



# **POLICY ON RELATED PARTY TRANSACTIONS**

**Version 4.0**

**TAMILNAD MERCANTILE BANK LTD  
SECRETARIAL SECTION**

## **POLICY ON RELATED PARTY TRANSACTIONS**

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**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 in accordance with the Securities and Exchange Board of India (SEBI), 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 to all Related Party Transactions made with any of the related parties. 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 Board of Directors of the Bank constituted pursuant to the directives of Reserve Bank of India, in accordance with the SEBI Regulations and the Companies Act, 2013.
- iii. **Material Related Party Transaction** means a transaction with a related party if the transactions to be entered into individually or taken together with previous transactions during a financial year, **exceeds ten percent of the annual consolidated income** of the Bank as per the last audited financial statements of the Bank.

- iv. **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.

- v. **“Promoter”** and **“Promoter Group”** shall have the same meaning as assigned to them respectively in clauses (za) and (zb) of sub-regulation (1) of Regulation 2 of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- vi. **Related Party** shall have the same meaning as defined under Section 2(76) of the Act and/or Regulation 23 of SEBI LODR Regulations.

Related Party under Section 2(76) of the Companies Act, 2013, and the rules made thereunder are as follows:

- a) A Director or his relative
- b) A key managerial personnel or his relative
- c) A firm, in which a director, a 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 and 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.  
Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- h) Any body corporate 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.
- i) Such other person as may be prescribed by Central Government.
- j) Any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.

- vii. **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: Provided that the term “Father” includes step-father.
  - d) Mother: Provided that the term “Mother” includes the step-mother.
  - e) Son: Provided that the term “Son” includes the step-son.
  - f) Son’s wife
  - g) Daughter
  - h) Daughter’s husband
  - i) Brother: Provided that the term “Brother” includes the step-brother.
  - j) Sister: Provided that the term “Sister” includes the step-sister.
- viii. **Related Party Transactions** means transfer of resources, services or obligations between the Bank and a related party, regardless of whether 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. It shall include any contracts or arrangements entered into by the Bank with any Related Party.

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 an annual basis.

The Company Secretary of the Bank shall inform any change in the list of Related Parties to Functional teams of the Bank to identify the Related Party Transactions.

## 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 Audit Committee of the Bank.
- 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 lay down the criteria for granting the **omnibus approval** in line with the policy on Related Party Transactions of the Bank and such approval shall be applicable in respect of transactions which are repetitive in nature.
- d. 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.
- e. 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.
- f. 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 by the SEBI in Regulation 23 of Listing Obligations and Disclosure Requirements, transaction exceeding 10% of the consolidated income as per the latest audited financials statements of the bank, 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.

## **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/by the Board, shall be reviewed by the Audit Committee of Board. 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 Board and/or shareholders of the Bank such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as post facto approval is obtained as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this Policy.

In connection with any review of a Related Party Transaction, the Audit Committee shall have the authority to modify or waive any procedure requirements of this policy. In case the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction.

## **8. DISCLOSURES**

- a. The Bank shall obtain Declaration/ Disclosure of interest by 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 Standalone and Consolidated 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.

**9. 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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