



NOMINATION AND REMUNERATION POLICY

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1. INTRODUCTION

ESAF Financial Holdings Private Limited ("EFHPL" or the "Company") is a Systemically Important Non-Deposit Taking Core Investment Company ("CIC") registered with the Reserve Bank of India ("RBI") and classified as a NBFC-Middle Layer (NBFC-ML) under the RBI's Scale Based Regulatory Framework.

The Board has constituted a Nomination and Remuneration Committee ("NRC") to discharge the functions prescribed under applicable law and RBI Directions.

This Policy has been formulated pursuant to the Companies Act, 2013 and the RBI regulatory framework applicable to CICs.

This Nomination and Remuneration Policy is framed with reference to the following Acts, Directions and Rules as amended from time to time:

1. the Companies Act, 2013 and the rules made thereunder;
2. the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023;
3. the Reserve Bank of India (Non-Banking Financial Companies – Governance) Directions, 2025;
4. the Reserve Bank of India (Core Investment Companies) Directions, 2025;
5. Code on Social Security (SSC) 2020 with effect from 21st November, 2025;
6. other applicable RBI Directions, circulars, notifications and regulatory instructions, to the extent applicable to the Company and its employees.

2. OBJECTIVE

This Policy intends to provide broad framework for nomination, appointment, performance evaluation and remuneration for Directors, Key Managerial Personnel ("KMPs") and Senior Management.

The Key Objectives of the Nomination and Remuneration Committee includes:

- To guide the Board in relation to appointment and removal of Directors and Key Managerial Personnel (hereinafter referred to as "KMP").
- To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- To recommend to the Board on Remuneration payable to the KMP and Senior management.
- To provide to KMP and Senior Management reward linked directly to their efforts, performance, dedication and achievement relating to the Company's operations.
- To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.

3. DEFINITIONS

1. **“Board”** means the Board of Directors of ESAF Financial Holdings Private Limited.
2. **“Company”** means ESAF Financial Holdings Private Limited (formerly known as ESAF Microfinance and Investments Private Limited), incorporated under the Companies Act, 1956 and governed by the Companies Act, 2013 and other applicable laws.
3. **“Clawback”** means 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.
4. **“Director”** means a Director appointed on the Board of the Company.
5. **“Key Managerial Personnel”** or **“KMP”** means Key Managerial Personnel as defined under sub-section (51) of Section 2 of the Act as under:
 - ✓ The Chief Executive Officer or the Managing Director or the Manager;
 - ✓ Whole-time director;
 - ✓ Chief Financial Officer;
 - ✓ Company Secretary;
 - ✓ 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
 - ✓ such other officer as may be prescribed.
6. **“Malus”** means an arrangement that permits the company to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.
7. **“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.
8. **“Senior Management”** shall have the meaning assigned to it under the applicable provisions of the Companies Act, 2013 and the RBI Directions applicable to the Company, as amended from time to time, and shall include such functional heads and other personnel who are responsible for the day-to-day management of the Company as may be identified by the Company.

All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934 or the Companies Act, 2013 and Rules made thereunder, or any statutory modification or re-enactment thereto, or Glossary of Terms published by RBI or as used in common or commercial parlance, as the case may be.

4. POLICY

4.1. NOMINATION AND REMUNERATION COMMITTEE (NRC)

The Board of Directors of the Company 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 shall oversee the framing, review and implementation of the compensation policy of the Company, which shall be approved by the Board.

The Nomination and Remuneration Committee (NRC) 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. Ensure that compensation decisions appropriately take into account the Company's financial performance, capital position, liquidity, risk appetite, long-term sustainability and the need to retain earnings and maintain adequate capital, including capital requirements assessed under the applicable regulatory framework and ICAAP and is consistent with applicable RBI Directions and the Companies Act, 2013.
- 4.1.6. 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.
- 4.1.8. Ensure that remuneration and nomination decisions are taken objectively and free from actual, potential or perceived conflicts of interest.
- 4.1.9. Work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks.

4.2. POLICY FOR APPOINTMENT AND REMOVAL OF DIRECTORS AND KMPs

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.
- e) Except for directorship in a subsidiary, Key Managerial Personnel (KMP) of an NBFC shall not hold any office (including directorships) in any other NBFC-Middle Layer or NBFC-Upper Layer (NBFCs-ML or NBFCs-UL).
- f) Within the permissible limits in terms of Companies Act, 2013, an independent director shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time.
- g) The Board shall ensure that there is no conflict arising out of its independent directors being on the Board of another NBFC at the same time.

4.2.2. Term / Tenure

a) Whole-time / Executive / Managing 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 Nomination and Remuneration Committee ("NRC") shall carry out an annual performance evaluation of the Board, its Committees and individual Directors in accordance with the provisions of the Companies Act, 2013, the applicable Rules made thereunder and such other applicable laws, regulations and regulatory guidelines as may be in force from time to time.

The evaluation framework shall, inter alia, include the following parameters:

- attendance and active participation in meetings;
- strategic guidance and leadership;
- contribution to Board and Committee deliberations;
- governance and regulatory compliance;
- oversight of financial reporting, internal controls and risk management;
- integrity, ethical conduct and adherence to the Company's values;
- decision-making abilities and professional competence;
- achievement of the objectives and responsibilities assigned to the Director.

The evaluation of Independent Directors shall be carried out by the entire Board excluding the Director being evaluated, while the performance of the Board, Committees and other Directors shall be evaluated in the manner prescribed under the Companies Act, 2013 and other applicable laws.

The outcome of the evaluation shall be considered by the NRC while making recommendations relating to continuation, re-appointment, remuneration and succession planning.

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/ COMPENSATION FOR THE DIRECTORS AND KMPs

4.3.1. Remuneration to Whole-time / Executive / Managing Director and KMPs:

The remuneration of Whole-time / Executive / Managing Director and KMPs shall be determined in accordance with the provisions of the Companies Act, 2013 applicable to the Company, its Articles of Association, applicable RBI Directions and other applicable laws.

Compensation Structure:

The compensation of Key Managerial Personnel and senior management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise 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.

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 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.

The fixed pay structure shall be aligned in compliance with the provisions of the Code on Social Security, 2020 and other applicable labour laws.

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.

- (i) Proportion:** The proportion of variable pay in total compensation, which includes fixed and variable pay, needs to be commensurate with the role and prudent risk-taking profile of KMP / senior management. At higher levels of responsibility, the proportion of variable pay needs to be higher. There shall be proper balance between the cash and share-linked instruments in the variable pay. The variable pay should be truly and effectively variable such that it may 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 shall be clearly defined at the beginning of the performance measurement period to ensure that the employees are well aware of the incentive mechanism.

- (ii) **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, 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 shall be decided by the Board.
- (iii) **Control and assurance function personnel:** KMP 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 NBFC. 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.

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 / Executive / Managing Director and KMP.

c) Statutory Benefits and Gratuity:

Upon resignation, retirement, termination or cessation of employment, eligible employees shall be entitled to settlement of their gratuity, accrued leave salary/leave encashment, notice pay or payment in lieu thereof, and such other statutory, contractual or employment-related benefits as may be applicable, subject to the terms of employment and the Code on Social Security, 2020 and other applicable labour laws, in force from time to time.

The Company shall structure the wage/ salary components for computation of gratuity and other statutory benefits in accordance with the applicable provisions of the Code on Social Security, 2020 and any amendments thereto.

The Human Resources Department and/or Finance Department shall be responsible for ensuring timely and accurate settlement of such statutory and other eligible benefits and for ensuring compliance with applicable statutory requirements while structuring employee compensation and administering gratuity, leave salary/leave encashment and other benefits payable upon cessation of employment.

4.3.2. Remuneration to Non- Executive / Independent / Nominee Directors:

The Non-Executive / Independent / Nominee Directors shall be paid sitting fees for attending meetings of the Board and reimbursement of reasonable expenses incurred for participation in Board and Committee meetings, subject to applicable law and the limits approved by the Board.

Any other remuneration or commission payable to Directors shall be determined strictly in accordance with the Companies Act, 2013, the Articles of Association and applicable RBI Directions.

The remuneration of Non-Executive and Independent Directors shall not be structured in a manner that compromises their independence or creates a conflict of interest.

4.3.3. Annual Performance Appraisal of KMPs and Senior Management

The Company shall conduct a formal performance appraisal of all Key Managerial Personnel ("KMPs") and Senior Management Personnel and eligible employees at least once every financial year.

The appraisal shall be based on measurable performance criteria including, but not limited to:

- ✓ achievement of Key Result Areas (KRAs);
- ✓ business and financial performance;
- ✓ leadership and people management;
- ✓ regulatory and statutory compliance;
- ✓ risk management and internal control responsibilities;
- ✓ customer and stakeholder management;
- ✓ innovation and operational efficiency;
- ✓ adherence to the Company's Code of Conduct and organisational values.

The performance appraisal shall form the basis for determining annual salary revision, performance-linked incentives, promotions and other remuneration-related decisions, subject to the approval of the competent authority wherever required.

The Human Resources Department and/or Finance Department shall ensure that the appraisal process is completed annually and that salary revisions are implemented in accordance with the recommendations approved by the NRC and the Board, wherever applicable.

4.3.4. Guaranteed Bonus

Guaranteed bonus shall ordinarily not be paid to KMPs or Senior Management. In exceptional circumstances, including in connection with recruitment of a new employee, a sign-on/ joining bonus may be considered subject to applicable law and the approval process prescribed by the Company.

Any such payment shall not be treated as a substitute for the regular fixed or variable compensation structure and shall be appropriately disclosed to the NRC and Board, wherever applicable.

4.3.5. 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.

5. REVISION

The NRC shall review this Policy at least once every financial year and recommend any amendments considered necessary to the Board.

The review shall specifically consider changes in:

- (a) RBI Directions and regulatory requirements;
- (b) Companies Act, 2013 and rules made thereunder;
- (c) Code on Social Security, 2020 and other applicable labour and social-security legislation;
- (d) Company's business strategy, risk profile and financial position; and
- (e) emerging governance and remuneration practices.

The Policy may also be reviewed earlier whenever there is a material change in applicable law or regulatory requirements.

6. ADOPTION

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