POLICY ON RELATED PARTY TRANSACTIONS

Version 5.0

TAMILNAD MERCANTILE BANK LTD

SECRETARIAL SECTION

POLICY ON RELATED PARTY TRANSACTIONS

Document History

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4	Prepared by	Secretarial Section
5	Reviewed by	Audit Committee of the Board
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1.00	03.08.2021	Policy framed for the proposed Initial Public Offer
2.00	01.04.2022	Annual review
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Period of the policy	Next review due date
Till next review	01.04.2026

TAMILNAD MERCANTILE BANK LTD

SECRETARIAL SECTION

Policy on Related Party Transactions

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POLICY ON RELATED PARTY TRANSACTIONS

1. PREAMBLE

The Board of Directors of the **Tamilnad Mercantile Bank Limited** ("**the Bank**") has adopted the Policy on Related Party Transactions(RPT) in accordance with the Regulation 23 of SEBI(Listing Obligation and Disclosure Requirements) Regulations, 2015, Section 188 of the Companies Act, 2013 and Directions, Circulars and Notifications issued the Reserve Bank of India (RBI) as a part of Corporate Governance to all Banks. The policy has been formulated to regulate transactions between the Bank and its Related Parties based on the laws and guidelines applicable to the Bank.

2. OBJECTIVE

The objective of the Policy is to determine the materiality of related party transactions and the dealings with all related party transactions. This Policy intends to ensure proper approval and reporting of transactions between the Bank and its Related Parties. This Policy will ensure that related party transactions of the Bank are carried out in a transparent manner i.e. in ordinary course of business and at arm's length basis as per the legal provisions. This policy also aims at providing guidance in situations of potential conflict of interest and compliance matters relating to related party transactions.

3. APPLICABILITY

This Policy shall be applicable **towards identification, approval and reporting of Related Party Transactions material or otherwise, undertaken by the Bank. This Policy shall remain valid till the next review.**

4. DEFINITIONS

i. **Arm's Length Transaction**: Arm's length transaction means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

ii. **Audit Committee or Committee** means the Audit Committee of the Board of Directors of the Bank constituted pursuant to the directives of the Reserve Bank of India, in accordance with the SEBI (LODR) Regulations and the Companies Act, 2013.

iii. **Material Related Party Transaction** means a transaction with a related party, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds **rupees one thousand crore or ten percent of the annual consolidated turnover of the Bank as per the last audited financial statements of the Bank, whichever is lower**.

iv. **Material modification means any change to an existing related Party transactions having variance of 20% of the existing limit approved by the Audit Committee or Board or Shareholders as the case may be or such other parameters as may be determined by the Audit Committee from time to time.**

v. **Ordinary course of business** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The determination of whether a transaction is in the ordinary course of business or not shall be based on considering its specific nature and circumstances.

vi. **Promoter** and **Promoter Group** shall have the same meaning as assigned to them respectively in clauses **(oo)** and **(pp)** of sub-regulation (1) of Regulation 2 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, **2018.**

vii. **Related Party** shall have the same meaning as defined under (i) Section 2(76) of the Act (ii) Regulation 2(zb) of SEBI (LODR) Regulations, 2015 and under applicable accounting standards.

(i) Pursuant to Section 2(76) of the Companies Act, 2013, such person or entity as stated below and includes:

a) A Director or his relative
b) A Key Managerial Personnel or his relative
c) A firm, in which a director, manager or his relative is a partner
d) A private company in which a director or manager or his relative is a member or director
e) A public company in which a director or manager is a director and holds along with his relatives, more than two percent of its paid-up share capital;
f) Any body corporate whose board of directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager

g) Any person on whose advice, directions or instructions a director or manager is accustomed to act
h) **Any person under whose advise, directions or instructions given in a professional capacity**
i) Any Company which is:

   a. a holding, subsidiary or an associate company of such company; or

   b. a subsidiary of a holding company to which it is also a subsidiary or

   c. an investing company or the venturer of the Bank

Explanation — For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

j) **Director other than an independent director or key managerial personnel of the holding company or his relative**

(ii) Pursuant to Regulation 2(zb) of of SEBI (LODR) Regulations, 2015 and the rules made thereunder are as follows:

Provided that:

a) **any person or entity forming a part of the promoter or promoter group of the listed entity; or**
b) **any person or any entity, holding equity shares:**
   (i) of twenty per cent or more; or
   (ii) of ten per cent or more, with effect from April 1, 2023; in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year;

viii. **Relative -** A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, as defined under Section 2(77) of the Companies Act read with Rule 4 of Companies (Specification of Definitions Details) Rules, 2014)

a) Members of a Hindu Undivided Family (HUF)
b) Spouse
c) Father (includes step-father).
d) Mother (includes the step-mother)
e) Son (includes the step-son)
f) Son's wife
g) Daughter
h) Daughter's husband

i) Brother (includes the step-brother)
j) Sister (includes the step-sister)

ix. **Related Party Transaction shall have the same meaning as defined under the Companies Act, 2013 and under 2(1)(zc) of SEBI (LODR) Regulations, 2015 states any transaction involving** a transfer of resources, services or obligations between:

i. a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
ii. a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.

Provided that the following shall not be a related party transaction:

a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
b) the following corporate actions which are uniformly applicable/offered to all shareholders in proportion to their shareholding
   i. payment of dividend;
   ii. subdivision or consolidation of securities;
   iii. issuance of securities by way of a rights issue or a bonus issue; and
   iv. buy-back of securities.
c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by SEBI from time to time
d) acceptance of current account deposits and saving account deposits by banks in compliance with the directions issued by the Reserve Bank of India or any other central bank in the relevant jurisdiction from time to time:
   Explanation: For the purpose of clauses (c) and (d) above, acceptance of deposits includes payment of interest thereon
e) retail purchases from any listed entity or its subsidiary by its directors or its employees, without establishing a business relationship and at the terms which are uniformly applicable/offered to all employees and directors

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Securities Contract (Regulation) Act, 1956 or any other applicable regulation, as amended.

5. IDENTIFICATION OF POTENTIAL RELATED PARTY TRANSACTIONS

The Bank's transactions with related parties can be classified into two broad categories:

(a) The Bank providing any of its banking product or service to a related party; and
(b) The Bank procuring any product or service from a related party.

Each Related Party will be brought to the attention of the Management of the Bank and the Board/Audit Committee by the Bank's Secretarial Department at least **on a Quarterly / Monthly basis**.

Every Director and the Key Managerial Personnel will also be responsible towards informing the Company Secretary about any changes in the above relationships, directorships, holdings, interests and / or controls immediately on him / her becoming aware of such changes. However, the ultimate responsibility of disclosure of interest shall however lie on the interested party.

6. APPROVAL OF RELATED PARTY TRANSACTIONS

A. APPROVAL OF AUDIT COMMITTEE

The Audit Committee, while granting the approval for Related Party Transactions, shall consider on the below:-

a. Every Related Party Transaction shall be subject to the approval of the Audit Committee of the Bank. **Provided that those members of the Audit Committee, who are independent directors, shall approve the Related Party Transactions. A member of the Committee who has a potential interest in any Related Party Transaction will not remain present at the meeting or abstain from discussion and voting on such Related Party Transaction and shall not be counted in determining the presence of a quorum when such transaction is considered.**

b. In determining whether to approve a Related Party Transaction, the Audit Committee shall consider (among other aspects it deems relevant), if there are clearly demonstrable reasons from the Bank's business point of view, to enter into a transaction with a Related Party.

c. The Audit Committee shall take into account all relevant facts and circumstances, including the terms and business purpose of such transaction, the benefits to the Bank and the related party.

d. Where the ratification of the Related Party Transaction is allowed by law and is sought from the Committee, the same shall be dealt with the provisions of the Regulations governing it.

e. Further, any variations against the pre-approved transactions will be placed before the Audit Committee for review and ratification.

B. APPROVAL OF THE BOARD

If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

C. APPROVAL OF THE SHAREHOLDERS

All Material Related Party Transactions shall require approval of the shareholders through ordinary resolution and no Related Party shall vote to approve such resolutions, whether the entity is a related party to the particular transaction or not.

As defined **under Regulation 23 of the SEBI (LODR) regulations, 2015, any transaction(s) to be entered into individually or taken together with the previous transactions during a financial year, exceeds rupees one thousand crore or 10% of the annual consolidated turnover as per the last audited financial statements of the bank, whichever is less shall be considered as material related party transactions and requires prior approval of the shareholders.**

However, prior approvals of the shareholders shall not be required where Transactions entered into between the Bank and its wholly owned subsidiary whose accounts are consolidated with the Bank and are placed before the shareholders at the General Meeting for approval.

D. OMNIBUS APPROVAL

The Audit Committee may grant omnibus approval for the Related Party Transactions proposed to be entered by the Bank which are in ordinary course of business and on arm's length basis with related parties, same being repetitive in nature.

While granting the omnibus approval the Audit Committee shall satisfy itself for the necessity of such approval and that same is in the interest of the Bank. The Audit committee may specify the criteria for granting the omnibus approval which shall specify:

a. The name(s) of the related party
b. nature of transaction

c. period of Transaction

d. **maximum amount of transactions that can be entered into, in aggregate and per transaction**
e. **The indicative base price / current contracted price and the formula for variation in the price if any**

f. **Transactions which cannot be subject to the omnibus approval by the Audit Committee**

Audit Committee may grant omnibus approval for transactions subject to their value not exceeding rupees one crore per transaction.

The Audit Committee shall review on a quarterly basis the Related Party Transactions entered into by the Bank pursuant to each of the omnibus approval given. The omnibus approvals of the Audit Committee shall be valid for a period not exceeding one year and thereafter fresh approval would be obtained on an annual basis.

In all the above approval process, the Bank will ensure that the necessary information is placed before the Committee/Board/Shareholders, as mandate by SEBI from time to time, for approval of Related Party Transactions (RPT) to facilitate informed decision-making.

7. RELATED PARTY TRANSACTIONS WITHOUT THE PRIOR APPROVAL UNDER THIS POLICY

Any Related Party Transaction entered into by the Bank and that which has not been approved under this Policy, **shall be reviewed by the Audit Committee of Board in the following manner:**

The members of the audit committee, who are independent directors, may ratify related party transactions, which is not previously approved by the Audit Committee within three months from the date of the transaction or in the immediate next meeting of the audit committee, whichever is earlier, subject to the following conditions:

i. **the value of the ratified transaction(s) with a related party, whether entered into individually or taken together, during a financial year shall not exceed rupees one crore**
ii. **the transaction should not be material in nature**
iii. **rationale for inability to seek prior approval for the transaction shall be placed before the audit committee at the time of seeking ratification**
iv. **the details of ratified transaction(s) shall be disclosed along with the other related party transactions as per the policy**
v. **any other condition as specified by the audit committee**

The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take any such action it deems appropriate.

In case the Bank is not able to take such prior approval from the Audit Committee, the transaction may be voidable at the option of the audit committee and if the transaction is with a related party to any director, or is authorised by any other director, the director(s) concerned shall indemnify the Bank against any loss incurred by it.

8. APPROVAL MATRIX

All Related Party Transactions will be subject to the following approval matrix, as may be applicable and as amended from time to time:

<table>
<tr><th rowspan="2">Particulars of the Transaction</th><th rowspan="2">Threshold Limit</th><th colspan="3">Approval required</th></tr>
<tr><th>Audit Committee</th><th>Board of Directors</th><th>Shareholders</th></tr>
<tr><td rowspan="2">All Related Party Transactions</td><td>Up to 10% of the Annual Consolidated turnover of the Bank or Rs. 1,000 crore, whichever is lower</td><td>✔</td><td>For Transactions that are not on arm’s length basis and/or in the ordinary course</td><td>-</td></tr>
<tr><td>In excess of the above Limit</td><td>✔</td><td>✔</td><td>✔</td></tr>
</table>

9. TRANSACTIONS NOT REQUIRING APPROVAL OF THE AUDIT COMMITTEE

Payment of sitting fee paid by the Bank or its subsidiary to its, Directors, Key Managerial personnel or Senior Management which is not material under this policy or under applicable act/regulations shall not require prior approval of the Audit Committee.

10. DISCLOSURES

a. The Bank shall obtain Declaration/ Disclosure of interest from all the Directors, KMPs and their Relatives in the prescribed forms, by which the potential related parties to the Bank, shall be identified.

b. Every Director/KMP of the Bank shall provide their notice of interest in any of the transactions to be entered into by the Bank.

c. The Bank shall maintain a record of all related party transactions duly approved by its Board/committee.

d. Disclosures in the annual financial statements, as required under the Act, Rules or Regulations, as applicable.

e. Disclosures of Related Party Transactions on a consolidated basis to the stock exchanges, in the format specified, on the same day of date of publication of its half yearly financial results for the half year.

f. Details of all material transactions with Related Parties shall be disclosed in the quarterly Compliance Report on Corporate Governance.

g. The Policy on Related Party Transactions shall be published on its website and a web-link thereto shall be provided in the Annual Report.

h. All such disclosures, as is required by the Act and regulations, from time to time.

11. REVIEW OF THE POLICY

This Policy shall be reviewed by the Board on at least once in every year and also as and when any change is to be incorporated in the Policy due to change in applicable law and updated accordingly.

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