

**Policy on Nominations & Remuneration  
for Directors, Key Managerial  
Executives and Senior Management**

## **REMUNERATION POLICY FOR DIRECTORS & SENIOR MANAGEMENT**

### **INTRODUCTION:**

Aavas Financiers Limited (the "company") is of the firm view that in today's globalized world, where on the one hand exists cut throat competition and on the other side, there is a dearth of availability of candidates with a zeal and passion to perform and outshine. The company also holds a view that fruits of hard work could be reaped only when the plans are in reality executed from beginning to end in the right direction with the right course of action. It is this execution and action that enables to turn day-dream plan into a concrete reality.

With an ambition to become one of the preferred financiers and to outperform its competitors with an ambition to remain in front in delivering best financial solutions, the company proposes policy to pay evenhanded remuneration to its Directors & Key Managerial Personnel (KMP) to align the aspirations of human resources consistent with the goals of the Company.

From regulatory perspective this policy on nomination and remuneration of Directors, Key Managerial Personnel and Senior Management of the Company is in line with the Companies Act, 2013, and the listing agreement entered into with the Stock Exchanges, as amended from time to time, has been formulated by the Committee.

### **DEFINITIONS**

In terms of sub section 51 of section 2 of Companies Act, 2013, read with its applicable rules, Key Managerial Personnel is defined, as under:-

*Key Managerial Personnel (KMP) means-*

- (i) Executive Chairman and / or Managing Director;
- (ii) Whole-time Director;
- (iii) Chief Financial Officer;
- (iv) Company Secretary;
- (v) Such other officer as may be prescribed.

*Senior Management*

Explanation to sub section 8 of Section 178 of the Companies Act, 2013, defines Senior Management of the Company as under:-

*"senior management" 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 executive directors, including the functional heads.*

### **APPLICABILITY**

In view of the definitions given above, the policy is applicable on all functional heads of the Company, including HR functional Head.

### **KEY AREAS OF THE POLICY**

- Laying down criteria and terms and conditions with regard to identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed in Senior Management and Key Managerial cadres and to determine their remuneration. To determine remuneration based on the Company's size and financial position and trends and practices on remuneration prevailing in peer companies & industry.
- To ascertain the fit and proper criteria in respect of the Directors at the time of appointment and on a continuing basis as per the policy of the company in the same regard.
- To carry out evaluation of the performance of Directors, as well as Key Managerial and Senior Management Employees.
- To grant reward linked directly to their effort, performance, dedication and achievement relating to Company's operations and the results expected therefrom.
- To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage. In the context of the aforesaid criteria the following policy has been formulated by the Nominations and Remuneration Committee in its meeting held on 28th January, 2015 and recommended the same to the Board.

### **CONSTITUTION OF THE NOMINATIONS AND REMUNERATION COMMITTEE:**

The company has recently reconstituted its Nominations and Remuneration Committee as per the Companies Act, 2013, SEBI Guidelines and other regulatory guidelines which comprise of the following eminent members of the Board:

Sr. NO	Name	Designation
1	Mr. Krishan Kant Rathi	Independent Director (Non-Executive)
2	Mrs. Kalpana Iyer	Independent Director (Non-Executive)
3	Mr. Nishant Sharma	Nominee Director
4	Mr. Manas Tandon	Nominee Director

**Note:** The above composition shall deem to be changed in future as and when Board reconstitutes the Nomination and Remuneration committee with respect to the change of its composition.

## **General**

The Policy is divided into three parts:

Part – A covers the matters to be dealt with and recommended by the Committee to the Board

Part – B covers the appointment and nomination and

Part – C covers remuneration and perquisites etc

The key features of this Company's policy shall be included in the Board's Report and shall also be disclosed on the website of the company.

## **PART – A**

### **MATTERS TO BE DEALT WITH, PERUSED AND RECOMMENDED TO THE BOARD BY THE NOMINATION AND REMUNERATION COMMITTEE**

The Committee shall:

- Formulate the criteria for determining qualifications, positive attributes and independence of a director;
- Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this policy;
- Ensure 'fit and proper' status of proposed or existing directors as per the NHB Guidelines vide notification no NHB.HFC.CG-DIR.1/MD&CEO/2016 ("NHB Directions");
- Recommend to the Board, appointment and removal of Director, KMP and Senior Management Personnel.

## **PART – B**

### **POLICY FOR APPOINTMENT AND REMOVAL OF DIRECTOR, KMP AND SENIOR MANAGEMENT**

Criteria for appointment and desired level of qualifications:

#### **DIRECTORS**

As per the NHB Directions, the Nomination Policy of the Company to ensure 'fit and proper' status of the proposed/ existing Directors. The policy on the fit and proper criteria shall be on the lines of the guidelines contained in Annex-1 of the NHB Directions. In order to streamline and bring in uniformity in the process of due diligence, while appointing Directors, the Company shall ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

- a) The Company should undertake a process of due diligence to determine the suitability of the person for appointment/ continuing to hold appointment as a Director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. The

- Company shall obtain necessary information and declaration from the proposed/ existing Directors for the purpose in the format given at Annex-2 of the NHB Directions.
- b) The process of due diligence should be undertaken by the company at the same time of appointment/ renewal of appointment.
  - c) The Board of the Company should constitute Nomination Committee to scrutinize the declarations
  - d) Based on the information provided in the signed declaration, Nomination Committee should decide on the acceptance or otherwise of the Directors, where considered necessary.
  - e) The Company should obtain annually as on 31<sup>st</sup> March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.
  - f) The Board must ensure in public interest that the nominated/ elected Directors execute the deeds of covenants in the format given in Annex-3 of the NHB Directions.

The Company shall not appoint or continue the employment of any person as Whole time Director who has attained the age of seventy years. Provided that the term of the person holding this position may be extended beyond the age of seventy years with the approval of shareholders by passing a special resolution based on the explanatory statement annexed to the notice for such motion indicating the justification for extension of appointment beyond seventy years.

### **KMP AND SENIOR MANAGEMENT**

The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as KMP or at Senior Management level and recommend to the Board his / her appointment.

- 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 is sufficient / satisfactory for the position.

### **Term / Tenure:**

#### **Managing Director/Whole-time Director**

The Company shall appoint or re-appoint any person as its Executive Chairman, Managing Director or Executive 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.

#### **Independent Director**

An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and shall be eligible for re-appointment on passing of a special resolution by the Company and disclosure of such appointment in the Board's report.

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. 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.

At the time of appointment of Independent Director it should be ensured that number of Boards on which such Independent Director serves is restricted to seven listed companies as an Independent Director and three listed companies as an Independent Director in case such person is serving as a Whole Time Director of a listed Company.

### **Evaluation**

The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management Personnel at regular interval.

The Evaluation of Every Directors & Board shall carry our per the SEBI guidelines vide SEBI CIRCULAR NO. SEBI/HO/CFD/CMD/CIR/P/2017/004, Dated 5th January 2017 on Guidance Note on Board Evaluation.

In the circular, SEBI has emphasized that the role and function of Chairperson in Board evaluation needs to be laid out clearly in advance in order to achieve maximum benefit of the process. Responsibilities of various persons, including independent directors, and committees for carrying out evaluation of respective Boards as well as the relevant disclosure requirements under corporate governance obligations have also been touched upon in the note.

The Companies Act, 2013 and SEBI LODR provide for several mandatory provisions for Board Evaluation on who is to be evaluated, who is to evaluate such persons, disclosure requirements, etc.

In view of Companies Act, 2013 & SEBI LODR, the Evaluations of performance of Board, Committees of Board & Individual Directors shall be carried out annually.

Below Matrix to be follow while performance evaluation of the Directors and the Board as a whole:

<b>MATRIX FOR THE EVALUATION OF BOARD AND THE DIRECTORS</b>	
1.	<p><b><u>Criteria for the Evaluation of a Board as a whole</u></b></p> <ol style="list-style-type: none"> <li>1. Board Composition &amp; Quality;</li> <li>2. Board and Management Relations;</li> <li>3. Board Meeting &amp; Procedures;</li> <li>4. Board Strategy and Risk Management;</li> <li>5. Grievance Redressal for Investors;</li> <li>6. Conflict of Interest;</li> <li>7. Stakeholder Value and responsibility;</li> </ol>

	<ul style="list-style-type: none"> <li>8. Corporate Cultures &amp; Values;</li> <li>9. Review of Board Evaluation;</li> <li>10. Facilitation of Independent Directors;</li> </ul>
2.	<p><b><u>Criteria for the Evaluation of Board Committee</u></b></p> <ul style="list-style-type: none"> <li>1. Structure of the Committee and meetings;</li> <li>2. Mandate &amp; Composition;</li> <li>3. Effectiveness of the committee;</li> <li>4. Independence of the Committee from the Board;</li> <li>5. Contribution to decisions of the Board;</li> </ul>
3.	<p><b><u>Criteria for Non- Executive Directors</u></b></p> <ul style="list-style-type: none"> <li>1. Knowledge &amp; Skill</li> <li>2. DILIGENCE &amp; PARTICIPATION</li> <li>3. Leadership</li> <li>4. Managing Relationship</li> </ul>
4.	<p><b><u>Criteria for Independent Directors</u></b></p> <ul style="list-style-type: none"> <li>1. Independence</li> <li>2. Knowledge &amp; Participation</li> </ul>
5.	<p><b><u>Criteria MD &amp; WTD</u></b></p> <ul style="list-style-type: none"> <li>1. Leadership</li> <li>2. Performance</li> <li>3. Value Creation</li> <li>4. Governance &amp; Compliance</li> </ul>
	<p><b><u>Rankings</u></b></p> <p>Rankings stands as under:-</p> <ul style="list-style-type: none"> <li>1= Poor</li> <li>2= Average</li> <li>3= Good</li> <li>4= Very Good</li> <li>5= Excellent</li> </ul>

**Removal**

Due to reasons for any disqualification mentioned in the Companies Act, 2013, rules made there under or under any other applicable Act, rules and regulations or as per the employment agreement (if any) the Committee may recommend, to the Board with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the said Act, rules and regulations.

**Retirement**

The Director, KMP and Senior Management Personnel 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 Director, KMP, Senior Management Personnel in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.



**PART – C**

**POLICY RELATING TO THE REMUNERATION FOR THE WHOLE-TIME DIRECTOR, KMP AND SENIOR MANAGEMENT PERSONNEL**

**General:**

The remuneration / compensation / commission etc. to the Whole-time Director, KMP and Senior Management Personnel shall be determined by the Committee and recommended to the Board for approval. The remuneration / compensation / commission etc. shall be subject to the prior/post approval of the shareholders of the Company and Central Government, wherever required.

The remuneration and commission to be paid to the Whole-time Director shall be in accordance with the percentage / slabs / conditions laid down in the Articles of Association of the Company and as per the provisions of the Companies Act, 2013, and the rules made thereunder as applicable from time to time.

Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders in the case of Whole-time Director.

Where any insurance is taken by the Company on behalf of its Whole-time Director, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees 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.

**Remuneration to Whole-time / Executive / Managing Director, KMP and Senior Management Personnel:**

**Fixed pay:**

The Whole-time Director / KMP and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The break up of the pay scale and quantum of perquisites including, employer's contribution to P.F, pension scheme, medical expenses, club fees etc. shall be decided and approved by the Board on the recommendation of the Committee and approved by the shareholders and Central Government, wherever required.

**Performance Bonus:**

The performance bonus for Executive Board Members of the Company and Key managerial persons shall be recommended by the Committee based on key performance indicators, ie. Policy framework, Risk Management, disbursement, growth in Asset Under Management, Branch network expansion, diversification of product lines, Profits, reduction in costs of borrowing asset, quality and innovations. The performance shall be reviewed annually on above and other parameters as the Committee may recommend further.

**Minimum Remuneration**

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Whole-time Director in accordance with the provisions of Schedule V of the Companies Act, 2013 and if it is not able to comply with such provisions, with the previous approval of the Central Government.

**Remuneration / Commission**

The remuneration / commission shall be fixed as per the slabs and conditions mentioned in the Articles of Association of the Company and the Companies Act, 2013 and the rules made thereunder.

**Sitting Fees**

The Independent Director & Non- Executive Directors may receive remuneration by way of fees for attending meetings of Board or Committee thereof provided that the amount of such fees shall not exceed Rs. 50,000 per meeting of the Board Meeting and Rs. 25,000 per meeting of Committees or such amount as may be prescribed by the Central Government from time to time.

**Commission**

Commission may be paid within the monetary limit approved by shareholders, subject to the limit not exceeding 1% of the profits of the Company computed as per the applicable provisions of the Companies Act, 2013.

**Stock Options**

An Independent Director shall not be entitled to any stock option of the Company.

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