



**Policy on Compensation of Directors, Executives and Other Employees**

**CAPITAL INDIA FINANCE LIMITED**

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Version Control Table

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[Version 1: Remuneration Policy for the Members of Board and Executive Management Policy w.e.f. 16 August 2017]

[Version 2: Policy on Remuneration of the Directors, Key Managerial Personnel and Other Employees w.e.f. 10 May 2019]

[Version 3: Policy on Remuneration of the Directors, Key Managerial Personnel and Other Employees w.e.f. 26 May 2021]

[Version 4: Policy on Compensation of Directors, Executives and Other Employees w.e.f. February 13, 2023]

The Policy on Compensation of Directors, Executives and Other Employees is formulated pursuant to Section 178(3) of the Companies Act, 2013 (“**Act**”), the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**Listing Regulations**”) and circular dated April 29, 2022 issued by Reserve Bank of India (“**RBI**”).

## 1. DEFINITIONS

- 1.1 This compensation policy provides a framework for remuneration to be paid to the members of the Board of Directors (“**Board**”), Key Managerial Personnel (“**KMP**”), Senior Management Personnel (“**SMP**”) (KMP and SMP are collectively referred to the “**Executives**”) and Other Employees of the Company.
- 1.2 “Senior Management Personnel” shall mean and include:
- Officers/Personnel of the Company who are members of the core management team vested with managerial responsibilities;
  - Key Managerial Personnel viz.
    - Managing Director, Whole-time Director, Manager;
    - Chief Executive Officer;
    - Chief Financial Officer;
    - Company Secretary;
    - Chief Compliance Officer; and
    - Any other positions within the Company at the discretion of the Managing Director / Chief Executive Officer in consultation with the Board;
  - All members of management one level below the Chief Executive Officer/ Managing Director/ Whole-time Director/ Manager;
  - Officers/Personnel of the Company reporting to Committee of the Board / Board, including the heads of Control, Assurance, Vigilance functions and functional heads, by whatever name called.
- 1.3 The expression Other Employees mean all Employees of the Company other than Directors (Board), Key Managerial Personnel(s) and Senior Management Personnel(s).
- 1.4 Total Compensation shall mean remuneration including a mix of Fixed Pay and Variable Pay inter alia comprising of cash and non-cash components.

## 2. AIMS & OBJECTIVES

- 2.1 The policy aims that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors, Executives and Other Employees of the quality required to run the Company successfully;
- 2.2 The policy aims that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks;
- 2.3 The policy aims that the remuneration to Directors, Executives and Other Employees involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals which will address issues arising out of excessive risk taking caused by misaligned compensation packages;
- 2.4 The policy aims that the compensation levels are supported by the need to retain earnings of the Company and the needs to maintain adequate capital based on internal capital adequacy assessment process; and
- 2.5 The policy seeks to enable the Company to provide a well-balanced and performance- related compensation package, taking into account shareholder interests, industry standards and relevant Indian corporate regulations.

### 3. PRINCIPLES OF REMUNERATION

- 3.1 Support for Strategic Objectives: Remuneration and reward frameworks and decisions shall be developed in a manner that is consistent with, supports and reinforces the achievement of the Company's vision and strategy.
- 3.2 Transparency: The process of fixing the remuneration to be paid to Directors, Executives and Other Employees shall be transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.
- 3.3 Internal Equity: The remuneration to the Directors, Executives and Other Employees shall be in accordance with their roles within the Company. Roles and Responsibility shall be formally evaluated to determine their relative weight in relation to other positions within the Company.
- 3.4 External Equity: The Company strives to pay an equitable remuneration, capable of attracting and retaining high quality personnel. Therefore, the Company will remain logically mindful of the ongoing need to attract and retain high quality people and the influence of external remuneration pressures.
- 3.5 Flexibility: Remuneration and reward offerings shall be sufficiently flexible to meet both the needs of individuals and those of the Company whilst complying with relevant tax and other legislation.
- 3.6 Performance-Driven Compensation: The Company shall entrench a culture of performance driven compensation through the implementation of the performance appraisal system.
- 3.7 Affordability and Sustainability: The Company shall ensure that remuneration is affordable on a sustainable basis.
- 3.8 Components and Risk alignment: The compensation of Directors & Executives will be reasonable, recognising all relevant factors including adherence to statutory requirements and industry practices. The compensation package will comprise of such 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.
- 3.9 Composition of Fixed Pay: All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, will be treated as part of fixed pay. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. The 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.
- 3.10 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, in conformity with relevant statutory provisions. The proportion of variable pay in Total Compensation will be commensurate with the role and prudent risk taking profile of Executives. The variable pay can be reduced to zero based on performance at an individual, business-unit and company-wide level. There would be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. These may also be subject to malus/ claw back clause.
- 3.11 Deferred Compensation: Variable pay awarded after performance assessment may be deferred. A certain portion of variable pay may be deferred to time horizon of the risks, as decided by the Board of Directors of the Company. This will be applicable to both cash and non-cash components of the variable pay. These may also be subject to malus/ claw back clause.

- 3.12 Malus / Clawback: The deferred compensation may be subject to malus/ claw back 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. Malus and claw back will have meanings as defined in RBI circular on Guidelines on Compensation of Executives in NBFCs dated April 29, 2022, and any amendments thereafter. Period and portion of variable compensation for malus/ claw back may be decided from time to time by the internal Management Committee

#### 4. **NOMINATION AND REMUNERATION COMMITTEE**

- 4.1 The Nomination and Remuneration Committee (referred as “**Committee**”) shall comprise of three or more non-executive directors out of which not less than two-third shall be independent directors.
- 4.2 The Nomination and Remuneration Committee shall be responsible for:
- 4.2.1 identifying persons who are qualified to become Directors, and those who may be appointed as Executives in accordance with the criteria laid down and recommend to the Board their appointment & removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual Directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.
  - 4.2.2 formulation of criteria for evaluation of performance of Independent Directors and the Board of Directors.
  - 4.2.3 formulating the criteria for determining qualifications, positive attributes and independence of a director, and recommending to the Board a policy relating to the remuneration for the Directors, Executives and Other Employees.
  - 4.2.4 every appointment of an independent director, the Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:
    - a. use the services of an external agencies, if required;
    - b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
    - c. consider the time commitments of the candidates.
  - 4.2.5 devising a policy on diversity of Board of Directors.
  - 4.2.6 whether to extend or continue the term of appointment of the Independent Director, based on the report of performance evaluation of Independent Directors.
  - 4.2.7 recommend to the Board, all the remuneration, in whatever form, payable to Directors & Executives.
- 4.3 The Nomination and Remuneration Committee shall:
- 4.3.1 ensure ‘fit and proper’ status of proposed/ existing directors and that there is no conflict of interest in the appointment of Directors on Board of the Company and Executives (if required);
  - 4.3.2 review the ongoing appropriateness and relevance of the compensation policy;
  - 4.3.3 ensure that all provisions regarding disclosure of compensation, are fulfilled;
  - 4.3.4 ensure that no Director, Executives or Other Employees is involved in any decisions as to their own compensation.

- 4.4 without prejudice to the generality of the terms of reference to the Nomination and Remuneration Committee set out above, the Committee shall:
  - 4.4.1 formulate and administer the Company's Employee Stock Options schemes (if any) or other incentives schemes (if any) as applicable. It shall recommend to the Board the total aggregate amount of any grants to Directors and Executives, if required as per applicable laws and make amendments to the terms of such schemes;
  - 4.4.2 liaise with the trustee/custodian of any Employee Stock Options scheme which is created by the Company for the benefit of Directors, Executives or Other Employees.

## 5. PROCEDURE FOR SELECTION AND APPOINTMENT OF THE BOARD OF DIRECTORS

### 5.1 Board membership criteria

The Nomination and Remuneration Committee shall review on an annual basis, appropriate skills, characteristics and experience required of the Board as a whole and its individual members. The objective is to have a Board with diverse background and experience in business, government, academics, finance, banking, technology and in areas that are relevant for the Company's operations.

In evaluating the suitability of individual Board members, the Nomination and Remuneration Committee shall consider many factors, including general understanding of the Company's business dynamics and social perspective, educational and professional background and personal achievements.

Additionally, the Board members must be willing to devote sufficient time and energy in carrying out their duties and responsibilities effectively. They must have the aptitude to critically evaluate management's working as part of a team in an environment of collegiality and trust.

### 5.2 Selection of Board Members / extending invitation to a potential director to join the Board

One of the roles of the Nomination and Remuneration Committee is to periodically identify competency gaps in the Board, evaluate potential candidates as per the above criteria, ascertain their availability and make suitable recommendations to the Board. The objective is to ensure that the Board is appropriate at all points of time to be able to take decisions commensurate with the size and scale of operations of the Company. The Nomination and Remuneration Committee shall also identify suitable candidates in the event of a vacancy being created on the Board on account of retirement, resignation or demise of an existing Board member. Based on the recommendations of the Committee, the Board shall evaluate the candidate(s) and decide on the selection of the appropriate member.

## 6. PROCEDURE FOR SELECTION AND APPOINTMENT OF EXECUTIVES

- 6.1 The Human Resource Function shall actively liaise with the relevant departments of the Company to study the requirement for Executives, and shall prepare a list of the Executive positions to be filled up with relevant job profile;
- 6.2 The Human Resource Function shall conduct a wide-ranging search for candidates for filling various positions of Executives from within the Company, group company, within enterprises controlled by the Company or within enterprises in which the Company holds equity, if any, through references and from the help of human resource consultants;
- 6.3 The professional, academic qualifications, professional titles, detailed work experience and all concurrently held positions of the candidates shortlisted shall be compiled;
- 6.4 A meeting of the Committee shall be convened, and the resume of the shortlisted candidates shall be examined with emphasis on the suitability of the shortlisted candidates after giving due consideration to

the location and other relevant factors for appointment of the Executive(s);

6.5 Before the selection of Executive(s), the recommendations along with relevant information on the relevant candidate(s) shall be submitted to the Board of Directors for their consideration;

6.6 The Committee shall carry out other follow-up tasks based on the decisions and feedback received from the Board of Directors.

## 7. **COMPENSATION STRUCTURE**

7.1 Compensation to Non-Executive Directors:

The Non-executive Directors excluding Independent Directors of the Company are neither paid sitting fee nor any commission.

7.2 Compensation to Executive Directors and Executives:

The Company has a transparent framework for determining and accounting for the compensation of the Managing Director / Whole Time Directors, Chief Executive Officer, and Executives. Their remuneration may comprise mix of cash, equity or such form acceptable in the industry and is governed by the external competitive environment, track record, potential, risk taking capacity, individual performance and performance of the Company as well as industry standards. The recommendations for performance appraisals of Executive Directors and Executives (inter alia increments, bonus and grade changes) shall be proposed for approval by the internal Management Committee. Upon approval by internal Management Committee, the recommendations for performance appraisal of Executive Directors and Executives shall be put up to the Committee for approval and recommendation to the Board.

The compensation determined for Executive Directors by the Committee is subject to the approval of the Board of Directors and Shareholders in due compliance of the provisions of Companies Act, 2013. The Nomination and Remuneration Committee shall recommend compensation for the Executives, in whatever form payable to them, at the time of the appointment, to the Board. Any subsequent increments in remuneration shall be recommended by the Nomination & Remuneration Committee to Board for approval and recommendation to the Board.

The compensation package for the Executive Directors and Executives of the Company may comprise of fixed pay, variable pay, deferred compensation and malus/clawback arrangements.

As a policy, the Executive Directors are neither paid sitting fee nor any commission.

7.3 Other Employees (Employees other than Executive Directors and Executives)

The Company has a transparent framework for determining and accounting for the compensation of the employees. Their compensation is governed by the external competitive environment, track record, potential, individual performance as well as industry standards. The recommendations of performance appraisals of all the employees (inter alia increments, bonus and grade changes) shall be proposed for approval by the internal Management Committee.

## 8. **POLICY REVIEW**

8.1 This Policy is framed based on the provisions of the Act and rules thereunder, Listing Regulations and circular(s) issued by Reserve Bank of India. This remuneration policy as framed by the Nomination and Remuneration Committee shall be recommended to the Board for its approval.

8.2 In case of any subsequent changes in the provisions of the Act or any other regulations which makes any of the provisions in the policy inconsistent with the Act or regulations, then the provisions of the Act or regulations would prevail over the policy and the provisions in the policy would be modified in due course

to make it consistent with law.

- 8.3 This policy shall be reviewed by the Nomination and Remuneration Committee as and when any changes are incorporated in the policy due to changes in regulations or as may be felt appropriate by the Committee. Any changes or modification to the policy as recommended by the Nomination and Remuneration Committee would be presented before the Board of Directors for their approval.