Compensation Policy
SBM Bank(India)Ltd

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Prepared by: Human Resource

Document Review & Approval History:
(All revisions made to this document are listed in chronological order)

Version No.	Date	Changes	Reviewed by	Approved by
1.0	April 2020	Made as a separate policy. Elements of compensation, increment and promotion, Incentive and bonus for all the staff members including the Material Risk Takers and compensation to CEO & WTD	Human Resources Head (Sajitha Pillai)	Board of Directors
2.0	May 2021	Amendment in Long Term Incentives	Human Resources Head (Sajitha Pillai)	Board of Directors
3.0	August 2021	Amendment in Long Term Incentives to include enabling provision to convert deferred cash variable to non-cash component immediately in in case there is issuance of stock options in future.	Human Resources Head (Sajitha Pillai)	Board of Directors
4.0	Oct 2022	Revised grades included in the annexure II for Compensation structure of all employees.	Human Resources Head (Sajitha Pillai)	Board of Directors
5.0	Nov 2023	No change	Human Resources Head (Sajitha Pillai)	Board of Directors
6.0	Feb 2024	Amendment in deferred variable pay to separated MRTs / Employees	Human Resources Head (Sajitha Pillai)	Board of Directors
7.0	Aug 2024	Changes in Conveyance Allowance; Introduction of Statutory Bonus and Clarity on Perquisites to CEO, WTD and MRTs	Human Resources Head (Sajitha Pillai)	Board of Directors
8.0	Nov 2024	Changes in Eligibility for Company Leased Accommodation, Annual Increment, Variable Bonus and Promotion Criteria	Human Resources Head (Sajitha Pillai)	Board of Directors
9.0	Jan 2025	Amendments in Gratuity computation	Human Resources Head (Sajitha Pillai)	Board of Directors

Ownership:

Sr. No.	Primary Owner	Secondary Owner
1	Human Resources	

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Preface

SBM Bank India Ltd. (the Bank) shall follow a Compensation Policy that is internally equitable and externally competitive, while complying with the guidelines set forth by the Reserve Bank of India (RBI) and the Financial Stability Board (FSB). The compensation levels will be designed to enable attraction & retention of the most suitable talent for delivering on the Bank's business plans. The provisions of the Human Resource Policy may be read with the Compensation Policy of the Bank to the extent those are not inconsistent with this policy.

The remuneration for the MD & CEO/ Whole Time Directors will also be within the purview of this document laid out separately. For all other employees, the following will apply.

A. Elements of Compensation

The Bank will employ multiple elements of compensation to ensure an effective Total Rewards proposition. Employees will be eligible for any/ all of the following depending their role/ function:

- **Assured Cash Compensation**: Compensate day-to-day responsibilities and recognize internal relativities and job size
- **Fringe benefits and Perquisites**: Subsidized loans to staff, Perquisites, Insurance etc
- **Annual Increment and Promotions** – Increment and bonus
- **Variable Bonus**: Reward individual and business-related achievement of short term (annual) performance indicators – quality, revenue, cost, time, milestones etc.
- **Sales Incentive**: Focus efforts of frontline staff on specific business outcomes
- **Long Term Incentives**: Encourage focus on overall corporate performance and value creation in the medium and Long term.

The assured compensation will be considered on a Cost-to-Company (CTC) basis. The CTC will comprise of the Basic salary, and a basket of allowances which will allow for flexibility in distribution of different components as per employee preference. If required, employees can be provided with options at the beginning of each financial year, and this will hold for the entire year.

The focus will be on optimizing cash compensation, where considered appropriate.

1. Assured Compensation

Basic Salary & Allowances

i. Basic Salary

The Basic salary will be 40% of the total Cost to Company (CTC) for all grades

ii. House Rent Allowance (HRA)

The HRA will be limited to 50% of Basic salary for all employees

iii. Leave Travel Allowance (LTA)

LTA will be capped at 10% of the annual Basic salary

iv. **Reimbursement for Car Maintenance & fuel expenses**

Employees with own car can choose to have fuel reimbursement (against bills) as follows:

For car cubic capacity (CC) less than or equal to 1.6 liters : INR 21,600 p.a.
For car cubic capacity (CC) greater than 1.6 liters : INR 28,800 p.a.

v. Driver Reimbursement

Employees can claim reimbursement of driver salary (against declaration) upto INR 10,800 p.a. in case they have opted for the same

vi. Telephone Reimbursements

To facilitate communication for organizational needs and connect with external customers, reimbursement of mobile expenses is provided to staff. Head HR will approve the staff / job function eligible for reimbursement and assign the maximum usage limit per month based on the position/role. Employee can claim reimbursement for the actual charges paid for official usage within the assigned limit. In case employee requires to travel for business visits then in such case roaming charges in addition to the eligibility limit can be claimed.

vii. Special Allowance

Will be paid as a fully taxable allowance – will be fixed as a balancing figure to reach the desired CTC for the employee

viii. Meal allowance/ coupons

Employees will be eligible for Meal allowance/coupons capped at INR 26,400 p.a. within the overall CTC

~~ix. Conveyance allowance :~~

~~Omitted~~

x. Statutory Bonus:

Appropriate amount payable as per The Payment of Bonus Act, 1965

xi. Reimbursement for Car Maintenance, Drivers salary and Petrol expenses:

CEO and Dy CEO will be entitled to Bank Car & Driver and related maintenance. (Optional for other existing staff for reimbursement based on IT guidelines).

xii. Company Leased Car (CLC)

Employees in the grades AVP & above can chose to avail CLC by restructuring their salary to include lease amount and Car expenses (fuel & driver).

xiii. Company leased accommodation CLA

Employees in the grades EVP & above may opt to avail CLA benefit by restructuring their CTC structure to include rent and other miscellaneous expenses associated with the benefit.

xiv. Staff Loans

1. Home Loan:

a. All employees with total work experience of at least 1 year are eligible for Home loan at subsidized rate (RBI's bank rate or any reference rate which will be decided from time to time.') based on the Grades. Details are available in the SoP for the same.

2. Personal Loan

a. All employees with total work experience of at least 1 year are eligible for Personal loan at subsidized rate (RBI's bank rate or any reference rate which will be decided from time to time.') based on the Grades. Details are available in the SoP for the same.

xv. Local Conveyance reimbursement for Business Travel

Employees on business/ official travel can seek reimbursement of the travel expenses with requisite approval from the Head of the Department. The CEO will assign the limits for such reimbursement based on the position/ role.

xvi. Taxi Fare:

Women employees can claim reimbursement of expenses on local conveyance for late sitting beyond 10 pm. Others employees can claim reimbursement of expenses on local conveyance for late sitting beyond 10 pm. All such claims should be supported by Invoices. The said travel should be preferably undertaken via Cab Aggregators or Radio Cabs. Exceptions, if any, to be approved by respective CXOs.

Retirement Benefits

xvii. Provident Fund

The Bank will contribute 12% of the Basic salary towards the Defined contribution retirement plan, matching the employee's contribution. This is considered a part of the CTC.

xviii. Gratuity

Employees will be eligible for Gratuity, a defined benefit statutory severance pay, which will be payable to an employee who has completed service of 5 years or more upon the final cessation of service or in the case of his death, before the amount becomes payable, subject to a maximum limit of Rs 20 lakhs. This will be equivalent to 15 days of Basic or Gross Salary, as committed in the contract of employment, for every year worked. Gratuity will not count for CTC.

Gratuity (upto the extent of loss caused) shall not be payable to an employee who is dismissed for reasons of misconduct, default, misappropriation, defalcation, fraud or for withholding any assets of the Bank.

xix. National Pension Scheme

Employees will have the option of subscribing to the NPS, wherein the Bank will contribute upto 10% of the Basic salary towards NPS scheme for employees, which is a voluntary, defined contribution retirement savings scheme sponsored by the government . The Bank's contribution to NPS will count for CTC.

xx. Severance Pay:

In case of resignation/ cessation of services, on full and final settlement, the dues payable to the employee will be the accrued benefits like Provident Fund and Gratuity. Staff will not be entitled to any other severance pay.

xxi. Nomination of Beneficiaries:

Each staff member will be required to fill nomination papers for all benefits due to him/ her from the bank. The onus of changing / updating these nominations lies with the employee. The employer shall not recognize any other heirs/claimants of the employee.

xxii. Death of an Employee:

In case a permanent employee expires while in service, his/ her spouse, and in the absence of his/her spouse, his/ her children will be entitled to the equivalent of his/her 3 months consolidated wages and any other salary related benefits, payable on death. The employer shall not be bound to recognize any other heirs or claimants of the deceased employee, other than those nominated by the employee while in service. The amount, if any payable by way of dependence benefit shall be reduced to the extent that the employer is required to make a deduction at source under any law which may be currently existing or which may come into effect at a future date

2. Fringe Benefits

Insurance Benefits

i. Hospitalization Insurance

The Bank will subscribe to a Group Insurance plan to cover employees and family members in case of hospitalization. Dependent family members will include the spouse and dependent children. Dependent parents can be included in the Medical scheme with the cost of the premium being borne by employee. The inclusion of dependent parents in the staff medical scheme will be at the discretion of the management.

ii. 24Hr Group Personal Accident Policy

All employees, as from their appointment date, are covered under a 24Hr Group Personal accident Policy.

iii. Group Term Life Insurance:

All employees will be covered under the Group Term Life Insurance policy of the Bank. The coverage will be decided year on year either based on grades or multiples of salary, which will reviewed by the MD & CEO along with the Head HR each year and approved

3. Annual Increment

i. Performance Rating Scale :

The performance will be determined based on a matrix which includes the performance of organization , the department and the individual performance of the officer . For senior officers, while the organization and the concerned department along with individual performance will have weightage, for officials lower in the cadre, the performance of respective department and individual performance will play the key role while evaluating their annual performance rating.The employee evaluation will be based on a five-point performance scale which is defined as follows:

Rating	Performance
5	Excellent
4	Very Good
3	Good
2	Average

1	**Unsatisfactory**

ii. Annual Increment

Increments are normally due in the beginning of each financial year. Those employees who have not completed a full year service will be granted increment on a pro-rata basis provided they have completed at least 6 months of service as on the beginning of Financial Year. Increments are not granted automatically but have to be earned through good performance. Employees who do not show acceptable performance will be excluded from increment as long as no improvement is shown. In case increment is to be withheld, officers will be notified in writing.

The guidelines for determining the amount of any merit increase are based on the employee's :

- Individual Performance rating
- Department's/ Division's Performance
- Banks Performance
- Position in salary range.

Staff compensation adjustment must be maintained within the approved policy and pay structure. Annual increments at all levels except MD & CEO are to be approved by the Nomination and Remuneration Committee (NRC) of the Board. Changes to the remuneration of MD & CEO, including bonus, will be approved by the Board of Directors and must be ratified by the Board of SBM Holdings Limited (In line with the Group HR policy Approval Matrix) and will be subject to necessary regulatory approval.

iii. Ad- hoc increment and extra ordinary payments

Management may, at its discretion, grant one or more additional increments/ payments to any deserving employee on the basis of exceptional performance or qualifications, subject to the appropriate approval procedure.

iv. Promotion

In order to provide growth opportunities to its employees,

Promotion from one grade/level to another will be solely based on:

1. A vacancy arising in a higher-level position through departures or lateral transfers or promotions; or
2. A job being scientifically evaluated (Through Company approved Methodology) at a higher position following changes in job; or
3. The satisfactory performance of an employee in a job which is already at a higher level within the structure of organization.

In the case of (2) and (3) above, where there are employees already performing in higher level positions, concerned Department Head and HR will recommend based on clear justifications to the appropriate forum for approval of promotion.

v. Increment on promotion

For employees, promotion increase will be determined based on internal and external competitiveness considerations.

Where applicable, in case of overlapping scales grade-to-grade promotions will be marked by the increment above the corresponding or nearest higher point in the promotional grade with a view to protect the last drawn salary. The employee shall subsequently be eligible for an increment on completion of the assessment year, each year in the new grade.

vi. Criteria for being eligible for promotion

a. Employee should have completed at least 2 years of service with the bank in the same grade for employees in Officer to AVP and at least 3 years for employees in DVP and higher grade.
b. Up to AVP grade – Employee should have secured a rating of minimum 3 in the last two consecutive ratings with a minimum of 4 in at least one of these ratings. DVP grade and above - should have secured a rating of minimum 3 in last three consecutive rating out of which at least two ratings to be 4 and above
c. A defined vacancy in the next higher role should exist.
d. The employee should possess the required skills for the said position.
e. Critical employees with superior performance with-in a shorter time frame.

The Promotion of officers to the next higher level will be decided by Committee comprising the MD & CEO, Head (HR) and the concerned Department/ Division Head.

4. Annual Incentives

The Annual or the short-term incentives are designed to be a mix of Self-funded as well as a Budgeted schemes.

Employees will be eligible for any one of the two short term incentive plans, basis the role they are in.

Sales Incentive

Sales incentive will be Self-funded – i.e. it aims to carve out a portion of profits in excess of target level as profit sharing pool and divide among employees of the organization. Funds earned through improved financial performance are available for payouts

Periodical sales incentive will be decided from time to time. The sales incentive can be made available for all RM’s and Sr RM’s in the following functions:

Liabilities sales function, Investment and Third party product sales (Including Bancassurance), Trade sales, Transaction banking sales and Retail assets sales function.

Heads of these functions including Location heads/Branch heads will not be eligible for sales incentive plan.

The pay-out opportunities will be linked to various achievement slabs at an aggregate level. The Incentive plan will kick in on a threshold achievement of 90% on the Key Performance Indicators, and the KPI’s will be designed to encourage cross-sell of offerings.

The incentive plan and the eligibility rules will be reviewed on an annual basis and approved and target setting will be done, basis business plans for the year.

Sales incentives will run on periodic basis will be approved by an internal committee comprising, the CEO, Head of Business, CFO & HR Head.

5. Variable Bonus

The Variable bonus will be paid out of a budgeted provision, but actual payouts will be determined on the basis of Bank's/ Department's/ Individual performance.

All employees who have worked for at least six months in the year and are on the rolls of the Bank at the end of year will be eligible for the Variable Bonus. The parameters for eligibility will be informed each year to the staff members. The plan will exclude those who are not on payrolls at the end of the year or in the notice period at the time of payment of Bonus. The exclusion will be applicable to all forms of variable pay except the Deferred Variable pay (Cash + Non-Cash). Those who have availed of leave without pay for an aggregate period of six months or more during the year will not be eligible for Variable bonus.

The Deferred pay will be payable even to the MRTs who have resigned or exited, subject to Malus and claw back as defined in the Compensation policy and the RBI guidelines.

In exceptional cases, where staff is to be considered for variable pay with a deviation from the above qualifying criteria, the same will be put up to NRC for approval as a special case.

The variable performance pay will be fixed at maximum of 50% of the annual fixed pay. The percentage will be based on the grade of the employee

A minimum score as defined each year for the Bank's, department's and individual's performance is required to make the eligibility for the payout. Weightages will be assigned to measures as per the employee level in the organization hierarchy. Weightages would vary for employee levels basis their impact on business

The proportion of variable pay will increase as the level of responsibilities increases

6. Long Term Incentive (LTI)

The Company is currently unlisted, with plans of listing at an appropriate time. Till such that time, the LTI will be paid as a cash payout to a limited number of eligible employees (MRTs & WTD) as decided by the Board and the following RBI guideline will apply:

In terms of RBI circular on Compensation dated November 4, 2019 Annex Clause B II. 2.1.2 (a) "only in cases where the compensation by way of share-linked instruments is not permitted by law/regulations, the entire variable pay can be in cash"; and as per Clause B II. 2.1.2(b) (iii) "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 p.a., but shall not be less than 50% of the fixed pay."

The other relevant provisions in respect of variable pay such as deferral, vesting, malus/claw-back, etc. would be as per the RBI Guidelines. At least 50% of the cash variable will be deferred. The deferral period of variable pay will be decided based on evaluation at the end of Annual performance cycle each calendar year and will be between 3 to 5 years

In cases where the cash component of variable pay is under Rs.25 lakh, deferral requirements would not be necessary.

Post listing, in the eventuality of the Bank's equity shares being listed in the stock exchange(s), the Bank will use a Share-linked Long term incentive to help drive a 'pay for performance' culture and link employees' individual wealth creation to the organizational success. In such case, the deferred pay due to the employee shall be converted to non-cash component with immediate effect.

The primary objectives of the LTI will be:

- Utilize share-linked LTI instruments to create a sense of ownership, thereby augmenting focus on long-term value creation
- Attract and retain best-in-class talent by providing a competitive wealth creation opportunity and fair share of value created through employee contributions
- Reinforce long-term performance focus to drive sustainable business results
- Drive employee behaviors required for successful execution of the aspirational growth strategy including top-line / bottom-line growth, efficient capital allocation and prudent risk-taking

The company can choose to grant any of the following share-linked awards basis the Board's discretion (ESOPs/SARs, Phantom Shares, Restricted Stock Units, Performance Stock Units, etc.). All the key LTI plan features such as the award opportunity, award type, vesting criteria/schedule, performance metrics and period, payout calibration and treatment upon employee termination will be established upfront on the grant date. For performance-based awards, a forward-looking performance period will be used where the performance goals will be set at the beginning of the award cycle to ensure long-term performance focus. The details of the LTI plan are outlined in a separate LTI policy document.

Share linked instruments should be fair valued on the date of grant by the bank using Black-Scholes model

7. Joining bonus

For those employees who don't fall under the category of CEO/WTD/ MRT the bank may, at times be required to pay a joining bonus/incentive to attract new talent especially those, who are foregoing their bonus to join the bank during the course of the year and this pay will be limited to the first year. In such cases, they have to serve a minimum period of two years in the bank and in the event of leaving the services before that period, they will have to refund the joining bonus paid.
In case of CEO/WTD/MRT, the joining bonus, if any will be in the form of share-linked instruments only.

B. Identification of CEO / WTDs / MRTs and proposed compensation Structure

Bank shall identify its Material Risk Takers (MRTs) whose actions shall 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:

i. 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.

ii. Standard Quantitative Criteria:

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

- They are included among the 0.3% of staff with the highest remuneration in the bank, or
- Their remuneration is equal to or greater than the lowest total remuneration of senior management and other risk-takers.

The quantitative criteria adopted for SBM Bank will be remuneration at minimum ≥ INR 50 Lacs

- The following officers/ positions in the bank qualify as the Material Risk Takers in line with the applicable Standard Qualitative and Quantitative Criteria.

S. No.	Position Title	WTD / CEO / Material Risk Takers (MRTs)*	
		Qualitative Criteria	Quantitative Criteria
1.	MD & CEO	CEO and WTD	
2.	Head, Corporate Banking	Senior management team member	Remuneration ≥ INR 50 Lacs p.a.
3.	Head, Retail Banking	Senior management team member	Remuneration ≥ INR 50 Lacs p.a.
4.	Head, Treasury	Senior management team member	Remuneration ≥ INR 50 Lacs p.a.
5.	Chief Operations Officer	Senior management team member	Remuneration ≥ INR 50 Lacs p.a.
6.	Chief Information Officer	Senior management team member	Remuneration ≥ INR 50 Lacs p.a.

iii. Remuneration for the CEO, WTDs and MRTs

Remuneration of CEO, WTDs and MRTs will also follow the Total Rewards philosophy comprising of one or more of the following -

- **Assured Cash Compensation**: Compensate day-to-day responsibilities and recognize internal relativities and job size
- **Fringe benefits and Perquisites**: Subsidized loans to staff, Perquisites, Insurance etc
- **Variable Bonus**: Reward individual and business related achievement of short term (annual) performance indicators – quality, revenue, cost, time, milestones etc.
- **Long Term Incentives**: Encourage focus on overall corporate performance and value creation in the medium and Long term.

The Bank will ensure that the assured cash compensation is reasonable, taking into account all relevant factors including the industry practice. In order to follow the aforementioned principles, the Bank will take into consideration the following parameters –

i. Role Complexity and Size
ii. Vintage and experience of the incumbent
iii. Profile and prominence of leadership among industry leaders
iv. Comparison with peer banks i.e. market competitiveness of pay
v. Consistency of the Bank's performance over the years on key parameters such as profitability, growth and level of Non-Performing Assets (NPA's) in relation to its own past performance and that of its peer banks.

Apart from the Assured Cash Compensation, the Board may extend Benefits as applicable to other employees.

Additionally, the Board is also authorized to extend perquisites such as Company Car (including Driver) and Club Memberships as a part of the Total Compensation.

Remuneration of the CEOs, Whole-time Directors (WTDs), and Material Risk Takers (MRTs) will be in compliance with the RBI guidelines in effect, and will be aligned with the following:

FEATURE	DESCRIPTION
Limit on Variable Pay	• At least 50% of total compensation (i.e., fixed + variable) should be variable and paid on the basis of individual, business-unit and firm-wide performance measures • Proportion of variable pay should be higher at higher levels of responsibility • Total variable pay shall be limited to 300% of fixed pay (for the performance period) • A minimum of 50% of total variable pay should be via non-cash instruments if variable pay is up to 200% of fixed pay, and minimum of 67% if variable pay is above 200% of fixed pay Bank's financial performance deterioration should generally lead to reduced total amount of variable compensation, which can even be reduced to zero

Deferral of Variable Pay	• Minimum of 60% of total variable pay must be under deferral arrangements • If cash component is part of variable pay, at least 50% of the cash bonus should also be deferred Deferral requirements are not necessary in cases where the cash component of variable pay is under INR 25 lakhs
Deferral Period	• Minimum of three years deferral period for both cash and non-cash components of variable pay
Vesting Schedule	• Deferred remuneration should either vest fully at the end of the deferral period or be spread out over the course of the deferral period Minimum of 1-year vesting period no faster than on a pro rata basis (i.e., not front-loaded)
Share-linked Instruments	• To be included as a component of variable pay Share-linked instruments should be fair valued on the date of grant by the bank using Black-Scholes model

In line with the RBI guidelines, an illustration of the targeted variable pay, including the annual cash and long term incentives for identified MRTs, MD & CEO have been proposed in Annexure - 1

iv. Remuneration for Risk control and Compliance staff:

As per RBI guidelines, the mix of fixed and variable compensation for material risk takers (MRTs) and control function s like Risk and Compliance personnel will be weighted in favour of fixed compensation.

v. Compensation structure for all employees of the bank

An illustration of the targeted variable pay, including the annual cash and long term incentives across all levels of employees of the bank, including the identified MRTs and Control Functions is given in Annexure -2

vi. Malus / Clawback

The deferred compensation on annual cash incentives and share-based LTI awards should be subject to malus/clawback arrangements in the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year.

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

A clawback, on the other hand, is 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

Malus/clawback of the variable pay will be effective in the following situations, subject to the concerned official(s), including CEO/WTD/MRT having a role attributed to this performance. The concerned official(s) will be informed in writing about the bank's decision for malus/ clawback and a suitable opportunity will be given to them for their response.

Category	Trigger	Malus – Unvested / Deferred Variable Pay	Clawback – Vested / Paid Variable Pay
Divergence in Bank's Provisioning for NPAs*	- Assessed divergence in the company's provisioning for NPAs exceeds the prescribed threshold for public disclosure - In case the company's post assessment Gross NPAs are <2.0%, malus clause and no increase in variable pay apply, only if criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification	- Cancellation of partial or full deferred annual cash incentives and/or unvested LTI awards as of the date of discovery of the applicable trigger	N/A
Subdued or Negative Financial Performance	- Deterioration of [>30%] in the year-over-year Profit After Tax (PAT) - Net Non Performing Asset (NPA) / Net Advances [>4.0%] - Applies to the performance of overall company and relevant LOBs		- Recovery of annual cash incentives paid and LTI awards vested over the prior three years from the date of discovery of the applicable trigger
Misconduct	- Detrimental conduct that causes material financial or reputational harm to the company - Acts of fraud, gross negligence, or material misrepresentation - Breach of integrity and/or company's code of conduct policy		
Other	- Material financial restatement of previous years' results - Any other factors deemed relevant by the NRC in its discretion		

In case of any Show-cause notice issued by the regulators, resulting in regulatory penalty, the Bank can initiate disciplinary action as per the disciplinary procedure laid down in the HR policy. Based on the disciplinary findings, if the charges are proved, employee will be liable for Major or Minor punishment as prescribed in the HR policy which can also include Malus/ Clawback of the Variable pay (Unvested/ vested)

After taking into account the role of the concerned official in the trigger conditions mentioned in the table above and/or disciplinary findings liable for Major or Minor punishment, a suitable opportunity will be provided to the official(s) to submit their reply. Based on the same, a suitable decision regarding application of malus/clawback will be taken by the NRC and recommended to the Board of directors for approval.

The compensation policy will be reviewed by the NRC on an annual basis, Any regulatory changes/ updation with regard to the compensation will be deemed to be automatically updated in the compensation policy and would be subsequently placed for approval to the NRC.

ANNEXURE – 1

Position Title	Fixed Pay as a % of Total Pay	Target Annual Cash Incentive	Target Share-based LTI	Target Total Variable Pay	Target total Pay
CEO/WTD	0.4	20%	40%	60%	100%
Head, Corporate Banking	0.45	18%	37%	55%	100%
Head, Retail Banking	0.45	18%	37%	55%	100%
Head, Treasury	0.45	18%	37%	55%	100%
Chief Operating Officer	0.5	17%	33%	50%	100%
Chief Information Officer	0.5	17%	33%	50%	100%

c	Position/Title	Fixed Pay as a % of Total Pay as a % of Total Pay	Target Annual Cash Incentive	Target Share-based LTI	Target Total Variable Pay	Target total Pay
			% of TP	% of TP	% of TP	% of TP
A	CEO/WTD	40%	20%	40%	60%	100%
B1	MRTs – Heads of Corp Banking, Retail Banking, Treasury	45%	18%	37%	55%	100%
B2	MRT – COO, CIO	50%	17%	33%	50%	100%
B3	Chief Risk Officer	56%	22%	22%	44%	100%
C	CXO / Head of Business	62%	13%	25%	38%	100%
	Executive Vice President	62%	13%	25%	38%	100%
	Sr. Vice President	62%	13%	25%	38%	100%
D	Vice President - 1 & 2	62%	13%	25%	38%	100%
E	Deputy Vice President - 1 & 2	68%	11%	21%	32%	100%
F	Assistant Vice President - 1 & 2	68%	11%	21%	32%	100%
G	Senior Manager	72%	13%	15%	28%	100%
H	Manager	72%	13%	15%	28%	100%
I	Deputy Manager	80%	8%	12%	20%	100%
J	Assistant Manager	80%	8%	12%	20%	100%
K	Officer	80%	8%	12%	20%	100%

Appendix 1 – RBI Guidelines

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

A. The Financial Stability Board (FSB) Principles for Sound Compensation Practices

1. The Principles for Sound Compensation Practices issued by the FSB in April 2009 aim to ensure effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation. The Principles in brief are as under:

(i) Effective governance of compensation

- The firm's board of directors must actively oversee the compensation system's design and operation.
- The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended.

- Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm.

(ii) Effective alignment of compensation with prudent risk taking

- Compensation must be adjusted for all types of risk.
- Compensation outcomes must be symmetric with risk outcomes.
- Compensation payout schedules must be sensitive to the time horizon of risks.
- The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

(iii) Effective supervisory oversight and engagement by stakeholders

- Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action.
- Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders.

2. The Guidelines delineated below are based on the above mentioned Principles and Implementation Standards of the FSB, evolving international standards, as well as current statutory and regulatory framework in India. Banks are required to take steps immediately to implement the Guidelines by putting in place necessary policies/systems.

B. Guidelines on Compensation for Private Sector Banks and Foreign Banks

I. Applicability and Scope:

a. The Guidelines as laid out below are applicable to private sector banks, including Local Area Banks, Small Finance Banks and Payments Banks.
b. Foreign banks operating in India under branch mode would be required to continue to submit a declaration to Reserve Bank annually from their Head Offices to the effect that their compensation structure in India, including that of CEO's, is in conformity with the FSB Principles and Standards. RBI would take this into account while approving CEOs' compensation.
c. The compensation proposals for CEOs and other staff of foreign banks operating in India that have not adopted the FSB principles in their home country are required to implement the compensation Guidelines as prescribed for private sector banks in India, to the extent applicable to them.
d. For the foreign banks operating in India by way of Wholly Owned Subsidiary (WOS) structure, the compensation Guidelines as prescribed for private sector banks in India will be applicable.

II. Guidelines:

1. Effective governance of compensation

1.1 Guideline 1: Compensation Policy

Banks should continue to formulate and adopt a comprehensive compensation policy covering all their employees and conduct annual review thereof. The policy should cover all aspects of the compensation structure such as fixed pay, perquisites, performance bonus, guaranteed bonus (joining/sign-on bonus), severance package, share-linked instruments e.g. Employee Stock Option Plan (ESOPs), pension plan, gratuity, etc., taking into account these Guidelines.

1.2 Guideline 2: Nomination and Remuneration Committee (NRC)

The board of directors of banks should constitute a 'Nomination and Remuneration Committee' (NRC) of the board to oversee the framing, review and implementation of compensation policy of the bank on behalf of the board. The NRC should comprise three or more non-executive directors, out of which not less than one-half should be independent directors and should include at least one member from Risk Management Committee of the board. The NRC should work in close coordination with Risk Management Committee of the bank, to achieve effective alignment between compensation and risks. The NRC should also ensure that the cost/income ratio of the bank supports the compensation package consistent with maintenance of sound capital adequacy ratio.

2. Effective alignment of compensation with prudent risk taking

2.1 Guideline 3: For Whole Time Directors / Chief Executive Officers / Material Risk Takers (MRTs)

Banks should ensure that for the Whole Time Directors (WTDs) / Chief Executive Officers (CEOs) / Material Risk Takers (MRTs):

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

A wide variety of measures of credit, market, liquidity and various other risks should be used by banks in implementation of risk adjustment. The risk adjustment methods should preferably have both quantitative and judgmental elements. The compensation should also be in compliance with all statutory requirements.

The compensation structure for the WTDs/CEOs/MRTs of the bank shall be as under:

2.1.1 Fixed Pay and Perquisites

Banks are required to ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including adherence to statutory requirements and industry practice. All the fixed items of compensation, including the perquisites, will be treated as part of fixed pay. It may be noted that all perquisites that are reimbursable should also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

2.1.2 Variable Pay

(a) Composition of Variable Pay:

The variable pay can be in the form of share-linked instruments[1], or a mix of cash and share-linked instruments. There should be proper balance between the cash and share-linked components in the variable pay. Only in cases where the compensation by way of share-linked instruments is not permitted by law/regulations, the entire variable pay can be in cash.

(b) Limit on Variable Pay:

(i) It should be ensured that there is a proper balance between fixed pay and variable pay. In accordance with FSB Implementation Standards, read with paragraph 2.1.2(b)(iv) and bullet (a) of BCBS stipulations furnished in Appendix 2, a substantial proportion of compensation i.e., at least 50%, should be variable and paid on the basis of individual, business-unit and firm-wide measures that adequately measure performance, except in cases mentioned in paragraph 2.1.2(b)(iii) and paragraph 2.2 of these Guidelines. At higher levels of responsibility, the proportion of variable pay should be higher. The total variable pay shall be limited to a maximum of 300% of the fixed pay (for the relative performance measurement period).

(ii) 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 should be via non-cash instruments.

(iii) 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.

(iv) The deterioration in the financial performance of the bank should generally lead to a contraction in the total amount of variable compensation, which can even be reduced to zero.

(c) Deferral of Variable Pay:

(i) For senior executives, including WTDs, and other employees who are MRTs (see paragraph 2.4 below), in adherence to FSB Implementation Standards, deferral arrangements must invariably exist for the variable pay, regardless of the quantum of pay. For such executives of the bank, a minimum of 60% of the total variable pay must invariably be under deferral arrangements. Further, if cash component is part of variable pay, at least 50% of the cash bonus should also be deferred.

(ii) However, in cases where the cash component of variable pay is under Rs.25 lakh, deferral requirements would not be necessary.

(d) Period of Deferral Arrangement:

The deferral period should be a minimum of three years. This would be applicable to both the cash and non-cash components of the variable pay.

(e) Vesting:

Deferred remuneration should 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 should be not before one year from the commencement of the deferral period. The vesting should be no faster than on a pro rata basis[2]. Additionally, vesting should not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of ex post adjustments.

(f) Share-linked Instruments:

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

2.1.3 Malus / Clawback

(a) The deferred compensation should be subject to malus[3]/clawback[4] arrangements in the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year.

(b) Banks are required to put in place appropriate modalities to incorporate malus/ clawback mechanism in respect of variable pay, taking into account Supplementary Guidance issued by FSB in March 2018 on use of compensation tools to address misconduct risk, and all relevant statutory and regulatory stipulations, as applicable. The banks shall identify a representative set of situations in their Compensation Policies, which require them to invoke the malus and clawback clauses that may be applicable on entire variable pay. When setting criteria for the application of malus and clawback, banks should also specify a period during which malus and/or clawback can be applied, covering at least deferral and retention periods[5].

(c) Wherever the assessed divergence in bank's provisioning for Non-Performing Assets (NPAs) or asset classification exceeds the prescribed threshold for public disclosure[6], the bank shall not pay the unvested portion of the variable compensation for the assessment year under 'malus' clause. Further, in such situations, no proposal for increase in variable pay (for the assessment year) shall be entertained. In case the bank's post assessment Gross NPAs are less than 2.0%, these restrictions will apply only if criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.

2.1.4 Guaranteed Bonus

Guaranteed bonus is not consistent with sound risk management or the 'pay for performance' principles and should not be part of the compensation plan. Therefore, guaranteed bonus should only occur in the context of hiring new staff as joining/sign-on bonus and be limited to the first year. Further, joining/sign-on bonus should be in the form of share-linked instruments only, since upfront payments in cash would create perverse incentives. Such bonus will neither be considered part of fixed pay nor part of variable pay. Further, banks should not grant severance pay other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory under any statute.

For those empl who do not fall in the category of MRT/CEO /WTD we may need to pay

2.1.5 Hedging

Banks shall not permit employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement. To enforce the same, banks should establish appropriate compliance arrangements.

2.2 Guideline 4: For risk control and compliance staff

Members of staff engaged in financial and risk control, including internal audit, should be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the bank. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation. Back office and risk control employees play a key role in ensuring the integrity of risk measures. If their own compensation is significantly affected by short-term measures, their independence may be compromised. If their compensation is too low, the quality of such employees may be insufficient for their tasks and their authority may be undermined. The mix of fixed and variable compensation for control function personnel should be weighted in favour of fixed compensation. Therefore, the requirement of minimum 50% of total compensation to be paid in the form of variable pay will not be applicable for this category of staff. However, a reasonable proportion of compensation has to be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous. Subject to the above, while devising compensation structure for such staff, banks should adopt principles similar to principles enunciated for WTDs/CEOs, as appropriate.

2.3 Guideline 5: For other categories of staff

While these Guidelines do not apply to bank's staff other than WTDs/CEOs/MRTs and Control Function Staff, banks are encouraged to adopt similar principles, with suitable modifications, as appropriate for them as well.

2.4 Guideline 6: Identification of Material Risk Takers of the bank

2.4.1 Banks should identify their Material Risk Takers (MRTs) 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:

- Their total remuneration exceeds a certain threshold; the determination of which may be done prudently by the bank, or
- They are included among the 0.3% of staff with the highest remuneration in the bank, or
- Their remuneration is equal to or greater than the lowest total remuneration of senior management and other risk-takers.

2.4.2 Banks are advised to refer to the BCBS report entitled 'Range of Methodologies for Risk and Performance Alignment of Remuneration' published in May 2011 for guidance. A gist of the methodologies is furnished in Appendix 2. The report intends to enhance the banks' and supervisors' understanding of risk-adjusted remuneration. This report, by providing some clarification on design of risk-adjusted remuneration schemes, supports and facilitates greater adoption of sound practices in the banking sector.

3. Disclosure and engagement by stakeholders

3.1 Guideline 7: Disclosure

Banks are required to make disclosure on remuneration of WTDs/CEOs/MRTs on an annual basis at the minimum, in their Annual Financial Statements.

3.2 To improve clarity on disclosure, banks should make the disclosures in table or chart format and make disclosures for previous as well as the current reporting year (previous year's disclosure need not be made when the disclosures are made for the first time). The key disclosures required to be made by banks are given in Appendix 3. Further, banks should also comply with the disclosure requirements for remuneration prescribed vide Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, as amended from time to time.

C. Regulatory and Supervisory Approval / Oversight

I. As banks are aware, in terms of the Section 10(1)(b)(iii) of the B.R. Act, 1949, no banking company shall employ or continue the employment of any person whose remuneration is, in the opinion of the Reserve Bank, excessive.
II. Private sector and foreign banks operating in India are required to obtain regulatory approval for grant of remuneration to WTDs/CEOs in terms of Section 35B of the B.R. Act, 1949.
III. Banks' compensation policies will also be subject to supervisory oversight including review under Basel framework. Deficiencies observed in this regard would have the effect of increasing the risk profile of the bank with attendant consequences, including a requirement of additional capital if the deficiencies are very significant.

Appendix 2

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 3

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 (The quantitative disclosures should only cover Whole Time Directors/ Chief Executive Officer/ Material Risk Takers)	(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.
	(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.

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[1] It is clarified that Cash-linked Stock Appreciation Rights (CSARs) are also to be treated as share-linked instruments.

[2] No faster than pro rata basis means – vesting should not be frontloaded. In other words, if the deferral arrangement is three years, not more than 33.33 % of the total granted ESOPs should vest at the end of first year. Further, not more than 33.33 % of total granted ESOPs should vest at the end of second year. Similarly, in case deferral arrangement is four years, not more than 25% of total granted ESOPs should vest in each of the first three years.

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

[4] A clawback, on the other hand, is 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.

[5] Retention period: a period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.

[6] Refer DBR.BP.BC.No.32/21.04.018/2018-19 dated April 1, 2019, as amended from time to time