

CAPITAL SMALL FINANCE BANK LIMITED

Comprehensive Compensation Policy for Non-Executive Director [Updated upto September 23, 2021]

CAPITAL SMALL FINANCE BANK LIMITED

Head Office: MIDAS Corporate Park, 3rd Floor, 37, G.T. Road, Jalandhar
CIN: U65110PB1999PLC022634 Phone: 0181-5051111, 5052222, Fax: 0181-5053333
E-mail: compliance@capitalbank.co.in Website: www.capitalbank.co.in

1. Objective:

In order to bring in professionalism to the Board of the Bank and to enable the Bank to attract and retain professional directors, it is essential that such directors are appropriately compensated.

The Bank is being hugely benefited from the expertise, advice and inputs provided by the Non- Executive Directors. They devote their valuable time in deliberating on the strategic and critical issues in the course of the Board and Committee meetings of the Bank and give their valuable advice, suggestion and guidance to the management of the Bank from time to time.

In order to attract, retain, reward and motivate professional directors Capital Small Finance Bank Limited (“the Bank”) has framed this Comprehensive Compensation Policy for Non-Executive Directors to be called as “Comprehensive Compensation Policy for Non-Executive Directors of Capital Small Finance Bank Limited.

II. Definitions

For the Purpose of this Policy:

- a) “Nomination & Remuneration Committee”/ “NRC” means Nomination and Remuneration Committee of the Board of Directors of Capital Small Finance Bank Ltd.
- b) “Non-Executive Director”/ “NED” means Directors other than Managing Director, Whole Time Directors but shall include Independent Directors as defined under the Companies Act, 2013 and Banking Regulation Act, 1949.
- c) “Part-Time Chairman” means Part-time Chairman appointed under Banking Regulation Act, 1949

II. Effective Date:

This Policy shall be effective from September 23, 2021, being the date of approval of the same by the Board of Directors of the Company in consultation with the Nomination and remuneration Committee.

III. Regulatory Framework

Banks in India registered under different statutes are required to comply with provisions of Section 35B of the Banking Regulation Act, 1949, for the purpose of appointment and payment of remuneration of Managing Director and Chairman.

As regards remuneration to Non-Executive Directors, Reserve Bank of India had advised banks to follow the Companies Act, 2013 for payment of Sitting Fees.

Keeping in view the need of banks to attract and retain professional expertise in their Boards, RBI vide their Circular No. DBR.No.BC.97/29.67.001/2014-15 dated June 1, 2015 read with Circular No. RBI/2021-22/24 DOR.GOV.REC.8/29.67.001/2021-22 dated April 26, 2021 (“RBI Guidelines”), issued guidelines on payment of Compensation to Non-executive Directors of Private Sector Banks.

RBI guidelines on Compensation to Non-Executive Directors of Private Sector Banks include the following:

- (i) The Board of Directors, in consultation with its Remuneration Committee, should formulate and adopt a comprehensive Compensation Policy for Non-Executive Directors (other than the Part-Time Non-Executive Chairman), in compliance with the provisions of the Companies Act, 2013.
- (ii) The Board may, at its discretion, provide in the Policy, for payment of compensation in the form of Profit-related Commission to Non-Executive Directors (other than the Part- Time Chairman), subject to the bank making profits. However, such compensation, has been capped to the limit prescribed by the RBI from time to time for each Director.
- (iii) In addition to the compensation mentioned in para (ii) above, the Bank may pay Sitting Fees to the Non-Executive Directors and reimburse their expenses for participation in the Board and other meetings, in line with the Companies Act, 2013.
- (iv) Banks in private sector are 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.

Framework under SEBI (listing Obligations and Disclosures requirement), 2015 and the regulations:

- (i) The Board of Directors shall recommend all fees or compensation, if any, paid to non-executive directors including independent directors and shall require approval of shareholders in general meeting.
- (ii) The requirement of obtaining approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.
- (iii) The approval of shareholders shall specify the limits for the maximum number of stock options that may be granted to non-executive directors, in any financial year and in aggregate.
- (iv) 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.
- (v) Independent directors shall not be entitled to any stock option.

IV. Disclosures

The remuneration and compensation paid to the Directors along with the criteria of making payments shall be disclosed on annual basis, in the Annual Financial Statements and the Board's Report.

Alternatively, this may be disseminated on the bank's website and reference drawn thereto in the annual report.

V. Compensation

Keeping in view the enhanced role and responsibilities of Directors, it is appropriate that the remuneration payable by the Bank to Non-Executive Directors should be commensurate with their duties.

Bank is allowed to make payment of compensation, in their discretion, in the form of Profit-related Commission to Non-Executive Directors (other than the Part-time Non-Executive Chairman), in addition to Sitting Fees and expenses incurred by them for participation in the Board and other meetings and ensuring compliance with Section 197 of the Companies Act, 2013 and other applicable provisions. Such compensation, however, cannot exceed from the limit prescribed by the RBI from time to time for each Director.

(i) Sitting fee:

The Non-Executive Directors of the Bank shall be entitled to sittings fees as approved by the Board of Directors of the Bank from time to time, within the overall limits prescribed under the provisions of the Companies Act, 2013 and Rules made thereunder. It is clarified that the directors are also entitled to reimbursement of expenses made for the purpose of participation in the Board/ Committee meetings.

(ii) Profit Based Commission:

(a) Non-Executive Directors (other than Part Time Non-Executive Chairman)

Profit Based Commission can be paid to Non-Executive Directors (other than the Part-Time Chairman), subject to the following terms and conditions:

The Bank making profits;

Such compensation is capped to the limit prescribed by the RBI from time to time for each Non-Executive Director (other than Non-Executive Part Time Chairman);

The Commission to all such directors paid together does not exceed 1% of the total net profits of the Company for the particular financial year. It is clarified that the Net Profit shall be calculated in a manner as prescribed under section 198 of the Companies Act, 2013.

The Profit Based Commission may be paid to the Non-Executive Director (other than Non-Executive Part-Time Chairman) on quarterly basis or at such other frequency as may be approved by NRC.

(b) Remuneration to Non-Executive Chairman

The Board, on the recommendation of NRC, may pay compensation to the Part-Time Non- Executive Chairman, only subject to prior approval from Reserve Bank of India under Section 10B(1A) (i) and 35B of the Banking Regulation Act, 1949. However, sitting fees and reimbursement of any expenses incurred by Part-time Chairman for participation in the Board and other meetings may be paid as approved by Board.

(iii) Professional Fee:

The Bank may take professional services from any director in their respective professional capacity. It is clarified that professional fee payable to any director shall be separate to the aforesaid compensation pursuant of the RBI Guidelines. However, the professional fee shall be payable by the Bank, subject to the following conditions:

- (a) the services rendered are of a professional nature; and in the opinion of the Nomination and Remuneration Committee, the director possesses the requisite qualification for the practice of the profession;
- (b) Professional fee is paid to the director pursuant to and subject to the applicable Provisions of the Companies Act, 2013 and other applicable laws;
- (c) The professional services are availed by the Bank on arms-length basis and in the ordinary course of its business.

VI. Implementation

- a. The Policy is recommended by the Nomination and Remuneration Committee and subsequently approved by the Board of Directors of the Bank.
- b. This Policy shall be implemented by the Nomination and Remuneration Committee. NRC is authorized to take all the decisions relating to the implementation of this Policy including, taking decisions with regard to for payment of compensation to one or more non-executive director from time to time, taking into account the qualification and experience of such directors, his devotion of time and efforts for the Bank and other relevant factors.
- c. Approval of the Members of the Bank if required to be obtained for payment of remuneration to Non-Executive Directors of the Bank, and to Non-Executive Chairman of the Bank (subject to RBI approval).
- d. The Bank shall review the Policy from time to time, including making assessment of effectiveness of the principles set out in the Policy, in particular in case of any material changes in the applicable Acts, Regulations and Guidelines, etc.