Compensation Policy

Last amended on January 21, 2022

Compensation Policy

Objectives and Principles

The Compensation Policy reflects the Bank's objectives for good corporate governance as well as sustained and long-term value creation for stakeholders. The aims of the Bank's remuneration framework are to:

a) Attract, motivate and retain people with requisite skill, experience and ability to deliver the Bank's strategy;
b) Create an alignment and balance between the rewards and risk exposure of shareholders and interests of employees;
c) Promote responsible growth and create long term sustainable shareholder value consistent with strategic goals and appropriate risk management; and
d) Reinforce behaviour consistent with the Bank's values, principles and objectives.
e) Support appropriate conduct and meritocratic culture through differentiated performance rewards.

To achieve the above objectives, the principles adopted by the Bank are as follows:

- **Market referenced**: by offering employees competitive pay for the role, skills and experience required for the business, achieved through benchmarking with peer groups.

- **Internal Equity**: by ensuring that jobs of similar internal value are grouped and pegged within a range guided by market benchmarked jobs.
- **Risk Adjusted**: by integrating non-financial considerations relating to conduct in performance assessments, employing proper mix of compensation elements and aligning compensation incentives to risk outcomes and factoring the time horizon of risks.

- **Focus on 'Total rewards'**, all aspects of compensation, rewards and well defined benefits in accordance with the market practice and dynamics, including rewarding work environment and personal development. The focus will be to ensure that the Bank is competitive in its overall compensation to its employees without being excessively expensive.

Remuneration Philosophy

1. Remuneration Governance and Oversight

The Compensation Policy shall be reviewed by the Bank's Nomination and Remuneration Committee ("NRC") and approved by the Board of Directors. The NRC shall have a minimum of three members and include at least one member from the Risk Management Committee of the Board. All members of the NRC shall be non-Executive Directors and the majority of members shall be independent. The chairperson of the NRC shall be an independent director, provided that the chairperson of the Board of Directors, whether executive or non-executive, may be appointed as a member of the NRC, but shall not be appointed as the chairperson of the NRC. The NRC will work in close coordination with the Risk Management Committee of the Bank, to achieve the effective alignment between remuneration and risks. The NRC shall ensure that the cost/income ratio of the bank supports the compensation package consistent with maintenance of sound capital adequacy ratio.

The key oversight responsibilities of the NRC pertaining to the Bank's compensation programs include:

- Annually reviewing and approving the Compensation Policy of the Bank, compensation philosophy, principles and practices, which guides how the Bank's compensation plans and benefit programs are designed for the Managing Director and Chief Executive Officer (MD&CEO), Whole Time Directors (WTDs), Material Risk Takers (MRTs), senior management and other employees.
- Reviewing the Bank's compensation practices and the relationship among risk management and compensation (including safety and soundness and the avoidance of practices that would encourage imprudent risk taking) and apply it for the MD&CEO, WTDs and MRTs, such that
  (a) compensation is adjusted for all types of risks,
  (b) compensation outcomes are symmetric with risk outcomes,
  (c) compensation payouts are sensitive to the time horizon of the risks, and
  (d) the mix of cash, equity and other forms of compensation are consistent with risk alignment.
- Adopting pay practices and approving performance metrics or pool calculations in compliance with applicable regulations, statutory or governance requirements.
- Reviewing and approving the overall incentive compensation pools (including equity / cash mix).
- Reviewing the business-aligned incentive compensation plan governance, design and evaluation framework.
- Reviewing the compensation for the Bank's MD&CEO, WTDs, and recommending their compensation to the Board of Directors for consideration.

- Reviewing and approving compensation for the senior management, one level below the Board, and recommending their compensation to the Board of Directors for consideration.
- Reviewing compensation for employees who are MRTs.
- Reviewing and approving the terms of compensation awards, including malus and clawback provisions.

2. Fitment at the time of Hire

- Pay ranges of the Bank are set on the basis of job size, expertise, experience, location, academic and professional credentials of the candidates.
- The compensation of new hires is in line with the existing pay ranges and consistent with the compensation levels of the employees of the Bank at similar profiles.
- The pay ranges are subject to change on the basis of market trends and the Bank'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. Accordingly, there could be key profiles with critical competencies which may be hired at a premium.

3. The Link between Performance and Pay

The Bank's performance management and compensation philosophies shall be structured to support the achievement of the Bank's business objectives by rewarding achievement of objectives linked directly to its strategic business priorities as identified in its Business Plan. These strategic priorities shall be cascaded through annualized objectives and policy deployment. The Bank's approach is to have a pay strategy that rewards its employees for their contribution to value creation. The Bank's performance development and compensation processes are designed to hold employees accountable for their conduct, where appropriate. The Bank's Code of Conduct and Ethics articulates the Bank's commitment to conduct business in accordance with the highest ethical standards and in compliance with all applicable laws, rules and regulations. Ethical behavior is inseparable from honesty, integrity and good judgment. Accordingly, the Code of Conduct and Ethics provides the principles that govern employee conduct with all stakeholders and one another.

The Bank shall follow a Key Result Areas (KRAs) and Basic Responsibilities (BRs) based approach in designing a holistic performance management system. Adequate attention shall be given to robust goal setting process to ensure alignment of individual objectives to support the achievement of business strategy, financial and non-financial goals across and through the organization. Assessment of performance shall be with reference to clear and relevant objectives set within the performance scorecard. The non-financial goals for employees shall include customer service, process improvement, quality of risk management, compliance to laws and regulations, self-capability development, behaviours such as integrity and team management. The rating of the BRs is based on the employees' adherence to the Bank's values and shall ensure that performance is judged not only on what is achieved but also on how it is achieved. Performance assessments of senior and mid-level management shall also include considerations regarding their relevant oversight responsibility in relation to the risk of misconduct within their business line.

Individual fixed pay increases and performance based variable pay (including cash bonus and share-linked instruments) are based on the final performance ratings. In addition, the fixed pay increase will also be influenced by the market dynamics, roles, skills/ competencies, an employee's position in the salary range and relevant market salaries, where available. Performance related variable pay shall be linked to corporate performance, business performance and individual performance. The variable pay is conditional, discretionary and contingent upon a sustainable risk-adjusted performance. If the Bank experiences deterioration of financial performance, it shall directly lead to a lower variable pay payment; including, if appropriate, zero performance based variable pay, at the discretion of the NRC. The performance ratings based fixed pay increases and variable remuneration shall be approved by the NRC.

Employees engaged in control functions, viz., Compliance, Risk, Fraud Containment & Monitoring and Audit shall not carry business profit targets in their goal sheets and hence shall be compensated based on their achievement of Key Result Areas. The aim is to ensure that the remuneration system and outcomes relating to such control functions maintain the independence of the function and Bank's robust risk management framework.

The performance evaluation of the Managing Director and Chief Executive Officer (MD & CEO) and the Whole Time Directors (WTDs) of the Bank shall include inter alia, factors such as financial performance measures, asset quality and overall health of the Bank, performance against peers, cost management initiatives, cost to income ratio, prudential risk and compliance management, recognition and awards to the Bank, and other strategic initiatives with horizons beyond one year to avoid short-term focus. These factors may vary from year to year depending on the Bank's strategic priorities. The Bank in its Risk Appetite Statement has articulated on ensuring capital adequacy even after applying stress scenarios approved by the Board, its focus on steady earnings through appropriate risk management and risk transparency to the stakeholders. Performance of the MD&CEO and the WTDs against metrics in the Bank's Risk Appetite Statement shall also be taken into consideration. Based on the inputs from NRC, the Board shall review the performance and approve the rate of bonus to be paid, the increments for the MD & CEO and WTDs.

Design and structure of compensation

The Bank's pay-for-performance framework focuses on Total Compensation – fixed pay and performance based variable pay - based on the performance of the Bank, the function and the individual. This includes a holistic evaluation of an employee's performance generally taking into account business results, client/customer/stakeholder, teamwork and leadership, and risk, controls and conduct.

The key elements of compensation are set out below:

1) Fixed Pay

The fixed pay components shall comprise the following:
- Basic Salary
- Fixed Allowances
- Retirals (Provident Fund and Gratuity as per statutory guidelines)
- Perquisites - extended in the nature of housing, bank provided car, driver expenses, reimbursement of car expenses, club, mobile handsets, iPad cost, insurances obtained by the Bank for its employees, and all other reimbursable items with ceilings, like LTC, vacation expenses, children education expenses, telephone, mobile and iPad bills, etc. For all non-cash components like housing, car etc., monetary value at a best possible estimate shall be a part of fixed pay. Only such expenses which are reimbursable in nature without any monetary ceiling, e.g. hospitalization expenses, medical expenses, etc., which are not quantifiable in advance will be excluded from fixed pay.

Many factors can influence an employee's fixed pay, such as the role, experience level, market pay levels, Bank's business model, competency, competition, location of the job, available talent, etc. Fixed Pay shall be a meaningful and reasonable part of an employee's Total Compensation, and shall be sufficient enough in order to discourage inappropriate risk-taking. It shall be reviewed annually using market intelligence provided by any leading global performance/reward consulting and benchmarking firm for financial services industry, as part of the year-end planning cycle, with any increases managed within the context of the Bank's annual salary budget. The Bank's overall annual salary budget shall be determined after reviewing expenses, economic outlook, market competition, inflation and other relevant factors.

2) Discretionary Performance-based Variable Pay

The total compensation shall be a prudent mix of fixed pay and performance-based variable pay. Performance-based variable pay shall comprise:

- Cash bonus
- Share-linked instruments which includes employee stock options and cash linked stock appreciation rights.

The Bank has implemented an ESOP scheme for its employees which has been formulated in accordance with relevant statutory provisions and guidelines. ESOP shall be utilized as a compensation and retention tool by the Bank. Accordingly, ESOP shall form a part of variable pay. The ESOPs shall be fair valued on the date of grant by the bank using Black-Scholes model.

Performance-based variable pay shall be awarded by ensuring:

- an appropriate balance between fixed and performance-based components;
- that the performance-based component reflects the risk underlying the achieved result;
- that a substantial part of the performance-based component is deferred;
- that no hedging of deferred shares takes place; employees are prohibited from hedging and speculative trading of the Bank's securities which undermine the risk alignment effects of

compensation structure. Accordingly, the Bank shall not provide any facility or funds to employees to insure or hedge their compensation structure;

The Bank will apply the following guidelines in relation to the annual variable pay plan:

- The Annual Variable Pay Plan is based on financial and non-financial performance;
  - Pre-tax bonus profit drives the funding of the cash bonus pool.
  - Poorly rated risk management, internal controls, regulatory and procedural compliance and loan reviews can reduce or wipe out the bonus pool and the value of deferred bonus.
- The NRC shall approve the organizational performance threshold for payment of variable pay.
- If the Bank's performance is below the NRC approved threshold performance level the variable pay will be nil.

While the policy detailed above mirrors the Bank's philosophy and approach towards compensation, in terms of the RBI guidelines issued vide RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019, the Compensation Policy also specifically addresses the following categories of employees:

Category I: Managing Director &Chief Executive Officer / Whole Time Directors / Material Risk Takers

Category II: Risk Control and Compliance Staff

Category III: Other Categories of Staff (employees receiving share-linked variable pay)

Material Risk Takers (MRTs)

The regulations require the Bank to identify employees who, due to their role and / or responsibilities, could potentially have a material impact on the risk profile of the Bank. These employees are designated as "Material Risk Takers". In the Bank, MRTs shall include employees who satisfy the qualitative and any one of the quantitative criteria mentioned below:

Qualitative Criteria

- Key Management Employees;
- Employees in the grades of Vice President and above;
- Employees who are members of Credit Committees in the Bank or otherwise who can singly commit significantly to risk exposures;

Quantitative Criteria

- Employees whose total compensation exceeds INR 1 Crore.
- Employees whose compensation is among top 0.3% of the employees of the Bank.
- Employees with compensation greater than or equal to lowest compensation paid to Deputy Vice President and above, and other risk takers.

The MRTs shall be reviewed on an ongoing basis and the identified staff shall be notified of their status and any impact on their remuneration structure.

The following principles shall be applied for grant and deferral of performance-based variable pay to the three categories of employees.

Category I

a) Variable pay shall not exceed 3 (three) times the annual fixed pay for MD & CEO and WTDs.
b) Variable pay shall not exceed 2.5 (two and half) times the annual fixed pay for MRTs.
c) At minimum, variable pay shall be equal to the annual fixed pay.
d) If an executive is barred by regulation/ statute to receive grant of share-linked instruments, the variable pay shall be capped at 1.5 (one and half) times the annual fixed pay, but will be more than 50% of the annual fixed pay.
e) If variable pay is up to 2 (two) times the annual fixed pay, then at least 50% of the variable pay shall be in the form of share-linked instruments (i.e. non-cash).
f) If variable pay is between 2 (two) to 3 (three) times the annual fixed pay, then at least two—thirds of the variable pay shall be in the form of share-linked instruments (i.e. non-cash).
g) At least 60% of total variable pay shall be deferred including at least 50% of cash-based variable pay. However, in cases where the cash component of variable pay is under INR 25 lakh, the Bank at its discretion, may not necessarily have deferral requirements.
h) Deferral of cash based variable pay shall be for 3 years on pro-rata yearly basis (annual vesting).
i) Deferral of share-linked variable pay shall be for 4 years on pro-rata yearly basis (annual vesting).

Details regarding the compensation of the MD&CEO, WTDs and MRTs as well as other disclosures as required to be made as given in the Appendix 3 of the RBI guidelines dated November 4, 2019, will be made available to the shareholders as a part of disclosures in the Annual Report. To improve clarity on disclosure, banks should make the disclosures in table or chart format and make disclosures for previous as well as the current reporting year. Further, the Bank shall also comply with the disclosure requirements for remuneration prescribed vide Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, as amended from time to time.

Category II

a) The mix of fixed pay and variable pay shall be weighed towards fixed pay.
b) Variable pay shall not exceed the annual fixed pay.
c) At least 40% of the variable pay shall be in the form of share-linked instruments (i.e. non-cash).
d) Deferral of share-linked variable pay shall be for 4 years on pro-rata yearly basis (annual vesting).
e) The compensation shall be commensurate to their key role in the Bank

Category III

a) Variable pay shall be as per NRC approved payout levels in terms of performance, grade and role matrix.
b) Variable pay shall not exceed the annual fixed pay.
c) At least 50% of the variable pay shall be in the form of share-linked instruments (i.e. non-cash).
d) Deferral of share-linked variable pay shall be for 4 years on pro-rata yearly basis (annual vesting).

Malus / Clawback

Compensation policies and procedures are an important control on misconduct. Accordingly, to effectively address the potentially longer-term nature of misconduct risk, the Bank's compensation systems shall provide for timely use of ex-post risk adjustment mechanisms. Ex-post risk adjustment refers to the adjustment of variable pay to take into account specific crystallised risk or adverse performance outcome including those relating to misconduct. It shall include reduction of current year awards (in-year adjustment), the application of malus (reducing or cancelling deferred pay that have not yet vested), and clawback (recouping already vested awards).

For the three categories of employees mentioned in the policy hereinabove, the awarded performance based variable pay shall be subject to in-year adjustment, malus or clawback as decided by the NRC, in the event of negative contribution of the Bank and / or relevant line of business and in material cases of detrimental conduct of individual or business units, as elaborated hereunder:

Conduct related:

i) If an employee engages in certain detrimental conduct, including mis-selling practices, manipulation of interest rate benchmarks, illegal activity, breach of a fiduciary duty, etc. that causes material financial or reputational harm to the Bank.
ii) If the award was based on a material misrepresentation by the employee.
iii) If there is reasonable evidence of employee malfeasance and breach of integrity inviting disciplinary actions.
iv) Violation of Anti Hedging and Anti Pledging Policy or Code of Conduct for Prevention of Insider Trading.

Risk related and others:

i) If the awarded performance-based variable pay was granted on a deliberately erroneous foundation or an incorrect decision made due to gross negligence not considered as errors of judgement.

ii) If the employee who is reasonably expected to be aware of the failure, misconduct or weakness in approach that contributed to the failure, improperly or with gross negligence failed to identify, assess, report or escalate in a timely manner.

iii) If the performance, decisions or actions taken leads to the Bank or the relevant business unit suffering a significant material downturn in its financial performance.

iv) If the RBI assessed divergence in the 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 clause. Further, in such a situation, there shall not be any increase in variable pay for the assessment year. In case the bank's post assessment Gross NPAs are less than 2.0%, these restrictions will apply only if the criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.

v) In the event of a material restatement, correction or amendment of the Bank's financial results for the relevant period.

Performance adjustment by the NRC shall take into account the following factors, as a minimum, for those under review when determining accountability for adverse risk events:

- culpability or proximity to the misconduct;
- rank and role;
- intent or motivation (e.g. personal gain, malice, fraud, ignorance, lack of training);
- negligence or recklessness in exercise of duties;
- level of participation in and responsibility for the events under review;
- history of misconduct;
- actions that were taken or could have been taken to prevent the misconduct from occurring, including any failures within the firm to internally supervise and oversee staff; and
- the root cause of the events triggering review.

In considering the extent of application of the ex-post risk adjustment, the NRC shall consider the degree of culpability, involvement or responsibility of an individual as mentioned above and the following relevant criteria.

i. The impact on the Bank's customers, counterparties and the wider market;
ii. The impact of the failure on the Bank's relationships with its other stakeholders including shareholders, employees, creditors and regulators;
iii. The cost of fines and other regulatory actions;
iv. Direct and indirect financial losses attributable to the relevant failure; and
v. Reputational damage.

Responsibility for misconduct may not necessarily be limited to those most directly involved. The use of performance adjustment may extend beyond those directly responsible for misconduct, e.g. where there has been a material failure of risk management for misconduct. Specifically, performance adjustment shall be considered for the internal control functions and for those employees in control or direct line of business functions who by virtue of their role could be considered responsible or accountable for the failure or for the weakness in the control framework relevant in the employee misconduct. Accordingly, applicability of malus/ clawback shall also include individuals within control functions (e.g. compliance, risk, internal audit etc.) for the weaknesses and failings identified within the functions which resulted in the negative contribution of the Bank.

While malus shall be applicable for the entire deferral term of an award, variable pay awards will be subject to clawback for a minimum period three years in case of cash bonus and five years in case of share based variable pay, from the date of respective grants.

Guaranteed bonuses

The Bank shall ordinarily not pay any kind of guaranteed bonus. Only in cases of new hires, as an exception, to be permitted with prudence, can joining bonuses be paid, in the first year, by way of share-linked instruments only. Such bonus will neither be considered part of fixed pay nor part of variable pay.

Severance Pay

The Bank shall not grant any severance pay other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory by any statute.

Remuneration of the Part-time Chairperson and Non-Executive Directors including Independent Directors

1. REGULATORY FRAMEWORK

The Bank, being a listed private banking company, is, primarily, regulated by the provisions of the Banking Regulation Act, 1949 (the '**BR Act**'), the Companies Act, 2013 (the '**Act**') and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the **'Listing Regulations'**).

A. Part-time (Non-Executive) Chairperson

The remuneration of the Part-time Chairperson of the Bank shall be governed by the provisions of BR Act, and the provisions of the Act and rules made thereunder, and the Listing Regulations, to the extent it is not inconsistent with the provisions of the BR Act. The remuneration of Part-time Chairperson is subject to prior-approval of the RBI and no increase or change in his/her remuneration would take effect unless it is approved by RBI besides the other approvals, as may be required under the Act or Listing Regulations.

B. Non-Executive Directors (NED) including Independent Directors

The remuneration payable to NEDs, including Independent Directors ('**ID**'), is governed by the provisions of BR Act and Guidelines issued thereunder by RBI from time to time, the provisions of the Listing Regulations and the Act and rules made thereunder, to the extent it is not inconsistent with the provisions of the BR Act.

2. PROCESS FOR APPROVAL OF THE REMUNERATION

The process for fixation and approval of the remuneration of Directors and Executives of the Bank are as under:

A. Part-time (Non-Executive) Chairperson

The proposal of the remuneration for the Part-time Chairperson ('**PTC**') shall be submitted by the Bank to the NRC for consideration. The NRC shall review the proposed remuneration for the PTC and accordingly, may make its recommendations to the Board for consideration and approval.

The Board of Directors will thereafter review the proposed remuneration for the PTC and after considering the recommendation of NRC, may approve, with or without modification, the proposed remuneration. The remuneration approved by the Board will be subject to prior-approval of the Reserve Bank of India, and the approval of the Shareholders of the Bank. Therefore, any increase or change in remuneration of the PTC will take effect only after the approval of RBI.

The remuneration of the PTC may include the following:

- Fixed Pay and allowances as may be approved by the Board, RBI and Shareholders;
- Sittings fees for attending the meeting of the Board of Directors and its Committees or for any other purpose whatsoever as may be decided by the Board, provided that the sitting fees shall not exceed one lakh rupees per meeting of the Board or committee thereof or such amount as may be prescribed under the Act, from time to time;
- Reimbursement of expenses for participation in the Board and other meetings.

PTC shall be covered under the Directors and Officers Liability Insurance ('**D&O**') Policy of the Bank.

While reviewing the remuneration of the PTC, NRC/Board shall consider the following:

- Performance of the Bank;
- Roles, responsibilities and performance of the PTC;
- Industry or peer banks' practices;
- Regulatory provisions, as may be applicable;
- Other factors as may be deemed appropriate by NRC / Board.

B. Non-Executive Directors including Independent Directors (NEDs)

The proposal for the remuneration of the NEDs shall be submitted by the Bank to the NRC for consideration. The NRC shall review the proposed remuneration for the NEDs and accordingly, may make its recommendations to the Board for consideration and approval.

The Board of Directors shall thereafter review the proposed remuneration for NEDs and after considering the recommendation of NRC, may approve, with or without modification, the proposed remuneration. However, for remuneration other than sitting fees and reimbursement of expenses for attending the meeting of the Board and its committees to the NEDs, the Board shall recommend such remuneration for the approval of shareholders and such remuneration shall be payable only after the approval of Shareholders.

The remuneration of the NEDs may include the following:

- Sittings fees for attending the meeting of the Board of Directors and its Committees or for any other purpose whatsoever as may be decided by the Board, provided that the sitting fees shall not exceed one lakh rupees per meeting of the Board or committee thereof or such amount as may be prescribed under the Act, from time to time;
- Reimbursement of expenses for participation in the Board and other meetings;
- Payment of compensation in the form of a fixed remuneration commensurate with an individual director's responsibilities and demands on time and which are considered sufficient to attract qualified competent individuals, provided such fixed remuneration for an NED, other than the Chairperson of the Board, shall not exceed Rs.20 lakh per annum.

While reviewing the remuneration of the NRDs, NRC/Board shall consider the following:

- Performance of the Bank;
- Performance of the NEDs;
- Industry or peer banks practices;
- Regulatory provisions, as may be applicable;

- Other factors as may be deemed appropriate by NRC / Board.

The Compensation Policy shall be annually reviewed by the NRC and approved by the Board. In case there are any regulatory changes requiring modification to the Policy, the Policy shall be reviewed and amended at the next possible opportunity by the NRC and the Board. However, the amended regulatory requirements will supersede the Policy till the time the Policy is suitably amended.