

Muthoot Microfin Limited – Environment & Social Management System (ESMS) Policy

Purpose

Environmental and social risks are increasingly recognised as material factors that may impact the sustainability of financial institutions and the well-being of communities. Lending activities that disregard environmental protection, social safeguards, or ethical business practices may expose borrowers and financial institutions to reputational, regulatory, and financial risks.

The purpose of this Environmental and Social Management System (“ESMS”) Policy is to establish a guiding framework for identifying, assessing, monitoring, and managing environmental and social risks associated with Muthoot Microfin Limited’s (“MML” or “the Company”) lending activities, in line with regulatory expectations, industry standards, and the Company’s commitment to responsible finance.

Preamble

Muthoot Microfin Limited, the microfinance arm of the Muthoot Pappachan Group, provides financial services primarily to women borrowers from low-income and underserved segments across India. The Company recognises that access to credit must be accompanied by responsible practices that safeguard environmental integrity, social well-being, and customer dignity.

This ESMS Policy seeks to integrate environmental and social considerations into MML’s existing business and risk management processes, without creating parallel or excessive operational structures. The Policy aims to strengthen institutional governance, enhance stakeholder confidence, and support sustainable growth.

Scope

This Policy applies to:

- All lending products and services offered by MML
- All employees of the Company
- All operational geographies of the Company

The ESMS is embedded within MML’s existing credit, risk, and operational frameworks and does not function as a standalone system.

Policy Statement

MML shall endeavour to conduct its lending activities in a responsible, transparent, and sustainable manner, with due regard to environmental protection, social safeguards, and ethical business conduct.

The Company shall integrate environmental and social risk considerations into its operational processes, wherever feasible, without creating additional mandatory obligations beyond applicable laws, regulations, and internal policies.

Benefits of ESG Integration:

- Ability to attract stable investors: ESG investing involves long-term focus on value creation through Responsible Investment and ESG focused investors bring in capital for a longer horizon.
- Reducing cost of capital: Firms with ESG focus have been successful in reducing their cost of capital by having access to cheaper source of funding
- Identifying and managing material ESG risks: which are likely to convert in to credit/asset value risks in future for the organization.
- Identifying and mitigating reputational and liability risks: associated with ESG factors for the organization
- Enhancing the Brand value and reputation of the Bank: as a responsible financial institution and as an employer of choice

Key Principles

MML's environmental and social risk management practices shall be guided by the following principles:

- **Responsibility** – Lending shall avoid activities that cause environmental harm or social injustice.
- **Prudence** – Environmental and social risks shall be identified and managed proportionately.
- **Transparency** – ESG expectations shall be communicated clearly to stakeholders.
- **Proportionality** – Controls shall be commensurate with the nature of microfinance operations.
- **Accountability** – Roles and responsibilities shall be clearly defined and monitored.

Exclusion List (IFC-Aligned)

MML recognises that certain activities are inherently incompatible with responsible financial inclusion and pose unacceptable environmental, social, legal, or reputational risks.

Accordingly, MML adopts the **full IFC Exclusion List** and shall not finance, directly or indirectly, any customer engaged in the following activities:

Prohibited Activities

MML shall not finance:

1. Activities illegal under Indian law or international conventions
2. Production or trade in weapons or ammunition
3. Production or trade in alcoholic beverages (excluding beer and wine)
4. Production or trade in tobacco
5. Gambling, betting, casinos, or similar enterprises

6. Production or trade in radioactive materials
7. Production or trade in unbonded asbestos fibres
8. Drift net fishing in marine environments
9. Commercial logging in primary tropical forests
10. Unsustainable forestry or wood products
11. Forced labour or harmful child labour
12. Production, storage, or transport of hazardous chemicals
13. Projects involving major pollution or serious health hazards
14. Projects located on contaminated land
15. Projects located in protected water zones
16. Activities reducing community access to shared natural resources
17. Manufacturing generating untreated industrial wastewater
18. Projects damaging cultural or heritage sites
19. Projects affecting indigenous peoples without free, prior, and informed consent
20. Nuclear power, mining, oil & gas exploration, large infrastructure or large real estate development

Operational Relevance for MML

For practical implementation, the following categories are **directly relevant to MML's portfolio** and shall be actively screened by field teams:

- Alcohol
- Tobacco
- Gambling
- Weapons
- Hazardous chemicals
- Child labour / forced labour
- Polluting activities
- Community resource damage
- Industrial wastewater

No waivers or exceptions are permitted for exclusion list activities.

ESG Risk

An ESG Risk Register for Muthoot Microfin Limited is functional and is maintained by the CRO.

Environmental and social risks associated with borrower activities may vary in nature and intensity. MML adopts a simplified and practical risk categorisation framework suitable for microfinance operations.

ESG Client Risk Categorisation Framework

Risk Category	Description	Typical Examples	Approval Authority	Control Mechanism
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Low Risk	Activities with minimal or negligible environmental and social impact.	Small retail shops, tailoring, dairy, food stalls, agriculture allied services.	Normal sanction authority.	Customer ESG declaration and standard monitoring.
Medium Risk	Activities with moderate environmental or social impact, manageable with controls.	Small manufacturing units, processing units, workshops.	Business Unit Head.	ESG declaration, enhanced scrutiny, periodic monitoring.

High-risk activities are structurally outside MML's business model and are not financed.

Climate Risk

MML recognises that climate change may affect customer livelihoods and portfolio stability through physical risks such as floods, droughts, heat waves, and through transition risks arising from regulatory or market changes.

MML adopts a portfolio-level approach to climate risk management and may, as appropriate:

- Identify climate-sensitive sectors and areas
- Track climate indicators through ESG MIS
- Disclose climate risk exposure in internal ESG reporting

Climate risk is treated as a cross-cutting risk factor within the ESMS.

ESG Due Diligence and Underwriting

MML shall conduct environmental and social due diligence for all borrowers through a **standardised ESG Underwriting Scorecard**, which serves as the primary tool for ESG risk assessment.

The ESG Underwriting Scorecard shall be completed by the loan/credit officer at the time of credit appraisal and shall form part of the loan sanction documentation.

The scorecard shall capture key ESG parameters including:

- Compliance with the Exclusion List
- Sector and activity classification
- Use of hazardous materials
- Presence of child or forced labour
- Health and safety risks
- Impact on community resources
- Climate sensitivity

Each parameter shall be assessed on predefined weightage and the overall score will be classified into Low Risk, Medium Risk, High Risk (Exclusion List).

ESG Risk Decision Logic

- Low Risk → Normal approval
- Medium Risk → Business Unit Head approval
- Exclusion List → High Risk → Rejected

The ESG Underwriting Scorecard may also be used during loan utilisation checks, internal audits, and Branch ESG Scorecard assessments.

Monitoring and Reporting

MML shall monitor ESG performance through:

- Integration of ESG checks into internal audits
- Periodic loan utilisation reviews
- ESG MIS-based tracking

An ESG report/deck will be presented at the annual ESG Committee meeting.

Governance Structure

The governance structure of ESG Committee is given below, who will report to the Board of Directors.

Name	Designation	Role
Thomas Muthoot	Non-Executive Director	Chairperson
Sadaf Sayeed	Chief Executive Officer	Member
Udeesh Ullas	COO	Member
Jinsu Joseph	CRO	Member
Subhranshu Pattnayak	CHRO	Member
Ammaar Mohammad	AVP - Investor Relations & ESG	Member

The roles and responsibilities for various functions is as follows:

Entity / Function	Role in ESMS	Key Responsibilities
Board of Directors	Oversight Authority	• Approve the ESMS Policy and any material amendments • Provide strategic direction on ESG matters
ESG Committee	Strategic Oversight Body	• Overall accountability for ESMS implementation • Ensure adequate resources for ESMS • Provide governance oversight on ESG risks • Review and update exclusion list • Review deviations and material ESG issues • Monitor progress of ESMS implementation

ESG Officer	Central Implementation Authority	• Coordinate ESMS implementation across the organisation • Maintain ESG MIS and reporting systems • Manage ESG grievances • Implement training and awareness • Liaise with auditors and investors
Credit & Risk Teams	Risk Integration	• Integrate ESG checks into credit appraisal • Record client ESG risk classification • Support ESG risk analysis
Operations/Branch Teams	First-Level Execution	• Conduct ESG screening using ESG Underwriting Scorecard • Obtain customer ESG declarations • Perform loan utilisation checks
Internal Audit	Independent Assurance	• Conduct Branch ESG Audits • Report gaps and improvement areas
HR/Training Team	Capacity Building	• Support ESG training delivery • Maintain training records • Embed ESG into learning programmes

Deviations and Non-Compliance

MML recognises that deviations from ESMS requirements may arise due to operational limitations or customer behaviour. The objective of deviation management is corrective action and continuous improvement, not restriction of business.

Non-compliance or deviation from ESMS requirements **shall not automatically impact or override credit underwriting or sanction decisions**. ESG considerations operate as a governance and risk management control and do not replace financial credit assessment.

All deviations shall be:

- Logged in ESG MIS
- Reviewed by the ESG Officer
- Periodically placed before the ESG Committee

Corrective actions may include enhanced monitoring, customer engagement, internal process strengthening, or training interventions.

Training and Capacity Building

MML recognises that effective ESMS implementation depends on staff awareness and competence.

The Company may, as appropriate, provide:

- **Induction Training**
ESMS orientation for new employees, covering ESG principles, exclusion screening, and ESG scorecards.

- **Refresher Training**
Training on ESG risk trends, policy updates, and ESG MIS usage.
- **Specialised Training**
Targeted programmes for managers, risk teams, and auditors.

The ESG Officer, in coordination with HR (Training team), shall design training modules, and the Training team shall maintain training records.

Stakeholder Engagement

MML recognises that environmental and social risk management is strengthened through constructive stakeholder engagement.

- **Customers** - Customers are informed of ESG expectations and may raise grievances relating to ESG concerns.
- **Employees** - Employees are trained and empowered to flag ESG risks and operational gaps.
- **Investors and Lenders** - MML engages investors through ESG disclosures, due diligence, and reporting.
- **Regulators and External Stakeholders** - MML monitors regulatory developments and industry standards to ensure continued alignment.

Feedback from stakeholders is used to strengthen governance and implementation. A detailed Stakeholder Engagement table is given in Annexure 2.

Monitoring & Review

The Company may periodically:

- Review ESG practices
- Consider audit findings and grievance trends
- Identify areas for continuous improvement

Review of Policy

The Board shall review this Policy periodically or as required to ensure that it remains aligned with the Company's objectives and responsibilities.

Amendment of this Policy

The Board of Directors reserves the right to amend or modify this Policy based on regulatory changes, business requirements, or internal assessments.

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Prepared by : ESG Committee
Approved by : Board of Directors

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Annexure 1: IFC Performance Standards

The IFC Performance Standards 2012 are an internationally accepted benchmark for identifying and managing Environment & Social risks and have been adopted by many organizations as a key component of their environmental and social risk management. IFC provides technical guidelines with general and industry-specific examples of good international industry practices to meet IFC's Performance Standards.

USF has adopted the IFC Performance Standards ('IFC PS') as published by the IFC on 1 January 2012 and shall apply for the duration of the Fund life, unless there are material changes which shall be addressed at the time and with the advisement of the Fund's advisory board.

USG's Portfolio Companies will also align themselves with these requirements laid down in IFC PS. However, USF understands that such consideration has to pass the test of materiality, context, and feasibility given that some of the Portfolio Company may be in very early stage of their operations.

The scope and intent of the IFC Performance Standards is completely or significantly addressed by Indian E&S regulatory framework. When requirements of IFC PS and national regulations/standards differ; portfolio investments are expected to achieve whichever is more stringent. If less stringent levels or measures are appropriate given specific circumstances, a full and detailed justification for any proposed alternatives is needed as part of the site-specific environmental assessment. This justification should demonstrate that the choice for any alternate performance levels is protective of human health and the environment.

The IFC Performance Standards encompass the following eight topics:

PS1: Environmental and Social Assessment and Management System: Portfolio Investments are required to manage the environmental and social performance of their business activity, which should also involve communication between its workers, and the local communities directly affected by the business activity. This requires the development of a good management system, appropriate to the size and nature of the business activity, to promote sound and sustainable environmental and social performance as well as lead to improved financial outcomes.

PS2: Labour and Working Conditions: For any business, its workforce is a valuable asset and a sound worker-management relationship is a key component of the overall success of the enterprise. By protecting the basic rights of workers, treating workers fairly, and providing them with safe and healthy working conditions, commercial clients/investees can enhance the efficiency and productivity of their operations and strengthen worker commitment and retention.

PS3: Pollution Prevention and Abatement: Increased industrial activity and urbanization often generate increased levels of pollution to air, water, and land that may threaten people and the environment at the local, regional and global levels. portfolio companies are required to integrate pollution prevention and control technologies and practices (as technically and

financially feasible as well as cost-effective) into their business activities. However, this PS could also be extended to issues like circular economy, resource (e.g., water and energy) conservation and GHG emission reduction in portfolio investments.

PS4: Community Health, Safety, and Security: Business activities can increase the potential for community exposure to risks and impacts arising from equipment accidents, structural failures, and releases of hazardous materials as well as impacts on a community's natural resources, exposure to diseases and the use of security personnel. Commercial clients/investees are responsible for avoiding or minimizing the risks and impacts to community health, safety and security that may arise from their business activities.

PS5: Land Acquisition and Involuntary Resettlement: Land acquisition due to the business activities of a portfolio investment result in physical displacement (relocation or loss of shelter) and economic displacement (loss of access to resources necessary for income generation or as means of livelihood) of individuals or communities. Involuntary resettlement occurs when affected individuals or communities do not have the right to refuse land acquisition and are displaced, which may result in long-term hardship and impoverishment as well as environmental damage and social stress. Portfolio investments are required to avoid physical or economic displacement or minimize impacts on displaced individuals or communities through appropriate measures such as fair compensation and improving livelihoods and living conditions.

PS6: Biodiversity Conservation and Sustainable Natural Resource Management: Protecting and conserving biodiversity (including genetic, species and ecosystem diversity) and its ability to change and evolve, is fundamental to sustainable development. Commercial clients/investees are required to avoid or mitigate threats to biodiversity arising from their business activities and to promote the use of renewable natural resources in their operations.

PS7: Indigenous Peoples: Indigenous Peoples are recognized as social groups with identities that are distinct from other groups in national societies and are often among the marginalized and vulnerable. Their economic, social, and legal status may limit their capacity to defend their interests and rights to lands and natural and cultural resources. Commercial clients/investees are required to ensure that their business activities respect the identity, culture and natural resource-based livelihoods of Indigenous Peoples and reduce exposure to impoverishment and disease.

PS8: Cultural Heritage: Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic and religious significance as well as unique environmental features and cultural knowledge, innovations and practices of communities embodying traditional lifestyles, which are protected for current and future generations. Commercial clients/investees are required to avoid significant damage to cultural heritage due to their business activities.

if's Performance Standards offer a framework for understanding and managing environmental and social risks for portfolio investment, esp. during the E&S due diligence process.

This could be used as a widely accepted benchmark to improve E&S performance over time. If non-compliances with the IFC Performance Standards are identified and depending on the severity of the issue, the financial institution can require the commercial client/investee to develop a corrective action plan for addressing the issue within a reasonable timeframe and stipulate this as a condition of the financial transaction with the commercial client/investee

Annexure 1: Stakeholder Engagement Info

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Key Information Shared by MML	Outcomes / Use of Feedback
Customers	Ensure responsible use of funds and compliance with ESG expectations	• ESG Underwriting Scorecard • Customer ESG declaration • Field visits and loan utilisation checks • Grievance redressal channels	• ESG expectations • Prohibited activities • Customer rights and grievance mechanisms	• Identification of ESG risks • Corrective actions • Improvement in screening processes
Employees	Enable effective ESMS implementation	• Training programmes • Internal communication • Operational feedback mechanisms	• ESMS policy • Roles and responsibilities • ESG tools and procedures	• Process improvement • Training content refinement • Risk escalation
Investors & Lenders	Transparency and alignment with ESG standards	• ESG disclosures • Due diligence interactions • Annual ESG reporting	• ESG performance metrics • Governance framework • Risk management practices	• Policy enhancements • Reporting improvements • Alignment with investor expectations
Regulators & Industry Bodies	Regulatory alignment and best practice adoption	• Monitoring regulatory updates • Participation in industry forums	• ESMS governance practices • Compliance approach	• Policy updates • Strengthening governance
External Auditors /	Independent assessment of	• ESG audits	• ESG MIS data	• Identification of gaps

Rating Agencies	ESMS effectiveness	• ESG rating submissions	• Policy framework	• Continuous improvement actions
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