

Remuneration Policy

HDFC CREDILA FINANCIAL SERVICES LIMITED

REMUNERATION POLICY FOR THE DIRECTORS, KEY MANAGERIAL PERSONNEL, SENIOR MANAGEMENT AND OTHER EMPLOYEES

Last Reviewed by the Board: April 17, 2023

1. Preamble

The primary objective of this Remuneration Policy is to provide a framework for the remuneration of the Directors, Key Managerial Personnel (KMPs), Members of Senior Management and other employees of the Company.

The Company's approach is to have a pay for performance culture based on the belief that the performance management system provides a sound basis for assessing performance holistically. The compensation system should also take into account factors like roles, skills / competencies, experience and grade /seniority to differentiate pay appropriately on the basis of contribution, skill and availability of talent on account of competitive market forces.

The primary objectives of this Policy are as under:

- a) to ensure that the level and composition of remuneration is in line with other companies in the industry, sufficient to attract and retain right talent, at all levels and keep them motivated enough to meet the organizational objectives;
- b) to ensure that a reasonable balance is maintained in terms of composition of remuneration (fixed and variable component);
- c) to have performance measurement parameters in place to assess the overall performance of Directors, KMPs, Members of Senior Management and all other employees.

Principles of Compensation Practices

- a) Effective governance of compensation
 - i) Board of Directors of the Company must approve the remuneration policy and monitor and review the compensation system to ensure the system operates as intended.
 - ii) The Company must form Nomination & Remuneration Committee (NRC) in compliance with the Companies Act, 2013;
 - iii) The NRC shall work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks. At least one member of RMC shall be a member of NRC.
 - iv) Further, the NRC shall ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Process (ICAAP).

- v) NRC shall 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
 - vi) Staff engaged in financial and risk control (including Risk, Compliance, Internal Audit, HR, Fraud and Vigilance) will be independent, have appropriate authority and be compensated in a manner that is independent of the business areas they oversee and commensurate with their role
- b) Effective alignment of compensation with prudent risk taking
- i) The Company to ensure that there is adequate fixed portion of compensation for Risk and Control teams and lower percentage of variable pay;
 - ii) For risk, audit and compliance staff, the compensation will not be dependent on business growth.
- c) Effective supervisory oversight and engagement by stakeholders
- i) The Company will disclose clear information about the compensation of KMPs in compliance with the Companies Act, 2013 and applicable laws.

2. Applicability

This Policy shall be applicable and act as a guiding principle with regard to remuneration payable by the Company to all Directors, KMPs, Senior Management, and other employees of the Company.

3. Remuneration of Non-executive / Independent Directors

The key elements of remuneration of Non-executive/ Independent Directors is sitting fees, subject to overall limit as prescribed in the Companies Act, 2013 and Rules made there under and the approval of the Board, as applicable. They shall be covered under the Directors and Officers Liability Insurance (D&O) Policy. The Independent Directors shall not be eligible for stock options.

4. Remuneration of Whole-time Directors

The Managing Director(s) are appointed for a fixed tenure as approved by the shareholders and such appointments are renewable upon expiry of the tenure subject to recommendation by the NRC/ Board and approval of the shareholders.

The remuneration paid to Managing Director(s) to be approved by the shareholders of the Company, which includes fixed salary, incentive, perquisites, variable pay, commission, bonus, other benefits and allowances and certain retirement benefits, within the overall limit under Section 197 of the Companies Act, 2013. They shall also be eligible for partially or fully paid rights issue, sweat equity, warrants, stock options and any other financial instruments as per the scheme framed/ to be framed by the Company, from time to time.

The Managing Director(s) shall be covered under the Directors and Officers Liability Insurance (D&O) Policy.

5. Remuneration of KMP (other than whole-time directors), Senior Management, and other employees

- Senior Management refers to those Functional Heads who are directly reporting to Managing Director(s), unless specifically identified and confirmed by the Board.
 - KMPs include the Chief Executive Officer or the Managing Director or the manager, company secretary, whole-time director, Chief Financial Officer; and such other officer as may be prescribed, by the Companies Act, 2013 and / or any other law as applicable from time to time. The appointment of the KMP shall be done by the Board on the recommendation of the Nomination & Remuneration Committee as prescribed by the Companies Act, 2013 and / or any other law as applicable from time to time.
 - Increments of Senior Management and KMP (other than Whole Time Directors) will be subject to the approval of the Nomination & Remuneration Committee. Compensation of new joiners who are directly reporting to the Managing Director(s), will be put up in the following meeting of the Nomination & Remuneration Committee for noting purposes.
 - The Compensation structure for Senior Management and KMP will be determined by the Nomination and Remuneration Committee who will ensure that:
 - Compensation is adjusted for all types of prudent risk taking
 - Compensation outcomes are symmetric with risk outcomes
 - Compensation payouts are sensitive to the Time Horizon of the Risk
 - The mix of cash, equity and other forms of compensation will be consistent with risk alignment
 - The compensation structure shall broadly comprise of the following components.
 - A. Fixed Pay
 - B. Variable Pay
- A. Fixed Pay:** The Company will ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including the industry practice and parameters like Role Complexity and Size, Vintage and experience of the incumbent, Profile and prominence of leadership among industry leaders, market competitiveness of pay, Consistency of the Company's performance over the years on key parameters such as profitability, growth and level of Non-Performing Assets (NPA's) in relation to its own past and that of its peer Companies.

The Fixed Pay of the Company would typically consist of elements like Base Salary, Allowances, Perquisites, Benefits and Retirement benefits. In addition to the various cash components (salary, allowances etc.) and retirement benefits (like PF, Gratuity), the Company may also offer certain perquisites and insurance benefits. The perquisites extended and such other benefits or allowances in lieu of such perquisites/benefits as may be defined in the Human Resources policy and as may be approved by the Board. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) may also be part of fixed pay. The quantum of fixed pay based on the above considerations will be approved by the Nomination and Remuneration Committee.

- B. Variable Pay:** The variable pay will be in the form of share linked instruments (ESOPs) or a mix of cash and share linked instruments. The Company will ensure that there is a proper balance between Fixed Pay and Variable Pay.

A defined portion of compensation will be variable and paid on the basis of individual, business-unit and organization performance. This will be in line with the principle that, at higher levels of responsibility, the proportion of variable pay will be higher.

For Staff in Risk and Control Functions, the proportion of variable pay will be lower and they will have a higher proportion of fixed pay. However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

The variable can be reduced to zero based on performance at an individual, business-unit and company-wide level. Performance measures shall be defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

Adherence to regulatory compliance and risk management requirements shall be included as key performance measures for all employees across all levels of the Company.

Deferral of Variable Pay: For senior management including Wholetime Directors (WTDs) deferral arrangements will exist for the variable pay. If cash component is a part of the variable pay, then some portion of cash pay may be deferred. The deferral period will be applicable to both cash and non-cash components of variable pay. The deferral period for share linked instruments/ESOPs will be governed by the ESOP Scheme Rules which will be approved by the Nomination and Remuneration Committee and the Board.

Vesting of Variable Pay: The deferred portion of the remuneration will vest at the end of deferral period and will be spread out over the course of the deferral period.

Malus/ Clawback Arrangement: The Company believes in sustained business performance in tandem with prudent risk taking and has therefore, has devised appropriate deterrents in order to institutionalize the aforementioned commitment.

Malus Arrangement: The provision of a Malus arrangement would entail cancellation of payout for the deferred portion of reward (variable pay/long term incentive (LTI))

Clawback Arrangement: The provision of Clawback arrangement would entail return of payout of reward (variable pay /LTI) made in the previous years attributable to a given reference year wherein the incident has occurred. The return would be in terms of net amount

Illustrative list of conditions are enumerated below. The occurrence of any/some/all of the following conditions shall trigger a review by the Nomination and Remuneration Committee for the application of the Malus or the Clawback arrangement:

- Reckless, negligent or willful actions or exhibited inappropriate values and behavior
- Mis-Selling practices, breach of fiduciary duty, illegal activities which causes material, financial or reputational harm to the firm
- If award was basis material mis-representation by the employee
- Other instances which can be termed as breach of code of conduct of the firm
- If the risk exposure of the firm was due to gross negligence and the same was not reported / escalated to the management promptly on becoming aware of the risk exposure
- If the decision undertaken leads to firm / business unit suffering major material downturn in its financial performance
- Divergence in the Firm's / business unit's provisioning for NPA vis-à-vis reality
- Fraud that requires a financial restatement
- Reputational harm
- Exposing the Company to substantial risk
- Additional NRC defined conditions

Errors of judgment shall not be subject to Malus/ Clawback arrangements under this Policy.

The NRC may decide to apply malus on part, or all of the unvested deferred bonus amounts and LTIP. The time horizon for the application of malus/clawback clause shall be three years from the date of reward.

The Nomination and Remuneration Committee shall review the act of misconduct/incident to ascertain the degree of accountability attributable to a Director prior to applying the Malus or Clawback arrangement. The criteria for Malus /Clawback will be reviewed by the Nomination and Remuneration Committee annually.

C. Guaranteed Bonus: Guaranteed bonus may not be paid to KMPs and senior management. However, in the context of new hiring joining/sign-on bonus could be considered. Such bonus will neither be considered part of fixed pay nor of variable pay.

- The remuneration, performance appraisal and rewards to Senior Management, KMP (other than Whole Time Directors) and other employees, shall be in line with the stated objectives.
- Employees must conduct themselves to ensure that no breach of Code of Conduct, Code of Conduct for prohibition of Insider Trading, Standard Operating Procedures (SOPs) and all other relevant and applicable Codes are committed. Any such breach will have a direct bearing on their performance appraisal and rewards.
- The Variable Pay Plan of the Company will be as per the framework defined in Annexure I.

6. Disclosures in the Board's Report

The disclosures as required under the relevant provisions of the Companies Act, 2013, the rules made there under and the SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015 shall be made with regard to the remuneration details of the Directors, KMPs, Senior Management and other employees.

7. Policy review

This Policy may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to the Companies Act, 2013 and rules made there under, the Memorandum and Articles of Association of the Company, any other laws as applicable or as may be otherwise prescribed by the Board from time to time. The policy shall be reviewed annually and as and when required.

The NRC may issue/implement such guidelines, procedures, formats and/or reporting mechanisms to enforce this Policy as it may deem fit.

Annexure I – Framework for Variable Pay Plan

The Managing Director(s), in consultation with the reporting managers & Human Resource Department will decide all the variable pay and the period thereof in respect of which such variable pay shall be paid based on the broad framework below:

For Employees Involved in Sales, Business Development and Collection Roles:

- All employees will be eligible for the minimum bonus as per the Payment of Bonus Act, 1965 and any other applicable law as amended from time to time;
- Variable pay will be paid to the Sales and Business Development teams based on various targets as they get rolled out from time to time (Existing variable pay matrix is enclosed in Appendix 1); Any change in the variable pay matrix will be put up before NRC for noting
- The Collection team will be eligible for Collection Incentive as per the Collection Incentive Scheme
- Targets and the variable pay plans will be defined for the given period and variable pay will be paid based on the achievement of those targets;
- The variable pay (excluding Bonus as per The Payment of Bonus Act 1965) for any given year will be up to 1% of the loan disbursed. These payments will be based on various activities including, but not restricted to lead generation, cross selling, file collections, loan approvals, disbursements, performance, initiatives etc.
- Incentive amount may be held back or even clawed back in case of compliance/disciplinary issues.
- Employees covered under such sales or collections incentive scheme shall not be eligible for variable pay for the specific duration.

For Employees Responsible for Financial Control, Risk Management, Compliance and Internal Audit roles:

- All employees will be eligible for the minimum bonus as per the Payment of Bonus Act, 1965 and any other applicable law as amended from time to time;
- The variable pay will be based on the performance review of the employee and will be decided by the Managing Director(s);
- For Employees in financial and risk control functions (including Risk, Compliance, Internal Audit, HR, Fraud and Vigilance), the variable pay will be independent of business growth;
- .Variable Pay may be held back or even clawed back in case of compliance/disciplinary issues.

For Employees of Other Departments:

- All eligible employees will be eligible for the minimum bonus as per the Payment of Bonus Act, 1965 and any other applicable law as amended from time to time;
- The variable pay will be determined based on the performance review of the employee and will be decided by the Managing Director(s);
- In case performance not being satisfactory no ex-gratia, performance variable pay will be paid;
- Variable Pay may be held back or even clawed back in case of compliance/disciplinary issues.

Financial Censure:

Prior to any payout of any financial award to all employees like annual increment, variable pay (annual bonus/ performance linked pay), recognition awards which are monetary in nature, promotions, performance related rewards, salary corrections or adjustments etc., the Company would check for any act(s) of misconduct by the employees that may attract financial censure. In the event the misconduct is marked for financial censure, the Company may, depending on the gravity of the censure in question, withhold part or entire award due to the employee.