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Compensation Policy – HDFC Bank

Compensation Policy

This compensation policy document is based on the sound compensation principles and practices applied by the Bank and in accordance with RBI guidelines contained in their circular dated 4th November, 2019. The policy aims to provide a framework to create, modify and maintain appropriate compensation programs and processes with adequate supervision and control.

1. Compensation Philosophy:

Compensation is one of many human resource tools that organizations use to remunerate and incentivize their employees. The Bank's corporate mission is to be a world class Indian Bank. Our ability to attract, retain, reward and motivate talented individuals is critical for achieving our strategic goals and long term success. Compensation policy must be aligned to business strategy, market dynamics, internal characteristics and complexities within the firm. The ultimate objective is to provide a fair and transparent structure that helps it to retain and acquire the talent pool critical to building competitive advantage and brand equity.

The Bank's approach is to have a pay for performance culture based on the belief that the performance management system provides a sound basis for assessing performance holistically. The compensation system should also take into account factors like roles, skills / competencies, experience and grade /seniority to differentiate pay appropriately on the basis of contribution, skill and availability of talent on account of competitive market forces.

2. Compensation Governance

The Bank's Board of Directors will actively oversee the compensation system's design and operations. The Board of Directors will also monitor and review the compensation system to ensure the system operates as intended and is also consistent with the FSB principles. Compensation would also be aligned with prudent risk taking.

The Bank will also ensure that the staff engaged in financial and risk control will 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 role in the Bank.

The Nomination and Remuneration Committee of the Board shall have supervisory oversight regarding implementation of compensation practices and policies of the Bank. The Compensation and Benefits unit within the Human Resources function will administer the compensation policy by following rules and processes that are objective and transparent.

The compensation structure and pay revision for Whole Time Directors and Managing Director will be approved by the Nomination and Remuneration Committee. Supervisory review of compensation practices will be rigorous and sustained; any deficiencies would be addressed promptly with supervisory action. For the purpose of this policy, the term Whole Time Directors would include Executive Directors.

2.1 <u>Nomination and Remuneration Committee</u>:

The Board of Directors will have a separate committee for overseeing and governing the compensation practices of the organization. The following shall be the composition of the Nomination and Remuneration Committee.

i. The Nomination and Remuneration Committee will consist of Chairman of the Board.
ii. In addition to the Chairman there would be three Independent Directors.

It will also be ensured that at least one member of the Risk Management Committee of the Board is also a member of the Nomination and Remuneration Committee. Further, the Nomination and Remuneration Committee shall co-ordinate with the Risk Management Committee with the objective of suitably aligning compensation with prudent risk taking. The Nomination and Remuneration Committee shall ensure that the cost/income ratio of the bank supports the compensation package consistent with maintenance of sound capital adequacy ratio.

2.2 Definitions:

Wholetime Directors: The Managing Director and the Executive Director would be addressed as Wholetime Directors in this policy.

Material Risk Takers: The bank would identify the Material Risk Takers (MRTs) based on the Standard Qualitative Criteria and Standard Quantitative Criteria as prescribed by the RBI.

1. **<u>Standard Qualitative Criteria</u>** : Identification is based on the role and decision making power of staff members (e.g Senior Manager, Member of Management body) having jointly or individually, the authority to commit significantly to risk exposures. This would comprise employees in the Executive Vice President (C1)and above levels and select employees in the role of Business Heads and Treasury Desk Heads in job band Senior Vice President -2(D5) .

<u>Standard Quantitative Criteria</u> : the bank has decided to opt for the following clause of the RBI guidelines to determine the quantitative criteria. “They are included among the 0.3% of staff with the highest remuneration in the bank”

2. The Employees meeting the Standard Qualitative Criteria and the Standard Quantitative Criteria shall be classified as Material Risk Takers.

Risk Control and Compliance Staff: Employees in the bank belonging to the Risk verticals, Internal Audit, Compliance, Fraud and Vigilance, Finance and Information Security Group.

3. Compensation Structure

3.1 Whole Time Directors and Material Risk Takers:

For Whole Time Directors and Material Risk Takers, the Compensation structure will be determined by the Nomination and Remuneration Committee who will ensure that:

- Compensation is adjusted for all types of prudent risk taking
- Compensation outcomes are symmetric with risk outcomes
- Compensation payouts are sensitive to the Time Horizon of the Risk
- The mix of cash, equity and other forms of compensation will be consistent with risk alignment

The Bank has elaborated in its Risk Appetite Statement, its focus on steady/sustainable earnings growth through a good risk-reward balance, appropriate risk management techniques and low cost of funding. In addition, the bank intends to optimize revenue derived from trading activities so as to moderate earnings volatility. In line with this philosophy the organization by design is geared to

i. Maintain earnings growth with strong Asset Quality through disciplined risk management. This is further emphasized by the independence of the Credit and Market Risk Functions from the Sales /Business/Revenue generation functions.
ii. Ensure that the appetite for material risks assessed by the Bank will be in line with the bank level appetite for maintaining high credit ratings.

The compensation structure shall broadly comprise of the following components.

A. Fixed Pay
B. Variable Pay

3.1. A Fixed Pay:

The Bank will ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including the industry practice. In order to follow the aforementioned principles, the Bank will take into consideration the following parameters

i. Role Complexity and Size
ii. Vintage and experience of the incumbent
iii. Profile and prominence of leadership among industry leaders
iv. Comparison with peer banks i.e. market competitiveness of pay
v. Consistency of the Bank's performance over the years on key parameters such as profitability, growth and level of Non-Performing Assets (NPA's) in relation to its own past performance and that of its peer banks

Components of Fixed Pay:

The Fixed Pay of the organization would typically consist of elements like Base Salary, Allowances, Perquisites, Benefits and Retirement benefits.

In addition to the various cash components (salary, allowances etc.) the organization would also offer certain perquisites. The perquisites extended would be in the nature of Company Car, Hard Furnishing, Company Leased Accommodation, Club Memberships and such other benefits or allowances in lieu of such perquisites/benefits as may be defined in the Bank's Human Resources policy and as may be approved by the Board. The quantum of fixed pay based on the above considerations will be approved by the Nomination and Remuneration Committee and the Board and will also be subject to approval by the Reserve Bank of India (RBI).

Keeping in mind the organization's belief in providing post-retirement benefits as well as to meet its statutory obligations as an employer the organization will provide the following Defined Contribution and Defined Benefit Plans.

i. Provident Fund – Statutory, Defined Contribution Plan
ii. Superannuation – Non Statutory, Defined Contribution Plan
iii. Gratuity – Statutory, Defined Benefit Plan
iv. Any other additional benefit as approved by the Nomination and Remuneration Committee of the Board.

The above shall be maintained and managed as per the prevailing Statutory Rules and Trust Rules governing them.

In case of absence or inadequacy of profit in any financial year, the aforesaid remuneration and perquisites shall be paid to the Wholetime Director as minimum remuneration. The organization would like to define inadequacy of profits in the following manner

In the event the cumulative fixed remuneration of Wholetime Directors, in a given financial year, exceeds or is equal to 10% (or any such cumulative limit as prescribed by the Companies Act, 2013 and as amended from time to time) of the profits, as computed under section 198 of the Companies Act 2013, for the given financial year, the profits in such a year shall be deemed to be inadequate.

3.1. B Variable Pay:

(a) Composition of variable pay

The variable pay will be in the form of share linked instruments (ESOPs) or a mix of cash and share linked instruments. The Bank will ensure that there is a proper balance between Fixed Pay and Variable Pay. In cases where compensation by way of share-linked instruments is not permitted by law/regulations, the entire variable pay will be in cash. Share-linked instruments would be fair valued on the date of grant by the bank using Black-Scholes model.

(b) Limits on variable pay

A substantial portion of compensation i.e. at least 50% will be variable and paid on the basis of individual, business-unit and organization performance. This will be in line with the principle that, at higher levels of responsibility, the proportion of variable pay will be higher. The total variable pay shall be limited to a maximum of 300% of the fixed pay (for the relative performance period)

In case the variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay; and in case the variable pay is above 200%, a minimum of 67% of the variable pay shall be via non-cash instruments.

In the event that the employee is barred by statute or regulation from grant of share-linked instruments, his/her variable pay will be capped at 150% of fixed pay but shall not be less than 50% of the fixed pay.

(c) Deferral of variable pay

For senior management including Wholetime Directors (WTDs) and Material Risk Takers (MRTs), deferral arrangements will exist for the variable pay. A minimum of 60% of total variable pay will be under deferral arrangements. If cash component is a part of the variable pay, at least 50% of the cash bonus shall be deferred. In cases where cash component of the bonus is under Rs 25 lakh, deferral arrangements would not be necessary.

The deferral period would be a minimum of three years and will be applicable to both cash and non-cash components of variable pay. The deferral period for share linked instruments/ESOPs will be governed by the ESOP Scheme Rules which will be approved by the Nomination and Remuneration Committee and the Board.

(d) Vesting of variable pay

The deferred portion of the remuneration will vest at the end of deferral period and will be spread out over the course of the deferral period. The first vesting would not be before one year from the commencement of the deferral period. The vesting would be no faster than on a pro rata basis and the frequency of the vesting would be more than a year in order to ensure appropriate assessment of risk.

Malus / Clawback Arrangement:

The Bank believes in sustained business performance in tandem with prudent risk taking. The Bank, therefore, has devised appropriate deterrents in order to institutionalize the aforementioned commitment.

Malus Arrangement: The provision of a Malus arrangement would entail cancellation of payout for the deferred portion of reward (cash variable pay/long term incentive (LTI) i.e any Share Linked Instrument). The RBI compensation policy 2019 defines malus thus "A **malus** arrangement permits the bank to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred."

Clawback Arrangement: The provision of Clawback arrangement would entail return of payout of reward (cash variable pay/long term incentive (LTI) i.e any Share Linked Instrument) made in the previous years attributable to a given reference year wherein the incident has occurred. The return would be in terms of net amount. The RBI compensation policy 2019 defines clawback thus "A **clawback** is a contractual agreement between the employee and the bank in which the employee agrees to return previously paid or vested remuneration to the bank under certain circumstances."

The malus and clawback clause will be actioned when the employee demonstrates behaviour involving fraudulent behaviour, moral turpitude, lack of integrity, flagrant breach of company policies and statutory norms resulting in financial or non-financial losses. Manifestation of behaviour listed above is presumed to have a malafide intent.

Illustrative list of conditions are enumerated below. The occurrence of any/some/all of the following conditions/events shall trigger a review by the Nomination and Remuneration Committee for the application of the Malus or the Clawback arrangement:

a) Substantial Financial Deterioration in profitability or risk parameters
b) Reckless, negligent or willful actions or exhibited inappropriate values and behavior
c) Fraud that requires a financial restatement
d) Reputational harm
e) Exposing the bank to substantial risk
f) Such other conditions or events, of similar nature as above, as determined by NRC for triggering review by NRC for the purpose of application of the Malus or the Clawback arrangement

In determining the causes for deterioration in financial performance under (a), the Nomination and Remuneration Committee may take into consideration and have due regard to the fact whether the deterioration was for factors within control or whether it was on account of conditions like global market headwinds, industry performance, changes in legal/regulatory regime, force majeure events like occurrence of natural disasters, pandemic, other socio-economic conditions etc.

While undertaking the review for the concerned person for the application of the Malus or the Clawback arrangement based on any trigger events, when determining accountability of the concerned person, the Nomination and Remuneration Committee shall be guided by the principles of proportionality, culpability or proximity or nexus to the event or misconduct.

Prior to taking action the Management and the NRC shall ensure due regard to the Principles of Natural Justice.

Bonafide error/s of judgment where there is no misconduct, wilful or intentional breach by act/ omission or gross negligence or lack of integrity, may not be treated as breaches under this Policy.

As per the RBI guidelines on compensation, wherever the assessed divergence in bank's provisioning for Non-Performing Assets (NPAs) or asset classification exceeds the prescribed threshold for public disclosure, the bank shall not pay the unvested portion of the variable compensation for the assessment year under 'malus' arrangement. Further, in such situations, no proposal for increase in variable pay (for the assessment year) shall be entertained. In case the bank's post assessment Gross NPAs 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.

The NRC may decide to apply malus on part, or all of the unvested deferred bonus amounts and LTIP. The time horizon for the application of malus/clawback clause shall be four years from the date of reward.

The Nomination and Remuneration Committee shall review the act of misconduct/incident to ascertain the degree of accountability attributable to a Wholetime Director/ Material Risk Taker/ Senior Management (C1 and above) prior to applying the Malus or Clawback arrangement.

The criteria for Malus /Clawback will be reviewed by the Nomination and Remuneration Committee annually.

The Clawback Policy due to financial restatement, as mandated under SEC guidelines, is covered in detail in Addendum B.

4. Guaranteed Bonus:

For hiring at levels of Whole Time Directors/ Managing Director and key strategic positions, the sign-on bonus, if any, would be limited to the first year only and would be in the form of Employee Stock Options.

5. Severance Pay:

The bank will not grant severance pay other than accrued benefits (Gratuity, Pension) except in cases where it is mandatory by any statute.

6. Hedging:

The Bank will not provide any facility or funds or permit employees to hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement. The Bank would establish appropriate compliance measures to meet the above requirements.

7. Employee Stock Option Plan (ESOP) – Wholetime Directors and Material Risk Takers :

Employee Stock Option will be considered as a part of variable pay for Whole Time Directors and Material Risk Takers in line with the guidelines prescribed by the Reserve Bank of India. The norms for the grant of ESOPs will be in conformity with the relevant statutory provisions, SEBI guidelines and the scheme approved by the Board. The distribution of ESOPs will be reviewed each year by the Nomination and Remuneration Committee of the Board. While Granting the Options, the Nomination and Remuneration Committee would inter alia take into consideration the grade, performance, conduct and such other appropriate relevant factors as may be deemed appropriate by it. The number of Options made available to Managing Director and Whole Time Directors could vary at the discretion of the Nomination and Remuneration Committee after considering various parameters as mentioned above. The allocation principle would also be aligned to the need for higher quantum of grant at higher levels for long-term strategic contribution. The Bank will also ensure that it will comply with all ESOP related disclosure requirements as per the RBI guidelines pertaining to Compensation Policy.

8. Risk Control and Compliance Staff

It has been a constant endeavor of the bank to have a robust Risk Management and Control Mechanism. Basis the spirit of this intent the organization has separated the Risk and Control Functions from the Business functions.

This primarily serves the following purpose

1. It creates a strong culture of checks and balances ensuring good asset quality
2. It eliminates any possible conflict of interest between revenue generation and risk management and control

Further the overall Variable Pay as well as the annual salary increment of Risk Control and Compliance Staff would be based on the performance on functional objectives and goals. The Bank shall ensure that the mix of fixed to variable compensation for control function is weighted in favour of fixed compensation and in line with the RBI guidelines.

9. For Other Categories of Staff:

9.1 Fixed Pay:

The bank shall endeavor to ensure that fixed pay reflects the following determinants of pay.

1. Job
2. Grade
3. Qualification
4. Performance
5. Experience
6. City Class
7. Market Pay Position

It is the intent of the bank to provide a fixed pay salary structure that meets the following objectives

1. Fair Compensation given the role complexity and size, individual's skill, competence, experience and market trends
2. Ensure sufficient contribution towards post-retirement benefits
3. Tax Efficiency
4. Comply with all statutory obligations

9.2 **Elements of Fixed Pay**:

The Fixed Pay of the organization would typically consist of elements like Base Salary, Allowances, Perquisites, Benefits and Retirement benefits.

The organization, as a philosophy, aspires to maintain consistency with respect to structure of pay. The organization however understands that in order to attract and retain talent in certain key businesses and roles, it may need to make changes to the components mentioned above. All such changes would be approved by the appropriate authority i.e. Nomination and Remuneration Committee/ Managing Director/Whole Time Director or Human Resources personnel as per powers delegated.

In addition to the various cash components (salary, allowances etc.) the organization would also offer certain perquisites to employees depending on the Job Band (grade) of the Individual. The perquisites extended would be in the nature of Company Car, Hard Furnishing, Company Leased Accommodation, Club Membership and such other benefits as may be defined by the Human Resources function and approved by the appropriate authority i.e. Nomination and Remuneration Committee/ Managing Director/Whole Time Director or Human Resources personnel as per powers delegated.
In order to meet its statutory obligations as an employer, the organization will provide the following Defined Contribution and Defined Benefit Plans.

A. Provident Fund – Statutory, Defined Contribution Plan
B. Superannuation – Non Statutory, Defined Contribution Plan
C. Gratuity – Statutory, Defined Benefit Plan
D. NPS – National Pension Scheme

The above shall be maintained and managed as per the prevailing Statutory Rules and Trust Rules governing them.

10. Benefits

Employee wellbeing is an integral part of the Bank's policy. Apart from the cash compensation and perquisites, the organization is committed to assist employees and their dependents to meet unforeseen and adverse life events both from a perspective of employee health and financial difficulty. To tide over such life events the organization would provide assistance via medical insurance and loans like Housing Loans, Personal Loans and Vehicle loans at concessional rates as may be defined by the Human Resources function and approved by the appropriate authority i.e. the Nomination and Remuneration Committee / Managing Director / Whole time Director or

Human Resources Personnel as per powers delegated. The organization also believes that such policies are key in building goodwill for the organization among the employees.

11. Variable Pay

The Bank recognizes the importance of variable pay in reinforcing a pay for performance culture. Variable pay stimulates employees to stretch their abilities to exceed expectations. Variable pay is discretionary and may be even zero.

Guaranteed bonuses are not consistent with the sound risk management or pay- for performance principles of the organization and therefore will not be an integral part of the general compensation practice.

The organization recognizes that a sound performance management system forms the very basis of a robust compensation delivery system. The organization shall ensure that the performance management system is as comprehensive as possible in order to assess performance from a Quantitative as well as Qualitative standpoint based on the role of the employee. The organization shall ensure that regulatory compliance and risk management is a key input area in the performance management system on which performance of every employee is determined in the Bank.

Adherence to regulatory compliance and risk management requirements are key performance measures which are incorporated in the performance assessment of all employees across all levels in the Bank The degree of assessment will vary across the levels with the increase in magnitude of assessment at the senior levels.

For employees in all job bands, performance is measured on adherence to regulatory, compliance and risk management requirements. Regulatory compliance is an organization's adherence to laws, guidelines, regulations and specifications relevant to its business processes. Risk compliance is adherence to the organization's risk management policies and procedures.

For employees in job bands C1 and above, performance evaluation on regulatory compliance and risk management requirements broadly entail the following:

1. Ensuring implementation of process and procedures that will ensure strict regulatory and internal risk management compliance.
2. Ensuring processes are reviewed to keep up with the regulatory and internal risk management requirements.
3. Create a culture where employees are advised to report any areas of non-compliance and breach in risk policies / limits.
4. Ensuring appropriate accountability exercise carried out for any instances of non-compliance and breach in risk policies / limits.

5. Ensuring framing and implementation of appropriate policy and procedure for ensuring regulatory and internal risk management compliance and driving compliance and risk culture across business verticals/ Bank.

For employees in job bands D1 and above, in addition to the above mentioned criteria, the performance management system also incorporates qualitative feedback from the line manager in instances of non-compliance/regulatory concerns/Penalty levied / breaches of internal risk policy or limits as applicable and relevant to the employee in the overall performance assessment of the concerned employee.

The performance rating on the regulatory compliance and risk management section comprises of a binary rating scale which mentions either the employee has 'met expectations' in the particular area or has 'not met expectations'. Before arriving at a reward decision, due weightage will be given to adherence to regulatory compliance and risk management guidelines by the Bank.

The quantum of Variable Pay is a function of the Bank's, business unit's and the individual's performance. Basis these key determinants, the overall budget and due adjustment for risk the payout matrix would be developed. Study of market trends for specific business/functions along with inputs from compensation surveys will be used in finalizing the payout.

The Bank may formulate appropriate Variable Pay Plans linked to performance, role, and function. The variable pay plan may be in the following two forms

A. **The Annual Bonus Plan** – The Annual Bonus scheme is for those employees who are not covered by the Quarterly Performance Linked Pay plan. The Performance Management System forms the core input to the Variable Pay allocation of the organization. There could be a possibility that employees switch from the Quarterly Sales Performance Linked Pay plan to the Annual Bonus plan due to change in their respective roles. In such cases the Annual Bonus payout shall be pro-rated. Bonus pools may be designed to meet specific business needs therefore resulting in differentiation in both the quantum and method of payout. The bank will ensure that the Time Horizon for Risk would be assessed for each of the functions and the deferment period for bonus would be set accordingly. It shall be the constant endeavor of the bank to ensure higher proportion of variable pay to fixed pay at higher levels of responsibility.

B. **The Quarterly/Monthly Performance Linked Pay Plan (PLP)** – Performance Linked Pay plans may be formulated for sales personnel who have origination/sales targets but limited impact on risk as credit decisions are exercised independent of the sales function. Further the Performance Linked Pay plans will factor in, where relevant, all necessary adjustments for risk. In alignment with the principles of prudent risk management, the Performance

Linked Pay payouts are deferred till the end of the year and are released subject to the attainment of the Bank's business objectives. The PLP shall be governed as per Addendum A.

The following will be taken into account while administering the Variable Pay

- In the event the proportion of variable pay to fixed pay is substantially high the organization would, post taking into consideration the nature of risk, time horizon of risk, and the materiality of risk devise an appropriate deferment schedule.

In cases of deferment of variable pay the bank would make an assessment prior to the due date for payment of the deferred portion for any negative contribution. The criteria for negative contribution would be decided basis predefined financial benchmarks. Appropriate methods would be devised to decide on prevention of vesting of part or full of any portion of deferred variable pay on account of negative contribution.

Performance Linked Variable Pay on confirmation

The Talent Acquisition team of the Bank hires external talent for managing critical roles in the Bank. A key challenge in hiring is that the identified potential candidates have to incur cash losses in their compensation in their previous organization while getting hired in HDFC Bank. Considering the composition of our compensation structure, we would like to introduce a component of performance linked variable pay on confirmation to compensate for such losses. However, these shall be limited to employees in select roles and shall not be guaranteed in nature as guaranteed variable pay leads to perverse incentives and are not consistent with principles of sound risk management. The payouts will be based on defined performance criteria. The same shall be incorporated in the Compensation Policy after the approval of the Nomination and Remuneration Committee.

Qualifying Criteria for Variable Pay on confirmation: The confirmation variable pay would be subject to the performance of the incumbent on obtaining an Exceptional Contributor (EC)/ Strong Contributor (SC) rating upon confirmation. In case, the employee receives Contributor rating (C) or below at the time of confirmation, the employee would not receive any variable pay on confirmation. Employees who would be eligible for such variable pay and the corresponding payout shall be approved by Chief Human Resources Officer.

Retention: In the event, an employee does not spend three years or more with the Bank, the aforementioned amounts shall be subject to recovery as per below table-

Time	% of amount
Less than 1 year	100
>= 1 - <2 years	66
>= 2- < 3 years	33
>= 3 years	0

Quantum: The quantum of the variable pay will be as per the commitment made at the time of offer, however the quantum will not exceed 30%-50% of the offered annual gross pay (without band perks and cost of loans) of the employee.

12. Employee Stock Option Plan (ESOP) – Employees:

Employee Stock Option will be a part of variable pay for employees in line with the guidelines prescribed by the Reserve Bank of India. The norms for the grant of ESOPs will be in conformity with the relevant statutory provisions, SEBI guidelines and the scheme approved the Board. The distribution of ESOPs will be reviewed each year by the Nomination and Remuneration Committee of the Board. While Granting the Options, the Nomination and Remuneration Committee would inter alia take into consideration the grade, performance, conduct of the Employee and such other appropriate relevant factors as may be deemed appropriate by it. The number of Options made available to a particular class/cadre/grade of Employees could vary at the discretion of the Nomination and Remuneration Committee after considering various parameters as mentioned above. The allocation principle would also be aligned to the need for higher quantum of grant at higher levels for long-term strategic contribution. The Bank will also ensure that it will comply with all ESOP related disclosure requirements as per the RBI guidelines pertaining to Compensation Policy.

Grant of Employee Stock Options for key strategic hires

The objective of this policy is to grant stock options to new hires in key strategic positions as an attraction and retention tool.

Criteria for Grant:

The criteria for grant of stock options to be adopted for new hires will be for those positions recommended by the respective Group Head, CHRO, MD. The grant will be subject to NRC approval.

Quantum of Grant:

The quantum of grant will be as per the commitment made at the time of the offer.

Periodicity of Grant:

The grant will be processed in batches once a quarter.

The grant of employee stock options will be in conformity with the relevant statutory provisions, SEBI guidelines and the scheme as approved by the Nomination and Remuneration committee of the Board.

13. Compensation Review:

Fitment of New Hires

Pay ranges of the Bank are set basis the academic and professional credentials of the incumbent and further on the specific Job Role and Competency skill sets of an individual.

The compensation of the new hires would be in line with the existing pay ranges and consistent with the compensation levels of the existing employees of the Bank at similar profiles. The Pay ranges could be subject to change basis market trends and organization's talent management priorities. While the Bank believes in the internal equity and parity as a key determinant of pay it does acknowledge the external competitive pressures of the talent market. Hence, there would be certain key profiles with critical competencies which might have to be hired at a premium and treated as an exception to the overall pay philosophy. Any deviation from the defined pay ranges would be treated as a hiring exception which would be required to be placed for approval with appropriate justification to the compensation and benefits team.

Increments / Pay Revision:

It is the endeavor of the Bank to ensure external competitiveness as well as internal equity without diluting the overall focus on optimizing cost. In order to enhance our external competitiveness, the organization participates in an annual salary survey of the banking sector to understand key market trends as well as get insights on relative market pay position compared to peers. It is our endeavor to ensure that most employees progress to the Median of the market in terms of fixed pay over time. This coupled with key internal data indicators like performance score, job family, experience, job grade and salary budget form the basis of decision making on fixed pay.

The increments are decided basis guidelines agreed upon by the Top Management.

Increases in Fixed Pay for majority of the population is supposed to happen annually effective **June 1** every year however there could be certain events like promotions, confirmations and change in job dimensions that could lead to change in Fixed Pay during other times of the year.

The organization could also make salary corrections and adjustments during the year for those employees whose compensation is found to be below the market pay and who have a good track record with respect to performance. However, these would be done on an exception basis for select individuals, subject to approval of the appropriate authority i.e. Managing Director/Whole Time Director or Chief Human Resources Officer as per powers delegated.

Financial Censure:

Prior to any payout of any financial award to all employees like annual increment, variable pay (annual bonus/ performance linked pay), recognition awards which are monetary in nature, promotions, performance related rewards, salary corrections or adjustments etc., the Bank would check for any act(s) of misconduct by the employees that may attract financial censure. In the event the misconduct is marked for financial censure, the Bank may, depending on the gravity of the censure in question, withhold part or entire award due to the employee.

14. <u>Reporting / Disclosures</u>:

The organization believes in balancing transparency and compliance with confidentiality. The organization will ensure complete compliance with all disclosure norms as prescribed by the various statutes relevant to the banking sector and industry in general.

Disclosure will also be made specifically basis **<u>Appendix 2</u>** of the RBI Circular dated November 4, 2019 Disclosure details elaborated as per Annexure A.

Annexure A

	Qualitative Disclosures
A	Information relating to the composition and mandate of the Nomination and 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 and types of share-linked instruments) that the bank utilizes and the rationale for using these different forms.
	Quantitative Disclosures (For Chief Executive Officer / Whole Time Directors/ Other Risk Takers)
G	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.
H	(i) Number of employees having received a variable remuneration award during the financial year (ii) Number and total amount of sign-on/joining bonus made during the financial year. (iv) Details of severance pay, in addition to accrued benefits, if any.
I	(i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. (ii) 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	(i)Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments. (ii)Total amount of reductions during the financial year due to ex-post explicit adjustments. (iii)Total amount of reductions during the financial year due to ex-post implicit adjustments.
L	Number of MRTs identified
M	(i)Number of cases where malus has been exercised (ii) Number of cases where clawback has been exercised (iii) Number of cases where both malus and clawback have been exercised
N	The mean pay of the bank as a whole (excluding sub-staff) and the deviation of pay of each of the WTDs from the mean pay

Addendum A– Policy Framework for Performance Linked Pay

The Sales PLP framework has been formulated to articulate the principles and guidelines for formulating all PLP plans in the organization. Through this framework the bank also aims to ensure consistency and alignment to the common PLP principles.

Key Pillars of the Policy Framework

The following are the key principles that must be considered while devising any PLP plan in the bank:
1. Eligibility
2. Factors to be considered for pay-out
3. Governance

1. Eligibility

PLP will only be applicable to frontline sales staff and not for sales supervisors. The Bank would also like to extend the PLP to customer service staff. For the purpose of PLP these shall include:
a. Sales Officers in the Bank
b. Individual contributors in the Executive Cadre i.e. in job bands E1 and above and contributing Regional Heads in Private Banking Group/ NRI Business wherein the achievement of the subordinates do not contribute into the achievement of the supervisors. Sales Managers/Relationship Managers in the Executive Cadre who have frontline sales officers reporting into them will be treated as individual contributors.
c. Collections Staff in the Bank who are individual contributors.

No PLP should be paid for employees in non-sales roles. Any person who has resigned from the services of the bank at the time of the pay-out shall not be eligible for any PLP related to the month /quarter or any holdback payment as enunciated in Clause 2(c) of this guideline.

2. Factors to be considered for pay-out

Following factors should be considered for while determining the pay-out design

a. **Balanced Scorecard:** All PLP plans must adhere to the Balanced Scorecard Framework. This means that all PLP plans must be based on Quantitative as well as qualitative factors. Further the PLP plans shall include not only reward factors but also deterrents in order to ensure mitigation of risk and process compliance.

b. **Target Achievement and Productivity:** All PLP plans should be aligned to achievement of targets. The targets should further be aligned to business plans so that pay-outs are finally aligned to the achievement of business goals and productivity to ensure a positive correlation between the PLP pay-out and plan achievement. PLP should not be paid for any factor that does not have a target / productivity benchmark. In the event PLP is being paid for cross sell than clear targets should be set for the same to ensure qualification for pay-out.

c. **Hold back:** All PLPs should be governed by a hold back clause. This basically means that a certain % of the PLP should be held back for the following reasons:

1. **For year end achievement:** A portion of the PLP should be held back conditional to the yearend target achievement of the individual.

2. **For any mis-selling or disciplinary issue:** Another reason for the holdback would any instance of mis-selling or disciplinary issue coming to light post the sale.

d. **Capping:** All PLP plans should provide for capping i.e. all PLP plans must prescribe a maximum limit with respect PLP earnings.

e. **Periodicity of pay-out:** All PLP plans to employees in E1–E4 grades would be paid out on a quarterly basis. For Sales Officers it would be paid out on a monthly basis.

3. Governance

The following shall be the governance framework for all PLPs in the Bank:

a. Introduction of any PLP plan will need to be supported by a business case clearly articulating the expected business goal. The same will need to be approved by FINCON and Human Resources. At the end of every financial year the payout will be reviewed in light of the achievement of goals. The Business head / Fincon / HR will be part of the review team for the same.

b. Any changes to existing PLP plans will need to be supported again by a business case and approved by Business Head, Product Head, FINCON and Human Resources.

c. All PLP plans (whether new or changed) will need to be signed off by the following. All exceptions will also need the approval of the below:

1. **Business Head**
2. **Human Resources**
3. **FINCON**
4. **Product Head**

Addendum B - POLICY ON CLAWBACK OF INCENTIVE COMPENSATION

The Board of Directors ("Board") of HDFC Bank Limited ("Bank") has adopted this Policy on Clawback of Incentive Compensation ("Policy") in view of the final rules on listing standards for the recovery of erroneously awarded compensation adopted by the Securities and Exchange Commission on October 26, 2022, applicable to companies listed on the New York Stock Exchange ("NYSE") and NASDAQ.

This Policy shall be read with, and is in addition to, the Compensation Policy formulated and approved by the Board of Directors of the Bank. This Policy is formulated to comply with the requirements of Section 10D promulgated under the U.S. Securities Exchange Act of 1934, as amended ("Exchange Act"), and Section 303A.14 of the NYSE so as to recover certain compensation in the event of an accounting restatement due to any material non-compliance relating to any financial reporting requirements under the applicable U.S. securities laws, and shall be interpreted and applied consistent therewith.

1. *Applicability and effectiveness*

This Policy shall be applicable to Managing Director(s), Executive Director(s) and Material Risk Takers ("MRT") of the Bank, as well as any other "executive officer" of the Bank (as defined in Rule 10D-1(d) of the Exchange Act) and such other employees, or classes of employees of the Bank, as may be identified by the Nomination and Remuneration Committee in accordance with the applicable laws (hereinafter collectively referred to as "Officers"). MRTs, for the purposes of this Policy, would be determined based on the Standard Qualitative Criteria and Standard Quantitative Criteria as prescribed by Reserve Bank of India.

This Policy shall be binding and enforceable against all Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

This Policy shall be effective with respect to Excess Awarded Compensation received on or after October 2, 2023. For purposes of this Policy, Excess Awarded Compensation shall be considered to be "received" by an Officer in the Bank's fiscal period during which the Financial Measure specified in the incentive-based compensation is achieved or attained, even if the payment, grant or certification of achievement of the incentive-based compensation occurs after the end of that fiscal period.

2. *Administration*

The Nomination and Remuneration Committee shall administer this Policy, and any decision taken by the said Committee in this regard shall be final and binding on the Bank and the Officers. The Committee may delegate ministerial administrative duties with respect to this Policy to one or more independent directors of the Bank, as permitted under applicable law.

3. *Definitions*

"**Accounting Restatement**" means a restatement of financial statements of the Bank to correct any material noncompliance by the Bank with any financial reporting requirement under applicable U.S. federal securities or accounting laws, including restatements that (a) correct an error in previously issued financial statements that is material to the previously issued financial statements or (b) would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period only.

“**Clawback Period**”, with respect to any Accounting Restatement, means the 3 (three) completed financial years immediately preceding the date on which the applicable Accounting Restatement is required to be made (and any transition period that results from a change in the Bank’s fiscal year within or immediately following such 3 (three) completed fiscal years); provided that a transition period between the last day of the Bank’s previous fiscal year-end and the first day of its new fiscal year that comprises a period of 9 (nine) to 12 (twelve) months shall be considered a completed fiscal year for purposes of this Policy (i.e., a total of four periods). For purposes of this Policy, the Bank is required to prepare an Accounting Restatement on the earlier of (a) the date the Board, a committee thereof or, if Board action is not required, authorized officers, concludes or reasonably should have concluded that the Bank is required to prepare an Accounting Restatement or (b) the date a court of competent jurisdiction, regulator or other legally authorized body directs the Bank to prepare an Accounting Restatement; provided that recovery pursuant to this Policy as a result of this clause (b) shall only be required if such action by such court, regulator or other legally authorized body, as applicable, is final and not appealable. The Bank’s obligation to recover Excess Awarded Compensation from a Covered Officer (as defined below) is not dependent on if, or when, the applicable restated financial statements are filed.

“**Excess Awarded Compensation**” means, as determined by the Board in accordance with the applicable law, the gross amount (on a pre-tax basis) as stated below and determined by the Nomination and Remuneration Committee to be the amount subject to recovery necessary to comply with applicable law. For the avoidance of doubt, Excess Awarded Compensation may include incentive-based compensation received by a person after such person ceases to be an Officer, including a former employee of the Bank.

Unless otherwise determined by the Board:

i. for cash awards, Excess Awarded Compensation is the difference between the amount of the cash (commission and/or bonus) that was received and the lesser amount that should have been received had it been determined based on applying the restated Financial Measures;

ii. for stock options and Restricted Stock Units (“RSUs”) of the Bank granted or vested at the time of recovery or clawback, Excess Awarded Compensation is the number of the stock options or the value of RSUs, as applicable, that was received in excess of the lesser number or lower value, as applicable, that should have been received had it been determined based on applying the restated Financial Measures; and

iii. for shares issued and allotted by the Bank upon exercise of stock options where the underlying shares remain unsold, Excess Awarded Compensation is the number of shares underlying the stock options that should have been received had it been determined based on applying the restated Financial Measures.

“**Financial Measures**” means measures that are determined in accordance with the accounting principles used in preparing the Bank’s financial statements, and any measures that are derived wholly or in part from such measures, including stock price and other measures based on stock price such as total shareholder return. A Financial Measure need not be presented within the financial statements or included in a filing with the Securities and Exchange Commission.

"**Incentive-based compensation"** means any cash (e.g., commission and/or bonus) or non-cash incentive compensation (e.g., stock options and/or RSUs) or other compensation that is granted, earned or vested based in whole or in part upon the attainment of any Financial Measure and as identified by the Nomination and Remuneration Committee in accordance with the applicable law.

4. Recovery of Excess Awarded Compensation following an Accounting Restatement

In the event the Bank is required to prepare an Accounting Restatement due to any material non-compliance relating to any financial reporting requirements under the applicable U.S. securities laws, the Nomination and Remuneration Committee shall promptly recover any Excess Awarded Compensation that was received during the Clawback Period by any person who was an Officer at any time during the applicable performance period for such incentive-based compensation and that was received by such person after the date of becoming an Officer ("Covered Officer"), except to the extent such Committee has made a determination that recovery would be impracticable, as permitted under applicable law, whether or not such Officer was involved in the preparation of the Financial Statement or contributed to the non-compliance.

5. Recovery of Additional Amounts Upon an Accounting Restatement

Notwithstanding anything mentioned in the above clause, in case the Nomination and Remuneration Committee, in its sole discretion, determines that an Officer's acts or omissions contributed to the circumstances requiring an Accounting Restatement, then in each such case, the Bank will use reasonable efforts to recover from such Officer up to 100% of the incentive-based compensation, and not just the Excess Awarded Compensation.

6. Method of Clawback and/or Forfeiture

The Nomination and Remuneration Committee shall, in its sole discretion, determine the appropriate method for clawing back or forfeiting the Excess Awarded Compensation or incentive-based compensation, as the case may be, in accordance with applicable law and taking into account the time value of money and the cost of delaying recovery, which may include, without limitation, any one or more of the following:

i. Requiring the reimbursement of cash- or stock-based incentive-based compensation previously paid;

ii. Seeking the recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any stock options, RSUs or shares allotted pursuant to exercise of stock options;

iii. Cancelling or rescinding some or all outstanding vested or unvested stock options or RSUs;

iv. Adjusting or withholding amounts from unpaid compensation or other set-off; and

v. Cancelling or setting-off against planned future grants of stock options or RSUs or any other method permitted by applicable law or contract.

To the extent that a current or former Officer fails to repay Excess Awarded Compensation or incentive-based compensation under this Policy, the Bank shall take all actions reasonable and appropriate to recover the same. The concerned Officer shall be required to reimburse the Bank for any and all expenses reasonably incurred (including legal fees) in recovering such Excess Awarded Compensation or incentive-based compensation. For the avoidance of doubt, any Excess Awarded Compensation received by a Covered Officer that has been subsequently forfeited prior to payment thereof, or otherwise recouped by the Bank (including as a result of termination or employment) shall be deemed to have been repaid in accordance with this Policy.

7. *Reporting and Disclosure*

The Bank shall file all disclosures with respect to this Policy in accordance with the applicable laws.

8. *No Indemnification*

The Bank shall not indemnify or insure or agree to indemnify or insure any Officer against the loss of erroneously awarded compensation subject to this Policy, nor shall the Bank pay or agree to pay or reimburse any insurance premium to cover the loss of erroneously awarded compensation or any claims relating to the Bank's enforcement of this Policy. None of the Bank or any of its affiliates shall have any liability to an Officer with respect to any actions taken under this Policy.

9. *Amendment*

The Board may amend, modify, suspend or terminate this Policy in whole or in part at any time in its sole discretion and may adopt such rules and procedures that it deems necessary, appropriate or advisable to implement this Policy or to comply with applicable laws and regulations. This Policy shall not limit the rights of the Bank to take any other actions or pursue other remedies that the Bank may deem appropriate under the circumstances and under applicable law. This Policy will terminate automatically when the Bank ceases to have its securities listed on NYSE or NASDAQ.