



## **IDFC FIRST Bank Limited**

### **Remuneration Policy**

(For the Whole Time/Executive Directors, Material Risk Takers, Key Managerial Personnel, Senior Management Personnel and Control Function and all other employees)

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## REMUNERATION POLICY

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## 1. INTRODUCTION AND PHILOSOPHY

The remuneration philosophy at IDFC FIRST Bank is guided by the organization's Philosophy for enabling employee performance to achieve the organization's short term and long-term objectives, balanced with prudent risk taking and are in compliance with the regulatory guidelines. It aims to:

- *Encourage achievement of strategic objectives and creation of shareholder value*
- *Provide opportunities that integrate pay with the Company's annual and long-term performance goals*
- *Attract and encourage talent in a competitive market place*
- *Compliant to all regulatory framework stipulated from time to time by RBI and other regulatory bodies.*

## 2. OBJECTIVES OF THE REMUNERATION POLICY

The primary objective of the Remuneration Policy is to provide framework for compensation practices for WTD, CEO and all other employees of the Bank and to ensure that these Practices are within the regulatory guidelines stipulated from time to time by RBI.

## 3. Scope of the Policy

The Policy provides remuneration guidelines for:

- I. Whole Time Directors/ Chief Executive Officers/ Material Risk Takers
- II. Key Managerial Personnel
- III. Senior Management Personnel
- IV. Control Function Staff
- V. Other employees of the Bank

#### 4. PRINCIPLES OF REMUNERATION

The principles observed while defining the remuneration programs are as follows:-

The principles are as follows:

- To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate talent.
- Reinforce a culture of meritocracy and differentiate and reward performance.
- To ensure that the remuneration is balanced between fixed pay and variable pay, with adequate focus on prudent risk taking and the short-term as well as the long-term objectives of the Bank and its shareholders
- To ensure that variable pay is balanced between cash linked and share linked component as well as between immediate and deferred component so that remuneration is aligned to performance and risk outcomes over both short term and long term
- To ensure a clear relationship between remuneration and performance with adequate focus on achievement of performance objectives incorporating elements of risk, compliance and service measures
- To respect employee needs basis relevant market anchors and to compensate adequately for the contribution towards the Bank's growth
- To ensure that the cost/income ratio of the Bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio
- To ensure reasonable and fair rewards administration, having regard to best governance practices.
- Align compensation programs, structures and decisions with shareholder interests and regulatory guidelines including labour codes as issued from time to time

#### 5. Governance Framework and Review Process

The Nomination and Remuneration Committee (NRC) inter alia, will be reviewing and tracking the implementation of the Remuneration Policy of the Bank.

All components of remuneration for Whole Time Directors, Executive Directors and Chief Executive Officers will be recommended by Nomination and Remuneration Committee (NRC) and approved by the Board and the same will be subject to approval of shareholders of the Bank and Reserve Bank of India (**Appendix I**). This remuneration should remain within the overall limit as per Section 197 of the Companies Act, 2013 and rules framed thereunder.

All components of remuneration for Key Managerial Personnel (KMP) and Senior Management Personnel (SMP), MRTs and Control function staff, will be recommended by Nomination and Remuneration Committee to the Board of Directors of the Bank for their necessary approval.

Annual increments and variable pay will be linked to the overall performance and other factors as may be decided by the NRC. The NRC will also consider and take into account regulatory penalties and Show Cause Notices.

The remuneration of all other employees will be determined by CHRO in consultation with other CXOs/SMPs and MD & CEO of the Bank within the overall framework of this policy and be placed before the NRC and Board for their noting.

## **6. COMPONENTS OF REMUNERATION Whole Time Directors/ Chief Executive Officers/ Material Risk Takers**

### **i. Fixed Pay**

The fixed pay will be benchmarked primarily to the Indian Private Sector Banks. It shall be competitive, taking into account all relevant factors including adherence to Statutory requirements and industry practice. Any annual increments will be linked to the overall performance and other factors as may be decided by the NRC and as per the governance framework described in the Clause '5' -Governance Framework of this policy.

**All the fixed items of the compensation, including the perquisites constitute 'Fixed Pay'.**

#### **a) Monthly fixed salary**

- **Basic Salary**
- **All cash allowances**
- **Other allowances and perquisites as may be decided by the NRC of the Bank, from time to time.**

#### **b) Retirals –**

- Retiral benefits include Provident fund, Gratuity and NPS will be payable as per the rules of the Company.

#### **c) Perquisites and other benefits**

- Entitlement or monetary equivalent of the perquisite as best as it is possible to determine shall be included in Fixed Pay.
- Perquisites which are reimbursable without any monetary ceilings, not quantifiable in advance e.g. hospitalization expenses, etc. shall be excluded from Fixed Pay. (use the guideline statement)

Credit cards, staff loans or any other benefits of similar nature will be applicable as per the Company policy and will not form a part of Fixed Pay.

### **ii. Variable Pay**

- a. The Bank will follow a total compensation philosophy comprising of fixed pay and variable pay, as approved by the NRC. The variable pay will include both cash-based variable pay as well as share linked instruments.
- b. The target total variable pay will be defined for each role basis the seniority, risk taking and market benchmarks. Target total variable pay will be at least 100% of fixed pay but not more than 300% of fixed pay for the corresponding financial (performance) year. Target total variable pay is not guaranteed, nor is it an entitlement. Actual total variable

pay granted in any year will be determined based on Bank, Business unit and individual performance and other evaluation criteria. Based on evaluation on such criteria, actual total pay could be lower than target total pay, and in fact could even be zero. The framework for payment of Variable Pay, Performance Rating Scale and Gating Criteria have been defined under the Performance Management Policy of the Bank.

c. Any actual total variable pay for a given year will be divided into cash component and share linked instruments such that:

- At least 50% of actual variable pay is in the form of share linked instrument in case actual variable pay is up to 200% of fixed pay; and
- At least 67% of actual variable pay is in the form of share linked instrument in case actual variable pay is above 200% of fixed pay
- At least 60% of actual variable pay shall be subject to deferral arrangements

d. Where use of share-based instruments is not permitted by law/regulations, entire variable pay shall be in cash. However, in such instances, total target variable pay shall be at least 50% of fixed pay and shall not exceed 150% of fixed pay.

e. Deferral of Cash Component of Variable Pay

- In case the Cash Component of actual variable pay is more than INR 25 lakhs, 50% of Cash Component shall be deferred for a period of at least 3 years. The vesting of the deferred components shall not be faster than on a pro-rate basis.
- Additionally, vesting shall not take place more frequently than on a yearly basis to enable proper assessment of risks before application of any ex-post adjustment.
- Vesting of the deferred cash component shall be subject to continuity of employment with the organization. In case an employee resigns during the vesting period, unvested component will be forfeited.
- In case an employee retires during the vesting period, any unvested Cash Component will continue to vest as was determined at the time of grant, beyond the retirement date.
- In case of dismissal/severance/discharge due to any other reasons-Unvested cash variable pay shall lapse. In case of authorized long leave/sabbatical – Deferred but unvested cash variable pay shall be paid after the employee resumes his duties after completion of long leave / sabbatical leave.
- In case of an eligible employee who has been suspended, such variable pay shall not be paid unless the suspension is revoked or disciplinary proceedings initiated against the employee are completed and the concerned employee has been absolved of all the allegations.
- In case the Cash Component of actual variable pay is less than INR 25 lakhs, there may not be any deferral of the Cash Component.
- Death/Permanent Incapacitation – Entire cash variable pay, deferred but unvested shall be paid as part of full and final settlement to the beneficiaries.

f. Share Linked Component of Variable Pay

- The share linked component of variable pay shall be delivered through the ESOP scheme(s) or any other share linked schemes of the Bank and as approved and amended by the Nomination and Remuneration Committee of the Bank from time to time. The ESOP Scheme or any other share linked schemes shall be in compliance with SEBI (Share Based Employee Benefits) Regulations, 2014 and / or any other applicable regulations. Treatment of ESOP or any other share linked schemes in case of resignation, , suspension, dismissal, discharge, termination or death shall done be as per the Employee Stock Option Scheme or applicable Share Linked scheme, for the respective grant. The vesting of share linked instruments shall be at least for over a period of 3 years and shall not be faster than on a pro-rate basis. Additionally, vesting shall not take place more frequently than on a yearly basis to enable proper assessment of risks before application of any ex-post adjustments. The share linked instruments shall be valued using fair value as on the date of grant basis Black-Scholes model. The fair value thus arrived at should be recognized as expense beginning with the accounting period for which approval has been granted. In case of separation from the Company for any reason other than retirement the guidelines of the respective share linked scheme of the bank will be applicable. In the case of retirement, the vesting and exercise of share linked instruments will continue as was determined at the time of grant, beyond the retirement date.

iii. **Other Components of Remuneration**

- a. Joining/Sign-on bonus (paid at the time of joining) if paid, shall be limited to one-time payment only in the first year after hiring. This payment shall be in the form of share linked instrument only. Such bonus will neither be considered part of fixed pay nor part of variable pay.
- b. To attract the right talent, it would be required to give a comparative view of the compensation earned with the previous employer and the earning potential at IDFC FIRST in the first year. To meet this requirement, indicative **total variable pay** for the first year (which depends on the performance delivered and is paid at the end of the current financial year) may be communicated to the new hire. This would be subject to the delivery against a minimum level of performance objectives agreed and continued employment of the new hire as on the date of payment/grant.

iv. **Approval process for Remuneration of MD/ ED/WTD**

- a. A comprehensive view of the actual compensation, including variable pay paid for the previous year, to the MD & CEO, Whole Time Directors, Executive Directors will need to be presented to the NRC and the Board for their review. This comprehensive examination also ensures alignment with regulatory guidelines.



- b. All components of compensation for MD & CEO, Whole Time Directors, Executive Directors will be recommended by Nomination and Remuneration Committee (NRC) and approved by the Board.
- c. All components of compensation for MD & CEO, Whole Time Directors, Executive Directors, will be subject to approval of the Reserve Bank of India and the shareholders.

## 7. Identification of Material Risk Takers for the Bank

- i. Based on RBI guidelines, IDFC FIRST Bank shall use combination of qualitative and quantitative criteria in order to identify whether an employee is a material risk taker.
- ii. Standard Qualitative Criteria - Relates to 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, etc.

In the context of the bank, this qualitative criterion translates into members of various committees of the Bank who have decision making authority to cause significant risk exposure, individually or jointly with other committee members (check formatting)

In addition, following quantitative criteria shall be used to identify the material risk takers

- Quantitative Criteria 1: Their total remuneration exceeds INR 1.5 Crore OR
- Quantitative Criteria 2: They are included among top 0.3% of the highest paid employees of the bank. OR
- Quantitative Criteria 3: Their remuneration is equal to or greater than the lowest total remuneration of senior management and other risk-takers.

Any employee who meets the qualitative criteria and any one of the quantitative criteria will be considered as a Material Risk Taker.

Such list will be reviewed on an Annual basis and will be put up for approval to the NRC.

## 8. COMPONENTS OF REMUNERATION – RISK CONTROL AND COMPLIANCE STAFF (CONTROL FUNCTION)

- i. For the purpose of this clause, Risk Control and Compliance Staff (Control Function Staff) including Internal Audit shall mean and include heads of functions who have a role and responsibility in defining and monitoring the Bank's Policies, Credit & Regulatory processes etc. and such other functions as may be determined by CHRO in consultation with MD & CEO. They may also be member(s) of various committees of the Bank, however, not directly responsible for business.
- ii. The fixed pay structure will be similar to the structure of WTD/CEO/MRT (6.i.a.b,c).

- iii. The total variable pay for Risk control, Internal audit and Compliance staff shall be less than or equal to fixed pay. Further, a substantial portion of the variable pay should be deferred in the form of cash based or share linked instruments.
- iv. All other elements of the compensation policy shall be same as that for WTDs and MRTs.

## **9. COMPONENTS OF REMUNERATION – OTHER KEY MANAGERIAL AND SENIOR MANAGERIAL PERSONNEL**

- i. For the purpose of this policy “KMP” shall mean and include the, MD & CEO, ED & COO, Chief Financial Officer and Company Secretary only. For the purpose of this clause, senior management or SMP shall mean and include all Executive Committee members of the Bank, except for KMPs and Control Function Staff those reporting to the Board/Committees of the Board, including those who are heads of Control, Assurance and Vigilance functions (these includee Regulatory Roles as defined by various circulars and guidelines issued by the Reserve Bank of India (“RBI”),, CS ( Company Secretary) ) viz., Chief Compliance Officer (CCO), Chief Vigilance Officer (CVO), Chief of Internal Audit (CIA), Chief Information Security Officer (CISO), Chief Technology Officer (CTO), Chief Risk Officer (CRO), Chief Financial Officer (CFO), CS ( Company Secretary) ), all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director.
  - i.
  - ii. For any Key Managerial Personnel (KMP) or Senior Managerial Personnel (SMP) not already covered as Whole time Director/Material Risk Taker or Control Function the total variable pay shall form a substantial percentage of fixed pay. Further, a substantial percentage of the total variable pay should be deferred in the form of cash based or share linked instruments.
  - iii. All other elements of the compensation policy shall be same as that for WTDs and MRTs.
  - iv. The NRC will recommend to the Board, all remuneration in whatever form payable to SMPs
  - v. The fixed pay structure will be similar to the structure of WTD/CEO/MRT (6.i.a,b,c).

## **10. COMPONENTS OF REMUNERATION OF ALL OTHER EMPLOYEES**

For categories of staff other than WTD/CEO, Material Risk takers and Control function staff, the RBI’s Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Material Risk takers and Control function staff, etc. dated November 04, 2019 allows Banks to devise appropriate compensation structure and states that, in doing so Banks may adopt principles similar to the principles enunciated for WTD/CEO/MRT/CF staff as appropriate.

### **i. Fixed Pay**

The fixed pay will be benchmarked primarily to the Indian Private Sector Banks. The CHRO along with Head Rewards, will determine the competitive position that the Bank must be placed at, in terms of compensation from time to time, under the guidance of the Nomination & Remuneration Committee (NRC). This should be done bearing in mind the need to attract, retain and motivate good talent and the fact that the Bank largely hires from the major Indian Private Sector Banks.

The annual appraisal and salary review process will be guided by the Policy on Performance Management of the Bank. Accordingly, any annual increments will be linked to Bank's performance, Business/Functional unit and their individual performance, as decided by the Managing Director & Chief Executive Officer (MD & CEO) and the Executive Committee members. While deciding the annual increment, regulatory penalties and show cause notices, will also be considered.

The annual increments as decided by the MD & CEO and the Executive Committee members will be reviewed by the NRC.

## ii. Variable Pay

- a. The Bank will follow a total compensation philosophy comprising of fixed pay and variable pay, as approved by the NRC of the Bank. The variable pay will be in the form of annual cash variable pay, non-cash variable pay and/or sales incentive plans linked to the achievement of performance.
- b. The Annual cash variable pay is determined and based on Bank, Business unit and individual performance and other evaluation criteria and is not an entitlement. **The eligibility and payout process of annual cash variable pay will be governed by the Bank's policy on Performance Management.**
- c. The annual variable pay will also consider the market conditions when determining the total compensation of the individual. However, to ensure no conflict of interest and to enable effective independence and appropriate authority of members of staff engaged in financial and risk control functions, their annual variable pay will be independent of the business areas they oversee. The mix of fixed and variable compensation for control function personnel will be in the favor of a higher fixed compensation component.
- d. Certain roles may adopt a score card/point approach on incentive plan linked to the performance of the employee and/or unit. This may encompass relevant parameters for the role which are in compliance with the regulatory guidelines. To ensure no conflict of interest, effective independence and appropriate authority of staff engaged in financial and risk control functions, none of these staff will be covered under such incentive plans. **The designing of Incentives schemes and payout structures will be governed by the Policy on Guidelines for Incentive Pay plan.**

## iii. Statutory Bonus

The requisite Statutory Bonus will be paid, as mandated by Law, to employees who are covered under this Act.

#### **iv. Employee Stock Options**

ESOPs may be awarded to employees in certain roles to ensure a long-term commitment and prudent decision-making aligning employee's interests with the shareholder's interests. The eligibility and the allotment process will be governed by the Policy on Performance Management and the Employee Stock Option Policy of the Bank.

All ESOPs will be governed basis the Employee Stock Option Scheme in compliance with SEBI guidelines and / or any other applicable regulations. ESOP grants are not an entitlement and are granted based on management discretion and other criteria such as performance of the Bank, Business Unit and the Individual.

#### **v. Other components of remuneration**

Other components of remuneration may include Joining/Sign-on and /or indicative Target bonus for the first financial year of joining. These components can be in the form of ESOPs and/or cash, would become applicable only in the context of hiring new staff and would be limited to the first financial year of employment. All ESOPs will be governed by the IDFC FIRST Bank Employee Stock Option scheme, in compliance with SEBI guidelines and / or any other applicable regulations.

- a. **Joining/Sign-on bonus** (paid at the time of joining) is offered for resettlement of dues with the previous employer and may be committed to a new hire to compensate for a one-time loss in income. This may include the loss of performance bonus for the year completed, ESOP loss and/or buyout of claw backs for the reason other than any punitive action with the previous employer. Joining/Sign-on bonus, if paid in cash, may be subject to a one-year claw back clause.
- b. To attract the right talent, it would be required to give a comparative view of the compensation earned with the previous employer and the earning potential at IDFC FIRST in the first year. To meet this requirement, indicative Target bonus for the first financial year (which depends on the performance delivered and is paid at the end of the current financial year) may be communicated to the new hire in the form of total compensation comprising of the fixed pay offered and the performance bonus applicable for the role and grade. This would be subject to the delivery against a minimum level of performance objectives agreed and continued employment of the new hire as on the date of payment/grant.

### **11. SEVERANCE PAY**

The Company does not grant Severance Pay (other than accrued benefits in the form of Provident Fund, Gratuity, NPS or Superannuation) except in cases where it is mandated by any statute.

### **12. MALUS/CLAW BACK**

As per the RBI guidelines malus provision shall enable prevention of vesting of all or part of deferred component of variable pay including cash and share linked components. Clawback shall enable the

bank to recover previously paid or vested remuneration in cash or share linked compensation. The provisions of this policy will supersede all other policies on Remuneration and Compensation of employees including but not limited to ESOS Scheme – 2015 as amended from time to time.

In the event of deterioration in financial performance in form of Bank fails to achieve its budgeted Profit After Tax (PAT), as defined in the Board approved business plan, by an extent of 50% or more, the NRC shall evaluate and decide if malus and/or clawback needs to be applied on none, part or all of the unvested deferred variable compensation. For the evaluation, the NRC may take into consideration conditions leading to the deterioration in financial performance, including changes in regulations, industry performance and others.

Malus or Clawback shall be triggered for responsible employee (s) under any of the following conditions or any other condition as determined by the NRC:

- Material restatement of financials
- Detrimental conduct including but not limited to illegal activity, breach of fiduciary duty, fraud, deliberate harm to bank reputation
- Significant responsibility for a material adverse outcome for bank as whole or business unit
- Wilful misleading of bank, Board, shareholders or regulators
- Significant deterioration of financial health
- Material failure of risk management
- Shortfall in capital adequacy
- Divergence in Bank's provisioning for NPA or asset classification exceeding the prescribed thresholds for public disclosure. In case the bank's post assessment gross NPAs are less than 2%, this restriction will apply only if criteria for public disclosure are triggered on account of divergence in provisioning or both provisioning and asset classification

Malus or Clawback may also be triggered when the employee demonstrates behaviour involving fraudulent behaviour, lack of integrity, non-disclosure of material conflict of interest by the employee or any misuse of official powers, flagrant breach of company policies or code of conduct and statutory norms resulting in financial or non-financial losses.

Subject to the Bank's ESOS Scheme, NRC at its discretion may specify a retention period after the vesting of stock linked instruments which have been awarded as variable pay, during which they cannot be sold or accessed, from the date of award.

The NRC shall determine the applicability of any of the triggers basis satisfactory reasons and may determine any of the following actions basis the severity:

- Up to 100% of cash or share linked component due for vesting for a particular year to be forfeited
- Up to 100% of entire unvested cash or share linked component to be forfeited.
- Recovery of up to 100% of variable pay through cash or share linked instruments, paid or vested up to previous 3 years.
- When malus or clawback is effected, there can be no proposal for increase in targeted variable pay for the year in which the malus/clawback is effected.
- Cash Variable Pay- the employee shall return previously paid amount, net of taxes, to the Bank.

- ESOPs- As a general rule, clawback would be applicable only to the vested but un-exercised options. However, in exceptional cases, NRC may decide to extend the clawback clause to exercised options as well. In this case, where the vested stock options have already been exercised, the employee shall return fair value of options at the time of grant, using Black Scholes model.
- Clawback will be applicable to employees even after their separation from the bank.

### 13. EX-POST ADJUSTMENTS TO REMUNERATION

At the time of deferment of variable pay (deferral of cash bonus or vesting of share linked instruments), the visibility is limited to historical performance. Adjustments can be made to the actual amount / shares vesting basis the performance and risk outcomes in future over the vesting or deferral period. The nature and quantum of adjustment shall be decided by the NRC. Ex-post adjustment can also be in the form of Malus.

### 14. RISK ADJUSTED PERFORMANCE EVALUATION

#### (i) Risk Identification & Accountability:

The Bank promotes a strong risk culture throughout the organization. A strong risk culture is designed to help reinforce the Bank's resilience, by encouraging a holistic approach to management of risk & return and an effective management of risk, capital and reputational profile. The business of the Bank is subject to various risks. The following principles underpin the risk culture at IDFC FIRST Bank:

- Risk taken is approved within the risk management framework
- Risk taken is within a defined risk appetite
- Risk taken is adequately compensated
- Risk is continuously measured, monitored and managed

The following aspects support the risk culture of the Bank-

**Tone at the top:** Tone at the top refers to communication of risk appetite statements, risk limits, risk strategy etc and leveraging on the same to identify and prioritise appropriate risk behaviour that is required for building the desired risk culture.

**Accountability:** Accountability refers to clear and transparent communication of roles and responsibilities to committees and staff members across the three lines of defence (LOD) essential for effective risk governance, viz. front office functions, risk management & oversight function and assurance roles are played by functions independent of one another with clearly defined responsibilities.

Risk Appetite Statement Framework has been designed for the Bank - which provides strategic guidance around various parameters.

Quantified portfolio level risk metrics are stipulated for each business segment which includes parameters like on-Boarding criteria like internal rating threshold, restrictions pertaining to specific

industries / transactions, risk-based caps related to rating concentration, product concentration, group exposure etc. These Metrics are put together by Risk and finalised through a participative approach with input obtained from business units. These threshold limits are monitored on a periodical basis and discussed with all relevant stake holders and reported to relevant committees including Risk Management Committee of the Board.

**(ii) Materiality of Risk & Recognition of Material Risk:**

The Bank has adopted a bottom up approach for risk identification. Risk and Control Matrices that have been developed for all critical processes help identify the inherent risk in processes. For identification of material risks at the Bank level, a discussion and approval approach has been adopted. The risk management department undertakes identification and evaluation of the Business strategy/ plan and performance to identify the potential vulnerabilities for the Bank. Material risks are identified in the context of the short term and long-term strategy of the Bank.

The material risks identified are applicable not only today but for the future as well. The Bank evaluates material risk on its portfolio at least on an annual basis and establishes appropriate risk management processes for the same.

Material Risk taker is evaluated basis the Role and decision-making power of employee, either jointly or individually, the authority to commit significantly to the following risk categories:

- Governance and Regulatory Risk
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Pillar II risks are assessed by the Bank's internally designed methodology to measure the risk

Pillar II Risk include but not limited to Reputation Risk, Strategic Risk, Information Technology, Information and Cyber Security Risk, Compliance Risk, Model Risk, Outsourcing Risk, People Risk, Conduct Risk, Business Continuity Management Risk etc

Recognition of risk characteristics of the bank and each of its business lines/units/functions

Bank has implemented a robust ICAAP assessment process which identifies each of the risk which Bank is exposed to including (Pillar 1 & Pillar 2 risks) using an in depth bottom up evaluation process. As part of the assessment the Bank evaluates the amount of capital required to manage each type of the risk even under a stress condition. Bank has also put in place an elaborate top down Risk appetite statement approved by the Board which defines the risk tolerance in the form of risk limits for all types of quantifiable risk / business lines / units / functions of the Bank. Both above complimentary frameworks are supported by Risk Policies and Risk Committees which governs the individual arena of identified risk.

Board approved Risk appetite statement is further delegated to individual business units using more granular risk management frameworks like Limit Management Framework, L1 triggers etc which helps Bank to define and communicate the risk bands within which various categories of employees are

expected to operate. Business performance against each of the risk matrices are monitored closely on an agreed frequency

Assessment of the above Material Risk taken is recognized while evaluating the performance on a collective basis at Bank level even if employees may not pose a risk on an individual basis.

**(iii) Risk Measurement, Monitoring and management:**

The Board approved Risk appetite statement provides the boundaries in which Bank is expected to operate. These thresholds are further delegated to various business units / stake holders through more granular/ multi-layer risk limits. Performance against the thresholds are measured and monitored on an ongoing basis and discussed amongst relevant stake holder / sub committees and course corrective measures are taken, if required. Ensuring compliance to the above risk governance & parameters are considered holistically while evaluating the performance assessment of the relevant officials / teams / business units.

Further, other Pillar 2 risk which are generally difficult to measure quantitatively are evaluated thorough qualitative assessments suitably using judgments or discretions and embedded in the performance evaluation.

The Chief Risk Officer is responsible for execution of the Risk Governance Framework at IDFC FIRST Bank. Risk Management has the appropriate representation on management committees of the Bank and its respective businesses, and other governance forums as appropriate. At these forums, Risk Management's approval is required for decisions impacting the Bank's risk profile. Risk management department performs risk management, monitoring, reporting and escalations to senior management and committees.

Risk Management department, is headed by CRO, is responsible for setting up a detailed objective Risk Appetite statement for all type business risks. Risk appetite statements are reviewed and approved by the Board. Further, Risk management also prescribes more granular risk limits to ensure the broader risk appetite framework is percolated to a more granular level of business activities. Risk management department measure the risk and monitor the same against the approved limits on an agreed frequency depending on the criticality of the risk. Adherence to these matrices forms part of the performance evaluation matrix, which are considered and adjusted (Ex post & Ex ante) for compensation lined to performance.

#### **14. HEDGING OF COMPENSATION STRUCTURE**

Employees are prohibited to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement. Illustration: An employee receiving part of the



compensation in the form of stock options of the bank indulging in buying of put options of the bank or any similar instrument will be considered as hedging, which is prohibited.

#### **15. OTHER BENEFITS, REIMBURSEMENT, GUIDELINES**

In addition to the Fixed pay & Variable pay comprising of cash and non-cash component, employees will also be given guidelines to conduct themselves in the work place, benefits, enablers, expense reimbursements to help them in performance of their role. This will be reviewed from time to time.

#### **16. DISCLOSURES**

The disclosures as required under the relevant provisions of the Companies Act, 2013, the rules made thereunder and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and RBI Circulars/Guidelines/Notifications/Directions, issued from time to time, shall be made in Annual Financial Statement with regard to the remuneration details of the CEO, Directors, Non-executive / Independent Directors, KMPs and MRTs

#### **17. REGULATORY AND SUPERVISORY APPROVAL/OVERSIGHT**

- The bank shall obtain regulatory approval for grant of remuneration to WTDs/CEOs in terms of section 35B of Banking Act.
- Bank will not employ any person whose remuneration is, in the opinion of Reserve Bank of India, excessive
- Bank's compensation policies will be available for review under supervisory oversight

#### **18. POLICY REVIEW**

This Policy would be reviewed on an annual basis.

This Policy may be amended, modified or supplemented, from time to time, to ensure relevance to organization priorities, industry practices, market conditions and compliance with any amendment, modification or supplementation to the Companies Act, 2013 and rules thereunder, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Securities and Exchange Board of India Act, 1992 and rules / regulations / guidelines thereunder, RBI regulations / guidelines or any other law relating to employee / directors' compensation issued from time to time. Any such amendment shall be proposed by the Managing Director & CEO of the Bank, which shall be confirmed at the next NRC meeting of the Bank held after such amendment.

The NRC may issue / implement such guidelines, procedures, formats and / or reporting mechanisms to enforce this Policy as it may deem fit.

## Appendix 1

### Details of Remuneration/Compensation of the Whole Time Director/ Chief Executive Officer

Particulars	Existing (Rs.)	Proposed (Rs.)	Reasons for change
(1)	(2)	(3)	(4)
<b>PART-A:</b>  <b>Fixed Pay (including perquisites):</b>  <b>w.e.f.....up to .....</b> 1. Salary 2. Dearness allowance 3. Retiral/Superannuation benefits: (a) Provident Fund (b) Gratuity (c) Pension (d) ..... 4. Leave Fare Concession/ Allowance 5. Other fixed allowances, if any (please specify)* *Consolidated allowance, if any, to be given with details of heads it subsumes. 6. Perquisites: (i) Free Furnished House and its maintenance/House Rent Allowance (ii) Conveyance Allowance/Free use of bank's car for a) Official purposes b) Private purposes (iii) Driver(s)' salary (iv) Club Membership(s) (v) Reimbursement of medical expenses			
<b>Total Fixed pay (including perquisites)</b>			
<b>Note:</b> (a) If any of the benefits is of a non-monetary nature, e.g. free furnished house, its monetary equivalent as best as it is possible to determine, should invariably be given. In case the person to be appointed is already associated with the applicant bank, particulars of his existing compensation, etc. should be furnished. (b) The reasons for any proposed changes in the remuneration should be suitably indicated under column (4). (c) In case the bank proposes to give any sign-on/joining bonus (limited to the first year), which should be in the form of share-linked instruments, its details (such as number of shares, grant date and price, monetary value, vesting schedule) should be furnished separately. (d) Banks should exclude only such perquisites from fixed pay, which are reimbursables without any monetary ceilings, e.g. hospitalization expenses, etc. Details of such perquisites should be annexed separately and need not be added while computing total fixed pay. Such exclusions are provided solely for such benefits/perquisites which are not quantifiable in advance. These exclusions would be subject to supervisory review.			

Particulars	Existing (Rs.)	Proposed (Rs.)	Reasons for change
(1)	(2)	(3)	(4)
<b>PART-B:</b>			
<b>Variable Pay:</b>			
<b>For FY/Performance Period .....</b>			
<b>1. Cash component</b>			
<ul style="list-style-type: none"> <li>• Upfront payment (with %)</li> <li>• Deferred payment (with %)</li> </ul>			
<b>Total cash component</b>			
<b>Vesting period (in years)</b>			
<b>Deferral arrangement</b>			
(i) First Year			
(ii) Second Year			
(iii) Third Year			
(iv) .....			
<b>2. Non-cash Components (Share-linked instruments):</b>			
<b>(i) ESOP/ESOS</b>			
(a) Number of share/ share-linked instruments			
(b) Monetary value			
(c) Deferral (with %)			
(d) Vesting schedule details			
<b>(ii) .....(Any other share-linked instruments)</b>			
(a) Number of share/ share-linked instruments			
(b) Monetary value			
(c) Deferral (with %)			
(d) Vesting schedule details			
<b>(iii) Any other non-cash component</b> (please specify) and mention its monetary value, deferral, vesting schedule, etc.			
<b>Total monetary value of non-cash component(s)</b>			
<b>Total monetary value of Variable Pay (Cash and non-cash components)</b>			
<b>% of Cash Component in Total Variable Pay</b>			
<b>% of Non-cash component in Total Variable Pay</b>			
<b>% of Variable Pay to Fixed Pay and % of Variable Pay in Total Compensation</b> (for the same FY/Performance Period)			
<b>Total Compensation (Fixed Pay + Variable Pay)</b>			
<p><b>Note:</b> (a) Both parts- A and B have to be filled and submitted at the time of appointment/re-appointment or seeking approval for the remuneration/revision of remuneration. The target variable pay, along with various sub- components, deferral and vesting period, etc., should be submitted in PART-B.</p> <p>(b) Whenever the bank approaches RBI for approval of variable pay for a particular performance measurement period, after the end of the period, only part-B has to be suitably filled and submitted.</p>			

Annexure 2

<b>Disclosure requirements for remuneration/compensation</b>		
<b>Qualitative disclosures</b>	(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.
<b>Quantitative disclosures</b>	(g)	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.
	(h)	Number of employees having received a variable remuneration award during the financial year. Number and total amount of sign-on/joining bonus made during the financial year. Details of severance pay, in addition to accrued benefits, if any.
(The quantitative disclosures should only cover Whole Time Directors/ Chief Executive Officer/ Material Risk Takers)	(i)	<ul style="list-style-type: none"> <li>Total amount of outstanding deferred remuneration, split into cash, types of share-linked instruments and other forms.</li> <li>Total amount of deferred remuneration paid out in the financial year.</li> </ul>
	(j)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	<ul style="list-style-type: none"> <li>Total amount of outstanding deferred remuneration and retained remuneration exposed to <i>ex post</i> explicit and/or implicit adjustments.</li> <li>Total amount of reductions during the financial year due to <i>ex- post</i> explicit adjustments.</li> <li>Total amount of reductions during the financial year due to <i>ex- post</i> implicit adjustments.</li> </ul>
	(l)	Number of MRTs identified.
	(m)	<ul style="list-style-type: none"> <li>Number of cases where malus has been exercised.</li> <li>Number of cases where clawback has been exercised.</li> <li>Number of cases where both malus and clawback have been exercised.</li> </ul>
General Quantitative Disclosure	(n)	The mean pay for the bank as a whole (excluding sub-staff) and the deviation of the pay of each of its WTDs from the mean pay.