

AU Small Finance Bank Limited

Corporate Social Responsibility Policy (CSR Policy)

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1. Introduction

At AU Small Finance Bank Limited (hereinafter referred to as ‘the Bank’), we finance to help people achieve their dream for a better livelihood. Our Corporate Social Responsibility (“CSR”) framework is also based on same philosophy with an aim to enhance the livelihood opportunities of people. A firm believer in the fact that every individual deserves equal opportunities irrespective of their socio-economic background, we are dedicated to empowering people by making them realize their true potential and helping them to be self-reliant.

CSR is not just compliance for us; it is the way we do our business. It is an integral part of our core dharma of sustainability. We are driving sustainable approach to problem solving and contributing in crisis’s transformation. We also stand for positive social-economic and environmental adaptation of our society and striving for the development of humanity by empowering humanity and its inclusive growth.

In alignment with vision of the Bank, through its CSR initiatives, the Bank will continue to enhance value creation in the society and in the community in which it operates. The Bank shall promote growth for the society and community to fulfil its role as a socially responsible corporate with an environmental concern.

2. Vision

The Bank’s vision is to be the world’s most trusted retail bank and coveted employer that is admired as the epitome of financial inclusion and economic success where ordinary people do extra ordinary things to transform society at large, thereby guaranteeing Trust, Confidence and Customer Delight.

3. Mission

Bank’s mission through its CSR Projects are aimed towards enabling individuals towards a purposeful life by equipping them with the right skills and empowering communities.

4. Implementation Framework

Aligned to its vision, Bank’s Corporate Social Responsibility Policy (CSR Policy) sets out the broad framework for the implementation of CSR projects. The policy, formulated in consultation with the CSR committee, also sets out the principles and approaches necessary for effective selection and implementation of CSR projects while ensuring strict adherence to the provision of CSR, under section 135 of the Companies Act, 2013 (“Act”).

The Bank follows below guiding principles set by board based on which the CSR projects will be identified, and the CSR annual action plan will be formulated. Bank’s CSR projects will focus on strategic anchor points that include, but not limited to, Geography, Stakeholders and Thematic Area.

- 4.1. Geography:** Bank's focus areas for CSR projects will be urban as well as rural areas in the states in which it has presence. Additionally, specific needs project may even be conducted in geographies where Bank has no presence.
- 4.2. Stakeholders:** Meeting the skills and livelihood needs of unemployed youth will be the key focus area of Bank with long term commitment besides working on issues of children, women and other community members.
- 4.3. Thematic Area:** As part of the current strategy, Bank has identified following areas, , to focus on as part of its CSR agenda.
- i. Creating sustainable livelihoods by meeting the skills and livelihood needs of unemployed youth, through women empowerment and promoting financial and digital literacy among masses.
 - ii. Creating culture of Sports in urban, semi-urban and rural areas.
 - iii. Promoting healthcare, including preventive healthcare, and improve nutritional & health status of women and children and safe drinking water
 - iv. Promoting gender equality and empowering women, supporting facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
 - v. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water.
 - vi. Promoting education, including special education and employment enhancing vocation skills especially among children, women, and the differently abled.
 - vii. Any other subject areas as mentioned in Schedule VII and Section 135 of The Companies Act, 2013 as amended from time to time.

5. CSR Funds

The corpus for the purpose of carrying on the aforesaid CSR activities would include the following:

- 2% of the average Net Profit before tax made by the Bank during immediately preceding three Financial Years.
- Surplus (income generated) arising out of spend on CSR activities carried out by the Bank.

The "Net Profit" means the net profit before tax of a company as per its financial statement prepared in accordance with the applicable provisions of the Companies Act 2013, but shall not include the following:

- any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise;
- and any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act:

6. Governance Structure

The Board has constituted a Corporate Social Responsibility Committee (CSR Committee) which is duly constituted in accordance with the provisions of section 135 of the Companies Act, 2013 and the Board review the terms of reference of the CSR Committee on an annual basis. This shall help in developing an effective CSR framework that can assist the Board to ensure that CSR issues and opportunities are well-managed and maximised.

The CSR Committee would comprise of three or more Directors including at least one independent Director. The CSR Committee shall formulate and recommend to the Board the following:

- Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Bank in areas or subject, specified in Schedule VII
- recommend the amount of expenditure to be incurred on the activities referred in above clause
- monitor the Corporate Social Responsibility Policy of the company from time to time.

The Board of Bank after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy and ensure that the activities as are included in Corporate Social Responsibility Policy ("**CSR Policy**") are undertaken by the Bank.

The Bank has CSR Governance structure to fulfil the CSR responsibilities under the Companies Act, 2013 and Rules made thereunder. CSR Committee and Board to review the progress of the CSR projects and monitor if the progress is in line with the CSR plan as approved by the Board. If there are any shortfalls or challenges in implementation, the CSR Department shall report the same to the CSR Committee who shall suggest appropriate action to be taken. Further, the responsibility of CSR Department will also include to participate in formulation of Annual Action Plan.

7. Guiding Principles for selection, implementation and monitoring of CSR activities

7.1. Guiding Principles for Selection of CSR Projects: The selection of CSR projects will be done basis following guiding principles

7.1.1. Impact – CSR projects will have well-defined Key Performance Indicators to measure impacts on target groups. For high impact projects, there will be independent, third-party assessments and feedback will be a key input for redesign and / or rollout of further initiatives.

7.1.2. Partnerships – The Bank ensures that each project has a well-defined end-to-end process for identifying and registering beneficiaries for long-term and positive impact. In this regard, the Bank will forge collaborations with non-profit organizations, community-based organizations, and Government organizations, for greater collaborative impact through CSR project. Partners will bring in complementary resources, expertise and influence which

would be leveraged to force-multiply the Bank’s CSR initiatives. Bank will also leverage its own products and services for its CSR initiatives in alignment with its CSR strategy.

The Bank shall ensure that the CSR activities are undertaken by the Bank itself or through implementation agencies as mentioned below:

(a) a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80 G of the Income Tax Act, 1961 (43 of 1961), established by the company, either singly or along with any other company, or

(b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government; or

(c) any entity established under an Act of Parliament or a State legislature; or

(d) a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

The abovementioned entities, who intends to undertake any CSR activity, should register itself with the Central Government by filing the form CSR-1 electronically with the Registrar.

7.1.3. Alignment with strategy and approved annual action plan: All CSR projects will be closely aligned to the strategic direction set by the board and as per approved annual action plan.

7.1.4. Volunteerism – Bank through its Individual Social Responsibility Program encourages employees, their families to engage in volunteering activities that will benefit the communities in which they live and work. This will not only deepen local community connect but will also leverage in-house skills in addressing social challenges, thereby creating social impact.

7.1.5. Innovation –Bank will endeavour to identify innovative solutions to solve seemingly intractable social problems. These will encompass technology, as well as models for sourcing, partnering and delivery of initiatives

7.1.6. Adherence to CSR compliance – All CSR projects will be selected as per the Schedule VII of The Companies Act, 2013 and will follow essential criterias of selection and implementation of projects as mentioned in Companies (Corporate Social responsibilities) Rules, 2014.

7.2. Guiding Principles for Implementation of CSR Projects:

7.2.1. A large part of the CSR efforts of Bank will be implemented by AU Foundation, the CSR implementing arm of the Bank. Bank will also partner with credible organizations – individually or as a consortium – to design, fund, implement and review projects. The bank will also adopt multiple other ways of implementing projects such as direct

implementation and in partnership with other agencies including government and other corporates.

7.2.2. **Guiding Principles for Monitoring of CSR Projects:** The monitoring will be ingrained into the project cycle - right from design, implementation and closure stage.

7.2.3. The Indicator (Key Performance Indicators) Matrix will be used to measure project performance across key indicators (output, outcome, impact) and will be monitored against the project goals.

7.2.4. **Concurrent Monitoring:** Depending upon the intensity, CSR team will conduct periodic visits to the field to track progress in terms of activities and outputs.

7.2.5. We will also Engage Advisors / Experts / Agencies for monitoring of CSR projects, on need basis.

8. Guiding Principles for formulation of Annual Action Plan

- 8.1. All CSR projects will be in line with the CSR vision, as well as areas listed in Schedule VII of the Companies Act, 2013.
- 8.2. All CSR activities will be in project mode and will not include activities supported on sponsorship basis for deriving marketing benefits for its products or services or activities carried out for fulfilment of any other statutory obligations under any law in force in India.
- 8.3. All CSR projects will ensure that the activities included in the CSR policy are undertaken by the Bank.
- 8.4. The annual action plan will cover modalities of execution and utilisation of funds. The CSR Committee shall recommend to the Board on budget allocation for any CSR project including modalities of utilisation of funds in every project.
- 8.5. No CSR projects will be undertaken by the company outside India except activities permissible as per Companies (Corporate Social responsibilities) Rules, 2014.
- 8.6. No activities will be part of CSR which are undertaken in pursuance of normal course of business of the Bank and benefit employees of the Bank
- 8.7. No contribution of any amount directly or indirectly to any political party under section 182 of the Act;

Further, each year based on a detailed Annual Action Plan will be prepared by CSR Department and submitted to CSR Committee for review and recommendation to Board that will include:

- a. The list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Act.
- b. the manner of execution of such projects or programmes as specified in sub-rule (1) of rule 4 of Companies (Corporate Social responsibilities) Rules, 2014
- c. The modalities of utilisation of funds and implementation schedules for the projects or programmes

- d. Monitoring and reporting mechanism for the projects or programmes; and
- e. Details of need and impact assessment, if any, for the projects undertaken by the company:

Provided that Board may alter such plan at any time during the financial year, as per the recommendation of its CSR Committee, based on the reasonable justification to that effect.

9. CSR Expenditure

Any surplus arising out of the CSR activities shall not form part of the business profit of Bank and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the Bank or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

In case, Bank spends an amount in excess of requirement provided under sub-section (5) of section 135, such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 up to immediate succeeding three financial years subject to the conditions that –

- (i) the excess amount available for set off shall not include the surplus arising out of the CSR activities, if any, in pursuance of sub-rule (2) of this rule.
- (ii) the Board of the Bank shall pass a resolution to that effect.

10. Impact Assessment

- 10.1. The Bank shall strive to measure the impact of its CSR Project(s)/Program(s) at regular intervals through appropriate mechanisms and undertake impact assessments in alignment with the prevalent CSR Rules.
- 10.2. All CSR initiatives will have well-defined KPIs to measure impacts on target groups. For high impact projects, there will be independent, third-party assessments and feedback will be a key input for redesign and / or rollout of further initiatives
- 10.3. The Bank shall undertake impact assessments through independent agencies for CSR Project(s)/Program(s) which have an outlay of Rs. One crore or more, and which has completed not less than one year before commencement of such impact assessment, as stipulated in the Companies (Corporate Social responsibilities) Rules, 2014.
- 10.4. The impact assessment report for each such CSR Project/Program shall be placed before the Board for its review.

11. Administrative overheads

Administrative overheads means the expenses incurred by the company for 'general management and administration' of Corporate Social Responsibility functions in the company but shall not include the expenses directly incurred for the designing, implementation, monitoring, and evaluation of a particular Corporate Social Responsibility project or programme.

The Board of the Bank should ensure that administrative overheads shall not exceed 5% of the total CSR expenditure of the Bank for the financial year.

12. Acquisition of Capital Assets

The CSR amount may be spent by a Bank for creation or acquisition of a capital asset, which shall be held by -

- (a) a company established under section 8 of the Act, or a Registered Public Trust or Registered Society, having charitable objects and CSR Registration Number under sub-rule (2) of rule 4 of Companies (Corporate Social responsibilities) Rules, 2014; or
- (b) beneficiaries of the said CSR project, in the form of self-help groups, collectives, entities; or
- (c) a public authority:

13. Reporting Framework

The CSR Committee shall be responsible to report to the Board on the status of achievement of the CSR initiatives and its projects on at least half-yearly basis.

- 13.1. Bank's shall cover the significant CSR projects and achievements in the CSR report forms part of Annual Report.
- 13.2. The impact assessment reports which shall be placed before the Board and shall be annexed to the annual report on CSR as per applicable guidelines.
- 13.3. Bank shall display the composition of the CSR Committee, and CSR Policy and Projects approved by the Board on its website for public access.

14. Policy Review and Validity

The CSR Committee & Board may amend the CSR Policy as may be required from time to time and will be reviewed annually.

15. Regulatory References

The Companies Act, 2013.

The Companies (Corporate Social Responsibility Policy) Rules, 2014

National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business of Ministry of Corporate Affairs

In case of any inconsistency between the policy and provisions of law, the provisions of law shall prevail.