

The Annual report of the Audit Committee for the year ending 31 Dec 2021

During the financial year of 2021, Audit and Compliance Committee held six meetings to discuss and examine its annual plan matters in addition to other related topics.

The following table illustrates dates of BACC meetings and attendees' information during 2021:

Meeting Number	Date	Attendees Number	Meeting Number	Date	Attendees Number
First	31 January	All members	Fourth	29 July	All members
Second	18 April	All members	Fifth	21 October	All members
Third	10 June	All members	Sixth	21 November	All members

Audit and Compliance Committee comprises five members including two Board members and three independent members as follows:

BACC Members – Al Rajhi Bank KSA	
Name	Membership
Abdulatif bin Ali Al Seif	Committee Chairman and Board member
Raeed bin Abdullah Al Tamimi	Committee Member and Board member
Dr. Abdullah bin Ali Al Muneef	Committee Member
Farraj bin Mansour Abothenain	Committee Member
Walid bin Abdullah Tamairik	Committee Member

This report summarizes Audit and Compliance Committee works for the year ended 31 December 2021 including its significant activities and duties it performed and followed up in line with its Charter approved by the Bank's General Assembly.

First: Financial Statements

During its meetings, BACC discussed interim quarterly and annual consolidated financial statements of the Bank for 2021 including many subjects related to the management and external auditors as follows:

- Discussed the Bank's quarterly consolidated financial statements with the external auditors and management.

- Discussed the Bank's annual consolidated financial statements as of 31/12/2021 with the external auditors and management.
- Followed up Zakat accounting processing with the concerned parties taking into consideration SAMA instructions.
- Followed up results of recovering VAT, which was paid by the Bank for customers against their first house, from Ministry of Housing.
- Followed up its instructions related to compliance with IFRS and disclosures required to be included in accounting process for payments deferral.
- Reviewed the process of calculating expected credit losses and evaluation of Covid-19 impact on RBG and CBG in 2021.
- Reviewed outstanding legal cases that influence the Bank's financial statements and adequacy of related provisions.
- Discussed results of SAMA Payment Deferral program to support MSME in facing Covid-19 impacts.
- Discussed many cases with Zakat, Tax and Customs Authority related to historical treatment of VAT paid by ARB for the first house buyers.

Second: External Auditors

- Reviewed and discussed the annual management letter issued by external auditors for 2021, auditor's report observations, management reply to the report observations and progress in related corrective plans.
- Discussed audit services proposals received from external auditors and recommended to appoint external auditors to audit the financial statements for the fiscal year 2022 in ARB KSA, ARBJ and ARBK.
- Reviewed, discussed and approved the external auditors' plan for 2022 that includes their objectives, process and plan to provide quarterly and annual auditing services, external auditors teams and their roles in addition to requirements and assurance of independency, professional ethics and other requirements.
- Verified independency of external auditors.
- Reviewed disclosure provided by KPMG regarding many out-of-scope services related to quarterly and annual auditing for financial statements to verify that it has no impact on KPMG independency and to make sure that there is no violation to related laws and regulations. As a result, many recommendations were issued by the Committee.

Third: Internal Audit

BACC followed up results of Internal Audit Group activities and progress of its business plan for 2021. Also, it discussed significant observations, approved many charters and policies related to Group activities as follows:

- Discussed and approved Internal Audit Group strategic plan for 2022-2024, initiatives, performance KPIs including ARBK & ARBJ.
- Discussed major results of Internal Audit Group activities for 2021 for different categories of the Bank and international branches as well as Internal Audit Group reports and submitted related recommendations.
- Followed up progress of closing observations and implementing recommendations of IA by executive managements and international branches and submitted related recommendations.

- Instructed Internal Audit Group to follow up all observations contained in the annual management letter for 2021 issued by the external auditors.
- Approved CIA KPIs for 2022.
- Ensured effectiveness and independency of Internal Audit and lack of constraints on its scope of work.
- Reviewed Internal Audit Charter and recommended to the Board to approve the same.
- Revised and approved Internal Audit Department Charter as per periodic updates requirements.
- Followed up level of human capital adequacy for Internal Audit Group in the Bank and its international branches including recruiting qualified staff for vacancies in internal audit.
- Followed up progress of using internal audit means and tools in functions of auditing and electronic papers.
- Reviewed Internal Control Committee approvals to change target dates of closing some observations as per submitted justifications.

Fourth: Compliance

BACC followed up results of Compliance Group activities and progress of its business plan for 2021 Also, it discussed significant observations, approved many charters and policies related to Group activities as follows:

- Raising level of compliance with laws and instructions issued by SAMA and competent regulators in KSA.
- Continuous enrich of compliance culture in the Bank to avoid risks related to non-compliance, particularly regular risks, reputation risks, and financial penalties risks.
- Supported Compliance Group in managing Anti-Fraud Department and followed up its work progress through periodic reports.
- Followed up and supported Compliance Group to ensure sufficient staff as per SAMA instructions and requirements of Compliance, AML and CTF departments, commercial concealment, anti-bribery, anti-corruption, and anti-fraud.
- Followed up ARB's performance of implementing Compliance Group plan regarding training, awareness, and efforts exerted by Compliance Group in cooperation with Al Rajhi Training Academy.
- Followed up SAMA inspection visits to Compliance Group and provided full support to the Group including meeting all requirements of inspection team and following up closure of observations monitored by Inspection team and its status and closure target dates.
- During its meeting, reviewed all SAMA and other regulators fines of 2021 and Compliance Group efforts to avoid such fines.
- Discussed progress of existing projects to develop automated systems of Compliance & Financial Crimes Group and supported it with required budget.
- Continuous discussion for Financial Crimes Dept., SAS performance evaluation, combating financial fraud efforts, and major whistleblowing cases.
- Discussed and approved many of Compliance Group policies during 2021 and recommend to the Board to approve the same.
- Working on applying best practices of AML, CTF, combating financial fraud, anti-bribery, anti-corruption, combating commercial concealment, and whistleblowing.
- Reviewed Compliance Group policies for 2021 and provided recommendations to the Board of Directors to approve the policies approved by the Committee.

- Approved updated Compliance Group structure for 2021 which includes new departments and instructed Compliance Group to include number of employees of each department/unit in Compliance Group.
- Continuous follow up and review of any challenges, gaps, or delay of business groups in closing monitored observations. Compliance Group was instructed by the Committee to report urgently of such failure in closing monitored observations.
- Discussed and reviewed matters related to international branches and instructed Compliance Group to make field visits as per the approved plan.
- Discussed and approved Compliance and Financial Crimes Group Plan and program for 2021.
- Reviewed important laws, instructions and regulations issued by SAMA such as “Banking Control Law draft, Principals of Compliance, Anti-Fraud Principals”.
- Discussed and updated the charter of Compliance Committee in KSA and international branches (Jordan & Kuwait).

Fifth: Sharia Group

- BACC reviewed results of Shariah auditing and progress level of Sharia Control Dept. activities as per the approved plan for 2021. In addition, it discussed significant observations related to products and observation closure updates.

Sixth: Other Activities

- Discussed its inquiries about Employee Fund with HR Group and representatives of PWC and Clever Chance.
- Reviewed ARB strategy for Data Management, artificial intelligence, main projects related to data infrastructure, data governance, and related legislative requirements and submitted its recommendation thereof.
- Followed up progress of implementing Related Party Automated System requirements and coordinate with concerned parties to apply the system by IT Dept. as per priorities and available resources.
- Discussed, with Treasury Group, official evaluation of SOW with respect to products, governance, main risks, hedging strategy and infrastructure. Also, it reviewed applicable procedures of products pricing and systems used to obtain direct market prices of products as well as level of compliance with SAMA regulations. In addition, it reviewed the procedures put in place for sale and trading operations which, in turn, explain work process clearly and directly.

Seventh: BACC Resolutions

During meetings of 2021, BACC issued its recommendations related to (76) resolutions; from which (59) resolutions were executed and (17) resolutions are on track.

Eighth: Audit & Compliance Committee’s Opinion on Internal Control System for the Year ended 31/12/2022

During 2021, Al Rajhi Bank exerted all possible efforts to ensure adequacy and effectiveness of internal control system in compliance with SAMA requirements. In addition, the activities executed in 2021, including review of internal control system adequacy, have resulted in

providing reasonable assurances for adequacy of applicable internal control process along with providing an assurance that the systems and procedures required to identify, assess and handle the Bank's high risks are in place and effectively applied.

Thus, the Committee found no significant weaknesses which affect internal control system adequacy.

According to the results of internal control system evaluation process, Al Rajhi Bank has sufficient and adequate internal control system being monitored continuously noting that no internal control system can provide absolute assurances.

Best Regards,