



IDFC FIRST Bank Limited

Remuneration Policy

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

Version : **1.5**

Approval Date : **May 22, 2020**

Status:

Revision History			
Version	Addendum Date	Revised by	Revision Description
1.0	26-04-2016	HR	Adoption of Policy
1.1	25-10-2017	HR	Review of policy
1.2	24-10-2018	HR	Review of policy
1.3	08-01-2019	HR	Review of policy
1.3	10-05-2019	HR	Review of policy
1.5	22-05-2020	HR	Review of policy

REMUNERATION POLICY

Contents

A. Objectives of Remuneration Policy.....	4
B. Principles for Remuneration	4
C. Governance Framework	4
D. Components of Remuneration	5
(i) Fixed Pay.....	5
(ii) Variable Pay.....	5
(iii) Share Linked Component of Variable Pay.....	6
(iv) Other Components of Remuneration	6
(v) Severance Pay	7
(vi) Malus/Clawback	7
(vii) Ex-Post Adjustments to Remuneration	8
(viii) Hedging	8
E. Components of Remuneration – Risk Control and Compliance Staff (Control Function)	8
F. Components of Remuneration – Other Key Managerial and Senior Managerial Personnel.....	8
G. Identification of Material Risk Takers for the Bank	9
H. Disclosures	9
I. Regulatory and Supervisory Approval / Oversight	9
J. Policy Review	9

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 Directors/ Chief Executive Officers/ Material Risk Takers
2. Key Managerial Personnel
3. Senior Management Personnel
4. Control Function Staff

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 regulatory guidelines.

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 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

C. Governance Framework

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. 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) will be recommended by Nomination and Remuneration Committee to the Board of Directors of the Bank for their necessary approval.

Any annual increments 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 MRTs, Control functions and other employees will be determined by CHRO in consultation with MD & CEO of the Bank within the overall framework of this policy.

D. 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. 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 'C' -Governance Framework of this policy.

Retiral benefits, allowances, perquisites and other benefits

For the purpose of this policy, all the fixed items of compensation, including the perquisites, will be treated as part of fixed pay. This includes all perquisites that are reimbursable up to a certain monetary ceiling, Contributions towards superannuation and retiral 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.

(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 include both cash-based variable pay as well as share linked instruments.

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.

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

Exceptions:

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

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 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 be treated as fully vested. 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.

(iii) Share Linked Component of Variable Pay

The share linked component of variable pay shall be delivered through the ESOP scheme(s) of the Bank and as approved and amended by the Nomination and Remuneration Committee of the Bank from time to time. The ESOP Scheme shall be in compliance with SEBI (Share Based Employee Benefits) Regulations, 2014 and / or any other applicable regulations. 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. In case of separation from the Company for any reason the guidelines of the ESOP scheme of the bank will be applicable.

(iv) Other Components of Remuneration

- Joining/Sign-on bonus (paid at the time of joining) if paid, shall be limited to one-time payment only the first year after hiring. This payment shall be in the form of share linked instrument only
- 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.

(v) 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.

(vi) Malus/Clawback

As per the RBI guidelines, in the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year, the variable pay or its deferred component shall be subject to malus/clawback arrangements.

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. 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

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.

(vii) 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.

(viii) Hedging

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. Employees will be required to submit a self-declaration confirming the absence of any hedging activity on an annual basis.

E. Components of Remuneration – Risk Control and Compliance Staff (Control Function)

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.

The total target 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.

All other elements of the compensation policy shall be same as that for WTDs and MRTs.

F. Components of Remuneration – Other Key Managerial and Senior Managerial Personnel

For the purpose of this policy "KMP" shall mean and include the, Company Secretary and the Chief Financial Officer only. For the purpose of this clause, senior management shall mean and include all Executive Committee members of the Bank, except for KMPs.

For any Key Managerial Personnel (KMP) or Senior Managerial Personnel (SMP) not already covered as Wholetime Director/Material Risk Taker or Control Function, the total target variable pay shall form a substantial percentage of fixed pay. Further, a substantial percentage of the total target variable pay will be in form of non-cash elements. All other elements of the compensation policy shall be same as that for WTDs and MRTs.

G. Identification of Material Risk Takers for the Bank

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.

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

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

- Quantitative Criteria 1: Their total remuneration exceeds INR 2 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.

H. 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 Directors, Non-executive / Independent Directors, KMPs and MRTs

I. 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

J. 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.