

MEMORANDUM

Date : 8th October 2017

Attention: Shareholders

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Subject: Selection of Board Members – Voting Mechanism

Following is an explanatory memorandum pertaining to the voting mechanism to be used in ARB's upcoming General Assembly meeting for selection of Board members among candidates.

1- Voting Method: as per Article (95) of the Saudi Companies law and Article (8) of CMA's Governance Manual, using of the cumulative voting method is now mandatory for all Joint Stock Companies, as per definition, cumulative voting is "a method of voting for electing Board members that gives each shareholder a voting capacity equivalent to the number of shares he/she owns , and by which the shareholder is entitled to either exercise all of his/her votes towards one nominee or to divide his/her votes towards several nominees without any duplication of such votes".

The following table demonstrates differences between Regular and Cumulative voting systems:

	Regular Voting			Total	Cumulative Voting			Total
	SH 1 (10%)	SH 2 (5%)	SH 3 (3%)		SH 1 (10%)	SH 2 (5%)	SH 3 (3%)	
Candidate 1	10%	5%	3%	18%	5%	0%	1%	6%
Candidate 2	10%	5%	0%	15%	3%	0%	1%	4%
Candidate 3	10%	0%	3%	13%	2%	5%	1%	8%

2- E-voting Method: as per CMA's regulations, all listed companies are to use the E-voting system as an official method to vote on the General Assembly's items without the requirement of physical attendance, each shareholders should log to Tadawul portal (Tadawulaty) and create a username/password (E-trading Account) or do such by visiting his broker, the system will guide the shareholder on how to fill the registration form and vote on different items, voting will be open at 10:00 AM, three days prior to the General assembly meeting date and will close by 4:00 PM at the meeting day, CMA will then provide the results so it can be entered into our AGM management system.

3- Minimum number of independent members: Listed Financial institutions are bound to both CMA and SAMA regulations pertaining to having a minimum number of independent members within each elected Board of Directors, the independence criteria is different between both regulators and the Bank is expected to accommodate both requirements, CMA requests a minimum of four independent members as per its criteria while SAMA requests a minimum of two independent members as per its criteria.

Current status: In ARB's case, 20 candidates are up for voting and the BoD consists of 11 seats. As per Independence forms filled by candidates, 9 candidates are non-independent while the remaining 11 are independent candidates on both CMA's and SAMA's criteria.

Possible Scenarios:

- As per SAMA's independence criteria, regardless of the voting results, the Board formation would still meet the regulatory requirement (worst case scenario: maximum of 9 non-independent candidates could succeed in voting, the remaining 2 candidates will be independent).
- As per CMA's independence criteria, the Board formation might not meet the regulatory requirements upon completing the initial voting (maximum of 9

non-independent candidates could succeed in voting, only 2 candidates will be independent accordingly), in this case, and in order to meet the regulatory requirements and provide full transparency to shareholders, ARB has disclosed in its AGM invitation its intention to do certain swapping in order to meet the regulatory requirements, one of three scenarios might occur :

Scenario 1 : Initial voting resulted in the success of 4 or more independent candidates to be members of the BoD, accordingly no further actions will be taken as swapping shall not be deemed required.

Scenario 2: Initial voting resulted in the success of 3 independent candidates only to be members of the BoD, accordingly, the non-independent candidate who managed to get the minimum number of votes among all other non-independent candidates will be swapped with the independent member who managed to get the highest votes among the remaining independent members who could not secure enough votes to become members of the Board.

Scenario 3: Initial voting resulted in the success of 2 independent candidates only to be members of the BoD, accordingly, 2 non-independent candidates who managed to get the minimum number of votes among all other non-independent candidates will be swapped with 2 independent members who managed to get the highest votes among the remaining independent members who could not secure enough votes to become members of the Board.

4- Voting of ARB's Employee Fund representative : as per law, it has not come to our attention that any local regulation prevents the official representative of ARB's Employee fund from casting his votes on the General Assembly meeting items, however and in order to ensure transparency and fair voting practice among candidates, we suggest that ARB's employee fund representative should abstain from voting on the Board member selection item.

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