

Muthoot Microfin Limited – ESG Underwriting Policy

1. Purpose

This Policy sets out the framework for integrating Environmental, Social and Governance (ESG) risk considerations into the credit underwriting and onboarding process of Muthoot Microfin Limited (“MML” or “the Company”) in a structured, proportionate, and non-intrusive manner, consistent with the Company’s social mission and regulatory environment.

The Policy is intended to:

- Strengthen early identification of ESG-related risks at the pre-disbursement stage
- Support responsible lending and borrower protection practices
- Enhance risk awareness and governance without impeding financial inclusion
- Provide a robust ESG screening mechanism for audits, investors, and lenders

This Policy does not replace or override financial or credit underwriting processes.

2. Policy Philosophy & Guiding Principles

MML’s ESG underwriting approach is guided by the following principles:

- Proportionality** - ESG assessment shall be commensurate with the scale, nature, and risk profile of microfinance lending.
- Risk Identification, Not Risk Elimination** - The ESG underwriting process is designed to flag and manage risks, not to automatically exclude borrowers.
- Non-Exclusionary Financial Inclusion** - ESG considerations shall not result in systematic exclusion of eligible low-income borrowers, except where activities are clearly prohibited.
- Operational Simplicity** - Tools and processes shall be easy to implement by field and credit teams without requiring specialised ESG expertise.
- Clear Accountability** - ESG underwriting provides inputs to credit decisions; credit ownership remains with the credit function.
- Defensibility & Transparency** - The framework shall be auditable, explainable, and aligned with best practices relevant to NBFC-MFIs.

3. Regulatory & Reference Context

This Policy is aligned with:

- RBI regulations applicable to NBFC-MFIs
- SEBI Business Responsibility and Sustainability Reporting (BRSR) principles (as applicable)
- Industry best practices for responsible finance
- Select international reference frameworks (adapted for microfinance context), including:
 - IFC Exclusion List (contextualised)
 - UN Principles for Responsible Banking (guiding reference)

The Policy is voluntary in nature and implemented as a good governance and risk management measure.

4. Scope & Applicability

Applicability

This Policy applies to:

- Prospective borrowers at the time of onboarding
- Select renewals, based on internal risk-based sampling, where deemed appropriate

Products Covered

- Income Generating Loans (IGL)
- Other loan products offered by MML, as notified from time to time

Exclusions

The Policy does not apply to:

- Legacy portfolios (unless otherwise decided by management)
- Non-credit transactions

5. ESG Underwriting Framework

ESG Underwriting Tool

MML shall use a standardised ESG Underwriting Scorecard will be integrated into the LOS as part of the onboarding process.

The scorecard:

- Consists of simple Yes / No / Not Applicable questions
- Covers Environmental, Social, and Governance risk indicators
- Generates a qualitative ESG risk categorisation

ESG Pillars Covered

Environmental (E) Indicative focus areas include:

- Environmentally harmful or unsafe livelihood activities
- Local environmental compliance concerns (if any)
- Exposure to climate or environmental risks affecting livelihoods

Social (S) Indicative focus areas include:

- Child labour or forced labour indicators
- Borrower safety and livelihood conditions
- Alignment with responsible lending and borrower protection principles

Governance (G) Indicative focus areas include:

- Prohibited or unethical activities
- Compliance with applicable laws
- Integrity and conduct-related red flags

6. ESG Risk Categorisation

Based on the ESG underwriting scorecard, borrowers may be categorised as:

- High ESG Risk
- Strong ESG
- Acceptable ESG
- Weak ESG

Important Clarifications

- ESG risk categorisation is indicative, not determinative
- No borrower-level ESG “pass/fail” threshold is prescribed
- Credit decisions remain subject to existing credit policies

7. ESG Exclusions & Cautionary Activities

Excluded Activities

MML shall not knowingly finance activities that:

- Are illegal under Indian law
- Involve forced labour, child labour, or human trafficking
- Are explicitly prohibited under MML’s internal policies

A detailed ESG Exclusion List shall be maintained separately and reviewed periodically.

Cautionary Activities

Certain activities may be financed with additional caution, counselling, or internal noting, as defined in internal guidance documents.

8. Escalation & Exception Handling

ESG Flags

If ESG-related concerns are identified:

- The same shall be recorded in the scorecard
- Appropriate internal escalation shall be followed as per the ESG Escalation Matrix

Exceptions

Any deviations or exceptions shall:

- Follow existing credit approval hierarchies
- Not require ESG function approval at borrower level

9. Roles & Responsibilities

Board of Directors

- Approves the ESG Underwriting Policy
- Provides strategic oversight

ESG Committee

- Reviews implementation at a framework level
- Receives periodic updates for noting

Management

- Ensures operational implementation
- Integrates ESG underwriting into credit processes

Credit & Operations Teams

- Apply the ESG underwriting scorecard during onboarding
- Escalate ESG flags as per internal guidance

ESG/Sustainability Function

- Designs and maintains the framework/tools
- Provides guidance and training
- Supports reporting and audits

***The ESG function does not approve or reject individual borrowers.**

10. Training & Capacity Building

- Targeted training shall be provided to relevant staff
- Training content shall be practical and role-based
- Refresher sessions may be conducted periodically

11. Monitoring, Review & Reporting

- Implementation shall be reviewed on a sample basis
- Focus shall be on trend analysis, not targets
- ESG Committee updates shall be for noting, unless otherwise required

12. Disclosure & Communication

High-level disclosures relating to ESG underwriting may be included in:

- ESG / sustainability disclosures
- Investor or lender communications
- Audit responses

Such disclosures shall clearly state the risk-based and non-exclusionary nature of the framework.

Review of Policy

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

Amendment of this Policy

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

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Approved by	: Board of Directors

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