



NOMINATION AND REMUNERATION POLICY

Version 3.0

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1 Introduction

The Board of Directors (“Board”) of Aye Finance Private Limited (“Company”) constituted the Nomination and Remuneration Committee (“Committee”) at the meeting held on 9th May 2018.

In compliance with the requirements set out under Section 178 of the Companies Act, 2013 (“Companies Act”), the Committee has formulated this Nomination and Remuneration Policy (“Policy”) in order to set our principles, parameters and governance framework of the remuneration for Directors, Managing Director & CEO, Key Managerial Personnel and employees of the Company.

This policy is effective from the date of Board approval.

While formulating this Policy, the Committee has considered the factors laid down under Section 178(4) of the Companies Act, which are as under:

- (i) 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.
- (ii) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- (iii) remuneration to Directors and Key Managerial Personnel 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.

This Policy also rely on the service rules, resolutions approved by the Board or Committee, internal controls and guidelines framed by the Company which were earlier approved by the Board from time to time.

2 Objective

This Nomination and Remuneration Policy shall be in compliance with Section 178 of the Companies Act, 2013 and Guidelines of Reserve Bank of India on Corporate Governance Norms for NBFCs. The Key Objectives of this policy would be:

- a) To lay down the rules for guiding the NRC Committee and the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management.
- b) To evaluate the performance of the members of the Board and provide necessary report to the Board for further evaluation of the Board.
- c) The lay down the rules for evaluating the remuneration from time to time to be recommended to the Board depending upon the profitability and financial performance by the Company for each financial year subject to the thresholds prescribed by the provisions of applicable laws including the provisions of the Companies Act, if any.

3 Definitions

- A. "Act" means Companies Act 2013.
- B. "Board" means Board of Directors of the Company.
- C. "Committee" means the Nomination and Remuneration Committee constituted by the Board as on 9th May, 2018 and as reconstituted from time to time.
- D. "Director" means a director appointed on the Board of the Company.
- E. "Managing Director" means a whole-time director appointed by the Board of Directors with designation as MD.
- F. "Independent Director" means a Director referred to in Section 149(6) of the Companies Act, 2013.
- G. "Key Managerial Personnel" in relation to a company means, as defined under section 2(51) of the Companies Act, 2013:
 - i. the Chief Executive Officer or the managing director;
 - ii. the company secretary;
 - iii. 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; and
 - vi. any other person as may be prescribed in the Act
- H. "Key Employees" shall mean
 - i. Managing director, or Chief Executive Officer
 - ii. Deputy Chief Executive Officer, Chief Risk Officer, Chief Credit and Collections Officer, Chief Financial Officer or any other employee appointed as a CXO
 - iii. Company Secretary;
- I. "Regulations" means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and RBI directions as applicable on the Company.

4 Constitution of the Committee

- A. The Committee will consist of 3 (three) or more non-executive directors, out of which at least half shall be Independent Director(s). The Committee shall be chaired by an Independent Director who is not a Chairman of the Company.
- B. The Board shall reconstitute the Committee as and when required to comply with the provisions of the Companies Act and applicable statutory requirements.
- C. A member of the Committee is not entitled to be present when his or her own remuneration is discussed at a meeting or when his or her performance is being evaluated. The Committee may invite such executives, as it considers appropriate, to be present at the meetings of the Committee.

5 General Principles on Appointment, Reappointment, Removal and Remuneration of Directors and Key Managerial Personnel

5.1 *Appointment Criteria and Qualifications*

- i. The Committee shall apply a due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director or a Key Managerial Personnel on the basis of his educational qualification, experience and track record. The Committee has the discretion to decide whether qualifications, expertise and experience possessed by a person are satisfactory for the concerned position.
- ii. Characteristics expected of all Directors include integrity, high personal and professional ethics, sound business judgment, ability to participate constructively in deliberations and willingness to exercise authority in a collective manner. While all appointments to the Board are made on merit, the diversity of Board in aggregate will be of immense strength to the Board in guiding the Company successfully through various geographies. In reviewing and determining the Board composition, the Committee will consider the merit, skill, experience, gender and other diversity of the Board. In determining whether to recommend a Director for reappointment, the Committee also considers the Director's past attendance at meetings, participation in meetings and contributions to the activities of the Board, and the results of the most recent Board self-evaluation.
- iii. Appointment, re-appointment, removal and resignation of a Director or a Key Managerial Personnel shall conform to the Standard Operating Procedure (SOP) on Appointment, Resignation and Remuneration of Directors & Key Managerial Personnel (KMP)).

5.2 *Removal*

The Committee may recommend to the Board, with reasons recorded in writing, removal of Director and Key Managerial Personnel in accordance with the Act and the Regulations, including for contractual breaches.

5.3 *Remuneration*

A. **Remuneration structure**

- i. Aye Finance's remuneration structure includes gross salary (basic salary + allowances), retirals (employer PF + gratuity) and incentives (annual performance bonus or annual statutory bonus or monthly incentives or long-term incentives). Additionally, Employee Stock Options (ESOPs) may be granted to high performers at particular grades with approval from the Committee.
- ii. The jobs performed by Aye employees are classified into specific job grades. These job grades along with past/present performance form the guideline to arrive at an individual's fixed compensation. Annual performance based increments are merit driven and based on annual performance ratings that are an outcome of the formalized annual performance review process.

- iii. Annual performance bonus is paid as per organizational performance and individual performance ratings. This annual performance bonus is a multiplier of monthly gross salary and varies with performance rating. Incremental expense from annual increments and payment of annual bonuses is approved by the Committee.
- iv. ESOPs are given with a vesting schedule spread across 4 years. As a prerequisite for a valid Vesting, an Option Grantee is required to be in employment or service of the Company on the date of Vesting and must neither be serving notice for termination of employment/ service, nor be subject to any disciplinary proceedings pending against him on the date of Vesting. However, on cessation of any disciplinary proceeding in favour of Option Grantee shall entitle him to earn the Vesting kept in abeyance. In case of termination due to Misconduct or due to breach of Company Policies /Terms of Employment, all the Vested as well as Unvested Options at the time of such termination shall stand cancelled with effect from the date of such termination.

B. Remuneration Principles

- i. The remuneration / compensation / commission etc. shall be subject to the approval of the of the Board of Directors of the Company as required under the provisions of the Act and Regulations. Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board.
- ii. The remuneration / compensation / commission etc. to the Directors and Key Managerial Personnel of the Company will be determined keeping in mind the following guidelines:
 - (a) overall remuneration should be reflective of the size of the Company, financial condition, revenues and profit of the Company, complexity of the sector / industry / company's operations and the Company's capacity to pay the remuneration;
 - (b) remuneration should be reasonable and sufficient to attract, retain and motivate the employees to be aligned with the requirements of the Company (taking in consideration the challenges faced by the Company and its future growth imperatives);
 - (c) overall remuneration practices should be consistent with industry standards;
 - (d) overall remuneration should be market competitive;
 - (e) average levels of compensation payable to employees in similar ranks;
 - (f) At higher levels of responsibility, the proportion of variable pay will be higher;
 - (g) should not contain any provisions regarding incentives to take excessive risks over the short term;
 - (h) based on the role played by the individual in managing the Company, including responding to challenges faced by the Company;
 - (i) periodic review; and
 - (j) Aligned to regulatory requirements.
- iii. Where any insurance is taken by the Company on behalf of its Directors and Key Managerial Personnel and other employees, for indemnifying them against any liability in respect of any negligence, default, misfeasance, breach of duty or breach of trust for which they may be guilty in relation to the company, 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.

- iv. Within the parameters prescribed by law, the payment of sitting fees and commission will be recommended by the Committee and approved by the Board. The Committee will recommend to the Board, the quantum of commission for each Director based upon the outcome of the evaluation process which is driven by various factors including attendance and time spent in the Board and committee meetings, individual contributions at the meetings and contributions made by Directors other than in meetings.
- v. In addition to the sitting fees and commission, the Company may pay to a Director such fair and reasonable expenditure, as may have been incurred by the Director while performing his/her role as a Director of the Company. This could include reasonable expenditure incurred by the Director for attending Board/ Board committee meetings, general meetings, court convened meetings, meetings with shareholders/ creditors/ management, site visits, induction and training (organized by the Company for Directors) and in obtaining professional advice from independent advisors in furtherance of his/her duties as a director.
- vi. Based on annual performance evaluation conducted by management of the Company, Nomination & remuneration Committee shall approve the increments, bonus, etc. to Key Employees of the Company.
- vii. Guaranteed bonus will not be paid to KMPs and Key Employees. However, in the context of new hiring, sign-on bonus may be considered which will not be a part of fixed pay or variable pay.

6 Appointment, Reappointment, Tenure, Removal, Retirement and Remuneration of Managing Director/ CEO/ Whole-time Director

6.1 Appointment

Eligibility

- i. The Managing Director/CEO/ Whole-Time Director shall fulfil the criteria of fit and proper person at all times.
- ii. The Managing Director/CEO/Whole-Time Director shall fulfill the criteria as per the Act and the Regulations.

Criteria

- i. The appointment, renewal of appointment and termination of service of the Managing Director/CEO/ Whole-Time Director of the Company shall be subject to the Committee and the Board of Directors of the Company.
- ii. The Committee shall from time to time, determine the qualification, manner of appointment, terms and conditions of appointment and other procedural formalities relating to the selection/ appointment of the Managing Director/CEO/ Whole-Time Director.

6.2 Tenure

- i. The appointment of the Managing Director/CEO/ Whole-Time Director shall be for a term not exceeding five years at a time.
- ii. No re-appointment shall be made earlier than one year before the expiry of term.

6.3 Removal

Due to reasons for any disqualification mentioned in the **Annexure A**, the Committee may recommend to the Board with reasons recorded in writing, removal of the Managing Director/CEO/ Whole-Time Director subject to the provisions and compliance of the Act.

6.4 Retirement

The Managing Director/CEO/Whole-Time Director shall retire as per the applicable provisions of the Act and the prevailing policy of the Company subject to a maximum age limit of seventy years. However, the appointment/re-appointment may be made by passing a special resolution in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such person.

6.5 Remuneration

- i. The compensation payable to the Managing Director/CEO/ Whole-Time Director shall be recommended by the Committee and approved by the Board.
- ii. The remuneration payable to the Managing Director/CEO/ Whole-Time Director shall be inclusive of any remuneration payable for services rendered by such Managing Director & CEO in any other capacity unless: (i) the services rendered are of a professional nature; and (ii) the Committee is of the opinion that the Managing Director/CEO/ Whole-Time Director possesses requisite qualification for the practice of the profession.
- iii. The remuneration payable to the Managing Director/CEO/ Whole-Time Director shall be subject to performance evaluation conducted by the Committee and the Board.
- iv. The Company shall not give loans and advances to an entity (company, firm, individual) in which the Director is interested.

7 Appointment, Reappointment, Tenure, Removal, Retirement and Remuneration of Non-Executive Directors Including Independent Directors

7.1 *Appointment Criteria and Qualifications*

- i. Every Non-Executive Directors shall always fulfill the criteria as per the Act and the Regulations.
- ii. Non-Executive Directors shall be appointed by the Committee after due diligence of the candidate by the Company and Reserve Bank of India (as may be necessary).
- iii. Any appointment and re-appointment of a Non-Executive Directors of the Company shall be subject to the approval of the Committee, Reserve Bank of India as may be necessary.
- iv. Independent Directors shall get themselves registered in the databank maintained by Indian Institute of Corporate Affairs (IICA).
- v. Independent Directors shall abide by the Schedule IV of the Act at all times.

7.2 *Tenure*

- i. The tenure of the Non-executive Directors shall be for such period as may be decided by the Committee in accordance with policies of the Company.
- ii. An Independent Director shall hold office for a term 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 Board's report.
- iii. No Independent Director shall hold office for more than two consecutive terms, but such Independent Director shall be eligible for appointment after 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.

7.3 *Resignation/Removal*

- i. Non-executive directors shall retire/removed as per the applicable provisions of the Act and the prevailing policy of the Company.
- ii. Independent director re-appointed for second term under the provisions of the law shall be removed by the company only by passing a special resolution passed by the Shareholders and after giving him a reasonable opportunity of being heard.

7.4 Remuneration

- i. The remuneration / profit linked commission shall be in accordance with the statutory provisions of the Act, and the rules made there under for the time being in force.
- ii. The Board shall recommend all fees or compensation, if any, paid to non-executive directors, including independent directors and shall require approval of shareholders in General Meeting.

8 Appointment, Reappointment, Tenure, Removal, Retirement and Remuneration of Key Managerial Personnel

8.1 Appointment Criteria and Qualifications

- i. Every Key Managerial Personnel shall always endeavor to add capability in-house and mentor officials with potential working under him to handle his responsibility in his absence by exposing him to all aspects of work being handled by him.
- ii. Any appointment and re-appointment of a Key Managerial Personnel of the Company shall be subject to the approval of the Committee.

8.2 Tenure

The tenure of the Key Managerial Personnel other than MD & CEO shall be for such period as may be decided by the Committee in accordance with the internal policies of the Company.

8.3 Retirement

The Key Managerial Personnel shall retire as per the prevailing policy of the Company at the age of 60 years unless extended by the Managing Director with the approval of the Board.

8.4 Remuneration of Key Managerial Personnel

The remuneration to be paid to the Key Managerial Personnel shall be recommended by the Committee to the Board and as per the provisions of the Companies Act. The Committee shall review the performance of the Key Managerial Personnel on an annual basis.

8.5 Evaluation/ Review

The Committee shall carry out evaluation of performance of every Director and KMP at regular intervals (yearly) in accordance with Company's Policy on Performance Evaluation of every Director and KMP. The evaluation of performance of the Board, its Committees and Individual Directors to be carried out either by the Board, by the Nomination and Remuneration Committee. The evaluation of independent directors shall be done by the entire board of directors which shall include – (a) performance of the directors; and (b) fulfillment of the independence criteria as specified in the Act and their Independence from the management: Provided that in the above evaluation, the directors who are subject to evaluation shall not participate.

9 Policy Implementation

The Committee is responsible for recommending the nomination and the remuneration policy to the Board. The Board is responsible for approving and overseeing implementation of the nomination and the remuneration policy.

10 Disclosure

Salient features of this Policy along with changes therein if any shall be disclosed in the Board's Report or alternatively the same may be put up on the Company's website and reference drawn thereto in the Board's Report.

11 Review of the Policy

In case of any subsequent changes in the Act or the Regulation which makes any of the provisions in the Policy inconsistent with the Act or the Regulation, then the provision of the Companies Act or regulations would prevail over the Policy and the provisions of the Policy would be modified to make it consistent with law. The Policy should be reviewed on an annual basis by the Nomination & Remuneration Committee.

The Board (including the Nomination and Remuneration Committee of the Board) may amend the policy from time to time depending upon the requirements of the provisions of the Companies Act and other applicable law.

Annexure A

Section 164 of the Act defines disqualification criteria for appointment of the Director-

(1) A person shall not be eligible for appointment as a director of a company, if —
 (a) he is of unsound mind and stands so declared by a competent court;
 (b) he is an undischarged insolvent;
 (c) he has applied to be adjudicated as an insolvent and his application is pending;
 (d) he has been convicted by a court of any offence, whether involving moral turpitude or otherwise, and sentenced in respect thereof to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of the sentence:

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be appointed as a director in any company;

(e) an order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;
 (f) he has not paid any calls in respect of any shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call;
 (g) he has been convicted of the offence dealing with related party transactions under section 188 at any time during the last preceding five years; or
 (h) he has not complied with sub-section (3) of section 152.
 (i) he has not complied with the provisions of sub-section (1) of section 165.

(2) No person who is or has been a director of a company which—
 (a) has not filed financial statements or annual returns for any continuous period of three financial years; or
 (b) has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more,

shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.]

Provided that where a person is appointed as a director of a company which is in default of clause (a) or clause (b), he shall not incur the disqualification for a period of six months from the date of his appointment.

(3) A private company may by its articles provide for any disqualifications for appointment as a director in addition to those specified in sub-sections (1) and (2):

Provided that the disqualifications referred to in clauses (d), (e) and (g) of sub-section (1) shall continue to apply even if the appeal or petition has been filed against the order of conviction or disqualification.

Additionally Section 196 (3) of the Act states that –

No company shall appoint or continue the employment of any person as managing director, whole-time director or manager who —

(a) is below the age of twenty-one years or has attained the age of seventy years:

Provided that appointment of a person who has attained the age of seventy years may be made by passing a special resolution in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such person;

(b) is an undischarged insolvent or has at any time been adjudged as an insolvent;

(c) has at any time suspended payment to his creditors or makes, or has at any time made, a composition with them; or

(d) has at any time been convicted by a court of an offence and sentenced for a period of more than six months.