

# **REMUNERATION POLICY**

## REMUNERATION POLICY

The Policy reflects PNB Gilts Limited's ("the Company") objectives for good corporate governance as well as sustained long-term value creation for shareholders. The Remuneration Policy is applicable to Independent Directors, Managing Director, Executive Director(s), senior management including KMPs, and other employees. HR Policy including Service Regulations, increment policy etc. of the Company is part of this Policy. The Nomination and Remuneration Committee ("the Committee") makes a recommendation to the Board of the remuneration policy set forthwith for its approval.

## PURPOSE AND BASIC PRINCIPLES

The Remuneration Policy seeks to ensure adequate remuneration in recognition of their dedication and the responsibility assumed, and in accordance with the remuneration paid in the market at comparable domestic and international companies, taking into account the long term interest of all the shareholders.

The guiding principle is to offer remuneration systems that make it possible to attract, retain, and motivate the most outstanding professionals in order to enable the Company to attain its strategic objectives within the increasingly competitive and internationalized context in which they operate.

The *Remuneration Policy* seeks to:-

- Ensure that the remuneration, in terms of structure and total amount, is in line with best practices, as well as competitive vis-à-vis that of comparable entities.
- Establish the remuneration, in accordance with objective standards, based on individual performance and on the achievement of the business objectives of the Company.
- Include a significant annual variable component tied to performance and to the achievement of specific, pre-established, quantifiable objectives in line with the corporate interest and strategic goals of the Company. The foregoing should be understood to be without prejudice to the possibility of considering other objectives, especially in the area of corporate governance and corporate social responsibility.
- Foster and encourage the attainment of the strategic goals of the Company through the inclusion of long-term incentives, strengthening continuity in the competitive development of the company, of its directors, and of its management team, and generating a motivating effect that acts as a driving force to ensure the loyalty and retention of the best professionals.
- Set appropriate limits to any short-term or long-term variable remuneration, and establish suitable mechanisms to reconsider the implementation and payment of any deferred variable remuneration when a reformulation occurs that has a negative effect on the Company's annual accounts, including the potential total or partial cancellation of the payment of deferred variable remuneration if there is a correction of the annual accounts upon which such remuneration was based.
- Create an alignment and balance between the rewards and risk exposure of shareholders and interests of employees.
- Enable the integration of non-financial considerations relating to conduct in performance assessments, employing a mix of compensation elements and aligning compensation incentives to risk outcomes and factoring the time horizon of risk.

## COMPETENT BODIES

The Board of Directors, at the proposal of the Nomination and Remuneration Committee, is the body with authority to determine the remuneration of directors within the overall limit established in the Companies Act, 2013 ("the Act").

## LIMIT ON DIRECTORS REMUNERATION

Pursuant to the provisions of the Act and rules made thereunder, the Directors' Remuneration shall be within the overall limits defined under Section 197 and other applicable provisions of the Companies

Act, 2013 and Schedule V of the Act and Rules made thereunder and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”). The terms of services, including remuneration matters, of Managing Director, Executive Director, other KMPs, senior management and other employees shall be subject to Service Regulations of the Company, which is being reviewed by Nomination & Remuneration Committee and approved by the Board from time to time.

## **STRUCTURE OF REMUNERATION OF MANAGING DIRECTOR, EXECUTIVE DIRECTOR, SENIOR MANAGEMENT AND OTHER EMPLOYEES**

The remuneration that Managing Director and Executive Director are entitled to receive for the performance of executive duties at the Company is structured as follows:

### **a) Fixed Remuneration/ Total Fixed Cost (TFC)–**

#### **(i) Fixed Remuneration/Total Fixed Cost (TFC) of Managing Director & CEO and Executive Director -**

This portion of the remuneration shall be in line with the remuneration paid in the market by competing companies.

Under ordinary circumstances, it includes all fixed items of compensation, *including the perquisites and contributions towards superannuation/retiral benefits*. All perquisites that are reimbursable are also included in the fixed pay so long as there are monetary ceilings on these reimbursements. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) are also part of fixed pay. The Nomination & Remuneration Committee recommends suitable package to the Board for approval, which is subject to shareholders’ approval as required under the Act and Listing Regulations and limits stipulated under Schedule V of the Companies Act, 2013.

#### **(ii) Fixed Remuneration/Total Fixed Cost (TFC) of Senior Management (including KMPs) and other employees -**

Remuneration of employees consists of all fixed items of compensation, including *the perquisites, and contributions towards superannuation/retiral benefits*. All perquisites that are reimbursable are also included in the fixed pay so long as there are monetary ceilings on these reimbursements. Monetary equivalent of benefits of non-monetary nature (such as free furnished house, use of company car, etc.) are also part of fixed pay. The detailed components of the fixed remuneration are defined in the service regulations of the Company. These components shall be governed by performance parameters defined in the Increment Policy of the Company. Annual increments are given each year in line with said increment policy. The remuneration to be paid to Senior Management shall be recommended by Nomination & Remuneration Committee to the Board for approval. For rest of employees, the Competent Authority is as defined under HR Policy of the Company.

### **b) Variable Remuneration / Total Variable Cost**

This Remuneration consists of *performance linked incentive and a coverage both under the group medical insurance and term insurance*.

In order to strengthen employees’ commitment to the Company, to retain and promote a better performance of their duties, the Company gives a performance linked incentive. This particular variable remuneration shall be tied, for the most part, to the achievement of specific and pre-established profit targets and other objectives as a Primary Dealer that are quantifiable and aligned with the corporate interest and with the strategic objectives of the Company. Variable remuneration is also linked to the risk exposure of the Company. Variable remuneration will also be deferred over a period of time in keeping with the Company’s risk horizon. The Nomination and Remuneration

Committee will assess the achievement of Company's objectives vis-à-vis individual performance.

The performance linked incentive in case of non-managerial employees would be driven by the outcome of (a) Key Performance Indicators (KPIs) based performance appraisal process and (b) the performance of the company. In case of managerial employees like Managing Director and Executive Director(s), it would be driven by the Company's Performance in terms of profits earned by the Company and such other criteria as the Committee/Board may deem fit.

The proposal thereof shall be submitted to the Board of Directors for approval on annual basis. While assessing the performance of the employee, the Committee/Board also broadly takes into account the profits earned by the Company for the year.

The Committee may seek the advice of independent professionals, if required.

The recommending authority must ensure appropriate balance between fixed and variable remuneration.

In case of senior management, who are on deputation from parent bank, PNB, the remuneration shall be paid to them in accordance with applicable service regulations/provisions of the parent bank.

## **REMUNERATION OF CONTROL FUNCTION PERSONNEL**

KMPs and senior management engaged in financial control, risk management, compliance and internal audit are compensated independently of business targets and based on their Key Performance Indicators. This is to ensure remuneration and outcomes relating to such control functions maintain the independence of the function and the Company's risk management framework.

## **MALUS / CLAWBACK**

To effectively address long term risk borne by the Company, remuneration policy needs to provide for timely use of ex-post adjustment mechanisms. This covers variable pay to consider specific adverse performance outcomes relating to misconduct. It may include reduction of current year payout and/or application of malus and clawback.

The following conditions would trigger a clawback of performance pay:

- a) If an employee engages in certain detrimental conduct, including mis-selling practices, manipulation of interest rate benchmarks, illegal activity, breach of a fiduciary duty, etc. that causes material financial or reputational harm to the Company
- b) If the award was based on a material misrepresentation by the employee
- c) If there is reasonable evidence of employee malfeasance and breach of integrity inviting disciplinary actions
- d) Violation of Code of Conduct for Prevention of Insider Trading
- e) If the awarded performance pay was granted on a deliberately erroneous foundation or an incorrect decision made due to gross negligence
- f) If the employee who is reasonably expected to be aware of the failure, misconduct or weakness in approach that contributed to the failure, improperly or with gross negligence failed to identify, assess, report, or escalate in a timely manner
- g) If the performance, decisions, or actions taken lead to the Company or the relevant business unit suffering a significant material downturn in its financial performance
- h) In the event of a material restatement, correction, or amendment of the Company's financial results for the relevant period

## STRUCTURE OF REMUNERATION OF INDEPENDENT DIRECTORS

Remuneration of Independent Directors is subject the provisions of Section 197 of the Companies Act, 2013 & Rules made thereof, prescribed Listing Regulations and Articles of Association of the Company.

Sitting fee is payable to Independent Directors only. At present, the sitting fee structure is as under:

S. No.	Meeting	Sitting fees for independent directors (payable per meeting)*
1	For attending and chairing meetings of the Board	Rs. 70,000/- plus Rs. 20,000/- for chairing the meeting. This will be subject to change in accordance with such fee structure of promoter i.e. PNB.
2	For attending and chairing meetings of Committees of Board.	Rs. 35,000/- plus Rs. 10,000/- for chairing the meeting. This will be subject to change in accordance with such fee structure of promoter i.e. PNB.
3.	For attending and chairing meetings of any other committee/group/panel which may or may not be at Board level but such a forum is statutorily or operationally required to meet	Same as that of Committees of the Board.
*Fee in respect of Board Meetings shall not exceed the limit as provided for in respect of companies under the Companies Act, 2013 and Rules made thereunder. Fee in respect of Committees of Board should not exceed one half of fee for attending the meetings of Board. Further, the above fees shall be subject to overall ceiling of Rs. 25 lacs per annum.		

In addition to above, out of pocket expenses incurred by them in connection with performance of duties as a Director are also reimbursable.

## PRINCIPLE OF FULL TRANSPARENCY

The Board of Directors assumes the commitment to enforce the principle of the fullest transparency of all the items of remuneration received by all directors, providing clear and adequate information as much in advance as required and in line with the good governance recommendations generally recognized in international markets in the area of director remuneration.

For such purpose, the Board of Directors establishes this *Remuneration Policy* and ensures the transparency of director remuneration by including in the Company's report a detailed breakdown, according to positions and status, of all remuneration received by the directors, whether as such, in their capacity as executives, if applicable, or in any other capacity. The Company's Remuneration Policy shall be published suitably on its website and a web link of the same shall be given in the Directors' report or Annual Report.

## GENERAL

Any or all provisions of this Policy would be subject to revision/amendment in accordance with the guidelines etc. on the subject as may be issued by Government/regulatory bodies etc., from time to time.