

Pillar 3 qualitative disclosure on remuneration – January 2017

(a)

The main body overseeing remuneration in Al Rajhi Bank – KSA (The Bank), on behalf of the Board of Directors is the Nominations and Compensation Committee. (Compensation Committee)

The Compensation Committee current members are Ali Saleh Al-Barrak (Chairperson), Khalid Abdulrahman Al-Guaiz, Abdulaziz Khalid Al-Ghufili and Saeed Al-Esayi.

In line with SAMA Rules on Compensation Practices, the Compensation Committee main purposes include; recommendation for the selection of Board, Committee Members and Senior Executives; to recommend policies that determine salaries and remuneration aligned with regulations and compensation best practices for the Board, Committee Members and Senior Executives.

The Bank's compensation policy, provided that there is no inconsistency with the legal and regulatory requirements of the host country, will apply to Al Rajhi Banking and Investment Corporation and to all its majority owned subsidiaries both domestic and foreign operating in the financial sector.

The Bank's compensation policy, covers employees, outsourced personnel and service providers.

The Bank participates in the following salary benchmarking exercises to maintain awareness of the market trends, salaries and benefits; Hay Group, Mclagan and the Institute of Finance (formerly the Institute of Bankers).

Senior Executives have been interpreted as the CEO, his key direct reports and employees requiring SAMA no-objection.

Employees engaged in risk taking activities have been interpreted as Supervisors and above in Retail Banking Group, Corporate Banking Group, Treasury Group and the Small and Medium Enterprises Group, excluding the senior executives.

Employees engaged in control functions have been interpreted as Supervisors and above in Internal Audit Group, Compliance Group, Finance Group, Corporate Governance Group and the Credit and Risk Group, excluding the senior executives.

(b)

The Bank's compensation philosophy is derived from a commitment to attract, retain, develop, motivate and equitably compensate employees of the highest caliber and talent in recognition to their relative contribution in effectively conducting the business of the bank and in achieving the bank strategic goals and building sustainable succession pipeline.

The Bank seeks to provide employees with a compensation package that consists of base salary and allowances that are competitive with those provided by comparable organizations for similar levels of duties and responsibilities.

The Bank's employee's contracts and the compensation package is built towards rewarding performance with emphasis "At Risk" component to align and encourage behaviors that support bank values and risk management framework, adherence to the internal control framework and compliance to regulatory requirements.

Annexes to the Bank's compensation policy are reviewed annually by the Compensation Committee and recommendations for changes are submitted to the Board for approval.

The changes are mainly with regards to the eligibility and payment schedule for the annual salary review, the performance bonus; including deferred bonus and the sales incentives.

The Bank ensures that performance and remuneration outcomes of all risk and compliance employees are independent of the businesses they oversee and are determined by the reporting managers within these functions directly. Performance is measured using a balanced scorecard model, driven by the Performance Management team within HR.

(c)

Al Rajhi Bank has defined risk management framework which take into account a range of risks managed by the bank, Risk Appetite contains both qualitative and quantitative measures across major risk classes including Credit, Market, Operational and Liquidity risk to ensure performance is measured and monitored on risk adjusted basis.

Al Rajhi Bank's Compensation policy was designed within a risk reward framework. Risk factors are an integral part of the balanced scorecard for senior managers performance management. Risk measures thresholds have been defined which are required triggers for variable and long term bonuses qualifying assessments. The Chief Risk Officer reviews and provides input on the incentive plan taking into consideration the risk and return trade-off. To ensure long term and other risk factors are fully considered, the proportion of the variable bonus that is deferred increases with levels of seniority.

(d)

Individual remuneration outcomes are discretionary and linked to both Al Rajhi Bank and individual performance outcomes for all senior managers and material risk takers. Al Rajhi Bank implements an online balanced scorecard performance management framework, based on the Kaplan model. The KPI's are cascaded down from the bank level, down to individual employees and each employee's KPI are measured based on the Financial, Processes, Customer service and People elements, as appropriate for their job and seniority level. For senior staff, there are some standard KPI's that ensure that adherence to regulations, Risk and Compliance are constantly considered. Each individual's performance is assessed at year end against their agreed balanced scorecard of financial and non-financial objectives.

The Bank operates within a natural performance distribution curve, per group, as follows: 5% to be rated as Exceptional, 20% to be rated as Outstanding, 65% to be rated as Strong, 5% to be rated as Average, and the remaining 5% to be rated as Poor.

(e)

To encourage employees to have a longer term view, the Bank defers part of the Bonus for eligible senior managers and outstanding managers.

This deferral is in the form of shares vested over 3 years as follows; 1/3 at the beginning of the second year, 1/3 at the beginning of the third year and the remaining 1/3 at the beginning of the fourth year.

The Bank's compensation includes the provision to initiate claw back on past bonuses or holdback on the deferred bonus in instances, inter-alia, where an employee's specific deal has failed or are incurring losses or in relation to gross misconduct, consistent disregard of bank policy, compliance breaches.

(f)

The Bank's total compensation approach comprises fixed and variable compensation. The fixed compensation includes basic salary, which reflects seniority, experience and skills and is benchmarked to the KSA banking sector. Other fixed compensation includes the KSA standard guaranteed payments for housing, transport and 13th and 14th months, known in Al Rajhi Bank, as Ramadan and Year End payments.

The variable compensation, for business groups, are paid either on a monthly, quarterly or annual basis, depending on the business group, product type or seniority and individual performance. For the Head office and other support functions, the variable pay is mainly in the form of individual annual performance bonus and is based on seniority and individual performance. For senior staff, at least 40% of their bonus is deferred.

In line with the SAMA Rules on Compensation Practices, both, the incentive plans and the Bonus plans (including the deferred bonus) are approved by both the Chief Risk Officer and the Board of Directors.