

## Compensation Policy

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### Document Review and Approval

#### Revision history

	Summary of Change	Prepared By	Reviewed by	Recommended by (Mgt. Com)	Approved by	Ver No.	Effective Date
1	First Release	Pratima Thomas - Head -HR	Basavraj Loni - DVP Legal and Company Secretary	N.A.	Board of Directors	1.0	January 27, 2022
2	Second Release	Pratima Thomas - Head -HR	Basavraj Loni - DVP Legal and Company Secretary	N.A.	Board of Directors	2.0	January 31, 2024
3	Third Release	Pratima Thomas - Head -HR	Basavraj Loni - DVP Legal and Company Secretary	N.A.	Board of Directors	3.0	February 26, 2024

## COMPENSATION PHILISOPHY AT FINO PAYMENTS BANK

Employee Compensation is a critical tool in the successful execution of our corporate goals. Attracting, motivating and retaining talent is central to our compensation policy. The philosophy revolves around pay for performance and guides our compensation decisions for all employees including the senior management. We believe in being totally compliant to the Reserve Bank of India as well as all other regulatory requirements.

### 1. OBJECTIVES OF THE COMPENSATION POLICY

- a) To attract and retain talented employees
- b) To reward and motivate employees on holistic achievement of their goals including financial and non- financial parameters.
- c) Reinforce a business culture that drives meritocracy and supports accountability and zero tolerance for unethical conduct through appropriate compensation and employment decisions.
- d) Develop and enforce risk management controls that reduce incentives to create imprudent risks for Fino Payments Bank (FPB) and its businesses, and reward thoughtful balance of risk and return as guided by regulatory instructions from time to time.
- e) To focus on enhancing the value and to attract and retain quality individuals with requisite knowledge and excellence as Executive and Non-Executive Directors for achieving objectives of FPB and to place FPB in a leading position in the banking industry.

### 2. SCOPE

This compensation policy (**Policy**) applies to all full time employees and directors on the board of FPB (**Director**).

### 3. GUIDING PRINCIPLES

#### 3.1 Governance

The guidelines that govern the compensation policies and programs of FPB are actively overseen by the Nomination & Remuneration Committee (**NRC**) of the board of directors (**Board**) and administered by the Human Resources Department with the key goals of hiring, motivating, rewarding and retaining high performing employees who support the organization's mission and strategy.

The NRC monitors and reviews this Policy and ensures that the same is implemented as intended. The NRC is also responsible to ensure FPB's compliance with the 'Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff' issued by the Reserve Bank of India (**RBI**) in its circular dated November 4, 2019, the provisions of the Companies Act, 2013 and the rules made thereunder, the 'Guidance Note on Board Evaluation' issued by the Securities and Exchange Board of India in its circular dated 5 January 2017, the 'Review of Fixed Remuneration

granted to Non-Executive Directors (NEDs)' issued by the RBI in vide its notification dated February 9, 2024, and any other regulatory requirements or conditions.

The NRC shall consist of at-least 3 members who shall be Non-Executive Director. Further NRC shall comprise of majority of Independent Directors and it shall include 1 member from the Risk & Asset Liability Management Committee of the Board (RALMC). Further Chairperson of the NRC, shall be an Independent Director. The NRC works in close coordination with RALMC, to achieve effective alignment between compensation and risks.

The NRC is also responsible for the identification and approval of the Material Risk Takers (MRTs) whose actions have a material impact on the risk exposure of FPB, and who satisfy the qualitative and any one of the quantitative criteria given below:

**Qualitative Criteria:**

- Relate to the role and decision-making power of staff members having jointly or individually, the authority to commit significantly to risk exposures

**Quantitative Criteria:**

- Total remuneration exceeds a certain threshold
- Included among the 0.3% of staff with the highest remuneration in FPB, or
- Remuneration is equal to or greater than the lowest total remuneration of senior management and other risk-takers

Risks taken will be estimated (*ex ante*), risk outcomes observed (*ex post*) and both *ex ante* estimates and *ex post* outcomes should affect payoffs.

Identification of MRTs is done annually or more frequently, if required, in line with the guidelines defined by the RBI and is in consultation with the RALMC, NRC and the Human Resources department of FPB.

Human Resources provide recommendations regarding executive compensation and annual reviews for all other staff to the NRC. The recommendations are largely based on the bank, business unit and individual performance and achievement of annual objectives.

At times industry benchmarks are also sought for certain critical roles in the organization. The annual assessments are done basis the existing Performance Management System policy.

The executive management compensation is reviewed on an annual basis depending on the overall performance of the organization and is adjusted to all types of risk. Market benchmarking is also kept in mind while proposing the annual compensation for the executive management. Basis the proposal, the NRC recommends to the Board the executive compensation and for approval of the same by the Board and government regulators (as may be required under applicable laws) from time to time. The NRC also

ensures that the cost/income ratio of FPB supports the approved compensation and is consistent with maintenance of sound capital adequacy ratio.

### **3.2 Compliance**

To comply with all the relevant laws, rules, statutes and regulations related to compensation defined from time to time. Human Resources functions periodically provides compliance certificate to the Board and the NRC.

### **3.3 Compensation Communication**

An important objective of the Policy is to provide all relevant internal and external parties with appropriate information and transparency, thereby promoting a thorough understanding of the FPB's compensation practices.

### **3.4 Performance**

FPB adopts a performance culture with a strong emphasis on disciplined risk management, ethics and compliance-centered behavior. To support this, FPB has a comprehensive performance management system policy based on performance rating of contribution and any risk adjusted performances demonstrated over time. Contribution ratings are typically based on objective criteria such as achieving targets or successful completion of projects. The Key Performance Indicators of the employees are very well articulated and communicated at the beginning of the year.

Performance Management Systems are designed to foster team work and collaboration, as well as support a strong culture of ethical values and professional standards. All managers and employees are aware of the risk aspects of compensation and how their behaviors are factored into discretionary variable incentive award recommendations.

### **3.5 Market Trends and Practices**

In order to maintain internal parity and ensure alignment with market trends and industry best practices, Human Resources Compensation Vertical will undertake benchmarking exercises from time to time and present to NRC their recommendations in line with this Policy for hiring and retention of human resources.

### **3.6 Periodic Review**

This Policy and total compensation is reviewed on an annual basis by the NRC to ensure that it is in line with organizational growth and risk adjusted value creation. This also provides us an opportunity to review claw back on any performance based incentive payout.

### **3.7 Hedging**

FPB does not provide any facility/ funds or permit employees to insure or hedge their compensation to offset the risk alignment effects embedded in their compensation. The Compliance department of FPB will advise the NRC from time to time on compliance with

the hedging guidelines & alert the NRC and the RALMC of FPB should there be any violation of the said guidelines.

### **3.8 Guaranteed Bonuses and Severance Pay**

Guaranteed bonus is not a part of the compensation plan of any employee in FPB. [When deemed required, the Human Resources Department is authorized to use share-linked instruments as joining/sign-on bonuses only for the purpose of hiring new staff and will be limited to the first year. Such bonuses will neither be considered part of fixed pay nor part of variable pay. Share linked Instruments may be used for this purpose in accordance with the policy for eg Options as per ESOP policy. Further, FPB will not grant severance pay other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory under any statute/ law.

### **3.9 Malus and Clawback**

The deferred portion of employee compensation is subject to malus<sup>1</sup> and clawback<sup>2</sup> arrangements in the event of:

- Subdued or negative financial performance of FPB, as determined by the NRC
- Material restatement of the FPB's financials or any other materially inaccurate performance metrics
- Material losses for FPB due to reckless / negligent or willful risk taking or other inappropriate action or behaviour by the relevant employee; and
- Misconduct or fraud committed by the relevant employee.

The above malus/ clawback provisions are valid for the same number of years as the deferment period from the grant of any cash or share-linked variable compensation and are applicable to employees beyond tenure of employment with FPB, should that fall within the same number of years from the grant of variable compensation.

Should one of the above (or similar) triggers be invoked, the NRC, in consultation with the Risk Management/ Fraud/ any other relevant departments of FPB, may deliberate the matter and authorize the Human Resources department to take the relevant actions if either malus/clawback/both triggers are invoked.

If the employees involved in the trigger are not identified as MRTs, the Management Committee like the Disciplinary Action Committee may deliberate the matter. However, the NRC has the authority to approve the final action/ penalty for any incumbents involved.

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<sup>1</sup> A malus arrangement permits FPB to prevent vesting of all or part of the amount of a deferred remuneration.

<sup>2</sup> A clawback is a contractual agreement between the employee and FPB in which the employee agrees to return previously paid or vested remuneration to FPB under certain circumstances.

## 4. Components of Total Compensation

### 4.1 Fixed Pay

Fixed Pay is the fixed payments to employees on a monthly basis for the services rendered. Fixed Pay is a percentage of the total compensation. Fixed pay for each employee will differ depending on the years of experience, the job role, and tenure in job, job responsibilities and job performance and the Grade. Fixed Pay comprises components like Basic Salary, House Rent Allowance, Special Allowances, etc. Further any statutory payments and/ or retirement benefits such as Provident Fund will be included in fixed pay.

### 4.2 Earning Potential or Variable Pay

Earning potential or Variable Pay is a percentage of compensation and the percentage differs depending on the seniority and job role. The percentage varies and is at least 10% of total compensation.

In the case of those employees identified as MRTs (other than those belonging to Control Functions), the variable pay (including cash variable pay and share-linked variable pay) is at least 50% of total compensation and not more than 300% of fixed pay of the respective employee. In cases where the compensation for an MRT by way of share-linked instruments is not permitted by any law/regulation, the entire variable pay may be in cash and will be more than 50% but not more than 150% of fixed pay.

#### 4.2.1 Cash Variable Pay

Earning Potential or Variable Pay is a payout made to the individual depending on the performance of FPB, the relevant business unit and his or her individual performance and other risk adjusted value creation appropriate to role and responsibilities and may be zero in case of sub- standard performance. The Earning Potential Payout is not made in case the employee chooses to leave the FPB. The Earning potential or Variable payout does not constitute of any Guaranteed Bonus.

#### 4.2.2 Share-linked Variable Pay

Share-linked variable pay may be a part of the total compensation of select employees based on their role and strategic contribution to FPB. For those employees identified as MRTs, the share-linked variable pay is at least 50% of the total variable pay. If the variable pay is more than 200% of the Fixed Pay then a minimum of 67% should be in Non cash instruments. The actual grant is linked to the performance of the bank, business unit and his or her individual performance. The Earning Potential Payout which is in the form of Shares will be done in consonance to the Policy Scheme, in case the employee chooses to leave the bank.

### **4.3 Deferred Compensation Component**

As a bank we do not offer Deferred Bonus payouts in cash to our employees. However, for those employees identified as MRTs deferral arrangements will be a part of their variable compensation. For such employees, at least 60% of their total variable pay will be under deferral arrangements. The compensation of MRTs will also include a deferral of 50% of the cash variable pay equally over 3 years. In cases where the cash variable pay is under INR 25 lakhs, there may not be any deferral arrangements.

Deferral of share-linked instruments will be governed by the Long Term Incentive Plan of FPB recommended by the NRC and approved by the Board of Directors and will be for a minimum period of 3 years. Such share-linked variable pay plan(s) will be in compliance with the local laws/ regulations, including the aforementioned guidelines issued by RBI.

Such Variable Compensation will also be subject to Malus and Claw backs and will need employees to sign relevant declarations whenever necessary.

### **4.4 Specific Compensation Components**

Aside from the annual compensation review process, there are many compensation components throughout the year. The most common relate to new hires or terminations and may entail minimum variable compensation such as joining bonus, buy-out arrangements or termination payments and will be in line with section 3.8 of this document.

In such components claw back options shall be exercised. Such compensation shall be limited to the year of event only.

The Managing Director and CEO is empowered to approve the use of such transactions when fully justified and under applicable rules.

## **5. Compensation for Non-Executive Chairman, Independent Directors & Nominee Directors**

While deciding the policy on remuneration of Directors, the Nomination and Remuneration Committee may consider amongst other things, the duties and responsibilities cast by the RBI through its enactment, various Rules and Regulations, Companies Act, 2013, various Codes of Conduct, Articles of Association, restrictions on the remuneration to Directors as also the remuneration drawn by Directors of other companies in the industry, the valuable contributions and inputs from Directors based on their knowledge, experience and expertise in shaping the destiny of the bank, etc. The Policy is guided by set of principles and objectives of RBI Acts, Rules and Regulations and as more fully and particularly envisaged under Section 178 of the Companies Act, 2013 and principles pertaining to qualifications, positive attributes, integrity and independence of Directors, etc.

In order to attract and retain professional directors it is essential that such directors are appropriately compensated. At present FPB is giving only sitting fees to Non-Executive Chairman and Independent Directors. Nominee Directors are not provided with any such compensation.



The modes in which Compensation may be paid to Independent Directors are as follows:-

### **5.1 Payment of Sitting Fees and Reimbursement of Expenses to Independent Directors**

The Board fixes the sitting fees to Independent Directors for attending the Meetings of the Board or Committee thereof from time to time and are eligible for reimbursement of expenses for participation in the Board/Committee meetings and other meetings.

### **5.2 Payment of Sitting Fees and Reimbursement of Expenses to Non-Executive Chairman**

Non-Executive Chairman of FPB is compensated in the form of sitting fees and reimbursement of any expenses for participation in the Board/Committee meetings and other meetings. For the non-executive (part-time) Chairman, the remuneration, in addition to sitting fee includes such fixed payments on such periodicity as may be recommended by the Board and approved by the shareholders, and RBI from time to time, maintaining a Chairman's office at FPB's expense, bearing expenses for travel on official visits and participation in various forums (both in India and abroad) as Chairman of the Bank and bearing travel/halting/other expenses and allowances for attending to duties as Chairman of the Bank and any other modes of remuneration as may be permitted by RBI through any circulars/guidelines/notifications as may be issued from time to time.

FPB will seek prior approval from RBI for granting any other fees not mentioned above.

### **5.3 Payment of Commission to Independent Directors**

Keeping in line with the compensation practices prevalent in banking sector, subject to approval of Shareholders, the Board may decide payment of fixed remuneration to Independent directors (except Part-time Chairman) and strictly as per the rules & regulation of RBI and in accordance with the provisions of Companies Act, 2013 and the rules and regulations made thereunder.

Considering the above, the permitted modes of remuneration for Independent Directors (except Part-time Chairman) would be such fixed payments at such periodicity as may be recommended by the Board and approved by the shareholders.

### **5.4 Payment of Remuneration to Part-time Chairman**

The remuneration payable to the Part-time Chairman would be governed by the provisions of Banking Regulation Act, 1949, RBI guidelines issued from time to time and the provisions of Companies Act, 2013 & related rules to the extent it is not inconsistent with the provisions of the Banking Regulation Act, 1949/RBI Guidelines, to the extent applicable on the Bank.

Considering the above, the permitted modes of remuneration for the Part-time Chairman would be such fixed payments at such periodicity as may be recommended by the Board, approved by the shareholders and RBI from time to time.

### **5.5 Disclosures**

All such payments made to the Directors are disclosed on an annual basis in the Annual Financial Statements.

## **6. Perquisites applicable for MD & CEO**

In addition to the above components of compensation, there are certain perquisites outlined below which may be extended to the Managing Director and CEO of Fino Payments Bank as approved by the NRC and the Board and subject to the approval of the RBI. Perquisites allowed are in addition to the salary but within the overall limit, if any. The perquisites shall be evaluated etc., as per Income Tax Rules, wherever applicable and in the absence of any such rules, at actual cost.

### **6.1 Company Car**

Company Car for official as well as private purpose with maintenance (including driver's salary), fuel, insurance etc., on actuals with a maximum cap of 300 litres of petrol per month for private purposes and excess of this would be recoverable on an annual basis.

### **6.2 Company Accommodation**

Company Accommodation to suit the incumbent status

In the event the incumbent chooses to stay in own accommodation the incumbent will be paid a reasonable allowance not exceeding INR. 4 lacs p.m. in lieu of the same.

### **6.3 Hard Furnishing**

Hard Furnishing Allowance towards interior decoration which includes buying furniture & fittings, home appliances, etc.

### **6.4 Educational Facilities**

The cost of education for the children will be reimbursed up-to a maximum of 2 children.

### **6.5 Utilities Expense Reimbursement**

All expenses including utilities like electricity, gas, water, maintenance and services of house help, cook, etc., will be paid.

### **6.6 Entertainment Expense Reimbursement**

Reasonable Entertainment Expenses incurred for official purpose.

### **6.7 Leave Travel Allowance**

Annual Leave Travel allowance for incumbent and his family will be provided up-to a maximum limit of 3 months of compensation.

## **7. Disclosures in Annual Statement**

The following information is disclosed annually in the Annual Financial Statement of FPB:

1. Current and previous reporting year compensation paid to the MD&CEO/ WTD/ MRTs in table or chart format
2. Quantitative and Qualitative disclosures, as given in Appendix 1.
3. Any other disclosures as stipulated by RBI from time to time in the prescribed format

#### **8. Risk Control and Compliance Staff**

Employees working in our Financial Control, Audit, Risk and Compliance Departments are classified as Control Functions. Their Fixed and Variable Compensation shall be weighted more in favour of fixed compensation. These employees function independently and have a separate line of reporting and are not under the direct influence of Business Group. Their performance goals are designed in a manner that is independent of the business areas they oversee, and their compensation is commensurate with their key role in the bank. Industry benchmarks are also sought periodically for such roles in order to ensure that they are compensated adequately.

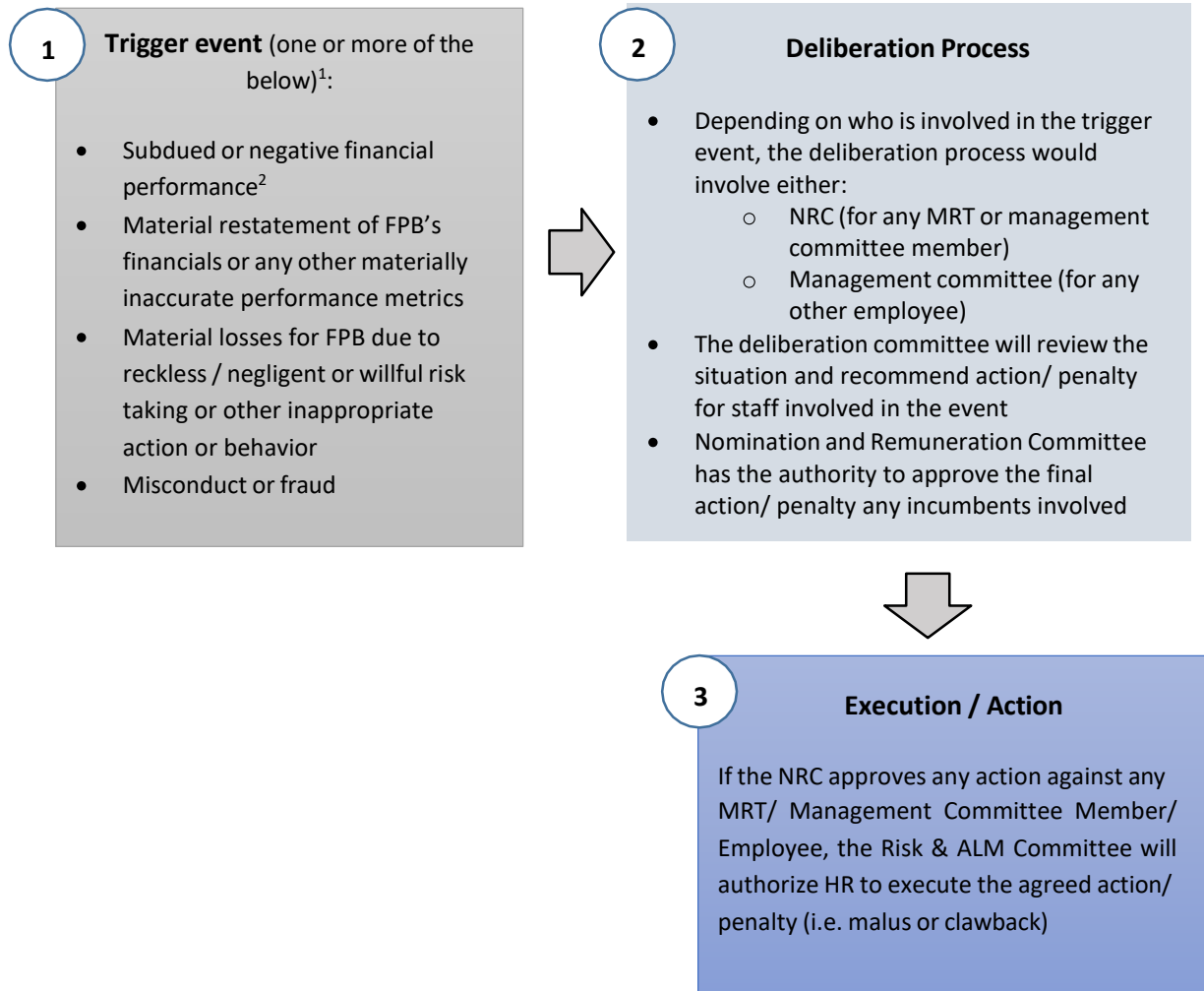
### Appendix 1

<b><u>Disclosure requirements for remuneration/compensation</u></b>		
<b>Qualitative disclosures</b>	(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.
<b>Quantitative disclosures</b>	(g)	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.
(The quantitative disclosures should only cover Whole Time Directors/ Chief Executive Officer/ Material Risk Takers)	(h)	<ul style="list-style-type: none"> <li>• Number of employees having received a variable remuneration award during the financial year.</li> <li>• Number and total amount of sign-on/joining bonus made during the financial year.</li> <li>• Details of severance pay, in addition to accrued benefits, if any.</li> </ul>
	(i)	<ul style="list-style-type: none"> <li>• Total amount of outstanding deferred remuneration, split into cash, types of share-linked instruments and other forms.</li> <li>• Total amount of deferred remuneration paid out in the financial year.</li> </ul>
	(j)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.

	(k)	<ul style="list-style-type: none"> <li>• Total amount of outstanding deferred remuneration and retained remuneration exposed to <i>ex post</i> explicit and/or implicit adjustments.</li> <li>• Total amount of reductions during the financial year due to ex- post explicit adjustments.</li> <li>• Total amount of reductions during the financial year due to ex- post implicit adjustments.</li> </ul>
	(l)	Number of MRTs identified.
	(m)	<ul style="list-style-type: none"> <li>• Number of cases where malus has been exercised.</li> <li>• Number of cases where clawback has been exercised.</li> <li>• Number of cases where both malus and clawback have been exercised.</li> </ul>
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.

**Appendix 2**

**Malus and Claw back Mechanism**



**Note:**

1. Should any of the trigger events outlined be invoked, the malus/ clawback process will be operationalized. A trigger event getting invoked alone does not mean that malus/ clawback will be executed.
2. Subdued performance will be defined by the NRC at the time of goal setting at the start of every financial year. Based on the business performance parameters and goals set for the year, a threshold performance level will be defined. Should the performance of FPB fall below this threshold level, it will be considered to be subdued performance and the malus process will be triggered.