URBAN UBOMI1

RF LIMITED

Urban Ubomi Social Bond Report

31 May 2022
TUHF Limited

Background

- On 23 March 2021, TUHF Limited listed its Urban Ubomi 1 (RF) Limited R2 500 000 000 [1]Mortgage-Backed Securities Programme on the Johannesburg Security Exchange (JSE). R609[2] million worth of notes were issued in the first issuance under the programme. All proceeds from this were issued under the TUHF Sustainable Bond Framework November 2020.
- On 14 February 2022, a further tap issuance of R440 million was done under the Urban Ubomi 1 programme.
- The total proceeds from the initial issuance and subsequent tap issuance were allocated to support access to finance for property entrepreneurs for inner-city redevelopment projects and to contribute to urban regeneration and entrepreneurial development in South Africa.
- TUHF Limited ("TUHF") has commissioned ISS ESG to provide a Second Party Opinion ("SPO") on its Sustainable Bond Framework of November 2020 by assessing three core elements to determine the sustainability quality of the instrument:
- TUHF's Sustainable Bond Framework (November 2020 version) benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines.
- The eligible categories' assessment against the UN Sustainable Development Goals.
- TUHF's indicative ESG performance, based on and considering ISS ESG's Research methodology.
- ISS-ESG found that TUHF's rationale for issuing green, social and sustainability bonds align with the company's sustainability strategy. ISS ESG finds that the eligible projects under this Sustainable Bond Framework can support TUHF's lending to green and social projects. In the context of its framework, the issuer sets clear and credible sustainability investment criteria for its investments under the framework.
- The funds raised were entirely allocated to more than 176 loans, 111 of which were to Small, Medium and Micro Enterprise and 96 of which were to previously disadvantaged individuals.
- ISS ESG evaluated the Framework and the sustainability quality of the projects underlying the Use of Proceeds (UoP) categories.
- ISS ESG assessed the alignment with the Social Bond Principles applicable at the Frameworks publication date.
- Social Bond Asset Categories have been identified by TUHF as aiming to increase the positive impacts on society. The Sustainable Bond Framework allows for a broad range of categories (see table for categories included in the current Social Bond Asset Portfolio

[1] The South African rand, or simply the rand, (sign: R; code: ZAR) is the official currency of the Southern African Common Monetary Area. In this document it will be represented by R.

The purpose of this document is to provide full transparency regarding the allocation of funds and the impact of projects funded within the first year of issuance, also referred to as the reporting period from 1 April 2021 to 31 March 2022, as specified in the "TUHF Sustainable Bond Framework November 2020" (the "Framework"). This report will be available on TUHF's website:
https://www.tuhf.co.za/investors/

ISS ESG has released an External Review on the Urban Ubomi Social Bond Report in which it confirms the positive contribution to the sustainable development and its alignment with the SBPs

In particular, as of 08 April 2022, ISS ESG's Opinion is as follows:

1. **Alignment with the issuer's commitments set forth in the Framework-** ISS ESG finds that TUHF Limited's Urban Ubomi Social Bond Report meets the issuer's commitments set forth in the underlying Sustainable Bond Framework published November 2020. The Framework was assessed by ISS ESG as aligned with the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines as of 25 November 2020.

2. **Alignment with the WTHFIR-**ISS ESG finds that TUHF Limited's Urban Ubomi Social Bond Report meets the issuer's commitmentsISS ESG finds that the Urban Ubomi Social Bond Report is in line with ICMA's Working Towards a Harmonized Framework for Impact Reporting for Social Bonds (WTHFIR), updated as of June 2020. The issuer follows core principles and where applicable key recommendations. The issuer reports for the first time after one year from the Social Bond issuance dated 23.03.2021. Proceeds are allocated to projects meeting the eligibility criteria set forth in the underlying Framework under the categories: Affordable Housing, Financial Inclusion, Improved Access to Funding for SMEs, and Micro Businesses.

3. **Disclosure of proceeds allocation and soundness of reporting indicators-**ISS ESG finds that the allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories as proposed in the Framework . The indicators are relevant and align with the reporting criteria set forth in the issuer's Framework. Data sourcing, methodologies of quantitative assessment and granularity reflect best market practices.

The Opinion issued by ISS ESG on the Report is available on the TUHF's website:
https://www.tuhf.co.za/investors/

Introduction

TUHF was started with the overarching objective to provide access to finance for property entrepreneurs for inner-city redevelopment projects and to contribute to urban regeneration and entrepreneurial development in South Africa. TUHF is a non-bank financial services company that borrows money from the capital markets and invests it in inner-city areas, extending finance to entrepreneurs who want to grow their businesses. In addition, TUHF is an impact-focused lender with a track record of successfully financing inner-city residential buildings developed, owned, and operated by small to medium (SMME) property entrepreneurs (Borrowers).

TUHF targets property entrepreneurs in the affordable housing market who repurpose and densify existing buildings in inner-city areas. Within these contexts, TUHF's business model is directed at ordinary South African men and women who live and/or work in urban areas.

Over the years, sustainability in all three dimensions – financial, environmental, and social has emerged as a key determinant of TUHF's long-term business success.

TUHF's key intended social impact is:

- Increased delivery of quality affordable housing stock in liveable, walkable, and well-located urban areas; and
- Sustainable property-based employment, both direct and indirect due to the impact of local economic multipliers, results in and contributes to employment creation in the areas where TUHF provides finance.

TUHF's loan investments further benefit end-users of the affordable housing projects who are then able to live in close proximity to their places of work and can easily access transport and available amenities. End-users are also able to sustainably contribute to local economic development as they consume a wide range of services close to where they live.

Urban Umbomi Social Bond Main Characters

Initial Issuance[3] in ZAR

CLASS	CLASS A1	CLASS A2	CLASS B	CLASS C
Ratings Assigned	AAA(za)(sf)	AA+(za)(sf)	A-(za)(sf)	BBB(za)(sf)
JSE Listing Code	UU1A01	UU1A02	UU1B01	UU1B02
Rate type	Floating	Floating	Floating	Floating
Margin for Interest Rate	1,55%	2,20%	2,50%	3,80%
Margin for Coupon Step-Up Rate	2,02%	2,86%	3,25%	4,94%
Outstanding Principal Amount at Issue Date	R27 000 000	R283 000 000	R118 000 000	R12 000 000

[3] The rating for the notes issued were rated by Global Credit (Pty) Limited (GRC). These Ratings are publicly available on+ the GCR website https://gcrratings.com

Tap Issuance

CLASS	CLASS A4	CLASS A5	CLASS B	CLASS C
Ratings Assigned	AAA(za)(sf)	AA+(za)(sf)	A-(za)(sf)	BBB(za)(sf
JSE Listing Code	UU1A04	UU1A05	UU1B02	UU1C02
Rate type	Floating	Floating	Floating	Floating
Margin for Interest Rate	1,70%	2,35%	2,74%	4,00%
Margin for Coupon Step-Up Rate	2,21%	3,06%	3,56%	5,20%
Outstanding Principal Amount at Issue Date	R27 000 000	R283 000 000	R118 000 000	R12 000 000

Eligibility Criteria

In accordance with the criteria established within the Framework and in compliance with the Social Bond Principles (SBP) issued by the International Capital Market Association (ICMA), TUHF has allocated the net proceeds of the bonds issued under this framework to new and/or existing eligible assets within the categories indicated below. The eligible loans/projects are to be funded in whole or in part by an allocation of the bond proceeds. TUHF is committed to ensuring that a comprehensive due diligence is conducted to ensure compliance with internal standards on each project before allocating the funding. Internal procedures and standards as outlined in the underlying the TUHF Sustainable Bond Framework section project evaluation and selection. The eligibility criteria are summarised as follows:

AFFORDABLE HOUSING		
Eligibility Criteria	**ICMA UoP category**	**Contribution to SDGs**
Financing or re-financing of any project that involves the construction or investment in affordable housing.	Affordable Housing Regeneration of urban areas Increased density and sustainable urban development	
FINANCIAL INCLUSION		
Eligibility Criteria	**ICMA UoP category**	**Contribution to SDGs**
Financing and refinancing of loans to previously disadvantaged individuals[5] based on Broad-Based Black Economic Empowerment principles[6] for investment in rental properties.	Access to essential services Socioeconomic advancement and empowerment	

[4]**Affordable housing**

Affordable housing is defined as a residential building together with its related commercial space where the average monthly rental for the residential units is below the affordable housing rental threshold. The affordable housing rental threshold for 2020 is R 9 000 or less. The threshold will be adjusted by CPI on a yearly basis.

Through the widening gap in housing supply versus demand for inner-city affordable rental accommodation TUHF saw an opportunity to support emerging entrepreneurs, mainly PDIs, to play a developmental and sustainable contribution to the supply of quality affordable rental housing.

[5](South Africa, euphemistic) Belonging or relating to the previously disenfranchised population groups in South Africa, i.e. Blacks, Coloureds, and Indians. See further detail in glossary on TUHF financial inclusion definition.

[6]**Financial Inclusion, Empowerment, Transformation and Inclusive Economic Growth**

Broad Based Black Economic Empowerment (BBBEE) is an important societal objective in South Africa. As a mechanism for urban land and economic reform, TUHF considers the real estate sector as both an ideal arena to promote broad based and sustainable BBBEE and an important initiative to transfer land and a business opportunity into the hands of previously disadvantaged individuals (PDIs.) PDI are defined as belonging or relating to the previously disenfranchised population groups in South Africa, i.e. Blacks, Coloureds, and Indians.

IMPROVED ACCESS TO FUNDING FOR SMES AND MICRO BUSINESSES		
Eligibility Criteria	**ICMA UoP category**	**Contribution to SDGs**
Financing or re-financing of any project that aims to increase access by small-scale and other enterprises, to financial services. **Financing or re-financing of any project that promotes the formalisation and growth of micro, small and medium-sized enterprises.** **Financing or refinancing of enterprises that have less than 10 employees, assets and annual sales of less than USD100 000 each will be considered Micro enterprises, Enterprises that have less than 50 employees, assets and annual sales of less than USD3 000 000 each will be considered Small enterprises or Enterprises that have less than 300 employees, assets and annual sales of less than USD15 000 000 each will be considered Medium enterprises.[7]**	Employment generation including through the potential effect of SME financing and microfinance Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality) Local economic development?	1 NO POVERTY 10 REDUCED INEQUALITIES 8 DECENT WORK AND ECONOMIC GROWTH

Exclusions

Through internal credit vetting and cyclical processes, TUHF ensures that all Borrowers meet its stringent credit and ethical standards. TUHF has not entered into relationships with entities that fail to meet TUHF's credit guidelines or who derive their principal source of revenue or income from illegal sources such as illegal gambling, prostitution or drug-related activities. Through its portfolio management function, TUHF ensures that it is not in relationships with slumlords, defined as landlords who extract abnormal profits by not complying with bylaws, allowing over-crowding, providing poor customer service and whose buildings are not up to code or are sub-standard.

Allocations of Funds

The proceeds from the social bond issuance were used to finance new loans or refinance existing loans. New loans are those where disbursements have been made no more than one year before the issue of the respective bond or at any time from the date of the issuance. Existing loans are those which have reached financial close one year or more before the issuance.

During the reporting period, 1 April 2021 to 31 March 2022, the Urban Ubomi (RF) Social Bond achieved the full allocation of proceeds. All loans/projects financed by TUHF are appraised through an internal credit approval process, ultimately managed by the TUHF Credit Committee, LoanCo and ManCo to ensure that finance is consistently granted to the people and businesses that have the capacity to repay them.

[7]micro and medium- sized enterprises thresholds according to the IFC's definition per sector

[8]A board subcommittee which consists primarily of non-executive directors and is chaired by a chairman appointed by the Board from time to time. Any credit application that falls with the approval mandate of LoanCo can only be submitted to LoanCo with the support and recommendation from ManCo.

[9]This committee convenes on a weekly basis (unless no applications are submitted for consideration in that week). The chair of ManCo is the CEO.

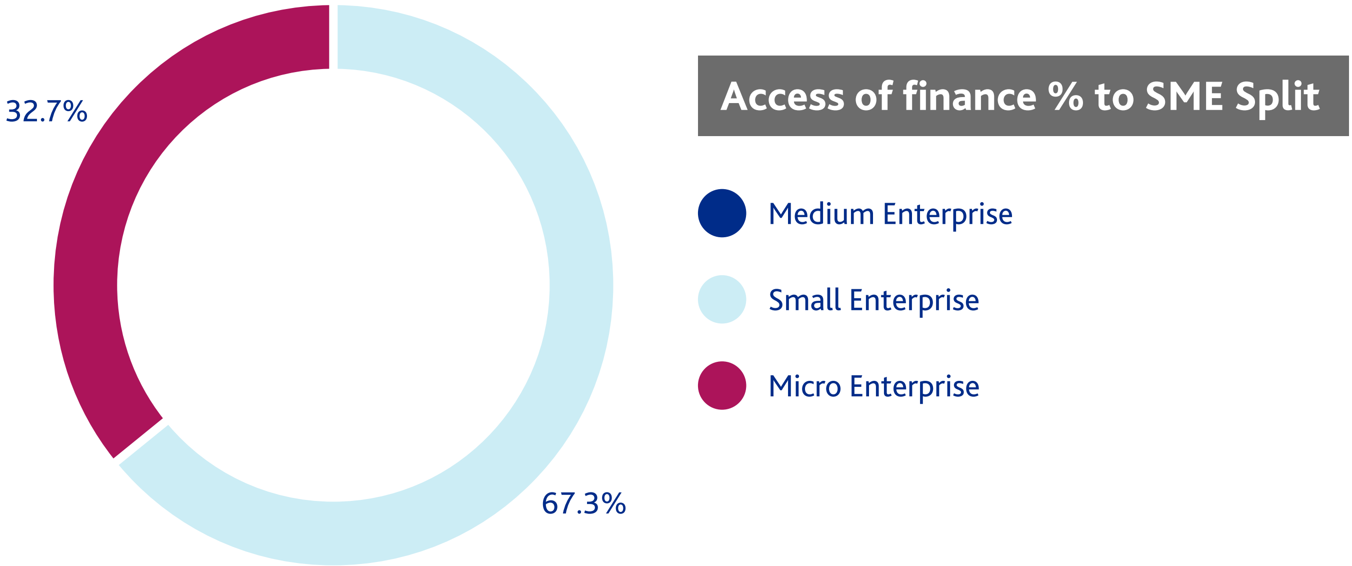
All Projects' financial projections must pass two financial hurdles:

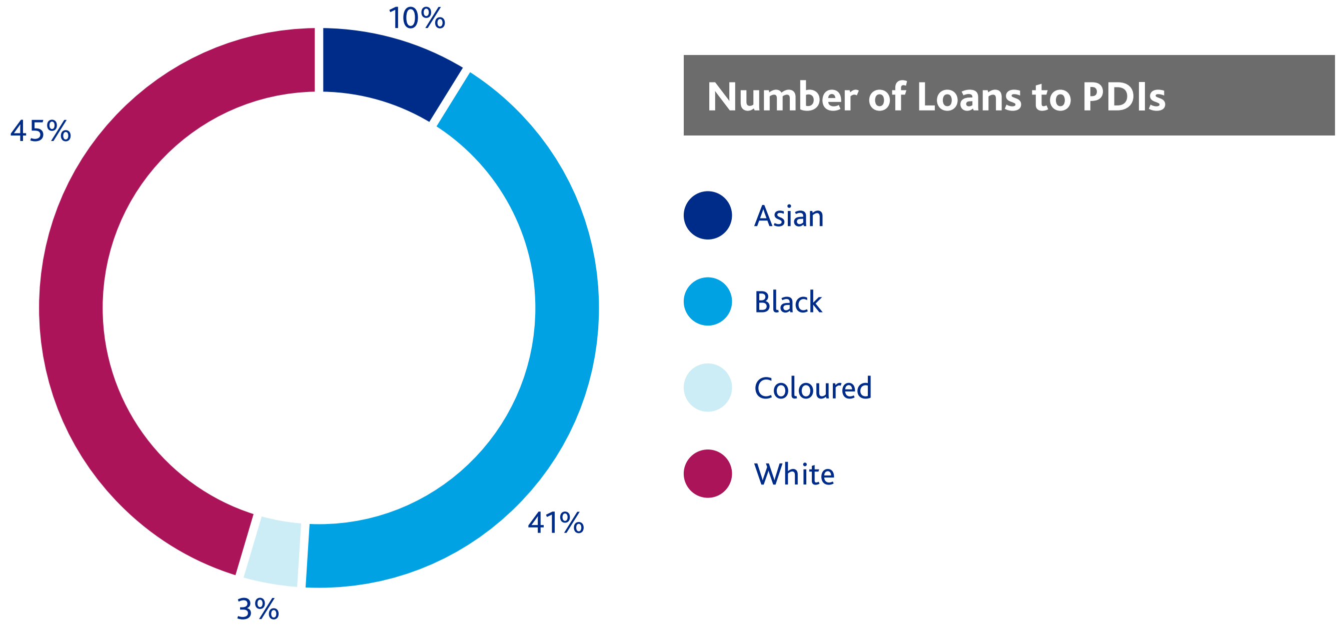
- Deliver positive net cash flow over the life of the eligible loan, as demonstrated in the TUHF Project Feasibility; and
- Adhere to the standard TUHF covenants related to serviceability (i.e., minimum Debt Service Cover Ratios) and gearing (i.e., maximum Loan to Value Ratios).

TUHF provides up to 80% of the project development cost with entrepreneurs providing the rest. According to the Urban Ubomi Servicer Report, the weighted average current loan to value ratio of the loan portfolio stood at 58.49%[10]. 24% of the projects were refinanced and new financing 76% were financing.

Urban Ubomi raised R1 097 000 000 of rated and unrated notes and allocated all net proceeds to finance 176 loans over 176 buildings. These funds were tracked using an internal accounting system as per the framework.

During the reporting period, 13 loans (R43.6 million) were sold out of the structure and were replaced with 8 assets of similar quality. All projects meet one or more of the eligibility criteria disclosed above. 95% of projects meet the Affordable Housing Criteria. 100% of the loans were allocated to SMEs and 55% of the number of loans (49% of the value of loans) were allocated to PDIs.





[10] https://www.tuhf.co.za/urban-ubomi-quarterly-investor-reports/

Impact Reporting

TUHF reports on several impact areas as listed above including:

Activities	Outcomes	Impact
TUHF identifies potential areas for urban regeneration TUHF provides financing to entrepreneurs to upgrade buildings Entrepreneurs previously unable to access finance receive loans from TUHF Entrepreneurs participate in TUHF-Programme for Property Entrepreneurship (TPPE) Entrepreneurs upgrade buildings Construction company is contracted Property management solution is employed Provision of affordable housing Affordable housing stock is made available in the inner city Increase in occupied rental housing in the inner city Individuals access safe, clean, affordable accommodation in inner cities Individuals pay rent and utilities	**R1.097 billion loans issued.** **111 SMEs financed** **5526 affordable units financed** **176 buildings financed**	**Livelihoods improved** • Access to quality affordable housing • Access to social amenity, transport & economic opportunity **Entrepreneurial growth** • Entrepreneurs developed & backed • Training & skills development **Local economic development** • Increased propery values • Increased market • Increased commercial & economic activity **Local fiscal impact** **Systemic impact**

Entrepreneurial growth

Obtaining access to finance to upgrade buildings for rental housing allows entrepreneurs to earn a financial return on their investment and grow their businesses. Furthermore, TUHF provides Training, Mentorship and Support to identified clients. This is done through participating in the accredited TUHF Programme for Property Entrepreneurs (TPPE) facilitated in conjunction with the University of Cape Town (UCT). The entrepreneurs are up-skilled, which facilitates personal and professional growth. 111 SMEs received finance. 35 individuals were trained during the reporting period of which 32 were PDIs. According to the South African Reserve Bank data on bank statistics, total SME credit exposure to banks was ZAR 617 billion at the end of 2017, which amounted to 28%[11] of total business loans. Urban Ubomi offers all its finance to SMEs.

Livelihoods are improved

By being able to access affordable housing in the inner cities, those individuals and families who could not afford alternative housing will likely see improvements in their living conditions. Furthermore, those who previously did not live in the inner city may be closer to transport hubs, which would lead to a decrease in travel costs (in the way of time and money) associated with commuting to and from the city. Additionally, the increase in jobs as a result of the building upgrades is likely to improve livelihoods, as is the access to amenities that comes with living in the inner city. All units financed have been completed and were ready during the reporting period. We estimate that 2.4 people will live in each unit of affordable housing.

[11]BER (2016). The Small, Medium and Micro Enterprise Sector of South Africa. Research Note No 1 2016. Small Enterprise Development Agency.

http://www.seda.org.za/Publications/Publications/The%20Small,%20Medium%20and%20Micro%20Enterprise%20Sector%20of%20South%20Africa%20Commissioned%20by%20Seda.pdf

Local Economic Development

Increased market activity taking place in the inner city as a result of individuals' proximity to amenities and transport nodes, increasing property values, (affordable) rentals and the provision of retail space for commercial entrepreneurs, contribute to local economic development. Throughout the affordable housing delivery and redevelopment process, jobs are created and/or maintained. As mentioned above, to redevelop and subsequently manage the property, the entrepreneurs will first have to employ a construction company and then various property management staff such as a caretaker, cleaners, security guards and a rental agency. The UoP from the Urban Ubomi issuances created 317 permanent jobs and 420 short term jobs.

Local Fiscal Impact

The increase in market activity taking place and the payment of rates and utilities to the government results in a larger municipal budget. This growth in municipal budgets could in turn lead to more investment in government services and amenities, and hence, result in the improved provision of government services.

Systemic Impact

Finally, although TUHF directly affects the precincts it lends in, it could also have a broader systemic impact. By virtue of its clients doing well, other emerging entrepreneurs, investors and even established property developers may also invest in the inner city, contributing to further urban regeneration and reinforcing the impacts already mentioned. Moreover, the urban regeneration that TUHF contributes to also may lead to a reduction in the perceived risk of an area and thus, other financiers may crowd into the inner city property space to "chase the yield".

Regeneration of Inner Cities

Regeneration of inner cities is a broad impact that is a function of many different factors. TUHF indirectly contributes to this through its provision of finance for building upgrades, which in turn brings rent-paying tenants back into the city, makes the city "greener", creates jobs and stimulates the local economy. All these factors combined, along with several other external factors, contribute to the regeneration of inner-city areas previously in a state of urban decline.

AFFORDABLE HOUSING	
Number of affordable housing units financed	**5526**
Number of buildings financed	**176**
Number of new permanent jobs created[12]	**317**
Number of new short-term jobs created	**420**

[12]**Job Creation**

Throughout the affordable housing delivery and redevelopment process, jobs are created and/or maintained. As mentioned above, to redevelop and subsequently manage the property, the entrepreneurs will first have to employ a construction company and then various property management staff such as a caretaker, cleaners, security guards and a rental agency. Property management staff are likely to be permanent jobs created/maintained, while a construction company will likely hire construction workers on short-term temporary contracts. In addition to the subcontractors, the entrepreneur him/herself will earn a return and may perhaps develop his/her property business further which would result in direct job creation/maintenance from the entrepreneur's side.

FINANCIAL INCLUSION	
Number of previously disadvantaged individuals financed	**72**
Number of previously disadvantaged individuals (PDIs) trained[13]	**32**
Number of loans issued to previously disadvantaged individuals	**96**
Number of loans issued to female PDIs	**20**
IMPROVED ACCESS TO FUNDING FOR SMES	
Number of SMMEs financed	**111**
Value of loans issued to SMMEs	**R 1 097 095 204,41**
Number of loans issued to female PDIs	**20**

[13] **Training and Development**

TUHF has a comprehensive support programme to assist entrepreneurs to grow their portfolios. TUHF Programme for Property Entrepreneurship (TPPE) is a comprehensive in-house property training programme that seeks to promote the expansion of knowledge of TUHFs clients in the property industry. Developed and delivered jointly by TUHF and the University of Cape Town (UCT), one of Africa's leading teaching and learning institutions. The training programme is customised for TUHF's clients and its focus is on sharpening skills and knowledge of the industry and an interchange of ideas with fellow clients. This partnership ensures that clients are provided with a premier property education programme.

Methodology

TUHF can assess the extent to which they are achieving development impact by regularly tracking these indicators against targets using a tool known as a results measurement plan. TUHF currently uses a CRM system developed by SAGE to store all its information. This system contains all loan details and information on each property (number of units, square metres) as well as each client (race and gender).

Most of the data is collected during the loan application process. Clients must complete a loan application form at the outset and a drawdown application form for each drawdown of funds once the loan has been approved. TUHF also collects data on the number of jobs that are created through the redevelopment projects through client declarations that are captured in the system and checked for duplicates. Information currently received from the clients includes:

- Annual financial statements
- Rent rolls
- Utility statements
- Building inspections and valuations
- Compliance documents

The measurement plan extracts detailed below, as per the TUHF Sustainable Bond Framework, outlines TUHF's indicators; the units in which there are measured; the definition applicable to an indicator; any calculation, if applicable; and the source of data this information is derived from. Impact metrics reflected in the impact report only represent the value of the loans issued by TUHF for project development. The value of the client equity is not represented in the value metrics. TUHF provides up to 80% of the project development cost with entrepreneurs providing the rest. TUHF recognises the 100% impact as the senior ranking lender.

INDICATOR	UNIT	DEFINITIONS
Number of affordable housing units financed	Number	
Number of buildings financed	Number	
Number of new permanent jobs created	Number	A job reported during the reporting period with no end date
Number of jobs maintained and supported	Number	
Number of new short-term jobs created	Number	A job reported during the reporting period with an end date
Number of previously disadvantaged individuals financed.	Number	
Number of previously disadvantaged individuals (PDIs) trained[iii]	Number	Number of PDIs who have completed TPPE.
Number of loans issued to previously disadvantaged individuals	Number	
Number of loans issued to female PDI	Number	The entity must demonstrate majority equity owned by PDI Woman-owned SME to be reported in under this indicator
Number of SMMEs financed	Number	
Value of loans issued to SMMEs	In ZAR value	
Number of loans issued to female-owned SMMEs	Number	The SMME must demonstrate majority-owned in terms of equity by females to be reported under this indicator.

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