



NOMINATION AND REMUNERATION POLICY
OF
PNB Housing Finance Limited

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Summary of Version History

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NOMINATION AND REMUNERATION POLICY FOR THE DIRECTORS, KEY MANAGERIAL PERSONNEL, SENIOR MANAGEMENT AND OTHER EMPLOYEES

I. PREAMBLE

The objective of Nomination and Remuneration Policy is to provide a framework for the nomination and remuneration of the Directors, Key Managerial Personnel (KMP), Members of Senior Management and other employees of the Company to harmonize the aspirations of human resources consistent with the goals of the Company in keeping with the requirements of the Regulations. The Policy also takes into account the broader governance principles espoused under the Company law and similar legislations.

The primary objectives of this Policy are as under:

- a) To formulate the criteria for determining qualifications, competencies, attributes and independence for appointment of a Director (Executive and Non-Executive) and recommend to the Board policy relating to the remuneration of the Directors, KMPs, Members of Senior Management and other employees;
- b) To formulate the criteria for evaluation of performance of all the Directors on the Board;
- c) To ensure that the level and composition of remuneration is in line with other companies in the industry, sufficient to attract and retain right talent at all levels and keep them motivated enough to meet the organizational objectives.
- d) To ensure that a reasonable balance is maintained in terms of composition of remuneration (fixed and variable component).
- e) To have performance measurement parameters in place to assess the overall performance of Directors, KMPs, Members of Senior Management and other employees.

Based on the above objectives and broad parameters set herein, the Board of Directors of the company have approved this Policy.

II. DEFINITIONS

- (i) "Board" means Board of Directors of the Company.
- (ii) "Directors" means Directors of the Company.
- (iii) "Committee" means Nomination and Remuneration Committee of the Company as constituted or reconstituted by the Board.
- (iv) "Company" means PNB Housing Finance Limited.
- (v) "Independent Director" means a director referred to in Section 149 (6) of the Companies Act, 2013 and rules.
- (vi) "Key Managerial Personnel" (KMP) means -
 - a. the Managing Director & CEO or the manager and in their absence, a Whole-time Director;
 - b. the Company Secretary; and
 - c. the Chief Financial Officer
 - d. any person designated as key managerial personnel by the Board.
- (vii) Senior Management Personnel (SMP) shall mean and include the following:
 - a. Functional Heads;
 - b. Chief Risk Officer and Chief Compliance Officer; and
 - c. Any other position within the Company at the discretion of the MD & CEO in consultation with the NRC/Board.

III. APPLICABILITY

This Policy shall be applicable and act as a guiding principle with regard to nomination and remuneration payable by the Company to all Directors, KMPs, Senior Management and other employees of the Company.

IV. CONSTITUTION OF THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee (NRC) has been constituted as a Board Committee with composition, powers, functions and duties as laid down in section 178 of the Companies Act, 2013. The responsibility of NRC has been detailed in its 'Terms of reference' as approved by the Board.

- a. The NRC will be constituted with 3 or more Non-Executive Directors of which at-least one-half should be Independent Directors.
- b. The Chairperson of the company can be a member of the committee but not chair the NRC.

The following matters shall be dealt by the Committee

- a) **Size and composition of the Board:** The NRC shall periodically review the size and composition of the Board to ensure that it is structured appropriately to enable decision making, consist of people with desired skills to serve the best interest of the Company and its shareholders, as a whole;
- b) **Recommendation of Candidature of Directors:** NRC shall formulate the criteria for determining qualifications, attributes and independence of a Director and recommend suitable candidates to the Board;
- c) **Evaluation of Performance:** NRC shall carry out Board evaluation and present to the Board performance evaluation, recommend on training needs of the directors etc.
- d) **Remuneration framework and policies:** NRC shall review and recommend to the Board, the remuneration of the Managing Director & CEO, Whole-time Directors, Directors, KMPs, and Members of Senior Management as well as the remuneration policies applicable for the employees.
 - The NRC will work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks.
 - The NRC will ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on ICAAP.

Policy for Appointment and Removal

a) Appointment criteria and qualifications

- i. The Committee shall identify and ascertain the persons for appointment as Director, KMPs, Members of Senior Management and recommend to the Board his/her appointment, where applicable.
- ii. A person to be appointed as Director and KMP should in the opinion of the Committee be a person of integrity and possess adequate qualification, expertise and experience for the position he / she is considered for appointment.
- iii. A whole-time KMP of the Company shall not hold office in more than one company except in its subsidiary company at the same time. However, a whole-time KMP can be appointed as a Director in any company, with the permission of the Board of Directors of the Company.

b) Term / Tenure

- i. Managing Director & CEO/Whole-time Director: The Company shall appoint or re-appoint any person as its Managing Director & CEO or Whole-time 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.
- ii. Independent Director:
 - An Independent Director shall hold office for a first term up to three consecutive years on the Board of the Company and will be eligible for re-appointment for a second term of upto 5 years in terms of the prescribed provisions of Companies Act, 2013 as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
 - No Independent Director shall hold office for more than two consecutive terms, 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.

c) *Fit and proper*

The Committee will 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) *Removal*

Due to reasons for any disqualification mentioned in the Companies Act, 2013, rules made thereunder or under any other applicable Act, rules and regulations, the Committee may recommend to the Board with reasons recorded in writing, removal of a Director or KMP subject to the provisions and compliance of the said Act, rules and regulations.

e) *Retirement*

The Managing Director & CEO, Whole-time Directors and KMPs shall retire as per the applicable provisions of the Companies Act, 2013 and the prevailing policy of the Company. The Board will have the discretion to retain the Managing Director & CEO, Whole-time Directors and KMPs in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company, subject to applicable laws.

V. REMUNERATION OF NON-EXECUTIVE / INDEPENDENT DIRECTORS

- a) The key elements of remuneration of Non-executive/ Independent Directors are commission and sitting fees, subject to overall limit as prescribed in the Companies Act, 2013 and Rules made there under with the approval of the shareholders, as applicable. They shall be covered under the Directors and Officers Liability Insurance (D&O) Policy. The Independent Directors shall not be eligible for stock options.
- b) Since, the Non-executive/ Independent Directors collectively endeavour to ensure that the Company performs well and is compliant with applicable laws, rules, regulations and guidelines, the commission paid to them, shall be subject to the approval of the Board.

VI. REMUNERATION OF WHOLE-TIME DIRECTORS

- a) The Whole-time Directors/Managing Director are 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.
- b) The remuneration paid to Whole-time Directors/ Managing Director is within the limits approved by the shareholders of the Company, which includes fixed salary, perquisites, variable pay in the form of commission, other benefits and allowances and certain retiral benefits, within the overall limit under Section 197 of the Companies Act, 2013. They are also eligible for stock options as per the scheme framed/ to be framed by the Company, from time to time.
- c) The Whole-time Directors/ Managing Director shall be covered under the Directors and Officers Liability Insurance (D&O) Policy.
- d) Their annual increments shall be linked to their overall performance and as recommended by the NRC and approved by the Board.

VII. REMUNERATION OF SENIOR MANAGEMENT, KMP AND OTHER EMPLOYEES

- a) The compensation of Key Managerial Personnel (KMP) and senior management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation package may comprise of fixed and variable 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.
- b) The key components of remuneration package of the Senior Management and other employees of the Company shall comprise of basic salary, house rent allowance, transport allowance, meal coupon, telephone allowance, special allowance, contribution to National Pension Scheme fund, performance bonus, contribution to provident fund, premium on medical insurance, term life and personal accident insurance, gratuity, leave travel allowance, leave encashment, housing/ other loans at concessional rate etc., as applicable and linked to their grade. They may also be eligible for stock options as per the scheme framed/ to be framed by the Company from time to time.
- c) Principles for Fixed and Variable Pay Structures
- Composition of Fixed Pay:
 - i. All the fixed items of compensation, including the perquisites and contributions towards superannuation/ severance benefits, retirement benefits, will be treated as part of fixed pay.
 - ii. All perquisites that are reimbursable also form part of the fixed pay subject to statutory monetary ceilings.
 - iii. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) will also be part of fixed pay
 - Composition of Variable Pay:
 - i. The variable pay may be in the form of cash, share-linked instruments, or a mix of cash and share-linked instruments in conformity with relevant statutory provisions and as approved by the Board.
 - ii. The proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of KMPs/ senior management
 - iii. KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role. Such personnel may have a reasonably higher proportion of fixed compensation.
 - iv. Not all the variable pay awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the Board, may 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 may be decided by the Board of the company.
- d) The remuneration, performance appraisal and rewards to Senior Management and other employees, shall be in line with the stated objectives.
- e) The annual increments for the Senior Management and KMP (other than Whole Time Directors) and other employees shall be linked to their overall performance and as recommended by the Managing Director and CEO in consultation with their reporting managers and Human Resources Department and approved by the NRC/ ACB/ Board (as applicable).
- f) Employees must conduct themselves to ensure that no breach of Code of Conduct, PNB Housing Share Dealing Code, Standard Operating Procedures (SOPs), Disciplinary Policy and all other relevant and applicable Codes is committed. Any such breach will have a direct bearing on their performance appraisal and rewards and shall also attract appropriate disciplinary action.
- g) Guaranteed bonus - Guaranteed bonus will not be paid to KMPs and Senior Management. However, in the context of new hiring joining/sign-on bonus could be considered. Such bonus will neither be considered part of fixed pay nor variable pay.

h) Malus and Clawback Provisions

Malus refers to the adjustment of awards prior to vesting and clawback refers to the return of previously paid or vested awards.

All performance-related deferred remuneration awarded to KMPs and members of Senior Management, including but not limited to any cash/ non-cash variable pay awards, is subject to malus and clawback. A signed undertaking or a contractual agreement is to be obtained from the employee to this effect.

Following is the set of representative situations in which malus and clawback can be invoked:

- When there is subdued or negative financial performance of the Company and/or relevant line of business. (The same has already been implemented in the remuneration structure)
- When an individual has personally acted dishonestly, or in a manner that adversely affects the Company's reputation, or which is characterized as a gross misconduct.
- When an individual is involved in directing an employee, contractor, or advisor to act dishonestly or to undertake other misconduct.
- When an individual breach their material obligation through error, omission, or negligence.
- When an individual has received a short term or long-term payout because of fraud, dishonesty or a breach of obligation committed by another person.
- Where significant financial or reputation loss is suffered by the Company owing to conduct or decisions of an individual.
- When it is proven that Company has suffered financial or reputation loss due to lack of due diligence on part of a decision maker.
- When it is established that an individual has taken a decision on behalf of the Company as per a quid pro quo arrangement.
- When performance is manipulated by breaching stipulated risk or prudential limits.

In the event of act of cause which comes to light, as per the malus or clawback clause–

- For an existing employee, the Company as per the discretion of the Nomination and Remuneration Committee may cancel the grant and/or proceed to pursue to recover from the employee an amount equivalent to the exercised options * (market price on date of exercise minus exercise price) for up to 3 years from Date of Vesting and the concerned individual(s) is/are obligated to return the amount.
- For an employee no longer associated with the company, the company as per the discretion of the Nomination and Remuneration Committee may proceed to recover from the employee an amount equivalent to the exercised options * (market price on date of exercise minus exercise price) for up to 3 years from the Date of Vesting and the concerned individual(s) is/are obligated to return the amount.
- The date of such breach shall be determined by the Nomination and Remuneration Committee, and its decision on this issue shall be final and binding on all concerned.

VIII. DISCLOSURES IN THE BOARD'S REPORT

The disclosures as required under the relevant provisions of the Companies Act, 2013, the rules made there under and the Listing Agreement shall be made with regard to the remuneration details of the Directors, KMPs, Senior Management and other employees.

IX. POLICY REVIEW

- a) This Policy may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to the Companies Act, 2013 and rules made there under, the Listing Agreements, the Securities and Exchange Board of India Act, 1992 and rules/regulations/ guidelines made there under, the Memorandum and Articles of Association of the Company or as may be otherwise prescribed by the Board from time to time.
- b) The NRC may issue/implement such guidelines, procedures, formats and/or reporting mechanisms to enforce this Policy as it may deem fit.
- c) The Policy shall be reviewed annually or at earlier intervals as may be deemed necessary. In the event of any conflict between the applicable provisions of law or any statutory enactment and the Policy, the provisions of law shall prevail over this Policy.