

CITY UNION BANK LIMITED



CUB

Trust and Tradition - Since 1904

COMPENSATION POLICY

(Amended as on 27.3.2023)

COMPENSATION POLICY

1. BACK GROUND

This policy is being framed in accordance with Reserve Bank of India ref.no. DOR.Appt.BC.No.23/29.67.001/2019-20 dt.04th November 2019 containing guidelines on Compensation of Whole Time Directors ("WTD")/Chief Executive Officers/Risk takers and Control function Staff ("**RBI guideline**").

This policy shall be subjected to revision as and when deemed necessary and in terms of any future guidelines of RBI.

The policy will also cover categories of staff as further explained in the subsequent paragraph.

2. PRINCIPLES FOR SOUND COMPENSATION PRACTICES

In accordance with the RBI guidelines and Financial Stability Board (FSB) principles on sound compensation practices:

- a. Board of Directors of the Bank must actively oversee the Compensation systems design and operation.
- b. Board must monitor and review the compensation system to ensure the system operates as intended.
- c. Employees engaged in financial and risk control must be Independent, have necessary authority and are compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the Bank.
- d. Compensation is adjusted for all types of risks.
- e. Compensation outcomes are symmetric with risk outcomes.
- f. Compensation payout schedules are sensitive to the time horizon of risks.
- g. The proportion of cash, equity and other forms of compensation are consistent with risk alignment.
- h. Bank must disclose its compensation practices which shall facilitate constructive engagement by all stakeholders.

3. APPLICABILITY OF THE POLICY AND SCOPE

This compensation policy would be applicable in respect of employees in Executive cadre (Scale V and above) or any other employee as may be identified by the Compensation and Remuneration Committee / Board of the Bank from time to time falling under any of the following category:

1. Managing Director & CEO / WTD
2. Non-Executive Directors
3. *Key Managerial Personnel*
4. *Material Risk Takers (MRT)*
5. *Control Function Staff*
6. *Other category staffs of the Bank*

- a. *At present as per the settlement of Executives of the Bank (Scale V and above) effective from July 2016 and revised latest during the year 2021, their*

remuneration is as per Cost to Company ("**CTC**") basis. Further, all new appointments will continue to be on CTC basis only.

- b. In respect of other employees, their present remuneration structure is as per each bi-partite settlement by the management with CUB Staff Union and CUB Officers' Association. As such, this Policy has no scope for such employees.

However, their overall compensation structure (i.e. a balance between fixed & variable part) will be ensured to fall in line with relevant RBI guideline in force on compensation to such category of staffs.

If the Bank decides to implement salary and other emoluments on CTC basis at a later stage (proposed w.e.f July 1, 2023 in 2021 settlement), the Bank shall pay fixed remuneration to them. The remuneration fixed on CTC basis shall be in parity with the existing system of remuneration.

All new appointments under this category will continue to be determined as a fixed remuneration on CTC basis.

4. DEFINITIONS

- a. **Key Managerial Personnel (KMP):** As per the Companies Act, 2013, Managing Director & Chief Executive Officer/ Whole Time Director (WTD), Company Secretary, Chief Financial Officer and any other Person identified by the Board. Currently, Managing Director & Chief Executive Officer, Chief Financial Officer and Company Secretary are identified as Key Managerial Personnel in the Bank.
- b. **Material Risk Takers (MRTs):** 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 as per RBI Norms.
- c. **Control Function Staff:** are who monitor and control the integrity of risk measures undertaken and staff members who are independent of the business areas.
- d. **Black-Scholes Model:** It is a pricing model used to determine the fair price or theoretical value for pricing an options contract / underlying stock price. Share linked instruments (ESOPs) shall be fair valued on the date of grant by the bank using Black-Scholes model.
- e. **Malus:** A malus arrangement permits the bank to prevent vesting of all or part of the amount of a deferred remuneration. Malus arrangement does not reverse vesting after it has already occurred.
- f. **Clawback:** Clawback is a contractual agreement between the employee and the Bank in which the employee agrees to return previously paid or vested remuneration to the Bank, under certain circumstances.
- g. **Retention Period (Lock in Period):** A period of time after the vesting of instruments which have been awarded as variable pay, during which they cannot be sold or accessed.
- h. **Share-linked instruments:** are such instruments as defined in Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and as amended from time to time.

- i. Fixed Pay: All fixed items of compensation, including perquisites will be treated as a part of Fixed Pay. All perquisites that are reimbursable (subject to monetary ceilings) shall also be included in Fixed Pay. Contribution towards superannuation / retirement benefits shall also be treated as part of Fixed Pay.*
- j. Variable Pay: Variable pay shall include cash/non-cash compensation paid (including Performance Linked components).*

5. COMPENSATION & REMUNERATION COMMITTEE ("CRC") OF THE BOARD

- i) The Board of directors of the bank shall constitute a Compensation and Remuneration Committee (CRC) of the Board to oversee the framing, review and implementation of compensation policy of the bank on behalf of the board. The CRC shall consist of minimum three Non-Executive Directors out of which one half shall be Independent Directors and shall include at least one member from Risk Management Committee of the Board. The majority of members of the Remuneration Committee shall be Independent.
- ii) The responsibilities of the CRC of the Board *w.r.t this Policy*, will be as under:
- a. The CRC shall oversee the framing, review and implementation of Compensation Policy on behalf of the Board.
 - b. CRC shall work in close co-ordination with the Risk Management Committee of the Board in order to achieve effective alignment between remuneration and risks.
 - c. CRC shall be entrusted with the responsibility of recommending to the Board an appropriate compensation payable to Managing Director / Whole Time Director (WTD), *Non-Executive (profit linked commission or sitting fee as may be permitted under the relevant provisions of the Companies Act, 2013, SEBI Regulations and RBI guidelines), Material Risk Taker*. The recommendation shall be based on the policy laid down in this document.
 - d. CRC shall also **review the Compensation policy** and shall place before the Board **at least once in a year** in the light of the guidance from the regulator from time to time, the bank's requirement taking into account the prevailing market practices to ensure that the policy continues to reflect the current market practices of payment of compensation to MD & CEO / WTD / *Non-Executive Directors / MRTs / Risk and Control function staff*. While recommending remuneration payable, the CRC shall take into account the cost to income ratio and the capital adequacy ratios which should support the remuneration packages.

6. COMPENSATION STRUCTURE

6.1 Managing Director & CEO / WTD

The compensation shall comprise of the following components:

- a. Fixed component*

b. Variable component

The norms for determining the fixed and variable pay will be as per Annexure 1 and further, the CRC / Board shall determine a suitable compensation structure in line with such Annexure.

The above shall be applicable for any new appointments in the category of WTD until otherwise decided by the CRC / Board.

6.2 Non-Executive Directors (other than Part-time Chairman)

Subject to the performance of the Bank and the limits prescribed here under, the Non-Executive Directors of the Bank *may* be entitled to profit related commission **besides sitting fees** for attending Board and Committee meetings.

- i. The compensation to Non-Executive Directors of the Bank shall not exceed a maximum of *Rs.2 million per annum* to each Director pursuant to the relevant guidelines of RBI and as amended from time to time.
- ii. The overall limit should not exceed the limits as prescribed under the provisions of the Companies Act 2013 and as amended from time to time.

The CRC shall consider and recommend to the Board appropriate compensation structure to such Directors based on Regulatory and statutory guidelines and profitability of the Bank.

6.3 Key Managerial Personnel (Other than MD & CEO and MRTs)

Their compensation structure shall be as defined in para 3 above.

Presently, the compensation structure of Company Secretary and CFO under KMP is on CTC basis as a fixed remuneration.

6.4 MRTs

*Actions of MRTs have a material impact on the risk exposure of the Bank. MRTs are empowered executives and are in a position to be held accountable for effectiveness of controls within the business for the risk and control environment. An employee of the Bank shall be classified as MRT if he / she satisfies the Qualitative **AND** the Quantitative criteria given below:*

Qualitative criteria

MRT shall relate to role and decision making power of staff members having jointly or individually the authority to commit significantly to risk exposures.

AND

Quantitative criteria

They are included among the 0.3% of staff with the highest remuneration in the Bank.

The CRC / Board of Directors the Bank shall identify Material Risk Taker (MRTs) based on their responsibility and Risk Taking from time to time and fix their remuneration structure as per the RBI guideline.

6.5 Risk and Compliance Function Staff (RCF)

The Bank has separated the financial and risk control including internal audit from other business functions. The Employees and Chiefs / Executives of the Bank engaged in Finance, Risk Management, Compliance function, Shares and Internal Audit units may be identifiable as RCF by the CRC / Board from time to time.

Remuneration Structure:

- a. *Their remuneration structure will be as defined in para 3 above.*
- b. *As per RBI guideline, there shall be a balance between their fixed and variable component and the requirement of variable pay to be minimum 50% of fixed pay as meant for MD & CEO will not be applicable to such employees i.e fixed part will be more than variable part and the variable part will depend on achievement of individual performance.*

6.6 Other Category Employee / staff

- i. *The Remuneration Structure shall be as mentioned in para 3 above.*
- ii. *The Board of the Bank has been granting ex-gratia annually to all the said cadres who are coming under the said Bi-partite settlement taking into account the overall growth of the bank, profitability etc. Besides Performance Linked Pay is also granted to such cadre based on performance measurement and management process ensuring effective alignment of remuneration and risks.*
- iii. *Incentive packages for branches approved separately by the Board based on the performance parameters being decided each year for the employees of the Branches.*

7. Malus / Clawback

This clause shall be applicable in respect of Variable Pay.

Under Malus arrangement, the Bank shall prevent the vesting of all or part of a deferred remuneration. However, under such arrangement, occurrence of vesting once started shall not be reversed.

Under the Clawback arrangement, the whole time Director shall return previously paid / vested remuneration to the Bank.

Both in case of Malus and Clawback arrangements, the Variable Compensation shall be reduced in the event of:

- i. action or conduct of which, in the reasonable opinion of the Nomination Committee / Board, amounts to serious misconduct.
- ii. serious breach of internal rules and regulations which eventually lead to any significant loss for the Bank or significant adverse outcome for its customers.
- iii. internal breach of trust.
- iv. the fact that any information used to determine the quantum of an variable pay was based on error or inaccurate or misleading information.

In the event of negative contributions to the bank in any year, the deferred compensation in respect of variable pay shall be subjected to Malus / Clawback arrangements in tune with RBI guidelines.

Further, wherever, the assessed divergence in bank's provisioning for NPAs or Asset classification exceeds the prescribed threshold for public disclosure contained in relevant RBI /SEBI notifications, the Bank shall not pay the unvested portion of the variable pay for the assessment year under Malus clause and no claim on increase in variable pay shall lie.

In case the banks post assessment Gross NPAs are less than 2%, this restriction shall apply only if public disclosure is triggered either on account of divergence in provisioning or both provisioning and asset classification.

The CRC shall recommend to the Board, to implement malus or clawback provisions under this policy.

8. Regulatory Approval

The Bank shall seek the *prior* approval of RBI for payment of any salary/ compensation package (including for variable pay) in terms of sec 35B *and Section 10B* of the Banking Regulation Act, 1949 and the rules made there under.

9. Hedging

The Bank shall not provide any facility or funds or permit the whole time Director to insure or hedge his compensation structure to offset the risk alignment effects embedded in his compensation arrangement.

10. Disclosures

The Bank shall make a disclosure on remuneration on an annual basis in the Annual Report to the shareholders of the Bank and comply with other relevant provisions/directions of the Statutes/Regulators from time to time.

11. Format of Disclosure

The format of disclosure *under para 10* above shall be as per the RBI guideline in force and it shall form part of this policy as indicated in ***Annexure II.***

COMPENSATION STRUCTURE OF MD & CEO / WTD

FIXED PAY

The Bank will ensure that the fixed portion of compensation is reasonable, taking into account all the relevant factors including adherence to statutory requirements and industry practice. All fixed items of compensation i.e., Basic pay, including allowances will be treated as a part of Fixed Pay.

All perquisites that are reimbursable (subject to monetary ceilings) shall also be included in Fixed Pay. Contribution towards superannuation / retirement benefits shall also be treated as part of Fixed Pay.

VARIABLE PAY

1. Composition

The variable pay can be in the form of share-linked instruments (such as ESOP/ESPS etc.) or a mix of cash and share-linked instruments. There shall be a proper balance between the cash and share-linked components in the variable pay. In the event where the compensation by way of share-linked instruments is not permitted by any law/regulations for the time being in force, the entire variable pay can be in cash.

2. Limit on Variable Pay

- a. For incentive based remuneration to work, the variable part of remuneration should be truly and effectively variable and can even be reduced to zero. Therefore, Bank adopts the methodologies so as to adjust the variable remuneration to risk and performance which are appropriate to their specific circumstances. Hence, Bank shall endeavour to ensure a proper balance between fixed pay and variable pay.*

Hence, except in cases where regulatory restriction on payment of such variable pay is imposed, the variable pay shall be upto 300% of the fixed pay as may be determined by the CRC / Board payable for each financial year on the basis of individual, business-unit and firm-wide measures that adequately measure performance.

- b. A minimum of 50% of the variable pay should be via non cash instruments if the variable pay being approved is upto 200% of fixed pay or, 67% if approved above 200% of fixed pay.*
- c. In the event the MD & CEO / Whole time director is restricted /barred by a statute or regulation from grant of share-linked instruments, his/her variable pay will be limited to a maximum of 150% of the fixed pay.*

3. Deferral Arrangements

- a. The deferral arrangements could be both by way of cash and non-cash components*

and shall be for a minimum period of 3 years.

b. If cash is a component of variable pay then atleast 50% of cash bonus shall be deferred. Provided where cash component is less than 25 lakhs, no deferral shall be made.

4. Vesting: *Deferred remuneration shall either vest fully at the end of the deferral period or be spread out over the course of deferral period. The first vesting shall commence after one year from the deferral period. The vesting shall be no faster than on a pro-rata basis. Additionally, vesting shall not take place more frequently than on a yearly basis.*

5. Share-linked Instruments (ESOP / ESPS etc.): *Such instruments shall be included as a component of variable pay. Norms for grant of share-linked instruments shall be as framed by the Bank from time to time in conformity with relevant statutory provisions. The share-linked instruments shall be fair valued on the date of grant by the bank using Black-Scholes model or any other model prescribed by RBI from time to time.*

6. Joining Bonus: *The CRC / Board may decide to give guaranteed bonus which shall only occur in the context of hiring new MD & CEO / WTD as joining / sign-on bonus and shall be limited to the first year. Further, joining / sign-on bonus should be in the form of share-linked instruments only, it will not be considered as part of fixed pay or part of variable pay as it is one time event. This bonus is, however, subject to regulatory approvals as the case may be.*

Annexure II

Disclosure requirements for Remuneration / Compensation		
Qualitative disclosure	(a)	Information relating to the composition and mandate of the Nomination and Remuneration Committee
	(b)	Information relating to the design and structure of Remuneration processes and the key features and objectives of remuneration policy
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks.
	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration.
	(e)	A discussion of the bank's policy on deferral and vesting of variable remuneration and discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting.
	(f)	Description of the different forms of variable remuneration (i.e cash and types of share-linked instruments) that the bank utilizes and the rationale for using these different forms.
Quantitative Disclosures (The quantitative disclosures should only cover Whole Time Directors / Chief Executive Officer / Material Risk Takers)	(g)	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members
	(h)	<ul style="list-style-type: none"> • Number of employees having received a variable remuneration award during the financial year • Number and total amount of sign-on / joining bonus made during the financial year • Details of severance pay, in addition to accrued benefits, if any
	(i)	<ul style="list-style-type: none"> • Total amount of outstanding deferred remuneration, split into cash, types of shares-linked instruments and other forms. • Total amount of deferred remuneration paid out in the financial year.
	(j)	Break down of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.
	(k)	<ul style="list-style-type: none"> • Total amount of outstanding deferred remuneration and retained remuneration exposed to <i>ex post</i> explicit and / or implicit adjustments. • Total amount of reductions during the financial year due to ex-post explicit adjustments. • Total amount of reduction during the financial year due to ex-post implicit adjustments
	(l)	Number of MRTs identified

	(m)	<ul style="list-style-type: none"> • Number of cases where malus has been exercised. • Number of cases where clawback has been exercised. • Number of cases where both malus and clawback have been exercised.
General Quantitative Disclosure	(n)	The mean pay for the bank as a whole (excluding sub-staff) and deviation of the pay of each of its WTDs from the mean pay.

Date: 27-03-2023
Place: Chennai

Chairman's initials