



Enabling Holistic Dignified Living

Nomination and Remuneration Policy Version 4.0

Version History

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1. Introduction:

Pursuant to provisions of the Companies Act, 2013 and RBI Circular on Guidelines on Compensation of Key Managerial Personnel ('KMP') and Senior Management in NBFCs dated April 29, 2022 issued pursuant to the RBI Scale Based Regulatory Framework for NBFCs ('RBI Compensation Guidelines'), Light Microfinance Private Limited ('Company') is required to define general guidelines for the Company's fixed and variable pay to its Board of Directors, Key Managerial Personnel, Senior Management and other Employees of the Company.

This Nomination and Remuneration Policy ('Policy') is being formulated in compliance with Section 178 of the Companies Act, 2013 read along with the applicable rules thereto, and the relevant RBI guidelines issued in this behalf. This Policy has been formulated by the Nomination and Remuneration Committee ("NRC" or "Committee") and has been approved by the Board of Directors.

The Policy is divided into separate sections for Executive and Non-Executive Directors, KMP and Senior Management of the Company. The remuneration of the Directors and Key Managerial Personnel is considered and recommended by the NRC under delegated powers from the Board of Directors of the Company. Pursuant to the RBI Compensation Guidelines, the NRC shall work in close alignment with the Risk Management Committee ('RMC') to achieve effective alignment between the risks and the compensation.

The Company's underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibilities, experience and value to the Company. This objective has been and continues to be applied as consistently and fairly as possible to all Company's personnel over a prolonged period of time. Only in this way the Company will be able to attract, retain and motivate high-caliber executives and employees, who can perform to meet the highest levels of expectations. This Policy shall also be read along with the general HR Policy of the Company and the terms of employment.

2. Definitions:

- 2.1. **"Act"** means the Companies Act, 2013 and Rules framed thereunder, as amended from time to time.
- 2.2. **"Board" means** Board of Directors of the Company.
- 2.3. **"Committee or NRC"** means Nomination and Remuneration Committee of the company as constituted or reconstituted by the Board.
- 2.4. **"Company"** means Light Microfinance Private Limited

- 2.5. **“Directors”** means Directors of the Company.
- 2.6. **“Employees”** means persons in the permanent employment of the Company.
- 2.7. **“Key Managerial Personnel (KMP)”** means
- i. Managing Director or Chief Executive Officer or Manager and in their absence Whole-Time Director;
 - ii. Chief Financial Officer;
 - iii. Company Secretary.”
- 2.8. **“Senior Management”** means officers/personnel who are members of the core management team excluding the Board of Directors and shall comprise all members of management one level below the Chief Executive Officer/Managing Director/Whole-time Director/Manager (including chief executive officer/manager, in case they are not part of the board). The term shall also include the functional heads.
- 2.9. **Share linked instruments** with reference to the (Share Based Employee Benefits) Regulation, 2014 may mean:
- i. Employee stock option scheme
 - ii. Employee Stock purchase scheme
 - iii. stock appreciation rights schemes
 - iv. general employee benefit scheme
 - v. retirement benefit scheme

3. Objectives and purpose of this Policy

- 3.1. The purpose of this Policy is to ensure that Directors, KMPs and Senior Management are remunerated in a way that reflects the Company’s long-term strategy. Consistent with this, a proportion of Directors’ total potential remuneration has been, and will be, strongly linked to the Company’s long-term performance;
- 3.2. Considering the increasing regulatory focus on risk management and compliance and competitive environment with advent of technology-focused financial services companies, the Company’ compensation structure has been aligned to attract the best talent for execution of its business plan in a risk mitigated and compliant manner.
- 3.3. To align individual and team rewards with business performance in both the short term and long term;
- 3.4. To guide the Board in relation to the appointment and removal of Directors and Key Managerial Personnel.
- 3.5. To encourage executives to perform to their fullest capacity;
- 3.6. To be competitive and cost effective;
- 3.7. To formulate the criteria for identification and selection of the suitable candidates who are qualified to be appointed as Director on the Board of Directors of the Company;
- 3.8. To recommend the approach for determining the remuneration for the Directors, Key Managerial Personnel, Senior Management Personnel and other employees of the Company;

- 3.9. To make recommendations to the Board on appropriate performance criteria for the Directors and carry on the performance evaluation of the Directors;

PART I: Nomination and Appointment

4. Criteria for selection of members on the Board of Directors and candidates for KMP

The Committee has adopted the following criteria for selection of members on the Board and also candidates eligible to be appointed as KMPs of the Company:

4.1. Criteria for selection of Directors

- 4.1.1. Before making any recommendation to the Board for appointment of any Director, the NRC shall undertake a process of Due Diligence based on the criteria of qualification, technical expertise, track record, integrity, etc. as detailed in the 'Fit & Proper Criteria policy' of the Company before appointing/re-appointing any person as a director on the Board, thereby preventing any Conflict of Interest in the appointment or removal of Directors and Management. The Committee shall ensure that:
- i. The candidate possesses positive attributes such as Leadership, Industrious, Expanse and depth of knowledge pertaining to fields that fall under the larger ambit of BFSI (Banking, Financial Services and Insurance), or such other attributes which in the opinion of the Committee the candidate possess and such knowledge/expertise is likely to serve the interest/s of the Company;
 - ii. The candidate shall be free from any disqualifications as provided under Sections 164 and 167 of the Act and other applicable provisions, as may be amended from time to time;
 - iii. The candidate meets the conditions of being independent as stipulated under the Act and other applicable guidelines in case of appointment of an Independent Director;
 - iv. The candidate possesses appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations, infrastructure or such other areas or disciplines that are relevant for the Company's business.
- 4.1.2. The appointment of Independent Directors shall be as per provisions of Section 149 of the Act read with Schedule IV and rules thereunder and other applicable rules and regulations.
- 4.1.3. The Company shall not appoint or continue the employment of any person as a Whole-time Director who has attained the age of seventy years. However, such term may be extended

beyond the age of seventy years with the approval of shareholders by passing a special resolution.

- 4.1.4. No re-appointment of a Whole-time Director shall be made earlier than one year before the expiry of the current term.
- 4.1.5. In determining whether to recommend a Director for re-election, the Committee shall consider the Director's past attendance at meetings, participation in meetings, and contributions to the activities of the Board.

4.2. Term / Tenure

4.2.1. *Managing Director/Whole-time Director:*

The Company shall appoint or re-appoint any person as its Chairman, Managing Director, Whole-time Director, Manager for a term as decided mutually, subject to requirements under applicable laws. No re-appointment shall be made earlier than one year before the expiry of the current term.

4.2.2. *Independent Director:*

An Independent Director shall hold office for a term of up to five consecutive years on the Board of the Company and will be eligible for re-appointment on passing of a special resolution by the Company and disclosure of such appointment in the Directors' Report. No Independent Director shall hold office for more than two consecutive terms of up to a maximum of 5 years each, but such Independent Director shall be eligible for appointment after the expiry of three years of ceasing to become an Independent Director.

Provided that 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. At the time of appointment of Independent Director it should be ensured that number of Boards on which such Independent Director serves is restricted to seven listed companies as an Independent Director and three listed companies as an Independent Director in case such person is serving as a Whole-Time Director of a listed company or such other number as may be prescribed under the Act. Further, the Independent Director shall not be on the Board of more than three NBFCs (NBFC-ML or NBFC-UL) at the same time.

4.3. Removal

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

4.4. Retirement

The Director or 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, subject to the applicable provisions.

4.5. Criteria for selection of KMPs

4.5.1. The Committee shall, before making any recommendation to the Board for appointment, should ensure that the candidate has the attributes set forth below:

- i. A person to be appointed as KMP 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;
- ii. The candidate should possess qualities that demonstrate leadership skills, decision making skills, effective communication, hard work, commitment and such other attributes which in the opinion of the Committee the candidate possesses and are in the interest of the Company.
- iii. Also, the appointed employees as per the above-mentioned criteria shall be provided with the necessary training in respect of their conduct towards the customers to inculcate appropriate behavior towards the customers which shall also impact their compensation criteria.

4.6. Other criteria to be considered by the Committee

The Committee, at its meeting, shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend the remuneration of directors, KMPs, and Senior Management Personnels (SMPs) of the Company after having regard to the below criteria/principles –

- 4.6.1.1. The level and composition of remuneration are reasonable and sufficient to attract, retain and motivate directors of the quality required to run the Company successfully;
- 4.6.1.2. Relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- 4.6.1.3. Remuneration to directors, KMPs and SMPs involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals.
- 4.6.1.4. 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).

5. Evaluation of performance of Directors

5.1. Evaluation of the performance of Executive Director

The performance of the Executive Director of the Company may be carried out taking into consideration the performance of the Company vis-à-vis the budgets as well as performance of its competitors. Emphasis shall be made on achieving top line and bottom line targets, and such other relevant criteria as may be determined by the NRC.

5.2. Evaluation of the performance of Non-Executive Directors and Independent Directors

While evaluating the performance of the Non-Executive Directors and Independent Directors may take into consideration various factors as mentioned below:

- i. Attendance at Meetings - attendance at Board Meetings, Committee meetings;
- ii. Other Directorships held by the Non-Executive Director - in listed or unlisted companies;
- iii. Other companies in which Non-Executive Director is a Chairperson;
- iv. Participation at Board/Committee meetings.
- v. Input in strategy decisions;
- vi. Review of Financial Statements, risks and business performance;
- vii. Time devoted towards discussion with Management;
- viii. Review of Minutes – Board Minutes, Committee meeting Minutes and AGM Minutes;
- ix. Dedication;
- x. Preparedness & Participation;
- xi. Team work;
- xii. Contribution;
- xiii. Response;
- xiv. Commitment;
- xv. Knowledge / Sharing information;
- xvi. Responsibilities;
- xvii. Suggestions during discussion

Marks may be assigned for each of the above factors / criteria and based on the score achieved, the Committee may evaluate the performance of each Non-Executive Director and Independent Director.

5.3. Evaluation of the Performance of KMP, Senior Management and other Personnel

Annual Performance Appraisal and periodic review of performance of Senior Management, KMP and other Employees of the Company shall be done by respective functional heads reflected by various performance indicators and shall be approved by the Executive Directors of the Company.

6. Flexibility, judgment and discretion

The Committee is empowered to undertake quantitative and qualitative assessments of performance in reaching its decisions. This involves the use of judgement and discretion within a framework that is approved by, and transparent to, shareholders.

The Committee considers that the powers of flexibility, judgment and discretion are critical to successful design and implementation of the Policy.

The Committee considers that an effective Policy needs to be sufficiently flexible to take account of future changes in the industry and in remuneration practice generally.

The Committee considers a wide range of factors when developing the Policy for Executive Directors. The Committee believes that it has a duty to shareholders to ensure that the Company is competitive so as to attract and retain the high caliber Executives required to lead the Company.

PART II - Remuneration

7. Remuneration Policy for Directors, KMPs and other Employees

7.1. The Committee shall review and recommend to the Board adopting the key principles of remuneration.

- i. Benchmarked to appropriate market: The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate employees of the quality required to run the Company successfully.
- ii. Adopt a Pay for Performance philosophy such that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- iii. Have an appropriate balance in pay mix: The remuneration has a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals.
- iv. Be financially viable and relevant to market practices and commensurate to skills:
 - taking into account, financial position of the Company, trend in the industry, appointee's qualification, experience, past performance, past remuneration, and any other relevant factors that the Committee may deem fit;
 - be in a position to bring about objectivity in determining the remuneration package while striking a balance between the interest of the Company and the shareholders.
- v. The compensation of KMPs and Senior Management shall be 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;
- vi. Compliant with local laws:
 - Remuneration is in compliance with the relevant provisions of the Act, 2013.
 - Remuneration for all employees is in compliance with the relevant provisions of Payment of Wages Act, Minimum Wages Act, and such other relevant Labour Laws of the country as may be applicable to the Company from time to time.

7.2. Remuneration of all Executive Directors:

The Committee may consider various factors while considering the remuneration of Executive Directors, provided that any remuneration considered by the Committee shall be in accordance and within the limits stipulated under the Act.

7.3. Remuneration of all Non-Executive Directors and Independent Directors:

- i. The remuneration payable to each Non-Executive Director (including Independent Directors) is based on the remuneration structure as determined by the Board, and is revised from time to time, depending on individual contribution, the Company's performance, and the provisions of the Act and the rules made thereunder;
- ii. The remuneration to the Non-Executive Directors (including Independent Directors) may be restricted to the sitting fees for attending meetings of the Board and Committees of Board, provided that any sitting fees paid to the Independent Director shall not be less than the sitting fees paid to Non- Executive Directors.
- iii. The remuneration to the Non-executive Directors (including Independent Directors) may be paid within the monetary limit approved by shareholders, subject to the limits as per the applicable provisions of the Act.
- iv. Independent Directors shall not be eligible for stock options of the Company, if any.

7.4. Remuneration of KMPs, Senior Management and other Employees:

7.4.1. Compensation Structure

The compensation structure shall broadly comprise the following components:

- i. Fixed Pay
- ii. Variable Pay

7.4.2. Composition of Fixed Pay:

- i. All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, shall be treated as part of fixed pay;
- ii. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements;

- iii. 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.

7.4.3. Composition of Variable Pay:

The variable pay for Senior Management shall consist of:

- i. a mix of cash and share-linked instruments;
- ii. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.

7.4.4. The proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of KMPs/ senior management.

7.4.5. 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 variable mechanism.

7.4.6. Compensation for Risk Control and Compliance Staff:

To ensure a robust Risk Management and Control Mechanism, it is intended that KMPs and Senior Management engaged in financial control, risk management, compliance and internal audit are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the company. Accordingly, the company shall ensure that the mix of fixed to variable compensation for control function is weighted in favour of fixed compensation and in line with the RBI guidelines for NBFCs.

7.4.7. Guaranteed bonus:

Guaranteed bonus may not be paid to the 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 of variable pay.

7.5. Remuneration packages may contain any or all of the following:

- i. annual salary based on conditions and the relevant market - with provision to recognize the value of the individuals' personal performance and their ability and experience;
- ii. ad hoc rewards, special payments and other measures available to reward individuals and teams following a particular outstanding business contribution;
- iii. bonuses - a lump sum payment which has no bearing on the performance of the individual in respect of risk taking but is guaranteed upon the achievement of a certain criteria such as achieving the target of identified business drivers and personal key performance indicators measured over the period of the assessment and shall not be paid to the KMPs and Senior Management. However Company shall at its discretion allow sign-on bonus to new employees as per their skill and qualifications.

7.6. Directors and Officers Liability Insurance

Where any insurance is taken by the Company on behalf of its Whole-time Directors, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary and any other employees 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. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration

8. Policy review

This Policy is framed based on the provisions of the Act and rules thereunder.

In case of any subsequent changes in the provisions of the Act or any other applicable Rules and Regulations which makes any of the provisions in the Policy inconsistent with the Act or Regulations, then the provisions of the Act or Regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy shall be reviewed by the NRC as and when any changes are to be incorporated in the Policy due to change in regulations or as may be felt appropriate by the Committee. Any changes or modification on the Policy as recommended by the Committee would require approval of the Board of Directors. The Policy shall be subject to an annual review.

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