



# AFC Green Bond Framework



**Alliance Finance Co. P.L.C**

Making the world a better place through sustainable finance

**PEOPLE • PLANET • PROFIT**

*Sri Lanka's pioneering triple bottom line financial institution*

## Table of Contents

1.	Introduction .....	2
1.1	Environmental Sustainability Strategy:.....	3
1.2	Social Sustainability Strategy: .....	3
1.3	Sustainability governance: .....	4
2	Green Bond Framework.....	4
2.1	Use of Proceeds: .....	4
2.1.1	Eligible Green Projects: .....	5
2.2	Process for Project Evaluation and Selection: .....	6
2.2.1	Selection and Evaluation of Eligible Green Projects .....	7
2.2.2	Project Financing Proposals .....	7
2.2.3	Approval of Eligible Green Projects .....	8
2.2.4	Associated risks relating to eligible projects.....	8
2.3	Management of Proceeds.....	8
2.4	Reporting.....	8
2.4.1	Monitoring and Reporting .....	9
2.4.2	Measuring Methods of Impact.....	9
2.4.3	Allocation Reporting .....	10
2.4.4	Impact Reporting .....	10
3	External Review.....	10

## 1. Introduction

Alliance Finance Company PLC (AFC) is a leading financial institution in Sri Lanka, renowned for its commitment to environmental sustainability and social responsibility. For over seven decades, AFC has played a vital role in supporting the economic growth of the nation, providing innovative financial solutions tailored to meet the diverse needs of its customers. AFC's dedication to sustainability is deeply integrated into its core operations, aligning with Sri Lanka's broader vision for environmental stewardship and sustainable development.

AFC is the first company in South Asia to become a Certified Financial Institution in Holistic Sustainability, under the pioneering Sustainability Standards and Certification Initiative (SSCI) of the European Organization for Sustainable Development - an EU initiative. SSCI is the world's first measurable and certifiable holistic sustainability standard developed in Germany by the International Council of Sustainability Standards for Value-Driven Financial Institutions supported by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Association of African Development Finance Institutions (AADFI) and Association of National Development Finance Institutions (ADFIMI). Environmental and Sustainability initiatives are at the center of AFC's Sustainability agenda that has set the future focus of the Company.

Sustainability values and concepts are integrated into the strategic business model and the corporate plan of the Company. Accordingly, the broad vision of AFC is expressed as the purpose statement and High Impact Goals, which drive the efforts of the company to derive multiple stakeholders' value beyond pure business and financial performance.

In line with global environmental commitments and the Paris Agreement, the Government of Sri Lanka has set ambitious goals to transition toward a greener economy. The country's Nationally Determined Contributions (NDCs) include reducing greenhouse gas emissions by 14.5% by 2030 and increasing the share of renewable energy in the national energy mix to 70% by the same year. These targets are part of Sri Lanka's broader strategy to achieve carbon neutrality by 2050, reflecting the nation's commitment to combat climate change and promote sustainable development.

To achieve these goals, the Sri Lankan government has introduced various policies and incentives to accelerate the adoption of renewable energy sources. The focus is increasing the installed capacity of renewable energy, including solar, wind, and hydropower while reducing dependence on fossil fuels. The government's efforts are complemented by the private sector's growing involvement in green energy projects, driven by favorable regulatory frameworks and financial incentives.

As a key player in Sri Lanka's financial sector, AFC is committed to supporting the country's transition to a low-carbon economy. To reinforce the company's green credentials and contribution to the national goals AFC initiated specific climate financing products such as Cinnamon Cultivators Development, Dairy Development, Solar (Renewable Energy), and Smart Irrigation. The company has made significant strides in financing renewable energy projects under the climate financing arm, particularly solar energy, which has seen rapid growth since its inception. AFC's green financing initiatives are aligned with the national

objectives, contributing to expanding renewable energy capacity and promoting sustainable development across the country. Over the past 2 years, AFC's green financing portfolio has grown substantially, reflecting its commitment to fostering a sustainable future for Sri Lanka.

### **1.1 Environmental Sustainability Strategy:**

AFC is committed to supporting Sri Lanka's transition to a low-carbon economy, aligning its activities with the Green Bond Principles (GBP) and the nation's Nationally Determined Contributions (NDCs). AFC's green bond proceeds primarily fund clean energy projects, particularly solar energy, contributing to climate change mitigation and decarbonization by replacing fossil fuels with renewable energy. These efforts support Sri Lanka's goal of achieving 70% renewable energy by 2030 and carbon neutrality by 2050.

AFC's Environmental Sustainability Strategy is aligned with the GBP's five objectives: climate change mitigation, adaptation, natural resource conservation, biodiversity conservation, and pollution control. The company has set clear decarbonization targets aimed at reducing its carbon footprint and creating a measurable impact. These targets align with industry standards such as the International Energy Agency (IEA) and national energy goals.

Additionally, AFC adheres to the Climate Transition Finance Handbook (CTFH) issued by ICMA, ensuring alignment with the three key elements out of four, namely climate transition strategy and governance, climate transition strategy and targets to be science-based, and business model environmental materiality. AFC provides transparent disclosures on fund allocation and environmental impact, demonstrating how its green financing contributes to national sustainability goals while maintaining robust management of green bond proceeds for maximum environmental benefit as described in the use of proceeds.

### **1.2 Social Sustainability Strategy:**

AFC is committed to advancing social sustainability through clearly defined social objectives that promote community well-being and equitable development through our financial products and services. Key objectives include enhancing financial inclusion by providing accessible and affordable financial products to underserved populations, fostering local entrepreneurship through targeted support and investment, and promoting education and skills development initiatives.

AFC also prioritizes human and labor rights across its operations, ensuring fair treatment and ethical practices within the workplace and supply chain. Additionally, the company is dedicated to engaging with stakeholders to understand their needs and concerns, enabling responsive and responsible decision-making. By embedding these social objectives into its overall sustainability strategy, AFC aims to create lasting positive impacts in the communities it serves, supporting inclusive growth and resilience while aligning with national and global sustainability goals.

### **1.3 Sustainability governance:**

AFC has established a clear sustainability governance structure that integrates responsibilities from the Board down to all employees, with every team member expected to contribute to the company's sustainability initiatives.

The Board of Directors oversees the sustainability mandate through a dedicated subcommittee. The Sustainability Steering Committee (ESG Committee) ensures effective implementation of the sustainability agenda. The overall sustainability program is led by the Managing Director, with support from the Lead Facilitator - Sustainability and Climate Finance and other Executive Directors.

The Strategic Planning Department, managed by the Senior Manager of Sustainability and Strategic Planning, coordinates, implements, and monitors sustainability initiatives across the company. The Board has actively endorsed the company's sustainability objectives, participating in the redefinition of AFC's growth strategy, risk management, and relevant policies to align with these goals.

AFC adheres to sustainability-related disclosure and reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Standards and Certification Initiative (SSCI) standards, ensuring transparency and accountability in its sustainability practices.

## **2 Green Bond Framework**

AFC is committed to advancing sustainable finance through the establishment of its Green Bond Framework. This Framework serves as a guideline for issuing Green Financing Instruments, including bonds and loans, to finance projects focused on renewable energy, particularly rooftop solar energy, contributing to Sri Lanka's transition to a low-carbon economy.

The Framework aligns with the Green Bond Principles (GBP) 2021 issued by the International Capital Markets Association (ICMA), ensuring transparency, integrity, and best practices in the sustainable finance market. The Framework is structured around the four core components of the GBP:

### **2.1 Use of Proceeds:**

Proceeds from AFC's Green Financing Instruments will be exclusively allocated to eligible projects that generate renewable energy, with a primary focus on rooftop solar energy installations across Sri Lanka. These projects aim to reduce greenhouse gas emissions, enhance energy efficiency, and contribute to the country's renewable energy targets. Additionally, proceeds will be directed toward financing solar equipment vendors and suppliers, reinforcing the supply chain required for the successful deployment of these renewable energy initiatives.

AFC will issue Green Financing Instruments worth LKR 1 billion, with proceeds allocated over two years to support new lending for renewable energy projects, specifically rooftop solar electricity generation facilities and the financing of solar equipment vendors. While the exact allocation of proceeds per project such as rooftop solar installations or financing solar equipment vendors will be determined closer to




issuance, AFC will provide transparent updates on this as the projects progress and market conditions evolve.



The financing of rooftop solar installations and solar equipment vendors is designed to deliver clear and measurable short-term benefits, including a reduction in fossil fuel generated electricity usage and cost savings for consumers. In the long term, this initiative will generate significant environmental benefits, such as a reduction in carbon emissions and an increased share of renewable energy in Sri Lanka's national grid. The projects will help Sri Lanka to achieve its Nationally Determined Contributions (NDC) target in line with the 'Paris Agreement'.

I.e. Target: Develop an additional capacity of 3,867 MW renewable energy over the RE capacity considered in a Business-As-Usual scenario, out of which approximately 950 MW are on an unconditional basis and 2,917 MW on a conditional basis.

The technology involved in these projects will primarily be solar photovoltaic (PV) systems, which are recognized for their efficiency and long-term environmental sustainability. AFC will not consider refinancing existing projects. Thus, a look-back period is not applicable to this Green Bond issuance.

### 2.1.1 Eligible Green Projects:

Eligible Green Project Category	Use of Proceeds (UoP) & Criteria	Target Populations and Alignment with UN Sustainable Development Goals (SDGs)	Sustainable Development Goals
<b>Rooftop Solar Energy Generation Facilities, solar equipment vendors and suppliers in the value chain.</b>	<p><b>Project Scope:</b> Financing for the development and implementation of rooftop solar electricity generation facilities.</p> <p><b>Energy Source:</b> At least 85% of the electricity generated must be derived from solar energy.</p>	<p><b>SDG 7:</b> Affordable and Clean Energy: This project supports the transition to clean energy by financing the adoption of solar energy, contributing to the goal of ensuring access to affordable, reliable, sustainable, and modern energy for all.</p>	

	<p><b>Use of Proceeds:</b> Funds will be allocated for the purchase, installation, and integration of solar panels, as well as dedicated transmission and supporting infrastructure.</p> <p><b>Supply Chain Support:</b> The program also includes financing solar equipment vendors to ensure the availability and supply of high-quality components essential for these solar energy projects.</p>	<p><b>SDG 12: Responsible Consumption and Production:</b> The project encourages sustainable consumption and production patterns by reducing reliance on non-renewable energy sources and promoting the use of renewable energy.</p> <p><b>SDG 13: Climate Action:</b> By promoting the use of renewable energy, the project plays a critical role in reducing carbon emissions, aligning with global efforts to combat climate change and its impacts.</p>	 
--	--	---	---

## 2.2 Process for Project Evaluation and Selection:

All projects are initially recommended by branch-level officers following an onsite inspection. Once this inspection is completed, projects are forwarded to a cross-functional task force responsible for overseeing the evaluation and selection process. This task force ensures that both the rooftop solar installations and the associated vendors and suppliers meet the criteria outlined in the Framework and align with AFC's sustainability goals and Sri Lanka's environmental objectives. Feasibility and technical analysis are conducted to support these decisions by the task force.

At the board level and Sustainability Steering Committee (ESG Committee) are ensured transparent procedures on proper allocation of use of proceeds. After the task force completes its due diligence, the Credit Committee chaired by the Head of Credit, including the Senior Manager and Manager Credit provides final approval in accordance with the board-approved credit delegation.

Credit Committee Responsibilities:

- Lending Terms: Establishing the financing terms and conditions.
- Internal/External Ratings: Assigning project ratings based on predefined guidelines to ensure financial and sustainability criteria are met.

The Project Evaluation and Selection task force will include ESG (Environmental, Social, and Governance) experts to ensure that all projects align with AFC's sustainability priorities. The committee's roles, responsibilities, and monitoring processes are clearly defined and documented.

### 2.2.1 Selection and Evaluation of Eligible Green Projects

The AFC Rooftop Solar Loan Program finances projects that generate renewable energy and reduce GHG emissions, aligning with AFC's sustainability goals. Eligible projects undergo screening for environmental impact, compliance with Green Bond Principles, and alignment with AFC's climate action targets. The program supports AFC's commitment to carbon reduction, contributing to Sri Lanka's NDCs under the Paris Agreement. Monitoring and reporting mechanisms ensure transparency and accountability, with annual assessments to track energy output and emissions reductions, aligned with GRI standards and ICMA principles.

### 2.2.2 Project Financing Proposals

#### **Initial Proposal Review:**

- **AFC's Solar Project Team:** Receives financing proposals/applications from individual and corporate and industrial borrowers interested in installing rooftop solar systems. The team evaluates these proposals against AFC's internal policies, focusing on the borrower's financial capability and the project's alignment with AFC's sustainability objectives. Proposals are also assessed for their alignment with AFC's Use of Proceeds Categories, ensuring they meet qualitative and quantitative inclusion criteria, such as the potential for emissions reduction and energy efficiency, while applying any exclusion criteria that may disqualify certain projects (e.g., environmentally harmful technologies). Additionally, the proposals are also assessed for compliance with the Sri Lanka Green Finance Taxonomy (May 2022) and the Sustainable Finance Roadmap. This evaluation includes both qualitative and quantitative criteria to ensure alignment with recognized sustainability frameworks.

Qualitative assessments focus on comparing the efficiency of the proposed solutions with fossil fuel-generated electricity and renewable solar energy. Quantitative criteria, including specific metrics, are detailed in Section 6 under Monitoring and Reporting.

#### **Detailed Appraisal:**

The Project Evaluation and Selection task force, which includes the climate finance unit, conducts a thorough evaluation of each project's overall viability. Upon completing its assessment, the task force recommends the project to the Credit Committee for final approval.



### **2.2.3 Approval of Eligible Green Projects**

All rooftop solar proposals that are sanctioned by AFC's Task Force and meet the eligible green project criteria outlined in this Green Bond Framework will be approved by the relevant delegated authority in place. Funds disbursed for these projects will be allocated under the Green Financing Instrument.

### **2.2.4 Associated risks relating to eligible projects.**

AFC evaluates and addresses ESG risks using two internal policies. First, environmental risks are managed in accordance with the company's environmental policy. This policy outlines the environmental and social risk factors, as well as other environmental aspects that need to be considered before making potential investments. Second, AFC has expanded its general risk assessment policy to include relevant ESG risks that may arise from its operations, directly integrating ESG risks into everyday risk management. No investments could be made without a comprehensive risk assessment to ensure environmental compliance and to align proposed projects with AFC's Green Bond Framework.

## **2.3 Management of Proceeds**

AFC will implement a stringent governance process to manage the proceeds from its Green Financing Instruments. Proceeds will be deposited into a dedicated account, segregated from other funds, and will be monitored regularly. The supervision, tracking, and reporting of proceeds will be overseen by a dedicated internal team under AFC Finance Department, ensuring full transparency and accountability. Proceeds will be managed on a portfolio approach, and AFC will maintain clear records of all allocations. Unallocated funds will be temporarily invested in cash equivalents, T-bills, T-bonds, or FDs, excluding greenhouse gas-intensive activities. AFC will ensure that proceeds are invested soon after funds are raised, with full deployment expected within 2 years. An annual external audit will verify compliance with the Green Bond Framework.

## **2.4 Reporting**

AFC is committed to transparency in disclosing both the allocation of proceeds and the environmental impact of its funded rooftop solar projects, as well as its equipment vendors and suppliers. This information will be integrated into AFC's annual report, ensuring comprehensive and accessible updates. That will include details on the progress of the projects, metrics on energy savings, and reductions in greenhouse gas emissions achieved through the financed initiatives separately.

This Framework will undergo periodic reviews to ensure it remains aligned with industry best practices and evolving global standards.

### 2.4.1 Monitoring and Reporting

#### Continuous Monitoring

AFC will continuously monitor the performance and compliance of the financed projects with the Green Bond Framework. This includes assessing the ongoing eligibility of projects and ensuring that the use of proceeds is appropriately allocated.

#### Annual Reporting

AFC will disclose the allocation of proceeds, project performance, and environmental impact of financed projects, including reductions in carbon emissions and contributions towards the UN SDGs, through AFC's annual report in a separate section. This approach ensures streamlined and transparent communication, providing stakeholders with comprehensive insights into the impact of the Green Bond Framework within AFC's broader sustainability reporting structure.

### 2.4.2 Measuring Methods of Impact

AFC will measure the expected environmental impact of the financed rooftop solar projects and equipment vendors and suppliers based on ex-ante estimates.

1. **KWH (Units Generated):** The energy generated by household rooftop solar installations and equipment vendors and suppliers will be measured on annual basis, providing a clear view of the system's productivity and contribution to renewable energy goals. Electricity generation will be tracked using meter readings, ensuring accurate measurement of the energy produced.
2. **CO2 Offset and Coal Saving:** AFC will calculate the reduction in carbon emissions resulting from the use of solar energy instead of conventional energy sources. Additionally, the equivalent amount of coal that would have been used to generate the same amount of energy will be measured, showcasing the environmental benefits.
3. **Facilities Provided to Solar Suppliers and Vendors:**

AFC will monitor the effectiveness of the working capital facilities provided to solar suppliers and solar equipment vendors, with a focus on;

- **Proportional Facilitation:** Evaluating how AFC's financing proportionately aids these suppliers and vendors in facilitating the installation of rooftop solar systems for their customers. This includes measuring the extent to which the provided financing supports the scaling of solar solutions, making it more accessible to end-users.
- **Supply Chain Impact:** Assessing how the financing helps vendors maintain a steady supply chain, ensuring the timely delivery of solar panels and equipment to customers. This, in turn, accelerates the adoption of rooftop solar technology, which has a guaranteed lifespan of 25 years.

### 2.4.3 Allocation Reporting

AFC will disclose the exact allocation of proceeds specifically to solar project proposals financed through its Green Financing Instruments in our annual report. In AFC's annual report, a detailed breakdown of the total funds allocated to each solar project, the unallocated funds, and the environmental impact achieved will be presented on an aggregated level (portfolio approach). Given that the management of proceeds is conducted using this approach, the reporting will follow the same method. Metrics will cover key performance indicators such as the installed capacity of rooftop solar installation, the amount of renewable energy generated, and the reduction in greenhouse gas emissions. AFC will ensure the annual report is accessible to all stakeholders, reflecting its commitment to transparency and accountability.

AFC will ensure up-to-date information on the use of proceeds is readily available and reviewed annually, especially in case of material developments.

The Finance Department, with support from the treasury and climate finance unit, will generate an annual internal report. This report will include:

1. A list of solar projects financed under the green bond, with details such as project descriptions, allocated amounts, and any remaining unallocated funds.

### 2.4.4 Impact Reporting

AFC will use quantitative performance measures and disclose the key methodology and assumptions used. Where applicable, AFC will refer to the ICMA Harmonized Framework for Impact Reporting. The environmental impact of each funded solar project will be assessed annually, including:

1. Solar power capacity or additional capacity (kW/MW)
2. Annual electricity generation (kWh/MWh)
3. Annual reduction or avoidance of Greenhouse Gas (GHG) emissions (in tons of CO2 equivalent).

## 3 External Review

AFC will obtain a Limited Independent Assurance report of the Green Bond framework from a reputed Independent External Verifier, confirming its alignment with the ICMA Green Bond Principles prior to the Green Bond issuance.

In addition to the pre-issuance review, the external verifier will also provide a post-issuance assurance report. The post-issuance assurance will include a review of internal processes and controls, allocation of proceeds and the impact reports and will be performed 12 months following the issuance of the Green Bond.

The external review and verification process will be publicly disclosed on the AFC website and in annual reports, making this assurance report accessible to all stakeholders and further reinforcing the credibility of AFC's green financing strategy.