

# **Sustainability Policy**

**LOLC Finance PLC (LOFC)**

**22 May 2024**

**Version control** [To be used after first approval and use for version control]

	<b>Date</b>	<b>Name</b>	<b>Position</b>	<b>Signature</b>
Created:	22.05.2024	Sithumini Wijerathna	Sustainability Manager	
Reviewed:	22.05.2024	Montini Warnakula	COO	
Approved:	29.05.2024		Board of Directors	

**Revision History** [To be used after first approval and use for version control]

<b>Revision no.</b>	<b>Revision Date</b>	<b>Name</b>	<b>Description of Changes</b>
1	22.05.2024	Sithumini Wijerathna	<ol style="list-style-type: none"><li>1. Change the Criteria from “Carbon Neutrality” to “Operational Carbon Neutrality”</li><li>2. Change the 2030 Goal of Operational Carbon Neutrality From “Reduced by 50% from 2021 levels” to “Achieve Operational Carbon Neutrality at the end of 2030”</li><li>3. Change the 2030 Goal of Zero Waste From “Reduced by 100% from 2021 levels” to “Reduced by 75% from 2021 levels”</li></ol>

# **LOFC Sustainability Policy**

## **Vision**

To reach greater heights in sustainability.

## **Mission**

To seek and provide sustainable financial assistance during the entire value chain of a business, and business guidance to entrepreneurs, including those with low income, thereby becoming the most respected and sustainable corporate entity in the financial sector in Sri Lanka.

## **Definition of Sustainability**

LOFC is committed to conducting its business in a responsible manner that seeks to add value to all its stakeholders on aspects of economic, social and environmental sustainability or People, Planet and Profit (the “3 Ps”). This commitment is integrated into our business planning and operations by establishing and maintaining management systems that measure the implementation of our corporate policy objectives.

LOFC is committed to comply, and to encourage our Borrowers to comply, with all applicable environmental and social laws, rules and regulations of Sri Lanka as well as the requirements of our stakeholders.

## **Objectives**

In line with LOFC’s commitments to the 3Ps, the following policy objectives are made:

<b>Aspect</b>	<b>Objectives</b>
<b>People</b>	<ul style="list-style-type: none"> <li>• To provide sustainable financial assistance and business guidance to entrepreneurs;</li> <li>• To identify potential funding partners with shared values and goals to source funding for business growth thereby becoming a preferred facilitator for international agencies realising their own sustainability goals;</li> <li>• To provide Borrowers with complete, competitive and need based solutions responsibly, and expand reach to provide greater convenience to Borrowers;</li> <li>• To adopt transparent and responsible reporting to relevant stakeholders;</li> <li>• To conduct business that requires Borrowers to be in compliance with relevant laws, regulations and rules; and</li> <li>• To promote corporate sustainability with internal and external stakeholders.</li> </ul>
<b>Planet</b>	<ul style="list-style-type: none"> <li>• To optimise resource use by recycling, reusing, minimising waste generation and process automation</li> <li>• To promote responsible use of energy, water and waste disposal by throughout the organisation;</li> <li>• To comply, and to strongly encourage our Borrowers to comply, with all applicable national environmental and social laws, rules and regulations, and when applicable, with the international best practice standards;</li> <li>• To prioritise investments / accommodations in commercially viable projects relating to Clean Development Mechanism, and environmentally friendly technologies that minimize environmental impacts including climate change, global warming, biodiversity and species extinction, local air pollution, water, land and noise pollution, waste disposal, deforestation, soil erosion, and non-renewable natural resource depletion;</li> <li>• To create awareness on environmentally friendly practices and support for such projects in proximity to our places of business;</li> <li>• To provide in-house training on environmental education and support for environmental activities;</li> <li>• To create awareness in pollution prevention and resource conservation strategies in our business planning and operational decision making to reduce negative environmental externalities; and</li> <li>• To pay a particular attention and focus to water and its use.</li> </ul>
<b>Profit</b>	<ul style="list-style-type: none"> <li>• To optimise profitability of financial services cluster and explore investment opportunities and diversity operational risk through strategic ventures;</li> <li>• To maintain asset and liability portfolios that optimises profitability;</li> <li>• To be the most sought out employer for long term organisational sustainability; and</li> <li>• To conduct audits and self-assessments of compliance with our policies.</li> </ul>

This Sustainability Policy will be communicated to all Internal and External Stakeholders of LOFC.

*Sithumini Anuradha*  
*Sustainability Manager*  
 22 May 2024

## Targets

In line with LOLC Group's sustainability dashboard, LOLC Finance PLC (LOFC) has set the following sustainability targets for 2030 that are focussed on environmental & social criteria:

	Criteria	Indicator	2030 goal
<b>Economic</b>	Innovative Sustainable Living Products / Services for Borrowers	# of new products / services; # of loans disbursed per product; % share of new products in total portfolio.	Goals to be set by LOLC Group
	Products sourced from sustainable sources, certified, recyclable, locally sourced, etc.	% of purchases procured from sustainable sources	Reduced by 100% from 2021 levels
<b>Environmental</b>	Operational Carbon Neutrality (energy efficiency, renewable energy, carbon offsets)	Tons of greenhouse gas (GHG) emissions	Achieve Operational Carbon Neutrality at the end of 2030
	Zero waste	% of waste reduced	Reduced by 75% from 2021 levels
	Electricity Consumption	% of Electricity Reduction	Reduced by 15% from 2021 levels
	Shift to paperless offices	% of paper use reduction	Reduced by 100% from 2021 levels
	Zero toxic emissions	% of toxic emissions reduction	Reduced by 100% from 2021 levels
	Zero particulate matter (PM) emissions	% use of diesel free / hybrid / electric company-owned vehicles	Use 100% from 2021 level
	Positive water use (Generation exceeds Consumption)	Difference between water generation and consumption	Maintain Net positive water use from 2021 level
<b>Social</b>	Competitive gender equitable wages and incentives for staff	% of staff paid at above living wage	Increased 100% from 2021 level
	Low staff turnover	% turnover rate	Reduced by 10% from 2021 level
	Community outreach	% of profits donated to charity	Increased by 10% from 2021 level
	Positive workplace with international labour standards	% of staff satisfaction assessed through workplace surveys / audits	Increased by 90%; from 2021 level
	Gender supportive work environment, work-life balance, etc.	Metrics to be set by LOLC Group	Goals to be set by LOLC Group

## Monitoring and Reporting

In accordance with the requirements of LOFC's stakeholders including sustainability reporting requirements, LOFC shall ensure the following are monitored and adhered to.

	Requirements	Actions by LOFC
<b>Environmental and social management system (ESMS)</b>	An ESMS which is fully integrated in the credit approval process	LOFC has developed and implemented an ESMS as of 28 March 2023
	An E&S Policy which shall be communicated internally and externally	LOFC's E&S Policy has been disclosed on the company website: <a href="#">[Add link]</a>
	E&S responsibilities at the operational, management and Board level	E&S personnel at the operational, management and Board level have been designated within LOFC's ESMS.
	At least annual review and update of the ESMS	At a minimum, LOFC shall review and update its ESMS annually. Document control requirements (i.e. version control record, revision history description) are included in the ESMS.  The ESMS was last reviewed on 28 March 2023
	An exclusion list aligned with the Harmonized EDFI Exclusion List	Monitor exposure to Annex A of LOFC's ESMS which describes excluded activities with reference to the Harmonized EDFI Exclusion List.
	E&S competence and training	A one-hour e-learning module has been developed to support overall awareness of the ESMS for all LOFC employees, including for new employees.  For employees that have key responsibilities for the implementation of the ESMS as well as those that are exposed to E&S risks linked to LOFC's operation and activities, a specific ESMS training programme has been developed and implemented.
	Emergency planning	LOFC's ESMS includes procedures for reporting material adverse E&S events to LOFC and LOFC onwards.
	Regular reporting of E&S impact to management and Board levels	The E&S Manager will report any major E&S issues to senior management and secure the support for and approval of E&S risk management issues by senior management.
	Identify and consult internal and external stakeholders	LOFC has developed a Stakeholder Engagement Plan (SEP) which identifies key stakeholders, describes engagement strategies and records engagement activities.
	Achieve certification of the ESMS (i.e. ISO 9001, ISO 14001, OHSAS8001, SA8000 or equivalent)	LOFC will obtain ESMS ISO 14001 certification at the end of 2024 to enhance the environmental performance
<b>E&amp;S categorisation of transactions</b>	Standards to be applied when assessing E&S risks associated with lending:  <ul style="list-style-type: none"> <li>Relevant laws in Sri Lanka;</li> </ul>	

	<ul style="list-style-type: none"> <li>• National laws / standards;</li> <li>• IFC Performance Standards;</li> <li>• ILO Conventions; and</li> <li>• Any other standards.</li> </ul>	<ul style="list-style-type: none"> <li>• International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work;</li> <li>• ILO's Basic Terms and Conditions of Employment.</li> </ul>
<b>E&amp;S risk mitigation and management</b>	<p>Methods to be used to mitigate E&amp;S risks:</p> <ul style="list-style-type: none"> <li>• E&amp;S Action Plan;</li> <li>• E&amp;S Contract Clauses; and</li> <li>• Any other methods.</li> </ul>	<p>According to LOFC's ESMS, where gaps in compliance with Sri Lankan laws and requirements are identified, an E&amp;S Action Plan (ESAP) must be agreed with the borrower in order for the loan to proceed. An ESAP template is provided in Annex E of the ESMS.</p> <p>Standard requirements for borrowers are described in Annex F of the ESMS, to be tailored for each borrower as per the appraisal process (i.e. ESAP, monitoring requirements).</p>
<b>Monitoring of E&amp;S performance</b>	<p>Methods to be used to monitor E&amp;S performance:</p> <ul style="list-style-type: none"> <li>• Site visits;</li> <li>• Internal or external audits;</li> <li>• Monitoring inspections by authorities;</li> <li>• Updated or renewed permits;</li> <li>• Reports from Borrowers; and</li> <li>• Any other methods.</li> </ul>	<p>Depending on the project category (i.e. category B) and loan duration, site visits are recommended to be conducted to monitor any non-compliances. Site visits may also be conducted on a case-by-case basis.</p> <p>Depending on the project category and loan duration audit committee will monitor and Track Project Performance pertaining to the loan application and project proposal. Audit will be conducted case by case basis depend on the project category.</p> <p>Depending on the project category (i.e. category B) and loan duration, borrowers are required to prepare monitoring reports for submission to LOFC.</p>
<b>ILO Declaration on Fundamental Principles and Rights at Work and ILO's Basic Terms and Conditions of Employment</b>	<p>Compliance with the following:</p> <ul style="list-style-type: none"> <li>• ILO Declaration on Fundamental Principles and Rights at Work; and</li> <li>• ILO's Basic Terms and Conditions of Employment.</li> </ul>	<p>As defined in the ESMS, LOFC's own operations are expected to adhere to:</p> <ul style="list-style-type: none"> <li>• ILO Declaration on Fundamental Principles and Rights at Work; and</li> <li>• ILO's Basic Terms and Conditions of Employment.</li> </ul>
<b>Environment</b>	<p>A climate policy or strategy</p>	<p>LOFC's Sustainability Policy describes LOFC's commitments towards aspects of economic, social and environmental sustainability. Targets relating to GHG reduction are described as part of the Sustainability Policy.</p> <p>Obtaining ISO 14064:1 certification for organisation level quantification and reporting of Green House Gas (GHG) emissions</p>

	Assessment of climate impacts or risks in portfolios	Depending on the category and duration of the Borrower's activities, climate risks may be assessed as part of the E&S risk appraisal process.
	Quantification of direct (Scope 1) and indirect (Scope 2 and 3) GHG emission	Targets relating to GHG reduction are described as part of the Sustainability Policy.
<b>Labour and working conditions</b>	Measurement of employee turnover rate (voluntary and involuntary)	Targets relating to employee turnover rate are described as part of the Sustainability Policy.
<b>Occupational Health and Safety</b>	Measurement of fatalities, serious incidents, lost time incidents or other incidents	[To be updated in due course].
<b>Value chain</b>	Consideration of ESG risks relating to service providers and suppliers (eg cleaning, catering, security, transport)	Targets relating to the sustainability of LOFC's supply chain are described as part of the Sustainability Policy.
	Assessment of ESG risks in suppliers	[To be updated in due course].
<b>Stakeholder engagement</b>	Channels for stakeholder to report E&S concerns	LOFC has developed an External Grievance Mechanism. Channels of communication include: <ul style="list-style-type: none"> <li>• By phone or fax;</li> <li>• By email;</li> <li>• Through a general inquiry online form; and</li> <li>• Face to face with LOFC employees.</li> </ul>
	Monitoring of stakeholder complaints or inputs	[To be updated in due course].
	Monitoring of whistle blowing cases	[To be updated in due course].
<b>Loan book information</b>	Monitoring of loans against Applicable Standards, including: <ul style="list-style-type: none"> <li>• Number of loans rejected for E&amp;S reasons;</li> <li>• Number of loans approved with activities specified in the Harmonised EDFI Exclusion List;</li> <li>• Amount of outstanding loans in Category A, B and C projects; and</li> <li>• Amount of transactions with an agreed ESAP that are</li> </ul>	[To be updated in due course].



	categorized and Category A, B and C;	
	Measurement of fatalities, serious incidents, lost time incidents or other incidents	<p>LOFC's ESMS includes procedures for reporting material adverse E&amp;S events to LOFC and LOFC onwards. Material adverse events include:</p> <ul style="list-style-type: none"> <li>• Major injuries or fatalities (of employees, the general public or contractors);</li> <li>• Strikes or significant employee disputes;</li> <li>• Regulator action in relation to E&amp;S matters;</li> <li>• Spills, pollution incidents, fires, explosions; and</li> <li>• Etc.</li> </ul> <p>[To be updated in due course].</p>
<b>Human Rights</b>	A (standalone) human rights policy, or an E&S policy addressing human rights	LOFC's ESMS does explicitly refer to international standards pertaining to human rights and Gender Equality
	Assessment of human rights impacts on potential borrowers	[To be updated in due course].
	Monitoring of human rights violations	[To be updated in due course].
	Mechanisms to receive and respond to complaints including human rights violations	LOFC has developed an External Communication Mechanism which includes a Grievance Mechanism Procedure.
	Mechanisms to receive and respond to complaints including human rights violations, at the Borrower's level	Depending on the category and nature of the Borrower's activities, the ESAP to be agreed with the Borrower may include the development of a grievance mechanism to receive and respond to complaints including human rights violations.