

Policy Name:	<b>Compensation Policy</b>
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Policy Applicability:	KMPL, KMIL, KMTSL, KIDF
Circulation:	All Employees / Restricted
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### Summary of Launch/Amendments

Sr. No.	Particulars	Approval/ Reviewed on Date	Effective Date
1	Policy Introduction	24 <sup>th</sup> April, 2021	1 Jan, 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 ensure that the Compensation practices are within the regulatory framework stipulated from time to time.

### 2.0 Compensation Philosophy

As a philosophy, the company 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.

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

- The Nomination and Remuneration Committee of the company (NRC of the company) will be, inter alia, reviewing and tracking the implementation of the Compensation Policy of the company. The NRC will comprise atleast 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 company's Risk Management Committee of the Board. (RMC).
- Any two of the above three would constitute the quorum for Meetings of the NRC of the company.
- 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 company.
  - 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 company
    - b. Capital adequacy ratio
    - c. Overall health of the company
    - d. Industry & Market Trends
  - 4.4 Approve the compensation of the Key Managerial Personnel (KMPs) and Whole Time Directors (WTDS)/CEO.

### 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 company 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 company'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.
  - ESOPs/SARs will be recommended by the company's NRC to Bank NRC for granting to its employees. Bank NRC will adopt the necessary process for valuation.
    - 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 company. LTIP may also be granted from time to time with the objective of retaining employees.
    - 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:** To attract the best talent from the market, this may be offered sparingly for recruitment of new staff. It can be in the form of Cash(including deferred cash)/ESOP/SARS.
- 5.6 Severance Pay:** Company 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 company 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** – Whole Time Directors/CEO and other Key Management Personnel (KMPs)
- (ii) **Category II: Other employees** - This includes all employees, not explicitly covered in the category I.

## 7.0 Broad Guidelines

- a. Compensation will be in line with statutory, other regulatory and compliance norms.
- b. The minimum tenure in the company and other subsidiaries of the group company 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 FY21 will continue to be implemented as per earlier policy.
- e. The company 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 of the company will additionally follow provisions as per trading code of conduct and relevant SEBI regulations.
- g. For Category I employees, NRC will review and approve the variable pay and for Category II employees, MD and CEO or a WTD will approve the variable pay.

## 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 employees. For Category II 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 6 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 company.

**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 company or any of the group companies;
- b. Willful misinterpretation / misreporting of financial performance of the company;
- 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 company 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 company by company going into losses 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 company.

**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, the company 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 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.