

Suryoday Small Finance Bank Limited

Corporate Governance Policy

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Contents

1. Introduction	4
2. Objectives of the Policy	4
3. Governance Structure:	5
4. The Board of Directors	5
4.1. Board Level Committees	6
(A) Audit Committee	6
(B) Nomination and Remuneration Committee.....	6
(C) Stakeholders' Relationship Committee	6
(D) Corporate Social Responsibility (CSR) Committee	6
(E) Risk Management Committee	6
(F) Other Committees	7
4.2. Management Level Committees.....	7
5. Reporting to the Board.....	7
6. Review of Policy	7

1. Introduction

Corporate Governance may be defined as a set of systems, processes and principles which ensure that an organization is governed in the best interest of all its stakeholders. It entails promoting fairness, transparency, and accountability.

SURYODAY SMALL FINANCE BANK LIMITED (the Bank) is committed to ensuring the highest corporate governance standards by implementing good governance practices. Good governance is one which is accountable, transparent, responsive, equitable and inclusive, effective and efficient, participatory and which follows the rule of law.

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and the economy as a whole. From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their Boards of Directors and senior management such that interest of all stakeholders' is safeguarded in conformity with public interest on a sustainable basis.

The Company got converted from an NBFC-MFI (Micro Finance Institution) into a Bank and the banking operations were launched on January 23, 2017. The Bank's endeavour is to bring the best banking solutions to the 'banked', 'under-banked' and the 'un-banked' sections of the society. The Bank has designed its solutions to offer the choicest of benefits to customer and suit their different financial needs. The organization's focus will be on ensuring the best in class 'Customer Experience'. As a Bank, SSFB's objectives include:

- Offering relevant asset and liability products suite, to new and current customers.
- Designing new products and services for customers to meet their business and consumption needs.
- Offering various other banking services like avenues for savings, transactions, investments, insurance etc. either directly, or through tie up with partner institutions with the approval of the RBI.
- Offering digital banking as the key differentiator to customers using the biometric identification system, NPCI's payment systems and mobile technologies whilst continuing to explore banking through traditional channels.
- Focusing on the unserved and the underserved through innovative banking practices and continue to expand its reach. On a pan- India basis.

2. Objectives of the Policy

The Objectives of Corporate Governance in SSFB are as under:

- Adequate disclosures and effective decision making to achieve corporate objectives
- Fairness, Transparency and Ethical Conduct in all business transactions and communication
- Adherence to regulatory and statutory provisions and internal policies and procedures
- Protection of depositors' interests, shareholder interests and enhancement of shareholder value
- Commitment to values and conduct of business by adopting best practices in a democratic manner based on the extant Guidelines of the Reserve Bank of India.

3. Governance Structure:

The Board of Directors of the Bank directs, supervises and controls the management of the Bank and is duly supported by the various Board Committees which report to the Board periodically. These Committees have been constituted in accordance with the requirements of applicable legislations and the relevant RBI Directions.

In addition, the Bank has management sub-committees which are entrusted with specific functions to facilitate the day to day operations under the broad framework of the Policies adopted by the Board as per the RBI Directions.

The senior management of the Bank and the management sub-Committees report to the Board Committees in discharge of their functions.

4. The Board of Directors

- The Board of Directors of the Bank has overall responsibility for overseeing the management's implementation of the Bank's objectives, the risk, compliance and governance framework of the Bank and also oversight of the senior management.
- The Board also ensures that there are no conflicts of interests in the functioning of the Board and its Committees and has put in place policies and processes to facilitate adequate disclosures to the management, Board Committees and the Board.
- The Board of the Bank is chaired by an Independent Director as part-time Chairperson, duly approved by the RBI. As required under Licensing conditions of RBI, the Board comprises of majority of Independent Directors, 1 Executive Director (Managing Director & CEO) and other non- executive Directors.
- The Nomination & Remuneration Committee (NRC) assesses the 'fit and proper criteria' laid down by the RBI with respect to the potential appointees to the Board and if thought fit, recommends the appointment to the Board. The knowledge, expertise and experience in banks, financial institutions, capital markets, software companies, investment banking, financial analysis, financial reporting, risk management etc. of the person concerned is taken into account by the NRC while recommending the appointment of Directors. Further, in case of Independent Directors, the NRC ensures that the criteria of Independence as provided by the Companies Act, 2013 is met with.
- The Board thereafter considers the appointment of the recommended person as Director of the Bank. Any Director so appointed holds office till the next Annual General Meeting when his/ her appointment is put up for approval to the shareholders of the Bank.
- The Board meets regularly to discuss business Strategy, review policy matters, review business operations and approve Financial Results and at least four Meetings are held during every Financial Year.
- The evaluation of Board performance is carried out on an annual basis.
- The Bank has established an independent Compliance function and Internal Audit function which report to the Audit Committee and the Board.
- Board has established 9(nine) Board Committees, each of which is chaired by an Independent Director and the terms of reference of all the Committees are approved by the Board.

4.1. Board Level Committees

(A) Audit Committee

The Audit Committee of the Board has been constituted as per the requirements of the Companies Act, 2013, SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015; and the RBI Directions in this regard with a maximum of Independent Directors who have experience in financial accounting, financial management, financial reporting, and audit practices.

The Committee's roles and responsibilities are detailed in the Audit Committee Charter and includes overseeing the Regulatory Compliances, the policy for Related Party transactions and the Whistle Blower policy.

The Internal Audit function provides independent assessment of the Bank's processes and operations and reports to the Audit Committee on a periodic basis.

(B) Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board has been constituted as per the requirements of the Companies Act, 2013, SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015; and the RBI Directions in this regard comprising of five Directors including three Independent Directors.

One of the important objectives of this Committee is to scrutinize and confirm the eligibility of directors based on the "Fit and Proper" criteria prescribed by the RBI, oversee the process of performance evaluation of the Board, reviewing the ESOP Scheme and overseeing its implementation and review the remuneration of the key managerial personnel of the Bank.

(C) Stakeholders' Relationship Committee

The Stakeholders' Relationship Committee plays an important role in redressal of shareholders' and debenture holders' grievances, overseeing the activities of the Registrar and Transfer Agent and performing all functions in the interests of the Bank's shareholders and debenture holders.

The composition of the Committee is in line with the requirements of the Companies Act and the relevant Directions of the RBI. The Board approved Charter defines the roles and responsibilities of this Committee.

(D) Corporate Social Responsibility (CSR) Committee

The CSR Committee is responsible for formulating and recommending to the Board the CSR Policy of the Company, reviewing the same as and when required, monitoring the CSR activities and implementation of the CSR Policy and approving the CSR expenditure incurred by the Bank.

The composition of the Committee is in line with the requirements of the Companies Act, 2013 and rules made there under.

(E) Risk Management Committee

The Risk Management Committee of the Board has been constituted in accordance with RBI Directions. The roles and responsibilities are detailed in the Risk and Governance Policy of the Bank as well as the Board-approved terms of reference and includes evaluating the risk management

framework of the Bank and aligning the various risk policies of the Bank with the risk appetite and risk philosophy of the Bank, reviewing the risk profile and risk models from time to time and reviewing the risk mitigation measures adopted by the Bank.

(F) Other Committees

The other Committees which have been constituted as per the requirements of RBI Directions and business requirements are:

1. Customer Service Committee
2. Credit Committee
3. IT Strategy Committee
4. The Committee for Review of Wilful Defaulters and Monitoring High Value Frauds

4.2. Management Level Committees

The Bank has constituted various Management Committees of the Board viz. Risk Management Committee of the Board (RMCE), Asset Liability Management Committee of the Board (ALCO), Investment Committee (IC), Credit Committee of Executives (CCE) and EXECOM Committee

5. Reporting to the Board

The Chairpersons of all Board Committees brief the Board on the key discussions at the Committee meeting at the immediately subsequent Board meeting. Further, minutes of all Committee meetings as confirmed by the Committee are placed on a quarterly basis at the Board Meeting for review.

In addition to the mandatory reports to be reviewed by the Board on quarterly/ half yearly/ annual basis, the indicative list of reports which are placed before the Board comprises of:

- Business plan for the next 5 years
- Annual Plan (Both Internal Audit and Statutory Audit)
- Quarterly performance vis a vis budgeted target
- Appointment of Directors, Key Management Persons (KMPs) and Senior Management
- Audit Reports – Internal and Statutory Audits including Secretarial Audit Report
- Financial Statements along with Audited/Unaudited/Limited Review Reports as applicable
- Credit Proposals for approval or ratification
- Reporting of CSR activities and CSR spend.

6. Review of Policy

This policy shall be reviewed by the Board of Directors and when deemed necessary.