Remuneration Policy

History of Revisions

Version	Summary of Revisions	Date of Approval
5.0	Modification proposed by Business	28-Jan-21
4.0	Regulatory Changes	29-Jan-20

3.0	Annual Review	21-Jun-19
2.0	Annual Review	26-Jul-18
1.0	Policy Formulation	31-Jan-17

Table of Contents

1. Preamble

1.1 Objective of the Policy

The objective of this Policy is to provide a framework, which shall enable the Equitas Small Finance Bank to provide a sound compensation practice that ensures effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement

1.2 Scope of the Policy

This policy covers Remuneration payable for Directors and employees of ESFB and all aspects of the compensation structure such as fixed pay, perquisites, performance bonus, guaranteed pay, severance package, share linked instruments, pension plan and gratuity

2. Regulatory Framework - Applicable Regulations

2.1 RBI Circular on Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff dated 04.11.2019

2.1.1. The Bank should abide by the Financial Stability Board (FSB) Principles for Sound Compensation Practices. Banks are required to take steps immediately to implement the Guidelines delineated below by putting in place necessary policies/systems:

a. Effective governance of compensation

i. Compensation Policy

ii. Nomination and Remuneration Committee (NRC)

b. Effective alignment of compensation with prudent risk taking

For Whole Time Directors / Chief Executive Officers / Material Risk Takers (MRTs):

i. Fixed Pay and Perquisites

ii. Variable Pay – Composition of Variable pay, Limit on Variable Pay, Deferral of Variable Pay, Period of Deferral Arrangement, Period of Deferral Arrangement, Vesting Share-linked Instruments

iii. Malus / Claw back

iv. Guaranteed Bonus

v. Hedging

For risk control and compliance staff:

i. Compensation should be independent of the business areas they oversee and commensurate with their key role in the bank

ii. Effective independence and appropriate authority of staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation.

iii. The mix of fixed and variable compensation for control function personnel should be weighted in favor of fixed compensation

For other categories of staff:

i. Banks are encouraged to adopt similar principles, with suitable modifications, as appropriate for them as well.(Guidelines as per the Annex of circular)

c. Effective supervisory oversight and engagement by stakeholders

Identification of Material Risk Takers of the bank

Banks should identify their Material Risk Takers (MRTs) whose actions have a material impact on the risk exposure of the bank - Standard Qualitative criteria or Standard Quantitative Criteria

2.1.2 SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [SEBI LODR Regulations]

As per Regulation 19(4) of SEBI LODR Regulations, the Nomination and Remuneration Committee of the Board shall recommend to the Board, all remuneration, in whatever form payable to senior management

3. ESFB Policy framework

3.1 Nomination& Remuneration Committee (NRC)

The Nomination &Remuneration Committee ("Committee") of the Board is responsible for formulating and making the necessary amendments to the Remuneration Policy for the Directors, Key Managerial Persons (KMP) and Senior Executives of the Bank from time to time. The NRC may consider different aspects like risk-return alignment, cost to income ratio in framing the remuneration.

3.2 Remuneration for Non-Executive Directors

The Non-Executive Directors (NED) including Independent Directors of the Bank shall be paid remuneration as a percentage of the net profits of the Bank for the financial year as may be fixed by the Board from time to time, calculated as per the provisions of the Companies Act, 2013 and subject to the limits fixed by the Reserve Bank of India, from time to time.

Further, within the above ceiling, the remuneration payable to the Chairman of the Board shall be two times the amount payable to other Non-Executive Directors and Independent Directors and further subject to approval of RBI and the remuneration payable to the Chairman of Audit Committee shall be 1.5 times the amount payable to other Non-Executive Directors and Independent Directors.

NEDs are to be paid such Sitting Fee for each meeting of the Board/ Committees of the Board attended by them, as may be approved by the Board pursuant to provisions of Section 197 of the Companies Act, 2013.

NEDs including Independent Directors shall be reimbursed any out of pocket expenses incurred by them for the purpose of the Bank.

3.3 Remuneration to Whole Time Directors (WTD)/Managing Director (MD)/ Chief Executive Officer (CEO)/ Material Risk Takers (MRT)

The remuneration payable to Whole Time Directors (WTDs) / Chief Executive Officers (CEOs) / Material Risk Takers (MRTs) shall be based on the following:

a. compensation is adjusted for all types of risks,

b. compensation outcomes are symmetric with risk outcomes,

c. compensation pay outs are sensitive to the time horizon of the risks, and

d. mix of cash, equity and other forms of compensation are consistent with risk alignment.

Bank shall ensure a wide variety of measures of credit, market; liquidity and various other risks are used in implementation of risk adjustment. The risk adjustment methods shall have both quantitative and judgmental elements. The compensation shall be in compliance with all statutory requirements. From time to time, the NRC may fix a maximum ceiling on the fixed/variable component of compensation; subject the approval of Reserve Bank of India.

The MD/CEO would also be eligible for Employee Stock Options of the Bank as would be determined from time to time by the NRC of the Bank.

The compensation structure for the WTDs / CEO/MRT's may be as under:

i. Fixed pay

The Bank shall ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including the industry practice.

ii. Variable pay composition and deferral

1. While designing the compensation arrangements, a proper balance between fixed pay and variable pay shall be ensured.

2. Variable pay shall constitute at least 50% of the compensation and paid on the basis of individual, business unit and firm wide measures that adequately measure performance.

3. The total variable pay shall be limited to a maximum of 300% of the fixed pay for the relative

performance measurement period

4. In case variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay; and in case variable pay is above 200%, a minimum of 67% of the variable pay shall be via non-cash instruments.

5. The variable pay could be in cash, or stock linked instruments or mix of both.

6. The deterioration in the financial performance of the bank shall lead to a contraction in the actual amount of variable remuneration paid, which can be even reduced to zero.

7. For above such executives of the bank, a minimum of 60% of the total variable pay shall be under deferral arrangements. Further, if cash component is part of variable pay, at least 50% of the cash bonus shall also be deferred. However in cases where cash component of variable pay is under Rs.25 Lakhs, deferral arrangements shall not be undertaken.

iii. Deferral Arrangement

The deferral arrangement would be for a minimum of three years and shall be applicable to both cash and non-cash components of the variable pay.

iv. Vesting

Deferred remuneration shall either vest fully at the end of the deferral period or be spread out over the course of the deferral period. The first such vesting shall be not before one year from the commencement of the deferral period. The vesting shall be no faster than on a pro rata basis. Additionally, vesting shall not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of ex post adjustments. The vesting schedules and criteria of options shall be as per the prevalent ESOP scheme.

v. Share- linked Instruments

Such instruments shall be included as a component of variable pay. Norms for grant of share-linked instruments shall be framed by banks in conformity with relevant statutory provisions and shall form part of the bank's compensation policy. The details of share-linked instruments granted shall also be disclosed in terms of the disclosure requirements stipulated in RBI Guidelines. Share-linked instruments shall be fair valued on the date of grant by the bank using Black-Scholes model.

vi.Malus / Clawback

1. In the event of negative financial performance of the bank and/or the relevant line of business in any year, the deferred compensation for the relevant performance period shall be subjected to malus / clawback arrangements.

2. A malus arrangement shall permit the bank to prevent vesting of all or part of the amount of a Deferred remuneration, however it shall not reverse vesting after it has already occurred.

3. A clawback, shall be a contractual agreement between the employee and the bank in which the employee agrees to return previously paid or vested remuneration to the bank under certain circumstances.

4. The Bank shall put in place appropriate modalities to implement the Malus / clawback clauses pertaining to individual employees taking into account relevant statutory and regulatory stipulations as applicable.

5. Wherever the assessed divergence in 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. In such situations, the variable pay shall not be increased.

6. In case the bank's post assessment Gross NPAs are less than 2.0%, these restrictions shall apply only if criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.

vii. Guaranteed bonus

Guaranteed bonuses, if any, i.e., joining / sign on bonus shall be in the form of ESOPs only and shall occur only in the context of hiring new staff and be limited to first year.

viii. Hedging

Employees shall not be permitted to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement

3.4 For risk control and compliance staff

a. Members of staff engaged in financial and risk control including internal audit shall be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the bank.

b. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation.

c. The mix of fixed and variable compensation for control function personnel shall be weighted in favor of fixed compensation

d. The requirement of minimum 50% of total compensation to be paid in the form of variable pay shall not be applicable for this category of staff. However, a reasonable proportion of compensation shall be in the form of variable pay, so that exercising the options of malus and / or claw back, when warranted, is not rendered infructuous. Subject to the above, while devising compensation structure for such staff, banks shall adopt principles similar to principles enunciated for WTDs / CEOs, as appropriate.

3.5 Identification of Material Risk Takers of the Bank

Material Risk Takers (MRTs) are identified as those whose actions have a material impact on the risk exposure of the bank, and who satisfy the qualitative and any one of the quantitative criteria given below :

Standard Qualitative criteria

Relate 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.

Standard Quantitative Criteria

a. Their total remuneration exceeds a certain threshold; the determination of which may be done prudently by the bank, or

b. They are included among the 0.3% of staff with the highest remuneration in the bank, or

c. Their remuneration is equal to or greater than the lowest total remuneration of senior management and other risk-takers.

Material Risk Takers

1. Managing Director
2. Retail Assets Head
3. Retail Liabilities Head
4. Head Treasury
5. Head – MSE& Corporate Banking
6. Head – Mortgages & Vehicle Finance

MD can approve any subsequent inclusion/exclusion of MRT's.

3.6 Guidelines on Disclosure and engagement by stakeholders

The Bank shall make disclosure on remuneration on an annual basis at the minimum, in their Annual Financial Statements as per the format prescribed by RBI.

3.7 Severance Arrangements

Contracts of employment with Managing Director and all other employees, shall provide for compensation of minimum of 3 months' pay or advance notice of similar period.

4. Provisions in policy over and above but in consonance with RBI guide lines - None

.

5. Changes to the Policy

Not Applicable

6. Equal Compensation Opportunity

Equitas Small Finance Bank is an equal opportunities employer and does not discriminate on grounds of age, gender, religion, colour, race, ethnicity, caste, creed, economic/social status or disability.

7. Periodicity of Review of the Policy

The Nomination & Remuneration Committee ("Committee") of the Board shall review this policy at annual intervals and at such intervals as may be required on the regulatory and business exigencies.

Author of the Policy	**Human Resources**
Reviewer of the Policy	**Compliance**
Name of Committee which recommended to the Policy Formulation Committee of the Board	**Executive Policy Formulation Committee**
Date of Board Approval	**28.01.2021**
Date of Next Review	**28.01.2022**