

**POLICY ON APPOINTMENT OF DIRECTORS
OF
THE KARNATAKA BANK LIMITED**

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Karnataka Bank Ltd.



Your Family Bank, Across India

Regd. & Head Office
P. B. No.599, Mahaveera Circle
Kankanady
Mangaluru – 575 002

Phone : 0824-2228182
E-Mail : comsec@ktnbank.com
Website : www.karnatakabank.com
CIN : L85110KA1924PLC001128

SECRETARIAL DEPARTMENT

POLICY ON APPOINTMENT OF DIRECTORS

1. Preamble.

The principal role of the Board of Directors – as representatives of the shareholders having fiduciary duties, is to oversee the function of the company and ensure that it continues to operate in the best interests of all stakeholders. Given the complexity of today’s business and economic environment, Board’s effectiveness is a key performance driver for the companies. Effective Boards build capabilities within themselves and their organizations that allow them to do both, protect existing assets (compliance role), as well as manage threats to future growth (strategy oversight role). In order to perform these multifarious functions, the Board shall be constituted with a blend of expertise, experience and skill in specialized areas which is a precursor for effective performance.

- 2. Number of Directors:** Bank shall have a minimum of six¹ directors and a maximum of fifteen directors. However, by passing a special resolution, Bank may appoint more than fifteen directors.

Of the total number of Directors, Bank shall have a minimum of one woman independent director.

- 3. Composition of the Board:** The Board shall consist of proper balance between different skill sets represented by the individual directors. Bank shall have not less than fifty one per cent of the total number of members of the Board of Directors, of persons who-

(a) shall have special knowledge or practical experience in respect of one or more of the following matters namely²,-

- (i) accountancy,
- (ii) agriculture and rural economy,
- (iii) banking,
- (iv) co-operation,
- (v) economics,
- (vi) finance,
- (vii) law,
- (viii) small-scale industry,
- (ix) Information Technology
- (x) Payment & Settlement Systems
- (xi) Human Resources
- (xii) Risk Management
- (xiii) Business Management & Strategy and

¹SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 Regulation 17(1)(c)

² (ix) to (xiii)-Additional areas of specialization prescribed by the RBI vide circular RBI/2016-17/152 dated November 24, 2016

(xiv) any other matter the special knowledge of, and practical experience over and above prescribed by RBI, which would in the opinion of the Board be useful to the Bank.

Out of the aforesaid number of Directors, not less than two shall be the persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry; and

Shall not -

- (1) have substantial interest in, or be connected with, whether as employee, manager of:
 - (i) any company, not being a company registered under Section 8 of the Companies Act, 2013,
 - (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.

The Board of Directors of Bank shall comprise of directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the Board collectively, to discharge its roles and functions effectively.

The composition of the Board shall also conform to the Board composition as specified under the Companies Act, 2013 and the Rules made thereunder and also SEBI (LODR) Regulations, 2015.

- 4. APPOINTMENT OF NEW DIRECTORS - OTHER THAN WHOLE TIME DIRECTORS:** Nomination and Remuneration Committee (NRC) of the Board has the responsibility of identifying and recommending to the Board, candidates for the Board, after considering the necessary and desirable competencies for new Board members, prudential fitness and propriety criteria, and relevant regulatory and statutory requirements.

NRC shall identify persons who are qualified to become directors and carry out the due diligence of such persons for appointment/re-appointment as Director of the Bank in accordance with the criteria laid down in this regard. While carrying out due diligence, 'fit & proper' norms prescribed by Reserve Bank of India and the eligibility of the person for the office of director as per Section 164 of the Companies Act, 2013 shall be taken into account.

Based on the recommendation by the NRC, the Board of Directors may appoint a person as a Director of the Bank under Section 161 of the Companies Act, 2013.

The NRC, *inter-alia*, shall examine the suitability of candidates taking into account the following factors.

- i. The Chair of the board shall be an Independent Director.
- ii. Bank shall have not less than one third of its total number of directors as Independent Directors and at least one-woman director in compliance with the provisions of Section 149 of the Companies Act, 2013 and one of them shall be woman independent

director. The criteria for determining the independence of the Directors shall be as specified in Section 149 of Companies Act, 2013 and SEBI (LODR) Regulations, 2015.

- iii. Bank shall maintain the composition of the Board according to the guidelines prescribed by the Reserve Bank of India, Companies Act, 2013, as amended from time to time and SEBI regulations, as amended from time to time.
 - iv. Bank shall not appoint any person as a director if he/she is a director in any other Banking Company.
 - v. **Age:** Candidate should be between 35 and 75 years of age. The upper age limit for Non-Executive Directors, including the Chair of the board, shall be 75 years and after attaining the age of 75 years, no person shall be eligible to continue in these positions.
 - vi. **Educational qualification.** Candidate should normally be a graduate. He/She should not be a member of Parliament/member of Legislative Assembly/Member of Legislative Council.
- V.a For every appointment of an independent director, the Nomination and Remuneration Committee shall ³:
- a. evaluate the balance of skills, knowledge and experience on the Board and
 - b. 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.
- vii. **Experience, track record etc:** Candidate's past experience in the relevant field of his expertise, his integrity, history of litigation-civil or criminal, any default in financial matters or regulatory action initiated by any regulators, pending prosecution, against the candidate etc would be looked into.

While recognizing that each Director may not necessarily fulfill all criteria, the following fundamental factors as relevant to the selection and appointment of new directors would be looked into:

- ✓ outstanding capability with extensive and senior commercial experience, preferably with a listed company;
- ✓ cultural fit with existing Board members and empathy to Bank's culture;
- ✓ high level of personal integrity;
- ✓ has the ability to work in a collegial manner;
- ✓ independent state of mind.

³ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2021 read with the corrigendum, w.e.f. 1.1.2022. (Schedule III-Part D- Role of NRC.

viii. **Tenure:** The total tenure of NED, continuously or otherwise, on the Board of Directors, shall not exceed eight years. After completing eight years on the Board

the person may be considered for re-appointment only after a minimum gap of three years.

ix. In terms of the Section 150 of Companies Act, 2013, Bank shall ensure that the name of the person identified by the NRC for appointment/reappointment as an Independent Director has been included in the Independent Directors' database maintained by Indian Institute of Corporate Affairs (IICA), or any other body, institute or association, as may be notified by the Central Government (CG) from time to time.

x. **Approval of Shareholders ⁴:**

1. Approval for appointment of any person on the Board of the Bank is taken at the next annual general meeting or within a period of three months from the date of appointment, whichever is earlier.

2. The appointment, re-appointment or removal of an independent Director shall be subject to the approval of shareholders by way of special resolution.

3. Provided that where a special resolution for the appointment of an independent director fails to get the requisite majority of votes, but:

a) the votes cast in favour of the resolution exceed the votes cast against the resolution AND

b) the votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution,

then the appointment of such an independent director shall be deemed to have been made with requisite majority of votes.

The appointment or a re-appointment of a person, including as a managing director or a whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be done only with the prior approval of the shareholders. Further, the detailed explanation and justification by the Nomination and Remuneration Committee and the Board of directors for recommending such a person for appointment or re-appointment shall also be enclosed with the Notice of AGM wherein such recommendation is made.

5. APPOINTMENT OF WHOLE TIME DIRECTOR/S.

1. Bank shall ensure the presence of at least two Whole Time Directors (WTDs), including the MD&CEO, on their Boards who shall be entrusted with the management of the whole of the affairs of the Bank. The number of WTDs shall be decided by the Board of the Bank by taking into account factors such as the size of operations, business complexity, and other relevant aspects⁵.

⁴ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2021 read with the corrigendum, w.e.f. 1.1.2022 [Regulation 17(1C)]

⁵ Minimum number of Whole time Director prescribed by RBI/2023-24/70 dated 25.10.2023

2. A director shall not be appointed as a MD & CEO of the Bank unless prior approval of the Reserve Bank of India has been obtained for the appointment under Section 35B of Banking Regulation Act, 1949 and if he/she
 - (i) is a director of any company other than a Company registered under Section 8 of the Companies Act, 2013 as the case may be or director of a subsidiary of our Bank, if any or,
 - (ii) is a partner of any firm which carries on any trade, business or industry or
 - (iii) has substantial interest in any other company or firm or is a director, manager, partner or proprietor of any trading, commercial or industrial concern, or
 - (iv) is engaged in any other business or vocation.
3. The NRC, *inter alia*, shall examine the suitability of candidates taking into account the following factors.

1.Age limit: Candidate should be between 40 and 70 years of age.

2.Eligibility of the candidate as per 'Fit and Proper' norms of RBI.

3.Tenure of appointment: Initially MD & CEO may be appointed for a term of not exceeding five years from the date on which he/she enters upon his/her office and no reappointment shall be made earlier than one year before the expiry of his term. However, he/she may be considered for re-appointment for further **terms each not exceeding** three years subject to showing satisfactory performance during his/her term and subject to provisions of the Banking Regulation Act, 1949 and the applicable extant guidelines. Further, 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 bank, if considered necessary and desirable by the NRC and Board, after a minimum gap of three years, subject to meeting other conditions. Besides, 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.

4.Remuneration: An MD & CEO shall be paid such remuneration as may be decided by the NRC in pursuance of the 'Policy on Compensation of Whole Time Directors/ Chief Executive Officers/Risk Takers and Control Function Staff etc.,' and approved by the Board. Payment of such remuneration shall be subject to the approval from the Reserve Bank of India and the shareholders of the Bank.

- 5a. In terms of point 5(1) above; the Board may also appoint one of its directors as Executive Director (Whole Time Director) in addition to Managing Director & CEO, who shall be entrusted with such responsibilities as the Board may deem fit from time to time.

The other terms and conditions mentioned under 5 (2) & (3) shall *mutatis mutandis* apply for the appointment, tenure, remuneration etc of Executive Director.

- 5b. Upon receipt of approval from RBI for appointment of a Whole time Director, the candidate be appointed as an Additional Director by the Board under section 161 of Companies Act, 2013 to take up the role of a Whole time Director

and thereafter, the said Director be appointed as a Whole time Director under Section 35B of Banking Regulation Act, 1949 and Section 196 of Companies Act, 2013. If due diligence of candidature is already carried out by NRC, recommendation afresh by NRC is not necessary at the time of such appointment subject to:

1. a declaration is submitted by the candidate that there is no change in the declarations furnished earlier under the 'fit and proper' norms.
2. furnishing latest physical/demat holding statement by the candidate and the holding as reflected in the said statement not exceeding the limit as specified in Section 5(ne) of Banking Regulation Act, 1949.

6. Amendments / Modifications

To the extent any change / amendment is required in the Policy in terms of any change in the applicable law or regulations, the amended law or regulations would prevail over the policy and the provisions in the policy would be modified in due course to make it consistent with law or regulations. Such amended policy shall be placed before the Board for noting and for necessary ratification.

7. Review of Policy:

This policy may be reviewed by the Board on annual basis or at such interval as may be deemed necessary by the NRC/Board having regard to the regulatory changes, prudence and operational requirements.
