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INVESTORS SERVICE

ASSESSMENT
13 December 2022

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First Finance Plc

Second Party Opinion – Social Financing Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to First Finance Plc's social financing framework dated 21 November 2022. First Finance has established its use-of-proceeds framework with the aim to finance projects in two eligible social categories — affordable housing, and socioeconomic advancement and empowerment. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles (SBP) 2021 (including the June 2022 Appendix 1), and the Loan Market Association, the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Social Loan Principles 2021. The framework also demonstrates a significant contribution to sustainability.

Sustainability quality score

SQS2

SQS5 Weak | SQS4 Intermediate | SQS3 Good | SQS2 Very good | SQS1 Excellent

Alignment with principles
USE OF PROCEEDS

Overall alignment

Not aligned | Partially aligned | Aligned | Best practices

FACTORS	ALIGNMENT
Use of proceeds	
Evaluation and selection	
Management of proceeds	
Reporting	

Contribution to sustainability

Overall contribution

Poor | Limited | Moderate | Significant | High

Expected impact
Relevance and magnitude

ADJUSTMENTS	
ESG risk management	No adjustment
Coherence	No adjustment

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of First Finance's social financing framework, including the framework's alignment with the ICMA's SBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's Social Loan Principles 2021. Under its framework, the company plans to issue use-of-proceeds social bonds and obtain use-of-proceeds social loans to finance projects in two social categories — affordable housing, and socioeconomic advancement and empowerment — as outlined in Appendix 2 of this report. The framework applies to First Finance.

Our assessment is based on the last updated version of First Finance's framework on 21 November 2022, and our opinion reflects our point-in-time assessment of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

First Finance's framework was set up with support from GuarantCo Limited through its parent entity Private Infrastructure Development Group's technical assistance facility.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

First Finance Plc is a Cambodian non-deposit-taking microfinance institution (MFI) that was granted its license on 23 April 2009 by the National Bank of Cambodia, becoming the first financial institution in the country to specialise in housing finance. In 2022, First Finance had operations in eight provinces across Cambodia, including Phnom Penh, Kampot, Kampong Cham, Siem Reap, Banteay Meanchey, Battambang, Phnom Prek and Kampong Speu. As of end July 2022, the company had 1,820 active clients and its loan portfolio totalled $30.5 million.

The company focuses on providing long-term housing loans to underserved low- and middle-income Cambodian households that have little-to-no access to formal housing finance services.

Strengths

» Clearly defined and relevant social objectives associated with all eligible categories

» Social benefits are measurable and have been quantified ex ante for all projects

» Proceeds management is in line with market practice, which allows proper allocation to projects

» Short allocation period of no more than 12 months

Challenges

» Monitoring of the continued compliance of eligible loans throughout the life of the bond/loan is only conducted for loans above $30,000, which is not likely to cover most of the loans

» While the issuer may commission an independent third-party assurance report on the tracking and allocation of the proceeds, it has not provided a firm commitment within its framework

Alignment with principles

First Finance's social financing framework is aligned with the four components of the ICMA's SBP 2021 (including June 2022 Appendix 1) and the LMA/APLMA/LSTA's Social Loan Principles 2021:

- ☐ Green Bond Principles (GBP)
- ☑ Social Bond Principles (SBP)
- ☐ Green Loan Principles (GLP)
- ☑ Social Loan Principles (SLP)
- ☐ Sustainability-Linked Bond Principles (SLBP)
- ☐ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned | Partially aligned | Aligned | **Best practices** ▼

Clarity of the eligible categories – BEST PRACTICES

The company has clearly and comprehensively communicated the nature of expenditure, eligibility and exclusion criteria for each type of eligible loan. For example, borrowers of the company's "Home Loan" can receive up to 80% of the home's value under the loan, with a repayment term of up to 20 years. The requirements to be met by loan applicants, for instance, credit history and age, have been set out in the framework, and loan proceeds cannot be used to finance activities on the International Finance Corporation (IFC) Exclusion List.[1] The target population is also clear and includes low- and middle-income individuals, with an additional focus on more vulnerable individuals within this group. The company has set targets for the distribution of eligible loans, such that low-income borrowers would account for more than 20% of the proceeds, high-income borrowers less than 15% and middle-income borrowers the remaining, with a higher target set for the lower end of the middle-income range. The company is also targeting more than 50% of proceeds to be extended to informal workers and more than 50% to be extended to women. The company has defined income class based on the definition used by the Organisation for Economic Co-operation and Development (OECD).[2] First Finance has disclosed that all loans will support activities in Cambodia, including, but not limited to, regions where the company already has operations.

Clarity of the social objectives – BEST PRACTICES

The company has clearly outlined the social objectives associated with the eligible categories, which include providing access to safe and affordable housing, and improving socioeconomic outcomes in Cambodia. The eligible categories are relevant to the social objectives to which the company aims to contribute to. The company has referenced the UN Sustainable Development Goals (SDGs) — including SDG1 (No poverty), SDG8 (Decent work and economic growth) and SDG11 (Sustainable cities and communities) — in articulating the objectives of the eligible categories. The objectives are therefore coherent with the recognised international standards.

Clarity of the expected benefits – BEST PRACTICES

The company has identified clear expected social benefits for the eligible categories and these are relevant based on the projects likely to be financed under the categories. The benefits are measurable and the issuer has estimated ex ante the quantitative benefits for the categories. The company will report these quantitative benefits in its ongoing reporting. The company will only use the proceeds for new loans.

Best practices identified

- Eligibility criteria are clearly defined for all project categories
- Objectives set are defined, relevant and coherent for all project categories
- Relevant benefits are identified for all project categories
- Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- Commitment to transparently disclose the share of proceeds used for refinancing, where feasible
- Commitment to transparently communicate the associated look-back period(s), where feasible

Process for project evaluation and selection

Not aligned | Partially aligned | Aligned | Best practices

Transparency and quality of process for defining eligible projects – ALIGNED

The company has established a process for determining the eligibility of projects, with granular decision-making criteria formalised in its public framework and internal documentation. The process involves internal expertise and will be traceable through internal documentation.

Project eligibility will be overseen by a loan committee, which comprises individuals with relevant expertise from the credit and risk departments. These individuals have clearly defined roles and responsibilities, and will collectively oversee the proposal, selection and validation of eligible loans. The company has documented the details of the credit monitoring and re-evaluation process in its internal documentation. Under this process, all loans will be reviewed within 30 days of disbursement to ensure compliance with the eligibility and exclusion criteria. Subsequently, only loans above $30,000 will continue to be monitored throughout their life to ensure compliance with the eligibility and exclusion criteria, and this is unlikely to cover most of the loan portfolio. While the number of eligible loans could be large, continuous monitoring for all loans would support the company's ability to ensure that they still comply with the eligibility criteria. The company has formalised a clear action plan for replacing loans that it identifies through its credit monitoring process as no longer meeting the relevant eligibility criteria. Although we note the company's commitment to remove any loans that no longer fulfill the eligibility criteria, the lack of full portfolio monitoring will represent a challenge in adhering to this commitment.

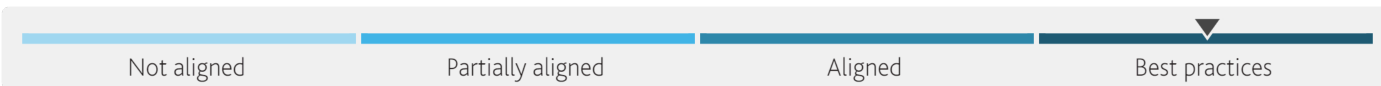
Environmental and social risk mitigation process – BEST PRACTICES

The company has established a comprehensive environmental and social risk management system, integrated within its credit monitoring process, including monitoring of controversies and the identification and management of social and environmental risks. This process is included in summary format in the company's framework and articulated in more granular detail in internal documentation. The risk mitigation process includes details on how the company will identify such risks and also the measures in place to correct issues and prevent future challenges. The company also applies the Client Protection Standards[3] created by CERISE and the Social Performance Task Force (SPTF) to identify and address significant potential social risks related to client protection.

Best practices identified

- The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- The process for project evaluation and selection is traceable
- Material environmental and social risks for most project categories are identified
- Presence of corrective measures to address environmental and social risks across projects
- ESG controversies are monitored

Management of proceeds



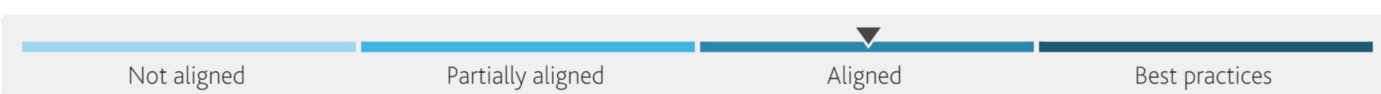
Allocation and tracking of proceeds – BEST PRACTICES
The company has defined a clear process for the management and allocation of bond proceeds in its publicly available framework. Net proceeds from any bonds issued or loans obtained under the framework will be placed in the company's general treasury account and will be separately tracked under a formalised internal process to ensure that the proceeds are used for eligible projects only. The company will track how the proceeds have been matched to eligible categories and projects, and the balance of the tracked proceeds will be monitored and reviewed every three months. The maximum allocation period will be 12 months.

Management of unallocated proceeds – BEST PRACTICES
Temporarily unallocated proceeds may be managed in short-term deposits. In the event a loan becomes ineligible, the company has formalised in its framework that it will remove the loan and replace it with a new eligible loan. The company has committed to not invest in carbon-intensive activities and activities with a highly adverse environmental or social impact.

Best practices identified

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting



Transparency of reporting – ALIGNED

The company will report annually on the use of proceeds and in the event of significant developments, until the maturity of the bond or repayment of the loan. The report will be available to investors and lenders only. In the framework, the company has disclosed the indicators to be included in the reporting.

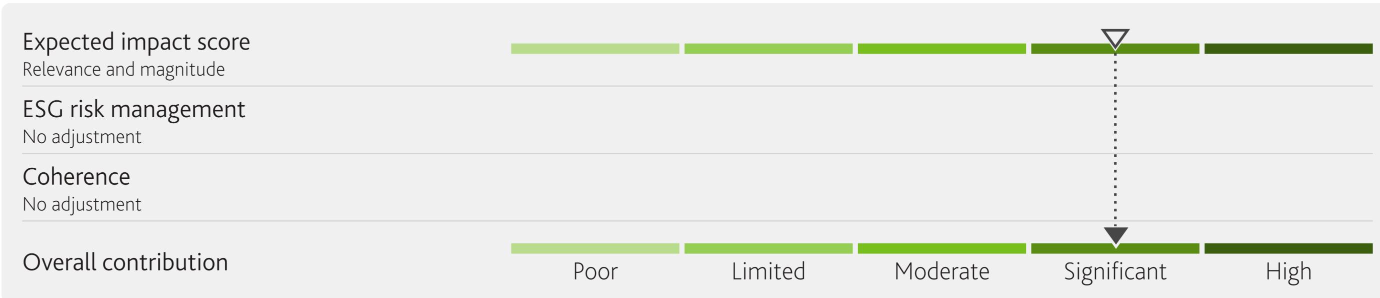
The company has identified relevant social reporting indicators for each eligible category and has clearly disclosed these indicators in its framework. The reporting indicators include the total amount of proceeds disbursed to borrowers by the eligible category, and the total number of borrowers by income threshold, gender, employment type and first-time homeowner status. The company has not committed to obtaining an independent external review to verify the tracking and allocation of funds to eligible projects or categories. However, we note that the company has expressed to us its intention to do so. The company has committed to include, when feasible, case studies on selected loans to report on the impact, which we consider a market best practice.

Best practices identified

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

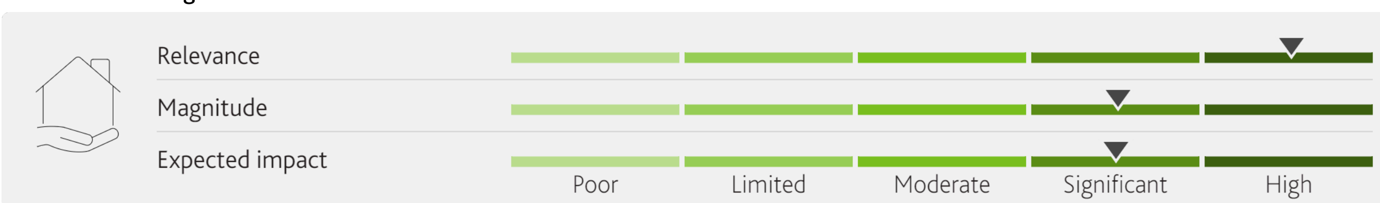
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible project categories on social objectives is significant. Based on disclosure in the framework, we expect a larger proportion of proceeds from forthcoming issuances to be allocated to the affordable housing category than the socioeconomic advancement and empowerment category. Thus, we have assigned a higher weight to the former category when assessing the overall structure's contribution to sustainability. A detailed assessment by eligible category is provided below.

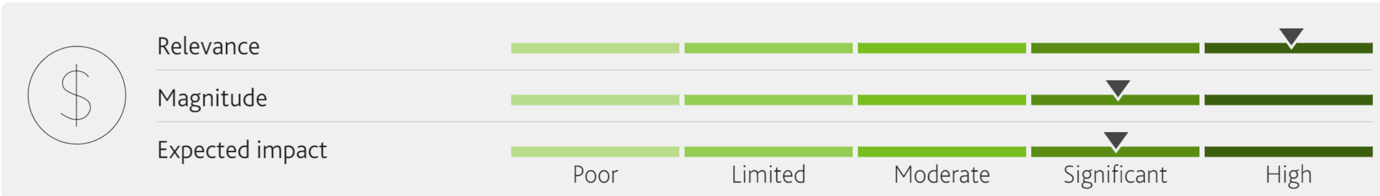
Affordable Housing



The eligible project category, which will finance housing loans, addresses a highly important social issue for the sector in Cambodia. Financial inclusion in Cambodia is low. Only about 33% of the population aged 15 and above have access to financial institutions, which is lower than the average of around 59% for lower-middle-income countries.[4] Low- to middle-income individuals — many of whom are nonsalaried — often have limited access to formal housing financial services because of the lack of required documentation, the lack of physical access to a financial institution and an inability to meet the required financial criteria. The company also accepts soft titles[5] as collateral, which require greater expertise in evaluating legality than hard titles[6], and are hence not widely accepted by commercial banks in Cambodia.

The company's investment under this category will increase access to housing loans for the underserved population as requirements on collateral, income level and proof of income for the loans specifically cater to low- to middle-income Cambodians. Additionally, the company has not introduced monthly fees for borrowers following the interest rate cap imposed on Cambodian microfinance institutions in 2017 by the central bank, and charges only upfront fees on top of the loan interest rate. The company also provides complementary housing-related consultancy services to the public, helping clients and potential clients better understand housing finance and the property purchase process, and also providing security for clients by ensuring the legitimacy of their housing and land purchases. The company's credit process incorporates client protection measures in line with the Client Protection Standards created by CERISE and SPTF. However, because the company only conducts subsequent annual credit reviews for loans amounting to more than $30,000, the overindebtedness of clients, which is a significant social risk for the company, is not monitored for the full loan portfolio. Although the company has processes in place to help ensure the affordability of loans to clients at the application stage, and credit officers are available to have conversations with clients at any stage to address concerns, the company does not actively engage clients in continuing financial literary education, which can help reduce the risk of client overindebtedness in the future.

Socioeconomic Advancement and Empowerment



The eligible project category, which will finance home equity loans to homeowners, similarly addresses financial inclusion challenges faced by low- to middle-income individuals in Cambodia, facilitating the improvement in living standards for borrowers. Access to home equity loans for these individuals in Cambodia is limited as well because of the reasons described above under the affordable housing category. Compared with non-collateralised borrowing, home equity loans provide a more affordable financing option for borrowers to improve their quality of life or pursual of business opportunities, or both, because interest rates are lower on a relative basis. Client protection for borrowers of loans under this category is managed under the same process described above under the affordable housing category. Similarly, annual credit reviews for home equity loans are only conducted for loans amounting to more than $30,000, which does not allow for the continued management of the overindebtedness of clients and assurance that loan proceeds are not used to fund ineligible activities.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. The company has a robust ESG risk management system in place for which senior management and the board risk committee have ultimate responsibility. The company applies the Client Protection Standards created by CERISE and SPTF, and has received the highest level of certification in March 2022. The standards cover social risks that are material to microfinance institutions under 8 Principles,[7] including appropriate product design and delivery, and the prevention of overindebtedness. The company is committed to not financing activities listed on the IFC Exclusion List, such as the manufacturing of weapons and the production or trading of forestry products that do not come from sustainable sources.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under First Finance's framework align with the company's sustainability priorities and vision to help families in Cambodia live with dignity, security, happiness and stability through home ownership. According to the 2021 Sustainable Development Report,[8] Cambodia still faces challenges with regard to achieving SDG1 (No poverty), major challenges with regard to achieving SDG8 (Decent work and economic growth) and significant challenges with regard to achieving SDG11 (Sustainable cities and communities).

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The two eligible categories included in First Finance's framework are likely to contribute to three of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 1: No Poverty	Affordable Housing Socioeconomic Advancement and Empowerment	1.4: Ensure all have equal rights to economic resources, access to basic services, property ownership and finance
GOAL 8: Decent Work and Economic Growth	Socioeconomic Advancement and Empowerment	8.3: Promote policies that support productivity, job creation, entrepreneurship, innovation, and encourage the growth of SMEs
	Affordable Housing Socioeconomic Advancement and Empowerment	8.10: Strengthen the capacity of domestic financial institutions to expand access to insurance and financial services for all
GOAL 11: Sustainable Cities and Communities	Affordable Housing	11.1: Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the company's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible categories in First Finance's framework

Eligible Category	Description	Sustainability Objectives	Impact Reporting Metrics
Affordable Housing	On-lending by First Finance towards end-users for construction, refurbishment, and purchase of affordable housing and residential land	Safe and affordable housing	- Total amount of the proceeds disbursed to borrowers, with breakdown by category - Total number of borrowers, with breakdown by income thresholds, gender and source of income - Total number of first-time homeowners and non-first-time homeowners
Socioeconomic Advancement and Empowerment	On-lending by First Finance towards end-users for home equity loans	To improve the borrowers' socioeconomic outcomes	- Total amount of the proceeds disbursed to borrowers, with breakdown by category - Total number of borrowers, with breakdown by income thresholds, gender and source of income

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 IFC Exclusion List, 2007

2 Under Pressure: The Squeezed Middle Class, 1 May 2019

3 Client Protection Standards

4 The Global Findex Database, 2021

5 Property ownership document issued and recognised by various levels of local authorities (that is, village, commune/sub-district and district).

6 Property ownership document issued and recognised by all local authorities (that is, village, commune/sub-district and district) and the Cadastral Office.

7 The 8 Principles are: 1. Appropriate Product Design & Delivery, 2. Prevention of Over-Indebtedness, 3. Transparency, 4. Responsible Pricing, 5. Fair & Respectful Treatment of clients, 6. Privacy of Client Data, 7. Mechanisms for Complaints Resolution, 8. Governance & HR

8 Sustainable Development Report, 14 June 2021

REPORT NUMBER 1346933

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