Climate Report

FY2023-24

With the growing focus on climate change, all sectors across the world are stepping up their efforts to incorporate ESG and aligning their business goals accordingly. Corporations are making efforts to educate customers to shift their decisions towards sustainable product choices. Operations are becoming more and more sustainable and are now designed for creating a positive ecological impact.

According to World Meteorological Organization (WMO) the average global temperature in 2022 was about 1.15°C and for the period 2023 to 2027, it is predicted to be between 1.1°C and 1.8°C higher than the pre-industrial average. As global average temperature rises there would be an increase in frequency of extreme events which would not only impact livelihoods and community but also the health of financial systems, economic sectors: agriculture, industry and services, and labour market.

The Company's customer base consists of farmers who are associated with farming and/or other allied activities, who primarily resides in the semi-urban and rural areas of the country. Earnings of customers are directly linked to agri-output and its prices. Agriculture practice and farm production in India is very sensitive to climate change. And as the climate continues to change, occurrence of extreme weather events is anticipated to rise multifold. These events possess the potential to significantly affect the livelihoods of millions of individuals who are directly dependent on agricultural activities. Moreover, extreme events also create significant risk and substantive impact to our business, operations, and revenues, directly and indirectly leading to revenue loss or rise in Non-Performing Assets (NPAs) of our organization.

MMFSL is a cognizant entity which is continuously observing and analysing the market trends, positioning the Company ahead of the curve. To analyse and measure the potential impact of climate change on our business, the Company have conducted a comprehensive Climate Risk Assessment (CRA) to understand potential adverse effects arising from climate change and taking proactive measures to curtail our carbon emissions and become climate resilient. CRA report acts as a supporting ground for the TCFD report, which is structured around four content pillars: 1. Governance; 2. Strategy; 3. Risk Management; and 4. Metrics & Targets; and suggest recommendations to support effective disclosure under each pillar.

Section 1: Governance

(A) Board Oversight

The Board of Directors of the Company are duly constituted with a proper balance of Executive Directors, Non-Executive Directors, and Independent Directors. The board has an oversight on effective management of ESG related risks and opportunities as essential to the company.

The Board meets at least or more than four meeting in a calendar which is the statutory requirement of the country. During the meeting the board receives regular updates on concerned topics related to ESG, sustainability and climate-related issues, as part of its annual, in-depth strategy and risk management sessions, as well as ongoing discussions and committee reports throughout the year. The Board of Directors have adopted and approved new policies viz. 'Business Responsibility and Sustainability Reporting Policy' ("BRSR Policy"), which inter-alia, incorporates sustainability elements and aligns the Policy with National Guidelines on Responsible Business Conduct ("NGRBC"). And the 'Sustainability Policy' which focuses on 3 core principles: Inclusive Culture, Environmentally friendly operations, and Good Governance, which is aligned to Mahindra Rise Principle and Core values. The Board coordinates with its various Committees to ensure active and ongoing Committee-level oversight of the Company's management of ESG related risks and opportunities across the relevant committees mentioned below.

- *Managing Director & Chief Executive Officer* is the member of Group Executive Board, who is the highest executive authority responsible for implementation, oversight of Sustainability and Climate-related policies at the company. Through his guidance, MMFSL is continuously making efforts to minimize its environmental impact by reducing dependency on natural resources, addressing climate change and achieving sustainable economic development with a vision to become carbon and water neutral in near future.
- *The Board has constituted a Corporate Social Responsibility (CSR) Committee.* The committee is responsible for reviewing, monitoring and implementing various policies related to ESG and climate action. The Committee comprises of three Directors, out of which one is the Executive Director and two are Independent Directors. The board reviews the progress of initiatives under the purview of business responsibility and periodically assesses the ESG performance of the company.
- *The Risk Management Committee (RMC)* is another important committee constituted by the board, which manages the integrated risk and reviews it periodically. Climate change risk has been identified as a material risk under the Risk Management Policy of MMFSL.

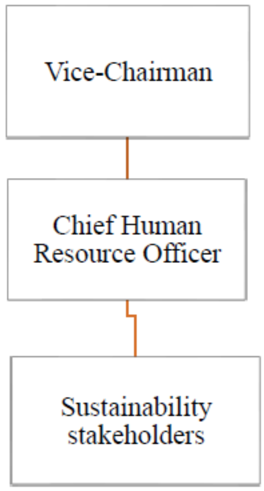
The Mahindra Finance Steering Committee and Sustainability Council acts as a bridge between the Mahindra Finance businesses and the larger Mahindra Group Sustainability council. The council is chaired by Vice Chairman and Managing Director (MD), and other Key Managerial Personnel (KMP). Responsibilities of the council are to effectively integrate sustainability into business strategy and practices and ensure all relevant sustainability policies and goals are well informed, aligned and efficiently executed.

(B) Management Oversight

Members of the Executive Committee report to the highest authority and inform about the issues, strategies and initiatives related to climate change, ESG and sustainability matters.

The Chief Human Resource Officer (CHRO) is key managerial personnel responsible for implementation of the Sustainability and CSR initiatives. He is the Steering Committee and is responsible for overlooking sustainability initiatives, disclose relevant sustainability or climate related information. The CHRO apprises the Board Constituted CSR committee and the Sustainability council on the progress and implementation of the various policies and initiatives related to ESG, ESG roadmap and climate related mitigation.

Sustainability stakeholder are responsible for spearheading sustainability initiatives across various businesses. This entails a range of responsibilities, including the seamless dissemination of critical information, meticulous monitoring and evaluation of pertinent data, and acting as a pivotal liaison between our business entities and the overarching sustainability cell.



Section 2: Climate Strategy

MMFSL has been working towards identifying frameworks to assess and keep track of the progression of seasons and climate change and how the adverse impact of such climate change on the business can be reduced. This involves identifying and mapping sustainability and climate change risks for inclusion in the risk register. With new-age emission norms being rolled out and the changing preferences of consumers for green vehicles, our Company is focusing on financing environment-friendly CNG and electric vehicles.

(A) Scenario Analysis

MMFSL has conducted the climate related risk analysis which could arise in future and potential opportunities arising due to changing economy. The Company have identified Representative Concentration Pathway (RCP) 8.5 scenario for physical risk and International Energy Agency's Net Zero Emissions (IEA NZE) for transition risk as the most relevant scenario for the organization.

Physical Risk: For Physical Risks, the Company have referenced RCP 8.5 scenario. RCP8.5 is the high-emissions scenario, in line with the current emission trajectory and consistent with a future with no policy change happens to reduce emissions. Aligned broadly with Current Policies or Business-As-Usual Scenario. The RCP 8.5 pathway delivers a temperature increase of about 4.3˚C by 2100, relative to pre-industrial temperatures. This scenario is also known as the worst-case scenario which assists us to prepare for extremely damaging effect of climate change.

Transitional Risk: The Company has aligned its transition risks to its low-carbon strategy which includes its commitment to a 1.5 °C world and reducing emission targets. Transition risks have been further identified as per regulatory, technology-related, market, and reputational risks. These risks are interconnected and are often placed on top of mind for investors as they attempt to navigate an increasingly aggressive low-carbon agenda that can create capital and operational consequences to their assets. For Transition Risks, the Company have referenced IEA's Net Zero by 2050 scenario. IEA NZE scenario is a projection wherein by 2050 global energy sector achieve net-zero target. This scenario also meets key energy-related United Nations Sustainable Development Goals (SDGs), in particular by achieving universal energy access by 2030. This scenario involves significant changes to the energy system, including a rapid transition to renewable energy, improvements in energy efficiency, and the electrification of various sectors, such as transportation and buildings. Mahindra Finance, with a significant share in rural, housing mobility and infrastructure sectors, is well positioned to expedite the transformation occurring due to decarbonisation, digitization, decentralization and electrification.

(B) Time Horizons

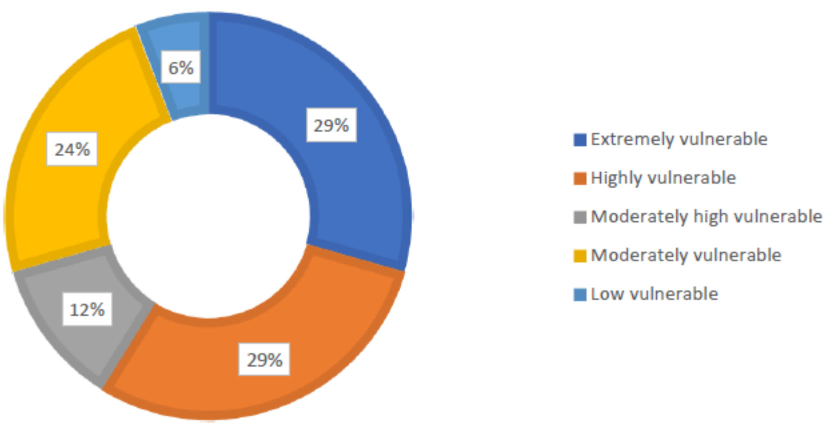
Mahindra & Mahindra Financial Service Limited has defined its time horizons, which are as follows:

1. Short-term: 1 to 3 years
2. Medium-term: 3 to 5 years
3. Long-term: 5 to 10 years

(C) Climate-related risks

MMFSL has a network of over 1400+ branches present across the country. The Company has performed climate scenario analysis for all the branches and selected 77 unique locations from 20 states of the country. Later mapping of top 100 branches was conducted to understand how vulnerable they are to physical risk. Climate vulnerability shows a clear picture of how vulnerable a location is to risk originating due to change in climate. The higher the vulnerability higher the negative impact it can have on the business. Impact could be direct by affecting our employees, building infrastructure or indirect by affecting our customers by hampering their repayment capability.

CLIMATE VULNERABILITY OF MMFSL'S TOP 100 BRANCHES



(D) Climate-related Opportunities

Climate-related Opportunities		Potential Financial Impact	Time Horizon
3-wheeler commercial EV and CNG vehicle financing 4-wheeler EV vehicle financing	• Ability to diversify business activities. • Shift in consumer preferences	Increased revenue from emerging market coupled with shift in consumer preferences. Subsidies and support from government is bolstering the market. Policy support like FAME-II and scheme like PLI are accelerating	Short to Medium Term

		transitions towards EVs India is 3-largest automotive market in terms of sales and GOI has set target to achieve 30% electrification of vehicle fleet in country. De-risking business operations by financing electric powered vehicles	
Digital Finco	• Shift in consumer preferences • Ability to diversify product portfolio	Digital Finco is new business vertical of MMFSL which focuses on providing small-ticket loans in online mode. This business vertical enables us to enter the personal and consumer durables financing segments both in urban and rural markets and diversify our product portfolio. Lending small ticket loans digitally would lead to digitization which not only smoothens business processes but also has considerable impact in reducing Carbon emission.	Short to Medium term
SME Lending	• Access to new market • Ability to diversify product portfolio	The Company is exploring opportunities in SME financing in the renewable power sector. MMFSL is considering solar financing as an emerging opportunity.	Short to Medium

Section 3: Risk Management

MMFSL has implemented multiple risk management program to identify and manage risks. The Company understands that Risk Management forms an integral part of our business. Thus, the Company have a well-defined and comprehensive Risk Management Policy in place. Policy includes identification of elements of risk which in the opinion of the board are material for MMFSL given in the nature, size and complexity of its business. The Risk management process has been established across the Company and is designed to identify, assess and frame a response to threats that affect the achievement of its objectives.

Board of Directors have constituted a Risk Management Committee (RMC) which holds the responsibility of managing, integrating and reviewing the risks periodically. Identified risks are included in the risk register of the company. The Board has adopted Internal Capital Adequacy Assessment Process ("ICAAP") Policy and Framework with the objective of ensuring availability of adequate capital to support all risks in business as also enable effective risk management system in the Company. Chief Risk Officer ensures the implementation of the Risk Management Policy and Framework including systematic identification and mitigation of various risks faced by the Company.

MMFSL prioritises risk minimization by aligning the risk management processes with ISO 27001:2013 and COSO framework. This includes conducting periodic risk assessments, employing a defense-in-depth strategy, and utilizing technology, monitoring, and audits to mitigate risks. The Company leverages manual and automated technologies to treat identified risks.

Risk management process

The risk management system is integral to all major functions within the Company. The process includes these key elements:

- A strategy that is driven by objectives and principles.
- Assignment of responsibilities.
- 'ATMA' (Avoid-Transfer-Mitigate-Assume) risk management framework approach and reporting cycle to identify, assess, mitigate, monitor, and report the risks that our Company is or may be exposed to.
- A combination of 'top-down' and 'bottom-up' approaches to the risk assessment and management process.
- A risk-monitoring plan that outlines the review, challenge, and oversight activities.
- Outside-In reporting procedures which ensure risk information is actively monitored, managed, and appropriately communicated at all levels within the Company.
- Developing risk appetite statements with the strategic planning process, then monitoring and reporting on these statements.

Section 4: Metrics and Targets

Mahindra Finance has been taking steps to tackle climate change and consider it to be of utmost importance. The Company understands the impact operational activities can have on the planet. The Company uses the intensity metric to measure scope intensity where in total amount of emissions is numerator to our revenue as denominator. It provides an insight into the correlation between the economic activities and the subsequent environmental impact. This metric helps the company understand how business growth affects the planet, allowing MMFSL to make informed decisions for a sustainable future.

The Company measures all 3 scopes of emissions viz: - (i) scope 1: consisting of DG sets and company owned vehicles (ii) scope 2: consisting of purchased grid electricity, and (iii) scope 3, consisting of purchased goods and services, business travel and employee commuting. The Company is in process of evaluating Financed Emissions and aims to undertake best practices to mitigate financed emissions.

Furthermore, in the current financial year the company has increased the number of branches to serve more customers. Through strong governance with a top-down approach and guidance of visionary leaders, the Company have made strong commitments and a dedicated plan to achieve them and become carbon neutral in near future.

The Company has successfully approved the Neat-Term Science Based Target, and is committed to reduce the absolute Scope 1 and Scope 2 emissions by 50.4% by FY2032 from a base year of FY2023. MMFSL is also committed to reduce Scope 3 GHG emissions 58.1% per employee within the same timeframe. In addition to this, the company has also set ambitions ESG roadmap for FY2026, as represented below-