



**NOMINATION AND REMUNERATION POLICY
OF
HDB FINANCIAL SERVICES LIMITED**

[CIN: L65993GJ2007PLC051028]

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NOMINATION AND REMUNERATION POLICY

I. INTRODUCTION

The Nomination and Remuneration Policy has been formulated in accordance with the provisions of Section 178 of the Companies Act, 2013, and the rules made thereunder, along with the relevant guidelines issued by the Reserve Bank of India (RBI) and provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015. The Policy lays down the framework and guiding principles for the appointment, removal, evaluation, and remuneration of Directors, Key Managerial Personnel (KMP), and Senior Management Personnel of the Company. It aims to ensure that the composition of the Board and its Committees is diverse, balanced, and aligned with the Company's long-term interests, while ensuring that the remuneration structure is fair, transparent, and linked to performance and the creation of shareholder value.

II. OBJECTIVE

The key objectives of the Committee are as follows:

- A. To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel (KMP) and Senior Management Personnel.
- B. To specify the manner for effective evaluation of performance of the Board, its committees, and individual directors, such evaluation to be carried out either by the Board, the Nomination and Remuneration Committee, or an independent external agency and to review its implementation and compliance.

III. DEFINITIONS

- i. **Act** means the Companies Act, 2013, and the rules framed thereunder, as amended from time to time.
- ii. **Board or Directors** means the Board of Directors of the Company.
- iii. **Key Managerial Personnel (KMP)** means Key Managerial Personnel as defined under Section 2(51) of the Companies Act, 2013.
 - i. **Senior Management Personnel** means the officers and personnel of the listed entity who are members of its core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the persons identified and designated as key managerial personnel, other than the board of directors, by the listed entity.

IV. ROLE OF THE COMMITTEE

1. **Matters to be dealt with, perused, and recommended to the Board by the Nomination and Remuneration Committee shall include the following:**
 - a. 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, KMP and other employees.

- b. Identifying persons who are qualified to become Directors and those who may be appointed to KMP and Senior Management positions, in accordance with the criteria laid down in this policy and as per RBI guidelines.
2. Recommending to the Board the appointment and removal of Directors, KMP and Senior Management Personnel.

Policy for Appointment and Removal of Director, KMP, and Senior Management Personnel

- a. The Committee shall identify and ascertain the integrity, qualifications, expertise, and experience of the person being considered for appointment as Director, KMP or at the Senior Management level, and recommend such appointment to the Board.
- b. A individual should possess adequate qualifications, expertise, and experience relevant to the position. The Committee shall have the discretion to determine whether a person's qualifications, expertise, and experience are sufficient or satisfactory for the role.

3. Term / Tenure

a) Managing Director/Whole-time Director:

- The Company shall appoint or re-appoint any person as its Managing Director or Whole-time Director for a term not exceeding five years at a time. Re-appointment shall not be made earlier than one year before the expiry of the current 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 shall be eligible for re-appointment upon the 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 eight years. However, such a Director shall be eligible for appointment after a cooling-off period of three years from ceasing to be an Independent Director, provided that during that period, the individual shall not be appointed or associated with the Company in any capacity, either directly or indirectly.
- At the time of appointment, it must be ensured that the number of Boards on which the Independent Director serves is restricted to, seven listed companies as an Independent Director or three listed companies if the individual is serving as a Whole-time Director of a listed company or such other limit as may be prescribed under the applicable law.
- As per the Master Directions on RBI Scale Based Regulation (SBR) dated October 19, 2023, an Independent Director shall not be on the Board of more than three Middle Layer or Upper Layer Non-Banking Financial Company (NBFCs) at the same time.

4. Evaluation

The Committee shall specify the manner and criteria for the effective evaluation of the performance of the Board of Directors, its Committees, and every Director at regular intervals (annually), in line with the provisions of the Act.

5. Removal

In the event of any disqualification under the Act, or any other applicable law, rules, or regulations, the Committee may recommend to the Board, with reasons recorded in writing, the

removal of a Director, KMP or Senior Management Personnel, subject to compliance with applicable procedures.

6. Retirement

The Directors, KMP, and Senior Management Personnel shall retire in accordance with the applicable provisions of the Act, and the prevailing policies of the Company. The Board of Directors shall have the discretion to retain the Director, KMP, or Senior Management Personnel in their current position and/ or remuneration, or in another suitable capacity, even after attaining the prescribed retirement age, if such retention is deemed to be in best interest of the Company.

7. Policy relating to the Remuneration for the Managing Director/ Whole-time Director.

The remuneration, compensation, commission, and increments payable to the Managing Director and Whole-time Director shall be determined by the Nomination & Remuneration Committee. The Committee shall ensure that, the level and composition of remuneration are reasonable and sufficient to attract, retain, and motivate Managing Director of the quality required to run the company successfully, relationship of remuneration to performance is clear and meets appropriate performance benchmarks, remuneration involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals. All remuneration, compensation, commission, and related matters shall be subject to the prior and/or post approval of the Board of Directors and/or shareholders of the Company as prescribed under the Act, and other applicable laws.

Increments to the existing remuneration structure shall be determined by the Committee and, where required, recommended for approval by the Board and/or shareholder.

Minimum Remuneration:

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Managing Director and/or Whole-time Director in accordance with the provisions of Schedule V of the Act, or as may be prescribed under the applicable law.

Where any insurance is taken by the Company on behalf of its Whole-time Director, Chief Executive Officer, Chief Financial Officer, Company Secretary, or any other employee for indemnifying them against any liability arising from the discharge of their duties, the premium paid on such insurance shall not be treated as part of the remuneration payable to such personnel.

8. Criteria to be considered while appointing KMP, and Senior Management Personnel

The Nomination and Remuneration Committee (NRC) shall consider the present and future requirements of the Company while shortlisting and recommending candidates for KMP Senior Management position. The criteria to be considered when assessing prospective candidates shall include, but not limited to, the following:

- a) The overall experience of the individual and the relevant experience in the required field of expertise;
- b) Academic background and educational qualifications, including specialised qualifications in relevant areas;
- c) Highest standards of personal and professional ethics and integrity;

- d) Demonstrable leadership skills, strong interpersonal skills, and managerial competencies, including effective communication skills, action focus, people engagement, cultural sensitivity, strategic thinking, etc.;
- e) Proven ability to contribute effectively towards the achievement of the Company's business objectives.

The selection procedure to be followed for the appointment of persons at the Senior Management positions would be as below.

In the event of a vacancy or opening at a Senior Management position, the NRC, in consultation with the Managing Director, shall identify and shortlist suitable candidates to fill such vacancy. The said vacancy/opening may be filled by selecting an employee within the same location/function or through a lateral transfer of an employee from another location/function. In the event that there are no suitable internal candidates within the Company for the said position, the NRC may select an external candidate

9. Policy on remuneration to KMP, Senior Management Personnel and other employees:

Key principles of compensation would be as under:

- a) **Attract and Retain:** Remuneration packages shall be designed to attract high calibre executives in a competitive market and remunerate executives fairly and responsibly. The remuneration shall be competitive and based on the individual's responsibilities, and performance.
- b) **Motivate and Reward:** Remuneration shall be designed to motivate delivery of the Company's key business objectives, foster a strong performance-orientated culture and reward achievement of meaningful targets over the short and long-term.
- c) **Non-monetary Benefits:** The Executives will be entitled to customary non-monetary benefits, including but not limited to Company car and Company health care etc. In few cases company housing may also be offered.
- d) **Learning & Development -** The Company shall invest in providing robust learning and development opportunities for each employees to enable them to enhance their skills, competencies, and knowledge in line with their career growth and the Company's evolving needs.

Executive Remuneration (including the Managing Director & Chief Executive Officer, KMP, Senior Management Personnel and other Executives and Employees) shall be reviewed annually, taking into account individual and Company performance. Remuneration shall also be benchmarked against peer companies in the NBFC/ Banking Sector of similar size and complexity. The remuneration structure with regards to fixed and variable pay would be guided as per the Compensation policy approved by the Board.

The remuneration and other terms of the KMP/ other employees shall also be subject to terms and conditions as specified in their respective letter of appointment. The breakup of the pay scale and quantum of perquisites including, employer's contribution to P.F, medical expenses, club fees, etc. for all employees shall be decided and approved by the Managing Director of the Company.

10. Remuneration to Non- Executive/ Independent Director:

- a) **Remuneration/ Commission:**

- The remuneration/ commission shall be fixed as per statutory provisions, if any and approval of the Board and/or Shareholders be taken, wherever required.

b) Sitting Fees:

- The Non- Executive/ Independent Director may receive remuneration by way of fees for attending meetings of Board or Committee thereof. Provided that the amount of such fees shall not exceed Rs. One Lac per meeting of the Board or Committee or such amount as may be approved by the Board and prescribed by the Central Government from time to time.

V. COMMITTEE MEMBERS' INTERESTS

- i. A member of the Committee shall not be entitled to be present when his or her own remuneration is being discussed at a meeting or when his or her performance is being evaluated.
- ii. The Committee may, at its discretion, invite such executives or other persons as it considers appropriate to be present at meetings of the Committee.

VI. NOMINATION DUTIES

The duties of the Committee in relation to nomination matters shall include the following:

- A. Ensuring that there is an appropriate induction and orientation program in place for new Directors and members of Senior Management, and reviewing its effectiveness;
- B. Ensuring that, upon appointment to the Board, Non-Executive Directors receive a formal letter of appointment in accordance with the Guidelines provided under the Act;
- C. Determining the appropriate size, diversity, and composition of the Board;
- D. Establishing a formal and transparent procedure for selecting new Directors for appointment to the Board;
- E. Evaluating the performance of the Board members in the context of the Company's performance from business and compliance perspective;
- F. Making recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provision of the law and their service contract;
- G. Delegating any of its powers to one or more of its members or the Secretary of the Committee;
- H. Recommending any necessary changes to the Board; and
- I. Considering any other matters as may be requested by the Board from time to time.

VII. REMUNERATION DUTIES

The duties of the Committee in relation to remuneration matters shall include the following:

- A. To consider, review, and determine the Remuneration Policy of the Company, based on the performance and also bearing in mind that the remuneration is reasonable and sufficient to attract retain and motivate members of the Board and such other factors as the Committee shall deem appropriate all elements of the remuneration of the members of the Board;

- B. To establish the criteria for fixing remuneration of the other employees and Senior Management including KMP of the Company would be guided by the Compensation policy approved by the Board;
- C. To oversee the formulation, review, and implementation of Compensation Policy of the Company;
- D. To delegate any of its powers to one or more of its members or the Secretary of the Committee, as deemed necessary; and
- E. To consider and address any other matters as may be requested by the Board from time to time.