



IndusInd Bank

COMPENSATION POLICY, 2026

IndusInd Bank Ltd.
Corporate Office
Mumbai

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Guidelines on compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers, Control Function Staff and all other Employees

1. Background

The RBI had issued Guidelines on Compensation vide Circular DBOD No. BC.72/29.67.001 dated January 13, 2012, applicable to Whole Time Directors/Chief Executive Officers (CEO)/ Material Risk takers (MRT), and Control Function staff for implementation by private sector and foreign banks from the financial year 2012-13 onwards.

These Compensation Guidelines have been reviewed by the RBI over the past several years in relation to the best evolving international practices. Further, the Reserve Bank of India had issued revised Guidelines on November 4, 2019, pertaining to Compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff vide its document RBI / 2019-20/89 DOR Appt. BC.No.23/29.67.001/ 2019-20. These guidelines are applicable to All Private Banks (including Local Area Banks, Small Finance Banks, Payment Banks) and Foreign Banks operating in India.

These guidelines came into effect from April 1, 2020. All applications for approval of appointment / re-appointment or approval of remuneration / revision in remuneration of Whole Time Directors (WTDs / Chief Executive Officers (CEOs) would need to be submitted and be approved by the RBI as per details prescribed in the new guidelines.

2. Philosophy

The Bank's approach to compensation is intended to drive meritocracy & fairness within the framework of prudent risk management with effective supervisory oversight and stakeholder engagement. The compensation is linked to corporate performance, business performance and individual performance. The compensation policy ensures a balance mix of fixed, variable & long-term pay, where the current variable pay, scheme is designed to reward employees based on holistic assessment of performance and actions in the long term. The Compensation policy adheres to the principles as prescribed by the RBI.

The IndusInd Bank Comprehensive Remuneration Policy provides the overarching governance framework for all employees of the Bank including MD/ CEO and Whole time Directors of the Bank, Material Risk Taker (MRT), Risk Controller (RC) and Senior Management Personnels (SMP) of the bank.

3. Effective Governance of Compensation

- The Bank will continue to formulate and adopt a comprehensive compensation policy covering all their employees and conduct annual reviews thereof.
- The Compensation and Nomination & Remuneration Committee (C & NRC) of the Board will oversee the framing, monitoring, review, and implementation of the Compensation policy on behalf of the Board of the Bank.
- The C & NRC would have a minimum of 3 members, mostly non-executive directors. The Committee would have at least one member from the Risk Management Committee on the Board.
- The executive management will present annually the financial and strategic plans for the bank to the Board of Directors. The financial plan/targets will be formulated in conjunction with a risk framework with limit structures for various areas of risk/lines of business, within which the bank should operate to achieve the financial plan. The Compensation and Nomination & Remuneration Committee (C & NRC) would work in close coordination with the Risk Management Committee of the board and ensure effective alignment between compensation and risks. The C & NRC would ensure that the cost/income ratio of the bank supports the compensation package consistent with maintenance of sound capital adequacy ratio.
- The Bank's Compensation policy covers all elements of Fixed pay, Variable pay (cash bonus and stock option), retirals (including gratuity, Pension plans etc.), Perquisites, guaranteed bonus (joining/ signing off bonus considering the new RBI Compensation guidelines).

- The Compensation and Nomination & Remuneration Committee of the Board would define Key Performance Indicators (KPIs) and would also carry annual performance reviews of the MD & CEO, & WTDs.
- The Heads of Internal Audit, Compliance and Risk Control functions must be independent, have appropriate authority and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key roles in the firm.
- The annual performance reviews for the head of internal audit, compliance would be reviewed by the Audit Committee of the Board (ACB) / Board. The annual performance reviews and related appraisal actions for Chief Risk Officer would be reviewed by the Risk Management Committee of the Board (RMC).
- The C & NRC will approve the organizational performance norms for variable pay and assess achievement against the defined norms. The compensation shall be following all statutory requirements. Based on such assessments, C & NRC may also recommend ‘NIL’ variable pay.
- The Chief Human Resources Officer will ensure execution of compensation strategy, practices and plan, for bank in line with compensation policy.
- The Compensation and Nomination & Remuneration Committee of the Board will carry out formal reviews of the Compensation Practices to continually assess relevance & appropriateness annually.

4. Definition of Material Risk Takers (MRT)

The Bank should identify their Material Risk Takers (MRTs), whose actions have a material impact on the risk exposure of the Bank, and who satisfy the qualitative and any one of the quantitative criteria given below:

4.1. Qualitative Criteria

Relate to the role and decision-making power of the employee (Senior management or Members of the management body, as defined in annexure 1) jointly or individually and the authority to commit significantly to risk exposures listed below as

- Governance and Regulatory Risk
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

4.2. Quantitative Criteria

- Their Fixed Pay exceeds a threshold of INR 2.5 crore per annum

5. Senior Management Personnel:

The Companies Act, 2013 (the Act) defines ‘Senior Management’ under the explanation to Section 178 of the Act as personnel of the company, who are members of its Core management team excluding the Board of Directors comprising all members of the management team one level below the Whole-time Directors, including the functional heads’. As per the same Section, the Board’s Compensation and Nomination & Remuneration Committee is required to identify the persons who may be appointed in ‘Senior Management’ in accordance with the criteria laid down and recommend their appointment to the Board.

Pursuant to the above, the Senior Management of the organization includes all employees who report directly to the MD & CEO or WTD, who are bound by regulatory mandate to report to the Board or a Committee of the Board. Company Secretary and Chief Financial Officer are included in the category of “Key Management Personnel”.

6. Employees in Other Control Functions:

The objective of laying down a compensation policy for staff under Risk & compliance function is to ensure that they are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

Applicability: Head of Audit, Chief Compliance officer, Chief Risk Officer

7. Effective alignment of compensation with prudent risk taking.

7.1. Fixed Pay and Variable Pay

- To ensure effective alignment of compensation with Prudent risk taking, the C & NRC will take into account adherence to the risk framework in conjunction with which the financial targets have been formulated. The variable payout schedules will be sensitive to time horizon of risks. The compensation budget of the Bank will be based on projected levels of business and staffing requirements, revenue generation and desired level of cost-to-income ratios while remaining consistent with maintenance of sound capital adequacy ratio.
- The total compensation will be a prudent mix of fixed pay and variable pay. Fixed pay will include basic pay, allowances, perquisites, contribution towards superannuation/ retirals and any other form of benefits including reimbursable perquisites with monetary ceilings.
- The variable compensation will be in the form of share-linked instruments or cash or mix of cash and share linked instruments. The share linked instruments include 'Employee Stock option' governed by bank's Employee Stock Option Scheme- 2020. In the event of instituting cash linked Stock Appreciation Rights by the Bank after obtaining necessary and appropriate approvals, will be treated as share-linked instruments.
- Any introduction of Long-term Incentive policy or Restricted Stock Unit (RSU) in the organization shall require prior review & approval by C&NRC.
- As per the RBI guidelines, the Bank would seek RBI approval for Annual Performance Variable pay of WTDs / CEOs under Section 35 B of the Banking Regulation Act 1949. The Annual Bonus of the WTDs / CEOs would be fixed by the C & NRC of the Board, recommended by the Board and approved by the RBI in accordance with the stipulated RBI guidelines.
- Compensation for SMPs, MRTs, & RC's including Performance - Linked Variable Pay will be recommended by MD & CEO and CHRO & will be reviewed & approved by C & NRC. The quantum of Performance - Linked Variable Pay for all other employees including WTDs, CEO, SMPs, MRTs, and RCs to be disbursed for a Financial Year would be decided by the CHRO and MD & CEO basis the financial performance of the Bank in the financial year.
- The quantum of the variable pay for an employee will not exceed 300% of total fixed pay in a year. The proportion of variable pay will be higher at senior levels and lower at junior levels. At least 50% of overall pay would be variable for WTDs, CEO, MRTs and SMPs as a design. However, they can earn less variable pay based on various performance criteria.
- For WTDs, CEO, MRTs and SMPs, if the quantum of variable pay is up to 200% of fixed pay, at least 50% of variable pay will be via non-cash instruments and if it is above 200% (maximum up to 300%) of the fixed pay, at least 67% of the variable pay will be via non-cash instruments.

- A minimum of 60% of total variable pay will be under deferral arrangement. At least 50% of the cash component of variable pay will be under deferment. If cash component is under INR 25 lakh, the deferment shall not be applicable.
- If an employee is barred by the statute or regulation from grant of employee stock options, his/her Variable Pay will be capped at 150% of the Fixed Pay but shall not be less than 50% of the Fixed Pay.
- The mix of fixed and variable compensation of staff engaged in control functions including Risk, Compliance and Internal Audit should be weighed in favour of fixed compensation. The requirement of minimum 50% of total compensation to be paid in form of variable pay will not be applicable for this category of staff so that exercising the options of Malus and/or Claw back when warranted is not rendered infructuous.

7.2. Shared Linked Instruments (ESOPs)

- Shared Linked Instruments (ESOPs) are and will be a part of the total compensation structure of WTDs, CEO, SMPs, MRTs, RCs, and other employees of the bank.
- ESOPs currently governed by the Employee Stock Option Scheme- 2020 as amended from time to time of the Bank and in line with Securities and Exchange Board of India (Share Based Employee Benefit and Sweat Equity) Regulations, 2021 and other applicable regulations, ESOPs aim at aligning senior management behaviour to long – term view of the Bank’s performance. The Bank may grant ESOPs from time to time to WTDs, CEO, SMPs, MRTs, RC’s and other employees.
- The ESOPs will be granted in accordance with Employee Stock Option Scheme- 2020 duly approved by the C & NRC and Board.
- As per the terms of SEBI regulations, the revised RBI guideline on compensation, the ESOPs granted by the Bank have a minimum three-year vesting period on annual basis and follows the no faster than pro-rata basis for vesting.
- ESOPs are fair valued using the Black-Scholes model and based on the last closing price of the shares of the Bank at a domestic stock exchange having highest volumes on the immediate business day prior to the grant.
- These ESOPs granted to new joiners would be one-time grant made in the first year at the time of joining. Such cases would be very exceptional and would need to be recommended by CHRO, signed off by the MD and approved by CNRC. These joining Options would not form a part of Fixed pay or Variable pay.

7.3. Treatment of Deferred Variable Pay (Cash & Shared-Linked Instruments)

The clauses mentioned below are applicable to all employees inclusive of WTDs, CEO, SMPs, MRTs, and RCs.

- Deferred Variable Pay would be spread across the deferral period of 3 years. This would be applicable to both cash and non-cash components of the variable pay. The frequency of vesting will be on annual basis, and the first vesting shall not be before completion of one year from the commencement of deferral period.
- The vesting shall be no faster than on a pro-rata basis. Additionally, vesting will not be more frequent than on yearly basis.
- A portion of Variable Pay as per the RBI guidelines stated above may be paid in form of ESOPs. The vesting of Options would be in the ratio of 33%: 33%: 34% across 3 years from the date of grant of Options and would be in accordance with the Bank’s Employee Stock Option Scheme (ESOS) - 2020.

- In case of employee's retirement or resignation, 100% the variable pay (cash) shall follow the deferment schedule of respective cash grant, and the variable pay (shared linked instruments) shall be treated as defined in the Bank's Employee Stock Option Scheme (ESOS) – 2020)
- In case of employee's death or permanent disability, whole of the deferral pay (cash and shared linked instruments) shall be paid within 30 days of occurrence of such incidents to the employee's successors, or the employee, as the case.
- In case of an employee's Dismissal / Termination of employment, the unvested component of Deferred Variable pay (cash and shared linked instruments) shall lapse. Malus and Claw back may also be initiated if the case so warrants.
- In case of an employee's authorized long leave or sabbatical, the deferred unvested variable pay (cash) shall be paid 6 months after the employee resumes his/her duties post completion of long leave / sabbatical leave.
- In case of an employee's Suspension/ Show Cause Notice due to Staff accountability, the deferred unvested variable pay (cash) shall stand suspended until revoke of suspension or the concerned employee has been absolved of all the allegations post proper investigation.

8. Malus and Claw back Provisions

The Bank ensures a representative set of situations in its compensation policy, which requires them to invoke the Malus and Claw back clauses that may be applicable on entire variable pay. The Malus & Claw back provisions mentioned in the Bank's Compensation policy would be applicable for all concerned employees in the categories of WTDs, CEO, SMPs, MRTs, and RCs. The Bank may apply similar principles of Malus and Clawback to other employees of the Bank as the situation may arise.

In the event of reasonable evidence in deterioration in the financial performance, as defined in the board approved business plan, the C & NRC shall evaluate the conditions leading to deterioration, including changes in regulations, force majeure, market conditions, industry performance, economic social or other conditions whether in or outside control of the bank or any person and related factors. and decide if malus needs to be applied on none, part or all the unvested deferred variable compensation of the previous years.

8.1 Malus arrangements would be applicable in case of:

- Subdued or negative financial performance of the Bank and / or the relevant line of business in any year.
- Significant deterioration in financial Health of the Bank or any line of business on key business metrics as defined by the Bank.
- Assessed divergence in Bank's provisioning for Non-Performing Assets (NPAs) or asset classification exceeding the prescribed threshold for public disclosure or other parameters defined by the Bank's management for WTDs, CEO, SMPs, MRTs, & RCs
- Regulatory penalties and show cause notices resulting in adverse outcomes for the Bank.
- An Act of negligence on part of one or group of employees. A gross negligence occurs when a professional commits an error which other employees of similar skill set would have avoided.

8.2 Clawback Arrangements would be applicable in case of:

- Integrity issues / fraud / moral turpitude / other staff accountability issues.
- Misconduct leading to significant loss to the Bank.
- Wilful insubordination or any other act detrimental to the interest of the Bank.
- Material failure of risk management controls.
- Breach of internal rules & regulations, Bank's Code of Conduct or other parameters defined by the Management.

The Malus and Claw back arrangements would have a look-back period of 3 years.

In the event of misappropriation, embezzlement, breach of trust or an offence involving moral turpitude or breach of integrity, the Board on the recommendation of C&NRC may extend the Clawback period beyond the 3-year period.

Malus / Clawback clause can be applied for all WTDs, CEO, SMPs, MRTs RCs & all other employees who are in active service of the Bank as well as those who have since separated from the Bank due to the following reasons:

- Resignation
- Dismissal from services
- Authorized Long Leave / Sabbatical
- Retirement (Scheduled / Early)
- Transfer to subsidiaries

8.3 Other Guidelines on invoking Malus & Clawback

- Under the Malus arrangement, the unvested Variable Pay pertaining to that year will be cancelled fully. Variable Pay yet to vest out of previous years' compensation will not be impacted. The Malus arrangement would not reverse vesting after it occurred.
- Under the Clawback arrangements, all unvested Variable pay will get cancelled fully and the vested Variable Pay, either in full or in part will be clawed back as the C & NRC may decide after a process of due deliberations.
- Cash Variable Pay – The employee would be required to return in part or full previously paid amount, net of taxes to the Bank.
- ESOPs – The Clawback would be in the case of vested and unexercised Options. In certain circumstances, the C & NRC may extend the Clawback clause to exercised Options in part or full. Under such circumstances, the employee would return fair value of Options of the grant using Black Scholes model.
- The Bank's Compensation and Nomination & Remuneration Committee will be the decision-making authority for triggering the Malus and Clawback provisions in individual cases post a comprehensive assessment of the cases taking into consideration prevalent market & industry environment, regulatory scenario and other external factors.
- Please refer to the section on Treatment of Deferred Variable Pay in case of Separation from the Bank for WTDs, CEO, SMPs, MRTs and RCs. Any payment of Deferred Cash Variable Pay for Retirees / Resigned under the category of WTDs, CEO, SMPs, MRTs and RCs would also be subject to the Malus / Clawback arrangements with a look- back period of 3 years.
- Prior to the separation of such employees, the Bank would conduct a thorough due diligence on such employees by seeking inputs from Control and Governance functions such as Vigilance, Audit for any act of omission & commission or misconduct / staff accountability issues. The Bank would invoke Malus / Clawback arrangements if any adverse aspects come to light and would submit the same for decisioning by the C & NRC.
- Also, during the Annual Performance review process conducted by the Bank, there will be a review of the impact of past performance of Retirees / Resigned falling in the category of WTDs, CEO, SMPs, MRTs, and RCs within the look-back period of 3 years to ascertain any adverse impact on the Bank's interest. Should a situation warrant, the Bank would invoke Malus / Clawback arrangements and submit the same for a decisioning by the C & NRC.

9. Guaranteed bonuses

Guaranteed bonuses are not consistent with the principles of meritocracy, and the Bank will not encourage any kind of guaranteed bonus. Joining or sign-on amount will occur in the context of hiring a new staff and will be limited to first year.

There would be no guaranteed bonus as part of the Compensation plan for WTDs, CEO, SMPs, MRTs, and RCs of the Bank. Further, other than accrued retirement benefits (such as provident fund, superannuation, and gratuity payable on retirement) or any benefits arising under the employee early retirement scheme or any payments or benefits mandated by applicable law, no severance pay will be paid to WTDs, CEO, SMPs, MRTs, and RCs.

10. Perquisites

All perquisites for WTDs, SMPs, MRTs, and RCs would be applicable in line with the existing practices of the Bank, which are outlined in the Bank's HR Policies. All perquisites that are reimbursable and have a monetary ceiling would be a part of fixed pay.

11. Hedging

The bank will neither permit nor provide any facility or funds to the employees (including WTDs, CEO, SMPs, MRTs, RCs) to insure or hedge their compensation structure including stock options/ units to offset risk alignment effects embedded in their compensation. Due compliance measures will be instituted (including obtaining periodic affirmations and disclosures from the employees).

12. Regulatory / Compliance Requirements

The Bank would take RBI approvals for Grant of Remuneration to CEO / Whole time Directors (wherever applicable) on a case-to-case basis under section 35 B of the Banking Regulation Act, 1949.

The Bank will not permit / support employees to insure or hedge their compensation structure to offset embedded risks in their compensation.

13. Disclosures

Consistent with the RBI guidelines, the Bank would make the requisite qualitative and quantitative disclosures in its Annual Financial Statements.

14. Linkage with other policies

This policy shall be read in conjunction with the following IndusInd Bank policies –

- Bank's guidelines on Lists of Material Risk Takers
- Guidelines issued by regulators from time to time.
- Policy on WTDs
- Employee Stock Option Scheme

Effective Date(s): The revised policy comes into effect from the date of Board approval.

Frequency of review and update This Compensation policy shall be reviewed by C& NRC and board annually.

Annexure 1

Definition of Material Risk Takers (MRT)

MRT should qualify the qualitative and quantitative criteria, and their fixed pay exceed the threshold of 2.5 cr.

1.1. Criteria for Exclusion from the List of Material Risk Takers

1. Personal reporting to Business/ Functional Heads who are already/ designated as MRTs of the Bank with justified exceptions.
2. Size of business portfolio not significant enough to be an MRT.
3. Roles which are not of Strategic importance to the Bank in terms of risk carrying capacity.
4. Employees exited or superannuated would cease to be MRTs from the date of separation.

In case of incumbents not meeting Criteria 1 and 4 in select cases, the Bank would seek approval from the C& NRC for inclusion / exclusion on need basis with justified exceptions.

Any inclusion / exclusion / Exceptions of incumbents proposed as MRT must be approved by C & NRC.

The list of MRTs is flexible and subject to modifications depending on employee movements on account of new joining, resignations, role changes/ Elevations. The list will also be based on Bank's ongoing assessment of employees' job roles, whether they would qualify to be a part of the category of WTDs/ CEOs/ Material Risk Takers.

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