

Shriram Housing Finance Ltd

<<Nomination and Remuneration Policy >>

1. Preface

This Remuneration/Compensation policy is framed in line with the requirement of the Section 178 of the Companies Act, 2013, Regulation 19 read with Part D of Schedule II of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Scale Based Regulation framework issued by Reserve Bank of India (RBI) vide circular dated RBI/2021-22/112 DOR.CRE.REC.No.60/03.10.001/2021-22 and as per the Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management Personnel (SMP) in NBFCs issued by Reserve Bank of India (RBI) vide circular dated RBI/2022-23/36 DOR.GOV.REC.No.29/18.10.002/2022-23 on April 29, 2022 ("RBI Guidelines"). This policy has been framed by the Nomination and Remuneration Committee (NRC) and approved by Board of Directors.

2. Applicability

This Policy covers the appointment, remuneration of Directors (Executive and Non-Executive), Key Managerial Personnel ("KMP"), and Senior Management personnel of the Company and performance appraisal of the Directors.

3. Definitions

- a) "Act" shall mean the Companies Act, 2013 and the rules framed thereunder as amended from time to time.
- b) "Board of Directors" or "Board" shall mean Board of Directors of the Company.
- c) "Company" shall mean Shriram Housing Finance Limited.
- d) 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.
- e) "Directors" mean Directors of the Company.
- f) "Independent Director" shall mean a Director of the Company who satisfies the criteria for independence under Section 149 of the Act read with Regulation 16 of the Listing Regulations.
- g) "Key Managerial Personnel (KMP)" means KMP as defined in Section 2 (51) of the Act, as amended from time to time read with Regulation 2(1)(o) of the Listing Regulations i.e. (a) Managing Director (b) Chief Executive Officer (CEO), (c) Chief Financial Officer (CFO) (d) Company Secretary; (e) Whole-time director (e) any other officer, not more than one level below the directors who is in wholetime employment, designated as key managerial personnel by the Board; (f) such other officer as may be prescribed.
- h) "Listing Regulations" shall mean the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.
- i) "Managing Director" means a director who, by virtue of the articles of a company or an agreement with the company or a resolution passed in its general meeting, or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company and includes a director occupying the position of managing director, by whatever name called, as defined under Section 2(54) of the Act.
- j) A "Malus" is an arrangement that 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.
- k) "Policy" or "This Policy" means "Nomination and Remuneration Policy of the Company."

- l) "Retention period" a period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.
- m) The term "Senior Management Personnel (SMP)" 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 as provided in 'Explanation' to Section 178 of the Companies Act, 2013.
- n) NRC will review the list of SMPs identified based on their functional role from time-to-time.
- o) "Whole-Time Director" includes a director in the whole-time employment of the Company, as defined under Section 2(94) of the Act.

All terms used in the Policy except stated herein above shall have the same meaning as ascribed to them under Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

4. Objective

The objective of the policy is to ensure that

- a. To lay down broad framework for payment of remuneration to the Directors (Executive and Non-Executive), Key Managerial Personnel and Senior Management Personnel;
- b. To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain reward and motivate directors and employees including key managerial personnel and senior managerial personnel of the quality required to run the company successfully;
- c. To 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.
- d. To ensure that the remuneration of whole-time directors, key managerial personnel and senior management involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the company and aligned with the regulatory requirements;
- e. Evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- f. Increase diversity at Board level and to make maximum use of the skills and industry experience of the directors.

The Board of Directors of the Company has constituted Nomination and Remuneration Committee in accordance with the provisions of Section 178 of the Companies Act, 2013 and Regulation 19 read with Part D of the Schedule II of the Listing Regulations.

5. Role of the Nomination & Remuneration Committee

The role of the Nomination and Remuneration Committee will be the following:

- a. Formulation of the criteria for determining qualifications, positive attributes and independence of a director
- b. Identify persons who qualify to become Directors and recommend their appointment to the Board, as and when vacancies arise.
- c. Recommend removal of a Director from the Board, in case if such need arises.

- d. Formulation of criteria for evaluation of performance of independent directors and the board of directors.
- e. Carry out evaluation of performance of every Director on an annual basis.
- f. Formulate policies for qualification, attributes and independence of directors.
- g. To ensure 'fit and proper' status of Directors at the time of their appointment as well as on continuing basis.
- h. Recommend to the Board policy relating to remuneration for directors, key managerial personnel and employees keeping in view to attract, motivate and retain talent required for the progress of the Company.
- i. To determine if the term of appointment of the independent director should be extended or continued, on the basis of the report of performance evaluation of independent directors.
- j. Guide policies and practices in the talent management of the Company.
- k. Formulate, recommend to the Board and administer Employees Stock Option Plans (ESOP) and other incentive plans for employees and directors and interpret and adopt rules for the operation thereof.
- l. Approve employment agreements, severance arrangements and change in control agreements.
- m. To form Sub-committees and take matters as may be assigned by the Board from time to time.
- n. To devise a policy on Board diversity, composition, size.
- o. Succession planning for replacing Key Executives and overseeing.
- p. To carry out any other function as is mandated by the Board from time to time and / or enforced by any statutory notification, amendment or modification, as may be applicable.
- q. To perform such other functions as may be necessary or appropriate for the performance of its duties.

6. Membership of the Committee

- a. The Committee shall consist of a minimum 3 non-executive directors, majority of them being independent.
- b. Minimum two (2) members shall constitute a quorum for the Committee meeting.
- c. Term of the Committee shall be continued unless terminated by the Board of Directors.
- d. Chairman of the Committee shall be an Independent Director.
- e. Chairman of the Company may be appointed as a member of the Committee but shall not be a Chairman of the Committee.
- f. In the absence of the Chairman, the members of the Committee present at the meeting shall choose one amongst them to act as Chairperson.
- g. Chairman of the Nomination and Remuneration Committee meeting could be present at the Annual General Meeting or may nominate some other member to answer the shareholders' queries.

7. Appointment of Director, Key Managerial Personnel and Senior Management

The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director KMPs and recommend his/ her appointment, as per Company's Policy;

All appointments of Senior Management Personnel (not defined as KMP) will be made by Managing Director along with the Chief Human Resource Officer (CHRO) and will be advised to the Committee.

- a. A person should possess adequate qualification, expertise and experience for the position he / she is considered for appointment. The Company has authority to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the position.

- b. 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.

8. 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:

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.

No Independent Director shall hold office for more than two consecutive terms of upto maximum of 5 years each, 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.

9. Evaluation

The Committee shall carry out evaluation of performance of Director, KMP and Senior Management Personnel yearly or at such intervals as may be considered necessary.

10. Removal

The Committee may recommend with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the Companies Act, 2013, rules and regulations and the policy of the Company.

11. 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.

12. Principles for Remuneration

The Company will ensure that:

- The level of remuneration is supported by the need to retain earnings of the company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Procedure (ICAAP);
- The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors, KPMs and SMPs of the quality required to efficiently run the company successfully;

- Compensation components are aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risk taking;
- Compensation outcomes are symmetric with risk outcomes;
- Specifically, for Executive Directors, KMPs and SMPs:
 - Compensation pay-outs 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 Company may revisit the principles basis industry and regulatory context, company context and emerging best practices from time to time

Components of Remuneration

The remuneration structure shall broadly comprise of the following components:

- a) Fixed Pay
- b) Variable Pay

a) Components of Fixed Pay

- The Fixed Pay of the Company should typically consist of elements like Basic Salary, Allowances, Perquisites, Contribution towards retirals, superannuation etc.
- In addition to the various cash components (salary, allowances etc.) the Company can also offer certain reimbursable perquisites with monetary ceiling and certain non-monetary perquisites. The perquisites extended would be in the nature of but not limited to Company Car, Company Leased Accommodation, Club Memberships and such other benefits or allowances in lieu of such perquisites/benefits.

b) Components of Variable Pay

- Variable Pay shall comprise of Share linked instruments (ESOS) and cash in the form of bonus or incentives
- Variable Pay shall be in the form of “pay at risk”. Depending on performance and risk outcomes at individual, business units and company-wide level, the Variable Pay shall be truly variable and can even be reduced to zero.

Remuneration of Executive Directors, Key Managerial Personnel, and Senior Management Personnel

a) Components of Fixed Pay

- The Fixed Pay of the Company should typically consist of elements like Basic Salary, Allowances, Perquisites, Contribution towards retirals, superannuation etc.
- In addition to the various cash components (salary, allowances etc.) the Company can also offer certain reimbursable perquisites with monetary ceiling and certain non-monetary perquisites. The perquisites extended would be in the nature of but not limited to Company Car, Company Leased Accommodation, Club Memberships and such other benefits or allowances in lieu of such perquisites/benefits as may be approved by the Managing Director/ Nomination and Remuneration Committee / Board. The Fixed Pay of the Company should typically consist of elements like Basic Salary, Allowances, Perquisites, Contribution towards retirals, superannuation etc.

b) Components of Variable Pay

- Variable Pay shall comprise of Share linked instruments (ESOS) and cash in the form of bonus or incentives
- Variable Pay shall be in the form of “pay at risk”. Depending on performance and risk outcomes at individual, business units and company-wide level, the Variable Pay shall be truly variable and can even be reduced to zero.
- Variable Pay shall comprise of Share linked instruments and cash in the form of bonus or incentives.
- Variable Pay shall be in the form of “pay at risk”. Depending on performance and risk outcomes at individual, business units and company-wide level, the variable pay shall be truly variable and can even be reduced to zero.
- The Variable Pay will be in the form of share linked instruments (ESOS) 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.
- A substantial portion of remuneration will be variable and paid on the basis of:
 - Annual Performance of Individuals against the pre-defined Key Performance Indicators (KPIs)
 - business-unit performance, and
 - Company’s performance.
- Proportion of Variable Pay in the Total Compensation should be higher at higher level of responsibility.
- KMPs and SMPs employed in financial control, risk management, compliance and internal audit roles shall have higher proportion of Fixed Pay in the Total Compensation. However, care should be taken that reasonable proportion of Total Compensation should be in the form of Variable Pay to enable company to exercise malus and/or clawback, if required.

Deferral of variable pay

- Of the total Variable Pay, certain portion as may be decided by the Nomination and Remuneration Committee/Board, shall be deferred to the time horizon of the risk. The Deferred compensation will be in the form of share linked instruments/ESOS. The deferral period for share linked instruments/ESOS will be governed by the ESOS Rules which will be approved by the Nomination and Remuneration Committee and the Board..

Guaranteed Bonus

- No amount of bonus can be guaranteed to KMPs and SMPs except for hiring/signon bonus to be paid to new hire. The said bonus shall not form part of Fixed or Variable Pay.

Malus / Clawback Arrangement

- **Malus arrangement** wherein in case of subdued or negative financial performance arising not on account of gross negligence or misconduct of the KMP, the Company may withhold cash incentives/bonus or vesting of ESOS and may lapse unvested ESOS in accordance with the ESOS rules.
- **Clawback arrangement** wherein in case of gross negligence or misconduct or cause as defined in the Company's code of conduct, the KMP and/or SMP shall be liable to return previously paid or vested deferred variable compensation.

The Company may invoke Malus or Clawback clause with respect to the KMPs and SMPs in the following illustrative scenarios:

- Gross negligence, Reckless, or wilful actions or exhibited inappropriate values and behavior. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company's results o Fraud that requires financial restatements
- Reputational harms o Exercise his/her responsibilities in a mala fide manner o Significant deterioration of financial health of the Company
- Exposing Company to substantial Risk
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision is necessary and justified.

The time horizon for the applicable of malus/clawback clause shall be three years or the deferral period or the Retention Period of the variable compensation, whichever is higher, from the date of reward.

Once the Company decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of up to 100% of the deferred cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested deferred cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of cash component of deferred Variable Pay paid over the applicable period
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted during the applicable period
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted during the applicable period

The terms of appointment of KMPs and Senior Management of the Company shall be suitably amended to contain suitable clause on Malus/Clawback.

Remuneration of Other Employees

- a) In general, the principles laid down in Policy will be considered for governance and remuneration decisions related to other employees read in line with Company's HR Policy.
- b) In general, the proportion of Variable Pay in the Total Compensation should be higher at higher level of responsibility.
- c) There should be appropriate proportion of Variable Pay in the total compensation so that performance and/or risk adjustment can be affected.

Remuneration of Independent Directors

- a) The Company is being benefited from the expertise, advice and inputs provided by the Independent Directors. The Independent Directors devote their valuable time in deliberating on the strategic and critical issues in the course of the Board and Committee meetings of the Company and give their valuable advice, suggestion and guidance to the management of the Company from time to time.
- b) Independent Directors of the Company are paid following remuneration:

- **Sitting Fees:**

INR 75,000/-for every meeting of Board, INR 50,000/- for every Committee meeting, Audit Committee and other Board Committee meetings etc of Independent Directors attended by them.

Remuneration of Non-Executive Non-Independent Directors

Non-Executive Non-Independent Directors shall be entitled to reimbursement of expenses for attending the meetings of the Board/Committees but shall not be entitled to receive the sitting fees and commission.

Role of NRC in determining Remuneration of Managing Director & CEO

The Committee is responsible for assisting the Board of Directors in the Board's overall responsibilities relating to determination on their behalf and on behalf of the shareholders with agreed terms of reference, the remuneration for Managing Director & CEO including any compensation payment. In addition to the above defined Principles for Remuneration, the following shall also be the principal recurring processes of the Committee in carrying out its responsibilities relating to Remuneration of the Managing Director & CEO. The processes are set forth as a guideline with the understanding that the Committee may supplement them as appropriate.

- Provide independent oversight of and consult with Company management regarding the Company's remuneration, bonus, pension and other benefit plans, policies, and practices applicable to the Company.
- Develop guidelines for and annually review and approve (a) the annual basic salary, (b) the annual variable remuneration / incentive/ bonus, including the specific goals and amount and (c) equity compensation for the Managing Director & CEO.
- Review and approve (a) employment agreements and change in control agreements/provisions and (b) any other benefits, compensation or arrangements for the Managing Director & CEO.
- If in any financial year the Company has no profits or its profit are inadequate then Managing Director & CEO shall be entitled to receive the remuneration perquisite and benefits as approved by the Committee, Board of Directors and if required, by shareholders subject to compliance with the applicable

provisions of the Act read with Schedule V to the Act, if and to the extent necessary with the approval of Central Government.

Employee Stock Option

In order to attract and retain the key/ quality talent and to motivate the employees to achieve long term business goals, the Board may consider at appropriate time issue of Employee Stock Options for the identified employees in accordance with Company's ESOP Policy.

13. Criteria for Remuneration

The remuneration shall be based on the criteria of appointment mentioned above and shall be subjected to the limits mentioned below. The remuneration mentioned below can be changed by the Board from time to time.

Category	Remuneration	Remarks
Whole-time Director & Managing Director	Basic Pay, allowances, Perquisites, Retirement benefits, ESOP and reimbursement of expenses incurred in performance of office duties	Subject to the ceiling limits prescribed under the Act / approval of Shareholders.
Independent Directors	Sitting Fees in terms of the provisions of the Companies Act, 2013	Sitting Fees are subject to the applicable ceiling limits prescribed under the Act.
Senior Management Personnel / KMP	Basic Pay, allowances, Perquisites, retirement benefits, ESOP reimbursement of expense incurred in performance of office duties.	To be decided by the Managing Director based on appointee.

The Managing Director shall decide about the remuneration of the executives based on the criteria mentioned above, subject to ceiling fixed under any applicable law at the time of appointment and shall decide about reasonable annual increase keeping in view the prevailing market condition, statutory requirements and the objectives/criteria mentioned above. The following matters shall be brought to the attention of the Committee for evaluation and recommendation.

- a. Remuneration to any person in excess of Rupees Two crores per annum
- b. Appointment / remuneration of Directors, KMPs and senior management personnel.

14. Amendment

The policy will be amended from time to time by the Board of Directors on the recommendation of the Nomination & Remuneration Committee of the Board. The policy shall be automatically amended with the changes in law.

Sign-off History

Version Number	Sign-off Details	Name	Sign-off Date
2.0	Prepared By	Puja Shah	17.10.2023
	Reviewed By	Easwaran K	18.10.2023
	Recommended By	G S Agarwal	18.10.2023
	Approved By	Board of Directors	20.10.2023