

Second Party Opinion

## Bayport Management Ltd.'s Social Financing Framework

March 28, 2022

Established in 2001, Bayport Management Ltd. (Bayport) is a Mauritius-listed company that provides unsecured credit products and services through its subsidiaries in various African and Latin American countries, including Botswana, Colombia, Ghana, Mexico, Mozambique, South Africa, Tanzania, Uganda, and Zambia. Bayport's services comprise customized credit, savings, and insurance solutions for individuals and small and midsize enterprises (SMEs). The company operates an extensive network of branches and on-site agents, complemented by online platforms.

In our view, Bayport's Social Financing Framework, published on March 28, 2022, is aligned with:

- ✓ Social Bond Principles, ICMA, 2021
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2021

This second party opinion does not assess the alignment of any individual transaction with the Principles listed above.

### Issuer's Sustainability Objectives

Bayport aims to provide financial solutions that meet the needs of an inclusive and broad customer base. The company created its social financing framework to allow its subsidiaries and legal entities serving customers in various Latin American and African countries to issue social bonds and social loans that support its lending to social and sustainable activities.

Through its social financing framework, Bayport aims to provide credit to low-income, underserved individuals, or individuals in marginalized communities, so that they can pay for essential services, including health and education costs, as well as incremental housing improvements. Bayport also provides funding to microbusinesses and SMEs owned by low-income individuals, with the objective of enabling people to expand their businesses and generate employment in their communities

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## Second Party Opinion Summary

### Use of proceeds

**Alignment**  Bayport's social financing framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

**Score** Not aligned Satisfactory **Strong** Advanced

Bayport commits to using the net proceeds of the debt instruments issued under its social financing framework to exclusively finance or refinance eligible social projects within the project category of access to financial services, where traditional financial services do not exist or do not serve its target population, thereby enhancing financial inclusion. The group has also identified the high-level benefits of eligible social projects, linking those benefits to the U.N.'s Sustainable Development Goals (SDGs). Moreover, Bayport commits to disclose the proportion of funds used for financed and refinancing.

### Process for project evaluation and selection

**Alignment**  Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

**Score** Not aligned **Aligned** Strong Advanced

Within the framework, Bayport clearly outlines the process and criteria to select eligible social projects. Bayport also stipulates that all the loans it provides are assessed in terms of strict affordability rules to ensure that loans are only granted to individuals who can repay them. In our view, the fact that affordability is considered in the process, and assuming the affordability rules are developed and strictly implemented, reduces the risk of consumer over-indebtedness or that Bayport gives out loans that might lead to high rates of default. The framework includes a commitment to not knowingly provide loans intended to finance certain activities including fossil fuel exploration and distribution, tobacco, or terrorism.

### Management of proceeds

**Alignment**  Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Bayport commits to tracking the receipt and use of proceeds allocated to eligible social projects through an internal accounting system that will ensure that eligible loans financed by a social bond are adequately identified. The company will also ensure that the level of allocation for eligible loans either matches or exceeds the balance of net proceeds from outstanding social loans and bonds. Unallocated proceeds will be invested in a money market account with a tier one banking institution.

### Reporting

**Alignment**  Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

**Score** Not aligned **Aligned** Strong Advanced

Bayport commits to disclosing the allocation of funds across eligible projects annually through its allocation report, which will be subject to independent third-party review. Furthermore, the company commits to report yearly on selected impact indicators, through its annual social impact report.

# Framework Assessment

## Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

### Commitments score



We consider Bayport's overall use of proceeds commitments to be strong.

Bayport has committed to allocating the net proceeds of bonds and loans issued under its social financing framework exclusively to provide financing dedicated to education, health care, housing, and SME support. It aims to provide underserved individuals with access to financial services. Eligible proceeds can be used, for instance, to finance loans to targeted individuals to give them access to health care and education, or to help them make incremental home improvements. The target population is defined in the framework and includes low-income employed individuals who are not able to access mainstream financial services. The proceeds can also be used for employment generation, through the financing of micro businesses and SMEs run by low-income individuals.

We believe all eligible projects listed in the sustainable finance framework will contribute to sustainability objectives and are in line with the relevant categories of the Principles. The framework clearly outlines the social benefits of the eligible projects and links these benefits to the relevant SDGs. Moreover, the framework also specifies a refinancing look-back period of 24 months and includes a commitment that Bayport will disclose the breakdown of proceeds used for financing and refinancing, which we view as a strength of the framework.

## Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

### Commitments score



We consider Bayport's overall process for project selection and evaluation commitments to be aligned.

Bayport's social financing framework clearly outlines the process to select and approve social projects. To ensure that only individuals who can repay the loans and who are part of the target population can receive the loans provided, Bayport has a comprehensive credit review process, including stringent affordability rules. In our view, these rules, if correctly developed and implemented, minimize risks associated with consumer over-indebtedness and high rates of default for loans provided. Under the framework, the selection process includes a review at the inception of the application process to make sure that no environmental or socially exclusionary activities, including the financing of weapons or gambling, are associated with loans provided.

Although the framework does not clearly describe the processes by which it identifies social and environmental risks, it points out that the most relevant social risk linked to the eligible projects financed would be client over-indebtedness. Under the framework, this risk is managed through the affordability rules enforced by Bayport. The company has in place a credit policy, used to evaluate all loans prior to origination and disbursement, that uses factors such as maximum affordability limits and age exclusions. All of Bayport's credit policies are overseen by a board-

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mandated credit committee. The framework also says that environmental risks associated with eligible projects are considered negligible. This reflects the small loan sizes and the client base, which consists of individuals. This view of negligible impact aligns with the type of loans provided and their expected effects on the environment.

However, we acknowledge that the framework does not use official definitions or external data to define the target populations for all eligible projects, which constrains our assessment.

### Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

Bayport commits to tracking the net proceeds from financing issued under the framework using internal accounting systems and ensuring that eligible loans financed are appropriately identified. Additionally, Bayport will ensure that the level of allocation for the eligible loans matches or exceeds the balance of net proceeds from outstanding social bonds. Bayport will manage the unallocated proceeds by temporarily investing the funds in a money market account with a tier one banking institution.

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Bayport's Social Financing Framework is aligned with this component of the Social Bond Principles and Social Loan Principles.

### Disclosure score

Not aligned

**Aligned**

Strong

Advanced

We consider Bayport's overall reporting practices to be aligned.

Bayport commits to reporting annually on the allocation of proceeds until all proceeds are fully allocated. Furthermore, Bayport will also publish on its corporate website an annual impact report reflecting the impact of the social bonds and loans issued under the framework. Impact reporting will include the total amount of proceeds allocated to eligible loans and bonds, the number of eligible bonds and loans, the balance of unallocated proceeds, the breakdown of new financing versus refinancing, and a series of annual impact indicators, such as the number of individuals provided with access to health care services. We view as positive that the framework includes a commitment to having an independent third party verify the allocation reporting after issuance. Furthermore, given that social taxonomies are still in development, the framework indicates that Bayport will align its reporting to these taxonomies, once they are more established in the market.

We believe the level of sophistication of the social impact indicators is somewhat limited, for instance it does not cover the expected impact of projects financed, but reflects the still-nascent stage of the social financing market.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Bayport's Social Financing Framework intends to contribute to the following SDGs:

### Use of proceeds

### SDGs

Access to essential services -  
financing and financial services



1. No poverty\*



4. Quality education\*



8. Decent work  
and economic  
growth\*



10. Reduced  
inequalities\*

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\*The eligible project categories link to these SDGs in the ICMA mapping.

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