

Sustainability Framework Alignment Opinion

SA Taxi Sustainable Bond Framework

May 24, 2021

Sustainability Bond Framework Overview

In our view, SA Taxi's sustainability bond framework, published on May 24, 2021, is aligned with the four components of the Green Bond Principles 2018 (GBP) and the four components of the Social Bond Principles 2020 (SBP), collectively referred to as the Sustainability Bond Guidelines. SA Taxi Holdings Proprietary Ltd., with its group of companies (SA Taxi or the group), is a subsidiary of Transaction Capital Ltd. (TC Group). SA Taxi provides financing to minibuses, micro, very small, small, or medium enterprises (SMMEs) in South Africa. It has developed a sustainable bond framework to define and select eligible green and social projects that support its financing efforts in the minibuses taxi industry.

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Framework Alignment Overview



1. Use of proceeds

SA Taxi's sustainability bond framework is aligned with this component of the Principles. The proceeds of bonds issued by the group's associated special-purpose vehicles (SPVs) under the framework are committed to eligible green and social projects, for financing or refinancing new and existing loans that exclusively belong to categories defined by the GBP and SBP.



2. Process for project evaluation and selection

SA Taxi's sustainability bond framework is aligned with this component of the Principles because it outlines the process through which eligible projects are selected and approved. The finance and credit departments are responsible for screening eligible projects against eligibility criteria and internal policies. The CFO is responsible for governing the sustainability bond framework.



3. Management of proceeds

SA Taxi's sustainability bond framework is aligned with this component of the Principles. The group will track and manage the proceeds using its internal management system and ensuring traceability of unique eligible loans to the specific associated SPV. SA Taxi also commits to achieve a level of allocation that matches or exceeds the balance of net proceeds from green, social, and sustainable bonds outstanding.



4. Reporting

SA Taxi's sustainability bond framework is aligned with this component of the Principles. The group will report on the allocation of proceeds and the environmental and social impacts of loans financed. Allocation and impact reporting will happen annually until the full allocation of proceeds, and be made available on the TC Group website.

Issuer Sustainability Objectives

SA Taxi provides financing to the minibus taxi industry, a critical segment of public transportation in South Africa. The group highlights seven areas of impact within its sustainability objectives: empowering SMMEs through financial inclusion; promoting social inclusion by accessible transportation services and economic opportunities; working for a better public transportation industry for all stakeholders; promoting climate resilience; hiring inclusively; empowering staff; and being a good corporate citizen.

To achieve these objectives, SA Taxi finances SMMEs that otherwise might not have access to finance from traditional credit issuers and provides financing for initiatives that promote improved fuel efficiency. The group aligns its seven areas of impact to five of the United Nations Sustainable Development Goals (SDGs) highlighting its commitment to addressing local South African issues of sustainable progression.

Framework Description

1. Use of proceeds

The Principles stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects respectively. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control. According to the SBP, the following eligible project categories capture the most common social issues: 1) affordable basic infrastructure, 2) access to essential services, 3) affordable housing, 4) employment generation, and programs designed to prevent and/or alleviate unemployment, 5) food security and sustainable food systems and 6) socioeconomic advancement and empowerment.



We regard SA Taxi's sustainable bond framework as aligned with the use of proceeds component of the GBP and SBP. The group will conduct issuances under this framework through its associated SPVs. Bond proceeds are committed to eligible green and social projects, to finance new and existing loans that exclusively belong to categories defined by the GBP and SBP.

The green category of climate resilience in SA Taxi's framework meets the GBP's objective of pollution prevention and control. By providing financing for replacement of aged vehicles and refurbishment of existing vehicles to improve fuel efficiency, the group's loans under this category contribute to the reduction of air emissions. However, SA Taxi's framework provides financing to fossil fueled minibuses, including financing for replacing petrol vehicles with diesel ones. Given the challenges of the local South African context for the development of alternative fuels, including absence of infrastructure to support them, and because the category is not referencing at any point investment labeled as clean transportation, we regard this category as admissible.

The three social categories in SA Taxi's framework meet social objectives in line with the SBP. By financing or refinancing loans to SMMEs in the eligible categories of Better Public Transportation, Financial Inclusion, and Social Inclusion, the group addresses the social issues of access to affordable basic infrastructure, access to essential services, employment generation, and socioeconomic advancement and empowerment.

SA Taxi's eligible social categories aim to support specific target populations in South Africa. The target population for each category is well defined following local official definitions and governmental policies and programs. Some of the groups eligible under the social categories are excluded communities, financially excluded SMMEs, and previously disadvantaged individuals, as per the Broad-Based Black Economic Empowerment Principles.

2. Process for project evaluation and selection



To align with the second component of the Principles, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

We regard SA Taxi's sustainable bond framework as aligned with the process for selection and evaluation of the GBP and SBP. The group's sustainable bond framework outlines its process to identify and approve green and social projects.

SA Taxi's finance and credit departments are responsible to screen loans against the eligibility criteria. Besides complying with the criteria set out for each category, eligible loans must comply with the credit screening of internal policies, credit scoring, and affordability assessments overseen by the Credit Committee.

SMMEs financed under the framework should fall within the definition of National Small Enterprise Act, No. 102 of 1996, as amended from time to time, and comply with the specific requirements of the applicable green or social category. Eligible loans for the green category of climate resilience must be directed to business activities supporting reduced air emissions. Eligible social loans for the categories of better public transportation, financial inclusion, and social inclusion must follow the criteria defined for the target population under each social category.

SA Taxi's CFO governs the sustainable bond framework, overseeing the overall approach's consistency and alignment.

3. Management of proceeds



The Principles require a seeker of finance to monitor the net proceeds of all outstanding green and social bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The Principles also require a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

We regard SA Taxi's sustainable bond framework as aligned with the management-of-proceeds component of the GBP and SBP.

The group will track proceeds through its internal accounting system. Through the management of proceeds, SA Taxi will ensure the allocation of a unique eligible green or social loan to a particular SPV, ensuring that eligible loans will not benefit from more than one issuance at any given time.

The group also commits to achieve a level of allocation that matches or exceeds the balance of net proceeds from green, social, and sustainable bonds outstanding. It will hold or invest the unallocated net proceeds as cash and cash equivalents.

4. Reporting



The Principles stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

Sustainability Framework Alignment Opinion

We regard SA Taxi's sustainable bond framework as aligned with the reporting component of the GBP and SBP. The group commits to annual allocation and impact reporting on environmental and social considerations until full allocation. Allocation and impact reporting will be available on the TC Group's website.

Allocation reporting will include information on the amount of proceeds allocated toward eligible projects, the remaining balance of unallocated proceeds, the number of eligible loans, and the proportion of new financing to refinancing.

Impact reporting will be done at least at an eligible category level. SA Taxi has provided examples of indicators that might be covered in impact reporting, including: The number of individuals commuting (daily and annually) in minibus taxis financed by the group; the number of previously disadvantaged individuals financed; the percentage of loans provided to black-owned SMMEs; the percentage of loans provided to female-owned SMMEs; the fleet's total greenhouse gas (GHG) emissions; and the change in energy consumptions. The underlying methodology and assumptions for calculating the impact indicators will be disclosed under the report.

The information disclosed under the report will be subject to data availability from clients, privacy and confidentiality agreements, or relevant regulation.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the Principles and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

SA Taxi's sustainability bond framework follows the voluntary guidelines provided by the Principles. In some cases, the framework goes beyond the Principles' requirements. The framework's key strengths are as follows:

- The group follows the SBP's recommendation to appoint an independent auditor to verify the allocation of proceeds financed under the social bond framework, thereby ensuring proceeds are appropriately allocated and enhancing the level of transparency within the framework.
- It follows the SBP's recommendation to disclose the share of financing compared with refinancing, and clarification as to which projects will receive refinancing.

Offsetting the above strengths are the following:

- SA Taxi's green category of climate resilience provides financing to fossil fuel vehicles, including replacement of petrol vehicles with diesel vehicles. However, S&P Global Ratings acknowledges the challenges of the local South African context for alternative fuel vehicles.
- The group's green category of climate resilience does not provide an eligibility threshold of emissions for eligible vehicles. However, it commits to reporting the fleet's total GHG emissions.

Conclusion

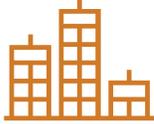
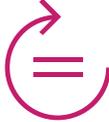
Based on our assessment of the contents of SA Taxi's sustainability bond framework, we regard this framework as aligned with the four components of the Principles, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of bond to eligible green and social projects, as defined by the seeker of finance;
- Use clear "green" and "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Regular reporting of the environmental and social impact and use of proceeds.

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and formed an agenda for achieving sustainable development by the year 2030. We use the International Capital Market Association (ICMA) SDG mapping for this part of the report. We acknowledge that the ICMA 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.

SA Taxi's Sustainable Bond Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
<i>Affordable basic infrastructure</i>			
	*11. Sustainable cities and communities	8. Decent work and economic growth	10. Reduced inequalities
<i>Access to essential services</i>			
	*8. Decent work and economic growth	*10. Reduced inequalities	
<i>Socioeconomic advancement and empowerment</i>			
	*8. Decent work and economic growth	*10. Reduced inequalities	
<i>Employment generation including through the potential effect of SMME financing</i>			
	*8. Decent work and economic growth		
<i>Pollution prevention and control</i>			
	13. Climate action		

*We could link the eligible project categories to those SDGs based on the ICMA mapping

Sustainability Framework Alignment Opinion

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