

Sustainability AT KOTAK

Our Group's commitment to ESG is deep rooted in our ethos of ethics, stakeholder inclusiveness and sustainability. We have embedded a long-term time horizon in our business and risk management processes to enable sustained value creation.

We strive to deliver value to our stakeholders by embedding social and environmental parameters in operations and financial decision making. Systematic efforts are underway to sensitise our workforce on ESG aspects and empower each employee to drive impact through their professional pursuits.

We have developed an ESG Policy Framework that elucidates our approach to align our business strategy, processes and disclosures with national and international standards and frameworks which can be accessed here. Some of the Bank's subsidiaries have their ESG policies available on their respective websites.

Our Group undertook a materiality assessment as detailed on [page 52](#) to guide our ESG strategy and disclosures. The material topics were determined using a structured process based on interactions with various internal and external stakeholders along with inputs from our Group's senior management. This process has enabled us to realign our ESG strategy and disclose pertinent information on these material topics. The following sections of this report describe our commitment, management processes and performance across the identified material topics.

REPORTING BOUNDARY¹⁴

We have been publishing our ESG disclosures annually¹⁵, with the most recent disclosure published for FY 2020-21¹⁶. This year the ESG disclosures made in this report will cover our Group's national footprint including our branches, ATMs, large and small offices. The Group boundary for the reporting

period's environment and employee related disclosures include the bank and 14 of its subsidiaries, four of which were covered in last year's ESG disclosures. The four subsidiaries covered last year were Kotak Infrastructure Debt Fund Limited, Kotak Mahindra Prime Limited, Kotak Mahindra Investments Limited and Kotak Mahindra Trusteeship Services Limited. The scope of reporting has been expanded for select parameters to include 10 additional subsidiaries this reporting period onward, namely: Kotak Mahindra Pension Fund Limited, Kotak Mahindra Capital Company Limited, Kotak Securities Limited, Kotak Mahindra Life Insurance Company Limited, Kotak Mahindra General Insurance Company Limited, Kotak Investment Advisors Limited, Kotak Mahindra Asset Management Company Limited, Kotak Mahindra Trustee Company Limited, IVY Product Intermediaries Limited and BSS Microfinance Limited. The boundary for BRSR disclosure is Bank standalone and is indicated in the BRSR section of this report. Boundary for specific disclosures is mentioned in relevant sections.

There are no restatements made in comparison to the previous year¹⁷. We, at the Group, adopt a precautionary approach in risk management and lending decisions to mitigate any adverse impacts on the environment.¹⁸

ASSURANCE

Our Group ensures the quality of information contained in this Report by undertaking a robust assurance process, leveraging our internal expertise as well as external assurance. A limited assurance on certain

agreed/ identified sustainability indicators in this report has been provided by Price Waterhouse Chartered Accountants LLP, in accordance with the International Standards on Assurance Engagements (ISAE) 3000 (revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and AA1000 Assurance Standard (AA1000AS v3). The subject matter, criteria, procedures performed and limited assurance conclusion are presented in the [assurance report](#) attached at the end of this report.

GOVERNANCE¹⁹

In FY 2021-22, we at the Bank, renamed our erstwhile Committee of the Board on Corporate Social Responsibility (CSR) to reflect its widened scope that previously included ESG disclosures to also include ESG performance and strategy. This committee is now called the CSR and ESG Committee and the details of its terms of reference can be found on [page 213](#) of the Corporate Governance Report. The CSR and ESG Committee consists of three members, viz. Mr. Prakash Apte (Non-Executive Chairman, Independent), Mr. C. Jayaram (Non-Executive Director), and Mr. Dipak Gupta (Joint Managing Director), with all the three members forming the quorum.

We strive to deliver value to our stakeholders by embedding social and environmental parameters in operations and financial decision making.

The Committee has been instrumental in defining the focus areas of the ESG Policy Framework. The Committee reviews and monitors our ESG impact, risks, opportunities, and performance annually and provides a strategic direction. This Committee is also responsible for reviewing and approving our ESG disclosures.

We have a dedicated ESG function at the Bank which acts as a nodal team, responsible for the overall implementation of the ESG-

related policies and processes. Further, this team reviews the ESG performance across functions, communicates our organisation's progress through periodic reports to internal and external stakeholders including the Board Committee. The ESG function works alongside a task force comprising of representatives from relevant functions and group companies for the implementation of ESG strategy at the Group level.

We also engage with Government agencies, think tanks and industry associations to contribute views and ideas to assist development of regulations and policies for building sustainable practices in the industry. In FY 2021-22, we became a member of Climate Finance Leadership Initiative (CFLI) India. CFLI is a global initiative promoted by Bloomberg LP, that convenes leading financial institutions to mobilise private capital for climate solutions.

INTEGRATION OF ESG IN CORE BUSINESS²⁰

3x Increase

In electric vehicles financed by KMPL in FY 2021-22 compared to FY 2020-21

~₹500 cr

Enabled settlements on e-NAM platform

680 MWp

Solar power financing by KIAL advised funds

1,500+

Number of lending proposals evaluated for ESG aspects

Material topic(s) covered

Financing with a focus on environmental sustainability

We, at the Bank, limit our exposure to environmental (including climate), social and governance-related risks by integrating ESG factors in our credit appraisal processes. We have instituted an ESG Management Systems Plan (EMSP) based on the IFC guidance and other ESG evaluation frameworks to identify, review and manage the ESG risks in our credit portfolio.

The EMSP sets out the criteria for due diligence and evaluation of borrowers from an ESG perspective. These borrowers are categorised based on their activities and their social and environmental impact. Based on the category, evaluation is undertaken for capital expenditure and working capital loans above a certain size and tenure, against ESG criteria. This evaluation provides a score, which is adjusted downwards for borrowers from sectors that have an adverse

environmental or social impact. Final scores are included in the Credit Assessment Note. Further, our EMSP defines an exclusionary list which prescribes thresholds/ ceilings on exposure limits for certain industries and activities. We, at the Bank, are also in the process of integrating external ESG ratings of companies in our evaluation of ESG performance.

The EMSP includes guidelines for periodic supervision and monitoring for the financed projects on an ongoing basis. The administration and oversight of this plan rests with our Credit team, while the ESG function is responsible for facilitating training to the staff accountable for implementation of the EMSP. It is reviewed periodically to determine its alignment with new and modified regulations or guidance.

During FY 2021-22, we, reviewed more than 1,500 lending proposals that included ESG evaluation as per EMSP. We will strive to enhance integration of sustainable finance principles while making financing decisions, to contribute to the Sustainable Development Goals (SDGs), and relevant national and international frameworks.

We also drive social impact through our service offerings and our work as settlement banker on e-National Agriculture Market (e-NAM) platform is an example of this. We had been shortlisted along with five other banks as a settlement banker on the e-NAM payments platform and have settled transactions worth over ₹500 crore in FY 2021-22. The platform provides opportunity for farmers in farfetched villages to sell their produce and receive payments through digital mode.



Kotak is a member of Climate Finance Leadership Initiative (CFLI) India

KMAMC'S APPROACH TO ESG

Among our subsidiaries, KMAMC, our asset management arm, is a signatory to the Principles for Responsible Investments (PRI) and a member of Climate Action 100+. PRI is a United Nations supported network of investors who work towards promoting sustainable investment through the incorporation of environmental, social and governance factors. Climate Action 100+ is an investor-led initiative that facilitates corporates to commit to cutting emissions, improve governance and strengthen climate-related financial disclosures.

KMAMC has instituted an ESG framework and responsible investment policy that governs its investment activities. KMAMC has embedded ESG into its valuation and investment philosophy using third-party ESG scores and ratings. KMAMC's ESG Opportunities Fund – Growth has showcased

a growth of 16.40% during this financial year. Its commitment to ESG is evident as the Company links the remuneration of its MD, Chief Investment Officer, Head of Equity Research along with research analysts and ESG Coordinator (for fixed income) to incorporate ESG principles.

ESG linked KRAs have been formulated for KMAMC's executive leadership and investment team.

KMAMC has developed a well-defined stewardship policy applicable to all investment strategies and products.

It has instituted a proxy voting policy and a voting committee in line with SEBI regulations. KMAMC engages with specialist proxy advisors for advice on voting. The voting policy and the rationale for the votes casted are publicly available on the [website](#).



Engagement with a transportation company



KMAMC has engaged with one of its portfolio companies, a two-wheeler manufacturer, to initiate work on climate strategy development, including promoting electric vehicles, adoption of SBTi and TCFD recommendations as well as setting an internal carbon price.

In January 2022, KIAL signed up to become a TCFD supporter and it has also initiated the exercise of becoming a PRI signatory.

KIAL's Optimus/advised funds incorporated ESG scoring as one of the parameters while reviewing the investments held by clients. It has also implemented training programmes to enhance the investment teams' capabilities. In FY 2021-22, KIIF (Kotak Infrastructure Investment Fund) managed by KIAL, has instituted an ESG system and policy in alignment with international and national ESG principles. KIIF has also adopted an exclusion list for screening its investments for ESG related risks. Another fund managed by KIAL the Kotak India Affordable Housing Fund I (KIAHF-I) also ensures third-party ESG due diligence for prospective investee companies. Post the investment, environmental and social compliances are monitored periodically.

KIAL-managed funds have also made 13 investments in companies in the life sciences domain in various sub-segments viz. bio-tech, targeted therapies, medical devices, healthcare delivery and consumer wellness. These include a company working on developing a heat-stable COVID vaccine and a company that offers a novel radiation-free, non-touch, accurate, breast cancer screening solution in India. Further, KIAL has also recently launched an Angel Fund which will invest in early-stage healthcare, medtech and life sciences companies.

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KGI is in the process of launching an innovative health insurance product that offers discounts on the premium amount to customers who demonstrate performance on wellness parameters.

It is also working on a special motor insurance product for women drivers to encourage women in this growing industry. Overall KGI's health insurance business has grown 35% year-on-year.

KIAL has initiated adoption and incorporation of ESG into its investments. It has developed an ESG Policy Framework and is in the process of establishing an environmental and social management system for its funds. It is slated to launch new funds in alignment with national and state governments' environment and social development priorities, which will endeavour to promote IFC's Good International Industry Practices (GIIP) and responsible use of natural resources.



Approaches adopted to promote Responsible Investing

KMAMC adopted a materiality-based approach to ESG Investing that considers ESG factors, such as, but not limited to climate change, talent management, and Board composition

Best-in-class Approach

- » Companies with high ESG scores are considered for investment
- » KMAMC also focuses on companies that are improving on their ESG performance

Exclusion List

- » Screening of companies and sectors involved in non-ESG aligned activities like weapons, tobacco, gambling, coal, controversial weapons, etc. in specific funds

Active Ownership

- » KMAMC engages with companies twice a year on ESG
- » Plays an active investor role by voting on all the resolutions

