

Social Financing Framework – Muthoot Microfin Limited February 2024

Muthoot Microfin Limited (MML), the microfinance arm of Muthoot Pappachan Group is one of the leading and fast-growing Non-Banking Financial Company Microfinance Institution (NBFC-MFI) in India. The company is focused on providing micro-loans to women entrepreneurs with a focus on rural regions of India.

Our microfinance operations are designed to promote entrepreneurship among women and inclusive growth. We provide financial assistance through micro loans such as income generating loans to women engaged in small businesses. Delivering financial services to masses including underprivileged and disadvantaged people, living in the rural sectors of the Indian society at affordable terms, in quick turnaround time and with hassle-free processing is the aim of our financial inclusion drive.

We have adopted joint liability group model of microfinance, which caters exclusively to women in lower income households and is premised on the fact that if such individuals are given access to credit, they will be able to identify new opportunities and supplement and grow their existing income.

We believe that the history of the Muthoot Pappachan Group in working with customers in the bottom of the economic pyramid, helps us better address the needs of our customers in rural households and design lending products to cater to their requirements. Our brand identity possesses an unwavering commitment to provide our clients with the support they need to improve their standard of living.

MML outlines inclusive finance as the offering of funding or other resources to support the procurement of services/supplies from or the distribution of services/products to low-income self-employed individuals or micro and small enterprises. These eligible facilities may align with established business parameters or be necessary to comply with regulatory and anticipated franchise requirements. The overarching goal of these initiatives is to foster community and small enterprise development, financial inclusion and women empowerment while promoting environmental sustainability and strong governance.

Customer Centric Products	Loan Type	Purpose	Loan-Size USD	Tenure (months)
Income Generating Loans (IGL and Vyapar ¹)	Group	For enhancing the Income Generating Activity	120 - 1025	12 - 36
Individual Loans	Individual	Retail	725 - 3600	24 - 36
Suvidha Loans ²	Individual	For Emergency financial requirements	120 - 1025	12 - 36
Pragathi ³ Loans	Individual	For Interim Income Generation Activity	60 - 360	12 - 36
Water & Sanitation Loans	Individual	For Improving Health & Hygiene	up to 725	12 - 36
Muthoot Small & Growing Business (MSGB)	Individual	To handhold their business to next level of growth	360 - 1800	12 - 24

With a business history spanning over a century (Muthoot Group), MML manages assets totalling over USD 1.36 billion. As of December 31, 2023, we serve more than 3.28 million active clients with a team

¹ Vyapar Loan is Business Loan

² Suvidha Loan is Convenience Loan

³ Pragathi Loan is Progressive Loan

of 13,000+ employees operating through 1,424 branches across 346 districts in 18 states. MML came out with its successful Initial Public Offering (IPO) or stock launch on 26th December 2023, witnessing great interest from investors and was subscribed 11.52 times.

MML has developed a Social Finance Framework under which we can issue Social Financing Instruments (“SFI”) including, inter alia, social bond(s)/loan(s), and any other debt financing instruments both domestic or offshore, to finance or refinance a portfolio of new and/or existing Eligible Social Projects (henceforth referred to as “Eligible Social Projects”) to promote sustainability. The framework aims to create a viable model for MML that attracts socially conscious investors and fosters sustainable development in underserved communities.

This Social Finance Framework outlines the criteria and guidelines for the allocation of proceeds as per International Capital Market Association (“ICMA”) Social Bond Principles 2023 (“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, MML's Social Finance Framework is structured based on the following key pillars:

- Use of proceeds
- Process for asset evaluation and selection
- Management of proceeds
- Reporting
- External review

Use of proceeds

The fundamental determinant of a social loan is the utilisation of the SFI proceeds for Social Projects (including other related and supporting expenditures, including R&D), which should be appropriately described in the finance documents and, if applicable, marketing materials for the financing. The **Use of proceeds** will be aligned to the social principles, as a combination of both bonds and loans, as set out by LMA/APLMA/LSTA/ICMA.

The foundation of a SFI lies in the use of instrument proceeds for qualifying Social Projects, a description of which would be suitably outlined in the legal documentation of the security. MML commits to dedicate the net proceeds of financings issued under the framework exclusively to eligible social projects.

MML will clearly communicate to the lenders - the social objective and the target population (mainly financially excluded women⁴) of the Social Projects, the process by which the borrower determines how the project to be funded fit within the Eligible Social Project categories, and the complementary information on the processes by which MML will manage the social and environmental risks associated with the relevant loans.

Where funds are to be used, in whole or part, for refinancing, MML will provide an estimate of the share of financing versus refinancing. Where appropriate, we will also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Eligible Social Projects. The expected look-back period (i.e. the number of previous years

⁴ Financially excluded women refers to a demographic group of women who lack access to financial services and products, such as bank accounts, loans, insurance, and savings mechanisms. These women are often unable to participate fully in the formal financial system, which can hinder their ability to save, invest, or access credit for entrepreneurship or personal needs.

that MML will look back to) for the refinanced projects will be three years, which is in line with the market practice. If required, we will establish a legal structure that complies with financial regulations and allows for the issuance of social bonds. This may involve collaboration with regulatory bodies to ensure compliance.

The Eligible Social Project categories shall include:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, renewable energy (electricity), basic telecommunications)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
- Employment generation, unemployment prevention/alleviation (through small and medium enterprise financing and microfinance)
- Food security and sustainable food systems (e.g., access to food, resilient agricultural practices; food loss/waste reduction; productivity improvements)
- Socioeconomic advancement and empowerment (e.g., equitable access to resources)

















This framework will reflect a commitment to utilizing the social financing instruments proceeds for the holistic development of communities, promoting financial inclusion, and adhering to environmental sustainability principles. It will place emphasis on transparency, responsible lending, and the Reserve Bank of India (RBI) regulatory compliance, to ensure the long-term impact and achieving of UN Sustainable Development Goals (UN SDGs). Possible uses include expanding outreach, launching financial literacy programs, introducing innovative financial products, technology adoption, social impact measurement, community welfare projects, and product diversification.

The Eligible Social Loans will directly/indirectly contribute to the following SDGs:

- **No poverty** (empower individuals and communities by providing access to financial resources, reducing poverty, and promoting economic inclusion)
- **Zero hunger** (enable small farmers and food producers to invest in agriculture, leading to increased food production and food security)
- **Good health and well-being** (voluntary health insurance promotes good health well-being of the borrowers)
- **Quality education** (provide training and education on financial literacy, business management and other skills)
- **Gender equality** (promote gender equality by targeting their services to women-led businesses, providing financial education, and training to women, and implementing gender-inclusive policies)
- **Clean water and sanitation** (provide water and sanitation loans)
- **Decent work and economic growth** (support small businesses and entrepreneurship, contributing to economic growth and job creation along with improving social protection)
- **Industry, innovation, and infrastructure** (access to microfinance facilitates the growth of small businesses and entrepreneurial activities, contributing to innovation and economic development)
- **Reduced inequality** (help reduce economic disparities by providing financial services to marginalized and low-income populations)
- **Sustainable cities and communities** (contribute to sustainable community development by providing financial access, affordable basic infrastructure through the JLG model)
- **Partnerships for the goals** (collaboration between MFIs, funders, governments, and other stakeholders enhances the effectiveness of efforts to achieve various SDGs)

The company has the flexibility to expand the range of eligible social loans to encompass other types of assets that deliver measurable social advantages. In such instances, the company pledges to revise the existing framework and broaden the criteria to thoroughly evaluate the characteristics of the new asset class of sustainability-linked loans or debt instruments. In case of a new asset class, MML shall be compliant with the principle of not harming the environmental or social elements in any way.

MML directly contributes to gender equality along with having partnerships with various stakeholders to achieve the SDGs.

Eligible Social Categories	Sample Projects	Target Population	Social Objectives	SDGs
Affordable basic infrastructure	<ul style="list-style-type: none"> - Sanitation loan - Water-purifier loan - Solar-energy based products 	Underserved ⁵ women lacking access to basic infrastructure	<ul style="list-style-type: none"> - Support sustainable economic development - Inequality reduction - Reduction in carbon emissions per annum - Access to clean water and hygiene 	   
Employment generation, unemployment prevention/alleviation	<ul style="list-style-type: none"> - Income Generating Loan (IGL) - Suvidha loan 	Financially excluded women lacking access to credit and insurance	<ul style="list-style-type: none"> - Financial inclusion - Emergency financial requirements - Advance socio-economic development - Provide Interim income generation activity - Poverty-Inequality reduction 	   
Food security and sustainable food systems	<ul style="list-style-type: none"> - IGL – agricultural activities, animal husbandry including dairy 	Underserved women involved in agriculture	<ul style="list-style-type: none"> - Improve food security and productivity - Financial inclusion 	   
Socioeconomic advancement and empowerment	<ul style="list-style-type: none"> - IGL - Pragathi loan - Individual loan - MSGB loan 	Financially excluded women, women-owned MSMEs	<ul style="list-style-type: none"> - Financial inclusion - MSME⁶ business development - Inequality reduction 	   

⁵ Underserved women - women who do not have adequate access to resources, services, or opportunities that are essential for their well-being and advancement. These could include access to education, healthcare, employment opportunities, financial services, or other critical support systems. Underserved women often belong to marginalized or disadvantaged communities, such as low-income women, and women living in rural areas. Women with annual household income of less than 3 lakhs and who is engaged in some economic activity is considered here.

⁶ MML's definition of MSMEs is in accordance with the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 wherein for a micro enterprise the investment in plant and machinery or equipment does not exceed INR 10 million and turnover does not exceed INR 50 million, for a small enterprise the investment in plant and machinery or equipment does not exceed INR 100 million and turnover does not exceed INR 500 million and for a medium enterprise the investment in plant and machinery or equipment does not exceed INR 500 million and turnover does not exceed INR 2.5 billion.

Manufacturing Enterprises i.e. Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

The target population for these social loans would be the women of Economically Weaker Section (EWS) households⁷ who have no access to the formal lending system. Emphasis will also be given on Low Income Group (LIG) households.⁸

MML factors physical climate risks into existing lending activities through its insurance coverage which takes into account natural calamities. MML's Griha Suraksha Shield is a home insurance cover that provides coverage for loss, damage, or destruction of the home building along with its contents. In November 2023, the state of Chennai suffered severe losses because of Cyclone Michaung, affecting 23,024 MML borrowers. After the field survey, 20,143 claims were settled through Griha Suraksha Shield. The claim settlement percentage was around 92% and the amount consisted of both structure and content loss/damage worth Rs. 75 million, which has helped the affected clients to clear the loan arrears that occurred due to the flood.

Process for project evaluation and selection

While Microfinance institutions themselves serve the all-important socio-economic cause of providing access to finance to the unbanked and underprivileged women, MML will put additional emphasis on "Do No Significant Harm" (DNSH) principle while evaluating the eligibility of the social loans to ensure that the activities funded by the loans do not cause significant harm to environment, individuals, communities, or broader societal well-being.

MML will conduct a comprehensive risk assessment to identify and evaluate potential social, environmental, and financial risks associated with the proposed social loans. This includes assessing the impact on various stakeholders, including vulnerable groups. This shall be complimented with conducting due diligence involving a detailed examination of the financial, operational, and social aspects to ensure that they align with the MML's values and objectives. MML will engage with relevant stakeholders, including local communities, Non-governmental organizations (NGOs), and potential beneficiaries, to understand their perspectives, needs, and concerns, and also ensure that the proposed loans comply with all relevant laws, regulations, and ethical standards.

MML aims to form a cross-departmental team – Social Financing Team (SFT) – to evaluate and select Eligible Social Projects that are in line with the criteria set out in the previous section. The SFT will meet on an annual basis or more frequently if required. The SFT will be led by MML CEO, and shall include:

- CFO
- Sustainability, Internal Audit and Risk Management personnel

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- i. A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
 - ii. A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore;

Service Enterprises i.e. Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below:

- i. A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
- ii. A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore;

⁷ Economically Weaker Sections (EWS): Economically weaker sections 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 scheduled castes, scheduled tribes and other backward classes. pib.gov.in/PressReleaseIframePage.aspx?PRID=1781353

⁸ LIG households are defined as households having an annual income between Rs 3,00,001 up to Rs.6,00,000. [hfa Guidelines.pdf \(pmaymis.gov.in\)](http://hfa.Guidelines.pdf(pmaymis.gov.in))

- ESG Officer
- Resource Planning Team
- Other relevant MML employees including researchers and analysts

The Social Financing Team will be responsible for:

- Evaluating the compliance of proposed Social Projects with the eligibility criteria outlined in the previous section.
- Ensuring that the pool of Eligible Social Projects is aligned with the categories and criteria, as decided.
- Replacing investments that no longer meet the eligibility criteria (e.g. following divestment, liquidation, concerns regarding alignment of underlying activity with eligibility criteria etc.) within 3 months.
- Getting the Social Financing Investor Report approved

All the outputs of the SFT shall be approved by the Managing Director of MML. The SDGs that align closest to Muthoot Microfin's mission, objectives, products and services, are bound to get added focus naturally.

Management of proceeds

The proceeds of the Social Financing instruments issued under this framework will be managed by the Social Financing Team in a portfolio approach. The SFT will be responsible for the management of the net proceeds of Social Financing, to ensure that an amount equal to such proceeds is effectively invested in the financing and/or re-financing of Eligible Social Projects.

The proceeds of a social loan will be credited to a segregated account or otherwise tracked by MML in an appropriate manner, so as to maintain transparency and promote the integrity of the product. The segregated account will ensure prudent monitoring and tracking of the Eligible Social Projects.

MML shall provide a commitment to allocate the majority of the proceeds received from the lender for Social Financing to Eligible Social Loans (projects) within 24 months from the date of issuance. Until the allocation or reallocation of the net proceeds takes place, as appropriate, we will use the remaining balance of the net proceeds at our discretion. This may involve investments in cash, cash equivalents, or other readily marketable instruments, in accordance with our liquidity management policy. Proceeds not yet allocated towards Eligible Projects will be placed in the liquidity reserves and managed as such. MML will ensure that even the temporary deployment of proceeds is not in excluded sectors such as fossil fuels, mining sector, etc. The Eligible Social Projects will exclude projects unacceptable in climate and environmental terms.

In addition to the International Finance Corporation's (IFC) Exclusion List for the types of projects that IFC does not finance, we will exclude additional items specific to Microfinance activities, such as:

- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
- Commercial logging operations for use in primary tropical moist forest
- Production or trade in products containing Polychlorinated biphenyls (PCBs)
- Production or trade in ozone depleting substances subject to international phase out
- Production or trade in wood or other forestry products from unmanaged forests
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples

These exclusions will be applicable to the Use of Proceeds and the management of unallocated proceeds.

Reporting

To enable investors, and the general public, to follow the development and to provide insight to prioritised areas, MML will publish a Social Finance Investor Report on its website on an annual basis after one year, until maturity. The report will cover information both on the allocation of proceeds and on the output and impacts achieved, where feasible and relevant data information is available.

Allocation Reporting:

- Overview of the portfolio of Eligible Social Projects
- Allocation of proceeds until full allocation
- A brief description of the projects and their associated target populations, when applicable
- Breakdown of the portfolio. Examples include By type of Eligible Social Projects, By no. of Loans, By activity/industry classification, By loan size, By region, etc.
- The total amount of Social financing instruments issued and outstanding
- The portion of new financing vs refinancing
- Information about any unallocated proceeds balance

Impact Reporting: The report will aim to disclose the impact metrics of the Eligible Projects financed under this Framework. Impact metrics, if applicable, will be based on key performance indicators (KPIs) that measure the social impact of the MFI. Examples include the number of people lifted out of poverty, increased financial literacy, and job creation within the target communities. The indicators for each eligible category will be analysed for the impact reporting of the social financing instruments.

External review

MML will appoint an external review provider to assess the alignment of their social bonds or social loans or social financing programme with the four core components of the SLP. This shall be done through a pre-issuance second-party opinion (SPO), and will be followed up with an annual post-issuance verification focussing on alignment with social finance principles along with allocation and impact reporting, until full allocation of proceeds.

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