

Pillar 3 qualitative disclosure on remuneration – January 2015

(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 (Chairman), Khalid Abdulrahman Al-Guaiz and Abdulaziz Khalid Al-Ghufili.

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 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.

This covers both the employees and outsourced personnel/ service providers (engaged in material risk taking activities on behalf of the bank, where allowed under the SAMA Rules on Outsourcing).

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 Bankers.

Senior Executives have been interpreted as the CEO and his key direct reports.

Employees engaged in risk taking activities have been interpreted as Bands 5 and above in Retail Banking Group, Corporate Banking Group and Treasury Group, excluding the senior executives.

Employees engaged in control functions have been interpreted as bands 5 and above in Internal Audit Group, Compliance Group, Finance Group and 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.

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, managing risk, adherence to the Risk Management Framework, implementation and adherence to the Internal Control Framework, and compliance with the 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 the remuneration of risk and compliance employees are independent of the businesses they oversee, by linking the remuneration with performance. Performance is measured using a balanced scorecard model, driven by the Performance Management team within HR.

(c)

Al Rajhi Bank's Compensation policy was designed within a risk reward framework. Risk thresholds are required for the trigger of variable and long term bonuses.

Risk factors are an integral part of the balanced scorecard for senior managers performance management.

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)

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, Projects, 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.

The Bank operates a forced ranking performance rating, per group for employees in Bands 3 to 7, as follows: 10% to be rated as Outstanding, 25% to be rated as Exceeds Expectation, 55% to be rated as Meets Expectation and the remaining 10% to be rated as Needs Improvement or Unsatisfactory.

(e)

To encourage employees to have a longer term view, the Bank defers part of the Bonus for eligible employees in Bands 1 to 3 and outstanding employees in Band 4,.

This deferral is in the form of shares vested over 4 years as follows; 25% at the end of the second year , 25% at the end of the third year and the remaining 50% at the end 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 or if the bank performance for the year of issue is not at least 90% of bank's scorecard target.

(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.