

NOMINATION AND REMUNERATION POLICY

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1. Introduction

Jana Small Finance Bank (Bank) recognizes its role as a corporate citizen and endeavours to adopt the best practices and the highest standards of Corporate Governance through transparency in business ethics, accountability to its customers, government and other shareholders. The Bank's activities are carried out in accordance with good corporate practices and the Bank is constantly striving to better them and adopt the best practices. This policy seeks to document the practices and procedures to be followed by the Bank for appointment of Directors and their remuneration.

The objective of the Director's appointment and remuneration policy is to regulate the appointment and remuneration of Directors (including Independent Directors), Key Managerial Personnel (KMP), senior management and other employees as per the criteria formulated by the Nomination and Remuneration Committee of the Board under the requirement of the Companies Act, 2013 read with applicable Rules and Regulations under the Act and Securities and Exchange Board of India (SEBI) Notification Listing Obligations and Disclosure Requirements) Regulations, 2015

The policy shall ensure that the Bank has a Board with diverse background and experience in areas that are relevant for the Bank. It also seeks to lay down principles for fixing the remuneration/compensation to attract and retain the best suitable talent on the Board of the Bank.

2. Objectives

The key objectives of this policy are as under:

- Ensure compliance with applicable laws, rules and regulations as well as 'Fit and Proper criteria' of directors before their appointment
- Institutionalize a mechanism for the appointment/ removal/ dismissal of directors and lay down selection criteria for appointment of director
- Formulate criteria for determining qualifications, positive attributes and independence of directors
- Retain, motivate and promote talent and to ensure long term sustainability of talented KMP
- Devise a policy on Board diversity
- Develop and regularly review succession plan for the Board
- Formulate the criteria for evaluation of performance of all the Directors on the Board
- Establish standards on compensation/ remuneration including fixed and variable, which are in alignment with the applicable rules and regulations and is based on the trends and practices of remuneration prevailing in the industry
- Define internal guidelines for payment of perquisites to the directors and KMP.

3. Applicability

All new appointments made in the Board of Directors and KMP will be covered under this policy. Further, it also covers the remuneration of all existing and new directors as well as KMP.

The policy shall be applicable to the following:

- Directors
- Key Managerial Personnel
- Senior Management
- Other Employees as may be specified

4. Appointment of Board of Directors

4.1 Board of Directors

The Board of Directors shall be responsible to ensure a transparent nomination process to the Board of directors with the diversity of thought, experience, knowledge, perspective and gender in the Board. The Board of Directors of the Bank shall satisfy itself that there is a succession plans in place for appointment to the Board of Directors and senior management.

Composition

The Bank shall have a Board of Directors consisting of individuals as Directors and shall have a minimum of three directors and maximum of fifteen directors with at least one woman director. The Bank shall have at least one director who has stayed in India for a total period of not less than 180 days in the previous calendar year. The Board of the Bank should have a majority of Independent Directors.

Qualification

The Board of Directors of the Bank shall have not less than 51% of total directors which should consist of persons who have special knowledge or practical experience in one or more of the following matters:

- Accountancy
- Agriculture and rural economy
- Banking
- Cooperation
- Economics
- Finance
- Law
- Small-scale industries
- Information Technology*
- Payment and Settlement Systems*
- Human Resource*
- Risk Management*
- Business Management*
- Any other matter which RBI would consider to be useful to the Bank

* * *Included by RBI vide their notification dated November 24, 2016*

Not less than two shall be persons having special knowledge of agriculture and rural economy, cooperation or small-scale industry.

Not less than 51% of total directors should consist of persons who shall not:

- (1) Have substantial interest in, or be connected with, whether as employee, manager or managing agent:
 - (i) any Company not being a company registered under section 25 of the Companies Act, 1956 (1 of 1956), or Section 8 of the Companies Act, 2013 or
 - (ii) any firm,

which carries on any trade, commerce or industry and which, in either case, is not a small- scale industrial concern, or

- (2) be proprietors of any trading, commercial or industrial concern, not being a small-scale industrial concern

Substantial Interest means (holding beneficial interest by an individual or his spouse or minor child, whether singly or taken together in shares of a company / firm, the paid-up amount of which exceeds Rs.5 lakh or 10% of the paid-up capital of the company / firm, whichever is less)],

The director must meet the 'fit and proper' criteria as follows:

- The Board of Directors of the Bank while nominating/ co-opting directors should be guided by certain broad 'fit and proper' norms for directors, viz. formal qualification, experience, track record, integrity etc. For assessing integrity and suitability features like criminal records, financial position, civil actions initiated to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions applied by regulators or similar bodies, previous questionable business practices etc should be considered. The Board of Directors may, therefore, evolve appropriate systems for ensuring 'fit and proper' norms for Directors, which may include calling for information by way of self-declaration, verification reports from market, etc.
- The candidate should normally be a graduate (which can be relaxed while selecting directors for the categories of farmers, depositors, artisans, etc.).
- The upper age limit for CEO & MD and other Whole Time Directors (WTDs) of the Bank should be 70 years. He / she should not be a Member of Parliament / Member of Legislative Assembly / Member of Legislative Council.
- The Director shall furnish his Director Identification Number and a declaration that he is not disqualified to become a Director under the Companies Act, 2013.

Disqualification and Restrictions

The Bank shall not employ any persons as a Director

- Who is, or at any time has been adjudicated insolvent,
- Or has suspended payment or has compounded with his creditors,
- Or who is, or has been, convicted by a criminal court of an offence involving moral turpitude; or
- Whose remuneration or part of whose remuneration takes the form of commission or of a share in the profits of the company:
- Who is a director in any other Bank.

Restrictions

The Bank shall not have more than three directors which amongst themselves are entitled to exercise voting rights in excess of 20% of total voting rights of all shareholders of the Bank.

The Bank shall appoint any person as a Director if such person is on the Board of an NBFC only if the below conditions are complied with:

- He / she is not the owner of the NBFC, [i.e., share holdings (single or jointly with relatives, associates, etc.) should not exceed 50%],
- He / she is not related to the promoter of the NBFC,
- He / she is not a full-time employee in the NBFC.

- The concerned NBFC is not a borrower of the Bank.

4.2 Managing Director Qualification

The Whole time Managing Director of the Bank should have special knowledge and practical experience of, working of a Bank or a financial institution; or financial, economic or business administration. No company shall appoint or employ at the same time a managing director and a manager.

Proposals for appointment of a new MD & CEO/ CEO, should invariably contain a panel of at least two names in the order of preference. The proposals should be submitted to the Reserve Bank at least four months before the expiry of the term of office of the present incumbent.

Disqualification and Restrictions

The Bank shall not be managed or employ or continue employment of any person:

- Who at any time has been adjudged as insolvent, suspended payments, compounded with creditors, convicted by a criminal court of offence involving moral turpitude, or
- Whose remuneration or part of it, takes the form of commission or share of profit of the Bank, or
- Whose remuneration, is in the opinion of RBI, excessive, or
- Who is a director of any other Bank (not being a subsidiary or Section 25 company), or
- Who is engaged in any other business or vocation ; or
- Whose term of office is exceeding 5 years at any one time.

Tenor

A Managing Director or any other whole time Executive Directors of the Bank shall fulfil all conditions as applicable to the Directors of the Bank.

No Director of the Bank, other than its Chairman or whole-time Director, by whatever name called, shall hold office continuously for a period exceeding eight years.

The Chairman and whole time directors, if removed from office, shall not be reappointed for a period of 4 years from the date of his ceasing to be the Chairman or whole time director as the case may be.

As per the Articles of Association of the Bank approved by the RBI, the Bank shall have a part-time Chairman and a whole time Managing Director (MD).

The whole time MD shall be in whole time employment of the Bank and can hold office at a time for a period of 5 years. The Bank shall ensure that the MD has prior RBI approval to undertake part-time honorary work if it is not likely to interfere with his duties as MD of the Bank.

The Bank shall renew or extend the term of office of the Director by further periods not exceeding 5 years on each occasion subject to the condition that such renewal/extension shall not be sanctioned earlier than 2 years from the date on which the appointment is to come into force.

4.3 Independent Director

The Board of Directors and senior management shall facilitate the Independent Directors to perform their role effectively as a member of the Board of Directors and also a member of a committee of Board of Directors. The Nomination and Remuneration Committee of the Bank shall decide whether to extend or continue the term of appointment of the Independent Director on the basis of the report of performance evaluation of independent directors.

The Independent Directors of the listed entity shall hold at least one meeting in a year, without the presence of non-independent directors and members of the management and all the Independent Directors shall strive to be present at such meeting.

Qualification

The Bank should appoint such persons as independent directors who in the opinion of the Bank, are persons with integrity, possessing relevant expertise and experience and who satisfy the below given criteria for independence. The Independent directors shall follow the Code of Conduct of the Bank which shall set out the duties of the Independent Directors.

Disqualification and Restriction

The Bank shall not consider any director of the promoter group entity or nominee director of investors as Independent Directors.

The Bank shall not appoint such person as Independent Directors as follows:

- Who is or was not a promoter of the listed entity or its holding, subsidiary or associate company;
- Who is not related to promoters or directors in the listed entity, its holding, subsidiary or associate company
- Who, apart from receiving director's remuneration, has or had no material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;
- None of whose relatives has or had pecuniary relationship or transaction with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed from time to time, whichever is lower, during the two immediately preceding financial years or during the current financial year.
- Who, neither himself, nor whose relative(s) –
 - A. holds or has held the position of a key managerial personnel or is or has been an employee of the listed entity or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
 - B. is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of -
 1. a firm of auditors or company secretaries in practice or cost auditors of the listed entity or its holding, subsidiary or associate company; or
 2. any legal or a consulting firm that has or had any transaction with

the listed entity, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;

- Holds together with his relatives two per cent or more of the total voting power of the listed entity; or
- Is a chief executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts or corpus from the listed entity, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the listed entity;
- Is a material supplier, service provider or customer or a lessor or lessee of the listed entity;
- Who is not less than 21 years of age
- The statutory audit firm or the internal audit firm that is associated with the company, and
- The legal firm(s) and consulting firm(s) that have a material association with the company
- who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.

Tenor

The appointment of an Independent Director on the Board of Directors of the Bank shall be for a period up to 5 years from his/her effective date of appointment, which can be extended for a further period of 5 years subject to the approval of shareholders.

No Independent Director shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director.

5. Re-appointment/ Retirement of Director

The re-appointment of independent director shall be on the basis of report of performance evaluation. The Bank shall re-appoint Chairman, MD or CEO only after obtaining prior approval from RBI.

One third of the total number of directors (excluding independent directors) shall retire by rotation at every Annual General Meeting (AGM). If the number of retiring directors is neither three nor a multiple of three, then, the number nearest to one-third, shall retire from office.

The directors to retire by rotation at every annual general meeting shall be those who have been longest in office since their last appointment. The Bank may fill up the vacancy on account of retirement by rotation, by appointing the retiring director or some other person.

6. Resignation/Removal of a Director

Due to reasons for any disqualification mentioned in the Act or under any other applicable Act, rules and regulation, the Nomination and Remuneration Committee may recommend to the Board with the reasons recorded in writing, removal of a Director, KMP or senior management personnel subject to the provisions and compliance of the Companies Act, 2013. Appointment of a director may also be terminated in accordance with the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and the Articles of Association of the Bank from time to time in force.

Resignation of Director: The Bank shall intimate the Registrar about the resignation of the Director and shall place the fact of such resignation in the report of directors laid in the immediately following general meeting. The resignation of a director shall take effect from the date on which the notice is received by the Bank or the date, if any, specified by the director in the notice, whichever is later. The director who has resigned, shall be liable even after his resignation for the offences which occurred during his tenure.

Removal of Directors: The Bank shall by an ordinary resolution, remove a director before the expiry of the period of his office after giving him a reasonable opportunity of being heard, in case the Bank has not appointed such director by adopting the principle of proportional representation. The director who was removed from office shall not be re-appointed as a director by the Board of Directors.

The Bank shall send a special notice to remove a director or to appoint somebody in place of a director at the meeting at which he is removed. A director so appointed shall hold office till the date up to which his predecessor would have held office if he had not been removed.

Resignation/Removal of Independent Director

In case of removal or resignation of Independent Directors from the Board, the Bank shall replace such directors by a new independent director within a period of not more than 180 days from the date of such resignation or removal.

Provided where the Bank fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.

7. Remuneration

The Bank has adopted Remuneration Policy which is approved by Nomination & Remuneration Committee and the Board.

The Bank shall obtain prior approval from the NRC on the remuneration paid to the Chairman, Managing or whole-time Director or any other director, KMP or Chief Executive Officer.

The Bank shall obtain necessary regulatory approvals from Reserve Bank of India for grant/modification of remuneration to Managing Director & Chief Executive Officer or Whole-Time Directors or any other Director. (Reference Section 35B of Banking Regulation Act of 1949).

Remuneration for Part-Time Chairman

Compensation to the Part-Time Chairman may consist of such remuneration as may be approved by the Board and confirmed by the RBI.

Remuneration to Director/ Managing Director

The Remuneration/ Compensation/ Commission etc. to be paid to Director / Managing Director 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.

The Bank shall effectively align its compensation

- Compensation must be adjusted for all types of risk.
- Compensation outcomes must be symmetric with risk outcomes.
- Compensation pay out schedules must be sensitive to the time horizon of risks.

The Bank shall not give loans and advances to an entity (company, firm, individual) in which the Director is associated either as a director, partner, manager, guarantor, etc.

Compensation to the Managing Director/CEO will consist of Fixed and Variable Remuneration. Any changes to this shall be approved by the Nomination and Remuneration Committee and confirmed by RBI prior to implementation. The approval process will involve an assessment whether the compensation policies and practices are in accordance with the Financial Stability Board (FSB) Principles, including inter alia, whether there is appropriate balance between fixed and variable pay, whether adequate deferrals are built in the variable component and whether cost/ income ratio supports the remuneration package consistent with maintenance of sound capital adequacy ratio.

The Bank will follow similar process for compensation to its other Whole-Time Directors, if any appointed with RBI's prior approval.

Remuneration to Independent Director

Independent Director shall not be an employee of the Bank and the appointment letter issued to him/her shall not constitute a contract of employment. The Bank 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, if required, 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 bank may pay sitting fees for attending such meetings to independent directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

The Board of the Bank may, at its discretion provide for the payment of compensation in the form of profit related commission to the Part-time Chairman, with prior approval of the RBI, subject to the bank making profits. Such compensation, however, shall not exceed Rs.10 Lakhs per annum for each director and should be in compliance with the requirements as may be applicable under the Companies Act, 2013 and any other applicable statutes.

Remuneration to Non- Executive / Independent Director:

The Board of the Bank may, at its discretion provide for the payment of compensation in the form of profit related commission to the non-executive directors, subject to the bank making profits. Such compensation, however, shall not exceed Rs.10 Lakhs per annum for each director and should be in compliance with the requirements as may be applicable under the Companies Act, 2013 and any other applicable statutes.

The Bank may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013. It should be disclosed in its Directors' Remuneration Report forming part of the Annual Report of the Bank.

8. Reporting Requirement

The Bank shall disseminate the information on the "Nomination and Remuneration Policy" on its website and the Board's report.

8.1 Disclosures relating Appointment of directors

The Bank shall provide the shareholders with the following information in the case of appointment of a new director or re-appointment of a director:

- A brief resume of the director;
- Nature of his expertise in specific functional areas;
- Disclosure of relationships between directors inter-se;
- Names of listed entities in which the person also holds the directorship and the membership of Committees of the board; and
- Shareholding of non-executive directors.

8.2 Disclosures relating Remuneration

8.2.1 Reporting to the Nomination and Remuneration Committee

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

- Annual remuneration proposed for directors
- Declarations on fit and proper criteria as submitted by the directors or persons to be appointed as directors
- Annual disclosures to be made in the annual report of the Bank
- Employee benefit plans including deferred benefit plans and retirement plans

8.2.2 Reporting in the Annual Report

The Bank shall make qualitative and quantitative disclosures in the Annual Financial Statements as mentioned in the Annexure 2. In addition to these disclosures the Bank shall also disclose the following information.

- All pecuniary relationship or transactions of the non-executive directors vis- à-vis the Bank shall be disclosed in the annual report
- Criteria of making payments to non-executive directors
- All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension, service contracts, notice period, severance fees
- The ratio of the remuneration of each director to the median employee's remuneration.

8.2.3 Other Disclosure

- Non-executive directors shall disclose their shareholding, held either by them or on a beneficial basis for any other persons in the Bank 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 Bank 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 listed entity at large.

9. 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.

10. Regulatory References

- Companies Act, 2013.
- Banking Regulation Act, 1949
- Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements) Regulations, 2015, to the extent applicable
- Guidelines for Licensing of “Small Finance Banks” in the Private Sector November 27, 2014.
- Report of the Consultative Group of Directors of Banks / Financial Institutions (Dr. Ganguly Group) - Implementation of recommendations June 20, 2002.
- Fit and proper’ criteria for directors of Banks June 25, 2004
- Fit and proper’ criteria for directors on the Board of Banks May 23, 2011
- Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Risk takers and Control function staff, etc. dated January 13, 2012
- Guidelines on Compensation of Non-executive Directors (Except Part-time Chairman) of Private Sector Banks dated June 1,2015

Annexure 1- Definitions

Key Term	Explanation
“Associate Company”	Associate shall mean a company which is an “associate” as defined in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”, issued by the Institute of Chartered Accountants of India.
“Board”	Means the Board of Directors of Jana Small Finance Bank
“Control”	Shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. As per Ind AS 24, <i>Control</i> is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
“Key Managerial Personnel”	Means Key Managerial Personnel as defined under the Companies Act, 2013, viz <ul style="list-style-type: none"> i) The Managing Director or the Chief Executive Officer or the manager and in their absence, a whole time director ii) The Company Secretary, and iii) The Chief Financial Officer As per Ind AS 24, <i>Key management personnel</i> are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
“Relative”	Means a relative as defined under the Companies Act, 2013 and includes anyone who is related in any of the following manner – <ul style="list-style-type: none"> a. Members of a Hindu undivided family b. Husband or wife c. Father (including step-father) d. Mother (including step-mother) e. Son (including step-son) f. Son’s wife g. Daughter h. Daughter’s husband i. Brother (including step-brother) or j. Sister (including step-sister).
“Senior Management”	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.
“Nomination and Remuneration Committee (NRC)”	Means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013
“Independent Director”	As defined under section 2(47) of Companies Act, 2013 read with Regulation 16(1) of SEBI (LODR) Regulations, 2015.

Annexure 2- Disclosure in the Annual Report

Remuneration		
Qualitative Disclosures	(a)	Information relating to the composition and mandate of the Remuneration Committee
	(b)	Information relating to the design and structure of remuneration processes and the key features and objectives
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks.
	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.
	(e)	A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting.
	(f)	Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms.
Quantitative Disclosures	(g)	Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members
	(h)	<ul style="list-style-type: none"> • Number of employees having received a variable remuneration award during the financial year • Number and total amount of sign-on awards made during the financial year. • Details of guaranteed bonus, if any, paid as joining / sign on bonus. • Details of severance pay, in addition to accrued benefits, if any.
	(i)	<ul style="list-style-type: none"> • Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.
	(j)	Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	<ul style="list-style-type: none"> • Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments. • Total amount of reductions during the financial year due to ex- post explicit adjustments. • Total amount of reductions during the financial year due to ex- post implicit adjustments.