Compensation Policy of the Bank

Part A- Compensation Policy for wholetime Directors & employees pursuant to RBI guidelines dated January 13, 2012 on Compensation of Whole Time Directors/ Chief Executive Officers/ Risk takers and Control function staff etc

Background

The Reserve Bank of India (RBI) has issued guidelines on “Compensation of Whole Time Directors/ Chief Executive Officers/ Risk takers and Control function staff etc.” on January 13, 2012. These guidelines are applicable from financial year 2012-13.

A summary of the guidelines is set out below:

1  Effective governance of compensation: Banks should formulate a compensation policy by March 2012 for all employees, which will be subject to annual review. The Board should constitute a Remuneration Committee (RC) of the Board to oversee the framing, review and implementation of compensation policy.

2  Effective alignment of compensation with prudent risk taking

2.1  For Chief Executive Officers/ Whole Time Directors:

- Risk: CEO/WTD compensation should be adjusted for all types of risks; be symmetric with risk outcomes and sensitive to the time horizon of risk.
- Fixed Pay: Their fixed pay should be reasonable taking in account all factors including industry practice.
- Employee Stock Option Plan (ESOP): This is excluded from the definition of variable pay.
- Variable pay: This cannot exceed 70% of fixed pay and if it exceeds, say 50% or more, the banks should defer say 40-%60% of the pay over at least three years on a pro rata basis.
- Malus/Clawback: In the event of negative contributions by the bank and/or relevant business, the deferred compensation should be subjected to malus/ clawback.
- Guaranteed bonus & severance pay: Guaranteed bonus should be paid only to new hires and restricted to first year preferably in the form of ESOPs. Further, banks should not grant severance pay other than those mandated by a statute.

2.2  Staff involved in risk controls and compliance should be compensated appropriately and independent of the business areas they oversee. Appropriate compensation structure in line with principles of compensation laid down for CEO/WTD may be adopted for other categories of staff.

3  Banks are required to make disclosure on remuneration including ESOP on an annual basis in their Annual Report. The compensation policy is subject to regulatory and supervisory approval/ oversight.

ICICI Bank’s current compensation practices have been reviewed as per the above guidelines. Based on the requirements of the guidelines, the attached compensation policy is placed before the Board Governance Remuneration & Nomination Committee for approval.
Compensation Policy

The Bank has historically followed prudent compensation practices under the guidance of the Board and the Board Governance Remuneration & Nomination Committee (the BGRNC or the Committee). The Bank’s approach to compensation is intended to drive meritocracy within the framework of prudent risk management. Compensation is linked to corporate performance, business performance and individual performance. The current bonus scheme is designed to differentially reward employees based on holistic assessment of performance and does not constitute profit sharing.

The Bank’s current compensation practices have been reviewed as per the guidelines issued by Reserve Bank of India (RBI) on January 13, 2012. The principles for sound compensation practices proposed in the guidelines will be adopted by the Bank.

These principles are:
1. Effective governance of compensation
2. Compensation philosophy aligned with prudent risk taking
3. Effective supervisory oversight

1. Effective Governance of Compensation

1.1. The BGRNC will have oversight over framing, review and implementation of the Bank’s compensation policy on behalf of the Board.

1.2. The BGRNC will be composed of at least three members. This Committee will be chaired by an independent Director and all its members will be independent/non-executive Directors. The Chair of the Risk Committee of the Board will be a member of the BGRNC.

1.3. 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.

1.4. The Committee will define Key Performance Indicators (KPIs) for the Managing Director & CEO and other whole-time Directors & equivalent positions based on the financial and strategic plans approved by the Board.
1.5. The Committee will recommend to the Board for approval of the fixed pay, perquisites, retiral, bonus and stock option grants for the Managing Director & CEO and other wholetime Directors & equivalent positions (including Senior Management Personnel). Fixed pay will include basic pay, fixed supplementary allowances and any other form of fixed pay, paid monthly, annually or deferred. This will be subject to necessary approvals from the Regulators and shareholders, wherever applicable.

1.6. The Committee will approve the organisational performance norms for bonus and assess the achievement against such norms including reviewing credit, market and liquidity risks. The Committee will also take into consideration whether the Countercyclical Capital Buffer (CCCB) requirement, which is an extension of the Capital Conservation Buffer (CCB) requirement, is met. Based on such assessment, the Committee will recommend the performance bonus payment to the Board for approval. The Committee may also recommend ‘nil’ annual bonus based on its assessment.

1.7. The Managing Director & CEO and Head of Human Resources will be responsible for execution of the compensation strategy and plan (covering both fixed pay and variable pay) for the rest of the Bank in line with the compensation policy. The wholetime Director responsible for finance and risk management will provide the necessary performance achievement and risk inputs for various business segments.

1.8. The Managing Director & CEO and Head of Human Resources will ensure that staff engaged in financial and risk control functions are compensated independent of business areas they oversee and the compensation of such employees is in line with rest of the Bank.

1.9. The Head of Human Resources will present the compensation system for review to the BGRNC annually.

2. Compensation philosophy aligned with prudent risk taking

Fixed Pay and Bonus

2.1. To ensure effective alignment of compensation with prudent risk taking, the BGRNC will take into account adherence to the risk framework in conjunction with which the financial plan/ targets have been formulated. The bonus payout schedules will be sensitive to the time horizon as specified in the guidelines. The compensation budget of the Bank will be based on projected levels of business and staffing requirements, revenue generation and the desired level of cost-to-income ratios.
2.2. The Bank will have a judicious and prudent approach to compensation and will not use compensation as the sole lever to attract and retain employees. Employee compensation will take into account a mix of external market pay and internal equity.

2.3. The total compensation will be a prudent mix of fixed pay and variable pay. The proportion of variable pay to total compensation will be higher at senior levels and lower at junior levels.

2.4. The variable compensation will consist of performance bonus and deferred long term cash bonus linked to performance. The Employee Stock Option Scheme will be excluded from the components of variable pay as per RBI guidelines.

2.5. The quantum of bonus for an employee will not exceed 70% of the total fixed pay in a year. If the quantum of bonus exceeds 50% of the total fixed pay, the payout say for 70% bonus will be 40% upfront and the balance 30% will be equally deferred over the next three years.

**Employee Stock Options Scheme**

2.6. Employees Stock Option Scheme (ESOS), in line with Securities and Exchange Board of India (SEBI) guidelines, will aim at achieving twin objectives of aligning senior management compensation to long term shareholders’ interests and retention of employees identified as high potential. Stock options will aim at aligning senior management behaviour to long-term view of the Bank’s performance.

2.7. The vesting schedule of the stock options will be normally spread over a period of three years or more to fully realize the impact of the decisions taken and the real value created for the shareholders.

2.8. The stock option scheme is approved by the shareholders of the Bank. The Committee will approve the grant of stock options.

2.9. The unvested options may lapse in the event of termination of employment for a cause. Similarly in the event a cash bonus is deferred, the Bank will subject it to performance adjustment clause.

**Malus and Claw back**

2.10. Compensation will be aligned to both financial and non-financial indicators of performance including controls like risk management, process perspective, customer perspective and others.

2.11. Acts of gross negligence and integrity breach shall be covered under the purview of the compensation policy. Errors of judgment shall not be construed to be breaches under this note.

2.12. The deferred part of the variable pay will be subject to malus, under which, the bank will prevent vesting of all or part of the variable pay in the event of an enquiry determining gross negligence or integrity breach.

2.13. In the event of a reasonable evidence of deterioration in financial performance in form of drop in the Profit After Tax (PAT) from one financial year to the next by 25% or
more, the BGRNC may evaluate the conditions leading to the downturn, including changes in regulations, market conditions, industry performance and others. The Committee may decide to apply malus on none, part or all of the unvested deferred variable compensation based on the outcome of the evaluation.

2.14. Employees will be required to sign clawback agreements for the variable pay. In a clawback arrangement, the employee will agree to return, in case asked for, the previously paid variable pay to the Bank in the event of an enquiry determining gross negligence or integrity breach, taking into account relevant regulatory stipulations.

Guaranteed bonuses

2.15. 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. However grant of employee stock options will be the preferred form.

Hedging

2.16. The Bank will not provide any facility or funds to the employees to insure or hedge their compensation structure to offset risk alignment effects embedded in their compensation.

Risk Control and Compliance

2.17. The compensation of staff engaged in all control functions including Risk, Compliance, Finance and Audit will depend on their performance rating which is based on achievement of key results of the respective functions.

Disclosure and engagement by stakeholders

2.18. The Bank will be compliant with the annual disclosure requirement. The key disclosure required to be made is attached in Annexure I.

PART – B - Compensation policy for non-executive Directors (other than part-time non-executive Chairman)

The remuneration payable to non-executive/independent directors (other than the part-time non-executive chairman) would be governed by the provisions of Banking Regulation Act, 1949, RBI guidelines issued from time to time and the provisions of Companies Act, 2013 & related rules to the extent it is not inconsistent with the provisions of the Banking Regulation Act, 1949/RBI guidelines.

Considering the above, the permitted modes of remuneration for the non-executive/independent Directors (other than Government nominee/ part-time non-executive Chairman) would be:

- Sitting fee for attending each meeting of the Committee/Board as approved by the Board from time to time within the limits as provided under Companies Act, 2013 and related rules.
- Profit related commission as may be approved by the Board and shareholders from time to time, subject to availability of requisite profits and compliance with applicable statutes/ regulations.
All the non-executive/independent Directors would be entitled to reimbursement of expenses for attending Board/Committee meetings, official visits and participation in various forums on behalf of the Bank.

**PART – C - Compensation policy for the part-time non-executive Chairman**

The remuneration payable to the part-time non-executive Chairman would be governed by the provisions of Banking Regulation Act, 1949, RBI guidelines issued from time to time and the provisions of Companies Act, 2013 & related rules to the extent it is not inconsistent with the provisions of the Banking Regulation Act, 1949/RBI guidelines.

Considering the above, the permitted modes of remuneration for the part-time non-executive Chairman would be:

- Such fixed payments at such periodicity as may be recommended by the Board, approved by the shareholders and approved by RBI from time to time
- Maintaining a Chairman’s office at the Bank’s expense, bearing expenses for travel on official visits and participation in various forums (both in India and abroad) as Chairman of the Bank and bearing travel/halting/other expenses and allowances for attending to his duties as Chairman of the Bank and any other modes of remuneration as may be permitted by RBI through any circulars/guidelines as may be issued in the future.
- Sitting fee for attending each meeting of the Committee/Board as approved by the Board from time to time within the limits as provided under Companies Act, 2013 and related rules.

The part-time non-executive Chairman would be entitled to reimbursement of expenses for attending Board/Committee meetings, official visits and participation in various forums on behalf of the Bank.

The Board Governance Committee may review the compensation policy annually in line with the strategy adopted by the Bank and changing market dynamics and the prevalent regulatory requirements.
**Disclosure requirements for remuneration as per RBI guidelines**

**Qualitative Disclosures**

<table>
<thead>
<tr>
<th>1</th>
<th>Information relating to the bodies that oversee remuneration.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.a</td>
<td>Name, composition and mandate of the main body overseeing remuneration.</td>
</tr>
<tr>
<td>1.b</td>
<td>External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.</td>
</tr>
<tr>
<td>1.c</td>
<td>Scope of the Bank’s remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.</td>
</tr>
<tr>
<td>1.d</td>
<td>Type of employees covered and number of such employees.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Information relating to the design and structure of remuneration processes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.a</td>
<td>Key features and objectives of remuneration policy.</td>
</tr>
<tr>
<td>2.b</td>
<td>Whether the remuneration committee reviewed the firm’s remuneration policy during the past year, and if so, an overview of any changes that were made.</td>
</tr>
<tr>
<td>2.c</td>
<td>Discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>Description of the ways in which current and future risks are taken into account in the remuneration processes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.a</td>
<td>Overview of the key risks that the Bank takes into account when implementing remuneration measures.</td>
</tr>
<tr>
<td>3.b</td>
<td>Overview of the nature and type of key measures used to take account of these risks, including risk difficult to measure</td>
</tr>
<tr>
<td>3.c</td>
<td>Discussion of the ways in which these measures affect remuneration.</td>
</tr>
<tr>
<td>3.d</td>
<td>Discussion of how the nature and type of these measures have changed over the past year and reasons for the changes, as well as the impact of changes on remuneration.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.a</td>
<td>Overview of main performance metrics for Bank, top level business lines and individuals.</td>
</tr>
<tr>
<td>4.b</td>
<td>Discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance.</td>
</tr>
<tr>
<td>4.c</td>
<td>Discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the Bank’s criteria for determining ‘weak’ performance metrics.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5</th>
<th>Description of the ways in which the Bank seeks to adjust remuneration to take account of the longer term performance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.a</td>
<td>Discussion of the Bank’s policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.</td>
</tr>
<tr>
<td>5.b</td>
<td>Discussion of the Bank’s policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.</td>
</tr>
</tbody>
</table>
6 Description of the different forms of variable remuneration that the Bank utilizes and the rationale for using these different forms.

6.a Overview of the forms of variable remuneration offered.

6.b A discussion of the use of different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or group of employees, a description of the factors that determine the mix and their relative importance.

Quantitative disclosures (WTD, CEO and other risk takers)

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.</td>
</tr>
</tbody>
</table>
| 2 | 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. |
| 3 | Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. |
| 4 | Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred. |
| 5 | Total amount of deferred remuneration paid out during the year (in ₹mn) |
| 6 | Total amount of outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and/or implicit adjustments (in ₹ mn) |
| 7 | Total amount of reductions during the year due to ex-post explicit adjustments |
| 8 | Total amount of reductions during the year due to ex-post implicit adjustments |