



**COMPENSATION POLICY FOR DIRECTORS, KEY MANAGERIAL
PERSONNEL AND SENIOR MANAGEMENT EMPLOYEE**

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Contents

1.	Introduction and Background.....	3
2.	Objectives.....	3
3.	Definitions.....	4
4.	Scope and Applicability.....	5
5.	Governance Structure for Compensation:	5
6.	Constitution of the Nomination and Remuneration Committee	5
7.	Appointment criteria and qualifications.....	7
8.	Term / Tenure.....	8
9.	Evaluation:	8
10.	Removal.....	8
11.	Retirement	9
12.	Principles for Compensation	9
13.	Remuneration to Managing Director / Whole-time Directors:	10
14.	Remuneration to Non- Executive / Independent Directors:	10
15.	Remuneration to Key Managerial Personnel and Senior Management:	11
16.	Malus / Clawback.....	11
17.	Loan and advances to directors, key managerial personnel, and senior management:	13
18.	Policy Review	13

1. Introduction and Background

Protium Finance Limited (hereinafter referred to as ‘the Company’ or ‘Protium’), is a Non-Banking Financial Company Investment and Credit Company categorized as Middle Layer (“NBFC ICC ML”). The Company extends secured and unsecured loans to Micro, Small, and Medium Enterprises (MSMEs) across India.

The Company considers human resources to be a critical and valuable resource. The Company understands the importance of an evenhanded remuneration to its Directors, Key Managerial Personnel (KMP) & Senior Managerial Personnel (SMP) to align the aspirations of human resources consistent with the goals of the Company. Accordingly, the Company proposes this policy to attract and retain the appropriate talent, pay a fair remuneration to the Directors, KMPs and senior management and to harmonize the aspirations of human resources consistent with the goals of the Company.

The Company has adopted this policy in lines with the Section 178 of the Companies Act 2013 and applicable rules thereof laying down the roles and responsibilities of the Nomination and Remuneration Committee (‘NRC’) and the Reserve Bank of India (Non-Banking Financial Companies - Governance) Directions 2025, laying down the “Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs” (the Guidelines) in order to address issues arising out of excessive risk taking caused by misaligned compensation packages”. The guidelines provide broad guidance to NBFCs in formulating and governing the compensation of Key Managerial Personnel (KMP) and members of Senior Management.

This compensation policy is being defined to be in-compliance with the guidelines issued as also to place on record current practices of the company that are already in compliance with the guidelines. This policy also aims to ensure the payment of equitable, competitive remuneration to all the Directors, KMP, Senior Management of the Company which will be based on individual performance, Company’s benchmark and Industry practices. This policy has been duly approved by the Board of Directors of the Company and is suitably and periodically reviewed.

2. Objectives

- 2.1 To constitute and define terms and reference of Nomination and Remuneration Committee (NRC) of the Company.
- 2.2 To oversee the framing, review, and implementation of this Policy
- 2.3 To ensure fit and proper status of proposed/ existing Directors as per the RBI guidelines.
- 2.4 To ensure effective governance of compensation and alignment of compensation practices.
- 2.5 To formulate the criteria for determining qualifications, competencies, positive attributes, and independence for appointment of a Director (Executive / Non-Executive) and recommend to the Board policies relating to the remuneration of the Directors, Key Managerial Personnel, and other senior management employees.
- 2.6 To formulate the criteria for evaluation of performance of all the Directors on the Board.
- 2.7 To establish principles of fixed / variable pay structures for KMP and Senior Management Personnel.
- 2.8 To lay out remuneration principles for Directors and KMP’s linked to their responsibilities, performance and achievement relating to the role fulfilled and in meeting the Company’s objectives,

overall governance, and goals.

- 2.9 To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage.
- 2.10 To develop a succession plan for the Board and to regularly review the plan.

3. Definitions

- 3.1. **“Act”** means the Companies Act, 2013 and Rules framed there under, as amended from time to time.
- 3.2. **“Board”** means Board of Directors of the Company.
- 3.3. **“Directors”** mean Directors appointed on the Board of the Company.
- 3.4. **“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.
- 3.5. **“Committee”** shall mean the Nomination & Remuneration Committee of Board of Directors of the Company, constituted in accordance with the provisions of Section 178 of the Companies Act, 2013.
- 3.6. **“Employees’ Stock Option”** means the option given to the Directors, Officers or Employees of a company or of its holding company or subsidiary company or companies, if any, which gives such Directors, Officers or Employees, the benefit or right to purchase, or to subscribe for, the shares of the Company at a future date at a pre-determined price.
- 3.7. **“Independent Director”** means a Director referred to in Section 149 (6) of the Companies Act, 2013 and rules.
- 3.8. **“Key Managerial Personnel” (KMP)** means
 - i. the Chief Executive Officer or the Managing Director or the Manager.
 - ii. the Company Secretary.
 - iii. The 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. such other officer as may be prescribed by the Act or rules made thereunder.
- 3.9. **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.
- 3.10. **“Policy” or “this Policy”** means the contents herein including any amendments made by the Board of the Company.
- 3.11. **“Retention period”** means a period of time, after the vesting of stock linked instruments, which have been awarded as variable pay during which they cannot be sold or accessed.
- 3.12. **“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 directors, including the functional heads. The Committee would review the definition annually depending on the organization structure of the Company.

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Companies Act, 2013 as may be amended from time to time shall have the meaning respectively assigned to them therein.

4. Scope and Applicability

- This policy prescribes guideline, criteria, and principles for the Committee for recommending to the Board the nomination and remuneration of the directors, key managerial personnel and senior management of the Company.
- In view of the definitions given above, the policy is applicable on all Directors, Key managerial Personnel and Senior Management of the Company. NRC may on annual basis review the list of KMPs and Senior Management identified based on their role and responsibilities.

5. Governance Structure for Compensation:

- The Nomination and Remuneration Committee (“NRC”) has been constituted for framing, review and implementation of the Company’s compensation policy on behalf of the Board and its role is as set out in the NRC Charter.
- This Policy will be subject to review by the NRC on an annual basis and approved by the Board.

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.

PART – A

MATTERS TO BE DEALT WITH, PERUSED AND RECOMMENDED BY THE NOMINATION AND REMUNERATION COMMITTEE TO THE BOARD

6. Constitution of the Nomination and Remuneration Committee

The Board has constituted the “Nomination and Remuneration Committee” of the Board which is in line with the requirements under the Companies Act, 2013 (“Act”). The Board has authority to reconstitute this Committee from time to time.

6.1 Roles and Responsibilities of the Committee

The NRC shall oversee the framing, review and implementation of compensation policy. The following functions shall be performed by NRC in this regard:

Nomination Matters:

- The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director and KMP and recommend to the Board his / her

appointment.

- The Committee shall undertake a process of due diligence to determine the suitability of the person for appointment/continuing to hold an appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other ‘fit and proper’ criteria.
- A person should possess the adequate qualifications, expertise and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.
- The Company shall not appoint or continue the employment of any person as Managing Director/Whole-time Director who is below the age of twenty-one years or has attained the age of seventy years. Provided that the term of the person holding this position may be extended beyond the age of seventy years 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 extension of appointment beyond seventy years.
- The Company shall obtain necessary information and declaration from the proposed/existing directors as per the format provided under the Companies Act, 2013 and Guidelines issued by the Reserve Bank of India from time to time.
- The Company shall obtain annually as on 31st March a simple declaration from the Directors the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.
- The Company shall ensure in public interest that the nominated/elected directors execute the deeds of covenants in the Format provided under the Guidelines issued by Reserve Bank of India from time to time.
- To have Directors (minimum one at least, on the Board) with relevant experience of having worked with in a Bank / NBFC, in view of the need for professional experience in managing the affairs of the Company.
- To appoint Key Managerial Personnel (KMP), while observing for cases, except for directorship in a subsidiary that the KMP shall not hold any office (including directorships) in any other NBFC-ML (Middle Layer) or NBFC-UL (Upper Layer). A timeline of two years is to be observed with effect from October 01, 2022 to ensure compliance with these norms. However, KMPs can assume directorship in NBFC-BLs (Base Layer).
- To 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 and KMPs.
- Developing a succession plan for the Board in the context of the Company’s performance from business and compliance perspective.
- Making recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provision of the law and their service contract.

- Considering any other matters, as may be requested by the Board.

Remuneration Matters:

- Considering and determining the Remuneration based on the performance and also bearing in mind that the remuneration is reasonable and sufficient to attract retain and motivate members of the Board and such other factors as the Committee shall deem appropriate all elements of the remuneration of the members of the Board.
- Approving the principles of remuneration of the Senior Management including KMP of the Company maintaining a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the working of the Company.
- Recommend to the board, all remuneration, in whatever form, payable to Directors and KMPs
- To work in close coordination with Risk Management Committee (RMC) of the company to achieve effective alignment between compensation and risks.
- To ensure that compensation levels are supported by the need to retain earnings of the company and the need to maintain adequate capital based on ICAAP.

PART B: POLICY FOR APPOINTMENT INCLUDING RE-APPOINTMENT AND REMOVAL OF DIRECTOR, KMPS AND SENIOR MANAGEMENT

7. Appointment criteria and qualifications

- (i) The Committee shall identify and ascertain the integrity, qualification, expertise, and experience of the person for appointment as Director or KMP's and recommend to the Board his / her appointment.
- (ii) A person to be appointed as Director or KMP should possess adequate qualification, expertise, and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person are sufficient / satisfactory for the concerned position.
- (iii) A person, to be appointed as a director, should possess impeccable reputation for integrity, deep expertise, and insights in sectors / areas relevant to the Company, ability to contribute to the Company's growth, complementary skills in relation to the other Board members.
- (iv) The Company shall not appoint or continue the employment of any person as Managing Director/ Executive Director who has attained the age of seventy years. Provided that the term of the person holding this position may be extended at the discretion of the committee beyond the age of seventy years 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 extension of appointment beyond Seventy years as the case maybe.
- (v) A whole time KMP of the Company shall not hold office in more than one company except in its subsidiary company at the same time. However, a whole-time KMP can be appointed as a director in any company, with the permission of the Board of Directors of the Company.

- (vi) A person to be appointed senior management should possess adequate qualification, expertise, and experience for the position he / she is considered for appointment. MD & CEO has discretion to decide whether qualification, expertise and experience possessed by a person are sufficient / satisfactory for the concerned position and annual update to the Committee.

8. Term / Tenure

8.1. Managing Director / Whole-time Director

The Company shall appoint or re-appoint any person as its Managing Director and CEO or Whole-time Director for a term not exceeding five years at a time. Re-appointment shall be made before the expiry of term, based on an evaluation of the performance for a minimum period of three years.

8.2. Independent Director

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.

No Independent Director shall hold office for more than two consecutive terms as per the Companies Act, 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.

At the time of appointment of Independent Director, it should be ensured that 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 (Executive) Director of a listed company. Further an independent director shall not be on the Board of more than three NBFC (NBFC-ML or NBFC-UL) as the same time.

8.3. Key Managerial Personnel

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

9. Evaluation:

The Committee shall carry out evaluation of performance of every Director. The MD & CEO should evaluate the KMP and Senior Management Personnel at regular interval (yearly).

10. Removal

Due to reasons for any disqualification mentioned in the Companies Act, 2013, rules made there under 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 or KMP subject to the provisions and compliance of the said Act, rules and regulations.

11. Retirement

The Whole-time Directors, KMP and senior management personnel shall retire as per the applicable provisions of the Companies Act, 2013 and the prevailing policy of the Company. The Board will have the discretion to retain the Whole-time Directors, KMP and senior management personnel in the same position/ remuneration or otherwise, even after attaining the retirement age, for the benefit of the Company.

PART C: POLICY RELATING TO THE REMUNERATION FOR THE DIRECTORS, KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT

12. Principles for Compensation

12.1. Components and risk alignment:

The compensation of Key Managerial Personnel (KMPs) and senior management 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.

12.2. Composition of Fixed Pay

All the fixed items of compensation, including the perquisites and contributions towards superannuation/retiral benefits, may be treated as part of fixed pay. All perquisites that are reimbursable may also be included in the fixed pay so long as there are monetary ceilings on these reimbursements. 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.

12.3. Principles of variable pay:

- **Composition of Variable Pay:** The variable pay may be in the form of share-linked instruments. It shall be ensured that the share-linked instruments are in conformity with relevant statutory provisions.
- **Proportion:** The proportion of variable pay in total compensation needs to 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 in the variable pay in case the variable pay contains share linked instruments. The variable pay should be truly and effectively variable and can be reduced to zero based on performance at an individual, business unit and companywide level. In order to do so, performance measures and their relation to remuneration packages should be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.
- **Deferral of Variable Pay:** Not all the variable pay awarded after performance assessment may be paid immediately. Certain portion of variable pay, as decided by the MD & CEO of the Company, may be deferred to time horizon of the risks. The portion of deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Deferral period for such an arrangement may be decided by the MD& CEO of the Company.

- **Control and Assurance Function Personnel:** KMPs and senior management engaged in financial control, risk management, compliance and internal audit may be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the Company. Accordingly, such personnel may have higher proportion of fixed compensation. However, a reasonable proportion of compensation may be in the form of variable pay, so that exercising the options of malus and/or clawback, when warranted, is not rendered infructuous.

12.4. 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.

- 12.5.** It is to be ensured that the compensation 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).

13. Remuneration to Managing Director / Whole-time Directors:

The Remuneration/ Commission etc. to be paid to Managing Director / Whole-time Directors, etc. shall be governed as per provisions of the Companies Act, 2013 and rules made there under or any other enactment for the time being in force and the approvals obtained from the Members of the Company.

The Nomination and Remuneration Committee shall make such recommendations to the Board of Directors, as it may consider appropriate with regard to remuneration to Managing Director / Whole-time Directors.

If, in any financial year, the Company has no profits or its profits are inadequate, it shall pay remuneration to its Managing Director / Whole-time Director / Other Director in accordance with the provisions of Schedule V of the Companies Act, 2013.

Further, the proportion of variable pay in total compensation needs to be commensurate with the role and prudent risk-taking profile of Directors.

14. Remuneration to Non- Executive / Independent Directors:

The Non-Executive / Independent Directors may receive sitting fees, commission and such other remuneration as permissible under the provisions of Companies Act, 2013. The amount of sitting fees, commission and such other remuneration may be recommended by the Nomination and Remuneration Committee and approved by the Board of Directors.

All the remuneration of the Non- Executive / Independent Directors (excluding remuneration for attending meetings as prescribed under Section 197 (5) of the Companies Act, 2013) shall be subject to ceiling/ limits as provided under Companies Act, 2013 and rules made there under or any other enactment for the time being in force. The amount of such remuneration shall be such as may be recommended by the Nomination Remuneration and Compensation Committee and approved by the Board of Directors or shareholders, as the case may be.

An Independent Director shall not be eligible to get Stock Options and also shall not be eligible to participate in any share-based payment schemes of the Company.

Any remuneration paid to Non- Executive / Independent Directors for services rendered which are of professional in nature shall not be considered as part of the remuneration for the purposes of clause (b) above if the following conditions are satisfied:

15. Remuneration to Key Managerial Personnel and Senior Management:

The remuneration to Key Managerial Personnel and Senior Management shall consist of fixed pay and incentive pay, in compliance with the provisions of the Companies Act, 2013 and in accordance with the Company's Policy. The compensation components are aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks.

The NRC/ administrator appointed by Board for the purpose of administering the Employee Stock Option/ Purchase Schemes, shall determine the stock options and other share-based payments to be made to Key Managerial Personnel and Senior Management.

The Fixed pay shall include monthly remuneration, employer's contribution to Provident Fund, contribution to pension fund, pension schemes, etc. as decided from to time. The variable pay shall be decided based on the balance between performance of the Company and performance of the Key Managerial Personnel and Senior Management, to be decided annually or at such intervals as may be considered appropriate. The proportion of variable pay in total compensation shall be commensurate with the role and prudent risk-taking profile of KMPs/senior management.

16. Malus / Clawback

- 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 Employee Stock Options and may lapse unvested Employee Stock Options in accordance with the ESO Plan.

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 financial well-being of the Company
- Exposing Company to substantial Risk
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus provision is necessary and justified.

In determining the causes for Significant corrosion in financial well-being, the Nomination and Remuneration 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 Nomination & Remuneration 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 Nomination and Remuneration 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, willful 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, Nomination and Remuneration Committee will have power to take any of the following action basis the nature and severity of 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 component 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 contain suitable clause on malus/clawback.

The Board may at their discretion decide on claw back of variable pay paid on earlier for any years to Executive Director, KMP's, senior management relating to separation before pre agreed periods and/ for any clause, as per Company Policy.

The Remuneration to the directors and key managerial personnel shall be in line with the limits prescribed under provisions of the Companies Act, 2013 and rules made there under.

The Committee shall periodically review the remuneration payable to the directors and key managerial personnel and recommend any revision thereof on the basis of financial condition of the Company and performance of the director or key managerial personnel.

17. Loan and advances to directors, key managerial personnel, and senior management:

The Committee shall review and approve the loans and advances to directors in line with the requirements of provisions of Companies Act, 2013 and rules made there under. Loan and advances to key managerial personnel and senior management should be as per the Company's policy.

18. Policy Review

The Board of Directors shall review this Policy annually or on a need-basis i.e., in the event of change in regulatory framework or for business or operational need (whichever is earlier). Such updates / changes to the Policy will be communicated to the relevant staff/personnel (both in-house or outsourced) and relevant stakeholders across the Company.