



Related Party Transactions Policy Document V3.1

i. Document Authorization Control Sheet

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iii. Revision History

Version Number	Date	Review Reason	Description of Changes (Add Appendix Sheet If Needed)	Requested by
Version 1.0	05/07/13	New Policy Drafted		New Policy
Version 2.0	03/12/13	CBK requirements		Finance
Version 2.1	16/06/2014	To be aligned with new BoD Committee	Audit Committee has changed into Audit and Compliance Committee	Acting CEO administrative circular 2/2014 and PMO/Corporate Strategy internal Memo reference; 60-143-2014
	02/11/2014	Alignment with CBK / BASEL II / IFSB guidelines.	Adding a clause of "Reporting of Operational Loss Event"	Operational Risk Management
Version 3.0	06/05/2015	Annual review	Co-ownership of policy by Risk and Finance. Minor change to the responsibilities of Finance	Finance
Version 3.1	06/04/2017	CG audit observation	Page # 8, Section 4, 2 nd Para Section 4, 4 th Para	Board Secretariat
	29/03/2018	IAD observation	Section 10: New point added as follows-"Valid related party relationships or transactions during any given reporting period but ceased before the actual reporting date by KFHH, should still be disclosed in the statement of income"	GFC
	22/Jan/2019		Policy document reviewed by Risk Management as part of annual policy review exercise	
	16-Jan-2020		Policy document reviewed by "Group Risk Management" as part of annual policy review exercise.	

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1. General Introduction

1.1. Nature and purpose of the policy

The purpose of Related Party Transactions policy (hereinafter referred to as the “Policy”) is to establish guidelines for dealing with Related Party Transactions at Kuwait Finance House (hereinafter referred to as the “Bank”) that recognizes best practices and complies with applicable laws and regulations in Kuwait.

The Bank operates as an Islamic Bank abiding by the guidelines of Shari’a Law as interpreted and pronounced by the Fatwa and Shari’a Supervisory Board (FASSB) of the Bank as well as any Shari’a guidelines issued by the regulatory bodies in the State of Kuwait (collectively “Shari’a guidelines”). As such the bank faces the risk of Shari’a non-compliance which could be detrimental to the business operations of the bank.

It is intended that this policy be used as a source of reference by all stakeholders involved in the functioning of the Bank’s Risk Management function. In this capacity, the policy will serve to institutionalize knowledge of operational requirements associated with dealings regarding Related Party Transactions for the Bank and also ensure standardization in the processes followed.

1.2. Scope

This policy shall be applicable for all the Bank’s offices, staff and operations and is applicable on all Bank representatives involved in business activities on behalf of the Bank, including its directors, Shari’a supervisory board, Shari’a audit and compliance officers, bank executives, employees and temporary workers (wherever applicable).

If there appears to be a conflict between the policy and local laws and regulations in the State of Kuwait, or if there are questions regarding the interpretation of applicable laws or sections of the policy, the laws of the State of Kuwait shall prevail.

It is the responsibility of all concerned staff to ensure familiarity with and understanding of these guidelines, including subsequent amendment thereto, in order to maintain compliance with the requirements of the policy at all times.

The Bank expects full compliance with the policies it has formulated and failure in this respect may result in disciplinary action.

1.3. Ownership

The original signed and approved copy of this policy shall reside with Business Excellence for safekeeping and inclusion into KFHS Policy library. The business library will contain a read only copy of the policy, that all relevant individuals who need to refer to this policy will have access too. The protected soft copy will be maintained on the Bank’s intranet/server with proper security and version control, in line with the Banks 'Information Security' policy. Any changes or amendments to this policy must be made in accordance to the Banks 'Policy & Procedures Controls' policy.

1.4. **Approval, revisions and updates**

The Board of Directors (BoD) have approved this policy and it shall continue to stay effective until replaced by revised guidelines or is suspended by the BoD. Extracts from the minutes of the meeting of the BoD at which these guidelines were approved can be obtained from the Secretary to the BoD.

The policy shall be reviewed at least once a year by the Chief Risk Officer to ensure that it is in line with the industry leading practices and caters for other applicable changes/ guidelines issued by any regulatory changes introduced by the regulatory authorities.

Amendments to the policy may be made as a result of one or a combination of the following reasons:

- Changes in laws and regulations
- Changes in functions and activities of the Bank
- Changes in business processes
- Changes in the organizational structure of the Bank
- Changes in job roles, duties, and descriptions
- Any other change, where the management deems necessary to update the Bank's policies.
- Any significant modifications arising out of the review shall be considered by Business Excellence who shall decide whether a modification to the policy is needed and how amendments can be undertaken.

Revised contents and index pages shall be immediately issued by Business Excellence with a request that the policy holders update their copy of the guidelines for completeness. All superseded pages/sections shall be filed at the end of the policy, under the section titled "Superseded Sections". The updated policy shall also be updated on the Bank's Intranet portal through Information Technology Department.

2. **Policy**

Kuwait Finance House (hereinafter referred to as "KFH" or the "Bank") recognizes that Related Party Transactions may present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Bank's and its stockholder's best interests.

Therefore, this policy regarding related party transactions has been adopted by the Bank's Board of Directors in order to set forth:

- i. The guidelines under which certain transaction must be reviewed and approved and ratified by the Board of Directors; and
- ii. The disclosure requirements for Related Party Transactions.

3. Definitions

The identification of related parties is based on their definition under the **International Financial Reporting Standards (IFRS)** and other regulatory authorities including the **Central Bank of Kuwait (CBK)**.

For the purpose of this policy, a **Related Party** is a party who is related to the Bank, this may be in one of the following ways:

- a. Directly, or indirectly through one or more intermediaries, the party:
 - i. Controls, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries)
 - ii. Has an interest in the entity that gives it significant influence over the Bank; i.e. those who individually own 5% or more of the capital
 - iii. Has joint control over the Bank
 - iv. Is a Board Member of the Bank
- b. The party is an associate or joint venture of the Bank
- c. The party is a member of the key management personnel of the Bank
- d. The party is a close member of the family of any individual referred to in (a) or (c);
- e. External Auditors of the Bank
- f. The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

An entity is related to KFH if any of the following conditions applies:

- i. The entity and the KFH are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to KFH. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled or jointly controlled by a person identified in a).

The following are deemed **not to be related**:

- two entities simply because they have a director or key manager in common
- two venturers who share joint control over a joint venture
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process)
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence

Related Party Transaction is transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- i. The person's Father, Mother, Husband, Wife and Children
- ii. Dependants of the person or the person's domestic partner (spouse)

Key management personnel are those persons namely any director (whether executive or otherwise), the Chief Executive Officer, his deputies, assistants, executive officers and other staff members, having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly and whose positions influence the finance extension decisions.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Control is the power to govern the financial and operating policies of the Bank, so as to obtain benefits from its activities.

Joint Control is the contractually agreed sharing of control over an economic activity.

4. Responsibilities

Board of Directors: The Board guarantees that all transactions with Related Parties are reviewed and ensures this process is sound. The Board of Directors shall review its policy on Related Party Transactions at least annually and shall make amendments, if deemed necessary.

Board Secretary provides Group Financial Control Team on quarterly basis with the Related Party form completed by all Board members. A copy of the report will be sent to Compliance team and GCRO office for information sake.

In addition, Board Secretary ensures quorum and voting requirements as stipulated in Related Party Transactions Policy.

Audit and Compliance Committee: The Audit and Compliance Committee will be responsible for the review of any Related Party Transactions referred to it by the GCEO / Board of Directors and will review on an annual basis, all Related Party Transactions concluded by the Bank during the year as per the information within the financial statements submitted by Group Financial Control. The Audit and Compliance Committee may request details on any particular transaction(s) from management through the GCEO. It also may request information on an ad hoc basis during the year.

Nomination and Remuneration Committee (NRC): The NRC is responsible to ensure that fees and bonuses paid to the Directors of KFH subsidiaries (related party transactions as defined by IFRS) are in compliance with this policy.

Group Financial Control (GFC): The role of the GFC is to compile the Bank's related party's information, received from KFH-operations departments, associates and subsidiaries on a quarterly and annual basis, and disclose in line with the applicable accounting standards in Kuwait.

Business / Support Units: All business and support units of KFH, including the Wholesale Banking and Retail Banking Sectors, are responsible to put in place policies, procedures and guidelines to monitor and control transactions with the Bank's related parties. They will ensure that all such transactions are identified and accurately entered in the system in order for GFC to report such transactions in line with **applicable accounting standards in Kuwait**. The units must provide the required information to GFC / Risk Management as and when requested.

Compliance: The role of the Compliance function is to promulgate any updates to existing regulations as well as any new instructions it receives with regards to related parties to the relevant parties within KFH.

Risk Management: The Risk Management function provides an independent oversight of all transactions referred to it by the Bank's business units including those with Related Parties. The Risk Management function may verify with the business units if a particular transaction is a Related Party Transaction or not.

The function shall maintain the Related Party Transactions Policy and ensure that it is updated periodically, but at least annually, in line with any changes in regulations. Risk Management may request inputs from GFC on any changes in the applicable IFRS / IAS standards in order to update the policy.

5. General and Specific Goals

Overriding Objective

- In line with the Bank's Risk Management policy manual, exposures to related parties are justified only when undertaken for the clear commercial advantage of the Bank. Credit and Investment transactions with related parties are done on an arm's length basis.

General Goals

- To ensure that all transactions with, or for the benefit of, any related party are on terms and conditions that are acceptable and within safe and sound Bank practices as set by the Board of Directors.
- To approve guidelines used in defining types of related party transactions, adequacy of documentation, and to decide on appropriate levels of approval authority in conformity with regulatory regulations.
- While approving related party transaction and/or in case of a conflict of interest, the respective member does not participate in deliberations and resolution on the matter concerned.
- To ensure that the Bank adheres to the credit concentration limits and other relevant guidelines issued by the CBK as well as the Credit Policies of the Bank and the Bank's Articles of Association.

- The Bank must not conduct investment with or extend finance to its external auditors.

Specific Goals

- Require specific documentations or detailed agreements covering related party transactions.
- Require that all transactions be handled at fair market value, properly collateralized if required, and represent a bookable asset.
- Management fees charged to related party by the holding entity or between related party will be paid on a timely basis and will be calculated in a consistent and uniform manner, and will be based on:
 - i.Reimbursement of Cost
 - ii.Cost plus a reasonable profit
 - iii.Fair market value
 - iv.Overall expense control of inter-affiliate services, transactions, etc.
 - v.Compliance with regulatory requirements, including laws and regulations

6. Facilities to Board Members or to any party economically or legally interrelated to them

- Prior to providing financing to any Board member or any party economically or legally interrelated to them (One Obligor Concept), approval must be obtained by the Board of Directors from the Bank's Annual General Assembly meeting to extend finance to the Board members as per the rules of the Central Bank of Kuwait (CBK).
- Definition of one Obligor concept customer as per CBK regulations: For the purpose of calculating finance concentration ratio, debtors who are economically or legally interrelated shall be considered as one customer, whether such interrelation is by way of common ownership or common director. Such debtor parties include:
 - Customer in his personal capacity, and as the natural guardian of his minor children.
 - Joint accounts in which the customer is a party,
 - Sole proprietorships of the customer.
 - Joint companies in which the customer is a joint partner.
 - Simple partnerships in commendam, in which the customer is a joint partner.
 - Financial companies (Shareholding companies, companies with limited liabilities, companies limited by shares, etc....), in which the customer owns more than 50% of the capital, or has control thereof. Control means the power

to control the financial and operating policies of the company invested in, for the purpose of making benefits out of its activities.

- Customers of any legal constitution, personally guaranteed by the customer toward the bank.
 - Any other parties indebted to the bank and having economic or legal relationships with the customer, in the sense that if any of them faces financial difficulties, the customer's ability to repay its debts to the bank or shall be affected.
- The finance extension, renewal or increase in a facility to a Board member must be under Board approval by majority of at least three quarters of its members. The Board of Directors may not delegate its powers in this regard to any of its sub-committees or any other authority.
 - KFH must comply with CBK instructions for Islamic financial institutions in relation to maximum exposures to a single counterparty.
 - Taking into account the nature of Islamic finance formulas and the customer's liabilities limits there under, sufficient collaterals must be obtained against the granted finance, while observing the following:

Cash Finance Transactions

The granted cash finance transactions must be fully covered by cash or in-kind collateral, in addition to sufficient margins for those collaterals to offset any potential risks as a result of the decline in their value, in accordance with commonly accepted banking practices. Such collaterals are not mandatory for consumer financing based on installments and credit cards granted for Board members subject to availability of regular monthly salary/income for Board member.

Non-Cash Transactions

The Bank must determine the margins (cash deposits) to be obtained as a percentage of the value of non-cash finance transactions, in accordance with the commonly accepted banking practices and as applied to other customers of the Bank, while observing the following:

- i. These margins must not be less than 100% of the value of the letters of guarantee issued to secure any finance obtained by the Board Member from other banks or financial institutions.
- ii. For the documentary letters of credit, letters of guarantee and other contingent liabilities, the Bank must obtain sufficient margins, so that there would not be any preferential treatment for any of the Board Members.

The return on the finance granted to the Board Members, must be determined at the same rates applied to all other customers.

7. Types of transactions

The following are the examples of related party transactions (not exhaustive):

- Purchases or sales of goods;
- Purchases or sales of property and other assets;
- Rendering or receiving of services;
- Leases;
- Transfers of research and development;
- Transfers under licence agreements;
- Transfers under finance arrangements (including financing and equity contributions in cash or in kind);
- Provision of guarantees or collateral;
- Settlement of liabilities on behalf of the entity or by the entity on behalf of another party; and
- Purchases of securities, equities, etc.

8. Reporting of Related Party Transactions

- In the event that a Related Party Transaction is contemplated, the transaction must immediately be discussed by the concerned business unit with the Bank's GCEO or his/her delegated authority.
- Also, each Director and key management personnel will promptly notify the GCEO or his/her delegated authority, as appropriate, of any material interest that such person or a Close Family Member of such person had, has or may have in a Related Party Transaction. The notice will include a description of the transaction and the aggregate amount.
- In no event must the Related Party Transactions be entered in to without prior consent of the GCEO.
- The GCEO may raise any concerns or queries regarding any transaction to the Board of Directors or the Audit and Compliance Committee, as required.
- The Bank through the Group Financial Control & HR function will report transactions executed during the year (other than transactions subject to Remuneration and Nominations committee stated under part No. (4) of this policy) concluded with Related Parties to the Audit and Compliance Committee on an annual basis as part of the financial statements. In case where requests for ad hoc report or more detailed information are made by the Audit and Compliance Committee, each concerned department as owner of the information will be required to prepare and submit such information to the committee in coordination with the GCEO.

9. Approval of Related Party Transactions

- All Board member financing transactions will be approved by the Board in line with the regulations of the CBK.
- All other Related Party Transactions will be processed and approved by the Bank's relevant authorities in line with the approved policies and procedures and delegated authorities.

- No authority mentioned above, will participate in any discussion or approval of a Related Party Transaction for which he or she or any member of his or her Close Family Member is a Related Person.
- All records of Related Party Transactions must be maintained in line with the Bank's policies and must be periodically checked by the Bank's Internal Audit function. The Bank must maintain an updated list of these parties and control any transaction with any of them.
- Any information available with a Board member or any of the Bank's staff on the Bank positions must not be utilized for realizing personal interests or interests for other related parties.

10. Disclosure of Related Party Transactions

The disclosure of related parties transactions will be in accordance with International Accounting Standards and IFRS applicable in this regard and as required by any other regulatory authorities including the CBK.

In the case a related party transaction occurs, the Bank will disclose in the financial statements the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. The disclosure in the financial statements must, at a minimum, include the following:

- Nature of relationship
- The amount of the transaction
- The amount of outstanding balances
- The terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
- Details of any guarantees given or received
- The expense recognised during the period in respect of bad or doubtful debts due from related parties
- Nature and amount of each individually significant transaction
- A qualitative or quantitative indication of the extent of other transactions that are collectively, but not individually significant
- Provisions for doubtful debts related to the amount of outstanding balances

The disclosures required above shall be made separately for each of the categories required by IAS 24.

Valid related party relationships or transactions during any given reporting period but ceased before the actual reporting date by KFH, should be disclosed in the statement of income.

The Bank will also disclose key management personnel compensation in total and for each of the following categories (defined as per IAS 19):

- Short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Share-based payments (if applicable)

KFH Data Classification: Internal Use Only

11.Operational Risk Loss Event Process

In reference to the Operational Risk Management (ORM) policy approved by Risk Committee (RC) in May 2013 that in line with the CBK/Basel II/IFSB guidelines, KFH has defined the Operational Risk as a “Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to, legal risk and Shari’ah compliance risk. However, it does not cover reputational risk & strategic risk for KFH”

Accordingly, any operational loss events (financial & non-financial) identified, should be reported same day to the Operational Risk Management and all concerned parties within KFH before conducting the required investigation.