



A Muthoot Pappachan Group Company

# Muthoot Microfin Limited

Social Finance Investor Report (2025)

A close-up photograph of a smiling woman with grey hair, wearing a yellow sari with red patterns and a light blue shawl. She has a red bindi on her forehead and a small nose ring. The photo is set within a blue circular frame. To the right of the circle, the text is displayed.

*(Social bond of 113 million USD,  
under ECB MOSS Facility A1)*

## Executive Summary

Muthoot Microfin Ltd. (MML) successfully issued a USD 113 million social finance facility in 2024 under its **Social Finance Framework**, with proceeds dedicated to microfinance loans for low-income women entrepreneurs across India. An independent annual review confirms that 100% of the proceeds have been allocated to eligible social projects in full alignment with MML's framework and the **ICMA Social Bond Principles 2023**. Key highlights include:

- **Target Beneficiaries:** 100% of loans were provided to women from economically weaker sections (household income  $\leq$  ₹300,000 per annum), advancing financial inclusion for underserved communities.
- **Scale of Outreach:** The facility financed **238,185 micro-loans**, totalling **₹13,301.8 million** (fully disbursed as of March 2025). Notably, **55%** of these loans (131,855 loans) went to **first-time borrowers** with no prior access to formal credit.
- **Use of Proceeds Distribution:** Funds were primarily deployed in **agriculture and allied activities (~25% of proceeds)**, followed by **services (25%)**, **animal husbandry (23%)**, **trading (16%)**, and **manufacturing (10%)** sectors. All loans were for income-generating purposes, supporting women's micro-enterprises in farming, livestock, trade, and small manufacturing.
- **Geographic Reach:** MML disbursed loans across 18 states in India, with major concentrations in **East and North India** – e.g. West Bengal (23% of loans), Uttar Pradesh (18%), and Odisha (10%) – reflecting outreach to rural, low-income regions.
- **Social and Climate Impact:** The program empowered women entrepreneurs (100% female clients) and enhanced financial inclusion. MML's client-centric approach included mandatory financial literacy training for new borrowers and complementary services (e.g. affordable insurance for climate-related risks). All clients were covered by insurance products to mitigate natural disaster losses, strengthening climate resilience at the community level. The portfolio also strictly adhered to an ESG exclusion list (aligned with IFC standards) to prevent financing of harmful activities.
- **Governance and Oversight:** MML's Social Finance Framework and reporting practices were **externally reviewed**. An S&P Global second-party opinion (March 2024) affirmed the framework's alignment with international social finance principles, and an independent annual review by MFR (July 2025) verified that proceeds use and reporting meet the framework criteria. Robust internal controls – such as 100% loan utilization checks – ensured proceeds were used exclusively for the intended social projects.

Overall, MML's social financing initiative demonstrates a credible, high-impact deployment of capital in line with global best practices (**ICMA Social Bond Principles** and **LMA Social Loan Principles**). The following report provides a detailed overview of MML's social finance strategy, allocation of proceeds, output/impact metrics, climate and ESG integration, and the external review process, with comprehensive data tables in the appendices for transparency and verification.

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## Overview of MML's Social Finance Strategy and Framework

**Company Background:** Muthoot Microfin Ltd. is a leading NBFC-Microfinance Institution (NBFC-MFI) in India and the microfinance arm of the Muthoot Pappachan Group. It focuses on providing microcredit to women in rural and semi-urban areas, with all loans directed toward income-generating activities (e.g. agriculture, small retail, services, trading, manufacturing). MML predominantly operates through the **Joint Liability Group (JLG)** model, targeting women in lower-income households – under the premise that access to small loans enables them to start or expand micro-businesses and improve their livelihoods. As of December 2025, MML served over 3.4 million active clients across 21 states in India, supported by 1,700+ branches and 16,000+ employees. MML has a strong commitment to **financial inclusion** and **women's empowerment**, leveraging the Muthoot Group's century-old legacy of serving customers at the bottom of the economic pyramid.

**Social Finance Framework:** In 2024, MML established a Social Finance Framework to guide the issuance of Social Financing Instruments (such as social bonds, social loans, and other debt) for funding a portfolio of new or existing eligible social projects. The framework is aligned with internationally recognized standards – the **International Capital Market Association (ICMA) Social Bond Principles (SBP) 2023** and the **Loan Market Association (LMA) / Asia Pacific LMA / LSTA Social Loan Principles (SLP) 2023**. It is structured around the five key pillars of those principles:

- *Use of Proceeds* – Net proceeds are exclusively dedicated to **Eligible Social Projects** that promote sustainable development. MML's framework specifies that all financings under it will fund projects with clear social benefits, **primarily benefiting financially excluded women** in low-income communities. Eligible project categories encompass areas such as affordable basic infrastructure, access to essential services, employment generation (through MSME lending), and other interventions for underserved populations (consistent with SBP categories). In practice, MML's use-of-proceeds has focused on micro-loans for income-generating activities, which fall under **“Access to Financial Services”** and **“Socioeconomic Advancement”** objectives of the SBP.
- *Project Evaluation and Selection* – MML has a defined process to evaluate and select loans that meet the eligibility criteria. The **target population** is clearly communicated to lenders (economically weaker women with limited access to finance) and every loan's purpose is screened to ensure it fits an eligible category. MML applies a **“Do No Significant Harm”** principle in this process, meaning activities with potential adverse social or environmental impact are excluded. An **Exclusion List** aligned with IFC standards guides the screening, preventing financing of activities such as tobacco, gambling, or environmentally harmful industries. Moreover, as a client-protection certified institution, MML integrates social and environmental risk considerations into lending decisions to safeguard clients and communities.
- *Management of Proceeds* – The proceeds from any Social Financing Instrument are tracked and managed separately to ensure they finance the intended eligible loan portfolio. MML confirms that **100% of the funds raised have been allocated** to eligible micro-loans, with no proceeds remaining idle or diverted to ineligible uses. Unallocated funds (if any) would be held in temporary liquid instruments as per the

framework, but in this inaugural issuance all funds were promptly disbursed. MML's finance team maintains records of allocations, enabling verification by auditors or reviewers.

- *Reporting* – MML commits to regular **reporting on the allocation of proceeds and the social outcomes**. This includes annual reports detailing the allocation of funds (by category, geography, etc.) and impact metrics (e.g. number of loans, target population reached). The reporting for the period up to March 2025 is presented in this investor report, providing transparency to investors and stakeholders on how the funds have been utilized. Importantly, MML conducted 100% **Loan Utilization Checks (LUCs)** on funded loans to verify that borrowers used the loans for the stated social purpose – reinforcing the credibility of reported outcomes.
- *External Review* – The framework mandates independent external review of both the framework and the funded portfolio. Prior to issuance, **S&P Global** provided a **Second-Party Opinion (SPO)** (March 2024) confirming that MML's Social Finance Framework is aligned with SBP and SLP standards. Post-issuance, **MFR (Microfinanza Rating)** was engaged to conduct an **Annual Review** of the use of proceeds (July 2025). MFR's opinion concludes that MML's social loans **conform in all material respects to the use-of-proceeds and reporting criteria** set forth in the framework. The external reviews enhance investor confidence that MML's social financing is conducted with integrity and in line with international best practices.

Overall, MML's social finance strategy is to channel socially conscious capital into microfinance loans that **empower women entrepreneurs, foster community development, and promote financial inclusion**, while upholding high standards of ESG risk management. This strategy not only supports MML's mission of serving the bottom-of-pyramid segment, but also offers investors measurable social impact alongside financial returns.

## Allocation of Proceeds

This section details how the USD 113 million raised under MML's social bond/loan facility was allocated, including the sources of funding, the distribution of loans by geography and lending model, and the segmentation by sector and purpose.

### Funding Sources and Transaction Structure

MML's social financing was raised as an **External Commercial Borrowing (ECB)** under a facility named **MOSS (Facility A1)**, syndicated across multiple international and domestic lenders. The funds were received in tranches between March and June 2024, and designated for the **“Access to Financial Services”** use-of-proceeds category. Table 1 below outlines the lending banks, disbursement dates, and amounts:

**Table 1: Social Facility Lenders List (USD 113 million total)**

Canara Bank, GIFT City (India)
Doha Bank, Kuwait Branch (Kuwait)
National Bank of Ras Al Khaimah ( <b>RAK Bank</b> ) (UAE)
Union Bank of India (UK) Ltd. (United Kingdom)
<b>Canara Bank, GIFT City (India)</b>
<b>Doha Bank, Kuwait Branch (Kuwait)</b>
Standard Chartered Bank, GIFT City Branch (India)
<b>RAK Bank (UAE)</b>
<b>Union Bank of India (UK) Ltd. (UK)</b>
Bank of India, DIFC Branch (Dubai, UAE)
Bank of Bahrain & Kuwait (Bahrain/Kuwait)
<b>Bank of India, DIFC Branch (Dubai, UAE)</b>
Mega International Commercial Bank, Labuan Branch (Malaysia)
Union Bank of India, DIFC Branch (Dubai, UAE)

**Note:** Detailed lender-wise allocation available upon request.

All USD 113 million in proceeds have been fully allocated to MML's eligible loan portfolio as of March 31, 2025. The funds were converted to Indian Rupees and deployed to support micro-loans in accordance with the Social Finance Framework. No proceeds remain unallocated, and no funds were used for refinancing beyond the allowable look-back (up to 3 years for existing loans, per framework guidelines). The allocation by lender demonstrates a diversified funding base, including Indian, Middle Eastern, and international banks, indicating broad investor confidence in MML's social mission.

## Geographic Distribution of Loans

The social loan proceeds were disbursed to microfinance clients across **18 states** of India, ensuring broad regional reach. MML's branch network spans North, East, South, and Central India, allowing the proceeds to be allocated in a geographically diversified manner.

However, there was a strategic focus on areas with high rural population and financial exclusion. **East India** saw the largest share of loans (by number), led by **West Bengal** which accounted for about **23%** of all loans disbursed (54,237 loans) and ~25% of funds by value. **North India** was another key region – notably **Uttar Pradesh** received ~18% of the loans (43,865 loans) and 18% of proceeds. Significant outreach was also achieved in **Odisha** (~10% of loans), **Tamil Nadu** (~8%), and **Madhya Pradesh** (~7%). Table 2 summarizes the state-wise allocation of the ₹13.3 billion proceeds:

**Table 2: Allocation of Proceeds by State (Top 10 by loan count)**

State	Net Proceeds (₹ million)	% of Total Proceeds	Number of Loans	% of Total Loans
West Bengal	3,263	25%	54,237	23%

Uttar Pradesh	2,415	18%	43,865	18%
Odisha	1,246	9%	23,811	10%
Tamil Nadu	1,022	8%	19,812	8%
Madhya Pradesh	767	6%	16,975	7%
Rajasthan	785	6%	11,144	5%
Bihar	681	5%	12,643	5%
Gujarat	926	7%	14,706	6%
Karnataka	237	2%	4,362	2%
Haryana	257	2%	4,986	2%
<i>Other states (8)</i>	722	5%	11,444	5%
<b>Total</b>	<b>13,301.82</b>	<b>100%</b>	<b>238,185</b>	<b>100%</b>

As shown above, the funding was well-spread, though with some concentration in states requiring greater financial inclusion efforts. In total, **over 238,000 loans** were funded across the country. The average loan size was relatively small (approximately ₹55,800, or about \$700), consistent with microfinance lending. States like West Bengal and Odisha (East) and Uttar Pradesh and Bihar (North) are characterized by lower income levels and large rural populations, aligning with the framework's objective to direct funds to **underserved regions**. MML's presence in these states ensured that the social bond proceeds reached the intended communities. Other states served include Uttarakhand, Kerala, Maharashtra, Punjab, Himachal Pradesh, Telangana, and Chhattisgarh (each contributing 1–4% of the loans), reflecting MML's nationwide footprint.

## Lending Model and Client Segmentation

MML utilized two lending models for deploying the social finance proceeds: **Group Lending** (Joint Liability Group loans) and **Individual Lending**. The vast majority of loans were delivered via the **JLG group lending model**, which is core to MML's microfinance methodology. Under this model, women borrowers form small groups that mutually guarantee each other's loans, enabling collective borrowing with no conventional collateral.

- **Group (JLG) Loans:** Approximately **81.6%** of the loans (by number) – representing 194,320 loans – were JLG loans to existing MML clients. In value terms, group loans accounted for about ₹11,318 million (around 85% of total proceeds). These loans typically finance income-generating activities for women organized in groups, and leverage peer support and joint liability to ensure high repayment rates. MML's group loans are relatively small in size (often ₹30,000–₹60,000 each) and shorter-term (12–24 months), targeted at women running micro-enterprises or livelihood activities.
- **Individual “Parallel” Loans:** The remaining **18.4%** of loans (43,865 loans) were made as individual loans, often to clients who have progressed through multiple group loan cycles and qualified for larger credit (“parallel” meaning taken alongside a group loan, or by graduated clients). These individual loans amounted to ₹1,984 million (15% of proceeds). They are slightly larger on average and allow growing entrepreneurs to borrow in their own name while still being within the microfinance context.

**Total Reach:** In sum, **238,185** micro-loans were financed through the combination of group and individual lending, utilizing ₹13,301.82 million (100% of available proceeds). The weighted average loan size was around ₹55,800 (approx \$675), reflecting a mix of smaller JLG loans and some larger individual loans. By leveraging both models, MML ensured that the social bond not only expanded outreach to new clients via group lending, but also provided follow-on financing to existing clients scaling up their businesses through individual loans. This balanced approach supports both **breadth** of inclusion (through group loans reaching many new borrowers) and **depth** of impact (through larger loans to repeat borrowers for business growth).

## Sector-Wise Allocation of Loans

MML's Social Finance Framework identifies several social project categories, but given MML's business model, the proceeds were primarily used for loans under the broad theme of "**Access to Financial Services / Employment Generation**" – effectively financing micro-entrepreneurial activities. For reporting clarity, MML has segmented the loan portfolio into key **sectors or livelihood categories** based on the borrowers' use of funds. Figure 1 and Table 3 below summarize the **allocation of proceeds by sector**:

- **Agriculture & Allied Activities:** ~25% of the proceeds were directed to agriculture-related livelihoods (constituting about 30% of the number of loans). This includes farming of crops, vegetable cultivation, floriculture, nursery operations, etc., by smallholder women farmers.
- **Services:** ~25% of proceeds (about 21% of loans) supported small service businesses. Examples include tailoring, embroidery, running shops (kirana/ration shops), food catering, and other home-based services.
- **Animal Husbandry:** ~23% of proceeds (23% of loans) went to livestock and dairy activities. Many women took loans for dairy cow purchases, goat rearing, poultry farming, and related allied agricultural activities.
- **Trading (Small Trade):** ~16% of proceeds (17% of loans) financed petty trading and shopkeeping activities. Borrowers used these loans to stock or expand small shops – e.g. grocery stores, fruit/vegetable stalls, textile or fancy goods shops, etc.
- **Manufacturing (Micro-Production):** ~10% of proceeds (9% of loans) supported tiny manufacturing or artisanal businesses. These include handicrafts, making snacks or food products, tailoring workshops, and similar cottage industries.

**Table 3: Allocation by Sector – Share of Proceeds and Loan Count**

Sector	% of Proceeds (Allocated Amount)	% of Number of Loans
Agriculture & Allied	25%	30%
Services (Small businesses)	25%	21%
Animal Husbandry	23%	23%
Trading (Retail trade)	16%	17%
Manufacturing (Micro industries)	10%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The above distribution illustrates that **agriculture and allied** activities received the largest share of funding, consistent with MML's focus on rural livelihoods. A significant portion of

clients are small farmers or involved in the agricultural value chain. Service sector loans also formed a major component, reflecting a variety of micro-service enterprises run by women (tailoring, retail shops, food services, etc.). Animal husbandry – particularly dairy – is another crucial livelihood for many women borrowers, thus attracting about a quarter of the funding. Trading and manufacturing, while smaller shares, indicate that a portion of clients used loans for trading businesses (market vending, shops) and small-scale production or handicrafts.

It's worth noting that all these sectors align with the **eligible categories** defined in the Social Finance Framework (e.g. **employment generation and entrepreneurship for women** in underserved communities). The allocation is **fully in line with the framework's intended social objectives**. MFR's review confirmed that sectoral use of proceeds was **aligned to the goals set in the framework, with maximum allocation in agriculture/allied, followed by services, trading, and manufacturing**.

## Output and Impact Reporting

MML's social financing has yielded measurable outputs in terms of loans disbursed to the target population, as well as positive outcomes aligned with financial inclusion and women's empowerment. This section presents the key output and preliminary impact indicators from the reporting period.

### Target Population Reach and Income Criteria

**Women from Low-Income Households:** The **entire beneficiary base** of this social finance program comprised women borrowers from economically weaker sections. Per the framework, eligible borrowers are those with household income  $\leq$  ₹300,000 per year (approximately USD 3,600) – aligning with the definition of **Economically Weaker Section (EWS)** in India. MML met this target **100%**, as verified by the independent review: "*The loans for the social projects were provided to 100% of the target segment (annual household income  $\leq$  ₹300,000), and all loans were given to women clients (100%)*". This indicates full adherence to the intended social demographic – low-income women with little to no prior access to formal credit.

In practice, these women are often self-employed in subsistence agriculture or small businesses and were previously reliant on informal sources of finance. By providing micro-loans to this segment, MML advanced its mission of **financial inclusion**. Many beneficiaries are first-time borrowers of formal credit, and the loans enable them to invest in livelihood activities, smooth consumption, or build assets. Borrowers also benefited from MML's **financial literacy and training programs** – all new clients underwent a **3-day Comprehensive Group Training (CGT)** on loan terms, financial education, and business basics, followed by a Group Recognition Test to ensure they were prepared for borrowing. This capacity-building enhances the impact of the loans by helping clients use funds effectively and manage repayments, thereby promoting responsible finance and empowerment.

## Client Segment Analysis: New vs. Repeat Borrowers

One critical outcome of the social bond was extending credit to those who were previously unbanked or underbanked. According to MML's data, a **major share of loans (approx. 55%) went to “new-to-credit” clients**, i.e. women who had never taken a loan from a formal financial institution before. Specifically, **131,855 loans** were to first-time borrowers (which is 55.4% of the 238,185 loans). This demonstrates significant progress in bringing new individuals into the formal financial system, a key goal of financial inclusion. These clients now have the opportunity to build credit history and improve their economic stability through access to finance.

The remaining ~45% of loans were issued to **existing microfinance clients** (those who have taken loans before). Within this, MML further notes that a portion were to long-term clients: about **4,825 loans** (2% of total) were to women with over 4 prior loan cycles, indicating seasoned borrowers scaling their enterprises. Meanwhile, roughly 101,500 loans went to women in their 2nd to 4th loan cycle (moderately experienced borrowers). The fact that a large number of repeat clients continue borrowing from MML suggests that earlier cycles were successful and demand for credit remains for business expansion. It also reflects **client loyalty and trust** in MML's services. From an impact perspective, supporting repeat clients in growing their businesses can lead to deeper economic empowerment (e.g. higher incomes, job creation in their micro-enterprises), while reaching new clients extends the breadth of impact.

In summary, the social bond allowed MML to both **expand outreach** (over **130,000 women gained first-time access to formal credit**) and **deepen engagement** with existing entrepreneurs (providing larger or follow-up loans to help their businesses grow). This two-pronged outcome underlines the role of microfinance in not just initiating financial inclusion but also sustaining it through progressive loan cycles.

## Purpose of Loans and Use of Funds

All loans financed under this program were for **income-generating purposes**, aligned with MML's policy of lending for productive end-uses. The variety of purposes reflects the diverse entrepreneurial activities of the women borrowers. Below are some of the primary uses of loans in each sector and their significance:

- **Agriculture & Allied:** Many women used the loans for **crop cultivation** and related farm activities. For example, a large number of loans in agriculture went towards *fruits and vegetable cultivation* (32% of agriculture sector loan value) and *grain cultivation* (18%). This implies borrowers bought seeds, fertilizers, or equipment, or financed labor for planting and harvesting. Other uses included small-scale **floriculture** and plant nurseries (about 12% each of agriculture loans), as well as investments in irrigation or purchase of agricultural inputs. These loans help improve farm productivity and diversify agricultural income. By empowering women in agriculture (who often lack access to credit), the program contributes to increased food security and better livelihoods in rural areas.
- **Animal Husbandry:** A significant portion of women engaged in dairy and livestock rearing. Over half (56%) of the animal husbandry loan funds were utilized for **purchasing dairy cows**, enabling women to start or expand milk production businesses. Other purposes included setting up or improving **cattle**

sheds/farms (19%), raising goats(11%), and poultry farming (12%). Livestock loans provide borrowers with a sustainable income source (sale of milk, eggs, etc.) and asset ownership. Importantly, these activities often generate daily or weekly cash flows, which aid in loan repayments and household consumption smoothing.

- **Services and Small Businesses:** In the service sector, common businesses financed were *tailoring and embroidery shops* (accounting for 37% of service sector loan allocation) and small *workshops* (23%) such as repair shops or artisan workshops. **Catering and food services** made up about 18%, reflecting loans taken to start home-based canteens, street food stalls or tiffin services. Women also borrowed to open or stock **ration shops (grocery/Kirana stores)** (9%) and **beauty salons** (5%). These service-sector loans empower women to become self-employed in their communities, often providing essential services locally (e.g. tailoring clothing, providing meals). The income generated can increase their financial independence and status within the household.
- **Trading:** Under trading, women typically used loans to purchase inventory for small retail operations. For instance, loans financed **general merchandise shops, grocery stores, and fruit & vegetable stalls**, which respectively constituted ~18%, 15%, and 23% of the trading sector loan value. Other trading uses included **textile/clothing shops** (9%), **stationery & small variety stores** (6%), and niche trades like selling home appliances, hardware, or agricultural supplies. By injecting capital into these tiny enterprises, the program helped women entrepreneurs increase their stock and sales, leading to higher profits. Given that most of these businesses serve local low-income consumers, there is a community benefit in improved availability of goods.
- **Manufacturing/Artisanal:** Though a smaller share, some women took loans for micro-manufacturing ventures or crafts. The largest chunk here was **handicraft production** (46% of manufacturing loans) – e.g. making woven mats, baskets, or handcrafted items for sale. Others invested in home-based production of items like **clothes, bedding** (10%), **bricks or related materials** (9%), **snacks/food products** (3%), and **fancy ornaments** (4%). These loans often enable purchase of raw materials or simple machinery, helping women turn their skills into income. Even though each individual business is small, collectively they contribute to local economic activity and preserve traditional crafts.

**Outcome Metrics:** The immediate outputs – number of loans and amounts disbursed to each purpose – have been carefully tracked (see Appendices for detailed tables). In terms of outcomes, the program’s impact can be inferred along several dimensions:

- **Financial Inclusion:** As noted, over 131,000 women entered the formal financial system through this program, often opening bank accounts and starting credit histories. This is a foundational step toward broader economic inclusion, allowing them access to other financial services in the future.
- **Women’s Economic Empowerment:** All 238,185 loans were given to women, directly supporting female entrepreneurship. By enabling women to generate their own income, the loans contribute to greater decision-making power for women in their households and communities. Anecdotally, such micro-enterprises often lead to improved self-esteem and status for women borrowers. Furthermore, group lending builds social capital and peer support networks among women.

- **Income Generation and Poverty Alleviation:** While individual income data is not yet reported, the nature of the loans (for productive uses) suggests that borrowers are investing in activities that will yield financial returns. For many, a successful micro-business can supplement family income, reduce vulnerability to shocks, and gradually lift households out of poverty. The fact that repeat borrowing is high (many returning for subsequent loans) indicates that initial loans are being repaid and likely have positive economic results, prompting scaling up.
- **Employment and Community Benefits:** Some borrowers, especially those expanding businesses, may create additional employment (even if informal) by hiring helpers or buying from local suppliers. For example, a woman running a dairy might employ others in milk collection, or a tailor might give work to embroiderers. Moreover, the goods and services provided by these micro-enterprises (food, clothing, basic retail goods, etc.) benefit their communities by improving local availability and convenience.
- **Credit Discipline and Financial Literacy:** The requirement for Comprehensive Group Training and 100% Loan Utilization Checks means that clients are not only receiving capital but also education on how to use it effectively and the importance of repaying. This builds financial capability at the grassroots level. As evidence of good credit discipline, **100% of loans underwent utilization verification** and adhered to intended purposes. MML's high repayment rates (not explicitly in this report, but historically strong) further indicate that borrowers are managing their finances well, which is an outcome of both careful client selection and the support/training provided.

In conclusion, the output and impact metrics show that MML's social finance program is **delivering on its social objectives**. It has reached the targeted low-income women, provided them with the means to improve livelihoods, and ensured that the funds are generating tangible economic activities. Future impact assessments may delve deeper into indicators like income increases, poverty reduction, or social indicators (health, education improvements due to increased income), but even at this stage, the alignment with **financial inclusion and women's empowerment outcomes is evident**.

## Climate Resilience and ESG Integration

Muthoot Microfin's approach to social finance not only targets social outcomes but also integrates environmental, social, and governance (ESG) considerations to ensure sustainable impact. Key elements of MML's climate resilience and ESG practices are:

**Environmental and Climate Risk Management:** Although the loans are relatively small, MML recognizes the potential vulnerability of its clients to climate change and natural disasters. To build resilience, **all borrowers are provided with insurance products to protect against climate-related losses**. For example, MML offers the "*Griha Suraksha Shield*" – a property insurance cover for homes – which safeguards clients' dwellings against cyclones, floods, and other disasters. Other micro-insurance covers include health and life insurance. By bundling or facilitating access to insurance, MML helps clients mitigate the financial shocks from events that could otherwise derail their livelihoods (such as crop failure, livestock death, or property damage). This insurance strategy is a direct response to physical climate risks in the regions served, many of which are prone to floods or extreme weather.

Moreover, MML has instituted an **Exclusion List** that filters out any activities with significant environmental harm. This list (aligned to IFC's Exclusion List) prohibits financing of ventures that could damage the environment – for instance, loans are not given for logging in protected forests, wildlife trade, production of hazardous chemicals, etc.. While most typical microfinance activities are low-impact, this precaution ensures MML does not inadvertently fund anything counter to environmental sustainability. The "**Do No Significant Harm**" (**DNSH**) principle is embedded in MML's project evaluation, as noted earlier – loans are screened so as not to contribute to environmental degradation or social harm.

**Social and Client Protection:** As a microfinance institution, MML places heavy emphasis on ethical practices and client well-being. It has been certified for **Client Protection Principles**, indicating adherence to fair and transparent dealings. MML maintains a Code of Conduct and a Fair Practices Code that govern all interactions with borrowers. This includes transparent disclosure of loan terms (interest rates, fees), respectful collection practices, prevention of over-indebtedness, and privacy of client data. The **three-tier grievance redressal mechanism** allows clients to voice complaints and have issues resolved at branch, regional, or head-office levels. During the reporting period, these mechanisms were in place to ensure any client issues related to the social loans were addressed promptly, reinforcing trust and accountability.

Additionally, MML's **non-financial services** contribute to social sustainability. The company partners to provide **E-clinic services** (telemedicine consultations) to its clients, improving access to healthcare for low-income women and their families. Health shocks can be financially devastating for the poor, so facilitating healthcare access complements the financial products and helps maintain clients' overall well-being. Financial literacy workshops, as mentioned, are another social initiative that strengthens clients' capabilities.

**Governance and Transparency:** MML's governance of the social finance program involved robust internal controls and external oversight. A dedicated team tracked the use of proceeds and ensured compliance with the framework. The involvement of external reviews (S&P's SPO and MFR's Annual Review) indicates strong governance – MML willingly subjected itself to independent scrutiny to validate its ESG claims. MFR's review process, which included data verification and interviews with MML personnel, provided assurance of the **quality and integrity** of MML's reporting.

On the corporate governance front, MML, being a publicly listed company since late 2023, is subject to regulatory disclosure requirements and oversight by the Securities and Exchange Board of India (SEBI). This enhances transparency around its operations. The company's board and risk management committees oversee the implementation of ESG policies (such as the exclusion list compliance, client protection, and adherence to RBI's Fair Practices Code for NBFC-MFIs).

**Contribution to SDGs:** MML's social finance activities inherently support several UN Sustainable Development Goals (SDGs) – notably **SDG 1 (No Poverty)** through poverty alleviation in rural areas, **SDG 5 (Gender Equality)** by empowering women, **SDG 8 (Decent Work and Economic Growth)** via promoting micro-entrepreneurship and employment,

and **SDG 13 (Climate Action)** by enhancing resilience and incorporating climate risk mitigation (insurance, sustainable practices). The alignment with these global goals underscores the ESG value proposition of MML's social bond.

In summary, MML's integration of ESG factors ensures that its social lending not only achieves positive social impact but does so responsibly. The focus on climate resilience (through insurance and exclusions) protects both the borrowers and the portfolio from adverse events, while the strong client protection and governance framework upholds ethical standards. This comprehensive ESG integration adds credibility and sustainability to MML's social finance initiative, which is crucial for investors and stakeholders who prioritize long-term impact and risk management.

## External Review and Methodology

To maintain transparency and credibility, MML's Social Finance Framework and the associated use of proceeds underwent rigorous external evaluation. Two key external reviews took place:

1. **Second-Party Opinion (Pre-issuance):** MML engaged S&P Global (an independent ratings and evaluation firm) to review its Social Finance Framework prior to the issuance of the social bond/loan facility. In March 2024, **S&P provided a second-party opinion (SPO)** attesting that MML's framework is aligned with the ICMA Social Bond Principles and Loan Market Association's Social Loan Principles. The SPO evaluated the framework's clarity and robustness across use of proceeds, project selection, management of funds, and reporting, as well as MML's overall sustainability strategy. S&P's endorsement gave investors confidence that the planned use of funds would meet internationally accepted standards for social impact and transparency.
2. **Annual Review (Post-issuance):** After full allocation of the bond proceeds, MML commissioned **Microfinanza Rating (MFR)** – a specialized global microfinance rating agency – to conduct an independent **Annual Review of Use of Proceeds**. MFR's review (completed in July 2025) examined whether the actual allocation of funds and the reporting on outputs were in line with MML's Social Finance Framework commitments. The **methodology** involved collecting evidence from MML (loan lists, internal reports, etc.), **verifying data** on allocations and borrowers, and interviewing key MML personnel. The analysis was then reviewed by a committee of senior MFR experts to ensure independence and quality control.

**Findings:** MFR concluded with a positive opinion, stating that **100% of the proceeds were used for eligible social projects as defined by the framework**. Their brief opinion highlighted that funds were indeed focused on the intended sectors (agriculture, services, trading, manufacturing) and exclusively to the target segment (women from low-income households). They confirmed **all loans complied with the framework's criteria**, including adhering to the exclusion list and conducting loan utilization checks. MFR also noted MML's efforts in climate risk mitigation (insurance for all clients) as a strength. The final conclusion of the review was that "*in all material respects, the reviewed projects conform with the use of proceeds criteria and reporting*

*commitments in the Social Finance Framework of MML and the proceeds of the social loans are fully allocated as of March 2025”.*

**Reporting and Transparency:** The Annual Review report provided detailed tables on allocation (some of which are included in this Investor Report) and serves as an assurance document for investors. It essentially verifies that the social bond has delivered what it promised – both in terms of where the money went and what social outputs were achieved.

The external reviews are integral to MML’s approach, as they bolster stakeholder trust. Investors, auditors, and regulators can rely on these independent assessments rather than solely on MML’s self-reporting. The alignment with recognized standards (ICMA/LMA principles) and the verification by reputable third parties mean that MML’s social bond could be considered **credible and eligible for Socially Responsible Investment (SRI) portfolios** or impact investing funds. MML has committed to ongoing reporting and will likely undertake future reviews for any subsequent issuances or as needed, thereby maintaining a high level of accountability.

**Methodological Notes:** MML’s internal reporting was the basis for the data provided. Currency conversions were handled as per RBI reference rates (the USD 113 million was roughly equivalent to ₹9,300 million at time of disbursement; however, ₹13,301.82 million was the net allocation figure reported, possibly reflecting currency adjustments and portfolio rotation). Loan counts and amounts were aggregated from MML’s Management Information System (MIS) and double-checked during the loan utilization checks. The impact analysis is primarily output-based (count of loans, etc.) since long-term outcomes (income changes, etc.) require longer-term study. Nonetheless, proxy indicators like percentage of new borrowers and 100% women participation strongly signal progress on inclusion and gender goals.

Moving forward, MML may consider adding more outcome indicators (e.g., sample surveys of borrowers for income improvements or social indicators) in future reports. For this issuance, the focus remains on accountable use of funds and immediate outputs, which have been thoroughly validated by the external review.

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## Appendices – Detailed Use of Proceeds Tables by Purpose/Sector

The following tables provide a granular breakdown of how the net proceeds (₹13,301.82 million) were allocated across various **loan purposes within each sector**. These details illustrate the types of micro-enterprises and activities financed. (Figures may be subject to rounding; percentages indicate share of that sector's total.)

### Appendix A1: Agriculture Sector – Loan Purpose Details

This sector includes loans for farming and related agricultural activities.

Purpose of Loan (Agriculture)	Net Proceeds Allocation (INR million)	Number of Loans
Fruits and Vegetable Cultivation	1,086 (32%)	19,998 (32%)
Grains Cultivation	613 (18%)	11,233 (18%)
Fish Farming/Aquaculture	302 (9%)	5,538 (9%)
Flower Cultivation	408 (12%)	7,510 (12%)
Nursery (Plant Saplings)	411 (12%)	7,747 (12%)
Seeds and Fertilizers (Agri-inputs)	238 (7%)	4,584 (7%)
Irrigation Equipment/Infrastructure	213 (6%)	3,843 (6%)
Medicinal Plant Cultivation	35 (1%)	660 (1%)
Spices Cultivation	44 (1%)	832 (1%)
<b>Total – Agriculture</b>	<b>3,350 (100%)</b>	<b>61,945 (100%)</b>

***Key insights:*** Within agriculture, **fruit & vegetable farming** was the top use (32%), suggesting many women borrowed to grow produce for local markets. **Grain cultivation** (18%) was the next major use, common in agrarian regions. The diversity of purposes (including floriculture, nurseries, fisheries, spice cultivation) indicates that loans supported a wide range of farm-based livelihoods, promoting diversification beyond staple crops. This diversification can reduce risk for borrowers and enhance income (e.g., cultivating higher-value flowers or spices). The inclusion of irrigation and agri-input loans (collectively ~13%) points to investments in improving productivity and resilience of agriculture (better water access, improved seeds/fertilizers). Overall, 61,945 agricultural loans were financed, underscoring MML's strong rural outreach.

### Appendix A2: Service Sector – Loan Purpose Details

This sector comprises loans for small service enterprises and shops.

Purpose of Loan (Services)	Net Proceeds Allocation (INR million)	Number of Loans
Tailoring and Embroidery	1,250 (37%)	22,524 (37%)
Workshops (Small repair/artisan units)	773 (23%)	14,080 (23%)

Catering / Food Services	608 (18%)	11,082 (18%)
Ration Shop (General grocery store)	302 (9%)	5,378 (9%)
Salon and Beauty Parlour	171 (5%)	2,918 (5%)
Ironing and Dry Cleaning	92 (3%)	1,635 (3%)
Light and Sound Services (event equipment)	71 (2%)	1,262 (2%)
Computer Center / Cyber Café	48 (1%)	855 (1%)
Printing, Photocopy & Studio	31 (1%)	556 (1%)
Electrical Service Center	12 (0.4%)	197 (0.4%)
Electronics Repair Center	23 (0.7%)	413 (0.7%)
<b>Total – Services</b>	<b>3,381 (100%)</b>	<b>60,900 (100%)</b>

**Key insights:** **Tailoring and embroidery** businesses formed the largest share of service loans (37%). This reflects many women leveraging sewing or craft skills to earn income. **Small workshops** (23%) include activities like bicycle repair, carpentry, or artisan workshops – indicating support for trades. **Food-related services** (18%) highlight women engaging in catering or small eateries. Notably, traditional neighborhood businesses like **kirana (ration) shops** received 9% of service-sector credit, a stable source of income for many households. The data also shows loans enabling women to start beauty parlours, laundry/ironing services, event equipment rental, and small IT services (computer centers) – demonstrating the breadth of micro-service enterprises. In total, about 60,900 service sector loans were funded. These businesses often have quick turnover and daily cash flow, aiding regular repayments and providing daily livelihoods.

### Appendix A3: Animal Husbandry Sector – Loan Purpose Details

This sector includes loans for livestock rearing and allied activities.

Purpose of Loan (Animal Husbandry)	Net Proceeds Allocation (INR million)	Number of Loans
Purchase of Cow (Dairy)	1,727 (56%)	30,985 (56%)
Cattle Farm (shed, feed, multiple cattle)	590 (19%)	10,809 (19%)
Poultry, Eggs, Milk (small farms)	353 (12%)	6,519 (12%)
Purchase of Goat	348 (11%)	6,340 (11%)
Purchase of Chicks/Ducklings	30 (1%)	550 (1%)
Seafood Farming (e.g. Prawn)	18 (1%)	323 (1%)
<b>Total – Animal Husbandry</b>	<b>3,066 (100%)</b>	<b>55,526 (100%)</b>

**Key insights:** The dominance of **dairy cow purchase** loans (56%) underscores dairy as a key livelihood for women – owning milch cows can generate daily income through milk sales. The “Cattle farm” category (19%) likely includes larger operations or infrastructure (building sheds, buying bulk feed, or multiple cattle), indicating some borrowers expanded beyond one animal. **Goat rearing** (11%) and **poultry farming** (12%) are also popular due to low entry cost and quick returns (goats for meat/breeding; poultry for eggs/meat). These activities can improve nutrition and income for the family. Although smaller in share, a few loans supported

fish/seafood farming (common in certain coastal or riverine areas). About 55,526 animal husbandry loans were provided, reflecting that many women chose livestock as a reliable income source. Livestock assets can appreciate (through offspring) and act as a form of savings, thereby contributing to asset building for poor households.

#### Appendix A4: Manufacturing Sector – Loan Purpose Details

This sector covers loans for small-scale manufacturing, production, and cottage industries.

Purpose of Loan (Manufacturing)	Net Proceeds Allocation (INR million)	Number of Loans
Handicraft production (artisan goods)	610 (46%)	10,223 (45%)
Cloth, Pillow, Bedding making	139 (10%)	2,359 (10%)
Brick and Allied Products	120 (9%)	1,969 (9%)
Paper/Plastic Bag Making	56 (4%)	963 (4%)
Snack Production (homemade food)	43 (3%)	753 (3%)
Costume/Fancy Ornaments	51 (4%)	840 (4%)
Furniture Making	62 (5%)	1,035 (5%)
Grocery Product Manufacturing (home-based)	39 (3%)	650 (3%)
Coir Products (ropes, mats)	32 (2%)	551 (2%)
Electrical/Electronic Item Assembly	41 (3%)	675 (3%)
Footwear Making	60 (5%)	1,132 (5%)
Tinkering/Welding/Engineering micro-units	22 (2%)	373 (2%)
Jute/Cotton Bag Making	20 (1%)	311 (1%)
Leather Product Manufacturing	8 (1%)	151 (1%)
Flour and Oil Processing (micro-mills)	9 (1%)	158 (1%)
Jams and Pickles Production	11 (1%)	175 (1%)
Utensil Making	5 (0.4%)	81 (0.4%)
Clay Pottery and Allied Crafts	5 (0.4%)	80 (0.4%)
Candle Making	6 (0.4%)	98 (0.4%)
<b>Total – Manufacturing</b>	<b>1,339 (100%)</b>	<b>22,373 (100%)</b>

*Key insights:* Almost half of the manufacturing loans supported **handicrafts**, highlighting a concentration in traditional artisan activities – e.g. weaving mats, making decorative items, pottery (note: pottery is listed separately at the bottom but could be part of handicrafts generally). This suggests that many women are leveraging local art/craft skills to generate income, which also helps preserve cultural crafts. **Textile-related manufacturing** (making clothes, pillows, etc.) accounted for 10%, often a complementary activity to tailoring services. A notable 9% went to **brick making or related** – perhaps in regions where women operate small brick kilns or supply bricks for construction. This is interesting as it's a more asset-heavy business; such loans might indicate family-based micro-industries. The wide range of other categories (bags, coir, food processing, etc.) shows that women entrepreneurs are active in various forms of cottage industries. Though each category is small, together they indicate a diversification of rural industry. In total, 22,373 manufacturing loans were given. These

enterprises can potentially scale with time – for instance, a successful snacks business can grow into a local brand, or a coir rope unit can increase production with modest capital. By funding these, MML supports the first steps of micro-industrial entrepreneurship.

#### Appendix A5: Trading Sector – Loan Purpose Details

This sector includes loans for trading, retail, and shop-keeping activities.

Purpose of Loan (Trading)	Net Proceeds Allocation (INR million)	Number of Loans
General Merchandise Shop	391 (18%)	6,629 (18%)
Grocery Shop (Kirana)	315 (15%)	5,430 (15%)
Fruits and Vegetables Stall	489 (23%)	8,537 (23%)
Textiles / Garments Shop	202 (9%)	3,330 (9%)
Stationery & Fancy Goods Shop	130 (6%)	2,247 (6%)
Home Appliance Shop	165 (8%)	2,849 (8%)
Milk and Meat Shop	190 (9%)	3,228 (9%)
Furniture & Utensils Shop	104 (5%)	1,705 (5%)
Auto Spare Parts Shop	49 (2%)	797 (2%)
Hardware Shop	61 (3%)	1,105 (3%)
Puja Items Shop (religious articles)	35 (2%)	598 (2%)
Electrical & Electronics Shop	15 (1%)	244 (1%)
Chemical & Fertilizers Shop	11 (0.5%)	187 (0.5%)
Computer & Peripherals Store	9 (0.4%)	160 (0.4%)
<b>Total – Trading</b>	<b>2,166 (100%)</b>	<b>37,046 (100%)</b>

*Key insights:* **Fruit & vegetable vendors** represented the largest portion (23%) of trading loans – many women borrow to run market stalls selling produce, which is a common entry business requiring daily working capital. **General stores** and **grocery shops** together made up one-third of trading loans (18% + 15%), highlighting a significant investment in local retail for everyday goods. These shops often serve entire villages or neighborhoods, so their strengthening has community benefits. Specialized shops like **textiles/clothing** (9%) and **home appliances** (8%) indicate women entrepreneurs catering to specific local demands (clothing boutiques, small electronics retail). It's notable to see **meat and milk shops** (9%) as distinct from animal husbandry – implying some borrowers engaged in the trade side (selling meat or milk products) rather than production, thus participating in value chains. Lower down, there are niche businesses like auto parts or agri-input (fertilizer) stores, showing that some women are entering non-traditional trade areas as well. In total, 37,046 trading loans were disbursed. The trading sector loans generally fund inventory purchases, and a successful outcome would be increased sales and profit margins for these micro-retailers. Since these are mostly family-run, they directly contribute to household income and local market vibrancy.

**ICMA / LMA Principle Alignment**

ICMA / LMA Principle	Principle Description	Report Section(s)	Evidence Provided	Auditor Assurance Focus
<b>Use of Proceeds</b>	Clear definition of eligible social projects and social objectives	<b>Section 1.2.1</b> Use of Proceeds <b>Section 2</b> Allocation of Proceeds	Definition of eligible projects, target population, categories aligned to Access to Financial Services	Eligibility clarity, exclusion of non-eligible uses
<b>Project Evaluation &amp; Selection</b>	Transparent process for project selection and social objectives	<b>Section 1.2.2</b> Project Evaluation and Selection <b>Section 4.2</b> Social Risk Management	Credit screening, DNSH principle, IFC exclusion list	Process design, consistency of application
<b>Management of Proceeds</b>	Tracking, allocation, and internal controls for proceeds	<b>Section 1.2.3</b> Management of Proceeds <b>Section 5.2</b> Allocation Status	Allocation tracking, internal MIS, 100% allocation confirmation	Traceability, segregation, control effectiveness
<b>Reporting</b>	Annual disclosure on allocation and impact	<b>Section 1.2.4</b> Reporting <b>Section 3</b> Output and Impact Reporting	Allocation tables, geographic & sectoral breakdowns, output metrics	Completeness, consistency, arithmetic accuracy
<b>External Review</b>	Independent verification or assurance	<b>Section 1.2.5</b> External Review <b>Section 10</b> External Review and Assurance	S&P SPO, MFR Annual Review	Scope, independence, coverage
<b>Target Population (ICMA-specific)</b>	Identification of target beneficiaries	<b>Section 3.1</b> Target Population Reach	Women borrowers, income thresholds	Correct classification of beneficiaries
<b>Social Impact Objectives</b>	Articulation of expected social outcomes	<b>Section 7.2</b> Impact Outcomes	Financial inclusion, livelihood creation	Logical linkage, plausibility

<b>Environmental &amp; Social Risk Management</b>	Identification and mitigation of material ESG risks	<b>Section 8</b> ESG, Climate Risk and Client Protection	Climate risk mitigation, insurance coverage	Risk identification adequacy
<b>Governance(LMA emphasis)</b>	Oversight and accountability	<b>Section 9</b> Governance, Controls and Oversight	Board oversight, internal controls	Governance effectiveness
<b>Methodology &amp; Limitations(Best practice)</b>	Disclosure of assumptions and constraints	<b>Annexure V</b> Methodology	Data sources, assumptions	Transparency, caveats

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**Data Source:** The detailed figures above are sourced from MML's internal reports and verified by MFR's Annual Review of Use of Proceeds (July 2025). They demonstrate the comprehensive reach of the social financing across various economic activities. These appendices serve to provide investors and auditors with full transparency on the end-use of funds, underpinning the credibility of MML's social impact claims. The diversity of loan purposes also highlights the **breadth of impact** – touching agriculture, trade, services, and manufacturing – thus contributing to holistic rural and semi-urban economic development.

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