



Related Parties Transactions Guidelines Manual

**Bahtco Holding Co. K.S.C
(CLOSED)**

1. Introduction

1.1 Purpose

1.1.1 The purpose of this policy is to provide senior management with a systematic approach to discern related parties/ affiliates, for approved types of related party/ affiliate transactions, and for proper documentation of such transactions.

1.1.2 Scope of the manual covers the general guidelines of the related parties transactions within Bahtco Holding. with other entities both internal and external are covered to the extent that is within the boundaries of Bahtco Holding.
Interfaces

1.2 Responsibility

1.2.1 Responsibility for approving the manual will lie with the **Board of Directors**. Responsibility for ensuring implementation of the guidelines laid in this manual will lie with the Authorized Personnel (also referred to as **Compliance Manager**). The **Compliance Manager** will ensure that all the employees follow the guidelines stated in the manual. No individualistic practices that are in conflict or are inconsistent with the contents of this manual will be allowed.

1.2.2 **Compliance Manager** will keep the manual updated to changing needs of the organization. The **Compliance Manager** will liaise with the various regulatory authorities for any new rules and regulations or changes in existing rules and regulations on a monthly basis. Whenever there are new laws or regulations introduced, these will be communicated to all concerned by the **Compliance Manager**.

1.2.3 All suggestions for improvements and requests for modifications will be reviewed by the **Compliance Manager** or his nominee and evaluated for decision on change to the process / activity and subsequent incorporate in the manual. Final decisions on process changes will be approved by the **Chairman**.

2. Manual Administration

2.1 Updating the Manual

2.1.1 The manual is a dynamic document and is subject to changes. The guidelines will be updated as and when required to address the changing need of the business as discussed in the above section. Changes to the manual will be approved by the same authority responsible for approving this document.

2.1.2 Amendments to this manual will be made as a result of one or a combination of the following reasons:

- Changes in functions and activities of the organization
- Changes in business processes
- Changes in functional or Bahtco Holding's organizational structure
- Changes in authority structures/ limits
- Changes in job roles, duties, and descriptions
- Changes in the technology usage in the organization
- Changes in the approach services are provided
- Changes in any guideline as stated within the Related Parties Transactions Guidelines Manual

2.1.3 All amendments must be initially reviewed and approved by the ((**Authorized Position**)) and then approved by the **Board of Directors** before making the necessary changes in the existing manual.

2.1.4 Amendments shall be updated in the soft copy on the network and the amendments shall be recorded in the Master Procedures Manual after appropriate approvals.

2.1.5 Updates to the manual will be evidenced by:

- An additional new process/ sub-process
- Amendments to an existing major process and/ or sub-process

2.1.6 In the case of additions to the existing processes, these shall simply be added to the Manual after initial approval of the ((**Authorized Position**)) and approval of the **Board of Directors** for Procedures. However, in the case of amendments, the existing sections of the procedures shall be replaced. The replaced pages shall be kept in a separate file, in original content order sequence, for Audit Trial purposes. In all cases the Main Table of Contents of the Manual should be updated as appropriate, to ensure correct cross referencing.

2.2 Maintenance & Review Frequency

2.2.1 The Manual shall be reviewed and approved at regular intervals to reflect changes in the business activities of the organization.

Guidelines	Review Frequency	Responsibility for Review	Initial Level Approval	Final Level Approval
Guidelines	Every 12 Months	Authorized Position	Chairman	BOD / Audit Committee

3. Roles and Responsibilities

3.1 Purpose

The purpose of the section is to outline the roles and responsibilities of Bahtco Holding employees with regards to compliance with this guideline.

3.2 Roles and Responsibilities

Following is the roles and responsibilities of various stakeholders at Bahtco Holding for managing the Related Parties Transactions guideline:

3.2.1 Audit Committee:

The Audit Committee have been delegated by the Board for effective management and supervision over related parties transactions, including:

3.2.1.1 Providing oversight over the monitoring conducted by **Compliance Function**;

3.2.1.2 Overseeing that the guidelines are being implemented, in accordance with applicable rules and regulations; and

3.2.1.3 Approving 'related parties transactions' as per the approved Delegation of Authority.

3.2.2 **CHAIRMAN:**

- 3.2.2.1 Providing support to the **Compliance Function** in implementing the policy;
- 3.2.2.2 Providing guidance to employees, and addressing any queries related to the disclosure of related parties transactions; and
- 3.2.2.3 Approving related parties transactions as per the approved company Delegation of Authority.

3.2.3 **Compliance Function:**

- 3.2.3.1 Creating awareness and communicating the importance of complying with the related parties transactions guidelines, through workshops and trainings;
- 3.2.3.2 Reviewing the Company's transactions and identifying any potential 'related parties transactions' that would require an exceptional review, approval and disclosure;
- 3.2.3.3 Reporting potential 'related parties transactions' to the **Legal Department, CHAIRMAN and Audit Committee**, for review and approval as per the Delegation of Authority; and
- 3.2.3.4 Monitoring the adherence to the guidelines, and reporting breaches or misuse of information to the **CHAIRMAN** and the **Audit Committee**.

3.2.4 **Employees within Business divisions and supporting functions:**

- 3.2.4.1 Strictly abiding by the applicable guidelines, with regards to the identification and disclosure of related parties transactions;
- 3.2.4.2 Immediately reporting any failure to report potential 'related parties transactions' to the direct supervisor, **Compliance Function** or to the **CHAIRMAN**, if required; and
- 3.2.4.3 All **Directors** and **Executive Officers** are required to disclose related parties transactions, in accordance with Bahtco Holding' Code of Ethics.

3.2.5 **Legal Department:**

- 3.2.5.1 Providing legal opinion to the **Compliance Function, Audit Committee** and the **CHAIRMAN** on matters concerning related parties transactions, including the identification of related parties transactions, and communicating the implications of a failure to disclose related parties transactions.

3.2.6 **Financial Control Department:**

- 3.2.6.1 Reporting and disclosing related parties transactions as per the Company's Accounting Policy.

3.2.7 **Internal Audit:**

- 3.2.7.1 Providing independent assurance on the effectiveness of the implementation of the guidelines across Bahtco Holding business divisions.

4. *General and Specific Guidelines*

4.1 *Purpose*

Purpose of this section is to outline the general guidelines to be followed by Bahtco Holding, in order to identify, review, approve and disclose related parties transactions.

4.2 *Definition*

4.2.1 Definition of a related parties/ affiliate is:

4.2.1.1 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged

4.2.1.2 An employee of the company

4.2.1.3 An affiliate of the company

4.2.1.4 A principal owner of the company or any major share holder holding more than 5% voting equities of the company

4.2.1.5 Members of the immediate family of an employee. "Immediate family member" is defined as any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and any person (other than a tenant or employee) sharing the household of any executive officer, director, nominee for director, or holder of more than 5% of any class of the Company's voting securities.

4.2.1.6 An entity for which investments are accounted for by the equity method

4.2.2 Another party may also be considered a related party/ affiliate if it can significantly influence the management and operating policies of the company.

4.2.3 Related parties/ affiliates transactions may be recurring or nonrecurring in nature.

4.2.4 Recurring transaction examples include contracts between related parties/ affiliates for goods and services such as:

4.2.4.1 Data processing services

4.2.4.2 Accounting services

4.2.4.3 Supplies, e.g., office or maintenance supplies

4.2.4.4 Audit or compliance department fees

4.2.4.5 Management fees

4.2.4.6 Providing financial support of any kind

- 4.2.5 Examples of nonrecurring transactions include:
- 4.2.5.1 Sales of equipment between related parties/ affiliates
 - 4.2.5.2 Loan participations
 - 4.2.5.3 Sale of real estate between related parties/ affiliates
 - 4.2.5.4 Execution of contracted services over a period of time to a related party/ affiliate
 - 4.2.5.5 Providing of services by one related party/ affiliate to another, without contract

4.3 General Guidelines:

- 4.3.1 It is within the duties of the **Board of Directors** to formulate and monitor this guidelines, in providing a statement regarding the identification of related parties/ affiliates, recognizing of common related party/ affiliate transactions, and the proper handling and documentation of acceptable related party/ affiliate activities.
- 4.3.2 General goals:
- 4.3.2.1 To ensure that all transactions with, or for the benefit of, any related party/ affiliate are on terms and conditions that are acceptable and within safe and sound company practices as set by the **Board of Directors**.
 - 4.3.2.2 To approve guidelines used in defining types of related party/ affiliate transactions, adequacy of documentation, and to decide on appropriate levels of approval authority.
 - 4.3.2.3 To delegate this authority to the **Audit Committee** whenever appropriate.
- 4.3.3 All transactions involving Bahtco Holding and a related party must be identified and undergo an exceptional review, approval and disclosure process as per the Delegation of Authority.
- 4.3.4 Transactions that are subject to the guidelines include any transaction, arrangement or relationship in which the Company is a participant with a related person. The related person may have a direct or indirect material interest in the transaction.
- 4.3.4.1 An “indirect” interest of a related person in a transaction includes a related person serving as an officer or employee of, or being a significant investor or equity holder in, an entity that is a party to a transaction with the Company.
 - 4.3.4.2 A “direct” interest of a related person in a transaction includes a related person being party to the transaction with the Company.
- 4.3.5 Related parties / affiliates transactions will be material if book or fair market value, whichever is less, exceeds KD 100,000
- 4.3.6 Consolidation of related parties / affiliates transactions also should be considered when the total of transactions of a similar nature exceeds KD 500,000.
- 4.3.7 The following types of transactions are considered ‘pre-approved’ transactions and do not require exceptional review and approval:
- 4.3.7.1 Transactions in the ordinary course of business that do not exceed KD 750,000 in any financial year;
 - 4.3.7.2 Compensation arrangements approved by the **Nomination and Remuneration Committee** of the **Board of Directors**;
 - 4.3.7.3 Transactions in which the related party's interest is derived solely from the fact that he or she serves as **Director** of another corporation or organization that is a party to the Transaction; and

4.3.7.4 Transactions available to all employees generally

4.3.8 Specific Goals:

- 4.3.8.1 Require specific documentation or detailed agreements covering recurring and nonrecurring related parties / affiliates transactions.
- 4.3.8.2 Require that all transactions be handled at fair market value, properly collateralized if required, and represent a bookable asset.
- 4.3.8.3 Management fees charged to related parties / affiliates will be paid on a timely basis and will be calculated in a consistent and uniform manner, and will be based on:
 - 4.3.8.3.1 Reimbursement of cost
 - 4.3.8.3.2 Cost plus a reasonable profit (limited to certain types of transactions), or
 - 4.3.8.3.3 Fair market value
 - 4.3.8.3.4 All charges will be calculated in a consistent and uniform manner
 - 4.3.8.3.5 Overall expense control of inter-affiliate services, transactions, etc.
 - 4.3.8.3.6 Compliance with regulatory requirements, including laws and regulations

4.4 Authority

- 4.4.1 All transactions with related parties/ affiliates require the prior approval of the **Board of Directors**, or the **CHAIRMAN** whenever officially delegated this authority.
- 4.4.2 In considering the approval of a related party/ affiliate transaction, a legitimate business case must be developed including the arm's length nature of the proposed transaction and the disclosure implications of such a transaction in the company's financial statements.
- 4.4.3 The **Board of Directors** delegates the duties of analyzing and reviewing related parties / affiliates transactions to the **Audit Committee**.
- 4.4.4 This committee will meet prior to the **Board of Directors** meeting and will discuss the status of related parties / affiliates transactions and any related problems if any .
- 4.4.5 A summary report will be provided to the full **Board of Directors** for review and approval.

4.5 Risk Management

- 4.5.1 Senior management, in working with the **Board of Directors** in addressing related parties / affiliates transactions activities, must have an awareness of various or different types of risks.
- 4.5.2 The **Board of Directors** and senior management must also be aware of the potential risks that may arise; parties / affiliates transactions management is a concern of the company's primary regulator as well as the company's shareholders.
- 4.5.3 Failure to adequately plan and, manage related parties / affiliates transactions may result in problematic situations with local regulatory bodies, and therefore, will impact the organization's ability to grow or compete both in the short-term as well as in the future.

4.5.4 Different types of risk management techniques should be considered. Not only should related parties / affiliates transactions guidelines address related parties / affiliates situations and related activities, but also provide for internal monitoring to ensure compliance with company specific policies.

4.5.5 Identified risks related to related parties / affiliates transactions are associated, but not limited to, compliance risk and reputation risk.

4.6 Identification of Related Parties Transactions

4.6.1 All employees are responsible for identifying and disclosing potential related parties transactions; to the **Audit Committee** and/or **CHAIRMAN**.

4.6.2 The **Compliance Function** is responsible for ensuring that all related parties transactions are identified and submitted to the **CHAIRMAN** and/or **Audit Committee** for review and approval as per the Delegation of Authority.

4.6.3 All Potential related parties transactions, that are identified by the **Compliance Function**, would be reviewed by the **Legal Department**, if required, to determine if they are classified as related parties transactions and are subject to this guideline.

4.7 Review and Approval of Related Parties Transactions

4.7.1 All transactions identified as related parties transactions must be reviewed by the **Compliance Function** to ensure the following:

4.7.1.1 A conflict of interest does not exist;

4.7.1.2 An improper valuation of such transaction has not been performed; and

4.7.1.3 Information necessary to disclose the related party transaction are documented.

4.7.2 All related parties transactions are subject to the approval of the **CHAIRMAN** and /or the **Audit Committee** as per the Delegation of Authority.

4.7.3 All related parties transactions may only be approved, if the **CHAIRMAN** determine the following:

4.7.3.1 The transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party; and

4.7.3.2 The term of the transaction does not exceed 1 year and/ or the agreement reflecting the related parties transactions is terminable by the company in its sole discretion upon reasonable notice.

4.7.4 All recurring related party transactions that have an agreement term that exceeds 1 year must be reviewed and approved on an annual basis to determine whether to continue/renew the agreement.

4.7.5 The approval of a related party transaction may be conditioned upon the Company and the related person taking any or all of the following additional actions, or any other actions that the **CHAIRMAN** and/or the **Audit Committee** deems appropriate:

4.7.5.1 Requiring the related person to resign from, or change position within, an entity that is involved in the related person transaction with the Company;

4.7.5.2 Assuring that the related person will not be directly involved in negotiating the terms of the related party transaction, or in the ongoing relationship between the Company and the other persons or entities involved in the related party transaction;

4.7.5.3 Limiting the duration or magnitude of the related party transaction;

4.7.5.4 Requiring that information about the related party transaction be documented, and that reports reflecting the nature and amount of the related party transaction be delivered to the Committee on a regular basis;

4.7.5.5 Requiring that the Company have the right to terminate the related person transaction by giving a specified period of advance notice; or

4.7.5.6 Appointing a Company representative to monitor various aspects of the related party transaction.

4.7.6 In the event of transactions involving a related party who is the **CHAIRMAN** or a member of the **Audit Committee**, the identified related party must abstain from voting on the approval of the transaction.

4.8 Reporting of Related Parties Transactions

4.8.1 A summary of all related parties transactions must be submitted by the **Compliance Function** to the **Audit Committee** on a quarterly basis. The summary should include the following details about the transactions, at a minimum:

4.8.1.1 The identification of the related party/ affiliate and the affiliation to the company.

4.8.1.2 The related person's interest in the transaction with the Company, including the related person's position(s) or relationship(s) with, or ownership in, a firm, corporation, or other entity that is a party to, or has an interest in, the transaction;

4.8.1.3 The nature of the proposed transaction and the amount of the transaction.

4.8.1.4 Supporting evidence to support the arm's length nature of the proposed transaction including the terms and manner of settlement had the parties not been related.

4.8.1.5 The anticipated impact on the company's financial statements and disclosure.

4.8.2 In no event should a related party/ affiliate transaction be entered into without prior written consent of the **Board of Directors** or the **Audit Committee** after discussion with **Compliance Function**.

4.8.3 The **Compliance Function** has the sole responsibility to discuss and attain final approval from the **Board of Directors** and the **Audit Committee** on all related parties / affiliates transactions.

4.8.4 The **Financial Control Department** is responsible for disclosing all related parties transactions as per the Company's Accounting Policy.

4.9 Accounting Implication

4.9.1 The existence of related parties / affiliates transactions may have a significant effect on the company's financial statements. Transactions between or among related parties differ from transactions between unrelated parties in that they are, by definition, not at arm's length. Not dealing at arm's length may significantly influence the price and terms of transactions, and make it difficult to distinguish between the form and the substance of the transaction. Except for recurring transactions, the assumption is that it is difficult to substantiate that a related party/ affiliate transaction is at arm's length as it is generally not possible to determine whether such a transaction would have taken place or what the terms and manner of settlement would have been had the parties not been related. It is required that the company discloses significant related parties / affiliates relationships and transactions in the company's financial statements. This disclosure is considered significant because it provides the user of the financial statements with relevant information to interpret the company's operating results.

4.9.2

4.9.3

4.9.4

4.10 Management Fees

- 4.10.1 Management fees paid between affiliates for services performed generally include management advice, personnel services, data processing, marketing, supply administration, investment advice, accounting and financial services, trust services, and audit services. If fees are to be assessed, an affiliate must be providing a specific, identifiable service. A management fee is intended to offset the actual or proportionate expense incurred by the affiliate performing, or paying for, the service. Fees charged should be reasonable and justifiable and should be based on the fair market value of services provided. Where there is no market established for a particular service, management fees are based on the actual cost plus a reasonable profit. Fees for services should be billed and paid as they are received, just as they would be with an unaffiliated service provider.
- 4.10.2 Prepayments should not be made significantly in advance of services rendered. In general, payments are made when the service is rendered by the affiliate. However, for those services provided on a continually recurring basis, monthly installments of management fees payable by affiliates are based on each entity's estimated annual management fee. Each monthly installment represents one-twelfth of the estimated annual management fee for the year. After actual expenses for the year are determined, the management fee is reallocated and settled in the appropriate fiscal year. Where an affiliate (such as the parent company/ holding company) is providing specific services to another affiliate on an ongoing basis, an agreement between the entities should be entered detailing the services provided, fees charged and how they were calculated, and the timing of payments.
- 4.10.3 Management of each entity is responsible for ensuring that basic business principles common to an arm's length transaction are applied and that the actual practice between affiliates and the management fee agreement are consistent. A management fee agreement should be signed by an authorized representative of each participating affiliate and, at a minimum, should include:
- 4.10.4
- 4.10.5
- 4.10.5.1 A description of the specific services to be performed
 - 4.10.5.2 The method of calculating the management fee for each service
 - 4.10.5.3 The method and timing of payment for the services performed
 - 4.10.5.4 Provisions for any instances of reimbursement between affiliates

4.11 Special Cost Allocation Considerations

- 4.11.1 In certain instances, costs or expenses for a series of transactions are not readily identifiable for each participating affiliate. Accordingly, methods for allocating costs have been developed to provide reasonable compensation for respective transactions. Allocation methods are based on a best estimate of cost per transaction, or on volume or asset size, etc., which represents a reasonable allocation of expense. Costs cannot be assessed on an unreasonable assignment such as the ability to pay.
- 4.11.2
- 4.11.3

4.12 Documentation

- 4.12.1 All affiliate-covered transactions should be documented to provide at least the following:
- 4.12.1.1 Date of transaction;
 - 4.12.1.2 Description of transaction;
 - 4.12.1.3 Detail of method(s) used to calculate value of transaction;

4.12.1.4 Frequency of charges, if recurring;

4.12.1.5 Date of approvals; and

4.12.1.6 Information regarding cost justifications, appraisals, etc., used in arriving at the value of the transaction.

4.12.2 All documentation will be maintained by both participants.