

DCB BANK

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Compensation Policy

1. Policy on Compensation

I. Objective

The Bank's objective is to maintain a Compensation Policy that:

1. Is able to attract, retain and motivate talent to perform at higher standards.
2. Facilitates a performance oriented culture in the Bank.
3. The compensation will be risk aligned taking into account, the long term performance of the Bank.
4. To ensure effective governance of Compensation and alignment of compensation practices with prudent risk taking
5. To have mechanisms in place for effective supervisory oversight and Board engagement in Compensation
6. Shall be aligned with the statutory and regulatory guidelines (including that of Reserve Bank of India vide Circular; RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019).

II. Effective date of Policy

This policy shall be applicable for performance assessment and reward cycles beginning from or after 1st April, 2020.

III. Applicability of Policy

Applicable to all employees of the Bank including;

- A. Whole Time Directors (WTDs)
- B. Managing Director & Chief Executive Officer (MD &CEO)
- C. Material Risk Takers (MRTs)¹: Material Risk Takers as defined as those employees whose actions have a material impact on the risk exposure of the Bank.
- D. Risk, Compliance and Control employees comprising staff in the grade Group Senior Vice President and above.
- E. Other categories of employees: All employees in support and other management functions including front line employees.

IV. Overall Compensation Structure

The Bank considers two major components as part of its Compensation Policy; namely

i) Fixed Pay - The fixed pay structure of the Bank is based on Cost to Company ('CTC') which consists all those components which are fixed in nature such as basic, allowances, perquisites etc. Perquisites that are reimbursable shall also be included in the fixed pay with applicable monetary ceilings on these reimbursements based on the HR Policy of the Bank. Contributions towards Superannuation/Retiral benefits will be treated as part of fixed pay.

Assessing reasonableness of fixed pay: For assessing the same, the Bank may use the following methodologies:

- a. Internal Benchmarks/ External Benchmarks
- b. Capacity to pay
- c. Financial Performance of the Bank
- d. Regulatory guidelines
- e. Risk Factors

ii. Variable Pay - The Bank adopts a performance oriented culture with strong emphasis on the Bank's values and zero tolerance on the Risk, Control and Compliance standards. Variable pay is discretionary in nature and

¹ Identification of Material Risk Taker as per clause no. 2.4 Guideline 6: Identification of Material Risk Takers of the bank provided by Circular reference no. RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019

is aligned to performance, hence if performance is not as per expectations, it may even be zero for the relevant performance year. The variable pay will include cash and may include equity linked instruments as applicable to the relevant categories of employees and or specific employees which includes WTDs/ MD & CEO and MRTs

ii.i. ESOPs/ Equity Linked Instruments

The Bank has an Employee Stock Option Plan (ESOP) which is based on the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations 2014 and the employees are eligible to receive ESOP grants based on Employee Stock Option Plan. ESOP grants are part of the variable pay program. The norms for grant of ESOPs are as defined in the ESOP of the Bank. The Bank has introduced a Cash Settled Stock Appreciation Rights Plan in FY 2022-23. As permitted by the regulations, the Bank may adopt other equity linked instruments including Stock Appreciation Rights subject to compliance with applicable statutory, regulatory guidelines. The instruments will be fair valued on the date of the grant by the Bank using Black-Scholes model.

A. Compensation Structure (applicable to WTD/ MD & CEO and MRTs)²

The compensation structure for this category shall consist of fixed and variable pay as stated herein below:

Limit on Variable pay:

- i. At least 50% of the total compensation shall be variable.
- ii. Variable pay shall be limited to a maximum of 300% of the fixed pay
- iii. Where the variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay shall be via equity linked instruments; and in case the variable pay is above 200%, a minimum of 67% of the variable pay shall be via equity linked instruments.
- iv. In an event that an employee is barred by statute/ regulation from grant of equity linked instruments, their variable pay shall be capped at 150% of the fixed pay.

Deferral of Variable Pay: A minimum of 60% of the total variable pay shall be under deferral arrangements. At least 50% of the cash bonus shall be deferred. However, in cases where the cash component of variable pay is under Rs.25 lakhs, deferral would not be required.

Period of Deferral Arrangement: This would be applied to both the cash and equity linked components of the variable pay. The deferral period shall be for a minimum period of three years.

Vesting: The vesting shall be no faster than on pro-rata basis. Vesting shall not take place more frequently than on a yearly basis to ensure a proper assessment of risks before the application of any adjustments.

Variable pay on retirement/ resignation/ death/ termination:

- i. In case of retirement on superannuation/ end of tenure, the unvested amount of variable pay shall continue to vest based on the deferral schedule.
Exception: The NRC/ Board will have discretion in allowing continued vesting in part/ full deferred variable pay to employees retiring under NRC/ Board approved Voluntary Retirement Scheme (VRS).
- ii. In case of resignation, the deferred portion of variable pay shall lapse.
Exception - On a case to case basis, management would recommend after considering vintage, performance and other related factors to NRC for their consideration and approval.
- iii. Upon death of an employee, the unvested deferred portion of the variable pay shall vest immediately (unless an unforeseeable circumstance warrants a review by Management and thereafter by NRC)
- iv. In case of termination of service on account of Sexual Harassment, Moral Turpitude, Gross Negligence, Willful Misconduct or on account of any other disciplinary reasons, all the vested variable pay (cash and equity linked instruments) not exercised or not paid shall lapse. Further, all the unvested cash and equity linked instruments will also lapse on the date of such termination. The incumbents paid variable pay for the relevant period shall be subject to clawback clause (if applicable).

² Annexure 2 – List of positions qualifying as Material Risk Takers

For termination of service on account of any other reasons (including but not limited to corporate action, redundancy, medical reasons, etc) not stated above, the appropriate decisions will be taken on whether the deferred variable pay is lapsable by the NRC/ Board (as applicable) after considering the Applicable Laws, terms of service and all necessary regulatory compliance as may be required.

Guaranteed Bonus/Joining/ Sign On Bonus: Guaranteed bonus will only occur in the context of hiring new employees as joining/sign-on bonus and will be limited to the first year. Further, joining/sign-on bonus will be in the form of equity-linked instruments only. Such bonus will neither be considered part of fixed pay nor part of variable pay.

Severance Pay: The Bank shall not grant any severance pay other than accrued benefits (gratuity, retirement funds, etc), except in cases where it is mandatory under any statute, including notice pay under the terms of employment.

Malus/ Clawback: This clause is a risk adjustment/ alignment measure, wherein *Malus* permits the Bank to prevent vesting in full or in part of the amount of a deferred remuneration for an employee. *Clawback* is an agreement between the employee and the Bank in which the employee agrees to return previously paid or vested remuneration to the Bank. Conditions for Malus/ Bank are specified in Annexure 1³. In all such cases, there shall be no annual increment / merit increase for such employees in the assessment year (i.e. performance appraisal period).

Error of judgement shall not be construed to be a breach under this policy. The NRC shall be the deciding body for all such cases.

Any such incidents specified in Annexure 1 shall be reported to the NRC through the People Forum of the Bank or NRC can suo moto take cognizance of such incidents (including those reported through the Whistle Blower mechanism of the Bank). The NRC shall with appropriate due diligence decision the incidents leading to Malus/ Clawback and decide the responsible employees who will be subjected to Malus/ Clawback for the specific incidents.

B. Compensation Structure (applicable to Risk Control and Compliance employees)

All employees (including Internal Audit) under this category play a key role in ensuring integrity of risk management, compliance and controls framework and will have the necessary independence and will not report to business functions. As they play a key role in ensuring integrity of risk management, their own pay shall be weighed in favour of fixed pay so that their pay is not materially influenced by short term pay outcomes.

Variable pay on retirement/ resignation/ death/ termination:

- i. In case of retirement on superannuation/ end of tenure, the unvested amount of variable pay shall continue to vest based on the deferral schedule.
Exception: The NRC/ Board will have discretion in allowing continued vesting in part/ full deferred variable pay to employees retiring under NRC/ Board approved Voluntary Retirement Scheme (VRS).
- ii. In case of resignation, the deferred portion of variable pay shall lapse.
Exception: On a case to case basis, management would recommend after considering vintage, performance and other related factors to NRC for their consideration and approval.
- iii. Upon death of an employee, the unvested deferred portion of the variable pay shall vest immediately (unless an unforeseeable circumstance warrants a review by Management and thereafter by NRC)
- iv. In case of termination of service on account of Sexual Harassment, Moral Turpitude, Gross Negligence, Willful Misconduct or on account of any other disciplinary reasons, all the vested variable pay (cash and equity linked instruments) not exercised or not paid shall lapse. Further, all the unvested cash and equity linked instruments will also lapse on the date of such termination. The

³ Annexure 1 - List of Incidents leading to Malus/ Clawback

incumbents paid variable pay for the relevant period shall be subject to clawback clause (if applicable).

For termination of service on account of any other reasons (including but not limited to corporate action, redundancy, medical reasons, etc) not stated above, the appropriate decisions will be taken on whether the deferred variable pay is lapsable by the NRC/ Board (as applicable) after considering the Applicable Laws, terms of service and all necessary regulatory compliance as may be required.

Further the variable pay for relevant positions shall be subject to deferral as well as malus/ clawback clause as stated below.

Malus/ Clawback: This clause is a risk adjustment/ alignment measure, wherein *Malus* permits the Bank to prevent vesting in full or in part of the amount of a deferred remuneration for an employee. *Clawback* is an agreement between the employee and the Bank in which the employee agrees to return previously paid or vested remuneration to the Bank. Conditions for Malus/ Bank are specified in Annexure 1⁴. In all such cases, there shall be no annual increment / merit increase for such employees in the assessment year (i.e. performance appraisal period).

Error of judgement shall not be construed to be a breach under this policy. The People Forum shall be the deciding body for all such cases for other than WTD and MRTs.

Any such incidents specified in Annexure 1 shall be reported to the NRC through the People Forum of the Bank or NRC can suo moto take cognizance of such incidents (including those reported through the Whistle Blower mechanism of the Bank). The NRC shall with appropriate due diligence decision the incidents leading to Malus/ Clawback and decide the responsible employees who will be subjected to Malus/ Clawback for the specific incidents.

C. Compensation Structure (applicable to Other Categories of Employees)

The guidelines applicable for the WTD/ MD & CEO/ MRTs and Control Function employees shall not be applicable to this category of employees. The fixed pay structure of the Bank is based on Cost to Company ('CTC') which consists all those components which are fixed in nature such as basic, allowances, perquisites etc. Contributions towards Superannuation/Retiral benefits will be treated as part of fixed pay.

The Bank may roll out performance payout programs for them from time to time based on broad direction from NRC, taking into consideration various factors including risk alignment of remuneration. These programs shall be approved by the MD & CEO along with the Head of Human Resources/ People Forum of the Bank.

V. Governance of Compensation

i. The Nomination & Remuneration Committee of the Board (NRC)

The committee is the supervisory governing body overseeing the Compensation Policy. The said committee consists of number of Independent Directors as defined in the terms of reference (TOR) of NRC with at least one member from the Risk Management Committee (RMC) of the Board. The Committee shall work in close coordination with the Risk Management Committee to ensure effective risk alignment of remuneration.

This Policy shall be subject to a review at least once a year by NRC and the Board.

The Nomination & Remuneration Committee of the Board / the Board of Directors may approve Loans / Advances to all WTD / CEO and sanction him/her such Loans / Advances. These Loans / Advances shall be in compliance with the applicable guidelines from RBI on pay of WTDs and MD & CEO– Restrictions under Section 20 of the Banking Regulation Act, 1949 – Loans to Directors and the SEBI.⁵

⁴ Annexure 1 - List of Incidents leading to Malus/ Clawback

⁵ Refer to RBI/2015-16/178 DBR.Dir.BC.No.38/13.03.00/2015-16 dated September 16, 2015

The Bank aims to align pay structure across levels in the annual rewards exercise (Compensation Revision) carried out keeping the following considerations, namely;

- i. Performance of the bank, individual and business unit*
- ii. Alignment of risks with the remuneration,
- iii. Encouraging rewards based on the long term contributions to the bank,
- iv. Cost/ income ratio of the bank,
- v. Capital Adequacy ratio
- vi. Employee turnover on account of increased demand of talent in the industry
- vii. Other related factors include any extraneous market circumstances that may need to be taken into consideration

* Broadly the parameters covered under:

1. The Performance of the Bank includes:
 - a) Bank KPIs includes
Revenue, Cost, LCR, Capital, Operating Profit, Net Profit, NPAs, Risk, Governance, Compliance, Customer Service, Attrition/People practices and CSR. These factors may vary from year to year depending on the Bank's strategic priorities.
 - b) No adverse reputational risk items, credit rating, etc.
 - c) Compliance to all statutory and regulatory guidelines
2. Business Unit Performance includes:
 - a) Business unit goals or the Business Plan document in reference to the related line of business
 - b) Risk, Audit and Compliance ratings.
3. Individual Performance includes:
 - a) Individual key performance indicators/ SMART goals
 - b) Any observations with regards to code of conduct, risk, audit and compliance

The specific weightages for parameters shall be captured through individual goals/KPIs.

The People Forum which has senior executives from the Management, provides oversight on the Performance Appraisal and Reward scheme of the Bank. The NRC reviews Performance Appraisal and remuneration decisions of senior management based on the Board approved Compensation Policy of the Bank. Annually, the NRC shall review and approve the Rewards approach presented by the Management.

The compensation policy shall be an integral part of the HR Policy of the Bank and employment contracts shall incorporate applicable terms for the relevant category of employees.

This policy is aligned towards the bank's objective of improving its cost/income ratio and does not adversely impact the cost/income ratio of the bank. NRC will seek inputs as may be required from Audit Committee of the Board (ACB) on the bank's financial performance.

The determination of the performance bonus/payout pool is an ongoing process throughout the year and takes into account several factors like impact of the role and function, attracting and retaining of talent, risk alignment and financial performance of the Bank.

ii. Hedging

No hedging or price risk shall be encouraged as part of the Reward Program. No funding shall be provided by the Bank to allow the employees to hedge against any pay elements. The Internal Audit Department of the bank will oversee the policy implementation to ensure prohibition of hedging of compensation of WTD's, MD and CEO and MRTs.

iii. Annual Disclosure

The Bank shall make relevant pay disclosures on an annual basis, in the Annual Financial Statements and do the necessary reports as required by regulators. The Bank will also provide all relevant internal and external parties with appropriate information and transparency thereby promoting a thorough understanding of the Bank's compensation practices. Details of compensation programs and plan awards are communicated to the employees at periodic intervals.

iv. Risk and Performance Alignment of Remuneration

The methodologies for adjusting remuneration to risk and performance will be consistent with the general risk management and corporate governance framework of the Bank. Risk adjustments will take into account the nature of the risks involved and the time horizons over which they could emerge. The Bank will be adhering to the guidelines mentioned in the Basel Committee on Banking Supervision Report on Range of Methodologies for Risk & Performance Alignment of Remuneration and FSB Implementation standards on sound pay practices.

A wide variety of measures of credit, market, liquidity and other risks shall be taken into consideration in implementation of risk adjustment, such that no risks over the accepted risk appetite of the Bank are being taken against the interest of the Bank. Given that the control function staff play a key role in ensuring integrity of risk management, their own pay shall be weighed in favour of fixed pay so that their pay is not materially influenced by short term pay outcomes. In general, the review of Risk Management framework shall be an integral part of the annual performance review applicable to all employees.

Under exceptional circumstances, the MD & CEO along with Head – Human Resources shall be empowered to approve suitable review of the compensation for employees other than WTDs, MRTs, Senior Management and relevant positions in Risk, Control, Compliance and Audit functions based on internal and external benchmarks. These exceptions shall be based on broad guiding principles that would be set by the NRC through the Board for review and reward of such performances. On a quarterly basis, such exceptions (if any) shall be notified to the NRC.

v. Alignment with Whistle Blower Policy

The Bank will continue to encourage whistle blowers on the subject of risk alignment through the Bank's Whistle Blower Policy.

VI. Equal Pay Opportunity

The Bank does not tolerate any form of discrimination, in particular discrimination based on ethnicity, gender, sexual orientation, gender identity or religion or any other status that is protected by local law. The Bank encourages a safe and healthy work environment, free from discrimination, harassment and retaliation. All employment-related decisions, including decisions on pay are based on an individual's qualifications, performance and behaviour.

VII. Compliance with Regulations, Legislations

This policy will be subject to applicable guidelines from SEBI (Share Based Employee Benefits Regulations 2014 as amended from time to time), Income Tax Act or any other applicable Acts, guidelines issued by regulatory and statutory authorities, including that of RBI.

Further, if there is any conflict between the clause(s) of this Policy and any present or future law or regulation, then the clause(s) of this Policy that is affected shall be curtailed only to the extent necessary to bring it within the requirement of the law or regulation, and the remaining clauses shall remain in effect.

Annexure 1 – List of Incidents leading to Malus/Clawback

- i. Deterioration in the financial performance of the bank (decline in net profit by 25% or more) and or in the relevant line of business in any year. (If the financial performance has been negatively impacted due to factors not in control of the Bank, for example: changes in industry, macro-economic factors, changes in regulations, etc, then the management/ NRC shall have the discretion to determine if malus/ clawback clause will apply)
- ii. Wherever the assessed divergence in Bank’s provisioning for Non-Performing Assets (NPAs) or asset classification exceeds the prescribed threshold for public disclosure⁶, namely;
 - a. The additional provisioning for NPAs assessed by the regulator exceeds 10% of the reported profit before provisions and contingencies for the reference period.
 - b. Additional gross NPAs identified by the regulator exceed 15% of the published incremental Gross NPAs for the reference period.
 - c. In case the Bank’s post assessment Gross NPAs are less than 2%, restrictions shall apply as per applicable regulatory guidelines only if the criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.
- iii. Major breach of compliance stipulated by appropriate governing/statutory bodies.
- iv. Incidents involving integrity violation leading to termination of employment. Further, for incidents of Gross Negligence, Willful Misconduct, the NRC, based on the recommendation from the Management shall suitably consider severity of Misconduct while applying restrictions under Malus and Claw back clauses.
- v. If the circumstances warrant so, the NRC may from time to time prescribe additional incidents (if required) and accordingly decide whether any part of the deferred tranche of variable pay belonging to a financial year merits malus/clawback.

Period of Consideration for Malus and Clawback:

Incidents qualifying for applying restrictions under Malus and Clawback clauses should occur within the subsequent three years of the relevant assessment year (i.e. performance appraisal periods), the responsible incumbent(s) shall be obligated to return variable pay in part/ full or as decided by the NRC as per the malus/ clawback clause.

⁶ Refer DBR.BP.BC.No.32/21.04.018/2018-19 dated April 1, 2019

Annexure 2 – List of positions qualifying as Material Risk Takers

The Bank has carefully followed the laid down process and the following employees have been assessed as Material Risk Takers, based on the Standard Qualitative Criteria and under the Standard Quantitative Criteria:

- Head Treasury and Financial Institutions Group
- Head Operations, Technology, Human Resources & CIO
- Head Retail Banking
- Head Agri & Inclusive Banking
- Chief Credit Officer
- Chief Financial Officer
- Head Corporate & SME Banking