

AU SMALL FINANCE BANK LIMITED

COMPENSATION POLICY

Table of Contents

Contents

1. INTRODUCTION	3
2. OBJECTIVE	4
3. SCOPE	4
4. APPOINTMENT AND REMUNERATION	5
5. PERFORMANCE EVALUATION MECHANISM	15
6. DISCLOSURES	16
7. REGULATORY AND SUPERVISORY OVERSIGHT	17
8. REVIEW OF POLICY	17

1. INTRODUCTION

AU Small Finance Bank Ltd. (hereinafter referred to as '**the Bank**') recognizes its role as a corporate citizen and aims to attain the highest level of transparency, accountability, and equity in all spheres of operations, interactions with the shareholders, employees, government and others. In order to create sustainable value for stakeholders, strong corporate governance framework the policy and procedure should be in place to form an integral part of the business.

This Compensation policy seeks to document the practices and procedures to be followed by the Bank for remuneration of Directors, (Including Whole Time Directors or WTDs and CEO) Key Managerial Personnel, Senior Management, Material Risk Takers, Control Function staff and other employees.

Regulatory Guidelines

This Policy adheres to principles and guidelines as prescribed by the Reserve Bank of India (RBI) in terms of the following circulars as amended time to time:

i) Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff (Vide Circular no. RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated 4th November 2019) also referred herein as "**Compensation Guidelines**"

ii) Non-Executive Chairman of a Private Sector Bank (In terms of Section 10B (1A) of the Banking Regulation Act, 1949,)

iii) Non-Executive Directors (NEDs) (other than Non-Executive Chairman) (Vide Circular DBR. No. BC. 97/29.67.001/ 2014-15 dated 1st June 2015)

iv) Companies Act 2013

- Chapter XIII: The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014
- SCHEDULE IV Code for Independent Directors
- SCHEDULE V Conditions for appointment and payment of remuneration of managerial personnel

v) Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, SEBI Circular No. SEBI/HO/CFD/CMD/CIR/P/2017/004 dated 5th January 2017 and other related circulars, guidelines in this regard.

vi) Banking Regulation Act, 1949

This Policy will adhere to any other regulation or guideline that may subsequently be applicable in the context of AU Small Finance Bank Limited

Definition:

Nomination and Remuneration Committee: Nomination and Remuneration Committee of the Board under the requirement of the Companies Act, 2013 and rules made thereto.

Share-linked Instruments: Share-linked Instruments consisting of ESOPs and/or other linked instruments which shall be forming part of variable pay.

Material Risk Takers: Material Risk Takers (MRTs) are senior personnel whose actions have a material impact on the risk exposure of the Bank and who satisfy the qualitative and any one of the quantitative criteria stipulated in the compensation guidelines.

2. OBJECTIVE

The objective of the Compensation policy is to regulate the appointment and remuneration of Directors (including Independent Directors), Key Managerial Personnel (KMP), Senior Management Personnel, Material Risk Takers (MRTs) and Control Function staff as applicable in accordance with criteria formulated by the Nomination and Remuneration Committee of the Board under the requirement of the Companies Act, 2013 read with applicable Rules and Regulations under the Act and Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable guidelines.

The key objectives of this policy are as under:

- Establish standards on compensation/ remuneration including fixed and variable pay -covering share-linked instruments, which are in alignment with the applicable rules and regulations and is based on the trends and practices of remuneration prevailing in the industry.
- Retain, motivate and promote talent and to ensure long term sustainability of talented WTD, KMP, SMP, MRT, Control Function Staff and other employees as applicable.
- Define internal guidelines for payment of other reimbursement to the Directors and KMP.
- Institutionalize a mechanism for the appointment/ removal/ resignation/evaluation of performance of Directors.
- Perform such functions as are required to be performed by the Nomination and Remuneration committee under the SEBI (Share Based Employee Benefits) Regulations, 2014, including the following:
 - (a) administering the ESOP plans;
 - (b) determining the eligibility of employees to participate under the ESOP plans;
 - (c) granting options to eligible employees and determining the date of grant;
 - (d) determining the number of options to be granted to an employee;
 - (e) determining the exercise price under the ESOP plans; and
- Ensure compliance with applicable laws, rules and regulations as well as 'Fit and Proper criteria' of directors before their appointment.

3. SCOPE

The policy provides appointment and remuneration guidelines to the extent applicable for the following:

- a. Chairman
- b. Non-Executive Directors
- c. Managing Director (MD) & CEO and Whole Time Director(s)
- d. Key Managerial Personnel, Senior Management Personnel and Material risk takers of the Bank
- e. Risk Control and Compliance Employees
- f. Other Categories of Employees

The approval matrix is as follows:

Designation	Nomination and Remuneration committee approval Required	Board approval required	Shareholder's approval required	RBI Approval Required
Chairman	Yes	Yes	Yes	Yes
Non-Executive Directors	Yes	Yes	Yes	Intimation to be given
Managing Director (MD) & CEO and Whole Time Director(s)	Yes	Yes	Yes	Yes
Key Managerial Personnel (KMP) other than MDs & WTDs as mentioned under Co. Act, 2013	Yes	Yes	NA	NA
Senior Management Personnel (SMP)	Yes	NA	NA	NA
*Material Risk Takers & Head of Control Functions	Yes	NA	NA	NA
Other Categories of Employees	NA	NA	NA	NA

* In the above categories of employees, the NRC committee may from time to time add / amend the criteria as well as the list of the officer(s) to be covered under the compensation framework.

4. APPOINTMENT AND REMUNERATION

The Policy covers appointment criteria including fit & Proper assessment, specialization, experience, and remuneration thereof to the extent applicable for the Directors including independent directors, KMP, SMP, Material Risk Takers, risk control & compliance staff and other employees of Bank.

The detailed criteria for appointment and Remuneration are as follows:

A. CHAIRMAN

The appointment and remuneration of Chairman whether Executive/Non-Executive of the Bank is governed by section 10B (1A) and 35B of the Banking Regulation Act 1949 and other applicable provisions.

Appointment, Re-appointment and Change

The Appointment of Chairman shall be carried out based on fit and proper criteria assessment as stipulated under Section 10A of Banking Regulation Act 1949 & other applicable provision. Further the Nomination & Remuneration Committee shall identify and approve person who is qualified to become Chairman of the Bank as per Banking Regulation Act 1949 and guidelines stipulated thereunder and thereafter approved by the Board, Shareholders of the Bank and with prior approval from RBI .

The re-appointment of Chairman shall be based on report of performance evaluation. The Bank shall re-appoint Chairman only after obtaining prior approval from RBI.

i. Tenure

The Chairman of the Bank shall be entitled to hold office for such a period (s) and on such terms and conditions as may be imposed by the Reserve Bank of India or prescribed under

any regulation or amendment thereto, for time being in force and the same shall be subject to the approval of Shareholders of the Bank as applicable.

ii. Remuneration

The Bank would be required to obtain prior approval of RBI for payment of remuneration to the Chairman under Section 10B (1A) (i) and 35B of the Banking Regulation Act, 1949.

The compensation policy of Bank would be subject to supervisory oversight including review under the Supervisory Review and Evaluation Process (SREP) under Pillar 2 of Basel II framework.

The Remuneration payable to Chairman of the Bank shall comprise of:

- Any Fixed pay of Remuneration or Honorarium as approved by Reserve Bank of India and shareholders of the Bank
- Sitting fees as approved by Board for Board meetings and respective Committee meetings in which he/she is a member
- Any profit linked commission subject to limits prescribed under the provisions of Companies' Act 2013
- Reimbursement of Expenses for maintenance of his/her office, travel, lodging and boarding expenses for official work relating to affairs of the Bank.

B. NON-EXECUTIVE INDEPENDENT DIRECTORS

i. Appointment

The appointment and remuneration payable to the Non-Executive Directors of the Bank, is governed as per terms of Section 10A (2A) of the Banking Regulation Act, 1949, guidelines issued by the RBI and subject to compliance with the relevant provisions of the Companies Act, 2013, the Rules made thereunder and Regulation 17 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulation).

The Bank should appoint such persons as Independent Directors who in the opinion of the Bank, are persons with integrity, possessing relevant expertise, professional knowledge, and experience and who satisfy the criteria for independence. Bank shall carry out 'Fit and Proper Assessment' of the incumbent proposed to be appointed as Director on the Board of the Bank. The Independent directors shall follow the Code of Conduct of the Bank.

The re-appointment of independent director shall be based on report of performance evaluation.

ii. Tenure

The appointment of an Independent Director of the Bank shall be in accordance with the provision of Companies Act 2013 subject to the approval of shareholders. Further as per Section 10A (2A) of the Banking Regulation Act, 1949, a Non-Executive Director of the Bank can be appointed for a period of 8 continuous years with each tenure not exceeding tenure as permissible under regulatory guidelines subject to him/her not having attained the upper age as permissible at the time of his/her appointment/ re-appointment, as prescribed in

Circular no. DBOD.No. BC.24/ 08. 139. 001 /2002-03 dated 9th September, 2002, issued by the RBI..

No Independent Director shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director after two consecutive terms.

iii. Remuneration

- The Non-Executive Directors of the Bank shall be entitled to sittings fees as approved by the Board of Directors of the Bank and within the overall limits prescribed under Rule 4 of The Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, as amended, from time to time.
- The Non-Executive Directors of the Bank (excluding the Non-Executive Chairman) shall be entitled to profit related commission, subject to the Bank making profits, of an amount not exceeding Rs. 20 lacs per annum, in terms of the RBI Circular RBI/2021-22/24 DOR.GOV.REC.8/29.67.001/2021-22 dated April 26, 2021 and as amended from time to time.
- In case of any Non-Executive Director of the Bank, who is re-appointed or resigns or retires during the financial year, he/she would be paid commission on pro-rata to the number of days he/ she was a director during the said financial year, subject to the outcome of his performance evaluation and compliance of other conditions.

C. MANAGING DIRECTOR & CEO AND WHOLE TIME DIRECTOR(S)

i. Appointment

The MD & CEO and Whole time Director of the Bank should have special knowledge and practical experience as stipulated under Section 10A of Banking Regulation Act 1949 including accountancy, Banking, co-operation, economics, Finance, law, agriculture & rural economy etc. No company shall appoint or employ at the same time a managing director and a manager.

ii. Tenure

The Managing Director & CEO and Whole-time Directors of the Bank shall be entitled to hold office for such period (s) and on such terms and conditions as may be imposed by the Reserve Bank of India or prescribed under any regulation or amendment thereto, for time being in force and his appointment/re-appointment shall be subject to approval of Board, Shareholders, and prior approval of RBI.

iii. Remuneration (Fixed Pay, Variable Pay)

The Nomination and Remuneration Committee (NRC) of the Bank shall evaluate the performance of the Managing Director & CEO and Whole Time Director(s) and recommend to the Board for all fees, compensation/remuneration including fixed, variable and perquisites payable to the Director as mentioned below:

- **Fixed Pay:**
 - (a) The Managing Director & CEO and Wholetime Director(s) are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be recommended by Nomination and Remuneration Committee and decided by the Board of Directors & Shareholders.
 - (b) All perquisites that are reimbursable will be classified as fixed pay, so long as there are monetary ceilings applicable on these reimbursements.
 - (c) Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

- **Variable Pay:** While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model.
 - (a) A substantial proportion of compensation i.e., at least 50%, should be variable and determined on the basis of individual, business performance & other parameters;
 - (b) In case variable pay is:
 - Up to 200% of the fixed pay, a minimum of 50% of the variable pay should be via non-cash instruments;
 - Above 200%, a minimum of 67% of the variable pay should be via non-cash instruments;
 - shall be limited to a maximum of 300% of the fixed pay;(for the relative performance measurement period).
 - (c) In the event that an executive is barred by statute or regulation from grant of share-linked instruments, his/her variable pay will be capped at 150% of the fixed pay but shall not be less than 50% of the fixed pay.
 - (d) It may be noted that clauses (a) and (c) above indicate variable pay opportunity or target variable pay for a year and is not a guaranteed amount or entitlement. Actual variable pay granted for any year will be determined based on Bank, Business unit and individual performance and other evaluation criteria. Based on evaluation on such criteria, actual total pay could be lower than target total pay, and in fact could even be zero. The deterioration in the financial performance of the bank should generally lead to a contraction in the total amount of variable compensation, which can even be reduced to zero.

- **Deferral of Variable Pay:** Variable Pay of senior executives, including WTDs, and other employees who are MRTs shall be deferred over the period so that compensation is adjusted for all types of risks that organisation may be exposed to.

The deferral period shall be a minimum of three years. This would be applicable to both the cash and non-cash components of the variable pay:

- (a) A minimum of 60% of the total variable pay must invariably be under deferral arrangements.

- (b) If cash component is part of variable pay, at least 50% of the cash bonus shall also be deferred.
 - (c) In case, where the cash component of variable pay is under Rs.25 lakh, deferral requirements shall not be necessary.
 - (d) Deferred remuneration should either vest fully at the end of the deferral period or be spread out over the course of the deferral period of at least three years.
 - (e) The first such vesting should be not before one year from the commencement of the deferral period and shall not take place more frequently than on a yearly basis.
 - (f) The vesting should be no faster than on a pro rata basis
- Banks should ensure that for the WTDs / CEOs:
- compensation is adjusted for all types of risk,
 - compensation outcomes are symmetric with risk outcomes, and
 - compensation payouts are sensitive to the time horizon of the risk.
 - The mix of cash, equity and other forms of compensation must be consistent with risk alignment.
- **Malus/Claw back Clause:** In the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year, or in other situations detailed below, the variable compensation shall be subject to:
- a) **Malus arrangement** wherein Bank shall withhold vesting of amount of deferred remuneration.
 - b) **Claw back arrangement** wherein Whole Time Director shall be liable to return previously paid or vested remuneration to the Bank as per the applicable provisions/guidelines stipulated by RBI.

Nomination and Remuneration Committee may invoke Malus or Clawback clause with respect to Whole Time Directors in following situations:

- Gross negligence and integrity breach. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company's results
- Exercise his/her responsibilities in a mala fide manner
- Unfairly obstruct the functioning of the Bank which may affect the material decision
- Significant deterioration of financial health of the Bank and/or continued shortfall in capital adequacy
- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision necessary and justified

Once Nomination and Remuneration Committee decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of 100% of cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of cash component of variable pay paid in the last five years
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted in last five years
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted in last five years

Invocation of Malus Provision in case of NPA Divergence

- Wherever the assessed divergence in bank's provisioning for Non-Performing Assets (NPAs) or asset classification exceeds the prescribed threshold for public disclosure, the Malus provision will be invoked and bank will not pay the unvested portion of the variable compensation for the assessment year
- Further, in such situations, there will be no proposal for increase in variable pay (for the assessment year)
- In case the bank's post assessment Gross NPAs are less than 2.0%, these restrictions will apply only if criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.

iv. Remuneration Revision Cycle

The Remuneration revision cycle for Managing Director & CEO and Wholetime Director shall be annual which shall be subject to approval of the Reserve Bank of India.

(D) KEY MANAGERIAL PERSONNEL, SENIOR MANAGEMENT PERSONNEL AND MATERIAL RISK TAKERS OF THE BANK

Pursuant to the Section 203 of Companies Act 2013 and rules made thereunder the Bank required to have the following whole-time key managerial personnel:

- Managing Director & Chief Executive Officer and whole-time director (covered under clause 4C above);
- Chief Financial Officer
- Company Secretary

The key managerial personnel of a Bank shall be appointed by Nomination and Remuneration Committee and Board specifying the terms and conditions of the appointment including the remuneration. In the event of any vacancy, it shall be filled-up by the Board at a meeting within a period of six months from the date of such vacancy.

Further, pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Senior Management shall mean officers/personnel of the Bank who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the executive directors. The appointment of Senior Management Personnel is being taken care by the Management of the Bank. On recommendation of Management, the nomination and remuneration committee shall review and approve the annual revision in remuneration of the Senior Management Personnel.

Further, Material Risk Takers (MRT) shall mean role holders who by virtue of their role have decision making ability to individually or jointly commit significantly to the risk exposure of the bank. The Material Risk Takers shall be identified by the Nomination and Remuneration Committee from time to time basis defined qualitative and quantitative criteria in line with the Compensation Guidelines prescribed by RBI.

i. Remuneration For Material Risk Takers

➤ **Fixed Pay:**

- (a) Material Risk Takers are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be decided by the Nomination and Remuneration Committee. For MRTs who are also KMPs, the fixed remuneration may be decided by the Nomination and Remuneration Committee and the Board of Directors.
- (b) All perquisites that are reimbursable will be classified as fixed pay so long as there are monetary ceilings applicable on these reimbursements.
- (c) Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

➤ **Variable Pay:** While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model.

- (a) A substantial proportion of compensation i.e., at least 50%, should be variable and paid on the basis of individual, business performance & other parameters;
- (b) In case variable pay is:
 - Up to 200% of the fixed pay, a minimum of 50% of the variable pay should be via non-cash instruments;
 - Above 200%, a minimum of 67% of the variable pay should be via non-cash instruments;
 - shall be limited to a maximum of 300% of the fixed pay;
- (c) In the event that an executive is barred by statute or regulation from grant of share-linked instruments, his/her variable pay will be capped at 150% of the fixed pay but shall not be less than 50% of the fixed pay.
- (d) It may be noted that clause (a) above indicates variable pay opportunity or target variable pay for a year and is not a guaranteed amount or entitlement. Actual variable

pay granted for any year will be determined based on Bank, Business unit and individual performance and other evaluation criteria. Based on evaluation on such criteria, actual total pay could be lower than target total pay, and in fact could even be zero. The deterioration in the financial performance of the bank should generally lead to a contraction in the total amount of variable compensation, which can even be reduced to zero.

- **Deferral of Variable Pay:** Part for Variable Pay of MRTs shall be deferred over the period so that compensation is adjusted for all types of risks that organisation may be exposed to.

The deferral period shall be a minimum of three years. This would be applicable to both the cash and non-cash components of the variable pay:

- (a) A minimum of 60% of the total variable pay must invariably be under deferral arrangements.
 - (b) If cash component is part of variable pay, at least 50% of the cash bonus shall also be deferred.
 - (c) In case, where the cash component of variable pay is under Rs.25 lakh, deferral requirements shall not be necessary.
 - (d) Deferred remuneration should either vest fully at the end of the deferral period or be spread out over the course of the deferral period.
 - (e) The first such vesting should be not before one year from the commencement of the deferral period and shall not take place more frequently than on a yearly basis.
- **Malus/Claw back Provision:** In the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year, or in other situations detailed below, the variable compensation shall be subject to:
 - a) **Malus arrangement** wherein Bank shall withhold vesting of amount of deferred remuneration:
 - b) **Claw back arrangement** wherein MRTs shall be liable to return previously paid or vested remuneration to the Bank as per the applicable provisions/guidelines stipulated by RBI.

Nomination and Remuneration Committee may invoke Malus or Clawback clause with respect to Material Risk Takers in following situations:

- Gross negligence and integrity breach. Errors of judgment shall not be construed to be breaches under this note.
- Material Misstatement of the company's results
- Exercise his/her responsibilities in a mala fide manner
- Unfairly obstruct the functioning of the Bank which may affect the material decision
- Significant deterioration of financial health of the

- Any other situation where the Board and the Nomination & Remuneration Committee deems invoking Malus and/or Clawback provision necessary and justified

Once Nomination and Remuneration Committee decides to invoke Malus and/or Clawback clause, it will have power to take any of the following action basis the nature and severity of trigger.

In case of Malus Clause:

- Cancel the vesting of 100% of cash or share linked component due for vesting in that particular year
- Cancel the vesting for up to 100% of entire unvested cash or share linked component including vesting remaining in future years

In case of Clawback Clause:

- Recovery of up to 100% of compensation received in the form of performance bonus paid in the last five years
- Recovery of up to 100% of benefit accrued to the employee on account of exercise of stock options or through any other share linked instrument granted in last five years
- Forfeiture of up to 100% of vested but unexercised stock options or any other share linked instrument granted in last five years

Invocation of Malus Provision in case of NPA Divergence

- Wherever the assessed divergence in bank's provisioning for Non-Performing Assets (NPAs) or asset classification exceeds the prescribed threshold for public disclosure, the Malus provision will be invoked and bank will not pay the unvested portion of the variable compensation for the assessment year
 - Further, in such situations, there will be no proposal for increase in variable pay (for the assessment year)
 - In case the bank's post assessment Gross NPAs are less than 2.0%, these restrictions will apply only if criteria for public disclosure are triggered either on account of divergence in provisioning or both provisioning and asset classification.
- **Guaranteed Bonus:** The Guaranteed Bonus if any to be given, the same shall be in compliance of condition mentioned under the clause 2.1.4 wide RBI Guidelines on Compensation of whole time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff dated November 4, 2019. Further, Bank shall not grant severance pay other than accrued benefits but the same shall be subject to applicable requirement under any statute.
- **Hedging:** Banks shall not permit employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement and employees are bind to ensure the applicability of the guidelines and its compliance.

ii. Remuneration For KMPs and SMPs not identified as Material Risk Takers or Control Group Function (Other KMPs & SMPs)

➤ **Fixed Pay:**

- (d) Other KMPs & SMPs are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances as may be decided by the Nomination and Remuneration Committee. For Other KMPs & SMPs, the fixed remuneration may be decided by the Nomination and Remuneration Committee and the Board of Directors.
- (e) All perquisites that are reimbursable will be classified as fixed pay so long as there are monetary ceilings applicable on these reimbursements.
- (f) Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

➤ **Variable Pay:** While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model or internal model as per the decision of the Bank.

- (a) A substantial proportion of compensation should be in the form of variable pay and paid on the basis of individual, business performance & other parameters;
- (b) The deterioration in the financial performance of the bank should generally lead to a contraction in the total amount of variable compensation, which can even be reduced to zero.

➤ **Remuneration Revision Cycle:** The Remuneration Revision cycle of the employees including for KMP and SMP are eligible for annual remuneration revision cycle.

(E) EMPLOYEES IN RISK CONTROL AND COMPLIANCE EMPLOYEES

i. Objective & Regulatory Guidelines

Employee engaged in financial, risk control and Compliance function should be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the bank. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation.

ii. Applicability

The Policy will be applicable to person heading the control group function (List will be approved by NRC annually),

iii. Remuneration

- **Fixed Pay:** The employees consisting of risk control and compliance function are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances and other perquisites. All perquisites that are reimbursable will be classified as fixed

pay so long as there are monetary ceilings applicable on on these reimbursements. Contributions towards superannuation/retiral benefits will be treated as part of fixed pay.

- **Variable Pay:** While designing the compensation arrangements it should be ensured that there is a proper balance between fixed pay and variable pay. Variable Pay shall also include ESOPs or any other share linked instrument(s) and their value may be determined basis fair value on the date of grant using Black-Scholes model.

In line with the need to reward risk and compliance roles separately from the businesses they supervise, it is necessary that the pay mix is tilted in favour of Fixed Pay. The Total Variable Pay for Risk Control and Compliance Staff cannot exceed 100% of Fixed Pay.

- **Deferral of Variable Pay:** Part of Variable Pay of Risk Control and Compliance Employees can be deferred over a period of time with principles similar to those for Material Risk Takers

iv. Remuneration Revision Cycle

- Employees in this category are eligible for annual remuneration revision cycle

(F) OTHER EMPLOYEES

Other Employees of the Bank are being appointed by the Human Capital Management team of the Bank.

i. Remuneration Revision Cycle

- **Fixed Pay:** Employees of the Bank are eligible for fixed remuneration comprising of Basic Salary, Cash & other allowances and other perquisites as may be decided by the Management of the Bank. Bank may include value of perquisites and retirals in the definition of fixed pay.
- **Variable Pay:** While designing the compensation arrangements it shall be ensured that there is a proper balance between fixed pay, variable pay including incentive and share linked instruments where applicable.
- **Revision Cycle:** The Remuneration Revision cycle of the Employees in the Bank are eligible for annual remuneration revision cycle.

5. PERFORMANCE EVALUATION MECHANISM

In accordance with the relevant provisions of the Companies Act, 2013 read with relevant rules made thereunder and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in compliance of guidance note issued by SEBI under Circular no. SEBI/HO/CFD/ CMD/CIR/P/2017/004 dated 5th January 2017, the Performance Evaluation of:

- the Board as a whole;
- its Committees,
- Individual Directors including Chairman
- Independent Directors and Non-Independent Directors shall be carried out by the Bank on annual basis as part of corporate governance obligation.

The Nomination and Remuneration Committee (NRC) shall carry out the evaluation of performance of every Director. The evaluation of performance of the Independent Directors (IDs) shall also be carried out by the entire Board of Directors excluding the Director being evaluated based on qualifications, experience, knowledge and competency, fulfilment of functions, initiative, attendance, contribution and integrity, effectiveness of leadership, impartial and shareholders' interest, independence, and other parameters.

6. DISCLOSURES

The Bank shall disseminate the information on the “**Compensation Policy**” on its website and in the Board’s report.

- Disclosures relating Appointment of directors

The Bank shall provide information to Board on recruitment and remuneration of senior Management Personnel including appointment or removal of Key Managerial Personnel.

The Bank shall provide the shareholders with the following information in the case of appointment of a new director or re-appointment of a director:

- A brief resume of the director;
- Nature of his expertise in specific functional areas;
- Disclosure of relationships between directors inter-se;
- Names of listed entities in which the person also holds the directorship and the membership of Committees of the board; and
- Shareholding of non-executive directors.
- Any other information as required under applicable regulations

- Disclosures relating to Remuneration

Reporting to the Nomination and Remuneration Committee

The following matters shall be reported to the Nomination and Remuneration Committee:

- Annual remuneration proposed for directors, key managerial personnel and senior management
- Declarations on fit and proper criteria as submitted by the directors or persons to be appointed as directors
- Other disclosure as applicable

The Committee shall prepare and recommend the remuneration/compensation policy to the Board. The status of implementation of the remuneration policy shall also be reported on an annual basis to the Board.

Reporting in the Annual Report

The Bank shall make applicable qualitative and quantitative disclosures with respect to appointment and remuneration of Whole Time Directors and Key Managerial Person in the Annual Report of the Bank. The disclosure may also include the following information:

- All pecuniary relationship or transactions of the non-executive director(s) vis- à-vis the Bank shall be disclosed in the annual report;
- Disclosures with respect to payments to non-executive directors;
- All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, Superannuation Benefit, service contracts, notice period and severance fees;
- The ratio of the remuneration of each director to the median employee's remuneration;
- Criteria for Evaluation of performance shall be disclosed in Annual Report;
- Appointment/ Changes in Director(s) and KMP shall be disclosed;
- Disclosures in respect to Appendix 3 of Compensation Guidelines; and
- Any other applicable disclosures

7. REGULATORY AND SUPERVISORY OVERSIGHT

- AU Small Finance Bank shall obtain regulatory approval for grant of remuneration to WTDs/CEOs in terms of section 35B of Banking Act
- AU Small Finance Bank will not employ any person whose remuneration is, in the opinion of Reserve Bank of India, excessive
- Details related to AU Small Finance Bank's compensation policies will be available for review under supervisory oversight by Reserve Bank of India

8. REVIEW OF POLICY

The Board approved policy shall be reviewed as and when required or at least annually for incorporating regulatory updates and changes, if any.