



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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CONFIDENTIAL

DBR.PSBD.NBC (SFB-CLAB). No. 4913 /16.13.216/2015-16

October 7, 2015

The Managing Director
Capital Local Area Bank Ltd (CLAB)
'MIDAS Corporate Park',
3rd Floor, 37, G. T. Road,
Jalandhar – 144001, Punjab

Dear Sir/Madam,

In-principle approval to establish a small finance bank in the private sector under Section 22 of the Banking Regulation Act, 1949

Please refer to your application dated January 24, 2015, for converting into a small finance bank under the guidelines dated November 27, 2014 (Guidelines) read with the clarifications issued on January 1, 2015.

2. We hereby convey our 'in-principle' approval to Capital Local Area Bank Ltd (Capital LAB) to convert into a small finance bank. The validity of this 'in-principle' approval is eighteen months from the date of granting 'in-principle' approval i.e. eighteen months from the date of this letter, and would lapse automatically thereafter. The in-principle approval is subject to certain conditions that are specified below and in the Annex to this letter.

1. As proposed in the application and subsequent communication, the existing investments of the promoter group in Midland Microfin Ltd. shall be divested completely or to the extent of below 10%, before the date of application to RBI for grant of final licence for small finance bank.

भारतीय रिज़र्व बैंक, इंदिराप्रसाद रोड, इंदिराप्रसाद इलाका, नई दिल्ली-110001
Department of Banking Regulation, Central Office, P O Box No 1004, 13th floor, Central Office Building, Bhairavi Bhagat Singh Marg, Mumbai - 400001
दूरभाष (Tel) No. 91-22-27661009 फ़ैक्स (Fax) No. 91-22-2770 1248 ईमेल ID rgm@rbi.org.in
[सं. 4913/16.13.216/2015-16]

CERTIFIED TRUE COPY
For Capital Small Finance Bank Ltd.

[Signature]
Authorised Signatory

- ii. Shri Kuldeep Krishan Sardana, one of the promoters of Capital LAB, and his group's stake in Sukhjit Starch and Chemicals Ltd., Phagwara, may be divested completely or to the extent of below 10% before the date of application to RBI for the grant of final licence for small finance bank. Alternatively, Shri Kuldeep Krishan Sardana shall be derecognized as a promoter of the Local Area Bank and the proposed bank before the date of application to RBI for the grant of final licence for small finance bank.

3. The Reserve Bank would consider issuing a banking licence for small finance bank under Section 22 of the Banking Regulation Act, 1949, after Capital LAB completes all the relevant formalities within the validity period of 18 months, to the RBI's satisfaction. An application shall be made to the Department of Banking Regulation, Central Office, Reserve Bank of India demonstrating compliance with conditions in respect of incorporation, ownership and control, capital requirement, promoters' contribution, reorganization, etc. as per paragraph 2 above and the Annex.

4. Please acknowledge receipt.

Yours faithfully,


(Sara Rajendra Kumar)
General Manager

Encl: As above

General terms and conditions of 'in-principle' approval to convert into a small finance bank

I. Incorporation

1. The small finance bank will be registered as a public limited company under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949.
2. The banking company shall be incorporated / registered after the Memorandum and Articles of Association are approved by the Reserve Bank of India.
3. The place and location of the Registered Office of the proposed bank and its date of incorporation / registration shall be intimated to the Reserve Bank of India before grant of licence under Section 22 of the Banking Regulation Act, 1949.

II. Regulatory framework

4. The 'small finance bank' to be established shall be governed by the provisions of the Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Foreign Exchange Management Act, 1999; Payment and Settlement Systems Act, 2007; Credit Information Companies (Regulation) Act, 2005; Deposit Insurance and Credit Guarantee Corporation Act, 1961; other relevant Statutes and the Directives, Prudential Regulations and other Guidelines/Instructions Issued by RBI and other regulators from time to time (as applicable to banking companies), including SEBI Regulations regarding public issues and other guidelines applicable to listed banking companies.

III. Corporate structure of the bank

5. The converting entity shall be "owned and controlled by residents" (as per FEMA, 1999) at the time of making application for final banking licence itself.
6. The existing non-promoters, who currently hold 5% or more in the converting



entity, shall obtain prior approval from RBI if they desire to continue to hold 5% or more stake in the proposed bank. Their applications should reach RBI well before the date of application to RBI for grant of final licence for small finance bank.

7. The promoter group's shareholding shall be maintained at a minimum of 26% from the date of application to RBI for grant of final licence for small finance bank which shall be locked in for a period of 5 years from the date of commencement of business of the bank.
8. The other financial and non-financial services activities of the promoters, if any, shall be kept distinctly ring-fenced and not comingled with the banking and financial services business of the small finance bank.

IV. Source of funds

9. The source of funds for Promoters' and Promoter Groups' equity in the small finance bank shall be transparent and verifiable.

V. Capital of the bank

10. The converting entity, and thereafter the small finance bank, shall have a minimum net worth of Rs. 100 crore at all times from the date of application to RBI for grant of final licence for small finance bank.
11. The initial and subsequent subscriptions to the capital by promoters and others shall be through genuine and bona fide sources. The promoters shall ensure that (a) the contributions are made from genuine and bona fide sources, (b) are made in a transparent and authorized manner and (c) do not attract domestic and international legal prohibitions against money laundering and related offences as applicable.

VI. Board of the bank

12. The Board of the small finance bank shall have a majority of independent Directors at all times from the date of commencement of business of the bank.



13. The small finance bank shall be controlled by residents (as per FEMA, 1999) at all times from the date of commencement of business of the small finance bank.
14. The composition of the Board of Directors of the small finance bank shall be in compliance with the provisions of Banking Regulation Act, 1949. The application relating to approval of the composition of the proposed Board of the bank shall be made to the Appointments Division of Department of Banking Regulation, Reserve Bank of India well in advance before the date of application to RBI for grant of final licence for the bank.

VII. Other Conditions

15. While granting this in-principle approval, the RBI has assessed the "fit and proper" status of the promoter / promoter group, as indicated in paragraph 3 of the Guidelines. In this context, the promoter / promoter group shall immediately report to the RBI any developments that may take place after the date of "in-principle" approval and would have an impact on the assessment of the "fit and proper" status of the promoter / promoter group.
16. The small finance bank should have at least 25% of its total branches in unbanked rural areas at all times from the date of commencement of business of the bank.
17. As regards the interpretation of any of the clauses / provisions of the terms and conditions of the Guidelines / approval, the decision of the RBI shall be final.
18. RBI may also withdraw 'in-principle approval' if any adverse features are noticed or in view of any other development which may prejudice efficient functioning of the small finance bank.
19. RBI may impose additional conditions that it deems appropriate.

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CERTIFIED TRUE COPY
For Capital Small Finance Bank Ltd

Authorised Signatory



CAPITAL BANK, HEAD OFFICE
Inward Oak Receipt

14 OCT 2015

M.D. EVP V.P.
Ref.

CERTIFIED TRUE COPY
For Capital Small Finance Bank Ltd.

David Shaenul
Authorised Signatory