



POLICY ON REMUNERATION

Version 1

Document Information

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Preamble

Generally, a policy is a statement of intent and it is implemented as a procedure. Hence this policy includes the procedure on how to carry out the given intent. This policy reflects the management philosophy of SDF in managing its most important resource – human resources.

This policy attempts to cover following HR practices:

- Remuneration administration
- Employee welfare

1. Objective

- 1.1 The Remuneration Policy of Sarvodaya Development Finance PLC aims to establish a formal and transparent procedure for determining salaries and wages, allowances, incentives and other financial benefits as well as non-financial benefits to the Members of the Board of Directors, the CEO, the Key Responsible Persons and all other employees of the company.
- 1.2 The Policy aims for good corporate governance as well as sustained and long term value creation for shareholders and ensure that the company's overall remuneration policy and practices are linked to the short term and long term strategic direction of the company. It aims to attract, motivate and retain qualified and competent persons (Key Responsible Persons as well as employees at all levels) to achieve its strategic and operational objectives.

2. The Remuneration Committee

- 2.1 The Remuneration Committee of the Board has been established with the objective of assisting the Board of Directors in fulfilling their role and responsibilities involving human resources development and remuneration of the Directors, Key Responsible Persons and all other employees of the company.
- 2.2 The Remuneration Policy is a framework for the Board to carry out its' responsibilities in accordance with the guidelines and directions provided in the Finance Companies (Corporate Governance) Directions No: 3 of 2008.

3. Amendment to and deviations from this policy

- 3.1 Amendments to the policy shall be subject to the recommendation of the Remuneration Committee and approval of the Board.
- 3.2 The Board of Directors may deviate from this Policy if there are specific reasons to do so in an individual case subject to the concurrence of the Remuneration Committee.

4. Remuneration of the Board of Directors

4.1 Board of Directors

The Board Remuneration Committee recommends and/or decides the remuneration, fees, allowances, benefits and perquisites to be offered to the Chairman and other Non-executive Directors and also submits its recommendations for revisions, amendments and adjustments to the remuneration, fees, allowances and benefits from time to time for the approval of the Board.

4.2 Special payments and/ or benefits to Directors

Special payments and / or benefits (if any) to any Non-executive Director(s) upon their retirement shall be determined and recommended by the Board Remuneration Committee to the Board of Directors.

5. Remuneration of the KRPs, Management and other Staff members

5.1 Key Responsible Persons (KRPs)

The remuneration, perquisites and benefits applicable to the Key Responsible Persons (KRP's) are aligned with the actual performance and market compensation levels.

5.1.1 The remuneration, allowances, perquisites and benefits to CEO including performance based bonus if any, shall be exclusively determined by the Board Remuneration Committee subject to the approval of the Board of Directors.

5.1.2 In the case of KRP's serving at present, the remuneration is offered negotiated and/or recommended by the CEO and submitted to the Remuneration Committee for review and approval of the Board of Directors.

5.1.3 In the case of new recruitment to KRP Positions, the remuneration shall be negotiated by the CEO and reviewed and recommended to the Board of Directors by the Remuneration Committee.

5.2 Senior Management Personnel (Other than KRP's)

5.2.1 The remuneration offered to current Management staff shall be reviewed and recommended based on performance by the respective Head of Department and /or CEO.

5.2.2 In case of new recruits to the Management positions, the remuneration offered to shall be negotiated and recommended by the CEO.

5.3 Managers, Executive and other staff

The Management shall refer policy matters pertaining to remuneration of these staff segments to the Remuneration Committee for approval.

All Per-diem and other travel related allowances are paid as per the company policy and must be approved ahead by the Board Remuneration Committee.

6. Remuneration Structure

6.1 Remuneration of staff members inclusive of the Key Responsible Persons comprises Cash and Non-cash benefits as follows:

i. Guaranteed Pay (basic salary plus regular monthly allowances),

ii. Performance based incentives

iii. Reimbursements of expenses incurred and

iv. All Per-diem and other travel related allowances are paid as per the company policy and must be approved ahead by the Board Remuneration Committee.

6.2 Other fringe benefits which are described below.

a) Fringe Benefits

i) Personal

Telephone Bills Reimbursement and Fuel Bills Reimbursement

ii) Official

Reimbursement of Official Entertainment expenses, Reimbursement of official traveling expenses, Reimbursement of Subsistence and Lodging expenses

iii) Annual Professional Membership Fees

For members of the Corporate Management, reimbursement of annual membership fees of one professional institute.

b) Other Fringe Benefits

i) Social Security Benefits/ Superannuation

All staff in the regular cadre and on contract basis are entitled for Social Security benefits (EPF/ETF & Gratuity) as approved by the relevant statutes. (Consultants and Special Assignments are excluded).

7. Salary Revisions and Increments

7.1 The Company shall evaluate the performance of the staff members based on the Annual Performance Appraisals and decide to grant or not to grant annual increments based on the level of performances of individual staff. However, the annual review of performance may not necessarily result in an increase in remuneration to the staff members.

7.2 The Company shall conduct Industry Salary Surveys or Study External Remuneration Surveys and make recommendations to the Board of Directors through the Remuneration Committee on overall salary reviews/adjustments of the company staff in every 2 to 3 years in line with industry practice.

7.3 Head of HR is responsible to carry out such a survey and report to the Remuneration Committee via CEO.

8. Special remuneration arrangements

- 8.1 A performance based Annual Bonus linked to overall performance of the Company (PAT) during the Financial year with the approval of the Remuneration Committee.
- 8.2 A medical Insurance Scheme.

Staff Loan scheme under concessionary interest rates will be implemented upon RPTRC recommendation and the approval of the Board.

9. Payments

- 9.1 Payment of the 'Guaranteed Pay' (basic salary and regular monthly allowances), will be made on 25th of every month
- 9.2 Payment of performance based incentives will be made on 05th of every month.
- 9.3 Payment of reimbursements of expenses incurred will be made on 10th and 20th of every month.
- 9.4 Payment of all types of fringe benefits will be made as determined in the specific scheme.

10. Deductions

- 10.1 All statutory and other regulatory deductions will be made as per the provisions in respective statute and/or regulations prior to making the payment for the respective staff.
- 10.2 Any other deductions will be made based on the provisions of the relevant scheme and with the consent of the respective staff member.

11. Board Remuneration Committee

In accordance with the regulatory requirements, SDF shall form a Remuneration Committee.

According to the Finance Business Act Directions No. 5 of 2021, the responsibilities of the Remuneration committee are as follows.

- The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.
- The secretary to the human resource and remuneration committee may preferably be the company secretary.
- The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors.
- There shall be a formal and transparent procedure in developing the remuneration policy.

- The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. The policy shall be subject to periodic review of the Board, including when material changes are made.
- The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.
- The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.

According to the section 9.12 of the Listing Rules, the functions of the committee are as follows.

Composition of the Committee

1. The members of the Remuneration Committee shall;
 - (a) comprise of a minimum of three (03) Directors of the Listed Entity, out of which a minimum of two (02) members shall be Independent Directors of the Listed Entity.
 - (b) not comprise of Executive Directors of the Listed Entity.
2. In a situation where both the parent company and the subsidiary are ‘Listed Entities’, the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary.
3. An Independent Director shall be appointed as the Chairperson of the Remuneration Committee by the Board of Directors.

Functions

The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and CEO of the Listed Entity and/or equivalent position thereof to the Board of the Listed Entity which will make the final determination upon consideration of such recommendations.

The Remuneration Committee may engage any external consultant or expertise that may be considered necessary to ascertain or assess the relevance of the remuneration levels applicable to Directors and CEO.

Remuneration Committee shall have a written terms of reference clearly defining its scope, authority, duties and matters pertaining to the quorum of meetings.

Disclosure in Annual Report

The Annual Report should set out the following:

- (a) Names of the Chairperson and members of the Remuneration Committee and the nature of directorships held by such members (or persons in the parent company's Remuneration Committee in the case of a group company);
- (b) A statement regarding the remuneration policy; and,
- (c) The aggregate remuneration of the Executive and Non-Executive Directors.

12. Exceptions

Any other payments/remuneration/rewards which are not set out in the approved employment contracts or not set out in the Remuneration Policy must be reviewed by the Remuneration Committee and approved by the Board of Directors, before being agreed upon with the relevant party.