NOMINATION AND REMUNERATION POLICY

Human Resources

Svatantra Microfin Limited

Document Metadata

Document Reference

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1. BACKGROUND:

The Nomination and Remuneration Policy of Svatantra Microfin Limited ("the Company") has been prepared keeping in view the regulatory guidelines and rules as applicable.

The Nomination and Remuneration Committee and this Policy shall be in compliance with Section 178(3) of the Companies Act, 2013, applicable guidelines issued by the Reserve Bank of India and Regulation 19 read with Part D of Schedule II of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI Listing Regulations**"), amended from time to time.

2. APPLICABILITY:

This policy is applicable to all Directors, Key Managerial Personnel (KMP) and Senior Management personnel.

3. OBJECTIVE AND PURPOSE:

The Key Objectives of the Nomination and Remuneration Committee would be:

a) To guide the Board in relation to the appointment and removal of Directors, Key Managerial Personnel and Senior Management.

b) To evaluate the performance of members of the Board and provide necessary report to the Board for further evaluation.

c) To attract, retain and motivate Senior Management including its Key Managerial Personnel, evaluation of their performance and provide necessary report to the Board for further evaluation.

d) To ensure that the relationship of remuneration with performance is clear and meets appropriate performance benchmarks.

e) To recommend the Board on Remuneration payable to the Directors, Key Managerial Personnel and Senior Management.

f) To promote and develop a high-performance workforce in line with the Company strategy.

g) To lay down criteria and terms and conditions with regard to identifying persons who are qualified to become Director (Executive & Non- Executive/ Independent/Nominee) and persons who may be appointed in Senior Management, Key Managerial Personnel and determine their remuneration.

h) To determine the remuneration based on the Company's size and financial position and practices in the industry.

4. DEFINITIONS:

"Companies Act" means the Companies Act, 2013 and Rules framed there under, as amended from time to time.

“Board” means Board of Directors of the Company.

“Directors” mean Directors of the Company.

“ESOP Plans” means and includes Svatantra Microfin Employee Stock Option Plan 2017, Svatantra Microfin Employee Stock Option Plan 2022, Svatantra Microfin Employee Stock Option Plan 2025 and amendments thereof.

“Key Managerial Personnel” (KMP) means:

i. the Chief Executive Officer or the Managing Director or the Manager;
ii. the Company Secretary;
iii. the Whole-time Director;
iv. the Chief Financial Officer;
v. 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
vi. such other officer as may be prescribed by the Act or rules made thereunder.

“Managerial Personnel" shall mean Managing Director and Joint Managing Director of the Company

“Senior Management” means the personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive directors, including the functional heads.

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Companies Act as may be amended from time to time shall have the meaning respectively assigned to them therein.

5. CONSTITUTION OF NOMINATION AND REMUNERATION COMMITTEE:

The Nomination and Remuneration Committee will consist of three or more non-executive directors, out of which at least two-thirds shall be independent director(s), provided that Chairperson of the Company may be appointed as a member of this Committee but shall not chair such Committee. The Chairperson of the nomination and remuneration committee shall be an independent director.

The Board shall reconstitute the Committee as and when required to comply with the provisions of the Companies Act, SEBI Listing Regulations and applicable statutory requirements. The quorum for a meeting of the Committee shall be either two members or one third of the members of the committee, whichever is greater, including one independent director in attendance.

The nomination and remuneration committee shall meet at least once in a financial year andat such regular intervals as may be required to carry out the objectives set out in the Policy. The Committee members may attend the meeting physically or through Video conference or through permitted audio - visual mode, subject to the provisions of the applicable laws. The Committee shall have the authority to call such employee(s), senior official(s) and / or externals, as it deems fit. The Company Secretary shall act as Secretary to the Committee.

The Nomination and Remuneration Committee shall set up a mechanism to carry out its functions and is further authorized to delegate any / all its powers to any of the Directors and /or Officers of the Company, as deemed necessary for proper and expeditious execution.

6. APPOINTMENT OF MANAGERIAL PERSONNEL, DIRECTOR, KMP AND SENIOR MANAGEMENT:

a) The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Managerial Personnel, Director or KMP or Senior Management and recommend to the Board his /her appointment.

b) A person should possess adequate qualification, expertise and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient /satisfactory for the concerned position.

c) Appointment of Independent Directors is also subject to compliance of provisions of section 149 of the Companies Act, read with Schedule IV and rules thereunder and the SEBI Listing Regulations.

7. TERM / TENURE:

a. Managerial Personnel:

The Company shall appoint or re-appoint any person as its Managerial Personnel for a term not exceeding five years at a time. No re-appointment shall be made earlier than one year before expiry of the term.

b. Independent Director:

The appointment, re-appointment or removal of an Independent Director shall be subject to approval by the shareholders through a special resolution. Appointment of an Independent Director shall be for a term upto five consecutive years and shall be eligible for re-appointment upon the passing of such special resolution, and the details of such re-appointment shall be disclosed in the Board's Report.

No Independent Director shall hold office for more than two consecutive terms, but such Independent Director shall be eligible for appointment after expiry of three years of ceasing to become an Independent Director.

The Committee shall not recommend the appointment of a person or continue the directorship of any person as a non-executive director who has attained the age of seventy-five years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.

The maximum tenure of Independent Directors shall also be in accordance with the Companies Act and clarifications/ circulars issued by the Ministry of Corporate Affairs, in this regard, from time to time.

8. RETIREMENT:

Any Director other than the Independent Director shall retire as per the applicable provisions of the Companies Act. The Board will have the discretion to retain the Director, KMP, Senior Management, in the same position / remuneration or otherwise even after attaining the retirement age, in accordance with applicable provisions of the Companies Act and SEBI Listing Regulations, for the benefit of the Company.

9. REMOVAL:

Due to reasons for any disqualification mentioned in the Companies Act, or under any other provision of the applicable laws, the Committee may recommend to the Board with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the Companies Act and other applicable laws.

10. ROLE AND FUNCTIONS OF THE COMMITTEE RELATED TO REMUNERATION:

I. Principles for Compensation:

a) Components and risk alignment:

The compensation of Key Managerial Personnel (KMPs) and senior management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise of fixed and variable pay components aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, the compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to the time horizon of the risks, and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

b) Composition of Fixed Pay:

All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, may be treated as part of fixed pay. All perquisites that are reimbursable may also be 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.) may also be part of fixed pay.

c) Principles for Variable Pay:

- **Composition of Variable Pay:** The variable pay may be in the form of share-linked instruments, or a mix of cash and share-linked instruments. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.

- **Proportion:** The proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of KMPs / senior management. At higher levels of responsibility, the proportion of variable pay needs to be higher. There should be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business unit and company wide level. In order to do so, performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

- **Deferral of Variable Pay:** Not all the variable pay awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the Board of the Company, may be deferred to time horizon of the risks. The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Deferral period for such an arrangement may be decided by the Board of the Company.

- **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, such personnel 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.

d) **Guaranteed Bonus:**

Guaranteed bonus may not be paid to KMPs and senior management. However, in the context of new hiring joining/sign-on bonus could be considered. Such bonus will neither be considered part of fixed pay nor variable pay.

e) It is to be ensured that the compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Process (ICAAP).

II. Remuneration to Managing/Whole-time / Executive Director:

The Remuneration/ Compensation/ Commission etc. to be paid to Executive Director / Managing Director etc., shall be governed as per provisions of the Companies Act and rules made there under or any other enactment for the time being in force, subject to requisite approvals. In addition to the fixed remuneration, Executive Director/Managing Director may be paid remuneration within the limits prescribed under the Companies Act and performance- based remuneration, stock options under ESOP Plans.

The NRC will determine the annual variable pay compensation in the form of annual incentive and annual increment for the Managerial Personnel based on Company's and individual's performance as against the pre-agreed objectives for the year.

If, in any financial year, the Company has no profits or its profits are inadequate, it shall pay remuneration in accordance with regulatory guidelines as applicable.

Further, the proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of Directors.

The remuneration payable by the Company to the Managerial Personnel shall be subject to the conditions specified in the Companies Act and the SEBI Listing Regulations, including the applicable monetary limits, approval and disclosure requirements.

III. Remuneration to Non-Executive / Independent Director:

The Non-Executive Independent Directors ("NEDs") may receive remuneration / compensation / commission as per the provisions of the Companies Act. The Company shall pay the Independent Director remuneration by way of sitting fees for attending meetings of the Board and its Committees, as may be decided by the Board, and Commission, as may be approved by the Shareholders from time to time.

The commission may be paid to the NEDs at a rate not exceeding 1% per annum of the profits of the Company computed in accordance with Section 198 of the Companies Act.

Further, an Independent Director shall not be entitled for any Stock Options, under Employee Stock Option Plans (ESOPs).

IV. Remuneration to KMPs and Senior Management:

The KMPs and Senior Management including functional heads, shall be eligible for remuneration as per Company's Policy, which may consist of Fixed and variable components including perquisites and statutory benefits, performance-based remuneration, stock options under the ESOP Plans to attract, retain and motivate KMPs and Senior Management to attain the short and long term performance objectives of the Company.

Further, the proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of KMPs/ Senior Management.

V. Malus / Clawback:

A malus arrangement permits the Company to prevent vesting of all or part of the amount of deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred. 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.

Where any insurance is taken by the Company on behalf of its Directors, Managing Director, KMPs and Senior Management for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel.

The deferred 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. Upon occurrence of these or similar events, the Company may prompt to invoke the malus and clawback clauses that may be applicable on entire variable pay. While setting criteria for the application of malus and clawback, the Company may specify a period during which malus and/or clawback can be applied, covering at least the deferral and retention periods (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. DUTIES IN RELATION TO NOMINATION MATTERS:

The duties of the Committee in relation to nomination matters include:

- Ensuring that there is an appropriate induction in place for new Directors and members of Senior Management and reviewing its effectiveness;
- Ensuring that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment in accordance with the Guidelines provided under the Act;
- Determining the appropriate size, diversity and composition of the Board;
- Developing a succession plan for the Board and Senior Management and regularly reviewing the plan;
- Evaluating the performance of the Board members and Senior Management in the context of the Company's performance from business and compliance perspective;
- Making recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an

Executive Director as an employee of the Company subject to the provision of the law and their service contract;

- Delegating any of its powers to one or more of its members or the Secretary of the Committee;
- Recommend any necessary changes to the Board;
- Scrutinize the declarations received from directors and based on the information provided in the signed declaration, the Committee shall decide on the acceptance or otherwise of the Directors, where considered necessary;
- Considering any other matters, as may be requested by the Board.

12. DUTIES IN RELATION TO REMUNERATION MATTERS:

The duties of the Committee in relation to remuneration matters include:

- Considering and determining the Remuneration Policy, based on the performance and bearing in mind that the remuneration is reasonable and sufficient to attract, retain and motivate members of the Board considering all the components of remuneration and such other factors as the Committee shall deem appropriate.

- Approving the remuneration of Senior Management including KMP of the Company, maintaining a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Company.

- Delegating any of its powers to one or more of its members or the Secretary of the Committee.

- Considering any other matters as may be requested by the Board.

13. REVIEW AND AMENDMENT:

The policy will be subject to review after a period of two years. This Policy may be amended, modified or supplemented by the NRC as required and recommended to the Board for its approval, from time to time, to ensure compliance with any amendment, modification or supplementation to the Companies Act, 2013, RBI Regulations and any other guidelines issued by the regulatory authorities or as may be otherwise

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions in this Policy and this Policy shall stand amended accordingly.

The NRC and/or Board may issue/implement such guidelines, procedures, formats and/or reporting mechanisms to enforce this Policy as it may deem fit.

The policy shall be disclosed on the website of the Company.