



SOCIAL BOND FRAMEWORK



Alliance Finance Co. PLC

Making the world a better place through sustainable finance

PEOPLE • PLANET • PROFIT
Sri Lanka's pioneering triple bottom line financial institution

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1. Introduction

Alliance Finance Company PLC (AFC) is a leading financial institution in Sri Lanka, committed to driving positive environmental, social, and governance (ESG) outcomes. As the first financial institution in South Asia to achieve SSCI certification for Holistic Sustainability, AFC has embedded sustainability principles into its core operations, aligning with global standards and Sri Lanka's national objectives .

Building on the success of its Green Bond Framework, AFC introduces its Social Bond Framework, reinforcing its dedication to addressing critical social challenges while fostering sustainable development. This framework aligns with the Social Bond Principles (SBP) issued by the International Capital Market Association (ICMA), underscoring AFC's commitment to transparency, accountability, and impact-driven investments.

The Social Bond Framework is designed to support products that generate significant social benefits, including enhanced financial inclusion, entrepreneurship development, improved education, and equitable access to essential services. AFC aims to create meaningful impacts by channeling funds into initiatives that empower underserved communities, foster economic resilience, and promote inclusive growth.

AFC's Social Bond Framework is governed by its comprehensive sustainability strategy, which integrates environmental stewardship, social responsibility, and robust governance. The framework outlines clear objectives and measurable outcomes to ensure alignment with United Nations Sustainable Development Goals(SDGs) and other global best practices.

1.1. Environmental Sustainability

AFC recognizes the interconnectedness of environmental and social sustainability. While primarily focusing on social objectives under this framework, AFC's operations and broader sustainability strategy remain committed to environmental stewardship. The company actively supports climate change mitigation, renewable energy adoption, and natural resource conservation through its Green Bond Framework and other dedicated initiatives. AFC ensures that all projects funded under its Social Bond Framework complement its overarching sustainability goals and contribute positively to the environment where possible.

1.2. Social Sustainability

The Social Bond Framework underscores AFC's dedication to advancing social well-being by addressing critical areas such as financial inclusion, access to affordable credit, and the empowerment of marginalized communities. Key social objectives include:

- Providing financial access to underserved populations, including women, rural entrepreneurs, and micro, small, and medium enterprises (MSMEs).
- Supporting education, skills development, and vocational training initiatives to enhance employability and economic resilience.
- Promoting gender equality and empowering women-led enterprises through targeted funding and capacity-building programs.

- Encouraging local entrepreneurship and fostering community development in disadvantaged regions.

These initiatives align with the Financial Literacy Roadmap of Sri Lanka (2024-2028) published as an initiative under the Sri Lanka's National Financial Inclusion Strategy (NFIS) while also contributing to global frameworks such as the United Nations Sustainable Development Goals (SDGs). AFC's social investments are designed to deliver measurable, positive outcomes, addressing inequality, enhancing livelihoods, and building resilient communities.

1.3. Governance and Transparency

AFC's governance structure ensures robust oversight and accountability for all projects financed under the Social Bond Framework. The Board of Directors, supported by a dedicated Sustainability Steering Committee, oversees the implementation of the framework, while the Social Bond Committee manages project evaluation, fund allocation, and impact monitoring.

To maintain transparency, AFC adheres to recognized reporting frameworks, including the Global Reporting Initiative (GRI) and SSCI standards, providing stakeholders with clear and credible disclosures on social impact and fund utilization. Regular updates and impact assessments ensure that AFC's social investments remain aligned with its sustainability objectives and deliver meaningful outcomes.

Through this Social Bond Framework, AFC reaffirms its commitment to driving inclusive growth, fostering equitable development, and championing sustainability, reinforcing its position as a catalyst for positive change in Sri Lanka and beyond.

2. Social Bond Framework

AFC is committed to advancing inclusive finance through the establishment of its Social Bond Framework. This Framework serves as a guideline for issuing Social Financing Instruments, including bonds and loans, to finance projects that promote financial inclusion and support underserved communities, contributing to Sri Lanka's socioeconomic development.

The Framework aligns with the Social Bond Principles (SBP), June 2023 issued by the International Capital Markets Association (ICMA), ensuring transparency, integrity, and best practices in the sustainable finance market. The AFC's Social Bond Framework is structured around the four core components of the SBP:

2.1. Use of Proceeds:

Proceeds from AFC's Social Financing Instruments will be exclusively allocated to eligible projects that enhance financial inclusion and support underserved communities. The focus will be on:


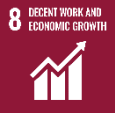


1. Promoting Micro, Small, and Medium Enterprises (MSMEs) through value chain financing to stimulate economic growth and create employment opportunities.
2. Providing microfinance to marginalized and underserved communities who lack access to traditional financial services, empowering them to improve their livelihoods and financial stability.

AFC will issue an initial Social Bond worth LKR 2 billion, with a maximum issue of LKR 3 billion. The proceeds will be allocated over two years to support new lending initiatives that align with these social objectives.

From the initial LKR 2 billion issuance, LKR 500 million will be allocated to Microfinance, while LKR 1.5 billion will support MSME financing. If the issuance is increased to LKR 3 billion, LKR 500 million will be allocated to Microfinance, with LKR 2.5 billion directed toward MSME financing. In the event that the allocated proceeds for Microfinance are not fully utilized, the remaining funds will be redirected to support MSME financing. AFC is committed to providing transparent updates on the allocation of proceeds as projects progress, ensuring accountability and alignment with its social sustainability objectives .

Table 1: Eligible Category/Alignment with UN SDGs and Social Benefits

Eligible Category/Alignment with UN SDGs	Description	Social Benefits
<p>Employment Generation</p> 	<p>Support employment in disadvantaged socio-economic areas through MSME financing</p>	<p>Loans dedicated to financing MSMEs in socio-economically disadvantaged regions of Sri Lanka aim to foster employment opportunities and economic growth in areas with limited access to financial resources. AFC's MSME Financing focuses on empowering small and medium businesses to create sustainable livelihoods and contribute to community development.</p> <p>Support to employment preservation and generation in the concerned area.</p> <p>Development of territorial competitiveness in the concerned area.</p> <p>Reduction of regional inequalities.</p> <p>Target population: Socially or financially excluded people (generally without collateral, credit history or previous/tracked experience) who lack access to mainstream sources of finance (e.g. current and potential micro-</p>

		entrepreneurs and the self-employed).
<p>Socioeconomic Advancement And Empowerment (Equal Opportunities)</p>    	<p>Eradicating/Reducing Income Inequalities, Poverty alleviation, rural economic development through Microfinance.</p>	<p>The program enhances financial inclusion in the North and East through group-based lending, monthly collections, and rigorous risk assessments, ensuring equitable access to credit while fostering social solidarity and economic development. It supports women-led enterprises in sustainable agriculture, eco-friendly businesses, and local manufacturing. Embedded savings components where borrowers contribute a portion of earnings to a savings fund help build financial resilience by creating a safety net, enabling reinvestment, and reducing reliance on debt. By directing loan proceeds toward women-owned enterprises and micro-entrepreneurs, the program promotes gender equity, economic empowerment, and reduced income inequality.</p> <p>Target population: Targeting low-income communities, AFC prioritizes women-led enterprises engaged in sustainable and socially beneficial economic activities. The program removes barriers to financial access by supporting clients with viable business plans rather than pre-existing stable incomes. By integrating savings mechanisms, it enhances gender equity and long-term resilience, ensuring women</p>

		entrepreneurs can expand their businesses, achieve financial independence, and contribute to broader economic development. The initiative also aligns with global financial inclusion standards, emphasizing support for micro-entrepreneurs, small-scale businesses, and underserved populations such as low-skilled workers, kiosk owners, and local supply chain participants.
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2.2. Process for Project Evaluation and Selection.

The Alliance Finance Company (AFC) Social Bond Framework provides a comprehensive guideline for evaluating and selecting eligible projects under its microfinance and MSME finance products. This framework aligns with international best practices while tailoring processes to AFC's operational context, focusing solely on new business financing.

2.2.1. Selection and Evaluation of Eligible Social Projects

AFC identifies and evaluates potential projects with strong social outcomes aligned with the AFC's Social Bond Framework and its strategic social objectives. This includes a focus on employment generation and Socioeconomic Advancement and Empowerment (Equal Opportunities). To ensure alignment with its commitment to responsible finance, AFC employs a rigorous Environmental and Social Management System (ESMS) to screen projects and mitigate risks. Key practices include:

- I. Adhering to Exclusion Criteria: AFC applies its own customized exclusion list, precluding financing for activities involving forced labor, child labor, or environmental and social harm, such as illegal trade, hazardous materials, or significant deforestation.
- II. Sector-Specific Risk Screening: The ESMS uses 15 sector-specific fact sheets to assess risks like pollution, deforestation, unfair labor conditions, and harmful child labor across sectors such as agriculture, mining, and textile manufacturing.

Through these measures, AFC ensures its projects uphold principles of equity, inclusion, and the protection of vulnerable groups while promoting meaningful stakeholder engagement.

2.2.2. Excluded Categories and Limitations

AFC will ensure that proceeds received from the issuance of Social Bonds or any other securities under this Framework will not be allocated to loans/projects directly or indirectly involved in the following activities:

1. Alcoholic beverages, tobacco, gambling, or adult entertainment.
2. Deforestation, biodiversity loss, or unsustainable land/water use.
3. Mining, fossil fuels, nuclear energy, or hazardous chemicals.
4. Weapons, explosives, or unethical animal practices.
5. Non-biodegradable plastics or industries causing significant environmental harm.
6. Production or trade in any product or activity deemed illegal under Sri Lanka's laws or regulations or international conventions and agreements.
7. Use of logging equipment in unmanaged primary tropical rainforests.
8. Economic activities involving harmful or exploitative forms of forced labor and/or child labor as defined by international conventions and/or national regulations.

2.2.3. Evaluation Committee

A dedicated Social Bond Committee, comprising representatives from AFC's credit, risk, finance sustainability, and operations teams, oversees the selection process. This committee ensures that all eligible projects meet AFC's Social Bond Framework.

2.2.4. Eligibility Assessment

Projects are assessed against predefined eligibility criteria as listed in the Table 2 "Harmonized Framework for Impact Reporting for AFC Social Bond", focusing on employment generation and Socioeconomic Advancement and Empowerment (Equal Opportunities). This thorough evaluation ensures that only projects with clear, measurable social benefits are selected.

2.2.5. Approval of Eligible Social Projects under Microfinance and MSME Financing

Eligible projects are documented in detailed proposals by AFC's operational departments, including clear objectives, expected social impacts, financial requirements, repayment structures, and risk mitigation strategies. These proposals are reviewed by the Social Bond Committee and subsequently presented to AFC's Board of Directors for final approval. Projects must demonstrate alignment with AFC's Social Bond Framework to gain approval.

2.2.6. Associated Risks Relating to Eligible Projects

AFC acknowledges the potential risks involved with eligible projects and incorporates robust mechanisms to address them. Financial risks are mitigated through regular monitoring of repayment performance to reduce defaults. Social risks are managed by ensuring projects do not inadvertently exacerbate inequality or harm vulnerable groups. Additionally, indirect environmental impacts are assessed even for socially focused projects to avoid unintended consequences.

To strengthen risk management, AFC employs its Environmental and Social Management System (ESMS) to screen projects across the identified 15 sectors, ensuring compliance with sustainability criteria. The

Risk Division conducts a weightage-based assessment to evaluate the level of risk associated with each project, enabling informed decision-making.

2.3. Management of proceeds

Alliance Finance Company PLC (AFC) is committed to ensuring transparency and accountability in the management of proceeds raised through the issuance of Social Bonds. The proceeds will be exclusively allocated to finance new projects and initiatives within the eligible categories defined under AFC's Social Bond Framework, specifically Microfinance and MSME financing. The supervision, tracking, and reporting of proceeds will be overseen by a dedicated internal team under AFC Finance Department, ensuring full transparency and accountability.

2.3.1 Allocation of Proceeds

An amount equivalent to the net proceeds from the issuance of Social Bonds will be allocated to new financing instruments that meet the eligibility criteria under the AFC's Social Bond Framework. These proceeds will support projects that align with AFC's commitment to fostering employment generation and Socioeconomic Advancement and Empowerment (Equal Opportunities).

The proceeds of Social Bonds are managed on an aggregated basis for multiple Social Bonds using a portfolio approach, ensuring efficient allocation and impact tracking across eligible projects. Unallocated funds will be temporarily invested in cash equivalents, T-bills, T-bonds, or FDs, excluding socially harmful initiatives.

AFC will maintain a dedicated register to monitor and track the allocation of proceeds to eligible projects. The register will include:

- I. Details of the projects financed (project name, category, and description).
- II. Amount of proceeds allocated to each project.
- III. Status of project implementation.
- IV. Dedicated bank account to manage funds.

AFC will ensure that the allocation of proceeds is completed within 24 months of bond issuance.

2.3.2 Management of Unallocated Proceeds

Pending full allocation of proceeds, any unallocated amounts will be held in AFC's treasury and managed in accordance with the company's conservative investment policy. These funds will be invested in cash or cash equivalents, such as government securities or fixed deposits, ensuring liquidity and capital preservation.

2.3.3 Monitoring and Substitution

AFC will actively monitor the use of proceeds to ensure they remain allocated to eligible projects. If any financed project becomes ineligible or is prematurely concluded, AFC will identify and substitute it with another eligible project as soon as practicable, ensuring the alignment with the Social Bond Framework.

2.4. Reporting

Alliance Finance Company PLC (AFC) is deeply committed to transparent and accountable reporting on the use of proceeds and the social impact of funded projects under its Social Bond Framework. To ensure stakeholders are informed of the progress and outcomes of financed initiatives, AFC will provide comprehensive annual reporting that encompasses both Allocation Reporting and Impact Reporting until full allocation of the proceeds in alignment with the Section 7 of Colombo Stock Exchange (CSE) Listing rules and Harmonized Framework for Impact Reporting of Social Bonds. These reports will be conducted on an aggregated level using a portfolio approach, ensuring a holistic view of fund utilization and impact measurement across each social project. These details will also be disclosed through AFC's Annual Report, further reinforcing its commitment to transparency.

2.4.1. Allocation Reporting

AFC will detail the allocation of proceeds to eligible projects, ensuring accountability and transparency. This will include:

- I. Total funds allocated to eligible projects during the reporting period.
- II. Insights into the regional distribution of beneficiaries, highlighting AFC's focus on empowering underserved communities across Sri Lanka.

2.4.2. Impact Reporting

The impact reporting will provide stakeholders with measurable social outcomes achieved through funded projects. It will include key impact reporting indicators aligned with the Harmonized Framework for Impact Reporting for Social Bonds (Table 2), ensuring consistency and comparability in disclosures.





3. External Review




AFC will obtain a Limited Independent Assurance report of the Social Bond framework from a recognized and reputable Independent External Verifier to confirm its alignment with the Social Bond Principles (SBP), June 2023 issued by ICMA prior to the issuance of the Social Bond.

In addition to the pre-issuance review, the external verifier will also provide a post-issuance assurance report. This post-issuance review will evaluate AFC's internal processes, controls, and the allocation and management of proceeds, as well as assess the social impact of the financed projects. The verification will be performed at the end of the financial year following the issuance of the Social Bond.

The external verification process will be publicly disclosed on the AFC website and included in the annual reports, making the assurance report available to all stakeholders. This transparency will further strengthen the credibility of AFC's commitment to its social financing strategy and provide assurance of its alignment with the broader social objectives outlined in the AFC's Social bond framework.

Table 2: Harmonized Framework for Impact Reporting for AFC Social Bond

Output	Outcome	Outcome Impact
Socioeconomic advancement & empowerment		
Women empowerment	   	
<ul style="list-style-type: none"> Number of low-income, rural or minority women provided with access to micro-savings and micro-credit products. Number of women provided with access to technology. Number of women provided with access to information or financial services through digital products/services 	<ul style="list-style-type: none"> • %/\$ value increase of income • %/\$ value increase of financial security • Increased women's access to information OR reduced gender-based information asymmetry 	<ul style="list-style-type: none"> • Improvement in women's agency or ability to fully participate in social, economic, political processes • Improvement in women's opportunities or [reduced] gender-based discrimination • Improvement in women's endowments or access to resources, skills, knowledge • Reduced pay inequity/gender pay gap • Reduced gender-based violence/intimate partner violence • Improved human security or reduced risk of conflict
<ul style="list-style-type: none"> Number of loans made to MSMEs with majority women in senior management or ownership positions. 	<ul style="list-style-type: none"> • Improved gender parity in leadership positions Increase in access to capital for women-owned or led MSMEs 	
<ul style="list-style-type: none"> Number of women provided with decent work conditions (safety protocols (including personal protective equipment), adequate 	<ul style="list-style-type: none"> • Improved quality of life for women in the workforce • Reduced risk of injury or chronic health conditions for women in the workforce 	

sanitation facilities, regular breaks, decent wages and working hours in line with national standards, etc)	<ul style="list-style-type: none"> • % Reduction in accident rates, fatality rates, and/ or occupational disease rates for females 	
<ul style="list-style-type: none"> • Number of women provided with access to equal pay employment opportunities 	<ul style="list-style-type: none"> Increased income for women • Higher retention rate for female employees or workforce 	
<div> <div> Employment generation </div> <div> <div>8</div> <div>DECENT WORK AND ECONOMIC GROWTH</div>  </div> <div> <div>9</div> <div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div>  </div> <div> <div>10</div> <div>REDUCED INEQUALITIES</div>  </div> </div>		
<ul style="list-style-type: none"> • Number of loans to microenterprises 	<ul style="list-style-type: none"> • Reduced unemployment • Number of people benefiting from improved employment • Number of people with upskilled employment resulting from training • Rate of employment of widows 	<ul style="list-style-type: none"> • Increase in GDP
<ul style="list-style-type: none"> • Number of people trained in new vocational skills 		
<ul style="list-style-type: none"> • Jobs created, supported, and/or retained • Number of widows/war victims people employed 		