



Sustainable Bond Framework

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1. INTRODUCTION

1.1 Sarvodaya Development Finance PLC

Sarvodaya Development Finance PLC (SDF) is a leading Non-Banking Financial Institution in Sri Lanka, dedicated to driving sustainable development by offering financial services that empower communities and foster economic growth. Incorporated on 1st January 2010, SDF obtained its license from the Monetary Board of the Central Bank of Sri Lanka in 2013. In 2021, SDF achieved a significant milestone by becoming the first impact investment company listed on the Colombo Stock Exchange (CSE), where it commenced trading on the Main Board.

Rooted in the legacy of the Sarvodaya Movement, founded in 1958 as one of Sri Lanka's oldest non-governmental organizations, SDF's mission is deeply aligned with the Sarvodaya vision of "Grama Swaraj"—a state of empowered, self-reliant villages built on a foundation of inclusivity, non-discrimination, and community-driven development. This six-decade legacy underpins SDF's apolitical and values-based approach to financial empowerment.

Operating through a robust network of **56 branches across Sri Lanka**, with over **90% located outside the Western Province**, SDF actively serves underserved and non-bankable communities. Through partnerships with over **5,400 village societies**, SDF delivers grassroots-level financial solutions, ensuring that even the most remote communities have access to tools for economic upliftment and self-sufficiency.

A cornerstone of SDF's impact lies in its dedicated support for Sri Lanka's **agriculture sector**. By partnering with leading local agricultural equipment suppliers, SDF provides affordable lease financing that enables smallholder farmers to access modern machinery, improving productivity and income generation. Further strengthening its role in Agri-finance, SDF secured a **USD 3 million loan from the EU-funded AgriFI** program, which enhances farmers' access to essential equipment such as tractors and harvesters, contributing to a more resilient and sustainable national food system.

Beyond agriculture, SDF plays a pivotal role in uplifting Micro, Small, and Medium Enterprises (MSMEs) through targeted financial solutions and value-added services that support market access and entrepreneurial growth. A particular focus is placed on women empowerment, fostering innovative and community-driven business ventures that promote social equity and economic diversity.

A unique feature of SDF's business model is its shareholder composition: over 54% of SDF's shares are held by Sarvodaya entities, including more than 1,000 Sarvodaya Shramadana Societies. As a result, a significant portion of business profits is returned to rural communities through dividends—amplifying the impact of SDF's financial interventions.

In recognition of its leadership in ethical finance, SDF is now a proud member of the **Global Alliance for Banking on Values (GABV)**—a prestigious international network of financial institutions dedicated to advancing positive social and environmental change. This affiliation reinforces SDF's commitment to values-based banking and positions the company to collaborate globally on best practices for sustainable finance. Adding to its accolades, SDF has **won the GOLD award for Transparency, Accountability, Governance, and Sustainability from CA Sri Lanka for the fourth time**—a remarkable achievement that underscores its unwavering commitment to excellence as a regulated financial entity.

SDF has developed a Sustainable Bond Framework to guide the issuance of Sustainable Bonds aimed at financing projects that deliver measurable social and environmental impact. These projects span a wide range of focus areas, including renewable energy, MSME financing, clean transportation, women empowerment, rural economic development, and agriculture-based livelihoods. The Framework is aligned with the standards set by the International Capital Market Association (ICMA), namely the Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2023, and Sustainability Bond Guidelines (SBG) 2021. This alignment reinforces SDF's commitment to responsible financing by ensuring all processes adhere to internationally accepted norms for transparency, impact tracking, and governance.

1.2 Product Portfolio

SDF's diverse product portfolio forms the backbone of its Sustainable Finance Initiatives, designed to support the growth and development of individuals, businesses, and communities. The institution offers a wide range of financial products aimed at fostering inclusive economic growth and empowering underserved populations. These products include:



Micro Loan

Financial solutions designed to support micro-entrepreneurs and small businesses by providing the necessary capital to start or expand their ventures. With below-average microcredit lending rates, SDF helps rural entrepreneurs overcome financial barriers and grow their businesses sustainably.



SME Loans

Targeted at SMEs to facilitate business growth and development. Beyond financial assistance, SDF offers comprehensive support in branding, marketing, packaging, and knowledge-sharing, equipping SMEs with the tools and expertise needed to expand and thrive in competitive markets.



Housing Loan

Assisting low-income and mid-income earning individuals/ families in acquiring affordable housing solutions.



Leasing Services

Provides leasing options for vehicles, machinery, and equipment to boost productivity. This includes specialized agricultural leasing products, enabling farmers to access essential machinery like tractors and harvesters to enhance their operations.



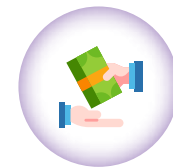
Fixed Deposits and Savings Accounts

Tailored to meet diverse customer needs, including senior and non-senior fixed deposit options, as well as children's savings accounts. These secure and rewarding solutions empower customers to manage and grow their finances with confidence.



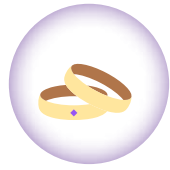
Educational Loans

The 'Nana Diriya Student Loan' is designed to support university students and those pursuing higher education. These loans empower individuals to access educational opportunities, fostering personal and career development.



Micro Loan

Financial solutions designed to support micro-entrepreneurs and small businesses by providing the necessary capital to start or expand their ventures. With below-average microcredit lending rates, SDF helps rural entrepreneurs overcome financial barriers and grow their businesses sustainably.



Gold Loans

Offers quick and secure financing solutions by leveraging gold assets, catering to both personal and business needs. This easily accessible form of credit helps customers meet their working capital requirements seamlessly and without hassle.



Dairy Loans

The 'Kiri Goviya' Dairy Loans are tailored financing solutions offered to existing SDF micro-clients, farmers, and Sarvodaya society members. These loans support dairy farmers in enhancing livestock, improving productivity, and expanding their operations.



Three-wheeler & Scooty Bike loans

Empowers individuals with affordable financing options to purchase or upgrade three-wheelers for personal or commercial use. Additionally, SDF offers Scooty Bike Loans, specifically designed for self-employed women and women with permanent employment, supporting mobility and economic independence.

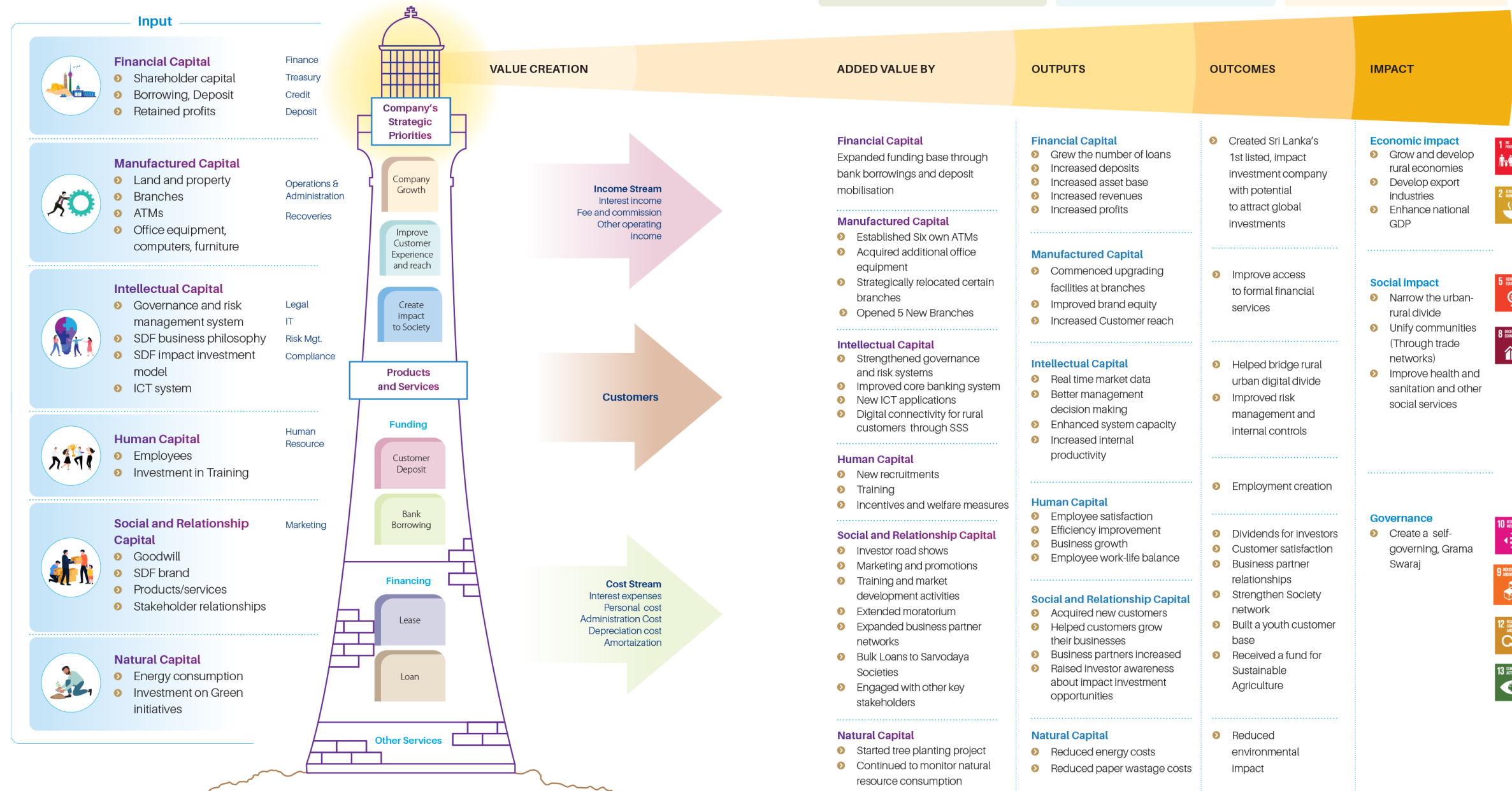


Society Loans

Provide financial solutions for societies registered under society ordinances across Sri Lanka. Serving 5,400 societies with memberships ranging from a minimum of 50 to over 500 active members per village, SDF supports these vibrant communities in driving economic and social progress at the grassroots level.

1.3 Value Creation Model

Building on the foundation set by Sarvodaya, a unique value creation model has been developed, providing a sustainable mechanism to channel funds into Sri Lanka's under-developed rural regions.



2. OBJECTIVES OF THE FRAMEWORK

The framework, aligned to the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG) of ICMA is designed to achieve the following.

- Mobilize capital to fund eligible green and social projects.**

 - Facilitate the raising of the funds specifically allocated to initiatives that generate positive environmental and social impacts.
 - Attract a diverse pool of investors who are committed to Environmental, Social and Governance principles (ESG), ensuring the capital flows toward high impact, sustainable development initiatives.
- Contribute to sustainable development and address critical environment and social challenges.**

 - Act as a catalyst for addressing global issues such as climate change, biodiversity loss, and social inequality by financing solutions that mitigate these challenges.
 - Drive the adaptation of sustainable practices across industries and communities, ensuring long-term resilience and equity.
 - Promote inclusive economic growth by creating opportunities for marginalized and underserved populations.
- Align with the United Nations Sustainable Development Goals (SDGs).**

 - Ensure all funded projects adhere to SDG framework, linking specific projects to relevant goals.
 - Demonstrate measurable progress towards achieving the 2030 Agenda for Sustainable Development by setting clear metrics and reporting mechanisms.

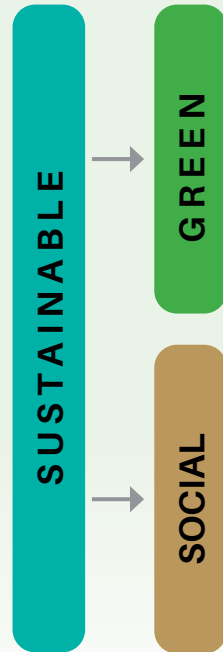


Our Journey Towards Sustainability

3. SUSTAINABILITY

3.1 Sustainability Strategies and Policies

Sarvodaya Development Finance PLC (SDF) is dedicated to advancing financial inclusion, promoting gender equality, and addressing key environmental challenges. Grounded in the principles of the Sarvodaya Shramadana Movement, SDF integrates sustainability into its core operations through transparent, accountable practices. By aligning its strategies with the United Nations Sustainable Development Goals (SDGs), SDF empowers communities, fosters inclusivity, and protects the environment. These efforts not only create meaningful social and economic impact but also pave the way for long-term, sustainable growth for future generations. Through its sustainable finance initiatives SDF aims to:



- ➔ **Promote Renewable Energy:** With Sri Lanka’s energy sector targeting 70% renewable energy by 2030 SDF plans to support this goal by financing rooftop solar and other small scale renewable energy projects.
- ➔ **Financing Clean Technology** - Committed to providing direct financing to clean technology and sustainable infrastructure projects, fostering the development of resilient industries and stimulating innovation.
- ➔ **Sustainable Water Management** - Through the deployment of dividends to Sarvodaya-related entities, these societies are committed to enhancing sustainable water management and developing infrastructure for clean drinking water in rural areas.
- ➔ **Enhance Access to Essential Services:** More than 25% of rural households struggle to access affordable housing and essential services, a gap that SDF financing seeks to bridge.
- ➔ **Support Agricultural Development:** By providing financial solutions for agricultural vehicles (Tractors and Harvesters), SDF supports farmers to improve efficiency, increase yields and enhance rural livelihoods.
- ➔ **Women Empowerment** - Develop specialized financial products and services tailored for women entrepreneurs, empowering them to start, grow, and sustain their businesses.
- ➔ **Increasing Food Security** - Provide financial support to the agricultural sector to enhance food security and nutrition in communities.
- ➔ **Reduced Income Inequalities** - Promote financial inclusion by providing services to people living below the poverty line, reducing income inequalities and fostering economic development.

This framework aligns with the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), contributing to the United Nations Sustainable Development Goals (SDG). By implementing this framework, SDF channels financial resources to initiatives with measurable positive environmental and social impacts.





3.2 Environment, Social and Governance (ESG) Policy

At SDF, the commitment to sustainability is anchored in robust Environmental, Social, and Governance (ESG) measurement and reporting. As a leading development finance institution in Sri Lanka, prioritizing transparency, accountability, and sustainable development is essential across all operations. Effective ESG practices are critical for building trust with stakeholders and driving long-term value. The approach spans a broad spectrum of activities, including environmental conservation, social equity programs, and governance excellence. Rigorous frameworks and standards are employed to track progress, ensure compliance, and continuously improve practices. In alignment with global best practices, SDF integrates the Global Reporting Initiative (GRI) standards into its ESG reporting and compliance processes, further strengthening its commitment to transparency and sustainability.

To strengthen sustainability initiatives, a dedicated mechanism has been implemented for measuring ESG activities. This includes the adoption of the **Experienz ESG platform**, which enables the quantification, analysis, and management of ESG activities across Environmental, Social, and Governance dimensions.

3.2.1 Environmental

The Environmental policies under SDF's ESG framework emphasize promoting sustainability and reducing environmental impact through:

1. **Sustainable Financing:** SDF prioritizes funding projects that align with environmental sustainability, including renewable energy, and waste management.
2. **Financing for Sustainable Agriculture:** SDF supports sustainable agriculture practices by providing financial solutions that help farmers adopt eco-friendly techniques, modern equipment, and resource-efficient methods to enhance productivity while preserving the environment.
3. **Partnerships and Initiatives:** Through collaborations with stakeholders, SDF invests in projects and innovations aimed at reducing carbon footprints and promoting environmental sustainability.
4. **Green Practices:** SDF incorporates environmentally responsible operations within its branches and offices, focusing on reducing energy consumption, minimizing waste, and optimizing resource use. SDF has taken steps towards investing in renewable energy by commissioning rooftop solar panels at the Company's Head Office building.
5. **Monitoring Carbon Emissions:** Carbon emission is captured through fuel usage and currently, SDF measures the Greenhouse gas emission scope 1 and 2. "Experienz" platform quantifies energy management of SDF through the consumption of electricity from the main Electricity Grid and solar power.



3.2.2 Social

Sarvodaya Development Finance PLC (SDF) integrates comprehensive social policies within its Environmental, Social, and Governance (ESG) framework to foster inclusive growth and socio-economic development. Key aspects include:

1. **Community Empowerment:** Guided by the principles of the Sarvodaya Shramadana Movement, SDF focuses on uplifting rural communities by providing financial services that enable self-sufficiency and economic development.
2. **Women Empowerment:** SDF prioritizes empowering women by providing access to financial resources, supporting women-led businesses, and encouraging innovation. These efforts help women contribute meaningfully to their communities while fostering gender equality.
3. **Financial Inclusion:** SDF is dedicated to extending financial access to underserved populations, particularly in rural areas, ensuring marginalized groups can participate in economic activities.
4. **Support for Micro, Small, and Medium Enterprises (MSMEs):** Recognizing the role of MSMEs in economic growth, SDF offers specialized financial products to support their development, sustainability, and job creation.
5. **Employee Welfare and Development:** SDF promotes the well-being of its employees by providing training, professional development opportunities, and a supportive work environment that nurtures talent and innovation.
6. **Corporate Social Responsibility (CSR) Initiatives:** SDF engages in CSR activities that address social challenges, contribute to community development, and enhance social well-being.



3.2.3 Governance

The governance structure of SDF is built on well described roles and responsibilities, greater transparency & accountability and the establishment of clear reporting lines of the Board and Board's various Subcommittees. Key elements include:

1. **Transparent Governance Framework:** SDF operates under a well-defined governance structure, promoting clarity in decision-making processes and fostering trust among stakeholders.
2. **Ethical Standards and Compliance:** SDF adheres to the highest ethical standards and ensures strict compliance with all applicable laws, regulations, and industry best practices to maintain operational integrity.
3. **Board Oversight and Independence:** The Board of Directors at SDF comprises experienced and independent members who provide strategic oversight and ensure that governance practices align with the company's vision and ESG objectives.
4. **Risk Management and Internal Controls:** SDF employs comprehensive risk management systems and robust internal controls to identify, mitigate, and manage potential risks, safeguarding its operations and stakeholders.
5. **Stakeholder Engagement:** SDF prioritizes open communication with stakeholders, ensuring their concerns and feedback are integrated into decision-making processes, further enhancing transparency and accountability.
6. **Data Privacy and Security:** Recognizing the importance of data protection, SDF enforces stringent policies to safeguard customer information and ensure confidentiality in all transactions.
7. **Sustainability Reporting:** Governance policies are supported by rigorous ESG measurement and reporting systems, including the adoption of platforms like the Experienz ESG platform, ensuring that governance performance is tracked, analysed, and continually improved.
8. **Whistleblower Mechanisms:** SDF provides secure and confidential channels for employees and stakeholders to report unethical behaviour, fraud, or misconduct, fostering a culture of accountability.

3.3 Governance Structure

Sarvodaya has established a Management-Level Committee responsible for overseeing the company’s sustainable strategy, environmental practices, and ESG risk management. This committee operates in alignment with SDF’s Sustainable Development Policy, ensuring the company’s long-term success and viability. Members within the governance structure have been selected based on their expertise, experience, and ability to uphold the highest standards of governance, strategic oversight, and sustainability leadership. Their appointments reflect a rigorous selection process that emphasizes independence, diversity, and alignment with Sarvodaya’s core values and sustainable development priorities. Many members also bring specialized knowledge in ESG, risk management, and corporate strategy, ensuring the committee is well-equipped to guide the organization in line with international best practices and regulatory expectations. Across the governance structure, the overall gender composition is approximately 68% male and 32% female, reflecting ongoing efforts to promote gender diversity and inclusion.



3.4 Environmental and Social Management System (ESMS)

Sarvodaya Development Finance (SDF) has established a comprehensive Environmental and Social Management System (ESMS) to seamlessly integrate environmental and social considerations into its project appraisal and monitoring processes. With ongoing monitoring, review, and adaptation, the system remains dynamic, evolving to address emerging risks and enhance sustainability efforts. Senior management periodically reviews ESMS performance, reinforcing SDF’s commitment to responsible and sustainable development.

Environmental & Social Management System (ESMS)

Our Environmental, Social, and Governance Management System (ESMS) is a comprehensive framework of policies, procedures, and tools.



Policies

Guiding principles for responsible operation



Procedures

Step-by-step actions for managing ESG aspects.



Tools

Resources like ESG assessment checklist

Purpose: To effectively **identify, assess, manage, and monitor** the Environmental and Social risks and opportunities associated with our clients and investments, ensuring sustainable and responsible growth for Sarvodaya Development Finance PLC.

Core Pillars of Our ESMS

Our ESMS is built on three fundamental pillars that ensure its robustness and effectiveness in managing ESG considerations:

1. ESG Risk Management Policy:

The foundational document outlining Sarvodaya Development Finance PLC’s commitment and strategic approach to managing ESG risks and opportunities.

2. Defined Procedures & Tools:

Systematic processes for screening, categorization, due diligence (as per checklists and forms), and continuous monitoring of ESG factors across our portfolio.

3. Dedicated Roles & Capacity:

Clearly assigned responsibilities and ongoing training programs for our staff to effectively implement and uphold the ESMS standards.

Leadership and Accountability

Effective ESG management is driven by strong leadership and clear accountability at all levels within Sarvodaya Development Finance PLC.

Board of Directors (BoD):

- ➔ **Reviews & Approves:** The ESG Risk Management Policy at set frequencies.
- ➔ **Stays Informed:** Receives timely updates on ESG progress and material issues.

CEO & Key Responsible Persons (KRPs):

- ➔ **Ensure Effectiveness:** Champion the ESMS and integrate it with existing risk frameworks.
- ➔ **Provide Training:** Equip staff with necessary ESG risk management skills.
- ➔ **Uphold ‘Three Lines of Defense’:** Ensure clear accountability.
- ➔ **Communicate & Adapt:** Report to Risk Management, identify operational challenges, and update the ESMS (e.g., for legal changes, emerging risks).
- ➔ **Promote Sustainability:** Integrate ESG into policies, practices, products, and services.
- ➔ **Foster Knowledge:** Encourage knowledge sharing and environmental scanning.

ESMS in Action : Our Integrated Business Cycle

Customer Identification / Preliminary Screening

Led by: Business Development Officers (BDOs)

Focus: Understanding restricted/undesirable transactions (as per Credit Procedure Manual) for initial eligibility.

Credit Evaluation

Led by: BDOs

Focus: Financial appraisal and ESG risk evaluation (site visit mandatory). Uses ESG Due Diligence Checklist.

Credit Approval

Led by: Credit Admin Unit

Focus: Overall risk evaluation, ESG risk categorization, and due diligence findings. Approval incorporates corrective action recommendations.

Negotiation

Led by: BDOs

Focus: Discussing terms including ESG compliance requirements and corrective actions. Ensuring clear communication.

Disbursement

Led by: Legal Department, Credit Admin Unit (CAU), Finance Department

Focus: Incorporating ESG obligations into legal agreements and ensuring adherence to credit covenants.

Monitoring

Led by: Strategic Planning and Sustainability, Risk Management departments

Focus: Regular tracking of ESG performance and implementation of corrective actions.

Documentation & Recordkeeping

Led by: Credit Department

Focus: Maintaining detailed records of ESG issues and risk exposures.

4. SUSTAINABLE BOND FRAMEWORK

Sarvodaya’s Sustainable Bonds are consistent with the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG), coordinated by the International Capital Market Association. Sarvodaya’s Sustainable Bonds Framework is designed to provide investors with information on how these proceeds will support sustainable development. This Framework specifically outlines how these Sustainable bonds and processes align to the four pillars of the Sustainability Bond Guidelines as noted below:

- 01** Use of Proceeds
- 02** Process for evaluation and selection of eligible operations
- 03** Management of Proceeds
- 04** Reporting

4.1 Use of Proceeds




The proceeds from sustainable bonds issued under this framework will exclusively fund projects that meet the eligibility criteria outlined below. These projects will be evaluated to ensure alignment with the GBP, SBP, and SBG of ICMA. Under the given eligibility criteria, the company will provide financing for new funding requirements and will not include refinancing.




Below is the fund allocation for the green and the social financing.

With over 60 years of experience in social development activities, the company plans to allocate 75% of the funds towards socially impactful financing and 25% towards climate impact financing. The company has already financed such initiatives as outlined below, and the new funds will further strengthen its ongoing contribution to social and climate-related financing.





4.1.1 Green Eligible Categories


GBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Expected environmental benefits, associated risks & mitigation strategies	Performance Indicators	SDG Alignment
Renewable Energy	Supports our mission of uplifting rural communities through access to sustainable energy and reducing environmental footprint.	<ul style="list-style-type: none"> ➔ Financing for the development and implementation of rooftop solar electricity generation facilities including dedicated transmission and supporting infrastructure. ➔ Facilitating access to financing for solar equipment vendors. 	<p>Benefits Contributes to national electricity generation by replacing fossil fuels, thereby reducing reliance on coal and significantly lowering air and water pollution.</p> <p>Risks Potential changes in government policies and regulations regarding the purchase of electricity for the national grid, due to the lack of power storage capacity.</p> <p>Mitigation Strategies Engage proactively with regulatory authorities to stay informed about potential policy changes and contribute to policy discussions. Invest in or partner with power storage solution providers to pilot scalable storage technologies.</p>	<ul style="list-style-type: none"> ➔ Number of kWh generated from solar panels ➔ Equivalent amount of fossil fuel replaced 	<p>SDG 7: Affordable and Clean Energy</p>  <p>SDG 12: Responsible Consumption and Production</p>  <p>SDG 13: Climate Action</p> 




GBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Expected environmental benefits, associated risks & mitigation strategies	Performance Indicators	SDG Alignment
Clean Transportation	Aligns with our commitment to low-carbon development, the green mobility initiatives and our strategic goal of achieving carbon neutrality by 2030.	<ul style="list-style-type: none"> ➔ Providing loan and affordable leasing facilities to support the purchase of electric vehicles. ➔ Financing low-carbon public transportation infrastructure projects, such as electric vehicle (EV) charging centres. 	<p>Benefits Promotes reduced fossil fuel consumption by encouraging electric vehicle use and supporting compatible solar-powered charging infrastructure, thus mitigating air pollution.</p> <p>Risks Inadequate national EV infrastructure and evolving regulatory frameworks could impact project viability and slow adoption rates.</p> <p>Mitigation Strategies Collaborate with government agencies and private sector stakeholders to support the development of EV infrastructure.</p>	<ul style="list-style-type: none"> ➔ Number of Electric Vehicles ➔ Equivalent amount of fossil fuel replaced 	<p>SDG 11: Sustainable Cities and Communities</p>  <p>SDG 12: Responsible Consumption & Production</p>  <p>SDG 13: Climate Action</p> 

Estimated allocation: The proceeds for these projects will be allocated from the estimated Green Eligible Financing portion of the bond, which accounts for 25% of the total proceeds as specified above. Each GBP Category will receive a minimum allocation of 30% from the Green Eligible Financing portion. Fund utilization will be integrated into SDF's annual report, ensuring transparent and comprehensive updates are made publicly available.


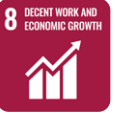

4.1.2 Social Eligible Categories

SBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Excepted Social Benefits & Risks Associated	Performance Indicators	SDG Alignment
Affordable Housing	Supports our strategy to enhance financial inclusion and improve living conditions for underserved communities by providing access to basic housing finance.	<p>Loans to underserved communities for affordable housing projects such as:</p> <ul style="list-style-type: none"> ➞ Purchase an existing house ➞ Construct a house ➞ Purchase a bare land to construct a house for residential purposes ➞ Complete construction of a partially-built house ➞ Renovate or modify an already constructed house 	<p>Benefits</p> <p>The company provides financing to un-bankable customers who lack sufficient documentation for traditional bank borrowing—such as daily wage workers, farmers, and village-based small entrepreneurs. Through this support, SDF aims expand to provide access to better housing and uplift their standard of living.</p> <p>Risks</p> <p>Possibility of delays or legal complications due to unclear land titles or changes in housing-related policies or regulations.</p> <p>Mitigation Strategies</p> <p>Conduct thorough due diligence on land titles and legal documentation prior to project initiation. Work closely with legal experts and local authorities to resolve ambiguities early.</p>	<ul style="list-style-type: none"> ➞ Number of individuals/families benefiting from subsidised housing 	<p>SDG 1: No Poverty</p>  <p>SDG 11: Sustainable Cities and Communities</p> 

SBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Excepted Social Benefits & Risks Associated	Performance Indicators	SDG Alignment
Employment Generation	Aligns with our focus on sustainable economic development through the empowerment of MSMEs and community-based entrepreneurship.	<p>➔ Providing SME financing solutions specifically designed to support business startups and enhance the capacity of existing small and medium enterprises owned by or serving underserved and marginalized groups, including youth, persons with disabilities, and low-income communities.</p>	<p>Benefits The company provides financing to SMEs primarily to support business growth and startups, especially those without access to formal financial services. Many of these businesses rely on informal borrowing methods at unreasonably high interest rates. SDF aims to generate more employment by financing the SME sector and ensuring their continuity by offering funds at reasonable rates.</p> <p>Risks Funds may not always be used for intended business purposes, reducing the impact of the financing and increasing credit risk.</p> <p>Mitigation Strategies Implement strict loan monitoring mechanisms, including periodic site visits, usage audits, and milestone-based disbursements. Include clear covenants in loan agreements that define permitted uses of funds.</p>	<p>➔ Number of loans to SMEs and/or micro-enterprises</p> <p>➔ Number employment opportunities created</p>	<p>SDG 8: Decent Work and Economic Growth</p> 

SBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Excepted Social Benefits & Risks Associated	Performance Indicators	SDG Alignment
Women Empowerment	Aligns with our commitment to gender equality and inclusive economic participation by increasing access to finance for women in underserved rural communities.	<p>➔ Financial services specialized for women entrepreneurs and women-led enterprises.</p>	<p>Benefits The company has a 48% female customer base, primarily from rural communities, especially through Sarvodaya Shramadana Societies. The company focuses on providing access to finance for women, particularly to support their small and medium enterprises and business startups. Through these efforts, the company aims to contribute to gender equality.</p> <p>Risks Gender-based societal norms and constraints in certain rural areas may hinder women's full participation in economic activities, reducing the potential impact of financial support</p> <p>Mitigation Strategies Design and implement gender-sensitive financial products and capacity-building programs that address specific barriers faced by women. Partner with local community leaders and organizations to promote awareness and support for women's economic participation.</p>	<p>➔ Number of women entrepreneurs benefited</p> <p>➔ Number women employment created</p>	<p>SDG 1: No Poverty </p> <p>SDG 5: Gender Equality </p> <p>SDG 10: Reduced Inequalities </p>

SBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Excepted Social Benefits & Risks Associated	Performance Indicators	SDG Alignment
Food Security	<p>Improve the productivity and efficiency of farming communities by enhancing agricultural practices through the provision of high-tech equipment, modern machinery, and quality agricultural inputs, delivered through strategic partnerships. This initiative is expected to ensure food security and increase farmers' income levels.</p>	<p>➔ Provide loan facilities and affordable leasing options for agricultural equipment and machinery to support farmers.</p>	<p>Benefits Enhancing farming productivity and efficiency through high-tech equipment and quality inputs leads to increased crop yields, improved income for farming communities, and sustainable agricultural development.</p> <p>Risks The adoption of advanced technology may face challenges such as high initial costs, lack of technical knowledge among farmers, and dependency on external input suppliers.</p> <p>Mitigation Strategies Establish training and awareness programs to build farmers' capacity in using new technologies; implement pilot projects to demonstrate impact; and form partnerships with trusted input providers to ensure quality, affordability, and after-sales support.</p>	<p>➔ Number of Farmers benefited.</p> <p>➔ Number of hectares cultivated.</p>	<p>SDG 1: No Poverty </p> <p>SDG 2: Zero Hunger </p> <p>SDG 12: Responsible Consumption & Production </p>

SBP Category	Alignment to SDF's sustainability strategies	Targeted Projects	Excepted Social Benefits & Risks Associated	Performance Indicators	SDG Alignment
Socioeconomic Advancement	Supports our mission to uplift low-income communities through the expansion of development-oriented microfinance programs of Sarvodaya Development Finance PLC.	<p>➔ Provide Microfinance loans for village and home-based small businesses and income generative cultivation activities such as tea and cinnamon planting and any other commercial crops for low-income communities.</p>	<p>Benefits The company provides financing to micro businesses, primarily those at the poverty level, especially in the agriculture sector and among rural customers. SDF aims to strengthen financing for this segment, provide access to formal financial services, and support income generation to help them rise out of poverty.</p> <p>Risks Difficulty in tracking the actual use of funds and quantifying long-term socioeconomic benefits, especially in informal and geographically dispersed communities.</p> <p>Mitigation Strategies Develop simplified, community-based monitoring and reporting mechanisms that leverage local networks and digital tools to track fund utilization</p>	<p>➔ Number of customers benefited who are under the poverty level.</p> <p>➔ How much production is generated (Value to GDP)</p>	<p>SDG 1: No Poverty </p> <p>SDG 8: Decent Work and Economic Growth </p> <p>SDG 10: Reduced Inequalities </p>

Estimated allocation: The proceeds for these projects will be allocated from the estimated Social Eligible Financing portion of the bond, which accounts for 75% of the total proceeds as specified above. Each SBP Category will receive a minimum allocation of 10% from the Social Eligible Financing portion. Fund utilization will be integrated into SDF's annual report, ensuring transparent and comprehensive updates are made publicly available.

4.2 Portfolio Evaluation and Selection

SDF has established a dedicated Strategic Planning & Sustainability Department (herein referred to as “SPSD”) as the primary body responsible for the selection and evaluation of eligible portfolios under the Sustainable Bond Framework. This department comprises four members—the Head of Strategic Planning, the Executive - Sustainability, and two Executive Strategic Supporting Staff—ensuring focused, expert-driven assessments. The department reports directly to the Management Sustainability Committee, which includes 10 senior members, such as the CEO (Chairman), HOSP (Secretary), the Executive - Sustainability, and five Management Committee members. This two-tiered governance structure ensures a robust, accountable selection process by integrating strategic oversight with technical and operational expertise. In addition, the committee is responsible for assessing whether proposed activities are in compliance with the **Sri Lanka Green Finance Taxonomy (May 2022)**.

During the quantitative and qualitative assessment, the Strategic Planning & Sustainability Team will evaluate each project proposal based on a set of specific indicators relevant to the respective Green or Social category. These indicators are designed to measure both environmental impact and social benefit, ensuring alignment with the Sustainable Bond Framework.

For Green Projects, indicators may include:

- Estimated kilowatt-hours (kWh) of solar energy generated
- Reduction in fossil fuel consumption (e.g., litres/year or emissions offset)
- CO₂ emissions avoided (measured in metric tons/year)

For Social Projects, indicators may include:

- Income level of the applicant or target beneficiary group
- Number of direct and indirect jobs created
- Number of farming acres supported or cultivated
- Number of women employed or trained through the initiative
- Whether the founder or business owner is a woman
- Number of youth or marginalized individuals engaged
- Support to first-time entrepreneurs or micro-enterprises
- Improvement in household income or livelihood resilience of beneficiaries

4.2.1 Key Evaluation Steps

The project assessment process at Sarvodaya begins when a customer submits a loan application at a branch. Using the information provided, branch-level officers perform an initial review to evaluate whether the proposed project aligns with Sarvodaya’s sustainability objectives. Sustainability Committee will provide guidelines to identify the eligible products. If deemed potentially eligible, the application is escalated to the SPSP, which takes responsibility for the thorough evaluation and selection process. This includes reviewing the proposal against the eligibility criteria specified in the Sustainable Bond Framework, Sarvodaya’s overarching sustainability priorities, and any other relevant guidelines. As part of this process, the department conducts detailed technical and financial feasibility analyses to ensure that projects are both viable and impactful. In addition, the committee is responsible for assessing whether proposed activities are in compliance with the **Sri Lanka Green Finance Taxonomy (May 2022)**.

Once the due diligence process is completed, the proposal is submitted for final credit approval. Depending on the loan amount, approval authority rests with either the Senior Manager - Credit or, for larger exposures, with the Head of Credit, as per the Board-approved credit policy. Oversight of the proper allocation and tracking of bond proceeds is maintained by the SPSP, which ensures full compliance with the Sustainable Bond Framework and promotes transparency throughout the process.

4.3 Management of Proceeds

Proceeds from the sustainable bonds will be managed on an aggregate basis through a dedicated account. SDF is committed to promptly deploying the proceeds from its sustainable bonds, with full allocation expected within one year of issuance. To ensure adherence to the Sustainable Bond Framework, an independent third-party auditor will conduct an annual external review in accordance with applicable rules and regulations. Unallocated proceeds will be temporarily invested in cash, cash equivalents, or Sri Lanka Government Securities.



4.4 Reporting

SDF is committed to transparency and accountability in reporting the allocation of proceeds and the impact of funded portfolios. Reporting will include:

Allocation Reporting:

Annual report to verify that the proceeds received have been allocated to the Eligible Project

Categories which would also be published on the listed exchange.

- Total proceeds allocated
- Breakdown by portfolio category
- Geographic distribution of portfolios

Impact Reporting:

This report will be shared exclusively with the investors of the bond, while the annual report will track and highlight the impact generated by the proceeds of the bond, demonstrating how the funds have contributed to the intended goals and outcomes.

- Metrics such as CO₂ emissions avoided, number of affordable housing units financed, or SMEs supported.
- Qualitative case studies showcasing portfolio benefits.

The Treasury and the Sustainability Unit will prepare and submit allocation and impact reports to the Sustainable Bond Committee and the Board on a periodic basis. Any changes to the overall portfolio considered under the Sustainable Bond, or the removal and addition of individual portfolios from the Sustainable Bond portfolio, will require clearance from the Sustainability Unit. SDF will publicly disclose the allocation of proceeds and impacts of the Sustainable Bonds in its Annual Report on an aggregate portfolio basis without detailing individual portfolios funded. The Annual Report will be published on the SDF website and other relevant platforms as applicable.

SDF will maintain and make readily available up-to-date information on the use of proceeds, reviewed annually, and updated in a timely manner in case of material developments.

SDF is committed to transparency and accountability in reporting the allocation of proceeds and the impact of funded portfolios. Reporting will include:

- The Harmonized Framework for Impact Reporting is designed to ensure the impact data is reported consistently, transparently, and comparably across different organizations, industries and investment types, particularly in the context of Sustainable Bonds. This framework helps issuers clearly communicate the positive environment and social outcomes achieved through the bond's proceeds.

4.4.1 Impact Reporting Framework

1. Alignment with Impact Objectives

- SDF commits to aligning the use of proceeds with clearly defined sustainability goals, including but not limited to the UN Sustainable Development Goals (SDGs) or specific environmental and social objectives.
- Impact reporting will reflect how proceeds are contributing to this identified goal, with a focus on both environmental and social outcomes.

2. Standardized Reporting Indicators

- Impact reporting will utilize standardized, globally recognized metrics to ensure comparability and transparency. These may include quantitative indicators such as CO₂ reductions, renewable energy capacity, energy savings or the number of people benefiting from funded projects, as well as qualitative indicators that highlight the broader social and environmental impacts.
- SDF will utilize the Harmonized Framework for Impact Reporting to ensure that metrics align with industry best practices and are consistent with leading sustainability standards.

3. Impact Metrics Categories

- **Environmental Impact:** Metrics will focus on improvements in environmental sustainability, such as reductions in greenhouse gas emissions, the installation of renewable energy capacity, or conservation efforts that promote biodiversity and natural resource preservation.
- **Social Impact:** The framework will track social outcomes such as access to education, affordable healthcare, employment opportunities, or infrastructure development that directly benefits underserved communities.

4. Data Transparency

- The issuer will provide transparency regarding the methodologies and assumptions used to calculate impact. This will include clear disclosure of data sources and calculation models to ensure consistency and accuracy in reporting.
- The impact data will be made publicly available in a clear and understandable format.

5. Timeframe for Reporting

- Impact will be reported on an annual basis, with the first report due one year after the issuance of the bond. Reporting will cover both short-term impacts (within the first 1-2 years) and long-term projected impacts, to provide a comprehensive view of outcomes.

6. Verification and Assurance

- SDF will obtain external verification, or third-party assurance of the impact reporting, ensuring that the data provided is accurate and reliable. This will be done by an independent organization with expertise in impact measurement and sustainable finance.
- The verification will cover both financial and impact reporting.

7. Use of Proceeds Tracking

- Clear reporting on the allocation of proceeds will be provided, showing how the funds are distributed across various projects. This will include detailed descriptions of each funded project, its objectives, expected outcomes, and the geographical location where these funds are utilized.
- The issuer will ensure that all proceeds are used to intended sustainable related projects/products as described in the bond's offering document.

8. Expected vs Actual Impact

- SDF will report on the actual impact achieved versus the initially projected impact. This comparison will help investors understand the effectiveness of the investment and provide accountability for any discrepancies between expected and realized outcomes.

9. Stakeholder Engagement

- SDF will engage with relevant stakeholders (Including affected communities, local authorities, and impact investors) to ensure that the impact reporting is relevant and reflective of the actual outcome.
- This will help ensure that the reported impacts address most critical needs and concerns of the stakeholders involved, strengthening the bond's credibility and fostering long term sustainable development.

4.5 External Review

SDF will obtain a Limited Independent Assurance Statement of this Sustainable Bond Framework from a reputed Independent External Verifier, confirming its alignment with the ICMA Green Bond Principles prior to the Sustainable Bond issuance.

The Independent External Verifier will also issue a Post Issuance Assurance Report. The Post Issuance Assurance will include a review of the internal processes and controls, allocation reports, and impact reports and will be performed after 12 months following the issuance of the Sustainable Bond.

Thereafter, the annual allocation reports and impact reports will be reviewed by the Independent External Verifier. These reports in abridged form, including the external review, will be published on the SDF website.

By adhering to this comprehensive framework, Sarvodaya Development Finance PLC reaffirms its commitment to sustainable development and creating long-term value for its stakeholders.

5. UPDATING THE SUSTAINABLE BOND FRAMEWORK

Sarvodaya Development Finance PLC will update this framework as and when required, and such updates will be published on its website. At a future date where relevant, it may also be replaced with a broader Sustainable Finance Framework. These changes will follow Sarvodaya's internal processes and the relevant globally recognized standards, guidelines and best practices.

ANNEXURE 1: SDF EXCLUSION LIST

Any activity, production, use, distribution, business or trade involving:

1. Forced labour or child labour
2. Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
 - ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
 - wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
 - Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length)
3. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
4. Destruction of High Conservation Value areas
5. Radioactive materials and unbounded Asbestos Fibers
6. Pornography and/or prostitution
7. Racist and/or anti-democratic media
8. In the event that any of the following products form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities:
 - Alcoholic Beverages (except beer and wine);
 - Tobacco;
 - Weapons and munitions; or
 - Gambling, casinos and equivalent enterprises
9. Coal prospection, exploration, mining or processing
10. Oil exploration or production
11. Standalone fossil gas exploration and / or production
12. Transport and related infrastructure primarily used for coal for power generation
13. Crude Oil Pipelines
14. Oil Refineries
15. Construction of new or refurbishment of any existing coal-fired power plant (including dual)

