

# Compensation Policy

2023-03-27

Confidential

Legal and Compliance, Alka Mishra

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## I. Orientation

This is the first issue of this Policy. The objective of this Policy is to lay down clear guidelines on fixing the compensation of Key Managerial Personnel (“KMPs”) and members of Senior Management of the Company thereby minimizing and/or nullifying the issues arising out of excessive risk taking caused by misaligned compensation packages. This Directive should be read in conjunction with the Global Total Compensation Policy.

## II. Purpose

This document shall serve as a guideline for streamlining the compensation packages and bringing a balance between the fixed & variable pay structures by creating a Policy that promotes efficiency and enforces more accountability in the decision-making of the KMPs and Senior Management as their accountability increases proportionally with higher risk-taking.

## III. Definitions

- i. **Board** means the Board of Directors of Volvo Financial Services India (VFSIN)
- ii. **Chief Financial Officer (“CFO”)** means a person appointed as the CFO of the Company. If VFSIN does not have a CFO, any references “CFO” for the limited purposes of this Policy, shall be read as Head – Finance of the Company
- iii. **Clawback Arrangement** means a contractual agreement between the employee and the Company wherein the employee agrees to return previously paid or vested compensation to the Company under certain circumstances as decided by the Board.
- iv. **Company Secretary (“CS”)** means the Company Secretary of the Company appointed by the Board.
- v. **Key Managerial Personnel (“KMP”) means**
  - (a) Chief Executive Officer (“CEO”) or the Managing Director (“MD”) or the Manager;
  - (b) Company Secretary (“CS”);
  - (c) the Whole-Time Director (“WTD”);
  - (d) the Chief Financial Officer (“CFO”);
  - (e) 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
  - (f) such other \*officer as may be prescribed

\*Officer includes any Director, Manager or Key Managerial Personnel or any person in accordance with whose directions or instructions the Board of Directors or any one or more of the Directors is or are accustomed to act
- vi. **Managing Director (“MD”)** means a director who, is a director occupying the position of managing director, and appointed by the Board as such. Since VFSIN does not

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have any CEO, any references “CEO” shall be read as Managing Director in case on VFSIN.

- vii. **Malus Arrangement** permits the Company under certain circumstances as decided by the Board to prevent the payment of all or part of deferred compensation. Malus arrangement does not reverse vesting after it has already occurred.
- viii. **RBI Circular:** Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs issued by Reserve Bank of India vide Circular RBI/2022-23/36 DOR.GOV.REC.No.29/18.10.002/2022-23 on April 29, 2022. The notification provides a framework for formulating a compensation policy. This has been released in furtherance of para 3.2.3 (h) of Circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22nd 2021 dealing with the framework for Scale Based Regulation for Non-Banking Financial Companies (“NBFCs”).
- ix. **Related Party with reference to a Company:**
- A Director or his Relative [or]
  - Key Managerial Personnel (KMP) or his Relative [or]
  - A firm in which a Director / Manager or his Relative is a Partner [or]
  - A Private Company in which a Director / Manager is a Member or Director [or]
  - A Public Company in which a Director/ Manager is a Director and holds along with his Relatives, more than 2% of its paid-up share capital [or]
  - Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with the advice, directions or instructions of a Director or Manager [or]
  - Any person on whose advice, directions or instruction (except given in professional capacity) a Director or Manager is accustomed to act [or]
  - A holding/subsidiary or an associate company of such Company [or]
  - A subsidiary of a holding company to which it is also a subsidiary [or]
  - An investing company or the venture of the company
- x. **Relative with reference to any person, means anyone who is related to another, if:**
- they are members of a Hindu Undivided Family;
  - they are husband and wife; or
  - one person is related to the other in following manner:
    - Father (includes step-father);
    - Mother (includes step-mother);
    - Son (includes step-son);
    - Son’s wife;
    - Daughter;
    - Daughter’s husband;
    - Brother (includes step-brother) and
    - Sister (includes step sister)

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- xi. **VFSIN EMT or Senior Management** means personnel of the company who are members of its core management team excluding Board of Directors comprising all members of VFSIN Executive Management Team one level below the Managing Director including the functional heads.
- xii. **Volvo Group or Volvo:** All companies where AB Volvo directly or indirectly holds the majority ownership or is in managerial control.
- xiii. **VFSIN or Company:** Volvo Financial Services (India) Private Limited

## IV. Scope and field of application

This Guideline applies to the compensation and other terms of employment of KMPs and Senior Management of VFSIN and it doesn't substitute the Global Total Compensation Policy.

## V. Principles for Compensation

The compensation structure shall consist of fixed and variable salary components and may also be a mix of cash, equity, if any or other forms in line with projected risk factors and also at par with the industrial standards. The compensation structure shall be devised in a manner that will help the Company to recruit and retain qualified personnel to run the Company efficiently with a long-term perspective. The reasonability of the structure depends on a case-to-case basis, factoring in the role played and the risk factors involved. To this end, it is necessary that the Company offers competitive compensation. The Board and the Nomination & Remuneration Committee shall continuously review the compensation packages to align it with the overall business performance and strategy of the company.






**Salary composition includes fixed/guaranteed and variable pay components:**

- i. **Base Salary:** It is a fixed amount of money paid by the Company in return for work performed. It does not include benefits, bonuses or any other potential compensation.
- ii. **Benefits:** Remuneration elements other than total cash. It may include but are not limited to pension (mandatory and supplemental), company car, insurance, medical and health, services, domestic services, housing funds, housing loans, meal allowance, relocation, vacation, additional holidays, leave of absence, tuition reimbursement, discounts, etc.
- iii. **Bonus:** An after-the-fact reward or payment (may be either discretionary or non-discretionary) based on the performance of an individual, a group of workers operating as a unit, a division or business unit, or an entire workforce.

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- iv. **Competence:** An observable and measurable set of skills, knowledge, experiences, capabilities, networks, motivation, values and behaviors that enable individuals to perform successfully in their jobs.
- v. **Strategic competencies:** Crucial for reaching strategic objectives. They have a high impact on the value chain and are difficult to replace.
- vi. **Critical competencies:** The competencies needed to deliver any business result. Meaning that critical competence can be any mix of strategic, specialist, flexible and core competences.
- vii. **Demotion:** Clearly defined step down in the hierarchy, typically at least 1 salary grade lower in salary structure.
- viii. **Grandparent's Principle:** Escalation path that is required for approval, i.e. manager's signature and manager's manager's signature (one-over-one).
- ix. **Position evaluation:** A systematic and formal process used to create a ranking of positions within an organization, also called position evaluation.
- x. **Market:** The defined benchmark (salary level/rate) for certain jobs, levels, categories in a specific country, branch, area or region. Typically, the recruiting source for a specific category.
- xi. **Salary review:** The process of evaluating an employee's previous years' performance in order to assign a pay increase. This includes merit and any mandatory increases given according to collective agreement/law, etc.
- xii. **Methodology and Guidelines:** The instructions on how to establish and maintain salary structures, which includes items such as job evaluation system, various methods for building a salary structure, internal and external benchmarking, regular maintenance of structures, etc.
- xiii. **Parameters:** The criteria and measurements by which the result of the STI is measured.
- xiv. **Pensionable Salary:** It is the gross salary used as a base to define and calculate contributions to the local pension plan.
- xv. **Performance Evaluation:** The process of evaluating an employee's previous years' performance and development in order to determine the performance rating and set future goals. The ratings include the following:
  - 🏆 exceptional

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-  high
  -  good
  -  adequate
  -  low
  -  too new to rate (also available if the person has been in the job only a short time).
- Local tools and guidelines for merit review will be based on this scale as well.

- xvi. **Promotion:** Clearly defined step in the hierarchy, typically at least 1 step up in the salary structure.
- xvii. **Remuneration:** Money paid for work or service (remunerate: pay for services rendered or work done).
- xviii. **Total Reward:** The total value proposition offered to an employee, including compensation and benefits, as well as career opportunities, personal development, competence development, company culture and values, leadership, health and well-being.
- xix. **Opportunity Level:** The maximum of STI, defined as a % of the Base Salary.
- xx. **Target Level and Maximum:** In some countries, the STI is set on two levels, one target level for achieving set results and a capped maximum if the defined objective and result levels are exceeded.
- xxi. **Total Compensation:** Defined as base pay + any guaranteed fixed pay + any variable pay (STI). Pension and/or other benefits are not included.
- xxii. **Wage Drift / Out of pay cycle:** Part of salary increases during a year and which are outside the regular salary and performance reviews. This would typically include promotions, increases due to re-organizations, individual increases due to retention, etc.

## VI. Control and assurance function personnel

KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the company. Accordingly, they may have higher proportion of fixed compensation. However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

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## VII. Performance Evaluation

The performance evaluation is part of the dialogue between an employee and his/her manager. The individual's performance evaluation influences his/her salary. The resulting performance evaluation and salary revision shall be approved by the line manager and/or the next managerial level in accordance with the one-over-one (grandparent) principle. The performance evaluation should be based on the following principles:

- The performance evaluation is made in relation to the job's complexity. This means that the required level of competence and performance is higher for more complex jobs compared with less complex jobs.
- The performance evaluation should be based on the work results (both qualitative and quantitative) achieved by the employee against the Key Performance Indicators and should take into consideration how the results were achieved. It should also consider the potential the employee has demonstrated to take on greater responsibility.
- The differentiation of salaries shall be based on each employee's performance in relation to their job complexity and their salary in relation to the established internal structure. This can be described as follows:
  - i. Low salary (compared with similar jobs and job complexity) in combination with high performance and results should yield a higher increase (in %)
  - ii. High salary (compared with similar jobs and job complexity) in combination with low performance should yield a very low or no increase.

The company sets clear, measurable targets and everyone should be rewarded for the contribution they make towards the achievement of individual, team or Group-wide goals. In addition to the annual performance evaluation, the Volvo Group also evaluates the consistency of an employee's long-term performance. The employee's base pay is determined by these evaluations, with reference to the salary range of his/her position. This process should result in the employee's base pay over time gravitating to the position in the relevant salary range that reflects his/her overall consistent performance. Variable pay also increases employee commitment in the Volvo Group and the respective TD/BA/SSF. It is important to maintain a sound balance between business performance and compensation cost on one side, and market pay requirements and individual performance on the other.

## VIII. Dual Hatting

KMP shall not hold any office (including directorships) in any other \*NBFC-Middle Layer or \*NBFC-Upper Layer except for directorship in a subsidiary. An Independent Director shall not be on the Board of more than three NBFCs (NBFC-Middle Layer or NBFC-Upper Layer) and Board of the Company shall also ensure that there is no conflict arising out of their independent directors being on the board of another NBFCs at the same time. A timeline of



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two years is provided with effect from October 01, 2022 to ensure compliance with this norm. However, it is clarified that they can assume directorship in \*NBFC-Base Layer.

Further, the whole time KMP shall not hold office in more than one company except in its subsidiary company at the same time. However, KMP can act as a director of any company with the permission of the Board. If the office of any whole-time KMP is vacated, the resulting vacancy shall be filled-up by the Board at a duly convened meeting within a period of six months from the date of such vacancy.

*\*NBFC-BL/ML/UL as defined in [Scale Based Regulation \(SBR\)](#) issued by RBI on October 22, 2021 as amended from time to time.*

## IX. Malus/Clawback

The incentive compensation may be subject to malus/clawback arrangements in the event of subdued or negative financial performance of the company and/or the relevant line of business or employee misconduct in any year. KMPs and Senior Management participating in the short-term and long-term incentive plans are obligated, in certain circumstances and for specified periods of time, to repay, partially or in its entirety, variable incentive awards already paid if payments have been made by mistake or been based on intentionally falsified data or in the event of material restatement of the Company's financial results.

## X. Restrictions on Loans

Company is restricted in respect of the following:

- Granting loans and advances to directors, their relatives and to entities where directors or their relatives have major shareholding.
- Granting loans and advances to Senior Management of the Company.
- While appraising loan proposals involving real estate, Company shall ensure that the borrowers have obtained prior permission from government / local governments / other statutory authorities for the project, wherever required. To ensure that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements shall be made only after the borrower has obtained requisite clearances from the government authorities.

KMPs & Senior Management will be responsible for providing a declaration in the format as per [Annexure I](#) containing the following information to the Company on an annual basis before April 30<sup>th</sup> of every year. They will also be equally responsible to update the Company of any changes in the aforementioned relationships/directorships/holdings/interests immediately on him/her becoming aware of such changes.

- Names of his/her Relatives;
- Partnership firms in which he/she or his/her Relative is a partner;

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- Private Companies in which he/she is a member or Director;
- Public Companies in which he/she is a Director and holds along with his/her Relatives more than 2% of paid up share capital;
- Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with his/her advice, directions or instructions; and
- Persons on whose advice, directions or instructions, he/she is accustomed to act (other than advice, directions or instructions obtained from a person in professional capacity)

## **XI. Derogations and Deviations**

The Board of Directors may temporarily resolve to derogate from the Policy, if in a specific case there is special cause for the derogation and such derogation is fully in compliance with the RBI Notification as amended from time to time and equally are in the best interests of the Company. Such derogation shall be resorted after, taking into account the overall purpose of these guidelines and alignment with the general policies and practices within the Volvo Group.

## **XII. Termination of Employment**

Upon termination, the notice period may not exceed three months. Base salary during the notice period and severance pay may not together exceed an amount corresponding to the base salary for 01 year.

## **XIII. Applicability of Law/Notifications**

Change in underlying Laws and/or Notifications may supersede the provisions of this policy. At any time if there is any amendment to the applicable Laws and/or Notifications affecting the provisions of this policy, the policy shall be deemed as amended to the extent applicable and the amended provisions will take effect from the date of change in the underlying Laws and/or Notifications. The provisions of this policy may also be amended voluntarily by the board at any time subject to the recommendations of the Nomination & Remuneration Committee.

## **XIV. Periodic Review**

In order to ensure that the document is up-to-date, this Policy shall undergo periodic review. The frequency of the reviews shall be at least once every financial year or earlier upon any relevant change in the legislation. Any changes in this Policy shall be approved by the Board and become effective from the date on which it is approved by the Board.

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## XV. Scope Limitation

In the event of any conflict between the provisions of the Global Compensation Policy and this Policy, the provisions of Global Compensation Policy shall prevail. However, any conflict between this policy and any statutory enactments, the provisions of such statutory enactments shall prevail over this Policy.

## XVI. Supporting documents

- [RBI Circular – Compensation Guidelines](#)
- [RBI Circular – Scale Based Regulation](#)
- [Volvo Group Remuneration Policy](#)
- [Global Total Compensation Policy](#)

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## XVII. Annexure 1

### Disclosure of information required from Directors as per the Companies Act, 2013

#### 1. List of Relatives

S. No.	Relationship	Name of Relative
1.	Members of a Hindu undivided family	
2.	Spouse	
3.	Father (including step-father)	
4.	Mother (including step-mother)	
5.	Son (including step-son)	
6.	Son's wife	
7.	Daughter	
8.	Daughter's husband	
9.	Brother (including step-brother)	
10.	Sister (including step-sister)	

#### 2. Firm in which you or your relative is a partner

S. No.	Name of the Firm	Interest of self/Relative

#### 3. LLP/HUF in which you are a partner/Karta

S. No.	Name of the LLP/HUF	Nature of Interest

#### 4. Trust/Society in which you are a member

S. No.	Name of the Trust/Society	Nature of Interest

#### 5. Private company in which you are a director or member

S. No.	Name of the Company	Whether Director or Member	No of Shares held	% of shareholding held

#### 6. Private company in which your relative is a director or member

S. No.	Name of the Company	Whether Director or member	Name and relation with relative	No. of Shares held	% of shareholding held

**V O L V O**

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**7. Public company in which you are a Director**

S. No.	Name of the Company	Designation (Chairman/Managing Director/Whole-time Director/Independent Director/Director)

**8. Public company in which you are a Director and you along with your relatives, holds more than 2% of its paid-up share capital**

S. No.	Name of the Company	If Member then number of shares along with % shareholding			
		Self	Relative	Total	% of total Shareholding

**9. Body Corporate whose Board of directors, managing director or manager is accustomed to act in accordance with your advice, directions or instructions**

S. No.	Name of the Body Corporate	Country of Incorporation

**10. Any person on whose advice, directions or instructions, you are accustomed to act**

S. No.	Name of the Person	Rationale	Country of Residence / Incorporation

**11. Body Corporate in which you hold more than two per cent of its paid-up share capital**

S. No.	Name of the Body Corporate	Country of Incorporation	No. of Shares held	% of shareholding held

**12. Body Corporate in which you along with another Director of a Company hold more than two per cent of its paid-up share capital**

S. No.	Name of the Body Corporate	Country of Incorporation	No. of Shares held	% of shareholding held

**13. Member of the Committees of the Board**

S. No.	Name of Company	Name of Committee	Designation (Chairman/Member)

**Note:** The term "Body Corporate" here also includes a company incorporated outside India.