

NOMINATION, REMUNERATION AND COMPENSATION POLICY OF FINOVA CAPITAL PRIVATE LIMITED

1. INTRODUCTION AND OBJECTIVES:

- 1.1. Finova Capital Private Limited (hereinafter referred to as “the Company”) has framed this Nomination, Remuneration and Compensation Policy (hereinafter referred to as “Policy”) pursuant to the provisions of Section 178 of the Companies Act, 2013 (“Act”), Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (“Master Directions”) and Scale Based Regulation (SBR) read with ‘Guidelines on Compensation of Key Managerial Personnel and Senior Management in NBFCs’ issued by the Reserve Bank of India (“RBI Guidelines”), as amended from time to time.
- 1.2. The Policy provides the framework for appointment and remuneration of Members of the Board of Directors, Key Managerial Personnel and Senior Management of the Company.
- 1.3. The objective:

The objective of this Policy is to serve as a guiding charter to appoint qualified persons as directors on the Board of directors of the Company (“Directors”), Key Managerial Personnel (the “KMP”), persons who may be appointed as Senior Management Personnel (“SMP”), to recommend the remuneration to be paid to them and to evaluate their performance. This Policy provides a framework for:

- a) Identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed as KMP, SMP in accordance with the criteria laid down, and recommend to the Board for their appointment and removal;
- b) Identifying the criteria for determining qualifications, positive attribute and independence of a director;
- c) remuneration of Directors, KMPs and SMPs and to ensure that a reasonable balance is maintained in terms of composition of remuneration of them (fixed and variable component).
- d) Specifying the manner for effective evaluation of performance of the Board, Directors, KMPs, SMPs and persons in senior management position to be carried out either by the Board, by the Committee;
- e) Assessing the independence of independent Directors

The Policy further ensures that:

- a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors of the quality required to run the Company successfully.
- b) Relationship of remuneration to performance is clear and meets appropriate performance benchmarks and
- c) Remuneration to Directors, Key Managerial Personnel and Senior Management involves a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Company and its goals.

2. DEFINITIONS:

- 2.1. “Act” means the Companies Act, 2013 and Rules framed there under, as amended from time to time.

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- 2.2. **“Board of Directors”** or **“Board”** means the Board of Directors of Finova Capital Private Limited as constituted or re-constituted from time to time.
- 2.3. **“Company”** means Finova Capital Private Limited.
- 2.4. **“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.
- 2.5. **“Directors”** shall mean Directors of the Company.
- 2.6. **“Independent Director”** means a director referred to in Section 149(6) of the Act.
- 2.7. **“Key Managerial Personnel”** or **“KMP”** means Key Managerial Personnel as defined under sub-section (51) of Section 2 of the Act as under:
- i. The Chief Executive Officer or the Managing Director or the Manager;
 - ii. Whole-time director;
 - iii. Chief Financial Officer;
 - iv. Company Secretary;
 - 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.
- 2.8. **“Nomination and Remuneration Committee”** or **“Committee”** or **“NRC”** means the Committee of the Board constituted or reconstituted under the provisions of Scale Based Regulation (SBR) read with ‘Guidelines on Compensation of Key Managerial Personnel and Senior Management in NBFCs’ issued by the Reserve Bank of India (“RBI Guidelines”) read with Section 178 of the Act.
- 2.9. **“Policy”** means Nomination, Remuneration and Compensation Policy.
- 2.10. **“Retention period”** means a period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.
- 2.11. **“Senior Management Personnel”** or **“Senior Management”** or **“SMP”** means 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.
- 2.12. **“Malus”** shall mean an arrangement permits the NBFC 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.

The words and expressions used and not defined in this Policy but defined in the Companies Act, 2013 or rules made thereunder or the Reserve Bank of India Act, 1934 or the Circulars, Directions, guidelines issued by RBI thereunder shall have the same meanings respectively assigned to them in those acts, rules, regulations, directions or guidelines.

3. CONSTITUTION OF THE COMMITTEE

- 3.1. The Committee shall consist of three or more non-executive directors out of which not less than one-half shall be Independent Directors. The Chairperson of the Company (whether executive or non-executive) may be appointed as a member of the Committee but shall not chair the Committee.
- 3.2. The Board shall reconstitute the Committee as and when required to comply with the provisions of the Act, RBI guidelines and such other applicable statutory requirements.

The NRC shall work in close coordination with the Risk Management Committee (RMC) of the Company to achieve effective alignment prudent between compensation and risks.

4. APPOINTMENT AND REMOVAL OF DIRECTORS, KMP AND SENIOR MANAGEMENT:

The Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, competencies, positive attributes and independence for appointment of a Director (Executive / Non-Executive) and recommend to the Board, policies relating to the remuneration (payable in whatever form) of the Directors, KMP and SMP.

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

4.1. DIRECTORS

Appointment criteria and qualifications:

- i. The Company will undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board of directors of the Company, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria.
- ii. The Company will obtain the necessary information, declarations and undertakings from the proposed / existing director for the purpose of such due diligence in the format as prescribed in the RBI guidelines.
- iii. The Company will undertake the process of due diligence at the time of appointment of the director by scrutinizing the declarations received and at the time of renewal of appointment of any director.
- iv. The Board of directors of the Company will ensure in public interest that each of the nominated / elected directors executes a deed of covenants in the format as prescribed in the RBI guidelines.
- v. The Company shall not appoint or continue the employment of any person as Managing

Director / 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.

Tenure

The Company shall appoint or re-appoint any person as Managing Director or Whole time Director for a term not exceeding five years at a time in terms of applicable provisions of Act. Further, no re-appointment shall be made earlier than one year before the expiry of term.

4.2. INDEPENDENT DIRECTOR

Appointment criteria and qualifications:

- i. The candidate shall be evaluated based on the criteria provided under the applicable laws including Act read with Rules thereon and RBI Guidelines. Each director has an affirmative obligation to inform the Board of any change in circumstances that may put his/her independence at issue.
- ii. The Nomination and Remuneration Committee before appointment of an Independent Director shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation prepare a description of the role and capabilities required of an independent director.
- iii. The director's independence for the independent director will be determined by the Board on an annual basis upon the declarations made by such director as per the provisions of the Act read with Rules thereon and RBI Guidelines.
- iv. The Independent Director who intends to get appointed as an independent director in a company, shall before such appointment, apply online to the institute for inclusion of his name in the data bank for a period of one year or five years or for his life-time, and from time to time applies for its renewal till he continues to hold the office of an independent director in any company.
- v. If any individual, including an individual not having DIN, may voluntarily apply to the institute for inclusion of his name in the data bank, shall clear an online proficiency self-assessment test covering Companies law, Securities law, Basic accountancy, and such other areas relevant to the functioning of an individual and should have mandatory registration with Indian Institute of Corporate Affairs ("IICA").
- vi. The independent director shall not be on the Board of more than three NBFCs (NBFC-ML or NBFC-UL) at the same time. Further, the Board of the Company shall ensure that there is no conflict arising out of their Independent Directors being on the Board of another NBFC at the same time.
- vii. The re-appointment / extension of term of the Director shall be on the basis of their

performance evaluation report.

Tenure

- i. An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and shall be eligible for re-appointment on passing of a special resolution by the Company, recommendation of committee based on the report of performance evaluation of Independent Director and disclosure of such appointment in the Board's report.
- ii. No Independent Director shall hold office for more than two consecutive terms, but such Independent Director shall be eligible for appointment after expiry of two consecutive terms of three years of ceasing to become an Independent Director. An Independent Director shall not, during the said period of three years, be appointed in or be associated with the Company in any other capacity, either directly or indirectly.

4.3. KMP AND SENIOR MANAGEMENT

Appointment criteria and qualifications:

- i. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as KMPs and recommend to the Board his / her appointment.
- ii. A person should possess adequate qualification, expertise and experience for the position for which he / she is being considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient/satisfactory for the position.
- iii. Except for directorship in a subsidiary, KMPs shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL. However, they can assume directorship in NBFC-BLs.

Tenure

Upon recommendation of Committee and based on the criteria laid down by said committee, KMPs and SMPs may be appointed for such period and on such term as may be approved by the Board.

4.4. REMOVAL:

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

4.5. RETIREMENT:

The Director, KMP and Senior Management shall retire as per the applicable provisions of the Act and the prevailing internal policy of the Company. 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, for the benefit of the Company.

5. EVALUATION

The Committee shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.

The Evaluation process may be carried out as per the SEBI guidelines vide SEBI CIRCULAR NO. SEBI/HO/CFD/CMD/CIR/P/2017/004, Dated 5th January 2017 on Guidance Note on Board Evaluation or by such other procedure as the Committee may deem fit for evaluation process.

Below Matrix to be follow while performance evaluation of the Directors and the Board as a whole:

Matrix for The Evaluation of Board and The Directors	
1.	Criteria for the Evaluation of a Board as a whole: <ul style="list-style-type: none"> ❖ Board Composition & Quality; ❖ Board and Management Relations; ❖ Board Meeting & Procedures; ❖ Board Strategy and Risk Management; ❖ Grievance Redressal for Investors; ❖ Conflict of Interest; ❖ Stakeholder Value and responsibility; ❖ Corporate Cultures & Values; ❖ Review of Board Evaluation; ❖ Facilitation of Independent Directors;
2.	Criteria for the Evaluation of Board Committee: <ul style="list-style-type: none"> ❖ Structure of the Committee and meetings; ❖ Mandate & Composition; ❖ Effectiveness of the Committee; ❖ Independence of the Committee from the Board; ❖ Contribution to Decisions of the Board;
3.	Criteria Executive Directors <ul style="list-style-type: none"> ❖ Leadership ❖ Performance ❖ Value Creation ❖ Governance & Compliance
4.	Criteria for Non- Executive Directors <ul style="list-style-type: none"> ❖ Knowledge & Skill ❖ Diligence & Participation ❖ Leadership ❖ Managing Relationship

5.	<p>Criteria for Independent Directors</p> <ul style="list-style-type: none"> ❖ Independence ❖ Knowledge & Participation ❖ Commitment ❖ Integrity
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6. PROVISIONS RELATING TO REMUNERATION OF MANAGERIAL PERSON, KMP AND SENIOR MANAGEMENT

6.1. General

- (a) The remuneration / compensation / commission etc. to Managerial Person, KMP and Senior Management will be determined by the Committee and recommended to the Board for approval. The remuneration / compensation / commission etc. shall be subject to the prior/post approval of the shareholders of the Company and such other approval, wherever required.
- (b) The remuneration and commission to be paid to Managerial Person shall be as per the statutory provisions of the Act, Master Directions and RBI guidelines, and the rules made there under for the time being in force.
- (c) Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders in the case of Managerial Person.
- (d) The remuneration structure will have a right mix of guaranteed (fixed) pay, pay for performance and long-term variable pay based on business growth and other factors such as growth in shareholder value to ensure that it is competitive and reasonable.
- (e) Where any insurance is taken by the Company on behalf of its Managerial Person, KMP and for 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.

6.2. Remuneration to Managerial Person, KMP and Senior Management:

The compensation of Managerial Person, KMP and Senior Management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation packages shall 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.

(a) Fixed pay

Managerial Person, KMP and Senior Management shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee in accordance with the statutory provisions of the Act, the rules made there under, Master Directions and RBI guidelines for the time being in force.

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.

(b) Variable Pay

Variable pay shall be a mix of cash and share-linked instruments with proper balance between cash and share linked components in keeping with the RBI guidelines. The Company may in its discretion structure any portion of remuneration to link rewards to corporate and individual performance, fulfilment of specified improvement targets or the attainment of certain financial or other objectives set by the Board/Company. The amount payable shall be based on performance against pre-determined financial and non-financial metrics. Such metrics and their relation to remuneration packages shall be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

KMPs and senior management may have higher proportion of fixed compensation, if engaged in financial control, risk management, compliance and internal audit which are independent in nature with the business area as they oversee and commensurate with their key role in the Company. Reasonable proportion of compensation may be in the form of variable pay for exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

At higher levels of responsibility, the proportion of variable pay shall be higher. The variable pay shall be truly and effectively variable and may be reduced to zero based on performance at an individual, business-unit and company-wide level.

Here, share-linked instruments shall mean:

- Employee stock option scheme
- Employee Stock purchase scheme
- stock appreciation rights schemes
- general employee benefit scheme

(c) Deferral of variable pay

For KMPs and Senior Management, both cash and share linked variable pay may be deferred as recommended by the Committee and as approved by the Board of the company. However, where the cash variable pay is below the threshold limit of variable pay defined by the Committee, if any, deferral requirement will not be necessary. In the event of a separation of an employee on good terms with the company, the Committee shall have the discretion to waive part or whole of the deferred pay.

(d) Guaranteed bonus

Guaranteed bonus will not be awarded by the Company to Managerial Person, KMPs and senior management other than for new hires as joining/sign-on bonus only in the first year. Any such guaranteed bonus, if required, may be in the form of cash or share-linked instruments and shall neither be considered part of fixed pay nor of variable pay.

(e) Malus / Clawback

Malus & Clawback provisions shall be applicable which would enable the Committee to reduce or cancel unvested awards and recover previously paid compensation in certain situations, viz. Subdued or Negative Financial Performance, Fraud, Misconduct or any other parameter as may be determined by the Committee.

The Committee may invoke the malus and clawback clauses in following situations that may be applicable on entire or part of the variable pay/ deferred compensation payable to the Managerial Person, KMPs and senior management:

- (i) Subdued or negative financial performance of the Company;
- (ii) Any deficiency in regard to loans and advances activities of the Company;
- (iii) Misconduct, viz.:
 - Non adherence to Systems and procedures including internal guidelines / policies
 - Breach of Contract / violation of non-disclosure agreement
 - Gross negligence and Integrity breach
 - Misuse of official powers
 - Unjust enrichment
 - Non-disclosure in case of conflict of interest
 - Failure / lapses in regulatory compliance
- (iv) Any other parameter as may be determined by the Committee/Board.

Malus clause shall be considered if an act of negligence, on part of Managerial Person or KMPs or senior management, comes to light in the subsequent period and clawback clause shall be considered if an act of integrity breach or fraud on part of Managerial Person or KMPs or senior management comes to light in the subsequent period. Clawback may be applied anytime for a period of 3 years or such other period as may be determined by the Committee from the date of release of variable pay.

In case of ESOS, as a general rule clawback would be applicable only to vested but un-exercised options, however, in exceptional cases, the Committee may decide to extend the clawback clause to exercised options as well. In such cases where the vested stock options have already been exercised, the employee shall return fair value of options at the time of grant, using method determined by the Committee/Board.

Subject to Company's ESOS Schemes, the Committee at its discretion may specify a retention period after the vesting of stock linked instruments which have been awarded as variable pay during which they cannot be sold or accessed.

Malus and Clawback shall apply equally to resigning and retiring employees.

7. REMUNERATION TO NON-EXECUTIVE/INDEPENDENT DIRECTOR:

(a) Sitting Fees:

The Non-Executive/Independent Director may receive remuneration by way of fees for attending meetings of Board or Committee thereof.

Provided that the amount of such fees shall not exceed the maximum amount as provided in the Act, per meeting of the Board or Committee or such amount as may be prescribed from time to time.

(b) Commission:

The Non-Executive/Independent Director may receive Commission/ Bonus/ Incentive or such other amount by whatever name called as may be approved by the Board from time to time on the basis of performance of the Company and on recommendation of Committee.

8. CONFIDENTIALITY

All persons responsible for execution of the Policy shall ensure confidentiality of the discussions and decisions with regard to the prospective candidate(s), except that the information may be shared, if required, with the concerned candidate(s) in order to prepare him for such elevation/induction.

9. SEVERABILITY AND LAWS TO TAKE PRECEDENCE

- 9.1. This Policy constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this Policy being held to be a violation of any applicable Law, statute or regulation, the same shall be severable from the rest of this Policy and such provision shall be of no force and effect, and this Policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.
- 9.2. If any of the provisions of this Policy are inconsistent with the applicable laws, then the provisions of applicable laws shall prevail over the Policy to that extent and the Policy shall be deemed to have been amended so as to be read in consonance with applicable laws. Any subsequent amendment(s)/modification(s) in the applicable laws in this regard shall automatically apply to this Policy.

10. REVIEW OF THE POLICY AND AMENDMENTS

- 10.1. The Board on recommendations of the NRC will review this policy at such intervals as may be required on the regulatory and business exigencies.
- 10.2. Any change/amendment/modification in the policy shall be approved by the Board on recommendations of the NRC. As this Policy is pursuant to the applicable laws, if any change to applicable laws or interpretation thereof necessitates any change to the Policy, this Policy shall be read so as to accommodate the changes and necessary amendment shall be carried out at a subsequent date in the policy. The Company Secretary will review the Policy to give effect to above, as and when need arises, till such time as the Board of Directors makes the necessary changes to the Policy. The Board shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.