BHIM

BHARAT INTERFACE FOR MONEY

POLICY ON RELATED PARTY TRANSACTIONS

Document History

Version	Date (DD/MM/YY)	Author	Reviewed by	Approved by	Revision History
1.0	13th February 2025	Board Secretariat	Chief Executive Officer	Board	First Version
1.1	12th February 2026	Board Secretariat	Audit Committee of Board	Board of Directors	With changes

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Background

The policy is drafted as per the provisions of Sections 177 and 188 of the Companies Act, 2013 ('the Act'), for dealing with the related party transactions. These Sections, along with the relevant Rules framed under the Act, have highlighted certain compliances and approval requirements for dealing with related party transactions.

To ensure compliance with above provisions, this framework encompasses, *inter alia*, various aspects related to:

- Identification of related parties
- determination of related party transaction and process of taking approvals as per the Act
- inter departmental process flows viz. Functional departments, Board Secretariat & Finance

Purpose

The objective of this policy is to ensure identification, approval, disclosure and reporting of related party transactions in the best interest of NPCI BHIM Services Limited (NBSL or the Company) and its stakeholders.

Scope of the Policy

This policy applies to all the persons falling within the purview of the definition of Related Parties.

Acronyms and Definitions

Acronym/ Term	Description
KMP	Key Managerial Personnel

Definitions:

a. "**Act"** means the Companies Act, 2013, as amended from time to time.

b. '**Associate Company**', in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation—For the purpose of this clause—

(a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;

(b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;

c. "Company" means NPCI BHIM Services Limited or NPCI BHIM.

d. "Board" means Board of Directors of the Company.

e. Related Party

As per section 2(76) of the Act and rules made thereunder, related party, with reference to a Company, means

I. a Director or his relative;

II. a Key Managerial Personnel or his relative;

III. a firm, in which a Director, Manager or his relative is a partner;

IV. a Private Company in which a Director or Manager or his relative is a Member or Director;

V. a Public Company in which a Director or Manager is a Director and holds along with his relatives, more than two per cent of its paid-up share capital;

VI. 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;

VII. 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;

VIII. any body corporate which is—

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

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

iii. an investing company or the venturer of the company

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.

IX. a director other than an Independent Director or Key Managerial Personnel of the holding company or his relative with reference to a company;

f. Key Managerial Personnel

As per Section 2(51) of the Act, in relation to a Company, means

I. the Chief Executive Officer or the Managing Director or the Manager;

II. the Company Secretary;

III. the Whole-time director;

IV. the Chief Financial Officer;

V. such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and

VI. such other officer as may be prescribed.

g. Relative

As per Section 2(77) of the Act and Rule 4 of Companies (specification of definitions details) Rules, 2014, with reference to any person, means anyone who is related to another, if—

I. they are members of a Hindu Undivided Family;

II. they are husband and wife; or

III. one person is related to the other in such manner as provided below

1. Father (includes step-father)
2. Mother (includes step-mother)
3. Son (includes step-son)
4. Son's Wife
5. Daughter
6. Daughter's husband
7. Brother (includes step-brother)
8. Sister (includes step-sister)

h. Ordinary Course of Business:

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 following factors are indicative of transactions that may be covered into the ambit of the term 'ordinary course of business':

i. The transaction is normal or otherwise unremarkable for the business.

ii. The transaction is frequent/regular

iii. The transaction is a source of income for the business

iv. Transactions that are part of the standard industry practice, even though NBSL may not have done it in the past.

These are not exhaustive criterias and NBSL will have to assess each transaction considering

its specific nature and circumstances.

i. Arm's length basis:

In terms of Section 188 of the Act, the expression '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. A transaction with a related party will be considered to be on arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

j. Words and Expressions

Words and expressions used and not defined in this Policy but defined in the Companies Act, 2013, shall have the meanings respectively assigned to them in the said Act.

Identification of Related Party

A Related party will be brought to the attention of the Management / Functional teams and Board/ Audit Committee on regular basis by the Board Secretariat Department and the list of Related Party(ies) shall be updated and reviewed on a timely basis and would be communicated to the functional departments.

Each Director and Key Managerial Personnel is responsible for providing declaration to Board Secretariat Department about the related party involving him/her or his/her Relative or entities related thereto.

The functional departments shall submit to Finance and Accounts and the Board Secretariat Department, the details of proposed transactions (except those for which omnibus approval has been granted by the Audit Committee) with draft agreement or other supporting documents justifying that the transactions are on arm's length basis and prevailing market rate. Based on such information, Board Secretariat department will facilitate for necessary approvals from the Audit Committee and Board of Directors, if necessary.

Approval of Related Party Transactions

a. Audit Committee

All the transactions which are identified as related party transactions and subsequent modifications thereof should be pre-approved by the Audit Committee before entering into such transactions. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.

Any member of the Committee who has any potential interest / is interested in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction. A related party transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length basis, would require approval of the Board of Directors and if it exceeds the threshold limits prescribed, approval of the shareholders would be required as prescribed under the Companies Act, 2013 and rules made thereunder.

As per the provisions of Section 177 (4) (iv) of the Act,in case of transaction, other than transactions referred to in Section 188 of the Act, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Provided further that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it.
Provided also that the provisions of Section 177 (4) (iv) shall not apply to a transaction, other than a transaction referred to in Section 188, between a holding company and its wholly owned subsidiary company.

The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under and Companies (Meetings of Board and its Powers) Rules, 2014. Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

The Audit Committee shall review and take note of, on a quarterly basis, the details of related party transactions entered into by NPCI BHIM pursuant to the omnibus approvals given by the Audit Committee.

Subject to the applicable laws, the Audit Committee shall have the power to ratify, revise or terminate the Related Party Transactions, which are not in accordance with this Policy i.e. which is not under the omnibus approval or otherwise pre-approved by the Audit Committee.

b. Board of directors

In case any related party transactions are referred to the Board for its approval due to the transaction being:

(i) not in the ordinary course of business, or

(ii) not at an arm's length price, or

(iii) a transaction not approved but recommended by the Audit Committee.

The Board will consider factors such as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances.

Any Director who has any interest in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction.

In case, where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board, if applicable under sub-section (1) of Section 188 and if it is not ratified by the Board within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

Provided further that it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

c. Shareholders

If a related party transaction is a material transaction i.e. a transaction which is not in the ordinary course of business and at arm's length basis and exceeds the limits as prescribed under Rule 15 of the Companies (Meeting of the Board and its power) Rules, 2014 it shall require shareholder's approval while entering into such related party transactions.

As per the provisions of Section 188 (1) of the Companies Act, 2013, requirement of passing the resolution shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

In case, where any contract or arrangement exceeding the limits as prescribed under Rule 15 of the Companies (Meeting of the Board and its power) Rules, 2014, is entered into by a director or any other employee, without obtaining the approval of the shareholder, under sub-section (1) of section 188 and if it is not ratified by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such

contract or arrangement shall be voidable at the option of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the Directors concerned shall indemnify the company against any loss incurred by it.

Omnibus approval by Audit Committee for related party transactions

a. The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely: -

   (i) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;

   (ii) the maximum value per transaction which can be allowed;

   (iii) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;

   (iv) review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;

   (v) transactions which cannot be subject to the omnibus approval by the Audit Committee.

b. The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely: -

   (i) Repetitiveness of the transactions (in past or in future);

   (ii) Justification for the need of omnibus approval.

c. the Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of NPCI BHIM;

d. the omnibus approval shall contain or indicate the following:

   (i) name(s) of the related parties,

   (ii) nature and duration of transaction,

   (iii) maximum amount of transactions that can be entered into,

   (iv) the indicative base price / current contracted price and the formula for variation in the price if any; and

   (v) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction:

Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

e. Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

f. Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company.

Related party transactions not approved under this policy

In the event NBSL becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to NBSL, including ratification, revision or termination of the related party transaction.

In case prior approval from Audit Committee is not taken, such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee 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 any case, where the Audit Committee determines not to ratify a related party transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the Board of Directors or shareholders, payment of compensation for the loss suffered by the related party, etc.

In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

Reporting of related party transactions/Disclosures

The particulars of contracts or arrangements with related parties referred to in section 188(1) of the Act, if applicable, shall be disclosed in the Annual Report in the format prescribed under the Act.

This Policy shall also be uploaded on the website of the Company and a web link there to shall be provided in the Annual Report.

Review of the Policy

This Policy will be reviewed and reassessed by the Audit Committee on an annual basis or as and when required based on changes that may be brought about, due to any regulatory / statutory amendments or otherwise. Appropriate recommendations shall be made by the Audit Committee to the Board for its approval.

Laws to take precedence

The Policy shall be read in conjunction with the applicable provisions of the Act and if any of the provisions of this Policy are inconsistent with the applicable provisions of the Act, then such provisions shall prevail over the Policy to that extent and the Policy shall be deemed to have been

amended to that extent to be read in consonance with applicable laws. As this Policy is pursuant to the applicable provisions of the Act, if any change in such provision or interpretation thereof necessitates any change to the Policy, then this Policy shall be read to accommodate such changes.