

Nomination and Remuneration Policy

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NOMINATION AND REMUNERATION POLICY

I. PREAMBLE

Pursuant to Section 178 of the Companies Act, 2013 (the Act) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI Regulations'), the Board of Directors is required to constitute the Nomination and Remuneration Committee. Hero FinCorp Limited ("Company" or "HFCL") has already constituted Nomination & Remuneration Committee.

Nomination and Remuneration Policy herein is formulated in compliance with Section 178 of the Companies Act, 2013 read along with the applicable rules thereto, Regulation 19/ 62G read with Part D of Schedule II of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

Nomination and Remuneration Committee.

(1) The board of directors shall constitute the Nomination and Remuneration Committee as follows:

- (a) the committee shall comprise of at least three directors;
- (b) all directors of the committee shall be non-executive directors; and
- (c) at least two-thirds of the directors shall be independent directors

(2) The Chairperson of the Nomination and Remuneration Committee shall be an independent director.

Provided that the chairperson of the listed entity, whether executive or non- executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.

(3) The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.

(4) The Chairperson of the nomination and remuneration committee may be present at the annual general meeting, to answer the shareholders' queries; however, it shall be up to the chairperson to decide who shall answer the queries.

(5) The nomination and remuneration committee shall meet at least once in a year.

(3) The role of the nomination and remuneration committee shall be as specified as in Part D of the Schedule II.

The Nomination & Remuneration Committee determines and recommends to the Board the compensation payable to Directors, Key Managerial Personnel(s) (KMPs) and Senior Management Personnel(s) and shall consist of a fixed component and a variable component linked to the long term vision, medium term goals and annual business plans.

The Company had set-up a Remuneration Committee on April 18, 2005 to review and recommend the quantum and payment of annual salary and commission and finalize service agreements and other employment conditions of the Executive Directors and other officials as may be prescribed. The Committee takes into consideration the best remuneration

practices being followed in the industry while fixing appropriate remuneration packages. As per the guidelines of Companies Act, 2013, the committee has been renamed as the Nomination and Remuneration Committee ("Committee").

Section 178 of the Act provides that the Committee shall recommend to the Board a policy, relating to the remuneration for the Directors, Key Managerial Personnel, senior management and other employees, further the Committee shall also formulate the criteria for determining qualifications, positive attributes and independence of a director.

II. OBJECTIVE

The Key Objectives of the Committee would be:

- a) To guide the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management.
- b) To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation.
- c) To recommend to the Board on Remuneration payable to the Directors, Key Managerial Personnel and Senior Management.

III. DEFINITIONS

- **"Board of Directors" or "Board"**, means the collective body of the Directors of the Company;
- The expression **"senior management"** means personnel of the Company who are
 - (i) Members of the Core Management Team other than the Board of Directors including Functional Heads,
 - (ii) Reporting to the Board, including those who are heads of Control, Assurance and Vigilance functions. This would include all members of management one level below the executive directors.
- **"Company"** means **"Hero FinCorp Limited"**
- **"CTC"** means cost that occurs to the Company in a year on each employee.
- **"Independent Director"** means a director referred to in Section 149 (6) of the Companies Act, 2013.
- **"Key Managerial Personnel" (KMP)** means
 - (i) Chief Executive Officer or the Managing Director or the Manager,
 - (ii) Company Secretary,
 - (iii) Whole-time Director,
 - (iv) Chief Financial Officer;
 - (v) 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
 - (vi) Such other officer as may be prescribed.
- **"Nomination and Remuneration Committee"** shall mean a Committee of Board of Directors of the Company, constituted in accordance with the provisions of Section 178 of the Companies Act, 2013 and SEBI Regulations.
- **"Policy or This Policy"** means, "Nomination and Remuneration Policy."
- **"Remuneration"** means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income Tax Act, 1961.

IV. INTERPRETATION

Terms that have not been defined in this Policy shall have the same meaning assigned to them in the Companies Act, 2013 and SEBI Regulations, as amended from time to time.

V. GUIDING PRINCIPLES

The Policy ensures that

- The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors, Key Managerial Personnel, senior management and other employees of the quality required to run the Company successfully;
- Relationship of remuneration to performance is clear and meets appropriate performance benchmarks;
- Aligning key executive and board remuneration with the longer term interests of the company and its shareholders;
- There is effective governance of Compensation and alignment of compensation practices with prudent risk taking
- The Compensation practices are within the regulatory framework stipulated from time to time
- Minimize complexity and ensure transparency
- Link to long term strategy as well as annual business performance of the company
- Promotes a culture of meritocracy and is linked to key performance and business drivers and
- Reflective of line expertise, market competitiveness so as to attract the best talent

VI. ROLE OF THE COMMITTEE

The role of the Committee inter alia will be the following:

1. formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors of the Company (the "Board" or "Board of Directors") a policy relating to the remuneration of the directors, key managerial personnel and other employees ("Remuneration Policy"). The Nomination and Remuneration Committee, while formulating the Remuneration Policy, should ensure that:
2. of the directors, key managerial personnel and other employees ("Remuneration Policy"). The Nomination and Remuneration Committee, while formulating the Remuneration Policy, should ensure that:
 - a. the level and composition of remuneration be reasonable and sufficient to attract, retain and motivate directors of the quality required to run our 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
3. to coordinate with the Risk Management Committee (RMC) for effective alignment between compensation and risks.
4. to review senior management's compensation levels to ensure they are aligned with the company's retained earnings, thereby maintaining adequate capital in accordance with ICAAP requirements.

5. formulation of criteria for evaluation of performance of independent directors and the Board;
6. for every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:
 - a. use the services of an external agencies, if required;
 - b. consider candidates from a wide range of backgrounds, having due regard to diversity;
 - c. consider the time commitments of the candidates; and
 - d. devising a policy on Board diversity
7. identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal and carrying out evaluation of every director's performance (including independent director);
8. whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;
9. recommend to the Board, all remuneration, in whatever form, payable to senior management;
10. Perform such functions as are required to be performed by the compensation committee under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, if applicable.
11. carrying out any other activities as may be delegated by the Board of Directors and functions required to be carried out by the Nomination and Remuneration Committee as provided under the Companies Act, 2013, the SEBI Listing Regulations or any other applicable law, as and when amended from time to time.

VII. MEMBERSHIP

- a) The Committee shall comprise at least three (3) Directors, all of whom shall be non-executive Directors and at least two-third shall be independent.
- b) The Board shall reconstitute the Committee as and when required to comply with the provisions of the Companies Act, 2013, SEBI Regulations and applicable statutory requirement.
- c) Membership of the Committee shall be disclosed in the Annual Report.
- d) Term of the Committee shall be continued unless terminated by the Board of Directors.

VIII. CHAIRPERSON

- a) Committee shall be chaired by an Independent Director.
- b) Chairperson of the Company, if any, may be appointed as a member of the Committee but shall not Chair the Committee.
- c) Members of the Committee present at the meeting shall choose one amongst them to act as Chairperson.
- d) Chairperson of the Nomination and Remuneration Committee could be present at the Annual General Meeting or may nominate some other member to answer the

shareholders' queries.

IX. FREQUENCY OF MEETINGS

The meeting of the Committee shall be held at such regular intervals as may be required under the Act and SEBI Regulations.

X. COMMITTEE MEMBERS' INTERESTS

- a) A member of the Committee is not entitled to be present when his or her own remuneration is discussed at a meeting or when his or her performance is being evaluated.
- b) The Committee may invite such executives, as it considers appropriate, to be present at the meetings of the Committee.

XI. VOTING

- a) Matters arising for determination at Committee meetings shall be decided by a majority of votes of Members present and voting and any such decision shall for all purposes be deemed a decision of the Committee.
- b) In the case of equality of votes, the Chairperson of the meeting will have a casting vote.

XII. QUORUM

The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.

APPOINTMENT AND REMOVAL OF DIRECTOR, KMP AND SENIOR MANAGEMENT

Appointment criteria and qualifications:

- 1. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, KMP or at Senior Management level and recommend to the Board his / her appointment.
- 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.
- 3. The Company shall appoint/ re-appoint as Managing Director & CEO/Whole-time Director/Manager in Compliance with the provisions of the Companies Act, 2013, Guidelines issued by Reserve Bank of India, SEBI Regulations and other Regulatory Authorities from time to time. 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.

Term / Tenure:**1. Managing Director & CEO/Whole-time Director/Manager (Managerial Person)**

- The Company shall appoint or re-appoint any person as its Managerial Person 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.

2. Independent Director

- An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and will be eligible for reappointment 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.
- **Evaluation:** The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management at regular interval (yearly).
- **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, KMP or Senior Management subject to the provisions and compliance of the said Act, rules and regulations. The removal of personnel in Senior management shall be reviewed by MD & CEO.
- **Retirement:** The Director, KMP and Senior Management 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 in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

XIII Remuneration paid to Executive Directors

- The remuneration paid to Executive Directors is recommended by the Nomination and Remuneration Committee and approved by the Board in the Board meeting, subject to the subsequent approval by the shareholders at the general meeting and such other authorities, as the case may be.
- At the Board meeting, only the Non-Executive and Independent Directors participate in approving the remuneration paid to the Executive Directors. The remuneration is arrived by considering various factors such as qualification, experience, expertise, prevailing remuneration in the industry and the financial position of the company. The elements of the remuneration and limits are pursuant to the Section 178, 196 and 197 and Schedule V of the Companies Act 2013 and any other provisions as may be applicable.

Remuneration Policy Structure

The remuneration structure for the Executive Directors would include the following components:

(i) Basic Salary

- Provides for a fixed, per month, base level remuneration to reflect the scale and dynamics of business to be competitive in the external market.
- Are normally set in the home currency of the Executive Director and reviewed annually.
- Will be subject to an annual increase as per recommendations of the Nomination and Remuneration committee and approval of the Board of Directors.

(ii) Commission/ Incentives

- Executive Directors will be allowed remuneration, by way of commission which is in addition to the Basic Salary, Perquisites and any other Allowances, benefits and amenities.
- Subject to the condition that the amount of commission shall not exceed 5% of net profit (Profit Before Tax) of the company in a particular financial year in the manner referred in Section 197 & 198 of Companies Act, 2013.
- The amount of commission shall be paid subject to recommendation of the Nomination and Remuneration committee and approval of the Board of Directors.
- In the event there are no profits or inadequate profits then an amount, in the form of Incentive Payment, as recommended by NR Committee and approved by the Board of Directors shall be paid to the Executive Directors and in compliance with regulatory provisions as applicable.

(iii) Perquisites and Allowances

A basket of Perquisites and Allowances would also form a part of the remuneration structure.

(iv) Contribution to Provident and Other funds

In addition to the above, the remuneration would also include:

- Contribution to Provident and Superannuation Funds Gratuity

(v) Employee Stock Option Plans

The executive directors, except for a promoter director, will also be eligible for ESOPs as per the ESOP scheme in force from time to time. Grants under the ESOP scheme shall be approved by the Nomination & Remuneration Committee.

XIV Remuneration payable to Non-Executive & Independent Directors

The Non-Executive Directors of the company would be paid sitting fees of INR 1,00,000 for each meeting of the Committees and Board.

The Non-Executive and/ or Independent Directors will also be entitled to remuneration by way of commission aggregating up to 1%/ 3% of net profits of the Company, as the case may be, pursuant to the provisions of Sections 197 and 198 of the Companies Act, 2013 in addition to the sitting fees for attending the meetings of the Board and any Committee thereof.

The payment of the commission to the Non-Executive and/ or Independent Directors will be placed before the Board every year for its consideration and approval. The sitting fee payable to the Non- Executive and/ or Independent Directors for attending the Board and Committee meetings will be fixed, subject to the statutory ceiling. The fee will be reviewed periodically and aligned to comparable best in class companies.

Keeping with evolving trends in industries and considering the time and efforts spent by specific Non- Executive and/ or Independent Directors, the practice of paying differential

commission will be considered by the Board.

Independent Directors will not be eligible to receive stock options under the existing employee stock option scheme(s) ("ESOP") of the Company.

Non-Executive and/ or Independent Directors are entitled to be paid all travelling and other expenses they incur for attending to the Company's affairs, including attending meetings of the Company.

The remuneration payable by the Company to Non-Executive and/ or Independent Directors shall be subject to the conditions specified in the Act and the SEBI Listing Regulations including in terms of monetary limits, approval requirements and disclosure requirements.

XV Remuneration Philosophy for Key managerial personnel, senior management

The compensation for the Key managerial personnel, senior management at the Company would be guided by the external competitiveness and internal parity through annual benchmarking surveys.

The compensation will inter alia, include basic salary, allowances, perquisites, loans and / or advances as per relevant HR policies, retirement benefits, performance linked payout, benefits under welfare schemes, etc. besides long term incentives / ESOPS / RSUs / Performance Shares or such other means as maybe decided by the Nomination & Remuneration Committee.

To meet the organization objective of attracting, rewarding and retaining talent, compensation is delivered through a holistic composition of instruments as given below:

- a. Fixed Pay
- b. Performance based Variable Pay
- c. Non-cash Benefits
- d. Guaranteed / Committed / Discretionary bonus/Ex-gratia

Fixed Pay

Fixed Pay comprises of Basic Salary, Allowances, Retirals and other benefits each of which have a monetary ceiling.

Performance based Variable Pay:

Performance based Variable Pay shown as part of CTC in the service letter is an indicative amount considering 'On Target' performance across Company and Department / LOB and Individual performance. Actual payout towards the Annual Performance Based Variable Pay will be determined at the end of the Performance Year based on the eligibility criteria and performance measures as determined by the Company from time to time.

Non-cash benefits:

Additional rewards may be determined based on specific projects that the Company may undertake towards given objectives. Achievement of such objectives may result in the team member(s) getting duly recognized and rewarded.

Guaranteed / Committed / Discretionary bonus / Ex-gratia :

Such bonuses are not consistent with the principles of meritocracy and the Company shall not encourage such payouts, limiting its usage to a case to case basis, where such a payout is made for the purpose of retention / attraction for a fixed term not being part of CTC / Performance based Variable pay. However, in case of special circumstances the CHRO in

consultation with Managing Director & CEO may consider and allow such payment.

XVI Performance Framework

In HFCL Meritocracy is the backbone of the performance and potential recognition framework. The Performance Management and pay Policy revolves around the Four 'P' approach:

- People
- Position
- Performance
- Potential

All employees of Hero FinCorp will be subject to annual performance review as per approved performance management process of the Company. Meritocracy will be promoted by ensuring rigorous performance differentiation.

The performance ratings of all employees within the Company shall be allocated in accordance with a normal distribution curve. Employees shall be evaluated based on the achievement of defined goals and overall performance. The frequency of performance reviews and the corresponding weightages shall vary depending on the employee's level within the organizational hierarchy, as determined by Management from time to time.

The performance rating obtained by an employee shall serve as a key input in determining compensation-related decisions. Compensation, whether in the form of fixed pay or performance-based rewards, may also be influenced by specific skill sets identified as critical to the Company's success. Such compensation structures are established based on management's assessment of prevailing market demand and supply conditions. The performance-based variable pay shall be determined through a combination of individual, departmental, and organizational performance metrics. The Company maintains grade-wise differentiation in the ratio of variable to fixed pay, thereby reinforcing the principles of risk and reward.

For the reason of a specific job role (such as driver, runner, any other role which does not have a direct impact on business) or cases of long leave or medical condition or for employees where an investigation is under process, there could be cases of employees "Not Rated" in the cycle, which would not be part of Distribution curve.

HFCL encourages constant review culture. Communicating frequently with employees and providing them with valuable feedback on a regular-basis helps us become agile as an organization. It also helps us ensure alignment between employees, managers and organization as a whole. Accordingly, HFCL will promote quarterly and half yearly reviews and will deploy suitable reward, recognition, performance-based variable pay programs following the review.

Appropriate salary band and grade structure will be designed to ensure the organization is managed efficiently and effectively. The structure will be reviewed by the Company's leadership from time to time.

Compensation review may happen during mid-year or otherwise on a case to case basis. For compensation revision and/or annual performance-based variable payout and/or any other discretionary bonus / reward, employee must be in good standing as determined by the Company in its sole discretion, without violation of any company policy and/or procedure, in each case.

Deferred compensation (performance based Variable Pay / Incentives) earned by employees may be subject to clawback in the event of subdued or negative financial performance of the Company and/or the relevant line of business or employee misconduct as described in the Employee Progressive Disciplinary Policy, in any year.

The compensation structure and / or any cases as mentioned above maybe reviewed and determined by the Chief Human Potential Officer and Chief of Staff (CHPO & COS) from time to time and approved by MD & CEO where MD & CEO is the L1 manager and for all other full-time staff by CHPO & COS.

Certain portion of variable pay, as may be decided by the NRC/ Board of Directors, may be deferred to the 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. The Board of Directors may decide the deferral period for such an arrangement.

XVII. Delegation of Authority

The delegation of authority to review, approve and ratify any compensation intervention at a Company or individual level has been laid down, unless otherwise mentioned in the Compensation Policy. Any special compensation intervention not mentioned in the authorisation schedule that may be taken up at a Company, function or individual level is subject to the approval of the Managing Director & CEO and CHPO & COS, and shall be informed to the NRC.

XVIII. Malus and Claw back

Compensation will be aligned to both financial and non-financial indicators of performance including controls like risk management, process perspective, customer perspective and others.

- Acts of gross negligence and integrity breach shall be covered under the purview of the compensation policy. Errors of judgment shall not be construed to be breaches under this note.
- The deferred part of the performance based variable pay (performance bonus) will be subject to malus, under which, the Company will prevent vesting of all or part of the performance based variable pay in the event of an enquiry determining gross negligence or integrity breach.
- Employees will be required to sign claw back agreements for the performance based variable pay. In a claw back arrangement, the employee will agree to return, in case asked for, the previously paid performance based variable pay to the Company in the event of an enquiry determining gross negligence or integrity breach, taking into account relevant regulatory stipulations.

Malus and claw back may be applied for following circumstances

- a) Fraud, misfeasance, breach of trust, dishonesty, or wrongful disclosure by the employee of any confidential information pertaining to the bank or any of its affiliates;
- b) Wilful misinterpretation / misreporting of financial performance of the bank;
- c) Material failure in risk management controls or material losses due to negligent risk-taking which are attributable to the employee, whether directly or indirectly;
- d) Non-disclosure of material conflict of interest by the employee or any misuse of official powers;

- e) An act of wilful, reckless or grossly negligent conduct which is detrimental to the interest or reputation of the bank or any of its affiliates, monetarily or otherwise;
- f) Material breach of Code of Conduct, any Non-Disclosure Agreement, regulatory procedures, internal rules and regulations or any other such instance for which the NRC, in its discretion, deems it necessary to apply malus or / and clawback provisions;

XIX. Diversity of Board

The Committee will ensure that no person is discriminated against on grounds of religion, race, gender, pregnancy, childbirth or related medical conditions, national origin or ancestry, marital status, age, sexual orientation, or any other personal or physical attribute which does not speak to such person's ability to perform as a Board member.

Accordingly, the Committee shall:

- assess the appropriate mix of diversity, skills, experience and expertise required on the Board and assess the extent to which the required skills are represented on the Board.
- make recommendations to the Board in relation to appointments, and maintain an appropriate mix of diversity, skills, experience and expertise on the Board, and
- periodically review and report to the Board requirements, if any, in relation to diversity on the Board

XX. Reporting to RBI within 2 days post the date of exit/separation of Key Managerial Personnel (KMP) & Senior Management Personnel (SMP)

Company shall be required to inform RBI within two working days on the exit of KMP & SMP.

The following information required to be furnished to RBI on exit of any KMP & SMP:

- a) Name and Contact details of the SMP/Non-Executive Director (NED).
- b) Designation of SMP.
- c) Manner of exit and its effective date.
- d) Reasons cited by the SMP/NED for resignation
- e) Tenure of SMP/NED in the last held position.
- f) Portfolios handled by the SMP for three years prior to exit
- g) Time period of association of the SMP/NED with the entity.

XXI. MINUTES OF COMMITTEE MEETING

Proceedings of all Meetings must be recorded in the Minutes book and signed by the Chairperson of the said meeting or the Chairperson of the next succeeding meeting. Minutes of the Committee meeting will be tabled at the subsequent Board and Committee meeting.

XXII. DEVIATIONS FROM THIS POLICY

Deviations on elements of this Policy in extraordinary circumstances, when deemed necessary in the interests of the Company, will be made if there are specific reasons to do so in an individual case.

XXIII. Review

This policy will be reviewed by the NRC and Board as and when required or at least once in a year. The utility and interpretation of this policy will be at the sole discretion of the NRC/Board.

In case of any amendment(s), clarification(s), circular(s) etc. issued under any Applicable laws, which is not consistent with any of the provisions of this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall be deemed to be amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.