

Remuneration Policy for Directors, KMPs, SMPs and Other Employees

[Pursuant to Section 178(3) of the Companies Act, 2013]

Version 1.0

TATA Motors Finance Group

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Document Release Notice

This document on Remuneration Policy for Directors, KMPs, SMPs & other employees Version 1.0, is released for the use in TATA Motors Finance Limited with effect from 1st April 2023.

Authorized Signatory

(Approved by NRC)

Document Preparation

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Revision List

Revision No	Revision Date	Revision Description	Rationale for Change	Change Type (Add / Modify / Delete)
Version 1.0	1 st April 2023	New	Introduction of Policy	New

The philosophy for remuneration of Directors, Key Managerial Personnel (KMPs), Senior Management Personnel (SMPs) and other employees of Tata Motors Finance Solutions Limited (“the Company”) is based on the commitment of fostering a culture of Leadership with Trust. The remuneration policy is aligned to this philosophy.

This remuneration policy has been prepared pursuant to the provisions of Section 178(3) of the Companies Act, 2013 (“Act”) and Guidelines on Compensation of Key Managerial Personnel and Senior Management Personnel in NBFCs issued by Reserve Bank of India (RBI) vide circular dated RBI/2022-23/36 DOR.GOV.REC.No.29/18.10.002/2022-23 on April 29, 2022 (“RBI Guidelines”). In case of any inconsistency between the provisions of law and this remuneration policy, the provisions of the law shall prevail, and the Company shall abide by the applicable law.

Objective

- Broad framework for payment of remuneration to Key Managerial Personnel (KMPs) and Senior Management Personnel (SMPs).
- 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.
- Ensure that the remuneration of whole-time directors, key managerial personnel and senior management 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.

Definitions

1. “Board” means Board of Directors of the Company.
2. A “Clawback” 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 certain circumstances.
3. “Company” means Tata Motors Finance Solutions Limited, a company incorporated and registered under the Companies Act, 1956 having its registered office at 14, 4th Floor, Sir H.C. Dinshaw Building 16, Horniman Circle, Fort, Mumbai-400001 and having its Corporate Identity Number: U45200MH1989PLC050444.
4. “Employees’ Stock Option” means the option given to the Directors, Officers or Employees of a company or of its holding company or subsidiary company or companies, if any, which gives such Directors, Officers or Employees, the benefit or right to purchase, or to subscribe for, the shares of the Company at a future date at a pre-determined price.
5. “Independent Director” means a director referred to in Section 149 (6) of the Companies Act, 2013.
6. “Key Managerial Personnel” (KMP) means KMP as defined in Section 2 (51) of the Act, as amended from time to time i.e.
 - a. Managing Director or Executive Director
 - b. Chief Executive Officer,

- c. Company Secretary,
 - d. Whole-time Director,
 - e. Chief Financial Officer and
 - f. 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
 - g. Such other officer as may be prescribed under the Companies Act, 2013.
7. “Committee” shall mean the Nomination & Remuneration Committee of Board of Directors of the Company, constituted in accordance with the provisions of Section 178 of the Companies Act, 2013
 8. “Director” shall have the same meaning as defined under section 2(34) of the Companies Act, 2013.
 9. A “Malus” is 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.
 10. “Retention period” means a period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.
 11. “Senior Management (SMP)” means personnel of the Company who are members of its core management team, excluding Board of Directors, comprising all members of management committee, chief compliance officer & chief internal auditor as provided in ‘Explanation’ to Section 178 of the Companies Act, 2013.
 12. NRC will review the list of SMPs identified based on their functional role from time-to-time.
 13. “Whole-Time Director” includes a director in the whole-time employment of the Company, as defined under Section 2(94) of the Act.

Principles of Remunerations

1. 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, KPMs 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 Executive 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

2) NRC may revisit the principles basis industry and regulatory context, company context and emerging best practices from time to time

Components of Remunerations

The remuneration structure shall broadly comprise of the following components:

1. Components of Fixed Pay

The Fixed Pay of the Company should typically consist of elements like Basic Salary, Allowances, Perquisites, contribution towards retirals. 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

2. Components of Variable Pay

Variable pay shall comprise of Share linked instruments (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.

Remunerations of ED, KMPs and SMPs

The extent of overall remuneration should be sufficient to attract and retain talented and qualified individuals suitable for every role. Hence remuneration 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 size of the Company, complexity of the sector/industry/Company’s operations and the Company’s capacity to pay,
- Consistent with recognized best practices; and
- Aligned to any regulatory requirements.

1. Components of Fixed Pay

- The Fixed Pay of the Company should typically consist of elements like Basic Salary, Allowances, Perquisites, contribution towards retirals, 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.

2. Components of Variable Pay

- Variable pay shall comprise of Share linked instruments or a mix of Share linked instruments and cash in the form of bonus and/or incentives. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.
- 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.
- Variable Pay shall be paid on the basis of:
 - Company performance on certain defined qualitative and quantitative parameters as may be decided by the Board/NRC from time to time, Industry benchmarks of remuneration,
 - Performance of the individual.
 - Business-unit performance.
- The multiplier for company’s performance is shared as guidance to NRC and the committee may revise the multiplier based on their judgement of market conditions and other special situations that may arise during the course of business. Different multiplier for control functions will be applicable.
- 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 may be applicable for both share linked instruments/ESOS and cash variable pay. The deferral period shall be governed 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.

3. 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 and/or SMP, the Company may withhold cash incentives/bonus or vesting of ESOS and may lapse unvested ESOS in accordance with the ESOS rules.
 - 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 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.
 - Deterioration in financial performance in the form of drop in the Profit Before Tax (PBT) below 40% of board approved PBT target 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 PBT for this purpose.
 - Material Misstatement of the company's results
 - Fraud that requires financial restatements
 - Reputational harms
 - 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.
- Unless otherwise specified, 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 stock options or through any other share linked instrument Vested/exercised during the applicable period
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument outstanding 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.

Remunerations of independent directors and non-independent non- executive directors

- Independent Directors (“ID”) and non-independent non-executive directors (“NED”) may be paid sitting fees (for attending the meetings of the Board and of committees of which they may be members) and commission within regulatory limits.
- Within the parameters prescribed by law, the payment of sitting fees and commission will be recommended by the NRC and approved by the Board.
- Overall remuneration (sitting fees and commission) should be reasonable and sufficient to attract, retain and motivate directors aligned to the requirements of the Company (taking into consideration the challenges faced by the Company and its future growth imperatives).
- Overall remuneration should be reflective of size of the Company, complexity of the sector/industry/Company’s operations and the Company’s capacity to pay the remuneration.
- Overall remuneration practices should be consistent with recognized best practices.
- Quantum of sitting fees may be subject to review on a periodic basis, as required.
- The aggregate commission payable to all the NEDs and IDs will be recommended by the NRC to the Board based on Company performance, profits, return to investors, shareholder value creation and any other significant qualitative parameters as may be decided by the Board.
- The NRC will recommend to the Board the quantum of commission for each director based upon the outcome of the evaluation process which is driven by various factors including attendance and time spent

in the Board and committee meetings, individual contributions at the meetings and contributions made by directors other than in meetings.

- In addition to the sitting fees and commission, the Company may pay to any director such fair and reasonable expenditure, as may have been incurred by the director while performing his/her role as a director of the Company. This could include reasonable expenditure incurred by the director for attending Board / Board committee meetings, general meetings, court convened meetings, meetings with shareholders / creditors / management, site visits, induction and training (organized by the Company for directors) and in obtaining professional advice from independent advisors in the furtherance of his/her duties as a director.

Remunerations payable to Director for services rendered in other capacity

- The remuneration payable to the Directors shall be inclusive of any remuneration payable for services rendered by such director in any other capacity, unless:
 - a) The services rendered are of a professional nature; and
 - b) The NRC is of the opinion that the director possesses requisite qualification for the practice of the profession.

Remunerations for Other Employees

- In general, the principles laid down in Clause 3 above will be considered for governance and remuneration decisions related to other employees.
- In general, the proportion of Variable Pay in the Total Compensation should be higher at higher level of responsibility.
- There should be appropriate proportion of variable pay in the total compensation so that performance and/or risk adjustment can be affected.
- The Company has formulated NRC approved Long Term Incentive Plan (LTIP) and Annual Term Incentive Plan (ATIP) for select employees and NRC takes decision on its continuation/ revision from time to time.

Loans to Employees

The Company may grant loans to its employees including Directors, KMPs and SMPs, on such terms and conditions as may be determined by the Board or any Committee of the Board, from time to time, in accordance Companies Act, 2013, SEBI Regulations, RBI Circular RBI/2022-23/29 DOR.CRE.REC.No.25/03.10.001/2022-23 read with para 3.2.2 (c) and para 3.2.3 (b) & (c) of the circular on Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs issued on October 22, 2021 and any other Applicable Law from time to time.

Implementation and Amendments in the Policy

- The NRC is responsible for recommending the remuneration policy to the Board. The Board is responsible for approving and overseeing implementation of the remuneration policy.
- The Remuneration policy may be reviewed by the Board of the Company on the recommendation of the Nomination & Remuneration Committee of the Board.
- This Policy may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to the Companies Act, 2013 and rules made thereunder and RBI Guidelines.