



RBI/2014-15/617

DBR.No.BC.97/29.67.001/2014-15

June 1, 2015

**The Managing Director and CEO
All Private Sector Banks**

Dear Sir/Madam,

**Guidelines on Compensation of Non-executive Directors of
Private Sector Banks**

The need to bring in professionalism to the boards of banks cannot be overemphasized. In order to enable banks to attract and retain professional directors, it is essential that such directors are appropriately compensated. At present, banks in private sector pay only sitting fees to non-executive directors, and no other remuneration is paid to them. The Part-time Chairman however, is being paid a fixed remuneration with the approval of RBI.

2. In this background, an announcement was made in the First Bi-monthly Monetary Policy statement 2015-16 to issue guidelines to private sector banks on remuneration for the non-executive directors (other than Part-time Chairman) that will reflect market realities and will be within the parameters specified in the Banking Regulation Act, 1949 and the Companies Act, 2013.

3. Accordingly, Reserve Bank has finalized the guidelines on compensation for non-executive Directors, which are contained in the **Annex** for implementation by private sector banks.

4. As hitherto, private sector banks would be required to obtain regulatory approval regarding remuneration to Part-time non-executive Chairman in terms of Section 10B(1A)(i) and 35B of the Banking Regulation Act, 1949.

Yours faithfully,

(Sudha Damodar)
Chief General Manager

Encl: As above

Annex

Guidelines on Compensation of Non-executive Directors (Except Part-time Chairman) of Private Sector Banks

1. Compensation Policy

1.1 The Board of Directors, in consultation with its Remuneration Committee, should formulate and adopt a comprehensive compensation policy for the non-executive Directors (other than the part-time non-executive Chairman). While formulating the policy, the Board shall ensure compliance with the provisions of the Companies Act, 2013.

1.2 The Board may, at its discretion, provide for in the policy, payment of compensation in the form of profit related commission to the non-executive directors (other than the Part-time Chairman), subject to the bank making profits. Such compensation, however, shall not exceed Rs.1 million per annum for each director.

2. Sitting fees and reimbursement of expenses

2.1 In addition to the directors' compensation mentioned in para 1.2 above, the bank may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the Board and other meetings, subject to compliance with the provisions of the Companies Act, 2013.

3. Regulatory Approval / Supervisory Oversight

As hitherto, banks in private sector would be 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. The compensation policies of banks would be subject to supervisory oversight including review under the Supervisory Review and Evaluation Process (SREP) under Pillar 2 of Basel II framework. Deficiencies would have the effect of increasing the risk profile of banks with attendant consequences, including a requirement of additional capital if the deficiencies are very significant.

4. Disclosure

Banks are required to make disclosure on remuneration paid to the directors on an annual basis at the minimum, in their Annual Financial Statements.