



## **Directors and Top Management** **Compensation Policy**

Approver	Board of Directors
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## Contents

1. Objective .....	3
2. Definitions .....	3
3. Remuneration.....	3
4. Compensation structure for MD&CEO and Top Management Personnel.....	5
5. Reporting Requirement .....	5
6. Policy Review and Updates .....	6

## 1. Objective

The primary objective of this Compensation Policy (hereinafter referred to as the Policy) is to provide a framework for the remuneration of the Directors, Key Managerial Personnel (“KMP”) and Top Management Personnel of ESAF Small Finance Bank (herein after referred to as the Bank).

Major Principles and Objectives of the Policy are as under:

- a) To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the Bank successfully.
- b) To ensure that relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- c) Attract and retain employees by paying market competitive pay for the roles and skills.
- d) To ensure that remuneration to directors, Key Managerial Personnel and Top Management Personnel involves a balance between fixed and incentive pay reflecting performance objectives appropriate to the working of the Bank and its goals.
- e) Aligning remuneration of Board of Directors, Key Managerial Personnel and Top Management Personnel with the longer term interests of the Bank and its shareholders.
- f) To adequately compensate the directors.

## 2. Definitions

**‘Key Managerial Personnel’** or **‘KMP’** means Key Managerial Personnel as defined by the Companies Act, 2013

**‘Top Management Personnel’** or **‘Top Management’** means the functional head of departments including Executive Vice Presidents as per the top management structure approved by the Board of Directors of the Bank.

## 3. Remuneration

For payment of remuneration to Chairman, MD&CEO of the Bank, it shall obtain prior approval of the Reserve Bank of India on the remuneration to be paid.

The Nomination Remuneration and Compensation Committee (NRCCB) of the Bank shall evaluate the performance of the Directors including Independent Directors, and Top Management Personnel and recommend to the Board all fees, compensation/remuneration including fixed and variable and perquisites.

The Nomination Remuneration and Compensation Committee and the Board of Directors shall recommend all fees or compensation, if any, paid to MD&CEO, Part Time Chairman and non-executive directors including independent directors and shall require approval of shareholders in general meeting.

The NRCCB shall ensure the following:

- the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;
- relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- remuneration to directors, key managerial personnel and top management involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.
- ensure that the cost/income ratio of the bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio.

### **3.1. Remuneration to Part Time Chairman**

As per the Guidelines on Compensation of Non-Executive Directors of Private Sector Banks issued by RBI and Banking Regulations and any other applicable laws, the remuneration to part time chairman can be paid and he/she is also being entitled for profit based commission. If Part time chairman is an independent director, the same shall also be subject to Clause 3.2.

### **3.2. Remuneration to Independent Directors and Non-Executive Directors**

The Bank shall pay the Independent Directors and Non-Executive Directors remuneration by way of sitting fees for attending meetings of the Board and its Committees as may be decided by the Board. The Bank may pay sitting fees to the independent and non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

Further, an Independent Director shall not be entitled for any Stock Options, under Employee Stock Option Plans (ESOPs).

Further, The Board may allow payment of compensation in the form of profit related commission to the independent and non-executive directors, subject to the Bank making profits and subject to the approval of RBI.

### **3.3. Remuneration to Managing Director & CEO**

The Remuneration/ Compensation/ Commission etc. to be paid to Managing Director & CEO etc. shall be governed by the provisions of the Banking Regulation Act, 1949 and the provisions of the Companies Act, 2013 and rules made there under to the extent applicable.

The Bank shall effectively align its compensation considering the following:

- Compensation must be adjusted for all types of risk.
- Compensation outcomes must be symmetric with risk outcomes.
- Compensation pay out schedules must be sensitive to the time horizon of risks.

#### **4. Compensation structure for MD&CEO and Top Management Personnel**

**a) *Fixed pay***

The fixed portion of compensation shall be decided taking into account all relevant factors including the industry practice and shall be reasonable.

**b) *Variable pay composition and deferral***

The variable pay generally will not exceed 50% of fixed pay and in no case exceed 70% of the fixed pay. The variable pay could be in cash, or stock linked instruments or mix of both.

If the variable pay is more than 50% of the fixed pay, the Committee shall decide upon on deferral of payment of the same over for a period not less than 3 years.

**c) *Malus / Clawback***

In the event of negative contributions of any line of business in any year, the Nomination and Remuneration Committee can decide the following:

- (i) malus arrangement wherein Bank shall withhold vesting of amount of deferred variable pay for MD&CEO and other Top Management Personnel,
- (ii) clawback arrangement wherein MD&CEO and other Top Management Personnel shall be liable to return previously paid or vested variable pay to the Bank as per the applicable provisions/guidelines stipulated by RBI.

**d) Remuneration Structure of MD & CEO is subject to the prior approval of RBI including perquisites and other benefits.**

**e) The Compensation structure of Top Management employees such as fixed pay, perquisites, bonus, guaranteed pay, stock, pension plan, gratuity, etc., shall be in accordance with the RBI directives and the policies of the Bank.**

#### **5. Reporting Requirement**

The Bank shall disseminate the information on the “Policy of Appointment of Directors and remuneration of directors, KMP and employees” on its website and the Board’s report.

##### ***5.1. Disclosures relating Remuneration***

Reporting to the Nomination Remuneration and Compensation Committee

The following matters shall be reported to the Nomination Remuneration and Compensation Committee:

- Annual remuneration proposed for directors, key managerial personnel and senior management.
- Declarations on fit and proper criteria as submitted by the directors or persons to be appointed as directors.
- Annual disclosures to be made in the annual report of the Bank.
- Employee benefit plans including deferred benefit plans and retirement plans.

- Committee constitution shall be as per the requirements of Companies Act, 2013, SEBI regulations, RBI guidelines and other applicable laws to the company. The Committee shall prepare and recommend the remuneration policy to the Board. The status of implementation of the remuneration policy shall also be reported on an annual basis to the Board.

### *5.2. Reporting in the Annual Report*

The Bank shall make qualitative and quantitative disclosures in the Annual Financial Statements as mentioned in the Annexure 2. In addition to these disclosures the Bank shall also disclose the following information:

- All pecuniary relationship or transactions of the non-executive directors vis- à-vis the Bank shall be disclosed in the annual report.
- Criteria of making payments to non-executive directors.
- All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension, service contracts, notice period, severance fees.
- The ratio of the remuneration of each director to the median employee's remuneration.

### *5.3. Other Disclosure*

- Non-executive directors shall disclose their shareholding, held either by them or on a beneficial basis for any other persons in the Bank in which they are proposed to be appointed as directors, in the notice to the general meeting called for appointment of such director.
- The top management of the Bank shall make disclosures to the Board of Directors relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the Bank at large. Evaluation of Independent Director shall be carried on by the entire Board of Directors of the Bank except the Director getting evaluated.

## **6. Policy Review and Updates**

The Board approved policy shall be reviewed as and when required or at least annually for incorporating regulatory updates and changes, if any.