

Social Bond / Loan Framework



Avanse Financial Services Limited
An education-focused Non-Banking Financial
Company

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Introduction:

Avanse Financial Services Limited is an education-focused Non-Banking Financial Company ('NBFC') specializing in student loans and educational institution loans. It commenced its education financing business operations in 2013 to enable students to achieve their academic aspirations.

Company has catered to 4,00,000+ borrowers till date. As of Mar '23, it had a total AUM of INR 8646 crore with operations across 12 branches and 5 sales offices spread in 12 states in India.

The Company offers the following financing solutions:

Student Loans:

- **Loans for Higher Education:** Loans to students looking to pursue higher education (in India and Overseas, including the US, the Canada, the UK, Australia, etc.
- **Digital Loans:** Short-term loans to professionals for pursuing online/digital skill enhancement courses. This section is further divided into categories i.e. Skill Enhancement Loans, Executive Education Loans

Loans to Education Institutions:

- These loans are designed to finance the growth capital needs of educational institutes in India.

Social Finance Framework

AFSL has developed this Social Finance Framework under which AFSL can issue Social Financing Instruments ("SFI") including, inter alia, social bond(s), loan(s), private / public placement(s) and any other debt financing instruments including debentures, both domestic or offshore, to finance or refinance a portfolio of new and/or existing Eligible Social Loans (henceforth referred to as "Eligible Social Loans") to promote sustainability.

This Social Finance Framework outlines the criteria and guidelines for the allocation of proceeds as per International Capital Market Association ("ICMA") Social Bond Principles 2021 ("SBP") and the Loan Market Association ("LMA"), Asia Pacific Loan Market Association ("APLMA") and the Loan Syndication and Trading Association's ("LSTA") Social Loan Principles (2023).

In alignment with the above principles, AFSL’s Social Finance Framework is structured based on the following key pillars:

- i. Use of proceeds
- ii. Process for portfolio evaluation and selection
- iii. Management of proceeds
- iv. Reporting

The framework also covers External Review

Use of Proceeds:

Social Bond and/or Social Loan proceeds should be used exclusively for Eligible Social Loans (“Eligible Social Loans”) as defined below:

Eligible Social Loans	Eligibility Criteria	Target Population	Alignment with UN SDG Targets
Access to Essential Services- Education loans to individuals	Individuals classified as Economically weak Section (EWS)	Borrower families whose gross annual income is in line with income criteria for Economically weak section (EWS) in India Confirmation / Declaration from Borrower that they belong to EWS segment or basis income assessment done by the Company	SDG 1 No poverty SDG 4 Quality Education SDG 10 Reduce Inequalities

Economically weak section are defined as persons whose family has a gross annual income below INR 800,000 and are not covered under the scheme of reservation for schedules castes, scheduled tribes and other backward classes.

<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1781353>

AFSL shall allocate, on a best effort basis, all the proceeds within [6] months from the date of issuance of Social instruments under this framework.

Process for portfolio evaluation and selection

1) Education loans to individual Indian residents

All credit portfolios recognized under this Framework shall have to go through AFSL's due diligence structure and process and only upon being sanctioned by the competent authority shall be reckoned for allocation under Social Loan portfolio. However, special emphasis is given to students from EWS income criteria background where concessions are extended to such borrowers that include Lower EMIs charged during the period of study, Relaxation in requirement of collateral, sanction on basis of merit, etc.

As and when loan is taken up for approval by the Credit team, the same would be identified at the time of sanction to be eligible under the Social Bond and/or Social Loan. Each loan will have to individually adhere to eligibility criteria.

A "Working Group" that would include the (1) Chief Operating Officer, (2) Chief Financial Officer (3) Chief Risk Officer and (4) Chief Transformation Officer who shall determine / approve / review the eligibility of loan / portfolio of loans under the Social Financing Framework .

This Working Group shall oversee the preparation and validation of relevant reporting for social instruments issued under this framework. Minimum quorum of the Working Group shall be any two members.

Any loan / portfolio of loan to be reckoned in the framework shall have to be cleared by the Working Group as per the eligibility criteria stipulated above and shall be labelled for monitoring and tracking purpose.

Management of Proceeds

A labelling mechanism shall be developed in for tagging "Eligible Social Loans".

The Social Portfolio shall be regularly updated in order to track any repayment / refinancing in the asset portfolio and new loan portfolio earmarked for the proceeds.

Any unallocated proceeds may be deployed temporarily at the AFSL's discretion in cash or cash equivalent instruments, in accordance with AFSL's investments policy

The Working Group may assign one or more members to monitor the management of proceeds.

Reporting

AFSL shall report the use of proceeds for each instrument issued under this Framework as part of its Annual Sustainability Report or on a standalone basis. Allocation Reporting shall be disclosed annually until full allocation and as necessary in the event of material developments.

This report shall be made available on AFSL's website and shall contain at least the following information:

- ❖ Amount or percentage of allocation to the Eligible Social Portfolio
- ❖ Proportion of proceeds used for financing versus refinancing
- ❖ Number of EWS families / Schools benefitted
- ❖ Number of beneficiaries by gender (For Education Loans only)
- ❖ Amount of unallocated proceeds and its temporary treatment

External Review

Pre-issuance: Second Party Opinion

The Social Finance Framework has been reviewed by Sustainalytics who has issued a Second Party Opinion. The Social Finance Framework and Second Party Opinion will be published on AFSL's website.