

***APPOINTMENT, REMUNERATION
& EVALUATION POLICY***

Approved by the Board of Directors at its meeting held on May 09, 2023

1. Purpose of this Policy:

Five-Star Business Finance Limited (“Five-Star” or the “Company”) has adopted this Policy on appointment, remuneration and evaluation of the Directors, Key Managerial Personnel and Senior Management (the “Policy”) as required by the provisions of Section 178 of the Companies Act, 2013 (the “Act”) and Regulation 19 read with Part D of Schedule II of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015 (“SEBI LODR”) to ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate competent resources of the quality required to run the Company successfully and the relationship of remuneration to performance is clear and meets appropriate performance benchmarks..

This Policy is also to align with the RBI Scale Based Regulations and RBI circular on guidelines on compensation of KMP and senior management in NBFCs to align the remuneration / compensation packages with prudent risk and ensure that all statutory mandates and the rules and directions issued under them are fully complied with.

The purpose of this Policy is to establish and govern the procedure applicable:

- a) To evaluate the performance of the members of the Board.
- b) To ensure remuneration to Directors, KMP and Senior Management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the Company and its goals.
- c) To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.

2. Definitions:

- a) Nomination & Remuneration Committee (the “NRC”), by whatever name called, shall mean a Committee of Board of Directors of the Company, constituted in accordance with the provisions of Section 178 of the Act and SEBI LODR.
- b) Senior Management means personnel of the Company who are members of its core management team, excluding the Board of Directors including members of management one level below the Chief Executive Officer/Managing Director including any Functional Head. The Chief Executive Officer, Chief Financial Officer and Company Secretary shall be deemed to be Senior Management.

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

3. Nomination & Remuneration Committee (“NRC or Committee”):

The composition of the Committee shall be in compliance with the Act, Rules made thereunder, and SEBI LODR, as amended from time to time. The Committee shall have the powers, functions and duties as laid down in the Act, Rules made thereunder, and SEBI LODR, as amended from time to time.

Role of the Committee:

1. Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommending to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;

2. Performance of such functions as are required to be performed by the compensation committee under the Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, as amended;
3. Performing such other activities as may be delegated by the Board and/or specified/provided under the Companies Act, the Listing Regulations or by any other regulatory authority.
4. NRC shall work in coordination with Risk Management Committee to achieve effective alignment between compensation and risks. The NRC shall ensure that compensation levels are supported by the need to retain earnings of the Company and the need to maintain adequate capital based on the Internal Capital Adequacy Assessment Process. NRC may also ensure 'fit and proper' status of proposed/existing directors and that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.

4. Appointment and removal of Director, KMP and Senior Management:

- 4.1 **Appointment criteria and qualification:** The NRC shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director and recommend to the Board about his/her appointment.

For the appointment of KMP (other than Managing Director) or Senior Management, a person should possess adequate qualification, expertise and experience for the position he / she is considered for the appointment.

- 4.2 **Term:** The Term of the Directors including Managing Director / Independent Director shall be governed as per the provisions of the Act and Rules made thereunder and SEBI LODR, as amended from time to time. Whereas the term of the KMP (other than the Managing Director) and Senior Management shall be governed by the prevailing HR policies of the Company.
- 4.3 **Evaluation:** The NRC shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, or by the NRC or by an independent external agency and review its implementation and compliance. (Refer Annexure)
- 4.4 **Removal:** Due to reasons for any disqualification mentioned in the Act or under any other applicable Act, Rules and Regulations thereunder and / or for any disciplinary reasons and subject to such applicable Acts, Rules and Regulations and the Company's prevailing HR policies, the Committee may recommend, to the Board, with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel.
- 4.5 **Policy Review:** Subject to the approval of the Board, the NRC reserves the right to review and amend this policy, if required, to ascertain its appropriateness as per the needs of the Company. The policy may be reviewed at such intervals as the Board or NRC may deem necessary and any changes thereof will be approved by the Board of Directors.

5. Remuneration of Non-Executive Directors

- 5.1 Non-Executive Directors ("NEDs") will be paid remuneration by way of Sitting Fees and Commission. The remuneration/ commission/ compensation to the NEDs will be decided by the Board in accordance with this policy and subject to applicable conditions of SEBI LODR Regulations.
- 5.2 As approved by the shareholders at the shareholders meeting, Commission will be paid at a rate computed in accordance with Section 198 of the Companies Act, 2013. The Commission to be paid will be restricted to a fixed sum within the above limit annually on the basis of their tenor in office during the financial year.

- 5.3 The payment of the Commission to the NEDs will be placed before the Board every year for its consideration and approval. The sitting fee payable to the NEDs for attending the Board and Committee meetings will be fixed, subject to the statutory ceiling. The fee will be reviewed periodically and aligned to comparable best in class companies.
- 5.4 Keeping with evolving trends in industries and considering the time and efforts spent by specific NEDs, the practice of paying differential commission will be considered by the Board.
- 5.5 Where the annual remuneration payable to a single Non-Executive Director exceeds 50% of the total annual remuneration payable to Non-Executive Directors, the approval of the shareholders in the manner specified in applicable laws/ regulations shall be obtained.
- 5.6 Independent Directors will not be eligible to receive stock options under the employee stock option scheme/plan (“ESOP”) of the Company.

6. Remuneration of Executive Director

- 6.1 The compensation paid to the Executive Directors (including Managing Director) will be within the scale approved by the shareholders. The elements of the total compensation, approved by the NRC will be within the overall limits specified under the Companies Act, 2013.
- 6.2 The fees or compensation payable to an Executive Director who is a Promoter or member of Promoter Group, shall be subject to the approval of shareholders in the manner prescribed under the applicable regulations, if the annual remuneration payable to such Executive Director exceeds the threshold limits as specified in applicable regulations, and the approval so granted shall be valid till the expiry of the term of such Director.

For the purpose of this policy, the terms ‘Promoter’ and ‘Promoter Group’ shall have the meaning assigned to it under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 or any amendment thereof.

- 6.3 The elements of compensation of the Executive Director include the elements as described in 7 below.
- 6.4 The NRC will determine the annual variable pay compensation in the form of annual incentive and annual increment for the Executive Director based on Company’s and individual’s performance as against the pre-agreed objectives for the year.
- 6.5 The Executive Directors, except a promoter director, will also be eligible for ESOPs as per the ESOP scheme/plan in force from time to time. Grants under the ESOP scheme/plan shall be approved by the NRC.
- 6.6 In case of inadequacy of profit in any financial year, the remuneration payable to the Executive Director shall be further subject to the relevant provisions of the Companies Act.
- 6.7 Executive Directors will not be paid sitting fees for any Board/Committee meeting attended by them.

7. Remuneration to Key Managerial Personnel / Senior Management / Other Employees

- 7.1 The Company’s total compensation for Key Managerial Personnel as defined under the Companies Act, 2013 / Senior Management / other employees will comprise of:
- a. fixed compensation
 - b. variable compensation in the form of annual incentive
 - c. benefits

- d. work related facilities and, perquisites and loans & advances in accordance with their service conditions
- e. such other benefits/perquisites as may be periodically determined relevant by the HR policies of the Company

7.2 In addition, select senior executives will be eligible for long-term incentive plan in the form of ESOPs, as per the ESOP scheme/plan in force from time to time. Grants under the ESOP scheme/plan will be approved by the NRC.

7.3 The compensation of Key Managerial Personnel and senior management shall recognize 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.

7.4 The performance measures and their relation to remuneration packages shall be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

7.5 The NRC shall recommend to the Board, all remuneration / compensation, in whatever form, payable to KMP and Senior Management.

Principles of Fixed Pay structures:

7.6 Fixed compensation will be determined on the basis of size and scope of the job typically as reflected by the level or grade of the job, trends in the market value of the job and the skills, experience and performance of the employee. Fixed compensation will include Basic Salary, Housing Allowance, Leave Travel Allowance, cash allowance, perquisites and contributions towards superannuation/retiral benefits, reimbursable perquisites and monetary equivalent of benefits of non-monetary nature etc. and/or as may be determined by NRC from time to time.

7.7 Based on the grade and seniority of employees, Benefits for employees include:

- a. Health-Related
- b. Health (hospitalization) insurance
- c. Accident and Life insurance
- d. Retirement-Related
- e. Contribution to a Superannuation Fund (in addition to statutory benefits such as Provident Fund account, Gratuity, etc.)

7.8 Employees will also be eligible for work related facilities and perquisites as may be determined through HR policies issued from time to time based on the Grade of the employee.

Principles of variable Pay Structures:

7.9 The proportion of variable pay in total compensation shall commensurate with the role and prudent risk taking profile of KMPs/ senior management

7.10 The Annual Incentive (variable pay) of executives will be linked directly to the performance of the relevant employee, business unit and the Company in accordance with the Employees Incentive Scheme of the Company as formulated from time to time.

7.11 A formal annual performance management process will be applicable to all employees, including senior executives and Key Management Personnel. Annual increases in fixed and variable

compensation of individual executives will be directly linked to the performance ratings of individual employee.

- a. Overall compensation shall be subject to periodic reviews which takes into account data from compensation surveys conducted by specialist firms, as well as factors such as affordability based on the Company's performance and the economic environment.
- b. Employees may be eligible for ESOPs as per the ESOP scheme/plan approved by the Shareholders and in force from time to time. The objective of the ESOP scheme/plan will be to reward employees for their contribution to the long term growth and profitability of the Company by providing a platform to share the value they create for the Company.
- c. Deferred Variable Pay: The Board of the Company upon recommendation of NRC may decide the quantum/portion of variable pay (cash and non-cash components) that will be subject to deferral to senior employees and KMPs based on the time horizon of the risks.
- d. Employees may be eligible for severance payments in accordance with the termination clause in their employment agreement subject to applicable regulatory requirements.
- e. KMPs and Senior management engaged in financial control, risk management, compliance and internal audit will be compensated independent of the business areas and shall commensurate with their key role in the company. Accordingly, such KMP and employees will have higher proportion of fixed compensation.

Malus / Claw back provisions:

7.12 Claw back provisions for deferred variable pay may be invoked by the Board based on the recommendation of NRC upon happening of any of the following events within a period of 3 Years.

- a. Employee integrity issues linked to a pecuniary fraud / serious misconduct
- b. Convicted of POSH complaint
- c. Convicted of any criminal complaint in relation to a fraud in the Company

Annexure - Criteria for Evaluation

Criteria for evaluation of the Board and non-independent directors:

1. Composition of the Board and availability of multi-disciplinary skills
2. Commitment to good Corporate Governance Practices
3. Adherence to Regulatory Compliance
4. Track record of financial Performance
5. Grievance redressal mechanism
6. Existence of integrated Risk Management System
7. Use of Modern technology
8. Commitment to CSR
9. Stakeholder focus
10. Knowledge sharing
11. Drive and commitment
12. Financial & Risk Awareness

Criteria for evaluation of Chairman & Managing Director:

1. Leadership qualities
2. Standard of Integrity
3. Understanding of Macroeconomic trends and Micro Industry trends.
4. Public Relations
5. Future Vision and Innovation

Criteria for evaluation of Independent Directors & Non-executive Directors:

1. Qualifications & Experience
2. Standard of Integrity
3. Attendance in Board Meetings/AGM
4. Understanding of Company's business
5. Value addition in Board Meetings

Criteria for evaluation of the Committees:

1. Qualification & Experience of members
2. Depth of review of financial performance
3. Oversight of Audit & Inspection
4. Review of regulatory compliance
5. Fraud monitoring
6. Defined set of terms of reference
7. Consideration of the recommendations of the committees by the Board
8. Familiarity of the members with the policies, procedures and guidelines of the Committees
9. Receipt of agenda & supporting materials by the members
10. Attendance at committee meetings