ESFB Remuneration & Benefits Policy

Classification: Internal / Trusted Parties

Version	Summary of Revisions	Date of Approval
1.0	Remuneration, Compensation & Benefits Policy formulation – Combined version	28 Mar 2024

Remuneration & Benefits Policy

Section 1: Introduction

1.1 Preamble
Equitas Small Finance Bank (ESFB) believes in compensation policies and practices that ensures:

1.1.1 Effective governance of compensation
1.1.2 Alignment of compensation with prudent risk taking
1.1.3 Effective supervisory oversight and stakeholder engagement
1.1.4 Compliance with Govt. of India / RBI / SEBI Circulars / Guidelines and other regulatory procedures that may be applicable from time to time.

1.2 Purpose

The Remuneration & Benefits (R&B) Policy document is designed for the purpose of defining the overall compensation philosophy, compensation and benefits structure and related practices that are followed at the Bank. This R&B policy is based on the principle that a fair and competitive remuneration needs to be paid for acceptable levels of performance by staff. It is designed to balance short and long-term interests of the employees and the organization.

1.3 Scope and Coverage

This policy is applicable to all employees of Equitas Small Finance Bank. This document covers broad directions related to compensation structure such as fixed pay, variable pay, retirement benefits, perquisites and share linked instruments. It also provides guidance on the Bank's:

1.3.1 Compensation Philosophy
1.3.2 Compensation Pay Reviews
1.3.3 Compensation of Non-Executive Directors, Whole Time Directors / CEOs / Material Risk Takers and Control Function Staff

1.4 Overarching Guidelines

The compensation policy has been laid out with the following considerations:

1.4.1 All practices of Equitas Small Finance Bank shall comply with applicable labour laws
1.4.2 The pay structure and amounts shall conform to applicable tax laws
1.4.3 The pay structure shall typically be standardized for employees belonging to the same grade, function and role
1.4.4 The policy is designed to promote equity and merit in the organization. Other things being equal, high performers in a given role are expected to earn more than his/her peer group.

1.5 Compensation Philosophy

The Bank's mission is to create the most valuable bank for all stakeholders through happy employees.

Our ability to attract, retain, reward and motivate talented individuals is critical for achieving our strategic goals and long-term success.

Our overarching compensation philosophy that determines the various pay practices and compensation structure is encapsulated in the following points

a) To provide market competitive pay to attract and retain talent
b) To promote meritocracy in the organization by recognizing and rewarding performance
c) To be fair and equitable in all our compensation policies and practices
d) To ensure integration of non-financial considerations in performance assessments linking monetary rewards to risk outcomes and factoring the time horizon of risks

1.6 Grades & Bands

The Bank follows a 4-band structure. Each band shall have appropriate sub bands / grades.

1.6.1 Executive
1.6.2 Supervisory
1.6.3 Managerial
1.6.4 Senior Managerial

Equitas may review the banding of jobs periodically, depending on the business need and alignment to external market. It may also make amendments to the existing band and grade structure based on organizational growth and market forces.

Section 2: ESFB Policy Framework

2.1 Guaranteed Pay

Guaranteed Pay consists primarily of Basic Pay and Flexible Benefits / Allowances

2.1.1 A description of all components of flexible benefits / allowances shall be explained to the employees from time to time.

2.1.2 In certain cases such as location transfers employees are provided additional allowances on a need basis – e.g. Location Allowance / Special Conveyance

2.1.3 Eligible Employees shall be paid Statutory Bonus as prescribed by the Payment of Bonus Act, 1965 and modifications thereof

2.2 Retirement Benefits

Retirement Benefits currently applicable to employees at the Bank are Provident Fund and Gratuity

2.2.1 **Provident Fund:** Every month the Bank shall contribute such percentages as prescribed of the Basic Pay as the employer's contribution to the Employee Provident Fund (EPF) for each employee. Relevant amounts shall be contributed to applicable Pension Schemes. Additionally, the equivalent amount will also be deducted from the employee's salary each month towards employee's contribution of the EPF. Employees may also opt to contribute an additional percentage of their Basic Pay as their voluntary contribution to the Provident Fund (VPF) as per applicable provisions. This shall be over and above the statutory employee contribution.

2.2.2 **Gratuity**: Employees shall be eligible for Gratuity as may be applicable to them as per the provisions of the Payment of Gratuity Act.

2.3 Other Benefits

2.3.1 Car Scheme

Employees in specified Bands / Grades are provided the option of availing a company owned car. The value of the car under this scheme is as per the specified amount applicable to respective grades.

2.3.2 Employee Loan Schemes

The Bank may offer employee loans at concessional rates to meet employee needs during any unforeseen circumstances, emergencies and important life stages. Employees are eligible, subject to applicable conditions, to avail multiple loans subject to the condition that the total deduction due to loan instalments or other items does not exceed 50% of the monthly Net salary.

2.3.3 Insurance Schemes

Equitas is committed to assist employees and their dependents to meet unforeseen and adverse life events both from perspectives of employee health and financial difficulty. To tide over such life events, the organization would provide assistance via medical insurances (hospitalization insurance), Group Personal Accident Cover and Employee Deposit-linked insurance etc. Equitas may introduce other insurance schemes in the future.

2.4 Variable Compensation

At Equitas we value and recognize high performance and have incorporated pay for performance in our compensation practices. Our short term and long-term variable pay plans are designed to reward high performers in the organization. None of the below plans are entitlements and shall be based on management discretion.

Type of Variable Pay	Plan Name	Details
Short Term	Performance Bonus	A function of both organizational and Individual performance and shall be computed as per the guidelines in force from time to time.
	Incentives	Monthly contests and incentive schemes run by respective divisions
Long Term	Employee Stock Options	As per specific parameters of the ESOP scheme in force (e.g. eligible employees, quantum of options, vesting / exercising periods / lapsing of options etc.)

Variable Pay Plans shall typically take into account risk factors associated with the role. Variable Payouts may be modified at the discretion of management in case of significant audit and/or disciplinary observations.

2.5 Compensation Review

The Bank may undertake specific interventions from time to time to ensure internal pay parity among incumbents in similar job roles. The Bank shall conduct salary reviews from time to time and may undertake subsequent revision of employee pay, based on external market forces, macroeconomic condition and performance levels of organization, department and individual.

2.6 Review of prevalent and emerging market trends:

Emerging market trends constitute an important input to compensation decisions. It is therefore of prime importance to capture and develop a thorough understanding of market dynamics with respect to compensation trends.

2.6.1 Equitas shall benchmark its compensation against identified market participants to define its pay structure and pay levels.

2.6.2 Pay ranges for the Bank specific to various Bands, Divisions / Functions and roles shall be determined based on prevalent market trends.

2.6.3 The Statutory Compliance team (HRSS) shall share statutory circulars and applicable internal parameters with stakeholders. Based on the legal requirements, appropriate analysis shall be carried out and relevant changes implemented. All statutory changes are deemed to be approved, for implementation, effective the date of announcement or date of effect, from the government or regulatory authorities.

2.7 Fitment of New Hires

The compensation of the new hires would be in line with the existing pay ranges and consistent with the compensation levels of the existing employees of the Bank at similar profiles. Pay for new hires are set on the basis of their work experience, competencies, academic and professional credentials.

2.8 Review of organization priorities and employee needs

The Human Resources function engages with the Business leaders, functional managers and employees on an ongoing basis to understand the changing organization priorities, talent requirements, employee concerns and their interrelations to the compensation decisions of the Bank. The compensation and benefits philosophy and practices shall be evaluated against changing priorities and talent needs to assess the efficacy of the current model. Appropriate changes required shall be determined and implemented on the approval of the competent authority.

Section 3: Compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff

(As per guidelines laid down by the Reserve Bank of India (RBI) – RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4th 2019.)

Governance of Compensation

3.1 Nomination& Remuneration Committee (NRC)

The Nomination & Remuneration Committee ("Committee") of the Board shall be 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, capital adequacy ratio, cost to income ratio, market forces etc. while framing the compensation policy in order to achieve effective alignment between compensation and risks.

3.2 Remuneration for Non-Executive Directors

3.2.1 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.

3.2.2 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.

3.2.3 NEDs shall 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.

3.2.4 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 consider the following:

a) compensation is adjusted for all types of risks,
b) compensation outcomes are symmetric with risk outcomes,
c) compensation payouts 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.

3.3.1 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 will 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 to the approval of Reserve Bank of India.

3.3.2 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.

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

Variable Pay shall be at-least equal to 50% of total compensation i.e. at 100% of fixed pay (max 300% of fixed pay) to be paid on the basis of individual, business-unit and firm-wide measures that adequately measure performance for the respective performance measurement period. In case variable pay is above or equal to 200%, a minimum of 67% of the variable pay shall be via non-cash instruments. In case the variable pay is below 200% of fixed pay, at least 50% of the variable pay shall be via non-cash instruments. In the event that an executive is barred by statute or regulation from grant of share-linked instruments, his/her variable pay will be capped at 150% of the fixed pay, but shall not be less than 50% of the fixed pay.

3.3.4 Basis the above, the compensation structure is designed as follows:

3.3.4.1 **Fixed Pay:** Fixed Pay shall include cash components, monetary value of all perquisites and retiral benefits

3.3.4.2 **Variable Pay (VP)**:

3.3.4.2.1 Shall be a mix of Cash and Stock Options

3.3.4.2.2 Cash Variable Pay shall be deferred over three years in equal proportions at the end of every year, or as per RBI approvals

3.3.4.2.3 Stock Options shall be administered and deferred as per prevalent ESOP schemes; minimum deferment period being three years

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

3.3.4.3 **Share- linked Instruments**

ESOPs shall be included as a component of variable pay for the relevant set of employees. Norms for grant of share-linked instruments shall be framed in conformity with relevant statutory provisions and forms 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. The fair value thus arrived at should be recognized as expense beginning with the accounting period for which approval has been granted. The Bank shall ensure compliance to above instructions for all share-linked instruments.

3.3.4.4 **Deferral Arrangement for Variable Pay**

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

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 not be before one year from the commencement of the deferral period. The vesting shall be on a pro-rata basis. Additionally, vesting shall not take place more frequently than on a yearly basis. The vesting schedules and other relevant criteria for stock options shall be as per prevalent ESOP scheme. Regulatory approvals / directions, wherever applicable shall be followed.

3.3.4.5 **Malus / Clawback**

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

A Malus arrangement permits the bank to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement shall not reverse vesting after it has already occurred.

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. The Bank shall put in place appropriate modalities taking into account relevant statutory and regulatory stipulations as applicable. 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.

3.3.4.6 **Framework for Application of Malus and Clawback**

Invocation of Malus and Clawback clauses for respective MRTs shall be done by the NRC of the Bank. In the case of the Managing Director, it shall be determined by the Board on the recommendation of the NRC.

a) Malus clause shall be applicable for an incumbent in case there is significant observation in any or all of the matters enumerated below for a performance year :

- Business/ Bank suffers significant loss due to acts committed during the performance period
- Non-adherence to the Core Values of the Bank.
- Process lapse / serious negligence or dereliction of duty
- Observation of serious Compliance breaches in the respective function / business
- Involvement in a POSH related offence

Further, every MRT may have specific instances pertaining to his/her business or function that might lead to invocation of the Malus clause. Such instances, in a broad manner shall be communicated to the respective MRT in advance.

b) Clawback clause shall be applicable to an incumbent in case the incumbent:

- Is found to have committed frauds / misappropriation of funds
- Is found to have committed misconducts related to moral turpitude
- Is found to have committed gross misconducts as determined by the NRC of the Bank

The clawback period shall be limited to the extent of performance period during which the incident had taken place.

Besides, the NRC or the Board, may, at its discretion, invoke the Malus or Clawback clauses in case it believes there has been significant violation of Code of Conduct by the incumbent.

c) The quantum of Malus and Clawback shall be determined by the NRC taking into account :

- Severity of the Offence
- Occurrence of the Offence (first time vs repeat)
- Any other matter as deemed necessary by the NRC

3.3.4.7 **Sign on Bonus**

Joining / Sign on Bonus for the relevant set of employees shall be in the form of ESOPs only and shall occur only in the context of hiring in the MRT / WTD / MD role and be limited to first year.

3.3.4.8 **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 Risk control and Compliance staff

Executives in financial and risk control divisions 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. It is noted that effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation. The mix of fixed and variable compensation for these control functions shall be weighted in favor of fixed compensation. Variable Pay, particularly at senior levels may allow the option of exercising malus and / or Clawback clauses, if and when warranted.

3.5 Identification of Material Risk Takers of the Bank

Material Risk Takers (MRTs) shall be identified as those employees 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:

3.5.1 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.

3.5.2 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.

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. The Bank shall make the disclosures in table or chart format and make disclosures for previous as well as the current reporting year. The key disclosures required to be made are given in Appendix 2. Further, bank shall also comply with the disclosure requirements for remuneration prescribed vide Master Circular – Basel III Capital Regulations - DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, as amended from time to time.

3.7 NRC Review

The Executive remuneration shall be reviewed by the NRC from time to time.

3.8 Severance Arrangements

Contracts of employment with Wholetime Directors and including MD & CEO is subject to Notice Period of three months and additional gardening leave of three months, at the discretion of the Bank. The Severance pay is restricted to payment of gross fixed pay for the notice period and gardening leave, if availed. Management discretion and applicability of relevant regulatory clauses shall continue to apply.

Section 4

4.1 Salary Payouts

Salary shall be released on the last working day of every month. In case of deviations under extremely extra-ordinary circumstances, approval from CPO shall be sought and salary payment date shall be communicated to employees. There may be a supplementary payroll for those who join on or after a specified date of the month.

4.2 Equal Opportunity Employer

Equitas Small Finance Bank is committed to treat everyone fairly, with respect and dignity. The Bank recognizes and values the different skills, strengths, and perspectives of its diverse workforce. Equitas Small Finance Bank believes that each employee has been and shall continue to be instrumental to its success. Equitas Small Finance Bank shall not discriminate remuneration on the basis of Caste / Creed/ Religion / Gender / Race or Ethnicity.

4.3 Confidentiality

It is expressly understood that matters related to compensation are considered confidential at Equitas. No employee may discuss matters related to compensation whether individually or collectively with anyone other than their designated supervisory line or Human Resources. Any breach of the same shall be considered as misconduct on part of the employee and may attract appropriate disciplinary action.

4.4 Interpretation and Deviations

Any ambiguity arising in the interpretation of these guidelines in specific cases shall be referred to the Chief People Officer for necessary examination and recommendations to the Managing Director whose decision on resolving the ambiguity will be final and binding.

All deviations from these guidelines shall however need the approval with justification of the Authority competent to approve or amend these guidelines

4.5 Queries Related to Pay

All queries related to pay shall be submitted for the attention of the CoE Talent Management team through the respective Business HR Leader. The resolutions / necessary updates are passed on to the Regional HR for communication to the employee after due internal discussions.

4.6 Disclaimer

The management reserves the right to change, modify or cancel the above policy at any point of time without prior notice to the employees.

4.7 Policy Review and Updates

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

The approved policy shall be subject to periodical review by the management and management reserves its right to affect such modifications as it may deem fit, at its discretion.

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	
Date of Next Review	

Appendix 1

Methodologies for risk and performance alignment of remuneration

The Basel Committee on Banking Supervision (BCBS) in consultation with the FSB has published a report in May 2011 titled 'Range of Methodologies for Risk and Performance Alignment of Remuneration'. The main objectives of the report are to present (i) some remuneration practices and methodologies that support sound incentives and (ii) the challenges or elements influencing the effectiveness of risk alignment that should be considered by banks when developing their methodologies and by supervisors, when reviewing and assessing banks' practices. Some of the key stipulations of the report are as under: (a) For incentive based remuneration to work, the variable part of remuneration should be truly and effectively variable and can even be reduced to zero in line with the symmetry principle defined by the FSB. A key element that supervisors expect is the ability for banks to demonstrate that the methodologies they developed to adjust variable remuneration to risk and performance are appropriate to their specific circumstances. (b) The methodologies for adjusting remuneration to risk and performance should also be consistent with the general risk management and corporate governance framework. (c) Performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism. The usual annual determination of bonus should be based on rules, processes and objectives known in advance, recognizing that some discretion will always be needed. (d) Banks should use a combination of financial and non-financial measures to assess employee performance and adapt the measurement to each employee's specific situation. Qualitative factors (like knowledge, skills or abilities) might play an important role when it comes to judging and rewarding some activities- particularly when these serve to reinforce the bank's risk management goals. (e) The nature and extent to which risk adjustments are needed depends first on the extent to which performance measures capture risks, but in all cases, some form of risk adjustment is needed as remuneration is often awarded before the final outcome of an activity is known. Risks taken need to be estimated (ex ante), risk outcomes observed (ex post) and both ex ante estimates and ex post outcomes should affect payoffs. (f) Risk adjustments need to take into account the nature of the risks involved and the time horizons over which they could emerge. The impact of remuneration adjustments should be linked to actions taken by employees and/or business units, and their impact on the level of risk taken on by the bank. (g) The nature of the award process, which links the variable remuneration of each individual employee with bonus pools and the total amount of variable remuneration at a bank's level, is also an area that should be carefully considered by banks and supervisors, as it directly influences how and when performance and risk adjustment are or can be used.

Appendix 2

Disclosure requirements for remuneration/compensation		
Qualitative disclosures	(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.
Quantitative disclosures	(g)	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.
(The quantitative disclosures should only cover Whole Time Directors/ Chief Executive Officer/ Material Risk Takers)	(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.
	(i)	• Total amount of outstanding deferred remuneration, split into cash, types of share-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.
	(j)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	• Total amount of outstanding deferred remuneration and retained remuneration exposed to *ex post* explicit and/or implicit adjustments. • Total amount of reductions during the financial year due to ex- post explicit adjustments. • Total amount of reductions during the financial year due to ex- post implicit adjustments.
	(l)	Number of MRTs identified.

	(m)	• Number of cases where malus has been exercised. • Number of cases where clawback has been exercised. • Number of cases where both malus and clawback have been exercised.
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.