

First Finance plc

Social Financing Framework

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1. Introduction

Cambodia is categorised as a Lower-Middle Income economy based on the World Bank Atlas method using the per capita gross national income¹ and is classified as a Least Developed Country in the Organisation for Economic Co-operation and Development ("OECD") Development Assistance Committee ("DAC") list of Overseas Development Assistance ("ODA") recipients².

First-time Cambodian buyers who are in informal work (i.e., those that do not have salaried jobs or are self-employed) face high barriers in accessing home loans and therefore also in becoming homeowners. Most traditional financial institutions and commercial banks cater to higher income households with stable, salaried income in the formal sector³ and find it operationally challenging to provide loans to customers in the informal economy, whereas other microfinance institutions who would cater to this segment are generally focused on providing business loans.

Only about 33% of the Cambodian population above the age of 15 have an account with a financial institution compared to the global average of 76%.⁴ Local population, especially from low- and middle-income segments, who work informal jobs therefore face higher propensity to be disenfranchised and are unable to access home loans from commercial establishments, thereby sometimes turning to informal moneylenders. Given that it is estimated up to 91% of the Cambodia's workforce falls under informal employment⁵, there is a large addressable market which have historically been underserved, which First Finance intends to support through its services.

Background of First Finance

First Finance Plc obtained its license on 23 April 2009 by the National Bank of Cambodia and became the first financial institution to specialise in housing finance in Cambodia. The company was set up with the goal of providing long-term housing and living improvement loans to the underserved Cambodian households who have little-to-no access to formal housing financial services.

First Finance has branches in 8 provinces across Cambodia, including Phnom Penh, Kampot, Kampong Cham, Siem Reap, Banteay Meanchey, Battambang, Phnom Prek, and Kampong Speu (which is newly opened in 2021/2022).

First Finance's impact thesis

At First Finance, our strategy is to focus on providing Home Loans, Home Improvement Loans, Residential Land Loans and Home Equity Loans and Living Improvement Loans to underserved,

¹ World Bank Country and Lending Groups (for fiscal year 2023). [World Bank Country and Lending Groups – World Bank Data Help Desk](https://data.worldbank.org/country)

² OECD DAC list of ODA recipients – effective for reporting on 2022 and 2023 flows. <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-of-ODA-Recipients-for-reporting-2022-23-flows.pdf>

³ Affordable Housing in Phnom Penh – Ensuring decent housing opportunities for all, Planète Enfants et Développement / People in Need/ Global Green Growth Institute, 2020. https://planete-eed.org/wp-content/uploads/2022/02/Affordable-housing-in-Phnom-Penh-Ensuring-decent-housing-opportunities-for-all_compressed.pdf, p. 76.

⁴ The Global Findex Database 2021, World Bank. <https://www.worldbank.org/en/publication/globalfindex/Data>

⁵ Share of informal employment in total employment was 91% according to the ILO in 2018. International Labour Organisation, 2018, Women and men in the informal economy: A statistical picture – Third edition, pp. 100. https://www.ilo.org/global/publications/books/WCMS_626831/lang-en/index.htm

especially low- and middle-income, Cambodian households who have little-to-no access to formal long-term housing financial services. Most commercial banks only offer services to wealthier Cambodians while typical MFIs provide only short-term loans which these groups cannot afford for repayment or are not economical for them.

First Finance's unique approach among other financial institutions in Cambodia is made possible because it has invested in internal expertise and capability for property and housing assessment. First Finance has an experienced internal property evaluator team who works independently from the loan approval process to ensure its affordability to the borrower, as well as the legitimacy of the housing developers. In addition, since 2019, First Finance has built a dedicated property consultation team that offers value-added general housing finance services to prospective and existing borrowers. Borrowers may call in and enquire about the process for property title transfer, check on legitimacy of the developers, and other housing related matters. First Finance prides itself on being able to provide such value-added services to improve the understanding of its borrowers, so that they can better protect themselves and make the right choices of buying properties they can call their home.

First Finance believes that helping people to become homeowners is the key to helping them improve their lives. Access to affordable housing, which is supported through homeownership enabled by First Finance, as a social asset is a means to achieving other goals such as wealth creation, family stability, health, higher levels of education, job security and overall well-being.⁶ The stability of homeownership allows a family to spend time and energy on other aspects of their life. First Finance provides a door-to-door service by walking the client through the process of housing loan approval from product consultation to approval stage.

As of end of July 2022, First Finance is serving 1,820 Cambodian households with a total of c. USD 30.5 million in its loan portfolio. Our clients earning less than USD 300 per month accounted for 5% of our portfolio, 32% of clients are earning from USD 300 to USD 700 a month, and 20% had a monthly income from USD 700 to USD 1000 a month. From a gender perspective, the number of loans to female borrowers accounted for 64% of the loan portfolio.

2. Social Financing Framework

To raise funding to support the First Finance's continuous efforts in bringing affordable mortgage and financing products to Cambodian families, it intends to enter multiple Social Loan and Social Bond transactions with lenders and/or bond investors respectively.

The Company has prepared this Social Financing Framework ("the Framework") to set the basis for the allocation and management of its Social Loan or Bond proceeds.

The Framework is prepared referencing the following internationally recognised standards:

- Social Loan Principles 2021 ("SLP") published by the Asia Pacific Loan Market Association ("APLMA"), the Loan Market Association ("LMA") and the Loan Syndications and Trading Association ("LSTA"); and
- Social Bond Principles 2021 ("SBP") published by the International Capital Markets Association ("ICMA") (together "the Principles").

⁶ Research from Affordable Housing in Cambodia: Role of NGOs in Housing Post-1980s – Harvard University. https://www.ichs.harvard.edu/sites/default/files/harvard_ichs_equitable_development_virtual_posters_boverman_lazenby.pdf.

The Principles comprise the following four core components:

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

This Framework will be applied to any Social Loan or Social Bond transactions entered by First Finance.

2.1 Use of Proceeds

First Finance intends to allocate the amount equal to the net proceeds of the Social Loans or Bonds raised under the Framework exclusively to finance eligible loans in line with the eligibility criteria below. The proceeds will be applied towards new loans only in each case (i.e., the proceeds will not be applied to refinancing existing loans). For clarity, the proceeds will not be used to cover First Finance's operational expenditure.

Loan and borrower criteria

The following criteria must be fulfilled for loans to be considered eligible:

- Borrowers are Cambodian citizens or residents
- Borrowers are full or part time employees
- Borrowers have acceptable and substantiated source of income (i.e., employment, business, or rental/lease)
- Borrowers have no past criminal or civil conviction
- Borrowers have no loan default history
- Borrowers have minimum age of 18 years old and maximum of 65 years old. Applicants older than 65 are required to have one or two co-borrower(s) provided that these co-borrower(s) will be under the age of 65 at the time of loan repayment; be joint and severally responsible for the entire debt in the event of default or death; and have adequate repayment capacity to meet the monthly repayments.
- Collateral and affordability requirements have to be met. Hard or soft title are accepted. The collateral (i.e., housing and land) will be evaluated by an experienced internal property evaluator team who works independently from the loan approval process to ensure its affordability to the borrower.
- Loans are to support activities in Cambodia, including but not limited to where First Finance has existing operations

The loans shall also not be used towards financing any activities set out in the International Finance Corporation ("IFC") Exclusion List.⁷ The Exclusion List includes:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife, or products regulated under CITES.
- Production or trade in weapons and munitions.

⁷ International Finance Corporation, IFC Exclusion List 2007, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist

- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos, and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Category 1: Affordable Housing

The use of proceeds under this category will be for First Finance to lend to borrowers for construction, refurbishment, and purchase of affordable housing and residential land.

This category will contribute to the following Sustainable Development Goals (“SDGs”):

- SDG 1 on No Poverty and specifically to Target 1.4 to ensure all have equal rights to economic resources, access to basic services, property ownership and finance
- SDG 8 on Decent Work and Economic Growth and specifically to Target 8.10 to strengthen the capacity of domestic financial institutions to expand access to insurance and financial services for all
- SDG 11 on Sustainable Cities and Communities and specifically to Target 11.1 for Safe and Affordable Housing.

Please see the eligible loans for the category below.

Product	Description	Social Objective/ Benefit
Home Loan	A First Finance Home Loan provides an opportunity for low and middle-income families towards owning a home. They can borrow up to 80% of the home’s value to repay over a term of up to 20 years. This loan is offered at a competitive rate and allows the client to have up to 3 co-borrowers (siblings).	Access for first time homebuyers which would be life changing
Home Improvement Loan	A Home Improvement Loan is one of First Finance’s main products, providing long-term financing solutions for those who want to construct a new house on pre-owned land or renovate an existing home. The client can get loan amount of up to 100% of the total planned construction or renovation with long-term repayment of up to 20 years, with the loan amount of up to 80% of the collateral value.	Access for homeowners to improve their quality of dwelling enabling significant life improvements.

Residential Land Loan	A Residential Land Loan provides long-term financing solutions for those who purchase land for home construction. They can borrow up to 75% of the total costs and apply for repayment terms of up to 120 months.	Access for first time homebuyers to reach the first step of owning their dream home which would be life changing.
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Category 2: Socioeconomic Advancement and Empowerment

The use of proceeds under this category will be for First Finance to lend to borrowers to improve their quality of life at home and/or to pursue opportunities to improve their socioeconomic outcomes.

This category will contribute to the following Sustainable Development Goals (“SDGs”):

- SDG 1 on No Poverty and specifically to Target 1.4 to ensure all have equal rights to economic resources, access to basic services, property ownership and finance
- SDG 8 on Decent Work and Economic Growth and specifically to Target 8.10 to strengthen the capacity of domestic financial institutions to expand access to insurance and financial services for all

Please see the eligible loans for this category below.

Product	Description	Social Objective/ Benefit
Home Equity Loan	A long term-loan provides the funding to improve the quality of life, such as to purchase necessary household capital goods and items. The loan purpose will be verified against the IFC Exclusion List and the specific use of proceeds will be reviewed by the Approval Committee.	Allows homeowners to release the equity in their property, e.g., to purchase households goods such as furniture, television, and computer to improve quality of living, or to pay for school fees.
Living Improvement Loan	A long term-loan provides the fund for homeowners to take a loan against its property in order to start a small business and/or seek business improvement. The nature of borrower’s business will be verified against the IFC Exclusion List and the specific use of proceeds will be reviewed by the Approval Committee.	Allows homeowners to release the equity in their home to pursue financial opportunities through small business/ entrepreneur pursuits, e.g., to start a micro/ small business, or to improve an existing micro/ small business by purchasing equipment.

Target population and expected distribution of proceeds

The target population for the eligible loans will include (but not limited to):

- Borrowers from the low- and middle-income groups
- Borrowers that have traditionally faced limited access to formal lending offered by commercial or specialised banks or microfinance institutions (i.e., borrowers who are first time homeowners; borrowers with informal employment)
- Female borrowers

First Finance commits to the following targets for the expected distribution of proceeds to the eligible loans under the Framework. The exact distribution of proceeds to the eligible loans may

differ from the target distribution breakdown depending on market and business conditions. The targets also form the reporting items as set out in section 2.4.

Criteria	Targets/ Expected distribution	Metric
By category	<ul style="list-style-type: none"> Affordable Housing (Home Loan, Home Improvement Loan, Resident Land Loan): >70% Socioeconomic Advancement and Empowerment (Home Equity Loan, Living Improvement Loan): <30% 	Loan value
By income ⁸	<ul style="list-style-type: none"> Less than \$300: >20% Between \$300 and \$700: >40% Between \$700 and \$1000: <25% More than \$1000: <15% 	Number of borrowers
By home-ownership	<ul style="list-style-type: none"> Borrowers which are first time homeowner: >60% Borrower which are not first-time homeowner: <40% 	Number of borrowers
By gender	<ul style="list-style-type: none"> Female: >50% Male: <50% 	Number of borrowers
By sources of income	<ul style="list-style-type: none"> Informal employment (including self-employed): >50% Other forms of formal employment: <50% 	Number of borrowers

2.2 Process for Social Asset Evaluation and Selection

The Management of First Finance shall be overall responsible that the proceeds of the Social Loan or Bond are allocated to eligible loans in accordance with the Use of Proceeds as described above (“Eligible Social Asset Portfolio”).

Loan evaluation, approval and monitoring would be done as per the standard credit and loan assessment and internal approval and control processes in accordance with First Finance’s Credit Policy, Risk Management Policy, and Environmental and Social (“E&S”) Management System Policy. The procedures will be followed through the life of each respective Social Loan or Bond.

Loan evaluation and selection

In order to ensure that the proceeds of the Social Loans or Bonds are allocated to the Eligible Social Asset Portfolio, the following governance process shall apply:

- The Loan Committee comprised of the Credit Department and Risk Department would be responsible for oversight on executing the loan review and approval in accordance with the relevant policies. The Loan Committee is chaired by the Chief Operation Officer (“COO”).
- The Chief Marketing Officer (“CMO”) will be responsible for ensuring continued alignment between First Finance’s policies and this Social Financing Framework, including any future updates that may be required to this Framework or the other policies, to ensure that the Use of Proceeds criteria remain adhered to.
- The CMO will ensure that the contents of this Framework are communicated to the decision-making bodies and staff within First Finance as needed.

⁸ On defining income levels, it is important to note that there is no universally standardised definition. Different researchers use different criteria depending on the context of their assessment. As the goal is to measure the social impact over time and to account for Cambodia’s developing country status, the proposed categories have been adopted to differentiate among First Finance’s clients with relative lower, middle, and higher incomes. The proposed categories account for the definitions by OECD (<https://www.oecd.org/newsroom/governments-must-act-to-help-struggling-middle-class.htm>) against national income data from the Cambodia Ministry of Planning (<https://nis.gov.kh/index.php/en/14-cses/86-cambodia-socio-economic-survey-2019-20>) and Pew Research Centre (<https://www.pewresearch.org/global/2021/03/18/the-pandemic-stalls-growth-in-the-global-middle-class-pushes-poverty-up-sharply/>). It is noted that the applicable thresholds for income levels can change over time.

- The Deputy Chief Executive Officer (“Deputy CEO”) in his role and responsibility for Lender Relationships for First Finance, will provide an additional layer of oversight to ensure that the policy, procedures and processes are adhered to while making the relevant reporting to the finance parties of the Social Loan and/or Bond.

Loan monitoring

First Finance has a stringent portfolio and client monitoring process for all of its loans. In accordance with the Credit Policy:

- Credit review will be done for all loans within 30 days after disbursement.
- For loans with amount greater than USD 30,000, a credit review will be conducted annually.
- Depending on the loan classification and credit record of the borrower, additional credit reviews may be conducted annually, semi-annually, or even monthly.

If any issues are found during the credit review process, an incident report with supporting documents will be sent from Branch to Credit Department to seek for decision from Credit Committee. Credit Committee will provide its decisions and recommendations, normally in the form of meeting minutes, and send back to the Branch for implementation. Where necessary, such loans will be marked out and subsequently removed from the Eligible Social Asset Portfolio.

First Finance is also part of the national Credit Bureau Cambodia (“**CBC**”) network. From time to time, First Finance will receive notifications from the CBC on its clients, e.g., when credit checks are triggered upon the borrower’s application to another financial institution for a loan. Depending on the nature of the notification, a credit assessment will be conducted by the Credit Department. Where needed, the Branch will be informed to reach out to the relevant borrower to gain a better understanding of his/her financial situation and provide support.

Environmental & Social (E&S) management

First Finance endeavours to ensure and enhance E&S management practices in all its activities in accordance with its E&S Management Policy, with special focus on the following:

- Compliance with applicable laws and regulations
- Labour and working conditions;
- Resource efficiency and pollution prevention; and
- Client protection.

First Finance commits and adheres to the National Bank of Cambodia (**NBC**)’s regulations applicable to banks and financial institutions⁹ relating to E&S commitments.

First Finance recognises that it is possible for borrowers to use proceeds from the loans in a manner which deviates from its original purpose creating E&S risks and controversies, especially for eligible loans under the ‘Socioeconomic Advancement and Empowerment’ category. For example, a borrower may use the proceeds to start a micro business for activities included in the IFC Exclusion List. As part of the standard credit monitoring process – the relevant staff is also responsible for identifying and monitoring the E&S risks or impacts; when the relevant E&S risks have been found, an incident report will similarly be sent for review; where necessary, such loans will also be marked out and subsequently removed from the Eligible Social Asset Portfolio.

⁹ National Bank of Cambodia, https://www.nbc.org.kh/english/legislation/laws_applicable_to_banks_and_financial_institutions.php

In terms of consumer rights protection, First Finance received the Gold Certificate (the highest level) in early of 2022 for applying Client Protection Standards, following a new Client Protection Pathway from Cerise and SPTF. Cerise and SPTF are international non-profit organizations that focus on Social Performance Management and Client Protection. These standards are:

1. Appropriate products design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Mechanisms for complaint resolution
7. Privacy of client data

This certificate provides a clear picture of social impact and commitment to client protection. First Finance seeks to provide fair and inclusive access of its housing mortgages products to all of our customers. We do not discriminate the offering of our financial services based on race, colour, sex, language, religion, political or other opinion, disability, age, marital and family status, sexual orientation, and gender identity.

2.3 Management of Proceeds of Social Loan or Bond

The proceeds of the Social Loan or Bond will be managed by First Finance in a portfolio approach placed in general treasury and shall be earmarked, tracked, and reported as below and as agreed in the financing documentation with the relevant financier(s) in each case. The net proceeds from the Social Loans or Bonds will be allocated exclusively to the Eligible Social Asset Portfolio and evaluation and selection criteria as aforementioned. Where possible, and dependent on the size of the Social Loan or Bond and market conditions, First Finance will target to allocate the proceeds to the Eligible Social Asset Portfolio within 12 months.

As long as there are outstanding Social Loan or Bond proceeds unallocated, the Company will manage the proceeds through its internal system and the balance of the tracked proceeds will be monitored and reviewed every 3 months by the Executive Committee. For the outstanding proceeds which remain unallocated, First Finance may choose to place them in short-term deposits with major banks in Cambodia. First Finance commits to not using the unallocated proceeds to finance any activities which are greenhouse gas (“GHG”) intensive and/or have high E&S adverse impact.

First Finance will maintain an overall register to keep track of the use of proceeds for each Social Loan or Bond in accordance with the allocation reporting requirements set out in Section 2.4. Before each annual reporting date under the Framework, FF will update the register based on the following steps:

1. Confirm the outstanding amount from the proceeds of the Social Loan or Bond
2. Track the total volume of eligible loans by category, i.e., new loans from portfolio growth during the last reporting period
3. Allocate eligible loans to the Social Loan or Bond proportionate to the respective outstanding amount of the Social Loan or Bond
4. Where applicable, remove loans which have ceased to meet the eligibility criteria
5. Calculate the net allocated proceeds for the Social Loan or Bond

If any affordable housing loan from the Eligible Social Asset Portfolio ceases to fulfil the eligibility criteria, First Finance will remove it from the Eligible Social Asset Portfolio as soon as reasonably

practicable. For example, such a situation may arise if through First Finance’s client monitoring processes, it identifies that the client did not use the loans for its original intended use. Such loans will be marked in the portfolio reporting and subsequently removed from the eligible portfolio under this Framework. Where necessary, additional loans will be added to the Eligible Social Asset Portfolio following the process outlined in Section 2.2 to ensure sufficient and timely reallocation.

2.4 Reporting

First Finance commits to transparent reporting on its Social Loans or Bonds.

The Company commits to provide an annual Social Finance Report to the relevant financier(s) during the tenor of the Social Loan or Bond, as to be agreed in the financing documentation with such financier(s) in each case. The full report will be disclosed to such relevant financier(s) only. First Finance will select a subset of reporting metrics from the overall report and this information will be publicly available on <https://www.firstfinance.com.kh/social-impact/>.

The Social Finance Report is expected to cover the following information:

Allocation Reporting

- Total amount of proceeds allocated to the Eligible Social Asset Portfolio
- Examples of Eligible Social Asset Portfolio financed by the Social Loans or Bonds, including their respective descriptions and allocated amounts
- Unallocated amount (if any) and types of temporary investments (e.g., short-term deposits, cash accounts)

Impact Reporting

First Finance will report on the impact of the overall Eligible Social Asset Portfolio. This is expected to include the following information:

- Total amount of the proceeds disbursed to borrowers, with breakdown by:
 - **Category** – affordable housing (Home Loan, Home Improvement Loan, Resident Land Loan); socioeconomic advancement and empowerment (Home Equity Loan, Living Improvement Loan)
- Total number of borrowers, with breakdown by:
 - **Income** – less than USD 300 per month; USD 300-700 per month; USD 700-1000 per month; more than USD 1000 per month
 - **Gender** – male; female
 - **Home ownership** – first-time homeowners; non-first-time homeowners
 - **Sources of Income** – in informal employment including self-employment; in other forms of formal employment
- Any material developments, issues, controversies in relation to the portfolio, including for ESG

First Finance intends to align on a best effort basis its allocation and impact reporting with new guidance from the APLMA, LMA, LSTA and ICMA for the Principles as and when it is published.

3. External Review

First Finance's Framework follows the recommendations of the Principles regarding external review. First Finance has engaged Moody's to provide a Second Party Opinion to confirm this Framework's alignment with the relevant Principles. The Second Party Opinion, as well as the Social Financing Framework will be made available on <https://www.firstfinance.com.kh/social-impact/>.

At its option, First Finance, on an annual basis, starting one year after the financial close of the Social Loan or Bond may commission an independent third-party assurance report on the tracking and allocation of the proceeds and/or the impact assessment of the Eligible Social Asset Portfolio in relation to this Framework.

Amendment to the Framework

First Finance will update and expand the Framework, as the Principles and market practices evolve.

Related departments will review this Framework on a regular basis, including its alignment to the updated version of the Principles as and when they are released, with the aim of adhering to best practices in the market. Such reviews may result in the Framework being updated and amended. The updates, if not minor in nature, will be subject to the approval process of Framework and will be reviewed by the Second Party Opinion provider.

Any future updated version of this Framework that may exist shall keep or improve on the current levels of transparency and reporting disclosures, including the corresponding review by an external reviewer. The updated Framework, if any, will be published on the corporate website and shall be taken to have replaced this Framework.