

# **Nomination and Remuneration Policy**

## **FY 2023-24**



(A wholly owned subsidiary of Punjab National Bank)

## **1. Introduction**

This policy on nomination and remuneration of Directors, Key Managerial Personnel (KMP) and Senior Management has been formulated by the Nomination and Remuneration Committee in pursuance of the company's objective to consider human resources as its invaluable assets, to pay equitable remuneration to all Directors, key managerial personnel and employees of the company. This policy intends to harmonize the aspirations of human resources consistent with the goals of the company and in terms of the provision of the Companies Act, 2013.

## **2. Constitution of Committee**

In terms of Section 178 of the Companies Act 2013 read with Rule 6 of the companies (Meetings of Board and its Power) Rules, 2014 the Board of Directors have already constituted a Nomination and Remuneration Committee as the paid up share capital of the company exceeds Rs. 10 crore.

## **3. Objective**

The Committee was constituted with the envisaged objective of making selection, evaluation and remuneration of Directors (Executive/Non-Executives), Senior Management and Key Managerial Personnel. For the attainment of above mentioned goals, the Committee shall have to formulate criteria for determining qualification, positive attributes and independence of Director and get the same approved from the board of director.

The policy defines roles and responsibilities of the committee along with guidelines and criteria's for the nomination and remuneration system for the smooth functioning of the company.

## **4. Definitions:**

Directors -Section 2(34) of the Companies Act, 2013 defines a Director, which means a director appointed to the Board of the Company.

**Key Managerial Personnel (KMP)** – Section 2(51) and Section 203 of the Companies Act, 2013 defines KMP as under:

- (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; and
- (v) Such other officer as may be prescribed.

**Senior Management** – Section 178 of the Companies Act 2013 defines Senior Management as 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.

**Other employees** include all the employees on the Payroll of the Company or employees deputed from the Parent Bank, other than the categories mentioned above.

## **5. Function, Authority and Responsibility of Nomination and Remuneration Committee:-**

- Determining the appropriate size, diversity and composition of the Board.
- To lay down criteria for identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed in Senior Management and Key Managerial positions.
- To nominate the prospective candidate for the vacant position (for the posts of Directors (Executive/Non-Executives), Senior Management and Key Managerial Personnel) for the final approval from the board of directors of the company.
- Developing a succession plan for the Board and Senior Management and regularly reviewing the plan;
- To lay down criteria for evaluation and subsequently carry out evaluation of the performance of Directors, as well as Key Managerial and Senior Management Personnel on yearly basis.
- Evaluating the performance of the Board members and Senior Management in the context of the Company's performance from business and compliance perspective;
- To determine remuneration of Directors (Executive & Non-Executive), Senior Management & Key Managerial positions and other employees of the company.

## **6. Nomination and Remuneration System**

### **6.1 Guidelines for Nomination System**

Nomination and Remuneration Committee prepares a nomination system for members of the Company's Board of Directors, Senior Management and Key Managerial positions as defined below:

#### **6.1.1 Procedure for Nomination**

- To identify vacancies, created because of growth of company, Retirement, Resignation, transfers etc.
- To identify prospective member/s of the Board of Directors, Senior Management and Key Managerial personal/s meeting the eligibility criteria, as specified in the Company's Articles of Association, Companies Act 2013 and other prevailing laws, applicable regulations and other criteria's lay down in the policy.
- To nominate to the Board of Directors, the prospective candidate/s for the vacant position/s.

Based on the final decision of the board of directors, nominated person will be appointed to hold the said position. The process of final selection is to be completed prior to the expiration of the term of office.

## **6.1.2 Requirements and Eligibility Criteria**

### **a) Eligibility criteria for Directors**

- A person shall not be eligible for appointment as a Director of the company, if-
  - He is of unsound mind and stands so declared by a competent court;
  - He is an undischarged insolvent
  - He has applied to be adjudicated as an insolvent and his application is pending;
  - He has been convicted by a court of any offence, whether involving moral turpitude or otherwise, and sentenced in respect thereof to imprisonment for not less than six months and a period of five years has not elapsed from the date of expiry of the sentence.  
(Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be appointed as a director in any company);
  - an order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;
  - he has not paid any calls in respect of any shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call;
  - he has been convicted of the offence dealing with related party transactions under section 188 (Related Party Transaction) at any time during the last preceding five years; or
  - he has not complied with sub-section (3) of section 152 of Companies Act 2013 (DIN eligibility criteria)
  - No person can be appointed/ reappointed as director, who is or has been a director of a company which—
    - has not filed financial statements, or annual returns for any continuous period of three financial years; or
    - has failed to repay the deposits accepted by it, or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more,  
shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.

### **b) Criteria for Managing Director or whole time director**

In addition to the eligibility criteria as applicable to Director, the candidate should also fulfil the following additional conditions of eligibility:

- He is resident of India.
- He had not been sentenced to imprisonment for any period, or to a fine exceeding one thousand rupees, for the conviction of an offence under Acts mentioned in the Part I (a), schedule V of the Companies Act 2013.
- He had not been detained for any period under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.
- He has completed the age of twenty-one years and has not attained the age of seventy years:

- Candidate with age exceeding the age of seventy years; can be appointed if his appointment is approved by a special resolution passed by the company in general meeting.
- If he is a managerial person in more than one company, he draws remuneration from one or more companies subject to the ceiling provided in schedule V, Part II of the Companies Act 2013.

**c) Criteria for Independence of directors**

In addition to the eligibility criteria as applicable to Director, an independent director must full-fill the following additional eligibility criteria:

- He is a person of integrity possess relevant expertise and experience.
- He must not be or was a promoter of the company or its holding, subsidiary or associate company.
- He is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- He has or had no pecuniary relationship with the company, 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 company, 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 notified by the prescribed authorities and subsequent amendment's if any, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- He neither himself nor any of his relatives--
  - holds or has held the position of a key managerial personnel or is or has been employee of the company 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;
  - 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--
- a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or
- any legal or a consulting firm that has or had any transaction with the company, 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 company; 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 from the company, 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 company; or
- Must possesses appropriate skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, technical operations or other disciplines related to the company's business.

**d) Criteria for Senior Management & Key Managerial personnel**

- Individual/s selected for the post of Senior Management and Key Managerial people must be a graduate or post graduate and must have adequate industry experience.
- Candidate/s should be highly accomplished in their respective field, with superior credentials and recognition.
- Having integrity in the sense of:
  - a. Having good character and moral;
  - b. Complying with the prevailing laws and regulations;
  - c. Knowledge of operations of the company.

**6.1.3 Evaluation of Performance of the Board of Directors**

Each Director's performance shall be evaluated in terms of the following performance Indicator framed by the Nomination & Remuneration committee:

- Devotion of time for taking informed and progressive decision.
- Understanding of corporate governance, regulatory requirements, legal issues and ethical standards of the Board.
- Adheres to high standards of ethics for conduct of the company.
- Action initiated for adding good value to the Company.
- Professional & personal skills utilised for guiding & motivating employees of the company.
- Level of participation in deliberation during board or Committee work.
- Level of Contribution in framing & development of strategy & risk management.

Evaluation of the Directors performance will be evaluated on yearly basis.

**6.1.4 Terms & Tenure**

**Managing Director/Whole-time Director:**

The Company shall appoint or re-appoint any person as its Managing Director or Executive Director for a term not exceeding five years at a time. No re-appointment shall be made earlier than one year before the expiry of term.

**6.1.5 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 of upto maximum of 5 years each, 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.

**Ministry of Corporate affairs has notified new rules as on 22nd October, 2019 namely, Companies (Creation and Maintenance of Databank of Independent Directors) Rules, 2019 and Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019.**

In exercise of the powers conferred by section 149 read with section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the **Companies (Appointment and Qualification of Directors) Rules, 2014**, namely:-

1. (1) These rules may be called the Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019.

(2) They shall come into force with effect from the **1st day of December, 2019**.

There are two things that need to be done now for all Would Be and Existing Independent Directors of the Company. First, they have to get themselves registered online in the databank of Independent Directors that will be maintained by the **Indian Institute of Corporate Affairs, Manesar (Haryana)** and second, they have to clear a **Common Proficiency Test** as will be conducted by the Institute.

**Registering online on the Data Bank:**

**Applicable to :**

- All individuals who are already appointed as Independent Directors on the Board of any Company before the commencement of these respective rules i.e. before 1st December, 2019.
- All the Individuals who intends to get appointed as an Independent Director in a Company after 1st December, 2019

**When:**

- Individuals who are already appointed as Independent Directors – within 3 months of commencement of these rules, i.e. by 1st March, 2019.
- Individuals who intend to get appointed as Independent Directors – Before their appointment

**Where:**

- Application for registration of one's name in the databank has to be made online to the Indian Institute of Corporate Affairs, Manesar (Haryana)

**Period:**

- The application can be made for a period of 1 year or 5 years or for Lifetime.

**Renewal:**

- Renewal application has to be filed within 30 days of expiry of the period already applied for.
- If Renewal application is not filed within 30 days, the names will stand removed from the databank.
- Renewal need not to be made by those who have registered themselves for lifetime with the Institute.
- The renewal can be again for 1 year or 5 years or for the Lifetime.

**Declaration-**

- Every Independent Director shall submit a declaration of registration or renewal in the databank to the Board each time they submit the declaration under section 149 (7) of the Act.

### **Fees-**

- A reasonable fee will be charged from:
- Individuals for inclusion of their names in the Databank.
- Companies who seek the Information of Independent Directors from the Institute.

After the Inclusion of name in the Data Bank is done:

1. Every Individual whose name is included in the databank has to pass a **COMMON PROFICIENCY TEST** as conducted by the institute.
2. This test has to be passed within a period of 1 year from the date of inclusion of name in the Data Bank. For eg.- If the name was included on 1st Feb, 2020 than the test can be passed till 1st Feb 2021.
3. If the test is not taken within 1 year the name will stand removed from the Databank.
4. Passing marks- 60% or more
5. Attempts- No maximum limit of attempts is set as of now for clearing the test.
6. Syllabus-Company law, Securities law, Basic accountancy and such other areas as are relevant to the functioning of an Individual acting as an Independent Director.
7. Online Lessons including Audio Visuals and Basic Study Material will be provided by the Institute.
8. No additional fees will be charged for providing such study material and conducting online test.

### **Exemption-**

- An Individual who has been serving for a period of 10 years or more as a Director or a KMP in a listed Company or in an unlisted public company having a paid-up share capital of Rs 10 crore or more shall be exempted from the online proficiency test.
- Any period during which an Individual was acting as a Director or KMP in two or more Companies at the same time will be counted only once. For eg. If an Individual has been a director in 3 companies from the year 2015-2019 than a total period of 4 years only will be counted irrespective of him being appointed on 3 different Boards.

**6.1.6** The Director, KMP and Senior Management Personnel shall retire as per the applicable provisions of the Act and the prevailing policy of the Company. The Board will have the discretion to retain the Director, KMP, Senior Management Personnel in the same position/ remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

## **6.2 Remuneration System**

In addition to members of the Board of Directors, Senior Management and Key Managerial Personnel, Nomination and Remuneration Committee has to establish a remuneration system for other employees of the company.

This policy will become a part of guidelines for the Board Meetings and Committee meetings in specifying the remuneration of members of the Board of Directors, Senior Management, Key Managerial Personnel and other employees of the company.

While defining the criteria for remuneration of Directors, Senior Management and Key Managerial Personnels, the Committee has to ensure that:



- The level and composition of remuneration is to be reasonable and sufficient to attract, retain and motivate Directors and all employees of the company to successfully run the company.
- Relationship of remuneration to performance is to be clear and meets the appropriate performance benchmarks.
- Remuneration payable is to comprise a balance between fixed and incentive pay, reflecting short and long term performance objectives appropriate to the working of the company and its goals.
- Remuneration structure is to be kept updated and competitive to the market prevalent pay structure and the same is to be suitably modified as and when needed.

## **Remuneration Structure**

### **1. Remuneration of Directors:**

Directors may be paid remuneration by way of fees for attending each meeting of the board or any committee thereof (Sitting Fees). However committee reserves the right to pay additional incentives to the Directors.

Presently directors are eligible for sitting fee of Rs. 25,000 for attending every board meeting and Rs. 10,000 for attending meetings of any committee of Board of Directors, along with the boarding & lodging expenses.

### **2. Remuneration of Key Managerial Personnel (KMP), Senior Management and Other employees:**

KMPs, Senior Management and other employees consist of Officials on deputation from PNB and officials of PNBISL.

#### **Employees on deputation from Parent Bank (PNB)**

Remuneration comprising of salary & perks shall be as per their designated scales in PNB in terms of the bank's HR Policy and other officer's regulations.

Committee reserves the right to pay incentives to the employees on deputation from PNB over and above their salary entitlement as per the HR Policy and other officer's regulations of PNB.

- **Employees of PNBISL**

Remuneration shall be as per their designated scales in PNBISL in terms of the HR Manual of PNBISL and various approvals taken from the Board of Directors from time to time basis.

Changes in salaries and perks of all employees of PNB & PNBISL will be as per the amendments in the respective HR Policy from time to time.

Amendments in HR Manual of the company are subject to approval from Nomination & Remuneration Committee.

**7. Review and Amendment**

The Nomination and Remuneration Committee or the Board may review the Policy as and when it deems necessary.

This Policy shall be reviewed annually and/or may be amended or substituted by the Nomination and Remuneration Committee or by the Board as and when required and where there is any statutory change necessitating the change in the policy