

REMUNERATION POLICY

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, Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 as amended from time to time.

This policy has been framed by the Nomination and Remuneration Committee (NRC) and approved by Board of Directors.

1. 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 Finance Limited.
- d) A **“Clawback”** is a contractual agreement between the employee and the Company in which the employee agrees to return, forego, compensate to the Company in cash, kind or any other manner previously paid or vested remuneration, perquisites, benefits, amenities, facility 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. and includes any person/employee designated by the Company as (a) Managing Director (b) Joint Managing Director (c) Chief Executive Officer (CEO), (c) Chief Financial Officer (CFO) (d) Company Secretary; (e) Whole-time director of the Company (e) any other officer of the Company, not more than one level below the Whole-time director, 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, perquisite, benefit, amenities or facility.
- k) **“Policy” or “This Policy”** means “Remuneration/Compensation 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 whole-time directors including the functional heads as provided in ‘Explanation’ to Section 178 of the Companies Act, 2013.

NRC will review the list of SMPs identified based on their functional role from time-to-time.

- n) **“Whole-Time Director”** includes a director in the whole-time employment of the Company, as defined under Section 2(94) of the Act.

2. Objective of Remuneration policy:

The objectives of this policy are:

- a) To lay down broad framework for payment of remuneration to the directors (Executive and Non-Executive), Key Managerial Personnel, Senior Management Personnel and other employees;
- 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, KMP and SMP.
- d) To ensure that the remuneration of Whole-Time Directors, Key Managerial Personnel and Senior Managerial Personnel 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;

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.

3. Principles for Remuneration:

- a) The remuneration structure will be determined by the Nomination and Remuneration Committee who 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, KMPs 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 Whole Time 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
- b) NRC may revisit the principles basis industry and regulatory context, company context and emerging best practices from time to time

4. Components of Remuneration:

a) The remuneration structure shall broadly comprise of the following components:

- Fixed Pay
- Variable Pay

i. Components of Fixed Pay

- The Fixed Pay of the Company should typically consist of elements like basic salary, allowances, perquisites/benefits, contribution towards 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.

ii. Components of Variable Pay

- Variable pay shall comprise of Share linked instruments / Employee Stock Option Scheme (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.

5. Remuneration of Whole Time Directors, Key Managerial Personnel, and Senior Management Personnel:

i. Components of Fixed Pay

- The Fixed Pay of the Company should typically consist of elements like basic salary, allowances, perquisites/benefits, contribution towards 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 Nomination and Remuneration Committee / Board.

ii. Components of Variable Pay

- 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 and 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 as may be applicable from time to time 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/sign-on bonus to be paid to new hire. The said bonus shall not form part of Fixed or Variable pay.

Severance Pay

- No severance pay will be paid.

iii. Malus / Clawback Arrangement:

- The deferred variable compensation in a year shall be subject to:

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 units/options granted under the share linked instruments/ESOS and may lapse unvested units/options granted under the share linked instruments/ESOS in accordance with the ESOS rules as may applicable from time to time.

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.

- NRC may invoke Malus or Clawback clause with respect to the KMPs and SMPs in the following illustrative scenarios:
 - Gross negligence, Reckless, or willful 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
 - Fraud that requires financial restatements
 - Reputational harms
 - Exercise his/her responsibilities in a mala fide manner
 - 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 Nomination and Remuneration Committee 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 units/ options or through any other share linked instrument/ESOS granted during the applicable period
 - Forfeiture of up to 100% of vested but unexercised units/ options or any other share linked instrument/ESOS 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.

6. 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:

i. Sitting Fees:

Rs. 1,00,000/- for every meeting of Board, Rs. 35,000/- for every Committee meeting, Rs. 75,000/- for Audit Committee meeting and Rs. 35,000/- for every meeting of Independent Directors attended by them.

ii. Commission:

Equal commission be paid to all Independent Directors. However, Independent Directors who hold office for part of Financial Year be paid commission on pro-rata basis or as may be decided by NRC. The amount of commission will be decided by the Board of Directors for every financial year within the limit specified under the Act subject to the approval of shareholders obtained by passing necessary resolution in the general meeting of the Company.

7. 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.

8. Role of NRC in determining Remuneration of Whole Time Directors:

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 Whole Time Directors 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 Whole Time Directors. 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 Whole Time Directors .

- Review and approve (a) employment agreements and change in control agreements/provisions and (b) any other benefits, compensation or arrangements for the Whole Time Directors.
- If in any financial year the Company has no profits or its profit are inadequate then Whole Time Directors 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.
- In consultation with outside consultants, evaluate and recommend the form and amount of remuneration to the director and make recommendations to the Board.

9. Employee Benefit Plans:

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 reintroduction of Employee Benefit Plans for the identified employees in accordance with Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

10. Review of Remuneration Policy:

The Board/NRC may review the Remuneration policy annually.

Last amended on June 1, 2024.