



Utkarsh Small Finance Bank

NOMINATION AND REMUNERATION POLICY



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Nomination and Remuneration Policy

1. Background

In compliance with the Reserve Bank of India (“RBI”) directives dated May 23, 2011 on Fit & Proper Criteria for Directors on the Board of Banks, Banking Regulation Act 1949, Section 178 and all other applicable regulations of RBI, provisions of the Companies Act, 2013 (“Act”) read along with the applicable rules thereto and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”), every listed company has to constitute a nomination and remuneration committee and formulate a nomination and remuneration policy (“Policy”). Utkarsh Small Finance Bank Limited (the “Bank”) has constituted the Nomination & Remuneration Committee (“Committee”) of the Board of Directors (“Board”) and formulated this Nomination and Remuneration Policy (“Policy”) in compliance with the provisions of the Act read along with the applicable rules thereto, Listing Regulations, Banking Regulation Act, 1949, applicable guidelines of RBI and other rules and regulations applicable from time to time.

2. Objective and purpose

- a) To guide the Board by laying down selection criteria for appointment and mechanism for removal/dismissal of directors, Key Managerial Personnel (as defined herein) and Senior Management Personnel (as defined herein).
- b) To formulate the criteria for effective evaluation of the performance of the Board, its committees and individual directors to be carried out either by the Board or by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.
- c) To devise a policy for determining the size and composition of the Board taking into account the diversity, experience, qualifications, knowledge, skills, positive attributes and judgement of the directors.
- d) To formulate the criteria for determining remuneration and compensation payable to the directors, Key Managerial Personnel, Senior Management Personnel and other employees, including performance based variable pay and Employee Stock Options Plans (“ESOP”), wherever applicable
- e) To introduce necessary initiatives to retain, motivate and promote talent and to ensure long term sustainability of talented Key Managerial Personnel and Senior Management Personnel.
- f) To ensure that the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the organisation successfully.
- g) To ensure that the relationship of remuneration to performance is clear and meets appropriate performance benchmarks.
- h) To ensure that the remuneration to Directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and



long-term performance objectives appropriate to the working of the organisation and its goals.

3. Definitions

Key Managerial Personnel/KMP means:

- a) the Chief Executive Officer or the Managing Director or the Manager;
- b) the Company Secretary,
- c) the whole-time director;
- d) the Chief Financial Officer;
- e) 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
- f) such other officer as may be prescribed by the Act or rules made thereunder.

Senior Management Personnel (SMP) means personnel of the Bank who are members of its core management team excluding Board of Directors, comprising all members of management one level below the managing director and chief executive officer and executive directors, including the functional heads and departmental heads directly reporting to Managing Director & CEO of the Bank (excluding support staff of MD's Office).

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

4. Applicability

The Policy is applicable to all directors, KMPs and SMPs and other employees of the Bank.

5. Composition and Quorum of the Nomination & Remuneration Committee

Composition and quorum

- i. The Committee shall consist only non-executive directors (NEDs). The Committee shall consist of three or more NEDs and at least 2/3rd of them shall be independent directors.
- ii. At least one of the member of the committee shall be an Independent Director and shall also be a member of the Risk Management Committee (“RMC”) of the Board.
- iii. The quorum for the Committee meetings shall be minimum three directors or one third of the members of the Committee, whichever is greater. At least half of the members attending the meeting of the NRC shall be independent directors, of which one shall be a member of the RMCB.
- iv. The chairman of the Committee shall be an independent director from amongst the members of the Committee. In the absence of the chairman, members of the Committee



present at the meeting shall choose one of the members of the committee to act as chairman who must be an independent director.

- v. The chairman of the Bank may be a member of the Committee but shall not chair the Committee.
- vi. The chairman of the Committee or in his absence any other member of the Committee authorised by him in this behalf, shall attend the annual general meetings of the Bank to respond to shareholders' queries, if any.
- vii. Composition and terms of reference of the Committee shall be disclosed in the annual report of the Bank.

Meetings and invitees to meetings

- i. The Committee will meet at least twice in a year and as and when required or as mandated by the Board or the chairman of the Committee.
- ii. The Committee may invite such executives, as it considers appropriate to be present at any meeting of the Committee.
- iii. The group head (human resources)/ chief human resources officer shall be the convener of the Committee meetings.
- iv. The company secretary of the Bank shall act as secretary of the Committee and provide assistance to it.

6. Role and functions of the Committee related to Nomination

Appointment criteria and qualifications

- i. To identify persons who are qualified to become directors and who may be appointed as KMPs or SMPs after evaluating their integrity, independence, adequate knowledge, skill, qualification, experience in the field of his/her specialisation commensurate with the proposed role and responsibility as director, KMP or SMP and their ability to manage the responsibility assigned to him/her.
- ii. To ensure that the appointment of the managing director / whole-time director is in accordance with the conditions laid down under Part I of Schedule V of the Act and in line with extant RBI guidelines and relevant provisions of the Banking Regulation Act, 1949, each as amended from time to time, SEBI - Listing Regulations and other laws as may be applicable from time to time.
- iii. To ensure that the appointment of independent directors is in accordance with the provisions of Section 149 read with Schedule IV and other applicable provisions of the Companies Act, 2013 and Banking Regulation Act, 1949, each as amended from time to time, SEBI - Listing Regulations and other laws as may be applicable from time to time.

For every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities



required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:

- a. use the services of an external agencies, if required;
 - b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
 - c. consider the time commitments of the candidates.
- iv. Appointment for any SMP shall be approved by the Committee, subject to the candidate having been interviewed by at least two (2) members of the Committee. Basis the recommendation of the members, the Committee may approve the appointment.

Tenure of appointment

i. Executive Directors:

- a) To ensure that the appointment or re-appointment of any person as its managing director / whole-time director by whatever name called, for a term not exceeding five years at a time, subject to RBI approval. However, such managing director / whole time director can hold office for such period as prescribed by RBI from time to time.
- b) No re-appointment of the managing director / whole-time director shall be made earlier than one year before the expiry of his/her term.
- c) Subject to the statutory approvals required from time to time, the post of the MD&CEO or WTD cannot be held by the same incumbent for more than 15 years. Thereafter, the individual will be eligible for re-appointment as MD&CEO or WTD in the same bank, if considered necessary and desirable by the board, after a minimum gap of 03 years, subject to meeting other conditions. During this three-year cooling period, the individual shall not be appointed or associated with the bank or its group entities in any capacity, either directly or indirectly.

MD&CEO or WTD who is also a promoter/ major shareholder, cannot hold these posts for more than 12 years. However, in extraordinary circumstances, at the sole discretion of the RBI such MD&CEO or WTDs may be allowed to continue up to 15 years.

- d) No person can continue as MD&CEO or WTD beyond the age of 70 years. Within the overall limit of 70 years, as part of the internal policy, the Board can prescribe a lower retirement age for the WTDs, including the MD&CEO.

ii. Independent Director:

- a) An independent director shall hold office for a maximum term up to five consecutive years on the Board of the Bank and be eligible for re-appointment on passing of a special resolution by the Bank and disclosure of such appointment in the Board's report in accordance with the provisions of Banking Regulation Act, 1949, the Act and the Listing Regulations.



- b) No independent director shall hold office for more than two consecutive terms in such a way that he/she shall hold office continuously for a period not exceeding 8 years, subject to adherence to the relevant sections of the Banking Regulation Act 1949 and the Act. However, such independent director shall be eligible for appointment after the expiry of three years of ceasing to become an independent director.
- c) Provided that an independent director shall not, during the said period of three years, be appointed in or be associated with the Bank in any other capacity, either directly or indirectly.

iii. Non-Executive Director:

The upper age limit for NEDs, including the Chair of the board, shall be 75 years and after attaining the age of 75 years no person can continue in these positions.

The total tenure of an NED, continuously or otherwise, on the board of a bank, shall not exceed 08 years. After completing 08 years on the board of a bank the person may be considered for re-appointment only after a minimum gap of 03 years. This will not preclude him/her from being appointed as a director in another bank subject to meeting the requirements.

Evaluation

The Committee shall put in place a mechanism for the review of performance of each independent director, other non-executive directors, managing director/whole-time director on the Board of the Bank and the Board of Directors as a whole. The review of performance shall be undertaken once in a financial year. Based on the review of performance, the Committee may recommend to the Board for the continuance, reappointment or removal of directors.

Familiarisation programmes for independent directors

To ensure that the Bank shall conduct orientation programmes/presentation/training sessions in accordance with the familiarization programmes for independent directors adopted by the Board. The details of familiarisation programmes shall be disclosed on the website of the Bank under a separate section and the link thereof shall be disclosed in the section on corporate governance forming part of the annual report of the Bank.

Board Diversity

Pursuant to the Listing Regulations, the Bank has devised the Policy on Board Diversity to ensure adequate diversity in the Board. The Committee shall consider this Policy along with the Policy on Board Diversity of the Bank and benefits of board diversity while selecting and recommending a person for the appointment as member of the Board and while evaluating the Board and its members.

Removal

Due to reasons for any disqualification mentioned in the Act, 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 or SMP, subject to the provisions and compliance of the said Act, rules and regulations and any other applicable act, rules and regulations from time to time.

Retirement

- i. A director shall retire as per the applicable provisions of the Act and KMP and SMP shall retire as per the prevailing policy of the Bank in this regard read along with the respective appointment letters issued by the Bank/ board resolution passed by the Bank in relation to their appointment.
- ii. The Board will have the discretion to retain the director, KMP, SMP in the same position / remuneration or otherwise, even after attaining the retirement age, for the benefit of the Bank, subject to applicable regulatory guidelines

7. Role and functions of the Committee related to Remuneration

Remuneration for the managing director / whole-time director

The remuneration of the managing director / whole-time director will be determined by the Committee and recommended to the Board for approval. The remuneration of the managing director / whole-time director shall be subject to the prior approval of RBI and post approval of the shareholders of the Bank. The Committee shall work in close coordination with the Risk Management Committee (“RMC”) of the Board. The Committee shall ensure that cost/income ratio of the Bank supports the compensation package of the managing director/ whole-time director and is consistent with maintenance of sound capital adequacy ratio.

The remuneration payable to the managing director / whole-time director shall be in accordance with the provisions of the Act, Banking Regulation Act, 1949 and shall be guided by the Bank’s “Policy for Risk Alignment of Compensation”, adopted by the Bank in accordance with RBI guidelines.

Where any insurance is taken by the Bank on behalf of its directors, managing director, KMPs and SMPs 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.

Remuneration to KMPs and SMPs

The Committee shall recommend to the board, all remuneration, in whatever form, payable to KMPs & SMPs.

Regular Pay:

The KMPs and SMPs shall be eligible for a monthly remuneration as per Bank’s Policy, which will consist of fixed and variable components including perquisites, and statutory benefits to attract, retain and motivate KMPs and SMPs to attain the short and long term performance objectives of the Bank.

Profit related ex-gratia / performance based remuneration:

Managing director / Whole-time director:



Subject to approval of the Board, in addition to the fixed remuneration, the managing director / whole-time director is entitled to receive remuneration within the limits prescribed under the Act and Banking Regulation Act 1949 by way of profit related ex-gratia / performance based remuneration/stock options under employee stock option scheme / plan (“ESOS / ESOP”) of the Bank (if any). Post approval of the Board, granting of such ex-gratia/ performance based remuneration shall also be subject to approval of RBI as required under applicable law.

Other KMPs and SMPs:

Subject to approval of the Board, in addition to the fixed remuneration, to motivate executives to pursue the long term growth and success of the Bank, KMPs and SMPs are entitled to receive profit related ex-gratia / performance based remuneration/stock options under ESOS / ESOP.

Minimum remuneration:

If, in any financial year, the Bank has no profits or its profits are inadequate, it shall pay remuneration to its managing director / whole-time director in accordance with the provisions of Schedule V of the Act.

Remuneration to independent director

Sitting Fees:

Independent directors shall receive remuneration by way of fees for attending meetings of Board or Committee thereof as approved by the Board, subject to the limit as stipulated in the Act.

Stock Options:

An independent director shall not be entitled to any stock option of the Bank.

Remuneration to Non- executive director (other than the independent director and part-time chairman)

Sitting Fees:

Non-executive directors (other than the independent director and part-time chairman) shall receive remuneration by way of fees for attending meetings of Board or Committee thereof as approved by the Board, subject to the limit as stipulated in the Act.

Variable Pay:

In addition to the sitting fees, the Board may, at its discretion, make payment of compensation in the form of profit-related commission to the non-executive directors (other than the independent director and part-time chairman), subject to the Bank making profits, and such compensation shall not exceed Rs.10 lakhs per annum for each such director.

In addition to the non-executive directors’ compensation as mentioned above, the Bank may pay sitting fees to the NEDs and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Act.



The approval of shareholders by special resolution shall be obtained, every year, in which the annual remuneration payable to a single non-executive director exceeds fifty per cent of the total annual remuneration payable to all non-executive directors, giving details of the remuneration thereof.

Remuneration to chairman (Part-time, non-executive)

The Bank is required to obtain prior approval of RBI for granting remuneration to the part-time non-executive chairman under Section 10B (1A)(i) and 35B of the Banking Regulation Act, 1949, as amended from time to time.

General Parameters for consideration of remuneration

- i. The financial and operating performance of the Bank during the three preceding financial years.
- ii. The relationship between remuneration and performance.
- iii. The principle of proportionality of remuneration within the Bank, ideally by a rating methodology which compares the remuneration of directors to that of other directors on the board who receives remuneration and employees or executives of the Bank.
- iv. Whether remuneration policy for directors differs from remuneration policy for other employees and if so, an explanation for the difference.
- v. The securities held by the director, including options and details of the shares pledged as at the end of the preceding financial year.

Clawback

The Committee in an event of conflict of interest may undertake internal investigations and temporarily suspend payments of fees / salary to the directors, KMPs and SMPs until the investigation is completed.

The Committee shall submit its report to the Board for consideration.

The Board shall have the right in case of conflict of interest being upheld to recover and claw back the payments made to the director.

The Committee may also engage an external independent agency to conduct its investigations and such agency shall report its findings to the Board.

8. Appointment and remuneration of other employees of the Bank

The terms of appointment and remuneration of employees of the Bank (other than managing director, KMPs and SMPs) shall be governed by the relevant policies of the Bank.

9. Delegation

The Committee or the Board may delegate one or more powers / responsibilities prescribed in this Policy in favour of the managing director or any other officer of the Bank for



implementation of the policy, subject to compliance with applicable laws.

10. Amendments & Review of the Policy

In case of any amendment(s), clarification(s), circular(s), etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions in this Policy and this Policy shall stand amended accordingly. The Board has the power to replace this Policy entirely with a new policy on recommendation by the Committee. Further, this policy shall be reviewed on an annual basis or whenever there are any changes in the Act, rules or regulations which warrants to revise this policy.

11. Disclosure

This Policy shall be placed on the website of the Bank and the salient features of this policy and changes therein, if any, along with the web address of this policy shall be disclosed in the Board Report.

The Bank shall make Qualitative & Quantitative disclosure of remuneration for whole time directors, MD&CEO and Material Risk Takers on an annual basis at the minimum, in its Annual Report, in line with the format as prescribed by the RBI vide circular no. RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 4, 2019, as amended from time to time.

Further, the Bank shall also comply with the disclosure requirements for remuneration prescribed vide Circular No. DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015, as amended from time to time.

The Bank shall also make disclosure of remuneration paid to the directors on an annual basis at the minimum, in its Annual Report.
