

MUTHOOT MICROFIN LTD

COMPENSATION POLICY FOR DIRECTORS, KEY MANAGERIAL PERSONNEL (KMPs)

AND SENIOR MANAGEMENT

Purpose	This document intends to formulate, formalize, and establish Remuneration Policy for the Company for Directors, senior management personnel, keymanagerial personnel, and other employees of the Company.
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Compensation Policy for Directors, Key Managerial Personnel (KMPs) and Senior Management

1. Introduction

Muthoot Microfin Ltd (“Company”) recognizes its role as a corporate citizen and endeavorsto adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, regulators, market and otherstakeholders. The Company’s activities are carried out in accordance with good corporate practices and the Company is constantly striving to better them and adopt the best practices. This policy seeksto document the practices and procedures to be followed by the Company in adopting the remuneration payable to its Directors, Key Managerial Personnel (KMPs) and Senior Management.

The policy shall lay down principles for fixing the remuneration/compensation to attract and retain the best suitable talent on the Board and Senior Management of the Company as per the criteria formulated by the Nomination and Remuneration Committee of the Board pursuant to Section 178 and other applicable provisions of the Companies Act, 2013, read with applicable Rules and Regulations thereunder, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and applicable RBI guidelines in this regard.

The policy shall form part of and read in conjunction with the ‘Nomination and Remuneration Policy’ of the Company.

2. Definitions

- a. ‘Act’ shall mean the Companies Act, 2013 and rules made thereunder, as amended from time to time.
- b. ‘Board’ shall mean the Board of Directors of the Company.
- c. ‘Key Managerial Personnel’ or ‘KMP’ shall mean the ‘key managerial personnel’ as defined under Section 2(51) of the Companies Act, 2013, from time to time, which is currently as under
 - i) The Managing Director or the Chief Executive Officer or in their absence, a whole-time director,
 - ii) The Chief Financial Officer of the company
 - iii) The Company Secretary of the company
 - iv) 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
 - v) Such other employees as may be prescribed.
- d. Senior Management means the personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive director, including the functional heads.

The term ‘Senior Management’ shall be read in accordance with the definition provided under

Section 178 of the Companies Act, 2013, SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and RBI guidelines relating to compensation of KMPs and senior management. In NBFC's as may be amended from time to time .

Further, the term 'functional heads' for the purpose of this policy shall mean and include only the CXOs of the Company.

- e. 'Nomination and Remuneration Committee' or 'NRC' or 'Committee' shall mean Means a Committee of the Board of Directors of the Company constituted under the provisions of the Companies Act, 2013, SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and applicable RBI guidelines, as may be amended from time to time.
- f. Risk Management Committee (RMC): Means a Committee of the Board of Directors of the Company constituted under the provisions of the Companies Act, 2013, SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and applicable RBI guidelines, as may be amended from time to time.
- g. Claw back 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.
- h. 'Company' shall mean Muthoot Microfin Limited.
- i. 'Other Employees' shall mean all employees other than the Directors, SMPs and KMPs.

3. Principles

- a. To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Board of Directors, KMPs and Senior Management, of the quality required to run the Company successfully.
- b. To ensure that relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- c. To ensure that remuneration to Board of Directors, KMPs and Senior Management strikes a balance between fixed pay, variable pay and long-term benefits like ESOPs reflecting short and long-term performance objectives appropriate to the working of the Company and its goals.
- d. Compensate Board of Directors, KMPs 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.
- e. Aligning remuneration of Board of Directors, KMPs and Senior Management with the long-term interests of the Company and its shareholders.
- f. To ensure close coordination of NRC with RMC of the Company to achieve effective alignment between compensation and risks.
- g. To ensure that the compensation packages, comprised of fixed and variable pay are aligned effectively with prudent risk taking and the compensation is adjusted for all types of risks, 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.

4. Objectives and Purpose of the Policy

The objectives and purpose of the policy are:

- a. Selection and performance evaluation criteria for the directors, senior management personnel and key managerial personnel (defined elsewhere) of the Company,
- b. Determination of qualification, positive attributes and independence test for the Independent Directors to be appointed,
- c. Setting out broad framework for fixing the remuneration for the Directors (including Independent Directors), Senior Management Personnel as well as Key Managerial Personnel (Chief Executive Officer, Chief Financial Officer, and Company Secretary) and other employees.

5. Applicability

All existing and any new appointments made on the Board of Directors, KMPs and Senior Management will be covered under this policy.

The policy shall be applicable to the following:

- a. Board of Directors,
- b. Key Managerial Personnel,
- c. Senior Management, and
- d. Other Employees as may be specified by the Board of Directors or the Nomination and Remuneration Committee from time to time.

6. Remuneration

The Nomination and Remuneration Committee (NRC) of the Company shall specify the manner for effective evaluation of the performance and recommend to the Board, all fees, compensation/remuneration including fixed and variable pay and perquisites, if any, along with other long-term benefits like ESOPs, payable to Directors (including non-executive Directors and independent directors, wherever applicable), the KMPs and Senior Management of the Company, subject to compliance with applicable laws.

a. Remuneration to Board of Directors:

The Remuneration/ Compensation/ Commission etc. to be paid to the Board of Directors, including the Managing Director shall be governed by the applicable provisions of the Companies Act, 2013, the Rules made thereunder, including applicable SEBI & RBI Regulations / Guidelines, as may be made applicable from time to time.

The Company shall effectively align its compensation to business achievement, the risk parameters and ethics of the Company.

The Company shall not give loans and advances to an entity (company, firm, individual etc.) in which the Director is associated either as a director, partner, manager, guarantor, etc. Further, granting of loans and advances to Directors and their relatives, the KMPs & Senior Management shall be guided by the provisions prescribed under the provisions of Companies Act, 2013, Rules made thereunder and applicable RBI & SEBI Regulations / guidelines, as may be made applicable from time to time.

b. Remuneration to Independent Directors and Non-Executive Directors:

Independent Director shall not be an employee of the Company and such association shall not constitute a contract of employment. The Company shall pay the Independent Director remuneration by way of sitting fees for attending meetings of the Board and its Committees, as may be decided by the Board, and Commission, as may be approved by the Shareholders from time to time. Further, an Independent Director shall not be entitled for any Stock Options, under Employee Stock Option Plans (ESOPs).

The Company shall pay sitting fees to the non-executive directors and reimburse their expenses for participating in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

The Company shall make necessary disclosures in its Directors' Report forming part of the Annual Report of the Company.

c. Remuneration to Key Managerial Personnel and Senior Management

Compensation to KMPs and Senior Management shall be made reasonable, recognizing all relevant factors including adherence to statutory requirements and industry practices. 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.

- i. **Fixed Pay:** All the fixed items of compensation, including perquisites that are reimbursable and are subject to monetary ceilings on these reimbursements, and contributions towards superannuation/retiral benefits, shall be treated as fixed pay. Monetary equivalent of benefits of non-monetary nature such as free furnished house, use of company car etc. also be part of fixed pay.
- ii. **Variable Pay:**
 - a. Composition: The Variable Pay shall be in the form of share linked instruments or a mix of cash and share-linked instruments.

- b. 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 and 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.
- c. 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 NRC / the Board of Directors of the Company from time to time.
- d. Control and assurance function personnel: 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. As such, 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 claw back, when warranted.

7. Employee Stock Option:

NRC and Board will roll out ESOPs for KMP's and Senior Management team, subject to achievement of the budget for the financial year.

8. Malus and/or Claw back

Malus arrangement permits the Company to prevent vesting of all or part of the variable pay which has been deferred. It does not reverse vesting after it has already occurred.

Clawback is a contractual agreement between the employee and the Company in which the employee agrees to return previously paid or vested compensation attributable to a given reference year in which the incident has occurred.

Malus & Clawback provisions shall be applicable in case of trigger in certain situations as given below.

- a. Gross willful negligence in performing the duties and exercising the vested power(s);
 - b. Willful misrepresentation of the figures, facts, data, situations etc. pertaining to the Company, before any statutory, regulatory, judicial, quasi-judicial bodies and any other such authorities.
 - c. Breach of trust, integrity and/or agreement.
 - d. Fraud, breach of trust, dishonesty or misuse of material information including un-published price sensitive information etc.
- Provided*, errors of judgement shall not be construed to be negligence.

Malus clause shall be invoked in case any of the above-mentioned events are triggered which resulted in significant loss to the Company or its shareholders, on part of one employee or group of employees. The provision of a Malus arrangement would entail cancellation of deferred portion of variable pay. The NRC may decide to apply Malus on part, or all of the unpaid cash portion of variable pay basis level of involvement, proportionality and impact. The provision relating to clawback would entail return of full or part of the variable pay (net of taxes) paid, attributable to a given reference year wherein the incident has occurred. Such return would always be in cash. Malus/ clawback clause can be applied for a period of 1 years after the date of grant of Variable Pay

This provision will be binding on all KMPs and Senior Management covered under the purview of this Policy.

9.Reporting Requirement

The Company shall place this policy on its website at www.muthootmicrofin.com and the salient features of this policy along with web address of the policy shall be disclosed in the Board meeting Report.

10.Disclosures relating to Remuneration.

a. Reporting to the Nomination and Remuneration Committee:

The following matters shall be reported to the Nomination and Remuneration Committee:

- Annual remuneration proposed for Directors, Key Managerial Personnel and Senior Management.
- Employee benefit plans including deferred benefit plans and retirement plans, if any.

b. Reporting in the Annual Report:

The Company shall make necessary disclosures in its Annual Report and the Annual Financial Statements, as are applicable, which inter-alia shall include the following:

- a. All pecuniary relationship or transactions of the non-executive directors vis-à-vis the Company, shall be disclosed in the Annual Report.
- b. Criteria of making any payments to Non-executive directors
- c. All elements of remuneration package of individual directors, including severance pay if any.

c. Other Disclosure:

Non-executive directors shall disclose their shareholding, held either by them or on a beneficial basis for any other persons in the Company in which they are proposed to be appointed as directors, in the notice to the general meeting called for appointment of such director.

The Senior Management of the Company shall make disclosures to the Board of Directors relating to all material, financial and commercial transactions, where they have personal interest that may

have a potential conflict with the interest of the Company at large.

11. Policy Review and Updates

The Board approved policy shall be reviewed as and when required or at least annually for incorporating regulatory updates and changes, if any.

12. Disclaimer

This document is private and confidential and has been prepared solely for internal use by the Board of Directors and/or management and staff of Muthoot Microfin Limited and must not be disclosed to any third party without the written approval of the Human Resource Department. Muthoot Pappachan Group, its agents and advisors accept no responsibility, liability or duty of care to any third party for any matters, observations or conclusions which are stated or implied in this document.