

# SECOND PARTY OPINION

## on the sustainability of CADES' Social Bonds Framework

Vigeo Eiris is of the opinion that the Social Bonds Framework of La Caisse d'Amortissement de la Dette Sociale (CADES) is **aligned** with the four core components of the Social Bond Principles (2020) and in line with the **best practices** taken into account in Vigeo Eiris' methodology ✓

### Framework

Contribution to sustainability



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

Main contribution identified to SDGs



Characteristics

Eligible Category	Financing and/ or refinancing of past or future deficits of the various Social Security branches and regimes.
Location	France
Existence of framework	Yes
Look back period	5 years maximum

### Issuer

ESG Performance as of November 2019



- Advanced
- Limited
- Robust
- Weak

	Weak	Limit	Robust	Advanced
Environment				
Social				
Governance				

### Coherence

Coherent
Partially coherent
Not coherent

We consider that the contemplated Bonds are consistent with and contribute to the achievement of CADES' strategic social priorities and key sector issues.

## Key findings

### Use of proceeds

- **Definitions of eligible deficits:** the eligible deficits are clearly defined and detailed.
- **Social objectives:** the social objectives are clearly defined.
- **Expected benefits:** the expected benefits are clear.
- The Issuer commits to communicate in a transparent manner on the estimated **refinancing** share for each issuance as part of its annual reporting. The notion of **look back** in this context refers to the anteriority of the deficits, which will be capped at 5 years.

### Evaluation and Selection

- **The evaluation and selection process** is clearly defined by the Issuer.
- **Eligibility and exclusion criteria** for the selection of the deficits are clearly defined.
- The Issuer's commitment and measures related to the **management of material E&S risks** are communicated and combine monitoring, identification and corrective measures.

### Management of proceeds

- **Transparency on the process:** The process for allocating and managing proceeds is clearly defined, detailed, and publicly communicated.
- The **allocation period** is of 24 months maximum.
- **Transparency of the process for managing unallocated proceeds:** the process for managing unallocated proceeds is publicly communicated.

### Reporting

- **Reporting commitments:** the Issuer has committed to publish an annual report on the allocation of proceeds and on social benefits, until the proceeds are fully allocated.
- **The reporting process and responsibilities** are clearly defined and detailed.
- The **selected reporting indicators** appear to be relevant for the allocation of proceeds and for social benefits.
- The financial data included in the report will be audited by an **external auditor**.

## Scope of External Reviews

- 
- Pre-issuance Second Party Opinion
  Independent verification of impact reporting
- Independent verification of proceeds allocation
- 

## Contact

Sustainable Finance Team | [VESustainablefinance@vigeo-eiris.com](mailto:VESustainablefinance@vigeo-eiris.com)

# SCOPE

---

Vigeo Eiris has been mandated to provide an independent opinion (the "Second Opinion" or "SPO") on the sustainability credentials and management of the Social Bonds (the "Bonds") contemplated by CADES (the "Issuer") in compliance with the Social Bonds Framework ("the Framework") created to govern their issuances.

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the latest version of the International Capital Market Association's (ICMA) Social Bond Principles (SBP) Voluntary Guidelines - dated June 2020.

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

- 1) Issuance: analysis of the Framework, including the coherence between the Framework and the Issuer's social commitments, potential contribution to sustainability and its alignment with the four core components of the SBP 2020.
- 2) Issuer: analysis of the Issuer's ESG performance.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from Vigeo Eiris' exclusive ESG rating database, and (iii) information provided from the Issuer through documents.

We carried out our due diligence assessment from August 3<sup>rd</sup> to September 3<sup>rd</sup>, 2020. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

# PART 1: ISSUANCE

---

La Caisse d'Amortissement de la Dette Sociale (CADES) has described the main characteristics of the Social Bonds within a formalized Framework, covering the four main principles of the SBP 2020 (latest version received by Vigeo Eiris on September 1<sup>st</sup>, 2020). The Issuer has committed to make this document publicly accessible on its website at the first issuance date, in line with good market practices.

## Alignment with the Social Bond Principles

Vigeo Eiris is of the opinion that the Social Bonds Framework of La Caisse d'Amortissement de la Dette Sociale (CADES) is **aligned** with the four core components of the Social Bond Principles (2020) and in line with the **best practices** taken into account in Vigeo Eiris' methodology.



- **Use of proceeds:** Vigeo Eiris considers that the CADES' Framework is aligned with the use of proceeds component of the Social Bond Principles 2020 and is in line with the **best practices**.
- **Selection and evaluation process:** Vigeo Eiris considers that the CADES' Framework is aligned with the selection and evaluation process component of the Social Bond Principles 2020 and is in line with the **best practices**.
- **Management of proceeds:** Vigeo Eiris considers that the CADES' Framework is aligned with the management of proceeds component of the Social Bond Principles 2020 and is in line with the **best practices**.
- **Reporting:** Vigeo Eiris considers that the CADES' Framework is aligned with the reporting component of the Social Bond Principles 2020 and is in line with the **best practices**.

## Contribution to Sustainability

The potential contribution of the Eligible Category to social objectives is considered to be **advanced**.

### Expected impacts

The potential positive impact of the Eligible Category on social objectives is considered to be **advanced**.

### ESG Risks Management

The identification and management of social risks associated with the Eligible Category are considered to be **advanced**.

## Alignment with the Social Bond Principles

### Use of proceeds



The net proceeds of the Social Bonds will be used exclusively to finance and/or refinance, in whole or in part, deficits in a category of social expenditures ("Eligible Category"), as shown in Table 1.

- **Definition of the category:** the eligible deficits are clearly defined and detailed. The Issuer has communicated the nature of the deficits. The Issuer has provided a description, clear eligibility and exclusion criteria for all eligible deficits.
- **Social objectives:** the social objectives are clearly defined. They are relevant for all types of deficits and consistent with the social objectives defined in international standards.
- **Expected benefits:** the expected benefits are clear. The Issuer has identified relevant social benefits for all eligible deficits. The expected benefits are measurable for all eligible deficits. The Issuer commits to communicate on the social benefits of the issuances in the annual impact reports of CADES.

Table 1: Eligible Categories, objectives and social benefits (see detailed table p.17)

ELIGIBLE CATEGORY	BRANCHES	OBJECTIVES AND SOCIAL BENEFITS	VIGEO EIRIS ANALYSIS
Financing and/or refinancing the deficits of the various branches and regimes of the French Social Security system	Illness	<b>Access to essential healthcare services</b> Continued coverage of expenses related to essential healthcare services	The definition of the category is clear and includes the description, eligibility criteria and nature of the deficits.  The social objectives are clear: they are relevant and consistent with the social objectives defined in international standards.  The expected benefits are clear: they are relevant and measurable.  The target populations have been clearly identified.
	Workplace injury	<b>Socio-economic development</b> Continued coverage of work-related accident expenses	
	Elderly	<b>Social inclusion &amp; autonomy</b> Continued coverage of expenses related to elderly	
	Family	<b>Social inclusion &amp; autonomy</b> Continued coverage of family-related expenses	

**Expected share of refinancing & look back period:** The Issuer commits to communicate in a transparent manner on the estimated refinancing share for each issuance as part of its annual reporting. CADES specifies that the Social Bonds issued (whether in the event of financing or refinancing<sup>1</sup>) will not finance or refinance a deficit of the general regime,

<sup>1</sup> CADES also specifies that "refinancing" will only take place in the event of issuances to refinance future social bonds reaching maturity under this Framework. Thus, the inaugural issuance and a certain number of the first issuances are to be considered as "financing" of the new social debt eligible for social bonds. Subsequently, social issuances may take place to refinance the inaugural issuance and/or the first issuances used for "financing". The notion of anteriority ("look back") present in this Framework therefore refers to the anteriority of deficits. This seniority is capped at 5 years, i.e. the "new social debt" eligible for this Framework relates to transfers of Social Security deficits after 2015.

FSV, agricultural or special regimes generated more than 5 years prior to the publication of the Framework. The concept of "look back" in this framework refers to the anteriority of deficits, which will be capped at 5 years.

#### Main contribution identified to SDGs

The eligible deficits are likely to contribute to four of the United Nations' Sustainable Development Goals (SDGs): SDG 1. No poverty, SDG 3. Good Health and well-being, SDG 10. Reduced inequalities and SDG 11. Sustainable cities and communities.

ELIGIBLE CATEGORY	BRANCHES	SDG	TARGETS
Financing and/or refinancing the deficits of the various branches and regimes of the French Social Security system	Workplace injury / Occupational Illness		1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.
			3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
			10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.
	Elderly		1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.
			10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.
	Family		1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.
			11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

## BEST PRACTICES

- ⇒ The content, eligibility and exclusion criteria are clear and aligned with international standards for all eligible deficits.
- ⇒ The social benefits identified are relevant and measurable.

## Evaluation and selection



The governance and the selection and evaluation of eligible deficits are formalised in the Framework.

- The **process for evaluation and selection** has been clearly defined by the Issuer. Roles and responsibilities for the evaluation, selection and monitoring of deficits are clearly defined and include relevant internal and external expertise.
- The **eligibility and exclusion criteria** for the selection of deficits are clearly defined. The Social Bond Committee will be in charge of examining and validating the scope of eligible deficits on an annual basis.
- The Issuer's commitment and measures related to the **management of material E&S risks** are communicated and combine monitoring, identification and corrective measures.

## Evaluation Selection process

The process for identifying and selecting deficits to be (re)financed is governed by the French law. Each year, the Social Security Financing Act (LFSS)<sup>2</sup> sets the annual amount of the social deficits relating to the previous year to be transferred to CADES. The eligible social deficits are therefore determined each year by the LFSS, and then assessed and validated by the "Social Bond Committee", composed of internal and external representatives of:

- The Caisse d'amortissement de la dette sociale (CADES - Agence France Trésor (AFT))
- The Public Policy Department (Service des Politiques Publiques (SPP)) of the General Directorate of the Treasury
- The Social Security Directorate (Direction de la Sécurité sociale (DSS))<sup>3</sup>

The Committee will be in charge of:

- Reviewing and validating the scope of eligible social deficits with regard to the eligibility criteria presented in this Framework;
- Reviewing and approving any changes made to the Framework;
- Steering the annual mission of the external auditor;
- Reviewing and approving the annual allocation and impact report to investors;
- Monitor the evolution of the social bond market in terms of transparency/impact reporting to align with best market practices.

<sup>2</sup> <https://solidarites-sante.gouv.fr/affaires-sociales/securete-sociale/article/la-loi-de-financement-de-la-securete-sociale#:~:text=Plus%20pr%C3%A9cis%C3%A9ment%2C%20l'article%2034,r%C3%A9serve%20pr%C3%A9vues%20par%20une%20loi>

<sup>3</sup> The SSD is attached to the Ministry of Solidarity and Health, the Ministry of Labor, Employment and Integration, and the Ministry of the Economy, Finance and Recovery; it sets out Social Security policies and ensures their implementation. Its fifth sub-directorate represents the SSD on the Social Bond Committee.

The traceability and verification of the selection and evaluation of eligible deficits are ensured throughout the process:

- The Committee is in charge of monitoring the compliance of the selected deficits with the eligibility criteria. It meets at least twice a year and minutes of the meetings will be drawn up to ensure the traceability of decisions.

### Eligibility Criteria

The selection process is based on explicit eligibility criteria (selection and exclusion) and relevant to the social objectives defined for the Eligible Category.

- The selection is based on the Eligible Category defined in the Use of Proceeds section.
- The Issuer commits to exclude hospital debts and debts financing deficits prior to 2015.

#### BEST PRACTICES

⇒ The eligibility and exclusion criteria for the selection of the deficits are clearly defined and detailed.

### Transparency of the Social Risks Mitigation Process

The social risks identification and mitigation process is publicly disclosed in the SPO and is considered to be advanced (see detailed analysis on page 12).

### Management of Proceeds



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

- **Transparency of the proceeds management process:** the proceeds allocation and management process is clearly defined, detailed and publicly communicated.
- The **allocation period** is of 24 months maximum.
- **Transparency of the unallocated proceeds management process:** the process for managing unallocated proceeds is publicly communicated.

### Management Process

The allocation and management of the proceeds are clearly defined:

- The net proceeds of the bonds will be credited to CADES' general treasury and, pending allocation, the unallocated proceeds will be held in the form of cash on the Treasury's single account at the Banque de France and will not be subject to temporary investments.
- The bonds' proceeds will be tracked through an internal system.
- The Issuer has committed to allocate the proceeds within a maximum period of 24 months.

- The Issuer commits that the total amount of the social issuances will be less than or equal to the eligible deficits.

### Traceability and Verification

Traceability and verification of both the tracking method and allocation of process are ensured throughout the process:

- The Social Bond Committee is in charge of disbursement decisions and annual monitoring of the allocation of proceeds.
- An external auditor will be in charge of the annual verification of the allocation of proceeds to eligible deficits and of the compliance of the deficits financed with the eligibility criteria, until the complete allocation of proceeds.

#### BEST PRACTICES

⇒ The allocation period is 24 months or less

### Reporting



The reporting process and commitments appear to be good, covering both the proceeds allocation and the social benefits expected from the Eligible Category.

- **Reporting commitments:** the Issuer has committed to publish an annual report on the allocation of proceeds and on the social benefits, until the proceeds are fully allocated.
- The **reporting process and responsibilities** are clearly defined and detailed.
- The **selected reporting indicators** appear to be relevant for the allocation of proceeds and for the social benefits.
- The **financial data** included in the report will be subject to **verification by an external auditor**.

### Reporting Process

The processes for monitoring, data collection, consolidation and reporting are clearly defined by the Issuer in the Framework and in the internal documentation: the monitoring of issuances (proceeds management and impact reports) will be carried out by the Social Bond Committee.

The Issuer has committed to publish an annual report on the allocation of proceeds and on social benefits of the social issuances until the proceeds are fully allocated. The Issuer commits to report, at least to investors, in the event of controversies related to social or governance issues.

### Indicators

The CADES has committed to report annually on its issuance portfolio:

- Allocation of proceeds: the Issuer commits to disclose all relevant information concerning the allocation of proceeds.

#### REPORTING INDICATORS

- ⇒ The total amount of funds allocated to date
- ⇒ The share of financing of the "new social debt" versus refinancing
- ⇒ The total amount of funds pending allocation and the type of temporary investment
- ⇒ Breakdown of funds allocated to deficits by eligible subcategories, by underlying branches

- Social benefits: the selected indicators appear clear and relevant. The Issuer has provided examples of indicators for four Social Security branches.

The selected indicators are part of the Quality and Efficiency Programs (QEPs). QEPs are budgetary documents that present the objectives pursued each year by the Social Security and the progress made. They measure the performance of Social Security policies and their impact on the living conditions of the French population by monitoring 159 indicators<sup>4</sup>.

---

<sup>4</sup>The qualities sought for these indicators are the following: easy interpretation, technical reliability, easy adaptability and revision, non-manipulable character, international comparability, controllable production load, balance between the different dimensions.

ELIGIBLE CATEGORY	BRANCHES	EXAMPLES OF SOCIAL BENEFITS	
		FRAMING INDICATORS	RESULT INDICATORS
Financing and/or refinancing the deficits of the various branches and regimes of the French Social Security system	Elderly	<ul style="list-style-type: none"> <li>○ Number of retirees from all regimes</li> <li>○ Evolution in the proportion of elderly people in the French population</li> <li>○ Share of pension benefits in GDP</li> <li>○ Average age of departure &amp; length of insurance required for full retirement (number of quarters required)</li> </ul>	<ul style="list-style-type: none"> <li>○ Median living standard of retirees compared to that of working people</li> <li>○ Proportion of retired people with a standard of living below the poverty line</li> <li>○ Employment rate of 55-69 year olds</li> <li>○ Difference in pension levels between men and women</li> </ul>
	Illness	<ul style="list-style-type: none"> <li>○ Per capita health expenditures (breakdown between use of health care services and medical goods, hospital care, city care, health transport, drugs)</li> <li>○ Average reimbursable per capita use of city care services by age (consultations and visits, dental fees, biology, drugs, etc.).</li> <li>○ Average annual costs broken down by major expenditure items, for different pathologies and evolution on the long-term</li> </ul>	<ul style="list-style-type: none"> <li>○ Remaining health expenses per household and corresponding effort rate (per decile of standard of living)</li> <li>○ Child and retirees poverty rates</li> <li>○ Unmet needs for care due to financial reasons (overall population and lowest 20%)</li> <li>○ Influenza vaccination coverage rate</li> <li>○ Outpatient surgery rate</li> <li>○ Density of general practitioners and specialists per 100,000 inhabitants</li> <li>○ Time to access urgent care</li> </ul>
	Family	<ul style="list-style-type: none"> <li>○ Total masses of services <ul style="list-style-type: none"> <li>- Family allowances</li> <li>- Family benefits for childcare</li> <li>- Family benefits (other)</li> <li>- Housing allowance</li> </ul> </li> <li>○ Employment rate of women aged 20-64</li> <li>○ Number of births and fertility index</li> </ul>	<ul style="list-style-type: none"> <li>○ Masses of benefits paid per decile of standard of living</li> <li>○ Full-time childcare capacity for children under three years of age per 100 children (with a significant proportion in priority neighbourhoods across the city)</li> <li>○ Evolution of differences in standards of living (before/after transfers)</li> </ul>
	Work accidents/ occupational illness	<ul style="list-style-type: none"> <li>○ Breakdown by item of legal compensation (temporary and permanent disability, care, asbestos victims)</li> <li>○ Breakdown of lost-time accidents by sector of activity</li> <li>○ Occupational diseases by pathology</li> </ul>	<ul style="list-style-type: none"> <li>○ Number of workdays lost per 1000 hours worked</li> <li>○ Average disability rate of accidents and illnesses resulting in permanent disability</li> <li>○ Severity index of work accidents and occupational diseases</li> </ul>

### Process for controlling monitoring & reporting

The CADES commits to have the allocation reports independently audited by an external auditor on an annual basis and until the proceeds are fully allocated. The auditor's attestation will be included in the annual reporting.

#### BEST PRACTICES

- ⇒ The allocation indicators selected by the Issuer are exhaustive.
- ⇒ The social indicators selected by the Issuer are clear and relevant and cover all expected benefits.
- ⇒ The methodologies and assumptions used to report on social benefits are integrated into the Framework.

## Contribution to sustainability

The contribution to sustainable development of the Eligible Category is structured around two components: the analysis of expected impacts and the analysis of the identification and management of social risks.

### Expected Impacts

The potential positive impact of the Eligible Category on social objectives is considered to be **advanced**.

In May 2020, the High Council on the state of social protection financing highlighted "an unprecedented rupture in the financial situation of the Social Security<sup>5</sup>" since March 2020 due to the COVID-19 crisis. According to the Minister of Public Accounts, the Social Security's deficit should reach a "historic" level of EUR 52.2 billion in 2020. The crisis linked to the COVID-19 epidemic in France will affect the Social Security in the long term, resulting in a sharp increased need for funding.

In the context of the COVID-19 crisis, CADES is playing a key role through the debt assumption, which will help to restore the Social Security's accounts by contributing to its financial viability and the maintenance of its services.

Vigeo Eiris considers the positive impact to be advanced. Indeed, the framework considered by CADES is relevant to respond to the current social issues related to the COVID-19 crisis and the urgency linked to the French Social Security deficit.

The scope of impact of the framework is national, covering all French Social Security beneficiaries. In addition, it covers four of the five branches of Social Security: family, illness, work accidents and elderly.

With regards to the magnitude and sustainability of the considered issuance framework, its objective of financing social debt is considered to be an improvement of social conditions in France over the long term.

### Relevance of Social Risks Identification and Management systems in place

#### Social risks identification and management

The identification and management of and social risks associated with the Eligible Category are considered **advanced**.

	FINANCING AND/OR REFINANCING THE DEFICITS OF THE VARIOUS BRANCHES AND REGIMES OF THE FRENCH SOCIAL SECURITY SYSTEM
Governance and control	ADVANCED
Cost management	ADVANCED
Inequality in access to social benefits	ADVANCED
Revenue and services fraud	ADVANCED
Quality of relationships with beneficiaries	ADVANCED
Overall Assessment	ADVANCED

<sup>5</sup> <https://www.vie-publique.fr/en-bref/274404-le-financement-de-la-protection-sociale-face-lepidemie-de-covid-19>

## Governance and control

CADES' operational organisation is in line with that of financial institutions and includes an "Internal Control and Risk Management" unit. In addition, CADES is under the dual authority of the Minister of the Economy, Finance and Recovery and the Minister of Solidarity and Health. They appoint the governing bodies of CADES and closely monitor its activities. A Board of Directors manages issues relating to the functioning of the institution and a Supervisory Committee is responsible for issuing an opinion on the institution's activity report. Finally, an Audit Committee is in charge of monitoring the process of preparing the half-yearly and annual financial statements, verifying the review and effectiveness of internal control and risk management systems, and reporting regularly to the Board of Directors and possibly to the Supervisory Committee. The CADES is subject to general controls similar to those of the French government. CADES is subject to the control of the Cour des Comptes (French Audit Office) and, since 2016, has had its accounts certified by a statutory auditor.

## Cost management

The search for balance in the various branches involves measures concerning expenditures and revenues. Financial management is based on reliable financial data: macroeconomic assumptions are submitted to the High Council of Public Finance for its opinion and the discrepancies between forecasts and actual figures are explained each year.

Objectives and management agreements (COG) are concluded between the State and all the national funds of the general scheme and set out a strategy and objectives for each branch for at least four years. Performance indicators are used to measure the achievement of these objectives.

## Inequality in access to social benefits

With regard to the risk of inequality in access to social benefits, and in particular the risk of non-use (non-recours) of social benefits, the State, through various studies of public statistics and through its agencies, is committed to monitoring this risk and collecting the data necessary for the implementation of dedicated public strategies. Thus, various organisations have set up dedicated national systems to address the issue of non-use. One example is the "one-stop counter" which enables beneficiaries to have a single contact person to carry out all their procedures and thus respond to the aggravating factor of the complexity of the procedures (discouragement due to the complexity of the procedures, lack of resources such as time, the ability to find one's way through the system).

Also noteworthy is the implementation since 2014 by the Caisse Nationale des Allocations Familiales (Cnaf) of "rights meetings" that allow the most vulnerable recipients of family allowances to benefit from a personalised interview to discuss a large number of social rights, whether or not they are managed by the CAFs<sup>6</sup> and thus combat the lack of information related in particular to lack of knowledge on the existence of a benefit or the lack of understanding of the criteria to be met or the steps to be taken to benefit from it. These various measures are the subject of specific surveys to evaluate their effectiveness. Finally, it should be noted that the fight against non-use is included in Commitment No. 4 of the national strategy to prevent and combat poverty: "Towards social rights that are more accessible, fairer and more attractive to work".

## Revenue and services fraud

Concerning the risks related to fraud, the State has put in place the following measures: controls and inspections, external reports from partners in the social sphere or others (justice, police, gendarmerie, consulates, etc.), reports on suspicious transactions in the case of social benefits, which files are examined by Tracfin<sup>7</sup>. In addition, dedicated working groups are led by the Social Security Direction (DSS) and aim to mutualise the means of control between the Social Security bodies, by automatically checking all bodies in the event of fraud, misconduct or abuse detected. Finally, the Law no. 2018-771 (September 5, 2018) and the Security Financing Law for 2019 allow for heavy penalties and increases in the amount of the fines in the event of an infringement, whether voluntary or not, respectively in the fight against false detachment (faux détachement) and the fight against undeclared work. In addition, at the beginning of 2020, an "inter-ministerial anti-fraud coordination mission" was created in order to ensure proper coordination of all partners involved in the fight against public finance fraud (concerning both compulsory tax and Social Security contributions as well as other public bodies' revenues or social benefits).

<sup>6</sup> Caisse d'allocations familiales

<sup>7</sup> Tracfin is the agency of the Ministry of Economy and Finance in charge of the fight against fraud, money laundering and terrorist financing.

### Quality of relationships with beneficiaries

Regarding the quality of relations with the beneficiaries, and in particular concerning the management of disputes with the various Social Security bodies, a dedicated and transparent procedure aims to provide a frame for the management of beneficiaries' claims. Indeed, claims against decisions by Social Security bodies, whether administrative or medical, must be presented to the Amicable Appeals Commission (Commission de recours amiable), which will examine the beneficiary's claim and oversee the conciliation procedure. If the work of the commission does not lead to an amicable resolution, a litigation procedure is possible in court. The procedure is explained in detail on the [servicepublic.fr](http://servicepublic.fr) website<sup>8</sup>.

---

<sup>8</sup> <https://www.service-public.fr/particuliers/vosdroits/F2500#:~:text=Les%20r%C3%A9clamations%20contre%20les%20d%C3%A9cisions,cour%20d'appel%20est%20comp%C3%A9tente>

## PART 2: ISSUER

The Caisse d'Amortissement de la Dette Sociale (CADES) is a public administrative institution created in January 1996 to repay the social debt accumulated between 1994 and 1996. CADES is a dismemberment of the French State classified as a Social Security Administration (ASSO). Its mission is to finance and suppress the accumulated debt of the general Social Security system (transferred by law) by taking out loans on the financial markets. From its creation until the end of 2018, CADES has been transferred EUR 260.5 billion of Social Security debt.

Due to the legal form of CADES, the Issuer's assessment conducted according to the Vigeo Eiris methodology focuses on the State. As of November 2019 (date of the last rating cycle), France achieved an advanced level (81/100), stable over the last six years, of integration of sustainable development objectives into its institutional systems and public policies. France's sustainable development performance ranks 5<sup>th</sup> out of 178 countries worldwide, three ranks higher than the previous year, and 5<sup>th</sup> out of the 28 member states of the European Union (EU).

DOMAIN	COMMENTS	OPINION
Environment	France achieves an advanced performance in terms of Environmental responsibility with a score of 74/100, placing it 10 <sup>th</sup> out of 178 countries. Among the strong points of France's policy are its commitments to reduce atmospheric emissions and protect biodiversity. France is among the world leaders in the protection of land and marine areas. The country has actively piloted and ratified the Paris Agreement and is jointly committed with EU Member States to reduce the European Union's GHG emissions by 40% by 2030 compared to 1990. France achieves an advanced performance in terms of CO2 emissions, being the third low-carbon economy in the OECD zone (0.11 kg of CO2 USD/GDP). The transition to green growth remains an area for improvement, particularly in terms of nuclear waste production as a percentage of Gross Domestic Product and in the production of renewable energy (excluding hydropower).	Advanced
		Robust
		Limited
		Weak
Social	France continues to achieve an advanced performance in terms of social responsibility and solidarity (79/100), placing it in 7 <sup>th</sup> position out of 178 countries. This position is explained by its score on the "Promotion of social protection" criterion, particularly on the "Promotion of workers' rights". The social strengths of France relate to education, social infrastructure management and gender equality, with notably high scores on indicators relating to primary and secondary education, as well as on the Gender Inequality Index. France's performance in terms of social protection is uneven, with an advanced score on poverty reduction, but moderate on employment. Development aid displays a stable score.	Advanced
		Robust
		Limited
		Weak
Governance	France achieves an advanced performance in the area of institutional responsibility (90/100), ranking 11 <sup>th</sup> out of 178 countries for the third consecutive year. This position is explained in particular by the score obtained on the criterion "Participation in International Human Rights Conventions", linked to France's ratification of the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition. France regularly reaffirms its commitments to democracy and human rights. The country plays an active role in supporting and advocating for human rights and anti-corruption associations within United Nations agencies and organizations.	Advanced
		Robust
		Limited
		Weak

## PART 3: COHERENCE

---

Coherent
Partially coherent
Not coherent

We consider that the contemplated Bonds are coherent with and contribute to the achievement of CADES' strategic social priorities and key sector issues.

Since the end of the 1970s, the balance of the general Social Security system has frequently been negative. This succession of deficits has led to the creation of a Social Security debt, covering mainly the deficits of the branches Illness and Elderly. La Caisse d'Amortissement de la Dette Sociale (CADES) was created in January 1996 with the aim of repaying the social debt accumulated between 1994 and 1996. Since then, every year, the Social Security Financing Act is passed, allowing for a debt transfer to CADES. Between its creation and the end of 2018, CADES had been transferred EUR 260.5 billion of Social Security debt and had paid off EUR 171 billion at the end of 2019.

The suppression of the social debt was initially planned for 2024, but the crisis linked to COVID-19 led to the recording of historical deficits, estimated at more than EUR 50 billion, explained by:

- A decrease in revenue, firstly due to the postponement of payment deadlines;
- Revenue losses due to the reduction of the contributions' bases and social contributions;
- An increase in ONDAM<sup>9</sup>'s expenditures.

In addition, the Parliament voted in July 2020 and the law was promulgated in August anticipating for a new debt transfer of EUR 136 billion to CADES and extending the amortisation horizon of the Social Security debt until 2033. In this context, CADES has decided to create a framework for Social Bonds.

The purpose of this Framework and of the future impact reports will be to inform investors of the effectiveness of CADES' amortization and redistribution mechanisms and the impact of the services provided by the various Social Security branches on the income and living conditions of beneficiaries.

CADES plays a key role in the operational continuity of the French Social Security system. By creating a Social Bond Framework to finance and/or refinance past or future deficits of the various Social Security branches and regimes, CADES is consistent with its strategy and commitments in terms of social responsibility.

---

<sup>9</sup> Objectif national des dépenses d'assurance maladie

## APPENDIX 1 – ELIGIBLE CATEGORIES

CADES FRAMEWORK				
ELIGIBLE CATEGORIES	BRANCHES	OBJECTIVES AND BENEFITS	EXPENDITURES – EXAMPLES OF SERVICES	REVENUES – MAIN FACTORS
Financing and/or refinancing the deficits of the various branches and regimes of the French Social Security system	Illness	<p><b>Access to essential health services</b></p> <p>Continued coverage of expenses related to essential health services</p> <p><u>Target populations:</u> General population but in particular:</p> <ul style="list-style-type: none"> <li>- Sick persons (including long-term illnesses)</li> <li>- Pregnant women</li> <li>- Large and/or single-parent families</li> <li>- Inhabitants of low-density areas with low care provisions</li> <li>- People below the poverty line</li> </ul>	<p>Examples of expenses covered by the financing and /or refinancing of deficits covered by CADES:</p> <ul style="list-style-type: none"> <li>- Daily allowances in the event of illness, disability, industrial accidents or occupational diseases</li> <li>- Partial or full reimbursement of health care services in a city medical facility or health institution</li> <li>- Partial or full coverage of stays in health care institutions</li> <li>- Compensation for loss of income following interruption of activity due to pregnancy (maternity benefits)</li> <li>- Maternal and childcare management</li> </ul>	<p>Decreases in revenues due to changes in employment and wages (economic elasticity, reduction of the total payroll) :</p> <ul style="list-style-type: none"> <li>- Contributions</li> <li>- The CSG (based on income from activities but also replacement income, gambling, wealth and investments)</li> <li>- Other contributions, taxes and duties allocated</li> <li>- Social contributions on capital income (real estate gains, dividends, life insurance in particular)</li> <li>- Deferral of payment due dates of drawdowns never recovered due to business failures</li> </ul>
	Workplace Injury / Occupational Illness	<p><b>Socio-economic development</b></p> <p>Continued coverage of workplace injuries expenses</p> <p><u>Target populations:</u></p> <ul style="list-style-type: none"> <li>- Persons with workplace injuries/occupational illness</li> </ul>	<p>Examples of expenses covered by the financing and /or refinancing of deficits covered by CADES:</p> <ul style="list-style-type: none"> <li>- Cash benefits related to temporary or permanent interruptions of activity (temporary or permanent incapacity)</li> <li>- Compensation for the damage suffered</li> <li>- Coverage of healthcare expenses related to pathologies caused in the context of professional activity and compensation for the damage suffered</li> </ul>	

## CADES FRAMEWORK

ELIGIBLE CATEGORIES	BRANCHES	OBJECTIVES AND BENEFITS	EXPENDITURES – EXAMPLES OF SERVICES	REVENUES – MAIN FACTORS
	Elderly	<p><b>Social inclusion &amp; autonomy</b> Continued coverage of expenses related to elderly</p> <p><i>Target populations:</i></p> <ul style="list-style-type: none"> <li>- Older population no longer able to work or widowed</li> </ul>	<p>Examples of expenses covered by the financing and /or refinancing of deficits covered by CADES:</p> <ul style="list-style-type: none"> <li>- Pensions paid to retirees (direct pensions) or their spouses ('pensions de réversion')</li> <li>- Services linked to dependency</li> </ul>	<p>Discretionary reductions through contribution exemption schemes :</p> <ul style="list-style-type: none"> <li>- General (remuneration around the minimum wage)</li> <li>- Targeted at specific audiences (young people, long-term unemployed)</li> <li>- Targeted on certain geographical areas (DOM, urban free trade zones)</li> </ul>
	Family	<p><b>Social inclusion &amp; autonomy</b> Continued coverage of family-related expenses</p> <p><i>Target populations:</i></p> <ul style="list-style-type: none"> <li>- Persons with disabilities</li> <li>- Young persons not in school, not employed or in training (NEET)</li> </ul>	<p>Examples of expenses covered by the financing and /or refinancing of deficits covered by CADES:</p> <ul style="list-style-type: none"> <li>- Expenses related to the maintenance of the family:             <ul style="list-style-type: none"> <li>▪ Family allowances</li> <li>▪ Childcare Benefits</li> <li>▪ Cost of childcare in a day care centre</li> </ul> </li> </ul>	

# 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 organisation, activity or transaction. In this sense, Vigeo Eiris provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Project Manager, Quality Reviewer and final review and validation by a Senior Supervisor). A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, Vigeo Eiris' Scientific Council. All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## PART 1. ISSUANCE

### Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by Vigeo Eiris according to the ICMA's Social Bond Principles - June 2020 ("SBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

#### Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Social Bonds standard. Vigeo Eiris evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

#### Process for evaluation and selection

The evaluation and selection process is assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

#### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by Vigeo Eiris on their transparency, traceability and verification.

#### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by Vigeo Eiris on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

Vigeo Eiris' assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>10</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## PART 2. ISSUER

### Issuer's ESG performance

Vigeo Eiris has revised its sovereign rating research, resulting from a continuous improvement process and based on permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

Vigeo Eiris' methodology, the Sustainability Sovereign Rating<sup>©</sup>, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 173 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the French Republic was evaluated by Vigeo Eiris in November 2019 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance). These three domains are analysed through 56 criteria, which bring together 172 indicators of two types:

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.

<sup>10</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

- Result indicators: measuring the efficiency of the country's sustainable development actions.

Vigeo Eiris gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

The review of stakeholders' feedbacks is not included in our evaluation of Sovereign Bond Issuers.

## PART 3. COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

### VIGEO EIRIS' ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. Reasonable level of risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of assurance of risk management is weak to very weak.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

# DISCLAIMERS

---

Transparency on the relation between Vigeo Eiris and the Issuer: Eiris has not executed any audit missions for CADES until now. No established relation (financial or commercial) exists between Vigeo Eiris and the Issuer. Vigeo Eiris' conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

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. 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 deliverables remain the property of Vigeo Eiris. The draft version of the Second Party Opinion by Vigeo Eiris is for information purpose only and shall not be disclosed by the client. Vigeo Eiris grants the Issuer all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer shall determine in a worldwide perimeter. The Issuer has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond. The Issuer acknowledges and agrees that Vigeo Eiris reserves the right to publish the final version of the Second Party Opinion on Vigeo Eiris' website and on Vigeo Eiris' internal and external communication supporting documents.

© 2020 Vigeo SAS and/or its licensors and subsidiaries (collectively, "Vigeo Eiris"). All rights reserved.

Vigeo Eiris provides its customers with data, information, research, analyses, reports, quantitative model-based scores, assessments and/or other opinions (collectively, "Research") with respect to the environmental, social and/or governance ("ESG") attributes and/or performance of individual issuers or with respect to sectors, activities, regions, stakeholders, states or specific themes.

VIGEO EIRIS'S RESEARCH DOES NOT ADDRESS NON-ESG FACTORS AND/OR RISKS, INCLUDING BUT NOT LIMITED TO: CREDIT RISK, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. VIGEO EIRIS'S RESEARCH DOES NOT CONSTITUTE STATEMENTS OF CURRENT OR HISTORICAL FACT. VIGEO EIRIS'S RESEARCH: (i) DOES NOT CONSTITUTE OR PROVIDE CREDIT RATINGS OR INVESTMENT OR FINANCIAL ADVICE; (ii) IS NOT AND DOES NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES; AND (iii) DOES NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. VIGEO EIRIS ISSUES ITS RESEARCH WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

VIGEO EIRIS'S RESEARCH IS NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE VIGEO EIRIS'S RESEARCH WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. VIGEO EIRIS'S RESEARCH IS NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT VIGEO EIRIS'S PRIOR WRITTEN CONSENT.

ALL INFORMATION CONTAINED HEREIN IS OBTAINED BY VIGEO EIRIS FROM SOURCES BELIEVED BY IT TO BE ACCURATE AND RELIABLE. BECAUSE OF THE POSSIBILITY OF HUMAN OR MECHANICAL ERROR AS WELL AS OTHER FACTORS, HOWEVER, ALL INFORMATION CONTAINED HEREIN IS PROVIDED "AS IS" WITHOUT WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND, INCLUDING AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. VIGEO EIRIS IS NOT AN AUDITOR AND CANNOT IN EVERY INSTANCE INDEPENDENTLY VERIFY OR VALIDATE INFORMATION IT RECEIVES.

To the extent permitted by law, Vigeo Eiris and its directors, officers, employees, agents, representatives, licensors and suppliers (together, "Vigeo Parties") disclaim liability to any person or entity for any (a) indirect, special, consequential, or incidental losses or damages, and (b) direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded); on the part of, or any contingency within or beyond the control of any Vigeo Party, arising from or in connection with the information contained herein or the use of or inability to use any such information.

Additional terms For PRC only: Any Second Party Opinion or other opinion issued by Vigeo Eiris: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.