

Policy for Compensation of Key Managerial Personnel (KMP) and Senior Management

Preamble:

RBI has issued a circular DOR.GOV.REC.No.29/18.10.002/2022-23 dated 29th April 2022. The circular provides broad guidance to NBFCs in formulating and governing the compensation for Key Managerial Personnel (KMP) and members of Senior Management (SMT).

This compensation policy is being defined to be in-compliance with the guidelines issued as also to place on record current practices of the company that are already in compliance with the guidelines. Several of these practices have been in the company for a period of time and follow the spirit of RBI's guidelines.

Further, being a leading organization in the NBFC sector, some parts of the policies are being defined taking a future forward view. In this context, practices of leading banks and RBI's guidelines for the banking sector have also been evaluated and considered.

The definition of KMP and SMT for the company are as shared in Annexure 1.

1. Constitution of Nomination and Remuneration Committee (NRC)

- 1.1. As per the norms of a listed company, the Board of the company has constituted a NRC. Its role, scope and constitution is defined and approved by the Board.
- 1.2. One of the responsibilities of the NRC is to oversee the framing, review, and implementation of the compensation practices of the organization.
- 1.3. The NRC also ensure 'fit and proper' status of proposed / existing directors and that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.
- 1.4. Two out of three members of the NRC are independent directors.
- 1.5. Two members of NRC are also members of the Risk Management Committee (RMC) of the Board. This ensures effective alignment between compensation and risks.
- 1.6. Constitution of the NRC is reviewed periodically by the Board

2. Principles for Compensation

- 2.1. The Company follows a well-defined policy for compensation. The policy clearly links the performance with the total remuneration paid to an individual. This is shared at the start of the year with KMP and members of senior management team (SMT).
- 2.2. At the end of a financial year performance of a KMP and SMT is evaluated basis individual, business/ function unit's and company's performance. In addition, the individual is also rated on leadership demonstrated during the year.
- 2.3. The compensation of KMP and SMT is periodically benchmarked with a basket of companies, including leading banks, to ensure it is in line with industry best practices and competitive for the talent that we have, and to continue to attract best in class talent to the company.

2.4. Compensation Components:

- 2.4.1. The total remuneration for KMP and SMT has two main components: Fixed Pay and Variable Pay.
- 2.4.2. Variable pay is further divided into payments made in cash as bonus and ESOPs. The component details are defined and shared in Annexure 1.
- 2.4.3. Company grants ESOP under the ESOP scheme framed by the Company/holding Company that follows a 4-year vesting schedule post the grant. The policy follows the Black Scholes model for arriving at the grant of shares.

2.5 Principles of Variable pay:

- 2.5.1 Variable pay as a proportion of total remuneration increases as roles and responsibilities increase.
- 2.5.2 The percentage distribution of total remuneration could vary basis roles and responsibility and performance in a given financial year.
- 2.5.3 The variable pay component of remuneration is paid to the KMP and SMT basis the final performance and leadership rating for the year.
- 2.5.4 Basis performance, variable pay can be reduced to zero in a given financial year.
- 2.5.5 These aspects ensure compensation outcomes are symmetric with risk and performance outcomes.

2.6 Deferral of variable pay

- 2.6.1 The RBI Guideline for NBFC advises that a certain portion of variable pay, as decided by the Board of the company, may be deferred and this deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Also, deferral period for such an arrangement may be decided by the Board of the company.
- 2.6.2 Of the two components of variable pay, the approved ESOP scheme follows a 4-year vesting schedule post the grant (25%: 25%: 25%: 25%) and thus deferral is designed in it and is in line with best practices followed in the banking industry.
- 2.6.3 So far Company has followed 100% payout of cash component of variable pay (read Annual Bonus) at the end of a performance period.
- 2.6.4 Taking the guidelines into consideration, the compensation policy is being revised to start the deferral of cash component of variable pay. It is proposed to increase the deferred payout sequentially over a three-year horizon to facilitate the transition from 100% upfront payout to a 50% payout as is the practice in leading banks.
- 2.6.5 The payout of annual bonus is proposed to be deferred over 3 years post the year of performance as per the following schedule:

Financial Year	Year 1 (Year of performance)	Year 2	Year 3	Year 4
23-24	70%	10%	10%	10%
24-25	60%	13.33%	13.33%	13.34%
25-26	50%	16.66%	16.66%	16.67%

- 2.6.6 The vesting of deferred cash component of variable pay would continue as per schedule even after separation of the employee from the services of the company except in the event of this separation being on account of Malus or Clawback conditions as defined in clause 3.3.
- 2.6.7 In the event of death or permanent disability of the individual unvested portions of variable pay will vest immediately except in situations where provisions of Malus / Clawback as defined in clause 3.3. may apply

2.7 Compensation for Control and assurance function personnel:

- 2.7.1 The goal setting and performance appraisal process of the company as mentioned in Clause 2.2 ensures that KMPs and senior management engaged in financial control, risk management, compliance and internal audit have performance measures that are independent of the business areas they oversee
- 2.7.2 The RMC and Audit committee of the Board reviews their performance independently and advises the company on their performance which in turn results in the variable part of their compensation.

3. Provisions for Malus and Clawback: The compensation policy is being amended to include Malus and Clawback clauses (Refer Annexure 1 for definition of Malus and Clawback)

- 3.1 As a guiding principle prior to any action being taken by the NRC under this provision, the NRC and the company will ensure due regard to the Principles of Natural Justice
- 3.2 The variable pay part of compensation will be subject to Malus and Clawback arrangements in the event of certain circumstances.

3.3 Circumstances under which application of Malus and Clawback is to be considered:

- 3.3.1 Material breach of company's Code of Conduct, any Non-Disclosure Agreement, regulatory procedures, internal rules and regulations or any other such instance for which the NRC, in its discretion, deems it necessary to apply Malus or / and Clawback provisions
- 3.3.2 Fraud, breach of trust, dishonesty, or wrongful disclosure by the employee of any confidential information
- 3.3.3 Willful misinterpretation / misreporting of financial performance of the company
- 3.3.4 Any misconduct pertaining to moral turpitude, theft, misappropriation, corruption, forgery, embezzlement or of criminal nature
- 3.3.5 Non-disclosure of material conflict of interest by the employee or any misuse of official powers
- 3.3.6 An act of willful, reckless, grossly negligent conduct which is detrimental to the interest or reputation of the company
- 3.3.7 Malus may also be applied in the situation of significant deterioration of financial or risk performance from one financial year to the next.
 - a) The performance measures defined as part of goal setting process of the company, business threshold metric and sustainable business strategy framework would form the primary considerations for evaluating the application of Malus in this condition
 - b) The NRC may duly take into consideration factors that were within control of the person, and/ or beyond reasonable control on account of conditions such as macro events, market conditions, industry performance, changes in legal/regulatory requirements, force majeure events like occurrence of natural disasters, pandemic, other socio-economic conditions etc.
- 3.3.8 Above events are to be considered by the NRC for application of Malus and Clawback where they result in significant loss to the company or its shareholders.
- 3.3.9 Circumstances that may trigger Malus or Clawback provisions will be reviewed periodically by the NRC

3.4 Application of Malus & Clawback provisions

- 3.4.1 The NRC will review the requirement to invoke the Malus or Clawback provisions in the event one or more of the circumstances come to light.
- 3.4.2 The review by the NRC will aim to determine the involvement, accountability, severity and wilful nature of the act of the concerned person/s
- 3.4.3 Bonafide errors of judgment will not be subject to Malus provisions

- 3.4.4 The provision of a Malus arrangement would entail cancellation of deferred portion of variable pay. The NRC may decide to apply Malus on part, or all of the unpaid cash portion of variable pay or unvested ESOPs basis level of involvement, proportionality and impact.
- 3.4.5 The provision of Clawback arrangement would entail return of already paid variable pay in cash and/ or ESOPs attributable to a given reference year to which circumstances triggering the provisions of Malus and Clawback are related.
- 3.4.6 The NRC may decide to apply Clawback on part, or all of variable pay basis level of involvement, proportionality and impact.
- 3.5 Malus/ clawback clause can be applied for a period of 4 years after the date of grant of Total Variable Pay

4. Date of implementation: This compensation policy will be effective April 1, 2023

Approved on 24 April 2024

ANNEXURE 1

Definitions used in the document

RBI : Reserve Bank of India

KMPs : Key Managerial Personnel as defined under Companies Act

- Covers Managing Director, Chief Financial Officer & Company Secretary of the company.

SMT : Senior Management Team

- Senior Management" means personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the Managing Directors, including the functional heads by whatever name called.
- Heads of control functions like risk, audit & compliance are also considered as SMT.

Note: For the purposes of classification for SMT all functional heads if reporting directly to Managing Director/Executive Director would be considered as SMT . However, if due to any change in organization design, if a layer is added between MD/ED and direct reports classified as SMT, then anyone below the level of GB11 and not directly reporting to MD/ED would cease to be classified as SMT. GB11 and above once classified as SMT would continue to be classified as SMT irrespective of cessation of direct reporting relationship.

NRC : Nomination & Remuneration Committee

NBFC : Non-Banking Financial Company

RMC : Risk Management Committee

Fixed Pay: All fixed items of compensation, this would include

- Monthly fixed salary payable (Basic salary, HRA, Special allowance, etc.)
- Perquisites and contributions towards retiral benefits (Employer contribution to PF, Superannuation, NPS, gratuity, etc.)
- All perquisites that are reimbursable (Car lease etc.) and have a monetary ceiling
- Monetary equivalent of benefits of non-monetary nature (Company provided car, Furnished house, Club membership, etc.)

Variable Pay: All items of compensation that are paid basis performance of an individual and/or the company

- Variable pay is part of the compensation that is paid basis performance measures clearly defined at the beginning of the performance measurement period.
- It can be reduced to zero based on performance at an individual, business-unit and company-wide level
- Components: Both cash and share linked instruments such as stock options of the company (ESOPs) are part of variable pay

ESOP : Employee Stock Option Program

- Scheme under which employees are granted stock options basis performance in a given financial year
- The vesting schedule as per approved ESOPs scheme: Year of grant: 0, followed by equal vesting of grants over 4 years (25%: 25%: 25%: 25%)

Clawback : As per RBI circular on 'Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs'

- “A clawback is a contractual agreement between the employee and the NBFC in which the employee agrees to return previously paid or vested remuneration to the NBFC under certain circumstances, 2023”

Malus : As per RBI circular on ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs, 2023’ and Banks

- A malus arrangement permits the organization to prevent vesting of all or part of the amount of a deferred remuneration.
- Malus arrangement does not reverse vesting after it has already occurred.

Retention Period: As per RBI circular on ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs’ and Banks

- A period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.

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