



## NSDL Payments Bank Limited

### REMUNERATION and COMPENSATION POLICY

Version 1.0

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# NSDL Payments Bank Limited

## Remuneration and Compensation Policy

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**1. PREAMBLE**

- 1.1 Pursuant to section 178(3) of the Companies Act, 2013, it is required that the Nomination and Remuneration Committee (“NRC”) formulate and recommend to the Board a policy relating to the remuneration for Directors, Key Managerial Personnel (“KMP”) and other employees of NSDL Payments Bank Limited (the “**Bank**” or “**NPBL**”).

This Remuneration and Compensation policy has been formulated pursuant to section 178 (3) of the Companies Act, 2013, Banking Regulation Act, 1949 and as amended in line with RBI guidelines on compensation of Whole Time Directors/Chief Executive Officers/Material Risk Takers and Control Function Staff issued as on November 4, 2019 DOR.Appt.BC.No.23/29.67.001/2019-20 and related guidelines

**2. GENERAL PRINCIPLES FOR REMUNERATION OF DIRECTORS, KMP AND OTHER EMPLOYEES**

- 2.1 The NRC shall work in close coordination with Risk Management Committee of the bank, in order to achieve effective alignment between remuneration and risks. The NRC shall also ensure that the cost/income ratio of the bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio.
- 2.2 Pursuant to section 178(4) of Companies Act, 2013, the following principles shall be ensured:

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- 2.2.1 the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors, KMPs, MRT's and other employees of the quality required to run the Bank successfully.
- 2.2.2 relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- 2.2.3 remuneration to Directors, KMPs, MRT's and other employees involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the Bank and its goals.
- 2.2.4 Directors, KMPs, MRT's and other employees are compensated adequately for the efforts put in by them for the growth and profitability of the Bank taking into consideration their significant professional expertise and rich experience across a wide spectrum of functional areas, time commitment, ensuring compliance with various statutory requirements and current competitive business environment.
- 2.2.5 The remuneration of Directors, KMPs, MRT's and other employees are aligned with the long-term interests of the Bank and its shareholders.
- 2.2.6 Staff engaged in financial and risk control shall 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 Bank.
- 2.2.7 There shall be effective alignment of remuneration with prudent risk taking:
- 2.2.7.1 Remuneration shall be adjusted for all types of risk, wherever applicable
- 2.2.7.2 Remuneration outcomes shall be symmetric with risk outcomes.

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- 2.2.7.3 Remuneration payout schedules must be sensitive to the time horizon of risks
- 2.2.7.4 The mix of cash, equity and other forms of remuneration shall be consistent with risk alignment.

### 3. REMUNERATION TO NON-EXECUTIVE / INDEPENDENT DIRECTORS

3.1 Non-executive / Independent Directors shall be paid sitting fees, travelling expenses including airfare, hotel stay and such other expenses as are incurred by them and allowed to be reimbursed as per the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 (B.R. Act) and RBI Circulars / Guidelines / Notifications / Directions issued from time to time.

3.2 The Non-executive / Independent Directors shall be covered under the Directors and Officers Liability Insurance (“D&O”) Policy of the Bank.

### 4. REMUNERATION TO MANAGING DIRECTOR (MD) / WHOLE-TIME DIRECTOR (WTD) / CHIEF EXECUTIVE OFFICER (CEO)/ MATERIAL RISK TAKERS (MRTs)

- 4.1 The Bank shall ensure that for the MD / WTD/ CEO/MRT’s:
- (a) remuneration is adjusted for all types of risk,
  - (b) remuneration outcomes are symmetric with risk outcomes, and
  - (c) remuneration payouts are sensitive to the time horizon of the risk.
  - (d) The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

The Bank shall evaluate the entire spectrum of risks inherent in the payments bank model while determining the remuneration as mentioned in 4.1. above

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

- 4.2 The remuneration payable to MD / WTD / CEO/MRT's may include fixed salary, perquisites, variable pay<sup>1</sup> within the overall limit as per Section 197 of the Companies Act, 2013 and rules framed thereunder and within the limits as may be approved by RBI subject to the approval of the shareholders of the Bank.

#### 4.3 Fixed Pay

The Bank shall 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.

#### 4.4 Variable pay composition and deferral

- 4.4.1 As per Section 62 (iii) (b) in Companies Act, a company other than a listed company which is not required to comply with the SEBI regulations cannot issue further shares under employees stock option scheme for consideration

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<sup>1</sup> Variable pay is defined as pay in the form of performance bonus, guaranteed Bonus (joining/sign-on Bonus), severance package, share linked instruments e.g. Employee Stock option Plan (ESOPs), pension plan, gratuity certain retiral benefits, allowances and other benefits, within the overall limit as per Section 197 of the Companies Act, 2013 and rules framed thereunder and within the limits as may be approved by RBI subject to the approval of the shareholders of the Bank.

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other than cash the unless the issue is authorised by a special resolution passed by the company in a general meeting and confirm to other prescribed conditions under the Companies Act 2013.

Due to the statutory restriction above, as the Bank is at present unlisted, the variable pay shall not include share linked components at present till the time a special resolution to the effect is passed by the general meeting

#### **Limit on Variable Pay:**

The Bank shall ensure 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 variable pay, in the current statutory context, will be capped at 150% of the fixed pay, but shall not be less than 50% of the fixed pay.

For WTDs, CEO and MRTs, if the quantum of variable pay is upto 200% of the fixed pay, atleast 50% of the variable pay will be via non-cash instruments and if it is above 200% (max upto 300%) of the fixed pay, atleast 67% of the variable pay will be via non-cash instruments.

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.

**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 for the variable pay, regardless of the quantum of pay as per the policy shall be applicable . For such executives of the bank, a minimum of 60% of the total variable pay would be - deferred over 3

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years. Further, if cash component is part of variable pay, at least 50% of the cash bonus would also be deferred over 3 years.

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

Treatment of deferred components in case of separation from the Bank

Treatment of Employee stock options in case of resignation, retirement, suspension, dismissal, discharge, termination or death shall be as per the Employee Stock Option Scheme (ESOS) for the respective grant.

3.1.2.2. Treatment of deferred cash variable pay in case of separation from the Bank

- Retirement/ Early retirement/ Death/ Permanent Incapacitation – Entire cash variable pay, deferred but unvested, shall be paid on the earliest date of vesting.
- Resignation/ Discharge/ Dismissal/ Severance of employment due to any other reasons – Unvested cash variable pay shall lapse. The final decision with respect to such payout where the separation is due to management decision the MD & CEO shall have the authority to decide on the unvested variable pay payable to such employee.
- Authorised long leave/ Sabbatical – Deferred but unvested cash variable pay shall be paid 6 months after the employee resumes his duties after completion of long leave/ sabbatical leave.
- In case of an eligible employee who has been suspended or who has been issued a Show Cause Notice, the unvested cash variable pay shall stand suspended. Such variable pay shall not be paid unless the suspension is revoked or disciplinary proceedings initiated against the employee are completed and the concerned employee has been absolved of all the allegations.

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**(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.

**€ 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 vesting shall be no faster than 10% on a rate a basis. Additionally, vesting will not be more frequent than on a yearly basis. In case of KMP the deferral shall be on a quarterly basis. to ensure a proper assessment of risks before the application of *ex post* adjustments.

**4.5 Malus / Clawback**

In the event of negative contribution of the Bank and/or the relevant line of business in any year, the deferred compensation shall be subject to malus/clawback arrangements.

Banks shall 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 bank 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.

NRC shall in its evaluation shall have due regard to principles of proportionality and of reasonable nexus between matters of ability, capability and expertise of the individual/s versus matters or events outside the control or even nexus of the individual/s to the events or situations. In case the Bank's post assessment Gross revenue of the Bank are less than the percentage agreed in the annual budget. these restrictions will apply only if criteria for public disclosure are triggered either on account of regulatory requirements. Additionally, there will be no increase in the variable pay for the said assessment year.

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Further, in the event of:

act of wilful or gross misconduct or neglect

the commission of felony, fraud, misappropriation, embezzlement, breach of trust or an offence involving moral turpitude or breach of integrity,

gross or wilful insubordination, or

any other act detrimental to the interest of the Bank including and not restricted to violation of NSDL Payments Bank Group Code of Business Conduct & Ethics, violation of Framework for dealing with Conflict of Interest, violation of rules and regulations of the Bank, failure to discharge fiduciary and regulatory duties – and in respect of which the Bank would reserve the right to institute appropriate civil, criminal or other proceedings at the risks, costs and consequences of such individual/s,

the NRC (in case of Wholetime Directors/ Chief executive officers/ Material risk takers) or the Disciplinary Authority/ Appellate Authority (for other employees receiving/ received both types of variable pay i.e. performance bonus and ESOPs) may decide to apply Malus and /or Clawback on part or all of the variable pay including unvested/vested/paid deferred variable pay. Due process including inquiries or investigations as required and/or adherence to principles of natural justice are ensured prior to conclusion on the above events of breaches and which would form the basis of decisions. Error of judgment shall not be construed to be a breach under this policy.

Annual reporting of application of Malus and/or Clawback by the Disciplinary Authority/Appellate Authority will be made to the BGRNC for being noted.

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The Wholetime Directors/ Chief executive officers/ Material risk takers and other employees will be required to sign revised terms governing compensation (including Malus/Clawback on Variable Pay/Deferred Variable Pay). In such revised terms, the employees will agree to forfeit existing deferred cash bonus or unvested stock options with respect to grants made on/after April 1 2020 and/or return all or part of the cash bonus paid since 2012 and/or cancelling of vested Stock Options and/or if the Options have been exercised, return of the amount as decided by the appropriate authority as defined above with respect to grants made on/after April 1 2020.

While situations may arise requiring applying malus and/or clawback to employees who may have resigned, retired or taken early retirement or been terminated, the same shall be done basis the given facts and circumstances, and through due legal process for recovery of amounts adjudged for clawback or as damages suffered or as recoverable by the Bank.

Malus/ clawback clause can be applied for all Material Risk Takers who are in active employment of the Bank as well as those who have since separated from the Bank, due to any of the following reasons: .

Resignation

Discharge/ Dismissal from services

Retirement / Early Retirement

Authorised long leave/ Sabbatical

Transfer to group company

Severance of employment due to any other reasons, except death

#### 4.5. Period

Malus/ clawback clause can be applied for a period of 3 year after the date of grant of Total Variable Pay.

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**4.6 Guaranteed bonus**

Any joining / sign on bonus shall only occur in the context of hiring new staff and will be limited to first year. The Bank shall not grant severance pay other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory by any statute. 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.

**4.7 Hedging**

The Bank shall not provide any facility or funds or permit employees to insure or hedge their remuneration structure to offset the risk alignment effects embedded in their remuneration arrangement. To enforce the same, the Bank shall establish appropriate compliance arrangements.

**5. REMUNERATION OF RISK CONTROL / COMPLIANCE / MRT's AND OTHER STAFF**

5.1 Members of staff engaged in finance , risk control, including internal audit and other control function staff shall be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the Bank. The mix of fixed and variable remuneration for control function personnel shall be weighted in favour of fixed remuneration. 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.

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5.2 The Bank may adopt all / any of the principles similar to the principles enunciated for MD/WTD/CEO/MRTs as appropriate while designing their remuneration structure.

#### **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.

The Bank shall also make disclosure on remuneration of WTDs/CEOs/MRTs on an annual basis at the minimum, in their Annual Financial Statements.

In accordance with the aforesaid criteria laid down by RBI in the guidelines dated November 4, 2019 the Bank has identified the MD & CEO as the material risk taker at the Bank.

Designation	Criteria for classification
<b>Managing Director and Chief Executive Officer</b>	<input type="checkbox"/> Decision-making power <input type="checkbox"/> Total remuneration exceeds a certain threshold <input type="checkbox"/> The authority to commit significantly to risk exposures <input type="checkbox"/> Their remuneration is equal to or greater than the lowest

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Designation	Criteria for classification
	total remuneration of senior management and other risk-takers

5.3 All Employees shall conduct themselves to ensure that no breach of applicable Codes is committed. Any such breach shall have a direct bearing on their performance appraisal and rewards and shall also attract appropriate disciplinary action.

#### 6. DISCLOSURES

6.1 The applicable disclosures as required under the relevant provisions of the Companies Act, 2013, the rules made thereunder and RBI Circulars / Guidelines / Notifications / Directions including DBOD No.BC. 72 /29.67.001/2011-12, issued from time to time, shall be made with regard to the remuneration details of the Directors and other employees in the annual financial statements / Board's report.

#### 7. ATTENDANCE OF CHAIRPERSON OF NRC AT GENERAL MEETINGS

7.1 Pursuant to section 178(7) of the Companies Act, 2013, the Chairperson or in his/her absence, any other member of the NRC (who will be deemed to be authorised by the Chairperson) shall attend the general meetings of the Bank.

#### 8. POLICY REVIEW

8.1 This Policy may be amended, modified or supplemented, from time to time, to ensure compliance with any amendment, modification or supplementation to

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the Companies Act, 2013 and rules made there under, RBI regulations / guidelines or any other law relating to employee / Directors' compensation, issued from time to time. At a minimum the policy shall be subject to annual review

- 8.2 The Board of Directors shall actively oversee the remuneration system's design and operation and shall monitor and review the same at least on an annual basis to ensure that the system operates as intended.
- 8.3 Pursuant to Section 10(1)(b)(iii) of the Banking Regulation Act, 1949 (B.R. Act, 1949), the Bank shall neither employ nor continue the employment of any person whose remuneration is, in the opinion of the RBI, excessive.

#### ANNEXURE 1: DISCLOSURE REQUIREMENTS FOR REMUNERATION

<b>Remuneration</b>		
Qualitative disclosures	a.	Information relating to the composition and mandate of the 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	g.	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.
	h.	<input type="checkbox"/> Number of employees having received a variable remuneration award during the financial year.

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should only cover Whole Time Directors / Chief Executive Officer/ Material Risk Takers)		<input type="checkbox"/> Number and total amount of sign-on/Joining Bonus made during the financial year. <input type="checkbox"/> Details of severance pay, in addition to accrued benefits, if any.
	i.	<input type="checkbox"/> Total amount of outstanding deferred remuneration, split into cash, types of sharelinked instruments and other forms. <input type="checkbox"/> Total amount of deferred remuneration paid out in the financial year.
	j.	<input type="checkbox"/> Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	k.	<input type="checkbox"/> Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments. <input type="checkbox"/> Total amount of reductions during the financial year due to ex- post explicit adjustments. <input type="checkbox"/> Total amount of reductions during the financial year due to ex- post implicit adjustments.
	l.	<input type="checkbox"/> Number of MRTs identified
	m.	<input type="checkbox"/> Number of cases where malus has been exercised. <input type="checkbox"/> Number of cases where clawback has been exercised. <input type="checkbox"/> Number of cases where both malus and clawback have been exercised
General Quantitative Disclosure		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.

#### ANNEXURE 2: DEFINITION OF FIXED PAY

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Details of Fixed Remuneration	Particulars
Monthly Cash Components	<input type="checkbox"/> Basic Pay <input type="checkbox"/> Leave Travel Allowance <input type="checkbox"/> House Rent Allowance <input type="checkbox"/> Bouquet of Benefits <input type="checkbox"/> Other Fixed Allowances as may be decided by the Board of Directors of the Bank, from time to time
Retiral Benefits	Provident Fund Gratuity
Perquisites/Reimbursements Entitlement	<input type="checkbox"/> Use of Bank's car for official purposes <input type="checkbox"/> Driver's salary <input type="checkbox"/> Furnishing Allowance <input type="checkbox"/> Insurance benefits (Term Life and Mediclaim) <input type="checkbox"/> Other perquisites as may be decided by the Board of Directors of the Bank, from time to time

#### ANNEXURE 3: DEFERRAL SCHEDULE

Payable effective date	Schedule for Cash Variable Pay	Schedule for ESOP's
Immediately following the reference performance year	50% payout	Grant; no vesting

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At the end of first year following the reference performance year	16.5% payout	33% vesting
At the end of second year following the reference performance year	16.5% payout	33% vesting
At the end of third year following the reference performance year	17.0% payout	34% vesting

\* If Cash Variable Pay is more than INR 25 Lacs.

Payment of Total Variable Pay to Whole Time Directors is subject to approval by the Reserve Bank of India (RBI).