

## **REMUNERATION POLICY**

### **1. OBJECTIVE**

The objective of Hinduja Housing Finance Limited's (Company) Remuneration Policy is to attract, motivate and retain qualified and expert individuals that the Company needs in order to achieve its strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognizing the interests of the stakeholders of the Company.

### **2. THE NOMINATION & REMUNERATION COMMITTEE (NRC)**

The Nomination & Remuneration Committee ("Committee") is responsible for formulating and making the necessary amendments to the Remuneration Policy for the Directors, Key Managerial Personnel (KMP) and Senior Executives of the Company from time to time. KMP is defined under Section 2(51) of the Companies Act, 2013 ("the Act") and Senior Management is defined under Section 178 of the Act. NRC may 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.

### **3. REMUNERATION FOR EXECUTIVE DIRECTORS, KEY MANAGERIAL PERSONNEL (KMP) AND SENIOR EXECUTIVES**

The following elements are taken into consideration for determining the Remuneration for Executive Directors, KMP and Senior Executives:

- The remuneration policy reflects a balance amongst the interests of the Company's main stakeholders, as well as a balance between the Company's short-term and long-term performance objectives. As a result, the structure of the remuneration package for the Executive Directors, KMP and Senior Executives is designed to balance short-term operational performance with the medium and long-term objective of creating sustainable value within the Company, while taking into account the interests of its stakeholders. The Company strives for a high performance in the field of sustainability and aims to maintain a good balance between economic gain, respect for people and concern for the environment.
- To ensure that highly skilled and qualified KMP/Senior Executives can be attracted and retained, the Company aims for a total remuneration level that is comparable to levels provided by other companies that are similar to the Company in terms of size and complexity
- In designing and setting the levels of remuneration for the Directors, KMP and Senior Executives, the Committee also takes into account the relevant statutory provisions and provisions of corporate governance regulations, societal and market trends and the interests of stakeholders.
- The Company's policy is to offer the Directors, KMP and Senior Executives a total compensation comparable to the peer group.

### **4. TOTAL COMPENSATION (TC)**

The total compensation of the Managing Director and Senior Executives consists of the following components:

- a) Fixed salary
- b) Variable income

- Annual Performance Pay (APP)
- Performance-related Long-Term Incentive Plan (LTIP)

In addition to the above, they are also eligible for Insurance benefits and any other benefits /perquisites as may be periodically determined by relevant by HR policies of the Company

a) Fixed salary is largely linked to the following factors:

- Quality of talent from a performance and potential standpoint
- Criticality of role to the organization
- Prevailing market conditions
- Competition remuneration
- Availability of talent & retention related issues

**b) Variable income**

The variable income part of remuneration consists of APP. The parameters relating to the various elements of the variable income part of the remuneration are established and where necessary adjusted by and at the discretion of the Committee, taking into account the general rules and principles of the remuneration policy itself.

The targets are determined each year by the Committee in consultation with the respective Director/KMP / Executive, based on historical performance, the operational and strategic outlook of the Company in the short term and expectations of the Company's management and stakeholders, among other things. The targets contribute to the realization of the objective of long-term value creation. It is one of the long-term objectives to reach the proportion of variable compensation up to 50% of the total compensation.

**Sign on Bonus or Joining Bonus**

In the context of new hiring, joining/sign-on bonus may be considered and such payouts will neither be considered part of fixed pay nor of variable pay for the purposes of this policy.

**5. COMPENSATION FOR KMP'S AND SENIOR EXECUTIVES IN CONTROL AND ASSURANCE FUNCTIONS**

KMP's and Senior Executives engaged in Compliance, Risk and Internal Audit will be compensated in a manner that is independent of the business areas they oversee and commensurate with the role in the Company. Accordingly, such employees may have a higher proportion of fixed compensation.

**6. REMUNERATION FOR OTHER EMPLOYEES**

Remuneration of all employees of the Company consist entirely of fixed pay and Annual Performance Pay / Incentives which is reviewed on an annual basis. Increase in the remuneration of employees is effected based on an annual review taking into account performance of the employee and the performance of the Company.

## **7. ALIGNMENT OF REMUNERATIONS**

The Committee strives to achieve that the remunerations of the Directors, Senior Executives, Middle and lower-level employees of the Company are aligned to each other.

## **8. TERM OF APPOINTMENT**

The Term of office of Executive Director shall be as per the provisions of the Companies Act, 2013 and Rules made thereunder and be renewed from time to time as may be determined by the Board / Members, as the case may be. The term of office of Senior executive such as Chief Risk Officer, Head Internal Audit, Chief Compliance Officer etc. which are regulated under the RBI Guidelines shall be as per the applicable regulations and as approved by the Board of Directors. The term of the other employees, generally is up to the age of superannuation. However, Company also employs contractual employees as 'consultants' for shorter periods on need basis.

## **9. POST-RETIREMENT BENEFITS**

All the executive directors and employees are entitled for retirement benefits such as provident fund and gratuity.

## **10. SEVERANCE ARRANGEMENTS**

Contracts of employment with Executive Directors and regular employees, provide for compensation of up to 3 months pay or advance notice of similar period for cessation from services of the Company.

## **11. LOANS**

There is no system of granting of loans to Directors, KMP and employees of the Company.

## **12. RISKS AND LINKAGE TO PERFORMANCE**

The company faces various kinds of risks like Regulatory Risks, Financial Risks, Interest Rate risk, Client concentration risk, People & Leadership Risk, Performance Risk, Compliance Risk etc. These risks are aligned to the respective KMP's / Senior Management in the organization. NRC may work in close coordination with Risk Management Committee (RMC) of the Company to achieve effective alignment between compensation and risks.

## **13. PERFORMANCE MANAGEMENT**

Risks are captured as one of the key parameters in KRA's of KMP's./ Senior Management, MD&CEO and all KMP's are governed basis these KRA's and business plans. Performance ratings are given against achievement against the KRA's set. The ratings are directly linked to the performance of the organization and the function. Performance of Senior Executives of control and assurance functions (Compliance, Internal Audit and Risk) shall be evaluated by Board/its committees depending on the reporting lines of the Senior Executives in line with the applicable RBI guidelines.

## **14. MALUS / CLAWBACK- PAYOUT OF VARIABLE PAY**

Malus refers to those arrangements which permits the Company to prevent vesting of all or a part of the

number/amount of ESOPs or LTIPs to be vested (to the extent of unvested portion of options or LTIPs). Clawback refers to those scenarios where there is agreement between the Company and the employees to return previously paid remuneration under certain circumstances.

The Company recognizes that the variable pay should not be paid if there is a deficiency in the performance. Accordingly, our compensation structure proactively withholds between 10 to 20% of the Senior Management/ KMP's total salary as a performance-based variable pay. The Variable Pay is paid out at the end of the performance year after the audited financial results are declared by the Company. 100% payout will happen on achieving stated performance targets. In case of lack of performance, the employee will be paid NIL amount and in case of partial performance, the payout is reduced by 50%.

**Scenarios to invoke Malus/Clawback- some of the factors to be considered are as follows:**

- Material failure in risk management controls or material losses due to negligent risk-taking which are attributable to the employee, whether directly or indirectly.
- Wilful misrepresentation / misreporting of information about the Company.
- Non-disclosure of material conflict of interest by the employee or any misuse of official powers.
- Commission of felony, fraud, misappropriation, embezzlement, breach of trust or an offence involving moral turpitude or breach of integrity, gross or wilful insubordination, or any other act detrimental to the interest of the Company.
- Subdued or negative financial performance of the Company, provided that such subdued or negative performance as evaluated by the NRC, is not on account of changes in regulations, force majeure, market conditions, industry performance, economic, social or other conditions outside the control of the Company or any person. Any material gains/losses from one-time transactions that are not in ordinary course of business would not be included while computing movement in PAT for this purpose.
- Material breach of Company's Code of Conduct, regulatory requirements, Company's policies or such other instance for which the NRC, in its discretion, deems it necessary to apply malus or / and clawback provisions. In deciding to apply malus/clawback, the NRC, in its evaluation, shall take into account the principles of proportionality and of reasonable nexus between matters of ability, capability and expertise of the individual/s versus matters or events outside the control or even nexus of the individual/s to the events or situations

**Process of applying Malus / Claw back provisions:**

- a) Prior to the invocation of Malus & Claw back to any part or all of variable pay or incentives including ESOPs, the NRC shall order an independent enquiry through the Nomination & Remuneration Committee (NRC) about the facts of the event(s) in detail.
- b) The NRC shall also take into consideration all relevant factors, including inter alia, roles and responsibilities of the Key Employee, culpability, and proximity to the Misconduct as well as any external factors as may be relevant.

- c) The NRC shall also review the act of Misconduct or any of the aforesaid events to ascertain the degree of accountability, prior to applying the Malus or Clawback arrangement. d) The NRC shall follow due process and adhere to the principles of natural justice and proportionality and shall provide an opportunity of being heard to the employee.
- e) The NRC will provide a independent report to the Chairman of the NRC and Chairman of RMC. Post review of the matter objectively along with the MD&CEO. NRC Chairman will submit the recommendation report to the MD & CEO.

**Malus/Clawback Period:**

This will be for a period of 1 year and the risk needs to be mitigated.

**Guidelines for Implementation:**

1. This Policy will be binding on Executive Directors, KMPs and Senior Management covered under the purview of this Policy and terms of their compensation shall automatically stand revised in accordance with this Policy as amended from time to time.
2. The NRC shall review the incident/act of misconduct to ascertain the degree of accountability attributable to the concerned employee and may decide to apply malus and/or clawback on none, part or all the unvested/vested deferred variable compensation based on the outcome of the evaluation.
3. The provision relating to malus would entail forfeiture of full or part of the unvested/unpaid part of the deferred variable pay, attributable to a given reference year wherein the incident has occurred. In case the stock options are unvested or have been vested but not exercised, up to 100% of such stock options can be forfeited.
4. The provision relating to clawback would entail return of full or part of the variable pay (net of taxes) paid, attributable to a given reference year wherein the incident has occurred. Such return would always be in cash. The Company will have a right to set off the clawback amount against any amount payable to the concerned employee. In case of ESOPs, where the vested stock options have already been exercised, the employee shall return in cash, fair value of such options (or part thereof) at the time of grant, using Black-Scholes model.

The revised terms and conditions shall be communicated to all the concerned employees and the Company shall keep on record their acceptance thereof