

# Environment, Social and Governance Policy Framework

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Kotak Mahindra Bank Limited

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## 1. Objective

Kotak Mahindra Bank Limited (KMBL/ Bank) is committed to its mission of creating value for all its stakeholders. The Bank benchmarks itself to deliver world-class financial services and customer experience, by empowering and inculcating a spirit of entrepreneurship in its workforce and leveraging technology. At the core of the Bank's ethos is the commitment to maintain the highest standards of governance and risk management. It is the Bank's constant endeavour to contribute towards sustainable development and growth by adopting responsible business practices which serve the interest of all its stakeholders, including the environment and society at large.

This policy framework elucidates the Bank's approach to align its business strategy, processes and disclosures with national and international ESG standards and frameworks.

## 2. Scope and approach

The policy framework articulates the Bank's commitment to ESG and long-term value creation for internal and external stakeholders of the Bank including customers, employees, investors, regulators, business partners and community members.

KMBL's ESG approach involves:

- a) An effective governance mechanism
- b) A framework of ESG linked policies
- c) Integration of ESG lens in business strategy
- d) A structured ESG implementation framework comprising focus areas and key performance indicators (KPIs)
- e) Periodic monitoring of performance, and
- f) Implementation of specific projects and measures to improve performance

## 3. Governance mechanism

The Board's CSR and ESG committee (the "Committee") will be responsible for overseeing the development and implementation of the Bank's ESG framework. The Committee's responsibilities will include providing strategic direction to the Bank's ESG performance taking into consideration the relevant risks and opportunities. The Committee will also oversee compliance with applicable ESG related regulatory requirements, track progress against goals and targets as well as review the Bank's ESG disclosures.

The Bank will have a dedicated ESG function which will be the nodal team responsible for overall implementation of the ESG policy framework, review of ESG performance across functions, communication of ESG progress through periodic reports to internal and external stakeholders including the Board Committee. The ESG function will create a taskforce comprising of representatives from relevant functions and group companies for the implementation of this framework.

ESG policies, focus areas, and KPIs, as mentioned in this framework document, may be subject to revision based on emerging risks and opportunities as deemed suitable by the Board Committee.

#### 4. Stakeholder Engagement

KMBL acknowledges its responsibility to ensure that interests of all stakeholders are taken into consideration while taking decisions. The Bank is committed to develop systems, processes and mechanisms to understand stakeholder expectations and concerns, and redress their grievances in a fair and constructive manner. Additionally, the Bank is committed to treating value chain members and other stakeholders as partners to create long-term sustainable business relationships with them. Further, KMBL has a dedicated policy for Policy Advocacy and it strives to contribute to the development of policies and regulations.

KMBL will strive to sensitise its stakeholders on environment, social and governance related topics. KMBL's ESG framework will be periodically updated based on evolving stakeholder aspirations and expectations. The Bank will undertake a structured materiality exercise to determine material ESG topic at least once in every 5 years.

#### 5. ESG focus areas

The ESG focus areas weave together the outcome of the materiality assessment and the strategic direction of the Bank. The focus areas will be periodically reviewed in the context of evolving business strategy and stakeholder aspirations. The review process may involve internal and external stakeholder consultation. The ESG focus areas derived through a materiality assessment are elucidated below:

##### a. Corporate Governance

The Bank believes that high standards of corporate governance combined with ethical and transparent business processes lead to greater effectiveness and efficiency, and superior business outcomes. The Bank's corporate governance processes are in compliance with the Companies Act, 2013 (including the rules made thereunder), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the various guidelines / circulars / regulations issued from time to time by the Reserve Bank of India ("RBI") and other applicable regulatory guidelines.

The Bank is committed to ensuring integrity and accountability in the functioning of its Board and management. The Bank has a Board Diversity Policy to ensure diversity with regard to experience, knowledge, education, skills, perspectives, geography, culture, age and gender among the members of the Board. The Bank's Policy on Dealing with Related Party Transactions ensures a proper approval and reporting framework for Related Party Transactions. The Bank's Compensation Policy applicable to Directors and all employees, ensures fair, consistent and equitable compensation practices in alignment with regulatory framework.

KMBL's Code(s) of Conduct form the foundation of the Bank's commitment towards entrenching transparency, responsibility and accountability in business processes. The Bank has a dedicated Directors Code of Conduct and Employee Code of Conduct. The Bank will remain committed to institute ethically sound principles through its Code(s) of Conduct that cover inter-alia money laundering, conflict of interest, insider trading, corruption, bribery, discrimination, confidentiality of information, anti-competitive practices, whistleblowing, community development and environmental protection. KMBL has a zero tolerance policy for non-adherence to its Code(s) of Conduct and has implemented grievance mechanisms for reporting breaches.

KMBL will implement appropriate policies and procedures to assure highest standards of Information Technology (IT) security, cybersecurity and data privacy. KMBL is committed to upgrading IT governance, infrastructure and control mechanisms to adapt to the evolving technology and regulatory landscape. KMBL IT Security Committee

oversees effective implementation of the IT and Information Security policy and procedures. This will be backed with robust business continuity plans and incident response procedures.

The Bank is also committed to a fair, uniform and universal disclosure and dissemination of unpublished price sensitive information in compliance with all applicable laws. Accordingly, the Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information ensures disclosure of events and occurrences that would impact price discovery in the market no sooner than credible and concrete information comes into being in order to make such information generally available.

#### **b. Enhancing customer experience**

Customer centricity is at the core of KMBL's business ethos and value creation proposition. The Bank's primary objective is to ensure seamless customer experience and to emerge as a service provider of choice. The Board level customer service committee provides direction and oversees customer experience, and meets quarterly to review relevant metrics.

The Bank drives customer centricity through technology, products, distribution and services levels. KMBL remains dedicated to integrate transparency and fairness in its selling practices. KMBL will promote and advertise its products in a manner that does not mislead the customers. The Bank's Fair Practice Code embeds transparency and ethical conduct in all of the Bank's exchanges with customers. These efforts are guided through a suite of customer focused policies including Code of Bank's Commitment to Customers, Customer's Compensation Policy, Fair Practice Code for Credit Card Operations, Fair Practice Code for Lenders, Fair Practice Code and Collection of Dues and Repossession of Security Policy. KMBL is committed to ensuring privacy of customer's personal information and strives to provide clear information to customers on the utilisation of the same. Details are available in the bank's Privacy Policy.

The Bank will have tools and processes to collect customer feedback and measure customer satisfaction periodically. The Bank will have transparent and accessible grievance redressal mechanisms to address customer concerns and feedback. The Bank will continue to sensitise its employees on prevention of mis-selling, financial protection of customers and customer data privacy.

#### **c. Creating an Empowered Workforce**

KMBL believes that an engaged, empowered and diverse workforce is a key enabler for unlocking innovation and business excellence. Promoting diversity, employee development and well-being are the key facets of KMBL's human capital management strategy.

##### **i. Diversity**

KMBL is committed to promoting a diverse, inclusive, and equitable workplace where all employees and stakeholders, irrespective of their age, gender identity or expression, marital status, disability, sexual orientation, language differences, cultural background, caste, ethnicity, religious belief, socio-economic class, education, or other individual differences, feel included, valued and respected. KMBL is committed to embed fair and transparent practices in recruitment, pay and career progression as articulated in its Equal Employment Opportunity policy and other HR policies. KMBL has a Diversity, Inclusion and Equity statement which provides further details of the Bank's commitment to promote diversity. The Bank will track its progress on diversity metrics such as workforce

diversity (by gender and age), return to work rate post parental leave, gender pay ratio, Board diversity (by age and gender), among others.

The Bank has instituted a Human Rights policy which demonstrates its commitments to all applicable human rights standards. The Bank has zero tolerance for sexual harassment and has a dedicated Prevention of Sexual Harassment (PoSH) policy to create awareness on sexual harassment and manage any violations in this regard.

**ii. Development and growth**

KMBL is committed to investing in human capital to support continuous skill upgradation and employee development. The Bank's Training policy supports business relevant upskilling of the workforce and the Bank's Eureka Policy encourages employees to ideate and deliver innovative solutions. The Bank will track progress on metrics such as training hours (by gender, age and cadre), and average investment in employee learning, among others.

KMBL will continue to conceptualise and implement employee engagement programmes to ensure all round development of employees. Employee career development will be supported with periodic industry relevant upskilling programmes and by providing support to employees to pursue relevant courses or programmes offered by external institutions, wherever applicable.

**iii. Health, safety and well-being**

KMBL has a dedicated policy that promote health, safety, and well-being of its employees. The health and safety initiatives include operational and administrative measures to safeguard the good health and well-being of employees.

**iv. Volunteering**

The Bank will also encourage its employees to contribute towards social good and has an Employee Volunteering policy that details its approach to this effect.

**v. Grievance redressal**

The Bank will deploy adequate grievance redressal channels, including whistle blower mechanism, to address employee concerns and feedback. The Bank's whistle blower policy provides details of the governance and management of concerns raised through the whistle blower channel.

**d. ESG integration in risk management**

A robust Risk Management Framework is vital for timely identification, mitigation, and management of risks. KMBL's risk management policies articulate the Bank's approach to risk management, encompassing the formulation of an independent risk function as well as governance mechanism for the development and implementation of the risk management framework. The Bank also works towards creating an appropriate risk culture and awareness across the organisation including the Board. The Bank engages with internal and external stakeholders periodically for efficient management of risks.

KMBL will limit its exposure to environmental (including climate), social and governance related risks by integrating ESG factors in its credit appraisal processes. The Bank has an ESG Management System Plan that 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 capex and working capital loans above a certain size and tenure, against ESG criteria. This evaluation provides a score which is adjusted downwards in case of borrowers from sectors which have an environmental impact. Final scores are included in the Credit Assessment Note. Further, the Bank's ESMP defines an exclusionary list which prescribes thresholds/ ceilings on exposure limits for certain industries and activities.

The Bank is committed to integrating ESG and climate related factors into its operational risk management processes. In context of the evolving global environmental landscape, the Bank will undertake climate based scenario analysis to understand and address climate linked transitional and operational risks periodically. The outcomes of these assessments will help strengthen business continuity plans, provide inputs to the bank's enterprise risk management framework and contribute to ESG driven change management.

In addition to ESG integration in credit processes, the bank integrates ESG lens in addressing risks emerging from collection, processing, transfer and storage of information. To enable highest standards of cyber security and data privacy, the IT Security Committee oversees effective implementation of the IT and Information Security policy and procedures, backed by robust business continuity plans and incident response procedures.

#### **e. Managing Climate Risk and Caring for the Environment**

An environmentally conscious approach is a fundamental aspect of corporate responsibility, stakeholder inclusiveness and long-term sustainability of business. KMBL incorporates environmental impact considerations in its operational, financial and risk management linked decision making.

KMBL has developed a dedicated Environment Policy that lays the foundation of the Bank's commitment to energy, emission, water and waste management. The Bank will implement appropriate procedures and monitoring mechanisms to address any adverse impact of its operations on the environment. The Bank will track performance indicators such as GHG emissions (both direct and indirect emissions), emission intensity, energy consumption, energy intensity, water consumption, water intensity and waste recycled.

The Bank will also work towards identifying environmental (including climate) risk impacts on its operations and portfolio. It will periodically undertake operational climate risk assessments to understand the impact of climate risks on the Bank's physical footprint. The Bank's operational and portfolio emissions together will form the Bank's decarbonisation plan which will comprise of metrics, targets and governance mechanisms. The Bank is dedicated to sensitise its employees and value chain members on the importance of environmental management and overall operational eco-efficiency.

KMBL will strive to integrate sustainable finance principles while making financing decisions to contribute to the Sustainable Development Goals, and relevant national and international frameworks. KMBL will remain dedicated to proactively contribute towards transitioning to a low carbon economy through its business, collaborative initiatives, thought leadership and policy advocacy.

#### f. Community Development

KMBL's CSR policy encapsulates the Bank's commitment to contribute to domestic and international development goals. Through its CSR and employee volunteering programmes, the Bank aims to improve the quality of life of the communities by creating a positive impact across its economic, social and environmental objectives. In addition, KMBL strives to innovate and design products that enable last mile financial access to the unbanked and underbanked communities through its financial inclusion initiatives. The Bank will also work towards improving financial literacy.

#### 6. ESG disclosure

KMBL's ESG Taskforce is responsible for collecting information from the various businesses and functions on various ESG parameters on a periodic basis. This information is to be subsequently consolidated, analysed and reported to the Head of the ESG function for necessary oversight and the progress reports are to be presented to the Committee and the Board periodically. Additionally, public disclosures are made on an annual basis or more frequently, in line with Indian and international reporting standards and practices.

#### 7. Effect and Review

This framework replaces the Bank's Corporate Responsibility Policy and Business Responsibility Policy and comes into effect from April 1, 2022. This framework will be reviewed once in 3 years, or when significant changes occur, to ensure its continuing suitability, adequacy, and effectiveness.