced by other funds).*
- *To transparently report, at least to investors, in case of material developments relating to the Bonds, including ESG matters.*

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<sup>11</sup> A material change is defined by the Issuer as any withdrawal of an Eligible Expenditure from the portfolio of expenditures financed by Sustainability Bond proceeds (e.g. following the identification of controversies) and replacement with another Eligible Expenditure.

## METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues for the issuer has been adapted, based on our generic assessment frameworks and on specific ESG issues of the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Direction of Sustainable Finance and/or the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Ethics, and all the consultants have also signed its add-on covering financial rules of confidentiality.

### Part I. ISSUER

*The ESG performance of the Issuer has not been assessed following the complete process of rating and benchmark developed by Vigeo Eiris. In this SPO, the assessment has been limited to the review of the integration of ESG factors in the Issuer's commitments and strategy, i.e. the content, visibility and ownership of its ESG policies.*

#### Level of the Issuer's ESG strategy.

CLIENT's ESG performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).

*Scale for assessment of ESG strategy: reasonable, moderate, weak.*

#### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as they are public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in controversial activities

15 controversial activities have been analysed following 30 parameters to verify if the Company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the Company.

## **Part II. ISSUANCE**

*The Framework has been evaluated by Vigeo Eiris according to the GBP and SBP 2018 and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.*

### Use of proceeds

The definition of the Eligible Projects and of their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds or Loans standards. Vigeo Eiris evaluates the definition of the Eligible Categories, as well as the definition and the relevance of the aimed sustainability objectives. We evaluate the definition of the expected benefits in terms of assessment and quantification. In addition, we evaluate the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

### Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and relevance. The eligibility criteria have been assessed regarding their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based on material issues considered in Vigeo Eiris' ESG assessment methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

### Management of proceeds

The rules for the management of proceeds and the allocation process are evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

### Reporting

Monitoring process and commitments, Reporting commitments, reporting indicators and methodologies are defined by the Issuer to enable a transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed. Vigeo Eiris has evaluated the reporting based on its transparency and relevance.

## **VIGEO EIRIS' ASSESSMENT SCALES**

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat and Santiago.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in, Brazil, Germany, Israel and Japan.

For more information: [www.vigeo-eiris.com](http://www.vigeo-eiris.com)