

SVATANTRA MICRO HOUSING FINANCE CORPORATION LIMITED

NOMINATION AND REMUNERATION POLICY

(w.e.f. 01.07.2024)

The Board of Directors of Svatanttra Micro Housing Finance Corporation Limited (“the Company”) re-named & re-constituted the Remuneration Committee as the “Nomination and Remuneration Committee” at the Meeting held on March 16, 2015, with immediate effect.

The current policy is being updated w.e.f. 01.07.2024 to incorporate the retention and deferral period for malus and clawback clauses pursuant to the provisions of the Guidelines on Compensation of Key Managerial Personnel (KMPs) and Senior Management (SM) issued by the Reserve Bank of India as part of the ‘Scale Based Regulation (SBR) – A Revised Regulatory Framework for NBFCs’, applicable to HFCs.

1. OBJECTIVE

The Nomination and Remuneration Committee and this Policy shall be in compliance with Section 178 of the Companies Act, 2013 read along with the applicable rules thereto. The Key Objectives of the Committee would be:

- 1.1. To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management.
- 1.2. To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- 1.3. To recommend to the Board on Remuneration payable to the Directors, Key Managerial Personnel and Senior Management.
- 1.4. To provide to Key Managerial Personnel and Senior Management reward linked directly to their effort, performance, dedication and achievement relating to the Company’s operations.
- 1.5. To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.
- 1.6. The relationship of remuneration with performance is clear and meets appropriate performance benchmarks.
- 1.7. To lay down criteria and terms and conditions with regard to identifying persons who are qualified to become Director (Executive & Non- Executive/ Independent/Nominee) and persons who may be appointed in Senior Management, Key Managerial Personnel and determine their remuneration.

DEFINITIONS

- 2.1. **Act** means the Companies Act, 2013 and Rules framed thereunder, as amended from time to time.
- 2.2. **Board** means Board of Directors of the Company.
- 2.3. **Directors** mean Directors of the Company.
- 2.4. **Key Managerial Personnel** means
 - 2.4.1. Chief Executive Officer or the Managing Director or the Manager;
 - 2.4.2. Whole-time director;
 - 2.4.3. Chief Financial Officer;

- 2.4.4. Company Secretary; and
- 2.4.5. such other officer as may be prescribed.

- 2.5. **Senior Management** means Senior Management means personnel of the company who are members of its core management team excluding the Board of Directors comprising all members of management one level below the executive directors, including Functional Heads.

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Companies Act, 2013 as may be amended from time to time shall have the meaning respectively assigned to them therein.

3. ROLE OF COMMITTEE

3.1. Matters to be dealt with, perused and recommended to the Board by the Nomination and Remuneration Committee

The Committee shall:

- 3.1.1. Formulate the criteria for determining qualifications, positive attributes and independence of a director.
- 3.1.2. Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this policy.
- 3.1.3. Carry out the due diligence to determine the suitability of the person for appointment/continuing to hold appointment as a director of the Corporation as per the Fit and Proper Criteria for Directors Policy;
- 3.1.4. Recommend to the Board, appointment, and removal of Director, KMP and Senior Management Personnel after applying the fit and proper criteria as stipulated in the Fit and Proper Criteria for Directors Policy.

3.2. Policy for appointment and removal of Director, KMP and Senior Management

3.2.1. Appointment criteria and qualifications

- a) The Committee shall identify and ascertain the integrity, qualification, expertise, and experience of the person for appointment as Director, KMP or at Senior Management level and recommend to the Board his / her appointment.
- b) A person should possess adequate qualification, expertise, and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.
- c) The Company shall not appoint or continue the employment of any person as Whole-time Director who has attained the age of seventy years. Provided that the term of the person holding this position may be extended beyond the age of seventy years with the approval of shareholders by passing a special resolution based on the explanatory statement annexed to the notice for such motion indicating the justification for extension of appointment beyond seventy years.

3.2.2. Term / Tenure

- a) Managing Director/Whole-time Director:

The Company shall appoint or re-appoint any person as its Executive Chairman, Managing

Director or Executive Director for a term not exceeding five years at a time. No re-appointment shall be made earlier than one year before the expiry of term.

b) Independent Director:

- i. An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and will be eligible for re-appointment on passing of a special resolution by the Company and disclosure of such appointment in the Board's report.
- ii. No Independent Director shall hold office for more than two consecutive terms, but such Independent Director shall be eligible for appointment after expiry of three years of ceasing to become an Independent Director. Provided that an Independent Director shall not, during the said period of three years, be appointed in or be associated with the Company in any other capacity, either directly or indirectly.
- iii. At the time of appointment of Independent Director it should be ensured that number of Boards on which such Independent Director serves is restricted to seven listed companies as an Independent Director and three listed companies as an Independent Director in case such person is serving as a Whole-time Director of a listed company or such other number as may be prescribed under the Act.

3.2.3. Evaluation

The Committee shall carry out evaluation of performance of every Director at regular interval (yearly).

3.2.4. Removal

Due to reasons for any disqualification mentioned in the Act or under any other applicable Act, rules and regulations thereunder, the Committee may recommend to the Board with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the said Act, rules and regulations.

3.2.5. Retirement

The Director, KMP and Senior Management Personnel shall retire as per the applicable provisions of the Act and the prevailing policy of the Company. The Board will have the discretion to retain the Director, KMP, Senior Management Personnel in the same position/ remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

3.3. Policy relating to the Remuneration for the Whole-time Director, KMP and Senior Management Personnel

3.3.1. General:

- a) The remuneration / compensation / commission etc. to the Whole-time Director, KMP and Senior Management Personnel will be determined by the Committee and recommended to the Board for approval. The remuneration / compensation / commission etc. shall be subject to the prior/post approval of the shareholders of the Company and Central Government, wherever required.

- b) The remuneration and commission to be paid to the Whole-time Director shall be in accordance with the percentage / slabs / conditions laid down in the Articles of Association of the Company and as per the provisions of the Act.
- c) Increments to the existing remuneration/ compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders in the case of Whole-time Director.

Where any insurance is taken by the Company on behalf of its Whole-time Director, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration.

3.3.2. Principles for Compensation and Risk Alignment:

The compensation of Key Managerial Personnel (KMPs) and senior management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation packages shall comprise of fixed and variable pay components aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, the compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to the time horizon of the risks, and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

3.3.3. Remuneration to Whole-time / Executive / Managing Director, KMP and Senior Management Personnel:

a) Fixed pay:

The Whole-time Director/ KMP and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The breakup of the pay scale and quantum of perquisites including, Basic, HRA, Flexi Allowance, Employer's contribution to P.F, Pension Scheme, Gratuity, etc. shall be decided and approved by the Board/ the Person authorized by the Board on the recommendation of the Committee and approved by the shareholders and Central Government, wherever required. Apart from the above, all other fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, shall be treated as part of fixed pay. All perquisites that are reimbursable shall also be included in the fixed pay and there shall be monetary ceilings on these reimbursements as per the Employee Reimbursement Policy of the Company, as amended from time to time. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.), if provided, shall also be part of fixed pay.

b) Variable Pay:

- i. **Composition of Variable Pay:** The variable pay may be in the form of share-linked instruments, or a mix of cash and share-linked instruments. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.

- ii. **Proportion:** The proportion of variable pay in total compensation shall be commensurate with the role and prudent risk-taking profile of KMPs / senior management. At higher levels of responsibility, the proportion of variable pay shall be higher. There shall be a proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. The variable pay shall be truly and effectively variable and can be reduced to zero based on performance at an individual, business-unit and company-wide level. In order to do so, performance measures in the form of Key result areas, Key performance indicators & Targets and their relation to remuneration packages are defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism. The Variable pay shall be paid out to the personnel after completion of the Appraisal year depending on the performance.
- iii. **Deferral of Variable Pay:** Not all the variable pay awarded after performance assessment may be paid immediately. Certain portions of variable pay, as decided by the Board of the Company, may be deferred to the time horizon of the risks. The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Deferral period, if any, for such an arrangement may be decided by the Board of the Company.
- iv. **Control and Assurance Function Personnel:** KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the Company. Accordingly, such personnel may have a higher proportion of fixed compensation. 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.

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.

d) Minimum Remuneration:

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Whole-time Director in accordance with the provisions of Schedule V of the Act and if it is not able to comply with such provisions, with the previous approval of the Central Government.

e) Provisions for excess remuneration:

If any Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Act or without the prior sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

- f) It is to be ensured that the compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on the Internal

Capital Adequacy Assessment Process (ICAAP).

3.3.4. Remuneration to Other employees:

The remuneration of other employees will be fixed from time to time considering industry standards and cost of living. In addition to basic salary, they will also be provided with perquisites and retirement benefits as per schemes of the Company and statutory requirements, where applicable.

3.3.5. Malus / Clawback:

A malus arrangement permits the Company 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.

A clawback is a contractual agreement between the employee and the Company in which the employee agrees to return previously paid or vested remuneration to the Company under certain circumstances.

The deferred compensation may be subject to malus / clawback arrangements in the event of subdued or negative financial performance of the company and/or the relevant line of business or employee misconduct in any year. Upon occurrence of these or similar events, the Company may prompt to invoke the malus and clawback clauses that may be applicable on entire variable pay. The deferral period as well as the retention period shall be 2 years for the malus and / or clawback clauses.

4. MEMBERSHIP

- 4.1 The Committee shall consist of a minimum 3 directors, majority of them being non-executive.
- 4.2 Minimum two (2) members shall constitute a quorum for the Committee meeting.
- 4.3 Term of the Committee shall be continued unless terminated by the Board of Directors.
- 4.4 The members of the Committee shall choose one amongst them to act as Chairperson. However, the Chairperson of the Company cannot be appointed as the Chairperson of the Committee.
- 4.5 The Company Secretary of the Company shall act as Secretary of the Committee.

5. FREQUENCY OF MEETINGS

The meeting of the Committee shall be held at such regular intervals as may be required.

6. MINUTES OF COMMITTEE MEETING

Proceedings of all meetings must be minuted within 30 days of the meeting and signed by the Chairman of the Committee at the next meeting of the Committee.

7. COMMITTEE MEMBERS' INTERESTS

- 7.1 A member of the Committee is not entitled to be present when his or her own remuneration is discussed at a meeting or when his or her performance is being evaluated.

7.2 The Committee may invite such executives, as it considers appropriate, to be present at the meetings of the Committee.

8. REVIEW OF NOMINATION AND REMUNERATION POLICY:

The Board shall have the right to amend the Nomination and Remuneration Policy from time to time. The Policy shall be reviewed every year along with the other policies of the company. However, it shall be reviewed earlier if need arises for the same and/ or under special circumstances, for example a change in law.