

MKVENTURES CAPITAL LIMITED
(Formerly known as “IKAB SECURITIES AND INVESTMENT LIMITED”)

**POLICY FOR COMPENSATION OF KEY MANAGERIAL
PERSONNEL (KMP) AND SENIOR MANAGEMENT**

POLICY VERSION CONTROL:

Version	Approval	Version Description	Regulatory Reference
I	Board Meeting dated August 04, 2023	2023	RBI Regulations

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**POLICY FOR COMPENSATION OF KEY
MANAGERIAL PERSONNEL (KMP) AND SENIOR
MANAGEMENT**

PREAMBLE:

RBI has issued a circular DOR.GOV.REC.No.29/18.10.002/2022-23 dated 29th April 2022. The circular provides broad guidance to NBFCs in formulating and governing the compensation of Key Managerial Personnel (KMP) and members of Senior Management (SMT).

This compensation policy is being defined to be in compliance with the guidelines issued and also to place on record the current practices of the company that are already in compliance with the guidelines. Several of these practices have been in the company for a period of time and follow the spirit of RBI's guidelines.

Further, being a leading organization in the NBFC sector, some parts of the policies are being defined taking a future-forward view. In this context, the practices of leading banks and RBI's guidelines for the banking sector have also been evaluated and considered.

The definition of KMP and SMT for the company are as shared in Annexure 1.

1. Constitution of Nomination and Remuneration Committee (NRC)

- 1.1. As per the norms of a listed company, the Board of the company has constituted a NRC. Its role, scope and constitution are defined and approved by the Board.
- 1.2. One of the responsibilities of the NRC is to oversee the framing, review, and implementation of the compensation practices of the organization.
- 1.3. The NRC also ensures the 'fit and proper' status of proposed / existing directors and that there is no conflict of interest in the appointment of directors on the Board of the company, KMPs and senior management.
- 1.4. Two out of three members of the NRC are independent directors.
- 1.5. Two members of NRC are also members of the Risk Management Committee (RMC) of the Board. This ensures effective alignment between compensation and risk.
- 1.6. Constitution of the NRC is reviewed periodically by the Board.

2. Principles for Compensation

- 2.1. The Company follows a well-defined policy for compensation. The policy clearly links the performance with the total compensation paid to an individual. This is shared at the start of the year with the KMP and members of the senior management team (SMT).
- 2.2. At the end of a financial year, the performance of a KMP and SMT is evaluated on a basis of individual, business/function unit and company's performance. In addition, the individual is also rated on leadership demonstrated during the year.
- 2.3. The compensation of KMP and SMT is periodically benchmarked with a basket of companies, including leading banks, to ensure it is in line with industry best practices and competitive for the talent that we have, and to continue to attract best-in-class talent to the company.

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2.4. Compensation Components:

- 2.4.1. The total remuneration for KMP and SMT has two main components: Fixed Pay and Variable Pay.
- 2.4.2. Variable pay is further divided into payments made in cash as bonuses and ESOPs. The component details are defined and shared in Annexure 1.

2.5. Principles of Variable Pay:

- 2.5.1 Variable pay as a proportion of total remuneration increases as roles and responsibilities increase.
- 2.5.2 The percentage distribution of total remuneration could vary basis roles and responsibilities and performance in a given financial year.
- 2.5.3 The variable pay component of remuneration is paid to the KMP and SMT basis the final performance and leadership rating for the year.
- 2.5.4 Basis performance, variable pay can be reduced to zero in a given financial year.
- 2.5.5 These aspects ensure compensation outcomes are symmetric with risk and performance outcomes.

2.6 Deferral of variable pay:

- 2.6.1 RBI guidelines for NBFC advise that a certain portion of variable pay, as decided by the Board of the company, may be deferred and this deferral arrangement may be made applicable for both cash and non-cash components of the variable pay. Also, the deferral period for such an arrangement may be decided by the Board of the company.
- 2.6.2 Of the two components of variable pay, the approved ESOP scheme of the company follows a 4-year vesting schedule posts the grant (25%: 25%: 25%: 25%) and thus deferral is designed in it and is in line with best practices followed in the banking industry.
- 2.6.3 So far Company has followed 100% payout of the cash component of variable pay (read Annual Bonus) at the end of a performance period.
- 2.6.4 Taking the guidelines into consideration, the compensation policy is being revised to start the deferral of the cash component of variable pay. It is proposed to increase the deferred payout sequentially over a three-year horizon to facilitate the transition from a 100% upfront payout to a 50% payout as is the practice in leading banks.
- 2.6.5 The payout of the annual bonus is proposed to be deferred over 3 years post-the year of performance as per the following schedule:

Financial Year	Year 1 (Year of performance)	Year 2	Year 3	Year 4
23-24	70%	10%	10%	10%
24-25	60%	13.33%	13.33%	13.34%
25-26	50%	16.66%	16.66%	16.67%

- 2.6.6 The vesting of the deferred cash component of variable pay would continue as per schedule even after the separation of the employee from the services of the company except in the event of this separation being on account of Malus or Clawback conditions as defined in clause 3.3.
- 2.6.7 In the event of death or permanent disability of the individual, unvested portions of variable pay will vest immediately except in situations where provisions of Malus / Clawback as defined in clause 3.3. may apply.

2.7 Compensation for Control and assurance function personnel:

- 2.7.1 The goal-setting and performance appraisal process of the company as mentioned in Clause 2.2, ensures that KMPs and senior management team members engaged in financial control, risk management, compliance, and internal audit have performance measures that are independent of the business areas they oversee.
- 2.7.2 The RMC and Audit Committee of the Board review their performance independently and advise the company on their performance, which in turn results in the variable part of their compensation.

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- 3. Provisions for Malus and Clawback:** The compensation policy is being amended to include Malus and Clawback clauses (Refer Annexure 1 for definition of Malus and Clawback).
- 3.1 As a guiding principle, prior to any action being taken by the NRC under this provision, the NRC and the company will ensure due regard for the Principles of Natural Justice.
- 3.2 The variable pay part of compensation will be subject to Malus and Clawback arrangements in the event of certain circumstances.
- 3.3 Circumstances under which application of Malus and Clawback is to be considered:**
- 3.3.1 Material breach of company's Code of Conduct, any Non-Disclosure Agreement, regulatory procedures, internal rules and regulations or any other such instance for which the NRC, in its discretion, deems it necessary to apply Malus or / and Clawback provisions.
- 3.3.2 Fraud, breach of trust, dishonesty, or wrongful disclosure by the employee of any confidential information.
- 3.3.3 Willful misinterpretation / misreporting of financial performance of the company.
- 3.3.4 Any misconduct pertaining to moral turpitude, theft, misappropriation, corruption, forgery, embezzlement or of criminal nature.
- 3.3.5 Non-disclosure of material conflict of interest by the employee or any misuse of official powers.
- 3.3.6 An act of willful, reckless, grossly negligent conduct which is detrimental to the interest or reputation of the company.
- 3.3.7 Malus may also be applied in the situation of significant deterioration of financial or risk performance from one financial year to the next.
- a) The performance measures defined as part of goal setting process of the company, business threshold metric and sustainable business strategy framework would form the primary considerations for evaluating the application of Malus in this condition.
- b) The NRC may duly take into consideration factors that were within the control of the person, and/ or beyond reasonable control, on account of conditions such as macro events, market conditions, industry performance, changes in legal/regulatory requirements, force majeure events like occurrence of natural disasters, pandemic, other socio-economic conditions etc.
- 3.3.8 Above events are to be considered by the NRC for application of Malus and Clawback where they result in significant loss to the company or its shareholders.
- 3.3.9 Circumstances that may trigger Malus or Clawback provisions will be reviewed periodically by the NRC.
- 3.4 Application of Malus & Clawback provisions:**
- 3.4.1 The NRC will review the requirement to invoke the Malus or Clawback provisions in the event one or more of the circumstances come to light.
- 3.4.2 The review by the NRC will aim to determine involvement, accountability, severity and wilful nature of the act of the concerned person/s.
- 3.4.3 Bonafide errors of judgment will not be subject to Malus provisions.
- 3.4.4 The provision of a Malus arrangement would entail the cancellation of a deferred portion of variable pay. The NRC may decide to apply Malus on part, or all of the unpaid cash portion of variable pay or unvested ESOPs basis the level of involvement, proportionality and impact.
- 3.4.5 The provision of Clawback arrangement would entail the return of already paid variable pay in cash and/ or ESOPs attributable to a given reference year to which circumstances triggering the provisions of Malus and Clawback are related.
- 3.4.6 The NRC may decide to apply Clawback on part, or all of the variable pay basis level of involvement, proportionality and impact.
- 3.5 Malus/ clawback clause can be applied for a period of 4 years after the date of grant of Total Variable Pay.
- 4. Date of implementation:** This Compensation Policy will be effective from April 1, 2023.

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ANNEXURE 1

Definitions used in the Document

RBI : Reserve Bank of India

KMPs : Key Managerial Personnel as defined under the Companies Act, 2013

- Covers Managing Director & Chief Executive Officer, Chief Financial Officer & Company Secretary of the company.

SMT : Senior Management Team

- All Executive Band and GB12 officers
- Any other GB11 and above employee heading critical function/business that NRC may include from time to time

NRC : Nomination & Remuneration Committee

NBFC : Non-Banking Financial Company

RMC : Risk Management Committee

Fixed Pay: All fixed items of compensation, this would include:

- Monthly fixed salary payable (Basic salary, HRA, Special allowance, etc.)
- Perquisites and contributions towards retiral benefits (Employer contribution to PF, Superannuation, NPS, gratuity, etc.)
- All perquisites that are reimbursable (Car lease etc.) and have a monetary ceiling
- Monetary equivalent of benefits of non-monetary nature (Company provided car, Furnished house, Club membership, etc.)

Variable Pay: All items of compensation that are paid basis performance of an individual and/or the company

- Variable pay is part of the compensation that is paid basis performance measures defined for the performance measurement period.
- It can be reduced to zero based on performance at an individual, business-unit and company-wide level

Clawback : As per RBI circular on ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs

- “A clawback is a contractual agreement between the employee and the NBFC in which the employee agrees to return previously paid or vested remuneration to the NBFC under certain circumstances, 2023”.

Malus : As per RBI circular on ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs, 2023’ and Banks

- A malus arrangement permits the organization to prevent the vesting of all or part of the amount of a deferred remuneration.
- Malus arrangement does not reverse vesting after it has already occurred.

Retention Period: As per RBI circular on ‘Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs and Banks

- A period of time after the vesting of instruments that have been awarded as variable pay during which they cannot be sold or accessed.