

DBS. CO. BMD (III) No. **15355** /15.01.075 / 2005-06

April 26, 2006

The Chairman,
Tamilnad Mercantile Bank Ltd.
57, V.E.Road,
Thoothukudi- 628 002.

Dear Sir,

Violation of RBI instructions etc.-Imposition of penalty

Please refer to your letter RBI. DBS. Mum No. 11 / 2005-06 dated October 17, 2005 in reply to our show cause notice dated September 22, 2005 for imposition of penalty under Section 47A (1)(b) of Banking Regulation Act, 1949.

2. After examining bank's written submission to the aforesaid show cause notice, Reserve Bank has come to the conclusion that the bank had not exercised due diligence in keeping trail of movement of funds lent to some borrowers including their end use. Resultantly, the proceeds of some loan accounts were diverted for the purposes other than they were lent to. It has come to notice of RBI that non observance of KYC norms had also facilitated the diversion of funds.

3. As non application of due diligence in ensuring end use of funds resulted in violation of RBI guidelines / instructions and prudent banking practices, Reserve Bank imposed a penalty of Rs. 5.00 lakh (Rs. five lakh only).

4. You may also note to disclose the particulars of the above penalty in the "Notes on Accounts" to the Balance Sheet in the Annual Report in terms of RBI Circular DBOD. BP. BC. 49 / 21.04.018/ 2004-05 dated October 19, 2004.

Yours faithfully,

(S. V. Raghavan)
Chief General Manager