

NORTHERN ARC CAPITAL LIMITED

NOMINATION & REMUNERATION POLICY

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1. Objective

This Nomination and Remuneration Policy of Northern Arc Capital Limited (the “Company”) has been framed as a measure of good corporate governance and in line with the requirement of the Section 178 of the Companies Act, 2013 (“Act”), Regulation 19 read with Part D of Schedule II of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”) and Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (“RBI Directions”) as amended from time to time.

The objective of the policy is to ensure that

- a) To lay down broad framework for payment of remuneration to the Directors, Key Managerial Personnel and Senior Management Personnel;
- b) To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain reward and motivate directors and employees including key managerial personnel and senior managerial personnel of the quality required to run the company successfully;
- c) To ensure ‘fit and proper’ status of proposed and existing directors and that there is no conflict of interest in appointment of directors on Board of the Company, KMPs and senior management.
- d) To ensure that the remuneration of whole-time directors, key managerial personnel and senior management involves a balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the working of the company and aligned with the regulatory requirements;
- e) To ensure that the 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).

2. Applicability

This Policy covers the (i) appointment, remuneration of Directors, Key Managerial Personnel, and Senior Management personnel of the Company and (ii) Directors of the Subsidiaries of the Company.

3. Definitions

The definitions of some of the key terms used in this Policy are as below:

- a. **“Board of Directors” or “Board”** means Board of Directors of the Company.
- b. **“Clawback”** is 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.

- c. **“Company”** means the Northern Arc Capital Limited
- d. **“Committee(s)”** means Committees of the Board for the time being in force.
- e. **“Directors”** mean Directors of the Company.
- f. **“Employee”** means employee of the Company whether employed in India or outside India including employees in the Senior Management Team of the Company.
- g. **“HR”** means the Human Resource department of the Company.
- h. **“Independent Director”** refers to a Director of the Company who satisfies the criteria for independence under Section 149 of the Act read with Regulation 16 of the Listing Regulations.
- i. **“KMP”** refers to Key Managerial Personnel as defined under the Companies Act, 2013.
- j. **“Malus”** is an arrangement that permits the Company to prevent the vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.
- k. **“NRC”** refers to the Nomination and Remuneration Committee of Board of Directors of the Company formed in line with the Act, Listing Regulations and RBI Directions.
- l. **“Retention period”** a period of time after the vesting of instruments which have been awarded as variable pay during which they cannot be sold or accessed.
- m. **“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 persons identified and designated as key managerial personnel, other than the board of directors, by the listed entity.]

The following persons shall be specifically included as the part of senior management of the Company but not limited to the individuals listed below:

the Chief Risk Officer, , Chief Technology Officer, Chief Business Officer, Chief of Internal Audit, Chief Legal Counsel, Chief People Officer, Business Head, , Company Secretary, Chief Financial Officer (CFO), Chief Compliance Officer, Group Risk & Governance officer, Chief Credit officer and CEO of subsidiaries.

However, the NRC will review the list of SMPs identified based on their functional role from time-to-time.

Words importing the singular number shall include the plural number and words importing the masculine gender shall, where the context admits, include the feminine and neutral gender.

All terms used in the Policy except stated herein above shall have the same meaning as ascribed to them under the Act and Listing Regulations. This Policy shall be subject to such statutory clarifications, informal guidance and FAQs as may be issued by Regulatory Authorities from time to time.

4. Constitution of Nomination and Remuneration Committee (NRC):

The composition of the Committee shall follow the provisions of RBI Directions, Section 178 of the Act and Regulation 19 of the Listing Regulations. The Committee shall comprise of at least three Non-executive Directors, with at least 2/3rd forming Independent Directors. The Chairperson of the NRC will be an Independent Director, and the Chairperson of the Board (executive or non-executive) may be a member of the NRC but will not be chairperson of the Committee. The Company Secretary of the Company shall act as Secretary of the Committee.

5. Appointment and Removal of Directors, KMPs and Senior Management

a. Appointment and Removal of Directors

- NRC shall determine the criteria for appointment to the Board of Directors and shall be vested with the authority to identify candidates for appointment as Directors. While evaluating the suitability of an individual Board member, NRC shall take into account multiple factors, including general understanding of the business, education, professional background, personal achievements, professional ethics and integrity. NRC shall also ensure that the proposed Director fulfils the fit and proper criteria laid down by the Reserve Bank of India along with the Fit and Proper Policy of the Company.
- Within the permissible limits in terms of the Act, an Independent Director shall not be on the Board of more than three NBFCs (NBFC-ML or NBFC-UL) at the same time. Further, the NRC and in turn the Board of the Company shall ensure that there is no conflict arising out of its Independent Directors being on the Board of another NBFC at the same time. There shall be no restriction to directorship on the Boards of NBFC-BLs, subject to applicable provisions of Act.
- Based on the recommendation of NRC, the Board shall evaluate the candidate(s) and decide on the selection of the appropriate member. The Board through the Chairman / MD & CEO shall interact with the new member to obtain their consent for joining the Board. Upon receipt of the consent, the new Director will be co-opted by the Board in accordance with the applicable provisions of the Act and Rules made there under.
- If a Director is disqualified as per any provision mentioned in any of the applicable Act, rules and regulations thereunder or due to non-adherence to the applicable policies of the company, NRC may recommend to the Board with reasons recorded in writing, removal of a Director subject to the compliance of the applicable statutory provisions.

b. Appointment and Removal of Key Management Personnel

- The authority to identify right candidates for the appointment of Chief Finance Officer (CFO), Company Secretary (CS) and such other persons identified & designated as key managerial personnel by the Company shall be vested with the MD & CEO. HR shall facilitate MD & CEO towards identifying the candidates internally or externally. NRC shall consider the candidates proposed by the MD & CEO and recommend to the Board for its consideration and appointment in accordance with the applicable provisions of the act and rules.
- In case of MD & CEO or Whole-Time Director's appointment, NRC shall initiate the process of identifying the new candidate, which can be an internal or external candidate, for the respective position. After identification and screening of the candidate, NRC shall propose the candidature to the Board for its consideration and for appointment subject to the approval of RBI and Shareholders.
- Except for directorship in a subsidiary, a KMP shall not hold any office (including directorships) in any other NBFC-ML (Middle Layer) or NBFC-UL (Upper Layer). However, KMPs can assume directorship in NBFC-BLs (Base Layer).
- If a KMP is disqualified as per any provision mentioned in any of the applicable Act, rules and regulations thereunder or due to non-adherence to the applicable policies of the company, NRC may recommend to the Board with reasons recorded in writing, removal of a KMP subject to the compliance of the applicable statutory provisions.

c. Appointment and Removal of Senior Management

- The Senior Management personnel are appointed and removed/relieved with the authority of MD & CEO based on the business need and the suitability of the candidate. The details of the appointment made and the personnel removed/relieved during a quarter shall be presented to the Board as part of an update on Corporate Governance.
- Any premature transfer/removal of the Chief Risk Officer shall be reported to the Department of Supervision of the Regional Office of the Reserve Bank under whose jurisdiction the Company is registered. Further, any change in incumbency of the CRO shall also be reported to the stock exchanges.
- A prior intimation to the Senior Supervisory Manager, Department of Supervision, Reserve Bank of India, shall be provided before appointment, premature transfer, resignation, early retirement or removal of the Chief Compliance Officer.

6. Remuneration to Directors, KMPs, Senior Management Personnel & other Employees

a. Remuneration to Non-Executive Directors

- NRC shall decide the basis for determining compensation, both fixed and variable, for Non-Executive Directors, including Independent Directors, whether as commission or otherwise. NRC shall take into consideration various factors such as Director's participation in Board and Committee meetings during the year, other responsibilities undertaken, such as membership or Chairmanship of committees, time spent in carrying out their duties, role and functions as envisaged in Schedule IV of the Act and such other factors as NRC may consider fit for determining the compensation. The Board shall

determine the compensation to Non-Executive Directors within the overall limits specified in the Companies Act and the rules made thereunder, subject to the approval of the Shareholders.

- The company may pay a sitting fee to any of its directors for attending meetings of the Board or committees thereof, such sum as may be decided by the Board of directors thereof which shall not exceed one lakh rupees per meeting of the Board or committee thereof.
- Remuneration and sitting fees paid by the Company or its subsidiaries to its director, key managerial personnel or senior management shall not require approval of the audit committee provided that the same is not material in terms of the provisions of SEBI Listing regulations.

b. Remuneration to Executive Directors

- Remuneration, both fixed and variable, to Executive Directors, MD & CEO shall be recommended by NRC to the Board and shall be paid as salary, commission, performance bonus, perquisites and fringe benefits as approved by the Board and within the overall limits specified in the Shareholders resolution. While the fixed compensation shall be determined at the time of their appointment, the variable compensation and increment shall be determined annually by NRC based on performance. The Company may also grant stock options to Executive Directors, subject to the compliance of the applicable statutes and regulations and approval of the NRC and Board.

c. Remuneration to KMP, Senior Management Personnel and other Employees

- The compensation of Key Managerial Personnel (KMPs) and senior management needs to be reasonable, recognising all relevant factors including adherence to statutory requirements and industry practices.
- The overall remuneration to employees shall include fixed component (guaranteed pay) and variable component (performance pay) 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.
- The remuneration for KMPs - CFO and CS shall be proposed by the MD & CEO to NRC, consistent with the strategy of the Company and their qualifications, experience, roles and responsibilities. Pursuant to the provisions of Section 203 of the Act, the Board shall approve the remuneration at the time of their appointment.
- Remuneration for new employees (other than KMPs) and Senior Management Personnel shall be decided by HR, in consultation with the concerned business unit head at the time of hiring, depending upon the relevant job experience, last compensation and the skill-set of the selected candidate.
- The Company shall follow an extensive annual performance management system to review the performance of the employees / Senior Management and provide rewards on the basis of meritocracy.

- d. **Principles for 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.

e. Principles for Variable Pay:

- **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.
 - **Proportion:** The proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of KMPs / senior management. At higher levels of responsibility, the proportion of variable pay needs to be higher. There should be proper balance between the cash and share-linked instruments in the variable pay in case the variable pay contains share linked instruments. The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business-unit and companywide level. In order to do so, 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 incentive mechanism.
 - **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 of the Company, 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 may be decided by the Board of the Company.
- f. **Control and Assurance Function Personnel:** KMPs 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 Company. 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.
- g. **Guaranteed Bonus:** Guaranteed bonus may not be paid to 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.
- h. **Employee Stock Option:** In order to attract and retain the key/ quality talent and to motivate the employees to achieve long term business goals, the Board may consider at appropriate time, issue of Employee Stock Options for the identified employees in accordance with Company's ESOP Policy.

- i. **Miscellaneous:** The Cost-to-Company (CTC) shall be reviewed annually and the compensation strategy for positioning of individuals shall take into consideration the following elements:
 - Performance
 - Potential
 - Criticality of role
 - Responsibilities undertaken

Eligible employees shall be rewarded with an annual increment and variable bonus. This annual increment and variable bonus shall be based on the performance of the Company, the annual performance appraisal of the employee during the financial year and general industry trends, etc.

The annual increment and variable bonus for the Senior Management/employees shall be proposed by Chief People Officer, discussed with and approved by the MD & CEO.

Post obtaining approval from the MD & CEO, the Chief People Officer shall make a presentation to the NRC on the proposed annual increments and variable bonus. The stock option grants to the employees shall be approved by the NRC based on the recommendation of the Chief People Officer and the MD & CEO.

7. Malus / Clawback

- i. Malus arrangement wherein in case of subdued or negative financial performance arising not on account of gross negligence or misconduct of the KMP, the Company may withhold cash incentives/bonus or vesting of ESOP and may lapse unvested ESOP in accordance with the ESOP rules.
- ii. Clawback arrangement wherein in case of gross negligence or misconduct or cause as defined in the Company's code of conduct, the KMP and/or SMP shall be liable to return previously paid or vested deferred variable compensation.

The Company may invoke Malus or Clawback clause with respect to the KMPs and SMPs in the following illustrative scenarios:

- Gross negligence, Reckless, or wilful actions or exhibited inappropriate values and behavior. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company's results
- Fraud that requires financial restatements
- Reputational harms or exercise his/her responsibilities in a mala fide manner
- Significant deterioration of financial health of the Company
- Exposing Company to substantial Risk
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision is necessary and justified.

The malus can be applied any time during the deferral period. The time horizon for the applicable clawback clause shall be three years or the deferral period or the Retention Period of the variable compensation, whichever is higher, from the date of reward.

Once the Company decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of up to 100% of the deferred cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested deferred cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of cash component of deferred Variable Pay paid over the applicable period
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted during the applicable period
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted during the applicable period

The terms of appointment of KMPs and Senior Management of the Company shall be suitably amended to contain suitable clause on Malus/Clawback.

8. Awareness training to the Independent Directors

The Independent Directors at the time of their co-option shall be provided with a personal orientation by the Senior Management. They shall also be provided with the material/literature regarding the Company's business and its operations, governing documents, information on key personnel and financial information to familiarize them with the Company. Their appointment letter shall provide their roles and responsibilities in the Company. The quarterly Board Meetings shall contain an agenda item on 'Business Updates' which shall provide development in the business strategy of the Company among others. The Chairman depending on the business needs may also nominate Independent Directors for relevant external training programs.

9. Policy Review

This Policy may be amended, modified or supplemented from time to time. The Policy shall be reviewed every year by the Board of Directors of Company or whenever there is a significant change in the Policy, on the recommendation of NRC.

However, NRC shall have the authority to change the Evaluation Form at any time during the year with the objective of seeking more inputs from the Individual Directors.