



NOMINATION AND REMUNERATION POLICY

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ISARC-Nomination and Remuneration Policy

The Nomination and Remuneration Policy of India SME Asset Reconstruction Company Limited is formulated under the Companies Act, 2013, RBI guidelines on the subject and relevant applicable laws, as amended from time to time.

1. Objective

The objective of this Policy is to inter alia lay down matters relating to the terms of appointment of Directors/KMP/senior management and to set out certain guiding principles for matters relating to evaluation of performance of every director and remuneration for Directors/KMP/senior management and other employees.

2. Applicability of the Policy

The Policy is applicable to Directors, KMP and senior management of the Company.

3. Definitions

- 3.1 'Act' means the Companies Act, 2013 and Rules framed thereunder as amended from time to time.
- 3.2 'Board' means Board of Directors of the Company.
- 3.3 'Director' means Director of the Company.
- 3.4 'Company' means India SME Asset Reconstruction Company Limited/ ISARC
- 3.5 'Committee' means Nomination and Remuneration Committee as constituted / reconstituted by the Board from time to time.
- 3.6 'Independent Director' means a Director referred to in section 149(6) of the Companies Act, 2013.
- 3.7 'Key Managerial Personnel' means
Managing Director and / or Chief Executive Officer or the Manager;
Whole Time Director;
Chief Financial Officer / Company Secretary;
Any other person as defined under the Act from time to time.
- 3.8 'Senior Management' means personnel / employees of the Company who are members of its core management team excluding Board of Directors. It would comprise all member of the management one level below the executive directors, including the functional / departmental heads.

4. Nomination and Remuneration Committee

The nomination and Remuneration Committee (NRC) is formed and constituted as per the Charter of Committees approved by the Board.

5. General

This policy is divided into two parts:

Part A- covers the appointment and removal of Directors/ KMP and senior management

Part B – covers the remuneration for Directors/ KMP and senior management and other employees

Part-A

5.1 Policy on appointment and removal of Directors/ KMP and senior management

5.1.1 Appointment criteria and qualifications

- a. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director/KMP/senior management and recommend to the Board his/her appointment. The person shall not be disqualified to act as Director under Section 164 of the Companies Act, 2013.
- b. The Committee shall consider willingness of the proposed Director/KMP/Senior Management to devote sufficient time and attention to his/her professional obligations for informed decision making, and thereby do justice to the appointment.
- c. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.
- d. An individual shall not be eligible for appointment as a Director/MD/CEO/ Independent Director of a Company if he/she does not comply with the requirements of the Articles of Association of the Company, provisions under the Act and the rules therein. The Directors and KMP shall meet the 'Fit and Proper' criteria specified under regulatory guidelines issued by RBI, from time to time.
- e. An individual, as prescribed by RBI, shall not be appointed as MD/ CEO or WTD beyond the age of 70 years.
- f. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as a KMP / Senior Management Personnel and recommend to the Board his / her appointment. The appointment shall be in compliance with the applicable provisions of the Act.

5.1.2 RBI Approval for any Change in Composition of the Board

Pursuant to the applicable provisions of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and terms mentioned in Certificate of Registration issued vide letter no. DNBS.PD.5269/26.01.012/2008-2009 dated March 05, 2009, the Company shall obtain the prior approval from Reserve Bank

of India (RBI) for change in the composition of the Board of Directors of the Company and for the appointment of CEO.

5.1.3 Tenure/Re-appointment/Retirement/Resignation/Removal of Director

- a. The Tenure/Re-appointment/Retirement/Resignation/Removal of the MD/WTD/Independent Director shall be governed as per the provisions of the Act and rule made thereunder or any other enactment thereof for the time being in force.
- b. Tenure of MD/ CEO or WTD shall not be for a period of more than five years at a time and the individual shall be eligible for re-appointment. However, the post of the MD/ CEO or WTD shall not be held by the same incumbent for more than fifteen years continuously. Thereafter, the individual shall be eligible for re-appointment as MD/ CEO or WTD, if considered necessary and desirable by the Board, after a minimum gap of three years, subject to meeting other conditions. During this three-year cooling period, the individual shall not be appointed or associated with the Company in any capacity, either directly or indirectly. The Company shall put in place appropriate measures to ensure succession planning.
- c. The terms of appointment/retirement of KMP/Senior Management shall be governed as per the HR policies of the Company. The terms of appointments of retired employees on contract will be a part of the HR policies of the Company. The Board will have the discretion to retain the KMP/Senior Management in the same position/remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.
- d. Due to reasons for any disqualification mentioned in the Act and rules made thereunder or under any other applicable Act, rules and regulations, the Committee may recommend to the Board with reasons recorded in writing, removal of a Director/KMP/Senior Management subject to the provisions and compliance of the said Act, rules and regulations.
- e. Subject to the provisions of the Act / applicable rules, 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.
- f. 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.

- g. If the appointment of an Independent Director is made for a term of less than consecutive five years, then such term (whether for five years or less) will be treated as one term.

Explanation - Any tenure of an Independent Director on the date of commencement of this Act viz. April 1, 2014 shall not be counted as a term.

5.1.4 Evaluation

- a. The Committee shall carry out evaluation of performance of Board, its committees, and Individual Directors at regular interval and provide necessary report to the Board for its further evaluation. The performance of MD/ CEO and WTD shall be reviewed by the Board annually.
- b. The performance evaluation of the independent directors shall be done by the Board of Directors, excluding the director being evaluated. The criteria for performance evaluation have been set out in **Annexure**.
- c. The independent directors of the company shall hold at least one separate meeting in a year inter alia to review the performance of non-independent directors and the board as a whole accordance with the provisions of the Act / applicable rules.
- d. Company shall obtain necessary information and declarations from the appointed/ existing directors and MD/ CEO in the format as prescribed by RBI.
- e. The Managing Director & CEO shall evaluate the performance of the KMP and Senior Management Personnel on yearly basis.

5.1.5 Disqualifications for appointment of Directors

Pursuant to section 164 of the Companies Act, 2013, a person shall not be eligible for appointment as a director of a company if:

- He is of unsound mind and stands so declared by a competent court;
- He is an undischarged insolvent;
- He has applied to be adjudicated as an insolvent and his application is pending;
- 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;

- An order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;

- 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;
- 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
- He has not complied with sub-section (3) of section 152.

No person who is or has been a director of a company which:

- has not filed financial statements or annual returns for any continuous period of three financial years; or
- 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.

Part B

5.2 Policy relating to the remuneration for Directors/KMP/senior management/other employees.

5.2.1 The remuneration / compensation / commission etc. to be paid to Directors will be determined by the Committee and recommended to the Board for approval. The remuneration / compensation etc. shall be in accordance with the statutory provisions of the Act and shall be subject to the prior / post approval of the shareholders of the Company and central government and such requisite approvals in accordance with the Act, wherever required.

5.2.2 As regards the remuneration of KMP, senior management personnel and other employees, the same shall be in accordance with the existing HR Manual / policy of the Company. Organisational increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board.

5.2.3 Where any insurance is taken by the Company on behalf of its Directors, KMP and Senior Management 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.

5.2.4 Remuneration to Whole Time Director/MD

- a. The structure of remuneration, commission, increments, if any, to be paid to the Managing Director/Whole-time Director shall be in accordance with the provisions of the Act read with the rules made thereunder and shall be decided and approved by the Board on the recommendation of the committee.

- b. The Whole-time Director shall be eligible for remuneration as may be approved by the shareholders of the company on the recommendation of the committee and the Board of Directors. The break-up of pay scale shall be decided and approved by the Board on the recommendation of the committee. The remuneration shall be at all times be within the overall remuneration approved by the shareholders and central government, wherever required.
- c. If, in any financial year, the company has no profits or its profits are inadequate, the company shall pay remuneration to its Whole-time Director in accordance with the provisions of Schedule V of the Act and if the company is not able to comply with the provisions of Schedule V, then with previous approval of the Central Government.

5.2.5 Remuneration to Independent Director

- a. Independent Director is not an employee of the Company and the appointment letter issued to him/her shall not constitute as the contract of employment.
- b. The Company shall pay sitting fees to Independent Director for attending the meetings of Board, Board Committee(s), Independent Directors' Meeting or any other statutory compliance meeting. The quantum of sitting fees will be determined as per recommendation of the Nomination and Remuneration Committee and approved by the Board, from time to time. The sitting fee payable will be subject to applicable tax deduction at source.
- c. For participation in the Board and/or Board Committee meetings, the Independent Directors shall be entitled to reimbursement of travelling expenses (as per the class equivalent to MD&CEO (i.e. Economy Class), as well as stay arrangements, which will be provided by the Company.

5.2.6 Remuneration to Non-Executive Director

- a. The Board may allow payment of compensation in the form of profit related commission to the non-executive directors, subject to the Company making profits.
- b. The Company may pay sitting fees to the non-executive directors and reimburse their expenses (for travelling as per the class equivalent to MD&CEO (i.e. Economy Class) for participation in the Board and other meetings, subject to compliance with the provisions of the Act and rules made thereunder or any other enactment for the time being in force.

5.2.7 Remuneration to Nominee Director / Sponsor Director

- a. The Board in its 6th meeting held on March 21, 2009, have decided that sitting fees shall not be paid to the official nominee / sponsor directors of FIs / PSBs who are

still in service of the institutions nominating them which is in line with the practice followed by the Financial Institutions (FIs) and Public Sector Banks (PSBs).

- b. The Nominee / Sponsor Directors shall be entitled to reimbursement of travelling expenses (as per the class approved by nominated institutions) as well as stay arrangements, for their participation in the Board and other meetings.
- c. The quantum of sitting fees will be determined as per recommendation of the Nomination and Remuneration Committee and approved by the Board.

5.2.8 Remuneration to KMP, Senior Management and other employees

- a. The KMP, senior management personnel and other employees of the company shall be paid monthly remuneration as per the company's HR manual / policies. The break-up of the pay scale shall be as per the company's HR policies.
- b. The Head-HR and/or by an officer of level (Vice President or above), will place before the committee requisite details setting out the proposed incentive / increments. The committee shall peruse and recommend the same to Board for its approval.
- c. This shall apply to all future / continuing employments. Any deviations to this clause shall be recorded with reasons in the committee and Board meeting minutes.

6. Details to be disclosed in Board's report

The relevant details of the policy as applicable shall be disclosed in the Board's report forming a part of the annual report of the Company and website, as prescribed under the provisions of the Act.

7. Review of the Policy

This policy shall be reviewed by the Nomination and Remuneration Committee, at least once in two years or changes or amendments to the policy, pursuant to any circular/notification/guideline issued by RBI or any other competent authority, from time to time, shall be recommended by the Committee and would be placed before the Board of Directors for their approval.

Annexure

ENTIRE BOARD AND COMMITTEE EVALUATION FOR FY.....			
(By Independent Directors and the Board)			
Sr. No.	Criteria	Y/N	Remarks (if any)
Board Deliberation			
1	The Board Meeting agenda and related background papers provide appropriate information.		
2	Opportunity given to Board members to participate at the Board Meeting is adequate.		
3	The facility for video conferencing for conducting meetings is robust, when required.		
4	The amount of time spent on discussions on the issues before the Board is satisfactory.		
5	The minutes of the meetings adequately capture the decisions taken by the Board.		
6	The actions arising from Board Meetings are reviewed in subsequent Board Meetings.		
Board and Management Relations			
7	Assess the quality, quantity and timeliness of flow of information between the Company Management and the Board that is necessary for the Board to effectively and reasonably perform their duties		
8	Guidance is provided by the Board on the Strategies and business plan presented by the Management.		
Board Committees and Quality			
9	Committees of the Board are pursuing their laid down objectives.		
Overall rating of Board and Committee performance (please tick appropriate column)		Satisfactory	Unsatisfactory
Please give suggestions (if any) to improve Board's and Committee's performance		Name of the Director: _____	
a)		Signature: _____	
b)		Date: _____	
c)			

CHAIRPERSON EVALUATION			
(By Independent Directors, taking into account the feedback from Executive and Non-Executive Directors)			
Sr. No.	Criteria	Y/N	Remarks (if any)
Managing Relationships			
1	Chairperson manages the deliberations of the Board effectively, according to the items laid down as also any other issues raised by the directors.		
2	Chairperson promotes effective participation of all Board members and encourages other members to contribute.		
3	Chairperson facilitates effective decision making and conclusion of deliberations		
Overall rating of Chairperson's performance (please tick appropriate column)		Satisfactory	Unsatisfactory
Please make Comments, if any, on the performance of the Director		Name of the Director: _____	
a)		Signature:	
b)		Date:	
c)			

DIRECTORS ASSESSMENT TOOL			
(By Independent Directors & each Board Member other than being evaluated)			
Name of the Director being evaluated:			
Sr. No.	Criteria	Y/N	Remarks (if any)
Knowledge			
1	Responsible conduct in line with his/her position as a member of the Board.		
2	Displays understanding of the business of the Company and Key issues.		
Due Diligence and Participation			
3	His/her deliberations add value to the decision making		
4	Objectivity in discussions on matters placed before the Board.		
Overall rating of Director's performance (please tick appropriate column)		Satisfactory	Unsatisfactory
Please make Comments, if any, on the performance of the Director		Name of the Director: _____	
a)		Signature: _____	
b)		Date: _____	
c)			