Registered office: Unit No. 701, 702 & 703, 7th Floor, West Wing, Raheja Towers, 26/27 M G Road, Bangalore -560001, Karnataka

# Policy on Appointment and Remuneration of Directors and KMPs

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**Functional Review & Signoff**

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| Prepared By: | **M Rajesh** | | | |
| **Reviewed and Approved by** | | | | |
| **Name** | **Function** | **Role** | **Date of Review** | **Signature** |
| Shishir Agarwal | Human Resources | CHRO | Oct 21, 2021 | Email |
| Shishir Agarwal | Human Resources | CHRO | Feb 03, 2022 | Email |
| Shishir Agarwal | Human Resources | CHRO | May 2, 2023 | Email |
| Shishir Agarwal | Human Resources | CHRO | Sep 18, 2023 | Email |

## Version History

| Release Date | Version No. | Remarks | Approved By | Board Approval Date |
|---|---|---|---|---|
| 14-Nov-2021 | 1.2 | Annual Revision | Refer Functional Review & Signoff | 14-Nov-2021 |
| 07-Feb-2022 | 1.3 | Revision to capture certain changes required in the Policy | Refer Functional Review & Signoff | 07-Feb-2022 |
| 02-May-2023 | 1.4 | Annual Review | Refer Functional Review & Signoff | 02-May-2023 |
| Oct-1-2023 | 2.0 | Modified basis IRDAI Guidelines dated June 30, 2023 | Refer Functional Review & Signoff | 27-Sep-2023 |

**Guiding factors**

This Policy is formulated in terms of the IRDAI Guidelines on Remuneration of Directors and Key Managerial Persons dated June 30, 2023 ("**IRDAI Remuneration Guidelines**"), and also in compliance with the provisions of Section 134 and Section 178 and other applicable provisions of the Companies Act, 2013 and subject to all applicable regulations /rules and statues.

The philosophy for remuneration is based on the commitment of fostering a culture of leadershipwith trust, and this P olicy is aligned to this philosophy. The Policy shall be reviewed annuallyby the Board of Directors of PNB MetLife India Insurance Company Limited (the Company/PNB MetLife) on recommendation of the Nomination and Remuneration Committee ("NRC") of the Board.

Definition of Key Managerial Persons (KMPs) – Key Managerial Persons shall mean any role defined under the IRDAI Remuneration Guidelines, applicable statutes / rules and regulations as amended from time to time.

Key principles governing this Policy are as follows:

**1) Criteria for appointment of Directors**

Appointment of all Directors shall be by way of recommendation of the Nomination & Remuneration Committee, and the Board of Directors, and approval by the shareholders in any of the subsequent General Meetings. Additionally, if there are other applicable regulations/guidelines issued by the IRDAI and/or statute/ rules with respect to appointment of Directors, the same shall also be adhered to.

The NRC shall *inter alia* consider below factors in determining the qualification, positive attributes, integrity, etc. for appointment of all Directors on the Board:

i. Compliance with the 'Fit and Proper' criteria as specified under IRDAI Corporate Governance Guidelines dated May 18, 2016 (as amended from time to time) ("**IRDAI CG Guidelines**") including but not limited to:
   a. Background of the Director;
   b. Age limit as per the Retirement Policy of the Company and as prescribed under the IRDAI Remuneration Guidelines.
   c. The maximum age limit for Non-Executive Directors, including the Chairperson of the Board, shall be 75 years and after attaining the age of 75 years no person shall continue on the Board.
   d. Academic records/background, educational qualifications, including specialized qualifications in relevant areas like business/corporate management, finance, marketing, risk, compliance, legal etc;
   e. The overall experience of the Directors to include various areas of financial and management expertise such as accountancy, law, insurance, pension, banking, securities, economics, or such other qualifications and experience / expertise, including industry experience, that may be deemed appropriate;
   f. Disclosures arising out of other applicable acts, regulations, circulars and guidelines.

ii. Confirmation on compliance with IRDAI Circular Reference no: IRDAI/F&I/CIR/MISC/183/9/2022 dated 2nd September, 2022, as applicable

iii. Disclosures received from the Directors under Sections 184, 164, and other relevant provisions of the Companies Act, 2013, as amended from time to time;

iv. Any other details that the Committee might feel appropriate.

Additionally, in case of Independent Directors:

v. The independence of such Directors shall be assessed as per the criteria of Independence as specified under the Companies Act, 2013 and any other applicable regulation/law, as may be applicable from time to time.

vi. An Independent Director may be appointed for a term of up to five consecutive years on the Board and shall be eligible for re-appointment for the second term on passing of a special resolution by the Company. No Independent Director shall hold office for more than two consecutive terms, beyond a period of 10 years. After completion of 10 years such independent director shall be eligible for re-appointment only after a cooling-off period of at least three years.

**2) Remuneration for Independent Directors ("ID") & Non-Independent Non-executive Directors ("NED")**

The NRC shall *inter alia* be guided by below provisions in determining the remuneration/fee to be paid to non-executive Directors on the Board:

i. Independent Directors and Non-independent Non-executive Directors may be paidsitting fees for attending the meetings of the Board and of Committees, within regulatory limits.

ii. Within the parameters prescribed by law, the payment of sitting fees will be recommended by the Nomination & Remuneration Committee (NRC) and approved by the Board.

iii. Quantum of sitting fees may be subject to review on a periodic basis, as required.

iv. Subject to compliance with the provisions of the Companies Act, 2013, and subject to addressal of any conflict of interest situation in this regard, and if so expressly approved by the Board of Directors, the non-executive Directors on the Board may be paid remuneration not exceeding such amount as may be prescribed under the IRDAI Remuneration Guidelines or such other laws, as may be applicable from time to time.

v. In addition to the sitting fees and remuneration as specified above, the Company may pay/reimburse to any director, and if so expressly approved by the Board of Directors, such fair and reasonable expenditure, as may have been incurred by the director while performing his/ her role as a director of the Company, such as travel and other expenditure incurred by the director for participating in Board/ Board committee meetings, general meetings, meetings with shareholders/ 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.

vi. Any payment made to any non-executive director towards any professional services availed from them, shall be post obtaining approval of the NRC and the Board.

vii. The Non-Executive Directors shall not be eligible for any equity-linked benefits.

**3) Appointment Procedure for KMPs**

i. Appointment of all KMPs shall be made by the Board of Directors, on recommendation of the Nomination & Remuneration Committee of the Board, post review of KMP-1 forms in line with the requirements under IRDAI CG Guidelines.

ii. Additionally, in case of appointment of Appointed Actuary, the Company shall ensure compliance with IRDAI (Appointed Actuary) Regulations, 2022. The appointment of an Appointed Actuary shall be subject to approval of IRDAI.

iii. In case of appointment of the Chief Financial Officer or Company Secretary, provisions of the Companies Act shall also be applicable and in case of appointment of the MD & CEO, the provisions of the Companies Act as well as the Insurance Act shall be applicable.

**4) Compensation guidelines for Key Managerial Persons including Managing Director & Chief Executive Officer ("MD"& CEO")**

a) The key principles guiding the design of the Compensation program for the KMPs would be as below:

- Compensation program to be structured in a way so as to attract, retain, reward and motivate talent which is critical to build a competitive advantage
- Total Compensation is market competitive (market is defined as companies from which the Company attracts talent or companies to which the Company loses talent)
- Reflective of PNB MetLife's size, complexity of the sector / its operations and its capacity to pay,
- Variable Pay is linked to the Company's goals and objectives and individual performance with an upside or downside based on level of performance
- Variable Pay must not encourage excessive risk and should be based in part on the long-term performance outcomes of risks taken
- Aligned to any regulatory requirements and PNB MetLife's compensation philosophy and principles.

b) This policy will cover all aspects of the compensation structure, i.e. Fixed Pay, Perquisites, Retiral Benefits, Variable Pay including Bonus and Long Term Incentives (Cash/Stock based) and Joining/Sign-on bonus

c) For the purpose of risk adjustment, a wide variety of measures of credit, market and liquidity risks will be used, which will preferably have both quantitative and qualitative aspects. Following parameters will be considered for determination of performance assessment of KMPs for the purposes of Variable Pay payout:

- Overall financial soundness such as Net-worth position, Solvency, growth in AUM, Net Profit, etc.;
- Compliance with Expenses of Management Regulations;
- Claim efficiency in terms of settlement and outstanding;
- Improvement in Grievance Redressal status;
- Reduction in Unclaimed amount of Policyholders;
- Persistency – $37^{th}$ to $61^{st}$ month
- Overall Compliance Status with respect to all applicable laws

The above minimum parameters shall constitute at least 60% of the total weightage for the performance assessment of the MD & CEO and at least 30% for other KMPs individually. For the MD & CEO, other key additional parameters would be defined and agreed with the NRC and Board. For other KMPs, the said additional parameters would be based on the Company's priorities and objectives for the financial year, and as approved by the MD & CEO.

**5) Compensation Structure**

i. The Compensation structure for KMPs will be determined by the Nomination & Remuneration Committee who will ensure that:
   - ✓ Compensation is adjusted for all types of prudent risk taking
   - ✓ Compensation outcomes are symmetric with risk outcomes
   - ✓ Compensation outcomes are sensitive to the time horizon of the risk; and
   - ✓ Mix of cash, equity and other forms of compensation will be consistent with risk alignment

ii. The total compensation structure for the KMPs shall be as per their employment contract or pursuant to any change as part of the annual compensation review process which is duly approved by the NRC and then Board. Any corresponding change in the regulatory provisions relating to the remuneration or compensation of KMPs shall become applicable as on the date on which such change is mandated to become effective by such regulatory provisions, without requiring any immediate change in this Policy.

The Total Compensation shall broadly comprise of the following components:

- Fixed Salary / Pay
- Variable Pay

iii. Fixed Salary / Pay is provided to ensure that there is a steady income for the incumbent taking into account all relevant factors including industry practice. For determining the Fixed pay, the Company will take into consideration the following parameters:

   - ✓ Role complexity and size
   - ✓ Market competitiveness of pay as Company to Industry peers
   - ✓ Vintage and experience of the incumbent
   - ✓ Company's performance and growth

   The Fixed Salary / Pay would typically consist of components like Basic Salary, House Rent Allowance (HRA), Other Allowances and Retiral benefits (Provident Fund & Gratuity)

iv. In addition to the fixed salary, the Company would provide to the KMPs with certain perquisites, allowances and benefits to enable and sustain a certain level of lifestyle and to offer scope for savings and tax optimization, where possible. The perquisites and benefits provided to all KMPs include but not limited to:

   - ✓ Medical and hospitalization expenses through insurance
   - ✓ Accidental death and dismemberment cover through personal accidentinsurance
   - ✓ Life cover through term insurance
   - ✓ Club Membership
   - ✓ Reimbursement of monthly expenses towards mobile
   - ✓ Car with Driver– (only for CEO & MD)
   - ✓ Maintenance & Fuel for Car (Only for CEO & MD)
   - ✓ Car under leasing scheme (for KMPs other than CEO & MD)
   - ✓ Car Maintenance, fuel and driver expense reimbursement (for KMPs other than CEO & MD)

v. The Company will also provide retiral benefits and leave encashment as applicable to all employees, including the KMPs as per law.

vi. While designing the remuneration arrangements, it would be ensured that there is a proper balance between fixed pay and variable pay.

6) **Variable Pay Composition, Claw back, Deferral, Guaranteed Bonus and SeverancePay**

i. In addition to the basic/ fixed salary, benefits, perquisites and allowances as provided above, the Company will provide the KMPs with **Variable pay**, as may be determined by the NRC and the Board, subject to the overall ceilings / guidelines stipulated under the IRDAI Remuneration Guidelines, the provisions of the Companies Act and the Insurance Act as may be applicable.

ii. **Total Variable Pay** (TVP)- Variable pay would be in the form of share linked instrument or a mix of cash and share linked instrument. Share linked instrument would be fair valued on the date of grant by a certified Merchant Banker. Cash would include Annual Performance Bonus or any other deferred cash plan approved by the NRC and Board, from time to time.

iii. The TVP payable / granted to the KMPs would be based on a combination of Company performance and individual performance and as evaluated and approved by the Board and the Nomination and Remuneration Committee ("NRC"). The performance parameters of the Company for determining the variable pay as mentioned above, will be evaluated and approved by the Board and the NRC at the beginning of the financial year

iv. The overall performance of PNB MetLife against the KRAs approved at the beginning of the financial year would be considered by the NRC/ Board while deciding on the total amount of variable remuneration to be paid to KMPs. Any such variable pay will be paid only once during a particular year. For MD & CEO, the variable pay would be paid subject to approval from IRDAI.

v. The total variable pay shall be at least 50% of the fixed pay and shall be limited to 300% of the Fixed Pay. The variable pay could be lower than 50% of the Fixed Pay in a situation where there is any deterioration in the performance of the Company which compels the NRC and Board to not approve any variable pay to KMPs or approve a lower payout. In case the total variable pay is up to 200% of the Fixed Pay, a minimum 50% of such Variable Pay will be through a non-cash instrument or any other mode as allowed by regulatory provisions from time to time, and in case the TVP is above 200%, then a minimum of 70% of such variable pay will be through non cash instrument or any other mode as allowed by regulatory provisions from time to time.

vi. **Deferral** - A minimum of 50% of the total Variable Pay will be under deferral arrangement and will vest equally over a period of 3 years in the ratio of 33:33:34. In case the TVP variable is less than or equal to INR Twenty Five lakh in a particular year, such variable pay will not be applicable for any deferral and would be paid in full, subject to necessary approvals. The deferred part of the variable pay will not vest before one year from the commencement of the deferral period and would be no faster than on a prorate basis.

vii. **Malus -** A Malus provision would be applicable for the Total Variable pay which would entail cancellation of payout / vesting for the deferred portion of such variable pay. A Malus arrangement permits the Company to prevent vesting of all or part of the amount of a deferred variable pay. Malus provision does not reverse vesting / payout after it has already occurred.

viii. **Clawback**: The provision of Claw-back would entail return of payout of variable pay (whether cash or stock settled instrument) made in the previous year attributable to a given reference year wherein the incidence has occurred. A Claw-back is a contractual agreement between the Company and the employee in which the employee agrees to return previously paid or vested variable pay to the Company under certain circumstances.

The Malus and Claw-back clause will be actioned when the employee's behavior involving fraudulent behavior, moral turpitude, lack of integrity, breach of the Company's policies, poor compliance in terms of corporate governance and regulatory matters results in financial and/or reputational loss for the Company. Manifestation of behavior listed above is presumed to have a *malafide* intent.

Illustrative list of conditions are given below. The occurrence of any/some/all of the following conditions/events shall trigger a review by the Nomination & Remuneration Committee for the application of the Malus or Claw-back arrangements:

a) Reckless, negligent or willful actions or exhibiting inappropriate values and behavior
b) Failing to appropriately supervise, leading to Fraud or integrity breach that requires a financial restatement or causes material loss or reputational harm to the Company
c) Such other conditions or events e.g. exposing the company to substantial risk, of similar nature as above, as determined by NRC for triggering review by NRC for application of the Malus or Claw-back arrangement

In determining the causes for deterioration in financial performance, the Nomination & Remuneration Committee may take into consideration and have due regard to the fact whether the negative trend was for factors within control or whether it was on account of conditions like global market changes, overall industry performance, changes in legal/regulatory regime, force majeure events like natural disasters, pandemic, other socio-economic conditions etc.

Further, while undertaking the review for the concerned person for the application of the malus or claw-back arrangement based on any trigger events, and when determining accountability of the concerned person, the NRC shall be guided by the principles of proportionality, culpability, or proximity or nexus to the event or misconduct. Prior to taking action, the Management and the NRC shall ensure due regard to the Principles of Natural Justice.

Bonafide error/s of judgement where there is no misconduct, willful or intentional breach by act / omission or gross negligence or lack of integrity, may not be treated as breaches under this Policy.

The NRC may decide to apply malus on part or all of the unvested deferred variable amount. The time horizon for the application of malus / clawback clause shall be 3 years from date of grant.

The process for recoveries and domestic enquiry may be followed to the possible extent for the enforcement of Claw back and Malus.

ix. **Guaranteed Bonus:** The Company may provide joining / sign on bonus to any new KMP being hired and such bonus would be limited to the first year of joining. This bonus will neither form part of Fixed Pay or Variable Pay.

x. **Severance Pay** - The Company will not pay any Severance Pay to KMPs other than accrued benefits (gratuity, pension, etc.) except in cases where it is mandatory by any statute. It is clarified that severance pay does not include Notice Period pay.

**7) Manner of appointment and reporting for MD & CEO**

Apart from the criteria for appointment mentioned in clause 1) above, below provisions shall be applicable in case of appointment/remuneration of the MD & CEO:

i. The MD & CEO shall hold an independent seat on the Board and shall not be a nominee of any shareholder.
ii. He/ she shall report to the Board of Directors.
iii. The MD & CEO shall not hold office for a continuous period of more than 15 years. He/She shall be eligible for re-appointment as MD & CEO or Whole Time Director post a cooling off period of 1 year.
iv. No person shall continue as MD & CEO or WTD with an insurer beyond the age of 70 years. The Board may at its discretion specify a lower retirement age for WTDs and MD & CEO from time to time and the same would also be a part of the Retirement Policy of the company.
v. The appointment and remuneration to be paid to the MD & CEO shall be decided by the Board on the recommendation of the NRC, and shall be approved by the Shareholders as well as by the IRDAI. Any payment of remuneration to MD & CEO shall be subject to prior approvalof the IRDAI.

**8) Reporting Requirements**

The Company shall in its Annual Report, make all necessary disclosures in terms of the remuneration process and this Policy, as may be required under the applicable IRDAI Remuneration Guidelines and the Companies Act, 2013.

**9) Accounting and renewal of remuneration**

i. No revision in remuneration shall be permitted till the expiry of one year from the date of earlier approval by IRDAI, save whereas, revision is made to align the remuneration to annual increment cycle of the Company. The Company follows an annual increment process in April for all employees (including all the KMPs).

ii. In case the annual remuneration of the MD/ CEO/ WTDs and other KMPs individually exceeds Rs.4 Crore (including all perquisites plus bonuses etc., by whatsoever names), such excess shall be borne from the Shareholders ' account.

iii. No remuneration shall be paid to MD/CEO/WTDs by any of the promoter / investor or by the group companies of the promoters'/ investors' companies.

**9. Policy Review**

Policy review: The Policy shall be reviewed every year by the Nomination & Remuneration Committee and the Board.