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# NOMINATION AND REMUNERATION COMMITTEE

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*(Amended and adopted by the Board at its meeting held on  
21<sup>st</sup> March 2023)*

## **1. Preamble**

In accordance with the requirements under Section 178 of the Companies Act, 2013 ("Act") and the rules made thereunder and Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs issued by Reserve Bank of India ("RBI") dated 29<sup>th</sup> April 2022, the Nomination and Remuneration Committee of directors ("NRC") has formulated this Nomination and Remuneration Policy ("Policy") to govern the terms of nomination / appointment and remuneration of (i) directors of TVSCS ("Director(s)"), (ii) key managerial personnel of TVSCS ("KMP"), and (iii) Senior Management Personnel of TVSCS ("SMP") and approved by the board of directors of TVS Credit Services Limited ("TVS CS") at their meeting held on 21<sup>st</sup> March 2023.

The underlying intent is to ensure that individuals are appropriately rewarded relative to their responsibilities, experience and value to TVSCS. This Policy shall also be read along with the general HR Policy of TVSCS and the terms of employment.

## **2. Policy applicability:**

3.1 The applicability of the policy is defined as per section 2(51) of the Companies Act, 2013. As per the definition, the following people and their positions are considered KMP:

- 3.1.1 Managing Director
- 3.1.2 Chief Executive Officer,
- 3.1.3 Company Secretary
- 3.1.4 Whole-time Director (WTD)
- 3.1.5 Chief Financial Officer
- 3.1.6 Any such officers designated by the Board as KMP but are not more than one level below the Directors in Whole-time employment
- 3.1.7 Any other officer of TVSCS as identified by the board

3.2 The policy is also applicable to the "Senior management". "Senior Management" means company personnel members of its core management team, excluding the Board of Directors, comprising all members of management one level below the Chief Executive Officer, upto Senior vice president (SVP1).

## **4. Policy Objective :**

The main objectives of the policy are as below:

4.1 Guiding the board of TVSCS, hereinafter referred to as "board", to lay down the terms and conditions in relation to appointment and removal of Directors(s), KMP and SMP.

4.2 To attract, engage, motivate, and retain Talent through competitive compensation & thereby influencing Business and employee motivation positively.

4.3 Evaluating the performance of the Director(s) and providing necessary report to the Board for its further evaluation and consideration.

4.4 Recommending to the board on remuneration payable to Director(s), KMP and SMP of TVSCS based on (i) TVSCS's structure and financial performance (ii) remuneration trends and practices that prevail in the peer companies across NBFC industry.

4.5 Oversee the framing, review and implementation of compensation policy of the company

4.6 Strongly tie and integrate the compensation of KMP with the Company's annual and long-term strategic goals

4.7 Be compliant with the laws of the land including and not limited to RBI and other regulatory bodies guidelines.

4.8 Devise a policy on diversity in the board.

4.9 Develop a succession plan for the board and SMP.

## **5. Policy guidelines:**

### **5.1 Board-approved Compensation policy :**

5.1.1 To address issues arising from excessive risk-taking caused by misaligned compensation packages, TVSCS has implemented a "Board approved compensation policy" for KMPs and SMPs.

5.1.2 The policy shall, at the minimum, include

- (a) the constitution of a Remuneration Committee
- (b) principles for fixed/ variable pay structures, and
- (c) malus/ clawback provisions.

5.1.3 This policy will be applicable for fixing compensation packages for KMPs and SMPs of TVSCS.

### **5.2 Nomination and Remuneration Committee (NRC)**

#### **5.2.1 Constitution of the NRC**

5.2.1.1 NRC shall consist of a minimum 3 (three) non-executive Director(s), half of them being independent. The Chairman of the NRC shall be an independent Director. Chairman of the Board may be appointed as a Member of the NRC but he shall not be appointed as the Chairman of the NRC. The company secretary of TVS CS shall act as the secretary to the NRC.

5.2.1.2 At least 2 (two) Members shall constitute a valid quorum for the NRC meeting. NRC may invite any executive(s) of TVSCS, as it considers appropriate, to be present at the meetings of NRC. A Member is not entitled to be present when his / her remuneration is discussed or performance is evaluated at NRC meeting.

5.2.1.3 The term of the NRC shall be continued unless terminated by the Board and the Membership of the Committee shall be disclosed in the annual report of TVS CS.

## **5.2.2 Broad responsibilities of the NRC**

5.2.2.1 The NRC shall have the mandate to oversee the framing, review and implementation of the company's compensation policy, which should have the board's approval.

5.2.2.2 The NRC may work closely with the company's Risk Management Committee (RMC) to achieve effective alignment between compensation and risks.

5.2.2.3 NRC should ensure compensation levels are supported by (a) the need to retain earnings and (b) the need to maintain adequate capital based on ICAAP.

5.2.2.4 NRC should ensure 'fit and proper status of proposed/existing directors.

5.2.2.5 NRC should ensure that there is no conflict of interest in the appointment of directors, KMPs and senior management.

5.2.2.6. The NRC shall have the constitution, powers, functions, and duties as laid down in section 178 of the Companies Act, 2013.

## **5.2.3 Role of NRC**

5.2.3.1 The Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy relating to the remuneration for the directors, key managerial personnel and other employees.

5.2.3.2. To make recommendations to the Board with respect to compensation plans for executive Director(s) and non-executive Director(s).

5.2.3.3 To identify the person who are qualified to become Director(s), KMP and SMP of TVSCS.

5.2.3.4 To recommend to the board for appointment/removal of Director(s), KMP and SMP of TVSCS and carryout evaluation of every Director's performance in its annual report.

5.2.3.5 To recommend to the board a policy for remuneration of Director(s), KMP and SMP of TVSCS.

5.2.3.6 The Nomination and Remuneration Committee shall, while formulating the policy, ensure that

(a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;

(b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

(c) remuneration to directors, key managerial personnel and senior management 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:

5.2.3.7 To review the annual performance of executive and non-executive Director(s).

5.2.3.8 To annually review the duties and performance of the Chairman of the Board and recommend the process to the Board for his election.

5.2.3.9 To assist the Board in the establishment and implementation of an appropriate performance evaluation / self-assessment process for the Members of the Board and the Committees.

5.2.3.10 To review and evaluate the performance of the Member of the Board and of the Committee Members, at least annually.

5.2.3.11 To formulate criteria for evaluation of independent Director(s) and the Board.

5.2.3.12 To devise a policy on Board diversity.

5.2.3.13 To carry out any other responsibilities and duties delegated to it by the Board from time to time.

5.2.3.14 To carry out additional functions and adopt additional policies and procedures as may be required or appropriate in light of changing business, legislative, regulatory, legal or other conditions.

### **5.3 Voting**

5.3.1 Matters arising for determination at NRC meetings shall be decided by majority of votes of Members present and any decision arrived at by the Members shall for all purposes be deemed a decision of NRC. The Chairman of NRC shall have a casting vote in case of tie of votes.

### **5.5 Meetings of NRC**

5.5.1 The meeting of the NRC shall be held at such time and interval as may be required.

### **5.5 Appointment of Director(s), KMP and SMP of TVSCS**

5.5.1 NRC shall identify, ascertain the integrity, qualification, expertise, experience of a person and recommend to the Board for his / her appointment as director, KMP and SMP of TVS CS;

5.5.2 A person should 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 are sufficient / satisfactory for the concerned position.

5.5.3 NRC shall ensure that any person(s) who is / are appointed or continues in the employment of TVS CS as its executive Chairman, managing director, whole time director should comply with the conditions as laid out under Part I of Schedule V of the Company's Act 2013.

5.5.4 NRC shall ensure that any appointment of a person as an independent Director of TVS CS shall be made in accordance with the provisions of Section 149 read with Schedule IV of the Company's Act 2013 along with any other applicable provisions.

## **5.6 Tenure of Appointment**

5.6.1 Board shall, on the recommendation of NRC, appoint / re-appoint any person as its executive Chairman, managing director, whole time director or by whatever name called, for a term not exceeding 5 (five) years at a time. Further, no re-appointment of such person shall be made at a time earlier than 1 (one) year before the expiry of term.

## **5.7 Independent Director**

5.7.1 NRC shall ensure that an independent Director appointed on the Board shall hold office for a term of 5 (five) consecutive years and he shall be eligible for reappointment on passing of a special resolution by TVS CS and disclosure of such appointment in the Board's report.

5.7.2 NRC shall ensure that no independent Director shall hold office for more than 2 (two) consecutive terms, but the independent Director shall be eligible for appointment after expiry of 3 (three) years of ceasing to become an independent Director. Provided that such independent Director shall not, during the said cooling period of 3 (three) years, be appointed in or be associated with TVS CS in any other capacity, either directly or indirectly.

## **5.8 Performance Evaluation**

5.8.1 The Committee shall specify the manner for effective evaluation of performance of Board as a whole, Chairperson, its Committees and individual directors.

5.8.2 The Committee shall monitor and review Board Evaluation Framework, conduct an assessment of the performance of the Board, each Board Committee, the Independent Directors, and the Chair of the Board against criteria as determined and approved by the Committee.

5.8.3 The performance evaluation of Independent Directors shall be done by the entire Board of Directors, on the basis of recommendations of the Committee (excluding the director being evaluated).

5.8.4 The Committee, on request of the Board, may formulate evaluation methodology either by board or by an external agency, for approval of the board.

5.8.5 The Committee may invite such executives, as it considers appropriate to be present at the meetings of the Committee.

## **5.9 Principles for Compensation**

### **5.9.1 Basis for compensation decisions**

#### **Executive Director(s)**

5.9.1.1 NRC shall determine the remuneration payable to the executive Director(s) and recommend to the Board for its approval. The Board's approval shall be subject to the prior approval or post approval ratification of the shareholders of the Company and / or Central Government, if required under applicable law. The remuneration payable to the executive Chairman, managing Director and whole time Director of TVSCS shall be in accordance with the applicable percentage(s) / slab(s) / condition(s) as set out in (i) the articles of association of TVSCS and (ii) Act and any rules made thereunder, which may be in force from time to time.

5.9.1.2 Where TVSCS is required to avail any insurance on behalf of its executive Director(s) for indemnifying them against any liability(ies), the same shall be availed by the Board and premium payable on such insurance shall not be treated as part of the remuneration payable by TVSCS to any such personnel. However, in the event that such executive Director is proved guilty resulting in an insurance claim against TVSCS, any premium paid on such insurance shall be treated as part of the remuneration of the executive Director(s), responsible for such claim.

#### **Non-Executive / Independent Director(s)**

5.9.1.3 The non – executive /independent Director(s) shall receive remuneration by way of fees for attending meetings of Board or any Committee in which Director(s) is Member, provided that, the amount of such sitting fees shall not exceed (i) INR 1,00,000 (Indian Rupees One lakh) per meeting of the Board or any Committee in which the Director(s) is Member or (ii) such other amount as may be prescribed by the Central Government from time to time.

#### **KMPs and SMPs**

5.9.1.4 NRC shall recommend to the Board and the Board will approve the remuneration payable to (i) KMP, who is / are not an executive Director(s), and (ii) SMP of TVS CS. The break-up of the remuneration payable to KMP and SMP of TVS CS including the perquisites such as employer's contribution to provident fund, pension scheme, medical expenses, club fees and like shall also be approved by the Board on the recommendations received from the NRC.

5.9.1.5 The compensation for KMPs and SMPs need to be reasonable, recognising all relevant factors including adherence to statutory requirements and industry practices.

5.9.1.6 The compensation package should be aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to time horizon of the risks and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

5.9.1.7 While designing the compensation arrangements, it should be ensured that there is a proper balance between fixed pay and variable pay.

## **Control & Assurance Function personnel**

5.9.1.8 The KMPs and SMPs engaged in financial control, risk management, compliance and internal audit come under the control and assurance function personnel.

5.9.1.9 The above employees should be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in TVSCS. Effective independence and an appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation.

5.9.1.10 Fixed and variable compensation mix should be weighed in favour of fixed compensation for these staff. However, these staff should have a proportion of compensation as variable pay, so the option of malus/clawback provisions when warranted is available. The principle of compensation is broadly similar to principles devised for Whole-time Directors or CEOs as appropriate.

## **5.9.2 Components of Compensation**

### **Fixed pay**

5.9.2.1 All fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, will be treated as part of fixed pay.

5.9.2.2. All perquisites that are reimbursable will be classified as fixed pay so long as there are monetary ceilings applicable to these reimbursements.

5.9.2.3 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.

5.9.2.4 The various pay components in the fixed pay that are applicable are given below. These components are only indicative and will be periodically reviewed by the NRC.

### **Monthly fixed salary**

- Basic Salary
- All cash allowances
- The NRC may decide on other allowances and perquisites from time to time
- TVSCS, for now, considers the list of allowances for Fixed pay (i.e.) perquisites where there is a monetary equivalent and with monetary ceilings quantifiable in advance. These include,
  - Uniform Maintenance Allowance
  - Education allowance, Medical allowances
  - Transport allowances
  - Communication allowance
  - Professional Development Allowance
  - Meal card
  - Leave Travel Assistance (LTA)
  - Books & Periodicals allowance



## **Retirals**

- Retiral benefits include Provident fund
- Gratuity and NPS will be payable as per the rules of the Company.

## **Perquisites and other benefits**

- Entitlement or the monetary equivalent of the perquisite, as best as possible to determine, shall be included in Fixed Pay.
- Perquisites reimbursable without any monetary ceilings, not quantifiable in advance e.g. hospitalisation expenses, etc., shall be excluded from Fixed Pay.
- Credit cards, staff loans or any other benefits of similar nature will be applicable as per the Company policy and will not form a part of Fixed Pay.

## **The Variable pay**

This will be based on the Total Compensation philosophy, which comprises of Fixed and Variable pay, as approved by the NRC.

5.9.2.5 The Variable pay may include cash-based variable pay or any of the equity-linked instruments recommended by NRC.

5.9.2.6 The proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk taking profile of KMPs and SMPs. At higher levels of responsibility, the proportion of variable pay needs to be higher.

5.9.2.7 There should be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments.

5.9.2.8 The variable pay should be truly and effectively variable and can be reduced to zero based on performance at the individual, business-unit and company-wide level

5.9.2.9 The performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the KMPs and SMPs perceive the incentive mechanism.

## **Joining / Sign-on Bonus**

5.9.2.10 A guaranteed bonus may not be paid to KMPs and SMPs However, in the context of new hiring joining/sign-on bonuses could be considered. Such a bonus will be neither part of fixed or variable pay.

## **5.9.3 Deferral of Variable pay**

5.9.3.1 A certain portion of variable pay, as decided by the company's Board, may be deferred to the time horizon of the risks.

5.9.3.2 The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay.

5.9.3.3 The company's Board may decide the deferral period for such an arrangement.

#### **5.9.4 Malus / Clawback provisions**

5.9.4.1 A **Malus arrangement** permits the TVSCS 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.

5.9.4.2 A **clawback** is a contractual agreement between the employee and the TVSCS in which the employee agrees to return previously paid or vested remuneration to the Company under certain circumstances.

5.9.4.3 NRC may invoke the malus and clawback clauses in following situations:

- (i) Subdued or negative financial performance of the Company;
- (ii) Any deficiency in regard to loans and advances activities of the Company;
- (iii) Material Misconduct, viz.:
  - Non-adherence to systems and procedures including internal guidelines / policies
  - Breach of Contract / violation of non-disclosure agreement
  - Gross negligence and Integrity breach
  - Misuse of official powers
  - Unjust enrichment
  - Non-disclosure in case of conflict of interest
  - Failure / lapses in regulatory compliance
- (iv) Any other parameter as may be determined by the Committee/Board.

5.9.4.4 Malus clause shall be considered if an act of negligence, on part of the KMPs or SMP, comes to light in the subsequent period and clawback clause shall be considered if an act of integrity breach or fraud on part of KMPs or SMP comes to light in the subsequent period. Clawback may be applied for a period of five years or as may be determined by the Committee from the date of release of variable pay.

5.9.4.5 Malus and clawback shall apply equally to resigning and retiring employees.

#### **5.10 Profit related commission**

##### **Executive Director(s)**

5.10.1 In addition to fixed remuneration, the executive Director(s) shall be entitled to receive commission linked to the profits of TVSCS for that financial year subject to the limits prescribed under the provisions of the Act.

##### **Non-Executive / Independent Director(s)**

5.10.2 In addition to the sitting fees, the non – executive / independent Director(s) shall be entitled to commission from TVSCS subject to the monetary limit approved by shareholders of TVSCS and aggregate commission amount would not exceed the limit of 1% (one percent) of the profits of TVSCS computed in accordance with applicable provisions of the Act.

## **Other KMPs and SMPs**

5.10.3 In addition to fixed remuneration, to motivate other KMP who is / are not an executive Director(s) and SMP of TVSCS to pursue a long term growth and success for and of TVSCS, the NRC shall recommend to the Board the amounts that may be distributed amongst other KMP and SMP of TVS CS as performance based remuneration, on such interval as the NRC may think fit.

## **5.11 Equity based remuneration**

5.11.1 Subject to the provisions of the Act, all Director(s), KMP and SMP of TVSCS shall be entitled to avail any stock options including stock appreciation rights or such other benefits if issued by TVSCS, except for:

- (i) an employee, who is promoter(s) or relative(s) of the promoter(s);
- (ii) any Director(s) holding more than 10% (ten percent) equity shares of TVS CS, either directly or indirectly.

5.11.2 The equity based remuneration to executive Chairman, managing Director and whole time Director(s) of TVS CS shall be subject to limits prescribed under the Act or any rules framed thereunder and any other applicable law including securities laws in India.

5.11.3 An independent Director shall not be entitled to take part in any stock option plan issued by the Board for the employees of TVS CS.

## **5.12 Minimum remuneration**

5.12.1 If, in any financial year, TVSCS has no profits or inadequate profits, it shall pay remuneration to its executive Chairman, managing Director and whole time Director(s) in accordance with the provisions of Schedule V of the Act, provided that, any deviation in remuneration from the provisions of Schedule V of the Act shall be with previous approval of the Central Government.

## **5.13 Provisions for excess remuneration**

5.13.1 In the event that any executive Chairman, managing Director and whole time Director(s) draws or receives, either directly or indirectly, remuneration in excess of the limits prescribed under provisions of Schedule V of the Act or without the prior sanction of the Central Government, if required, such executive Chairman, managing Director and whole time Director(s) shall refund such sums to TVSCS and until such sum is refunded, he / she shall hold it in trust for TVSCS. TVSCS shall not waive any of its recovery right of the refundable sum unless permitted by the Central Government.

## **5.14 Removal**

5.14.1 NRC shall recommend to the Board, with reasons recorded in writing, for removal / suspension of any Director(s), KMP and SMP of TVSCS if any of such aforementioned person(s), due to any reason(s), under the provisions of the Act or any rules made thereunder or under any other applicable law.

## **5.15 Retirement**

5.15.1 The Director, KMP and SMP of TVSCS shall be eligible for retirement as per the applicable provisions of the Act and any prevailing policy of TVS CS in relation to retirement of employees. However, the Board shall have the discretion to retain such retiring Director(s), KMP and SMP of TVSCS at same position / remuneration or otherwise, even after attaining the retirement age, for the benefit of TVSCS.

## **6. Authority**

6.1 The Committee shall have free access to management and management information. The Committee, at its sole authority, may seek the advice of outside experts or consultants at the Company's expenses where judged necessary, to discharge its duties and responsibilities.

## **7. Implementation and Review**

7.1 NRC is responsible for the monitoring, implementation and review of this Policy. NRC shall provide recommendations to the Board as to how to effectively structure and facilitate a remuneration strategy, which will meet the needs of TVSCS. The Board shall review the (i) contents of and (ii) compliance with this Policy at regular intervals.

## **8. Policy ownership**

8.1 The Head of Compensation & Benefits is the process owner.

## **9. Policy SPOC**

9.1. CPO will be SPOC for this policy.