

# **CENTRUM FINANCIAL SERVICES LIMITED**

## **NOMINATION AND REMUNERATION POLICY**

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## 1. BACKGROUND, OBJECTIVES AND APPLICABILITY

### 1.1 Background

The Companies Act mandates adoption of a Nomination and Remuneration policy for appointment and fixing remuneration of Directors, Key Managerial Personnel (KMP), and senior management employees. RBI has also specified certain aspects to be addressed in the Policy for CICs.

### 1.2 Objectives of the Policy

- (a) To maintain fair and consistent remuneration policy and practices aligned with business goals, ethical practices and in accordance with the statutory/ regulatory requirements.
- (b) Framework to fix remuneration that is reasonable and sufficient to attract, retain and motivate Directors, KMP and other employees with appropriate skills, experience and qualifications to run the Company successfully.
- (c) To formulate criteria including qualifications, attributes and independence of a director and recommend to the Board regarding remuneration for the directors, KMP and other employees.
- (d) To define a methodology for maintaining appropriate balance between fixed and variable remuneration to Directors and KMP reflecting short and long-term performance objectives.
- (e) To provide a framework for taking decision on tenure, removal/retirement of Directors and KMPs.
- (f) To provide the framework for evaluation of performance of the Board, its committees and the Directors.
- (g) To formulate a framework for succession planning for Directors and KMP.

### 1.3 Applicability of the Policy

This version of the Policy shall be applicable from the date of its approval and shall then supersede previous versions of the Policy adopted by the Company.

## 2. DEFINITIONS

**2.1 “Act” or “Companies Act”** means the Companies Act, 2013 and the Rules framed thereunder.

**2.2 “Board”** means Board of Directors of the Company for the time in force.

**2.3 “Committee” or “NRC”** means the Nomination and Remuneration Committee of the Board of the Company, as may be reconstituted by the Board and as may subsist from time to time.

**2.4 “Employees”** means and includes person who is confirmed for full time employment of the Company from time to time and are on the payroll of the Company.

**2.5 “NR Policy” or “Policy”** means this Nomination and Remuneration Policy of the Company as set out herein, recommended by the Committee and approved by Board as amended from time to time.

**2.6 “Key Managerial Personnel” or “KMP”** shall have the meaning assigned to it under Section 2(51) of the Companies Act, 2013.

**2.7 “Senior Management”** shall mean KMP and such other personnel identified by the Board.

Words not defined herein shall have the meaning assigned to it under the Companies Act, 2013.

### **3. ROLE AND RESPONSIBILITIES OF THE NRC**

**3.1** The Board of the Company shall constitute the NRC having the constitution, powers, functions and duties as laid down in the Companies Act and as specified in RBI regulations.. The NRC shall ensure ‘Fit and Proper’ status of proposed/ existing Directors is maintained as per the statutory and regulatory requirements and that there shall be no conflict of interest in appointment of Directors on the Board of the Company and KMP.

**3.2** The NRC shall identify persons who are qualified to become Directors and senior management in accordance with the criteria laid down;

**3.3** Recommend to the Board appointment and removal of Directors and senior management personnel.;

**3.4** To specify the performance evaluation framework for the Board, its committees and individual Directors to be carried out by the Board or Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.

**3.5** Formulate the criteria for determining qualifications, attributes and independence of a Director and recommend to the Board a policy, relating to the remuneration for the Directors, KMP and other employees.

**3.6** Recommend to the board, all remuneration, in whatever form, payable to Directors and senior management.

**3.7** Deal in all other matters the NRC is to undertake under the Companies Act, and any additional responsibilities that may be delegated to the NRC by the Board of Directors from time to time, or any other duties that may be prescribed by law, or other regulation, as applicable to the Company.

### **4. POLICY STANDARDS FOR APPOINTMENT OF DIRECTORS**

#### **4.1 General Provisions**

(a) The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director/ KMP with the objective of having a Board with diverse background and experience in business, education and public service and recommend to the Board his/ her appointment.

(b) Attributes expected of all Directors/ KMP include independence, high personal and professional ethics, sound business judgment, ability to participate constructively in deliberations and willingness to exercise authority in a collective manner.

(c) No person shall be appointed as a Director/ KMP, if he/she is subject to any disqualifications as stipulated under the Act or any other law(s) for the time being in force.

- (d) A person shall 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. In evaluating the suitability of individual Board members, the Committee considers many factors, including general understanding of marketing, finance, operations, management, public policy, legal, governance and other disciplines. The Board evaluates each individual in the context of the Board as a whole, with the objective of having a group that can best perpetuate the success of the Company's business and represent stakeholders' interests through the exercise of sound judgment, using its diversity of experience.
- (e) Considering the need for professional experience in managing the affairs of the Company as an NBFC, at least one of the directors shall have relevant experience of having worked in a bank/ NBFC.
- (f) Ensure implementation of the 'Fit & Proper Policy' adopted by the Company.

#### **4.2 Appointment of Independent Directors**

- (a) The Company shall appoint Independent Directors in compliance with the applicable provisions of the Companies Act and applicable RBI Directions / Guidelines.
- (b) In accordance with the RBI SBR Framework, within the permissible limits in terms of Companies Act, an Independent Director shall not be on the Board of more than three NBFCs (NBFC-ML or NBFC-UL) at the same time. Further, the Board of the Company shall ensure that there is no conflict arising out of their Independent Directors being on the Board of another NBFC at the same time. Existing Independent Directors, if required, shall have time till September 30, 2024, to ensure compliance with these norms relating to limits on directorship with other NBFCs. There shall be no restriction to directorship on the Boards of NBFC-BLs, subject to applicable provisions of Companies Act.

#### **4.3 Term / Tenure for Appointment of Directors**

The Term and Tenure of Directors shall be as provided under the Companies Act.

- 4.4 **Evaluation-** The NRC shall carry out evaluation of performance of Directors and KMP at regular interval (Yearly), as under:

- 4.4.1 **Non-Executive Directors/ Independent Directors-** The NRC shall carry out evaluation of performance of Non-Executive Directors/ Independent Directors every year ending March 31, on a yearly basis, based on the criteria such as:

- (a) Number of the Board/ Committee meetings attended;
- (b) Contribution during the Meetings;
- (c) Informal Interaction with the Management;
- (d) Active Participation in strategic decision making;
- (e) Independence of behavior and judgment;
- (f) Integrity and maintaining of confidentiality; *and*
- (g) Inputs to executive management on matters of strategic importance.

- 4.4.2 **Managing Director/ Whole-time Director/ Executive Director-** The Committee shall carry out the evaluation of the MD/ WTD/ ED, on a yearly basis, based on the criteria such as:
- (a) Achievement of objectives set by the Board;
  - (b) Developing and executing plans, managing risks and financial affairs of the Company;
  - (c) Display of leadership qualities i.e. anticipating trends, opportunities, and priorities affecting the company's operations;
  - (d) Development of policies, and strategic plans aligned with the vision of the company and balance needs of all stakeholders;
  - (e) Establishment of an effective organization structure to ensure focus on key functions
  - (f) Managing relationships with the Board, management team, regulators, and other stakeholders; *and*
  - (g) Demonstrate high ethical standards and integrity, attendance at meeting, commitment to organization.
- 4.4.3 **KMP/ Other Employees** – Key Responsibility Areas (“KRAs”) are typically identified in advance and evaluation of other KMPs and employees shall be carried out every year by the relevant managers and human resources representative. The payment of remuneration/annual increment to the aforementioned persons shall be determined after the satisfactory completion of evaluation process. The objective of the evaluation shall be to identify and reward performances during the period.
- 4.5 **Removal-** Due to reasons of any disqualification mentioned in the Companies Act or under any other applicable Acts, rules and regulations, the NRC may recommend, to the Board with reasons recorded in writing, removal of a Director or KMP, as may be required.
- 4.6 **Retirement-** The Director and KMP shall retire as per the applicable provisions of the Act and the prevailing policy of the Company. The Board shall have the discretion to retain the Director, KMP and any other employee in the same position/ remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

## 5. POLICY STANDARDS RELATING TO REMUNERATION/ COMPENSATION

### 5.1 General Provisions for remuneration to the Directors and the KMP

- (a) The remuneration and commission to be paid to the Directors and KMP shall be in accordance with the Articles of Association of the Company and subject to the provisions of the Companies Act.
- (b) The remuneration/ commission etc. to be paid to a Director/ KMP will be determined by the NRC and shall be recommended to the Board for its approval. The remuneration/ commission etc. shall be paid to the Director and KMP subject to provisions of the Companies Act, including any additional approvals in this regard.
- (c) Increments to the existing remuneration structure may be recommended by the NRC to the Board, within the limits approved by the Shareholders.
- (d) Where any insurance is taken by the Company on behalf of its Directors and KMP 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.

**(e) Minimum Remuneration:** If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Directors and KMP in accordance with applicable provisions of the Companies Act.

**(f) Refund/ Recovery of the excess remuneration:** If a 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 requisite approval, where required, he / she shall refund such sums to the Company within the timelines prescribed 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.

**5.2 Provisions for Non-Executive Directors including Independent Directors-** The key element of remuneration of a Non-Executive Director or an Independent Director shall be sitting fees and commission subject to overall limit as prescribed in the Companies Act, 2013, and Rules made there under and the approval of the shareholders, and the Articles of Association of the Company, as applicable.

The Independent Directors shall not be eligible for stock options. However, other types of Non-Executive Directors shall be eligible for stock options as may be decided by the NRC from time to time.

The Company also bear/reimburse travelling and other expenses to outstation Directors for attending meetings and expenses in relation to attending to matters or business of the Company. Further, the Directors may be covered under the Directors and Officers Liability Insurance (D&O) Policy.

**5.3 Specific Provisions relating to the MD/ WTD/ ED-** The MD/ WTD/ ED shall be appointed on a contractual basis for a fixed tenure as approved by the shareholders and such contracts are renewable upon expiry of the tenure subject to recommendation by the NRC/ Board and approval of the shareholders.

The remuneration paid to MD/ WTD/ ED shall broadly comprise of Fixed Pay & Variable Pay. The Fixed Pay shall typically consist of elements like Base Salary, Allowances, Perquisites, Benefits and Retirement benefits within overall limit under Section 197 of the Companies Act, 2013, and the Articles of Association of the Company.

In addition to the various cash components (salary, allowances etc.) the Company may offer certain perquisites like the Company's Car, Car Lease, Company Leased Accommodation and Club Membership.

The variable pay component is performance bonus which is discretionary. The quantum of variable pay will be based on the performance of the Company and Individual performance. Further, the Executive Directors may be eligible for stock options of the Company as may be permitted under the applicable laws and approved Schemes. Employee Stock Option will be kept outside the total compensation structure in line with the guidelines prescribed by the Reserve Bank of India.

The MD/ WTD/ ED may be covered under the Directors and Officers Liability Insurance (D&O) Policy. Further, their annual increments shall be linked to their overall performance and as decided by the NRC, from time to time.

#### 5.4 Provisions relating to remuneration to other KMPs and senior management Employees

The key components of remuneration package of the KMP (apart from MD/ WTD/ ED), and other employees of the Company shall comprise of Fixed Pay, Variable Pay, Medclaim, Life Insurance Coverage and other benefits/ perquisites as per the HR policies of the Company. The Fixed pay may include basic salary, HRA, special allowance, contribution to provident fund, gratuity etc. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. Monetary equivalent of benefits of non-monetary nature (such as use of the Company's car), if any, shall also be part of the Fixed Pay.

They may also be eligible for stock options as may be permitted under the applicable laws or the Schemes approved by the Board/ NRC based on their grade. The Variable Pay is discretionary and is based on the business unit performance and individual's performance. The variable pay component is the performance bonus which is paid out annually taking into account the performance review ratings. Further, the Company may sponsor employees for further education/ training to enhance managerial skills.

The annual increments shall be linked to business unit performance and individual's performance as recommended by the Managing Director in consultation with their reporting managers and the HR representative and approved by the Board/ NRC.

#### 5.5 Additional aspects relating to remuneration/ compensation to KMP

**(a) Components and Risk Alignment:** For KMP and other employees, the remuneration shall be based on roles & responsibilities assigned, experience, skills, performance, industry benchmarking etc. The increments shall usually be linked to their performance as well performance of the Company.

The compensation package shall be aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks. The Company shall ensure that 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.

#### **(b) Principles for Variable Pay to KMP**

**(i) Variable Pay, its Proportion and Deferral:** Variable compensation may be in the form of share-linked instruments, or a mix of cash and share-linked instruments. The share-linked instruments shall be in conformity with relevant statutory provisions. The KMP may also be eligible for Long Term Incentive Plan in the form of stock options or any other equivalent instruments.

**(ii) Proportion of Variable Pay:** The proportion of Variable Pay in total compensation shall be commensurate with the role and prudent risk-taking profile of KMP. At higher levels of responsibility, the proportion of variable pay shall be higher. There shall be proper balance between the cash and share-linked instruments in the variable pay compensation 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 and their relation to remuneration packages shall be clearly defined at the beginning of the performance measurement period to ensure that the employees

perceive the incentive mechanism.

- (iii) Deferral of Variable Pay: Not all the variable pay compensation awarded after performance assessment shall be paid immediately. Certain portion of variable pay, as decided by the Board/ NRC of the Company, shall be deferred to 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 for such an arrangement shall be decided by the Board/ NRC while approving the Variable Pay.
  - (iv) Control and Assurance Function Personnel: KMP engaged in control and assurance functions like financial control, risk management, compliance and internal audit shall 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 could have higher proportion of fixed compensation. However, a reasonable proportion of compensation will 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 shall not be paid to any KMP. However, for new hiring, joining/ sign-on bonus may be considered. Such joining/ sign-on bonus shall neither be considered part of fixed pay nor of variable pay.
- (d) **Malus/ Clawback Arrangement**: Deferred compensation, if any, shall be subject to malus or clawback arrangements in the event of dissatisfactory performance of the Company and/or the respective line of business or employee misconduct in the intervening period.

In this regard, a malus arrangement would be one which shall permit the Company to prevent vesting of all or part of the amount of a deferred remuneration. However, a malus arrangement shall not reverse vesting after it has already occurred. Further, a clawback would be 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.

In the situations/ instances where the financial statements are required to be re-stated due to fraud or non-compliance with any requirement under the Companies Act and the rules made thereunder or non-compliance with the RBI CIC Directions or any other situation as may be identified by the Board/ NRC, the Company shall invoke the malus and clawback clauses that may be applicable on entire variable pay including any past or present KMP who, during the period for which the financial statements are required to be re-stated, received the remuneration (including stock option) in excess of what would have been payable as per the restatement of financial statements. While setting criteria for the application of malus and clawback, the Board/ NRC may also specify a period during which malus and/or clawback can be applied, covering at least the deferral and retention periods. For this purpose, retention period shall be a period of time after the vesting of instruments (which have been awarded as variable pay) during which they cannot be sold or accessed.



## **6. SUCCESSION PLANNING FOR DIRECTORS AND KMP**

- 6.1** Succession Planning for Directors (including Independent Directors) shall be done by the NRC, in accordance with the applicable provisions of the Companies Act and regulatory requirements.
- 6.2** NRC shall adhere to the Fit and Proper policy of the Company for appointment of Directors on board.
- 6.3** In the event of any unexpected vacancy in the position of the MD & CEO/ WTD/ Executive Director of the Company, the NRC shall identify a director or an official to take charge of the said position on an interim basis till the time proper replacement is appointed.
- 6.4** For Succession Planning of KMPs, the Company shall follow a mechanism as under:
- (a)** As it is critical to identify professional qualification, experience and skill set for the position, a detailed job description along with profile fitment characteristics like profile, experience, required skills and qualification shall be created to help identify prospective candidates for the position.
  - (b)** For actual vacancies, cn up through referrals from Board members or industry leaders or search firms. Internal candidates shall not be precluded from being on the list.
  - (c)** The Succession Plan shall be based on potential and performance levels. The MD & CEO and the HR representative shall periodically assess potential attrition for key positions and based on such requirements, shall formulate and adopt an appropriate action plan. Such action plan, in the first instance, may be to identify and shortlist an employee within the same function or through a lateral transfer of an employee from another function. In case of non-availability, the said plan may involve identification of external candidates having the requisite skills, experience, leadership quality, and expertise deemed necessary for the said position.
  - (d)** The Company recognised importance of having contingency plan in place to deal with sudden exits at the KMP level. Accordingly, the Company shall identify a select pool of employees who can be groomed to occupy senior-level positions in case of any such eventuality and train them adequately. The Company shall manage, develop, upskill, and train the pool of identified talents.

## **7. RESPONSIBILITY OF COMPLIANCE WITH THE POLICY**

The NRC and senior management acting under its guidance shall be responsible for compliance with this Policy and it shall have authority to roll-out required processes for implementation of the Policy.

## **8. REVIEW AND AMENDMENT OF THE POLICY**

This Policy shall be reviewed by the NRC/ Board annually or earlier or as and when required as per the statutory/ regulatory requirements.