

# MAGMA VENTURES PRIVATE LIMITED

## Policy on Nomination and Remuneration of Directors, KMP and Senior Management

Version 1.0

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## **Introduction**

Magma Ventures Private Limited (the 'Company') from a regulatory perspective is required have a policy on nomination and remuneration of Directors, Key Managerial Personnel and Senior Management of the Company, in line with the Companies Act, 2013, Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ('SBR Directions') as amended from time to time.

Accordingly, the following policy on Nomination and Remuneration of Directors, Key Managerial Personnel and Senior Management ('Policy') has been duly approved and adopted by the Board of Directors.

## **Definitions:**

Unless otherwise defined or apparent from the context, the following terms shall have the meaning as assigned herein below and cognate expressions shall be construed accordingly:

- a. **Clawback** means 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.
- b. **Committee/ NRC** shall mean the Nomination & Remuneration Committee of the Board of Directors of the Company, constituted in accordance with the provisions of Section 178 of the Companies Act, 2013.
- c. **Independent Directors** means Directors who have been appointed by the Company in terms of Section 149 of the Companies Act, 2013 ('the Act').
- d. **Key Managerial Personnel (KMP)** in relation to the Company means as defined under section 2(51) of Companies Act, 2013, as amended from time to time and includes the following:
  - i. Managing Director or Executive Director
  - ii. Chief Executive Officer,
  - iii. Company Secretary,
  - iv. Whole-time Director,
  - v. Chief Financial Officer and
  - vi. 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
  - vii. Such other officer as may be prescribed under the Companies Act, 2013
- e. **Malus** means an arrangement that permits the Company to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.
- f. **Other Employees** means employees of the Company as may be identified by the NRC for the purpose of this Policy.

- g. Senior Management Personnel (SMP)** means officers/ personnel of the Company who are members of its core management team excluding board of directors and normally this 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) including the functional heads.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, or any other applicable law.

### **Applicability:**

In view of the definitions given above, the Policy is applicable on all Directors, Key Managerial Personnel, Senior Management and Other Employees of the Company. The NRC may on an annual basis review the list of KMPs and SMPs identified based on their role and responsibilities.

### **Key areas of the policy:**

- Framework for payment of remuneration to the directors (executive and non-executive), Key Managerial Personnel, Senior Management Personnel and Other Employees;
- Laying down criteria and terms and conditions with regard to identifying persons who are qualified to become directors (executive and non-executive) and persons who may be appointed in Senior Management and Key Managerial Personnel cadres and to determine their remuneration.
- To determine remuneration based on the Company's size and financial position and trends and practices on remuneration prevailing in peer companies & industry, and other relevant factors (such qualification, experience, etc. of the director/employee) as that the Committee may deem fit.
- To ascertain the fit and proper criteria in respect of the directors at the time of appointment and on a continuing basis as per the policy of the Company in the same regard.
- To carry out evaluation of the performance of the Board, its committees and individual directors to be carried out either by the Board, by the Committee or by an independent external agency and review its implementation and compliance.
- To grant reward linked directly to their effort, performance, dedication and achievement relating to Company's operations and the results expected therefrom.
- To ensure that the remuneration of whole-time directors, Key Managerial Personnel and Senior Management Personnel involves a balance between fixed and variable pay components as required by the Company as per the role of the employee in the Company, reflecting short and long-term performance objectives appropriate to the working of the Company & its goals and aligned with the applicable regulatory requirements;\*\* where the company may think variable pay is not warranted – the company may not keep \*\*
- Ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.

### **Constitution of the Nominations and Remuneration Committee:**

The Nomination and Remuneration Committee of the Company shall be composed of at least three non-executive directors out of which at least half of the directors shall be independent directors, as may be re-

constituted by the Board from time to time. The chairperson of the Company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.

### **General**

The Policy is divided into three parts:

**Part – A** covers the matters to be dealt with and recommended by the Nomination and Remuneration Committee to the Board

**Part – B** covers the appointment and nomination and

**Part – C** covers remuneration and perquisites etc.

This policy shall be disclosed on the website of the Company and key features along with changes, if any, in the Policy along with the weblink of the Policy shall be included in the Board's Report of the Company.

### **Part – A**

#### **Matters to be dealt with, perused and recommended by the Nomination and Remuneration Committee to the Board**

The Committee shall:

- Formulate the criteria for determining qualifications, positive attributes and independence of a director;
- For every appointment of an Independent Director, evaluate the balance of skills, knowledge, qualifications and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an Independent Director. The person recommended to the Board for appointment as an Independent Director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:
  - Use the services of any external agencies, if required;
  - Consider candidates from a wide range of backgrounds, having due regard to diversity; and
  - Consider the time commitments of the candidates.
- Identify persons who are qualified to become director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this Policy;
- Formulate the criteria to evaluate the performance of Independent directors and the board of directors;
- Devising on diversity of board of directors including a variety of perspectives, skills, ages, genders, cultures, and ethnicities, to achieve success, ;
- Ensure 'fit and proper' status of proposed or existing directors as per the SBR Directions and ensure that there is no conflict of interest in the appointment of directors, KMPs and SMPs;
- Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors;
- Recommend to the Board, appointment, reappointment and removal of director, KMP and SMP;

- Oversee the framing, review and implementation of this Policy;
- Work in coordination with Risk Management Committee (RMC) to achieve alignment of between remuneration and risks of KMPs and SMPs;
- Ensure that the remuneration 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);
- Recommend to the board, all remuneration, in whatever form, payable to Directors, KMPs and SMPs.

## **Part – B**

### **Policy for appointment including re-appointment and removal of Director, KMPs and SMPs**

#### **i. Criteria for determining qualifications, positive attributes and independence of a director for Appointment / Re-appointment:**

##### **Directors:**

As per the SBR Directions, the Compensation Policy of the Company to ensure “fit and proper” status of the proposed/existing Directors. The policy on the fit and proper criteria shall be on the lines of the guidelines contained in SBR Directions. In order to streamline and bring in uniformity in the process of due diligence, while appointing Directors, the Company shall ensure that the procedures mentioned below are followed and minimum criteria fulfilled by the persons before they are appointed on the Boards:

- a) The Company should undertake a process of due diligence to determine the suitability of the person for appointment/ continuing to hold appointment as a Director on the Board, based upon qualification, expertise, track record, integrity and other ‘fit and proper’ criteria. The Company shall obtain necessary information and declaration from the proposed/ existing Directors for this purpose in the format given in the SBR Directions.
- b) The process of due diligence should be undertaken by the Company at the same time of appointment/ renewal of appointment.
- c) The Board of the Company should constitute a NRC to scrutinize the declarations, as provided under Part A above.
- d) Based on the information provided in the signed declaration, the Committee should decide on the acceptance or otherwise of the Directors, where considered necessary.
- e) The Company should obtain annually as on 31 March, a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith within 15 days of such change.
- f) The Board must ensure in public interest that the nominated/ elected Directors execute the deeds of covenants in the format given in SBR Directions.

The Company shall not appoint or continue the employment of any person as Managing Director/ Whole time Director who has attained the age of seventy years. Provided that the term of the person beyond

the age of seventy years may hold this position as Managing Director / Whole time Director with the approval of shareholders by passing a special resolution based on the explanatory statement annexed to the notice for such motion indicating the justification for appointment of person beyond the age of seventy years.

- **Independence of Director**

The candidate shall be evaluated based on the criteria provided under the applicable laws including the Companies Act, 2013 read with Rules made thereunder.

Within the permissible limits in terms of Companies Act, 2013, an independent director appointed by the Company shall not be on the Board of more than three NBFCs (NBFCs-ML or NBFCs-UL) at the same time. There shall be no restriction to directorship on the Boards of NBFCs-BL, subject to provisions of Companies Act, 2013. In case of all these appointments the Company should ensure that there is no conflict arising from the IDs being on the Board of other NBFCs. Each director has an affirmative obligation to inform the Board of any change in circumstances that may put his/ her independence at issue. Further, at the time of appointment of Independent Director, it should be ensured that the 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.

The director's independence for the independent director will be determined by the Board on an annual basis upon the declarations made by such director, affirming that he/she fulfills the criteria of independence as per the provisions of the Companies Act, 2013 read with Rules made thereunder.

A person proposed to be appointed as an Independent director shall be qualified to be appointed as such in accordance with the applicable provisions of law and possess appropriate skills, experience and knowledge in one or more fields of Finance, Law, Management, Sales, Marketing, Administration, Research, Corporate Governance, Operations or other disciplines related to the business of the Company.

- **Key Managerial Personnel ('KMP') and Senior Management Personnel ('SMP')**

The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as KMP and recommend to the Board his/ her appointment. The Committee shall also lay down the manner of appointment of SMPs and recommend the same to the board for its consideration.

A person should possess adequate qualifications, expertise and experience for the position for which he/she is being considered for appointment. The Committee has the discretion to decide whether qualification, expertise and experience possessed by a person are sufficient/satisfactory for the position.

Except for directorship in a subsidiary, the KMP appointed by the Company shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL. The KMP may hold such positions in other NBFC-BL. The NRC shall at the time of recommending the appointment of the KMP shall ensure

compliance with the same.

**ii. Tenure**

● **Managing Director/ Whole-Time Director**

The Company shall appoint or re-appoint any person as Managing Director or Whole time Director for a **term not exceeding five years at a time** in terms of applicable provisions of Companies Act, 2013. Further, no re-appointment shall be made earlier than one year before the expiry of term.

● **Independent Director**

An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and shall be eligible for re-appointment on passing of a special resolution by the Company, recommendation of Committee based on the report of performance evaluation of Independent Director and disclosure of such appointment in the Board's report.

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. 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.

● **KMP/SMP**

Upon recommendation of the Committee and based on the criteria laid down by said Committee for appointment the KMPs or SMPs be appointed for such period and on such terms as may be approved by the Board or as per criteria approved by the Board, respectively.

**iii. Evaluation**

The Committee shall specify the manner for effective evaluation of performance of the Board, its committees and individual directors which is to be carried out either by the Board, by the Committee or by an independent external agency including review of its implementation and compliance.

The evaluation process may be carried out as per the Guidance Note on Board Evaluation issued by January 5, 2017 or by such other procedure as the Committee may deem fit for evaluation process.

**iv. Removal**

Due to reasons for any disqualification mentioned in the Companies Act, 2013, and the rules made there under or under any other applicable Act, rules and regulations or as per the employment agreement (if any) the Committee may recommend, to the Board with reasons recorded in writing, removal of a Director, KMP or SMP subject to the provisions and in compliance of the applicable provisions.

**v. Retirement**

The Director, KMP and SMP shall retire as per the applicable provisions of the Companies Act, 2013 and the prevailing HR policy of the Company. The Board will have the discretion to retain the Director, KMP or SMP in the same position/ remuneration or otherwise even after attaining the retirement age, for the benefit of the Company, subject to necessary compliances as per applicable provisions.

In case the change in the directors of the Company exceeds 30% change (including progressive changes), excluding the change in the Independent Directors, the same shall require prior approval of the Reserve Bank of India by making an application as per the prescribed procedure under the RBI Scale Based Regulation Directions, 2023. Further any change by way of appointment/removal, resignation or re-appointment in the office of the Directors/KMP/SMP or IDs or any other Principal Officer of the Company, the same shall be intimated to the RBI within one month of the occurrence of such change in accordance with Para 44 of the Scale Based Regulation Directions.

## **Part– C**

### **Policy relating to the remuneration for the Director, KMPs, SMP and other employees**

#### **i. Principles of Remuneration**

The remuneration structure will be determined by the Committee who will ensure that:

- a) The level of remuneration is supported by the need to retain earnings of the Company and the need to maintain adequate capital based on Internal Capital Adequacy Assessment Procedure (ICAAP);
- b) The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors, KMPs and SMPs of the quality required to efficiently run the Company successfully;
- c) Remuneration components are aligned effectively with prudent risk taking to ensure that remuneration is adjusted for all types of risk taking;
- d) Remuneration outcomes are symmetric with risk outcomes;
- e) Specifically for executive directors, KMPs and SMPs:
  - o Remuneration pay-outs are sensitive to the time horizon of the risk
  - o The mix of cash, and other forms of remuneration will be consistent with risk alignment
- f) NRC may revisit the principles on the basis of the industry and regulatory context, Company context and emerging best practices from time to time.

#### **ii. Remuneration of Managing Director/Whole- Time Director, Key Managerial Personnel and Senior Management Personnel:**

The remuneration/ compensation- etc. to the Managing Director/ Whole-time Director, shall be recommended by the Committee to the Board for approval

The compensation of KMPs and SMPs needs to be reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise of fixed and variable pay components 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.

Where any insurance is taken by the Company on behalf of its Directors, KMP, SMP 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.

### **Components of remuneration**

#### ○ **Fixed pay:**

- The Managing Director/ Whole-time Director shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee.
- The fixed pay should typically consist of elements like Basic Salary, Allowances (such as HRA, Children Education Allowance, City Compensatory Allowance, Leave Travel Allowance etc)
- Further, the Company as a part of fixed pay also provides Mediclaim under group insurance policy and accident insurance for spouse, self and up to 2 dependent children. etc.
- The breakup of the pay scale shall be decided and approved by the Board on the recommendation of the Committee.

#### ○ **Variable Pay:**

- Variable pay in form of performance bonus and LTIP units may be provided as per the terms of appointment. The amount of variable pay would be determined based on performance KPIs of the personnel.
- The performance bonus for Managing Director/ Whole time Director of the Company shall be recommended by the Committee based on key performance indicators, i.e. Policy framework, Risk Management, disbursement, growth in Asset Under Management, Branch network expansion, diversification of product lines, Profits, reduction in costs of borrowing asset, quality and innovations. The performance shall be reviewed annually on above and other parameters as the Committee may recommend further.
- Variable pay shall be in the form of “pay at risk”. Depending on performance and risk outcomes at individual, business units and company-wide level, the variable pay shall be truly variable and can even be reduced to zero.
- Proportion of Variable Pay in the Total Remuneration should be higher at higher levels of responsibility.
- KMPs and SMPs employed in financial control, risk management, compliance and internal Audit roles shall have a higher proportion of fixed Pay in the total remuneration. Variable pay of control and assurance personnel should be independent of the performance of business areas they oversee. However, a reasonable proportion of total remuneration should be in the form of variable pay to enable the Company to exercise malus and/or clawback, if required.

#### ○ **Deferral of Variable Pay**

- Of the total variable pay, certain portions (such as LTIP units which may be payable after a period of 10 years with an option to exercise the same after 5 years or any other conditions) as may be decided by the Committee and Board, shall be deferred to the appropriate time horizon of the risk.
- Committee may change the deferral quantum and period basis industry and regulatory context, company risk context and emerging best practices from time to time.

- **Guaranteed Bonus**  
No amount of bonus can be guaranteed to KMPs and SMPs except for hiring/ sign-on bonus (i.e one time joining bonus) to be paid to new hires. The said bonus shall not form part of Fixed or Variable pay.

- **Malus / Clawback Arrangement:**

The deferred variable pay in a year shall be subject to:

**Malus arrangement** wherein in case of subdued or negative financial performance arising not on account of gross negligence or misconduct of the KMP and/or SMP, the Company may withhold cash bonus or vesting of LTIP units may lapse unvested.

- NRC may invoke Malus clause with respect to the KMPs and SMPs in the following illustrative scenarios:
  - Material Misstatement of the Company's financial statement/results
  - Significant corrosion of the financial well-being of the Company
  - Exposing the Company to substantial Risk
  - Any other situation where the Board and the Committee deems invoking Malus provision is necessary and justified.

In determining the causes for significant corrosion in financial well-being, the Committee may take into consideration and have due regard to the fact whether the corrosion was for factors within control or whether it was on account of conditions like global market headwinds, industry performance, changes in legal/ regulatory regime, force majeure events like occurrence of natural disasters, pandemic, other socio-economic conditions etc.

**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 variable pay

- NRC may invoke Malus or Clawback clause with respect to the KMPs and SMPs in the following illustrative scenarios:
  - Gross negligence, reckless, or deliberate actions. Errors of judgment shall not be considered as violation
  - Fraud that requires restatement of financials of the Company
  - Harm to Companies reputation on account of KMPs and/or SMPs actions
  - Any other situation where the Board and the Committee deems invoking Clawback provision is necessary and justified.
- While undertaking the review for the concerned person for the application of the Malus or the Clawback arrangement based on any trigger events, when determining accountability of the concerned person or group of persons, the Committee shall be guided by the principles of proportionality, culpability or proximity or nexus to the event or misconduct. Bonafide error/s of judgment where there is no misconduct, wilful or intentional breach by act/ omission or

gross negligence or lack of integrity, may not be treated as breaches under this Policy.

- Prior to taking action the Management and the NRC shall ensure due regard to the Principles of Natural Justice.
- Unless otherwise specified, the time horizon for the applicable of malus/ clawback clause shall be five years or the deferral period or the Retention Period of the variable pay, whichever is higher, from the date of grant/ payment/ vest
- On deciding to invoke Malus or Clawback, the Committee 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 part or full vesting of the deferred cash or share-linked component due for vesting in that particular year
- Cancel part or full vesting of entire unvested deferred cash or share linked components which are to be vested in future years

**In case of Clawback Clause:**

- Recovery of part or full cash component of deferred variable pay paid over the applicable period
- Recovery of part or full of benefit (in form of shares or cash equivalent of shares) accrued to the employee on account of exercise of share linked instrument
- Forfeiture of part or full vested but unexercised share linked instrument Vested 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.

**iii. Remuneration of Non- Executive Directors and Independent Directors**

○ **Sitting Fees**

The Directors may receive remuneration by way of sitting fees for attending meetings of Board and/ or Committee thereof provided that the amount of such fees shall not exceed such amount as may be recommended by the Committee and approved by the Board from time to time, subject to the limits specified as per Companies Act, 2013 and rules made thereunder.

**iv. Remuneration of other employees**

- In general, the principles laid down in Clause (i) above will be considered for governance and remuneration decisions related to other employees.
- In general, the proportion of Variable Pay in the total remuneration should be based on the role of the particular person in the Company.
- There should be an appropriate proportion of variable pay in the total remuneration so that performance and/ or risk adjustment can be affected.

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