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Kotak Mahindra Bank

## **Compensation Policy**

### **1.0 Objective :**

- 1.1 To maintain fair, consistent and equitable compensation practices in alignment with Kotak's core values and strategic business goals
- 1.2 To ensure effective governance of Compensation and alignment of compensation practices with prudent risk taking
- 1.3 To have mechanisms in place for effective supervisory oversight and Board engagement in Compensation

### **2.0 Compensation Philosophy**

As a philosophy, Kotak Mahindra Bank aims to maintain a fair balance between the compensation rewards that is perceived as necessary to remain competitive in the marketplace and the fundamental fairness to all stakeholders, taking into account the risk and return on their investment.

### **3.0 Nomination and Remuneration Committee (NRC) & Review Process**

- 3.1 The Nomination and Remuneration Committee (NRC) will comprise atleast 3 Non-executive Directors, atleast one of who will be a member of the Bank's Risk Management Committee. The Committee will comprise of :
  - Mr. Amit Desai, Independent Director - Chairman
  - Mr. C. Jayaram, Non Independent Director
  - Mr. Prakash Apte, Independent Director
- 3.2 Any two of the above three would constitute the quorum for Meetings of the NRC.
- 3.3 The Committee will meet atleast once a year for Compensation Review and has the following responsibilities :
  - 3.3.1 Oversee the overall design and operation of the compensation policy of the Bank
  - 3.3.2 Work in coordination with the Risk Management Committee to achieve alignment between risks and remuneration.
  - 3.3.3 Keep in mind the cost to Income ratio of the bank and the overall health of the bank.
  - 3.3.4 Approve the compensation of the Whole Time Directors (WTDs)/ CEO of the Bank.
  - 3.3.5 Review the Remuneration Disclosure Requirements annually for submission to the RBI and any other Regulator.

### **4.0 Forms of Compensation**

Compensation structure is broadly divided into Fixed, Variable and ESOPs.

- 4.1 **Fixed Pay** : is defined as Total Cost to Company i.e. Salary, Retirals and other Benefits and will include imputed value of benefits like Housing and Car. The Fixed portion of the compensation shall be reasonable,



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taking into account relevant factors including the industry practice, competency, competition, grade and performance of the employee.

- 4.2 **Variable Pay:** Variable Pay is linked to assessment of performance and potential. This would be based on Balanced Key Result Areas (KRAs), Standards of Performance (SOPs) and achievement of targets with overall linkage to Bank Budgets and business/functional targets/objectives.

Depending on the nature of the business/function, the risk involved, the time horizon for review of quality and longevity of the assignments performed, various forms of Variable Pay may be applicable. The main forms of such incentive compensation will include :

- **Cash** – this may be at intervals ranging from Monthly, Quarterly, Annual
- **Deferred Cash/ Deferred Incentive Plan**
- **Stock Appreciation Rights (SARs)** : These are structured, variable incentives, linked to Kotak Mahindra Bank Stock price, payable over a period of time.

- 4.3 **ESOP :**

4.3.1 Employee Stock Options (ESOP) shall be granted on a discretionary and reasonable basis to employees based on their performance, competency, position (grade/ level) and potential, to motivate employees and create shareholder value by aligning interest of employees with long term interests of the Bank.

4.3.2 ESOPs are also granted from time to time with the objective of retaining employees.

4.3.3 ESOPs will be approved by the Nomination and Remuneration Committee. The quantum of ESOPs will be reasonable and the formulation of the ESOP scheme, the coverage, the vesting period and their pricing schedule, etc will also be decided by the NRC as per SEBI guidelines.

- 4.4 **Joining Bonus:** These may be offered sparingly for recruitment of new staff below Senior Vice President level. Joining bonus, if offered, will be limited to the first year of service. However, for new employees at level Senior Vice President or above, if joining bonus is required, it shall be paid only in the form of ESOPs.

- 4.5 **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.



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### **5.0 Employee Classification**

Employees have been broadly classified into 3 groups :

- i. **Category I : Whole Time Directors (WTD)/Chief Executive Officer (CEO)** : To include MD&CEO and JMDs.
- ii. **Category II :Risk Control and Compliance Staff** : To include employees in Risk(including Credit function), Compliance, Audit, Fincon, Legal, Group Consolidation, Secretarial and Back-office i.e. Operations.
- iii. **Category III : Other Categories of Staff** : To include all other employees not explicitly covered in the first two categories

### **6.0 Compensation Composition and Applicability**

The ratio of Variable Pay to Fixed Pay and the ratio of Cash v/s Non Cash within Variable Pay is outlined for each category of employee classification mentioned earlier.

#### **6.1 For Category I : Whole Time Directors (WTD)/ CEO**

- i. The Fixed Pay for WTD/CEO will be linked to Market, taking into account all relevant factors including industry practice
- ii. The Variable Pay will be adjusted for various risks and must be sensitive to time horizon of the risk.
  - a. Variable Pay will not exceed 70% of Fixed Pay.
  - b. The Cash component of the Variable Pay will not exceed 50% of the Fixed Pay
  - c. If Variable Pay is higher than 50% of Fixed Pay, atleast 40% of Variable Pay will be deferred over a period of 3 years, or longer, on a pro-rata basis.
- iii. ESOPs granted will be reasonable, keeping performance, potential and retention factors in mind.
- iv. The compensation will be approved by the Remuneration Committee and RBI.

#### **6.2 For Category II : Risk Control and Compliance Staff :**

- i. Fixed Pay will be linked to market, capacity to pay and performance/potential of the employee. It will depend upon the employee's role in the Bank, but will not be linked to individual business performance.
- ii. Ordinarily, the mix of fixed and Variable Pay will be weighted in favour of Fixed Pay.
- iii. The Variable Pay will be payable as per approved schemes for incentive or Bonus, but these schemes will not be linked to individual business performance.
  - a. Variable Pay will not exceed 70% of Fixed Pay.
  - b. The Cash component of the Variable Pay will not exceed 50% of the Fixed Pay.



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- c. If Variable Pay is higher than 50% of Fixed Pay, atleast 40% of Variable Pay will be deferred over a period of 3 years, or longer, on a pro-rata basis.
- d. However, if Variable Pay is less than or equal to Rs 15 lakhs, management will have the discretion to pay the entire amount as cash.
- iv. ESOPS upto reasonable extent may be granted as part of compensation and also to assist in retention.

**6.3 For Category III : Other Categories of Staff :**

- i. Fixed Pay will be linked to Market, capacity to pay and performance/ potential of the employee.
- ii. Variable Pay is payable as per approved schemes for incentive or Bonus
  - a. The Cash component of the Variable Pay will not exceed 60% of the Fixed Pay.
  - b. If Variable Pay is higher than 60% of Fixed Pay, atleast 40% of Variable Pay will be deferred over a period of 3 years, or longer, on a pro-rata basis.
  - c. However, if Variable Pay is less than or equal to Rs 15 lakhs, management will have the discretion to pay the entire amount as cash.
  - d. Contests Payout may be applicable on an ad-hoc basis, within the overall capping of Variable Pay.
  - e. The Remuneration Committee will approve all cases where Variable Pay exceeds 100% of the Fixed Pay.
- iii. ESOPs upto reasonable extents may be granted as part of compensation and to also assist in retention.

**6.4 For all above categories:**

- 6.4.1 Variable Pay commitments, in excess of the above mentioned cappings, if any, made for the current year ending 31<sup>st</sup> March 2012 and if are payable after 1<sup>st</sup> April 2012 will be honored by the Company with information to the Remuneration Committee
- 6.4.2 Any variation in policy from above, shall be with approval of the Remuneration Committee.

**7.0 Malus & Clawback**

Both these clauses are applicable only on Deferred Variable Pay

- 7.1 **Malus:** Payment of all or part of amount of deferred Variable Pay can be prevented. This clause will be applicable in case of
  - i. Disciplinary Action (at the discretion of the Disciplinary Action Committee) and/ or
  - ii. Significant drop in performance of Individual/ Business/ Company (at the discretion of the Remuneration Committee)



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iii. Resignation of the staff prior to the payment date.

- 7.2 **Clawback:** Previously paid or already vested deferred Variable Pay can also be recovered under this clause. This clause will be applicable in case of Disciplinary Action (at the discretion of the Disciplinary Action Committee and approval of the Remuneration Committee)

**8.0 Hedging**

To ensure that employees do not use personal hedging strategies which undermine risk alignment effects as part of their remuneration

- 8.1 The Bank shall not provide any facility or funds or permit employees to insure or hedge their Compensation structure.
- 8.2 All Senior management employees as well as certain other employees in specific businesses are governed by the Corporate Code of Conduct which ensures half yearly and annual disclosures of their holdings
- 8.3 All such employees are required to take prior approval from appropriate authority before investment in equities to avoid hedging and other malpractices and
- 8.4 No such employee is permitted to invest in any stock, futures and options including that of the Bank.

**9.0 Disclosures**

The Bank shall make a disclosure on an annual basis in the Annual Financial Statements. Such disclosures shall be made for the specific year and previous year (previous year's disclosures need not be made when the disclosures are made for the first time). The key disclosures will contain at the minimum the details given in the Annexure attached.

Annexure to Compensation Policy

**Disclosure Requirements for Remuneration**

<b>Remuneration</b>		
<b>Qualitative disclosures</b>	(a)	Information relating to the composition and mandate of the Remuneration Committee.
	(b)	Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy.
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks.
	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.
	(e)	A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting.
	(f)	Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms.
<b>Quantitative disclosures</b>  (The quantitative disclosures should only cover Whole Time Directors / Chief Executive Officer / Other Risk Takers)	(g)	* Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.
	(h)	* Number of employees having received a variable remuneration award during the financial year.
		* Number and total amount of sign-on awards made during the financial year.
		* Details of guaranteed bonus, if any, paid as joining / sign on bonus.
		* Details of severance pay, in addition to accrued benefits, if any.
	(i)	* Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.
		* Total amount of deferred remuneration paid out in the financial year.
	(j)	* Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	* Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.
		* Total amount of reductions during the financial year due to ex- post explicit adjustments.
* Total amount of reductions during the financial year due to ex- post implicit adjustments.		