

No.: IA/11/2021

Date: 22/06/1442H corresponding to 04/02/2021

## Your Excellencies / Chairman and Members of the Board of Directors

Greetings,

### Preamble

In the financial year 2020, the Audit and Compliance Committee held six (6) meetings to discuss and examine its annual plan matters in addition to other related topics.

The Audit and Compliance Committee comprises five board members as follows:

Meeting No.	Meeting Date	Member's Name				
		Ameen bin Fahad Al Shiddi (Chairman)	Abdulatif bin Ali Al Seif	Abdullah bin Ali Almuneef	Farraj bin Mansour Abothenain	Walid bin Abdullah Tamairik
1	06-02-2020	√	√	√	√	√
2	30-04-2020	√	√	√	√	√
3	07-06-2020	√	√	√	√	√
4	18-07-2020	√	√	√	√	√
5	20-10-2020	√	√	√	√	√
6	05-11-2020	√	√	√	√	√

This report summarizes the results of the Audit and Compliance Committee significant works for the year ended 31 December 2020 including its significant activities and duties performed stipulated under its Charter approved by the Bank's General Assembly and the Committee's opinion on efficiency of internal control system.

The duties and activities undertaken by the Audit & Compliance Committee during 2020 were as follows:

#### First: Financial Statements

- Discussed, along with both the external auditor and management, the Bank's quarterly consolidated financial statements.
- Discussed, along with both the external auditor and management, the Bank's annual consolidated financial statements as of 31/12/2019.
- Followed up Zakat accounting processing with the concerned parties taking into consideration SAMA instructions.
- Followed up recovery of VAT, paid by the Bank for the first house of customers, from Ministry of Housing.
- Followed up intangible assets owned by the Bank and its subsidiaries under Fixed Assets item in the Bank's consolidated financial position statement.
- Followed up its instruction related to compliance with IFRS and disclosures required to be included in accounting process for payments deferral.
- Followed up and discussed, along with the management, implementation of automated system for calculating depreciation of fees on the life of finance granted to retail customers.

- Followed up progress of showing financial data of mortgage products by the system and controls required to avoid any failure in this regard in future.
- Followed up, along with the management, the progress of remedial of root causes for manual accounting entries made by Finance to resolve the system issues for some products.
- Followed up the accounting process of annual leave payable expenses and instructed Finance to register such expenses in the financial statements as per IFRS and to present the same to the Board of Directors along with the quarterly financial statements.
- Followed up the credit provision and assessment of Covid-19 impact.
- Reviewed and followed up assets & liabilities charter, credit policies and progress in updating management overlays.
- Followed up the accounting process of under-implementation projects.
- Followed up reliability of VAT implementation and its accounting process.
- Reviewed outstanding legal cases that influence the Bank's financial statements and adequacy of related provisions.

### **Second: External Auditors**

- Reviewed and discussed the annual management letter issued by external auditors for 2019, 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 nominated external auditors to audit the financial statements for the fiscal year 2021 in ARB KSA, ARBJ and ARBK.
- Reviewed, discussed and approved the external auditors' plan for 2020 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.

### **Third: Internal Audit**

- Discussed and approved Internal Audit Group business plan for 2020 including international branches in Kuwait and Jordan.
- Reviewed and followed up results of examining internal audit business by SAMA.
- Discussed quarterly and annual summary of business results and Internal Audit Group reports for 2019.
- Instructed Internal Audit Group to follow up all observations contained in the annual management letter for 2019 issued by the external auditors.
- Approved CIA KPIs.
- Ensured effectiveness and independency of Internal Audit and lack of constraints on its scope of work.
- Reviewed Internal Audit Charter and organizational structure.
- Followed up progress of the management implementation of the updated management structure that approved by Audit and Compliance Committee.
- Appointed an independent evaluator to evaluate quality of Internal Audit Group business and ensure compliance with international standards approved by the Institute of Internal Auditors.
- Reviewed and discussed SAMA observations with respect to internal audit.
- 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.

#### **Fourth: Compliance**

- Discussed letter of annual evaluation of compliance program and plan for 2019 and annual compliance report and recommended the management to present it to the Board of Directors for approval and provide SAMA with the approved version of Compliance Report for 2019.
- Discussed and approved Compliance Group plan and program for 2020 that prepared to verify compliance of the Bank with regulatory requirements as per the risk-based process.
- Approved the CCO KPIs.
- Reviewed and discussed SAMA inspection reports.
- Reviewed summary of bribery and corruption cases and recommended to the Board of Directors to approve policies of combating bribery and corruption.
- Reviewed summary of incidents received from whistleblowing channels.
- Reviewed and discussed compliance observations issued by SAMA.
- Discussed quarterly and annual summary of business results and Compliance Group reports including progress of examination and verification activities, branches field visits, raising quality level of suspected transactions scenario and increasing its effectiveness by following up performance results of current scenarios as part of periodic evaluation of such scenarios; and progress of the bank's employees training on programs of Basics of Compliance, First Line of Defense and Second Line of Defense to raise their awareness.
- Followed up and Supported adequacy of Compliance Group employees to meet SAMA requirements and ensure the best performance of the Group.
- Reviewed Compliance Group policies for 2020 and provided recommendations to the Board of Directors to approve the policies approved by the Committee.

#### **Fifth: Other Control Activities**

- Reviewed and discussed the results of adequacy and efficiency of the Bank's internal control systems.
- Reviewed the results of following up rectifying observations raised by Internal Audit Group, external auditors & regulators and evaluate extent of response for the Bank's department to rectify the observations and implement recommendations.
- Reviewed some policies of the Bank and its international branches (Kuwait and Jordan) such as Related Party Policy and Fixed Assets Management Policy.
- Reviewed some control reports issued by respective regulators.
- Reviewed and discussed the update on cybersecurity risks and controls and related regulatory requirements.
- Communicated with some Groups Heads in the Bank to discuss significant matters that require taking decisions.
- Verified linking Groups Heads KPIs to rectification of observations raised by Internal Audit Group.
- Followed up its duties through eighty-one (81) decisions, where twenty-seven (27) decisions are executed and achieved and twenty-one (21) decisions are on track.

**Sixth: Audit & Compliance Committee’s Opinion on Internal Control System for the Year ended 31 December 2020**

During 2020, 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 2020, 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,

Walid bin Abdullah Tamairik  
Delegated Member of Audit & Compliance Committee