



## NOMINATION AND REMUNERATION POLICY

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## 1. INTRODUCTION

ESAF Financial Holdings Private Limited (the “Company” or “EFHPL”) is a Systemically Important, Non- Deposit taking, Core Investment Company registered with the Reserve Bank of India (RBI) with effect from 26th February, 2020. The Company is a private company governed by the Companies Act, 2013, in addition to the oversight of the Non-Banking Supervision (DNBS) of Reserve Bank of India.

The Board of Directors of “the Company” constituted the “Nomination and Remuneration Committee” (“Committee”) at the Meeting held on May 29, 2014 with immediate effect, consisting of three (3) Non-Executive Directors.

This Policy has been formulated in terms of provisions of the Companies Act, 2013 and revised in terms of the Master Direction- Reserve Bank of India (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023, RBI/DoR/2023-24/106 updated as on October 19, 2023.

## 2. OBJECTIVE

This Policy has been framed as required under the provisions of the Companies Act, 2013 and the Master Direction- Reserve Bank of India (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023, RBI/DoR/2023-24/106 updated as on March 21, 2024 read with the Master Direction DoR(NBFC).PD.003/03.10.119/2016-17 dated August 25, 2016 issued by the Reserve Bank of India (“RBI”) and further amendments.

This Policy intends to provide broad guidance to NBFCs in formulating their compensation packages and to address the issues arising out of excessive risk taking caused by the misaligned compensation packages.

The Key Objectives of the Nomination and Remuneration Committee includes:

- 1.1. To guide the Board in relation to appointment and removal of Directors and Key Managerial Personnel (hereinafter referred to as “KMP”).
- 1.2. To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- 1.3. To recommend to the Board on Remuneration payable to the KMP and Senior management.
- 1.4. To provide to KMP and Senior Management reward linked directly to their efforts, performance, dedication and achievement relating to the Company’s operations.
- 1.5. To retain, motivate and promote talent and to ensure long term sustainability

of talented managerial persons and create competitive advantage.

1.6. To develop a succession plan for the Board and to regularly review the plan;

### 3. DEFINITIONS

1. "Board" means the Board of Directors of ESAF FINANCIAL HOLDINGS PRIVATE LIMITED.
2. "Directors" means individual Directors or Directors on the Board of the Company.
3. "Company" means ESAF FINANCIAL HOLDINGS PRIVATE LIMITED (Previously known as ESAF Microfinance and Investments Private Limited) registered under the Companies Act 1956.
4. "Nomination and Remuneration Committee or NRC" means the Nomination and Remuneration Committee of the Board of Directors of the Company constituted under provisions of Companies Act, 2013.

### 4. POLICY

#### 4.1. Nomination and Remuneration Committee

The Boards of NBFCs shall constitute a Nomination and Remuneration Committee (NRC). The NRC shall have the constitution, powers, functions and duties as laid down in section 178 of the Companies Act, 2013. The NRC, inter alia, shall also have the mandate to oversee the framing, review and implementation of compensation policy of the company which should have the approval of the board. The NRC may work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks.

The Committee shall:

- 4.1.1. Determine size and composition of the Board to ensure that it is structured to make appropriate decision, with a variety of prospective and skills, in the best interest of the Company as a whole;
- 4.1.2. Formulate the criteria for determining qualifications, positive attributes and independence of a director and determine the compensation accordingly.
- 4.1.3. Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial positions in accordance with the criteria laid down in this policy.
- 4.1.4. Recommend to the Board, appointment and removal of Director and KMPs.
- 4.1.5. NRC may ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on ICAAP.
- 4.1.6. NRC may also ensure 'fit and proper' status of proposed/existing directors and

that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.

**4.1.7.** Formulate the criteria for evaluation of performance of executive/ non-executive/ independent directors.

## **4.2. Policy for appointment and removal of Directors and KMP**

### **4.2.1. Appointment criteria and qualifications**

a) The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director or KMP 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) Prior to the appointment of Director/Managing Director/Chairman the Committee shall ensure that the person to be appointed has complied to the Fit and Proper Norms issued by the Reserve Bank of India.

d) The Company shall not appoint or continue the employment of any person as Whole time Director who has attained the age of seventy years. Provided that the term of the person holding this position may be extended beyond the age of seventy years with the approval of shareholders by passing a special resolution based on the explanatory statement annexed to the notice for such motion indicating the justification for extension of appointment beyond seventy years.

### **4.2.2. Term / Tenure**

a) Managing Director/Whole-time Director:

In accordance with the provisions of the Companies Act, 2013 and Articles of Association, the term of appointment of Managing Director or Executive Director, shall not be for a term exceeding 5 years at a time. No re-appointment shall be made earlier than one year before the expiry of his/ her term.

b) Independent Director:

As per the provisions of the Companies Act, 2013 and Articles of Association, the independent director shall be appointed for a maximum term of 5 years. The term shall not be more than 2 consecutive terms. He or she shall be re-appointed only by special resolution by the company.

c) Non-Executive Director:

Non-Executive director shall be appointed for a maximum term of 5 years. The term shall not be more than 2 consecutive terms. He or she shall be re-appointed only by special resolution by the company.

d) Nominee Director:

The Nominee director shall continue in the Board of the company, until his/ her nomination has been withdrawn by the nominating authority or until the nominating authority is entitled to have on Board their Nominee, as per the Articles of Association of the Company.

The nominating authority shall officially inform the company on the appointment/ withdrawal of the nominee director with their supporting board resolutions and appointment/ resignation letters.

#### **4.2.3. Evaluation**

The Committee shall carry out yearly evaluation of performance of every Director.

#### **4.2.4. Removal**

Due to reasons for any disqualification mentioned in the Act or under any other applicable Act, rules and regulations thereunder, the Committee may recommend, to the Board with reasons recorded in writing, removal of a Director or KMP subject to the provisions and compliance of the said Act, rules and regulations.

#### **4.2.5. Retirement**

The Director and KMP shall retire as per the applicable provisions of the Act and the prevailing policy of the Company. The Board will have the discretion to retain the Director/KMP in the same position/ remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

### **4.3. Policy relating to the Remuneration for the Whole-time Director and KMP**

#### **4.3.1. Remuneration to Whole-time / Executive / Managing Director and KMP:**

The Whole-time Director and KMP shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The remuneration shall be in accordance with the provisions of the Companies Act, 2013.

##### **4.3.1.1. Compensation Structure:**

a) **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. 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.

- b) 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.

The fixed pay and variable pay being part of the remuneration shall be approved by the Board on the recommendation of the Committee, upon appointment of Whole-time Director and KMP.

#### **4.3.1.2. Compensation for KMPs and SMs in Control and Assurance Functions**

KMPs and SMs engaged in Financial Control, Risk Management, Compliance, and Internal Audit will be compensated in a manner that is independent of the business areas they oversee and commensurate with their role in the Company.

#### **4.3.1.3. Guaranteed Bonus**

Guaranteed bonus may not be paid KMPs and SMs. The same would be subject to the recommendation of NRC taking into account other factors, as may be deemed fit. In the context of new hiree joining/ sign-on bonus could be considered. Such bonus will neither be considered part of fixed-pay nor of variable-pay.

#### **4.3.1.4. Malus/ Clawback Provisions**

Malus arrangement permits the Company to prevent vesting of all or part of the variable pay which has been deferred. It does not reverse vesting after it has already occurred.

Clawback is a contractual agreement between the employee and the Company in which the employee agrees to return previously paid or vested compensation attributable to a given reference year in which the incident has occurred. The return would be in terms of net amount. Malus and Clawback provisions shall apply regardless of whether the employee is in the employment of the Company or has separated.

#### **Relevant factors to be considered:**

- a) The NRC may duly take into consideration factors that were within the control of the person, and/ or beyond reasonable control, on account of conditions such as macro events, market conditions, industry performance, changes in legal/regulatory requirements, force majeure events like occurrence of natural disasters, pandemic, other socioeconomic conditions etc.
- b) Material breach of Code of Conduct, any Non-Disclosure Agreement, regulatory procedures, internal rules and regulations or any other such instance for which

the NRC, in its discretion, deems it necessary to apply Malus and/or Clawback provisions.

- c) Fraud, breach of trust, dishonesty, or wrongful disclosure by the employee of any confidential information.
- d) Wilful misinterpretation/misreporting of financial performance of the Company.
- e) Any misconduct pertaining to moral turpitude, theft, misappropriation, corruption, forgery, embezzlement or of criminal nature.
- f) Non-disclosure of material conflict of interest by the employee or any misuse of official powers.
- g) An act of wilful, reckless, grossly negligent conduct which is detrimental to the interest or reputation of the Company.

**Guidelines for Implementation:**

- a) This Policy will be binding on all KMPs and SMs covered under the purview of this Policy and terms of their compensation shall automatically stand revised in accordance with this Policy as amended from time to time.
- b) The NRC shall review the incident/ act of misconduct to ascertain the degree of accountability attributable to the concerned employee and may decide to apply malus and/or clawback on none, part or all the unvested/ vested deferred variable-pay based on the outcome of the evaluation.
- c) The provision relating to malus would entail forfeiture of full or part of the unvested/ unpaid part of the deferred variable-pay, attributable to a given reference year wherein the incident has occurred.
- d) The provision relating to clawback would entail return of full or part of the variable-pay (net of taxes) paid, attributable to a given reference year wherein the incident has occurred. The Company will have a right to set-off the clawback amount against any amount payable to the concerned employee.

**4.3.2. Remuneration to Non- Executive / Independent Director:**

**Sitting Fees:**

The Non- Executive / Independent Director/ Nominee Director may receive remuneration by way of fees for attending meetings of Board meetings thereof as may be decided by the Board subject to the ceiling prescribed under the Companies Act, 2013.

**5. REVISION**

The Board of Directors shall review the policy annually and shall recommend all necessary changes required if any.

**6. ADOPTION**

This policy and any changes made during the annual reviews shall be adopted by resolution of the Board of Directors.