



Dealings with Related Parties Policy



Saudi Home Loans Company

Dealings with Related Parties Policy

- (1) Objective of the Policy.
- (2) Definitions and used terminologies.
- (3) Definition of Related Parties.
- (4) Policies and procedures related to dealings with related parties.
- (5) Notification/informing of the existence of a potential transaction of a related party.
- (6) Functions and responsibilities in relation to the implementation of the policy.
- (7) Risks associated with dealings with related persons.
- (8) Review and amendment to this Policy.
- (9) Publishing.

Objective of the policy:

These directives aim to help the Saudi Home Loans Company (SHL) to promote the general frameworks of governance and effective management aiming to make deal with the relevant parties within the framework of a system of values, principles and policies in a way that promotes discipline, integrity, transparency, objectivity, efficiency, loyalty and effectiveness and that the consolidation of these behavioral and ethical principles would achieve the vision and mission of the Company, protect its reputation and ensure the practice of the principles of good governance.

The Company understands that dealings with related parties may represent a potential or actual conflict of interest, and the Company is aware that there are cases where the dealings of related parties are consistent with the interests of the Company as there are certain services and products of a certain nature or quality that are not available or cannot be obtained under similar circumstances and conditions such as those that can be obtained from dealings conducted freely, fairly and similarly with related parties. The Company is also aware that there may be cases where the Company provides dealings with related parties on a free and fair basis and on terms similar to those provided to independent parties and not related to the Company.

The principles and procedures governing the transactions of each of the Company's shareholders, the Board of Directors, the Company's Committees emanating from the Board of Directors and senior executives aim to establish principles and procedures that will regulate transactions between the Company and related parties from the shareholders, the Board of Directors and its committees, senior executives and employees of the Saudi Home Loans Company in accordance with the Company's Articles of Association and the laws and regulations applicable to the Company from the regulatory authorities while applying the best governance practices in this field.

(2) Definitions and repairs used:

Subordinate: A person who controls another person, or is controlled by that other person or shares with him being controlled by a third person, whether the control is direct or indirect

Control/Controller: The ability to influence the actions or decisions of another person, directly or indirectly, individually or in community with a relative or subordinate through any of the following:

- 1- Owning a percentage equal to or exceeding 30% of the voting rights in the Company
- 2- The right to appoint 30% or more of the members of the administrative staff of the Company.

Person: Any natural or a legal person to whom the Kingdom's regulations recognize in this capacity.

A joint stock company: is the company whose shares are exchanged on the Saudi stock Exchange.

Non-Listed Company: is a company whose shares are not exchanged in the Saudi Stock Exchange.

Joint ventures: It is an arrangement between two or more persons for commercial purposes related to works that they carry out or wish to carry out jointly with each other.

Joint control: it is the agreed contractual participation to control a particular economic activity

Senior Executives: Persons entrusted with managing the Company's day-to-day operations and proposing and implementing strategic decisions such as the Executive President, his deputies and the CFO.

Relatives or kinship.

- Parents, grandparents, grandmothers, even if high
- Children and their children, even if they come down
- Brothers and sisters, siblings, fathers, mothers and their children
- Husbands and wives.

Major shareholders: Anyone who owns (5%) or more of the company's shares or eligible for voting rights therein.

A transaction between independent parties of interest (fair market value): is a transaction between two related parties or two associates that is carried out as if these parties are not related so that any doubts are ruled out about the conflict of interest and may sometimes be a transaction between two parties that are not related totally In another way or between two associates, moreover, the agreed price of such a transaction between the related parties should be within a fair value that guarantees achieving the interest of the Company.

(3) Definition of related parties:

A related party is a person of natural or a legal character who has a relationship and association with the company concerned, including what is stipulated in the laws and regulations issued by the regulatory authorities such as the Central Bank of Saudi Arabia, the Capital Market Authority or any other regulatory or supervisory authority on the Company:

- 1- A member of the Board of Directors or the Committees emanating from it or any of their subsidiaries or relatives.
- 2- Member of senior management and senior executives or any of their subsidiaries or relatives.
- 3- Any person who owns or controls, directly or indirectly, (5%) or more of the capital or voting rights of the Company, and any entity in which that person directly or indirectly owns or controls (5%) or more of the capital or voting rights.
- 4- Any person who owns or controls, directly or indirectly, (5%) or more of any type of bills that grants the holder the right to receive a share of the profits or income of the Company.
- 5- Any entity in which the Company owns or controls, directly or indirectly, (5%) or more shares, equities or voting rights.
- 6- A relative up to the second degree of origin or branches or the husband or wife of any of the persons mentioned in paragraphs (1) to (4).
- 7- Members of the Board of Directors and senior executives of the major shareholders of the company.
- 8- Establishments, other than companies, owned by a member of the Board of Directors or a senior executive and their relatives.
- 9- Companies in which any of the members of the Board of Directors and senior executives are partners.
- 10- Companies of which any of the members of the Board of Directors, senior executives or their relatives are a member of their board of directors or senior executives.
- 11- Joint stock companies in which any of the members of the Board of Directors, senior executives or their relatives own a percentage of (5%) or more.

- 12- Companies where any of the directors or senior executives or their relatives have influence in their decisions, even with advice or guidance, except for advice professionally provided by a licensed person.
- 13- Any person whose advice and guidance have an impact on the decisions of the Company, its Board members and senior executives (except for advice professionally provided by a licensed person).

(4) Policies and procedures related to dealings with related parties:

The Policy of the Saudi Home Loans Company requires compliance with all laws and regulations governing the transactions of related parties including the guidelines, rules and regulations of the financing laws and regulations issued by the Central Bank of Saudi Arabia (SAMA) and the Capital Market Authority (CMA) and the financial accounting standards issued by the Saudi Organization for Certified Public Accountants. This includes, but is not limited to, the obligation to:

- 1- The Company may not incur exposure to a related party except on a commercial basis and after obtaining sufficient guarantee so that the percentage of financing does not exceed 60% of the collateral value at maximum. If the amount of funding exceeds 500,000 (five hundred thousand riyals), (the decision to grant funding must be based on the unanimous approval of the Board of Directors).
- 2- The Company may not bear an exposure to a related party at a minimum of 10% or more of its paid-up capital and reserves except after obtaining none objection letter from the Central Bank. In all cases, the total exposures to related parties should not exceed 50% of the paid-up capital of the financing company and its reserves.
- 3- The Company shall not incur exposure to a related party in which it directly or indirectly owns or controls 25% or more equities, shares or voting rights, or in which the Company directly or indirectly owns or controls 25% or more of the equities, shares or voting rights.
- 4- The Company may not bear exposure to any of its employees who are not considered a related party to more than the total salaries of four months, except through financing programs organized by the Company for its employees and approved by the Board of Directors of the Company after obtaining a none objection letter from the Central Bank.
- 5- Without prejudice to the public and private right established by the Regulations, any member of the Board of Directors of the Company or an external auditor who has received the financing in contravention of any of the provisions of the above paragraphs shall be deemed terminated from the date of obtaining the financing and the financing contract in this case shall be considered null and void.
- 6- All related party transactions in accordance with this Policy must be approved or attested by the Board of Directors and the General Assembly.

(5) Notification/notification of the existence of a potential transaction of a related party:

- The CEO or any member of the Board of Directors shall notify the Audit Committee, the Internal Audit Department or the Company's Compliance Department, as soon as possible about any potential transaction (before initiating it) with any related party.
Although this Policy requires notification and informative notice of all transactions of potential related parties, however, the Board Directors and executives should pay special attention to relationships that fall outside the normal context of course of business, such as the employment

of immediate family members, unusual transactions of one or both parties, and transactions that are submitted under preferential terms and conditions more than commercially available to the public.

- The Audit Committee shall determine, in consultation with the Financial Department and other specialized departments such as the Internal Audit Department, the Compliance Department, and the Company's Legal Department, whether the transaction or potential relationship is considered a transaction with related parties and requires compliance with and/or disclosure of this Policy, and that it is subject to the rules and protocols established by regulatory and supervisory bodies such as the Central Bank, the Capital Market Authority and the accounting standards issued by the Saudi Organization for Certified Public Accountants.
- Transactions of related parties involving a shareholder, members of the Board of Directors or candidates for the position of Board Member and/or their immediate family members shall be referred to the Board of Directors for approval after being recommended by the Audit Committee, and then presented to the General Assembly of the Company for approval.
- The transactions of the relevant parties that require the approval of the Board of Directors shall be studied and reviewed by the Audit Committee of the Company before sending them to the Board of Directors for decision, where the Board of Directors or its designee (such as the Executive Committee) shall be concerned with reviewing the process and verifying the commercial benefit of the Company based on all the necessary documents and studies, and the Audit Committee shall issue its decision and recommendation to the Board of Directors whether the potential transaction was free and fair and based on a fair price. Market Value/Price (whenever it is possible to check it).
- Transactions with the relevant parties must be documented by contracts and agreements authenticated and approved by the authority holder, and the management of the company undertakes the process of preparing, reviewing and keeping these contracts secured, and are then presented to the external auditor or any supervisory or supervisory body wishing to see and examine them.
- The Company shall disclose when contracting or dealing with any related party, provided that this includes informing the regulatory authorities without any delay of such contracting or dealing, if such contract or transaction is equal to or greater than 1% of the Company's total revenues in accordance with the latest audited annual financial statements.
- All dealings and contracts with any related to the company's financial statements must be disclosed and reported, approved and licensed by the General Assembly – renewed every year – based on an independent report from the external auditor of the company.
- A member of the Board of Directors - without a license from the General Assembly renewed every year – shall not be allowed to have any direct or indirect interests in the works and contracts made for the company's account, and the member of the Board of Directors shall inform the Board of his personal interest in the works and contracts made for the Company, and this notification shall be evidenced in the minutes of the meeting, and the interested member may not participate in voting on the resolution issued in this regard in the General Assembly or in the Meeting of the Board, and the Chairman of the Board of Directors shall inform the General Assembly when it convenes of the works and contracts in whole or in part in which a member of the Board of Directors has a personal interest, and shall be accompanied by a special report from the External

Auditor, and if the member of the Board fails to disclose his interest, the Company or any interested party may claim before the competent judicial authority to annul the contract or oblige the member to perform any profit or benefit achieved by him from it.

- A list of related parties is prepared and maintained by the Financial Department where all individuals and establishments described as related parties must send all the required information to the financial department in relation to existing transactions as well as notice as soon as a new transaction appears from a related party to be forwarded to Finance Dept. periodically at least yearly. Letters of approval of the amounts of operations and transactions made between all related parties, as well as approval of the amounts of transactions and operations between the company and any of the members of the Board of Directors during the ended financial year and presented to the Audit Committee, and then the Chairman of the Board of Directors reports them and presents them to the General Assembly for approval.

(6) Function and responsibilities in relation to the implementation of the policy:

First: General Assembly:

Approve and attest & review the transactions between the Company and the related parties contained in the Company's financial statements in accordance with the notification issued by the Chairman of the Board of Directors during the ended financial year and supported by the report of the Independent External Auditor.

Second: Board of Directors:

- 1- Recommending to the General Assembly the approval of the transactions contained in the financial statements made with the relevant parties during the ended financial year.
- 2- Assess and follow up the risks arising or potential from dealings with related parties.
- 3- Ensure that all dealings with related parties were conducted on a free and fair basis and at fair value.

Third: Executive Committee:

- 1- Studying and evaluating the possible transactions with the relevant parties, considering the objective suitability and expected benefit of the proposed transactions based on the necessary studies to verify the commercial benefit and fair value of the proposed transactions before proceeding with them.
- 2 - Adopt and review the policies and procedures related to dealings with related parties in order to achieve compliance with the relevant laws and regulations.
- 3- Ensure and verify that the level of risk associated with the transactions of related parties is in accordance with the company's risk policy.

Fourth: Audit Committee:

1. Supervise the control procedures applied in relation to the transactions of the related parties.
- 2- Informing the Board of any risks arising from the dealings of existing or potential related parties and any matters related to non-compliance with the regulatory procedures imposed by the regulatory authorities in relation to dealings with or follow-up with related parties.
- 3 - Ensure the appropriate disclosure of the transactions of the parties related to the financial statements and that they were carried out in a free and fair manner and at fair value.

Fifth: Internal Audit Department:

- 1- Reviewing the transactions of related parties to ensure compliance with the policies and procedures applied in the company through the annual internal audit plan.
2. Reporting any policy overrides to the Executive Management and the Audit Committee.

Sixth: Compliance Management:

- 1- Creating awareness and a culture of reporting and dissemination on the importance of adhering to the regulatory and supervisory principles of the transactions of persons and the relationship.
- 2- Educating employees on the implementation of these policies and procedures.
- 3- Advising the Board of Directors, the Audit Committee, the Executive Committee, the Chief Executive Officer, the Internal Audit Department and other departments of the Company on matters related to the transactions of persons and the relationship Wholly and partially
- 4 - Directing the company's management with the legal and regulatory procedures to be followed during any process with a related party.
- 5 - Review contracts and agreements with relevant persons before approving them.
- 6 - Communicating and replying to the regulatory authorities about any inquiries related to the disclosure of the transactions of the related persons.

Seventh: Financial Management:

- 1- Proposing updates in consultation with the Compliance Department, the Director General of Internal Audit and the Director of Risk Management on the policies of related parties' transactions and make recommendations thereon to obtain the initial approval from the CEO to be reviewed later by the Executive Committee and approved by the Board of Directors.
2. Attending meetings of the Audit Committee and the Executive Committee (if invited) to focus on matters that fall within the scope of the relevant parties' transaction procedures for the purpose of clarifying and determining the transactions that are presented to the Audit Committee, the Executive Committee and the Board of Directors for their opinion under the policy.
- 3- Ensuring the integrity and completion of the registration of all related party operations.
- 4- Ensuring that the transactions of the related parties are documented and that they were carried out on a free and fair basis and based on fair value and that they were appropriately approved and disclosed to all interested parties under the accounting policies applied and related to the transactions of the related parties.
5. Cooperating with the Compliance Department in evaluating potential transactions to determine whether they fall within the framework of the relevant parties' transaction procedures.
6. To preparing, maintaining and updating the list of relevant parties based on the information received from the parties referred to.

(7) Risks associated with Related Parties Transactions:

The risks in the financial sector are considered higher than in other sectors, more complex and harder to understand for investors, and sometimes for Board members and financial institutions have different obligations to their customers, and the volume of the financial institution's obligations and the risks it faces when combined with weak internal control systems can lead to financial crises. Also, the failure to properly plan and manage the transactions of persons and the relationship may lead to situations that do not comply with the regulations and rules of the regulatory authorities, which affects the company's ability to grow or compete, either on the short or long term, or even to hold the company accountable and subject to judiciary, as such, the commitment to apply these policies and procedures and manage risks related to the transactions of related parties is a fundamental guarantee for the proper functioning of the

financial business of the company and the achievement of the purposes and objectives that for which it was formed and established.

Accordingly, the different types of methodologies of managing risks should be considered in away that does not limit guidelines to address the cases of persons and related activities, but must also support internal control to ensure compliance with the company's pertinent policies as this is associated with compliance and reputation risks and is not only exclusive to it.

(8) Review and amend this policy:

This Policy shall come into effect from the date of its approval by the Board of Directors, and the Board shall review this Policy from time to time as the need arises, and shall not be amended except with the approval of the Board.

(9) Publishing:

This policy shall be published by handing over copies thereof to the members of the Board of Directors, members of its committees emanating from the board and to the Company's executive management and shall be published on the Company's website so that the relevant parties may view this Policy or through any other means of publication deemed appropriate by the Board of Directors.

END OF POLICY