NSDL Payments Bank Limited
Corporate Office, Mumbai

Remuneration Policy

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03.02.2020	1.0	Creation of document	HR Department	NRC & Board
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POLICY

1. **Introduction: –**

The renumeration policy is designed to align with RBI guidelines and foster a pay-for-performance culture. It aims to attract and retain talent by providing a fair and transparent compensation structure that supports strategic objectives and prudent risk management. The policy integrates pay with performance goals and ensures compliance with regulatory frameworks.

2. **Objective:**

The primary objective of the Renumeration Policy is to govern the appointment and remuneration of Directors (including Independent Directors), Key Managerial Personnel (KMP), Senior Management Personnel, Material Risk Takers (MRTs), and Control Function staff, in accordance with the criteria established by the Nomination and Remuneration Committee of the Board. This policy adheres to the requirements of the Companies Act, 2013, and other applicable guidelines.

Key Objectives of the Policy:

Develop and implement comprehensive compensation structures, encompassing both fixed and variable pay components, including share-linked instruments. These structures will align with applicable laws, industry trends, and best practices to ensure competitiveness and compliance.

Foster an environment that retains, motivates, and promotes talented individuals across all roles, ensuring long-term sustainability and growth of the organization's human capital.

Formulate clear internal guidelines governing the payment of reimbursements and other benefits to Directors, KMPs and all other employees, ensuring transparency and fairness.

Institutionalize a systematic process for the appointment, removal, resignation, and performance evaluation of Directors, ensuring that all actions are conducted in a fair and transparent manner.

Perform functions as below:

- Administration of Employee Stock Option Plans (ESOPs).
- Determining employee eligibility for ESOP participation.
- Granting options to eligible employees and setting the grant date.
- Deciding the number of options to be granted.
- Establishing the exercise price under ESOP plans.

Ensure strict adherence to applicable laws, rules, and regulations, as well as the 'Fit and Proper' criteria for Directors prior to their appointment, to maintain the highest standards of corporate governance and compliance.

Alignment to the ESOP Policy:

The Non-Cash component/ share linked instruments shall be allocated and granted basis the ESOP policy and framework of the Bank and as per the regulatory guidelines, The framework and policy of ESOP shall be the reference point.

3. **Scope of the Policy:**

The Policy provides remuneration guidelines for:

I. Chairperson
II. Non-Executive Directors
III. Managing Director and Chief Executive Officer
IV. Whole Time Directors

V. Material Risk Takers
VI. Key Managerial Personnel
VII. Senior Management Personnel
VIII. Control Function Staff
IX. Other employees of the Bank

The approval matrix

Designation	Nomination and Remuneration committee approval Required	Board Approval Required	Shareholder's Approval Required	RBI Approval Required
Chairperson	Yes	Yes	Yes	Yes
Non-Executive Directors	Yes	Yes	Yes	Intimation to be given
MD and CEO and WTD	Yes	Yes	Yes	Yes
Key Managerial Personnel (KMP) other than MDs & WTDs as mentioned under Co. Act, 2013	Yes	Yes	NA	NA
*Material Risk Takers	Yes	Yes	NA	NA
Senior Management Personnel (SMP) and Head of Control Functions	NA	NA	NA	NA

*The Nomination and Remuneration Committee (NRC) reserves the right to periodically review, modify, and expand the criteria and categories of employees covered under the compensation framework. This flexibility allows the NRC to adapt to evolving organizational needs and ensure that the compensation structure remains aligned with the company's strategic objectives and industry's best practices.

*For other employees in the Bank, the remuneration shall be decided basis the grade, role, experience etc by the Head-HR.

4. **Principles Guiding the Design of Remuneration Programs:**

Attraction and Retention of Talent: Ensure remuneration levels and structures are competitive and sufficient to attract, retain, and motivate top talent.

Meritocracy and Performance Recognition: Foster a culture of meritocracy by differentiating and rewarding performance effectively.

Balanced Pay Structure: Maintain an appropriate balance between fixed and variable pay, emphasizing prudent risk-taking and aligning with both short-term and long-term objectives of the Bank and its shareholders.

Alignment of Variable Pay: Structure variable pay with a balanced mix of cash and share-linked components, incorporating immediate and deferred elements to align rewards with performance and risk outcomes over time.

Performance-Linked Remuneration: Establish a clear link between remuneration and performance, incorporating risk management, compliance, and service quality metrics.

Market Competitiveness and Fairness: Consider employee needs and market benchmarks to ensure fair compensation that reflects contributions to the Bank's growth.

Financial Prudence: Ensure the Bank's cost-to-income ratio supports the remuneration framework while maintaining sound capital adequacy.

Governance and Fairness: Administer rewards fairly, in line with best governance practices.

Alignment with Stakeholder Interests: Ensure that compensation programs, structures, and decisions align with shareholder interests and comply with regulatory guidelines, including applicable labor codes.

5. Governance Framework

The Nomination and Remuneration Committee (NRC) will oversee and monitor the implementation of the Bank's Remuneration Policy, ensuring its effective execution across all levels.

Remuneration for Senior Leadership:

The NRC will recommend comprehensive remuneration packages for Whole Time Directors, Managing Director and Chief Executive Officer. These recommendations will be subject to approval by the Board of Directors and, where applicable, the shareholders of the Bank and the Reserve Bank of India.

Remuneration for Material Risk Takers:

For Material Risk Takers (MRTs) the NRC will propose remuneration structures to the Board of Directors for approval. Annual increments and variable pay components will be performance-linked, considering overall organizational performance and other factors deemed relevant by the NRC. The committee will also consider regulatory penalties and Show Cause Notices in its deliberations.

Remuneration for Other Employees:

The remuneration for Key Managerial Personnel (KMP) will need approval from NRC and Board. For Senior Management Personnel (SMP), Control Function staff and all other employees will be determined by the Head – HR/ Chief Human Resources Officer (CHRO) in consultation with the Managing Director & Chief Executive Officer (MD & CEO) of the Bank. These decisions will be made within the framework established by this policy. Remuneration pertaining to SMPs will be presented to the NRC and the Board for their information.

6. Appointment and Remuneration: Whole Time Directors/ Managing Director & Chief Executive Officers/ Material Risk Takers

The Policy covers appointment criteria including Fit & Proper assessment, specialization, experience, and remuneration thereof to the extent applicable for the Directors including independent directors, KMP, SMP, Material Risk Takers, Risk Control & Compliance Staff and Other employees of Bank.

The detailed criteria for appointment and Remuneration are as follows:

(A) MANAGING DIRECTOR & CEO AND WHOLE TIME DIRECTOR(S)

i. Appointment

The Managing Director & CEO and Whole Time Directors of the Bank must possess special knowledge and practical experience as specified under Section 10A of the Banking Regulation Act, 1949, which may include expertise in accountancy, banking, economics, finance, law, agriculture, and rural economy, among others. At the time of the appointment, the Nomination and Remuneration Committee (NRC) of the Bank shall assess the suitability of each candidate's profile, determine the appropriate compensation for the Managing Director & CEO and Whole Time Directors, and make their recommendations to the Board for approval. All components of compensation for MD & CEO, Whole Time Directors, post Board approval will be subject to approval of the Reserve Bank of India and the shareholders. No company shall appoint or employ at the same time a managing director and a manager.

ii. Tenure

The Managing Director & CEO and Whole-time Directors of the Bank shall be entitled to hold office for such period (s) and on such terms and conditions as may be imposed by the Reserve Bank of India or prescribed under any regulation or amendment thereto, for time being in force and his appointment/re-appointment shall be subject to approval of Board, Shareholders, and prior approval of RBI.

iii. Remuneration (Fixed Pay, Variable Pay)

The Nomination and Remuneration Committee (NRC) of the Bank shall evaluate the performance of the Managing Director & CEO and Whole Time Director(s) and recommend to the Board for compensation/remuneration including fixed, variable and perquisites payable to the Director as mentioned below:

Fixed Pay:

(a) The Managing Director & CEO and Wholetime Director(s) are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be recommended by Nomination and Remuneration Committee and decided by the Board of Directors & Shareholders.

(b) All perquisites that are reimbursable will be classified as fixed pay, so long as there are monetary ceilings applicable on these reimbursements.

(c) Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

Variable Pay: While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model.

(a) A substantial proportion of compensation i.e., at least 50%, should be variable and determined based on individual, business performance & other parameters.

(b) In case variable pay is:

- Up to 200% of the fixed pay, a minimum of 50% of the variable pay should be via non-cash instruments.
- Above 200%, a minimum of 67% of the variable pay should be via non-cash instruments

- Shall be limited to a maximum of 300% of the fixed pay;(for the relative performance measurement period).

(c) If 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.

(d) It may be noted that clauses (a) and (c) above indicate variable pay opportunity or target variable pay for a year and is not a guaranteed amount or entitlement. Actual variable pay granted for any year will be determined based on Bank, Business unit and individual performance and other evaluation criteria. Based on evaluation on such criteria, actual total pay could be lower than target total pay, and in fact could even be zero. 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: Variable Pay of senior executives, including WTDs, and other employees who are MRTs shall be deferred over the period so that compensation is adjusted for all types of risks that organisation may be exposed to.

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

(a) A minimum of 60% of the total variable pay must invariably be under deferral arrangements.

(b) If cash component is part of variable pay, at least 50% of the cash bonus shall also be deferred, however in case, where the cash component of variable pay is under Rs.25 lakh, deferral requirements shall not be necessary.

(d) Deferred remuneration should either vest fully at the end of the deferral period or be spread out over the course of the deferral period of at least three years.

(e) The first such vesting should be not before one year from the commencement of the deferral period and shall not take place more frequently than on a yearly basis.

(f) The vesting should be no faster than on a pro rata basis

Malus/Claw back Clause: In the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year, or in other situations detailed below, the variable compensation shall be subject to:

a) **Malus arrangement** wherein Bank shall withhold vesting of amount of deferred remuneration.

b) **Claw back arrangement** wherein Whole Time Director shall be liable to return previously paid or vested remuneration to the Bank as per the applicable provisions/guidelines stipulated by RBI.

Nomination and Remuneration Committee may invoke Malus or Clawback clause with respect to Whole Time Directors in following situations:

- Gross negligence and integrity breach. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company’s results
- Exercise his/her responsibilities in a mala fide manner
- Unfairly obstruct the functioning of the Bank which may affect the material decision

- Significant deterioration of financial health of the Bank and/or continued shortfall in capital adequacy
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision necessary and justified

Once Nomination and Remuneration Committee decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of 100% of cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of cash component of variable pay paid in the last three years
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted in last three years
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted in last three years

Remuneration Revision Cycle

The Remuneration revision cycle for Managing Director & CEO and Wholetime Director shall be annual which shall be subject to approval of the Reserve Bank of India.

(B) MATERIAL RISK TAKERS OF THE BANK

Material Risk Takers (MRT) shall mean role holders who by virtue of their role have decision making ability to individually or jointly commit significantly to the risk exposure of the bank. The Material Risk Takers shall be identified by the Nomination and Remuneration Committee from time-to-time basis defined qualitative and quantitative criteria in line with the Compensation Guidelines prescribed by RBI.

i **Remuneration For Material Risk Takers**

Fixed Pay:

(a) Material Risk Takers are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be decided by the Nomination and Remuneration Committee. For MRTs who are also KMPs, the fixed remuneration may be decided by the Nomination and Remuneration Committee and the Board of Directors.

(b) All perquisites that are reimbursable will be classified as fixed pay so long as there are monetary ceilings applicable on these reimbursements.

(c) Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

Variable Pay: While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model.

(a) A substantial proportion of compensation i.e., at least 50%, should be variable and paid on the basis of individual, business performance & other parameters.

(b) In case variable pay is:

- Up to 200% of the fixed pay, a minimum of 50% of the variable pay should be via non-cash instruments.
- Above 200%, a minimum of 67% of the variable pay should be via non-cash instruments.
- shall be limited to a maximum of 300% of the fixed pay;

(c) 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.

(d) It may be noted that clause (a) above indicates variable pay opportunity or target variable pay for a year and is not a guaranteed amount or entitlement. Actual variable pay granted for any year will be determined based on Bank, Business unit and individual performance and other evaluation criteria. Based on evaluation on such criteria, actual total pay could be lower than target total pay, and in fact could even be zero. 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: Part for Variable Pay of MRTs shall be deferred over the period so that compensation is adjusted for all types of risks that organisation may be exposed to.

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

(a) A minimum of 50% of the total variable pay must invariably be under deferral arrangements.

(b) If cash component is part of variable pay, at least 50% of the cash bonus shall also be deferred, however in case, where the cash component of variable pay is under Rs.25 lakh, deferral requirements shall not be necessary.

(c) Deferred remuneration should be spread out over the course of the deferral period.

(d) The first such vesting should be not before one year from the commencement of the deferral period and shall not take place more frequently than on a yearly basis.

Malus/Claw back Provision: In the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year, or in other situations detailed below, the variable compensation shall be subject to:

a) **Malus arrangement** wherein Bank shall withhold vesting of amount of deferred remuneration:

b) **Claw back arrangement** wherein MRTs shall be liable to return previously paid or vested remuneration to the Bank as per the applicable provisions/guidelines stipulated by RBI.

Nomination and Remuneration Committee may invoke Malus or Clawback clause with respect to Material Risk Takers in following situations:

- Gross negligence and integrity breach. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company's results.
- Exercise his/her responsibilities in a mala fide manner.
- Unfairly obstruct the functioning of the Bank which may affect the material decision.
- Significant deterioration of financial health of the bank.
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision necessary and justified

Once Nomination and Remuneration Committee decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of 100% of cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of performance bonus paid in the last three years
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted in last three years
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted in last three years

Guaranteed Bonus: The Guaranteed Bonus if any to be given, the same shall be incompliance of condition mentioned under the clause 2.1.4 wide RBI Guidelines on Compensation of whole time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff dated November 4, 2019. Further, Bank shall not grant severance pay other than accrued benefits but the same shall be subject to applicable requirement under any statute.

Hedging: Banks shall not permit employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement and employees are bound to ensure the applicability of the guidelines and its compliance.

(C) KEY MANAGERIAL PERSONNEL, SENIOR MANAGEMENT PERSONNEL, CONTROL FUNCTION STAFF and ALL OTHER EMPLOYEES

Pursuant to the Section 203 of Companies Act 2013 and rules made thereunder the Bank required to have the following whole-time key managerial personnel:

•Managing Director & Chief Executive Officer and whole-time director (covered under clause 4C above);

•Chief Financial Officer

•Company Secretary

The key managerial personnel of a Bank shall be appointed by Nomination and Remuneration Committee and Board specifying the terms and conditions of the appointment including the remuneration. In the event of any vacancy, it shall be filled up by the Board at a meeting within a period of six months from the date of such vacancy.

Further, pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Senior Management shall mean officers/personnel of the Bank who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the executive directors. The appointment of Senior Management Personnel is being taken care by the Management of the Bank. On recommendation of Management, the nomination and remuneration committee shall review and approve the annual revision in remuneration of the Senior Management Personnel.

Fixed Pay: Other KMPs & SMPs are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be decided by the Management of the Bank.

All perquisites that are reimbursable will be classified as fixed pay so long as there are monetary ceilings applicable on these reimbursements.

Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

Variable Pay: While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay may include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model or internal model as per the decision of the Bank.

Confirmation Bonus: Other components of remuneration may include Confirmation bonus/Notice Pay buy out at the time of offer or onboarding.

a. Confirmation bonus (paid on successful completion of confirmation) / Notice Pay is offered for resettlement of dues with the previous employer and may be committed to a new hire to compensate for a one-time loss in income. This may include the loss of performance bonus for the year completed, ESOP loss and/or buyout of claw backs for the reason other than any punitive action with the previous employer. Confirmation bonus, if paid in cash, may be subject to a 2-year claw back clause.
   To attract the right talent, it would be required to give a comparative view of the compensation earned with the previous employer and the earning potential at the Bank in the first year.

Remuneration Revision Cycle: The Remuneration Revision cycle of the employees including for KMP and SMP are eligible for annual remuneration revision cycle.

7. PERFORMANCE EVALUATION MECHANISM

The Nomination and Remuneration Committee (NRC) shall carry out the evaluation of performance of MD and CEO , Wholetime Director(s) and MRTs as per the applicable regulatory guidelines as amended from time to time.

8. NOTICE PAY

Payment/Reimbursement of Notice Pay
The Bank, at its sole discretion and subject to administrative requirements, may reimburse, either in full or in part, the 'Notice Pay' paid by a newly joined employee to their previous employer. This reimbursement is not an entitlement and may be granted irrespective of whether it is expressly mentioned in the terms of appointment.

Recovery of Reimbursed Notice Pay
Should the employee resign, discontinue, leave, or abandon the services of the Bank, the reimbursed amount shall be recovered as follows:

Within 12 Months: If the employee resigns/ discontinues/leaves/abandons the services of the Bank within 12 months of effective service, 100% of the reimbursed 'Notice Pay' amount shall be recovered from the employee.

Within 24 Months: If the employee resigns/ discontinues/leaves/abandons the services of the Bank after 12 months but before completing 24 months of effective service, 50% of the reimbursed 'Notice Pay' amount shall be recovered from the employee.

Reimbursement Process
Reimbursement of 'Notice Pay' will be processed through payroll in the month in which the employee submits valid proof of payment to the HR Department. If the proof is submitted on or before the 15th of the month, reimbursement will be included in that month's payroll.

Effective service is defined as uninterrupted, continuous service with the Bank, excluding any period of unauthorized absence, sabbatical and 'Leave Without Pay'.

9. CONFIRMATION / JOINING BONUS

Payment and Recovery of Confirmation/Joining Bonus

The Bank, at its sole discretion, may pay a newly joined candidate a lump-sum amount referred to as a "Confirmation Bonus," "Joining Bonus," or any other similar payment at the time of confirmation or joining, provided such payment is expressly approved by the Competent Authority.

If the employee resigns, discontinues, leaves, or abandons the services of the Bank, the following repayment terms will apply, regardless of whether the bonus payment is expressly stated in the terms of appointment:

Within 12 Months: If the employee resigns/ discontinues/leaves/abandons the services of the Bank within 12 months of effective service, 100% of the amount paid as Confirmation Bonus, Joining Bonus, or similar shall be repaid by/recovered from the employee.

Within 24 Months: If the employee resigns/ discontinues/leaves/abandons the services of the Bank after 12 months but before completing 24 months of effective service, 50% of the amount paid as Confirmation Bonus, Joining Bonus, or similar shall be repaid by/recovered from the employee.

Effective service is defined as uninterrupted, continuous service with the Bank, excluding any period of unauthorized absence and 'Leave Without Pay'.

The Bank may recover the applicable amount from any dues payable to the employee at the time of resignation/ discontinuation/leaving/abandoning the services of the Bank . If the amount to be recovered exceeds the dues payable, the employee shall be required to pay the balance within the timeline specified by the Bank.

These provisions shall apply irrespective of the nomenclature of the bonus and will survive the termination or cessation of employment for any reason

10. EX-POST ADJUSTMENTS TO REMUNERATION

The competent authority in case of Ex-post adjustment(s) if any shall be the NRC.

11. RISK ADJUSTED PERFORMANCE EVALUATION

(i) Risk Identification & Accountability:

The Bank promotes a strong risk culture throughout the organization. A strong risk culture is designed to help reinforce the Bank's resilience, by encouraging a holistic approach to management of risk & return and an effective management of risk, capital and reputational profile. The business of the Bank is subject to various risks. The following principles underpin the risk culture at Bank:

- Risk taken is approved within the risk management framework
- Risk taken is within a defined risk appetite
- Risk taken is adequately compensated
- Risk is continuously measured, monitored and managed

The following aspects support the risk culture of the Bank-

Tone at the top: Tone at the top refers to communication of risk appetite statements, risk limits, risk strategy etc and leveraging on the same to identify and prioritize appropriate risk behaviour that is required for building the desired risk culture.

Accountability: Accountability refers to clear and transparent communication of roles and responsibilities to committees and staff members essential for effective risk governance, viz. front office functions, risk management & oversight function and assurance roles are played by functions independent of one another with clearly defined responsibilities.

Risk Appetite Statement Framework has been designed for the Bank - which provides strategic guidance around various parameters.

Quantified portfolio level risk metrics are stipulated for each business segment which includes parameters like on-Boarding criteria like internal rating threshold, restrictions pertaining to specific industries / transactions, risk-based caps related to rating concentration, product concentration, group exposure etc. These Metrics are put together by Risk and finalized through a participative approach with input obtained from business units. These threshold limits are monitored on a periodical basis and discussed with all relevant stakeholders and reported to relevant committees including Risk Management Committee of the Board.

(ii) Materiality of Risk & Recognition of Material Risk:

1. Bottom-Up Risk Identification

The Bank employs a bottom-up approach for risk identification, utilizing Risk and Control Matrices (RCMs) developed for all critical processes to systematically identify inherent risks. At the enterprise level, the identification of material risks follows a structured process involving discussion and approval by relevant stakeholders. The Risk Management Department regularly reviews the Bank's business strategy, plans, and performance to proactively identify potential vulnerabilities, ensuring that material risks are considered in the context of both the Bank's short-term and long-term objectives.

Material risks are assessed not only for their current impact but also for their potential future implications. The Bank conducts a comprehensive evaluation of material risks across its portfolio at least annually and establishes appropriate risk management processes to address these risks.

2. Evaluation of Material Risk Takers

Material Risk Takers (MRTs) are identified based on their roles and decision-making authority, whether exercised individually or jointly, to commit the Bank significantly to the following risk categories:

- Governance and Regulatory Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Other risk categories are assessed using the Bank's internally developed methodologies. These include, but are not limited to:
- Reputation Risk
- Strategic Risk
- Information Technology Risk
- Information and Cyber Security Risk
- Compliance Risk
- Model Risk
- Outsourcing Risk
- People Risk
- Conduct Risk
- Business Continuity Management Risk

3. Recognition of Risk Characteristics Across the Bank

The Bank has implemented a robust Internal Capital Adequacy Assessment Process (ICAAP), which identifies all material risks—including both Pillar 1 and Pillar 2 risks—using a comprehensive bottom-up evaluation. As part of ICAAP, the Bank estimates the capital required to manage each risk type, including under stressed conditions.

Complementing this, the Bank has established a top-down Board-approved Risk Appetite Statement, which articulates the Bank's risk tolerance through defined risk limits for all quantifiable risks across business lines, units, and functions. These frameworks are further supported by detailed risk policies and oversight by Risk Committees, which govern the management of individual risk areas.

4. Delegation and Monitoring of Risk Limits

The Board-approved Risk Appetite Statement is cascaded to individual business units through granular risk management frameworks such as the Limit Management Framework and Level 1 (L1) triggers. These tools define and communicate the risk parameters within which various categories of employees are expected to operate. Business performance against these risk matrices is closely monitored at agreed intervals to ensure ongoing compliance.

5. Integration of Material Risk Assessment in Performance Evaluation

The assessment of material risk-taking is incorporated into the performance evaluation process at the Bank-wide level. This collective assessment ensures that the recognition of risk is embedded in performance management, even if individual employees may not pose significant risk on their own.

(iii) Risk Measurement, Monitoring and management:

The Board-approved Risk Appetite Statement defines the boundaries within which the Bank is expected to operate. These overarching thresholds are cascaded to various business units and stakeholders through more granular, multi-layered risk limits. Ongoing measurement and monitoring of performance against these thresholds are conducted, with results regularly discussed among relevant stakeholders and sub-committees. Where necessary, corrective actions are implemented to ensure adherence. Compliance with these risk governance parameters is holistically integrated into the performance assessment of relevant officials, teams, and business units.

For Pillar 2 risks—those that are typically challenging to quantify—qualitative assessments, including the application of professional judgment and discretion, are employed. These qualitative evaluations are also embedded in the performance evaluation process.

The Chief Risk Officer (CRO) is responsible for executing the Bank's Risk Governance Framework. The Risk Management Department, led by the CRO, is appropriately represented on management committees and other governance forums across the Bank and its business lines. At these forums, Risk Management's approval is required for decisions that impact the Bank's risk profile. The department is tasked with risk identification, measurement, monitoring, reporting, and escalation to senior management and relevant committees.

The CRO oversees the formulation of a comprehensive and objective Risk Appetite Statement covering all material business risks, with subsequent review and approval by the Board. The Risk Management Department further prescribes detailed risk limits to ensure the Risk Appetite Framework is effectively translated into operational boundaries for business activities. Risk exposures are measured and monitored against these approved limits at a frequency commensurate with the criticality of each risk. Adherence to these risk metrics forms a key component of the performance evaluation matrix and is factored into both ex-ante and ex-post adjustments to compensation linked to performance

12. HEDGING OF COMPENSATION STRUCTURE

Employees are strictly prohibited from engaging in any activity that insures or hedges their compensation structure to negate or offset the risk alignment mechanisms embedded within their compensation arrangements.

Illustration:

If an employee receives a portion of their compensation in the form of the Bank's stock options, any action by the employee to purchase put options or similar instruments on the Bank's stock, with the intent to protect against a decline in value, will be deemed as hedging and is expressly prohibited

13. DISCLOSURES:

1. Statutory Disclosures in Annual Financial Statements

The Bank shall ensure compliance with all relevant provisions of the Companies Act, 2013and applicable RBI circulars, guidelines, notifications, and directions, as amended from time to time. In particular, the Bank shall disclose in its Annual Financial Statements the remuneration details pertaining to the Chief Executive Officer

(CEO), Directors (including Non-Executive and Independent Directors), Key Managerial Personnel (KMPs), and Material Risk Takers (MRTs).

2. Shareholder Disclosures on Director Appointments

In the event of the appointment or re-appointment of a Director, the Bank shall furnish the following information to its shareholders:

- A brief resume of the Director.
- Details of the Director's expertise in specific functional areas.
- Disclosure of inter-se relationships among Directors.
- Names of listed entities in which the Director holds directorships and memberships of Board Committees.
- Shareholding of Non-Executive Directors in the Bank.
- Any other information may be required under applicable regulations.

3. Remuneration-Related Disclosures and Reporting

3.1 Reporting to the Nomination and Remuneration Committee

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

- Annual remuneration proposed for MD&CEO, and Material Risk Taker's.
- Declarations on "fit and proper" criteria as submitted by Directors or proposed appointees.
- Any other disclosures may be applicable.

The Committee shall prepare and recommend the Remuneration/Compensation Policy to the Board. The status of implementation of the Remuneration Policy shall also be reported to the Board on an annual basis.

14. REGULATORY AND SUPERVISORY OVERSIGHT

- NSDL Payments Bank shall obtain regulatory approval for grant of remuneration to WTDs/CEOs in terms of section 35B of Banking Act
- NSDL Payments Bank will not employ any person whose remuneration is, in the opinion of Reserve Bank of India, excessive
- Details related to NSDL Payments Bank's compensation policies will be available for review under supervisory oversight by Reserve Bank of India

15. REVIEW OF POLICY

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