

## **EXCERPTS FROM THE COMPENSATION POLICY OF THE BANK**

### **1. The objectives of the Compensation Policy of the Bank:**

The Compensation Policy of the Bank ("Policy") aims to ensure effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation. The policy is a comprehensive one covering all the employees of the Bank and intends to reduce incentives towards excessive risk taking that may arise from the structure of compensation scheme.

This Policy aims to:

- (i) Ensure that compensation is aligned to individual performance as well as to the organizational objectives of the Bank.
- (ii) Attract, reward and retain talent to enable the Bank to attain its strategic objectives within the increasingly competitive context in which it operates.
- (iii) Inculcate and reinforce a culture of meritocracy and differentiate and reward performance.
- (iv) Have a balanced mix of Fixed, Variable (Short-term or Long Term, cash or non-cash) to appropriately reflect the value and responsibility of the role and to drive appropriate behavior and actions in the long term.
- (v) Ensure policy is in lines with RBI guidelines and promotes effective risk management practices and the company's commitment to compliance and controls.
- (vi) Ensure fairness and transparency in reward practices.

The policy covers all aspects of the compensation structure such as fixed pay, perquisites, variable pay in form of cash or non-cash instrument, (share-linked instruments e.g. Employee Stock Option Plan), pension plan, gratuity, guaranteed bonus etc.

### **2. Terms of reference to the Committee**

The NRC has to oversee the framing, review and implementation of compensation policy including ESOS of the Bank on behalf of the Board.

The Committee should ensure that:

- (i) the cost/income ratio of the Bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio;
- (ii) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the Bank successfully;
- (iii) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

- (iv) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.

### **3. Compensation structure in the Bank:**

#### **I. Compensation structure for Part-time Chairman – based on RBI Guidelines vide circular No: DBR.No.BC/97/29.67.001/2014-15 dated June 1, 2015**

- i. The Part-time Chairman may be paid fixed remuneration with the approval of Reserve Bank of India. In terms of Sections 10B(1A)(i) and 35B of the Banking Regulation Act, 1949, the Bank would be required to obtain RBI approval for payment of remuneration to Part-time non-executive Chairman, and share holders' approval under the provisions of the Companies Act, 2013.
- ii. Part-time Chairman is entitled for Travelling, Halting and other applicable Allowances as per the extant RBI guidelines, from time to time.
- iii. Part-time Chairman is also entitled to sitting fees for attending the Board/ Committee meetings of the Board as applicable to other Non- Executive Directors of the Bank in addition to the fixed remuneration from the Bank as mentioned in the point No. i. above.
- iv. The Non-Executive Chairman of the Bank shall not be entitled to any profit linked commission.
- v. The Non-Executive Chairman of the Bank shall not be entitled Stock Options.

#### **II. Compensation structure for Whole Time Directors/ Managing Director & Chief Executive Officer (CEO) of the Bank/ Material Risk Takers (MRTs) – based on RBI Guidelines vide circular No.DBOD.BC.72/29.67.001/2011-12 dated January 13, 2012 and number DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019.**

The compensation structure for Whole Time Directors (WTDs)/ Managing Director & Chief Executive Officer( MD& CEO)/ Material Risk Takers (MRTs) of the Bank may be fixed after ensuring the following:-

- I. Compensation is adjusted for all types of risk.
- II. Compensation outcomes are symmetric with risk outcomes.
- III. Compensation pay out schedule is sensitive to the time horizon of risks.
- IV. The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

A wide variety of measures of credit, market and liquidity risks may be used for implementation of risk adjustment. The risk adjustment methods should preferably have both quantitative and judgmental elements.

The compensation structure for the Whole Time Directors (WTDs)/ Managing Director & Chief Executive Officers (MD & CEO) of the Bank are subject to approval of Reserve Bank of India in terms of Section 35 B of the Banking Regulation Act, 1949. The RBI approval process might involve, inter alia, an assessment whether the compensation policies and practices are in accordance with the set of

principles and implementation standards on sound compensation practices laid down by the Financial Stability Board.

The payment of compensation to the Whole Time Directors (WTDs)/ Managing Director & Chief Executive Officers (MD & CEO) also requires approval of the shareholders of the Bank pursuant to Article 148 (c) of the Bank's Articles of Association read with the Section 196 of the Companies Act, 2013.

### **III. Compensation Structure for Non-Executive Directors based on RBI Guidelines vide circular No: DBR.No.BC/97/29.67.001/2014-15 dated June 1, 2015**

In order to bring in professionalism to the Board of the Bank and also to enable the Bank to attract and retain professional directors, Non-Executive directors may be appropriately compensated as follows:

#### **a). Commission**

The Board may, at its discretion, pay compensation in the form of profit related commission to the non-executive directors (other than the Part-time Chairman), subject to the Bank making profits. Such compensation, however, shall not exceed Rs.1 million per annum for each director. The payment of profit related commission is subject to RBI approval as per section 35B of the Banking Regulation Act, 1949, and compliance with relevant provisions of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable.

#### **b). Sitting fees and reimbursement of expenses**

In addition to the directors' compensation mentioned in para 1 above, the Bank may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

#### **c). Remuneration of Non-Executive Directors**

Subject to compliance with the provisions of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, in addition to sitting fees and expenses related to attending meetings of the board and its committees as per extant statutory norms/practices, the Bank may provide for payment of compensation to non-executive directors 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. However, such fixed remuneration for a Non-Executive Director, other than the Chair of the Board, shall not exceed ₹20 lakh per annum.

### **4. Disclosure and engagement by stake holders- as advised in RBI master direction on financial statements dated 30-08-2021**

Bank is required to make disclosure on remuneration on an annual basis at the minimum, in their Annual Financial Statements. To improve clarity on disclosure, Bank may make the disclosures in table or chart format and make disclosures for previous as well as the current reporting year (previous year's disclosure need not be made when the disclosures are made for the first time). Further, Bank should also comply with the disclosure requirements for remuneration prescribed vide Circular DOR.ACC.REC.No.45/21.04.018/2021-22 dated August 30, 2021, as amended from time to time.

## **5. Regulatory and Supervisory Approval/Oversight.**

1. In terms of the section 10(1) (b) (iii) of the Banking Regulation Act, 1949 (BR Act 1949), no banking company shall employ or continue the employment of any person whose remuneration is, in the opinion of Reserve Bank, excessive.
2. The remuneration of the Part Time chairman is subject to the prior approval of Reserve Bank of India in terms of Section 10B(1A)(i) and Section 35B of the Banking Regulation Act, 1949, and the approval of the shareholders in terms of the Articles of Association of the Bank.
3. The compensation structure of the Whole Time Directors/ Managing Director & Chief Executive Officer of the Bank is subject to the prior approval of Reserve Bank of India in terms of Section 35 B of the Banking Regulation Act, 1949 and also subject to the approval of the shareholders as per Section 196 of the Companies Act, 2013 and the Articles of Association of the Bank.
4. The compensation structure of Non-executive Directors of the Bank is subject to the approval of Reserve Bank of India to the extent as required in terms of Section 35B of the Banking Regulation Act, 1949, and the applicable provisions of the Companies Act, 2013, and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. 5. Banks' compensation policies would be subject to supervisory oversight including review under the 'Basel' framework. Deficiencies would have the effect of increasing the risk profile of Banks with attendant consequences including a requirement of additional capital if the deficiencies are very significant. Banks are required to make disclosure on remuneration paid to the directors on an annual basis at the minimum, in their Annual Financial Statements.