



IDFC FIRST Bank Limited

Remuneration Policy

(For the Whole Time/Executive Directors, Non-Executive / Independent Directors, Key Managerial Personnel and Senior Management Personnel)

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A. Objectives of Remuneration Policy

The primary objective of this Remuneration Policy is to provide a framework for the remuneration of the following categories of people in IDFC FIRST Bank:

1. Whole Time/Executive Directors (WTD/ ED)
2. Non-executive / Independent Directors
3. Key Managerial Personnel (hereafter referred to as “KMP”) and Senior Management Personnel (hereafter referred to as “SMP”)

B. Principles for Remuneration

The principles for remuneration at IDFC FIRST Bank are 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 RBI’s Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Risk takers and Control function staff, etc. dated January 13, 2012.

The principles are as follows:

- To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate talent
- To ensure that the remuneration is balanced between fixed pay, variable pay and ESOPs, 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 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

C. Components of Remuneration

1. Whole Time / Executive Directors

All components of remuneration for Whole Time Directors and Executive Directors should remain within the overall limit as per Section 197 of the Companies Act, 2013 and rules framed thereunder and within the limits as may be approved by the RBI, subject to the approval of the shareholders of the Bank.

(i) Fixed Pay

The fixed pay will be benchmarked primarily to the Indian Private Sector Banks. Any annual increments will be linked to the overall performance and other factors as may be decided by the NRC, subject to the approval of the Reserve Bank of India. The Nomination and Remuneration Committee (NRC) will also consider and take into account regulatory penalties and Show Cause Notices.

(ii) Variable Pay

The Bank will follow a total compensation philosophy comprising of fixed pay and variable pay, as approved by the NRC. The variable pay will be in the form of annual performance bonus.

Any annual performance bonus will be determined based on Bank, Business unit and individual performance and other evaluation criteria and is not an entitlement. The Annual Performance bonus will also consider Indian Private Sector Bank benchmarks when determining the total compensation of the individual. As per RBI's guidelines on compensation for Private Sector Banks, the annual performance bonus will be limited to 70% of the fixed pay. In cases where the annual performance bonus is above 50% of the fixed pay, 40% of the amount will be deferred over a period of three years. Payables under the deferral arrangement will vest no faster than on a pro rata basis and may be subject to continuity of employment with the organization and overall performance of the Bank and the Individual.

(iii) Retiral benefits, allowances, perquisites and other benefits

Retiral benefits include Provident fund, Gratuity, NPS and Superannuation will be payable as per the rules of the Company. Allowances, perquisites and other benefits will be applicable as per the Company policy.

(iv) Employee Stock Options

The Whole Time / Executive Directors will be eligible for Employee stock options ("ESOPs") as per the ESOP scheme of the Bank and as approved by the Nomination and Remuneration Committee of the Bank. All ESOPs would be governed by the Employee Stock Option Scheme of the Bank, and would be 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 applicable to Whole Time Directors / Executive Directors may include Joining/Sign-on and /or indicative Target bonus. These components would be in the form of ESOPs only, would become applicable only in the context of hiring new staff and would be limited to the first financial year of the 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.

- 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 clawbacks with the previous employer.
- 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 in the first year. To meet this requirement, indicative Target bonus 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.

(vi) D&O Policy

The Whole Time / Executive Directors will be covered under the Directors and Officers Liability Insurance (“D&O”) Policy.

(vii) 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.

(viii) Malus/Clawback

As per the RBI guidelines, in the event of negative contributions of the bank and/or the relevant line of business in any year, the variable pay or it’s deferred component for WTD / ED may be subject to malus/clawback arrangements. This will be determined basis approval by the NRC.

2. Non-Executive/ Independent Directors

The key elements of remuneration of Non-executive / Independent Directors are as follows:

(i) Commission to Non-executive / Independent Directors (other than the Part - time Chairperson)

- In accordance with the provisions of Section 197 of the Companies Act, 2013, the Non-executive / Independent Directors may be paid remuneration by way of commission, either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other, not exceeding 1% of the net profits of the Bank computed in the manner referred to in Section 198 of the Companies Act, 2013.
- As per the RBI's "Guidelines on Compensation of Non-Executive Directors of Private Sector Banks" dated June 1, 2015, payment of compensation in the form of profit related commission to the Non-executive / Independent Directors (other than the Part - time Chairperson), shall be subject to the Bank making profits. Such compensation, however, shall not exceed Rs.10 Lakhs per annum for each such director.
- In accordance with the above guidelines, since the Non-executive / Independent Directors collectively endeavour to ensure that the Bank performs well and is compliant with applicable laws, rules, regulations and guidelines, profit related commission can be paid to the Non-executive / Independent Directors (other than the Part - time Chairperson), subject to the approval of the shareholders, which shall in any case, be lower of the following:
 - 1% of the Net Profits of the Bank as computed in the manner laid down in Section 198 of the Companies Act, 2013 or
 - Maximum of Rs.10 Lakhs per annum to each of such Directors as per RBI's "Guidelines on Compensation of Non-Executive Directors of Private Sector Banks" dated June 1, 2015.

(ii) Remuneration to Non-Executive Part-time Chairperson

The non-executive part time chairperson would be given a fixed remuneration along with admissible perquisites as per board's recommendation with the approval of the RBI in compliance with the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and RBI Circulars / Guidelines / Notifications / Directions issues from time to time.

(iii) Sitting Fees and Other Expenses

In addition to the above, Non-executive / Independent Directors (including Non-Executive Part-time Chairperson) will be paid sitting fees, travelling expenses including airfare, hotel stay and car on rental basis for attending the meetings and such other expenses as are incurred and allowed to be reimbursed as per the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and RBI Circulars / Guidelines / Notifications / Directions issued from time to time.

(iv) D&O Policy

The Non-executive / Independent Directors will be covered under the Directors and Officers Liability Insurance (“D&O”) Policy.

3. KMPs and SMPs

For the purpose of this policy “KMP” shall mean and include the, Company Secretary and the Chief Financial Officer only. “SMP” shall mean and include all Executive Committee members of the Bank, except for KMPs.

For categories of staff other than WTD/CEO, the RBI’s Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Risk takers and Control function staff, etc. dated January 13, 2012 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 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 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.

Any annual increments for the KMPs and SMPs will be linked to the Bank’s performance and their individual performance, as decided by the Managing Director & Chief Executive Officer (MD & CEO).

The MD & CEO will also consider any regulatory penalties and show cause Notices.

The annual increments as decided by the MD & CEO will be reviewed by the NRC.

(ii) Variable Pay

The Bank will follow a total compensation philosophy comprising of fixed pay and variable pay, as approved by the NRC. The variable pay will be in the form of annual performance bonus.

Any annual performance bonus will be determined based on Bank, business unit and individual performance and other evaluation criteria and is not an entitlement. Annual Performance bonus will also consider Indian Private Sector Bank benchmarks 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 performance bonus will be independent of the business areas they oversee. The mix of fixed and variable compensation for control function personnel will be in the favour of a higher fixed compensation component.

(iii) Retiral benefits, allowances, perquisites and other benefits

Retiral benefits include Provident fund, Gratuity, NPS and Superannuation payable as per the rules of the Company. Allowances, perquisites and other benefits will be applicable as per the Company policy.

(iv) Employee Stock Options

The KMPs & SMPs will be eligible for ESOPs as per the ESOP Scheme of the Bank and as approved by the NRC of the Bank.

All ESOPs will be governed by 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 applicable to KMPs/SMPs 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 the 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.

- 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 clawbacks with the previous employer. Joining/Sign-on bonus, if paid in cash, may be subject to a one year clawback clause.
- 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 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 a 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.

(vi) D&O Policy

The KMPs & SMPs will be covered under the Directors and Officers Liability Insurance (“D&O”) Policy.

(vii) 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.

(viii) Malus/Clawback

As per the RBI guidelines, in the event of negative contributions of the bank and/or the relevant line of business in any year, the deferred compensation (if any) would be subject to clawback arrangement.

D. Disclosures in the Board’s Report

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 with regard to the remuneration details of the Directors, Non-executive / Independent Directors, KMPs and SMPs.

E. 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.