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HOME FIRST FINANCE COMPANY INDIA LIMITED
(‘Home First’ / ‘Company’)

NOMINATION AND COMPENSATION POLICY

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1. Context:

In terms of Section 178 of the Companies Act, 2013 (hereinafter referred to as “the Act”), this Nomination and Compensation Policy (“Policy”) was originally formulated by the Nomination and Remuneration Committee (“NRC” or “Committee”) and approved by the Board of Directors of Home First Finance Company India Limited (Home First / Company) and is amended from time to time.

The Board of Directors of the Company has constituted the Committee pursuant to the provisions of the Act and the Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 issued by Reserve Bank of India (hereinafter referred to as the “RBI Directions”) as amended from time to time. The RBI prescribed the ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs’ (“Guidelines”) vide notification dated April 29, 2022. The Guidelines are applicable for fixing the Compensation of Key Managerial Personnel (“KMP”) and Senior Management Personnel (SMP) of NBFCs in Middle Layer.

2. Purpose of the Policy:

The objectives and purpose of the policy are:

- a) Set criteria for determination of qualification, positive attributes and independence of a director required for appointment;
- b) Identification and evaluation criteria for the directors, key managerial personnel and senior management personnel of the Company; and
- c) Ensure that remuneration to Directors, KMP and SMP 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.

3. Definitions:

- a) ‘**Act**’ shall mean the Companies Act, 2013 and rules made thereunder, as amended from time to time.
- b) ‘**Board**’ shall mean the Board of Directors of the Company.
- c) ‘**Nomination and Remuneration Committee**’ or ‘**NRC**’ or ‘**Committee**’ shall mean the Committee of Board of Directors of the Company constituted under applicable provisions of Companies Act, 2013 and the applicable provisions of the ‘Non-Banking Financial Company- Housing Finance Company (Reserve Bank) Directions, 2021’ (“RBI Directions”).
- d) ‘**Director**’ shall mean a Director appointed of the Board of the Company, including Nominee/ Non-Executive/ Executive/ Independent Director.
- e) ‘**Independent Director**’ means a director referred to in Section 149 (6) of the Companies Act, 2013.
- f) ‘**Key Managerial Personnel**’ or ‘**KMP**’ shall mean the ‘key managerial personnel’ as defined under Section 2(51) of the Act, from time to time, which is currently as under:
 - 1) Chief Executive Officer or the Managing Director or the Manager;
 - 2) Chief Financial Officer;
 - 3) Company Secretary;
 - 4) Whole-time Director;
 - 5) such other officer, not more than one level below the directors who is in whole-time

- employment, designated as key managerial personnel by the Board; and
- 6) Such other officer as may be prescribed.
 - g) **‘Listing Regulations’**: It shall mean SEBI (Listing Obligations and Disclosure Requirements) Regulations as amended from time to time.
 - h) **‘Senior Management Personnel’ or ‘SMP’** shall mean the ‘senior management’ as defined in Section 178 of the Companies Act, 2013 read with Regulation 16 (1) (d) of Listing Regulations as amended from time to time.
 - i) **Malus arrangement-** It’s an arrangement that permits the Company 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.
 - j) **Clawback :** It is 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 defined circumstances.
 - k) **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

4. Role of NRC:

The role of NRC shall be in accordance with the NRC Charter as approved by the Board of Directors or as stated under the Regulation 19 read with Part D of Schedule II of Listing Regulations and RBI Directions as amended from time to time.

5. Set criteria for determination of qualification, positive attributes and independence of a director required for appointment

- i. For each Director, the appointment shall be based on the need identified by the Board. The role and duties of the Director shall be clearly specified by highlighting the committees they are expected to serve on, as well as the expectations of the Board from them.
- ii. At the time of selection, Board shall review the candidature on skill, experience and knowledge to ensure an overall balance in the Board so as to enable the Board to discharge its functions and duties effectively.
- iii. Any appointment of the Independent Director shall be approved at the meeting of the shareholders, in accordance with extant laws.
- iv. The Independence of the Director shall be subject to conditions specified in the Act, Listing Regulations as amended from time to time and/or any other Regulations/ Directions applicable to the Company.
- v. The Independent Director shall confirm having read and complied with the Code of Conduct for Board and Senior Management Personnel of the Company. They shall also need to confirm and sign the declaration of Independence as per the Act and Listing Regulations.

- vi. To familiarize the new directors to the Company they should be given a brief about the Company in their first board meeting;
- vii. The MD & CEO of the Company along with the Chief Financial Officer shall be involved in the familiarization/ induction process for the independent directors;
- viii. During the familiarization process, the MD & CEO of the Company shall usually share the Company details, vision and strategy for the Company as well as his expectations from the SMPs/KMPs; any inputs made by Independent Directors shall be considered appropriately;
- ix. The MD & CEO of the Company and the Chief Financial Officer shall interact closely with the Independent Director who is a new joiner to share the values, culture, introduction to other key personnel in the Company;
- x. In case, any input from any other Board member is required on the familiarization, a detailed interaction should be planned and conducted with them as well.

6. Selection and Performance Evaluation criteria for Directors, SMP and KMP of the Company

- i. Selection of Managing Director /Executive Director/s shall be on the basis of selection criteria laid down for independent directors, so far as those criteria are not inconsistent with the nature of appointment and in accordance with the provisions of Articles of Association The NRC is responsible for identification, shortlisting and recommendation of the candidature of person for the position of Managing Director/ Executive Director or any other director to the Board of Directors or appointment of KMP and SMP of the Company;
- ii. Nominee Directors shall be taken on board, subject to approval of the Board and Shareholders as per the applicable laws, as and when nominated by the investor/s to the interest of investor/s and such appointments shall usually be governed by the investment/share purchase agreement/subscription agreement/any other agreement the Company has/will have with such investors;
- iii. Independent Directors, subject to the approval of Board and Shareholders as per the applicable laws, will be selected on the basis of experience in the industry or leadership/knowledge in subject matter. The advisory area and therefore the role, may be defined for each independent director;
- iv. For any SMP / KMP recruitment, it is critical to identify the necessity for that role in the context of the Company. To validate the requirement:
 - a. Job Description (JD) along with profile fitment characteristics from a personality, experience and qualification point of view shall be created;
 - b. The recruitment process shall generally involve meetings with Chief Human Resource Officer (CHRO) of the Company, the MD & CEO of the Company and with any other Officer of the Company as required. Further, the appointment of the identified candidate shall be subject to the approval of NRC or Board as required.;
 - c. The total remuneration to be offered to the new candidate as above, shall be placed before the NRC for their concurrence and recommendation to the Board.
- v. Any SMP / KMP recruited, shall go through a detailed induction process:
 - a. The CHRO shall work closely with the new joiner to share the Company's values,

culture and introduction in the Company;

- b. In case any input from any Board member is required on the familiarization or expectation setting, interaction shall be planned and conducted. This interaction however shall be decided on a case-to-case basis.

7. Broad framework for fixing the compensation for the Directors (including Independent Directors), KMP and SMP:

I. Remuneration, Sitting Fee, Commission to the Directors

- a. Remuneration: The remuneration of Directors shall be established on the reasonability and sufficiency of level to attract, retain and motivate the Directors.
- b. Sitting Fee: The Non-executive Directors including Independent Directors would be paid sitting fees subject to the limits prescribed under the Act, or any amendments thereto, as may be determined by the NRC from time to time, for attending each meeting(s) of the Board and Committees thereof.
- c. The sitting fees paid to the independent directors and the women directors, should not be less than the sitting fees paid to other directors.
- d. Reimbursement of Travel or other Expenses: Directors shall be reimbursed any travel or other expenses, incurred by them, for attending the Board and Committee meetings.
- e. Commission: Additionally, the Independent Directors may be paid remuneration by way of commission for each financial year. Total commission pay out to all Independent Directors (including non-executive directors) in aggregate shall be restricted to a limit of 1% of net profits of the Company as determined in accordance with Section 198 of the Companies Act, 2013 subject to such approval from Board and Shareholders, as required from time to time.
- f. The Independent Directors may be paid remuneration in case of no profits or inadequate profit in addition to the sitting fees as per the provisions of Schedule V of the Act.

Pursuant to the provisions of the Act, an Independent Director shall not be entitled to any stock option of the Company.

- g. The Directors shall be covered under the Directors and Officers Liability Insurance (D&O) Policy of the Company.

II. Criteria of making payments to Non-Executive Directors:

- a. NRC shall recommend quantum of payment by way of remuneration which, in its best judgement and opinion is commensurate with the level of engagement, towards providing inputs, insights and guidance on various matters of importance from time to time.
- b. The participation of the Non-Executive Directors in the Board and Committee meetings.

- c. The performance of the Company in a particular financial year should be taken into consideration by the NRC while deciding the payment of commission to be paid.
- d. The performance evaluation conducted by the NRC for the Individual Non-Executive Directors shall be taken into consideration for determining the payment to be made.

III. Remuneration paid to MD & CEO:

- a. The remuneration paid to MD&CEO of the Company shall be considered by the NRC taking into account various parameters included in this policy and recommended to the Board for approval. This shall be further subject to the approval of the Members at the next General Meeting of the Company in consonance with the provisions of the Act, Listing Regulations or any other Regulations / Directions and the rules made thereunder, as applicable to the Company.
- b. The remuneration paid to MD & CEO shall be 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, as per Section 197 of the Act.
- c. Subject to the provisions under Applicable Laws, a Director who is in receipt of any commission from the Company and who is a managing or whole-time director of the Company shall not be disqualified from receiving any remuneration or commission from any holding or subsidiary company of the Company, subject to its disclosure by the Company in the Board's report.
- d. The MD & CEO shall be entitled to get stock options of the Company if granted by the NRC, subject to the satisfaction of the criteria as mentioned in the Scheme/ formulated by NRC, and the same shall form part of their remuneration.

IV. Compensation of KMPs and SMPs:

- a. The Company shall endeavour to keep the remuneration reasonable and based on the relevant factors including adherence to statutory requirements, industry practices, key responsibility areas assigned and the achievement thereof. The increments shall usually be linked to their performance as well performance of the Company. The total compensation 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 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. The Company shall adopt the following principles for compensation while deciding compensation for the SMP/KMP:
 - i. **Fixed Pay/Compensation:** Fixed pay/compensation will be determined based on size and scope of the job, trends in the market value of the job and the skills, experience and performance of the employee. Fixed compensation will include basic salary, HRA, special allowance, contribution to provident fund, gratuity etc. 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/compensation. All perquisites that are reimbursable may also be included in the fixed compensation so long as there are monetary ceilings on these reimbursements.
 - ii. **Variable Pay, its proportion and deferral:** Variable compensation which 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, SMP may also be eligible for Long Term Incentive Plan in the form of stock options, retention/loyalty bonus or any other equivalent instruments or scheme.

- iii. **Proportion of Variable Pay:** The proportion of variable pay in total compensation shall be commensurate with the role and prudent risk-taking profile of SMPs and KMPs. 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. 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.
- iv. **Deferral of Variable Pay:** Not all the variable pay compensation awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the NRC of the Company, 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 of a portion of variable pay may be considered by the NRC if the percentage of variable pay exceeds 50% of the total pay. The period of deferral would not be more than 3 years from the year of award.
- v. **Malus/Clawback Arrangement:** The deferred compensation may be subject to malus/clawback arrangements in the event of
 - 1. Subdued or negative financial performance of the Company and/or the relevant line of business for two consecutive years;
 - 2. Misconduct of that KMP/SMP in any year;

The Company may invoke the malus and clawback clauses that may be applicable on the variable pay. Whenever, the criteria for a malus or clawback provision arises the NRC shall specify the quantum and period on case-to-case basis during which malus and/or clawback can be applied
- vi. **SMPs and KMPs, if any, engaged in control and assurance functions like financial control, risk management, compliance and internal audit** will 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 may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.
- vii. **Guaranteed Annual Performance Bonus** may not be paid to SMPs and KMPs. 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 of variable pay.

V. **Remuneration to Other employees** shall be paid as per the HR policies of the Company.

8. **Review and Amendment of the Policy:**

The Board of Directors shall conduct annual review of the policy and any amendment in the policy shall be subject to the approval of the Board.