

Policy Name:	Compensation Policy
Policy Number:	HR Policy / Compensation Policy / V-7 / 036
Policy Applicability:	KMBL
Circulation:	All Employees
Next Review Date	July 2024

Summary of Launch/Amendments

Sr. No.	Particulars	Approval Date	Effective Date
1	Original Date of issue	Apr 1, 2012	Apr 1, 2012
2	Change in minimum requirement for constitution of Compensation Committee	May 1, 2013	May 1, 2013
3	Renamed Remuneration/ Compensation Committee to NRC	April 30, 2014	April 30, 2014
4	Revised the limit upto which the management can exercise discretion to pay the entire variable pay amount as cash from 10 lakhs to 15 lakhs	July 19, 2018	July 19, 2018
5	Reconstitution of the Nomination & Remuneration Committee by the Board at its meeting held on 14 th - 15 th March 2019.	Mar 15, 2019	Mar 15, 2019
6	Redefining the compensation policy in line with RBI Circular dated 4 Nov 2019 including introduction of MRTs	Jul 27, 2020	April 1, 2020
7	Modification to Clause 8.5 under Malus / clawback clause & exclusion of excluding clause (b) (ii), & (c) (i) in 7.1.2 (ii)	Oct,2020	April 1, 2020
8	Addition of HR, IR & CSR in Cat III & Clause 4 change for Min quorum basis board direction	May 30,2021	Mar 1, 2021
9	Reconstitution of NRC members	August 10, 2021	August 10, 2021

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1.0 Objective

- To maintain fair, consistent and equitable compensation practices in alignment with Kotak's core values and strategic business goals.
- To ensure effective governance of Compensation and alignment of compensation practices with prudent risk taking.
- To have mechanisms in place for effective supervisory oversight and Board engagement in Compensation.
- To ensure that the Compensation practices are within the regulatory framework stipulated from time to time by RBI.

2.0 Compensation Philosophy

As a philosophy, Kotak Mahindra Bank aims to maintain a fair balance between the compensation rewards that are perceived as necessary to remain competitive in the marketplace and fairness to all stakeholders, taking into account the risks and returns over a period of time.

3.0 Coverage

This policy is applicable to all employees. However, for Indian Bank's Association (IBA) affiliated category employees (officers and award staff), their pay and allowance components will be as per the Industry level bipartite settlements/ Joint notes held by IBA and/ or the internal settlements from time to time.

4.0 Governance of Compensation-Nomination and Remuneration Committee & Review Process

- The Nomination and Remuneration Committee (NRC) will be, inter alia, reviewing and tracking the implementation of the Compensation Policy of the Bank. The NRC will comprise at least 3 Non-executive Directors, out of which not less than one-half should be independent directors and should include at least one member from the Bank's Risk Management Committee of the Board. (RMC). The current committee members are in **Appendix 3**.
- Any three would constitute the quorum for Meetings of the NRC.
- The Committee will meet at least once a year for Compensation Review and monitor following:
 - 4.1 Oversee the overall design, review and implementation of the compensation policy of the Bank.
 - 4.2 Work in coordination with the Risk Management Committee to achieve alignment between risks and remuneration by taking input from the member(s) representing RMC.
 - 4.3 Compensation decision will consider various factors including:
 - a. Cost to Income ratio of the Bank
 - b. Capital adequacy ratio
 - c. Overall health of the Bank
 - d. Industry & Market Trends
 - e. Any other relevant factors
 - 4.4 Approve the compensation of the Material Risk Takers (MRTs), recommend to RBI the compensation of Whole Time Directors (WTDs)/ CEO of the Bank.

5.0 Forms of Compensation

Compensation structure will comprise of Total Remuneration consisting of:

- (i) Fixed Pay, which includes Perquisite Pay/ Benefits

- (ii) Variable Pay, which includes Performance bonus/Incentive, Long Term Incentive Pay in form of cash bonuses, all share-linked instruments (eg. ESOP, SARS, etc.)
- (iii) Other Payments, which includes Joining/ Sign on Bonus, Severance package, Deferred Incentive Plans, etc.

- 5.1 Fixed Pay (Fixed CTC):** is defined as Fixed Cost to Company (FCTC) comprising of Basic Salary, Allowances, Retirals and other benefits and will include imputed value of benefits like Housing and Car. It also includes cost of retirals such as Company's contribution to PF, accumulation towards Gratuity calculated on the years' Basic pay, superannuation and pension. The Fixed portion of the compensation shall be reasonable, taking into account relevant factors including the industry practice, competency, competition, criticality of job, grade, experience and performance of the employee.
- 5.2 Perquisite Pay/ Benefits:** Perquisite Pay / Benefits are part of Fixed Pay and include Mediclaim Benefit; Life Insurance Cover; Personal Accident Cover; Furnishing allowance; Club Membership; Housing and Car if provided by Bank etc. These may be given in the form reimbursement, within predefined limits, or in the form of benefit to all employees / select group of employees.
- 5.3 Variable Pay (VP)/ Variable CTC (VCTC):** This includes Performance bonus/Incentive, Long Term Incentive Pay in form of cash bonuses, all share-linked instruments (eg. ESOP, SARS). Variable Pay is linked to assessment of performance and / or potential. Performance assessment would be based on achievement of individual targets linked to KRAs for the year, Standards of Performance (SOPs) for the role, and bank's / Business's / Functions' budgets /targets/ objectives and achievements. Performance may also depend on the adherence to compliance norms and qualitative parameters such as Kotak Values, Leadership Capabilities, etc. Depending on the nature of the business/function/ role, the risk involved, the time horizon for review, various forms of Variable Pay may be applicable. The components of such variable pay will include:
- a) **Cash** – this may be paid at intervals ranging from Monthly, Quarterly, half-yearly and annual. The Monthly/ Quarterly / Half Yearly VP will be under the role and preapproved business specific incentive schemes. This may be payable within one year of grant.
 - b) **Long Term Incentive Pay (LTIP):** This shall be granted to employees, in the form of Employee Stock Options (ESOPs) and / or Stock Appreciation Rights (SARs) and / or Deferred Cash. This shall be granted on a discretionary and reasonable basis, to motivate employees, create shareholder value by aligning interest of employees with the long-term interests of the Bank. LTIP may also be granted from time to time with the objective of retaining employees.
 - (i) ESOPs/ SARs will be linked to Kotak Mahindra Bank Stock price and will vest over a period of time.
 - (ii) Black Scholes Model will generally be applied for arriving at the value of the units to be granted. However, Bank may choose any other model with the approval of NRC within the regulatory framework.
 - (iii) ESOPs / SARs will be approved by the NRC. The quantum of ESOPs / SARs will be reasonable and the formulation of the ESOP series, the coverage, the vesting period and their pricing schedule, etc. will also be decided by the NRC as per SEBI guidelines.
 - (iv) Deferred Cash may paid over a period of 3 to 5 years.
- 5.4 Deferred Incentive Plan (DIP) –** This may be issued as part of Retention or performance linked plan for retaining talent and may be issued in form of Cash / ESOP/ SARs/Deferred Cash, payable or vesting over a period of time.

- 5.5 **Joining Bonus:** This may be offered sparingly for recruitment of new staff. Joining bonus, if offered, will be limited to the first year of service. For new employees hired in Category I & Category II mentioned in 6.0 below, joining bonus, if any, shall be paid only in the form of ESOPs/ SARs.
- 5.6 **Severance Pay:** Kotak Mahindra Bank does not grant Severance Pay (other than accrued benefits in the form of Provident Fund, Gratuity or Superannuation), except in cases where it is mandated by statute / regulation/ any scheme approved by NRC.
- 5.7 **Voluntary Retirement Scheme (VRS):** The Bank may formulate compensation schemes from time to time for voluntary retirement of some groups of employees. Such schemes would be approved by the NRC.

6.0 Employee Classification

Employees have been broadly classified into following categories:

- (i) **Category I** – Comprising MD & CEO and Whole Time Directors (WTDs).
- (ii) **Category II** – Material Risk Takers (MRTs). These include employees whose actions may have material impact on the risk exposures of the bank and who satisfy both - qualitative and quantitative criteria, as given below:
 - a. **Qualitative Criteria:** Employees in the grade M10 and above
 - b. **Quantitative Criteria:** FCTC is Rs. 1 Crore p.a. and above.
This excludes employees under Category III.
- (iii) **Category III – Risk control and compliance employees** – comprising staff in grade M9 and above in the following Control functions;
 - a. Risk & Policy function
 - b. Financial Control including group consolidation;
 - c. Compliance;
 - d. Internal Audit;
 - e. Back-office Operations
 - f. Vigilance
 - g. Legal
 - h. Secretarial
 - i. HR
 - j. Investor Relations
 - k. CSR
- (iv) **Category IV: Other employees** - This includes all employees, not explicitly covered in the first three categories.

7.0 Broad Guidelines

- a. Compensation will be in line with statutory, other regulatory and compliance norms.
- b. The minimum tenure in the Bank and its subsidiaries will be applicable for being eligible for Compensation revision and Variable Pay. The criteria will be defined during the increment process and variable pay policy / incentive scheme respectively from time to time.
- c. Specific role, grade and business based incentive scheme will be applicable as per guidelines of variable pay policy.
- d. All variable pay & joining bonus commitments made in / for period up to FY20 will continue to be implemented as per earlier policy.

- e. The Bank shall not provide any facility or funds or permit employees to insure or hedge their Compensation structure.
- f. Designated employees as per Trading Code of Conduct will additionally follow provisions as per trading code of conduct and relevant SEBI regulations.
- g. In case the employee is retiring within next 2 years, cash to non-cash ratio may change in favor of more cash (including deferred cash) and the vesting schedule may be shorter.
- h. In case an employee moves from one category to another, commitments on variable compensation made in the previous category will continue to be available and will not be guided by the guidelines applicable to the new category for the earlier commitments and time of upto 2 year may be provided for complete transition to the new category compensation structure.

7.1 Guidelines for variable pay limits and various ratios for each Category of employees:

The limits on the ratio of total Variable Pay (Including Cash or Non Cash Pay) to Fixed Pay and the limits on the ratio of Cash v/s Non Cash within Variable Pay, is outlined for each category of employee classification mentioned earlier. These limits will be applied while formulating the variable pay policy/ scheme for each business/ role. For the purpose of this clause, cash refers to cash & deferred cash.

7.1.1 Category I: MD & CEO and WTDs & Category II: Material Risk Takers (MRTs)

(a) Composition / design of Variable Pay:

- (i) The variable pay can be in the form of cash, share-linked instruments, or a mix of cash and share-linked instruments. There should be proper balance between the cash and share-linked components in the variable pay.
- (ii) Bank will ensure that there is a proper balance between fixed pay and variable pay. Substantial proportion of compensation i.e., at least 50% of fixed pay, should be variable for arriving at the total compensation for the year.
- (iii) In the event that an executive is barred by statute or regulation from grant of share linked instruments, his/her entire variable pay can be in cash and shall not be less than 50% of the fixed pay.

(b) Limit on Variable Payout:

- (i) After the evaluation of the performance, the actual variable pay will be paid on the basis of individual, business-unit and firm-wide measures that adequately measure performance, except in cases mentioned in [7.1.1 (b) (iii)]. However, the total variable payout shall be limited to a maximum of 300% of the fixed pay (for the relative performance measurement period).
- (ii) In case variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay; and in case variable pay is above 200%, a minimum of 67% of the variable pay should be via non-cash instruments.
- (iii) In the event that an executive is barred by statute or regulation from grant of share linked instruments, his/her variable pay will be capped at 150% of the fixed pay.
- (iv) The deterioration in the financial performance of the bank / business segment/ function/ individual / divergence can lead to a contraction in the total amount of variable pay, which can even be reduced to zero.

(c) Deferral of Variable Payout:

- (i) Regardless of the quantum of pay, a minimum of 60% of the total variable pay must invariably be under deferral arrangements. Further, if cash component is part of variable pay, at least 50% of the cash bonus should also be deferred.
- (ii) However, in cases where the cash component of variable pay is under Rs.25 lakh for a year, deferral requirements would not be necessary.

- (iii) The deferral period should be a minimum of three years. This would be applicable to both, the cash and non-cash components of the variable pay.
 - (iv) Deferred remuneration should either vest fully at the end of the deferral period or be spread out over the course of the deferral period. The first such vesting should not be before one year from the commencement of the deferral period.
 - (v) The vesting should not be faster than on a pro rata basis. Additionally, vesting should not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of ex post adjustments. In such cases, the yearly vesting may be spread out over 3 to 4 weeks to avoid price risks on vesting.
- (d) **Share-linked Instruments:**
ESOP/ SARs shall be included as a component of variable pay. The details of share-linked instruments granted will be disclosed in terms of the disclosure requirements stipulated in **Annexure 1**. Share-linked instruments will be fair valued on the date of grant by the bank using Black-Scholes model.
- (e) **Other points for deciding payout:**
- (i) Variable pay will be decided after adjustment for different types of risks. Variety of measures of credit, market, operations, liquidity and various other risk will be used by the bank in implementation of risk adjustment. The methodologies for adjusting remuneration to risk and performance will also be consistent with the general risk management and corporate governance framework. Risk adjustments will take into account the nature of the risks involved and the time horizons over which they could emerge. The impact of remuneration adjustments will be linked to actions taken by employees and/or business units, and their impact on the level of risk taken by the bank.
 - (ii) Approval authority: For Category I employees, NRC will review and recommend the variable pay to be approved by RBI (in **Appendix 1**) and for Category II employees, NRC will approve the variable pay.
 - (iii) Performance measures and their relation to remuneration packages will be defined in the variable pay policy at the beginning of the performance measurement period to ensure that the employees perceive the variable payout. This policy will have rules, processes and objectives known in advance, and will also recognize that some discretion will be needed.
 - (iv) Bank will use a combination of financial and non-financial measures to assess employee performance and adapt the measurement to each employee's role/ business.
 - (v) The linkage of variable remuneration of each individual employee with bonus pools and the total amount of variable remuneration at a bank's level, will be defined in the variable pay policy.

7.1.2 **Category III: Risk control and compliance employees**

- (i) The mix of fixed and variable compensation for this category of employees would be weighed in favour of fixed compensation. Therefore, the requirement of minimum 50% of total compensation to be paid in the form of variable pay will not be applicable.
- (ii) Additionally, clauses 7.1.1 (b), (c) & (d) will be applicable, excluding clause (b) (ii), & (c) (i).
- (iii) Approval authority: MD & CEO or as delegated by MD & CEO, will approve the variable pay.

7.1.3 Category IV: Other employees

- (i) The limits, for fixed and variable compensation for this category employees would not be applicable, but would be reasonable. Business wise/ function wise/ role wise bonus & incentive schemes will apply.
- (ii) Additionally, 7.1.1 (d) will be applicable if the employees are eligible for ESOP / SARs.

8.0 Malus and Clawback

- Malus & Clawback clauses will be applicable to variable pay.
- These can be applied to all categories of employees.
- Malus & Clawback clauses will be applied basis informed judgement of NRC for Category I & Category II employees. For Category III & Category IV employees, it will be applied on the basis of informed judgment of committee of WTDs.

8.1 Malus: Malus arrangement is applicable for the all type of variable pay (Cash/ Deferred Cash/ ESOP/ SARs/ Deferred Incentive Plan/ Joining Bonus/ Severance Pay), which has not yet vested, or vested but not paid / exercised. Payment of all, or part, amount of Variable Pay can be prevented under Malus.

8.2 Clawback: Previously paid or already vested Variable Pay can also be recovered under this clause. It may be applicable for upto past 4 years of variable pay (Cash/ Deferred cash/ Deferred Incentive Plan), which has vested and paid & LTIP in case of ESOP/ SARs exercised or paid. This arrangement is applicable fully or partially for all the types of variable pay. Clawback will be applicable to employees even after their separation from the bank.

8.3 Malus and clawback may be applied for following circumstances:

- a. Fraud, misfeasance, breach of trust, dishonesty, or wrongful disclosure by the employee of any confidential information pertaining to the bank or any of its affiliates;
- b. Willful misinterpretation / misreporting of financial performance of the bank;
- c. Material failure in risk management controls or material losses due to negligent risk-taking which are attributable to the employee, whether directly or indirectly;
- d. Any misconduct pertaining to moral turpitude, theft, misappropriation, corruption, forgery, embezzlement or an act of a felonious or criminal nature;
- e. Non-disclosure of material conflict of interest by the employee or any misuse of official powers;
- f. An act of willful, reckless or grossly negligent conduct which is detrimental to the interest or reputation of the bank or any of its affiliates, monetarily or otherwise;
- g. Material breach of Code of Conduct, any Non-Disclosure Agreement, regulatory procedures, internal rules and regulations or any other such instance for which the NRC, in its discretion, deems it necessary to apply malus or / and clawback provisions;

8.4 Malus may be applied to the following additional circumstances:

- a. Deterioration of financial performance of the bank in the form of a drop of 25% or more in the Profit after Tax from one financial year to the next; or vs budget for the year; or any other criteria laid down by the NRC from time to time;
- b. In case any deferred/ LTIP plan is issued which is linked to performance of an employee and the defined performance parameters are not met by the employee.
- c. On Resignation, or separation of the employee from services of the bank.

- d. In case of divergence in provisioning or Gross NPAs as follows, i.e.
- (i) The additional provisioning for NPAs assessed by RBI exceeds 10% of the reported profit before provisions and contingencies for the reference period, and
 - (ii) The additional Gross NPAs identified by RBI exceed 15% of the published incremental Gross NPAs for the reference period.

Further, in such situations, no proposal for increase in variable pay (for the assessment year) shall be entertained.

In case the bank's Gross NPAs, post assessment, are less than 2.0%, these restrictions will apply only if criteria for public disclosure are triggered, either on account of divergence in provisioning or both provisioning and asset classification (i.e. not for divergence on account for asset classification alone).

- 8.5** In deciding the application of malus / clawback to any part or all of variable pay or incentives (whether paid, vested or unvested), the NRC will follow due process and adhere to the principles of natural justice and proportionality. Further, in assessing the quantum of cancellation / withdrawal, the NRC will take into consideration all relevant factors, including inter alia, internal factors such as role and responsibilities of the employee, culpability and proximity to the misconduct as well as any external factors, including but not restricted to a situation like COVID 19, that may have been beyond the control of the concerned employee.

9.0 No Variable Pay / New Grants

Under certain circumstances, including due to divergence, the bank may decide not to issue any new grants / approve any variable pay/ Incentive pay for the year, or for specific period, to an employee individually, or to a group of employees collectively, or to all employees.

10.0 Disclosures

- Banks will make disclosure on remuneration of WTDs/CEOs/MRTs on an annual basis in the Annual Financial Statements as outlined in **Appendix 2**.
- Further, bank will also comply with the disclosure requirements for remuneration prescribed vide Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, as amended from time to time.

11.0 Review and Revision

- Any temporary deviations in the policy shall be approved by the MD & CEO.
- All reviews and amendments to this policy will be approved by NRC.

Appendix I

Details of Remuneration/Compensation of the WTD/ CEO

Appendix II

Disclosure requirements for remuneration/compensation

Appendix III

Nomination and Remunerations Committee comprises:

- Mr. Uday Shankar, Independent Director - Chairperson
- Mr. Prakash Apte, Independent Director - Member
- Mr. C. Jayaram, Non-Executive Director – Member