

REMUNERATION & COMPENSATION POLICY

NUVAMA WEALTH FINANCE LIMITED

Document Control

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BACKGROUND

This policy has been outlined to define the Remuneration and Compensation Policy as defined in the Companies Act, 2013 ('Act') and Reserve Bank of India (RBI) guidelines on compensation for, Key Managerial Personnel (KMPs) and Senior Management in NBFCs effective from 1 April 2023 ("the Guidelines")

The Guidelines envisage the Board of Directors of NBFCs to put in place a compensation policy "to address the level & composition of remuneration levels that are commensurate with the role requirements while addressing issues arising out of excessive risk taking caused by misaligned compensation packages". The guideline expects the organization to cover (a) constitution of a Remuneration Committee, (b) principles for fixed/ variable pay structures, and (c) malus/ claw-back provisions.

OBJECTIVE

The objective of this policy is to define the compensation philosophy applicable to Directors, the Key Management Personnel (**KMP**) and Senior Management employees (**SM**) of Nuvama Wealth Finance Limited (hereafter referred to as the **NWFL**).

NWFL thrives to create a transparent, fair, meritocratic, and equitable reward system that will help attract, motivate, and retain key talent through its effective and competitive compensation & benefits practices.

The key objectives of the reward strategy are as follows:

- 1) Drive business goals and objectives
- 2) Recognize individual performance and contribution
- 3) Ensure internal equity and external parity
- 4) Acknowledge regulatory and statutory guidance
- 5) Strike balance between Risk and aligned reward

SCOPE

Remuneration and Compensation Policy is applicable to the Board of Directors, Key Management Personnel (KMP) and Senior Management employees (SM) of NWFL.

Board of Directors for the purpose of this policy will include:

- (i) Independent Directors
- (ii) Non-Executive Directors
- (iii) Managing Director/Executive Director

KMPs as defined in Section 2 (51) of Companies Act, 2013, and for the purpose of this policy, include:

- (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
- (vi) such other officer as may be prescribed

Senior Management shall mean the officers and personnel of the listed entity who are members of its core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the Company Secretary and the Chief Financial Officer.]

The Remuneration and Compensation Policy covers the following aspects as per the requirement of RBI:

- Constitution of Nomination & Remuneration Committee
- Principles for fixed/ variable pay structures, and
- Malus/ Clawback provisions

NOMINATION AND REMUNERATION COMMITTEE (NRC)

The NRC has been constituted in accordance with the provisions of the Companies Act, 2013. The terms of reference of the NRC shall also include “overseeing framing, review and implementation of the compensation policy of the NBFC, with the approval of the Board, as envisaged by the RBI Guidelines.

Role of NRC in overseeing the implementation of this policy:

- Review the appointment of individuals in identified KMP and Senior Management roles.
- Ensure Fit & Proper status and no conflict of interest in the appointment of directors, KMPs and Senior Management roles.
- Review the compensation for KMPs and Senior Management and while doing so, take into account the need for retention of earnings & maintenance of adequate capital in adherence to the statutory requirements and industry practices.
- Work in close coordination with Risk Management Committee (RMC) of the Company to achieve effective alignment between compensation and risks.

PRINCIPLES OF REMUNERATION AND COMPENSATION POLICY

The remuneration for the KMP and Senior Management is based on various factors mentioned below:

- **Role:** The role & responsibilities of the individual, expected deliverables from their KRAs – (fiscal, risks taken and adherence to the compliance framework)
- **Performance:** The performance exhibited by the individual against the expected Goals & Deliverables and contribution to the overall goals of the organisation.
- **Industry standards:** Parity with Market best practices, wherever feasible.
- **Balance between Risk and Aligned reward:** The policy aims to address the importance of balance between risks and the rewards associated thereto, without encouraging incentivization for taking undue high levels of risk.

RISK VECTOR

Key Managerial Personnel and Senior Management in their respective roles take decisions that have an impact on the risk exposure of the organization.

The categories of Risk impacted by Key Managerial Personnel and Senior Management are following:

1. **Credit Risk** - Credit risk is defined as the risk of loss arising due to current/potential inability or unwillingness of a customer or counterparty to meet financial / contractual obligations. It includes Credit Quality, Collateral Quality and Cash Flow risks as its principal categories. Key parameters to assess performance on Credit risk will be Non-Performing assets and Expected Credit loss numbers.
2. **Market Risk** - Market risk is defined as the risk of loss on Investments resulting from adverse movements in market variables and instruments. It includes Underlying Price risk and Volatility risk as its principal categories. Key parameters to assess performance on market risk will be actual profit and loss numbers, Value at Risk and Scenario analysis numbers.
3. **Operational Risk** - Operational Risk is defined as the risk of loss resulting from inadequate or failed processes, system controls or human negligence. It includes process risk, human error and system error as its principal categories. Key parameters to assess performance on Operational risk will be level of process automation, IT controls and number of errors/process lapses.
4. **Fraud Risk** - Fraud risk is defined as the activities undertaken by an external/internal individual or entity that are done in a dishonest or illegal manner and is designed to give an advantage to the perpetrating internal/external individual or entity. It includes Employee Fraud, Customer Fraud and Third-Party Fraud as its principal categories. Key parameters to assess performance on Fraud risk will include Fraud Vulnerability assessment and number of actual Frauds incidents.
5. **Liquidity Risk** - Liquidity risk is defined as the risk of not being able to meet financial obligations and it includes Asset Liquidity risk and Liability refinancing risk as its principal categories. Key parameters to assess performance on Liquidity risk will include Debt to Equity ratio, Asset-Liability statement and Borrowings of the company.
6. **Regulatory Risk** - Regulatory risk is defined as the risk of not adhering to the letter and spirit of laws and regulations leading to fines or other penal action. It includes Legal, Governance, Vigilance, Fiduciary and data integrity as its principal categories. Key parameter to assess performance on regulatory will include no negative regulatory observation by auditors and/or regulators.
7. **Technology Risk** - Technology risk is defined as the risk of loss due to technology failures such as information security incidents or service outages that can disrupt business. It includes Cyber Security Risk, Business Continuity Planning (BCP), Resilience and Scalability risks as its principal categories. Key parameters to assess performance on Technology risk will be strength of Cyber security and BCP processes.

The KRAs/KPIs for the KMPS and SM will factor:-

- Linkage of the aforesaid risk parameters and prudent risk taking to ensure that performance outcomes are adjusted for all types of risks;
- the compensation outcomes are symmetric with risk outcomes

COMPONENTS & GUIDELINES OF REMUNERATION – INDEPENDENT DIRECTORS & NON-EXECUTIVE DIRECTORS

- I. The Independent Directors & Non-executive Directors are eligible for sitting fees for attending the meetings of the Board and the Committees thereof.
- II. The Independent Directors & Non-executive Directors are also eligible for commission, subject to limits prescribed under the Act and the Rules framed there under.
- III. The Independent Directors are not eligible for stock options.
- IV. The Non-executive Directors (other than promoter Directors) shall be eligible for stock options.

COMPONENTS & GUIDELINES OF REMUNERATION – MANAGING DIRECTOR & EXECUTIVE DIRECTORS

- I. The remuneration of the Managing Director Executive Directors is recommended by the Nomination and Remuneration Committee ('NRC') to the Board. Based on the recommendations of the NRC, the Board determines and approves the remuneration of the Managing Director/Executive Directors, subject to necessary approvals, if any.
- II. The remuneration paid to the Managing Director Executive Directors is within the limits prescribed under the Act and approved by the shareholders of the Company. The remuneration structure includes fixed salary, perquisites, bonus, other benefits and allowances and contribution to Funds, etc.
- III. The Executive Directors (other than the promoter Directors) shall be eligible for stock options.

COMPONENTS & GUIDELINES OF REMUNERATION – KEY MANAGERIAL PERSONNEL (KMP) AND SENIOR MANAGERIAL PERSONNEL (SM)

As per the Compensation Policy, the total remuneration of KMP and SM personnel shall comprise of Fixed Pay, Performance Linked Variable Pay, ESOPs, (if eligible) and Retirement & other Benefits.

The policy attempts to ensure that total compensation is commensurate with the role and prudent risk-taking profile of KMPs/ SM. The proportion of variable pay is aligned to the level of responsibility. It also attempts to ensure a balance between cash and share-linked instruments to ensure that compensation payouts 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 Compensation: This component defines the Annual Fixed Compensation for the role and includes components like Basic, HRA, Special Allowance, other statutory components, and other perquisites.

The fixed compensation to be paid to every individual is based on attributes like requirements of the role, educational background, total experience level, skill set and industry benchmarks, if any.

B. Performance linked Variable Pay: This component is a yearly pay-out designed to reward eligible employees based on the achievement of specific performance parameters that have been drawn out in line with the business strategy. It is designed to recognize and encourage the right actions/behavior and reward an employee based on achievement of goals. KMPs and Senior Management engaged in financial control, risk management, compliance and internal audit will be compensated as commensurate with their key role and independent of the business areas overseen by them. The mix of fixed compensation and variable pay will be suitably aligned to ensure that the employees in the above category are remunerated in a fair manner in accordance with their enterprise functions and industry practices.

Annual performance bonus pool will be determined post the review of the Quantitative & Qualitative parameters. Annual Performance linked Variable Pay is determined by factors such as:

- Organization Performance
- Business Performance
- Individual Performance

The quantum of the Performance linked Variable Pay may vary each year basis the above-mentioned factors and can be NIL in case of non-performance.

The performance linked variable pay for the KMP and Senior Management will be based on a detailed performance review against the defined deliverables (KRA/KPIs) which include the risk vector as detailed above and is a balanced alignment between risk and rewards for the short-term & long-term.

The Risk Management Committee shall review the performance of the Company against risk parameters and submit its findings to NRC for its consideration and further deliberation as required.

No guaranteed bonus shall be payable to any KMP/ Senior Management.

Eligibility: KMPs & Senior Management that have joined on or prior to 30th September of the respective financial year will be eligible for performance evaluation for the financial year. All performance bonus pay-outs are prorated for the tenure in the given financial year.

Any Senior Management employee serving notice period on the bonus pay-out date, will not be eligible for Performance bonus.

The organization provides for joining/sign-in bonus on case-to-case basis. In case of termination of services within 12 months of the date of joining, any joining/sign-in bonus paid is fully recoverable.

C. Long Term Incentive/Share based plan: The Senior Management / KMP can also participate in the Long Term Incentive/Share based plan of the organization and may be granted Options/ securities of similar nature by whatever name called. The quantum of grant shall be based on the individual's performance & contribution to the organization's goals.

This component aims to address the importance of balance between risks and the rewards associated thereto, thus ensuring alignment to long-term growth.

In the event of termination due to proven commission of felony, fraud, misappropriation, breach of trust, or any offence involving moral turpitude or breach of integrity, gross or wilful insubordination, or any other act determined to be detrimental to the interest of the company including and not restricted to violation of Code of Conduct, all Options granted under the Employee Stock Option Scheme – vested & unvested, shall lapse with effect from the date of such termination.

D. Retirement & other benefits

Senior Management / KMP is also entitled to Retirement & Health benefits. These benefits are designed to provide for long term sustainability for Senior Management post retirement.

These benefits include Provident Fund, Gratuity and National Pension scheme and are governed by the respective regulatory guidelines.

E. Healthcare & Insurance benefits

To safeguard Senior Management / KMP against any unfortunate incidents in the future, NWFL provides benefits which include Group Mediclaim policy, Group Term life insurance and Group Personal Accident cover. These benefits are designed to provide adequate comfort in cases of hospitalization or any untoward incident like demise, accident, disability arising out of accident etc.

F. Compensation Revision

Revision in Fixed Pay is done on an annual basis through a detailed Performance Assessment process. During this process, performance of KMP and Senior Management is appraised against their pre-defined deliverables and are given a Performance rating basis the organization rating scale.

Increment percentage is based on factors such as performance assessment rating, role, internal equity & external parity, and overall organization's performance for the year.

Employees joining the organization prior to 30th September would be eligible for performance-based increment. Increment pay-outs are prorated effective from date of joining.

G. Deferred Pay

Deferred pay is a component of Variable Pay applicable to KMP and Senior management personnel that may be deferred depending on the time horizon of the risks undertaken.

Basis the performance of the organization, 10-15% of the variable pay may be deferred and such deferral period shall not exceed 12 months as majority of the loan book churns within a period of 12 months. Further, the governance structure does not allow the KMP or SM to take undue risks as there are stringent parameters defined for the loan book.

The portion of deferral arrangement may be made applicable for cash or non-cash components of the variable pay.

H. Clawback Clause

This will be applicable to the **Deferred Pay** in the event of proven commission of felony, fraud, misappropriation, breach of trust, or any offence involving moral turpitude or breach of integrity, gross or wilful insubordination, or any other act determined to be detrimental to the interest of the Company including adverse development on company's performance or capital and not restricted to violation of Code of Conduct.

Our component of the compensation program will be governed by the above and will be applicable for a period of 1 year or above, as the case may be, after each pay-out date. It will be fully recoverable in case of resignation/termination of the employee's services before completion of 1 year or above, as the case may be, from the date of payment, in the event of happening of any of the events mentioned in the foregoing paragraph.

This Policy shall form part of the Remuneration Policy framed under the provisions of the Companies Act, 2013.

EFFECTIVE DATE

This Remuneration and Compensation policy, as recommended by the NRC and approved by the Board, is effective from 1st April 2023 for the performance of FY 23 – 24 and onwards.

POLICY REVIEW

The Company may review or amend the Policy, through NRC and the Board, to comply with regulatory requirements or to make any necessary modifications to meet business needs.

However, Policy shall be reviewed at least annually and approved by the Board.

In case, any amendments, clarifications, circulars or guidelines is issued by the regulatory body(ies)/authority(ies) and is immediately effective, then provisions of such amendments, clarifications, circulars and the guidelines shall prevail over the existing policy from the effective date as referred in the notification.