

NOMINATION, REMUNERATION AND COMPENSATION POLICY

Version 5.0

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1 Introduction

Aye Finance Limited (formerly known as Aye Finance Private Limited) (“**Company**”) endeavors to adopt the highest standards of Corporate Governance. It is hence necessary to have a relevant framework to attract & motivate good candidates, improve productivity and aid in retaining manpower by creating a congenial work environment inculcating a sense of belonging and involvement, besides offering appropriate remuneration packages.

In view of the above, the Board of Directors (“**Board**”) of the Company had constituted the Nomination and Remuneration Committee (“**Committee**”) of the Company at the meeting held on May 9, 2018.

In compliance with the requirements set out under Section 178 of the Companies Act, 2013 (“**Act**”), as amended, applicable provisions of SEBI Listing Regulations, 2015 & Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023, as amended from time to time (“**Scale Based Regulations**”), the Company has formulated this Nomination and Remuneration Policy (“**Policy**”) in order to set out the principles, parameters and governance framework of the remuneration for Directors, Managing Director / CEO, Key Managerial Personnel, Senior Management and other employees of the Company.

2 Objective

This Policy has been formulated with the following objectives:

- a) The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Director(s) of the quality required to run the Company successfully.
- b) remuneration is driven by performance and helps to meet appropriate performance benchmarks.
- c) remuneration to Directors, Key Managerial Personnel and Senior Management involves a balance between fixed, variable pay and long-term benefits like ESOPs reflecting short and long-term performance objectives of the Company and its goals.
- d) To lay down the rules for guiding the Committee and the Board in relation to appointment and removal of Directors, Key Managerial Personnel and Senior Management.
- e) To determine the qualification, positive attributes and independence test for the Independent Directors to be appointed.
- f) To retain, motivate and promote talent along with ensuring long term sustainability of talented employees and creating competitive advantage.
- g) To select the performance evaluation criteria and carry out evaluation of performance of the Directors, KMPs and SMPs to provide for reward(s) directly linked to their effort, performance, dedication and achievement relating to the Company’s operations.
- h) Compensate Board of Directors, Key Managerial Personnels and Senior Management adequately for the efforts put in by them for the growth of the Company taking into consideration their significant professional expertise and rich experience across a wide spectrum of functional areas, time commitment, ensuring compliance with various statutory requirements and current competitive business environment.
- i) To lay down the rules for evaluating the remuneration from time to time & recommended to the Board depending upon the profitability and financial performance of the Company for each financial year subject to the thresholds as per the provisions of applicable laws, if any.
- j) To perform such other functions as may be necessary or appropriate for the performance of its duties and mandated by the Board from time to time.

3 Definitions

- A. **Board** means Board of Directors of the Company.
- B. **Committee** means the Nomination and Remuneration Committee constituted by the Board on May 9, 2018 and as reconstituted from time to time.
- C. **Director** means a director appointed on the Board of the Company.
- D. **Managing Director** means as defined under Section 2(54) of the Act
- E. **Independent Director** means a Director as defined under Section 149(6) of the Act & SEBI Listing Regulations, 2015.
- F. **Key Managerial Personnel (“KMP”)** in relation to a company means, as defined under section 2(51) of the Companies Act, 2013, as amended from time to time:
 - i. the Chief Executive Officer or the Managing Director or the manager.
 - 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 officer as may be prescribed in the Act.
- G. **Key Employees** shall mean
 - i. Founder
 - ii. Head of Finance (CFO)
 - iii. Head of Distribution (Deputy CEO),
 - iv. Head of Human Resources,
 - v. Head of Credit,
 - vi. Head of Collections,
 - vii. Head of IT (CTO),
 - viii. Head of DSAI (including machine learning and AI),
 - ix. Head of Strategy,
 - x. Head of Operations and Customer Services (Chief Operating Officer); and
 - xi. Head of Audit; and /
 - xii. Head of Risk
- H. **Senior Management Personnel (SMPs)** are members of Aye Finance's core management team and are responsible for the organization's critical business functions. The company defines an employee as SMP if the employee fulfills each of the three criteria:
 - i. Any employee at the grade Senior Vice President 1 or above
 - ii. who heads a department*and
 - iii. reports directly to the Managing Director

The management may additionally recommend to NRC, designation of an employee as SMP in case any of the following conditions arise even if the employee does not fulfill the above-mentioned criteria:

- i. If that role-holder has to be designated as SMP due to any regulatory requirement(s)
- ii. If that employee heads a critical department

*Departments include Distribution, Collection, Credit & Field Operations, Customer Service, Operations, Finance & Legal, IT, HR, Strategy, DSAI, Risk, Internal Audit & Vigilance and Admin.

- I. **“SEBI Listing Regulations, 2015”** means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as applicable on the Company.

Words and expressions used and not defined in this Policy but defined in the Act or any rules framed under the Act or the Accounting Standards shall have the meanings assigned to them in these regulations.

4 Applicability

The policy shall be applicable to the following:

- a) Board,
- b) KMP,
- c) SMPs, and
- d) Other employees as may be specified by the Board of Directors or the Nomination and Remuneration Committee from time to time.

All existing and any new appointments made on the Board, KMP and SMPs will be covered under this policy

5 Constitution of the Committee

- A. The Committee will consist of 3 (three) or more non-executive directors, out of which at least two-thirds shall be Independent Director(s). Provided that 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.
- B. The Board shall reconstitute the Committee as and when required to comply with the provisions of the 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.
- D. The quorum of the meeting shall either be two members or one-third of the members of the Committee, whichever is greater, with at least one independent director present.
- E. The Committee shall meet atleast once in a year & will meet at such intervals as deems fit.
- F. The Committee, as and when required, would work in close coordination with the Risk Management Committee to achieve effective alignment between compensation and risks.

6 Appointment, Reappointment, Tenure, Removal, Retirement and Remuneration of Managing Director

6.1 Appointment

Eligibility

The Managing Director shall always fulfil the fit and proper criteria in accordance with Scale Based Regulations and comply with applicable provisions of Act & SEBI Listing Regulations.

Criteria

- i. The appointment, renewal of appointment and termination of service of the Managing Director of the Company shall be subject to the approval of Shareholders on the recommendation of 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

Further Appointment, re-appointment, removal and resignation of Managing Director shall conform to the **Annexure A** of this policy [Standard Operating Procedure (SOP) on Appointment, Resignation and Remuneration of Directors, Key Managerial Personnel (KMP) & Senior Management Personnel (SMP)].

6.2 Tenure

- i. The appointment / re-appointment of Managing Director shall be for a term not exceeding five years at a time or for such other time period which is permissible under applicable laws.
- 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 **Annexure B**, the Committee may recommend to the Board with reasons recorded in writing, removal of the Managing Director as per the provisions & compliance of the applicable laws/ regulations.

6.4 Retirement

The Managing Director shall retire as per the applicable provisions of the Act, terms of their appointment 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 who has attained the age of seventy years in that case, the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing/re-appointing such person.

6.5 Remuneration

- i. The compensation/ remuneration/ commission payable to the Managing Director shall be recommended by the Committee and approved by the Board, subject to limits prescribed under the Act & Articles of Association of the Company.
- ii. The remuneration payable to the Managing Director shall be inclusive of any remuneration payable for services rendered by such Managing Director 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 possesses requisite qualification for the practice of the profession.
- iii. Any increment to the existing compensation/ remuneration/ commission payable to the Managing Director shall be subject to performance evaluation conducted by the Committee and the Board in accordance with the provisions of Act.
- iv. The Company may give loans and advances to an entity (company, firm, individual) in which the Director is interested in accordance with applicable laws and board approved Policy on grant of loans to directors, Senior Management Personnel, Relatives of Directors and to entities where directors or their relatives have major shareholding.
- v. Entitlement for the Company's Stock Options as per ESOP Plan(s) of the Company.

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 including Independent Directors shall always fulfil the fit & proper criteria in accordance with Scale Based Regulations and comply with applicable provisions of Act & SEBI Listing Regulations.
- ii. Any appointment or re-appointment of Non-Executive Directors including Independent Directors shall be recommended by the Committee to the Board after due diligence of the candidate by the Company and Reserve Bank of India (as may be necessary).
- iii. Independent Directors shall get themselves registered in the databank maintained by

Indian Institute of Corporate Affairs (IICA).

- iv. Independent Directors shall always abide by the Schedule IV of the Act.
- v. At the time of appointment/re-appointment of Independent Director, it should be ensured that number of Boards on which such Independent Director serves should be in line with the applicable provision of the Act, SEBI Listing Regulations, 2015 and Scale Based Regulations.

Further Appointment, re-appointment, removal and resignation of Non-Executive Directors including Independent Directors shall conform to the **Annexure A** of this policy [Standard Operating Procedure (SOP) on Appointment, Resignation and Remuneration of Directors, Key Managerial Personnel (KMP) & Senior Management Personnel (SMP)].

7.2 Tenure

- i. 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.
- ii. The tenure of the Non-executive Directors may be modified by the Committee and Board of Directors in accordance with the policies of the Company.
- 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 including Independent 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 law shall be removed by the Company in accordance with the applicable laws after giving him/her a reasonable opportunity of being heard.

Explanation: Completion of tenure will not be considered as Removal.

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 Company shall pay the remuneration in terms of sitting fee only to the Independent Director for attending meetings of the Board and its Committees & reimburse their expenses for participation in the Board and other meetings, as may be recommended by the Committee and approved by the Board.
- iii. An Independent Director shall not be entitled to any stock option of the Company.

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

8.1 Appointment Criteria and Qualifications

- i. Key Managerial Personnel and Senior Management are responsible for developing internal talent and ensuring seamless succession. This involves actively mentoring high-potential individuals and providing them with comprehensive exposure to all facets of their roles, enabling them to confidently assume responsibilities in their manager's absence.
- ii. Any appointment or re-appointment of

Key Managerial Personnel or Senior Management of the Company shall be subject to the approval of the Board on recommendation of the Committee.

8.2 *Tenure*

The tenure of the KMP other than Managing Director and SMPs shall be for such period as may be determined by the Committee and Board in accordance with the prevailing HR policies of the Company.

8.3 *Retirement*

The KMP other than Managing Director and SMPs shall retire as per the prevailing HR policies of the Company or as per the terms of their appointment unless extended by the Managing Director with the approval of the Board. The Managing Director will have the discretion to retain KMP & SMPs in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company, subject to compliance of regulations, if any, from time to time and if applicable as per prevailing HR Policies of the Company.

8.4 *Remuneration of Key Managerial Personnel and Senior Management*

Compensation of Key Managerial Personnel and Senior Management needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements, industry practices, key responsibility areas assigned and the achievement thereof. The compensation packages shall comprise of fixed and variable pay components, aligned effectively with prudent risk taking, ensuring that compensation is adjusted for all types of risks, its outcomes are symmetric with risk outcomes, its 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 increments shall usually be linked to their performance as well performance of the Company.

- a) **Fixed Pay:** It shall be decided based on skills, experience and performance of the employee. Further, it shall also factor roles & responsibilities, market value of the job etc. Fixed composition includes basic salary and other allowances such as HRA, contribution to PF, gratuity etc. as per the grade and position fixed by the Company based on the scale and position of the employee in the Company in accordance with the HR policy in force. 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:**

- **Composition:** The variable pay may be in the form of share-linked instruments or a mix of cash and share-linked instruments. The share-linked instruments are in conformity with relevant statutory provisions. Based on individual performance against Key Performance Indicators agreed between the concerned employee and the Company which shall be made operative subject to overall Company's performance being in line with budgetary objectives. Such amounts are paid by the Company at the end of the review period to the concerned employee and will be based on the assessment with the approval of the Committee/ Board.
- **Proportion:** The proportion of variable pay in total compensation shall 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. The variable pay should be based on performance at an individual, business-unit and at Company level.
- **Deferral of Variable Pay:** Certain portion of variable pay (both cash and non-cash components) awarded after performance assessment, shall be deferred to time horizon

of risks. Quantum of variable pay which shall be deferred and the deferral period shall be decided by the Committee/ Board of Directors of the Company from time to time.

- **Control and assurance function personnel:** The goal setting and performance appraisal process of the Company ensures that KMPs and Senior Management engaged in financial control, risk management, compliance and internal audit shall be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the Company. Accordingly, compensation to such personnel may have higher proportion of fixed pay. However, a reasonable proportion of variable pay can form part of their total compensation, to exercise the options of malus and/or clawback, when warranted.
- **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.

8.5 Evaluation/ Review

The Committee shall conduct evaluation of performance of every Director, KMP & SMPS at regular intervals (yearly) in accordance with Company's Policy on Performance Evaluation. The evaluation of performance of the Board, its Committees and Individual Directors to be carried out by the Board. 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 Malus/Clawback

The Nomination and Remuneration Committee may invoke Malus/Claw back clause with respect to Director, Managing Director, Key Managerial Personnel and employees of the Company:

- Gross negligence and integrity breach. Errors of judgment shall not be construed to be breaches under this note.
- Significant deterioration of financial health of the Company and/or continuing significant shortfall in capital adequacy.
- Exercising his/her responsibilities in a mala fide manner
- Unfairly obstruct the functioning of the Company which may affect the material decision.
- Material Misstatement of the Company's result.
- Any other situation where the Board or Nomination and Remuneration Committee deems invoking malus and/or Claw back provision necessary and justified.

Once the Nomination and Remuneration Committee decides to invoke malus and/or Clawback clause, it will have the power to take any of the following actions basis the nature and severity of the trigger.

In case of Malus Clause:

- Cancel the vesting of 100% of cash or Granted Options due for vesting in that particular year.
- Cancel the vesting for up to 100% of cash or Unvested Options due for future year.

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of cash component of variable pay paid in the last one year.
- Recovery of all the Vested and Unvested options.

10 Policy Implementation

The Committee recommend this policy to the Board for its approval. The Board is responsible for approving and overseeing implementation of this policy.

11 Disclosure

Salient features of this Policy along with changes therein if any shall be disclosed in the Board's Report and the policy shall be made available on website of the Company.

12 Review and Scope & Limitations

In case of any subsequent changes in the Act, SEBI Listing Regulations, 2015 or Scale Based Regulations which makes any of the provisions in the Policy inconsistent with the Act, SEBI Listing Regulations, 2015 or Scale Based Regulations, then the provision of the Act, SEBI Listing Regulations, 2015 or Scale Based 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 atleast on an annual basis by the Committee or Board.

Annexure A



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Annexure B

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 disqualification for a period of six months from the date of his appointment.

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 to a period of more than six months.