

COMPENSATION POLICY FOR KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT

(In accordance with the RBI Guidelines dated April 29, 2022)

Background:

The Reserve Bank of India (RBI) has issued guidelines on compensation of Key Managerial Personnel (KMP) and Senior Management (SM) in NBFCs on April 29, 2022 (“Guidelines”). Tata Capital Limited (“the Company”) currently has a Remuneration Policy which defines its formal compensation philosophy to build a high-performance culture and one that drives long term commitment to its vision and goals. In view of the Guidelines, this Policy has been framed to provide a framework to govern compensation of KMPs and SM and shall apply to them in addition to the existing Remuneration Policy. In case of any conflict between this Policy and the Remuneration Policy, this Policy shall prevail with respect to KMPs and SM. This Policy shall be applicable from April 1, 2023.

I. Objective:

1. To ensure that the compensation practices are within the regulatory framework stipulated from time to time by RBI or any other relevant regulatory body.
2. To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking.

II. Coverage: This Policy shall be applicable to:

1. Key Managerial Personnel (KMP)
 - a. Managing Director & CEO
 - b. Chief Financial Officer
 - c. Company Secretary
2. Senior Management Personnel: As per Section 178 of the Companies Act (2013), 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 Managing/Executive Director, including the functional heads excluding employees forming part of the Private Equity business. Variable compensation to the employees of Private Equity business in the form of carried interest payments will continue to be governed by the terms of the respective fund documents.

III. Governance Structure for Compensation:

1. The Nomination and Remuneration Committee (“NRC”) has been constituted for framing, review and implementation of the Company’s compensation policy on behalf of the Board and its role is as set out in the NRC Charter.
2. This Policy will be subject to review by the NRC on an annual basis and approved by the Board.

IV. Principles for Determination of Compensation for KMPs and Senior Management:

Compensation to KMPs and Senior Management shall be determined based on the following principles:

1. The level and composition of compensation is reasonable and sufficient to attract, retain and motivate the Senior Management team of the quality required to run the Company successfully, which means compensation should be:
 - market competitive (‘market’ for every role is defined as companies from which the Company attracts talent or companies to which the Company loses talent).
 - driven by the role played by the individual.

- reflective of the size of the Company, complexity of the sector / industry / Company's operations and the Company's capacity to pay.
2. Linkage of compensation to appropriate performance benchmarks.
 3. Compensation outcomes are symmetric with risk outcomes and pay-outs thereof are sensitive to the time horizon of the risk.
 4. Compensation structure will have a proper balance between Fixed Pay and Variable Pay.
 5. The deterioration in the financial performance of the Company / business segment/ function/ individual can lead to a contraction in the total amount of variable pay, which can even be reduced to zero for a particular year depending on the performance outcome of the year.

V. Compensation Structure

Compensation structure broadly consists of following elements:

1) Fixed Pay (TFP)

All the fixed elements of compensation, including the perquisites and contributions towards superannuation/retiral benefits, as reflected in the Form 16 of the employee will be treated as part of fixed pay.

2) Variable Pay (VP)

- The variable pay shall be in the form of share-linked instruments, or a mix of cash and share-linked instruments.
- The total variable pay shall be limited to a maximum of 300% of TFP.

VI. /Compensation for KMPs and Senior Management in Control and Assurance functions:

KMPs and Senior Management engaged in 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 role in the Company.

VII. Deferment of Variable Pay:

The Variable Pay shall be deferred as per the following schedule:

Timeline	Payout Schedule of Cash Variable Pay	Vesting Schedule for ESOP
After requisite approval of Variable Pay for the reference performance year	60% (1 st tranche)	NA
After the end of the 1 st Year following the reference performance year / Date of Grant in case of ESOPs	20% (2 nd tranche)	20%
After the end of the 2 nd Year following the reference performance year / Date of Grant in case of ESOPs	20% (3 rd tranche)	20%
Year 3 from Date of Grant	-	30%
Year 4 from Date of Grant	-	30%

In cases where the cash component of variable pay is Rs. 20 lakh (on an annualized basis) or lower, cash variable pay shall not be deferred.

VIII. Guaranteed Bonus:

Guaranteed bonus shall not be paid to KMPs and Senior Management. However, in the context of new hiring, joining/sign-on bonus may be considered and such bonus will neither be considered part of fixed pay nor of variable pay for the purposes of this policy.

IX. Malus and Clawback:

Malus arrangement permits the Company to prevent vesting of all or part of the variable pay which has been deferred. It does not reverse vesting after it has already occurred.

Clawback is a contractual agreement between the employee and the Company in which the employee agrees to return previously paid or vested compensation attributable to a given reference year in which the incident has occurred. The return would be in terms of net amount.

Malus and Clawback provisions shall apply regardless of whether the employee is in the employment of the Company or has separated.

A. Framework to invoke Malus/ Clawback

Relevant factors to be considered:

1. Deterioration in financial performance in the form of drop in the Profit After Tax (PAT) from one financial year to the next by 50% or more at the Company level (consolidated), provided that such deterioration as evaluated by the NRC, is not on account of changes in regulations, force majeure, market conditions, industry performance, economic, social or other conditions outside the control of the Company or any person. Any material gains/losses from extraordinary transactions would not be included while computing movement in PAT for this purpose.
2. Material failure in risk management controls or material losses due to negligent risk-taking which are attributable to the employee, whether directly or indirectly.
3. Wilful misrepresentation / misreporting of information about the Company.
4. Non-disclosure of material conflict of interest by the employee or any misuse of official powers.
5. Commission of felony, fraud, misappropriation, embezzlement, breach of trust or an offence involving moral turpitude or breach of integrity, gross or willful insubordination, or any other act detrimental to the interest of the Company.
6. Material breach of Tata Code of Conduct, regulatory requirements, Company's policies or such other instance for which the NRC, in its discretion, deems it necessary to apply malus or / and clawback provisions.

B. Guidelines for Implementation:

1. This Policy will be binding on all KMPs and Senior Management covered under the purview of this Policy and terms of their compensation shall automatically stand revised in accordance with this Policy as amended from time to time.
2. The NRC shall review the incident/act of misconduct to ascertain the degree of accountability attributable to the concerned employee and may decide to apply malus and/or clawback on none, part or all the unvested/vested deferred variable compensation based on the outcome of the evaluation.
3. The provision relating to malus would entail forfeiture of full or part of the unvested/unpaid part of the deferred variable pay, attributable to a given reference year wherein the incident has occurred. In case the stock options are unvested or have vested but not been exercised, upto 100% of such stock options can be forfeited.
4. The provision relating to clawback would entail return of full or part of the variable pay (net of taxes) paid, attributable to a given reference year wherein the incident has occurred. Such return would always be in cash. The Company will have a right to set off the clawback amount against any amount payable to the concerned employee. In case of ESOPs, where the vested stock options have already been exercised, the employee shall return in cash, fair value of such options (or part thereof) at the time of grant, using Black-Scholes model.

X. Treatment in case of Separation

- A. Resignation:** An employee who resigns after the 1st tranche of the Variable Pay is paid as per the Schedule set out in VII above, will be paid the remaining tranches as per the said Schedule VII subject to the other provisions of this policy. An employee resigning before the 1st tranche is paid shall not be entitled to any Variable Pay.
- B. Retirement/Superannuation/authorized long leave/sabbatical:** The employee would be paid the Variable Pay which he/she is eligible for as per the Schedule set out in VII above.
- C. Death/permanent incapacitation:** In case of death/permanent incapacitation, the entire amount of the Variable Pay the employee is/was eligible for would be paid to the nominee as per HR records in case of death or to the concerned employee in case of permanent incapacitation and would not be deferred.
- D. Termination:** No further payment of deferred variable pay will be made, whether vested or unvested, post the date of Termination. Any amount paid under variable pay prior to termination will be governed by the Clawback Clause IX above.