



# unbank the bank





## unbank the bank

Annual Report 2021

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**In The Name of Allah  
The Most Merciful, The Most Gracious**



The Custodian of the Two Holy Mosques  
**King Salman Bin Abdulaziz Al Saud**



His Royal Highness Crown Prince  
**Mohammad Bin Salman Bin Abdulaziz Al Saud**



مصرف الراجحي  
alrajhi bank



# unbank the bank

Really, it is about being the Bank YOU the stakeholder, want us to be. This is the journey we are on; to 'unbundle' the Bank we have been up to now; to re-imagine and re-fashion purpose, strategy and action that will lead to Al Rajhi being your partner, a 'financial coach' even; an institution that will care for and empower you to be the best you can be. All this achieved through the complex made simple - be it product, process, accessibility, communication and more. The 'unbanked' Al Rajhi is how we will navigate the future...together.

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# Contents

## Pg. 6 Overview

About the Report 6  
This is Al Rajhi Bank 8  
Value Drivers: 2021 at a Glance 12  
Five-year Summary 15  
Chairman's Statement 16  
CEO's Review 20

## Pg. 25 Context

Value Creation Model 26  
Operating Context 29  
Stakeholders 38  
Materiality 46  
Strategic Direction 48



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Pg. 54

## Business in Perspective

|  |     |
|--|-----|
| CFO Review 2021 Performance                        | 55  |
| Business Portfolio Review                          | 62  |
| Retail Banking                                     | 62  |
| Corporate Banking                                  | 66  |
| Treasury   | 70  |
| MSME Business                                      | 72  |
| Subsidiaries and International<br>Branches         | 76  |
| Al Rajhi Capital                                   | 77  |
| Tuder Real Estate Company                          | 79  |
| Neoleap  | 80  |
| Emkan Finance                                      | 81  |
| Al Rajhi Bank – Malaysia                           | 82  |
| Al Rajhi Bank – Jordan                             | 86  |
| Al Rajhi Bank – Kuwait                             | 88  |
| Human Resources                                    | 90  |
| Marketing and Customer Experience                  | 103 |
| Shared Services Group                              | 107 |
| Digital Footprint and Technology<br>Transformation | 110 |
| Sharia Group                                       | 114 |

Pg. 116

## ESG Report

Pg. 131

## Corporate Governance

|                      |     |
|----------------------|-----|
| Board of Directors   | 132 |
| Executive Management | 136 |
| Governance           | 142 |
| Risk Management      | 172 |

Pg. 177

## Financial Statements

|  |     |
|--|-----|
| Independent Auditors' Report                                 | 178 |
| Consolidated Statement of<br>Financial Position              | 186 |
| Consolidated Statement of Income                             | 187 |
| Consolidated Statement of<br>Comprehensive Income            | 188 |
| Consolidated Statement of Changes in<br>Shareholders' Equity | 189 |
| Consolidated Statement of Cash Flows                         | 191 |
| Notes to the Consolidated<br>Financial Statements            | 193 |

Pg. 299

## Supplementary

|                                       |     |
|---------------------------------------|-----|
| GRI Content Index                     | 300 |
| Glossary of Key Islamic Finance Terms | 303 |
| Corporate Information                 | 305 |

# About the Report

GRI 102-10, 102-11, 102-46, 102-48, 102-49,  
102-50, 102-51, 102-52, 102-53, 102-54

6

## Report structure

This Integrated Annual Report provides a clear and concise picture of Al Rajhi Bank's performance, operations and strategy (as far as it is prudent to disclose such information) as it creates value over time against trends shaping its operating environment. The comprehensive integrated annual report available online in HTML format is complemented by the concise integrated annual report in print and PDF.

## Report boundary

The boundary for financial reporting includes Al Rajhi Bank (referred to as "the Bank" in this Report) and its subsidiaries (which, together with the Bank, are collectively referred to as the "Group"). When contributions by other Group entities are discussed they are referred to as "Group" or "Consolidated". The Bank's reporting focuses on aspects that may substantively affect the Bank's ability to create value over the short, medium and long term, and which may have a significant probability of occurrence.

## Reporting period

This Report is consistent with the Bank's conventional annual reporting cycle for financial and sustainability reporting and covers the 12-month period from 1 January to 31 December 2021. The most recent previous integrated report covered the 12-month period ended 31 December 2020. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

## Compliance

This Report complies with all applicable laws, regulations, standards and guidelines for voluntary disclosures. Additional details can be found in the chapter on Governance (pages 142 to 171), the Financial Statements and the Notes thereon (pages 177 to 298).

The consolidated environmental, social and governance (ESG) data has been prepared in accordance with the following standards, principles, concepts and guidelines:

- The International Integrated Reporting Framework ([www.theiirc.org](http://www.theiirc.org))
- The Smart Integrated Reporting Methodology™
- GRI Sustainability Reporting Standards – GRI Standards ([www.globalreporting.org](http://www.globalreporting.org))

As organisations preparing an integrated report are not necessarily required to adopt the International Integrated Reporting <IR> Framework categorisation of capitals (as provided in the paragraphs 2.10 and 2.17-2.19 in the <IR> Framework), the Bank has categorised the capitals differently in its value creation model diagram to aptly describe its value creation process. The process of preparing this Report has strengthened and reinforced integrated thinking across the Bank.

When launching new ventures and initiatives, the Group always takes into consideration the financial, economic, social, and environmental consequences of its actions. With its best in class systems and risk management processes, the Bank is in complete compliance with all local regulatory requirements.





7

The Consolidated Financial Statements as of and for the year ended 31 December 2021 are in line with International Financial Reporting Standards (IFRS) as endorsed in the KSA and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (SOCPA). The Statements comply with the provisions of the Banking Control Law, the Regulations for Companies in the KSA, and the Bank's Articles of Association.

### Precautionary principle

The Bank is keenly aware of the direct and indirect social and environmental impact of its actions. The indirect consequences result from the business activities of its customers to whom the Bank lends in particular. The Bank avoids or reduces any such negative impacts

through its credit policies, screening for social and environmental issues, post-disbursement supervision, and risk management processes.

Although the Bank's business model and operations do not directly create a significant negative impact on the environment, every effort is made to reduce its own carbon footprint through initiatives such as solar energy usage, prudent energy and water management, and the elimination of paper usage in its processes.

### Queries

Your comments on this Report are most welcome. Please email: [IR@alrajhibank.com.sa](mailto:IR@alrajhibank.com.sa) to send in your feedback on the Bank's Integrated Annual Report 2021.

# This is Al Rajhi Bank

GRI 102-16



## Our Vision

To be a trusted leader delivering innovative financial solutions to enhance quality of life everywhere.



## Our Mission

To be the most successful bank, admired for its innovative service, people, technology and Sharia compliance products, both locally and internationally.



## History

Al Rajhi Bank is a Saudi joint stock company.

**1957**

established as an exchange house.

**1988**

converted to a bank under the name Al Rajhi Banking and Investment Corporation.

**2006**

named Al Rajhi Bank.

The Bank was formed and licensed in accordance with Royal Decree No. M/59 and Article 6 of the Council of Ministers' Resolution No. 245, both of June 1987.



## Our Values

Our core values articulate why we are the number one bank of choice in the Kingdom.

### Integrity and Transparency

Openness and highest standards of corporate and personal ethics, in all that we do.

### A Passion to Serve Our Customers

A strong commitment to anticipate and address customer needs beyond expectation, helping them achieve their objectives.

### Modesty

Humility in thought and deed in everything we do.

### Innovativeness

Nurturing imagination and fostering creativity for better results.

### Meritocracy

Defining, differentiating and reinforcing excellence in people.

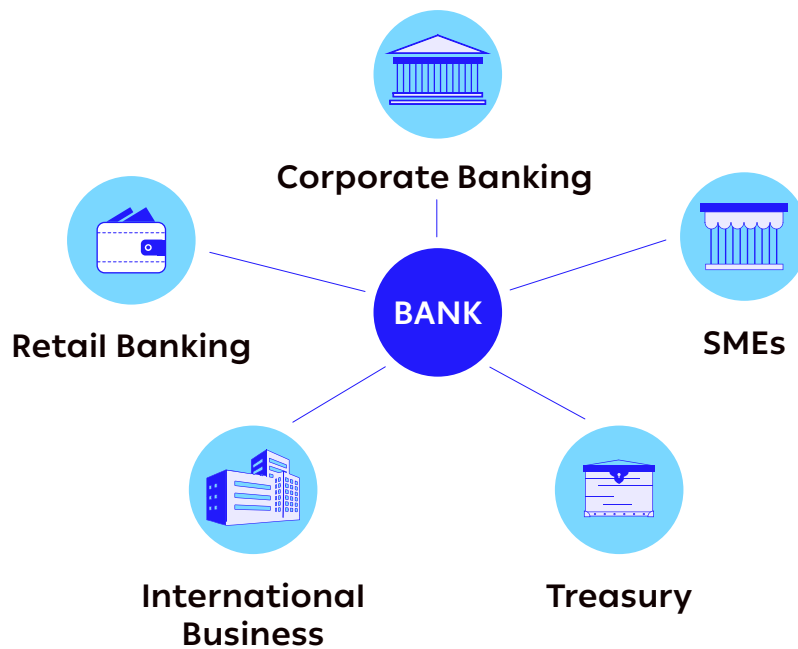
### Care for Society

Contributing towards a better tomorrow.

# The Bank

Headquartered in Riyadh, Kingdom of Saudi Arabia, Al Rajhi Bank operates under Commercial Registration No. 1010000096. A member of the Al Rajhi Bank Group, the Bank is listed on the Saudi Stock Exchange (Tadawul) with the Ticker No. RJHI. [1120]

The Bank's business is diversified across the following:

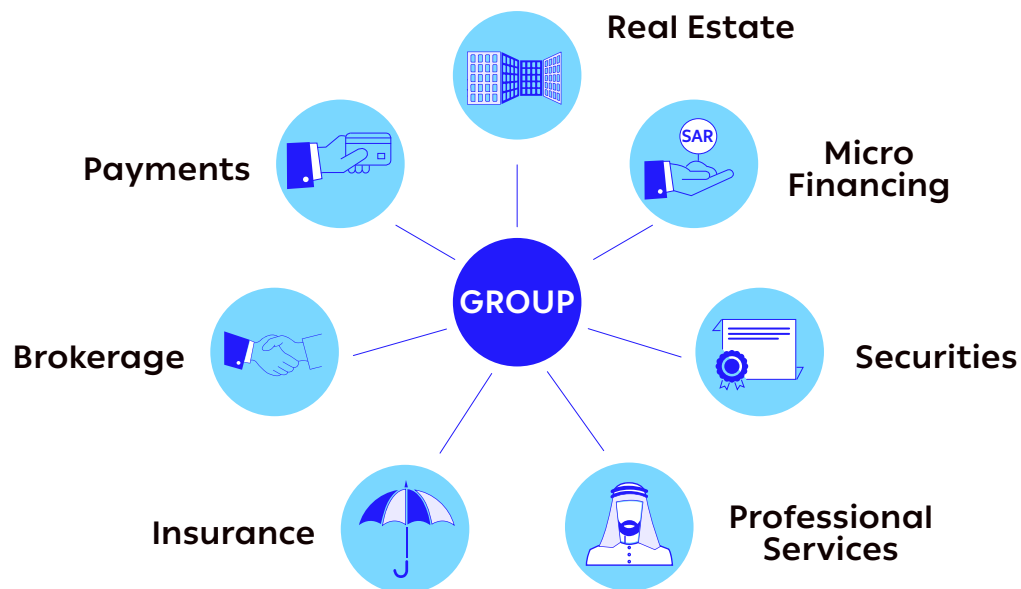


GRI 102-2, 102-6

# Al Rajhi Bank Group

The Al Rajhi Bank Group provides clients with innovative products and services that combine Islamic values with modern commercial requirements.

The Group consists of the following subsidiaries situated within the Kingdom and overseas:



## Subsidiaries and International Branches in brief

- Al Rajhi Capital Company – KSA**  
 A Saudi Closed Joint Stock Company authorised by the Capital Market Authority to carry on securities business in the activities of dealing/brokerage, managing assets, advising, arranging and custody.
- Al Rajhi Takaful Agency Company – KSA**  
 A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
- Al Rajhi Company for Management Services – KSA**  
 A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
- Al Rajhi Bank – Kuwait**  
 A foreign branch registered with the Central Bank of Kuwait.
- Al Rajhi Bank – Jordan**  
 A foreign branch operating in the Hashemite Kingdom of Jordan, providing financial, banking and investments services, and importing and trading

in precious metals and stones in accordance with Islamic Shariah rules and under the applicable banking law.

• **Tuder Real Estate Company – KSA**

A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programmes of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.

• **Al Rajhi Corporation Limited – Malaysia**

A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

• **Emkan Finance Company – KSA**

A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.

• **Tawtheeq Company – KSA**

A closed joint stock company registered in the Kingdom of Saudi Arabia providing financial leasing contracts registration to organise contracts data and streamline litigation processes.

• **Al Rajhi Financial Markets Ltd.**

A Limited Liability Company registered in the Cayman Islands with the objective of managing certain treasury related transaction on behalf of the Bank.

• **International Digital Solutions Co. (Neoleap)**

A closed joint stock company owned by Al Rajhi Bank for the purpose of practicing technical work in financial services, digital payment systems, financial settlements and related services.

## Strength and reach

- One of the largest banks in Saudi Arabia in terms of assets – accounting for 21% of total assets and 24% of total deposits among banks in the Kingdom as of 31 December 2021
- A market capitalisation of SAR 354.5 Bn. as of 31 December 2021
- Diverse traditional and modern channels spanning the Kingdom including:
  - 521 branches
  - 4,891 ATMs
  - 326,121 POS terminals
  - 207 Tahweel centres and 5 Tahweel mobile centres (for remittance)
- Digital banking
- Mobile banking
- Processing the payrolls of over 50% of government employees
- Handling an average of 471 million transactions and 1.3 million remittances per month and partnering with over 200 correspondent banks in around 50 countries
- Al Rajhi Bank KSA had 9,360 employees at the end of 2021 ranking the Bank among the largest employers in the Kingdom
- One of the largest Islamic banks in the world with the largest branch network in the Middle East including 10 branches in Jordan, 2 branches in Kuwait and also 16 branches in Malaysia operated by the Bank's subsidiaries
- Total Group assets amounted to SAR 624 Bn. as of 31 December 2021

11

## Committed to Vision 2030

The Bank continues to contribute towards the three themes of Vision 2030: a vibrant society, a thriving economy, and an ambitious nation. With a significant number of the goals of Vision 2030 either directly or indirectly connected with finance, the Bank is ideally placed to further the Kingdom's aspirations, policies, and plans.

# Value Drivers: 2021 at a Glance

GRI 102-7



Customer deposits  
2021

**SAR 512**

2020 – SAR 383 Bn.  
Increase: 34%

Retail financing  
2021

**42.2%**

market share  
2020: 38.6%

Earnings per  
share

2021

**SAR 5.90**

2020 – SAR 4.24  
Increase: 39%



Total mortgage  
2021

**SAR 171 Bn.**

2020 – SAR 104 Bn.  
Increase: 63%



Digital:  
Manual ratio

2021 – 90:10  
2020 – 83:17



Total capital  
adequacy ratio  
2021

**17.6%**

2020 – 19.1%



Total assets  
2021

**SAR 624 Bn.**

2020 – SAR 469 Bn.  
Increase: 33%



Active digital  
users

2021

**9.7 Mn.**

2020 – 7.9 Mn.  
Increase: 23%



Net income  
(after Zakat)

2021

**SAR  
14,746 Mn.**

2020 – SAR 10,596 Mn.  
Increase: 39%



## Staff strength

Al Rajhi Bank KSA - 2021

**9,360**  
2020 – 9,380

## Employee volunteering hours

2021

**18,315**  
2020 – 13,125

## Saudisation rate

2021

**97.3%**  
2020 – 97.1%



## Awards

- 1st Place in Customer Experience according to the Saudi Central Bank
- The bank won the largest number of awards in Sakani Forum (3Q2021):
  - Best Bank Award
  - Best Marketing Offer Award
  - Best Financing Agency in the Real Estate Advisor
  - Best Sales Representative Award
- Global Banking & Finance Awards:
  - Best Retail Bank in 2021 for the GCC
  - Best Digital Bank in 2021 for KSA
  - Best Forex Trading Bank in 2021 for KSA
  - Best Bank for Treasury Activities in 2021 for KSA
- Saudi Capital Market Awards:
  - Best Investor Relations Program in 2020
- No. 1 in MENA and No.15 globally by market capitalisation among global banks
- No. 1 retail bank in the Middle East in retail deposits and income
- No. 1 distribution network in the Middle East by number of branches, POS, ATMs and remittance centres
- No. 1 in banking transaction in KSA with around 544 Mn. transactions per month in 4Q2021
- No.1 bank brand in KSA in Brand Finance (Banking 500 2021)
- Largest customer base in KSA with over 12 million customers
- Highest net promoter score in KSA banking sector
- 90% of retail current accounts opened digitally
- Highest rated Retail and Corporate Banking app in KSA in the iOS App Store



## Intellectual capital

The Bank's intellectual capital is what sets it apart from the competition and impacts its total market value. This capital encompasses intangibles that provide the Bank with a competitive advantage, future readiness, and the ability to meet stakeholder expectations. It comprises the Bank's integrity and business ethics, corporate culture, systems and processes, intellectual property, capacity to innovate, accumulated knowledge and expertise, brands, and relationships etc., which are not reflected on the balance sheet. (Refer Stakeholders on page 38 for descriptions of other capitals.)

A young boy and a man are walking together against a plain white background. The boy, on the left, is wearing a light blue denim jacket over a peach-colored t-shirt and blue jeans. He is pointing his right hand towards the left and smiling. The man, on the right, is wearing a traditional white thobe and a red and white checkered ghutra with a black agal. He is holding a black smartphone in his left hand and looking towards the boy with a smile. Both are carrying shopping bags. The text 'The brightest ideas from the simplest solutions' is overlaid in blue on the left side of the image.

**The brightest  
ideas from  
the simplest  
solutions**

A blue decorative line that starts as a diagonal line from the bottom left and curves horizontally to the right, ending under the word 'solutions'.



# Five-year Summary

GRI 102-7

Key indicators from the consolidated financial statements for the years ended 31 December, 2021

| For the years ended 31 December                 | 2021        | 2020        | 2019        | 2018        | 2017        |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Operating results for the year, SAR '000</b> |             |             |             |             |             |
| Net financing and investment income             | 20,391,936  | 16,913,017  | 16,427,723  | 14,486,985  | 12,029,417  |
| Total operating income                          | 25,716,398  | 20,721,260  | 19,484,464  | 17,319,518  | 15,904,854  |
| Total operating expenses                        | 9,271,608   | 8,907,641   | 8,158,106   | 7,183,616   | 6,784,128   |
| Net income                                      | 14,746,211  | 10,595,548  | 10,158,527  | 3,767,953   | 9,120,726   |
| Total comprehensive income                      | 15,190,333  | 10,676,861  | 10,292,041  | 3,665,518   | 9,026,520   |
| <b>Assets and liabilities, SAR '000</b>         |             |             |             |             |             |
| Financing, net                                  | 452,830,657 | 315,712,101 | 249,682,805 | 231,758,206 | 233,535,573 |
| Customer deposits                               | 512,072,213 | 382,631,003 | 312,405,823 | 293,909,125 | 273,056,445 |
| Total assets                                    | 623,671,915 | 468,824,723 | 384,086,576 | 364,030,844 | 343,116,528 |
| Total liabilities                               | 556,363,064 | 410,706,205 | 332,894,919 | 315,724,978 | 287,365,610 |
| Total shareholders' equity                      | 67,308,851  | 58,118,518  | 51,191,657  | 48,305,866  | 55,750,918  |
| <b>Profitability</b>                            |             |             |             |             |             |
| Return on average assets (%)                    | 2.7         | 2.56        | 2.76        | 1.04        | 2.68        |
| Return on average equity (%)                    | 23.87       | 19.94       | 20.49       | 7.01        | 17.24       |
| Earnings per share                              | 5.9         | 4.24        | 4.06        | 1.51        | 5.61        |
| Dividend per share                              | 1.4         | 1           | 3           | 2.76        | 2.5         |
| <b>Regulatory ratios</b>                        |             |             |             |             |             |
| Capital adequacy ratio:                         |             |             |             |             |             |
| Tier I (%)                                      | 16.49       | 17.99       | 18.80       | 18.98       | 22.20       |
| Tier I and II (%)                               | 17.62       | 19.08       | 19.87       | 20.07       | 23.29       |
| <b>Growth</b>                                   |             |             |             |             |             |
| Al Rajhi KSA Bank Staff (Nos.)                  | 9,360       | 9,380       | 9,683       | 9,628       | 10,263      |
| Branches (Nos.)                                 | 521         | 543         | 544         | 551         | 554         |
| ATMs (Nos.)                                     | 4,891       | 5,211       | 5,215       | 5,006       | 4,803       |
| POS Terminals (Nos.)                            | 326,121     | 204,549     | 115,243     | 83,958      | 74,612      |

15

# Chairman's Statement



# Al Rajhi Bank's new identity "unbank the bank" focuses on understanding and empowering people to reach their full potential through comprehensive financial solutions rapidly and efficiently.

17

When we developed the "Bank of the Future" strategy, we were aware of the effort and discipline required to achieve our ambitious goals, and we were determined to overcome all challenges to achieve them. Today, and as we launch our new brand identity entitled "unbank the bank", we are thrilled with our achievements, and are looking forward to better serving our country's economy, our customers, and our society.

At Al Rajhi Bank, we remain conscious of the continuous changes sweeping the global economy, while keeping pace with the developments of the Saudi economy. With the help of our technical capabilities and industry leadership, we continue to intensify our efforts to support the Kingdom's endeavors to achieve progress and prosperity. We are also keen to develop new initiatives and create innovative ideas to increase our achievements, making substantial investments in our human capital, whom we believe is the Bank's and the entire country's valuable asset today, and our real wealth in the future.

According to the Global Entrepreneurship Monitor (GEM) report, the Kingdom of Saudi Arabia ranked first worldwide in responding to COVID-19 pandemic and its resulting crises. The country overcame the repercussions of the pandemic efficiently and demonstrated a globally exemplary model, thus contributing to the gradual return to normal life and the resumption of activity and operations across all sectors.

Under the leadership of the Custodian of the Two Holy Mosques and His Royal Highness, the Crown Prince, may God support them; our country not only managed to overcome these difficult

challenges but also turned those difficulties into an impetus for change. During these challenging times, our bank under the supervision of the Saudi Central Bank contributed to the country's efforts to stimulate the private sector and support micro, small and medium-sized enterprises (MSMEs). These efforts coupled with increasing government spending had positive effects on various sectors, such as increasing employment opportunities, attracting local and foreign investments, as well as achieving structural transformations that support long-term growth, while continuing to implement reforms in the labor market.

The economic development measures taken by the Kingdom have been successful and we have all seen their positive impact reflected in the first quarterly budget surplus for Q3 2021 since Q1 2019. These consecutive steps towards economic growth supported by successes at all levels of administration and operation were culminated in Moody's confirmation of the Kingdom's credit rating at A1, adjusting the country's future outlook from negative to stable.

Since its establishment six decades ago as one of the major Saudi financial entities, Al Rajhi Bank has succeeded to keep abreast with and support the subsequent stages of progress and development in the Kingdom. Today, Al Rajhi is proudly ranked among the world's 15 largest banks in terms of market capitalisation, which placed it ahead of its Middle Eastern counterparts with a value of SAR 354.5 Bn. (USD 94.5 Bn.) by the end of 2021.

The Bank continued its journey of success achieving more positive results, with a net income after Zakat of SAR 14.7 Bn. recorded for the year under review, compared to SAR 10.6 Bn. in the previous year. This growth resulted in an increase in

shareholders' equity by 15.8% amounting to SAR 67.3 Bn. The Bank's total assets increased by 33% compared to the previous year reaching SAR 624 Bn.

To confirm its leading role in offering an integrated ecosystem of financial solutions to corporate and individual clients, the Bank provided more digital services and solutions to both large companies and MSMEs. Since then, the sector's financing portfolio has grown by 34%, and the retail mortgage financing has grown by 63% to support the goal of increasing Saudi homeownership. The Bank also concluded partnerships with many government and private entities to achieve a more dynamic and diverse economy, in line with the Saudi Vision 2030.

Al Rajhi Bank's growing role and reputation have been and still are the direct result of the ongoing evolution of the Kingdom financial system, as well as the fruitful and growing cooperation with the Saudi Central Bank, regulatory authorities, and all customers and partners.

In a turning point on its remarkable journey, Al Rajhi Bank launched its new brand identity entitled "unbank the bank" which will be further explained and analysed in this report. The new identity focuses on understanding and empowering people to reach their full potential through comprehensive financial solutions rapidly and efficiently.

This report features details of Al Rajhi Bank's role in the field of social responsibility, which is indeed a source of pride for all its employees. Through its focused and strategic social initiatives, we seek to fulfill our duty towards the community in ways that create the most impact. We believe we owe so much to the very community that supported us as we were taking our first steps in this business, and will continue to ceaselessly

develop and implement more impactful initiatives. Accordingly, we launched a joint initiative with one of the most prominent private health institutions to perform **91** kidney transplants under the supervision of the "Shifaa" platform affiliated to the Ministry of Health. We have also donated seven million Saudi Riyals to the national charitable platform "**Ihsan**". Other initiatives will be further detailed in a later stage in this report.

In 2021, several awards were added to our track record of local and global recognition, including four new global awards from Global Banking & Finance 2021, namely, the best bank in the GCC for retail banking, the best bank in the Kingdom for digital banking, the best bank in the Kingdom in foreign exchange, and the best bank in the Kingdom in treasury business. These awards further emphasise the Bank's excellence in digital banking services, funding, and digital account opening.

Al Rajhi's investment in human resources remains among its top priorities, as we believe they are our cherished assets at present and our fortune in the future. Therefore, we are keen to provide advanced training to develop and qualify national cadres to excel in banking services through the Al Rajhi Bank Academy and other specialised training programmes. We aim to transform our distinguished staff into specialised consultants who can provide financial solutions to customers and companies, and achieve our goal of rendering Al Rajhi Bank the best work environment for employees. We also seek to support and qualify women to work and succeed in all departments, sectors, and job levels.

In conclusion, we at Al Rajhi Bank are honored to express our gratitude and loyalty to The Custodian of the Two Holy Mosques, and His Royal Highness, The Crown Prince, may God support them, for the progress and prosperity achieved by the Kingdom under their wise leadership. We also extend our thanks to the Ministry of Finance, the Ministry of Trade and Investment, the Ministry of Health, the Saudi Central Bank, the Capital Market Authority, and all other government agencies. We also wish to thank our shareholders, valued customers, and partners. I would also like to express my gratitude to the Honourable Head and members of the Sharia Board at Al Rajhi Bank for their invaluable advice and guidance. I thank my esteemed colleagues, the members of the Board of Directors, and take pride in our human capital in all departments, sectors, and subsidiaries, whose dedication and creativity enable us to achieve our strategic goals. We pray to the Almighty to protect our beloved country so it can fulfill its message to serve humankind at all times and in all places.

May God bless us all with success.

**Abdullah bin Sulaiman Al Rajhi**  
Chairman

# CEO's Review



# We look forward to the future with optimism, confidence and steadfastness as we continue to implement the Bank of the Future strategy in 2022.

The strong results we yielded from the successful implementation of the ABCDE – Back to Basics strategy in the five years leading up to 2021 provided Al Rajhi Bank with a solid foundation on which to implement the new “Bank of the Future” strategy during the year under review. With God's grace, the Bank successfully executed the new strategy by leveraging its expertise, strengthening its core retail franchise and overcoming challenges to reach new avenues and ambitious targets, keeping pace with global trends and rapidly evolving market conditions to reinforce its desired and deserved position as the Bank of the Future.

21

Al-Rajhi Bank, with the continuous support of the Board of Directors, was able to continue its outstanding performance and strengthen its industry leadership at local, regional and global levels, in line with the positive developments witnessed across the Saudi economy in 2021. This was reflected in the rise in customer deposits by 34% compared to the previous year, consistent with the overall expansion of assets.

In addition to recording an increase in demand for our digital facilities and self-services by both retail and corporate clients, we continued to invest and move forward in our digital journey, acquiring a

larger share in the growing digital banking services market. We were able to deliver increased value to our stakeholders during the year under review with market leading digital capabilities to make banking accessible to anyone from anywhere, thereby enabling 90% of the Bank's total transactions being carried out over digital channels.

Within the framework of its pioneering and growing role, and its active contribution to achieving the goals of Saudi Vision 2030, Al Rajhi Bank increased its continuous support for the growth of micro, small and medium-sized enterprises (MSMEs) across the Kingdom. This focused effort



contributed to achieving structural transformations that support long-term growth for MSMEs, as the bank's MSME portfolio grew by 61%, and corporate financing by 33% during 2021. The Bank also played a key role to support the Saudi Vision 2030 target for home ownership, with a 63% increase in real estate financing during the year.

In order to build new capabilities to profitably increase its market share in accordance with our Bank of the Future strategy, Al Rajhi Bank focused on growing its lending customer base by venturing into microfinancing through Emkan Finance – a registered lending company to reach previously inaccessible consumer segments. The Bank also established an end-to-end digital payment solutions company Neoleap, further strengthening the Bank's position at the forefront of the banking industry's digital revolution.

Al Rajhi Bank's enhanced digital capabilities continued to empower our larger corporate banking clients, as well as MSMEs, with shorter approval cycles and accelerated facilitating of financial solutions. We understood our role as a strategic partner to the companies and industries we were serving, and continued to contribute towards a diversified national economy.

We continued to improve our customer experience, with our continued efforts being rewarded with the top rank in the "Voice of the Customer Index". We also obtained the recognition of being the highest rated retail banking and business mobile apps in the Kingdom. Customers from across multiple segments were able to benefit from our evolving digital ecosystem, with credit cards, personal banking, mortgage and auto financing products all made available digitally.

Reflecting the Bank's keenness to continuously increase our level of engagement with customers, we increased our points of contact by intensifying our presence and participation on social media, and the application of data-driven and targeted marketing. While offering new products and solutions to meet growing and evolving customer needs, we are also maximising the synergies between our subsidiaries, in order to:

- Establish a financial ecosystem in which Al Rajhi Bank seamlessly integrates services and solutions across all our subsidiaries, increasing our product offerings to meet the needs of our clients.
- Continuously and rapidly improve our digital product offering and customer journey.
- Leverage data analytics, artificial intelligence and other emerging technologies in order to explore and increase opportunities for cross selling across our large client base to increase revenue and profits.
- Follow up on the "Voice of the Customer Index" and focus on aspects that can be improved upon in order to maintain our top ranking.

The continued investment of Al Rajhi Bank in its human capital has enabled us to elevate our employee experience while nurturing a workplace that is inspiring and stimulating. We further invested in our strategic training and development programmes, while supporting employees with special benefits and necessary infrastructure to meet their evolving demands and lifestyles in a hybrid working environment. We continue to assess our team to provide them with unique opportunities for career advancement and capacity expansion, with focused efforts to align industry talent demand with curated training programmes



conducted by the Al Rajhi Academy, nurturing a sustainable talent pool of professionals and future leaders.

The harmonisation of the entire business network of the Bank, its channels, its expertise along with its human resources, has been key to achieving the goals of Al Rajhi Bank's strategy for 2021. Al-Rajhi Bank's "unbank the bank" identity change has come to reflect the Bank's position as a global Saudi brand that adds value to its shareholders through advanced digital capabilities, transparent and efficient communication, commercial participation and competitive advantage. Despite its continuous evolution into the Bank of the Future, Al Rajhi Bank retains the essence of its identity as one of the founding pillars of the Saudi banking sector, distinguished by a long-established reputé that extends over six decades. In the minds of the Bank's customers across the Kingdom and around the world, Al Rajhi Bank will continue to be associated with success and market leadership in setting the benchmark for innovative and trailblazing banking solutions.

Our efforts to sustain and improve our banking services and contribute towards the national economy have not gone unnoticed; the Bank won many awards in 2021 including Best Investor Relations Programme at the Saudi Stock Exchange Awards for the year 2020, along with seven accolades from the Ministry of Housing for the Housing and Real Estate Finance Sector, and 13 regional and global awards in recognition of our digital excellence.

With this wealth of achievements, we look forward to the future with optimism, confidence and steadfastness as we continue to implement the Bank of the Future strategy in 2022, establishing our leadership in the world of banking services locally and regionally and internationally.

In conclusion, we extend our sincere thanks and appreciation to our shareholders, customers and partners of success. We express our gratitude for the support and guidance of the Central Bank of Saudi Arabia and the Capital Market Authority, and to their Excellencies, the Chairman and members of the Board of Directors. I also wish to express my appreciation to my colleagues across all departments, subsidiaries and all sectors. Wishing you all health, safety and continued success.

**Waleed Abdullah Almogbel**

Chief Executive Officer



25

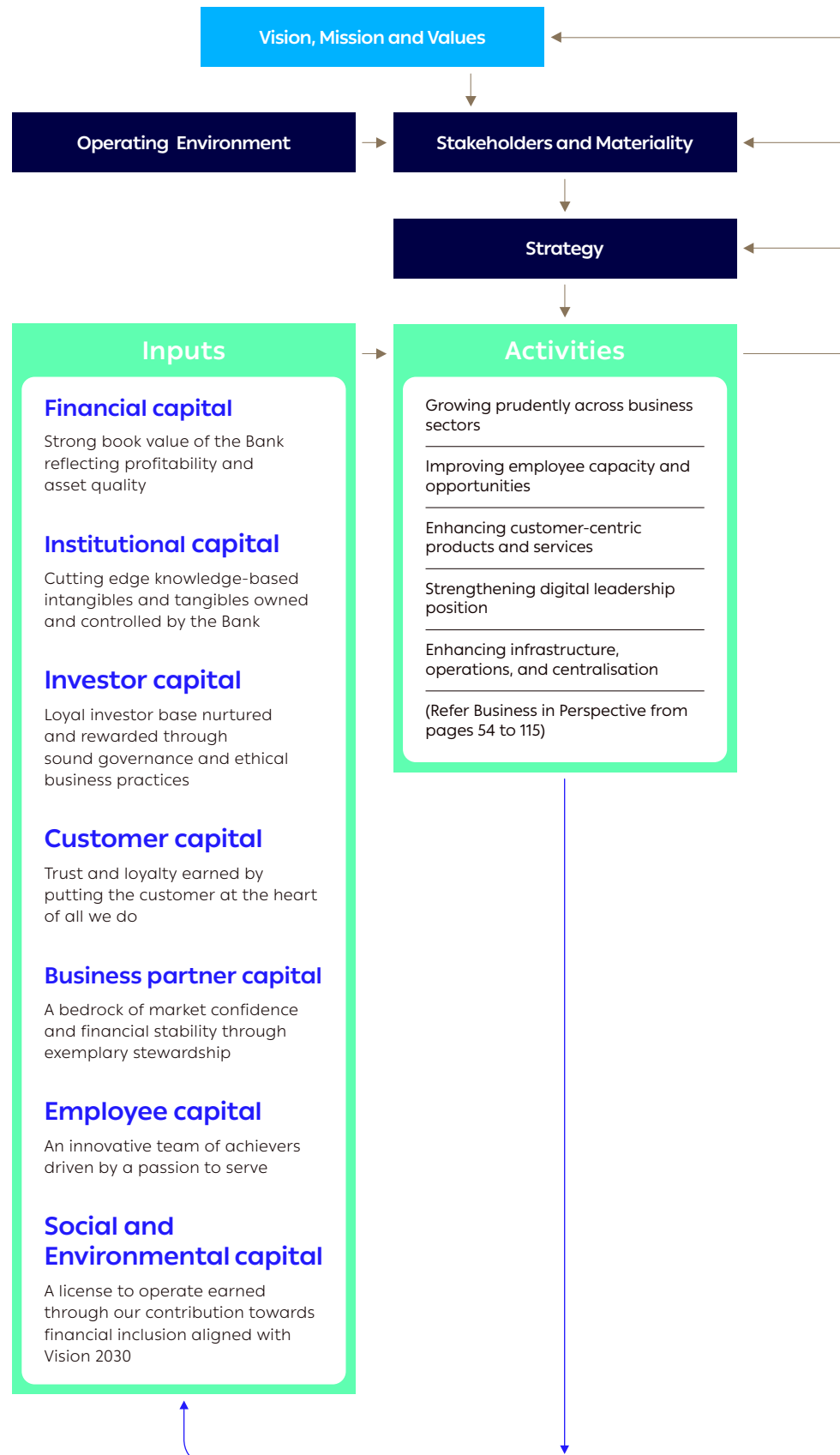
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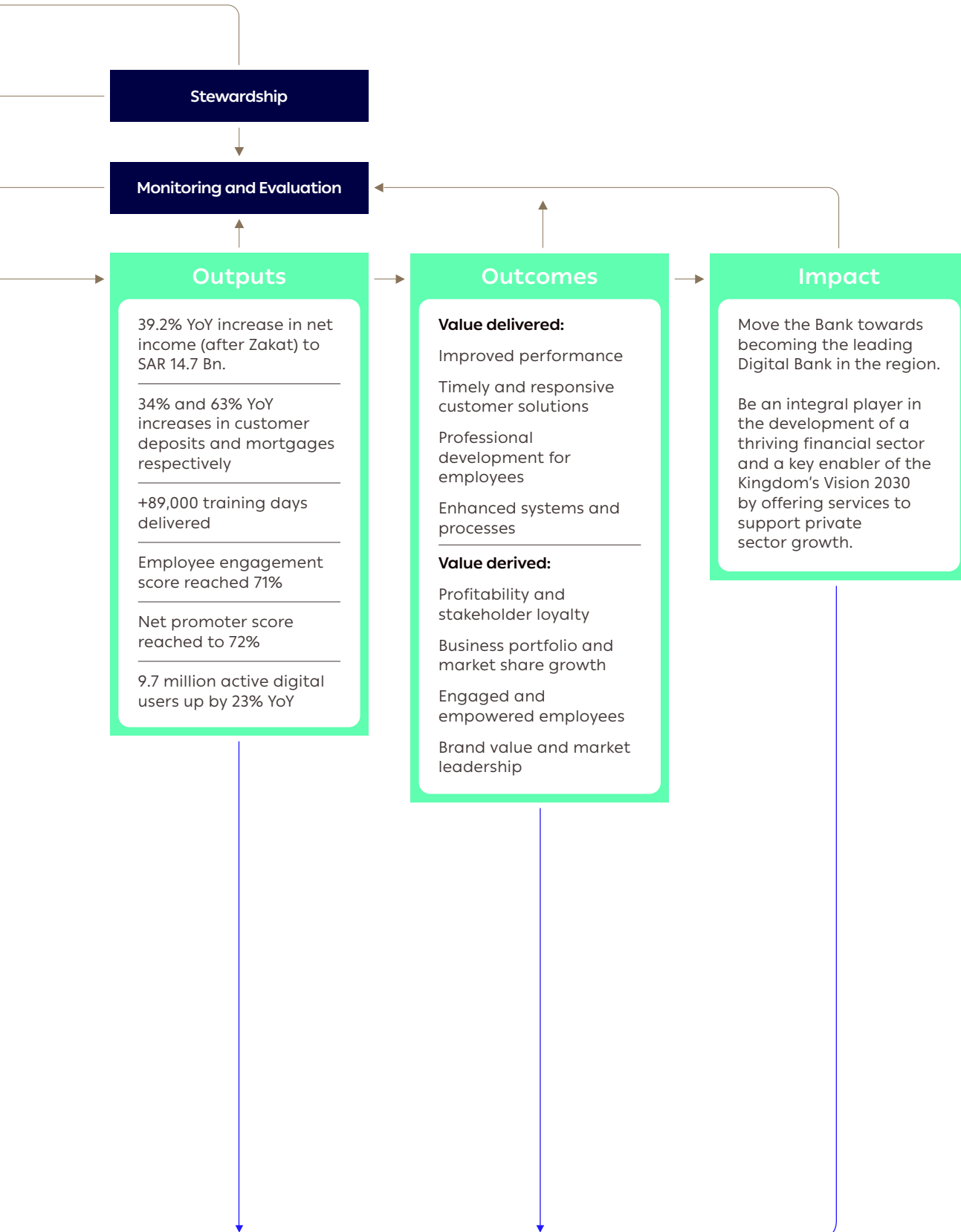
|                      |    |
|----------------------|----|
| Value Creation Model | 26 |
| Operating Context    | 29 |
| Stakeholders         | 38 |
| Materiality          | 46 |
| Strategic Direction  | 48 |

# Value Creation Model

## The value drivers

The Bank's value is driven by its Vision and Mission (refer This is Al Rajhi Bank on page 8); engagement with stakeholders (refer Stakeholders on page 38); and integrated thinking and strategy (refer Strategic Direction on page 48). The adoption of a multi-capital mindset is driving the Bank's strategy formulation, powering it further on its integrated reporting journey.





## The value drivers

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## The results chain

The Bank's future earnings are driven by value derived from and delivered to stakeholders. The Bank creates value in this manner sustainably over time as it continues to build and strengthen relationships with its key stakeholder groups. The Bank considers such stakeholder groups to be forms of "capital".

In addition to financial capital and Institutional capital, other capitals include investor capital, customer capital, business partner capital, employee capital, government and regulator capital, and social and environmental capital (refer Stakeholders on page 38). Together, these capitals provide the "inputs" for the Bank's activities, enabling delivery of value to and deriving of value from stakeholders over time.

The Bank's system for transforming input capitals through business activities into outputs, outcomes and impact is illustrated in the Value Creation Model on page 26. Each segment that follows "Inputs" is part of a results chain that represents value creation in the current, short, medium, and long term respectively.

## Completing the picture

The business drivers and the results chain described previously are complemented by events and trends in the internal and external operating environment (refer Operating Context on page 29), good governance (refer Governance on page 142) risk management practises (refer Risk Management on page 172), and the ongoing monitoring and evaluation of the Bank's performance in the current, short, medium, and long term.

Despite the vibrant nature of the value creation process – where the capitals are constantly rising, falling, or being preserved – the Bank remains focused on increasing the overall stock of capital (refer Business in Perspective on page 54).

# Operating Context

With rebounding economies, effective vaccinations and uncountable state interventions that sustained operating environments, the global banking sector bounced back and stabilised much faster than conceivable from its net negative outlook at the onset of 2021. While the pandemic has caused a significant increase in bank credit losses, the global banking sector has shown resilience and continues to slowly stabilise itself as the economic rebound gains momentum, despite the possibility of re-intensification of risks as state support is gradually withdrawn.

For Al Rajhi Bank, one of the world's largest Islamic banks, navigating strategically through challenging global, regional, local and sector specific trends during the year under review made a significant impact on the Bank's performance.

## Global trends

The global health crisis resulting from the pandemic continued well into 2021, with second, third and even fourth waves of COVID-19 and its variants spreading across the world and cautioning investors. However, major stimulus packages coupled with successful vaccine rollouts across advanced economies provided some much anticipated relief and signs of uneven growth, while not completely exempting countries with high vaccination rates from negative economic and social impacts. However, gaps in recovery between advanced economies and low-income developing nations continued to widen in 2021, with global geopolitical dynamics including the US-China decoupling threat, Russia-West tensions and EU's foreign policy agenda further contributing to slowing economic recovery.

During the year under review, Central Banks across the world had varied inflation responses that reflected each country's recovery efforts, giving rise to concerns that the world economy as a whole was entering a period of weak growth and high inflation reminiscent of the 1970's

'stagflation'. This together with global supply chain disruptions outweighed COVID-19 as the biggest risks to domestic and corporate growth in 2021, even though more transmissible COVID-19 variants such as Delta and Omicron may have extended global inflationary pressures. Given the extremely high uncertainties including the spread of new COVID-19 variants, the International Monetary Fund (IMF) stressed that major Central Banks should remain vigilant, and carefully communicate their future stance of monetary policy to avoid market panic and unwarranted tightening of financial conditions when swift action is called for.

Measures of inflation expectations for the medium and long-term remain close to policy targets in most economies. This reflects, in addition to expectations of waning inflationary forces, that policy actions can bring inflation back to target. Even as employment rates remained below pre-pandemic levels, headline inflation rates have increased rapidly in US as well as emerging and developing economies in recent months, although with differences in the extent of price pressure. To a large degree, the increase in inflation reflects a combination of pandemic-induced supply-demand mismatches and policy-related developments with exchange rate depreciations contributing to higher import goods prices in some countries.

In the near to medium term, fiscal policy remains key to address the impacts of the still-evolving pandemic; fiscal policy continues to be accommodative and shift towards longer-term investments such as digital transformation and green transition in many advanced economies, while emerging markets and developing countries continued shifting expenditures toward addressing pandemic-related challenges. Higher interest rates and lower government revenues have strained the capacity of low-income developing countries to provide fiscal support and service their debt, making it clear that



the reduction in deficits can only occur largely through lower spending. Overall, while fiscal policy remains supportive with 2021 deficits falling by about 2 percentage points of GDP on average, they are still well above pre-pandemic levels, especially in advanced economies. Deficits are projected to decrease further by almost 3 percentage points in 2022 and return to pre-pandemic levels by 2026.

Responding to the growth of cryptocurrencies was one of the top priorities for policymakers and regulators in 2021. Crypto asset markets grew rapidly, overlapping with key parts of the global monetary and financial system, but crypto asset prices remained highly volatile. Furthermore, the volume of crypto asset transactions reached macro critical levels in some emerging markets, often as high as those of domestic equities. A sound regulatory framework for crypto assets and decentralised finance markets more generally remains a priority on the global policy agenda.

Across the world, financial markets are beginning to integrate climate transition risks and opportunities into investment decision-making, with policy shifts toward long-term social and environmental issues. In 2021, The United Nations issued a Global Roadmap with a set of 150 commitments and USD 400 Bn. to support both energy transition and energy access for all by 2030 and net-zero emissions by 2050. The IMF recommended a number of initiatives that can help advance the proposed energy transition in an equitable way, while also emphasising on the delivery of the annual USD 100 Bn. in climate financing that high-income nations promised the world's low income nations as way back as 2009.

Global government debt remained at a record-high – just below 100% of GDP in 2021, and is projected to decrease slightly through 2026. Large purchases of government debt by central banks

especially in advanced economies and by the domestic banking sector have helped contain the cost of new borrowing. The debt build-up has led to many low-income, developing countries needing further international aid, and in some cases debt restructuring.

The Debt Service Suspension Initiative (DSSI) introduced by G20 countries to the world's poorest countries for a temporary suspension of debt-service payments in 2020 continued through till December 2021. This was followed by the G20 Common Framework to help low-income countries restructure their debt and deal with insolvency and protracted liquidity problems. The international community also scaled-up its financial support, including record IMF emergency lending and a USD 650 Bn. allocation of special drawing rights (SDRs) – USD 21 Bn. of which was allocated directly to low-income countries. The G20 leaders committed to support low-income countries with on-lending USD 100 Bn. of their SDRs to significantly magnify this impact. With the DSSI expiring in 2022, low-income countries should aim to benefit from the Common Framework to unlock IMF financing.

While most sectors had begun their digital journeys pre pandemic, for a majority of organisations the COVID-19 outbreak, its mobility restrictions and resulting labour market inequalities meant an acceleration of digital transformation and automation by months or even years, out of which a service-sector productivity growth emerged during 2021. Across the globe, businesses automated processes, modified business models and adopted emerging technologies including Artificial Intelligence (AI), 5G and enhanced connectivity, Edge Computing, Internet of Behaviours (IoB), Quantum Computing, Blockchain, Cybersecurity, Human Augmentation, Distributed Cloud, Virtual and Augmented Reality, Robotic Process Automation (RPA) to name a few.





**Enabling  
finance for  
your thriving  
future**

In global equity markets, equity prices have risen despite recent market turbulence, boosted by extremely low, declining real rates and strong earnings. In the corporate bond market, credit spreads—a market-based measure of default risk—have remained tight, reflecting investors' benign view of the credit outlook amid ample liquidity and continued policy support. Investors appear to have become somewhat more cautious, demanding more protection against large declines in risk markets amid increased uncertainty about the economic outlook. According to the IMF, elevated equity valuations and increased sensitivity of equity prices to government bond prices suggest that equity markets may re-price substantially in the event of a sudden reassessment of the economic outlook or unexpected policy changes.

32

In corporate taxes, G20 leaders endorsed a global initiative backed by 136 countries in 2021 to set a 15% minimum tax rate of 15% for multinationals with an annual revenue above USD 865 Mn. The agreement is intended to curb the benefits seen by large companies that shift profits overseas to tax havens, which supporters of the deal argue has limited the amount of tax revenue countries are able to collect.

The IMF estimates that comprehensive growth-enhancing reforms cutting across product, labour, and financial markets could raise annual growth in GDP per capita by over one percentage point in emerging markets and developing economies in the next decade. In an era of low real interest rates, small increases in economic growth can have very large impacts on debt sustainability. Strong household spending, inventory restocking and growth in capital spending during 2021 supported global economic activity to gain steadier footing in the medium-term, with a healthy economic rebound, higher trade volumes and investments expected to lead global economies to normalcy in 2022.

## Regional trends

Across the Middle East and Central Asia (MECA) region, there have been clear signs of a pickup in trade and supportive global financial conditions with resilient banking systems, but risks such as weak employment and increasing inequities are also building unevenly.

The wide range of policy responses across the region played a key role in protecting livelihoods and vulnerable populations and in mitigating economic, banking, and corporate sector risks. Some regional countries such as Oman introduced new measures in 2021 to support small and medium enterprises and vulnerable households, while emergency spending measures in other countries were kept the same, reduced or allowed to expire. Certain below-the-line liquidity support measures without a direct budgetary cost have remained in place.

Policy interest rates remain low for many countries. Some of the macro-financial measures introduced such as the loan guarantee programme and waivers for electronic transaction fees in Saudi Arabia have expired. Other measures such as credit subsidies, credit guarantees and loan repayment deferrals in Gulf Cooperation Council (GCC) countries were extended.

The regional outlook for 2022 remains promising, with oil exporters, particularly GCC countries, standing to benefit from higher oil prices and the recovery in global demand, with spill-over effects to the rest of the region. As the region prepares for a new journey in the post-pandemic world, the crisis presents opportunities that could lead to a transformational recovery marked by more resilient, inclusive, and greener economies. Domestic policies would need to be comprehensive and exploit synergies to enable this transformation. Global and regional cooperation will also be crucial for vaccine

deployment and leveraging digitalisation, adaptation to climate change, and transition to lower carbon dependence to strengthen the region's medium-term growth prospects.

Recovery seemed uneven in other regions across the world; Consumer confidence had diminished in Europe as the pandemic lingered, with supply chain disruptions, rising energy prices and labour shortages contributing to the imbalance. In the US, rapid vaccine rollout, strong government stimulus, and the swift lifting of restrictions has pushed back the economy to growth, but remained below pre-pandemic forecast levels by the end of 2021.

The Chinese economy on the other hand entered a mature stage in its Covid-19 recovery, with decreasing domestic demand counterbalanced by strong export performance. However, excessive investment and borrowing worsened during the pandemic and prompted the Chinese government to impose tighter restrictions on the real estate sector, private sector, environmental and energy markets. This has led to financial solvency problems for large Chinese real estate companies and renewed concerns about a potential credit downturn. Chinese property developers' debts appear big enough to crash the national economy, but several factors could limit the real estate downturn and the threat of global financial contagion. The risk of a global real estate bubble also emerged in 2021, with rising housing demand driving home prices to historic heights, last seen in the mid 1970s and mid-2000s, ahead of major recessions.

## Local trends

The surge in oil prices has been a key driver to fuel a strong economic recovery across the Kingdom, while also affording the government a buffer to maintain fiscal discipline. The non-oil sector expanded as output and new business increased

on the back of these improved economic conditions and easing of Covid-19-induced restrictions during the latter half of the year.

Demand for crude oil soared in 2021 when OPEC and its allies (OPEC+) extended its production cuts into April, successfully rebalancing the global oil market, drawing down inventories and raising prices as demand recovered. Towards the second half of 2021, OPEC+ nations decided to increase production driven by a rise in global demand due to easing COVID-19 restrictions. Under the OPEC+ agreements framework in 2021, KSA's daily average production as well as average daily exports increased despite further voluntary production cuts. With plans to increase the Kingdom's production share in early 2022 in-line with the OPEC+ agreement, the recovery of global demand and improvement in global supply chains will reflect positively on the domestic economy next year.

In the Budget Statement for 2022, Saudi Arabia forecast 2.9% GDP growth in 2021 attributed to higher oil prices and a stronger than anticipated domestic demand. In 2022, the Kingdom projects a 7.4% GDP growth sustained by higher oil prices and production and by a stronger domestic and external demand, which would be supported by the improvement in global supply chains. Budget estimates for 2022 show that total revenues will reach SAR 1,045 Bn., an increase of 12.4% compared to projected revenues in 2021.

The Kingdom expects to post its first budget surplus of 2.5% of GDP in 2022 as revenues are expected to increase driven by oil price recovery, rising crude production volumes and tightening of spending plus higher taxes. If achieved, this surplus will be the first since oil prices crashed in 2014. These surpluses will be directed to boost government reserves, support national development funds and the Public Investment Fund, channelled towards accelerating the implementation

of some strategic programmes and projects with economic and social dimensions, or to partially repay the public debt based on market conditions. Public debt indicators are expected to improve in 2022, declining to 25.9% of GDP, down from 29.2% in 2021. Inflation reached 3.3% during the year under review, but is expected to decelerate in 2022 to 1.3% as the impact of the VAT increase fades.

The major elements that stand out in the 2022 Budget Statement are indications of steady improvement in all major economic and fiscal matrices, while still adopting a conservative approach to budgeting oil and non-oil revenues. This will help to support government efforts to sustain economic growth. According to the budget statement, Education, Health, Military and General Items are expected to continue as the main expenditure targets in 2022.

The private sector is expected to lead economic growth and job creation in 2022 driven by the National Investment Strategy – a key enabler to deliver on Vision 2030 goals including raising the private sector's contribution to GDP to 65%, reducing the unemployment rate to 7%, increasing the contribution of non-oil exports to GDP from 16% to 50%, and positioning the Kingdom among the top ten economies in the Global Competitiveness Index by 2030.

Locally in Saudi Arabia, the policy focus in 2021 was directed towards raising investment levels to help meet diversification objectives and involve more private sector participation. The government continued its efforts to further develop its debt and equity markets, push up local investments (Shareek Programme), and increase foreign direct investment in



the country to reach Vision 2030 objectives through the revision of regulatory frameworks. Under Vision 2030, the Saudi government continued economic and fiscal reforms through initiatives such as the Fiscal Sustainability Programme, a medium-term fiscal planning mechanism that aims to sustain public finances and achieve a balanced budget, while enhancing fiscal discipline and controlling budget deficit levels.

With the launch of Vision 2030 to develop and diversify the Saudi economy, the Kingdom continued to increase non-oil exports to minimise the dependency on oil sales, and achieve the goal of raising foreign direct investment from 3.8% to an international average of 5.7% of GDP by 2030. Healthcare experienced major transitions and investments including the launch of the Health Sector transformation Programme (HSTP) within the framework of Vision 2030. Technology, logistics, real estate, 'Made in Saudi Arabia' Programme and the Privatisation Programme were among other non-oil initiatives that were announced by the Ministry of Finance in the 2021 budget.

The continuation of Mega projects such as the futuristic smart city Neom, the Red Sea land and property development project, entertainment mega project Qiddiya and super-luxury tourism project Amaala are all expected to boost growth in nascent sectors such as entertainment and tourism, and create investment opportunities across the Kingdom. Non-oil GDP grew by 4.8% in 2021, with the private sector projected to grow at a higher pace to lead economic growth and job creation in 2022.

The Kingdom also continued to scale up its climate action and environmental protection through the Saudi Green

Initiative, unifying all sustainability efforts in the Kingdom through a clearly defined and ambitious roadmap to increase reliance on clean energy, offset the impact of fossil fuels and achieve global targets in combating climate change. The Kingdom has over 60 environmental and clean energy initiatives in the pipeline to reach three targets under the Saudi Green initiative, among which reducing carbon emissions by 278 mtpa by 2030 remains a key objective in the Kingdom's journey to reach net zero by 2060.

As the effects of digitisation continued to reshape the local operating environment, the Kingdom's aim remained on becoming a regional hub in emerging technologies and digital transformation, with the government realising qualitative achievements via a roadmap that measures and defines a new digital economy.

The Kingdom is in negotiations with multiple countries including the US, India, Australia and China on possible free-trade agreements, and aims to export services including professional and financial services, communication services, postal services as well as transport, media, construction and contracting, education and training, travel and tourism, environmental, and entertainment services.

The IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) posted 53.9 by December; the reading was the lowest since March indicating a solid improvement in operating condition across the non-oil private sector. Results of the December 2021 Primary Consumer Sentiment Index (PCSI) in Saudi Arabia revealed concerns about the global spread of the Omicron variant leading to a marked slowdown in new business growth.



## Sector-specific trends

Islamic financial markets continued to expand in 2021, as demand for Sharia-compliant products remained resilient. In 2022 and beyond, it is expected that Islamic finance will continue to expand, maintaining its now long-established growth trend. The sector is expected to continue growing on all fronts, including banking, sukuk, takaful and insurance, with this growth benefiting from supportive government policies that reflect strong and increasing demand for such products.

Despite the challenging economic environment, pent-up demand and disposable income will support sales and increase average selling prices as mortgage loans are expected to continue

expanding thanks to favourable funding conditions and government stimuli. Additionally, the expected surplus in public finances would accelerate the implementation of some strategic programs and projects with economic and social dimensions.

A robust asset quality will be supported by strong credit growth, which will benefit from mortgage growth, capital projects under the Public Investment Fund (PIF), and the involvement of the private sector in Vision 2030-related investments. Banks will maintain stable funding profiles and adequate capital. Higher interest rates will support banks' profitability.



LIBOR – the global interest rate benchmark – will no longer be available for financial transactions from 31 December 2021 as it continues to be phased out across the world after decades of dominance. Saudi Arabia is moving to the Federal Reserve-approved Secured Overnight Financing Rate (SOFR).

The Basel Committee's January 2023 implementation date for Basel IV is approaching rapidly, with banks expecting to hear in 2022 what will be required of them. Regulators are sticking to the need for completion of the final reforms although some banks question the timing. Implementation has been deferred once due to the pandemic and may be delayed further due to the regulatory process.

In terms of Public-Private Partnerships, there have been several successful build-own-operate and build-operate-transfer projects implemented across the Kingdom, mainly in the power and water sectors. Moreover, areas such as waste management, the metro, and similar mass transit projects have utilised or planned on using the private sector along the value chain.

Government supportive measures to promote sustainability of the SME sector such as the Kafalah programme, National Development Fund and Private Sector Financing Support Programme reactivated credit for the SME segment in 2021, and witnessed a growth of 28% YoY according to SAMA. At the onset of the fourth and final quarter of 2021, SAMA also reported that Commerce (16.7%), Manufacturing (8.3%) and Construction (5.0%) were the sectors with the highest exposure. For banks, key concerns in financing these sectors include new waves of COVID-19, supply chain instability, resulting business interruptions, scarcity of materials and workforce shortages.

Overall, KSA Cost of Funds (COF) was the lowest in GCC in 2021 due to the rapid increase in deposits across Saudi banks. For 2022, deposit growth is expected to stabilise and this, together with the rapid financing book growth would lead banks to enter the debt market. Interest rates are expected to move in tandem with the U.S. Federal Reserve, and hence, increase COF.

In conclusion, continued economic recovery will support profitability, asset quality and low loan losses in the banking sector. Solid capital positions, improved loan loss reserves and sufficient liquidity will safeguard the Saudi Banking sector credit profile. Lower interest rates and higher cost of risk resulting from the gradual phase-out of government stimuli will put pressure on profitability, which would be partially offset by expanding the financing book, higher margins and by easing impairments and provisioning costs.

# Stakeholders

GRI 102-40,102-42

## Key stakeholder groups

Emerging trends in the operating environment (refer Operating Context on page 29 for details) affect the Bank's ability to deliver value to stakeholders and, in turn, to derive value from them in a manner that is sustainable in the long term. For this reason, the Bank finds it imperative to identify stakeholder groups that are important to it and to understand why the Bank is important to them. Such information supports the formulation of strategy that is fit for the future and the Bank's continued creation of value over time.



**Investors**



**Customers**



**Business partners**



**Employees**



**Regulators**



**Government  
Authorities**



**Society**



**Environment**

While the range of stakeholders who are able to directly or indirectly impact performance is extensive, by categorising key stakeholder groups as outlined above, the Bank is able to effectively manage its interactions with those that matter most to its operations.

## Stakeholder engagement process

The Bank's stakeholder engagement process follows a cyclic pattern as outlined below. This ongoing process ensures that the Bank remains relevant and responsive to stakeholder concerns.





## Stakeholder engagement method

Even though every point of stakeholder contact remains a shared responsibility across the Bank, formal mechanisms for stakeholder engagement continue to be in place. These mechanisms and the Bank's understanding of stakeholder aspirations are outlined in this section.

With the Bank deriving value from stakeholder groups (just as much as it delivers value to them), each of these groups is considered a resource. As a result, these stakeholder groups are discussed as forms of "capital" within this Report (refer Value Creation Model on page 26).



## Investors

Characterised by funding support, loyalty, influence, networks and the associated relationships, the investor capital contributes towards the Bank's ability to explore business opportunities and absorb unanticipated losses. In return, the Bank pledges to provide reasonable returns for the risks assumed.

40

| Subjects of Engagement  | Engagement   |   |
|---|--|---|
|   | Principal means of engagement  | Frequency   |
| <ul style="list-style-type: none"> <li>Financial performance</li> <li>Strategy</li> <li>Governance</li> <li>Shareholder returns</li> <li>Business expansion plans</li> <li>Risk management</li> <li>Sustainable growth</li> </ul> | <ul style="list-style-type: none"> <li>General Assembly Meeting</li> <li>Extraordinary General Meetings</li> <li>Annual Report</li> <li>Interim financial statements</li> <li>Investor earnings call</li> <li>Investor roadshows and presentations</li> <li>Investor disclosures</li> <li>Press conferences and releases</li> <li>Announcements made on the Saudi Stock Exchange</li> <li>Corporate website</li> <li>One-on-one discussions</li> <li>Feedback surveys</li> </ul> | <ul style="list-style-type: none"> <li>Annually</li> <li>As required</li> <li>Annually</li> <li>Quarterly</li> <li>Quarterly</li> <li>As required</li> <li>Quarterly</li> <li>As required</li> <li>As required</li> <li>Continuous</li> <li>As required</li> <li>As required</li> </ul> |



## Customers

Source of revenue, diversity, loyalty, trust etc., and associated relationships are typical of the customer capital, which contributes towards the Bank's financial sustenance and its ability to grow prudently over time. In return the Bank pledges to be relevant and proactive, being where the customer is when they need it.

| Subjects of Engagement                      | Engagement                    |             |
|---|-------------------------------|-------------|
|   | Principal means of engagement | Frequency   |
| • Banking hours                             | Branches                      | As required |
| • Customer security and privacy             | Service centres               | Continuous  |
| • Service quality                           | ATM network                   | Continuous  |
| • Financial inclusion                       | Online banking                | Continuous  |
| • Affordability of services and convenience | Mobile app                    | Continuous  |
| • Grievance handling mechanism              | Corporate website             | Continuous  |
| • Financial education and literacy          | Print and electronic media    | As required |
| • Financial support for revival of business | Social media                  | Continuous  |
| • Specialised needs                         | Customer satisfaction surveys | As required |
|   | Customer visits               | As required |
|   | Net promoter score            | Continuous  |



## Business partners

Typically characterised by critical supplies and services, pricing, reliability, ethical practices etc., and the associated relationships, the business partner capital contributes towards the Bank's ability to provide sustainable products and services and maintain operational excellence at all times. In return, the Bank ensures that its partnerships with business partners are mutually beneficial, professional, transparent, and fair, seeking to influence them for good.

42

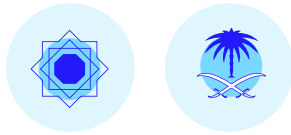
| Subjects of Engagement  | Engagement   |                                       |
|---|--|---------------------------------------|
|   | Principal means of engagement  | Frequency                             |
| <ul style="list-style-type: none"> <li>• Contractual performance</li> <li>• Future business opportunities</li> <li>• Maintaining healthy relationships</li> <li>• Timely settlement of dues</li> <li>• Ease of working</li> <li>• Growth potential</li> <li>• Collaboration for new technological advances in the financial sector</li> </ul> | <p>Supplier relationship management</p> <p>On-site visits and meetings</p> | <p>As required</p> <p>As required</p> |



## Employees

Know-how, skills, capacity to innovate, loyalty, diversity, morale etc., and the associated relationships are what the employee capital is generally characterised by. It contributes towards the Bank's ability to provide customers with the kind of experience they expect from one of the largest Islamic banks in the world. In return the Bank ensures that its people are provided with a safe and enabling environment with the capacity for skills and career development, meaningful employment, and a good work-life balance.

| Subjects of Engagement           | Engagement                    |             |
|----------------------------------|-------------------------------|-------------|
|                                  | Principal means of engagement | Frequency   |
| • Performance standards          | Induction programme           | Once        |
| • Career planning                | Key performance indicators    | Continuous  |
| • Training and development       | Al Rajhi Academy              | Continuous  |
| • Corporate values               | Career development guidance   | Annually    |
| • Corporate strategies and plans | Internal communications       | As required |
| • Trends in banking              | Staff societies               | As required |
| • Saudisation                    | Volunteerism                  | As required |
| • Remuneration and benefits      | Employee satisfaction survey  | As required |
| • CSR programmes                 |                               |             |



## Government authorities and regulators

Characterised, among other aspects, by regulation of sound banking systems, control of risks to prevent socio-economic problems, supervision of competition in the market, provision of banking licences etc., and the associated relationships this capital supports the Bank to grow sustainably, while providing robust products and services. In return, the Bank contributes towards financial sector stability, economic growth, financial literacy, and financial inclusion.

44

| Subjects of Engagement   | Engagement  |  |
|--|---|--|
|  | Principal means of engagement   | Frequency  |
| <ul style="list-style-type: none"> <li>• Financial performance</li> <li>• Strategy</li> <li>• Governance</li> <li>• Shareholder returns</li> <li>• Business expansion plans</li> <li>• Risk management</li> <li>• Sustainable growth</li> <li>• Saudisation</li> <li>• Employment opportunities</li> <li>• Microfinance and SME</li> </ul> | <ul style="list-style-type: none"> <li>Consultations</li> <li>Relationship building meetings</li> <li>Informal briefings and communications</li> <li>General Assembly Meeting</li> <li>Extraordinary General Meetings</li> <li>Annual Report</li> <li>Interim financial statements</li> <li>Announcements made on the Saudi Stock Exchange</li> </ul> | <ul style="list-style-type: none"> <li>As required</li> <li>As required</li> <li>As required</li> <li>Annually</li> <li>As required</li> <li>Annually</li> <li>Quarterly</li> <li>As required</li> </ul> |



## Social and Environment

Sound social and environmental stewardship, public trust, access to public infrastructure and natural resources etc., and the associated relationships are some of the characteristics of this capital. The social and environmental capital provides the Bank with a “licence to operate” and grow sustainably over time. In return, the Bank ensures that the communities within which it operates are nurtured and that the natural environment is protected for future generations.

| Subjects of Engagement                               | Engagement                             |             |
|--|--|-------------|
|  | Principal means of engagement          | Frequency   |
| • Financial inclusion                                | Delivery channels                      | Continuous  |
| • Affordable financing for disadvantaged segments    | Press releases and media briefings     | As required |
| • Community empowerment                              | Informal briefings and communications  | As required |
| • Assistance for disadvantaged and vulnerable groups | Public events                          | As required |
|  | Corporate website                      | Continuous  |
| • Saudisation  | Educational projects                   | As required |
| • Employment opportunities                           | Youth and employment projects          | As required |
| • Microfinance and SME                               | Microfinance for women                 | As required |
|  | Programmes for SMEs                    | As required |
| • Environmental performance                          | Assistance to the needy and vulnerable | As required |

(Refer Value Drivers on page 13 for description of Intellectual capital)

## Materiality assessment

Al Rajhi Bank conducts an annual materiality assessment to ensure we prioritise and identify the environmental, social and governance (ESG) topics that are most important to our stakeholders and our business. Referencing the Saudi Exchange ESG Disclosure Guidelines as the ESG reporting framework for the year under review, Al Rajhi Bank worked with one of the world's largest pure play sustainability consultancies to evaluate our materiality assessment approach against local and global peer-adopted approaches. This was the preliminary step in Al Rajhi Bank's three-phased execution in the development of a comprehensive ESG strategy, transforming the assessment and application of materiality to meet the growing significance we place on our ESG credentials.

## Identifying areas for improvement

The Peer Benchmark compared Al Rajhi's existing materiality assessment and that of its peers against six best practice evaluation attributes of ESG performance: material topic identification and prioritisation, stakeholder engagement, ESG standards and frameworks, transparency, materiality trends and geographic approach. While there was a degree of alignment with peers in the ESG topics prioritised by the Bank, certain key strengths as well as areas for improvement were identified.

The Bank immediately followed the Peer Benchmark with a Materiality Review as phase two of the ESG strategy development plan, where a number of immediate and long-term opportunities were discovered. These would enable the Bank to align with global best practices and trends to enhance the overall approach to materiality, setting a solid foundation for our strategic direction to create value across the ESG landscape. Among the immediately actionable

recommendations was an indicative short, concise list of 13 ESG-based material topics that were to be considered a foundation for a more comprehensive list of new material topics that will support the Bank's ESG strategy and reporting process:

### Environmental

- Climate Change

### Social

- Human Labour and Rights
- Customer Experience
- Employee Attraction, Development and Retention
- Employee Health and Wellbeing
- Community Investment and Engagement

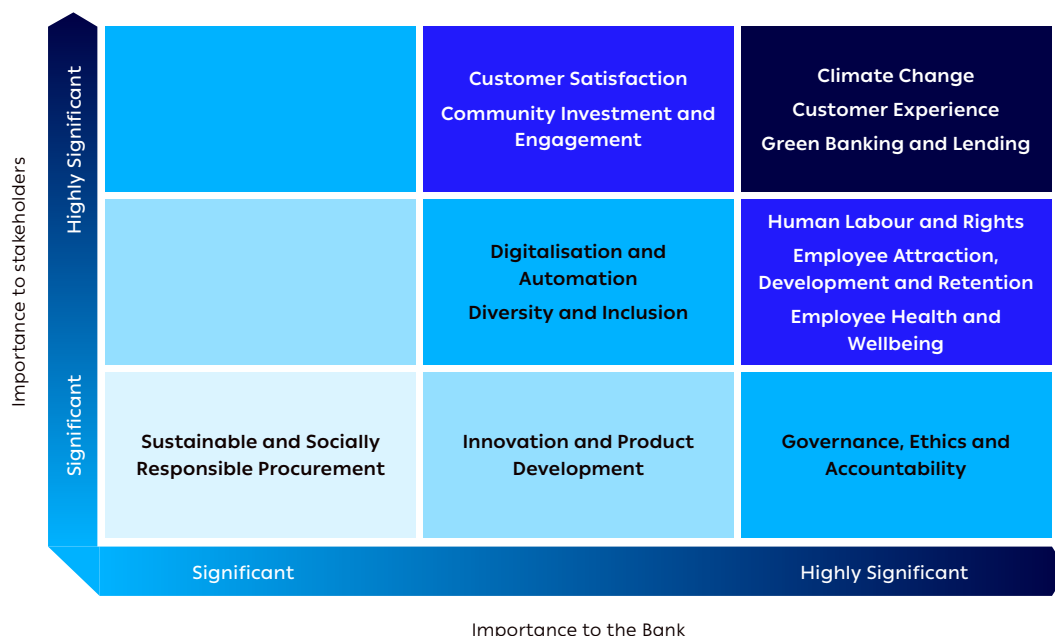
### Governance

- Digitalisation and Automation
- Customer Satisfaction
- Innovation and Product Development
- Diversity and Inclusion
- Green Banking and Lending
- Governance, Ethics and Accountability
- Sustainable and Socially Responsible Procurement

In 2021, these 13 new ESG-based material topics served as the basis for the Bank's materiality assessment and ESG Report, duly aligned with the Bank's overarching Bank of the Future strategy, and validated by both internal and external stakeholders. The strategic relevance of the ESG topics was assessed on two dimensions; their importance to stakeholders and their importance to the Bank. Following the



assessment, each topic was mapped accordingly onto the Al Rajhi materiality matrix rated from significant to highly significant in importance, enabling the Bank to closely align its ESG strategy with stakeholder expectations.



47

## Management approach

Material topics receive management attention, especially with regard to the Bank's business strategy, resource allocation, and activities. They are assigned to the relevant Heads of business or functional units. Resource allocation is based on the degree of materiality of any particular risk or opportunity.

In line with the materiality study, the Bank continues to develop and roll out policies as required to guide its employees in the smooth and efficient implementation of their duties.

# Strategic Direction

In the five years leading up to 2021, Al Rajhi Bank delivered strong results from its successful ABCDE – Back to Basics strategy, which was designed to accelerate growth, establish a strong stake in digital banking, and strengthen the Bank's infrastructure, controls, and execution. The ABCDE strategy gave in-depth insight into the Bank's core capabilities, strengths and resources, allowing it to identify and monitor additional measures that helped in creating sustainable value for stakeholders; this improved the Bank's operations and contributed to doubling the share price in five years.

Amidst the robust growth of its retail banking franchise and market leading financial performance, Al Rajhi Bank too was impacted by the sudden constraints and restrictions resulting from the coronavirus pandemic, immediately followed by the global oil crisis in March 2020.

Whilst responding rapidly and prudently to immediate health, safety, regulatory and compliance changes, the Bank identified key challenges that needed to be urgently addressed in order to retain its market leadership position in KSA. These included the decline in the Saudi Arabian Interbank Offered Rate (SAIBOR), spelling out a clear decline in net interest margins and yield for Al Rajhi – a Bank funded predominantly by non-profit bearing deposits and nearly 79% of its operating income came from yield.

Another emerging challenge was the entry of non-traditional players to KSA's very attractive and growing financial services market, driving Al Rajhi to redefine its competition and address the threat of new entrants, new products and new services. A rapidly evolving regulatory environment is creating a level playing field for all market players as well as non-market participants, resulting in a number of opportunities as well as implications, leading to improved levels of data protection and cybersecurity. The continued impact of COVID-19 also remained a key challenge that the Bank needed to overcome.

In the face of such rapidly changing variables, new competition, growing regulations, and the Government's ambitious focus and implementation of Vision 2030 initiatives, Al Rajhi re-imagined its banking business model; integrating smart banking tools and technologies to enhance capabilities across the Bank as well as its subsidiaries, leveraging previously unexplored synergies, and identifying new opportunities. During the year under review, the Bank adopted a new strategy to address these identified challenges and guide it through the 2021-2023 planning period, enabling the Bank to effectively and efficiently realise its stated vision to become the 'Bank of the Future' (BOTF).

48

## The Bank of the Future Strategy (2021 – 2023)



### Build on the Core

- Grow Retail including Private Sector
- Expand Corporate
- Bank of Choice for SMEs
- Grow Demand Deposits
- Improve Revenue Mix



### Outperform our Competition

- Customer Experience
- Preferred Employer
- Market Share
- Preferred Loyalty Program
- Leader in Financial Conduct



### Transform Technology

- Digital Core Banking Platform
- Data Leader for Customer Insights
- Modernize our technology
- Leverage our Infrastructure
- Adopt Agile Delivery



### Focus on New Client Needs

- Become Leading Finance Company
- Develop Best Payments Solution
- Grow Private Banking
- Expand customer reach
- Deepen Relationships via X-Sell



## Build on the Core

The Bank continued to invest in and build its existing capabilities across Retail, Corporate, Micro and Small Business Banking to securely and sustainably grow its core franchise market share during the year under review.

In Retail Banking, the Bank retained its market leadership position in 2021 amidst strong price competition; mortgage, personal finance and auto finance segments recorded significant double-digit growth, the highest ever growth in the history of ARB. The growth of the Bank's mortgage portfolio by 63% year-on-year with a market share close to 41% in 2021 was a strong enabler of the Kingdom's Vision 2030 target of increasing Saudi Home Ownership to 70%.

In 2021, Al Rajhi captured new market share by expanding focus from the public sector to also include the private sector. This strategic effort also supported KSA's Vision 2030 objective for non-oil GDP growth, while doubling the Bank's private sector portfolio year-on-year in terms of asset growth. Strategic enhancements and exclusive privileges to the Bank's Affluent segment in 2021 also contributed to the increase in demand deposit market share, helping offset the reduction of interest rates.

Corporate Banking also experienced strong growth with a focused approach towards strong corporate portfolios with optimal capital structure to diversify its client base, adding over 100 new borrowing clients in 2021. The focused approach minimised non-performing loan (NPL) levels, maintaining a low cost of risk due to higher recoveries. Al Rajhi Bank's increase in market share of the corporate banking segment affirms the successful growth strategy of corporate banking for the year under review.

Additionally, the Bank revamped its SME Business for better alignment with KSA's Vision 2030 as well as the Bank's own mandate to become the 'Bank of Choice for SMEs'. New products including cash flow and balance sheet lending were introduced, supported by rigorous past due procedures and proactive monitoring, all contributing to an improved NPL ratio and a 43% financing growth year-on-year.

In order to further offset the yield impact, the Bank improved fee income as a percentage of operating income required to cover operating expenses. Controlled spend and disbursements with increase in transaction volumes as well as lowered structural costs and increased yield income led to the Bank's cost to income ratio forecasted to remain below 28% for the year under review – an outstanding achievement for a Bank of Al Rajhi's scale and distribution.



## Outperform our Competition

In line with the BOTF strategy, the Bank set ambitious targets to lead and outperform its competition across focused areas covering customer experience, employee engagement as well as financial and regulatory conduct.

The Bank has heavily invested in enhancing its customer experience which began under the ABCDE – Back to Basics Strategy, and continued the momentum with the BOTF strategy during the year under review. Several key metrics were integrated to Management KPIs for monitoring customer behaviour, feedback and insight to improve and optimise the overall customer experience. This was further enhanced by accelerating the Bank's digital agenda and moving to cashless transactions, consciously transitioning away from physical channels and the physical handling of cash, and migrating

customers on to seamlessly integrated digital channels and platforms. With Al Rajhi's cashless transactions nearing 80% of its total transactions during the year under review, the Bank remains true to the Kingdom's Vision 2030 target of 70% cashless transactions by 2030.

Attracting, retaining and developing the next level of talent continued to be a priority at Al Rajhi, where the Bank's people were continuously equipped with the necessary skill sets, capacity, development and incentives to meet the demands of a hybrid work environment. In line with the BOTF strategy to become a preferred employer, Al Rajhi Bank continued to invest in its people with a focus on building the right capabilities.

The ARB Academy - established as part of the previous strategy - advanced its highly coveted Graduate Development Programme (GDP) to include a Technology GDP in line with the BOTF strategy, employing and training the next generation of professionals in current and emerging technologies to build a strong, future-proof talent pool for the Bank. An attractive, positively challenging and nurturing work environment enabled the Bank to retain high potential employees and attract hard-to-find talent. The Bank is also one of the largest employers of females in the country, and continued to improve numbers by expanding into the female talent pool by enabling effective work-from-home initiatives.

The evolved work environment was also complemented by enhanced digital capabilities during the year under review that allowed Al Rajhi employees to efficiently and effectively engage with the Bank's Human Resource function while utilising improved self-service options, which has contributed to greater levels of employee satisfaction and productivity. A cultural shift continues across the

Bank in terms of mindset, work ethic and accountability that powered a collective effort to drive the business through a challenging period.

Al Rajhi Bank enhanced its Mokafaa loyalty programme as part of the BOTF strategy, focusing on offering members an unparalleled, market leading loyalty experience with higher perceived value, enhancing customer give-back ratio through a rich, diversified and expanding partner network. A new loyalty management system powered by data analytics enabled the Bank to analyse and swiftly respond to specific customer behaviours, successfully expanding its membership during the year under review, and reaching top-of-mind-recall in the KSA banking sector as measured by a third-party brand health tracking survey.

In terms of financial and regulatory conduct, the Bank wished to develop, leverage and encourage sustainable financial and regulatory behaviours to influence the market and create value across all stakeholder groups. The Bank embraced the implications of regulatory changes that were taking place during the year under review, following the expedited digitisation that resulted from the COVID-19 pandemic.

Al Rajhi proactively worked on equipping the Bank to meet the demands of the new open banking framework SAMA aims to launch in 2022. The initiative aims to enable customers to securely share their data with third parties, creating new market opportunities for new financial services and service providers. Al Rajhi continues to maintain complete compliance with SAMA as well as the National Cybersecurity Authority (NCA) on regulations and directives concerning cybersecurity, data protection and electronic interbank fund transfers.



**Building the  
unthinkable**



## Transform Technology

Al Rajhi Bank continued its focus on modernising technology under the BOTF strategy, demonstrating leadership in digitalisation, data-driven insights and agile working. Consumers increasingly turned to digital options across all areas of their day-to-day lives, thereby demanding the same level of ease and convenience from the Bank of their choice. As a Bank that was already ahead of its competition in terms of pre-pandemic digital adoption, not only was Al Rajhi ready to deliver on the sudden and urgent shift to digital, the Bank was also able to enjoy dividends on the technology infrastructure investments it had continued to make over the past few years.

Other key technology initiatives rolled out as part of the BOTF strategy include major upgrades to Al Rajhi's mobile banking ecosystem that currently consists of the best-rated retail and business banking mobile apps in the Kingdom. This included the installation of an offline data vault in Jeddah, a second Cyber Recovery Site (CRS) to protect against cyber-attacks, and an automated testing and deployment process upgrade to the Bank's internal Application Programming Interface (API) Factory in order to enhance time to market. These investments resulted in a superior level of integration across Bank subsidiaries, merchants, external partners and the overall Bank ecosystem.



## Focus on New Client Needs

The Bank expanded into key growth areas such as microfinancing, payments and wealth management, exploring new opportunities and penetrating new market segments while also deepening existing customer relationships by cross-selling financial solutions. Expanding along its traditional core banking verticals to fulfil more customer needs was a low risk option for the Bank based on its strong natural assets of balance sheet, distribution, industry reputé and visionary leadership.

The Treasury Group successfully diversified into a wide range of higher yielding asset classes, and optimised its portfolio to grow market share in customer offerings under the BOTF strategy. A wide range of Shariah compliant asset classes expanded the Treasury Group portfolio, with multiple structured products, hedging solutions and foreign exchange products introduced

for the first time in the history of Al Rajhi Bank to both individual and commercial clients.

One of the BOTF strategy's greatest successes comes from the Bank's response to the changing needs of the consumer finance market with the launch of Emkan Finance – a lending company focused on growing the lending customer base into segments previously inaccessible to the Bank. Offering extended credit to customers with specific credit needs over and above what the Bank offers, Emkan grew its portfolio to SAR 6.8 Bn. by the end of 2021. A revamped Micro and Small Business (MSB) banking unit targeted businesses running on cash flows as collateral. The Bank's identification of these two untapped market segments during the year under review saw an increase of yield and arrested the decline of Al Rajhi's spreads, one of its key challenges in 2021.

As one of the Kingdom's leading payment solutions providers, Al Rajhi Bank swiftly addressed the challenge of fintechs and new entrants to the payments market by establishing Neoleap – an end-to-end digital payments solutions for customers, further strengthening the Bank's position in the Kingdom's growing digital transaction ecosystem. Complete with digital wallet, payment gateway, point of sale (POS), third-party service integration and much more, Neoleap further highlighted the beneficial synergies within the Bank's subsidiaries and capabilities to effectively and successfully compete against new entrants and fintechs in a rapidly evolving Saudi market.

As the BOTF strategy continues to unfold, the Bank has rebranded itself as a relevant, sophisticated and future ready group operation moving away from the traditional banking structure. The BOTF strategy has a range of initiatives that will equip the Bank to respond to potential market changes as well as unforeseen disruptions effectively, with the overarching objective of maximising the synergies across Al Rajhi Bank and its subsidiaries as a collective of financial solutions that create value for all stakeholders.



# 54

## Business in Perspective

|   |     |
|---|-----|
| CFO Review 2021 Performance                     | 55  |
| Business Portfolio Review                       | 62  |
| Retail Banking                                  | 62  |
| Corporate Banking                               | 66  |
| Treasury  | 70  |
| MSME Business                                   | 72  |
| Subsidiaries and International Branches         | 76  |
| Al Rajhi Capital                                | 77  |
| Tuder Real Estate Company                       | 79  |
| Neoleap   | 80  |
| Emkan Finance                                   | 81  |
| Al Rajhi Bank – Malaysia                        | 82  |
| Al Rajhi Bank – Jordan                          | 86  |
| Al Rajhi Bank – Kuwait                          | 88  |
| Human resources                                 | 90  |
| Marketing and Customer Experience               | 103 |
| Shared Services                                 | 107 |
| Digital Footprint and Technology Transformation | 110 |
| Sharia Group                                    | 114 |

# CFO Review

## 2021 Performance



55

### An overview

Immediate and controlled action from the onset of the pandemic in 2020 by the Saudi Government ensured minimum impact on the local economy and rapidly improving economic recovery and activity during 2021. Following the strong results from its successful "ABCDE – Back to Basics strategy" (2016 – 2020), Al Rajhi Bank swiftly adopted the new three-year Bank of the Future (BOTF) Strategy in 2021 as the Kingdom and the world recovered from the pandemic, and focused on delivering and executing its strategic goals across all banking functions based on four pillars; build on the core, outperform the market, transform technology and fulfil more customer needs.

With the underlying priority of elevating the customer experience, the Bank recorded a strong performance across all segments of the business in 2021; retail banking expanded its digital offering across personal finance, auto finance and mortgage to successfully retain its market leadership position, increasing efficiencies, reducing turn-around times and recording unprecedented double digit growth.

Corporate banking saw the expansion of its product portfolio to include financing, cash management, trade and hedging products, increasing its market share by gaining deeper insight into customer needs through the Customer Relationship Management (CRM) system and 360° client coverage model. Al Rajhi also realigned its SME business with its BOTF strategic goals, revamping the segment with new products and end-to-end digital capabilities; from online account opening to Point of Sales (POS) and financing requests through the Kingdom's currently top-ranked business mobile app.

Additionally, the Bank seamlessly integrated its subsidiary services to build a comprehensive, multi-service banking and financing ecosystem, optimising the synergies across the Group so that customers can benefit from brokerage and investment banking, microfinancing, digital payments and other services. During the year under review, we continuously monitored our Net Promoter Score (NPS) to ensure our initiatives to improve customer engagement and customer experience were successful, ending the year with the top NPS in the Kingdom.

The BOTF strategy contributed immensely to the delivery of strong results in 2021. We recorded SAR 14.7 Bn. in net income after Zakat for the year, a phenomenal 39% growth over 2020 compared to the 4.3% growth rate recorded the previous year. Total assets grew to SAR 624 Bn. as at 31 December 2021, recording a year-on-year growth of 33%, largely driven by exceptional growth in financing (43%) and investment (40%) portfolios. Customer deposits grew by 34% to SAR 512 Bn., funding 82% of the total asset base.

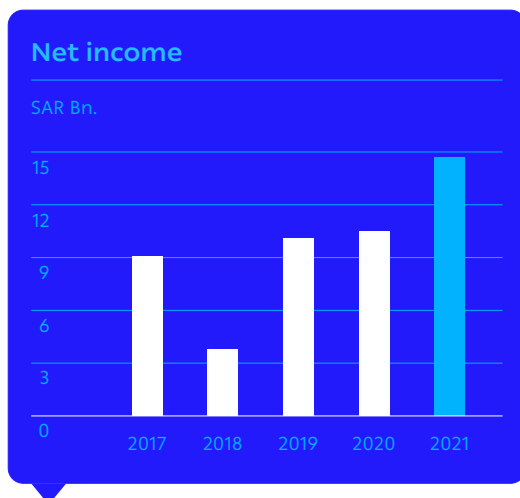
A detailed review of Al Rajhi Bank's results of operations and financial position is given below:

## Income Statement

The Bank recorded a net income of SAR 14.7 Bn. in 2021, with the improved financial metrics reflecting the disciplined implementation and accelerated achievements of Al Rajhi's strategic goals and objectives under its new BOTF strategy.

## Five-year summary of the Income Statement

| Description   | 2021<br>SAR '000  | 2020<br>SAR '000  | 2019<br>SAR '000  | 2018<br>SAR '000  | 2017<br>SAR '000  |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Income</b>   |                   |                   |                   |                   |                   |
| Gross financing and investment income                                     | 21,441,506        | 17,377,963        | 16,962,583        | 14,993,709        | 12,581,004        |
| Return on customers', banks' and financial institutions' time investments | 1,049,570         | 464,946           | 534,860           | 506,724           | 551,587           |
| <b>Net financing and investment income</b>                                | <b>20,391,936</b> | <b>16,913,017</b> | <b>16,427,723</b> | <b>14,486,985</b> | <b>12,029,417</b> |
| Fee from banking services, net  | 3,933,107         | 2,659,680         | 1,987,367         | 1,867,034         | 2,697,208         |
| Exchange income, net  | 787,898           | 783,894           | 774,096           | 755,804           | 841,839           |
| Other operating income, net   | 603,457           | 364,669           | 295,278           | 209,695           | 336,390           |
| <b>Total operating income</b>   | <b>25,716,398</b> | <b>20,721,260</b> | <b>19,484,464</b> | <b>17,319,518</b> | <b>15,904,854</b> |
| <b>Expenses</b>   |                   |                   |                   |                   |                   |
| Salaries and employees' related benefits                                  | 3,132,346         | 2,977,344         | 2,794,046         | 2,809,449         | 2,813,918         |
| Rent and premises related expenses  | -                 | -                 | -                 | 314,567           | 311,025           |
| Depreciation and amortization   | 1,141,932         | 1,118,148         | 1,059,582         | 603,136           | 440,566           |
| Other general and administrative expenses                                 | 2,652,244         | 2,646,409         | 2,532,213         | 1,925,518         | 1,671,052         |
| <b>Operating expenses before credit impairment charge</b>                 | <b>6,926,522</b>  | <b>6,741,901</b>  | <b>6,385,841</b>  | <b>5,652,670</b>  | <b>5,236,551</b>  |
| Impairment charge for financing and other financial assets, net           | 2,345,086         | 2,165,740         | 1,772,265         | 1,530,946         | 1,547,577         |
| <b>Total operating expenses</b>   | <b>9,271,608</b>  | <b>8,907,641</b>  | <b>8,158,106</b>  | <b>7,183,616</b>  | <b>6,784,128</b>  |
| <b>Income for the year before Zakat</b>                                   | <b>16,444,790</b> | <b>11,813,619</b> | <b>11,326,358</b> | <b>10,135,902</b> | <b>9,120,726</b>  |
| Zakat for the year  | 1,698,579         | 1,218,071         | 1,167,831         | 6,367,949         | 0                 |
| <b>Net income for the year</b>  | <b>14,746,211</b> | <b>10,595,548</b> | <b>10,158,527</b> | <b>3,767,953</b>  | <b>9,120,726</b>  |



### Yield-based operations

Net financing and investment income for the year grew by 21% for the year to SAR 20.4 Bn., accounting to 79% of the total operating income. This was consequent of the strong growth delivered across the retail portfolio including mortgage and personal financing, as well as the growth recorded in the investment portfolio.

### Non-yield-based operations

Fees from banking services recorded a 48% growth year-on-year to SAR 5.3 Bn., and accounted for 21% of the total operating income in 2021. Non-yield-based income during the year was driven by improved market share of Al Rajhi Capital in brokerage activities and higher volumes in the stock market as well as expedited migration to cashless payment methods, successfully supported by the Bank's leading market share in Point-of-Sale (POS) terminals across the Kingdom.

### Total operating income

The total operating income of the Bank reached SAR 25.7 Bn. for the year 2021, recording a growth of 24% year-on-year, a result of the strong momentum in the delivery of the BOTF Strategy.

### Operating expenses

Multiple initiatives carried out by Al Rajhi Bank over the past few years to optimise cost, digitise products and services, implement latest technologies and improve productivity, collectively impeded the growth of operating expenses to 3% during 2021 to SAR 6.9 Bn. This, coupled with controlled spend and disbursements as well as lowered structural costs among other new initiatives saw the Bank's Cost-to-Income ratio decrease from 32.5% in 2020 to 26.9% in 2021, an outstanding achievement and a benchmark for the local banking industry.



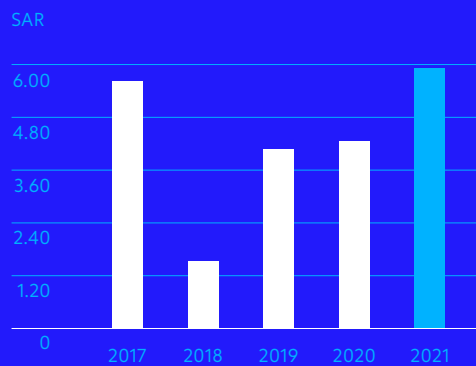
### Impairment charges

The net impairment charge for the year increased by 8% to SAR 2.3 Bn., driven by strong growth delivered across the Bank's financing portfolio. However, through prudent risk management, the Bank explored growth opportunities without compromising its risk measures, and maintained a healthy balance sheet to decrease its cost of risk from 0.75% in 2020 to 0.60% in 2021.

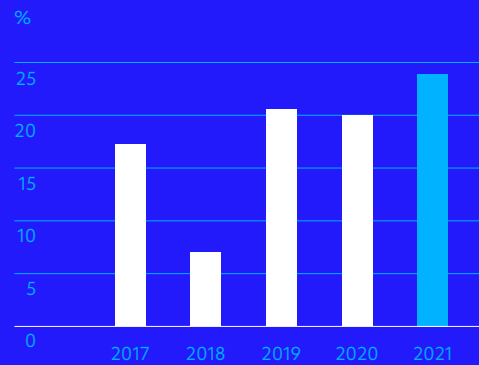
## Profitability

With the increase in net income to SAR 14.7 Bn., earnings per share increased from SAR 4.24 in 2020 to SAR 5.90 in 2021. Return on Assets (ROA) for 2021 increased marginally from 2.56% the previous year to 2.70%, while Return on Equity (ROE) increased from 19.94% to 23.87% year-on-year.

### Earnings Per Share (EPS)



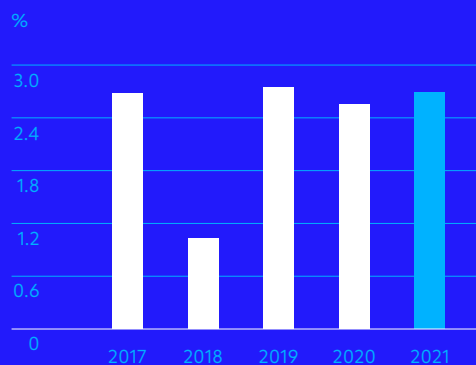
### Return on average equity



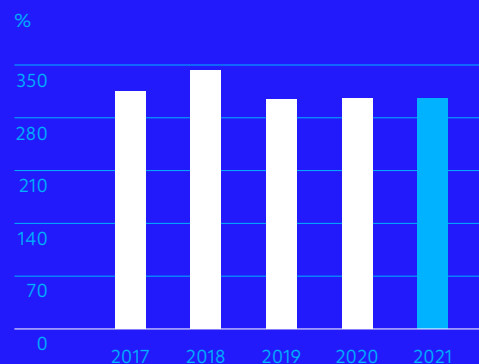
## Statement of financial position

Al Rajhi Bank recorded strong growth in assets and liabilities during 2021, maintaining a well-provisioned, healthy balance sheet with greatly improved Non-Performing Loan (NPL) and coverage ratios. With capital funding 11% of total assets during 2021, on-balance sheet gearing remains at a healthy 9.3 times.

### Return on average assets



### NPL coverage



## Five-year summary of the statement of financial position

| Description  | 2021<br>SAR '000   | 2020<br>SAR '000   | 2019<br>SAR '000   | 2018<br>SAR '000   | 2017<br>SAR '000   |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cash and balances with Central Bank "SAMA" and other central banks | 40,363,449         | 47,362,522         | 39,294,099         | 43,246,043         | 48,282,471         |
| Due from banks and other financial institutions, net               | 26,065,392         | 28,654,842         | 32,058,182         | 32,387,760         | 10,709,795         |
| Investments, net   | 84,433,395         | 60,285,272         | 46,842,630         | 43,062,565         | 36,401,092         |
| Financing, net   | 452,830,657        | 315,712,101        | 249,682,805        | 231,758,206        | 233,535,573        |
| Investment properties, net   | 1,411,469          | 1,541,211          | 1,383,849          | 1,297,590          | 1,314,006          |
| Property and equipment, net  | 10,665,799         | 10,234,785         | 10,407,247         | 8,649,435          | 7,858,127          |
| Other assets, net  | 7,901,754          | 5,033,990          | 4,417,764          | 3,629,245          | 5,015,464          |
| <b>Total Assets</b>  | <b>623,671,915</b> | <b>468,824,723</b> | <b>384,086,576</b> | <b>364,030,844</b> | <b>343,116,528</b> |
| Dues to banks and other financial institutions                     | 17,952,140         | 10,764,061         | 2,219,604          | 7,289,624          | 5,522,567          |
| Customers' deposits  | 512,072,213        | 382,631,003        | 312,405,823        | 293,909,125        | 273,056,445        |
| Other liabilities  | 26,338,711         | 17,311,141         | 18,269,492         | 14,526,229         | 8,786,598          |
| <b>Total liabilities</b>   | <b>556,363,064</b> | <b>410,706,205</b> | <b>332,894,919</b> | <b>315,724,978</b> | <b>287,365,610</b> |
| <b>Shareholders' equity</b>  |                    |                    |                    |                    |                    |
| Share capital  | 25,000,000         | 25,000,000         | 25,000,000         | 16,250,000         | 16,250,000         |
| Statutory reserve  | 25,000,000         | 25,000,000         | 21,789,632         | 16,250,000         | 16,250,000         |
| Other reserves   | 309,394            | (134,728)          | (216,041)          | (349,555)          | 5,281,682          |
| Retained earnings  | 16,999,457         | 8,253,246          | 868,066            | 12,499,171         | 13,906,736         |
| Proposed gross dividends   | 0                  | 0                  | 3,750,000          | 3,656,250          | 4,062,500          |
| <b>Total shareholders' equity</b>                                  | <b>67,308,851</b>  | <b>58,118,518</b>  | <b>51,191,657</b>  | <b>48,305,866</b>  | <b>55,750,918</b>  |
| <b>Total liabilities and shareholders' equity</b>                  | <b>623,671,915</b> | <b>468,824,723</b> | <b>384,086,576</b> | <b>364,030,844</b> | <b>343,116,528</b> |

59

## Assets

Robust growth in business volumes helped Al Rajhi's asset base to successfully cross SAR 600 Bn. during 2021 to reach SAR 624 Bn. as at 31 December 2021, a growth of 33% compared to 22.1% a year ago. This brings Al Rajhi's total asset growth over the past five years to 82%.

## Financing and investments

Our net financing increased by 43% to SAR 453 Bn., with the overall financing mix remaining predominantly retail, with 81% net exposure. Mortgages made the biggest contribution, having grown by SAR 66 Bn., a year-on-year growth of 63%. Outstanding mortgages amounted to SAR 171 Bn. at the year's end, representing 46% of the retail portfolio and 37% of the overall financing portfolio. Net investments too increased by 40% to SAR 84 Bn. Over the past five years, the Bank has recorded a financing portfolio growth of 94% and an investment portfolio growth of 132%, contributing to a five-year net income growth of 61.7%.

## Asset quality

Al Rajhi Bank followed a prudent approach to growth and a conservative approach to provisioning for NPLs, resulting in an improved asset quality during the year with the NPL ratio reducing from 0.76% in 2020 to 0.65% in 2021, the third consecutive year the Bank recorded an improvement on this crucial KPI. The coverage ratio remained above industry average at a healthy 305.6%. As of 2021, 97% of the Bank's financing portfolio are stage 01 assets, reflecting the Bank's stringent credit evaluation and post disbursement monitoring process. The remaining 2% and 1% of assets belonged to Stage 2 and Stage 3 respectively. During the year under review, the Bank recorded a coverage rate of 0.83% for Stage 1 assets, with Stage 2 coverage at 24.3% and Stage 3 coverage at 75.6%.

## Deposits and other liabilities

Customer deposits increased by SAR 130 Bn. in 2021, a growth of 33.8% to reach SAR 512 Bn. by the year's end. Demand deposits grew by 12.5% exceeding the average market growth of 6% for the year under review, resulting in improved market share for Al Rajhi. Time deposits

also recorded a strong growth in 2021 to fund the overall growth in the financing and investment portfolio.

## Stability

A strong and healthy balance sheet in terms of superior asset quality, optimum liquidity and comfortable levels of capital ratios coupled with the support of a loyal shareholder base bears testimony to the stability of Al Rajhi Bank.

## Capital

Al Rajhi Bank continued to comfortably maintain a strong capitalisation profile above the regulatory minimum requirements with a Core Equity Tier 1 (CET1) ratio of 16.5%, and total capital adequacy ratio of 17.6% as at 31 December 2021. These ratios were marginally lower than the ratios recorded during the previous year, largely due to a 31.8% increase in Risk-Weighted Assets (RWA) arising primarily from growth in the financing portfolio.

## Liquidity

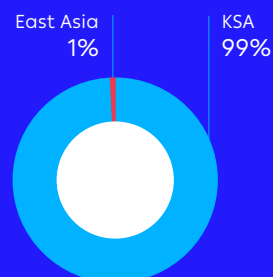
Al Rajhi Bank's liquidity position remained healthy with a Loan-to-Deposit Ratio (LDR) of 82.3%, a Net Stable Funding Ratio (NSFR) of 114%, and a Liquidity Coverage Ratio (LCR) of 121% supported by High Quality Liquid Assets (HQLA) amounting to SAR 95 Bn. as at 31 December 2021, all within regulatory requirements

## Segmental performance

| Geographical analysis of the total income of the bank and its subsidiaries | 2021<br>SAR '000  |
|--|-------------------|
| KSA  | 25,514,524        |
| East Asia  | 201,874           |
| <b>Total</b>   | <b>25,716,398</b> |



### Geographical analysis of the total income of the bank and its subsidiaries



| Activity Type Revenue                          | 2021<br>SAR '000 |
|--|------------------|
| Al Rajhi Capital Company – KSA                 | 973,352          |
| Tuder Real Estate Company – KSA                | 147,261          |
| Al Rajhi Takaful Agency Company – KSA          | (1,844)          |
| Al Rajhi Company for management services – KSA | 636,182          |
| Emkan Finance Company – KSA                    | 1,384,196        |
| Tawtheeq Company – KSA                         | 7,101            |
| Al Rajhi Bank – Jordan                         | 146,979          |
| Al Rajhi Bank – Kuwait                         | 112,108          |
| Al Rajhi Corporation Limited – Malaysia        | 201,874          |
| International Digital Solutions Co. (Neoleap)  | 26,412           |
| Al Rajhi Financial Markets Ltd.                | 0                |
| <b>Total</b>                                   | <b>3,633,621</b> |

### Subsequent events

- On 8 December 2021, the Group entered into a sale and purchase agreement with the shareholders of Ejada Systems Limited Company ("Ejada") pursuant to which the Group will full acquire the Ejada subject to certain conditions which will be either satisfied or waived in accordance with terms of the agreement. On 16 January 2022, the Group announced that it obtained SAMA's and General Authority for Competition on the acquisition. The Group has not exercised control on Ejada as of 31 December 2021.

- On 23 January 2022, the Group issued 6,500 Perpetual Sukuk Certificates (Sukuk) of SR 1 Mn. each, and payable quarterly in arrears. The Group has a call option which can be exercised on or after 1 January 2027 as per the terms mentioned in the related offering circular. The expected profit distribution on the Sukuk is the base rate for three months in addition to a profit margin of 3.50%.
- On 16 Rajab 1,443 H (corresponding to 17 February 2022), the bank's Board of Directors recommended to the Extraordinary General Assembly to increase the bank's capital from SAR 25,000 Mn. to SAR 40,000 Mn. by granting bonus shares (3 shares for every 5 shares owned). The paid-up capital increase of SAR 15,000 Mn. will be capitalized from retained earnings. The proposed grant is subject to obtaining necessary approvals from official authorities and Extraordinary General Assembly on the capital increase and number of granted shares.



### Future outlook

Al Rajhi Bank will continue to focus on its strategic goals shaped by the BOTF strategy, and deliver a financial ecosystem that provides customers with intelligent, innovative financial solutions that address their rapidly evolving needs personal and corporate needs. The Bank will continue to focus on expediting the implementation of digital capabilities across its core retail portfolio, and on attracting high quality corporate portfolios with optimal capital structure to diversify our client base. The SME segment will continue to be one of our key focus areas, with the introduction of improved product offerings as we aim to be the partner in their journey to success. We will also continue to focus on optimising the synergies across our subsidiaries in terms of investments, microfinancing and digital payment solutions among other facilities, to offer the best banking and financial services to our growing customer base.

# Business Portfolio Review

## Retail Banking Group

### A reviving, competitive landscape

Being the largest Retail lender in the Kingdom, Al Rajhi Bank faced stiff competition from fintechs, disruptive technologies and changing business models during the year under review. The impact was felt primarily in personal finance, which although effectively countered by periodic and tactical campaigns to retain and gain customers, added additional stress to product margins. With new digital players entering the market, speed of delivery and a seamless customer experience became crucial factors when migrating the customer base from physical to digital channels.

Understanding affluent customer behaviour as well as their expectation in terms of relationship and products the Bank can offer was also a key challenge. With a stronger tendency to bank with multiple financial institutions, the affluent market segment also showed interest in new technologies and digital banking, a highly competitive aspect across the current banking landscape.

### Maintaining market leadership

In 2021, Retail Banking implemented strategies to sustain the Bank's leadership position in the areas of personal finance, auto finance and mortgage. For personal and auto finance, two key enablers increased market share during the year; digital migration and data insights. Digital migration extended the vision of the Bank to offer a seamless omni-channel financing experience to customers. Leveraging the latest technologies in data insights and Artificial Intelligence (AI) allowed the Retail Banking segment to improve its product offering, customer experience and cross sell activities. This enabled the Bank to retain key clientele, while also engaging with and acquiring a significant portion of non-bank customers, increasing its customer base as well as

consolidating its portfolio and market share positions. The Bank dominated both personal and auto finance markets with market shares of 44.6% and 51.8% respectively.

2021 marked the Bank's successful conclusion of its key partnership with the Ministry of Housing including the strategic engagement with Roshn – the real estate subsidiary of the Public Investment Fund – to increase home ownership of Saudi Nationals. Having launched a number of products in collaboration with the Real Estate Development Fund (REDF) the previous year in line with Vision 2030, the Bank focused on further reinforcing its position in 2021 as a leader in real estate financing by expanding its non-REDF product portfolio, securing a mortgage market share of 41% for the year under review.

The Corporate and Remittance business functions continued to be integrated into existing physical Retail Banking branch locations as part of the Bank's continued efforts in resource optimisation.

### Growing non-conventional customer segments

Retail Banking strategically focused on increasing its customer base across the Kingdom's private sector during 2021, recording a year-on-year growth rate exceeding 200%. The Bank improved its retail position within this key segment with an 86% increase in the private sector portfolio.

The Bank's Affluent offering underwent key strategic enhancements during the year to introduce advanced and exclusive services to meet customer expectations. A number of new initiatives were carried out for Affluent customers including the introduction of the new Diamond tier with a dedicated Relationship Manager among other exclusive privileges. Affluent lounges across the Al Rajhi Bank branch

network were also assigned Relationship Managers in new comprehensive roles with progressive responsibilities to meet client needs. Other new financing programmes and banking privileges for Affluent clients also continued to be developed throughout the year.

## Credit card developments

The Bank continued to focus on card products and innovative value propositions in 2021; the Digital Card Cashback offering rewarding cashback rates for both domestic and international spend was introduced during the year under review. The card loyalty programme was revamped to offer best-in-class loyalty earning rates in the Kingdom to reward and retain customers, becoming their preferred card and nurturing lifetime loyalty.

Additionally, the credit card value proposition was revamped and upgraded for two Affluent tiers with special partnerships, promotions and privileges. The Bank retained its market share leadership position in the card business during the year.

## Digital and technological advances

Introducing financing solutions through the Telesales channel while addressing restrictions during the peak of the pandemic also enabled the Bank to bolster its digital banking solutions, while continuing to serve its customers efficiently with no physical visits to the Bank. During the year under review, the Bank successfully migrated and expanded the availability of its entire Personal Finance product suite online, offering customers an end-to-end digital financing journey.



Additionally, Auto Finance was also introduced on both Telesales and Digital App, with a number of acquisitions piloted through digital channels. A few other digital initiatives implemented by the Bank included the automation of current account operations, and upgrades to the Bank mobile app to include advanced options such as the ability to issue credit and debit cards. Over 35% of the Bank's personal financing executions were performed digitally end-to-end.

Retail Banking focused on improving customer experience and reducing turnaround time (TAT) by utilising digital tools and enhancing back-end operations. The Bank invested in technology offerings such as advanced analytics; a data-driven rapid decision making engine became part of the Bank-wide focus aiming to empower sales channels, improve financing TAT and optimise customer experience given rapidly evolving market trends.

In 2021, the Bank continued to install the latest, state-of-the-art ATMs in new and renovated branches. With over 1,200 deposit ATMs installed across the Kingdom to ensure high availability and customer satisfaction, the Bank secured its ownership to the largest deposit teller network in the Kingdom. Al Rajhi also extended its ATM network with the contactless Atheer feature for withdrawals to be made securely through Near Field Communication (NFC) technology, becoming the largest NFC ATM network and the first bank to accept all types of mada Atheer cards.

Al Rajhi Bank introduced ASRAA – the first self-servicing kiosk providing a multitude of banking operations and transactions – as part of the bank's strategy to set the benchmark as market leader in innovative and advanced self-service functionality. With more than 410 machines installed, the Bank has the largest network of ASRAA

kiosks with the richest functionality across the Kingdom, including features such as chequebook and debit card printing as well as draft issuance.

### New banking products

Simultaneous to its digital expansion, the Bank introduced a number of new products and services; Auto Finance saw the introduction of Pre-owned Car Leasing and the 50:50 Programme added to its line-up during the year, while the Low Income programme and Non-Salary Transfer (NST) for Non-approved Employers Programme were launched to promote financial inclusion for underserved and disadvantaged segments. The Bank also optimised its credit policy parameters to maintain competitiveness vis-à-vis the market.

The Bank introduced the Future Account for existing current account holders in 2021, and a savings plan account in accordance with Islamic Shariah. Enhancements were carried out in Savings and Protection that resulted in a massive 383% growth, catapulting the Bank to no.1 in market share position. Minors above the age of 15 were allowed to open accounts under the supervision of a guardian. A new auditing feature 'Natheer and Tahqoq' was introduced to a number of accounts. Expanding on its non-REDF offering, The Bank launched Mortgage Top-up and Buyout programmes. Affluent clientele were introduced to Erad, a new financing product.

Our efforts were acknowledged and recognised at the Global Banking & Finance Awards® 2021 with Al Rajhi awarded Best Retail Bank GCC 2021 and Best Digital Bank KSA 2021 among other accolades. During the year under review, the Bank's net promoter score (NPS) reached 72%, a significant increase of seven points.



## Future outlook

In line with its BOTF strategy, the Bank will continue to build its retail portfolio with focus on market share, additional income generation opportunities, greater customer engagement, aggressive digital adoption and efficiency in sales channel productivity. For products, the focus will shift to target and grow non-conventional segments such as Non-Salary Transfer, Average Balance and Self-Employed.

On the technology front, Retail Banking expects two key enablers to further streamline the financing journey and

experience. First, the reinforcement of the rapid decision-making engine to respond to evolving market changes, and second, upgrading and migration of Al Rajhi Bank financing platform from its legacy system to new Loan Origination System (LOS).

The Bank is set to realise more profit improvements as cost savings become visible in run rates, and from a rebound to growing economies – in a more stable 2022. It will be a year to remain alert, and continue to accelerate the Bank's transformation agenda.

# Corporate Banking Group

## Recording a strong recovery

The second COVID-19 wave may have affected communities and businesses straight off the starting blocks in 2021, but the Corporate Banking Group at Al Rajhi effectively recovered from the impact of the pandemic to mark a record year with performance exceeding targets across multiple parameters. Corporate Banking continued to build on its strategic roadmap, widening its market share in assets and growing its liabilities to support the bank asset growth. Operating revenues remained on track given higher average loan balances despite pricing pressures and lower Saudi Arabian Interbank Offered Rates (SAIBOR). During the year under review, Corporate Banking enjoyed a 33% growth of SAR 17.6 Bn. year-on-year.

66

During 2021, Corporate Banking focused on strong corporate portfolios with optimal capital structure to diversify and expand its client base, adding over 100 new borrowing clients. This focused approach helped in minimising non-performing loan (NPL) levels from 2.5% to 1.7% in 2021, while also maintaining a low Cost of Risk at 70 bps due to higher gross assets coupled with lower-than-budgeted gross charge and higher recovery, a welcome transition from 151 bps recorded in 2020.

The Corporate Banking Group continued to build on the Bank's 360o client coverage model that underpins the 'One Client One Bank' approach, acquiring more liabilities and incremental fee income by collaborating with other business units such as Al Rajhi Capital, Treasury, Private Banking and Takaful. Corporate Banking assisted Al Rajhi Capital in 13 new mandates and collaborated to acquire 45 new Private Banking clients and 200 Retail Banking referrals. The same collaboration also helped Corporate Banking expand its offering to include Advisory, Arranging and Underwriting services while strengthening the Structured Finance team capacities.

One of the major challenges faced during the year under review was the flight to quality resulting from a post COVID-19 economy, with key market players actively looking for buyout assets, thereby driving pricing down. The differential between SAIBOR and the steadily discontinuing London Interbank Offered Rate (LIBOR) also posed a challenge by driving demand for USD financing. The Treasury Group continued working to diversify USD funding sources during 2021, to compete with International Banks and fund long-term assets.

Corporate Banking continued to support post-COVID-19 client recovery efforts and following the second wave at the onset of 2021, helped with their business continuity and financing needs. In line with SAMA directives, Corporate Banking participated in loan guarantee and funding programmes to support clients who required financial assistance during this time. While extending working capital facilities to clients to cover their short-term liquidity requirements, the bank participated in deferment programmes initiated by SAMA to support SMEs.

## Supporting evolving business needs

Corporate Banking launched a number of new products in 2021 to meet demands across a rapidly-evolving corporate banking landscape, and to strengthen our B2B product and service propositions; this included the **Murabaha Overdraft** – an Islamic alternative to the conventional overdraft facility; the **UPAS** (Usance Paid At Sight) **Letter of Credit** – for exporters looking for immediate payments on sight or importers with no Usance Letter of Credit (LC) facility, with payments made at sight for credit compliant documents; the **Bills Avalisation** product was expanded to include the Murabaha structure, while **Corporate Cards** were introduced for the first time in the bank's history, to meet the transaction needs of corporate and SME clients and increase client stickiness.



By focusing on structured products to grow with a healthy yield especially with the SME and Mid Corporate segments, Corporate Banking successfully expanded to increase its overall portfolio share to ~15% in 2021 from ~12% in 2020. The Bank leveraged on strong performing products such as Point of Sale (PoS) to drive foreign exchange (FX), liabilities and fee income. With the pandemic-driven migration of customer transactions from traditional channels to mobile and PoS, 2021 saw the Bank hold its leading position in the KSA market with 32.2% in PoS market share, supported by a network of 326,121 terminals. The Bank also upgraded around 55% of the terminals to 4G with the Near-Field Communication (NFC) feature during the year under review.

Our Trade volumes especially on LC's improved this year to achieve a higher market share of 7.1%, helping us raise our relative market position by two to sixth for the year under review.

As a result of the transformation plan successfully implemented in 2020 to reinvigorate the operating model and improve the efficiencies of resource allocation, all operational activities were segregated from the front line and consolidated under the 'One Stop Shop' initiative. This allowed Corporate Banking resources to be co-located as Corporate Desks inside select Retail branches. During the year under review, 44 desks went live with plans to further expand the initiative to include 100+ desks across KSA. Further consolidated middle office functions freed up Relationship Managers' time, enabling them to focus on business development. Three dedicated Corporate Business Solution centres in the key cities of Riyadh, Jeddah and Dammam have also been set up to serve holistic needs of corporates covering account service, financing, cash management and trade finance needs.

67





### Rebuilding client engagement

Transitioning from virtual meetings to physical client visits in 2021, the Corporate Banking Business Team engaged with clients on over 3,000 joint visits with the Product Team to understand customer needs and tailor solutions. These visits also served as a springboard for new product introductions and cross-sell pitches. Senior Management visits increased during the year to appreciate client loyalty and showcase continued support; key strategic accounts that Corporate Banking wished to partner with for mutually beneficial loyalty programmes were identified and approached. While continuing to be proactive and increasing provision reserves to cover for expected losses, regular client meetings also enabled Corporate Banking to assess business performance for early warning indicators, resulting in improved decision making and minimised provisions.

During the year under review the Bank also revamped the Loan Origination System (LOS) to include new features and an advanced dashboard, improving the overall user experience and leveraging system capabilities. Specific upgrades were carried out according to the roadmap across a number of releases. Other upgrades during the year included the automation of the Management Information System (MIS) to include client 360o data to enable more efficient and agile decision-making. The upgrade spanning across multiple releases is expected completion in early 2022.

### Visionary partnerships

Strengthening ties with the Public Investment Fund (PIF), Ministries as well as other government-established funds such as the Saudi Industrial Development Fund (SIDF), Real Estate Development Fund (REDF), Tourism Development Fund (TDF) and the Agricultural Development Fund (ADF), the Bank continued to align with and contribute towards the Kingdom's Vision 2030.

As one of the key banks to the PIF, Corporate Banking collaborated closely across internal business units to provide tailored banking solutions and payment solutions for the PIF, its various subsidiaries as well as its newly established companies. Partnerships were forged with TDF and ADF to become their main bank, and a collaborative agreement was formalised with SIDF to introduce the SIDF LC Programme to open Letters of Credit on behalf of clients, facilitating procurement and supporting Capex/business expansion needs under the payment guarantee of the SIDF. Corporate Banking continuously assessed and reached out to clients with potential to benefit from these partnerships.

### Leveraging digital potential

During 2021, the Corporate Banking Group continued its digitisation journey to enhance business delivery and support growth momentum; a dedicated Customer Relationship Management (CRM) system was developed for Corporate Banking to improve sales, productivity and decision-making at both management and front-line level. The system was extended to include other business units within the Bank to enable and monitor cross-sell activities.

The 360° client coverage model continued its data and intelligence gathering during the year under review across the entire spectrum of perspectives, from customer penetration and segment performance to sales analytics as well as product and service usage, aiding the holistic understanding of the client and reimagining the corporate client experience.

Additionally, the Bank funded the National Housing Company (NHC) with SAR 2 Bn. to finance the development of new housing projects at the onset of 2021, and continued working with the PIF's new real estate subsidiary Roshn as part of its off-plan sales financing programme. 2021 also saw the Bank working closely with the Kingdom's General Entertainment Authority (GEA) to support the expanding sector's various entertainment activities and seasonal events, including Riyadh Season 2021, providing total payment solutions for the five-month cultural festival in the Saudi Capital. As one of the main banks to the Ministry of Human Resources and Social Development, a strong partnership was nurtured to support various programmes and strategic transformation initiatives carried out by the Ministry during the year.

Al Rajhi Bank continued to provide financing solutions for the National Housing Programme (NHP) in collaboration with the Ministry of Housing (MoH) during 2021. Assessing the capability of new developers in the market, the Bank focused on designing custom-built solutions for financing, and remains actively engaged with MoH/REDF in mortgage financing, as well as supporting various initiatives of the Kingdom's vision realisation programmes (VRP) – 13 initiatives including the Housing Programme designed to translate Vision 2030 into action.

The Bank also continued to finance instalment houses and non-banking financing companies focusing on micro and small enterprises to promote financial inclusion. During the year under review, the Bank participated in financing transactions for mixed-use real estate and commercial usage across key cities and regions in KSA, financing employer housing projects for a top public company, and developing Eirad financing solutions by utilising the Ejar platform.

Environmental, Social and Governance (ESG) considerations continue to evolve into a crucial aspect of financing. Most of these are addressed through our Structured Finance team focusing on financing projects supported by the government and VRP programmes. Al Rajhi Bank acted as Mandated Lead Arranger and Hedge Provider for the largest Solar Independent Power Plant in the world. The project is expected to power over 185,000 homes and offset nearly 2.9 million tonnes of greenhouse emissions annually. We also acted as Mandated Lead Arranger and Hedge Provider for a Greenfield Solar Plant project with potential capacity to generate 300MW of clean renewable energy.



### Future outlook

The Corporate Banking Group of Al Rajhi aspires to be the 'Best Corporate Bank' in KSA in line with the BOTF strategy, with initiatives revolving around this theme to realise its ambition. Corporate Banking will continue to reorient and fast adapt to suit the operating environment, and will continue its growth by leveraging its strengths regardless of changing market dynamics.

The Bank will continue to collaborate with various government support programmes to finance clients in new emerging sectors such as tourism and entertainment, and will continue to finance various projects initiated/ supported by the government through the Structured Finance team, enhancing infrastructure and real estate projects across the Kingdom.

# Treasury Group

## Seeking new opportunities

The much-anticipated growth in oil activities resulting from the rising global demand for crude oil saw an increase in Saudi production in 2021, powering an expansion by the second quarter of the year. Non-oil and government activities too, began to record promising growth year-on-year following the second wave of COVID-19 that impacted the economy at the onset of 2021.

Against this backdrop, the main objective of Al Rajhi's Treasury Group was to manage the Bank's overall liquidity position while preserving and building on current yield, and increasing the efficiency of funding while retaining a robust mix of funding sources. Remaining on par with this strategy, Treasury Group continued to improve the yield of our Treasury portfolio by actively seeking opportunities in a volatile market, optimising the current portfolio and diversifying into high yielding assets. During 2021, the Bank competently averted market liquidity concerns by efficiently managing liquidity and funding requirements, ensuring the Group's overall cost of funding was not jeopardised. Despite facing competition from new entrants and disruptive digital banking services, the Bank managed to increase its market share of the remittance business.

Al Rajhi Bank was also appointed as a Primary Dealer by the National Debt Management Centre (NDMC) in 2021, enabling the Bank to increase its share of the local debt market, and participate in the development of the financial sector in Saudi Arabia.

## A truly diversified portfolio

Throughout the year under review, Treasury Group continued to build and implement dynamic strategies to push sales and grow market share in customer offerings. As Al Rajhi Bank continued to expand its portfolio to include a wide range of Shariah Compliant asset classes to enhance and diversify income streams, Treasury introduced multiple Islamic structured hedging solutions and yield enhancement products for the first time in the history of the Bank for both individual and commercial clients. This continued diversification of Treasury's portfolio in terms of duration, credit rating and geographical distribution contributed to improving yield pickup while managing the Bank's liquidity for the long term.

## Stable growth in the face of challenges

The Treasury Group's operating income showed a 93.5% sustainable growth rate during 2021, with 99.7% increase in net income. The Bank's foreign exchange (FX) business recovered during the year under review to show a growth of 1% compared to last year. The Banknote business is yet to return to normalcy, as the growth rate of holiday and business travel activities remained subdued.

In November 2021, Moody's Investors Service affirmed the long-term rating of Al Rajhi Bank and changed the outlook to stable from negative, factoring the solid liquidity and capital buffers as well as the strong asset quality maintained by the Bank.

Al Rajhi Treasury was awarded 'Best Bank for Treasury Activities KSA 2021' and 'Best Forex Bank KSA 2021' by Global Banking & Finance.

## Leading in treasury tech

The Bank treated the restrictions of COVID-19 as an opportunity to expedite the migration of Treasury activities from physical channels to its Treasury Management System, providing remote accessibility among other preventive measures implemented across all banking operations to revolutionise the customer journey while eliminating risk of the coronavirus spread.

Treasury Group continued to upgrade and enhance system capabilities with a number of new modules implemented on the Treasury Management System, to enhance capabilities, increase efficiency and improve customer service. During the year under review, the system was upgraded to reflect the Bank's transition to new risk free rates (RFR) from the previously used and now discontinued London Interbank Offered Rate (LIBOR) benchmark.

Following the success of the Bank's physical gold trading business Gold-*i*, Treasury introduced Paper Gold – a digital gold wallet that enables all retail clients to trade allocated gold in any denomination over its ever-evolving mobile app. This digitalisation complemented by new features and services added to Gold-*i* saw a growth in the year-on-year bullion income.



## Future outlook

Treasury Group will continue to upgrade the Treasury Management System with a number of new modules as part of the Bank's continued focus on digitalisation and systems enhancements next year. With the successful rollout of the BOTF strategy in 2021, Treasury will continue to manage and optimise the balance sheet and enhance yield income by introducing more high quality assets and new investment products with attractive yields, while expanding its derivative and structured product suite across multiple asset classes. The Bank also aims to focus on growing its commercial client base by launching appealing new products, growing market share and optimising cross-selling opportunities across business verticals.

# MSME Business

## Supportive infrastructure for MSMEs

The Kingdom's MSME sector showed signs of growth and recovery in 2021, emerging positively from the pandemic as one of the top sectors to benefit from government subsidies that extended well into 2021. With a Vision 2030 goal to increase the contribution to GDP of these enterprises to 35%, the Kingdom also encouraged micro financing, especially for start-ups and entrepreneurs, a trend that is expected to continue with MSMEs exempted from commerce fees register for three years as the Kingdom plans to boost the number of start-ups in the economy.

## Disclosure of micro, small and medium enterprise financial services

Al Rajhi Bank established a dedicated Small and Medium Enterprise (SME) Business to provide the best financing solutions and banking facilities, having recognised such enterprises as significantly important agents of economic growth across the Kingdom. Today, the Bank services SMEs, as well as micro (ultrafine) business through its Micro and Small Business unit (MSB), offering further customised solutions and financing support to entrepreneurs and start-ups in a recovering economy.

## Qualitative disclosure

The approved definition of micro, small and medium enterprises and initiatives adopted by the Bank follows the classifications published by Monsha'at – the General Authority for Micro, Small and Medium Enterprises of the Kingdom:

- Micro (Ultrafine): 1-5 fulltime employees with annual revenues less than SAR 3 Mn.
- Small: 6-49 fulltime employees with annual revenues between SAR 3 Mn. to SAR 40 Mn.

- Medium (Average): 50-249 fulltime employees with annual revenues between SAR 40 Mn. to SAR 200 Mn.

Al Rajhi services micro businesses through its MSB unit, and collectively services small and medium enterprises under its SME unit.

## Strategic initiatives taken to support the MSME segment

- Providing incentives throughout the year including the extension of deferred payment programmes until March 2022, extension of working capital to clients to cover their short-term liquidity requirements, and waiver of digital banking fees during the impact period.
- Enhancing the acquisition and service delivery model to improve customer acquisition, supported by a simplified Credit Approval (CA) template to include only critical and relevant information to enable faster decision-making.
- Restructuring of MSB unit into a credit factory model, with all applications processed through a centralised team, significantly accelerating bookings of applications.
- Focusing on structured products and secured lending for SME clients to improve non-performing loan (NPL) ratios, while also improving remedial infrastructure to manage and recover special assets.
- Revamping Point of Sale (POS) financing product as well as its Fleet Financing programme to better suit SME Business requirements.
- Utilising other available channels to book MSB customers including direct sales, corporate sellers and via branches.
- Introducing a dedicated call centre for MSB customers was introduced during the year under review to manage customer queries and complaints, further enhancing Al Rajhi Bank customer experience.

- Implementing more efficient account planning techniques and improving the Bank's MSME portfolio management processes to understand and serve clients better.
- Allocating two dedicated toll free numbers for MSB and SME customers respectively, to respond to customer queries, enhance customer experience and provide an unrivalled service.

With the aspiration to be a Bank of Choice for MSMEs in the Kingdom, Al Rajhi will continue to build and implement strategic initiatives to realise this ambition, reorienting and fast adapting to suit an ever-changing operating environment.

## Partnerships and agreements to support MSMEs

- The Bank established a new service level agreement (SLA) with 'Kafalah' – the SME loan guarantee programme launched by the Ministry of Finance which facilitates bank lending to SMEs – to reduce the turnaround time to five working days maximum from an average three-week long approval cycle. The results from Al Rajhi's Kafalah coverage have been immensely favourable to SME customers, with one such client success story of business recovery and sustained growth receiving wide spread media coverage and recognition during the year under review.
- With a majority of customers in the SME segment representing industries such as hospitality, entertainment and technology – the same verticals identified for development in Vision 2030 to reduce its dependency on the oil sector, the Bank continued to approach Government-established funds such as the Saudi Industrial Development Fund (SIDF), Tourism Development Fund (TDF) and the Agricultural Development Fund (ADF), to build partnerships and facilitate more financing options for SME clients.

- Al Rajhi Bank formalised an agreement with e-Commerce platform Jaddeer during the year under review, connecting its SME customers to both the public and private sector to benefit from direct purchasing opportunities.

## Digital services

The SME Segment continued to implement upgrades and new features across digital channels to serve clients more efficiently. The Basic Information Report (BIR) was upgraded and made available through the Bank's online portal, enabling clients instant access to information at their convenience, resulting in improved turnaround time and enhanced customer experience.

All MSB products are scheduled to be digitised across a number of phases, with Point of Sale (POS) Finance going live in 2021 under Phase I of the MSB digital agenda, followed by a number of other products including the MSB Credit Card. E-Commerce Finance was introduced to the MSB segment, specifically targeting those utilising the online portal for sales, with more new products such as POS Finance – Real Estate and POS Finance – Non Funded expected to go live in the immediate-term.

## Participation in seminars and conferences

Al Rajhi Bank facilitated four MSME awareness sessions during May, June and August in 2021 in collaboration with the Saudi Banks Media and Awareness Committee, providing MSME customers with practical insights and financial guidance to overcome business challenges. The Bank also partnered with Monsha'at initiatives to host a few more awareness sessions for MSME customers during the year under review.

| Initiatives  | Partner   |
|--|---|
| Launching dedicated MSB toll free number to serving this segment.  | ARB Social Media  |
| Participation in the 3rd Virtual Event for Franchise Financing (February 2022)   | Monshaat  |
| Participation in the campaign for Financing products and services provided to entrepreneurs and MSMEs  | Monshaat – Ministry of Communications and Information Technology [MCIT] |
| Participation in different virtual sessions/seminars/workshops related to Financing product and services offered to support MSMEs                            | Monshaat – Chambers of Commerce   |
| Participation in the financing awareness program through ARB social Media for MSMEs by posted Several visuals during 2021 under Monshaat awareness agreement | Monshaat  |
| Signing "Jadeer" agreement with Monshaat to facilitate and support MSMEs by accessing the available opportunities at the bank through an electronic portal.  | Monshaat  |

74

### SME financing breakdown

|  | Micro and Small |           | Medium    |           | Total      |           |
|--|-----------------|-----------|-----------|-----------|------------|-----------|
|  | 2021            | 2020      | 2021      | 2020      | 2021       | 2020      |
| Loans to MSMEs – on balance sheet (SAR '000)                           | 6,688,591       | 1,539,692 | 9,173,011 | 8,343,305 | 15,861,602 | 9,882,997 |
| On balance sheet loans to MSMEs as a % of total on balance sheet loans | 1.5             | 0.5       | 2.0       | 2.8       | 3.5        | 3.3       |

The Bank's SME segment witnessed an outstanding year-on-year financing growth of 61% driven by the strategic focus of the bank to be the bank of choice for this segment.



### Future outlook


The Bank will continue to support MSMEs in their growth aspirations in line with the Kingdom's Vision 2030 programme and Bank of the Future Strategy, expanding further to increase financing through structured products and solutions, improving its

portfolio composition and growing with a healthy yield, and continuing its end-to-end digitalisation initiatives. Partnerships will be developed with semi-government entities as well as the private sector to grow financing sources and opportunities for the sector.





**Broadening  
horizons**





# Subsidiaries and International Branches

76

| Name of Subsidiary                                  | Capital<br>(SAR '000) | Ownership of<br>the Company<br>(%) | Country of<br>Establishment | Country of<br>Operations |
|---|-----------------------|------------------------------------|-----------------------------|--------------------------|
| Al Rajhi Limited Company – Malaysia                 | 1,051,714             | 100                                | Malaysia                    | Malaysia                 |
| Al Rajhi Capital – KSA                              | 500,000               | 100                                | KSA                         | KSA                      |
| Al Rajhi Takaful Agency Company – KSA               | 2,000                 | 99                                 | KSA                         | KSA                      |
| Tuder Real Estate Company – KSA                     | 1,000                 | 100                                | KSA                         | KSA                      |
| Al Rajhi Company for management<br>services – KSA   | 500                   | 100                                | KSA                         | KSA                      |
| Emkan Finance Company – KSA                         | 2,000,000             | 100                                | KSA                         | KSA                      |
| Tawtheeq Company – KSA                              | 10,000                | 100                                | KSA                         | KSA                      |
| International Digital Solutions Co.<br>(Neoleap)    | 150,000               | 100                                | KSA                         | KSA                      |
| Al Rajhi Financial Markets Ltd. –<br>Cayman Islands | 188                   | 100                                | Cayman<br>Islands           | Cayman<br>Islands        |

| Name of International Branch | Capital<br>(SAR' 000) | Ownership of<br>the Company<br>(%) | Country of<br>Establishment | Country of<br>Operations |
|------------------------------|-----------------------|------------------------------------|-----------------------------|--------------------------|
| Al Rajhi Bank – Kuwait       | 389,888               | 100                                | Kuwait                      | Kuwait                   |
| Al Rajhi Bank – Jordan       | 264,843               | 100                                | Jordan                      | Jordan                   |

## International Business Group Highlights 2021

| SAR '000 | Revenue | Expenses | Net profit |
|----------|---------|----------|------------|
| Kuwait   | 112,108 | 86,766   | 25,342     |
| Jordan   | 146,979 | 101,469  | 45,510     |
| Malaysia | 201,874 | 197,250  | 4,624      |

## Al Rajhi Capital (ARC)

With the financial market gaining stability towards the second half of the year under review, Al Rajhi Capital (ARC) – the largest broker in the Kingdom serving retail and high-net-worth individuals as well as institutional and corporate investors, continued to effectively roll out its 2023 Corporate Strategy.

Closely harmonised with that of its parent company Al Rajhi Bank, ARC's 2023 Corporate Strategy remained on path to achieve set targets in line with the Financial Sector Development Program (FSDP) under Vision 2030, maximising economic and market synergies.

The strategy aims to build a robust and sustainable institution enabled by the latest digital technologies to meet the expectations of its stakeholders, generate profitable growth for shareholders, and support the post-COVID recovery of the national economy.

ARC's key strategic objectives for the year under review were to maintain its leading brokerage status, scaling up its asset management business, solidifying its real estate market prominence, and diversifying its proprietary investments by defining the desired risk appetite. ARC also focused on empowering its strategic enablers of technology and human capital, further elevating customer satisfaction levels to an unrivalled benchmark.

### Establishing a strong market leadership position

ARC continued to maintain its leadership status in brokerage during the year under review as market share surpassed 19.4% in terms of trading volumes, a year-on-year increase of more than 1%. Over 90% of the trading was carried out on electronic platforms.

ARC also continued to scale up asset management and establish its leadership status in real estate investment in 2021; Al Rajhi REIT – the Company's first Real Estate Investment Traded Fund – maintained its dividend distribution levels for unit holders, and contributed to ARC surpassing SAR 60 Bn. in assets under management, an increase of 15% from the previous year. ARC's real estate vertical also established an advisory relationship with the real estate and property management arm of the Bank – Tuder, drawing from decades of market expertise to offer investors more diversified and innovative real estate solutions.

All equity funds outperformed their respective benchmarks for the year under review; the Al Rajhi Saudi Equity Fund performance for 2021 was 48.6%, outperforming its benchmark by 11.3%. The performance of the Al Rajhi GCC Equity Fund was 48.9%, outperforming its corresponding benchmarks by 13.1%. Most notably, the Multi Asset Growth Fund performance was at 22.2%, outperforming its benchmark by 5.5%. In the second quarter of 2021, a successful public offering of the Al Rajhi Freestyle Saudi Equity Fund saw a return rate of over 7% within a month from fund inception. ARC launched the new Advanced Murabaha Private Fund during the first quarter of 2021.

### Maintaining a dominant presence in capital markets

Significant efforts were made to build capacity and develop team proficiencies during the year under review to launch ARC's investment banking franchise. As a result, multiple deals were pursued across both debt and equity capital markets.

# Subsidiaries and International Branches

## Al Rajhi Capital (ARC)

ARC was appointed as an active bookrunner in Saudi Arabian oil giant Aramco's USD 6 Bn. Sukuk, the largest ever corporate US dollar-denominated Sukuk recorded globally. The company acted as a joint-lead manager in the National Debt Management Centre local Sukuk exchange, and as a passive joint-lead manager in the USD 2 Bn. Sukuk issuance for the Kingdom of Saudi Arabia. ARC was the only local and regional investment bank appointed in the transaction. The Company acted as a joint-lead manager in Rawabi Holding Company's latest Sukuk issuance in 2021, and was also appointed by one of the Kingdom's largest listed companies for their planned Sukuk issuance.

Appointed as a financial advisor, lead manager, and underwriter for the IPO of Al Masane AL Kobra Mining Co. (AMAK) in the main equity market.

In August 2021, ARC entered into a Memorandum of Understanding (MoU) with MIS (Al Moammar Information Systems) – the first public listed IT company in KSA, to setup and manage a Private Fund to invest in technology and Healthcare with government, semi-government and high-end private sectors across the kingdom.

ARC's exceptional performance in 2021 earned the Company a number of awards; 'Outstanding Performance – Equities Manager of the Year', 'Asset Manager of the Year' and 'Shariah Fund Manager of the Year' from the Global Investor Group; The Al Rajhi Multi Asset Conservative Fund won for Best Fund Over 5 Years - Mixed Asset Conservative at the Refinitiv Lipper Fund Awards, where Al Rajhi GCC Equity Fund was also recognised as Best Fund Over 3 Years and Best Fund Over 5 Years in the Equity GCC category.

## Pioneers in the brokerage landscape

ARC became the first brokerage in KSA to enable distribution of public mutual funds online via Al Rajhi Bank's online banking platform. Another pioneering initiative, qualified investors are now able to participate electronically in Nomu IPOs.

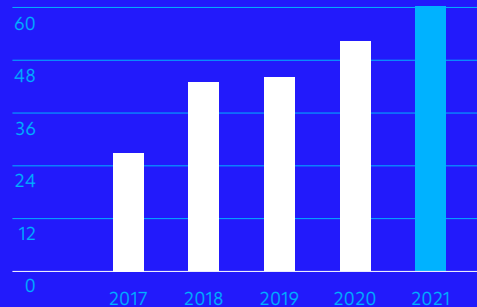


### Future outlook

A number of initiatives will take priority in 2022, such as implementing the new brokerage platform, upgrading the asset management platform inclusive of robo-advisory functionality, and upgrades to ARC's existing IT architecture and infrastructure. The brokerage will also continue to invest across several fronts to become more customer-centric; implementation of a Customer Relationship Management (CRM) system, development of a Management Information System (MIS) and enhancement of analytics capabilities for better decision support taking top priority.

### Assets under management

SAR Bn.



## Tuder Real Estate Company

The real estate and property management arm of the Bank previously operating as Al Rajhi Development (ARD), transitioned into its newly registered name Tuder during the year under review. The company repositioned itself as a provider of real estate engineering and consulting services, facility management, real estate documentation and registration services as well as evaluation of real estate and property.

Tuder rolled out the rebranding initiative across all Al Rajhi branches in line with the Bank's new brand identity launch in 2021. This comprehensive operation entailed applying the new brand identity design across all Al Rajhi branches according to its functionality under flagship, day-to-day or on-the-go. For the year under review, Tuder renovated 20 branches, relocated 14 outlets and opened 15 newly designed and branded branches to the public.

The company elevated its operational efficiencies by introducing Enterprise Resource Planning (ERP) software in 2021, automating the real estate asset management process from end-to-end. More value enhancing and cost reducing initiatives were also introduced during the year under review; Tuder established a value-engineering process as an effective tool for construction management and engineering consultancy. The new process promotes the substitution of project materials with less expensive alternatives, and aims to identify and eliminate unnecessary costs across the commercial real estate development process with zero compromise on performance, quality, safety and design intent.

The commercial real estate market in Saudi Arabia remained subdued with a decline in commercial leasing during the year under review, following the repercussions of the COVID-19 pandemic. Supported by an efficient business continuity plan, Tuder remained focused on its cost reduction and cost savings initiatives for Al Rajhi Bank through power and energy management as well as facilities management contracts, reducing general maintenance costs.



### Future outlook

Tuder will continue to enhance, improve and automate business processes and procedures across the company, while focusing on eliminating unnecessary expenses and reducing costs in project execution and property management for Al Rajhi Bank. The company is also looking to introduce new business verticals in safety and security in 2022, and expand into real estate investment.

79

# Neoleap

## Foray into fintech

Marking its ambitious entry to KSA's financial digital solutions ecosystem with the aspiration to lead and shape the future of digital payments across the Kingdom is neoleap, Al Rajhi Bank's latest subsidiary. Licensed under its corporate identity – international Digital Solutions Co. – by the Saudi Central Bank (SAMA) during the year under review, neoleap was granted authorisation to handle transactions through The Saudi Payments Network (SPAN) by Mada – the only and major payment system in the Kingdom.

In its overarching strategy to achieve digital financial inclusion for individuals and corporates, neoleap aims to strengthen the growing ecosystem of digital transactions across the Kingdom, and contribute to digital transformation goals of Vision 2030.

## Navigating through new challenges

The subsidiary entered a rapidly expanding and fiercely competitive market that ended the year with fifteen licensed payment companies. Not only did the market competition drive innovation and investment across the sector in 2021; it also created a challenging job market due to the lack of technical and commercial talent given the comparatively recent establishment of a regulatory framework and facilitated infrastructure for fintechs in the Kingdom.

With no long-established local fintech benchmark to draw upon, neoleap overcame a number of challenges during its establishment as well as the technical development of each product in an ecosystem that is still developing its infrastructure and talent.

## Suite of fintech products

During the year under review, neoleap announced a number of innovative fintech products that are in development, and will be launched in the immediate future:

- **urpay Digital Wallet** – Digital payment options for consumers and merchants, and a marketplace for digital and physical products
- **neogate Payment Gateway** – Credit card and mada card payments in e-commerce for merchants
- **neostore Store Services** – Integrated solution for merchants to build an online store with multiple payment methods as well as third party services such as shipping, delivery, e-marketing and inventory management
- **neoeqr Cashier Services** – Electronic Cash Register (ECR) solutions for merchants at both a physical Point of Sale (PoS) and SoftPoS 'tap-to-phone' instances



## Future outlook

In line with the BOTF strategy to develop the best payments solutions and to position itself as a reliable partner for financial and commercial institutions as well as individuals, neoleap will continue to promote a fintech culture as the Kingdom transitions to a cashless society. The company will also embark on new technologies and data management as it continues to introduce and evolve its products and services.

## Emkan Finance

### Exploring untapped market segments

In the wake of the twin blows suffered by the Saudi Economy in early 2020 due to the unravelling of a global pandemic immediately followed by the oil crisis, Al Rajhi Bank focused on a rapidly evolving Saudi financial market to identify new opportunities. The Bank identified untapped consumers such as self-employed, non-salary transferring, private sector and other segments with specific credit needs that were beyond the Bank's risk appetite.

With the microfinance sector highlighted as an area for development and growth in the Financial Sector Development Programme (FSDP) of Vision 2030, followed by the development of regulatory and legal frameworks by The Saudi Central Bank (SAMA), Emkan Finance was established with the aim to increase financial inclusion and simplify financing access, thereby supporting Vision 2030 in its objective to develop a diversified and effective financial sector that supports and sustains the development of the national economy.

Through the establishment of Emkan Finance, Al Rajhi Bank forayed into the Kingdom's fairly new and unexplored microcredit landscape, enabling customers to immediately avail Sharia-compliant personal or small business loans consistent with ethical lending practices of the Kingdom.

### Setting the new microfinancing benchmark in KSA

Emkan Finance offers customers innovative solutions to meet evolving financing needs; from covering personal loan obligations to providing necessary financial liquidity for businesses, Emkan provides lending solutions across micro consumer financing, finance lease as well as micro, small and medium enterprise (MSME) financing.

During the year under review, Emkan went live with its end-to-end digitised personal lending product portfolio, leveraging its digital functionality to enable customers to easily access, apply and obtain financing via its mobile app. With more than 1.2 million app downloads and installs across both iOS and Android app stores, Emkan was ranked as the top microfinancing mobile app in the Kingdom during the year under review, and was recognised as the Fastest Growing Digital Microfinancing Company in Saudi Arabia at the Global Business Outlook Awards 2021. The service also continued to be accessible via select physical branches of Al Rajhi Bank located across the Kingdom.

The company initiated its migration to cloud-based IT infrastructure during the year, complemented by major investments in data privacy and cybersecurity infrastructure to ensure its clients of optimum security against cyber attacks. Such highly customer-centric, uncomplicated and fast-tracked microfinancing solutions elevated Emkan to the status of preferred financing company in KSA, growing its portfolio to SAR 6.8 Bn. by the end of 2021.

81



### Future outlook

Emkan will be looking to address one of the key challenges faced in recruiting niche talent in a challenging job market, which was further augmented by pressure to scale the service while capturing market share. The company will continue to digitise all existing products while also introducing new, innovative products to the market in 2022, largely focused on the SME segment.

## Al Rajhi Bank – Malaysia

### Transforming the business

With the distinction of being our initial foray into Southeast Asia in 2006, and our benchmark for foreign market penetration, Al Rajhi Bank – Malaysia (ARBM) focused on transforming the business under a new, locally assimilated leadership team during the year under review. ARBM announced a number of strategic leadership appointments in early 2021 consisting of the Chairman, Chief Executive Officer, Chief Transformation and Change Management Officer, and Director Corporate Affairs, with the appointments of a new Chief Operating Officer and new Director Retail Banking completing the structural changes at the Executive level.

These changes were followed by strategic measures to increase ARBM's brand equity and enhance the overseas branch's position as a thought leader in Islamic finance, digital banking and sustainability in the region. During the year under review, ARBM engaged intensively in local industry and regulatory initiatives, participating in discussions and initiating dialogues on the industry's digital transformation. ARBM was duly represented at high-impact national-level forums, media engagements and conferences by its newly appointed leadership, including the Bank Negara Malaysia's engagement session with banking institutions for the Financial Sector Blueprint 2022-2026.

Building brand equity supported ARBM's five-year strategic transformation plan which was launched to evolve all aspects of the international branch's operation in 2021; with plans to both 'Run the Bank' by optimising current operations, and 'Change the Bank' through digitisation. ARBM was also appointed a Member of the Value-Based Intermediation (VBI) Community of Practitioners (CoP) of Malaysia with a deeper commitment to advance the VBI agenda, which will be instrumental in supporting a more sustainable economic recovery for the country. The VBI CoP serves as an industry

platform for members to share knowledge and pursue collective efforts to develop and execute VBI strategies.

Internally, ARBM set up a Transformation and Change Management Team in 2021 to drive a culture of collaboration, implementing a more systematic and engaging approach for employees to swiftly adapt to its evolving goals, processes and technologies in its transformation into a more agile and productive digital organisation.

### Navigating through a challenging 2021

ARBM continued a steady recovery from a net loss of RM 66 Mn. in 2020, heavily constrained by the slowdown of the domestic economy and regulatory requirements imposed by Bank Negara Malaysia, the Central Bank of Malaysia. The international branch's asset quality experienced a slight deterioration due to its exposure to the bottom 40% (B40) segment, resulting in higher-than-expected provision levels. Although higher impairments are expected in the coming year, credit losses will be amply cushioned by healthy earnings accretion, comfortable provisioning buffers and solid capital position.

ARBM continued to expand its business capacities by introducing Cross Border Fund Transfer (CBFT), enabling pipeline transactions with Financial Institutions from the Middle East. While the Musafir Card initiative in collaboration with Indonesia's largest national payment gateway Artajasa was also temporarily suspended following the closure of national borders and travel restrictions imposed due to COVID-19, ARBM believes it will be able to rollout the planned expansion through Southeast Asia as restrictions are lifted, reaffirming its commitment to provide Shariah compliant banking solutions, especially for pilgrims.



## Introducing new products and services

A number of new products and services were launched and restructured by ARBM during the year under review. New launches included the Home One Account (H1A) for property financing, Personal Financing for Civil Service Employees through collaboration with Co-Share, and the Commodity Murabahah Foreign Currency Current Account for deposits. Three new Unit Trust Funds – the BIMB Arabesque Global Shariah Sustainable Equity Fund, the Aberdeen Standard Islamic World Equity Fund and the Principal Islamic Asia Pacific Dynamic Equity Fund expanded ARBM's personal wealth management offering, supported by Bancatakaful arrangements with Sinar Kasih and Syarikat Takaful Malaysia Berhad. ARBM also introduced professional will writing in partnership with MyAngkasa Amanah Berhad.

Other upgraded services included enabling online Term Deposit (TD) placements, QR code payments via Malaysia Standard QR, multicurrency own account transfers, collaboration with local government linked entities on guaranteed funds for the SME segment, revision of the Guarantee Wakalah, and the restructuring of ARBM's Personal Financing-*i* suite and Home Financing-*i*.

## Operational efficiencies through digital transformation

During the year under review, ARBM reimagined its operating model to make drastic changes and increase operational efficiencies in a highly cost-effective manner. The international branch's digital transformation led by the commencement of Project Wick – its digital banking initiative – greatly contributed to reducing operational costs during the year under review; this included seamlessly digitising the Know-Your-Customer (KYC) verification process to introduce the eKYC option for

new banking customers, transitioning to e-statements and e-notices from traditional hardcopy statements, introducing the digital aqad (contract), and implementing Straight-Through-Processing (STP) transactions with no manual intervention with the introduction of Enterprise Content Management (ECM) across the branch network. Internal processes were further streamlined for a seamless customer experience through Project Perkins.

Modifying and improving backend operations and administrative processes across the overseas branch introduced further operational efficiencies. Internally, in-house legal and secretarial functions at ARBM were strengthened to eliminate dependencies on third-party services, while existing third-party contracts were evaluated and renegotiated to generate higher long-term value. During the year under review, ARBM also revised the Commodity Murabahah transaction structure with Bursa Malaysia – the country's stock exchange, and switched to a more value-adding card and ATM host service. The year 2021 also saw ARBM taking a more standardised approach in assessing risk-adjusted return on capital for efficiency and effective monitoring.

Restructuring ARBM's Personal Financing-*i* suite and Home Financing-*i* were followed by highly successful digital launch campaigns during the year under review, given the substantially growing online presence of its retail customers. Both campaigns drove monthly sales to record high volumes, a testament to ARBM's successful transition of marketing spend from conventional to digital media channels; the Personal Financing-*i* campaign doubled average monthly sales, and the Home Financing-*i* campaign recorded an all-time high approval during the campaign versus an average monthly sales figure pre-launch. ARBM's latest Murabahah deposit campaign followed a targeted digital campaign path. With



successful digital media campaigns and growing organic media coverage, ARBM significantly reduced conventional marketing spend and media buying during 2021, a primary contributor towards its reduced operating expense during the year under review.

### Stepping into the post-COVID-19 era

As the local economy recovers from the unprecedented impact of the COVID-19 pandemic, ARBM continued to provide various stimulus initiatives for retail as well as corporate customers in 2021, including instalment moratorium based on low-to-high income brackets.

A comprehensive plan was also implemented during the year under review for ARBM employees, with the introduction of the COVID-19 Prevention and Safety Policy, weekly health and safety guides,

and a COVID-19 tracker for statistics and insights. The Work-from-Home (WFH) business continuity plan was further strengthened with necessary infrastructure across all branch outlets, and a mobility allowance for employees. Virtual on-boarding sessions were implemented to effectively assimilate new employees to the hybrid work environment. ARBM supported Malaysia's national COVID-19 vaccination drive by providing employees with vaccination days off, mileage claims, free COVID testing as well as admission guidelines for affected staff members.

Reaffirming its commitment to sustain its local communities, ARBM donated RM 76,500 to Yayasan Sukarelawan Siswa (YSS), an entity under the Ministry of Higher Education of Malaysia to sponsor 50 laptops for 50 first year undergraduates belonging to the B40 category. The donation reflects ARBM's commitment to the advancement of education



and advocacy for digital equality among the communities in which it operates. As a Member of the VBI CoP of Malaysia, ARBM also sponsored the second VBI Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guide Town Hall organised by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM).



## Future outlook

ARBM remains focused on further advancing its digital capabilities in 2022 with the continued rollout of Project Wick, and plans to launch a Digital Marketplace – the next frontier in digital banking. Through Project Wick, ARBM plans to achieve key medium to long-term targets:

- To be the leading foreign Islamic bank for customer advocacy with a Customer Satisfaction Rating above 70 by the end of 2023
- To be the leading Islamic finance innovation bank in Malaysia, with relevant industry awards for assessment during the year 2023
- To achieve the top two Foreign Islamic banking assets; above industry average Return on Equity and below industry average Cost to Income by the end of 2025

ARBM plans to launch its Merchant Acquiring Service for the local market while enhancing cross border collaborations with financial institutions as well as fintechs across the region in the coming months to extend its service portfolio.

The international branch will also continue to raise its profile and strengthen its reputation as an industry

thought leader particularly in the areas of Islamic finance, digital banking and sustainability. This will be achieved through consistent active participation in key speaking engagements as well as media engagement initiatives to increase ARBM's media presence and solidify its position as a market leader. Communication and engagement with internal and external stakeholders across both traditional and digital media channels will remain a strategic area of focus to build brand loyalty and equity.

The year 2022 will see a greater adoption of Environmental, Social and Governance (ESG) principles across the overseas branch's decision-making process with the formulation of the ARBM ESG Roadmap and ESG Risk Management Policy. This approach will be complemented with the integration of VBI principles across all core business practices at ARBM in line with its commitment to advance the VBI agenda as a Member of the VBI Community of Practitioners in Malaysia. This will provide the foundation for ARBM to position itself as a leading advocate of sustainability and emerge as a leading sustainable Islamic bank in Malaysia.

# Al Rajhi Bank – Jordan

## Celebrating a decade of operation

Jordan experienced one of the strongest COVID-19 waves since the beginning of the pandemic during the first half of the year under review, but weathered the shock with timely fiscal and monetary stimuli provided by the government. Although early indicators pointed to a modest economic recovery, rebound was expected to be gradual especially for the private sector. Despite this challenging backdrop, Al Rajhi Bank – Jordan (ARBJ) saw an organic growth of customer deposits by 10% during 2021, its tenth year of operation in the Hashemite Kingdom. ARBJ also showed an increase in financing assets in 2021, given the domestic economy's widening external imbalances, rising debt and low levels of investment.

The official ARBJ website was upgraded in line with its new global brand identity and enhanced search engine optimisation, with its social media and online presence also amplified across multiple channels and platforms.

ARBJ expanded its financing portfolio during the year under review, introducing Non-Kafalah Financing and POS Financing for corporate customers in the SME sector,

while also test launching Self-Employed Financing for individuals through retail banking.

## Weathering the storm

The Central Bank of Jordan (CBJ) announced a set of procedures aimed to contain further repercussions of the coronavirus' impact on the national economy, with instructions issued to sustain a strong Liquidity Coverage Ratio during the year under review with a challenging liquidity requirement. This was amplified by the long-standing absence of Shariah compliant products offered by the CBJ. However, with a subsidised financing program offered by the Central Bank to support businesses gravely affected by the ramifications of COVID-19, the international branch took on the role of financing partner in mid-to-large corporates, supporting its clients with carefully tailored solutions that were planned and executed with intensive follow-ups in performance and recovery of the businesses. ARBJ also adopted a focused strategy to appeal to high-salaried clients by launching customised campaigns for two major retail banking products – Personal and Home Finance.



To overcome the inefficiencies of ARBJ's existing Core Legacy Banking System in a rapidly evolving consumer finance ecosystem, the international branch launched the Core Banking Replacement project in late 2020 with the rollout continuing through 2021. The selection process for bidders was completed by the end of the first quarter of the year, with approval for selected vendors and system implementation obtained from the Saudi Central Bank by the Al Rajhi Bank Group in November 2021. Vendor Contract Negotiations for the replacement of the core system are currently ongoing (one word).

The annual Graduate Development Programme (GDP) continued in 2021, with ARBJ training and employing 10 top graduates from local universities in the new, hybrid work environment.

## Elevating digital capabilities

ARBJ introduced a number of innovative digital initiatives that increased efficiencies, enhanced customer experience and streamlined operations during the year under review. These included improvements

to the existing Customer Relationship Management (CRM) system, a key initiative of ARBJ's continued investments in intelligent automation and digitisation to improve customer experiences. Backend banking processes as well as its call centre operation were re-engineered and optimised to further elevate the local banking industry benchmark for service excellence. As its digital capabilities continue to expand, ARBJ launched a migration campaign to increase the number of registered customers for its online and mobile banking service offering in 2021. The campaign drove the number of registered customers to 70% of ARBJ's total customer base.

The ARBJ mobile app underwent two scheduled upgrades during 2021, and was made available for direct download on both iOS and Android app stores. Call centre reports and KPIs were realigned with new, quantifiable performance measurements. Customers were introduced to the 'contactless' feature at ARBJ's new ATM terminals to promote necessary safety measures in a post-COVID-19 transaction landscape. QR codes were added on product and service booklets to provide easy access to customer care services.



## Future outlook

ARBJ plans to open 2 new branches in 2022, growing its network to 12 branches and resuming its strategic expansion plans that were put on-hold during the year under review. The Core Banking System replacement project will continue into 2022, investing in and enhancing the international branch's digital infrastructure to enable a fully digital banking function within the next two years. The migration campaign will continue in 2022 to further increase online registration of customers.

As the domestic economy steadily recovers, ARBJ plans to launch a Corporate Real Estate Leasing

programme to meet growing financing needs of corporate banking customers, while also enabling them to take advantage of long-term investment opportunities in a fluctuating real estate market. Jordan also has a growing expat community among the nearly three million non-citizens currently making up 30% of the country's population, a demographic that belongs to the high-salaried target customers. ARBJ plans to launch a Retail Expatriate Mortgage Financing programme in order to penetrate this promising, untapped demographic in 2022.



## Al Rajhi Bank – Kuwait



88

### Supporting economic recovery

Kuwait's financial sector greatly benefitted from swift and decisive fiscal, monetary and financial support measures during the year under review, under the prudent regulation and close supervision of the Central Bank of Kuwait (CBK) supported by strong pre-pandemic buffers.

Al Rajhi Bank – Kuwait (ARBK) focused on supporting recovery efforts and exploring new investment avenues for the year under review, filling strategic leadership positions at Executive level including the appointment of a new Chief Executive Officer in July 2021. ARBK made its debut entry to Kuwait's Sukuk market with a KD 10 Mn. investment exposure and stakeholder endorsement on product procedures, policy and framework. The international branch conducted rigorous follow-ups with defaulted customers that led to an improvement in non-performing loans (NPL), despite the continued COVID-19 impact and six-month deferral in instalments across all customer segments.

The international branch also saw an early settlement profit increase by 161% year-on-year resulting from focused efforts to promote early settlement among customers, and recorded a Forex income increase of 67% in 2021. Powered by the CBK's stimulus package complemented by cost savings on pre-matured term deposits, ARBK's cost of deposits decreased by 27% year-on-year, resulting in an improved year-on-year cost to income ratio of 43%. ARBK also stands to benefit from a KD 2.6 Mn. government grant in lieu of profit lapsed due to deferment of financing instalments during 2021.

### Advancing operational efficiencies

With the first phase of the Kuwait National Payment System (KNPS) successfully launched in July 2021 to enable Real-Time Gross Settlement (RTGS), ARBK increased its operational efficiencies further by enhancing existing e-channels, enabling instant debit and credit card issuance, and implementing a common reporting

standard (CRS) system for core banking and operational activities. In line with upgraded and digitised services offered by the Public Authority for Civil Information (PACI) of Kuwait, ARBK formalised a Cooperation Agreement to install two PACI self-service kiosks, enabling customers to register and create digital signatures, electronic ID verification and authentication for online bank transfers. The implementation of the Cyber Security Framework (CSF) at ARBK was effectively completed, followed by a successful CSF audit.

The Ministry of Health lifted a number of COVID-19 restrictions in 2021, allowing the Human Resource (HR) department to resume employee social activities to boost morale. HR achieved a 68% increase of training days from the previous year, and also introduced digitised performance and appraisal processes via the HR MenaMe System, a collaborative web-based and mobile app solution, with the latter phase of the system implemented at the end of 2021 for end-to-end remote accessibility. The grievance policy was also upgraded during the year under review.

## New products and services

ABRK continued on its digital transformation journey in 2021, implementing a number of initiatives including the enhancement of e-channel features, introduction of Face Recognition technology for identity verification and onboarding of new customers, digitisation of Business Requirements Document (BRD) and more, with the overarching aim to provide customers with an end-to-end digital banking solution.

Phase II of the ABRK customer mobile app enhancement was successfully rolled out in October 2021. Customers were also introduced to credit card e-statements,

instant remittance from Kuwait to Saudi Arabia, new ATMs at ARBK branches and a significantly improved version of the ARBK official website.



## Future outlook

With the projected rebound in oil production signalling a stronger economic recovery in the coming months as OPEC+ quotas are relaxed, increasing sales efficiencies, targeting new market demographics and exploring new mediums to promote products in a competitive market will be a priority for ARBK in the immediate future.

The international branch will continue investing in digital banking infrastructure, enhancing e-channel features and digitised services including E-Finance and E-Credit Card services to provide elevated levels of customer experience. In compliance with the State's Kuwaitization policy, ARBK will strengthen its business hiring, especially focusing on middle and upper management hiring and succession planning to ensure business continuity is not impacted by a resurgence of COVID-19 or any such unprecedented global crisis. ARBK will also look into budgeting for branch network expansion and the Customer Relationship Management (CRM) system following unexpected budget cuts resulting from the pandemic.

GRI 102-8, 401-1

## Future-proofing the Bank's human capital

2021 was a year that saw Al Rajhi Bank (ARB) setting new benchmarks for employee experiences by investing in the identification and development of talent as much as the technologies that drive each function across the Bank. While introducing digital solutions, automated processes and total migration to online platforms, the Bank also shaped a human capital that was powered by new capabilities and augmented expertise. A number of systems and technological advancements that were initiated during the previous year were completed, piloted and rolled-out during 2021 across the

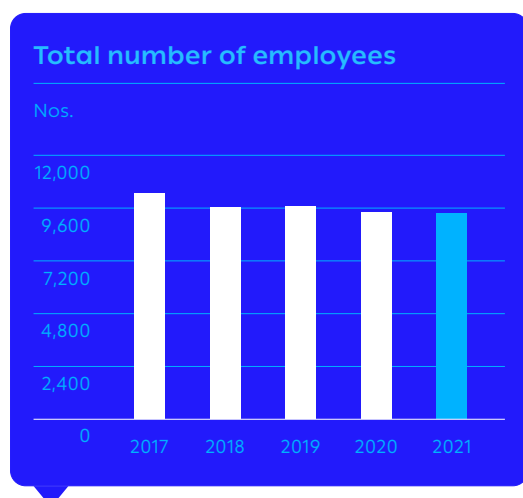
Bank's Human Resources (HR) Group, empowering a 9,360 -strong workforce, productive and flexible that elevated its benchmark in HR services underpinned by the latest in digital HR technology.

The Bank's human capital remains central to the success of its future strategy and drives the Bank's value creation model with clear KPIs set for each employee at the beginning of the year to align with overall Bank and Department goals. During the year under review, HR continued to collaborate with different teams within the Bank in order to ensure that employees remained safe, healthy, positive and productive, efforts that enabled the bank to achieve the challenging targets.

## Workforce analysis

90

| Numbers for Al Rajhi bank KSA                                    | 2021    | 2020    | 2019    | 2018    | 2017    |
|--|---------|---------|---------|---------|---------|
| Total ARB number of employees                                    | 9,360   | 9,380   | 9,683   | 9,628   | 10,263  |
| Percentage of ARB Bank and KSA subsidiaries female employees (%) | 17.18   | 13.96   | 14.56   | 13.37   | 11.99   |
| Percentage of ARB Saudi employees (%)                            | 97.25   | 97.09   | 97      | 95.92   | 91.76   |
| Number of ARB employees departed                                 | 786     | 732     | 910     | 1,033   | 729     |
| ARB Turnover ratio (%)   | 8.31    | 7       | 9.62    | 9.93    | 7.10    |
| ARB Total training hours   | 538,974 | 289,566 | 428,394 | 391,086 | 386,772 |





## Employees working from home by grade and gender

91

| Grade – Numbers for Al Rajhi Bank KSA            | Male |      | Female |      |
|--|------|------|--------|------|
|  | 2021 | 2020 | 2021   | 2020 |
| Director level and above (Grades 13, 14, 15, 16) | 18   | 136  | 0      | 1    |
| Managerial Level (Grades 10, 11, 12)             | 65   | 499  | 0      | 21   |
| Staff (Grade 9 and below)                        | 57   | 612  | 0      | 159  |

### Human Resources in a recovering post-COVID-19 landscape

The health and safety of the Bank's workforce remained a top priority with the Bank supporting employees based across the Kingdom as well as those stranded outside KSA during lockdowns, adhering to relevant Government directions with regard to work regulations and travel restrictions. Effective internal communications and regular follow-ups ensured that employee morale and productivity remained high.

A COVID-19 vaccination drive organised by HR benefitted many employees at Head Office in 2021, with the Bank continuing to facilitate preventive medical isolation, leave of absence and PCR testing to restrain the spread of the coronavirus. While further strengthening and securing the infrastructure to enable employees to work remotely from home, HR maintained frequent communication with employees to keep them up to date on all procedural changes, including updates on COVID 19 and operational practices aligned with Labour Laws and regulations issued by the



Ministry of Health. Apart from COVID-19, HR launched an open health day at all Head Office locations in 2021, and also held a Breast Cancer Awareness Event at the Head Office ladies' division, focusing on all round health and wellbeing of employees.

Out of the entire employee population, 11% of male employees and 10% of female employees took parental leave during the year under review.

## Parental leave by gender

| Numbers for Al Rajhi bank KSA   | Female | Male |
|---|--------|------|
| Number of employees who took parental leave, by gender  | 149    | 842  |
| Number of employees who returned to work after parental leave, by gender  | 149    | 842  |
| Number of employees who returned to work after parental leave who were still employed 12 months after return, by gender | 149    | 842  |

## Engagement and inclusivity

While the Bank upholds recognised standards and principles for labour practices, employee wellbeing and occupational health and safety, it also strives to ensure safe and fair working conditions and practices, and to create an environment that allows employees to flourish. Centralisation, automation, and digitalisation enable the Bank to become cost-efficient by facilitating prudent growth. Modernisation reduces the demands and pressures on the Bank's people, enabling them to work more efficiently and productively, significantly reducing fatigue, while allowing morale and motivation to remain high.

Improving female representation remains a priority with the Bank striving to ensure that the proportion of female employees receiving training, promotion and representation at Senior Management levels keeps increasing. In addition, the Bank continued to work towards ensuring that the ratio of basic salary and remuneration of women and men across all locations of operation and all employee categories remains equal.

## Employee policies and communication

The Bank remains steadfast in upholding a number of policies to provide a working environment that is fair and safe for all. The whistle-blowing policy, grievance policy and other modes of communication remain firmly in place for employees to be able to raise concerns about their workplace. The Bank's formal grievance policy illustrates the Bank's commitment to hear each and every grievance through a transparent process that protects employee rights and is conducive to fair solutions.

Employee communication channels:

- Employee survey
- Senior management messages
- Employee email updates
- Circulars
- HR newsletters
- Periodic news broadcasts
- Pandemic awareness booklet
- Whistle-blowing policy
- Grievance policy
- HR self-service mobile app
- HR hotline
- HR system
- HR Tawasul

HR Governance was revamped to proactively establish guidelines as well as up-to-date policies and procedures to support the Bank's transformational HR journey.

instructions, the Bank ensures that all employees can access whistle-blowing channels through which they can voice concerns anonymously and without fear of repercussions.

### Whistle blowing

To deliver on its commitment to build a world-class compliance framework, the Bank firmly enforces its whistle-blowing policy. While encouraging employees to speak up and report any activity that violates the Code of Conduct or any of the employee policies, procedures and

### Remuneration

The Bank provides employees with market and performance-driven remunerations; in 2021, high performers were rewarded with a fixed salary revision, while other variable incentive payments were significantly enhanced in line with increased sales to promote a strong customer-service-driven sales culture

### Salaries and Benefits

| SAR Mn. – for Al Rajhi bank KSA         | 2021           | 2020           | 2019           | 2018           | 2017           |
|---|----------------|----------------|----------------|----------------|----------------|
| Salaries paid                           | 1,122.1        | 1,110.7        | 1,061.8        | 1,047.2        | 1,059.9        |
| Benefits paid                           | 742.5          | 694.9          | 680.2          | 744.7          | 689.9          |
| Social security Contributions           | 151.5          | 148.3          | 137.7          | 135.0          | 138.3          |
| <b>Total salaries and benefits paid</b> | <b>1,864.6</b> | <b>1,805.6</b> | <b>1,742.0</b> | <b>1,791.9</b> | <b>1,749.8</b> |

93

### Celebratory and CEO customised gift

The Bank made celebratory payments to over 5,000 employees during the year under review for special occasions consisting of marriages, birth of a child, Hajj pilgrimages and back to school initiatives. A special CEO initiative was also introduced in 2021 to cover other instances – for employees in poor health, under medication or in recovery. A total of 1,220 employees received a customized best wishes gift from CEO.

### Celebratory Payments

| Initiative Type – for Al Rajhi bank KSA | Marriage | New Born | Insurance Upgrade | Back to School | Hajj | Total |
|---|----------|----------|-------------------|----------------|------|-------|
| Number of Employees                     | 350      | 1,106    | 465               | 3,409          | 33   | 5,363 |

### Employee saving scheme

Over 2,500 employees successfully completed Savings Scheme 1, greatly benefiting from the two-year programme designed to encourage and nurture an exemplary culture of saving among Bank employees.

### Digital transformation and mobile accessibility

As part of the Bank's new identity to "unbank the bank", HR Group worked to automate and enhance HR processes in order to improve efficiencies and strengthen the Bank's employee value proposition. A number of upgrades were carried out on the HR Management System during the year under review. The Talent Management System was introduced with features such as Succession Planning, Critical Position Evaluation, Talent Review and Talent Assessment while the Performance Management System underwent upgrades in Goal Management, Employee Profile Management, Performance Calibration and Dynamic Eligibility Profiles. An enhanced user-friendly interface with dashboards and rich reporting capabilities rounded up the system upgrades.

An enterprise version of the Bank's employee self-service HR app SAHL was launched in order to access all service features including customised functions. This in turn enabled the Bank to utilise SAHL as the single point of access to all employees based on evolving HR requirements. The app upgrade allowed for improved efficiencies and user experience across all HR services, addressing accessibility glitches and gaining flexibility through customization.

The employee financing process was also enhanced during the year under review by integrating the SAHL mobile app and the HR Management System to automate several functions including leave utilisation, vendor payments including

approval cycles and ex-employee clearance process. An HR Dashboard developed using best in class business intelligence tools was implemented in 2021 to present real-time, priority-driven HR KPIs, support the decision-making process and monitor the performance across all HR functions complemented by an enhanced visual interface.

The Testahl app launched by the Bank was upgraded in 2021, with the number of merchants increased by almost 50% from 2020 and a resulting increase of complimentary offers, promotions and savings opportunities that were enjoyed by employees. With over 8,000 users, the app introduced a new function that enabled users to add their family members and give them access to offers. Over 15,500 discount vouchers have been availed through the Testahl app to date.

### Recruitment and onboarding

Following an extensive and very detailed study of the Bank's existing recruitment and onboarding processes, a comprehensive new digitised system was implemented during 2021. With onboarding considered one of the critical aspects of creating a superior candidate experience with greater chance of retention, the new system aims to improve the efficiency of the Bank's Recruitment and Onboarding process.

The Recruitment Module is automated from the onset of the process with the automation of hiring requisitions. A dedicated, user-friendly careers website was launched to enable candidates to upload their CVs online, browse and apply for open vacancies. Tools were integrated for Recruiters to communicate with candidates via the system across all steps of the Recruitment process from screening and interview management to offer management and hiring. The module also includes SMART reporting and KPIs to measure efficiencies.

The Onboarding module allows for a seamless follow up process with all onboarding stakeholders, to complete required tasks within an approved time period and identify bottlenecks and points of delays.

## Online Assessment

An Online Assessment Tool replaces traditional time-consuming phone screenings, enabling HR to learn more about the candidate beyond the resume

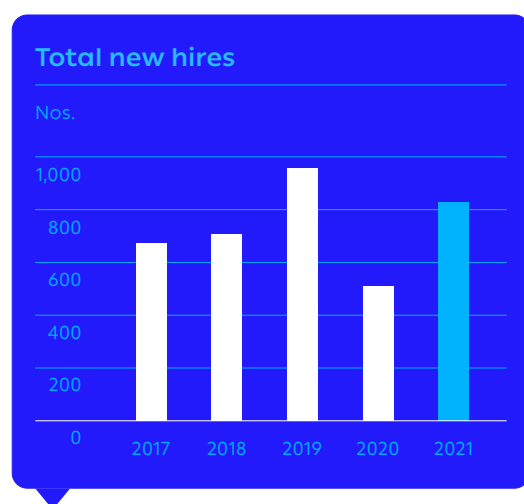
and automatically filter a large number of applications. The tool includes video assessments and online engagement to ensure candidate authenticity.

During 2021, the Bank hired 830 employees including over 50 Director and above level hires, with the new Recruitment and Onboarding System significantly enhancing overall efficiencies, productivity and candidate experience. The approval workflow was also enhanced to meet service level agreements with the Bank's various business units.

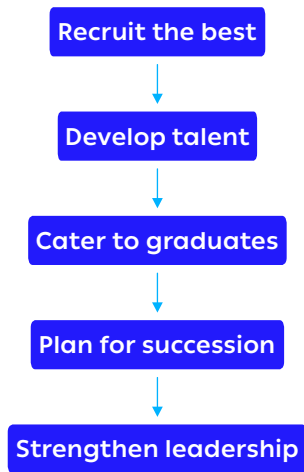
## Total new hires by age group and gender

| Year                          | 18 to 30 years |           |            | Over 30 years |           |            |
|-------------------------------|----------------|-----------|------------|---------------|-----------|------------|
|                               | Male           | Female    | Total      | Male          | Female    | Total      |
| Numbers for Al Rajhi bank KSA |                |           |            |               |           |            |
| <b>2021</b>                   | <b>393</b>     | <b>98</b> | <b>491</b> | <b>319</b>    | <b>20</b> | <b>339</b> |
| 2020                          | 276            | 70        | 346        | 152           | 12        | 164        |
| 2019                          | 399            | 341       | 740        | 191           | 27        | 218        |
| 2018                          | 398            | 161       | 559        | 130           | 18        | 148        |
| 2017                          | 353            | 202       | 555        | 106           | 11        | 117        |

95



## The HR pipeline



## Performance Management



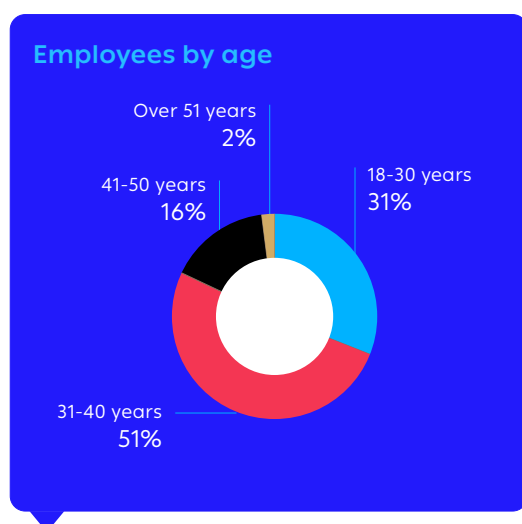
96

## Employees by grade and gender

| Grade                         | Male  |       | Female |       |
|-------------------------------|-------|-------|--------|-------|
|                               | 2021  | 2020  | 2021   | 2020  |
| Numbers for Al Rajhi bank KSA |       |       |        |       |
| Senior Management             | 185   | 171   | 2      | 2     |
| Middle Management             | 2,174 | 2,136 | 235    | 228   |
| Other                         | 5,576 | 5,733 | 1,188  | 1,215 |

## Employees by age and gender

| Age group                     | Male         |       |       | Female      |      |      | Total        |       |       |
|-------------------------------|--------------|-------|-------|-------------|------|------|--------------|-------|-------|
| Numbers for Al Rajhi bank KSA | <b>2021</b>  | 2020  | 2019  | <b>2021</b> | 2020 | 2019 | <b>2021</b>  | 2020  | 2019  |
| 18-30 years                   | <b>2,158</b> | 2,640 | 3,212 | <b>734</b>  | 819  | 922  | <b>2,892</b> | 3,459 | 4,134 |
| 31-40 years                   | <b>4,237</b> | 3,902 | 3,609 | <b>540</b>  | 465  | 423  | <b>4,777</b> | 4,367 | 4,032 |
| 41-50 years                   | <b>1,376</b> | 1,223 | 1,163 | <b>132</b>  | 128  | 119  | <b>1,508</b> | 1,351 | 1,282 |
| Over 51                       | <b>164</b>   | 187   | 222   | <b>19</b>   | 16   | 13   | <b>183</b>   | 203   | 235   |



97

## Service analysis of workforce

| Number of years of service    | Male         |       |       | Female      |      |      |
|-------------------------------|--------------|-------|-------|-------------|------|------|
| Numbers for Al Rajhi bank KSA | <b>2021</b>  | 2019  | 2018  | <b>2021</b> | 2019 | 2018 |
| 0-5 years                     | <b>2,452</b> | 3,170 | 3,651 | <b>765</b>  | 978  | 861  |
| 6-10 years                    | <b>2,824</b> | 2,324 | 1,895 | <b>414</b>  | 280  | 218  |
| 11-15 years                   | <b>1,089</b> | 1,615 | 1,591 | <b>99</b>   | 102  | 110  |
| 16-20 years                   | <b>997</b>   | 601   | 649   | <b>88</b>   | 77   | 93   |
| Over 20 years                 | <b>573</b>   | 496   | 522   | <b>59</b>   | 40   | 38   |

## Employees by category

| Category – For Al Rajhi Bank KSA | 2021          | 2020          | 2019          | 2018          | 2017          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Permanent                        | 9,360         | 9,380         | 9,683         | 9,628         | 10,263        |
| Contract                         | 85            | 118           | 113           | 35            | 35            |
| Outsourced                       | 3,807         | 2,844         | 2,250         | 2,052         | 1,986         |
| <b>Total</b>                     | <b>13,252</b> | <b>12,342</b> | <b>12,046</b> | <b>11,715</b> | <b>12,284</b> |

Talent management and development  
In 2020, Talent Management implemented multiple initiatives that saw the Bank review and revise a number of core talent practices, including the existing competency framework, critical role identification framework and succession-planning framework. The Bank also gathered assessment-based insights into development at leadership level and functional level, all initiatives that laid a strong foundation for the strategic rollout and implementation of a number of new talent practices in 2021:

- **Branch network talent assessment**  
The Bank's strategic business direction as well as the expectations of customers have significantly evolved over the past few years, and the alignment of the entire Bank network, channels and human resources with this shift becomes key to delivering on the Bank's strategic goals of 2022 and beyond. Among the key human resources identified were frontline employees who played a significant part in delivering on the Bank's strategic business goals. To drive business growth and sustainability, 9 pivotal roles filled by over 2000 employees were identified and assessed against the newly revised competency framework as well as other capabilities that support digital agility. Through this assessment, top-tier talent across all nine pivotal roles were identified, following which the development needs to help nurture these identified competencies were defined. These development solutions are scheduled to roll out in early 2022.

- **Engagement and communication**

Beyond the conventional modes of communication and engagement, a number of new initiatives were implemented with the intent to dial up engagement across identified talent segments, especially following the constraints in COVID 19 the previous year:

- Conversation over coffee with CEO – Monthly sessions with select talent groups across different businesses/ functions invited to join the CEO & CHRO for open conversations over a coffee. Beyond the recognition, this gives employees an opportunity to gain deep insight into the Bank's strategic direction from the CEO, and provide valuable ground level feedback to the leadership.
- Engagement sessions – Post graduation events that facilitate closer engagement and interaction between Talent Management and graduates for better clarity on career progression and development opportunities within the Bank.
- Emerging talent development programme – One of the Bank's biggest challenges in 2021 was identifying and retaining skilled future talent across niche areas in a fiercely competitive market. This programme, specially designed to appeal to niche emerging talent was reinitiated with the participation of over 70 potential employees in 2021 following COVID constraints the previous year.



**Simplifying  
complexity**





- Internal recognition – Leveraging internal communication channels to announce promotions of employees to the Director level and above, while also helping reinforce Talent Management intent of nurturing and growing internal talent towards leadership roles.

- **Assessment culture:**

With the success of the 'Leadership Assessments' for all individuals at Director level and above established in 2020, the Talent team further enhanced the quality of the decision-making process by adopting assessments across other talent groups and talent management functions as a practice in 2021:

- Promotion Assessments – All promotions to leadership positions required a Psychometric Assessment done through a best in class external consultant firm, with reports used as one of the primary data points for decision-making.
- New Recruit Assessment – All potential candidates considered for roles in leadership positions underwent formal Psychometric Assessments, with reports used as one of the primary data points for selection decision.

- **Nurturing a healthy talent pipeline**

The Bank's highly successful and in-demand Graduate Development Programmes established to nurture a resilient talent pool of future leaders, took 90 new Graduate trainees on board during the year under review. The programmes, curated by experts for IT graduates in Business Excellence, are part of the Bank's strategy to attract, retain and develop top young Saudi talent. Over 80 participants successfully graduated from ARB Academy programmes in 2021 to become part of a 350-strong graduate team, further bolstering a talent bench of skilled employees and potential leaders.

## ARB Academy

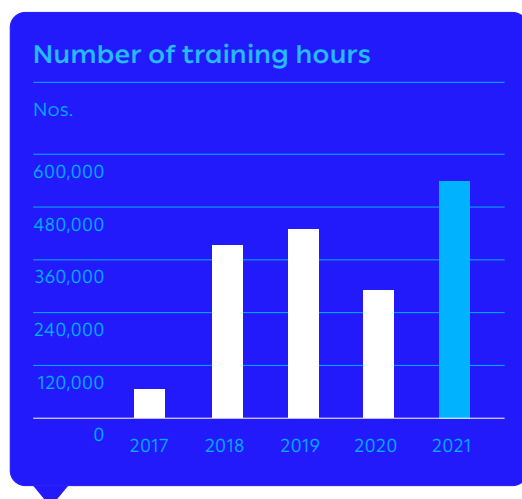
The ARB Academy delivered a record performance during 2021 with an 86% YoY increase in learning hours, an accomplishment that also exceeds pre-pandemic numbers. While the move back to physical classes has been gradual, the Academy continued to up-skill and develop employees in a well-balanced and accessible blended learning environment in 2021. The Academy focused on upgrading its infrastructure to provide more digitised programmes that allow high flexibility and accessibility to learning solutions. More programme curricula was redesigned with new content generated for virtual delivery, with a total of 647 different programmes available by the end of 2021.

Over 7,000 employees were certified across three mandatory SAMA certifications during a year that also saw the launch of three new certifications at the ARB Academy under the School of Banking in International Trade Finance, FinTech and PayTech and the Finance Certification Programme.

The Academy also designed and delivered the Qassim Contact Centre Programme within a short time span of six weeks, with an objective of training 200 potential female employees under the Work from Home project. Taleem, the Academy's Learning Management System (LMS) was made accessible to a wider audience by enabling features such as Programme Curriculums, Self-Registration, Training History, Participation Certificate and Programme Evaluations. The introduction of new features and learning tools resulted in an increased level of LMS traffic during the year, exceeding over 4,300 registered employees.

## Employee training

| Numbers for Al Rajhi bank KSA | 2021    | 2020    | 2019    |
|-------------------------------|---------|---------|---------|
| Number of training programmes | 937     | 420     | 622     |
| Total number of participants  | 9,552   | 9,737   | 11,191  |
| Training days                 | 89,831  | 48,259  | 71,399  |
| Hours spent on training       | 538,986 | 289,566 | 428,394 |
| Number of trained staff       | 9,552   | 9,737   | 11,191  |



101

## Hours of training by grade

| Grade – For Al Rajhi Bank KSA | Total hours of training | %  |
|-------------------------------|-------------------------|----|
| Senior Management             | 5,262                   | 1  |
| Middle management             | 49,206                  | 9  |
| Other                         | 484,518                 | 90 |

## Employee training by gender and category

| Type – For Al Rajhi Bank KSA | Number of employees |        |       | Number of person hours of training |        |         |
|------------------------------|---------------------|--------|-------|------------------------------------|--------|---------|
|                              | Male                | Female | Total | Male                               | Female | Total   |
| Mandatory                    | 4,870               | 1,170  | 6,040 | 89,276                             | 28,024 | 117,300 |
| Non-mandatory                | 2,916               | 596    | 3,512 | 341,368                            | 80,318 | 421,686 |
| e-Learning                   | 5,390               | 1,393  | 6,783 | 15,764                             | 2,399  | 18,163  |

| Type – For Al Rajhi Bank KSA | Number of employees |        |       | Number of person hours of training |        |         |
|------------------------------|---------------------|--------|-------|------------------------------------|--------|---------|
|                              | Male                | Female | Total | Male                               | Female | Total   |
| Senior Management            | 236                 | 13     | 249   | 4,157                              | 1,105  | 5,262   |
| Middle Management            | 1,503               | 214    | 1,717 | 38,873                             | 10,333 | 49,206  |
| Other                        | 6,047               | 1,539  | 7,586 | 387,614                            | 96,904 | 484,518 |

102

## Hours of training by skill type

| Type – For Al Rajhi Bank KSA | No. of persons trained | Hours training |
|------------------------------|------------------------|----------------|
| Technical skills             | 5,541                  | 204,815        |
| Soft skills                  | 4,011                  | 334,171        |

## Training programme type

| Programme Type – For Al Rajhi Bank KSA | IT Development | Graduate Development |
|--|----------------|----------------------|
| Participants                           | 126            | 125                  |



### Future outlook

The HR Policy will continue to be reviewed periodically and aligned with enhancements/revisions made to labour laws of the Kingdom and other countries of operation. With the anticipation of an amendment to labour laws in the near future, the Bank will reflect such revisions and other relevant changes to the HR Policy in the near future.

HR continues to plan, develop and implement necessary upgrades, automations and innovations to the HR Management System in line with HR digital goals and targets.

# Marketing and Customer Experience

Following a turbulent year that saw a massive shift in customer expectation and spending habits, banking customers have been re-examining their financial resilience, as well as their relationship with financial institutions. In such a landscape, Al Rajhi Bank (ARB) was presented with the opportunity to differentiate itself from other financial institutions and improve customer interactions across businesses via digital as well as conventional channels, thereby generating insights and utilising them to nurture a culture of innovation centred around a superior customer experience.

The development of its digital services at various levels across the Bank's operations to improve customer engagement contributed to Al Rajhi outperforming its competition with the top Net Promoter Score (NPS) in the Kingdom, complemented by the leading NPS score in digital banking.

During the year under review, the Marketing Team contributed to the overarching Bank of the Future strategy, maintaining the Bank's reputation as a leading brand for choice customer experience, and a benchmark for digital banking in the Kingdom that empowers its customers to be in control of their financial decisions and transactions in an on-demand, self-service world.

## The Bank's identity re-imagined

In line with its BOTF Strategy, the year under review saw the Bank striving for excellence in customer interaction; from accessibility across all customer touchpoints to customisability and data-driven targeting, the Bank understood the urgency to deliver exceptional experiences that are 'beyond imagination' to customers. In 2021, following an 18-month long strategic re-branding exercise, ARB

launched its new brand identity entitled "unbank the bank", transitioning from being a bank focused on providing products and services, to a financial ecosystem offering smart financial solutions, led by expert financial advisors.

The brand idea to "unbank the bank" was directly aimed at reducing the power distance typically associated between banks and customers, and position the Bank as a financial coach who understands and empowers the customer to embrace opportunities and make financial decisions with confidence. The Bank therefore had to be more approachable and easily accessible with less complex products and services, and connect and engage more with the customer.

The new Bank identity is based on three core values:

- Prosperity where passion is infused into business using the latest technologies that motivate customers to adopt new opportunities
- Ease with which the Bank provides easy and quick solutions to help customers make the best decisions with full confidence
- Value where the Bank understands the needs and encourages building relationships to solidify strong and solid bonds with partners

Preserving the essence of its identity anchored to a 60-year heritage associated with success, development and leadership in banking, the Bank developed a new logo with sharper corners and smooth curves to portray ease and flexibility as well as the Bank's new power balance with the customer. The emblem outline was removed to represent the Bank's limitless potential 'beyond imagination' and beyond the bounds of convention.

The colour was slightly modified from dark to neon blue, signifying innovation, advancement and a frictionless shift from old to new.

All account segments were consolidated under one umbrella for the general masses to create a more unified brand experience, product names were changed to reflect clarity of product purpose, and channel names were rebranded to appeal to the modern digital consumer as well as corporates and high net worth individuals. The new bank identity and rebranding was extremely well received by the general public and mass media, with stellar internal and external stakeholder feedback, underpinning the potential to influence perceived service quality, customer satisfaction and customer loyalty.

during 2021. By focusing their efforts on digital channels, the Marketing Team was able to leverage available data for more accurate profiling, predicting and targeted campaigns, enabling the team to monitor and funnel digital traffic to optimise the customer's digital journey. Other initiatives implemented to optimise the customer experience during 2021 included:

- Implementing Voice of Customer methodology to understand customer pain points, collect feedback and capture how customers feel about the Bank
- Carried out thorough market research to ensure the Bank meets customer expectations by introducing benchmarked financial solutions on a single platform in a competitive landscape
- Engaging with internal divisions of the Bank i.e. Corporate, Retail, Digital, Operations, SME Business and other business units, to seamlessly enhance customer experience through a culture of continuous improvement

Shifting to online channels post-pandemic, customers were constantly looking for engagement and value-adding communication online at a much higher frequency. In a competitive hybrid marketing landscape, customer decisions continued to be driven by responsiveness and faster turnaround times. Due to this factor, marketing campaigns for the year under review were planned, developed and executed largely across digital channels with a 'Download Now' or similar immediate call to action. Digitally driven campaigns included:

- Personal Finance Weekend Offer
- 0 Fees and SAR 5 Cashback
- Cashback Card
- Financing Month among other campaigns

104

## Brand positioning

Along with the rebranding, the Marketing Team ensured that the Bank also shifted from formal and rigid communication in favour of a more familiar, sincere and emotion-driven brand voice with increased transparency; less consultative and more collaborative. The Bank continued to introduce financial solutions built with the customer at the core, nurturing relationships built on shared values, and customer experiences that were highly personalised. These initiatives have strengthened the Bank's market-leading position with a 10% increase in the brand power score index.

## Mastering the mix of marketing media

During 2020, the pandemic accelerated the Bank's digital transformation journey, which enabled the Marketing Team to reinforce its marketing strategy on the Bank's rapidly evolving digital services



105

## Social Media Strategy

Social media for Al Rajhi has evolved from primarily a social tool in 2015 at the onset of the Bank's digital marketing journey, to an important and necessary medium for building customer relationships and personalising customer experiences. Today, Al Rajhi Bank has one of the largest groups of followers on social media – not just within the Kingdom but globally.

With digital and social media habits formed during the pandemic enduring well beyond it, the Bank's social media channels further cemented their position as a key part of the customer's omnichannel experience in 2021. As customer engagement across social media increased during the year under review, the Marketing Team moved from traditional content generation to a lot more lifestyle, educational, engaging and value-adding content for digitally active customers. This also augmented customer

touchpoints for the Bank, with the personal nature of social media nurturing stronger relationships and loyalty among customers. The Marketing Team continued to utilise all additional data sources across social media channels, analysing and filtering data to define customer personas and profiles for targeted ads via event-based push notifications, geo-targeting, geo-fencing, etc., meeting the demand for highly personalised content.

Beyond social media channels, the Marketing Team also continued to leverage the Bank's existing database as well as other web-based media platforms and device-generated data, monitoring and analysing customer behaviour across multiple touchpoints to offer customised offerings as well as retarget campaigns and content with great accuracy.

## Preferred loyalty programme in the Kingdom

In line with the BOTF Strategy objective to nurture the most preferred banking loyalty programme in the Kingdom, Al Rajhi Bank enhanced its Mokafaa loyalty programme to provide an increasingly rich and rewarding experience to its loyal customers. Registered members were able to earn more Mokafaa loyalty points by utilising a wider range of ARB products and services, with a growing variety of redeeming options including points transfer to friends and family as well as donations to charitable causes across KSA.

Mokafaa was expanded into a bank-wide programme with members able to earn loyalty points across the Al Rajhi portfolio including SADAD, Marketplace, Tahweel etc. The programme focused on offering its valued members an unparalleled loyalty experience with higher perceived value, doubling customer give-back ratio through a rich, diversified partner network. During the year under review, Mokafaa added over 100 more brands to its partner network, with seamless in-store redemption.

These significant improvements were enabled via a loyalty ecosystem that was fully upgraded during the year under review; the Bank implemented a new loyalty management system powered by data analytics, allowing the Bank to analyse and swiftly respond to specific customer behaviours. User experience was further elevated through a new and improved look and feel to the Mokafaa online portal, with added mobile functionalities such as one-click enrolment on the Bank's mobile app with a dedicated loyalty section for members to view their profile, points and loyalty benefits.

The Bank complemented the loyalty programme upgrade with a dedicated marketing campaign running across the

Bank's social media channels, newsletters and customer engagement points both online as well as across 500+ Al Rajhi retail branches across the Kingdom. A targeted promotion was also carried out for Al Rajhi Mortgage customers featuring over 50 collective discounts up to 30% by electronics, building material, lifestyle and other relative partner merchants.

Such focused, strategic loyalty initiatives ensured the Bank made significant progress in engaging its valued customer base, leading to a staggering 500% increase in the number of active members across the loyalty programme during the year under review, with a 700% increase in the number of loyalty redemptions. Over 1 million new members joined the loyalty programme in 2021, surpassing 3.5 million in total memberships, while a third-party brand health tracking (BHT) survey conducted towards the end of the year showed Mokafaa as the top-of-mind loyalty brand in the KSA banking sector.



## Future outlook

The Marketing Team continues to explore emerging technologies for marketing automation across multiple platforms and systems, generating more consistent and personalised customer engagement by utilising data and customer insights to be the leading bank in customer experience. This is further strengthened by the Team's focused efforts to retain the new found status of Mokafaa as the Kingdom's preferred loyalty programme, both initiatives contributing to a key pillar of the Bank's BOTF strategy – to outperform market competition.

# Shared Services Group

Drastic changes to the market landscape drove the Shared Services Group to expedite on-going projects while implementing agile reactive actions to meet growing and unforeseen customer demands in a fiercely competitive environment. Therefore, the number of requisitions increased sharply, especially with the regulatory mandate of implementing service level agreements (SLAs) in all contractual agreements.

The volatile market and entry of fintechs created continuous pressure on prices and demand for seamlessly digital products, increasing the need for rapid automation to reduce product and process complexities. For the year under review, Al Rajhi's Shared Services Group continued to deliver product enhancements and systems upgrades, automating and simplifying processes to enhance the consumer journey and experience.

## Information Technology (IT)

The unprecedented nature of the pandemic highlighted the significance of business continuity and strong contingency plans in the event of a serious interruption to IT operations. The sharp increase of demand for digital channels and applications required increased testing environment provisioning. In 2021, the Bank's IT Services executed two full interruption Disaster Recovery (DR) tests as well as nine controlled DR drills successfully.

The IT teams continued to enhance, modernise and optimise systems and infrastructure across the Bank network. The internal Application Programming Interface (API) Factory was upgraded with an automated testing and deployment process in 2021 in order to enhance time to market that enabled a superior level of integration across Bank subsidiaries, merchants and external partners, while also being utilised for open banking

initiatives. The 'Bank on the Tablet' programme was launched to further increase digital accessibility.

New digital capabilities introduced in 2021 included the ability to open Minor, FCY and Saving Goal accounts online, as well as enabling functions such as e-Business Registration, e-Business SME card and the e-Financing facility for Watani – Al Rajhi Bank's Shariah compliant flagship Personal Finance solution.

While a number of emerging technologies were also explored and implemented in 2021, the Bank strengthened its core by upgrading its mainframe to a higher version and completing its IT transformation across the Bank network with successful testing and performance management trials carried out. The Bank's data protection was also doubled in compliance with SAMA mandates to two levels; first with the installation of an offline data vault in Jeddah, and second a Cyber Recovery Site (CRS) for data recovery in case of cyber-attacks.

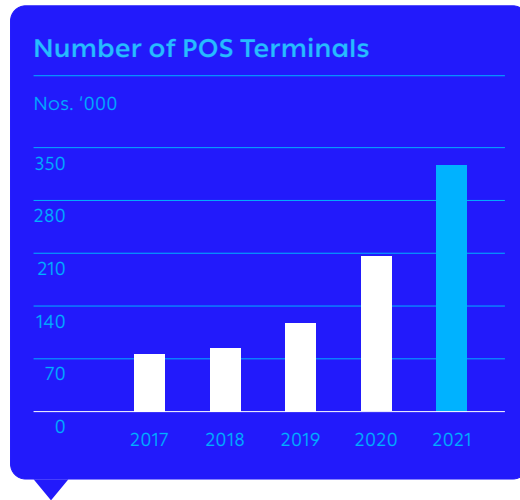
Other notable enhancements across the Bank included a capacity upgrade of the current data domain, the launch of the new Loyalty System and Customer Relationship Management (CRM) system for corporate and retail banking.

In terms of human capital investment, the Bank heavily focused on technological capacity building of its existing employees, training them in the software and digital tools implemented across the Bank, and further familiarising relevant teams with the new systems.

As a result of the technological advances and upgrades during the year under review, POS and Mobile transactions increased significantly; 90% of transactions carried out across the Bank were digital by Q4 of 2021. The bank also achieved



a major milestone in digitalisation by increasing mobile banking up to 60% of total transactions, with conventional ATM transactions decreasing by 20%.



108

### Process excellence

In line with the Bank's objective of differentiating itself by offering a superior customer experience and unmatched Straight Through Processes (STPs) capabilities, the Bank continued to invest in automation and digitisation. The number of transactions executed through robotic process automation (RPA) grew 100% YoY, with more than 1 billion transactions being executed during 2021. This was achieved by growing the number of automated processes by 30% and increasing the number of BOTs by 25%. In particular, retail operations carried the biggest automation effort covering various stages of mortgage application approval. This has positively impacted customer experience where the Bank has maintained our leading position in the market as the number one bank in mortgage journey satisfaction.

The on-going adoption of RPA to improve processes across multiple functional levels resulted in greater improvements and efficiencies. RPA was implemented to execute buyout loan payments, automate vendor payments, execute SAMA transactions, process inward swift messages, and process Office of Foreign Assets Control (OFAC)/ Know Your Customer (KYC) requests, responding to almost 70% of due diligence requests on the same day.

Such a level of automation required thorough control and monitoring. As a result, the Bank invested heavily in automating dashboards and control measures to ensure the correctness of its execution, satisfaction of its customers and adherence to rules, policies and procedures.

Gender equality remains a key agenda for the Bank across all levels of its operation including recruitment through training and career advancement, with the Bank committed to provide equal and fair opportunities based on the employees' educational and professional qualifications and ability to perform the job function. During the year under review, more than 45% of the workforce in Process Excellence was represented by capable, skilled and duly recognised Saudi females who have been instrumental in the success of the Bank's overall automation, execution and digital transformation.

## Procurement

The Online Procurement Portal launched in 2020 continues to be highly beneficial to the Bank network; the Bank's dependency on Saudi national vendors that represent 92% of the procurement spend provides a diverse range of products and services at competitive prices, while in turn increasing system dependency resulting in cost efficiencies, cost avoidance, and promoting an overall paperless process. Implementation of strategic framework agreements and a dynamic purchasing system are set to further improve levels of compliance and transparency across the procurement process.



### Future outlook

2022 will see the IT teams further explore, design and implement a Microservices platform, a new distributed approach to split larger applications into smaller independent modules that are independently deployable, fully automated and highly efficient, while also allowing the IT departments to continuously innovate, improve functionality and implement new features rapidly and efficiently. The development of employee IT competencies will be given equal priority as developing a number of processes will be carried into 2022 under business operations, mortgage, micro and small businesses, auto leasing and SAMA regulatory enhancements to name a few. The Bank will continue its Systems Modernisation through its

IT departments by upgrading critical systems, offloading legacy mainframes and re-engineering business operations.

Aligned with the BOTF strategy, the Process Excellence Team will continue investing in automation and robotics for loan approvals, payments, reconciliation and compliance operations, enhancing the quality of policies and procedures for consistent service delivery and a superior customer experience. The Process Excellence Team aims to further strengthen partnerships to foster an enhanced ecosystem for all stakeholders, and continue to invest in its human capital through training, coaching, career progression and an attractive work environment that supports a balanced work-life.

# Digital Footprint and Technology Transformation

## COVID-19 – a springboard for digital transformation

With 2021 came multiple growth opportunities for Al Rajhi Bank as we expedited a digitisation journey that was already in motion. Customers coming out of the pandemic were looking for end-to-end digital solutions that not only provided efficient accessibility, but also helped them better manage financial transactions in an increasingly cashless society. We stepped into the year focused on shifting our digital value proposition from execution to action and insights, and providing the best customer experience by enhancing the value of data with digital intelligence.

On account of COVID 19 and complexity in digitising workflow processes, we faced challenges due to lower-than-expected digital penetration in select lending products, which the digital and IT teams addressed through fast tracking product development. During the year under review, the Bank's digital and IT teams delivered transformational changes supported by digital infrastructure and a flexible workforce that sustained agility and innovation beyond the pandemic. Some of the key achievements included:

- 9.7 million active digital banking customers for the year under review
- Aggressive 145% YoY growth in digital onboarding with 90% of all retail customer accounts opened during the year opened via digital channels
- Payroll solutions for e-business customers
- A high performing, rapidly evolving mobile ecosystem with both the best-rated retail and business banking mobile apps in the Kingdom
- Delivery and roll out of end-to-end digitised Mortgage and Auto Lease financing solutions

- A 275% increase in assets powered by digitised personal finance products, and a significant increase in liabilities fuelled by non-profit bearing liabilities

During the year under review, Al Rajhi remained the 'First Choice Bank' with the leading Net Promoter Score (NPS) in the Kingdom, improving its digital NPS by providing a superior customer experience underpinned by elevated digital capabilities.

## Unlocking the full potential of digital in Retail Banking

2021 saw a significant increase in the Bank's digitally active customers to 9.7 million, making more than 80% of the Bank's total active customer base. Digital channels contributed significantly to key businesses; 85% of all remittance transactions and 83% of SADAD payments were executed via digital channels, while 80% of all cards issued by the Bank were also applied for via digital channels. The migration reflected robust YoY growth of 175% in e-commerce transactions, 125% increase in card issuance and 23% in marketplace transactions.

A number of financing products and services were digitised during the year under review including the complete request-to-execution functionality of Watani 2 and Watani 3 personal finance lending products. The instant approval feature was rolled out for personal finance and revolving credit cards, greatly contributing to online transaction efficiencies. End-to-end mortgage solutions for off-plan requests, auto financing solutions including a balloon financing product were launched online.

Opening of future accounts and minor accounts were enabled as well as additional accounts in multiple currencies

for existing customers. Applications for digital cards, cashback cards, debit cards, revolving cards and Riyadh Season prepaid cards were made available online. We also enabled host-to-host transfer for high-volume corridor partners, diverse insurance, savings and protection products, launched a digital gold wallet to enable gold trading over the app and also allowed users to open mutual fund investment accounts online. Adding to the ease and convenience the split payment option enabled requests for sharing of payments while the native experience of accruing and redemption of loyalty points enhance the customer engagement and experience. We introduced mobile PIN (mPIN) as an authentication method for convenient access, with 50% of the current logins utilising mPIN and biometric authentication.

## One-Minute Approach

Balancing innovation, regulation and risk in the shift towards high-speed transactions, Al Rajhi Bank rolled out the 'One Minute Approach' to enable end-to-end transactions and services within one minute. Credit cards, digital wallets and the Bank's flagship Watani 1 product were among the first to go live with the near-instantaneous one-minute approach, while the agility upgrade for Watani 2 and Watani 3 as well as Takaful Protection and Savings products, Mortgage Top-Ups, Emkan Products and a few Refinance options are currently in development.

## Remote Banking

Establishing our position as an enabler of the Kingdom's Vision 2030, a number of developments under the Open Banking initiative were tested and reviewed in 2021 to enable secure interoperability between Al Rajhi and other financial and third party service providers through retail as

well as e-business platforms. Under the same mandate, the Bank also remained persistent in developing and going live with a number of key services under its branchless banking initiative. The digitisation of the Bank's contact centre also continued during the year with 13 key services identified for digitisation.

## Digitising the Corporate Banking value chain

The year under review recorded a significant increase in new e-Business accounts opened online, 83% of all accounts opened during the year, a 58% YoY growth. The number of digitally active customers increased to more than half of all active corporate and SME customers. The Bank launched prepaid cards and a pilot offering of Point of Sale (PoS) financing in 2021, with financing products for e-Business customers currently in development.

## Cost and resource optimisation

The Bank continued to conduct self-evaluations and leverage existing tools, technologies and systems to provide optimum business solutions, while also upgrading technology infrastructure with API improvements and issuance of digital certificates. This prudent approach to managing and optimising resources resulted in the improvement of the cost to income ratio for the Bank.

As a result of COVID-19 restrictions and safety protocols, the Bank faced logistical issues when onboarding new team members as well as resources present outside KSA facing travel restrictions. By carefully identifying the most crucial skill gaps we needed to bridge, we hired a number of highly proficient new team members while also enhancing the Bank's institutional knowledge.

## International recognition for digital excellence

Our expedited digital journey during the COVID-19 pandemic and our continued efforts saw us win 13 regional and global awards during the year under review:

- Best Digital Bank in KSA 2021 at the Global Banking & Finance Awards
- Digital Banking Initiative of the Year and Mobile Banking & Payment Initiative of the Year at the Asian Banking and Finance Awards
- Best Digital Transformation Bank at the Global Business Outlook Awards
- Best Mobile Banking Application and Best Digital Bank at the International Finance Awards
- Best Online Banking Saudi Arabia and Best Mobile Banking App Saudi Arabia at the International Business Magazine Awards
- Best Digital Banking Solutions Provider by the Banking Tech Awards
- Digital Banking Experience of the Year at the Seamless Awards 2021
- Best Digital Banking Initiative at the Digital Banker Awards
- Best Mobile Banking Service Implementation – Saudi Arabia and Best Online Banking Service – Saudi Arabia at the MEA Finance Awards



## Future outlook

The BOTF strategy to transform technology and become the Best Digital Bank by 2023 will move us from our position as a Digital Challenger to a Global Digital Leaders. Our digital strategy will continue to nurture an Ecosystem with the best customer experience through tailored journeys and future-proof digital financial solutions at competitive prices. With over 1.9 million new active digital customers in 2021, the bank will continue to increase active users by 2023 with an endeavour to continuously improve customer journeys, focusing on the Voice of the Customer, continuous regional and global benchmarking, new technical enablers and benchmarked talent. For Corporate Banking customers, our 2022 e-Business roadmap includes a Business Hub that aims to introduce new services provided by third parties as part of Al Rajhi's digital offering.

We are also steadily repositioning our marketing approach for digital, focusing on messaging, creativity, partnerships and technology for both retail and business segments to support the new ecosystem.



**Building  
strong bonds**



## Growing importance of Islamic finance

Demand for Sharia-compliant products remained resilient as Islamic financial markets continued to expand in 2021, with the industry achieving an annual growth of more than 10% during the year under review. Total Sharia-compliant financing across the Kingdom surpassed SAR 1,600 Bn., with SAR 3,000 Bn. Islamic financial services assets of KSA representing close to 30% of total Islamic financial assets globally.

## Al Rajhi's Founding Principles

In its founding contract inked more than 30 years ago, Al Rajhi Bank committed that its dealings shall be compliant with the provisions of Islamic Sharia. In order for the Bank to achieve this commitment in all its business activities inside and outside the Kingdom, it assigned the determination of the legality of its dealings to an independent Sharia Board, which includes in its membership a number of distinguished scholars. In line with the BOTF strategy rolled out during the year under review, the Sharia Group continued to ensure that the Bank serves its stakeholders in full compliance with Sharia law.

The Sharia Board held meetings periodically, evaluating products, investment and financing agreements, contracts and models. During the year 2021, the Sharia Board held 31 meetings, examining 270 topics including new banking products, agreements, contracts, forms and inquiries. The Sharia Board issued its decision or directive for adoption and implementation across the Bank.

**Structure of the Sharia Group**  
The Sharia Group was established within the Bank to support the Sharia Board in

achieving its objectives, and to coordinate between the requirements of the Sharia Board and Bank. The Sharia Group consists of two departments:

### 1. Sharia Board Secretariat Department:

The Department comprises Sharia advisors who study and carry out relevant Sharia research on new banking products, agreements and contracts put forward by various groups and departments of the Bank. Their findings are presented to the Sharia Board, which issues its directions and decisions then communicates the same through the Secretariat Department to relevant groups and departments. The Department participates in developing Sharia products and provides Sharia advice to the Bank in accordance with the decisions of the Sharia Board. It is also the Secretariat Department's responsibility to record, classify, index and facilitate the minutes of all Sharia Board meetings.

### 2. Sharia Supervision Department:

The supervision of all Bank operations and activities in relation to the implementation of the Bank-related decisions and directives of the Sharia Board falls under the Supervision Department's purview. This ensures the Bank introduces no unauthorised products, contracts or models to customers. The Department comprises an integrated team of Sharia observers who perform Sharia audits on the Bank's business through automated systems and field visits, and is responsible for developing and reviewing auditing standards issued by the Sharia Board. During the year under review, the Department audited more than fifty banking branches via field visits.



## **Activities and works of Sharia Group in 2021**

The Sharia Group continued to raise Sharia awareness among the Bank's employees, customers and those interested in Islamic banking during the year, including, but not limited to:

- a. 7 awareness workshops on executing phone financing for chosen retail banking products
- b. 4 courses in Islamic banking for new employees and participants in the Future Leaders Training Programme
- c. 300 telephone inquiries and 40 mail inquiries answered
- d. 10 awareness messages about the Sharia controls of products and services and the Sharia policy of the Bank communicated to employees
- e. Prepared, printed and distributed a number of distinguished publications; mostly Doctoral Dissertations and Masters Theses authored by experts in the Islamic banking and financial field.
- f. Represented the bank in 2 Shariah Committee meetings with the Saudi Central Bank
- g. Participated in seminars and specialised Fiqh forums
- h. Provided scientific support to a number of Sharia researchers in the field of Islamic banking
- i. Trained a number of undergraduate and postgraduate students at Imam Muhammad bin Saud Islamic University



### **Future outlook**

In 2022 and beyond, it is expected that Islamic finance will continue to expand, maintaining its now long-established growth trend. The sector is expected to continue growing on all fronts, including banking services, sukuk, takaful and insurance services, benefiting from supportive government policies, which reflect strong and increasing demand for Sharia-compliant products.

# 116

## ESG Report

## ESG highlights

|                                 |   |   |   |
|---------------------------------|---|---|---|
| <b>Financial Sustainability</b> | <b>SAR 624 Bn.</b><br>Total Assets  | <b>SAR 14.7 Bn.</b><br>Net Profit after Zakat                   | <b>0%</b> Financing exposure in Tobacco, Alcohol & Gambling |
| <b>Environmental</b>            | Started using solar energy system in 5 branches to reduce utilities consumption | <b>Over USD 1 Bn.</b><br>of financing renewable energy projects |   |
|                                 | ISO Green Certification for the head office building                            | <b>90:10</b><br>Digital to Manual Ratio                         |   |
| <b>Social</b>                   | <b>SAR 32 Mn.</b><br>Donation in 2021   | <b>SAR 1,699 Mn.</b><br>Zakat paid                              | <b>SAR 3.1 Bn.</b><br>in salaries and benefits paid         |
|                                 | <b>SAR 15.8 Bn.</b><br>in financing for SMEs                                    | <b>91</b> kidney transplants through Shifaa platform            | <b>9</b> batches of Graduate Development Program since 2015 |
|                                 | <b>3,663</b><br>Employees volunteered in social programs                        | <b>18,300+</b><br>of volunteering hours Clocked                 | <b>89,800+</b><br>total training days                       |
| <b>Governance</b>               | ISO/DIS 37301:2020 Compliance   | ISO 22301:2019 Business Continuity Management                   | <b>1,209</b><br>Sharia Board Resolutions                    |
|                                 | <b>137</b><br>Policies and Frameworks   | <b>4 out of 11</b><br>Independent Board Directors               |   |
| <b>Gender Diversity</b>         | <b>101</b><br>women-owned suppliers engaged                                     | <b>69%</b><br>growth in female employees since 2015             |   |
|                                 | <b>17%</b><br>of female employees   | <b>93%</b><br>growth in female customers since 2015             |   |

117

## The Bank's approach to ESG

Al Rajhi Bank is dedicated to growing its reputation as a well-managed, well-disciplined financial institution exercising sound governance practices that focus on financial intermediation and maturity transformation, two essential activities required for the economic development and prosperity of the Kingdom.

The Bank has remained committed to providing Sharia-compliant banking services for the past five decades; Sharia-led Islamic finance has much in common with environmental, social, and governance (ESG) considerations and the broader aim of sustainable finance. Al Rajhi Bank does not participate in any investments that fail to meet Sharia guidelines – including alcohol, gambling and tobacco products. With zero exposure to such industries, the Bank remains protected from sectors that are at 'high risk' of failing to meet ESG criteria. Through Sharia guidelines, the bank performs a culturally distinct form of ethical investing.

During the year under review, Al Rajhi Bank employed the services of a globally leading pure play sustainability consultant to evaluate the Bank's existing overall ESG performance as well as ESG Disclosure against local and global peer benchmarks. This enabled the Bank to identify critical areas for improvement in ESG Strategy and reporting standards. Based on these preliminary findings, the Bank followed up with an evaluation of its approach to materiality, which provided the Bank with a number of immediate to long-term opportunities to identify well-defined, focused topics to create value across the ESG landscape.

These key findings laid a strong foundation for the Bank's ESG steering committee to develop a comprehensive and all-encompassing ESG Strategy that aligns the Bank's ESG efforts with its Bank of the Future (BOTF) Strategy, The Kingdom's

Vision 2030 and the United Nations SDGs. At a national level, the Kingdom and the financial services industry prioritised financial inclusion during the year under review to support Vision 2030, with access to financial services as the Kingdom aims to develop a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finances and investments. This included the integration of ESG factors into corporate financing decisions, and the growth of female participation in the workforce. Al Rajhi Bank's ESG Strategy – now in its final stage of completion – will build on the Bank's experience and expertise across these newly identified ESG areas of focus with ambitious KPIs, goals and objectives.

The Bank sought internal stakeholder input in ESG-related decision-making, planning, monitoring and activities by facilitating multiple meetings with a cross-section of senior executives representing different departments across the Bank. These engagements enabled the Bank to obtain views and feedback from internal stakeholders on specific ESG topics and the Bank's overall ESG standing and contributed in the development of the Bank's new ESG strategy.

## ESG management and disclosure

At present, the Bank provides key ESG-related updates to relevant stakeholders on quarterly basis through the earning call and quarterly investor presentations. For the year under review, Al Rajhi Bank's consolidated ESG Report has been prepared in accordance with the Saudi Exchange ESG Disclosure Guidelines ([www.sseinitiative.org](http://www.sseinitiative.org)) issued by the Saudi Exchange following its voluntary commitment to promote sustainable and transparent capital markets by becoming a Partner Stock Exchange of the United Nations Sustainable Stock Exchanges (SSE) initiative.

The SSE initiative is a UN Partnership Programme organised by the United Nations Conference on Trade and Development (UNCTAD), the UN Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN-supported Principles for Responsible Investment (PRI). The SSE's mission is to provide a global platform for exploring how exchanges in collaboration with investors, companies, regulators, policymakers and relevant international organisations can enhance performance on ESG issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals.



## ENVIRONMENTAL

Accounting for indirect emissions is a relatively new activity for financial institutions given the nature of financial products and the operational model of the Banking sector, but by understanding its role and the increasing urgency to be accountable, Al Rajhi Bank remains committed to reducing its footprint across its operations and product portfolio, contributing to protect the planet while rebuilding a thriving local economy.

### Climate change

The Bank remains committed above all else to make its own operations achieve net zero through continuous initiatives to decrease both direct and indirect carbon emissions. Tudor Real Estate – the real estate, property and facility management arm of the Bank focused on power and energy management during the year under review, applying clean technologies and layouts during the rebranding of the Bank's branch network in 2021, including power saving systems to reduce utility consumption. Tudor renovated 20 branches, relocated 14 outlets and opened 15 newly designed and branded branches to the public, carefully considering natural lighting and other

energy efficiencies to reduce the operational carbon footprint across its owned and controlled branch network.

Al Rajhi Bank continued its own carbon-free, renewable energy sourcing by continuing solar installations across its branch network, with three more branches now equipped with solar panels during the year under review, bringing the total number of solar-powered branches to four in 2021.

Additionally, the Bank implemented a Building Management System (BMS) to promote energy conservation at its headquarters, which is also certified with the ISO Green Standard to affirm its commitment to conform to established environmental policies and requirements, as well as to reduce and adapt to climate change among other corporate responsibilities towards the environment.

Al Rajhi Bank has incorporated environmental risk as a key evaluation criterion in its overall approval process to finance a project or business. The bank actively engages with firms such as Wood Group UK Limited, WSP, 5 Capitals and others for assessment of projects from environmental and social perspectives, and ensures all projects meet internationally recognised guidelines such as Equator Principles and Green Loan Principles.

### Natural resources

The evolving nature of the Bank's operation and its shift to digital platforms in a post-pandemic world has resulted in controlled and contained use of land and property for its operation, with minimal to zero impact on biodiversity across all locations of its operation. While the Banking function is not water intensive, Al Rajhi Bank remains vigilant of its management as well as consumption of water and energy, and has introduced a number of facilities and technologies such as sensor-controlled smart taps and rationalised use of electricity across all branches and subsidiaries.

## Pollutions and waste

In terms of waste generation, Al Rajhi Bank follows strict recycling guidelines across its entire branch and subsidiary network, especially instigating initiatives for paper use reduction, paper waste collection and recycling. The Bank follows a rigid process derived from global best practices for electronic waste, ensuring data security by performing a complete wipe of confidential data on any hard drives or other storage devices, followed by material recovery of reusable e-waste as spare parts, and unusable e-waste redirected for final disposal to relevant third parties.

## Environmental opportunities

The Bank is cognisant of the growing concerns around climate change globally and is keen to ensure that it plays a key role as a financier in managing and mitigating potential environmental risks, leading the financing initiatives of

renewable energy opportunities across the Kingdom. Al Rajhi Bank has been a key enabler of the National Renewable Energy Programme implemented by the Renewable Energy Project Development Office (REPDO), participating in the financing of solar projects based on recently issued Green Loan Principles.

The Bank's Structured Finance team assesses financing projects supported by the government through its Vision Realisation Programmes (VRP) initiated to support Saudi Vision 2030. During the year under review, Al Rajhi Bank acted as Mandated Lead Arranger and Hedge Provider for the largest Solar Independent Power Plant in the world. The project is expected to power over 185,000 homes and offset nearly 2.9 million tonnes of greenhouse emissions annually. The Bank also acted as Mandated Lead Arranger and Hedge Provider for a Greenfield Solar Plant project with potential capacity to generate 300MW of clean renewable energy.

| Project Name          | Description  | Closing Year | Status      |
|-----------------------|--|--------------|-------------|
| REPDO 2 Rabigh PV IPP | Solar PV Power Capacity of 300 MW  | 2021         | Deal Closed |
| Sudair Solar IPP      | Largest Solar Independent Power Plant in the world in 2021, which will produce 1.5 GW of clean renewable energy. | 2021         | Deal Closed |

Key renewable energy financing projects closed during the reporting year

During the year under review, the Bank provided SAR 2.6 Bn. in financing to renewable power generation and clean energy projects, and further committed over SAR 900 Mn. to finance similar projects that are expected to close in 2022. The Bank continues to identify financing opportunities in the clean energy space across the Kingdom in line with Vision 2030 initiatives, with a healthy pipeline of renewable energy projects to be signed and closed in the coming years, including the SAR 18.8 Bn., 4 gigawatt green ammonia plant that is set to make Saudi Arabia in the global 'carbon-free' hydrogen market. Internally, Tudor continues to explore new clean energy opportunities to install across all Al Rajhi Bank locations.



## SOCIAL

As one of the world's leading Islamic Banks, Al Rajhi Bank's approach to Social sustainability is to further nurture the relationships it has built over the years with all its stakeholders; from those who work and those who bank at Al Rajhi Bank, to the communities the Bank serves and operates in.

### Human capital

#### Labour management

The Bank follows all relevant Saudi labour laws and regulations, and carefully assesses the annual Employee Engagement survey results and feedback received from employees to develop action plans that address areas highlighted for further improvement. The action plan implementation is periodically reviewed by the People Council, which was established in 2020 with an intent to encourage greater engagement and ownership from the C-Level and leadership teams on people and talent development practices. Effective and proactive actions taken resulted in an increased Employee Engagement Index score of 71% in 2021.

In addition, it is mandatory for all employees to familiarise themselves with the Al Rajhi Bank code of conduct annually. The Code of Conduct covers topics including but not limited to:

- Human rights
- Discrimination
- Fair dealing
- Anti-bribery
- Fraud, embezzlement, theft, money laundering, financing terrorism, and insider trading
- Harassment or Extortion
- Unethical behaviour of any colleague(s) such as breach of honesty and integrity
- Whistle-Blowing policy

### Health and safety

The Bank's branch and subsidiary network implements and maintains the highest standards of occupational health and safety standards:

- Firefighting systems
- Emergency exit systems
- Continuous awareness of risks
- Periodic testing procedures
- Implementation of the requirements of the Ministry of Health in relation to the (COVID-19) including temperature monitoring, sanitiser accessibility and mask requirements

During the year under review, the Bank's Human Resource division launched an open health day at all Head Office locations to encourage and create awareness on all round health and wellbeing of employees. A Breast Cancer Awareness event was also conducted at the Head Office ladies' division to promote effective screening practices and risk assessment for early detection.

### Human capital development

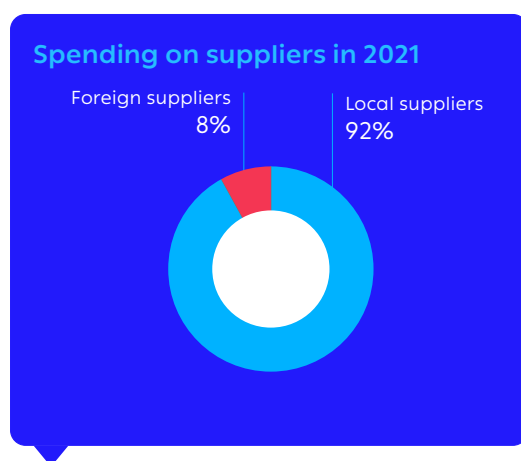
The Bank follows a structured talent management and succession practice with individual development plans, further strengthened by a market and performance driven compensation strategy. The Al Rajhi Academy delivers best in class leadership, banking, operational and technology certifications to nurture a talent pool with required skills and knowledge to perform emerging and evolving job roles effectively. (Refer to the HR section on pages 90-102 for more details).

### Supply chain labour standard

The Online Procurement Portal launched in 2020 greatly contributes to promoting supplier diversity and fairness in a highly competitive purchasing landscape in the Kingdom, and enhances the transparency as well as efficiencies in the procurement



of products and services for the Bank. The Bank encouraged and invited SME Businesses that bank with Al Rajhi Bank to register as suppliers in its mandate to prioritise local suppliers in purchasing decisions; 92% of the procurement of products and services were channelled to Saudi vendors in 2021.



As part of the Bank's initiative on female empowerment, fully and partially female owned businesses were approached to register on the Procurement Portal, resulting in 32% of the total local businesses onboarded in 2021 being female-owned, increasing the total female-owned supplier percentage to 7.5%.

## Product liability

### Privacy and data security

During the year under review, the Bank enhanced its Privacy Policy; specific classifications were rephrased in order to eliminate any ambiguity in response to the latest regulatory changes across the Kingdom that aimed to elevate and protect the privacy of all customers. Al Rajhi Bank has clarified in detailed description the classification of personal data, with more transparency to how it is collected, stored, processed, used, protected and disclosed as per the requirement of the Kingdom.

There was a new set of considerable risks with the emergence of a hybrid work environment where employees were working from home while certain Banking functions were carried out on-premise. By rapidly and successfully adapting to this new environment, the Bank enabled business continuity through functions that were previously never performed remotely, simultaneously introducing new risks that needed to be immediately addressed.

Through changes made to the Business Continuity Strategy, parallel operations of critical business processes were carried out from multiple, remote locations in adherence to social distancing and safety

|   | 2021 | 2020 | 2019 | 2018 |
|---|------|------|------|------|
| Total number of suppliers engaged                 | 384  | 335  | 332  | 358  |
| Total procurement spending (SAR Bn.)              | 3.7  | 3.1  | 3.1  | 2.5  |
| Total number of local suppliers engaged           | 285  | 263  | 261  | 300  |
| Procurement spending on local suppliers (SAR Bn.) | 3.4  | 2.9  | 2.9  | 2.3  |
| Percentage of spending on local suppliers (%)     | 92   | 93   | 92   | 93   |
| Total number of female-owned suppliers engaged*   | 101  | 94   | 94   | 30   |

\*Certain suppliers are partially owned by females based on the 'Memorandum of Association'



# From bank to partner



regulations, whilst also introducing, encouraging and adopting new, third-party technologies that increased work efficiencies. The Business Continuity Management Team continued its COVID-19 response and process adaptation during the year under review, liaising with different business groups to define the framework for remote working conditions, and with employees to ensure such conditions were pragmatic and feasible. The Team coordinated with IT and information Security teams to ensure an appropriate level of support was provided to business users, reporting to senior leadership on the progress of operations.

The Business Continuity Management Team also continued to monitor relevant Government organisations and financial authorities for regulatory updates and operational instructions, collaborating with internal support functions to ensure business continuity challenges were adequately and proactively addressed. The team will continue to work closely with all business groups to monitor their needs and ensure their readiness to manage any unprecedented events in future.

The rapid and successful adoption of the above initiatives and strategies increased the overall organisational resiliency of Al Rajhi Bank, while also increasing the confidence in the Bank's capabilities in both internal and external stakeholders.

## Social opportunities

### Access to finance

Al Rajhi Bank has the largest network distribution in the Kingdom and the Middle East region, supported by 521 branches, 207 remittance centres, 4,891 ATMs and 326,121 Point of Sale (POS) terminals to service customers and provide equal access to financial services. This widespread network of access points has resulted in Al Rajhi Bank claiming some of the largest active customer bases in the region, with over 12 million total

active customers. The rapid adoption and scalability of digital infrastructure has also greatly contributed to improving financial inclusion across all demographics including underserved remote areas, with 9.7 million digitally-active customers benefitting from fully digitised Al Rajhi Bank products. The Bank also remains the largest mortgage provider in the Kingdom with a 40% mortgage market share, supporting Vision 2030 in its mission to increase home ownership of Saudi nationals.

Al Rajhi Bank continues to promote financial inclusion with all branches equipped to serve persons with disabilities, and was the first bank in the region to launch ATMs with disability access. In 2021, the Bank upgraded 5 branches ATMs with technologies such as voice assistance and sign language to support the blind and visually impaired, the deaf and hard-of-hearing, as well as persons with mobility impairment, aligning with the Saudi Vision 2030 objective of supporting the disabled with tools and facilities to become more independent and be integrated into society. Majority of Al Rajhi Bank branches have reserved disabled parking spaces with all of branches is ready to serve customers with disabilities.

During 2021, the Bank invested in powering the frontline to service the customers, implemented a Voice of Customer unit to address identified pain points. In addition, a new branding initiative during 2021 saw the Bank re-position itself as a financial coach that understands and empowers the customer to embrace new financial opportunities, and embrace new financial decisions with confidence. Al Rajhi's long-established reputation of integrity and transparency with its customers contributed in maintaining its position as 'First Choice' Bank with acknowledged leadership across personal finance, mortgage, auto and credit card services, with the top position in NPS, CSAT and CES in both traditional and mobile banking.

## Access to healthcare

Al Rajhi Bank has continued to invest heavily in healthcare initiatives through its focused approach to corporate social responsibility (CSR), with a number of projects being carried out by the Bank during the year under review. The health sector is the most partnered sector for the Bank's CSR initiatives, with several medical centres built under the Banks' name in several regions, while working with the Ministry of Health to donate and contribute towards medical treatment for the underprivileged and at the expense of the bank in addition to donations to the independent civil Health Endowment Fund.

Other focus areas for the Bank's CSR projects include education and capacity development, as well as the identification and engagement of neglected or under-represented segments of the society.

Key CSR projects carried out during the year under review:

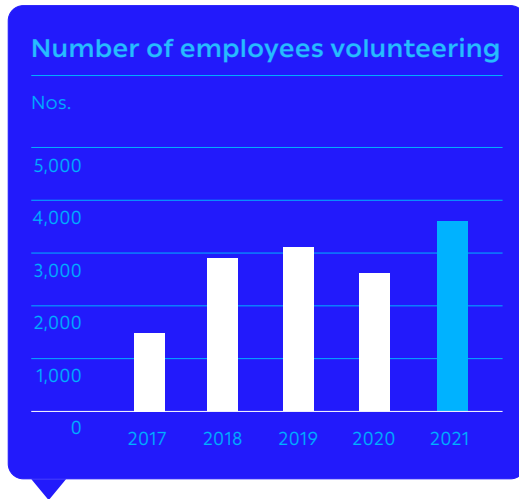
- Signing of community partnership agreement with the Health Endowment Fund to finance the purchase of 1,100 wheelchairs donated by the Bank for the benefit of the Ministry of Health hospitals.
- Distributing 'Winter Gift' package in eight regions for the fifth consecutive year.
- Launching "We Can See You With Our Hearts" initiative on White Cane Safety Day across Riyadh, Jeddah and Qassim, with the employees of the three city branches volunteering to visit the blind, communicating, distributing gifts and engaging with them through shared experiences.
- Launching initiative on World Heart Day across three cities – Riyadh, Jeddah and Dammam – with 60 male and female employees volunteering to visit cardiac wards across a number of hospitals, visiting patients, engaging with them, distributing gifts and checking on their wellbeing. All employee volunteers received heart examinations and were also given an awareness session on heart health.
- Launching national-level community initiative with Dr. Sulaiman Al-Habib Medical Group under the generous patronage of His Excellency the Health Minister and Chairman of the Health Endowment Fund to perform 91 kidney transplants for patients with renal failure at a cost of SAR 18 Mn., coinciding with the celebration of the 91st National Day of the Kingdom.
- Implementing "Because Your Health Matters" – an initiative in collaboration with the Kayl Association for combating Obesity – an eight-day awareness programme that provided nutritional advice to the Bank's employees by specialists in Therapeutic Nutrition, sports consultations through a specialised club, and healthy meals through a specialised company.
- Contributing to a programme organised by the Department of Community Participation from the General Directorate of Health Affairs in Makkah Al-Mukarramah by providing 20,000 UV umbrellas to Hajj pilgrims.
- Successfully concluding three-month long Young Merchant Financial Awareness programme entitled "A Small Step towards Great Success and a Secure Future" with generous support from the Emirate of Al-Qassim in collaboration with the regions' Women Development Committee along with the participation of the Chamber of Commerce and Industry in Al-Qassim, the Onaiza Chamber, and the Al-Rass Chamber. The training programme saw the completion of 5,000 training hours, where 35 students were able to graduate in entrepreneurship, and contributed to increase financial awareness and help develop a culture of saving within the community.
- Donating a collective employee contribution amounting to SAR 230,000 to sponsor 20 families of the most needy prisoners through a special initiative that was prepared in cooperation with the National Committee for the Welfare of Prisoners and Released Prisoners and their Families "Tarahum".

- Donating a collective employee contribution to cover costs of dialysis for patients presenting their case through the "WAQFY" platform, which is affiliated with the General Authority for AWQAF. The main purpose of the platform is to stimulate community participation and achieve financial sustainability for the non-profit sector. This contribution helped provide haemodialysis services to 50 beneficiaries of the Prince Fahd bin Salman Charitable Society for the Care of Kidney Failure Patients "Kelana", with a total amount of SAR 70,000.
- Donating SAR 7 Mn. to the national campaign to support charitable work through the Ihsan platform.
- Distributing 2,000 food baskets in 10 areas and governorates for the fourth consecutive year to underprivileged communities, reaching 12,000 beneficiaries.
- Pledging SAR 6 Mn. donation to the Wareef Charity to purchase and equip two blood donation vehicles
- Signing an agreement with the Disabled Children Association to develop and renovate its integrated clinic while ensuring its operations run for a full year. With the total donation amounting to SAR 1.5 Mn., benefitting more than 100 children annually.
- Partnering with the Saudi Food Bank to distribute 50,000 meals in a month to the beneficiaries registered at the association who were greatly affected by the pandemic across the cities of Riyadh, Jeddah, Dammam, Jubail, and Al-Ahsaa.
- Completing and delivering 222 housing units in partnership with "Jood Eskan" for families in need under the patronage and in the presence of his Excellency the Minister of Housing, Mr. Majid bin Abdullah Al-Hogail, the Governor of the Saudi Central Bank, Dr. Ahmed bin Abdul Karim Al-Khulaifi, and Al Rajhi Bank's Chairman of the Board of Directors Mr. Abdullah bin Suleiman Al Rajhi.
- Donation of RM 76,500 by Al Rajhi Bank – Malaysia to Yayasan Sukarelawan Siswa (YSS) – an entity under the Ministry of Higher Education of Malaysia – to sponsor 50 laptops for 50 first year undergraduates belonging to the B40 category to promote digital equality among the communities in which it operates.
- Sponsoring of the second VBI Financing and Investment Impact Assessment Framework Sectoral Guide Townhall organised by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) by Al Rajhi Bank – Malaysia as a Member of the Value Based Intermediation (VBI) Community of Practitioners.

Volunteering is encouraged among all employee tiers across the Bank through internal communications and social media updates on various social responsibility projects, with employees allowed to take volunteering leave up to half day. With the Bank exceeding 50,000 volunteer hours accumulated through the dedication of over 10,000 Al Rajhi Bank employees in 2020 – a rewarding milestone – its focus has now shifted to the quality of volunteer programmes, choosing to create a much larger impact across the communities in which it operates.

## Community investment

|  | 2021          | 2020   | 2019   | 2018   | 2017  |
|--|---------------|--------|--------|--------|-------|
| Total number of employees volunteering   | <b>3,663</b>  | 2,625  | 3,191  | 2,904  | 1,634 |
| Total number of employee volunteer hours | <b>18,315</b> | 13,125 | 16,265 | 14,115 | 5,735 |



## GOVERNANCE

### Corporate Governance

#### The Board

Refer the Board of Directors on Page 132.

#### Financial reporting and tax transparency

Al Rajhi Bank publishes its interim condensed and expanded Consolidated Financial Statements on quarterly basis and annual basis, where both statements are prepared in compliance with endorsed International Financial Reporting Standards (IFRS) as issued by the Saudi Organisation for Chartered and Professional Accountants (SOCPA) and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws. All such standards, rules and regulations are consistently applied under the supervisory monitoring by the Saudi Central Bank (SAMA) to ensure proper disclosures and a full financial reporting integrity has been met.

Al Rajhi Bank has a dynamic platform of financial and public interest reporting to afford highest efficient and transparent disclosures to the public and investors. That robust reporting platform is designed to ensure and validate financial information and reports through strongly validated financial data processing engines, financial standards compliance, and policies and procedures quality assurance. Al Rajhi Bank also has many internal governance committees and wide range involvement of monitoring departments that work towards producing accurate financial information for all of public users.

Al Rajhi Bank's financial reporting function is also regulated by the Capital Market Authority (CMA), which ensures specific levels of transparency and investor informative sessions are being conducted. Among these rules and regulations is appointing the external auditors, which comes solely from the shareholders general assembly and from the big four international audit firms.

Al Rajhi Bank has revenue recognition policy and procedures that are fully compliant with the international financial



standards, and uses the effective profit yield in driving the Bank's income and fees. The Bank also renders some services to the customers where the relevant fee and income are recognised as soon as those services are rendered.

Al Rajhi Bank makes various range of Zakat and tax payments to the General Authority of Zakat and Tax (GAZT). The Bank employs internal and external qualified experts to ensure the perfect compliance with all Zakat and tax rules and regulations applied in Kingdom of Saudi Arabia.

### Equity ownership structure

The Bank follows the CMA regulations of one vote per share and disclosure of 5% or more ownership.

recommendations for changes are submitted to the Board for approval. The implementation of the policy is monitored by the Board Compensation Committee with an independent audit and confirmation shared with SAMA on a semi-annual 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 with required triggers for variable and long term bonuses qualifying assessments. 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.

128

### Employee remuneration, incentives and other benefits

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

The Bank seeks to provide employees with a compensation package that consists of base salary, allowances and variable pay (incentives/bonuses) that are competitive with those provided by comparable organisations for similar levels of duties and responsibilities. The Bank's employee's compensation package is built towards rewarding performance with emphasis on the "At Risk" component to align and encourage behaviours that support the bank's values and risk management framework, adherence to the internal control framework and compliance to regulatory requirements.

The Bank's compensation policies are reviewed annually by the Board Compensation Committee and

### Corporate behaviour

Integrity and transparency are core values that govern the Bank with employees at every level dedicated to being open and honest while maintaining the highest standards of corporate and personal ethics. Committed to promoting high standards with sound policies and procedures in place, the Bank's Corporate Governance Framework is based on five Board committees and supported by Level 1 and Level 2 Management Committees. This structure is underpinned by a series of governance enablers and a world-class compliance framework that is vital to ensuring that prudent and effective controls remain in place.

Customer due diligence incorporates principles relating to Know Your Customer (KYC), customer identification and verification, and identification of 'Beneficial Owners' as well as periodic Anti-Money Laundering (AML) risk assessments in line with regulatory requirements and industry best practices. The Bank performs enhanced due diligence (EDD) procedures on customers assessed as higher risk, including politically exposed persons, and closely monitors customer transactions on a continuous basis for suspicious activity.



All employees, including Senior Management as well as the Board of Directors, receive AML as well as Counter Terrorism Financing (CTF) training. Over the last few years, the Bank has expended considerable effort to deliver employee training and awareness programmes relating to these areas. The Internal Audit Group provided a number of trainings to management staff, and coordination is still ongoing to develop training programmes to keep pace with developments in the areas of internal auditing. The Compliance Group rolled-out a series of training and awareness programmes for Senior Management and Executive Management on compliance matters, with additional focus on emerging compliance risks.

Al Rajhi Bank moved its Anti-Fraud Functions from the Risk Department to the purview of the Compliance Group, following which the Bank developed an Anti-Fraud Transformation Strategy. In line with this strategy, the Bank invested in enhancing Anti-Fraud systems, processes, people capabilities and governance arrangements in 2021. The Bank implemented the globally acclaimed SAS Fraud Monitoring System, with capabilities to detect potential fraudulent activities, complemented by near real-time fraud detection systems to detect and prevent potential social engineering fraudulent activities.

The Bank continued to invest to strengthen AML, Sanctions, Whistleblowing and Anti-Bribery and Corruption systems as well as automation of processes. All policies are approved by the Board and are reviewed once every two years or earlier on a need basis.

Alongside the Bank's rapid digital growth, its Compliance function assessed emerging risks and implemented system enhancements in its efforts to fight financial crime, with SAMA announcing the launch of an open banking framework

that is expected to go live in Q3 2022. Furthermore, Saudi Arabia has issued its first comprehensive national data protection law to regulate the collection and processing of personal information. The Bank has commenced a series of activities to comply with the key principles as it relates to Personal Data Protection Law and considers the impact of open banking and emergence of FinTech, at a local scale. During the year under review, Al Rajhi Bank's data protection was doubled in compliance with SAMA mandates to two levels; first with the installation of an offline data vault in Jeddah, and second a Cyber Recovery Site (CRS) for data recovery in case of cyber-attacks. In 2021, the Bank's IT Services also executed two full interruption Disaster Recovery (DR) tests as well as nine controlled DR drills successfully.

The restructuring of the internal audit team and recruitment of more staff with complementary skills to fill senior and technical positions carried out in 2020 had a significant impact on the workflows and efficiencies of the team in 2021. Following the appointment of the group Chief Internal Audit, the team has continued to build a new strategic plan that works to develop the Group's business to be a major partner for the Bank in achieving its goals and in line with recent changes in the field of digital transformation of the Bank and its business. It also works on developing the Group's employees as business partners in the Bank and providing professional advice as well as providing assurances about compliance with the Bank's policies, procedures and control systems. It is expected to be approved by the Audit Committee in early 2022.

The Kingdom has taken several key initiatives to fight bribery and corruption related crimes across the country. The Bank's compliance group continues to assist such initiatives by responding promptly to enforcement action requests. The Bank also invested heavily in the 'Tanfeeth'

programme that enables responding to KSA ministries' enforcement actions. In line with recent SAMA regulations, the Bank also formed a unit with primary focus on detection and reporting of Commercial Concealment activities.

Compliance group obtained the ISO/DIS 37301: 2020 certification issued by GQNet in the United Kingdom. The Bank's Tier-1 global correspondent banks have acknowledged the effectiveness of compliance group's framework, systems and controls. The Bank now does business with multiple Tier-1 global correspondent banks, a key achievement of the compliance transformation journey. The Bank received 'Elite Award' from J.P. Morgan for achieving 99.9% straight through processing (STP) of the Bank's US4 clearing transactions. During the year under review, the Bank achieved similar STP success rates.

Bank complies with all Financial Action Task Force (FATF) recommendations that affect the Banking and Financial Institutions. During the recent FATF mutual evaluation of the Kingdom of Saudi Arabia, the FATF team visited the Bank to assess Al Rajhi Bank's understanding and implementation of its recommendations. The Bank's compliance group made a presentation, which was well received by the FATF team and SAMA.

The tone-at-the-top from the Bank's Executive Management and the Board of Directors on compliance matters continues to be extremely strong. During the year under review, the compliance group invested heavily in technology and people capabilities to sustain the positive results of the transformation program. At the same time, the Bank is preparing for

emerging compliance risks in the digital world. The Bank is working on multiple compliance/financial crime related use cases as part of AI, Machine Learning and Big Data initiatives.

Additionally, all employees are mandatorily required to read and confirm their understanding of the Employee code of conduct on an annual basis. The code of conduct specifies all behavioural practices required to be adhered by all employees along with Values and Business Principles. Employees are also guided by relevant Policies, Procedures and regulatory guidelines pertaining to their area of work. Non-compliance to rules and regulations will negatively impact the performance assessment of the employees along with negative impact on rewards propositions.

While the Bank must remain profitable in order to sustain its performance as a going concern, it acknowledges that immediate shareholder returns must be balanced against wider responsibilities to society and the environment. Such a balancing act requires the Bank to compare trade-offs and tensions in the investment and expenditures of its various capitals.

By emphasising the short, medium and long term (refer Value Creation Model on page 26), the Bank underlines its understanding that the relationships with its stakeholders are symbiotic. From a sustainability point of view, ensuring productive outcomes for society and the environment is completely consistent with the interests of the shareholders in the long term. For this reason, the Bank's sustainability strategy is thoroughly integrated with its core business activities, its business strategy and inculcated to the ethos of its people.

# 131

## Corporate Governance

Board of Directors 132  
Executive Management 136  
Governance 142  
Risk Management 172

GRI 102-23



## Abdullah bin Sulaiman Al Rajhi

### Committees Membership

- Executive Committee

### Current Positions

Chairman of the Board of many companies inside KSA including:

- Al Rajhi Banking and Investment Corporation (Al Rajhi Bank)
- Al Rajhi Company for Cooperative Insurance (Takaful Al Rajhi)
- Al Rajhi Capital
- Al Rajhi Holding Group Company
- Farabi Petrochemicals Company
- Indoor and Outdoor Flooring Fabrics Solutions Company
- Al Ajial Holding Company

### Previous Positions

Held many positions in Al Rajhi Bank from 1979 to 31 March 2012 including:

- Chief Executive Office and Managing Director
- Chief Executive Officer
- General Manager
- Senior Deputy General Manager
- Deputy General Manager of Financial Affairs
- Deputy General Manager of Investment and Foreign Relations

### Qualifications

- Bachelor of Business Administration – King Abdulaziz University

### Experience

- Contributed to the conversion of Al Rajhi Exchange and Trade Company into a public joint stock company and held many leading positions in ARB for more than 35 years.



## Ibrahim bin Mohammed Al Romaih

### Committees Membership

- Executive Committee
- Nominations and Compensations Committee
- Governance Committee

### Current Positions

- Vice Chairman of the Board, Member of Executive Committee, Chairman of Governance Committee and Chairman of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member – Saudi Arabian Investment Company

### Previous Positions

- CEO – Saudi Arabian Investment Company
- Deputy CEO – Capital Market Authority
- Assistant Secretary General – Public Investment Fund
- Board Member – National Commercial Bank
- Board Member – Energy and Water Works Company

### Qualifications

- Bachelor of Economics – Portland State University, USA
- Master's Degree in Economics – Central Michigan University, USA
- Chase Manhattan Bank Course, USA

### Experience

- Over 30 years of experience in banking, financial and investment fields.



## Alaa bin Shakib Al Jabri

### Committees Membership

- Board Risk Management Committee (BRMC)

### Current Positions

- Board Member and Chairman of BRMC – Al Rajhi Bank
- Board Member – Medical and Pharmaceutical Services Company

### Previous Positions

- Board Member – SIMAH
- Board Member – Higher Education Fund
- Board Member – Saudi Travelers Cheques Company
- Board Member – Arab International Bank – Tunisia
- Board Member – Construction Products Holding Company
- Board Member – Rolaco Group

### Qualifications

- Bachelor of BA – American University in Beirut
- Master of BA – INSEAD, France

### Experience

- Having professional experience of more than 30 years in banking and financial fields.



## Abdulaziz bin Khalid Al Ghufaily

### Committees Membership

- Executive Committee
- Nominations and Compensations Committee

### Current Positions

- Board Member, Member of Executive Committee and Member of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member – Al Rajhi Capital Company
- Board Member – Savola Group Company
- Board Member – National Petrochemical Industry Company (NATPET)

### Previous Positions

- General Manager of Financial and Insurance Investments & worked in Hassana Investment Company
- Board Member – Industrialization & Energy Services Company
- Board Member – Riyadh Hotels and Entertainment Company
- Board Member – Saudi Industries Development Company
- Board Member – Tabuk Agriculture Development Company
- Board Member – National Medical Care Company
- Board Member – Herfy Food Services
- Board Member – Panda Retail Company

### Qualifications

- Bachelor of Economics – King Saud University
- Master's Degree in Economics – Western Illinois University – USA – 1990

### Experience

- Working in the field of financial investment for more than 25 years.



## Badr bin Mohammed Al Rajhi

### Current Positions

- Board Member – Al Rajhi Bank
- Chairman of the Board – Al Rajhi Steel Industries Co. Ltd.
- Chairman of the Board – Bergain Company
- Chairman of the Board – Saudi Tourism Development Company
- Chairman of the Board – DAEM Real Estate Investment Company
- Chairman of the Board – Al Badr Al Zaher Investment Company
- Chairman of the Board – Al Motahdoun Al Uzamaa Company
- Managing Director and Vice Chairman – Mohammed Abdulaziz Al Rajhi & Sons Investment Company (MARS)
- Vice Chairman of the Board – Al Jazirah Home Appliance Co. Ltd.

### Previous Positions

- Held several leading positions in areas of management, industry and real estate investment and has served as a member of the board of joint-stock companies.

### Qualifications

- High School

### Experience

- Having experience of more than 30 years in areas of management, industry and real estate investment and has served as a member of the board of joint-stock companies.



## Khalid bin Abdulrahman Al Gwaiz

### Committees Membership

- Nominations and Compensations Committee
- Board Risk Management Committee (BRMC)

### Current Positions

- Board Member, Member of Nominations and Compensations Committee and Member of BRMC – Al Rajhi Bank
- Chairman of the Board, Chairman of Executive Committee and Member of Nominations Committee – Riyadh Cables Group Company
- Board Member – EMCOR Facilities Services
- Board Member, Chairman of Audit Committee and Member of Investment Committee – Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO)
- Board Member – Tasnee Company
- Board Member – Bawan Company
- Board Member – Synergy Consulting Company
- CEO – Bin Ladin International Group
- Board Member – National Medical Products Company
- Board Member – Roayat Watan Investment Company
- Board Member – Roaa Development Holding Company

### Previous Positions

- Managing Director – ACWA Holding Company
- Board Member and Chairman of Nominations & Compensation Committee – Saudi Tabreed Company
- Board Member, Audit Committee Member and Chairman of the Nominations and Compensations Committee – Swicorp Company
- Board Member – Synergy Consulting Company

### Qualifications

- Bachelor of Urban Planning – University of Washington – USA

### Experience

- Having more than 30 years of experience in banking, financial and industrial fields.



## Ibrahim bin Fahad Al Ghofaily

### Committees Membership

- Governance Committee

### Current Positions

- Board Member and Member of Governance Committee – Al Rajhi Bank
- Board Member – Jiwar Real Estate Management, Marketing and Development Company
- Head of Arriyada Financial Consulting Center

### Previous Positions

- Board Member – Alinma Bank
- Financial Consultant of King Abdulaziz Endowment for the Two Holy Grand Mosques (Abraj Al Bait Complex) in Makkah
- Deputy General Manager of Banking and Development – Al Rajhi Bank
- Vice Dean of Faculty of Economics and Management, King Abdulaziz University

### Qualifications

- Bachelor of Public Administration – King Abdulaziz University
- Master of Public Administration – California State University – 1978
- PhD in Organisational Development – Florida State University – 1981

### Experience

- Having practiced academic work for 10 years and with 10 years of experience in the Islamic Banking Sector.
- Since 2002, he established Arriyada Financial Consulting Center and performed several studies and consultancies in Islamic Financing Structuring for Projects (the most prominent being Abraj Al Bait in Makkah).



## Hamza bin Othman Khushaim

### Committees Membership

- Executive Committee
- Board Risk Management Committee (BRMC)

### Current Positions

- Board Member, Member of Executive Committee and Member of BRMC – Al Rajhi Bank
- Director of Investment, International Markets – Hassana Investment Company
- Member of the Saudi Investor Association
- Certified Member of the Association of Financial Analysts – USA

### Previous Positions

- Hedge Fund Portfolio Manager – KAUST Endowment
- Hedge Fund Portfolio Manager – Investment Management – Treasury – Saudi Aramco Co.
- Financial Analyst – Investment Management – Treasury – Saudi Aramco Co.
- Board Member and Member of Remunerations and Nominations Committee – Dallah Healthcare Holding Company

### Qualifications

- Bachelor of Finance – Michigan State University
- Master's Degree in Business Administration – University of Michigan in Ann Arbor
- CFA

### Experience

- Having 16 years of experience in investment.





## Raaed bin Abdullah Al Tamimi

### Committees Membership

- Governance Committee
- Nominations and Compensations Committee
- BACC

### Current Positions

- Board Member, Member of Governance Committee, Member of Nominations & Compensations Committee, Member of BACC – Al Rajhi Bank
- Board Member & Member of Nominations and Compensations Committee – SAPTCO
- Board Member, Member of Audit Committee and Member of Risk Committee – GASCO

### Previous Positions

- CEO – Tawuniya Insurance Company
- CEO – National Medical Care Company
- Board Member – Tawuniya Insurance Company
- Board Member – National Medical Care Company
- Board Member – Waseel Electronic Information Transfer
- Board Member – Najm Insurance Services Company

### Qualifications

- Bachelor of Medical Science – University of Wales, UK

### Experience

- Having over 20 years of management experience and he currently serves as board member and committee member in many listed companies.



## Abdulatif bin Ali Al Seif

### Committees Membership

- Executive Committee
- BACC

### Current Positions

- Board Member and Member of Executive Committee & BACC – Al Rajhi Bank
- Board Member – Arabian Cement Company
- Board Member – National Petrochemical Company (Petrochem)
- Board Member – Wisayah Global Investment Company
- Board Member – Al Nahdi Medical Company
- Board Member – Abdullah Al Othaim Investment Company
- Board Member – STC Solutions
- Board Member – Riva Investment Company
- Board Member – Sabeen Investment Company

### Previous Positions

- Deputy Head and Head of Investment – King Abdullah Humanitarian Foundation
- Director of Portfolio Management – Masik
- Head of Portfolio Management, Investment Management Division – Saudi Aramco Co.
- Board Member – HSBC Saudi Arabia
- Executive Director – Vision Combined Limited Company
- Board Member & CEO – Arraedah Investment Company

### Qualifications

- Bachelor & Master's Degree of Business Administration – Boston University
- Master's Degree of Economics – Boston University
- CPA & CFA

### Experience

- Having 20 years of experience in financial and investment fields, and is a member of several Boards and Committees in many companies.



## Stefano Paolo Bertamini

Member, Board of Directors

### Current Positions

- Board Member – Al Rajhi Bank
- Board Member – Al Rajhi Bank (Malaysia)
- Board Member and CEO – China Development Financial
- Board Member – China Life Insurance

### Previous Positions

- CEO – Al Rajhi Bank
- Board Member and CEO – Standard Chartered
- Board Member and CEO – General Electric – North East Asia

### Qualifications

- Bachelor of Finance & Business Administration – University of Texas at Austin
- Master of Finance & Business Administration – University of North Texas

### Experience

- Expertise for more than 30 years in banking, financial and industrial fields



# Executive Management



## **Waleed Abdullah Almogbel**

**Current position**  
Chief Executive Officer

**Previous positions**  
Deputy Chief Executive Officer (ARB)  
Chief Operating Officer (ARB)

**Qualifications**  
PhD – Accounting and Auditing

**Experience**  
24 Years



## **Abdulrahman Abdullah Alfadda**

**Current position**  
Chief Financial Officer

**Previous positions**  
General Manager –  
Treasury and Financial  
Institutions (ARB)

**Qualifications**  
Bachelor's Degree –  
Electrical Engineering

**Experience**  
25 Years



## **Abdullah Saleh Alomari**

**Current position**  
Acting Chief Operating Officer

**Previous positions**  
Chief Information Officer (ARB)

**Qualifications**  
Bachelor's Degree –  
Electrical Engineering

**Experience**  
20 Years



**Abdulaziz Saad Al Resais**

**Current position**  
Chief Risk Officer

**Previous positions**  
AGM – Enterprise Risk Management (ARB)

**Qualifications**  
Master's Degree – Business Administration

**Experience**  
19 Years



**Majed Saleh Al-Rajhi**

**Current position**  
General Manager  
Retail Banking

**Previous positions**  
AGM – Private and Affluent Banking

**Qualifications**  
MBA – London Business School

**Experience**  
17 Years



**Abdullah Ali Al-Furaiji**

**Current position**  
Chief Digital Officer

**Previous positions**  
AGM – Digital Business

**Qualifications**  
Bachelor's Degree in Organisation and Management Development, Financial Accounting

**Experience**  
21 Years



**Hossam Essam Al Basrawi**

**Current position**  
General Manager Corporate Banking Group

**Previous positions**  
Head of the Corporate Banking Group (BSF)

**Qualifications**  
Bachelor's Degree – Law

**Experience**  
25 Years



**Ahmed Saleh Al Sudais**

**Current position**  
Chief Human Resources Officer

**Previous positions**  
ACWA Power International, KSA – VP Human Capital

**Qualifications**  
Bachelor's Degree – Accounting

**Experience**  
30 Years



**Omar Mohammad Almudarra**

**Current position**  
Chief Governance and Legal Officer

**Previous positions**  
General Manager – Head of Legal – SAMBA Financial Group

**Qualifications**  
Master's Degree – Law

**Experience**  
22 Years



**Abdullah Sulaiman Alnami**

**Current position**

Chief Compliance Officer

**Previous positions**

Senior Vice President of Risk Operations (Riyad Bank)

**Qualifications**

Master's degree – Management and Business

**Experience**

27 Years



**Saleh Abdullah Alheidan**

**Current position**

General Manager of the Sharia Group

**Previous positions**

Associate Professor in the High Institute of Judiciary – Al Imam Mohammed bin Saud Islamic University

**Qualifications**

PhD – Comparative Fiqh (Islamic Law)

**Experience**

36 Years



**Dhary Mohali AlShamry**

**Current position**

Chief Internal Auditor

**Previous positions**

General Director – Internal Audit (CMA)

**Qualifications**

Master's Degree of Business Administration  
Bachelor's Degree in Accounting

**Experience**

20 Years



**Turki Mohammed Aldhfayan**

**Current position**  
Chief Marketing and Customer Experience Officer

**Previous positions**  
Head of Digital Experience (ARB)

**Qualifications**  
High Diploma – College of Telecom and Information

**Experience**  
14 Years



**Mishal Mustafa Alfadi**

**Current position**  
Chief Private Banking Officer

**Previous positions**  
Chief Private Banking – Western Region (NCB)

**Qualifications**  
Bachelor of Business Management

**Experience**  
26 Years



**Abdulrahman Mohammad Alajaji**

**Current position**  
General Manager Treasury Group

**Previous positions**  
Head of Global Market – Sales (SABB)

**Qualifications**  
Bachelor of Science – Computer Science

**Experience**  
18 Years



**James Chester Galloway**

**Current position**

Chief Strategy Officer

**Previous positions**

Global Head of Sales and Distribution (HSBC)

**Qualifications**

Master's degree – Business

**Experience**

34 Years



**Amr Mohammad Sager**

**Current position**

Transformation, Change Management and Business Planning

**Previous positions**

Chief Finance Officer (Shaker Group)

**Qualifications**

Executive MBA

**Experience**

17 Years

The governance framework at Al Rajhi Bank comprises the General Assembly, the Board of Directors, the Shariah Board, as well as five board committees and a group of executive management committees of the first and second levels. This governance structure relies on a set of key pillars that ensure clarity and sound governance. These pillars are the Bank's values, design of the organisational structure, policies and procedures, the delegation of authority matrix, and effective communication between various internal and external stakeholders.

## Policies related to the Corporate Governance Manual

The Bank applies the Principles of Governance for Banks Operating in Saudi Arabia issued by the Saudi Central Bank as well as the Corporate Governance Regulations issued by the Capital Market Authority. The Bank has developed its Corporate Manual and the charters that regulate the Board Committees and management committees. These documents are subject to periodic review by the Board and its committees.

The Bank adopts a comprehensive set of policies and procedures that strengthen the Bank's governance framework in line with the Board of Directors approved Delegation of Authorities (DOA) matrix to adequately reflect internal practices. At the forefront of these policies is the Related Party Transactions and Conflict of Interest Policy to better achieve transparency and integrity, while remaining compliant with the regulatory requirements under the Companies Law, the CMA Governance Regulations, and the principles and guidelines issued by SAMA.

The Bank also relies on written disclosure policies and regulations that enable shareholders and stakeholders to have access to all material information and developments without discrimination and in a timely manner. This includes information required to be disclosed according to the instructions of Saudi Central Bank and under the regulations of Capital Market Authority (CMA).

The Bank pays adequate attention to the training and qualification of members of the Board of Directors and the executive management. The Bank has prepared an introductory guide to assist the new Board members and provide them with necessary information on the Bank's strategy, financial and operational aspects, and their obligations and duties.

The Bank also applies procedures for settling customer and shareholder complaints. These procedures are monitored by Saudi Central Bank and Capital Market Authority. The Bank has also implemented a social responsibility policy aiming at enhancing the Bank's social role.

## Corporate Governance Regulations issued by Capital Market Authority

The Bank has given due cognisance to the Corporate Governance Regulations currently in effect, as issued by the Capital Market Authority in the Kingdom of Saudi Arabia. The following is a report on the Bank's corporate governance practices and the extent of its compliance with Capital Market Authority's regulations.



## Implementation and non-implementation of Corporate Governance Regulations Provisions

The Bank applies all provisions of Corporate Governance Regulations issued by the CMA, except the following guiding provisions:



| Article/Clause Number    | Article/Clause  | Reasons for not applying  |
|--------------------------|---|---|
| Article 41<br>Clause "E" | The Board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every three years.<br>(Guiding paragraph)  | The evaluation is done internally on an annual basis.   |
| Article 54<br>Clause "B" | The Chairman of the Audit Committee shall be an independent member.<br>(Guiding paragraph)  | The Chairman of Audit and Compliance Committee at the Bank is a non-executive board member who is selected due to his qualifications suitable for the position. |
| Article 87               | The Ordinary General Assembly, based on the Board recommendation, shall establish a policy that guarantees a balance between its objectives and those of the society for purposes of developing the social and economic conditions of the society.<br>(Guiding article) | ARB has a social responsibility Policy approved by the Board of Directors.  |

143




## Board Structure




The Bank is managed by a Board of Directors consisting of eleven members, elected by the ordinary general assembly every three years. Members whose term has expired may be re-elected each time according to the Bank's regulations.

## Names of the companies inside and outside the Kingdom in which a Board member is a manager or a member of their current or previous Board

| Member name  | Names of companies where the Board member is a member of its current Boards or one of its directors   | Inside/outside the Kingdom | Legal entity  | Names of companies where the Board member is a member of its previous Boards or one of its directors   | Inside/outside the Kingdom | Legal entity   |
|--|---|----------------------------|---|--|----------------------------|--|
| <b>Abdullah bin Sulaiman Al Rajhi</b><br>   | <ul style="list-style-type: none"> <li>Al Rajhi Company for Cooperative Insurance (Al Rajhi Takaful)</li> <li>Al Rajhi Capital</li> <li>Al Rajhi Holding Group</li> <li>Farabi Petrochemicals Company</li> <li>Indoor and Outdoor Floor Fabrics Solutions Holding Company</li> <li>Al Ajial Holding Company</li> <li>Erth Al-Awtan Real Estate Development Company</li> <li>Nagiz Investment Holding company</li> <li>Mirath Holding Company</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Limited liability company</li> <li>Limited liability company</li> <li>Limited liability company</li> </ul> | <ul style="list-style-type: none"> <li>Al Rajhi Bank (CEO)</li> <li>Saudi Carpet Supplies Manufacturing Company</li> <li>Jubail Saudi Company for Flooring Fabric Solutions</li> <li>Green Vision for Artificial Grass Company</li> <li>Al Farabi Investment Company</li> <li>Farabi Yanbu Petrochemicals Company</li> <li>Farabi Transformation Industries Company</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Limited liability company</li> <li>Limited liability company</li> <li>Limited liability company</li> <li>Limited liability company</li> <li>Limited liability company</li> <li>Limited liability company</li> </ul> |
| <b>Ibrahim Bin Mohammed Al Rumaih</b><br> | <ul style="list-style-type: none"> <li>The Saudi Arabian Investment Company</li> </ul>  | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Unlisted company</li> </ul>  | <ul style="list-style-type: none"> <li>The Saudi Arabian Investment Company (CEO)</li> <li>National Commercial Bank</li> <li>ACWA Power</li> </ul>   | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Unlisted company</li> <li>Listed joint-stock company</li> <li>Unlisted company</li> </ul>   |

| Member name  | Names of companies where the Board member is a member of its current Boards or one of its directors  | Inside/outside the Kingdom | Legal entity   | Names of companies where the Board member is a member of its previous Boards or one of its directors   | Inside/outside the Kingdom | Legal entity  |
|--|--|----------------------------|--|--|----------------------------|---|
| <b>Abdulaziz bin Khalid Al Ghufaily</b><br> | <ul style="list-style-type: none"> <li>Al Rajhi Capital</li> <li>Savola Group</li> <li>Savola Food Company</li> <li>The National Petrochemical Industrial Company (NATPET)</li> </ul>  | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Unlisted company</li> <li>Listed joint-stock company</li> <li>Unlisted company</li> <li>Unlisted company</li> </ul>   | <ul style="list-style-type: none"> <li>Industrialisation &amp; Energy Services Company</li> <li>Riyadh Hotels and Entertainment Company</li> <li>Saudi Industries Development Company</li> <li>Tabuk Agriculture Development Company</li> <li>National Medical Care Company</li> <li>Herfy Food Company</li> <li>Panda Retail Company</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Unlisted company</li> <li>Unlisted company</li> <li>Unlisted company</li> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> <li>Unlisted joint-stock company</li> <li>company</li> <li>Unlisted joint-stock company</li> </ul> |
| <b>Badr bin Mohammed Al Rajhi</b><br>     | <ul style="list-style-type: none"> <li>Mohammed Abdulaziz Al-Rajhi and Sons Investment Company</li> <li>Al-Rajhi Steel Industries Company</li> <li>Berain Company</li> <li>The Saudi Company for Tourism Development</li> <li>DAEM Real Estate Investment Company</li> <li>Al-Jazira Home Appliances Company</li> <li>Al Motahedhoun</li> <li>Al Uzamaa Company</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> </ul> | <ul style="list-style-type: none"> <li>Falcon Plastic Products Company</li> </ul>  | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Closed joint-stock company</li> </ul>  |

| Member name   | Names of companies where the Board member is a member of its current Boards or one of its directors   | Inside/outside the Kingdom | Legal entity  | Names of companies where the Board member is a member of its previous Boards or one of its directors  | Inside/ outside the Kingdom  | Legal entity  |
|---|---|----------------------------|---|---|--|---|
| <b>Khalid bin Abdulrahman Al Gwaiz</b><br> | <ul style="list-style-type: none"> <li>• Riyadh Cables Group Company</li> <li>• Emcor Facilities Management Co</li> <li>• Unique Solutions for Chemical Industries (USIC)</li> <li>• Bawan Company</li> <li>• Saudi Pharmaceutical Industries &amp; Medical Appliances Corporation (SPIMACO)</li> <li>• Bin Ladin International Holding Group (Executive Director)</li> <li>• The National Medical Products Co.</li> <li>• Ro'yat Watan Investment Company</li> <li>• Roaa Development Holding Company</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>• Unlisted company</li> <li>• Limited liability company</li> <li>• Limited liability company</li> <li>• Listed joint-stock company</li> <li>• Listed joint-stock company</li> <li>• Unlisted company</li> <li>• Limited liability company</li> <li>• Limited liability company</li> <li>• Limited liability company</li> </ul> | <ul style="list-style-type: none"> <li>• ACWA Holding Group</li> <li>• Astra Industrial Group</li> <li>• Samba Financial Group</li> <li>• Arab National Bank</li> <li>• Swicorp Company</li> <li>• Synergy Management Consulting Co.</li> </ul> | Inside the Kingdom   | <ul style="list-style-type: none"> <li>• Unlisted joint-stock company</li> <li>• Listed joint-stock company</li> <li>• Listed joint-stock company</li> <li>• Listed joint-stock company</li> <li>• Unlisted joint-stock company</li> <li>• Unlisted joint-stock company</li> <li>• Limited liability company</li> </ul> |
| <b>Alaa bin Shakib Al Jabri</b><br>      | <ul style="list-style-type: none"> <li>• Medical and Pharmaceutical Services Company</li> </ul>   | Inside the Kingdom         | <ul style="list-style-type: none"> <li>• Limited liability company</li> </ul>   | <ul style="list-style-type: none"> <li>• Saudi British Bank</li> <li>• Gulf International Bank</li> <li>• Construction Products Holding Company</li> <li>• Rolaco Group</li> </ul>  | <ul style="list-style-type: none"> <li>Inside the Kingdom</li> <li>Inside and outside the kingdom</li> <li>Inside the Kingdom</li> <li>Inside the Kingdom</li> </ul> | <ul style="list-style-type: none"> <li>• Listed joint-stock company</li> <li>• Unlisted joint-stock company</li> <li>• Unlisted joint-stock company</li> <li>• Unlisted Joint-stock company</li> </ul>  |
| <b>Ibrahim bin Fahad Al Ghofaily</b><br> | <ul style="list-style-type: none"> <li>• Jiwar Real Estate Management, Marketing and Development Company</li> </ul>   | Inside the Kingdom         | <ul style="list-style-type: none"> <li>• Unlisted Joint-stock company</li> </ul>  | <ul style="list-style-type: none"> <li>• Al Inma Bank</li> <li>• Al Rajhi Bank</li> </ul>   | Inside the Kingdom   | <ul style="list-style-type: none"> <li>• Listed joint-stock company</li> <li>• Listed joint-stock company</li> </ul>  |

| Member name  | Names of companies where the Board member is a member of its current Boards or one of its directors  | Inside/outside the Kingdom | Legal entity  | Names of companies where the Board member is a member of its previous Boards or one of its directors   | Inside/ outside the Kingdom                                      | Legal entity   |
|--|--|----------------------------|---|--|--|--|
| <b>Stefano Paolo Bertamini</b><br>        | <ul style="list-style-type: none"> <li>Al-Rajhi Bank (Malaysia)</li> <li>China Development Financial Corporation (Board Member and CEO)</li> <li>China Life Insurance Corporation</li> </ul> | Outside the Kingdom        | <ul style="list-style-type: none"> <li>Unlisted Joint-stock company</li> <li>Listed joint-stock company</li> <li>Limited liability company</li> </ul> | <ul style="list-style-type: none"> <li>Al Rajhi Bank (CEO)</li> <li>Standard Chartered Group</li> <li>General Electric Group, Northeast Asia</li> </ul>  | Inside the Kingdom<br>Outside the Kingdom<br>Outside the Kingdom | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> </ul>   |
| <b>Hamza bin Othman Khoshaim</b><br>    | <ul style="list-style-type: none"> <li>Hassana Investment Company</li> </ul>   | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Unlisted Joint-stock company</li> </ul>  | <ul style="list-style-type: none"> <li>Dallah Healthcare Holding Company</li> </ul>  | Inside the Kingdom   | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> </ul>   |
| <b>Raeed bin Abdullah Al-Tamimi</b><br> | <ul style="list-style-type: none"> <li>The Saudi Public Transport Company</li> <li>National Gas and Industrialization Company</li> </ul>   | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> </ul>                                      | <ul style="list-style-type: none"> <li>Cooperative Insurance</li> <li>National Medical Care Company</li> <li>Waseel Electronic</li> <li>Cooperative Real Estate Investment Company</li> <li>Najm Company for Insurance Services</li> </ul> | Inside the Kingdom   | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> <li>Unlisted joint-stock company</li> <li>Unlisted joint-stock company</li> <li>Unlisted joint-stock company</li> </ul> |

| Member name   | Names of companies where the Board member is a member of its current Boards or one of its directors  | Inside/outside the Kingdom | Legal entity   | Names of companies where the Board member is a member of its previous Boards or one of its directors  | Inside/ outside the Kingdom | Legal entity  |
|---|--|----------------------------|--|---|-----------------------------|---|
| <b>Abdulatif bin Ali Al Seif</b><br> | <ul style="list-style-type: none"> <li>Arabian Cement</li> <li>National Petrochemical Company (PETROCHEM)</li> <li>Wisayah Al Khaleej Investment Company</li> <li>Nahdi Medical Company</li> <li>Abdullah Al Othaim Investment Co.</li> <li>STC Solutions</li> <li>Riva Investment Company</li> <li>Sabeen Investment</li> </ul> | Inside the Kingdom         | <ul style="list-style-type: none"> <li>Listed joint-stock company</li> <li>Listed joint-stock company</li> <li>Limited liability company</li> <li>Closed joint-stock company</li> <li>Closed joint-stock company</li> <li>Listed joint-stock company</li> <li>Limited liability company</li> <li>Closed joint-stock company</li> </ul> | <ul style="list-style-type: none"> <li>HSBC Saudi Arabia</li> <li>Shared Vision Company Ltd</li> <li>Pioneer Investments Company</li> </ul> | Inside the Kingdom          | <ul style="list-style-type: none"> <li>Unlisted Joint-stock company</li> <li>Limited liability company</li> <li>Unlisted Joint-stock company</li> </ul> |

148

Composition of the Board and classification of its members, as Executive members, Non-Executive members, or Independent members

| Member name                      | Membership rating<br>(Executive/Non-Executive/Independent) |
|----------------------------------|--|
| Abdullah bin Sulaiman Al Rajhi   | Non-Executive  |
| Ibrahim Bin Mohammed Al Rumaih   | Independent  |
| Abdulaziz bin Khaled Al Ghufaily | Non-Executive  |
| Badr bin Mohammed Al Rajhi       | Non-Executive  |
| Khalid bin Abdulrahman Al Gwaiz  | Non-Executive  |
| Alaa bin Shakib Al Jabri         | Independent  |
| Ibrahim bin Fahad Al Ghofaily    | Independent  |
| Stefano Paolo Bertamini          | Non-Executive  |
| Hamza bin Othman Khoshaim        | Non-Executive  |
| Raeed bin Abdullah Al Tamimi     | Non-Executive  |
| Abdulatif bin Ali Al Seif        | Non-Executive  |

## Committees of the Board of Directors

The functions and responsibilities of the Committees are identified based on internal charters and regulatory requirements. The membership term is set at three years, ending with the expiration of the term of the Board. The Board of Directors has the power to appoint, reappoint, or terminate the membership of any member of the Committees. The Committees submit their recommendations and minutes of their meetings to the Board of Directors.

The following is a brief description of the Bank's Committees and their work.

### A - Executive Committee:

The main purpose of the Executive Committee (ExCom) is to assume responsibility for the business operations of Al-Rajhi Bank and to make quick decisions regarding urgent issues and matters related to the Bank's business. The Executive Committee shall be responsible for reviewing, following up, and approving the basic financial, non-financial, commercial, investment, and operational decisions related to the Bank within the limits of the powers determined by the Bank's Board of Directors.

The Committee held six meetings during the year 2021 as follows:

| Meeting | Date             | Member name                    |                                |                                  |                           |                           |
|---------|------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------|---------------------------|
|         |                  | Abdullah bin Sulaiman Al Rajhi | Ibrahim Bin Mohammed Al Rumaih | Abdulaziz bin Khalid Al Ghufaily | Hamza bin Othman Khushaim | Abdulatif bin Ali Al Seif |
|         |                  | Chairman                       | Member                         | Member                           | Member                    | Member                    |
| 1.      | 21 February 2021 | ✓                              | ✓                              | ✓                                | ✓                         | ✓                         |
| 2.      | 29 March 2021    | ✓                              | ✓                              | ✓                                | ✗                         | ✓                         |
| 3.      | 27 June 2021     | ✓                              | ✓                              | ✓                                | ✓                         | ✓                         |
| 4.      | 28 October 2021  | ✓                              | ✓                              | ✓                                | ✓                         | ✓                         |
| 5.      | 8 December 2021  | ✓                              | ✓                              | ✓                                | ✓                         | ✓                         |
| 6.      | 15 December 2021 | ✓                              | ✓                              | ✓                                | ✓                         | ✓                         |



## B - The Nominations and Compensations Committee

The main purpose of the Nominations and Compensations Committee is to make recommendations on the nomination of Board members, Committee members, Senior Executives, and candidates to positions subject to non-objection of SAMA. The Committee shall prepare a description of the competencies and qualifications required for Board of Director's membership, evaluate the effectiveness and efficiency of the Board and Senior Management performance, and ensure that the Bank remains compliant with the internal incentive schemes, and the rules of incentive practices issued by the Saudi Central Bank, the principles and criteria for compensation, in a manner that best achieves the interests of depositors, shareholders, and the Bank's strategic objectives. The Committee held three meetings during the year 2021 as follows:

| Meeting | Date            | Member name                    |        |                              |                                  |
|---------|-----------------|--------------------------------|--------|------------------------------|----------------------------------|
|         |                 | Ibrahim Bin Mohammed Al Rumaih |        | Raeed bin Abdullah Al Tamimi | Abdulaziz bin Khaled Al Ghufaily |
|         |                 | Chairman                       | Member | Member                       | Member                           |
| 1.      | 24 January 2021 | ✓                              | ✓      | ✓                            | ✓                                |
| 2.      | 28 March 2021   | ✓                              | ✓      | ✓                            | ✓                                |
| 3.      | 2 December 2021 | ✓                              | ✓      | ✓                            | ✓                                |

## C - Governance Committee

The main purpose of the Governance Committee is to support and maintain the highest standards in corporate governance, on behalf of the Board of Directors, to ensure that sound governance practices are followed in all activities carried out by the Bank. The Committee does so by conducting an annual review of the general governance framework and related mechanisms. In addition, the Committee monitors cases of conflict of interest ensuring the continuous updating of the register of conflicts of interest, reviewing requests for exemption from the governance requirements of the Bank, and coordinating with the Bank's subsidiaries to support good and consistent corporate governance standards for all activities of the Al Rajhi Bank Group. The Committee also focuses on increasing awareness of the importance of governance and its activities within the Bank among all employees, shareholders, and external stakeholders, conducting an annual evaluation of the performance of the Board of Directors, members of the Board, all Board Committees and Management Committees. It is also responsible for reviewing and updating the policies related to the Board of Directors and its members, the Bank's governance, and the conflict of interests, in addition to following up on the implementation of the Governance Manual, its annexes, and the Bank's delegation of Authority Matrix. The Committee held four meetings during the year 2021 as follows:

| Meeting | Date              | Member name                    |                           |                              |
|---------|-------------------|--------------------------------|---------------------------|------------------------------|
|         |                   | Ibrahim Bin Mohammed Al Rumaih | Ibrahim Fahad Al Ghofaily | Raeed bin Abdullah Al Tamimi |
|         |                   | Chairman                       | Member                    | Member                       |
| 1.      | 18 February 2021  | ✓                              | ✓                         | ✓                            |
| 2.      | 29 April 2021     | ✓                              | ✓                         | ✓                            |
| 3.      | 12 September 2021 | ✓                              | ✓                         | ✓                            |
| 4.      | 8 December 2021   | ✓                              | ✓                         | ✓                            |

#### D - Audit and Compliance Committee

The main purpose of the Audit and Compliance Committee is to supervise the financial reporting process, oversee the internal and external auditors, submit recommendations to the Board of Directors and shareholders to approve, appoint and determine the remuneration or dismissal of the external auditors. The Committee also reviews and approves the scope of the audit operations and their implementation, receives key audit reports, assesses and follows up the Bank's policy in combating financial fraud, and reviews the objectives and observations of the Shariah audit. Moreover, the Committee ensures that the senior management takes all necessary corrective measures in a timely manner to address any weaknesses in controls or non-compliance with policies, laws, and regulations, or any other problems identified by the auditors. The Audit and Compliance Committee held six meetings during the year 2021 as follows:

151

| Meeting | Date             | Member name                               |                              |                            |                              |                             |
|---------|------------------|---|------------------------------|----------------------------|------------------------------|-----------------------------|
|         |                  | Abdulatif bin Ali Al Seif                 | Raeed bin Abdullah Al Tamimi | Abdullah bin Ali Al Muneef | Farraj bin Mansour Abuthnein | Walid bin Abdullah Tamairik |
|         |                  | Chairman                                  | Member                       | Member                     | Member                       | Member                      |
| 1.      | 31 January 2021  | Their membership started on 29 March 2021 |                              |                            | ✓                            | ✓                           |
| 2.      | 18 April 2021    | ✓   | ✓                            | ✓                          | ✓                            | ✓                           |
| 3.      | 10 June 2021     | ✓   | ✓                            | ✓                          | ✓                            | ✓                           |
| 4.      | 29 July 2021     | ✓   | ✓                            | ✓                          | ✓                            | ✓                           |
| 5.      | 21 October 2021  | ✓   | ✓                            | ✓                          | ✓                            | ✓                           |
| 6.      | 21 November 2021 | ✓   | ✓                            | ✓                          | ✓                            | ✓                           |

## Audit and Compliance Committee members (other than Board of Directors members)

| No. | Name                       | Committee memberships          | Current positions  | Previous positions   | Qualifications   | Experience   |
|-----|----------------------------|--------------------------------|--|--|--|--|
| 1.  | Abdullah bin Ali Al Muneef | Audit and Compliance Committee | <ul style="list-style-type: none"> <li>Member of Audit and Compliance Committee – Al Rajhi Bank</li> </ul> | <ul style="list-style-type: none"> <li>Chief Executive Officer – Al Muneef Financial and Management Consultancy Office</li> <li>Advisor – National Guard</li> <li>Director General of Finance and Administration Affairs – National Guard</li> <li>Head of Accounting Department – King Saud University</li> <li>Associate Professor of Accounting Department – King Saud University</li> <li>Executive Director of Financial and Administrative Affairs – King Faisal Specialist Hospital</li> <li>Head of Accounting Association, King Saud University</li> <li>Assistant Professor of Accounting Department, King Saud University</li> <li>Lecturer at Accounting Department, King Saud University</li> <li>Member of Shura Council</li> <li>Member of the Arab Parliament</li> </ul> | <ul style="list-style-type: none"> <li>Bachelor of Accounting – King Saud University</li> <li>Master Degree in Accounting – University of Southern California, USA</li> <li>PhD in Accounting – University of South Carolina, USA</li> </ul> | Held many academic, leading, and advisory positions in financial and management fields |

| No. | Name                         | Committee memberships          | Current positions   | Previous positions  | Qualifications  | Experience   |
|-----|------------------------------|--------------------------------|---|---|---|--|
| 2.  | Farraj bin Mansour Abuthnain | Audit and Compliance Committee | <ul style="list-style-type: none"> <li>Member of Audit and Compliance Committee – Al Rajhi Bank</li> <li>Board Member – Astra Industrial Group</li> <li>Board Member – Al Moammar Information Systems Co.</li> <li>Board Member – Aljazira Capital</li> <li>Board Member – Saudi Industrial Investment Group</li> </ul> | <ul style="list-style-type: none"> <li>Director of Loan Department – Industrial Development Fund</li> <li>Member of the Project Loan Committee – Industrial Development Fund</li> <li>Member of the Industrial Projects Performance Audit Committee – Industrial Development Fund</li> <li>Senior Vice President of Finance and Investment – National Industrialisation Company (Tasnee)</li> <li>Member of the Council of Riyadh Region</li> <li>Board Member of Petrochem</li> <li>Member of Audit Committee – Almarai Company</li> </ul> | <ul style="list-style-type: none"> <li>Bachelor of Industrial Management – Milwaukee School of Engineering, USA</li> </ul>  | Held many leading positions in the Saudi Industrial Development Fund and the National Industrialization (Tasnee) |
| 3.  | Walid bin Abdullah Tamairak  | Audit and Compliance Committee | <ul style="list-style-type: none"> <li>Member of Audit and Compliance Committee – Al Rajhi Bank</li> <li>Member of Audit Committee – Raysan Al Arabia Real Estate Developer</li> <li>TEMAIRIK CPA</li> </ul>  | <ul style="list-style-type: none"> <li>Arthur Andersen &amp; Co.</li> <li>Ernst &amp; Young</li> <li>Member of Advisory Committee of College of Management and Economics – King Abdulaziz University</li> </ul>   | <ul style="list-style-type: none"> <li>Bachelor of Accounting – King Abdulaziz University</li> <li>Fellowship of the Saudi Organization for Certified Public Accountants (SOCPA)</li> </ul> | Has more than 25 years of experience in accounting, auditing, and economics                                      |

## E - Risk Management Committee

The primary purpose of the Board Risk Management Committee is to advise the Board of Directors regarding risk tolerance and risk strategy and to oversee the Management's implementation of this strategy. This includes the management of capital and liquidity strategies, credit and market risk management, operational risk, compliance risk, reputational risk, and any other potential risks that the Bank may face. The Committee held six meetings during the year 2021 as follows:

| Meeting | Date             | Member name              |                                 |                           |
|---------|------------------|--------------------------|---------------------------------|---------------------------|
|         |                  | Alaa bin Shakib Al Jabri | Khalid bin Abdulrahman Al Gwaiz | Hamza bin Othman Khushaim |
|         |                  | Chairman                 | Member                          | Member                    |
| 1.      | 18 February 2021 | ✓                        | ✓                               | ✓                         |
| 2.      | 6 June 2021      | ✓                        | ✓                               | ✓                         |
| 3.      | 24 June 2021     | ✓                        | ✓                               | ✓                         |
| 4.      | 24 August 2021   | ✓                        | ✓                               | ✓                         |
| 5.      | 31 October 2021  | ✓                        | ✓                               | ✓                         |
| 6.      | 14 December 2021 | ✓                        | ✓                               | ✓                         |

### Procedures of the Board of Directors to inform its members of shareholders' suggestions and comments on the Bank and its performance

The Bank documents shareholders' suggestions provided through the General Assembly and notifies the Chairman of the Board of any other suggestions related to the Bank to be presented at the next Board meeting. There is also an e-mail address dedicated to the comments and suggestions of the shareholders, which is published on the official website of the Bank and on Tadawul website so that the Board can review the suggestions and comments of the shareholders.

### The methods adopted by the Board of Directors in evaluating its performance and that of its committees and members

The Bank's Governance Committee evaluates the performance of the Board, its Committees, and members through specific surveys at three levels. Evaluation is based on the Board of Directors terms of reference specified in the Bank's Governance Manual, evaluation of Board's Committees and the Audit and Compliance Committee is based on their approved work regulations and the self-evaluation of the Board and Committees member. The Governance Committee then prepares the annual evaluation report and submits it to the Board of Directors for approval. Then, the Nominations and Remunerations Committee is provided with a copy of the final report.

## Remunerations of Board Members, Board Committee Members, and Executive Management

### A - Summary of the most important provisions of the remuneration policy for members of the Board, its Committees and the Executive Management:

#### 1 - Board of Directors remunerations and compensations:

The members of the Bank's Board of Directors shall receive a fixed annual remuneration amounting to SAR 400,000 on an annual basis for their membership on the Bank's Board of Directors and their participation in its business.

- A member of the Board of Directors receives SAR 5,000 for attending each of the Board's sessions, whether the attendance is physical or through any of the remote communication features.
- The Bank pays all actual expenses incurred by a member of the Board for attending the Board meetings, including travel and accommodation expenses.

#### 2 - Remunerations and compensations for the Board Members for their Membership in Board Committees:

- The Bank's Board members shall not receive additional remuneration for their participation in the Board sub-committees as the annual remuneration includes additional bonuses in the event that the member participates in any Board Committees.
- A Board member receives an attendance fee of SAR 5,000 for attending each Committee meeting, whether the attendance is physical or through any of the remote communication features.

- The Bank pays all actual expenses incurred by a Board member for attending Committee meetings, including travel and accommodation expenses.

#### 3 - Remunerations and compensations for Audit and Compliance Committee Members:

- Each member of the Audit and Compliance Committee receives, either from within or outside the Board, a fixed annual remuneration for his or her participation in the Committee's work, estimated at SAR 150,000 annually. Annual remuneration for Audit and Compliance Committee members from inside the Board is not calculated as part of the annual remunerations and compensations granted to the Board member.
- A member of the Audit and Compliance Committee receives SAR 5,000 for attending each of the Committee meetings, whether he or she attends physically or through remote electronic channels.
- The Bank pays all actual expenses incurred by the Committee member in order to attend the Committee's meetings, including travel and accommodation expenses.

#### 4 - Granting Shares:

- The Bank shall not grant shares as remuneration to any Board member, Board Committee member, or Audit and Compliance Committee member.

## 5 - Allocation and payment mechanisms for remunerations and compensations:

- Compensations and remunerations due to Board members and non-Board members are calculated on an annual basis, with the recommendation of the Nominations and Remunerations Committee and approval of the Board of Directors. Amounts are then presented to the General Assembly for approval at its next meeting.
- Remunerations can vary to reflect the Board Member's experience, competencies, tasks, independence, and the number of attended meetings among other considerations.
- Attendance fees are paid annually to beneficiaries based on their attendance sheets for Board, Board Committees, and Audit and Compliance Committee meetings.
- Payments are done through Bank transfers, cheques, or any other methods, and members are informed of details through relevant departments.
- Remunerations and compensations paid to a Board member shall not exceed SAR 500,000 annually, payment of any additional due amounts will be stopped, except for the members of the Audit and Compliance Committee from within the Board. Total amounts paid to Board members should not exceed 5% of total net profits.

## 6 - Remunerations and compensations of Senior Executives:

The role of the Board of Directors includes, but is not limited to the following:

The Board of Directors is responsible for approving the overall design and oversight of all aspects of the remuneration system and shall not delegate this responsibility to the executive management.

- Although there is a Board Nomination and Remuneration Committee, the Board of Directors has ultimate responsibility for promoting effective governance and sound remuneration practices.
- The Board of Directors shall review and approve the Remuneration Policy and any of its subsequent updates, on the recommendation of the Nomination and Compensation Committee, taking into account, inter-alia, the Rules on Compensation Practices approved in May 2010 and any future updates or revisions issued by the Saudi Central Bank.
- The Board of Directors shall review and approve the recommendations of the Nomination and Compensation Committee regarding the level of remuneration of the Senior Executives. The Senior Executives for this purpose will include senior managers and all those executives whose appointments are subject to no objection by the Saudi Central Bank or other regulators.
- The Board of Directors shall ensure that the Management has put in place elaborate systems and procedures and an effective oversight mechanism to ensure compliance with the Saudi Central Bank Rules on Compensation Practices and the Financial Stability Board Principles and Standards.



## 7 - Structure of remuneration and compensation granted to Senior Executives:

- Remunerations structures are designed for the various levels of employees in a manner that enhances the effectiveness of risk management and achieves remunerations and compensations objectives in accordance with the highest standards of remunerations practices.
- Forms of remunerations vary according to the position and role of the employee and may include cash payments, shares, and other forms of rewards and compensations.
- The proportion of fixed and variable remuneration components for different business sectors is determined based on the nature and level of the employee's responsibilities, the field of business, and the general philosophy of the remunerations policy of the Bank. The Bank ensures that the total variable remuneration does not limit its ability to strengthen the capital base.
- The remunerations structure for employees working in control functions such as risk management, compliance, internal audit, etc., is designed with the aim of ensuring the objectivity and independence of these functions. In this regard, performance management and the determination of rewards and compensations for these employees are not assigned to any person who works or has any relationship with the business sector that these employees monitor or supervise.
- When determining bonus allocations, the overall performance of the Bank is taken into consideration, while its distribution to employees is based on the performance of the employees in addition to the performance of the business unit or department in which they operate. There is no guaranteed minimum bonus or similar payment, other than an employee's salary, that is not based on performance.
- As part of the remuneration policy, the Bank may postpone a reasonable percentage of the performance bonus for a period of no less than three (3) years. The deferred bonus percentage and the maturity period are determined based on the nature of the business, its risks, and the activities carried out by the employee.
- Where the remunerations policy provides for the payment of part of the remuneration and compensation in the form of shares, criteria must be set to determine the value of the share allocation. Moreover, the allocation of shares should be subject to an appropriate shares retention policy.
- Joining bonuses are not permitted unless clearly aligned with long-term value creation and prudent risk-taking payments should be related to the performance achieved over time and designed in a way that does not reward failure. Joining bonuses should be at least linked to successful completion of the probation period and where possible, they should be deferred according to terms similar to the deferred bonuses foregone from the previous company.
- The Bank should demand from their employees that they commit themselves not to use personal hedging strategies or remunerations and liability-related insurance to undermine the risk alignment effects embedded in their remuneration and compensation arrangements.
- The Bank confirms that there are no major deviations between granted remunerations and applicable remunerations policy.

**B - Remunerations and compensations paid to Board members, Board Committees, and Audit & Compliance Committee in 2021:**

| No.          | Name                             | Board meetings |                | BACC meetings |                | ExCom meetings |                | NCC meetings |               |
|--------------|----------------------------------|----------------|----------------|---------------|----------------|----------------|----------------|--------------|---------------|
|              |                                  | No.            | SAR            | No.           | SAR            | No.            | SAR            | No.          | SAR           |
| 1.           | Abdullah bin Sulaiman Al Rajhi   | 7              | 35,000         | -             | -              | 6              | 30,000         | -            | -             |
| 2.           | Ibrahim Bin Mohammad Al Rumaih   | 7              | 35,000         | -             | -              | 6              | 30,000         | 3            | 15,000        |
| 3.           | Abdulaziz bin Khalid Al Ghufaily | 7              | 35,000         | -             | -              | 6              | 30,000         | 3            | 15,000        |
| 4.           | Khaled bin Abdulrahman Al Gwaiz  | 7              | 35,000         | -             | -              | -              | -              | 3            | 15,000        |
| 5.           | Badr bin Mohammed Al Rajhi       | 7              | 35,000         | -             | -              | -              | -              | -            | -             |
| 6.           | Alaa bin Shakib Al Jabri         | 6              | 30,000         | -             | -              | -              | -              | -            | -             |
| 7.           | Ibrahim bin Fahad Al Ghofaily    | 7              | 35,000         | -             | -              | -              | -              | -            | -             |
| 8.           | Raeed bin Abdullah Al-Tamimi     | 7              | 35,000         | 5             | 25,000         | -              | -              | 3            | 15,000        |
| 9.           | Hamza bin Othman Khushaim        | 7              | 35,000         | -             | -              | 5              | 25,000         | -            | -             |
| 10.          | Abdulatif bin Ali Al Saif        | 6              | 30,000         | 5             | 25,000         | 6              | 30,000         | -            | -             |
| 11.          | Stefano Paolo Bertamini          | 7              | 35,000         | -             | -              | -              | -              | -            | -             |
| 12.          | Abdullah bin Ali Al Manif        | -              | -              | 6             | 30,000         | -              | -              | -            | -             |
| 13.          | Waleed bin Abdullah Tamairak     | -              | -              | 6             | 30,000         | -              | -              | -            | -             |
| 14.          | Faraj bin Mansour Abu Thnain     | -              | -              | 6             | 30,000         | -              | -              | -            | -             |
| <b>Total</b> |                                  | <b>75</b>      | <b>375,000</b> | <b>28</b>     | <b>140,000</b> | <b>29</b>      | <b>145,000</b> | <b>12</b>    | <b>60,000</b> |

**C - Remunerations and compensations paid to five Senior Executives who received the highest remuneration from the Bank, including the CEO and CFO, in 2021**

| Description                     | 2021              | 2020              |
|---------------------------------|-------------------|-------------------|
| Salaries and Compensations      | 9,105,819         | 9,060,000         |
| Allowances                      | 5,068,466         | 4,835,984         |
| Periodic and annual rewards     | 25,257,500        | 18,037,500        |
| Any other in-kind compensations | 1,968,485         | 2,592,819         |
| <b>Total</b>                    | <b>41,400,270</b> | <b>34,526,303</b> |

| Governance Committee meetings |        | BRMC meetings |        | Annual Bonus | Total     | Total paid to the member as per the Policy |
|-------------------------------|--------|---------------|--------|--------------|-----------|--|
| No.                           | SAR    | No.           | SAR    | SAR          | SAR       | SAR  |
| -                             | -      | -             | -      | 400,000      | 465,000   | 465,000                                    |
| 4                             | 20,000 | -             | -      | 400,000      | 500,000   | 500,000                                    |
| -                             | -      | -             | -      | 400,000      | 480,000   | 480,000                                    |
| -                             | -      | 6             | 30,000 | 400,000      | 480,000   | 480,000                                    |
| -                             | -      | -             | -      | 400,000      | 435,000   | 435,000                                    |
| -                             | -      | 6             | 30,000 | 400,000      | 460,000   | 460,000                                    |
| 4                             | 20,000 | -             | -      | 400,000      | 455,000   | 455,000                                    |
| 4                             | 20,000 | -             | -      | 514,247      | 609,247   | 609,247                                    |
| -                             | -      | 6             | 30,000 | 400,000      | 490,000   | 490,000                                    |
| -                             | -      | -             | -      | 514,247      | 599,247   | 599,247                                    |
| -                             | -      | -             | -      | 400,000      | 435,000   | 435,000                                    |
| -                             | -      | -             | -      | 150,000      | 180,000   | 180,000                                    |
| -                             | -      | -             | -      | 150,000      | 180,000   | 180,000                                    |
| -                             | -      | -             | -      | 150,000      | 180,000   | 180,000                                    |
| 12                            | 60,000 | 18            | 90,000 | 5,078,494    | 5,948,494 | 5,948,494                                  |

## Employee benefits and plans

The Bank offers its employees a number of benefits and bonuses during or at the end of the service period, according to the Saudi Labor Law and Bank Policies. The provision for employees' end-of-service benefits is calculated using the entitlement assessment form in accordance with the Saudi Labor Law and local regulatory requirements. The provision for the end-of-service benefits amounted to SAR 1,198 Mn.

The Bank also grants deferred shares to its senior employees and to valuable human assets that the Bank needs to retain. This ensures the Bank's long-term relationship with those employees. Granting of shares is subject to the approval of the Board of Directors upon the recommendation of the Nominations and Remunerations Committee.

## Any penalty, sanction, precautionary measure, or precautionary restriction imposed on the Bank by the Authority or any supervisory, regulatory, or judicial authority

There are no fines imposed by the Capital Market Authority.

## Fines imposed by Saudi Central Bank

| Violation   | Fiscal Year 2021      |                                      | Fiscal Year 2020      |                                      |
|---|-----------------------|--------------------------------------|-----------------------|--------------------------------------|
|   | Number of resolutions | Total amount of fines in Saudi Riyal | Number of resolutions | Total amount of fines in Saudi Riyal |
| Violating the supervisory instructions of the Saudi Central Bank  | 27                    | 15,903,000                           | 36                    | 5,819,000                            |
| Violating the instructions of Saudi Central Bank related to customer protection   | 7                     | 4,436,800                            | 8                     | 7,171,110                            |
| Violating the instructions of Saudi Central Bank related to due diligence   | 1                     | 2,165,000                            | 4                     | 273,000                              |
| Violating the instructions of Saudi Central Bank related to the level of performance of ATMs and POS machines                   | -                     | -                                    | -                     | -                                    |
| Violating the instructions of Saudi Central Bank related to due diligence in combating money laundering and terrorist financing | 5                     | 795,000                              | 1                     | 250,000                              |

## Fines imposed by the Ministry of Municipal and Rural Affairs:

| Violation  | Total amount of fines in Saudi Riyal |                  |
|--|--------------------------------------|------------------|
|  | Fiscal Year 2021                     | Fiscal Year 2020 |
| Increase of building area percentage for ATMs, lack of setbacks, visible advertising posters on branches facades and ATMs, and non-existence of licenses for some bank's locations | 924,300                              | 2,156,600        |

## Outcomes of the annual review of internal control procedures at the Bank, in addition to the Audit and Compliance Committee's opinion on the adequacy of the Bank's internal control system

The Bank's Executive Management is responsible for designing an appropriate internal control system with the Board of Directors' direct supervision. The system has been designed to directly mitigate risks that could impair the realisation of the Bank's strategic and operational objectives. The Bank's Executive Management has adopted a comprehensive internal control system aligned with SAMA's regulatory requirements. The following are some of the key components of the Bank's internal control system:

- The Bank has completed and approved the continuous development of the governance framework through which appropriate control tools are prepared and updated at the Bank level and the roles and responsibilities of the various levels are clarified, including the Board of Directors, the Board committees, and other administrative committees.
- Monitoring the Bank's business in general and making important decisions through committees formed to ensure that the Bank's business is running properly in order to protect the quality of the Bank's assets.
- The audit department monitors the adequacy of the Bank's supervisory procedures and adheres to them, and prepares a presentation clarifying the focus and development aspects.
- The Internal Control Committee (ICC) formed at the Bank shall follow up on the observations and operations of control departments such as internal auditing, compliance, risks, account differences, and other departments,

and review the level of progress in addressing those observations and developing solutions to any obstacles that the Bank's departments may face in this regard.

- The Bank has a set of policies and procedures that govern its various activities. The Bank also reviews these policies and procedures periodically to verify their adequacy, efficiency, and suitability for the Bank's activities.
- Most of the operations of the Bank are executed through automated systems, which help in reducing manual errors and chances of fraud.
- The Bank has specialised departments for evaluating and monitoring internal control systems, including internal audit, compliance management, fraud control, and various risk departments.
- Existence of an effective Audit and Compliance Committee supervising internal and external auditors' activities in order to support and promote their independence. This Committee receives regular and periodic reports on audits carried out on different functions within the Bank.
- The comments and reports of the Sharia group are conveyed to the Audit Committee to enhance its independence.
- Follow up on important transactions, fraud cases, legal cases, tax and Zakat cases, disclosures, and any matters requested by the Board of Directors from the Audit and Compliance Committee.
- Regular reviews on the efficiency and adequacy of the internal control system are carried out by Internal Audit based on an annual plan approved by the Audit and Compliance Committee, in addition to regular reviews of some aspects of internal control by the External Auditors as well as the audit carried out by the Saudi Central Bank.

## Annual review of internal control procedures

During 2021, Al Rajhi Bank made every effort to ensure the adequacy and effectiveness of the internal control system, in line with the requirements issued by the Saudi Central Bank. In addition, the activities implemented during the year 2021, which included a review of the efficiency of the internal control system through internal audit, compliance, and risks have contributed to providing reasonable assurances of the adequacy of the applied internal controls, in addition to confirming systems and procedures necessary to identify and evaluate the high risks that the Bank may face, the method of dealing with them, as well as the safety of their application. No fundamental weaknesses affecting the adequacy of the internal control system were detected. Accordingly, and based on the results of the internal control system evaluation work, Al Rajhi Bank has an adequate internal control system that works appropriately and is monitored and strengthened on an ongoing basis, bearing in mind that any internal control system, regardless of the level of its design and effectiveness, cannot provide absolute assurances.

## General Assembly

The Bank always adheres to the regulatory requirements in all matters relating to Ordinary and Extraordinary General Assemblies. The Bank is also obliged to provide sufficient information to enable shareholders to make their decisions.

Historical information of General Assembly meetings during the fiscal year:

| No. | Name                             | Attendance record     |
|-----|----------------------------------|-----------------------|
|     |                                  | The 32nd Ordinary AGM |
| 1.  | Abdullah bin Sulaiman Al Rajhi   | ✓                     |
| 2.  | Ibrahim Bin Mohammad Al Rumaih   | ✓                     |
| 3.  | Alaa bin Shakib Al Jabri         | ✓                     |
| 4.  | Khalid bin Abdulrahman Al Gwaiz  | ✓                     |
| 5.  | Stefano Paolo Bertamini          | ✓                     |
| 6.  | Badr bin Mohammed Al Rajhi       | ✓                     |
| 7.  | Abdulatif bin Ali Al Seif        | ✓                     |
| 8.  | Hamza bin Othman Khoshaim        | ✓                     |
| 9.  | Abdulaziz bin Khaled Al Ghufaily | ✓                     |
| 10. | Raeed bin Abdullah Al-Tamimi     | ✓                     |
| 11. | Ibrahim bin Fahad Al Ghofaily    | ✓                     |

## Bank's significant plans, decisions, and future expectations

Al Rajhi Bank continued its leadership in the Retail Banking market, and the Bank intends to enhance its leadership in this sector by increasing the financing portfolio in general and real estate financing in particular. The Bank also intends to strengthen its position in the SMEs sector, while continuing to invest in the latest technologies to ensure the provision of the best banking services and products to customers, in addition to expanding the customer base.

## A description of the Bank's dividend policy

(A) The net annual profits of the Bank, which is determined after deducting all public expenditures and other costs and creating the necessary reserves to face doubtful debts, investment losses, and emergency obligations that the Board of Directors deems necessary in accordance with the provisions of the Banking Control Law and the directives of the Saudi Central Bank, shall be distributed as follows:

1. The sums required to pay the Zakat prescribed for the shareholders are calculated and the Bank pays these amounts to the competent authorities.
2. At least 25% of the remainder of the net profits after deducting Zakat shall be carried over to the statutory reserve until the aforementioned reserve becomes at least equal to the paid-up capital.

3. An amount not less than 5% of the paid-up capital, after deducting the statutory reserve and Zakat, is allocated from the remainder of the profits for distribution to the shareholders in accordance with the Board of Directors' proposal and the General Assembly's decision. If the remaining percentage of the profits owed to the shareholders is not sufficient to pay this percentage, then Shareholders may not claim to pay it in the following year or years, and the General Assembly may not decide to distribute a percentage of the profits exceeding what was proposed by the Board of Directors.
4. The balance shall be used after allocating the sums mentioned in paragraphs (A), (B), and (C), as proposed by the Board of Directors and decided by the general assembly.

(B) Subject to the provisions of paragraph (A) and the relevant regulations and after obtaining no objection from the Saudi Central Bank, the Company may distribute interim profits on a semi-annual or quarterly basis.

**A description of any interest of the Bank's board members, Senior Executives and their spouses and minor children in the Bank's securities or any of its subsidiary companies**

**A - Major Shareholders:**

| No. | Holder of interest, contractual papers and subscription rights | Number of shares at the beginning of the year 2021 | Number of shares at the end of the year 2021 | Net change | Change % ownership | %    |
|-----|--|--|--|------------|--------------------|------|
| 1.  | General Organisation for Social Insurance                      | 146,623,115  | 240,454,785                                  | 93,831,670 | 64.00              | 9.62 |

**B - Members of the Board of Directors:**

| No. | Holder of interest, contractual papers, and subscription rights | Number of shares at the beginning of the year 2021 | Number of shares at the end of the year 2021 | Net change | Change % |
|-----|---|--|--|------------|----------|
| 1.  | Abdullah bin Sulaiman Al Rajhi                                  | 54,186,896   | 54,518,389                                   | 331,493    | 0.61     |
| 2.  | Ibrahim Bin Mohammed Al Rumaih                                  | 20,924   | 17,089                                       | (3,835)    | -18.33   |
| 3.  | Abdulaziz bin Khalid Al Ghufaily                                | 32,307   | 32,307                                       | -          | -        |
| 4.  | Badr bin Mohammed Al Rajhi                                      | 265,004  | 2,041,390                                    | 1,776,386  | 670.32   |
| 5.  | Khaled bin Abdulrahman Al Gwaiz                                 | -  | -  | -          | -        |
| 6.  | Alaa bin Shakib Al Jabri  | 4,000  | -  | (4,000)    | -100     |
| 7.  | Ibrahim bin Fahad Al Ghofaily                                   | 742,742  | 742,742                                      | -          | -        |
| 8.  | Raeed bin Abdullah Al Tamimi                                    | 1,538  | -  | (1,538)    | -100     |
| 9.  | Abdulatif bin Ali Al Seif                                       | 1,000  | 1,000  | -          | -        |
| 10. | Hamza bin Othman Khoshaim                                       | -  | -  | -          | -        |
| 11. | Stefano Paolo Bertamini   | -  | -  | -          | -        |



## C - Senior Executives:

| No. | Holder of interest, contractual papers, and subscription rights | Number of shares at the beginning of the year 2021 | Number of shares at the end of the year 2021 | Net change | Change % |
|-----|---|--|--|------------|----------|
| 1.  | Saleh Abdullah Al Lheidan                                       | 40,004   | 44,991                                       | 4,987      | 12.47    |
| 2.  | Abdulrahman Abdullah Al Fadda                                   | 30,352   | 49,691                                       | 19,339     | 63.72    |
| 3.  | Abdulaziz Saad Al Rusais  | 20,000   | 500  | (19,500)   | -97.50   |
| 4.  | Ahmed Saleh Al Sudais   | -  | 3,000  | 3,000      | 100.00   |
| 5.  | Meshaal Mustafa Al Fadl   | 2,870  | -  | (2,870)    | -100.00  |
| 6.  | Majed Saleh Al Rajhi  | 76,025   | 88,864                                       | 12,839     | 16.89    |

## Board meetings

| No. | Member name                      | Number of meetings (7)           |                                   |                                 |                                   |                                 |                                  |                                    |
|-----|----------------------------------|----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|----------------------------------|------------------------------------|
|     |                                  | First meeting<br>21 Feb.<br>2021 | Second meeting<br>29 Mar.<br>2021 | Third meeting<br>27 Jun<br>2021 | Fourth meeting<br>28 Oct.<br>2021 | Fifth meeting<br>8 Dec.<br>2021 | Sixth meeting<br>15 Dec.<br>2021 | Seventh meeting<br>16 Dec.<br>2021 |
| 1.  | Abdullah bin Sulaiman Al Rajhi   | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 2.  | Ibrahim Bin Mohammed Al Rumaih   | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 3.  | Alaa bin Shakib Al Jabri         | ✓                                | ✓                                 | ✓                               | ✓                                 | ✗                               | ✓                                | ✓                                  |
| 4.  | Abdulaziz bin Khalid Al Ghufaily | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 5.  | Badr bin Mohammed Al Rajhi       | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 6.  | Khalid bin Abdulrahman Al Gwaiz  | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 7.  | Ibrahim bin Fahad Al Ghofaily    | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 8.  | Hamza bin Othman Khoshaim        | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 9.  | Raeed bin Abdullah Al-Tamimi     | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |
| 10. | Abdulatif bin Ali Al Seif        | ✓                                | ✓                                 | ✓                               | ✓                                 | ✗                               | ✓                                | ✓                                  |
| 11. | Stefano Paolo Bertamini          | ✓                                | ✓                                 | ✓                               | ✓                                 | ✓                               | ✓                                | ✓                                  |

## Bank requests for shareholder register

| No. | Request date     | Request reasons  |
|-----|------------------|------------------|
| 1.  | 03 January 2021  | Company actions  |
| 2.  | 03 January 2021  | Company actions  |
| 3.  | 03 February 2021 | Company actions  |
| 4.  | 03 March 2021    | Company actions  |
| 5.  | 28 March 2021    | General Assembly |
| 6.  | 30 March 2021    | Profits file     |
| 7.  | 04 May 2021      | Company actions  |
| 8.  | 01 June 2021     | Company actions  |
| 9.  | 05 July 2021     | Company actions  |
| 10. | 06 July 2021     | Profits file     |
| 11. | 02 August 2021   | Company actions  |
| 12. | 31 August 2021   | Company actions  |
| 13. | 03 October 2021  | Company actions  |
| 14. | 28 October 2021  | Company actions  |
| 15. | 30 November 2021 | Company actions  |

## Related party transactions

During its normal business cycle, the Bank made transactions with related parties, and those transactions subject to the controls stipulated by the Kingdom's legislative entities. The Bank has disclosed related party transactions in Note 30 of its final Financial Statements for the year 2021. The following is a summary of the nature and balances of those transactions for the year ended on 31 December 2021 (all amounts are in thousands of Saudi Riyals):

| Type of transaction                            | Balances resulting from the transaction |
|--|---|
| Loans and advance payments                     | 12,299,607                              |
| Potential obligations                          | 4,664,225                               |
| Current accounts                               | 376,377                                 |
| Contributions payable                          | 116,038                                 |
| Receivable against claims                      | 332,173                                 |
| Bank's balances                                | 253,332                                 |
| Income from finance and other income           | 40,275                                  |
| Speculation (Mudaraba) fees                    | 85,394                                  |
| Employees' salaries and benefits (air tickets) | 1,061                                   |
| Building rentals and expenses                  | 2,119                                   |
| Contribution – policies written                | 709,180                                 |
| Claims incurred and notified during the period | 661,300                                 |
| Claims paid                                    | 498,565                                 |
| Board members remunerations                    | 5,948                                   |
| Short-term benefits                            | 104,038                                 |
| End of service provision                       | 3,679                                   |

The following is the information related to the business and contracts in which the Bank was a party and in which there was an interest for a member of the Board of Directors, a Senior Executive, or any person related to their professions during the year 2021:

## 1 - Commercial contracts and service contracts (Figures are in Saudi Riyal)

| No. | Related Party               | Party with direct/indirect interest | Position in ARB | Type of relation with the relevant party | Relation type                      | Period   | Conditions                              | Transactions amount for the year 2021 |
|-----|-----------------------------|-------------------------------------|-----------------|--|------------------------------------|--|---|---------------------------------------|
| 1.  | Fursan Travel & Tourism Co. | Abdullah bin Sulaiman Al Rajhi      | Board member    | Owned by Board member                    | Travel & tourism services contract | Pricing contract for a period of one year automatically renewed for a similar period | Standard conditions without preferences | 942,428                               |
| 2.  | Berain Company              | Badr bin Mohammed Al Rajhi          | Board member    | Chairman of the Board                    | Mineral water supply services      | Pricing contract for a period of one year automatically renewed for a similar period | Standard conditions without preferences | 316,497                               |

## 2 - Rental contracts (Figures are in Saudi Riyal)

| No. | Related Party   | Party with direct/indirect interest | Position in ARB | Type of relation with the relevant party | Relation type  | Period   | Conditions     | Transactions amount for the year 2021 |
|-----|---|-------------------------------------|-----------------|--|--|--|----------------|---------------------------------------|
| 1.  | Mohammed Abdulaziz Al-Rajhi and Sons Investment Company | Badr bin Mohammed Al Rajhi          | Board member    | Board Member in the Company              | Lease contract for the Southern Regional Administration building | Seven years – automatically renewable for similar period   | Lease contract | 282,373                               |
| 2.  | Mohammed Abdulaziz Al-Rajhi and Sons Investment Company | Badr bin Mohammed Al Rajhi          | Board member    | Board member in the Company              | Lease contract for a direct sales office in Abha                 | Seven years – automatically renewable for a similar period | Lease contract | 46,000                                |
| 3.  | Mohammed Abdulaziz Al-Rajhi and Sons Investment Company | Badr bin Mohammed Al Rajhi          | Board member    | Board member in the Company              | Lease contract for ATM location                                  | Five years – automatically renewable for a similar period  | Lease contract | 40,250                                |
| 4.  | Abdullah Al Othaim Investment Co.                       | Abdulatif bin Ali Al Seif           | Board member    | Board member in the Company              | Lease contract for ATM location                                  | Four years – automatically renewable for a similar period  | Lease contract | 46,000                                |

| No. | Related Party                     | Party with direct/indirect interest | Position in ARB | Type of relation with the relevant party | Relation type                   | Period  | Conditions     | Transactions amount for the year 2021 |
|-----|-----------------------------------|-------------------------------------|-----------------|--|---------------------------------|---|----------------|---------------------------------------|
| 5.  | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board member in the Company              | Lease contract for ATM location | One year – automatically renewable for a similar period   | Lease contract | 63,250                                |
| 6.  | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board Member in the Company              | Lease contract for ATM location | Five years – automatically renewable for a similar period | Lease contract | 51,750                                |
| 7.  | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board member in the Company              | Lease contract for ATM location | Ten years   | Lease contract | 41,400                                |
| 8.  | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board Member in the Company              | Lease contract for ATM location | Five years – automatically renewable for a similar period | Lease contract | 34,500                                |
| 9.  | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board Member in the Company              | Lease contract of Silah branch  | Five years – automatically renewable for a similar period | Lease contract | 230,000                               |
| 10. | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board Member in the Company              | Lease contract of Silah branch  | Five years – automatically renewable for a similar period | Lease contract | 351,672                               |
| 11. | Abdullah Al Othaim Investment Co. | Abdulatif bin Ali Al Seif           | Board member    | Board Member in the Company              | Lease contract of Silah branch  | Five years – automatically renewable for a similar period | Lease contract | 195,500                               |

### 3 - Insurance contracts

| No. | Related Party                          | Party with direct/indirect interest | Position in ARB  | Type of relation with the relevant party | Relation type                 | Period           | Conditions                              | Transactions amount for the year 2021 |
|-----|--|-------------------------------------|------------------|--|-------------------------------|------------------|---|---------------------------------------|
| 1.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Bankers Blanket Bond "BBB"    | Annual contracts | Standard conditions without preferences | 9,509,000                             |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive | Board Member in the Company              |                               |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive | Member of Sharia Board                   |                               |                  |   |                                       |
| 2.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Directors and Officers Policy | Annual contracts | Standard conditions without preferences | 3,182,000                             |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive | Board Member in the Company              |                               |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive | Member of Sharia Board                   |                               |                  |   |                                       |
| 3.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Properties All Risk Policy    | Annual contracts | Standard conditions without preferences | 3,194,000                             |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive | Board Member in the Company              |                               |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive | Member of Sharia Board                   |                               |                  |   |                                       |
| 4.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Motor Insurance Agreement     | Annual contracts | Standard conditions without preferences | 509,261,000                           |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive | Board Member in the Company              |                               |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive | Member of the Sharia Board               |                               |                  |   |                                       |

GRI 207-1

| No. | Related Party                          | Party with direct/indirect interest | Position in ARB  | Type of relation with the relevant party | Relation type                                      | Period           | Conditions                              | Transactions amount for the year 2021 |
|-----|--|-------------------------------------|------------------|--|--|------------------|---|---------------------------------------|
| 5.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Group Credit Takaful Policy – Mortgage Insurance   | Annual contracts | Standard conditions without preferences | 172,885,000                           |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive | Board Member in the Company              |  |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive | Member of the Sharia Board               |  |                  |   |                                       |
| 6.  | Al Rajhi Co. for Cooperative Insurance | Abdullah bin Sulaiman Al Rajhi      | Board member     | Board Member in the Company              | Fire and Allied Perils Policy – Mortgage Insurance | Annual contracts | Standard conditions without preferences | 11,149,000                            |
|     |  | Waleed Abdullah Al Mogbel           | Senior Executive |  |  |                  |   |                                       |
|     |  | Saleh bin Abdullah Al Lheidan       | Senior Executive |  |  |                  |   |                                       |

170

## Statutory payments

Regular payments due by the Bank during the year consist of Zakat owed by shareholders, taxes, sums paid to the General Organisation for Social Insurance, costs of issuing visas, passports, etc.

The following table shows details of the statutory payments made during the year:

| Description                               | 2021          |            | Brief description | Reasons |
|---|---------------|------------|-------------------|---------|
|   | Paid          | (Not paid) |                   |         |
| Zakat                                     | 2,086,251,442 | –          | Paid              | –       |
| Taxes                                     | 82,959,524    | –          | Paid              | –       |
| VAT                                       | 232,796,403   | –          | Paid              | –       |
| General Organisation for Social Insurance | 277,579,032   | –          | Paid              | –       |
| Visa and passport costs                   | 309,450       | –          | Paid              | –       |
| Ministry of labour fees                   | 1,917,804     | –          | Paid              | –       |

## The basis for preparing the Bank's Consolidated Financial Statements

The Bank prepares the Consolidated Financial Statements in accordance with the accounting standards for financial institutions issued by the Saudi Central Bank and the international standards for financial reporting. The Bank also prepares its Consolidated Financial Statements to comply with the requirements of the Banking Control Law, the Companies Law in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

### Basel 3

The Bank publishes its quantitative and qualitative disclosure data on an annual basis. These disclosures are available in the Annual Basel Report and are available on the Bank's website ([www.alrajhibank.com.sa](http://www.alrajhibank.com.sa)).

### Auditors

During the Ordinary General Assembly of the shareholders, Messrs. Ernst & Young and KPMG Al Fozan & Partners were appointed as auditors for the Bank's accounts for the fiscal year 2021. The next General Assembly, God willing, will appoint external auditors for the fiscal year 2022, based on the recommendation of the Audit and Compliance Committee in this regard.

The Board did not recommend replacing the external auditors before the end of the contract period.

### Board of Directors' Acknowledgments

According to the available information, Auditor's report, and current market data, the Board of Directors acknowledges the following:

- Accounting records have been prepared properly.

- The Internal control system has been based on proper fundamentals and executed effectively.
- There is no doubt about the Bank's ability to continue its business.

### Conclusion

The Board of Directors expresses its pleasure and pride in the positive results achieved by the Bank during the year 2021. On this occasion, the Board would like to convey its appreciation to the Custodian of the Two Holy Mosques, HRH the Crown Prince, and our wise Government.

The Bank also extends its sincere thanks to the Ministry of Finance, the Ministry of Commerce, the Saudi Central Bank, and the Financial Market Authority for their consistent cooperation and continuous support in developing the financial sector, which had a great impact and role in supporting the growth of the national economy.

The Board also seizes this opportunity to express its thanks and appreciation to the shareholders, the Bank's valued customers and its correspondents for their support, confidence and cooperation, which has had a positive impact in the Bank's progress and prosperity. The Board also conveys its sincere thanks and appreciation to all employees of the Bank for their sincere efforts and dedication. In addition, the Bank extends its appreciation to Sharia Board members for their loyal efforts and effective contributions to the Bank's business.

## An evolving risk environment

The Kingdom's banking and financial services industry continued on the path of recovery from pandemic-driven effects in 2021. Changes to the KSA banking sector's operating environment continued to dominate risk agendas along with emerging global developments disrupting legacy banking operating models.

Top risks across the sector in 2021 apart from those inherent in financial intermediation were digitalisation and its resulting requirement for re-skilled or up-skilled employees; disruptive competition from fintechs and new entrants; evolving demographics; increased regulations specifically around consumer protection and privacy laws; cybersecurity threats and increasing consumer and regulatory focus on sustainability.

## A sound risk management framework

Compliance with all regulations of the Saudi Central Bank (SAMA) remains a core tenet of Al Rajhi Bank's risk management framework. SAMA is recognised for its strong and sound implementation of prudential regulation and standards in promoting a world-class risk management environment within the Kingdom, and continues to introduce regulatory reforms to address the fast-paced industry-transforming changes resulting from technological advancements and the current operational environment.

In line with SAMA regulations, ARB has a sound risk management framework with guidance from the Board of Directors for identifying, assessing, measuring, mitigating, monitoring and reporting risks, enabling such risks to be proactively and prudently managed.

The primary objectives of the ARB Risk Group are to:

- Operationalise the Bank's risk management policies by establishing required systems, processes, and procedures
- Assist in decisions relating to accepting, transferring, mitigating and minimising risks and recommending ways of doing so
- Evaluate the risk profile against the approved risk appetite on an on-going basis
- Estimate potential losses that could arise from risk exposures assumed
- Periodically conduct stress testing in accordance with regulatory requirements
- Ensure that the Bank holds sufficient buffers of capital and liquidity to meet unexpected losses and honour contractual obligations
- Integrate the Bank's risk management practice with strategy development and execution
- Institutionalise a strong risk culture within the Bank including conduct risk enforcement

## Types of risk

Conventionally the Bank is exposed to a number of risks, which it manages through its robust risk management framework. Various other external and internal factors also affect the Bank's risk profile on an ongoing basis, with the Risk Group identifying emerging risks and uncertainties with potential to increase the unpredictability of the operating environment. Aside from the conventional risks, IT security and cybercrime became the top concerns of the Risk Group during the year under review.



## Credit risk

Credit risk remains the largest and most common risk for the Bank and the Group. Credit facilities provided to customers, cash and deposits held with other banks and off-balance sheet financial instruments such as guarantees relating to purchase and sale of foreign currencies or letters of credit, all represent sources of credit risk, with counterparties failing to meet contractual obligations to the Bank.

During the year under review, the Bank continued to mitigate credit risk to ensure it maintained a robust loan and investment portfolio through a number of remedial measures; these included evaluating customer credit worthiness using quantitative and qualitative criteria, periodic loan reviews using Early-Warning modelling that enables detection of weaknesses in the quality of corporate client portfolios, automation to streamline processes and impose effective control via a decision engine to name a few.

The Risk Group also conducted risk assessments for all systems controls to ensure the Bank was in no violation of consumer lending guidelines. The Loan Origination System (LOS) was revamped and enhanced during the year under review with new features that improved overall user experience and leveraged system capabilities. Application and Behaviour Score benchmarks were enhanced. Relationship Teams and a Special Assets Management Unit also supported the Risk Group in mitigating credit risks during 2021.

## Liquidity risk

The Bank's Treasury has been proactive in managing daily and intra-daily liquidity during the year under review. This along with support from Corporate Banking has made cash flow forecasting a smooth process, which was further supported by a series of system developments.

Despite the sizable growth of the balance sheet and assets in 2021, the Risk Group successfully managed the Bank's liquidity, profit-rate risk and capital regulatory ratios while maintaining healthy profitability margins. The optimisation of cost of funds as well as yield earned have been key in the Bank's prudent management of assets. The year under review saw ARB's management of liquidity become more dynamic, sophisticated and tailored to support the Bank's planned asset growth. Ensuring the efficiency of the funding mix has been a special consideration in relation to the adequacy of liquidity management.

The Bank diversified its sources of funding during 2021 to further mitigate risk; Treasury introduced two new Sharia-complaint funding solutions in the form of Structured Deposits and Funding Swaps, with a number of new sources scheduled to be explored in 2022.

The Group witnessed a shift in the Bank's funding profile in 2021 towards wholesale funding such as Term Deposits to support mortgage growth, a largely untapped segment of market borrowings that will be leveraged for the Bank's advantage. ARB also started consciously optimising its liquidity ratio management during the year under review, and intends to continue the same next year.

## Operational risk

In 2021, The Board of Directors approved the Bank's existing enterprise Operational Risk Management Policy with no significant changes to ensure that an adequate control environment exists across its businesses and functions to maintain an acceptable level of residual risk for the year under review. The policy encompasses the implementation of operational risk tools designed to reduce or mitigate the failure of people, processes, systems and associated operational incidents and losses.

## Market risk

With underlying economic factors such as interest rates, fluctuations in mutual fund products, and especially foreign exchange rates continuing to pose a risk to earnings, the Bank focused on diversifying its investments in terms of duration, credit rating as well as geographical distribution, to be less impacted by and reactive to sudden market disruptions. In 2021, the Bank's key challenge was to reduce its Foreign Exchange Net Open Position (FX NoP), particularly for USD. The year under review saw a 1.5-fold reduction of the Bank's FX NoP, and an impressive 5.5-fold reduction of the Treasury FX NoP achieved by entering currency swaps as well as initiating outright positions on our own book for notional investments.

## Concentration risk

The Bank's geographical diversity and the loyal patronage of its varied customer base – which spans industries, countries, and wallet-size – mitigates concentration risk by providing greater stability in the face of external impacts. The Bank faced no major concentration risks during the year under review.

## Security risk

The Risk Group initiated a number of major developments to mitigate cybersecurity risk during the year under review by rolling out the ARB Information Security Management (ISM) programme. Maintaining complete compliance with SAMA as well as the National Cybersecurity Authority (NCA), the ISM programme adheres to globally adopted standards and systems for cybersecurity management such as ISO 27001, the Payment Card Industry Data Security Standard (PCI-DSS) and electronic interbank fund transfer systems such as SWIFT and SARIE.

During the year under review, the ISM programme developed and introduced strategies, policies and internal controls to further enhance the efficiency, confidentiality and integrity of the Bank's IT operations and monitoring capabilities, strengthening the confidence of customers and regulators on the quality of ARB's cybersecurity, as well as its ability to manage confidential data and IT assets. The ISM programme has enabled the Risk Group to govern the Bank's cybersecurity infrastructure, and scale and enforce security measures across the Bank's growing operating verticals.

## Risk management practices

The Risk Group is headed by the Chief Risk Officer, and functions within the Bank's risk framework and policies approved by the Board of Directors to manage risk across the entirety of the Bank's operations. The Group's reports to the Board and related committees span credit risks and portfolio asset quality, operational risks, liquidity risks, market risks, reputational risks, technology and cybersecurity risks among others. The Risk Group continued to

establish risk thresholds derived from the Bank's risk appetite, accurately identifying risks and their impact on the Bank's value creation process, and managing such risks with prudence and pragmatism in order to remain profitable and provide shareholders with sustainable returns.

Al Rajhi's Board Risk Management Committee (BRMC) supports the Board of Directors in their role of overseeing the Bank's performance in line with its risk appetite. The BRMC Charter was updated to comply with SAMA's new Corporate Governance regulations during the year under review.

The Bank's risk management framework is covered by the Bank's Internal Capital Adequacy Assessment Process (ICAAP), and details the Bank's risk appetite, risk management approach and primary risk controls. The ICAAP is submitted to SAMA on an annual basis following its review by the BRMC and approval by the Board. The BRMC then reviews and provides recommendations to the Board on the Internal Liquidity Adequacy Assessment Plan (ILAAP), which is also submitted to SAMA on an annual basis. The BRMC also reviews the Credit and Provisioning Policy, Operational Risk Policies, Risk Appetite Statements, Market and Liquidity Risk Policies and Information Security Policy of the Bank, submitting recommendations for the Board's approval.

The Asset and Liability Committee (ALCO) evolved from its role as a delegate to the Board of Directors that identifies, measures and manages the Bank's liquidity risks, into a steering committee for the Primary Dealership Committee (PDC) and Valuation Accounting Committee (VALCOM) in 2021. In its new role, ALCO will provide oversight on related activities, decisions and recommendations of PDC/VALCOM.

## Credit rating

Al Rajhi has strengthened its reputation over the years by receiving stable to positive credit ratings from international rating agencies despite challenging economic and geopolitical environments. The credit ratings for the year under review:

| Rating Agency        | Rating | Outlook                   |
|----------------------|--------|---------------------------|
| S&P                  | BBB+   | Positive Upgraded in 2021 |
| Moody's              | A1     | Stable Upgraded in 2021   |
| Fitch                | A-     | Stable Upgraded in 2021   |
| Capital Intelligence | A+     | Stable Upgraded in 2022   |



## Future outlook

Following the pervasive technological advances that powered past the pandemic-driven macroeconomic shocks of 2021, banks will continue to encounter widening and deepening regulations, giving added importance to the Bank's Risk Group, governance and risk management functions. The Bank will continue to closely monitor its portfolios, especially those under the SAMA Payment Deferral Programme, while recalibrating its underlying policies, frameworks and tools in its effort to meet shareholder expectations.

For the coming year, focus will be on the Fundamental Review of the Trading Book (FRTB), The Basel Committee's market risk framework, where the Bank will run its revisions in parallel with a target for the revised framework to go live in 2023. Since the Treasury Group initiated positions on derivatives and structured products, ensuring market, static and valuation data would be critical for assessment of the Bank's capital reserves on a forward basis.

With a clear shift towards Non-Salary Transfers (NST), a market trend that is heavily dependent on consumer behaviour, the Bank will be observant of frequent changes in regulations, especially with regard to consumer lending guidelines and provisioning in 2022.

From social engineering attacks that manipulate people to give up confidential information, to ransomware attacks where the threat of publishing or blocking personal data is held against a ransom demand, cybersecurity threats will continue to grow in the coming year. The Bank will continue to proactively enhance the ARB Information Security Management programme against emerging threats in 2022 to ensure cybersecurity risks are mitigated.

Furthermore, the Bank will invest in advancing its Enterprise Operational Risk Management system in the coming year, optimising its effectiveness to ensure the Bank maintains adequate Governance, Oversight and Reporting benchmarks in risk management, most specifically in compliance with SAMA's recently introduced guidelines on the 'Calculation of Capital and Operational Risk'.

The Bank's underlying policies and procedures will continue to be updated annually to bolster the risk management function, as per best practices as well as to ensure compliance with internal and regulatory policies.

# Financial Statements

|   |     |
|---|-----|
| Independent Auditors' Report                              | 178 |
| Consolidated Statement of Financial Position              | 186 |
| Consolidated Statement of Income                          | 187 |
| Consolidated Statement of Comprehensive Income            | 188 |
| Consolidated Statement of Changes in Shareholders' Equity | 189 |
| Consolidated Statement of Cash Flows                      | 191 |
| Notes to the Consolidated Financial Statements            | 193 |

# Independent Auditors' Report

Overview  
Context  
Business in Perspective  
ESG Report  
Corporate Governance  
Financial Statements  
Supplementary



## Ernst & Young Professional Services

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Al Faisaliah Office Tower, 14th Floor  
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P.O. Box 2732  
Riyadh 11461  
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## KPMG Professional Services

Riyadh Front, Airport Road  
P.O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia  
Headquarters in Riyadh

## Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (A Saudi Joint Stock Company)

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Ernst & Young Professional Services**  
(Professional LLC)  
Paid-up capital SR 5,500,000  
C.R. No. 1010383821

**KPMG Professional Services**  
(Professional Closed Joint Stock Company)  
Paid-up capital SR 25,000,000  
C.R. No. 1010425494



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, a description of how our audit addressed the matter is provided in that context:

| Key audit matter  | How our audit addressed the key audit matter   |
|---|--|
| <p><b>Expected credit loss allowance against financing</b></p> <p>As at 31 December 2021, the Group's gross financing amounted to SAR 462,028.8 million (2020: SAR 323,183.5 million), against which an expected credit loss ("ECL") allowance of SAR 9,198.2 million (2020: SAR 7,471.4 million) was recorded.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment, and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to business, thus increasing the levels of judgment and uncertainty needed to determine the ECL under the requirements of IFRS 9 – <i>Financial Instruments</i> ("IFRS 9"). The key areas of judgment include:</p> <ol style="list-style-type: none"> <li>1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> <li>(a) exposures that have a significant increase in credit risk ("SICR") since their origination; and</li> <li>(b) individually impaired/defaulted exposures.</li> </ol> </li> </ol> | <ul style="list-style-type: none"> <li>• We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Group's internal rating model, accounting policy and methodology, as well as any key changes made during the year.</li> <li>• We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9.</li> <li>• We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to: <ul style="list-style-type: none"> <li>• the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any);</li> <li>• the classification of financing into Stages 1, 2 and 3 and timely identification of SICR, and the determination of default/individually impaired exposures;</li> <li>• the IT systems and applications supporting the ECL model; and</li> <li>• the data inputs into the ECL model.</li> </ul> </li> </ul> |

179



180

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <p>The Group has applied additional judgments to identify and estimate the likelihood of borrowers experiencing SICR, notwithstanding the government support programs that resulted in deferral of instalments to certain segments of counterparties. These deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.</p> <p>2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including, but not limited to, assessment of the financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages.</p> <p>3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors, especially relating to the ongoing COVID-19 pandemic, that might not have been captured by the ECL model.</p> | <ul style="list-style-type: none"> <li>For a sample of customers, we assessed: <ul style="list-style-type: none"> <li>the internal ratings determined by management based on the Group's internal models, and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic; and also assessed that these were consistent with the ratings used as inputs in the ECL model;</li> <li>management's computations for ECL; and</li> <li>for selected financings, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.</li> </ul> </li> <li>We assessed the appropriateness of the Group's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of financing facilities with a specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant Saudi Central Bank ("SAMA") circulars setting out the definition criteria as at 31 December 2021.</li> </ul> |





#### Key audit matter

#### How our audit addressed the key audit matter

The application of these judgments, particularly in the context of the COVID-19 pandemic, continues to result in heightened estimation uncertainty around ECL calculations, and therefore affected the associated audit risk thereon as at 31 December 2021.

*Refer to the summary of significant accounting policy note 3(f)(5) for the impairment of financial assets; note 2(d) (i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7-2 which contains the disclosure of impairment against financing; note 27-1a) for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 39 for impact of the COVID-19 pandemic on ECL.*

- We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise.
- We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic.
- We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2021.
- Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in post model overlays.
- We assessed the adequacy of the disclosures in the consolidated financial statements.

181



## Other Information included in the Group's 2021 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in KSA; the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws; and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

183

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain jointly responsible for our audit opinion.

We communicate with those charged with governance regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Group was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2021.

### Ernst & Young Professional Services

**Rashid Saud Roshod**  
Certified Public Accountant  
License no. 366



### KPMG Professional Services

**Khalil Ibrahim Al Sedais**  
Certified Public Accountant  
License no. 371



19 Rajab 1443 H  
(20 February 2022)

# Consolidated Statement of Financial Position

As at 31 December

Notes 2021  
(SAR '000) 2020  
(SAR '000)

## Assets

|  |    |                    |                    |
|--|----|--------------------|--------------------|
| Cash and balances with Central Bank "SAMA" and other central banks | 4  | 40,363,449         | 47,362,522         |
| Due from banks and other financial institutions, net               | 5  | 26,065,392         | 28,654,842         |
| Investments, net   | 6  | 84,433,395         | 60,285,272         |
| Financing, net   | 7  | 452,830,657        | 315,712,101        |
| Investment properties, net   | 9  | 1,411,469          | 1,541,211          |
| Property and equipment, net  | 8  | 10,665,799         | 10,234,785         |
| Other assets, net  | 10 | 7,901,754          | 5,033,990          |
| <b>Total assets</b>  |    | <b>623,671,915</b> | <b>468,824,723</b> |

## Liabilities and shareholders' equity

### Liabilities

|   |    |                    |                    |
|---|----|--------------------|--------------------|
| Due to banks and other financial institutions | 11 | 17,952,140         | 10,764,061         |
| Customers' deposits                           | 12 | 512,072,213        | 382,631,003        |
| Other liabilities                             | 13 | 26,338,711         | 17,311,141         |
| <b>Total liabilities</b>                      |    | <b>556,363,064</b> | <b>410,706,205</b> |

### Shareholders' equity

|   |    |                    |                    |
|---|----|--------------------|--------------------|
| Share capital                                     | 14 | 25,000,000         | 25,000,000         |
| Statutory reserve                                 | 15 | 25,000,000         | 25,000,000         |
| Other reserves                                    | 15 | 309,394            | (134,728)          |
| Retained earnings                                 |    | 16,999,457         | 8,253,246          |
| <b>Total shareholders' equity</b>                 |    | <b>67,308,851</b>  | <b>58,118,518</b>  |
| <b>Total liabilities and shareholders' equity</b> |    | <b>623,671,915</b> | <b>468,824,723</b> |

The accompanying Notes from 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer

# Consolidated Statement of Income

| For the years ended 31 December   | Notes | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|-------|--------------------|--------------------|
| <b>Income</b>   |       |                    |                    |
| Gross financing and investment income                                     | 17    | 21,441,506         | 17,377,963         |
| Return on customers', banks' and financial institutions' time investments | 17    | (1,049,570)        | (464,946)          |
| <b>Net financing and investment income</b>                                | 17    | <b>20,391,936</b>  | <b>16,913,017</b>  |
| Fee from banking services, net  | 18    | 3,933,107          | 2,659,680          |
| Exchange income, net  |       | 787,898            | 783,894            |
| Other operating income, net   | 19    | 603,457            | 364,669            |
| <b>Total operating income</b>   |       | <b>25,716,398</b>  | <b>20,721,260</b>  |
| <b>Expenses</b>   |       |                    |                    |
| Salaries and employees' related benefits                                  | 20    | 3,132,346          | 2,977,344          |
| Depreciation and amortisation   | 8 & 9 | 1,141,932          | 1,118,148          |
| Other general and administrative expenses                                 | 21    | 2,652,244          | 2,646,409          |
| <b>Operating expenses before credit impairment charge</b>                 |       | <b>6,926,522</b>   | <b>6,741,901</b>   |
| Impairment charge for financing and other financial assets, net           | 7     | 2,345,086          | 2,165,740          |
| <b>Total operating expenses</b>   |       | <b>9,271,608</b>   | <b>8,907,641</b>   |
| <b>Income for the year before Zakat</b>                                   |       | <b>16,444,790</b>  | <b>11,813,619</b>  |
| Zakat for the year  | 37    | (1,698,579)        | (1,218,071)        |
| <b>Net income for the year</b>  |       | <b>14,746,211</b>  | <b>10,595,548</b>  |
| Basic and diluted earnings per share (in SAR)                             | 22    | 5.90               | 4.24               |

The accompanying Notes from 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer

# Consolidated Statement of Comprehensive Income

| For the years ended 31 December   | Notes   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|---------|--------------------|--------------------|
| <b>Net income for the year</b>  |         | <b>14,746,211</b>  | <b>10,595,548</b>  |
| <b>Other comprehensive income</b>   |         |                    |                    |
| <i>Items that cannot be reclassified to consolidated statement of income in subsequent periods:</i>     |         |                    |                    |
| Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI") | 15      | 399,339            | 254,222            |
| Re-measurement of employees' end of service benefits liabilities ("ESOB")                               | 15 & 25 | 42,055             | (179,605)          |
| <i>Items that can be reclassified to consolidated statement of income in subsequent periods:</i>        |         |                    |                    |
| Exchange difference on translating foreign operations   | 15      | (21,316)           | 6,696              |
| Share in OCI from associate   | 15      | 24,044             | -                  |
| <b>Total other comprehensive income</b>   |         | <b>444,122</b>     | <b>81,313</b>      |
| <b>Total comprehensive income for the year</b>  |         | <b>15,190,333</b>  | <b>10,676,861</b>  |

The accompanying Notes from 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer



# Consolidated Statement of Changes in Shareholders' Equity

| For the years ended<br>31 December  | Notes   | Share<br>capital<br>(SAR '000) | Statutory<br>reserve<br>(SAR '000) | Other<br>reserves<br>(SAR '000) | Retained<br>earnings<br>(SAR '000) | Proposed<br>gross<br>dividends<br>(SAR '000) | Total<br>(SAR '000) |
|---|---------|--------------------------------|------------------------------------|---------------------------------|------------------------------------|--|---------------------|
| <b>2021</b>   |         |                                |                                    |                                 |                                    |  |                     |
| Balance at<br>31 December 2020  |         | 25,000,000                     | 25,000,000                         | (134,728)                       | 8,253,246                          | -  | 58,118,518          |
| Net income for<br>the year  |         | -                              | -                                  | -                               | 14,746,211                         | -  | 14,746,211          |
| Net change in fair<br>value of FVOCI<br>investments                                 | 15      | -                              | -                                  | 399,339                         | -                                  | -  | 399,339             |
| Re-measurement<br>of employee<br>EOSB liabilities                                   | 15 & 25 | -                              | -                                  | 42,055                          | -                                  | -  | 42,055              |
| Exchange difference<br>on translation<br>foreign operations                         | 15      | -                              | -                                  | (21,316)                        | -                                  | -  | (21,316)            |
| Share in OCI from<br>associate  | 15      | -                              | -                                  | 24,044                          | -                                  | -  | 24,044              |
| Net other comprehensive<br>income recognised<br>directly in shareholders'<br>equity |         | -                              | -                                  | 444,122                         | -                                  | -  | 444,122             |
| Total comprehensive<br>income for the year  |         | -                              | -                                  | 444,122                         | 14,746,211                         | -  | 15,190,333          |
| Dividend for annual<br>year 2020  | 23      | -                              | -                                  | -                               | (2,500,000)                        | -  | (2,500,000)         |
| Dividend for the first half<br>of 2021  | 23      | -                              | -                                  | -                               | (3,500,000)                        | -  | (3,500,000)         |
| Balance at<br>31 December 2021  |         | 25,000,000                     | 25,000,000                         | 309,394                         | 16,999,457                         | -  | 67,308,851          |

189

# Consolidated Statement of Changes in Shareholders' Equity

| For the years ended<br>31 December  | Notes   | Share<br>capital<br>(SAR '000) | Statutory<br>reserve<br>(SAR '000) | Other<br>reserves<br>(SAR '000) | Retained<br>earnings<br>(SAR '000) | Proposed<br>gross<br>dividends<br>(SAR '000) | Total<br>(SAR '000) |
|---|---------|--------------------------------|------------------------------------|---------------------------------|------------------------------------|--|---------------------|
| <b>2020</b>   |         |                                |                                    |                                 |                                    |  |                     |
| Balance at<br>31 December 2019  |         | 25,000,000                     | 21,789,632                         | (216,041)                       | 868,066                            | 3,750,000                                    | 51,191,657          |
| Net income for the year   |         | -                              | -                                  | -                               | 10,595,548                         | -  | 10,595,548          |
| Net change in fair<br>value of FVOCI<br>investments                                 | 15      | -                              | -                                  | 254,222                         | -                                  | -  | 254,222             |
| Re-measurement<br>of employee<br>EOSB liabilities                                   | 15 & 25 | -                              | -                                  | (179,605)                       | -                                  | -  | (179,605)           |
| Exchange difference<br>on translation<br>foreign operations                         | 15      | -                              | -                                  | 6,696                           | -                                  | -  | 6,696               |
| Net other comprehensive<br>income recognized<br>directly in shareholders'<br>equity |         | -                              | -                                  | 81,313                          | -                                  | -  | 81,313              |
| Total comprehensive<br>income for the year  |         | -                              | -                                  | 81,313                          | 10,595,548                         | -  | 10,676,861          |
| Transfer to statutory<br>reserve  |         | -                              | 3,210,368                          | -                               | (3,210,368)                        | -  | -                   |
| Dividend for the second<br>half 2019  | 23      | -                              | -                                  | -                               | -                                  | (3,750,000)                                  | (3,750,000)         |
| <b>Balance at<br/>31 December 2020</b>  |         | <b>25,000,000</b>              | <b>25,000,000</b>                  | <b>(134,728)</b>                | <b>8,253,246</b>                   | <b>-</b>                                     | <b>58,118,518</b>   |

The accompanying Notes from 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer

# Consolidated Statement of Cash Flows

| For the years ended 31 December   | Notes | 2021<br>(SAR '000) | 2020<br>(SAR '000) |     |
|---|-------|--------------------|--------------------|-----|
| <b>Cash flows from operating activities</b>   |       |                    |                    |     |
| Income before Zakat   |       | 16,444,790         | 11,813,619         |     |
| <b>Adjustments to reconcile net income to net cash from/(used in) operating activities:</b> |       |                    |                    |     |
| Loss/(gain) on investments held at fair value through statement of income (FVSI)            | 19    | 37,897             | (33,441)           |     |
| Depreciation and amortisation   | 8     | 1,116,280          | 1,080,171          |     |
| Depreciation on investment properties   | 9     | 25,652             | 37,977             |     |
| (Gain) on sale of property and equipment, net   | 19    | (47,511)           | (10,256)           |     |
| Impairment charge for financing and other financial assets, net                             | 7     | 2,345,086          | 2,165,740          |     |
| Share in profit of an associate   | 19    | (32,030)           | (42,944)           |     |
| <b>(Increase)/decrease in operating assets</b>  |       |                    |                    |     |
| Statutory deposit with SAMA and other central banks   |       | (5,343,990)        | (2,796,037)        | 191 |
| Due from banks and other financial institutions   |       | 4,345,399          | 9,846,917          |     |
| Financing   |       | (139,463,642)      | (68,195,037)       |     |
| FVSI investments  |       | (585,805)          | (4,615,776)        |     |
| Other assets, net   |       | (2,889,081)        | (609,530)          |     |
| <b>Increase/(decrease) in operating liabilities</b>   |       |                    |                    |     |
| Due to banks and other financial institutions   |       | 7,188,079          | 8,544,457          |     |
| Customers' deposits   |       | 129,441,210        | 70,225,180         |     |
| Other liabilities   |       | 9,457,298          | (958,351)          |     |
| Zakat paid  | 37    | (2,086,251)        | (2,032,674)        |     |
| <b>Net cash generated from operating activities</b>   |       | <b>19,953,381</b>  | <b>24,420,015</b>  |     |

# Consolidated Statement of Cash Flows

192

| For the years ended 31 December  | Notes | 2021<br>(SAR '000)  | 2020<br>(SAR '000) |
|--|-------|---------------------|--------------------|
| <b>Cash flows from investing activities</b>  |       |                     |                    |
| Purchase of property and equipment   | 8     | (2,386,485)         | (945,685)          |
| Proceeds from disposal of property and equipment   |       | 886,701             | 48,234             |
| Purchase of FVOCI investments  |       | (2,342,405)         | (2,528,010)        |
| Proceeds from disposal of FVOCI investments  |       | 178,363             | 163,231            |
| Proceeds from maturities of investments held at amortised cost                                 |       | 7,852,423           | 23,898,760         |
| Purchase of investments held at amortised cost   |       | (28,691,735)        | (29,548,322)       |
| <b>Net cash used in investing activities</b>   |       | <b>(24,503,138)</b> | <b>(8,911,792)</b> |
| <b>Cash flows from financing activities</b>  |       |                     |                    |
| Dividends paid   | 23    | (6,000,000)         | (3,750,000)        |
| Payment against lease obligation   |       | (37,357)            | (42,261)           |
| <b>Net cash used in financing activities</b>   |       | <b>(6,037,357)</b>  | <b>(3,792,261)</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                                    |       | <b>(10,587,114)</b> | <b>11,715,962</b>  |
| Cash and cash equivalents at the beginning of the year   |       | 32,827,361          | 21,111,399         |
| <b>Cash and cash equivalents at end of the year</b>  | 24    | <b>22,240,247</b>   | <b>32,827,361</b>  |
| Gross financing and investment income received during the year                                 |       | 21,446,997          | 17,579,469         |
| Return on customers', banks' and financial institutions' time investments paid during the year |       | (417,115)           | (147,912)          |
|  |       | 21,029,882          | 17,431,557         |
| <b>Non-cash transactions:</b>  |       |                     |                    |
| Net change in fair value of FVOCI equity investments   |       | 399,339             | 254,222            |
| Share in OCI from associate  |       | 24,044              | -                  |

The accompanying Notes from 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive Officer



Chief Financial Officer

# Notes to the Consolidated Financial Statements

## 1 - General

GRI 102-45

### (a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank  
8467 King Fahd Road - Al Muruj Dist.  
Unit No 1  
Riyadh 12263 - 2743  
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 574 branches (2020: 591) including the branches outside the Kingdom and 15,078 employees (2020: 13,716 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as the "Group") in which it owns all or majority of their shares as set out below [Also see Note 3(b)]:

193

| Name of subsidiaries   | Shareholding |           |  |
|--|--------------|-----------|--|
|  | 2021<br>%    | 2020<br>% |  |
| Tuder Real Estate Company – KSA<br>(formerly: Al Raji Real Estate Development Company) | 100          | 100       | A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programmes of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties. |
| Al Rajhi Corporation Limited – Malaysia  | 100          | 100       | A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.   |
| Al Rajhi Capital Company – KSA   | 100          | 100       | A Saudi Closed Joint Stock Company authorised by the Capital Market Authority to carry on securities business in the activities of dealing/ brokerage, managing assets, advising, arranging, and custody.  |

| Name of subsidiaries                           | Shareholding |           |   |
|--|--------------|-----------|---|
|  | 2021<br>%    | 2020<br>% |   |
| Al Rajhi Bank – Kuwait                         | 100          | 100       | A foreign branch registered with the Central Bank of Kuwait.  |
| Al Rajhi Bank – Jordan                         | 100          | 100       | A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law. |
| Al Rajhi Takaful Agency Company – KSA          | 99           | 99        | A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.   |
| Al Rajhi Company for management services – KSA | 100          | 100       | A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.  |
| Emkan Finance Company – KSA                    | 100          | 100       | A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.   |
| Tawtheeq Company – KSA                         | 100          | 100       | A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organise contracts data and streamline litigation processes.   |
| Al Rajhi Financial Markets Ltd                 | 100          | 100       | A limited liability company registered in the Cayman Islands with the objective of managing certain treasury related transactions on behalf of the Bank.  |
| International Digital Solutions Co. (Neoleap)  | 100          | –         | A closed joint stock company owned by the Bank for the purpose of practicing technical work in financial services, digital payment systems, financial settlements and related services.   |

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All of the above-mentioned subsidiaries have been consolidated.

## (b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

## 2 - Basis of preparation

### (a) Statement of compliance

The consolidated financial statements of the Group have been prepared:

- in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants ("SOCPA"), and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

### (b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the following items in the consolidated statement of financial position:

- Derivatives are measured at fair value;
- Financial instruments designated as Fair Value through Profit or Loss ("FVTPL") are measured at fair value;
- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognised at the present value of future obligations using the Projected Unit Credit Method.

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 27-2.

### (c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the Group's functional currency, and are rounded off to the nearest thousand except where otherwise indicated.

### (d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgements in the process of applying the Group's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and

estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgements is as follows:

## (i) Expected credit losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models such as probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default rate ("LGD"), that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling that are considered accounting judgements:
  - The Group's internal credit grading model, which assigns PDs to the individual grades,
  - The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment,

- The segmentation of financial assets when their ECL is assessed on a collective basis,
- Development of ECL models, including the various formulas and the choice of inputs,
- Determination of associations between macroeconomic scenarios and, economic inputs and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

- Fair value measurement (Note 29),
- Credit Risk Management (Note 27.1.a),
- Credit Risk Grades (Note 27.1.a.3),
- Classification of investments at amortised cost (Note 3.f.(1).1),
- Determination of control over investees (Note 2.d.iii),
- Depreciation and amortisation [Note 3 (j) and 8]
- Salaries and employees related expenses (Note 20)
- Government grant [Note 3 (c)]

## (ii) Fair value of financial instruments

The Group measures certain financial instruments at fair value at each consolidated balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or



- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — Inputs that are unobservable. This category include all instruments for which the use of valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### (iii) Determination of control over investees

The control indicators are subject to management's judgements, and are set out in [Note 3 (b)].

Investment funds management:

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

## (iv) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amounts of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per the Law.

## (v) Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business. The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

## (vi) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended or not terminated. The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

## 3 - Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### (a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for the effect of the below standards, interpretations, and amendments that became applicable for annual reporting periods beginning on or after 1 January 2021:

#### • Amendments to IFRS 7, IFRS 4 and IFRS 16 Profit Rate Benchmark Reform – Phase 2:

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-Bank Offer Rate ("IBOR"). In 2020, the Group implemented Phase 1, which was mainly amendments to IFRS 9, IAS 39 and IFRS 7, the disclosure relevant to Phase 1 is made in [Note 3 (d)].

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted, Note 3 (d) elaborates the impact of such amendments on the Group.

Effective date of the change: Accounting years beginning on or after 1 January 2021.

• **Amendment to IFRS 16, "Leases" – COVID-19 related rent concessions:**

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Effective date of the change: Accounting years beginning on or after 1 June 2020.

The Group has assessed that these amendments have no significant impact on the Group's consolidated financial statements.

## (b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as identified in (Note 1). The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power

over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when the Group loses control on the investee.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than majority of the voting or similar rights of an investee entity, the Group considers all relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is

accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary;
- Derecognises carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in shareholder's equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the consolidated statement of income or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

## (c) Government grants

The Group recognises a government grant related to income, if there is a reasonable assurance that it will be received, and the Group will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 – Financial Instruments. The benefit of the below-market rate of profit is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20 – Accounting for Government grant.

The government grant is recognised in the statement of income on a systematic basis over the period in which the Group recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

## (d) IBOR Transition (Profit Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk-Free Rate ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective profit rate, resulting in no immediate statement of income impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and

lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in profit rate when remeasuring a lease liability because of a lease modification that is required by profit rate benchmark reform.

The Group does not have contracts which reference GBP LIBOR, including swaps which will transition under the ISDA protocols.

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications.

As at 31 December 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and finances transitioning from USD LIBOR and the resulting impact on economic risk management. The Group continues to engage with industry participants, to ensure an orderly transition to SOFR and to minimise the risks arising from transition and it will continue to identify and assess risks associated with USD LIBOR replacement.

The table below shows the Group's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required.

| In SAR 000<br>31 December 2021 | Non-derivative<br>financial assets-<br>carrying value | Non-derivative<br>financial liabilities<br>carrying value | Derivatives<br>nominal amount |
|--------------------------------|---|---|-------------------------------|
| LIBOR USD (1 months)           | 317,586   | -   | 384,792                       |
| LIBOR USD (3 months)           | 3,345,365   | -   | 2,212,425                     |
| LIBOR USD (6 months)           | 6,089,422   | -   | 9,194,380                     |
| LIBOR USD (12 months)          | 397,709   | -   | -                             |
| <b>Total</b>                   | <b>10,150,082</b>                                     | <b>-</b>  | <b>11,791,597</b>             |

| In SAR 000<br>31 December 2020 | Non-derivative<br>financial assets -<br>carrying value | Non-derivative<br>financial liabilities<br>carrying value | Derivatives<br>nominal amount |
|--------------------------------|--|---|-------------------------------|
| LIBOR USD (1 month)            | 24,000   | -   | 23,019                        |
| LIBOR USD (3 months)           | 3,246,250  | -   | 563,250                       |
| LIBOR USD (6 months)           | 7,160,000  | -   | 6,926,443                     |
| LIBOR USD (12 months)          | -  | -   | -                             |
| <b>Total</b>                   | <b>10,430,250</b>                                      | <b>-</b>  | <b>7,512,712</b>              |

## (e) Investment in an associate

An associate is an entity over which the Group exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses are recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in OCI included in the shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the

investment. Distribution received from an investee reduces the carrying amount of the investment.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognised in the consolidated statement of income.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment



loss on an investment in an associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the share in earnings of associates in the consolidated statement of income.

Unrealised gains or losses on transactions are eliminated to the extent of the Group's interest in the investee. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## (f) Financial assets and financial liabilities

### (1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified and measured at: Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through Statement of Income ("FVSI"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

#### Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue,

maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

## Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, "principal" is the fair value of the financial asset on initial recognition. "Profit" is the consideration for the time value of money, the credit and other basic financing risk associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

The Group offers profit based products including Mutajara, installment sales and Murabaha to its customers in compliance with Shari'a rules. The Group classifies its principal financing and Investment as follows:

**Financing:** These financings represent facilities granted to customers. These financings mainly constitute four broad categories i.e. Mutajara, Installment sales, Murabaha and credit cards. The Group classifies these financings at amortised cost.

**Due from banks and other financial institutions:** These consists of placements with financial Institutions (FIs). The Group classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

**Investments (Murabaha with SAMA):** These investments consists of placements with the Saudi Central Bank (SAMA). The Group classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

**Investments (Sukuk):** These investments consists of Investment in various Sukuk. The Group classifies these investments at amortised cost except for those Sukuk which fails SPPI criterion, which are classified at FVSI.

**Equity Investments:** These are the strategic equity investments which the Group does not expect to sell, for which Group has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

**Investments (Mutual Funds):** The investments consist of Investments in various Mutual Funds. The Group classifies these investment at FVSI as these investments fail SPPI criterion.

## The financial assets categories are as follows:

### 1. Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.



## 2. Financial Asset through Other Comprehensive Income ("FVOCI")

A **debt instrument** is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit income and foreign exchange gains and losses are recognised in consolidated statement of income.

An Equity Instrument; on initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument (i.e. share-by-share) basis.

## 3. Financial Asset at Fair Value through Statement of Income ("FVSI")

All other financial assets are classified as measured at FVSI.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVSI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### Reclassification of financial assets

The Group reclassifies the financial assets between FVSI, FVOCI and amortised cost if and only if under

rare circumstances and if its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

## (2) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Profit Rate "EPR".

All amounts due to banks and other financial institutions and customer deposits are initially recognised at fair value less transaction costs. Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss.

## (3) Derecognition

### Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset (debt instrument), the difference between the carrying amount of the asset (or the carrying amount allocated to the portion

of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI, is recognised in consolidated statement of income.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Any cumulative gain/loss recognised in OCI, among other reserve, in respect of equity investment securities designated as at FVOCI is not recognised in consolidated statement of income on derecognition of such securities. not recognised in the consolidated statement of income on derecognition of such securities. Cumulative gains and losses recognised in OCI in respect of such equity investment securities are transferred to retained earnings on disposal. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

## Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

## (4) Modifications of financial assets and financial liabilities

### Modified financial assets

If the terms of a financial asset are modified, the Group evaluates whether the contractual cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the contractual cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. If such modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as financing income.

### Modified financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in consolidated statement of income.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified

cash flows at the original effective profit rate and the resulting gain or loss is recognised in consolidated statement of income.

## (5) Impairment

### Impairment of financial assets

The loss allowance is based on the Expected Credit Losses ("ECLs") associated with the Probability of Default ("PD") in the next twelve months unless there has been a Significant Increase in Credit Risk ("SICR") since origination. If the financial asset meets the definition of Purchased or Originated Credit Impaired ("POCI"), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted ("EPR"). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVSI:

- Due from banks and other financial institution;
- financial assets that are debt instruments;
- lease receivables;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers Sukuk to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade".

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial assets, for which 12-month ECLs are recognised, are referred to as "Stage 1" financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as "Stage 2 financial assets". Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial assets for which the lifetime ECLs are recognised and that are credit-impaired are referred to as "Stage 3 financial assets".

## Measurement of ECL

ECL are a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than POCI financial assets and lease receivables: the original effective profit rate or an approximation thereof;
- POCI assets: a credit-adjusted effective profit rate;
- lease receivables: the discount rate used in measuring lease receivables.
- undrawn financing commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the financing commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default ("PD"),
- Loss Given Default ("LGD"), and
- Exposure At Default ("EAD").

The above parameters are generally derived from internally developed statistical models and historical data which are adjusted for forward looking information. The Group categorises its financial assets into the following three stages in accordance with IFRS 9 methodology:

- Stage 1: Performing assets;
- Stage 2: Underperforming assets; and
- Stage 3: Credit-impaired assets.

The three stage categories of financial assets are more elaborated in (Note 27-1-a.v)

To evaluate a range of possible outcomes, the Group formulates various scenarios. For each scenario, the Group derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

For how financial assets and ECLs are allocated among the three credit stages, refer to Note (4) for due from banks and financial institutions, (Note 6) for investments and (Note 7) for financing facilities.

## Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the customer, then an assessment is made of whether the financial asset should be derecognised and then ECLs are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows

arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

## Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing facility by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Financing facility that has been renegotiated due to deterioration in the customer's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other

indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired. In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of financing being restructured, resulting in holders suffering losses through voluntary or mandatory financing forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intents, whether there is the capacity to fulfil the required criteria.

## Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECLs are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any

excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- financing commitments and financial guarantee contracts: generally, as a provision;

## Write-off

Financing facilities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

## Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or market securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

## Collateral repossessed

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

## (6) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a financing at a below-market profit rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance; and

The Group has issued no financing commitments that are measured at FVSI. For other financing facility commitments the Group recognises loss allowance.

## (g) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts and profit rate swaps. These derivatives financial instruments are initially



recognised at fair value on the date on which the derivative contract is entered into. These instruments are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. In the ordinary course of business, the Group utilises the following derivative financial instruments for trading purposes:

## (1) Profit rate swaps

Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

## (2) Foreign exchange forwards

Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

## (3) Held for trading derivatives

Most of the Group's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in foreign exchange income for foreign exchange forward contracts and in other income for profit rate swap contracts.

## (h) Revenue recognition

The following specific recognition criteria must be met before revenue is recognised:

### **Income from Mutajara, Murabaha;**

investments held at amortised cost, installment sale and credit cards services is recognised based on the effective profit rate basis on the outstanding balances. The effective profit rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees from banking services are recognised when the service has been provided.

**Financing commitment fees;** that are likely to be drawn down and other facility related fees are deferred (above certain threshold) and, together with the related direct cost, are recognised as an adjustment to the effective profit rate on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

**Fees from banking services;** that are integral to the effective profit rate on a financial asset or financial liability are included in the effective.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

### **Fees received for asset management and brokerage activities;**

wealth Management, financial planning, custody services, capital market trading brokerage

services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided i.e. related performance obligation is satisfied. Asset management fees related to investment funds are recognised over the period the service is being provided. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognised. Wealth management and custody services fees that are continuously recognised over a period of time.

**Dividend income;** is recognised when the right to receive income is established which is generally when the shareholders approve the dividend. Dividends are reflected as a component of net trading income, net income from FVSI financial instruments or other operating income based on the underlying classification of the equity instrument.

**Foreign currency exchange income/loss;** is recognised when earned/incurred.

**Net trading income;** results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

**Net income from FVSI financial instruments;** relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

## Rendering of services

The Group provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services. The Group has concluded that revenue from rendering of various services related to payment service system, share trading

services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognised at the point when services are rendered i.e. when performance obligation is satisfied.

## (i) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). Rental income from other real estate is recognised in the consolidated statement of income.

## (j) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income. The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

## (k) Property and equipment, net

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

Leasehold land improvements over the lesser of the period of the lease or the useful life

Buildings – 33 years

Leasehold building improvements – over the lease period or 3 years, whichever is shorter



Equipment and furniture – 3 to 10 years  
Right of use assets – over the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

Other expenditures are capitalised only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

## (I) Accounting for Ijarah (Leases)

### Right of Use Asset/Lease Liabilities

On initial recognition, at inception of the contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Group and the Group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

### Right of Use Assets

The Group applies a cost model, and measures the right of use of an asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and

2. adjusted for any re-measurement of the lease liability for lease modifications.

### Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. After the commencement date, the Group measures the lease liability by:

1. Increasing the carrying amount to reflect profit on the lease liability; and
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective profit method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

### Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment

The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## (m) Customers' deposits

Customer deposits are financial liabilities that are initially recognised at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortised cost.

## (n) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralised financing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions, as appropriate. The difference between the sale and repurchase price is treated as financing and investment expense and recognised over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as Income from investments and financing

and recognised over the life of the reverse repurchase agreement on an effective profit basis.

## (o) Provisions

Provisions are recognised when the Group has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## (p) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

## (q) Special commission excluded from the consolidated statement of income

In accordance with the Shari'a Authority's resolutions, special commission income (non-Shari'a compliant income) received by the Group is excluded from the determination of financing and investment income of the Group, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charity institutions.

## (r) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

## (s) End of service benefits for employees

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.

## (t) Share-based payments

The Group's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Group which are granted to the employees.

## (u) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

## (v) Foreign Currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Group's functional currency. Each subsidiary determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the consolidated statement of financial position.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profit rate and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Realised and unrealised gains or losses on exchange are credited or charged to the consolidated statement of comprehensive income.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI. The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

## (w) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

## (x) Trade date

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date (i.e. the date on which the Group commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

## (y) Offsetting financial instruments

Financial assets and financial liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts, and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

## (z) Customer loyalty programmes

The Group offers customer loyalty programmes referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognised in other liabilities. The cumulative amount of

the liability related to unredeemed reward points is adjusted over time based on actual redemption experience and current and expected trends with respect to future redemptions.

## (aa) Zakat and taxes

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. ZATCA has prescribed a new methodology for calculation on Zakat of financing activities effective 1 January 2019, where previously the Zakat was treated in the consolidated statement of changes in equity. Due accruals have been made for the obligation as at 31 December 2020. Zakat is not accounted for as an income tax and as such no deferred tax assets and liabilities are calculated relating to Zakat.

### • Value Added tax ("VAT")

The Group is a taxpayer for value added tax as per the Saudi law and its responsibility to collect VAT Output from the customers for qualifying services provided, and makes VAT Input payments to its vendors for qualifying payments. On a monthly basis, the net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalised and either depreciated or amortised as part of the capital cost.

### • Withholding tax

Withholding tax is subject to any payment to non-resident vendors for services rendered and goods purchased with certain criteria and rate according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

## (bb) Investment management services

The Group provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

## (cc) Bank's products definition

The Group provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

### Mutajara financing:

It is a financing agreement whereby the Group purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Group with the sale amount and for the period agreed in the contract.

### Installment sales financing:

It is a financing agreement whereby the Group purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price. Accordingly the client becomes a debtor to the Group with the sale amount to be paid through installments as agreed in the contract.

### Murabaha financing:

It is a financing agreement whereby the Group purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

## 4 - Cash and balances with SAMA and other central banks

Cash and balances with SAMA and other central banks as of 31 December comprise of the following:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Cash in hand  | 5,445,994          | 7,355,940          |
| Statutory deposits  | 28,803,530         | 23,459,540         |
| Balances with SAMA and other central banks (current accounts) | 314,005            | 311,493            |
| Mutajara with SAMA  | 5,799,920          | 16,235,549         |
| <b>Total</b>  | <b>40,363,449</b>  | <b>47,362,522</b>  |

In accordance with the Banking Control Law and regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA and other central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian month.

The above statutory deposits are not available to finance the Group's day-to-day operations and therefore are not considered as part of cash and cash equivalents (Note 24) when preparing the consolidated statement of cash flows.

## 5 - Due from banks and other financial institutions, net

Due from banks and other financial institutions as of 31 December comprise the following:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Current accounts                           | 2,056,541          | 1,259,634          |
| Mutajara                                   | 24,013,126         | 27,399,893         |
| Less: Allowance for expected credit losses | (4,275)            | (4,685)            |
| <b>Total</b>                               | <b>26,065,392</b>  | <b>28,654,842</b>  |

The tables below depict the quality of due from banks and other financial institutions as at 31 December:

## 2021

|  | Gross carrying amount<br>(SAR '000) | Allowance for expected credit loss<br>(SAR '000) | Net carrying amount<br>(SAR '000) |
|--|-------------------------------------|--|-----------------------------------|
| Investment grade (credit rating AAA to BBB)    | 25,575,691                          | (4,275)  | 25,571,416                        |
| Non-investment grade (credit rating BB+ to B-) | 462,716                             | -  | 462,716                           |
| Unrated  | 31,260                              | -  | 31,260                            |
| <b>Total</b>                                   | <b>26,069,667</b>                   | <b>(4,275)</b>                                   | <b>26,065,392</b>                 |

## 2020

|  | Gross carrying amount<br>(SAR '000) | Allowance for expected credit loss<br>(SAR '000) | Net carrying amount<br>(SAR '000) |
|--|-------------------------------------|--|-----------------------------------|
| Investment grade (credit rating AAA to BBB)    | 28,018,478                          | (4,685)  | 28,013,793                        |
| Non-investment grade (credit rating BB+ to B-) | 492,593                             | -  | 492,593                           |
| Unrated  | 148,456                             | -  | 148,456                           |
| <b>Total</b>                                   | <b>28,659,527</b>                   | <b>(4,685)</b>                                   | <b>28,654,842</b>                 |

219

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired and are classified in Stage 1. There were no movements in staging during year.

## 6 - Investments, net

(a) Investments comprise the following as of 31 December:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Investment in an associate:                     | 295,253            | 239,179            |
| Investments held at amortised cost:             |                    |                    |
| Murabaha with Saudi Government and SAMA         | 22,611,987         | 22,904,021         |
| Sukuk   | 46,518,108         | 25,240,452         |
| Structured Products                             | 1,000,000          | 1,000,000          |
| Less: Impairment (Stage 1)                      | (31,824)           | (26,962)           |
| <b>Total investments held at amortized cost</b> | <b>70,098,271</b>  | <b>49,117,511</b>  |
| Investments held as FVSI:                       |                    |                    |
| Mutual funds                                    | 2,650,605          | 2,545,864          |
| Structured products                             | 788,765            | 1,502,525          |
| Sukuk   | 3,745,521          | 2,588,595          |
| <b>Total investments held as FVSI</b>           | <b>7,184,891</b>   | <b>6,636,984</b>   |
| FVOCI investments:                              |                    |                    |
| Equity investments                              | 5,322,369          | 3,687,266          |
| Sukuk   | 1,532,611          | 604,332            |
| <b>Total FVOCI investments</b>                  | <b>6,854,980</b>   | <b>4,291,598</b>   |
| <b>Investments, net</b>                         | <b>84,433,395</b>  | <b>60,285,272</b>  |

The designated FVSI investments included above are designated upon initial recognition as FVSI and are in accordance with the documented risk management strategy of the Group.

All investments held at amortised cost are neither past due nor impaired as of 31 December 2021 and 2020, and are classified in Stage 1. There were no movements in staging during the year.



## Equity investment securities designated as at FVOCI

The Group has designated investment in equity securities designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2021, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

## Investment in an associate

The Group owns 22.5% (31 December 2020: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

**(b) The analysis of the composition of investments as of 31 December is as follows:**

### 2021

|   | Quoted<br>(SAR'000) | Unquoted<br>(SAR'000) | Total<br>(SAR'000) |
|---|---------------------|-----------------------|--------------------|
| Murabaha with Saudi Government and SAMA | -                   | 22,611,987            | 22,611,987         |
| Structured products                     | -                   | 1,788,765             | 1,788,765          |
| Sukuk                                   | 48,022,762          | 3,741,654             | 51,764,416         |
| Equities                                | 5,298,009           | 24,360                | 5,322,369          |
| Investment in associate                 | 295,253             | -                     | 295,253            |
| Mutual funds                            | 2,415,228           | 235,377               | 2,650,605          |
| <b>Total</b>                            | <b>56,031,252</b>   | <b>28,402,143</b>     | <b>84,433,395</b>  |

### 2020

|   | Quoted<br>(SAR'000) | Unquoted<br>(SAR'000) | Total<br>(SAR'000) |
|---|---------------------|-----------------------|--------------------|
| Murabaha with Saudi Government and SAMA | -                   | 22,904,021            | 22,904,021         |
| Structured products                     | -                   | 2,502,525             | 2,502,525          |
| Sukuk                                   | 24,143,625          | 4,262,792             | 28,406,417         |
| Equities                                | 3,662,877           | 24,389                | 3,687,266          |
| Investment in associate                 | 239,179             | -                     | 239,179            |
| Mutual funds                            | 2,291,749           | 254,115               | 2,545,864          |
| <b>Total</b>                            | <b>30,337,430</b>   | <b>29,947,842</b>     | <b>60,285,272</b>  |

221

(c) The analysis of unrecognised gains and losses and fair values of investments as of 31 December are as follows:

## 2021

|   | Net carrying value<br>(SAR'000) | Unrecognised gains<br>(SAR'000) | Unrecognised losses<br>(SAR'000) | Fair value<br>(SAR'000) |
|---|---------------------------------|---------------------------------|----------------------------------|-------------------------|
| Murabaha with Saudi Government and SAMA | 22,611,987                      | 289,012                         | –                                | 22,900,999              |
| Sukuk                                   | 51,764,416                      | 198,991                         | –                                | 51,963,407              |
| Structure product                       | 1,788,765                       | 38,043                          | –                                | 1,826,808               |
| Equities                                | 5,617,622                       | –                               | –                                | 5,617,622               |
| Mutual funds                            | 2,650,605                       | –                               | –                                | 2,650,605               |
| <b>Total</b>                            | <b>84,433,395</b>               | <b>526,046</b>                  | <b>–</b>                         | <b>84,959,441</b>       |

## 222

## 2020

|   | Net carrying value<br>(SAR'000) | Unrecognised gains<br>(SAR'000) | Unrecognised losses<br>(SAR'000) | Fair value<br>(SAR'000) |
|---|---------------------------------|---------------------------------|----------------------------------|-------------------------|
| Murabaha with Saudi Government and SAMA | 22,904,021                      | 322,861                         | –                                | 23,226,882              |
| Sukuk                                   | 28,406,417                      | 915,263                         | –                                | 29,321,680              |
| Structure product                       | 2,502,525                       | 48,310                          | –                                | 2,550,835               |
| Equities                                | 3,926,445                       | –                               | –                                | 3,926,445               |
| Mutual funds                            | 2,545,864                       | –                               | –                                | 2,545,864               |
| <b>Total</b>                            | <b>60,285,272</b>               | <b>1,286,434</b>                | <b>–</b>                         | <b>61,571,706</b>       |

## (d) Credit quality of investments

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Murabaha with Saudi Government and SAMA | 22,611,987         | 22,904,021         |
| Sukuk – Investment grade                | 48,079,053         | 26,404,319         |
| Structured products – Investment grade  | 1,788,765          | 2,502,525          |
| Sukuk – Non-investment grade            | 2,268,569          | 597,098            |
| Sukuk unrated                           | 1,416,794          | 1,405,000          |
| <b>Total</b>                            | <b>76,165,168</b>  | <b>53,812,963</b>  |

Investment Grade includes those investments having credit exposure equivalent to rating of AAA to BBB-. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2021 (31 December 2020: A).

## (e) The following is an analysis of investments according to counterparties as at 31 December:

223

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Government and quasi government        | 67,632,706         | 45,718,805         |
| Banks and other financial institutions | 5,534,286          | 5,091,120          |
| Companies                              | 8,647,622          | 6,956,445          |
| Mutual funds                           | 2,650,605          | 2,545,864          |
| Less: impairment (Stage 1)             | (31,824)           | (26,962)           |
| <b>Net investments</b>                 | <b>84,433,395</b>  | <b>60,285,272</b>  |

(f) The domestic and international allocation of the Group's investments as of 31 December 2021 and 2020 are summarised as follows:

## 2021

|  | Domestic<br>(SAR'000) | International<br>(SAR'000) | Total<br>(SAR'000) |
|--|-----------------------|----------------------------|--------------------|
| Investment in an associate               | 295,253               | –                          | 295,253            |
| Investments held at amortised cost:      |                       |                            |                    |
| Fixed-rate Sukuk                         | 39,364,738            | 4,910,357                  | 44,275,095         |
| Floating-rate Sukuk                      | 24,855,000            | –                          | 24,855,000         |
| Structured products                      | 500,000               | 500,000                    | 1,000,000          |
| Less: impairment (Stage 1)               | (31,824)              | –                          | (31,824)           |
| Total investments held at amortised cost | 64,687,914            | 5,410,357                  | 70,098,271         |
| Investments held as FVSI:                |                       |                            |                    |
| Mutual funds                             | 2,650,605             | –                          | 2,650,605          |
| Structured products                      | 500,000               | 288,770                    | 788,770            |
| Fixed-rate Sukuk                         | 2,013,756             | –                          | 2,013,756          |
| Floating-rate Sukuk                      | 1,731,760             | –                          | 1,731,760          |
| Total investments held as FVSI           | 6,896,121             | 288,770                    | 7,184,891          |
| Investments held as OCI:                 |                       |                            |                    |
| Fixed-rate Sukuk                         | –                     | 1,532,612                  | 1,532,612          |
| Equity investments                       | 5,128,039             | 194,329                    | 5,322,368          |
| Total investments held as OCI            | 5,128,039             | 1,726,941                  | 6,854,980          |
| At 31 December 2021                      | 77,007,328            | 7,426,067                  | 84,433,395         |

2020

|   | Domestic<br>(SAR'000) | International<br>(SAR'000) | Total<br>(SAR'000) |
|---|-----------------------|----------------------------|--------------------|
| <b>Investment in an associate</b>               | 239,179               | –                          | 239,179            |
| <b>Investments held at amortised cost:</b>      |                       |                            |                    |
| Fixed-rate Sukuk                                | 18,707,059            | 4,196,962                  | 22,904,021         |
| Floating-rate Sukuk                             | 25,240,452            | –                          | 25,240,452         |
| Structured products                             | 500,000               | 500,000                    | 1,000,000          |
| Less: impairment (Stage 1)                      | (26,962)              | –                          | (26,962)           |
| <b>Total investments held at amortised cost</b> | 44,420,549            | 4,696,962                  | 49,117,511         |
| <b>Investments held as FVSI:</b>                |                       |                            |                    |
| Mutual funds                                    | 2,545,864             | –                          | 2,545,864          |
| Structured products                             | 500,000               | 1,002,525                  | 1,502,525          |
| Fixed-rate Sukuk                                | 1,133,595             | –                          | 1,133,595          |
| Floating-rate Sukuk                             | 1,455,000             | –                          | 1,455,000          |
| <b>Total investments held as FVSI</b>           | 5,634,459             | 1,002,525                  | 6,636,984          |
| <b>Investments held as OCI:</b>                 |                       |                            |                    |
| Fixed-rate Sukuk                                | –                     | 604,332                    | 604,332            |
| Equity investments                              | 3,580,589             | 106,677                    | 3,687,266          |
| <b>Total investments held as OCI</b>            | 3,580,589             | 711,009                    | 4,291,598          |
| <b>At 31 December 2021</b>                      | 53,874,776            | 6,410,496                  | 60,285,272         |

225

## 7 - Financing, net

### 7.1 Financing

(a) Net financing as of 31 December are held at amortised cost only comprises the following:

#### 2021

|                  | Performing         | Non-performing   | Allowance for impairment | Net financing      |
|------------------|--------------------|------------------|--------------------------|--------------------|
| Mutajara         | 68,203,350         | 1,469,013        | (3,959,756)              | 65,712,607         |
| Installment sale | 370,497,370        | 1,480,870        | (4,978,513)              | 366,999,727        |
| Murabaha         | 16,625,088         | 36,520           | (61,718)                 | 16,599,890         |
| Credit cards     | 3,692,903          | 23,697           | (198,167)                | 3,518,433          |
| <b>Total</b>     | <b>459,018,711</b> | <b>3,010,100</b> | <b>(9,198,154)</b>       | <b>452,830,657</b> |

226

#### 2020

|                  | Performing         | Non-performing   | Allowance for impairment | Net financing      |
|------------------|--------------------|------------------|--------------------------|--------------------|
| Mutajara         | 38,574,292         | 1,652,936        | (2,995,894)              | 37,231,334         |
| Installment sale | 259,150,038        | 728,401          | (4,398,923)              | 255,479,516        |
| Murabaha         | 19,687,898         | 37,929           | (55,734)                 | 19,670,093         |
| Credit cards     | 3,326,115          | 25,848           | (20,805)                 | 3,331,158          |
| <b>Total</b>     | <b>320,738,343</b> | <b>2,445,114</b> | <b>(7,471,356)</b>       | <b>315,712,101</b> |

(b) The net financing by location, inside and outside the Kingdom of Saudi Arabia, as of 31 December is as follows:

## 2021

|                                     | Mutajara<br>(SAR'000) | Installment<br>sale<br>(SAR'000) | Murabaha<br>(SAR'000) | Credit cards<br>(SAR'000) | Total<br>(SAR'000) |
|-------------------------------------|-----------------------|----------------------------------|-----------------------|---------------------------|--------------------|
| Inside the Kingdom of Saudi Arabia  | 68,293,335            | 367,098,242                      | 12,111,030            | 3,709,899                 | 451,212,506        |
| Outside the Kingdom of Saudi Arabia | 1,379,028             | 4,879,998                        | 4,550,578             | 6,701                     | 10,816,305         |
| Gross financing                     | 69,672,363            | 371,978,240                      | 16,661,608            | 3,716,600                 | 462,028,811        |
| Allowance for impairment            | (3,959,756)           | (4,978,513)                      | (61,718)              | (198,167)                 | (9,198,154)        |
| <b>Net financing</b>                | <b>65,712,607</b>     | <b>366,999,727</b>               | <b>16,599,890</b>     | <b>3,518,433</b>          | <b>452,830,657</b> |

227

## 2020

|                                     | Mutajara<br>(SAR'000) | Installment<br>sale<br>(SAR'000) | Murabaha<br>(SAR'000) | Credit cards<br>(SAR'000) | Total<br>(SAR'000) |
|-------------------------------------|-----------------------|----------------------------------|-----------------------|---------------------------|--------------------|
| Inside the Kingdom of Saudi Arabia  | 39,424,015            | 255,124,933                      | 15,399,038            | 3,345,758                 | 313,293,744        |
| Outside the Kingdom of Saudi Arabia | 803,213               | 4,753,506                        | 4,326,789             | 6,205                     | 9,889,713          |
| Gross financing                     | 40,227,228            | 259,878,439                      | 19,725,827            | 3,351,963                 | 323,183,457        |
| Allowance for impairment            | (2,995,894)           | (4,398,923)                      | (55,734)              | (20,805)                  | (7,471,356)        |
| <b>Net financing</b>                | <b>37,231,334</b>     | <b>255,479,516</b>               | <b>19,670,093</b>     | <b>3,331,158</b>          | <b>315,712,101</b> |

(c) The table below depicts the categories of financing as per main business segments at 31 December:

## 2021

|                                | Retail<br>(SAR'000) | Corporate<br>(SAR'000) | Total<br>(SAR'000) |
|--------------------------------|---------------------|------------------------|--------------------|
| Mutajara                       | 2,820,209           | 66,852,154             | 69,672,363         |
| Installment sale               | 364,418,308         | 7,559,932              | 371,978,240        |
| Murabaha                       | -                   | 16,661,608             | 16,661,608         |
| Credit cards                   | 3,712,263           | 4,337                  | 3,716,600          |
| <b>Gross financing</b>         | <b>370,950,780</b>  | <b>91,078,031</b>      | <b>462,028,811</b> |
| Less: Allowance for impairment | (5,201,431)         | (3,996,723)            | (9,198,154)        |
| <b>Financing, net</b>          | <b>365,749,349</b>  | <b>87,081,308</b>      | <b>452,830,657</b> |

228

## 2020

|                                | Retail<br>(SAR'000) | Corporate<br>(SAR'000) | Total<br>(SAR'000) |
|--------------------------------|---------------------|------------------------|--------------------|
| Mutajara                       | 1,202,886           | 39,024,342             | 40,227,228         |
| Installment sale               | 250,470,267         | 9,408,172              | 259,878,439        |
| Murabaha                       | -                   | 19,725,827             | 19,725,827         |
| Credit cards                   | 3,351,963           | -                      | 3,351,963          |
| <b>Gross financing</b>         | <b>255,025,116</b>  | <b>68,158,341</b>      | <b>323,183,457</b> |
| Less: Allowance for impairment | (4,341,561)         | (3,129,795)            | (7,471,356)        |
| <b>Financing, net</b>          | <b>250,683,555</b>  | <b>65,028,546</b>      | <b>315,712,101</b> |



(d) The table below summarises financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

## 2021

|              | Neither past<br>due nor<br>impaired<br>(SAR'000) | Past due<br>but not<br>impaired<br>(SAR'000) | Impaired<br>(SAR'000) | Total<br>(SAR'000) | Allowance<br>for<br>impairment<br>(SAR'000) | Net financing<br>(SAR'000) |
|--------------|--|--|-----------------------|--------------------|---|----------------------------|
| Retail       | 361,318,535                                      | 8,132,148                                    | 1,500,097             | 370,950,780        | (5,201,431)                                 | 365,749,349                |
| Corporate    | 88,335,265                                       | 1,232,763                                    | 1,510,003             | 91,078,031         | (3,996,723)                                 | 87,081,308                 |
| <b>Total</b> | <b>449,653,800</b>                               | <b>9,364,911</b>                             | <b>3,010,100</b>      | <b>462,028,811</b> | <b>(9,198,154)</b>                          | <b>452,830,657</b>         |

## 2020

|              | Neither past<br>due nor<br>impaired<br>(SAR'000) | Past due<br>but not<br>impaired<br>(SAR'000) | Impaired<br>(SAR'000) | Total<br>(SAR'000) | Allowance<br>for<br>impairment<br>(SAR'000) | Net financing<br>(SAR'000) |
|--------------|--|--|-----------------------|--------------------|---|----------------------------|
| Retail       | 249,438,952                                      | 4,831,915                                    | 754,249               | 255,025,116        | (4,341,561)                                 | 250,683,555                |
| Corporate    | 65,880,738                                       | 586,738                                      | 1,690,865             | 68,158,341         | (3,129,795)                                 | 65,028,546                 |
| <b>Total</b> | <b>315,319,690</b>                               | <b>5,418,653</b>                             | <b>2,445,114</b>      | <b>323,183,457</b> | <b>(7,471,356)</b>                          | <b>315,712,101</b>         |

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. 'Neither past due nor impaired' and 'past due but not impaired' comprise total performing financing.

(e) The movements of the three credit quality stages for the gross carrying amount of financing facilities held at amortised cost:

## 2021

|  | 12 month<br>ECL<br>(SAR '000') | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000') | Lifetime<br>ECL credit<br>impaired<br>(SAR '000') | Total<br>(SAR '000') |
|--|--------------------------------|---|---|----------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                                |   |   |                      |
| Balance at 1 January 2021                            | 311,275,457                    | 8,460,233   | 3,447,767   | 323,183,457          |
| Transfer to 12 month ECL                             | 1,538,438                      | (1,534,491)   | (3,947)   | -                    |
| Transfer to Lifetime ECL not<br>credit impaired      | (3,669,318)                    | 3,836,110   | (166,792)   | -                    |
| Transfer to Lifetime ECL credit impaired             | (687,863)                      | (271,691)   | 959,554   | -                    |
| Write-offs   | -                              | -   | (2,075,430)                                       | (2,075,430)          |
| New Business/Movement                                | 139,837,595                    | (932,283)   | 2,015,472   | 140,920,784          |
| <b>Balance as at 31 December 2021</b>                | <b>448,294,309</b>             | <b>9,557,878</b>                                      | <b>4,176,624</b>                                  | <b>462,028,811</b>   |

## 2020

|  | 12 month<br>ECL<br>(SAR '000') | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000') | Lifetime<br>ECL credit<br>impaired<br>(SAR '000') | Total<br>(SAR '000') |
|--|--------------------------------|---|---|----------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                                |   |   |                      |
| Balance at 1 January 2020                            | 244,233,852                    | 9,730,884   | 2,737,665   | 256,702,401          |
| Transfer to 12 month ECL                             | 1,449,420                      | (1,449,420)   | -   | -                    |
| Transfer to Lifetime ECL not<br>credit impaired      | (3,152,174)                    | 3,257,062   | (104,888)   | -                    |
| Transfer to Lifetime ECL credit impaired             | (612,721)                      | (743,353)   | 1,356,074   | -                    |
| Write-offs   | -                              | -   | (2,766,535)                                       | (2,766,535)          |
| New Business/Movement                                | 69,357,080                     | (2,334,940)   | 2,225,451   | 69,247,591           |
| <b>Balance as at 31 December 2020</b>                | <b>311,275,457</b>             | <b>8,460,233</b>                                      | <b>3,447,767</b>                                  | <b>323,183,457</b>   |

Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing financing due to IFRS 9 implementation.

(f) The movements of the three credit quality stages of carrying amount of financing held at amortised cost allocated by:

## 1. Retail segment:

### 2021

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                            |  |  |                     |
| Balance at 1 January 2021                            | 250,650,984                | 2,617,230  | 1,756,902  | 255,025,116         |
| Transfer to 12 month ECL                             | 1,411,781                  | (1,407,834)  | (3,947)  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired      | (2,920,325)                | 3,087,106  | (166,781)  | -                   |
| Transfer to Lifetime ECL credit impaired             | (571,770)                  | (242,959)  | 814,729  | -                   |
| Write-offs   | -                          | -  | (1,778,995)                                      | (1,778,995)         |
| New Business/Movement                                | 115,364,802                | 295,144  | 2,044,713  | 117,704,659         |
| <b>Balance as at 31 December 2021</b>                | <b>363,935,472</b>         | <b>4,348,687</b>                                     | <b>2,666,621</b>                                 | <b>370,950,780</b>  |

### 2020

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                            |  |  |                     |
| Balance at 1 January 2020                            | 186,184,436                | 3,320,473  | 1,050,591  | 190,555,500         |
| Transfer to 12 month ECL                             | 820,807                    | (820,807)  | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired      | (2,018,928)                | 2,123,816  | (104,888)  | -                   |
| Transfer to Lifetime ECL credit impaired             | (422,408)                  | (144,054)  | 566,462  | -                   |
| Write-offs   | -                          | -  | (1,676,297)                                      | (1,676,297)         |
| New Business/Movement                                | 66,087,077                 | (1,862,198)  | 1,921,034  | 66,145,913          |
| <b>Balance as at 31 December 2020</b>                | <b>250,650,984</b>         | <b>2,617,230</b>                                     | <b>1,756,902</b>                                 | <b>255,025,116</b>  |

## 2. Corporate segment:

### 2021

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                            |  |  |                     |
| Balance at 1 January 2021                            | 60,624,473                 | 5,843,003  | 1,690,865  | 68,158,341          |
| Transfer to 12 month ECL                             | 126,657                    | (126,657)  | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired      | (748,993)                  | 749,004  | (11)   | -                   |
| Transfer to Lifetime ECL credit impaired             | (116,093)                  | (28,732)   | 144,825  | -                   |
| Write-offs   | -                          | -  | (296,435)  | (296,435)           |
| New Business/Movement                                | 24,472,793                 | (1,227,427)  | (29,241)   | 23,216,125          |
| <b>Balance as at 31 December 2021</b>                | <b>84,358,837</b>          | <b>5,209,191</b>                                     | <b>1,510,003</b>                                 | <b>91,078,031</b>   |

### 2020

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Financings to customers at<br/>amortised cost</b> |                            |  |  |                     |
| Balance at 1 January 2020                            | 58,049,416                 | 6,410,411  | 1,687,074  | 66,146,901          |
| Transfer to 12 month ECL                             | 628,613                    | (628,613)  | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired      | (1,133,246)                | 1,133,246  | -  | -                   |
| Transfer to Lifetime ECL credit impaired             | (190,313)                  | (599,299)  | 789,612  | -                   |
| Write-offs   | -                          | -  | (1,090,238)                                      | (1,090,238)         |
| New Business/Movement                                | 3,270,003                  | (472,742)  | 304,417  | 3,101,678           |
| <b>Balance as at 31 December 2020</b>                | <b>60,624,473</b>          | <b>5,843,003</b>                                     | <b>1,690,865</b>                                 | <b>68,158,341</b>   |

## 7.2 Allowance for impairment of financing:

(a) The movement in the allowance for impairment of financing for the years ended 31 December is as follows:

### 2021

|   | Retail<br>(SAR'000) | Corporate<br>(SAR'000) | Total<br>(SAR'000) |
|---|---------------------|------------------------|--------------------|
| Balance at beginning of the year        | 4,341,561           | 3,129,795              | 7,471,356          |
| Gross charge for the year               | 2,638,865           | 1,163,363              | 3,802,228          |
| Bad debts written off against provision | (1,778,995)         | (296,435)              | (2,075,430)        |
| <b>Balance at the end of the year</b>   | <b>5,201,431</b>    | <b>3,996,723</b>       | <b>9,198,154</b>   |

### 2020

|   | Retail<br>(SAR'000) | Corporate<br>(SAR'000) | Total<br>(SAR'000) |
|---|---------------------|------------------------|--------------------|
| Balance at beginning of the year        | 3,808,273           | 3,211,323              | 7,019,596          |
| Gross charge for the year               | 2,209,585           | 1,008,710              | 3,218,295          |
| Bad debts written off against provision | (1,676,297)         | (1,090,238)            | (2,766,535)        |
| <b>Balance at the end of the year</b>   | <b>4,341,561</b>    | <b>3,129,795</b>       | <b>7,471,356</b>   |

(b) The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financing at amortised cost:

## 2021

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2021                        | 2,944,807                  | 2,030,356  | 2,496,193  | 7,471,356           |
| Transfer to 12 month ECL                         | 314,742                    | (312,458)  | (2,284)  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (79,419)                   | 174,580  | (95,161)   | -                   |
| Transfer to Lifetime ECL credit impaired         | (47,348)                   | (126,873)  | 174,221  | -                   |
| Charge for the year                              | 580,193                    | 560,809  | 2,661,226  | 3,802,228           |
| Write-offs                                       | -                          | -  | (2,075,430)                                      | (2,075,430)         |
| <b>Balance as at 31 December 2021</b>            | <b>3,712,975</b>           | <b>2,326,414</b>                                     | <b>3,158,765</b>                                 | <b>9,198,154</b>    |

## 2020

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2020                        | 2,228,200                  | 2,948,959  | 1,842,437  | 7,019,596           |
| Transfer to 12 month ECL                         | 256,884                    | (256,884)  | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (65,311)                   | 118,509  | (53,198)   | -                   |
| Transfer to Lifetime ECL credit impaired         | (15,472)                   | (247,994)  | 263,466  | -                   |
| Charge for the year                              | 540,506                    | (532,234)  | 3,210,023  | 3,218,295           |
| Write-offs                                       | -                          | -  | (2,766,535)                                      | (2,766,535)         |
| <b>Balance as at 31 December 2020</b>            | <b>2,944,807</b>           | <b>2,030,356</b>                                     | <b>2,496,193</b>                                 | <b>7,471,356</b>    |

(c) The ECL movements of the three credit quality stages of financing held at amortised cost of:

## 1. Allocated by retail segment:

### 2021

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2021                        | 2,388,807                  | 839,120  | 1,113,634  | 4,341,561           |
| Transfer to 12 month ECL                         | 299,724                    | (297,440)  | (2,284)  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (75,477)                   | 170,631  | (95,154)   | -                   |
| Transfer to Lifetime ECL credit impaired         | (24,201)                   | (120,776)  | 144,977  | -                   |
| Charge for the year                              | (287,270)                  | 425,837  | 2,500,298  | 2,638,865           |
| Write-offs                                       | -                          | -  | (1,778,995)                                      | (1,778,995)         |
| <b>Balance as at 31 December 2021</b>            | <b>2,301,583</b>           | <b>1,017,372</b>                                     | <b>1,882,476</b>                                 | <b>5,201,431</b>    |

### 2020

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2020                        | 1,632,206                  | 1,662,188  | 513,879  | 3,808,273           |
| Transfer to 12 month ECL                         | 206,493                    | (206,493)  | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (53,588)                   | 106,625  | (53,037)   | -                   |
| Transfer to Lifetime ECL credit impaired         | (10,890)                   | (60,716)   | 71,606   | -                   |
| Charge for the year                              | 614,586                    | (662,484)  | 2,257,483  | 2,209,585           |
| Write-offs                                       | -                          | -  | (1,676,297)                                      | (1,676,297)         |
| <b>Balance as at 31 December 2020</b>            | <b>2,388,807</b>           | <b>839,120</b>                                       | <b>1,113,634</b>                                 | <b>4,341,561</b>    |

235

## 2. Allocated by corporate segment:

### 2021

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2021                        | 556,000                    | 1,191,236  | 1,382,559  | 3,129,795           |
| Transfer to 12 month ECL                         | 15,018                     | (15,018)   | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (3,942)                    | 3,949  | (7)  | -                   |
| Transfer to Lifetime ECL credit impaired         | (23,147)                   | (6,097)  | 29,244   | -                   |
| Charge for the year                              | 867,463                    | 134,972  | 160,928  | 1,163,363           |
| Write-offs                                       | -                          | -  | (296,435)  | (296,435)           |
| <b>Balance as at 31 December 2021</b>            | <b>1,411,392</b>           | <b>1,309,042</b>                                     | <b>1,276,289</b>                                 | <b>3,996,723</b>    |

### 2020

|  | 12 month ECL<br>(SAR '000) | Lifetime ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|--|----------------------------|--|--|---------------------|
| <b>Allowance for impairment<br/>of financing</b> |                            |  |  |                     |
| Balance at 1 January 2020                        | 595,994                    | 1,286,771  | 1,328,558  | 3,211,323           |
| Transfer to 12 month ECL                         | 50,391                     | (50,391)   | -  | -                   |
| Transfer to Lifetime ECL not<br>credit impaired  | (11,723)                   | 11,884   | (161)  | -                   |
| Transfer to Lifetime ECL credit impaired         | (4,582)                    | (187,278)  | 191,860  | -                   |
| Charge for the year                              | (74,080)                   | 130,250  | 952,540  | 1,008,710           |
| Write-offs                                       | -                          | -  | (1,090,238)                                      | (1,090,238)         |
| <b>Balance as at 31 December 2020</b>            | <b>556,000</b>             | <b>1,191,236</b>                                     | <b>1,382,559</b>                                 | <b>3,129,795</b>    |



## 7.3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Provided for the year for on balance sheet  | 3,806,679          | 3,218,295          |
| Provided for the year for off balance sheet | (134,984)          | 200,130            |
| Recovery of written off financing, net      | (1,326,609)        | (1,252,685)        |
| Allowance for financing impairment, net     | 2,345,086          | 2,165,740          |

## 7.4 Installment sale under financing includes finance lease receivables, which are as follows:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Gross receivables from finance leases            | 27,020,295         | 24,042,741         |
| Less than 1 year                                 | 6,286              | 1,313,474          |
| 1 to 5 years                                     | 17,532,469         | 15,397,354         |
| Over 5 years                                     | 9,481,540          | 7,331,913          |
|  | 27,020,295         | 24,042,741         |
| Unearned future finance income on finance leases | (3,404,832)        | (3,226,606)        |
| Expect credit loss from finance leases           | (444,532)          | (291,584)          |
| <b>Net receivables from finance leases</b>       | <b>23,170,931</b>  | <b>20,524,551</b>  |

## 8 - Property and equipment, net

Property and equipment, net comprises the following as of 31 December:

|                                 | Land<br>(SAR '000) | Buildings<br>(SAR '000) | Leasehold<br>land and<br>buildings<br>improvements<br>(SAR '000) | Equipment<br>and<br>furniture<br>(SAR '000) | Right-of-<br>use<br>assets<br>(SAR '000) | Total<br>(SAR '000) |
|---------------------------------|--------------------|-------------------------|--|---|--|---------------------|
| <b>Cost</b>                     |                    |                         |  |   |  |                     |
| At 1 January 2020               | 2,337,885          | 6,213,799               | 1,333,461  | 5,303,941                                   | 1,530,099                                | 16,719,185          |
| Additions                       | 27,675             | 6,964                   | 259,571  | 630,849                                     | 20,627                                   | 945,686             |
| Disposals                       | (14,588)           | (38,884)                | –  | (45,287)                                    | –  | (98,759)            |
| <b>At 31 December 2020</b>      | <b>2,350,972</b>   | <b>6,181,879</b>        | <b>1,593,032</b>   | <b>5,889,503</b>                            | <b>1,550,726</b>                         | <b>17,566,112</b>   |
| Additions                       | 106,569            | 137,327                 | 46,358   | 2,093,072                                   | 3,159                                    | 2,386,485           |
| Disposals                       | (20,768)           | (126,856)               | –  | (1,154,444)                                 | –  | (1,302,068)         |
| <b>At 31 December 2021</b>      | <b>2,436,773</b>   | <b>6,192,350</b>        | <b>1,639,390</b>   | <b>6,828,131</b>                            | <b>1,553,885</b>                         | <b>18,650,529</b>   |
| <b>Accumulated Depreciation</b> |                    |                         |  |   |  |                     |
| As at 1 January 2020            | –                  | 858,023                 | 996,846  | 4,217,232                                   | 239,837                                  | 6,311,938           |
| Charge for the year             | –                  | 137,154                 | 102,203  | 628,072                                     | 212,742                                  | 1,080,171           |
| Disposals                       | –                  | (31,984)                | –  | (28,797)                                    | –  | (60,781)            |
| <b>At 31 December 2020</b>      | <b>–</b>           | <b>963,193</b>          | <b>1,099,049</b>   | <b>4,816,507</b>                            | <b>452,579</b>                           | <b>7,331,328</b>    |
| Charge for the year             | –                  | 135,205                 | 61   | 770,055                                     | 210,959                                  | 1,116,280           |
| Disposals                       | –                  | (1,044)                 | –  | (461,834)                                   | –  | (462,878)           |
| <b>At 31 December 2021</b>      | <b>–</b>           | <b>1,097,354</b>        | <b>1,099,110</b>   | <b>5,124,728</b>                            | <b>663,538</b>                           | <b>7,984,730</b>    |
| <b>Net Book Value</b>           |                    |                         |  |   |  |                     |
| <b>At 31 December 2021</b>      | <b>2,436,773</b>   | <b>5,094,996</b>        | <b>540,280</b>   | <b>1,703,402</b>                            | <b>890,348</b>                           | <b>10,665,799</b>   |
| <b>At 31 December 2020</b>      | <b>2,350,972</b>   | <b>5,218,686</b>        | <b>493,983</b>   | <b>1,072,996</b>                            | <b>1,098,147</b>                         | <b>10,234,785</b>   |

Buildings include work-in-progress amounting to SAR 271 Mn. as at 31 December 2021 (2020: SAR 225 Mn.), and technology-related assets include work-in-progress amounting to SAR 419 Mn. as of December 2021 (2020: SAR 595 Mn.).

Equipment and furniture includes information technology-related assets as follows:

|                                 | Tangible<br>(SAR '000) | Intangible<br>(SAR '000) | Total<br>(SAR '000) |
|---------------------------------|------------------------|--------------------------|---------------------|
| <b>2021</b>                     |                        |                          |                     |
| <b>Cost</b>                     |                        |                          |                     |
| At 31 December 2020             | 1,810,725              | 102,614                  | 1,913,339           |
| Additions                       | 857,511                | 7,008                    | 864,519             |
| Disposals                       | (12,641)               | –                        | (12,641)            |
| <b>At 31 December 2021</b>      | <b>2,655,595</b>       | <b>109,622</b>           | <b>2,765,217</b>    |
| <b>Accumulated depreciation</b> |                        |                          |                     |
| At 31 December 2020             | 1,157,364              | 14,687                   | 1,172,051           |
| Charge for the year             | 232,500                | 45,965                   | 298,465             |
| Disposals                       | (12,430)               | –                        | (12,430)            |
| <b>At 31 December 2021</b>      | <b>1,377,434</b>       | <b>60,652</b>            | <b>1,438,086</b>    |
| <b>Net book value</b>           |                        |                          |                     |
| <b>At 31 December 2021</b>      | <b>1,278,161</b>       | <b>48,970</b>            | <b>1,327,131</b>    |
| At 31 December 2020             | 653,361                | 87,927                   | 741,288             |

239

## 9 - Investment properties, net

The net book value of the investment properties approximates the fair value.

Investment properties, net comprises the following as of 31 December:

|                                 | Land    | Buildings | Total     |
|---------------------------------|---------|-----------|-----------|
| <b>Cost</b>                     |         |           |           |
| Balance at 1 January 2020       | 894,423 | 559,503   | 1,453,926 |
| Additions                       | –       | 195,339   | 195,339   |
| At 31 December 2020             | 894,423 | 754,842   | 1,649,265 |
| Additions                       | –       | 1,452     | 1,452     |
| Disposals                       | –       | (105,542) | (105,542) |
| At 31 December 2021             | 894,423 | 650,752   | 1,545,175 |
| <b>Accumulated depreciation</b> |         |           |           |
| Balance at 1 January 2020       | –       | 70,077    | 70,077    |
| Charge for the year             | –       | 37,977    | 37,977    |
| At 31 December 2020             | –       | 108,054   | 108,054   |
| Charge for the year             | –       | 25,652    | 25,652    |
| At 31 December 2021             | –       | 133,706   | 133,706   |
| <b>Net book value</b>           |         |           |           |
| At 31 December 2021             | 894,423 | 517,046   | 1,411,469 |
| At 31 December 2020             | 894,423 | 646,788   | 1,541,211 |

## 10 - Other assets, net

Other assets, net comprise the following as of 31 December:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Receivables, net                          | 2,961,252          | 1,613,343          |
| Prepaid expenses                          | 462,550            | 218,304            |
| Assets in transit subject to financing    | 2,716,492          | 1,332,565          |
| Accrued income                            | 367,345            | 276,169            |
| Cheques under collection                  | 374,668            | 413,397            |
| Advance payments                          | 235,453            | 262,475            |
| Other real estate                         | 28,023             | 73,411             |
| Non-current assets (assets held-for-sale) | 102,991            | -                  |
| Others, net                               | 652,980            | 844,326            |
| <b>Total</b>                              | <b>7,901,754</b>   | <b>5,033,990</b>   |

241

## 11 - Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following as of 31 December:

|                         | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|-------------------------|--------------------|--------------------|
| Current accounts        | 1,749,131          | 448,288            |
| Banks' time investments | 16,203,009         | 10,315,773         |
| <b>Total</b>            | <b>17,952,140</b>  | <b>10,764,061</b>  |

In order to offset the modification losses that the Group is expected to incur in deferring payments under the Private Sector Financing Support Programme as disclosed in Note 39, the Group has received, during years ended 31 December 2020 and 2021, certain profit free deposits of SAR 2.97 Bn. with an original maturity of 3 years and SAR 674 Mn. with an original maturity of 1.5 years, some of these deposits' tenures were subsequently extended by SAMA. The Group has received SAR 5.2 Bn. for 1 year that has matured during Q2 2021, and SAR 3.5 Bn. with an original maturity of 3 months that has matured during Q3 2021. In September 2021, the Group has received SAR 4 Bn. with a maturity of 3 years. Please refer to Note 39 for further details.

## 12 - Customers' deposits

Customers' deposits by type comprise the following as of 31 December:

|                             | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|-----------------------------|--------------------|--------------------|
| Demand deposits             | 374,725,352        | 332,918,203        |
| Customers' time investments | 130,293,061        | 43,017,282         |
| Other customer accounts     | 7,053,800          | 6,695,518          |
| <b>Total</b>                | <b>512,072,213</b> | <b>382,631,003</b> |

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers. All Customers' time investments are subject to Murabaha contracts and therefore are non-interest.

Customers' deposits by currency comprise the following as of 31 December:

|                      | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|----------------------|--------------------|--------------------|
| Saudi Arabian Riyals | 475,448,079        | 365,253,514        |
| Foreign currencies   | 36,624,134         | 17,377,489         |
| <b>Total</b>         | <b>512,072,213</b> | <b>382,631,003</b> |

242

## 13 - Other liabilities

Other liabilities comprise the following as of 31 December:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Accounts payable  | 5,400,941          | 4,317,852          |
| Employees' end of service benefits liabilities (Note 25)                                | 1,198,261          | 1,176,075          |
| Accrued expenses  | 2,266,988          | 1,554,957          |
| Special commission income excluded from the consolidated financial statements (Note 32) | 29,771             | 8,885              |
| Zakat payable (Note 37)   | 3,424,929          | 3,812,601          |
| Lease liability   | 927,764            | 1,128,141          |
| Loss allowance on financial commitments and financial guarantees                        | 415,591            | 550,575            |
| Payable to Developers   | 4,890,003          | -                  |
| Other   | 7,784,463          | 4,762,055          |
| <b>Total</b>  | <b>26,338,711</b>  | <b>17,311,141</b>  |

The loss allowance on financial commitments and financial guarantees are further depicted in Commitments and Contingencies [Note 16. (D)].

## 14 - Share capital

The authorised, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each as of 31 December 2021 (31 December 2020: 2,500 million shares of SAR 10 each).

## 15 - Statutory and other reserves

The Banking Control Law in Saudi Arabia and the By-Laws of the Group require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan reserve.

The movements in FVOCI investments, foreign currency reserves, and employee share plan reserve are summarised as follows:

| 2021  | FVOCI<br>investments<br>(SAR '000) | Foreign<br>currency<br>translation<br>(SAR '000) | Employee<br>share plan<br>reserve<br>(SAR '000) | Re-measurement<br>of employees'<br>end of service<br>benefits<br>(SAR '000) | Share in<br>OCI from<br>associate<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------------|--|---|---|---|---------------------|
| Balance at beginning<br>of the year                                     | 173,278                            | (113,881)  | 37,110  | (231,235)   | -   | (134,728)           |
| Net change in<br>fair value   | 399,339                            | -  | -   | -   | -   | 399,339             |
| Exchange difference<br>on translation of<br>foreign operations          | -                                  | (21,316)   | -   | -   | -   | (21,316)            |
| Re-measurement of<br>employees' end of<br>service benefits<br>(Note 25) | -                                  | -  | -   | 42,055  | -   | 42,055              |
| Share in OCI<br>from associate  | -                                  | -  | -   | -   | 24,044  | 24,044              |
| <b>Balance at the end<br/>of the year</b>                               | <b>572,617</b>                     | <b>(135,197)</b>                                 | <b>37,110</b>                                   | <b>(189,180)</b>  | <b>24,044</b>                                   | <b>309,394</b>      |

243

| 2020  | FVOCI<br>investments<br>(SAR '000) | Foreign<br>currency<br>translation<br>(SAR '000) | Employee<br>share plan<br>reserve<br>(SAR '000) | Re-measurement<br>of employees'<br>end of service<br>benefits<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------------|--|---|---|---------------------|
| Balance at beginning of the year                                  | (80,944)                           | (120,577)  | 37,110  | (51,630)  | (216,041)           |
| Net change in fair value  | 254,222                            | -  | -   | -   | 254,222             |
| Exchange difference on translation<br>of foreign operations       | -                                  | 6,696  | -   | -   | 6,696               |
| Re-measurement of employees'<br>end of service benefits (Note 25) | -                                  | -  | -   | (179,605)   | (179,605)           |
| <b>Balance at the end of the year</b>                             | <b>173,278</b>                     | <b>(113,881)</b>                                 | <b>37,110</b>                                   | <b>(231,235)</b>  | <b>(134,728)</b>    |

## 16 - Commitments and contingencies

### (A) Legal proceedings

As at 31 December 2021, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Group's legal advisors.

The Bank was named as one of many defendants in certain lawsuits initiated in the US commencing in 2002. The Bank was successful in defending the claims, all of which were finally dismissed by the relevant courts. With respect to new lawsuits commencing in 2016, however, the most recent dismissal was reversed by the court of appeals to permit limited jurisdictional discovery, which commenced in 2021. The Bank's management believes that the claims will be defended successfully, although note that there are inherent uncertainties in litigation.

### (B) Capital commitments

As at 31 December 2021, the Group had capital commitments of SAR 458 Mn. (2020: SAR 540 Mn.) relating to contracts

for computer software update and development, and SAR 193 Mn. (2020: SAR 238 Mn.) relating to building new workstations, and development and improvement of new and existing branches.

### (C) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Group to pay bills of exchange drawn



on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Group does not expect the third party to necessarily draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisation to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to

commitments to extend unused credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

**1. The contractual maturities of the Group's commitments and contingent liabilities are as follows:**

| 2021  | Less than<br>3 months<br>(SAR '000) | From 3 to 12<br>months<br>(SAR '000) | From 1 to 5<br>years<br>(SAR '000) | Over 5 years<br>(SAR '000) | Total<br>(SAR '000) |
|---|-------------------------------------|--------------------------------------|------------------------------------|----------------------------|---------------------|
| Letters of credit                           | 2,147,992                           | 2,733,885                            | 331,344                            | -                          | 5,213,221           |
| Letters of guarantee                        | 1,415,796                           | 4,599,305                            | 1,388,832                          | 327,643                    | 7,731,576           |
| Acceptances                                 | 583,808                             | 273,752                              | -                                  | -                          | 857,560             |
| Irrevocable commitments<br>to extend credit | 1,540,867                           | 8,390,296                            | 1,306,996                          | 46,713                     | 11,284,872          |
| <b>Total</b>                                | <b>5,688,463</b>                    | <b>15,997,238</b>                    | <b>3,027,172</b>                   | <b>374,356</b>             | <b>25,087,229</b>   |

| 2020  | Less than<br>3 months<br>(SAR '000) | From 3 to 12<br>months<br>(SAR '000) | From 1 to 5<br>years<br>(SAR '000) | Over 5 years<br>(SAR '000) | Total<br>(SAR '000) |
|---|-------------------------------------|--------------------------------------|------------------------------------|----------------------------|---------------------|
| Letters of credit                           | 1,729,492                           | 545,033                              | 104,908                            | -                          | 2,379,433           |
| Letters of guarantee                        | 760,935                             | 3,310,309                            | 1,171,463                          | 200,481                    | 5,443,188           |
| Acceptances                                 | 305,577                             | 365,191                              | -                                  | -                          | 670,768             |
| Irrevocable commitments<br>to extend credit | 3,880,062                           | 6,265,899                            | 516,740                            | -                          | 10,662,701          |
| <b>Total</b>                                | <b>6,676,066</b>                    | <b>10,486,432</b>                    | <b>1,793,111</b>                   | <b>200,481</b>             | <b>19,156,090</b>   |

## (D) Contingent commitments that may result in credit exposure

The table below shows the gross carrying amount and ECL allowance of the financing commitments and financial guarantees.

| 2021   | Letter of credits<br>(SAR '000) | Acceptances<br>(SAR '000) | Letter of guarantees<br>(SAR '000) | Irrevocable commitments to extend credit<br>(SAR '000) | Total<br>(SAR '000) |
|--|---------------------------------|---------------------------|------------------------------------|--|---------------------|
| <b>Gross carrying amount</b>   |                                 |                           |                                    |  |                     |
| Stage 1 – (12-months ECL)  | 5,186,457                       | 856,792                   | 7,006,356                          | 11,065,878   | 24,115,483          |
| Stage 2 – (lifetime ECL not credit impaired)                                       | 24,328                          | 768                       | 356,166                            | 210,608  | 591,870             |
| Stage 3 – (lifetime ECL for credit impaired)                                       | 2,436                           | –                         | 369,054                            | 8,386  | 379,876             |
| <b>Total outstanding balance at end of the year</b>                                | <b>5,213,221</b>                | <b>857,560</b>            | <b>7,731,576</b>                   | <b>11,284,872</b>                                      | <b>25,087,229</b>   |
| <b>Credit loss allowance of the financing commitments and financial guarantees</b> |                                 |                           |                                    |  |                     |
| Stage 1 – (12-months ECL)  | 61,532                          | 821                       | 13,780                             | 6,982  | 83,115              |
| Stage 2 – (lifetime ECL not credit impaired)                                       | 103                             | 39                        | 2,727                              | 2,043  | 4,912               |
| Stage 3 – (lifetime ECL for credit impaired)                                       | 2,436                           | –                         | 319,577                            | 5,551  | 327,564             |
| <b>Total</b>   | <b>64,071</b>                   | <b>860</b>                | <b>336,084</b>                     | <b>14,576</b>  | <b>415,591</b>      |

| 2020   | Letter of credits<br>(SAR '000) | Acceptances<br>(SAR '000) | Letter of guarantees<br>(SAR '000) | Irrevocable commitments to extend credit<br>(SAR '000) | Total<br>(SAR '000) |
|--|---------------------------------|---------------------------|------------------------------------|--|---------------------|
| <b>Gross carrying amount</b>   |                                 |                           |                                    |  |                     |
| Stage 1 – (12-months ECL)  | 2,341,991                       | 660,394                   | 4,329,805                          | 10,392,221   | 17,724,411          |
| Stage 2 – (lifetime ECL not credit impaired)                                       | 33,933                          | 10,374                    | 570,077                            | 255,090  | 869,474             |
| Stage 3 – (lifetime ECL for credit impaired)                                       | 3,509                           | –                         | 543,306                            | 15,390   | 562,205             |
| <b>Total</b>   | <b>2,379,433</b>                | <b>670,768</b>            | <b>5,443,188</b>                   | <b>10,662,701</b>                                      | <b>19,156,090</b>   |
| <b>Credit loss allowance of the financing commitments and financial guarantees</b> |                                 |                           |                                    |  |                     |
| Stage 1 – (12-months ECL)  | 15,460                          | 1,414                     | 19,695                             | 7,789  | 44,357              |
| Stage 2 – (lifetime ECL not credit impaired)                                       | 63                              | 112                       | 3,177                              | 3,905  | 7,257               |
| Stage 3 – (lifetime ECL for credit impaired)                                       | 3,509                           | –                         | 489,917                            | 5,534  | 498,960             |
| <b>Total</b>   | <b>19,032</b>                   | <b>1,526</b>              | <b>512,789</b>                     | <b>17,228</b>  | <b>550,575</b>      |

247

## 2. The analysis of commitments and contingencies by counter-party is as follows:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Corporates                             | 23,381,445         | 18,318,019         |
| Banks and other financial institutions | 1,705,784          | 838,071            |
| <b>Total</b>                           | <b>25,087,229</b>  | <b>19,156,090</b>  |

## 17 - Net financing and investment income

Net financing and investment income for the years ended 31 December comprises the following:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| <b>Financing</b>   |                    |                    |
| Corporate Mutajara   | 2,263,820          | 1,629,182          |
| Installment sale   | 15,806,344         | 12,819,648         |
| Murabaha   | 686,398            | 802,882            |
| <b>Investments and other</b>   |                    |                    |
| Murabaha with SAMA   | 1,167,653          | 970,595            |
| Mutajara with banks  | 1,230,388          | 980,343            |
| Income from sukuk  | 286,903            | 175,313            |
| <b>Gross financing and investment income</b>                                 | <b>21,441,506</b>  | <b>17,377,963</b>  |
| Return on customers' time investments  | (803,888)          | (354,193)          |
| Return on due to banks and<br>financial institutions' time investments       | (245,682)          | (110,753)          |
| Return on customers', banks' and<br>financial institutions' time investments | (1,049,570)        | (464,946)          |
| <b>Net financing and investment income</b>                                   | <b>20,391,936</b>  | <b>16,913,017</b>  |

## 18 - Fee from banking services, net

Fee from banking services, net for the years ended 31 December comprise the following:

|                                       | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---------------------------------------|--------------------|--------------------|
| <b>Fee income:</b>                    |                    |                    |
| Drafts and remittances                | 258,878            | 270,434            |
| Credit cards                          | 515,992            | 416,816            |
| Other electronic channel related      | 1,514,817          | 1,218,272          |
| Brokerage and asset management, net   | 803,484            | 672,193            |
| Others                                | 1,376,306          | 702,423            |
| <b>Total fee income</b>               | <b>4,469,477</b>   | <b>3,280,138</b>   |
| <b>Fee expenses:</b>                  |                    |                    |
| ATM Interchange related               | (536,370)          | (620,458)          |
| <b>Fee from banking services, net</b> | <b>3,933,107</b>   | <b>2,659,680</b>   |

249

## 19 - Other operating income, net

Other operating income for the years ended 31 December comprises the following:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Dividend income                             | 169,602            | 94,445             |
| Gain on sale of property and equipment, net | 47,511             | 10,256             |
| Rental income from investment properties    | 94,693             | 96,134             |
| Share in profit of an associate             | 32,030             | 42,944             |
| Gain/(loss) on investments held as FVSI     | (37,897)           | 33,441             |
| Loss on sale of other real estate           | -                  | (2,251)            |
| Other income, net                           | 297,518            | 89,700             |
| <b>Total</b>                                | <b>603,457</b>     | <b>364,669</b>     |

## 20 - Salaries and employees' related benefits

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

| 2021  | Number<br>of employees | Fixed and<br>variable<br>compensation | Variable<br>compensations paid |                      |
|---|------------------------|---------------------------------------|--------------------------------|----------------------|
|   |                        |                                       | Cash<br>(SAR '000)             | Shares<br>(SAR '000) |
| Executives                                  | 23                     | 40,790                                | 20,926                         | 42,322               |
| Employees engaged in risk taking activities | 2,077                  | 568,126                               | 161,216                        | 22,242               |
| Employees engaged in control functions      | 610                    | 178,878                               | 27,190                         | 19,241               |
| Other employees                             | 12,368                 | 1,789,839                             | 385,506                        | 34,675               |
| <b>Total</b>                                | <b>15,078</b>          | <b>2,577,633</b>                      | <b>594,838</b>                 | <b>118,480</b>       |
| Accrued compensations in 2021               | -                      | 231,087                               | -                              | -                    |
| Other employees' costs                      | -                      | 323,626                               | -                              | -                    |
| <b>Gross total</b>                          | <b>15,078</b>          | <b>3,132,346</b>                      | <b>594,838</b>                 | <b>118,480</b>       |

| 2020  | Number<br>of employees | Fixed and<br>variable<br>compensation | Variable<br>compensations paid |                      |
|---|------------------------|---------------------------------------|--------------------------------|----------------------|
|   |                        |                                       | Cash<br>(SAR '000)             | Shares<br>(SAR '000) |
| Executives                                  | 22                     | 40,552                                | 20,591                         | 45,954               |
| Employees engaged in risk taking activities | 1,684                  | 509,487                               | 131,639                        | 20,312               |
| Employees engaged in control functions      | 412                    | 155,859                               | 25,969                         | 21,608               |
| Other employees                             | 11,598                 | 1,826,261                             | 274,757                        | 28,022               |
| <b>Total</b>                                | <b>13,716</b>          | <b>2,532,159</b>                      | <b>452,956</b>                 | <b>115,896</b>       |
| Accrued compensations in 2020               | -                      | 188,652                               | -                              | -                    |
| Other employees' costs                      | -                      | 256,533                               | -                              | -                    |
| <b>Gross total</b>                          | <b>13,716</b>          | <b>2,977,344</b>                      | <b>452,956</b>                 | <b>115,896</b>       |

Salaries and employees' related benefits include end of services, General Organisation for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulator for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Group issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Group and its subsidiary companies (local and international) that are operating in the financial services sector. Accordingly it includes all official

employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Group has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowances and benefits which is related to the employees' ranks. The variable compensation is related to the employees' performance and their compatibility to achieve the agreed-on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Group's net income.

251

## 21 - Other general and administrative expenses

Other general and administrative expenses for the years ended 31 December comprises the following:

|                                       | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---------------------------------------|--------------------|--------------------|
| Communications and utilities expenses | 638,822            | 628,591            |
| Maintenance and security expenses     | 424,722            | 547,520            |
| Cash feeding and transfer expenses    | 261,042            | 338,404            |
| Software and IT support expenses      | 315,836            | 351,348            |
| Other operational expenses            | 1,011,822          | 780,546            |
| <b>Total</b>                          | <b>2,652,244</b>   | <b>2,646,409</b>   |

## 22 - Earnings per share

Earnings per share for the years ended 31 December 2021 and 2020 have been calculated by dividing the net income for the year by 2,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

The Board of Directors proposed on 28 February 2021, distribution of final dividends to shareholders for the year ended 31 December 2020, amounting to SAR 2,500 Mn., being SAR 1 per share. The proposed final dividends for 2020 was approved by the Annual General Assembly in its meeting held on 29 March 2021. These dividends were subsequently paid on 6 April 2021.

## 23 - Paid dividends

The Board of Directors of Al Rajhi Bank approved on 29 June 2021 to distribute cash dividends to the shareholders for the first half of 2021, amounting to SAR 3,500 Mn., being SAR 1.40 per share. These dividends were subsequently paid on 14 July 2021.

The Board of Directors proposed on 2 February 2020, distribution of final dividends to shareholders for the year ended 31 December 2019, amounting to SAR 3,750 Mn., being SAR 1.5 per share. The proposed final dividends for 2019 was approved by the Annual General Assembly in its meeting held on 29 March 2020. These dividends were subsequently paid on 6 April 2020.

252

## 24 - Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Cash in hand   | 5,445,994          | 7,355,940          |
| Due from banks and other financial institutions maturing within 90 days from the date of purchased | 10,680,328         | 8,924,379          |
| Balances with SAMA and other central banks (current accounts)                                      | 314,005            | 311,493            |
| Mutajara with SAMA   | 5,799,920          | 16,235,549         |
| <b>Total</b>   | <b>22,240,247</b>  | <b>32,827,361</b>  |



## 25 - Employees' end of service benefits liabilities

### 25.1 General description

The Group operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under the projected unit credit method, while the benefit payments liabilities are discharged as and when they fall due.

### 25.2 The amounts recognised in the consolidated statement of financial position and movement in the liabilities during the year based on its present value are as follows:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| Employees' end of service benefits liabilities at the beginning of the year | 1,176,075          | 980,304            |
| Current service cost  | 146,375            | 86,355             |
| Financing cost  | 33,264             | 38,041             |
| Benefits paid   | (115,398)          | (108,230)          |
| Re-measurement (gain)/loss  | (42,055)           | 179,605            |
| Employees' end of service benefits liabilities at the end of the year       | 1,198,261          | 1,176,075          |

253

### 25.3 Charge for the year

|                      | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|----------------------|--------------------|--------------------|
| Current service cost | 146,375            | 86,355             |
| Past service cost    | -                  | -                  |
|                      | 146,375            | 86,355             |

### 25.4 Re-measurement recognised in other comprehensive income

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| (Gain)/loss from change in experience assumptions  | 6,528              | (10,911)           |
| (Gain)/loss from change in demographic assumptions |                    | 532                |
| (Gain)/loss from change in financial assumptions   | (48,583)           | 189,984            |
|  | (42,055)           | 179,605            |

## 25.5 Principal actuarial assumptions (in respect of the employee benefit scheme)

|                                  | 2021  | 2020  |
|----------------------------------|---|---|
| Discount rate                    | 3.05%   | 2.75%   |
| Expected rate of salary increase | 2.5% for FY 2022 and 3% thereafter                      | 2.6% for FY 2021 and 2022 and 3% thereafter             |
| Normal retirement age            | 60 years for male employees and 55 for female employees | 60 years for male employees and 55 for female employees |

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

## 25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December 2021 to the discount rate 3.05% (31 December 2020: 2.75%), salary increase rate 2.5% (31 December 2020: 2.6%), withdrawal assumptions and mortality rates:

| 2021                             | Impact on defined benefit obligation - Increase/(Decrease) |                                   |                                   |
|----------------------------------|--|-----------------------------------|-----------------------------------|
| Base scenario                    | Change in assumption                                       | Increase in assumption (SAR '000) | Decrease in assumption (SAR '000) |
| Discount rate                    | +/- 100 basis points                                       | (119,306)                         | 140,910                           |
| Expected rate of salary increase | +/- 100 basis points                                       | 139,572                           | (120,486)                         |
| Normal retirement age            | Increase or decrease by 20%                                | (9,825)                           | 10,113                            |

| 2020                             | Impact on defined benefit obligation - Increase/(Decrease) |                                   |                                   |
|----------------------------------|--|-----------------------------------|-----------------------------------|
| Base scenario                    | Change in assumption                                       | Increase in assumption (SAR '000) | Decrease in assumption (SAR '000) |
| Discount rate                    | +/- 100 basis points                                       | (120,862)                         | 143,318                           |
| Expected rate of salary increase | +/- 100 basis points                                       | 141,537                           | (121,755)                         |
| Normal retirement age            | Increase or decrease by 20%                                | (14,148)                          | 15,024                            |

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

## 25.7 Expected maturity

Expected maturity analysis of undiscounted employees' end of service benefits liabilities is as follows:

| As at 31 December | Discounted liability | Less than a year | 1-2 years     | 2-5 years      | Over 5 years     | Total            |
|-------------------|----------------------|------------------|---------------|----------------|------------------|------------------|
| <b>2021</b>       | <b>1,198,261</b>     | <b>89,324</b>    | <b>93,492</b> | <b>332,743</b> | <b>2,994,291</b> | <b>3,509,850</b> |
| 2020              | 1,176,075            | 82,333           | 91,365        | 307,844        | 2,894,768        | 3,376,310        |

The weighted average duration of the employees' end of service benefits liabilities is 12.7 years (2020: 13 years).

## 26 - Operating segments

The Group identifies operating segments on the basis of internal reports about the activities of the Group that are regularly reviewed by the chief operating decision-maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Group is organised into the following four main businesses segments:

|  |   |
|--|---|
| <b>Retail segment:</b>                             | Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.        |
| <b>Corporate segment:</b>                          | Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).                                     |
| <b>Treasury segment:</b>                           | Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.                                  |
| <b>Investment services and brokerage segments:</b> | Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios. |

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Group's assets and liabilities.

255

(a) The Group's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

| 2021  | Retail segment<br>(SAR '000) | Corporate segment<br>(SAR '000) | Treasury segment<br>(SAR '000) | Investment services and brokerage segment<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------|---------------------------------|--------------------------------|---|---------------------|
| <b>Total assets</b>   | 418,026,653                  | 88,031,046                      | 112,692,243                    | 4,921,973   | 623,671,915         |
| <b>Total liabilities</b>  | 319,610,568                  | 207,506,186                     | 29,156,964                     | 89,346  | 556,363,064         |
| Gross financing and investment income from external customers             | 16,060,249                   | 3,199,791                       | 2,106,498                      | 74,968  | 21,441,506          |
| Inter-segment operating income/(expense)                                  | (4,549,247)                  | (63,795)                        | 4,613,042                      | -   | -                   |
| <b>Gross financing and investment income</b>                              | 11,511,002                   | 3,135,996                       | 6,719,540                      | 74,968  | 21,441,506          |
| Return on customers', banks' and financial institutions' time investments | (158,337)                    | (695,687)                       | (195,546)                      | -   | (1,049,570)         |
| <b>Net financing and investment income</b>                                | 11,352,665                   | 2,440,309                       | 6,523,994                      | 74,968  | 20,391,936          |
| Fees from banking services, net   | 2,103,700                    | 973,970                         | 59,677                         | 795,760   | 3,933,107           |
| Exchange income, net  | 413,470                      | 106,067                         | 268,361                        | -   | 787,898             |
| Other operating income, net   | 136,870                      | -                               | 363,179                        | 103,408   | 603,457             |
| <b>Total operating income</b>   | 14,006,705                   | 3,520,346                       | 7,215,211                      | 974,136   | 25,716,398          |
| Depreciation and amortisation   | (1,057,504)                  | (49,832)                        | (23,609)                       | (10,987)  | (1,141,932)         |
| Impairment charge for financing and other financial assets, net           | (1,785,410)                  | (566,292)                       | 6,616                          | -   | (2,345,086)         |
| Other operating expenses  | (4,974,437)                  | (487,561)                       | (161,191)                      | (161,401)   | (5,784,590)         |
| <b>Total operating expenses</b>   | (7,817,351)                  | (1,103,685)                     | (178,184)                      | (172,388)   | (9,271,608)         |
| <b>Income before zakat</b>  | 6,189,354                    | 2,416,661                       | 7,037,027                      | 801,748   | 16,444,790          |

| 2020  | Retail segment<br>(SAR '000) | Corporate segment<br>(SAR '000) | Treasury segment<br>(SAR '000) | Investment services and brokerage segment<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------|---------------------------------|--------------------------------|---|---------------------|
| <b>Total assets</b>   | 268,108,818                  | 66,837,086                      | 129,950,664                    | 3,928,155   | 468,824,723         |
| <b>Total liabilities</b>  | 289,583,836                  | 108,514,833                     | 12,442,931                     | 164,605   | 410,706,205         |
| Gross financing and investment income from external customers             | 12,663,067                   | 2,605,516                       | 2,061,630                      | 47,750  | 17,377,963          |
| Inter-segment operating income/(expense)                                  | (1,151,244)                  | (123,040)                       | 1,274,284                      | –   | –                   |
| <b>Gross financing and investment income</b>                              | 11,511,823                   | 2,482,476                       | 3,335,914                      | 47,750  | 17,377,963          |
| Return on customers', banks' and financial institutions' time investments | (177,283)                    | (150,387)                       | (137,276)                      | –   | (464,946)           |
| <b>Net financing and investment income</b>                                | 11,334,540                   | 2,332,089                       | 3,198,638                      | 47,750  | 16,913,017          |
| Fees from banking services, net   | 1,650,305                    | 289,794                         | 47,388                         | 672,193   | 2,659,680           |
| Exchange income, net  | 372,289                      | 109,020                         | 302,585                        | –   | 783,894             |
| Other operating income, net   | 99,409                       | 4                               | 179,830                        | 85,426  | 364,669             |
| <b>Total operating income</b>   | 13,456,543                   | 2,730,907                       | 3,728,441                      | 805,369   | 20,721,260          |
| Depreciation and amortisation   | (1,046,483)                  | (41,570)                        | (22,802)                       | (7,293)   | (1,118,148)         |
| Impairment charge for financing and other financial assets, net           | (1,152,042)                  | (1,014,526)                     | 828                            | –   | (2,165,740)         |
| Other operating expenses  | (5,006,796)                  | (284,449)                       | (181,974)                      | (150,534)   | (5,623,753)         |
| <b>Total operating expenses</b>   | (7,205,321)                  | (1,340,545)                     | (203,948)                      | (157,827)   | (8,907,641)         |
| <b>Income before zakat</b>  | 6,251,222                    | 1,390,362                       | 3,524,493                      | 647,542   | 11,813,619          |

(b) The Group's credit exposure by business segments as of 31 December is as follows:

| 2021   | Retail segment | Corporate segment | Treasury segment | Investment services and brokerage segment | Total       |
|--|----------------|-------------------|------------------|---|-------------|
|  | (SAR '000)     | (SAR '000)        | (SAR '000)       | (SAR '000)                                | (SAR '000)  |
| Consolidated balance sheet assets  | 365,749,349    | 87,081,308        | 102,230,559      | 2,961,252                                 | 558,022,469 |
| Commitments and contingencies excluding irrevocable commitments to extend credit | -              | 13,802,357        | -                | -   | 13,802,357  |
| 2020   | Retail segment | Corporate segment | Treasury segment | Investment services and brokerage segment | Total       |
|  | (SAR '000)     | (SAR '000)        | (SAR '000)       | (SAR '000)                                | (SAR '000)  |
| Consolidated balance sheet assets  | 250,683,555    | 65,028,546        | 82,467,805       | 1,613,343                                 | 399,793,249 |
| Commitments and contingencies excluding irrevocable commitments to extend credit | -              | 8,493,389         | -                | -   | 8,493,389   |

258

## 27 - Financial risk management

The Group's activities are exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies, procedures and systems are designed to identify and analyse these risks and to set

appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close cooperation with the Group's operating units. The most important types of risks identified by the Group are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

## 27.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG, which sets parameters and thresholds for the Group's financing activities.

### (a) Credit risk measurement

#### (i) Financing

The Group has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Group's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Group considers the overall credit worthiness of the customer based on a proprietary risk methodology.

This risk rating methodology utilises a 10-point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

#### (ii) Credit risk grades

For corporate exposures, the Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the customer or in its business activities.

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its customers analysed by segment as well as by credit risk grading.

259

## (iii) Generating the term structure of PD

The Group employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD term structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, customer and financing specific information collected at the time of application, repayment behaviour etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customers with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Group formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

Bank has a master rating scale in place that comprises of 22 risk rating grades in total which is further split into 19 performing grades and 3 non-performing grades. Each of these 19 performing risk rating grades has a probability of default range assigned to it along with a mid-point PD. The probability of default for performing portfolio ranges from a minimum of 0% up to a maximum of 99% depending on the risk grades. The 12 month probability of default (PD) for on and off-balance sheet financing exposures in grades 1 to 6 and unrated exposures range from 0% to 8%. For 12 month PD for

watch list exposures ranges from 8% to 99%, For the three non performing grades, the probability of default (PD) assigned is 100%.

### Risk Rating 1

Exceptional – Obligors of unquestioned credit standing at the pinnacle of credit quality.

### Risk Rating 2

Excellent – Obligors of the highest quality, presently and prospectively. Virtually no risk in financing to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

### Risk Rating 3

Superior – Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

### Risk Rating 4

Good – Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

### Risk Rating 5

Satisfactory – These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the customers have sufficient strength and financial flexibility to offset these issues.



## Risk Rating 6

Adequate – Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk, such customers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present customer performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc.

## Risk Rating 7

Very high risk – Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment programme, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

## Risk Rating 8

Substandard – Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

## Risk Rating 9

Doubtful – Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable.

Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

## Risk Rating 10

Loss – Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

### (iv) ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

For Corporate portfolio, the Group's assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Group's assessment is based on counterparty. Significant increase in credit risk assessment for retail financing is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Group considers all investment grade Sukuk issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

## (v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs, delinquency status of accounts, expert credit judgement, and where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and/or using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and

- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Group classifies its financial instruments into stage 1, stage 2, and stage 3, based on the applied impairment methodology, as described below:

**Stage 1:** for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as stage 1.

**Stage 2:** for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorised in this stage based on the actual/expected behavioural maturity profile including restructuring or re-scheduling of facilities.

**Stage 3:** for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

## (vi) Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing with terms have been modified may be de-recognised and the re-negotiated finance recognised as a new financing at fair value in accordance with the accounting policy.

The Group re-negotiates finances to customers in financial difficulties (referred to as "forbearance activities" to maximise collection opportunities and minimise the risk of default. Under the Group's

forbearance policy, finance forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both retail and corporate financing are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

## (vii) Definition of "Default"

The Group considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Group.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a customer is in default. The Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and

- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for the Group for regulatory purposes.

## (viii) Incorporation of forward-looking information

The Group considers macroeconomic forecasts for next five years (consistent with forecasts available from public sources), beyond which the long-term average macroeconomic conditions prevail. The forward-looking PD curve would account for the changing expectation of macroeconomic environment over time. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Central Bank (SAMA) are used for making the base case forecast. For other scenarios (namely upturn and downturn), adjustments are made to base case forecasts based standard deviation of the macroeconomic factors.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has in place suite of macroeconomic models pertaining to specific portfolios that are used to incorporate the forward-looking information. The Group chose to adopt a macroeconomic regression-based approach to determine the link function between historical default rates (up to 10 years) and prevalent macroeconomic condition. Key factors used across different macroeconomic models being: Change in Oil price, Government net lending and Investments as percentage of GDP, Current Account Balance, Gross National Savings and Government Revenue.

The Group has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

| Economic indicators                                 | Forecast calendar years used in 2021 ECL model |       |       |
|---|--|-------|-------|
|   | 2022   | 2023  | 2024  |
| Yearly Growth in Oil Price                          | -5.9%  | -3.8% | -2.1% |
| General Government Net Lending (% of GDP)           | -2.5%  | -2.0% | -1.4% |
| Investment (% of GDP)                               | 28.4%  | 28.5% | 28.3% |
| Current Account Balance to GDP                      | 1.9%   | 0.5%  | -0.2% |
| Crude Oil Production Average Daily (million barrel) | 9.8  | 10    | 10.1  |
| Gross National Savings to GDP (YoY) Growth          | -1.0%  | -4.3% | -2.9% |
| General Government Revenue (% of GDP)               | 28.9%  | 28.9% | 28.9% |

The table below shows the change in economic indicators to the ECL computed under three different scenarios used by the Group:

| 31 December 2021            | Due from Bank and other financial institutions (SAR '000) | Investment (SAR '000) | Financing (SAR '000) | Off-balance sheet items (SAR '000) | Total (SAR '000) |
|-----------------------------|---|-----------------------|----------------------|------------------------------------|------------------|
| Most likely (Base case)     | 4,275   | 31,824                | 9,198,154            | 415,591                            | 9,649,844        |
| More optimistic (Upside)    | 2,892   | 21,069                | 8,314,379            | 404,118                            | 8,742,458        |
| More pessimistic (Downside) | 5,633   | 42,382                | 9,984,351            | 441,607                            | 10,473,973       |

## (ix) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

- (i) Probability of Default (PD);
- (ii) Loss given Default (LGD);
- (iii) Exposure at Default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

For Corporate and Retail portfolio, Bank uses internal LGD models to arrive at the LGD estimates.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

## (x) Credit quality analysis

The following table sets out information about the credit quality of financings measured at amortised cost as at 31 December:

265

| 2021  | 12 month ECL<br>(SAR '000) | Life time ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|---|----------------------------|---|--|---------------------|
| <b>Carrying amount distribution by Grades</b> |                            |   |  |                     |
| Grade 1-3/(Aaa – A3)                          | 10,983,194                 | –   | –  | 10,983,194          |
| Grade (4-6)/(Baa1 – B3)                       | 73,375,643                 | 2,358,621   | –  | 75,734,264          |
| Grade 7 – Watch list/(Caa1 – C)               | –                          | 2,850,570   | –  | 2,850,570           |
| Non-performing                                | –                          | –   | 1,510,003  | 1,510,003           |
| Total Corporate performing and non-performing | 84,358,837                 | 5,209,191   | 1,510,003  | 91,078,031          |
| Total Retail (un-rated)                       | 363,935,472                | 4,348,687   | 2,666,621  | 370,950,780         |
| <b>Total Carrying amount</b>                  | <b>448,294,309</b>         | <b>9,557,878</b>                                      | <b>4,176,624</b>                                 | <b>462,028,811</b>  |

| 2020  | 12 month ECL<br>(SAR '000) | Life time ECL<br>not credit<br>impaired<br>(SAR '000) | Lifetime<br>ECL credit<br>impaired<br>(SAR '000) | Total<br>(SAR '000) |
|---|----------------------------|---|--|---------------------|
| <b>Carrying amount distribution by Grades</b> |                            |   |  |                     |
| Grade 1-3/(Aaa – A3)                          | 10,218,303                 | –   | –  | 10,218,303          |
| Grade (4-6)/(Baa1 – B3)                       | 50,406,170                 | 3,176,554   | –  | 53,582,724          |
| Grade 7 – Watch list/(Caa1 – C)               | –                          | 2,666,449   | –  | 2,666,449           |
| Non-performing                                | –                          | –   | 1,690,865  | 1,690,865           |
| Total Corporate performing and non-performing | 60,624,473                 | 5,843,003   | 1,690,865  | 68,158,341          |
| Total Retail (un-rated)                       | 250,650,984                | 2,617,230   | 1,756,902  | 255,025,116         |
| <b>Total Carrying amount</b>                  | <b>311,275,457</b>         | <b>8,460,233</b>                                      | <b>3,447,767</b>                                 | <b>323,183,457</b>  |

266

## (xi) Financings

A. The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

| 2021<br>Description                               | Performing<br>(SAR '000) | Non-<br>performing<br>(SAR '000) | Allowance for<br>impairment<br>(SAR '000) | Net financing<br>(SAR '000) |
|---|--------------------------|----------------------------------|---|-----------------------------|
| Commercial  | 32,288,030               | 544,141                          | (427,931)                                 | 32,404,240                  |
| Industrial  | 32,577,200               | 137,392                          | (104,470)                                 | 32,610,122                  |
| Building and construction                         | 3,329,919                | 709,105                          | (668,271)                                 | 3,370,753                   |
| Consumer  | 369,450,684              | 1,500,097                        | (1,163,714)                               | 369,787,067                 |
| Services  | 17,747,557               | 114,092                          | (71,307)                                  | 17,790,342                  |
| Agriculture and fishing                           | 474,037                  | 133                              | (99)                                      | 474,071                     |
| Others  | 3,151,284                | 5,140                            | (4,211)                                   | 3,152,213                   |
| <b>Total</b>                                      | <b>459,018,711</b>       | <b>3,010,100</b>                 | <b>(2,440,003)</b>                        | <b>459,588,808</b>          |
| 12 month and life time ECL<br>not credit impaired | –                        | –                                | (6,758,151)                               | (6,758,151)                 |
| <b>Balance</b>                                    | <b>459,018,711</b>       | <b>3,010,100</b>                 | <b>(9,198,154)</b>                        | <b>452,830,657</b>          |

| 2020<br>Description                               | Performing<br>(SAR '000) | Non-<br>performing<br>(SAR '000) | Allowance for<br>impairment<br>(SAR '000) | Net financing<br>(SAR '000) |
|---|--------------------------|----------------------------------|---|-----------------------------|
| Commercial  | 20,831,819               | 654,288                          | (527,116)                                 | 20,958,991                  |
| Industrial  | 27,896,009               | 229,237                          | (138,592)                                 | 27,986,654                  |
| Building and construction                         | 1,396,185                | 636,587                          | (604,646)                                 | 1,428,126                   |
| Consumer  | 254,270,868              | 754,249                          | (642,253)                                 | 254,382,864                 |
| Services  | 13,936,713               | 170,055                          | (105,083)                                 | 14,001,685                  |
| Agriculture and fishing                           | 539,561                  | -                                | -   | 539,561                     |
| Others  | 1,867,188                | 698                              | (7,122)                                   | 1,860,764                   |
| <b>Total</b>                                      | <b>320,738,343</b>       | <b>2,445,114</b>                 | <b>(2,024,812)</b>                        | <b>321,158,645</b>          |
| 12 month and life time ECL<br>not credit impaired | -                        | -                                | (5,446,544)                               | (5,446,544)                 |
| <b>Balance</b>                                    | <b>320,738,343</b>       | <b>2,445,114</b>                 | <b>(7,471,356)</b>                        | <b>315,712,101</b>          |

267

**B.** The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

| 2021                            | Retail<br>(SAR '000) | Corporate<br>(SAR '000) | Total<br>(SAR '000) |
|---------------------------------|----------------------|-------------------------|---------------------|
| Individually impaired financing | 1,500,097            | 1,510,003               | 3,010,100           |
| Fair value of collateral        | 925,297              | 135,352                 | 1,060,649           |

| 2020                            | Retail<br>(SAR '000) | Corporate<br>(SAR '000) | Total<br>(SAR '000) |
|---------------------------------|----------------------|-------------------------|---------------------|
| Individually impaired financing | 754,249              | 1,690,865               | 2,445,114           |
| Fair value of collateral        | 573,602              | 453,208                 | 1,026,810           |

- C. The table below stratifies the banks in the ordinary course of financing activities hold collaterals as security to mitigate credit risk in the financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other fixed assets. The collaterals are held mainly against commercial and consumer financings and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting year, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. The outstanding credit impaired financing facility balances, that are covered by collateral, as of December 31 is as follows:

|                       | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|-----------------------|--------------------|--------------------|
| Less than 50%         | 26,830             | 21,799             |
| 51-70%                | 107,023            | 87,603             |
| More than 70%         | 581,717            | 328,547            |
| <b>Total exposure</b> | <b>715,570</b>     | <b>437,949</b>     |

268

## (B) Settlement risk

The Group is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Group pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

## (C) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision-making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The following business units within the Group assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.



The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Group manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

## (C.1) Collateral

The Group implements guidelines on the level and quality of specific classes of collateral. The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralised share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Group.

Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

## (D) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| <b>On-balance sheet items</b>                          |                    |                    |
| <b>Investments, net:</b>                               |                    |                    |
| Murabaha with Saudi Government and SAMA                | 22,611,987         | 22,904,021         |
| Sukuk  | 51,764,416         | 28,406,417         |
| Structured Products                                    | 1,788,765          | 2,502,525          |
| <b>Due from banks and other financial institutions</b> | <b>26,065,392</b>  | <b>28,654,842</b>  |
| <b>Financing, net</b>                                  |                    |                    |
| Corporate  | 87,081,308         | 65,028,546         |
| Retail   | 365,749,349        | 250,683,555        |
| <b>Other financial assets</b>                          |                    |                    |
| Receivables, net                                       | 2,961,252          | 1,613,343          |
| <b>Total on-balance sheet items</b>                    | <b>558,022,469</b> | <b>399,793,249</b> |
| <b>Off-balance sheet items:</b>                        |                    |                    |
| Letters of credit and acceptances                      | 6,070,781          | 3,050,200          |
| Letters of guarantee                                   | 7,731,576          | 5,443,189          |
| Irrevocable commitments to extend credit               | 11,284,872         | 10,662,701         |
| <b>Total off-balance sheet items</b>                   | <b>25,087,229</b>  | <b>19,156,090</b>  |
| <b>Maximum exposure to credit risk</b>                 | <b>583,109,698</b> | <b>418,949,339</b> |

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

## 27.2 Liquidity risks

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfil financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Group help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

### Liquidity risk management process

The Group's liquidity management process is as monitored by the Group's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analysing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury/ALCO also monitors the level and type of undrawn financing commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Group's liquidity position.

The tables below summarises the maturity profile of the Group's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Group maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Group maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Group has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans:

| 2021   | Less than<br>3 months<br>(SAR '000) | 3 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | No fixed<br>maturity<br>(SAR '000) | Total<br>(SAR '000) |
|--|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|------------------------------------|---------------------|
| <b>Assets</b>  |                                     |                                 |                               |                               |                                    |                     |
| Cash and balance<br>with SAMA and other<br>central banks | 5,799,920                           | -                               | -                             | -                             | 34,563,529                         | 40,363,449          |
| Due from banks<br>and other financial<br>institutions    | 10,680,328                          | 8,531,326                       | 4,797,197                     | -                             | 2,056,541                          | 26,065,392          |
| <b>Financing, net</b>                                    |                                     |                                 |                               |                               |                                    |                     |
| Mutajara   | 18,781,527                          | 19,227,767                      | 20,892,884                    | 6,810,429                     | -                                  | 65,712,607          |
| Instalment sale  | 16,206,795                          | 38,917,960                      | 161,495,958                   | 150,379,014                   | -                                  | 366,999,727         |
| Murabaha   | 1,104,177                           | 2,409,123                       | 6,384,504                     | 6,702,086                     | -                                  | 16,599,890          |
| Credit cards   | 1,452,961                           | 881,980                         | 1,172,832                     | 10,660                        | -                                  | 3,518,433           |
| <b>Investments, net</b>                                  |                                     |                                 |                               |                               |                                    |                     |
| Investment in an<br>associate                            | -                                   | -                               | -                             | -                             | 295,253                            | 295,253             |
| Investments held<br>at amortised cost                    | -                                   | 1,459,651                       | 32,470,004                    | 36,168,616                    | -                                  | 70,098,271          |
| FVSI investments   | -                                   | -                               | 1,706,145                     | 2,828,141                     | 2,650,605                          | 7,184,891           |
| FVOCI investments  | 488,205                             | -                               | 259,039                       | 785,367                       | 5,322,369                          | 6,854,980           |
| Other assets, net  | -                                   | -                               | -                             | -                             | 19,979,022                         | 19,979,022          |
| <b>Total</b>   | <b>54,513,913</b>                   | <b>71,427,807</b>               | <b>229,178,563</b>            | <b>203,684,313</b>            | <b>64,867,319</b>                  | <b>623,671,915</b>  |
| <b>Liabilities</b>                                       |                                     |                                 |                               |                               |                                    |                     |
| Due to banks and<br>other financial<br>institutions      | 7,805,606                           | 2,698,866                       | 5,698,537                     | -                             | 1,749,131                          | 17,952,140          |
| Demand deposits  | -                                   | -                               | -                             | -                             | 374,725,352                        | 374,725,352         |
| Customers' time<br>investments                           | 72,910,255                          | 53,893,319                      | 3,469,487                     | 20,000                        | -                                  | 130,293,061         |
| Other customer<br>accounts                               | 1,854,045                           | 2,354,454                       | 2,845,301                     | -                             | -                                  | 7,053,800           |
| Other liabilities  | -                                   | -                               | -                             | -                             | 26,338,711                         | 26,338,711          |
| <b>Total Liabilities</b>                                 | <b>82,569,906</b>                   | <b>58,946,639</b>               | <b>12,013,325</b>             | <b>20,000</b>                 | <b>402,813,194</b>                 | <b>556,363,064</b>  |
| <b>Gap</b>   | <b>(28,055,993)</b>                 | <b>12,481,168</b>               | <b>217,165,238</b>            | <b>203,664,313</b>            | <b>(337,945,875)</b>               | <b>67,308,851</b>   |

| 2020   | Less than<br>3 months<br>(SAR '000) | 3 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | No fixed<br>maturity<br>(SAR '000) | Total<br>(SAR '000) |
|--|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|------------------------------------|---------------------|
| <b>Assets</b>                                      |                                     |                                 |                               |                               |                                    |                     |
| Cash and balance with SAMA and other central banks | 16,235,549                          | -                               | -                             | -                             | 31,126,973                         | 47,362,522          |
| Due from banks and other financial institutions    | 8,924,380                           | 6,519,752                       | 11,951,076                    | -                             | 1,259,634                          | 28,654,842          |
| <b>Financing, net</b>                              |                                     |                                 |                               |                               |                                    |                     |
| Mutajara   | 14,385,991                          | 9,205,279                       | 11,161,268                    | 2,478,796                     | -                                  | 37,231,334          |
| Instalment sale                                    | 14,550,254                          | 31,842,841                      | 115,670,114                   | 93,416,307                    | -                                  | 255,479,516         |
| Murabaha   | 1,233,638                           | 2,760,214                       | 4,281,018                     | 11,395,223                    | -                                  | 19,670,093          |
| Credit cards                                       | 1,409,529                           | 823,202                         | 1,096,299                     | 2,128                         | -                                  | 3,331,158           |
| <b>Investments, net</b>                            |                                     |                                 |                               |                               |                                    |                     |
| Investment in an associate                         | -                                   | -                               | -                             | -                             | 239,179                            | 239,179             |
| Investments held at amortised cost                 | 488,781                             | -                               | 18,408,177                    | 30,220,553                    | -                                  | 49,117,511          |
| FVSI investments                                   | -                                   | -                               | 1,502,525                     | 2,588,595                     | 2,545,864                          | 6,636,984           |
| FVOCI investments                                  | 103,743                             | 48,043                          | 75,495                        | 377,051                       | 3,687,266                          | 4,291,598           |
| Other assets, net                                  | -                                   | -                               | -                             | -                             | 16,809,986                         | 16,809,986          |
| <b>Total</b>                                       | <b>57,331,865</b>                   | <b>51,199,331</b>               | <b>164,145,972</b>            | <b>140,478,653</b>            | <b>55,668,902</b>                  | <b>468,824,723</b>  |
| <b>Liabilities</b>                                 |                                     |                                 |                               |                               |                                    |                     |
| Due to banks and other financial institutions      | 1,208,109                           | 5,459,613                       | 3,648,051                     | -                             | 448,288                            | 10,764,061          |
| Demand deposits                                    | -                                   | -                               | -                             | -                             | 332,918,203                        | 332,918,203         |
| Customers' time investments                        | 29,729,360                          | 13,278,009                      | 9,913                         | -                             | -                                  | 43,017,282          |
| Other customer accounts                            | -                                   | -                               | -                             | -                             | 6,695,518                          | 6,695,518           |
| Other liabilities                                  | -                                   | -                               | -                             | -                             | 17,311,141                         | 17,311,141          |
| <b>Total</b>                                       | <b>30,937,469</b>                   | <b>18,737,622</b>               | <b>3,657,964</b>              | <b>-</b>                      | <b>357,373,150</b>                 | <b>410,706,205</b>  |
| <b>Gap</b>   | <b>26,394,396</b>                   | <b>32,461,709</b>               | <b>160,488,008</b>            | <b>140,478,653</b>            | <b>(301,704,248)</b>               | <b>58,118,518</b>   |

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

| 2021  | Less than<br>3 months<br>(SAR '000) | 3 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | No fixed<br>maturity<br>(SAR '000) | Total<br>(SAR '000) |
|---|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|------------------------------------|---------------------|
| Due to banks and other financial institutions | 9,554,737                           | 2,698,866                       | 5,698,537                     | -                             | -                                  | 17,952,140          |
| Customer deposits                             | 74,764,300                          | 56,247,773                      | 6,314,788                     | 20,000                        | 374,725,352                        | 512,072,213         |
| Other liabilities                             | -                                   | -                               | -                             | -                             | 26,338,711                         | 26,338,711          |
| <b>Total</b>                                  | <b>84,319,037</b>                   | <b>58,946,639</b>               | <b>12,013,325</b>             | <b>20,000</b>                 | <b>401,064,063</b>                 | <b>556,363,064</b>  |

The cumulative maturities of commitments and contingencies are given in Note 16.c.1 of the consolidated financial statements.

| 2020  | Less than<br>3 months<br>(SAR '000) | 3 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | No fixed<br>maturity<br>(SAR '000) | Total<br>(SAR '000) |
|---|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|------------------------------------|---------------------|
| Due to banks and other financial institutions | 1,208,109                           | 5,459,613                       | 3,648,051                     | -                             | 448,288                            | 10,764,061          |
| Customers' deposits                           | 29,729,360                          | 13,278,009                      | 9,913                         | -                             | 339,613,721                        | 382,631,003         |
| Other liabilities                             | -                                   | -                               | -                             | -                             | 17,311,141                         | 17,311,141          |
| <b>Total</b>                                  | <b>30,937,469</b>                   | <b>18,737,622</b>               | <b>3,657,964</b>              | <b>-</b>                      | <b>357,373,150</b>                 | <b>410,706,205</b>  |

The cumulative maturities of commitments and contingencies are given in Note 16.c.1 of the consolidated financial statements.

## 27.3 Market risks

The Group is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of

market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury/Credit and Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

## (A) Market risks – speculative operations

The Group is not exposed to market risks from speculative operations. The Group is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

## (B) Market risks – banking operations

### Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit-bearing liabilities are at fixed rates and are carried in the financial statements at amortised cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

Profit rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits for stipulated periods. The Group monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021 and 2020. All the banking book exposures are monitored and analysed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

275

| 2021<br>Currency | Increase in<br>basis points | Sensitivity of gross financing and investment income |                      |                      |                      |
|------------------|-----------------------------|--|----------------------|----------------------|----------------------|
|                  |                             | As at 31 December<br>(SAR Mn.)                       | Average<br>(SAR Mn.) | Maximum<br>(SAR Mn.) | Minimum<br>(SAR Mn.) |
| SAR              | +25                         | 325  | 306                  | 325                  | 283                  |

| 2021<br>Currency | Decrease in<br>basis points | Sensitivity of gross financing and investment income |                      |                      |                      |
|------------------|-----------------------------|--|----------------------|----------------------|----------------------|
|                  |                             | As at 31 December<br>(SAR Mn.)                       | Average<br>(SAR Mn.) | Maximum<br>(SAR Mn.) | Minimum<br>(SAR Mn.) |
| SAR              | -25                         | (325)  | (306)                | (325)                | (283)                |

| 2020<br>Currency | Increase in<br>basis points | Sensitivity of gross financing and investment income |                      |                      |                      |
|------------------|-----------------------------|--|----------------------|----------------------|----------------------|
|                  |                             | As at 31 December<br>(SAR Mn.)                       | Average<br>(SAR Mn.) | Maximum<br>(SAR Mn.) | Minimum<br>(SAR Mn.) |
| SAR              | +25                         | 255  | 244                  | 255                  | 229                  |

| 2020<br>Currency | Decrease in<br>basis points | Sensitivity of gross financing and investment income |                      |                      |                      |
|------------------|-----------------------------|--|----------------------|----------------------|----------------------|
|                  |                             | As at 31 December<br>(SAR Mn.)                       | Average<br>(SAR Mn.) | Maximum<br>(SAR Mn.) | Minimum<br>(SAR Mn.) |
| SAR              | -25                         | (255)  | (244)                | (255)                | (229)                |

Profit rate movements affect reported consolidated shareholders' equity through retained earnings, i.e. increases or decreases in financing and investment income.

276

## Commission sensitivity of assets, liabilities and off-balance sheet items:

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of profit rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Group's exposure to profit rate risks. Included in the table are the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.



| 2021   | Less than<br>3 months<br>(SAR '000) | 3 to 6<br>months<br>(SAR '000) | 6 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | Non-<br>commission<br>sensitive<br>(SAR '000) | Total<br>(SAR '000) |
|--|-------------------------------------|--------------------------------|---------------------------------|-------------------------------|-------------------------------|---|---------------------|
| <b>Assets</b>                                      |                                     |                                |                                 |                               |                               |   |                     |
| Cash and balance with SAMA and other central banks | 5,799,758                           | -                              | -                               | -                             | -                             | 34,563,691                                    | 40,363,449          |
| Due from banks and other financial institutions    | 11,531,741                          | 4,606,477                      | 3,379,876                       | 4,490,757                     | -                             | 2,056,541                                     | 26,065,392          |
| <b>Investments, net</b>                            |                                     |                                |                                 |                               |                               |   |                     |
| Investment in an associate                         | -                                   | -                              | -                               | -                             | -                             | 295,253                                       | 295,253             |
| Investments held at amortised cost                 | 25,855,000                          | 3,216,475                      | -                               | 7,749,046                     | 33,277,750                    | -   | 70,098,271          |
| FVSI investments                                   | 600,000                             | 1,131,760                      | -                               | 788,765                       | 2,013,761                     | 2,650,605                                     | 7,184,891           |
| FVOCI investments                                  | 488,205                             | -                              | -                               | 259,039                       | 785,367                       | 5,322,369                                     | 6,854,980           |
| <b>Financing, net</b>                              |                                     |                                |                                 |                               |                               |   |                     |
| Mutajara   | 28,281,674                          | 23,307,071                     | 5,877,092                       | 6,409,798                     | 1,836,972                     | -   | 65,712,607          |
| Instalment sale                                    | 36,467,842                          | 23,238,717                     | 40,756,516                      | 145,219,264                   | 121,317,388                   | -   | 366,999,727         |
| Murabaha   | 6,438,635                           | 7,919,605                      | 338,633                         | 183,487                       | 1,719,530                     | -   | 16,599,890          |
| Credit cards                                       | 1,452,873                           | 294,023                        | 588,045                         | 1,172,832                     | 10,660                        | -   | 3,518,433           |
| Other assets                                       | -                                   | -                              | -                               | -                             | -                             | 19,979,022                                    | 19,979,022          |
| <b>Total Assets</b>                                | <b>116,915,728</b>                  | <b>63,714,128</b>              | <b>50,940,162</b>               | <b>166,272,988</b>            | <b>160,961,428</b>            | <b>64,867,481</b>                             | <b>623,671,915</b>  |
| <b>Liabilities</b>                                 |                                     |                                |                                 |                               |                               |   |                     |
| Due to banks and other financial institutions      | 6,217,633                           | 2,664,761                      | 527,693                         | 6,792,922                     | -                             | 1,749,131                                     | 17,952,140          |
| Customer deposits                                  | -                                   | -                              | -                               | -                             | -                             | 374,725,352                                   | 374,725,352         |
| Customers' time investments                        | 72,900,341                          | 27,547,100                     | 26,337,227                      | 3,488,168                     | 20,225                        | -   | 130,293,061         |
| Other customer accounts                            | -                                   | -                              | -                               | -                             | -                             | 7,053,800                                     | 7,053,800           |
| Other liabilities                                  | -                                   | -                              | -                               | -                             | -                             | 26,338,711                                    | 26,338,711          |
| <b>Total liabilities</b>                           | <b>79,117,974</b>                   | <b>30,211,861</b>              | <b>26,864,920</b>               | <b>10,281,090</b>             | <b>20,225</b>                 | <b>409,866,994</b>                            | <b>556,363,064</b>  |
| <b>Shareholders' equity</b>                        |                                     |                                |                                 |                               |                               |   |                     |
| Gap  | 37,797,754                          | 33,502,267                     | 24,075,242                      | 155,991,898                   | 160,941,203                   | (412,308,364)                                 | -                   |
| <b>Profit Rate Sensitivity -</b>                   |                                     |                                |                                 |                               |                               |   |                     |
| On consolidated statement of financial position    | 37,797,754                          | 33,502,267                     | 24,075,242                      | 155,991,898                   | 160,941,203                   | (412,308,364)                                 | -                   |
| <b>Profit Rate Sensitivity -</b>                   |                                     |                                |                                 |                               |                               |   |                     |
| Off consolidated statement of financial Position   | 90,684                              | 96,174                         | 248,178                         | 41,380                        | 7,065                         | -   | 483,481             |
| <b>Total Profit Rate Sensitivity Gap</b>           | <b>37,888,438</b>                   | <b>33,598,441</b>              | <b>24,323,420</b>               | <b>156,033,278</b>            | <b>160,948,268</b>            | <b>(412,308,364)</b>                          | <b>483,481</b>      |
| <b>Cumulative Profit Rate Sensitivity Gap</b>      | <b>37,888,438</b>                   | <b>71,486,878</b>              | <b>95,810,299</b>               | <b>251,843,576</b>            | <b>412,791,845</b>            | <b>(483,481)</b>                              | <b>-</b>            |

# Notes to the Consolidated Financial Statements

278

| 2020   | Less than<br>3 months<br>(SAR '000) | 3 to 6<br>months<br>(SAR '000) | 6 to 12<br>months<br>(SAR '000) | 1 to 5<br>years<br>(SAR '000) | Over 5<br>years<br>(SAR '000) | Non-<br>commission<br>sensitive<br>(SAR '000) | Total<br>(SAR '000) |
|--|-------------------------------------|--------------------------------|---------------------------------|-------------------------------|-------------------------------|---|---------------------|
| <b>Assets</b>  |                                     |                                |                                 |                               |                               |   |                     |
| Cash and balance with SAMA and other central banks                                 | 16,235,549                          | -                              | -                               | -                             | -                             | 31,126,973                                    | 47,362,522          |
| Due from banks and other financial institutions                                    | 10,131,068                          | 2,902,451                      | 2,410,613                       | 11,951,076                    | -                             | 1,259,634                                     | 28,654,842          |
| <b>Investments, net</b>  |                                     |                                |                                 |                               |                               |   |                     |
| Investment in an associate   | -                                   | -                              | -                               | -                             | -                             | 239,179                                       | 239,179             |
| Investments held at amortised cost   | 22,355,265                          | 2,005,632                      | -                               | 15,545,908                    | 9,210,706                     | -   | 49,117,511          |
| Investments held as FVSI   | -                                   | 2,588,595                      | -                               | 1,502,525                     | -                             | 2,545,864                                     | 6,636,984           |
| FVOCI investments  | -                                   | 604,332                        | -                               | -                             | -                             | 3,687,266                                     | 4,291,598           |
| <b>Financing, net</b>  |                                     |                                |                                 |                               |                               |   |                     |
| Mutajara   | 16,174,148                          | 11,265,923                     | 3,283,366                       | 5,343,271                     | 1,164,626                     | -   | 37,231,334          |
| Instalment sale  | 21,730,136                          | 13,139,501                     | 22,689,661                      | 117,297,161                   | 80,623,057                    | -   | 255,479,516         |
| Murabaha   | 10,302,648                          | 8,213,185                      | 35,286                          | 282,279                       | 836,695                       | -   | 19,670,093          |
| Credit cards   | 1,409,504                           | 274,410                        | 548,817                         | 1,096,299                     | 2,128                         | -   | 3,331,158           |
| Other assets   | -                                   | -                              | -                               | -                             | -                             | 16,809,986                                    | 16,809,986          |
| <b>Total Assets</b>  | <b>98,338,318</b>                   | <b>40,994,029</b>              | <b>28,967,743</b>               | <b>153,018,519</b>            | <b>91,837,212</b>             | <b>55,668,902</b>                             | <b>468,824,723</b>  |
| <b>Liabilities</b>   |                                     |                                |                                 |                               |                               |   |                     |
| Due to banks and other financial institutions                                      | 2,027,236                           | 4,891,925                      | 649,025                         | 2,747,587                     | -                             | 448,288                                       | 10,764,061          |
| Customer deposits  | -                                   | -                              | -                               | -                             | -                             | 332,918,203                                   | 332,918,203         |
| Customers' time investments  | 29,729,361                          | 9,015,881                      | 4,262,127                       | 9,913                         | -                             | -   | 43,017,282          |
| Other customer accounts  | -                                   | -                              | -                               | -                             | -                             | 6,695,518                                     | 6,695,518           |
| Other liabilities  | -                                   | -                              | -                               | -                             | -                             | 17,311,141                                    | 17,311,141          |
| <b>Total liabilities</b>   | <b>31,756,597</b>                   | <b>13,907,806</b>              | <b>4,911,152</b>                | <b>2,757,500</b>              | <b>-</b>                      | <b>357,373,150</b>                            | <b>410,706,205</b>  |
| <b>Shareholders' equity</b>  |                                     |                                |                                 |                               |                               |   |                     |
| Gap  | 66,581,721                          | 27,086,223                     | 24,056,591                      | 150,261,019                   | 91,837,212                    | (359,822,766)                                 | -                   |
| <b>Profit Rate Sensitivity - On consolidated statement of Financial Positions</b>  |                                     |                                |                                 |                               |                               |   |                     |
|  | 66,581,721                          | 27,086,223                     | 24,056,591                      | 150,261,019                   | 91,837,212                    | (359,822,766)                                 | -                   |
| <b>Profit Rate Sensitivity - Off consolidated Statement of Financial Positions</b> |                                     |                                |                                 |                               |                               |   |                     |
|  | 86,891                              | 136,217                        | 134,359                         | 33,212                        | 934                           | -   | 391,613             |
| <b>Total Profit Rate Sensitivity Gap</b>   | <b>66,668,612</b>                   | <b>27,222,440</b>              | <b>24,190,950</b>               | <b>150,294,231</b>            | <b>91,838,146</b>             | <b>(359,822,766)</b>                          | <b>391,613</b>      |
| <b>Cumulative Profit Rate Sensitivity Gap</b>                                      |                                     |                                |                                 |                               |                               |   |                     |
|  | 66,668,612                          | 93,891,052                     | 118,082,002                     | 268,376,233                   | 360,214,379                   | 391,613                                       | -                   |

## Foreign currency risks

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at 31 December 2021 and 2020, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity:

| Currency Exposures<br>As at 31 December 2021 | Change in<br>currency rate<br>(%) | Effect on<br>net income<br>(SAR '000) | Effect on<br>equity<br>(SAR '000) |
|--|-----------------------------------|---------------------------------------|-----------------------------------|
| UAE Dirham                                   | +/-2                              | 1,306                                 | 1,306                             |
| US Dollar                                    | +/-2                              | 41,005                                | 41,005                            |
| Malaysian Ringgit                            | +/-5                              | 45,630                                | 45,630                            |
| Jordanian Dinar                              | +/-5                              | 25,874                                | 25,874                            |
| Kuwaiti Dinar                                | +/-5                              | 19,502                                | 19,502                            |
| Currency Exposures<br>As at 31 December 2020 | Change in<br>currency rate<br>(%) | Effect on<br>net income<br>(SAR '000) | Effect on<br>equity<br>(SAR '000) |
| UAE Dirham                                   | +/-2                              | 1,601                                 | 1,601                             |
| US Dollar                                    | +/-2                              | 177,857                               | 177,857                           |
| Malaysian Ringgit                            | +/-5                              | 48,380                                | 48,380                            |
| Jordanian Dinar                              | +/-5                              | 23,408                                | 23,408                            |
| Kuwaiti Dinar                                | +/-5                              | (589)                                 | (589)                             |

## Currency position

The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

|                   | 2021<br>Long/(short)<br>(SAR '000) | 2020<br>Long/(short)<br>(SAR '000) |
|-------------------|------------------------------------|------------------------------------|
| US Dollar         | 2,050,261                          | 8,892,870                          |
| Jordanian Dinar   | 517,473                            | 468,162                            |
| Kuwaiti Dinar     | 390,037                            | (11,786)                           |
| UAE Dirham        | 65,276                             | 80,027                             |
| Malaysian Ringgit | 912,599                            | 967,597                            |
| Others            | 267,293                            | 255,438                            |
| <b>Total</b>      | <b>4,202,939</b>                   | <b>10,652,308</b>                  |

280

## (C) Price risk

The Group has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Group monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

## Equity Price Risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

| Local Market Indices | 2021                       |                  | 2020                       |                  |
|----------------------|----------------------------|------------------|----------------------------|------------------|
|                      | Change in Equity price (%) | Effect (SAR Mn.) | Change in Equity price (%) | Effect (SAR Mn.) |
| Equity investments   | +/-10                      | +/-532,237       | +/-10                      | +/-368,727       |

## (D) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Group's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Group. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Group.

The three primary operational risk management processes in the Group are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

281

## 28 - Geographical concentration

The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

| 2021   | Kingdom of Saudi Arabia (SAR '000) | Other GCC and Middle East (SAR '000) | North America (SAR '000) | South East Asia (SAR '000) | Other Countries (SAR '000) | Total (SAR '000)   |
|--|------------------------------------|--------------------------------------|--------------------------|----------------------------|----------------------------|--------------------|
| <b>Assets</b>  |                                    |                                      |                          |                            |                            |                    |
| Cash and balances with SAMA and other central banks        | 39,842,383                         | 86,663                               | 368,698                  | 17,579                     | 48,126                     | 40,363,449         |
| Due from banks and other financial institutions            | 7,586,983                          | 15,604,674                           | 758,132                  | 1,517,932                  | 597,671                    | 26,065,392         |
| <b>Financing, net</b>                                      |                                    |                                      |                          |                            |                            |                    |
| Mutajara   | 64,370,413                         | 1,342,194                            | -                        | -                          | -                          | 65,712,607         |
| Instalment sale  | 362,227,916                        | 3,568,681                            | -                        | 1,203,130                  | -                          | 366,999,727        |
| Murabaha   | 12,111,030                         | 302,171                              | -                        | 4,186,689                  | -                          | 16,599,890         |
| Credit cards   | 3,511,798                          | 6,518                                | -                        | 117                        | -                          | 3,518,433          |
| <b>Investments, net</b>                                    |                                    |                                      |                          |                            |                            |                    |
| Investment in an associate                                 | 295,253                            | -                                    | -                        | -                          | -                          | 295,253            |
| Investments held at amortised cost                         | 64,687,914                         | 4,809,311                            | -                        | 601,046                    | -                          | 70,098,271         |
| FVSI Investments   | 6,896,121                          | -                                    | -                        | -                          | 288,770                    | 7,184,891          |
| FVOCI investments  | 5,128,039                          | 20,908                               | -                        | 1,706,033                  | -                          | 6,854,980          |
| <b>Total assets</b>  | <b>566,657,850</b>                 | <b>25,741,120</b>                    | <b>1,126,830</b>         | <b>9,232,526</b>           | <b>934,567</b>             | <b>603,692,893</b> |
| <b>Liabilities</b>   |                                    |                                      |                          |                            |                            |                    |
| Due to banks and other financial institutions              | 14,916,740                         | 862,015                              | 1,157,182                | 1,016,203                  | -                          | 17,952,140         |
| Customer deposits  | 499,872,716                        | 5,712,243                            | -                        | 6,487,254                  | -                          | 512,072,213        |
| <b>Total liabilities</b>                                   | <b>514,789,456</b>                 | <b>6,574,258</b>                     | <b>1,157,182</b>         | <b>7,503,457</b>           | <b>-</b>                   | <b>530,024,353</b> |
| <b>Commitments and contingencies</b>                       |                                    |                                      |                          |                            |                            |                    |
|  | 16,601,812                         | 1,758,776                            | 8,115                    | 2,480,106                  | 4,238,420                  | 25,087,229         |
| <b>Credit exposure (stated at credit equivalent value)</b> |                                    |                                      |                          |                            |                            |                    |
|  | 8,926,470                          | -                                    | -                        | 2,358,402                  | -                          | 11,284,872         |

| 2020   | Kingdom of Saudi Arabia (SAR '000) | Other GCC and Middle East (SAR '000) | North America (SAR '000) | South East Asia (SAR '000) | Other Countries (SAR '000) | Total (SAR '000)   |
|--|------------------------------------|--------------------------------------|--------------------------|----------------------------|----------------------------|--------------------|
| <b>Assets</b>  |                                    |                                      |                          |                            |                            |                    |
| Cash and balances with SAMA and other central banks        | 47,297,397                         | 48,505                               | –                        | 16,620                     | –                          | 47,362,522         |
| Due from banks and other financial institutions            | 10,606,664                         | 16,518,568                           | 157,458                  | 997,102                    | 375,050                    | 28,654,842         |
| <b>Financing, net</b>                                      |                                    |                                      |                          |                            |                            |                    |
| Mutajara   | 36,440,691                         | 790,643                              | –                        | –                          | –                          | 37,231,334         |
| Instalment sale  | 250,835,125                        | 3,381,628                            | –                        | 1,262,763                  | –                          | 255,479,516        |
| Murabaha   | 15,343,304                         | 2,381,816                            | –                        | 1,944,973                  | –                          | 19,670,093         |
| Credit cards   | 3,324,953                          | 6,058                                | –                        | 147                        | –                          | 3,331,158          |
| <b>Investments, net</b>                                    |                                    |                                      |                          |                            |                            |                    |
| Investment in an associate                                 | 239,179                            | –                                    | –                        | –                          | –                          | 239,179            |
| Investments held at amortised cost                         | 48,265,117                         | 175,723                              | –                        | 676,671                    | –                          | 49,117,511         |
| FVSI Investments   | 6,636,984                          | –                                    | –                        | –                          | –                          | 6,636,984          |
| FVOCI investments  | 3,580,187                          | 21,309                               | –                        | 690,102                    | –                          | 4,291,598          |
| <b>Total assets</b>  | <b>422,569,601</b>                 | <b>23,324,250</b>                    | <b>157,458</b>           | <b>5,588,378</b>           | <b>375,050</b>             | <b>452,014,737</b> |
| <b>Liabilities</b>   |                                    |                                      |                          |                            |                            |                    |
| Due to banks and other financial institutions              | 10,049,256                         | 20,448                               | 435,859                  | 258,498                    | –                          | 10,764,061         |
| Customer deposits  | 365,253,514                        | 8,578,469                            | 452                      | 8,769,155                  | 29,413                     | 382,631,003        |
| <b>Total Liabilities</b>                                   | <b>375,302,770</b>                 | <b>8,598,917</b>                     | <b>436,311</b>           | <b>9,027,653</b>           | <b>29,413</b>              | <b>393,395,064</b> |
| <b>Commitments and contingencies</b>                       |                                    |                                      |                          |                            |                            |                    |
|  | 13,585,335                         | 1,161,669                            | 16,508                   | 3,773,101                  | 619,477                    | 19,156,090         |
| <b>Credit exposure (stated at credit equivalent value)</b> |                                    |                                      |                          |                            |                            |                    |
|  | 8,336,590                          | –                                    | –                        | 2,326,111                  | –                          | 10,662,701         |

The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

| 2021   | Kingdom of<br>Saudi Arabia<br>(SAR '000) | GCC and<br>Middle East<br>(SAR '000) | South East<br>of Asia<br>(SAR '000) | Total<br>(SAR '000) |
|--|--|--------------------------------------|-------------------------------------|---------------------|
| <b>Non-performing</b>                        |  |                                      |                                     |                     |
| Mutajara                                     | 1,415,129                                | 53,884                               | -                                   | 1,469,013           |
| Instalment sale                              | 1,431,779                                | 35,603                               | 13,488                              | 1,480,870           |
| Murabaha                                     | -  | -                                    | 36,520                              | 36,520              |
| Credit cards                                 | 23,697                                   | -                                    | -                                   | 23,697              |
| <b>Allowance for impairment of financing</b> |  |                                      |                                     |                     |
| Mutajara                                     | (3,922,922)                              | (36,834)                             | -                                   | (3,959,756)         |
| Instalment sale                              | (4,870,326)                              | (72,677)                             | (35,510)                            | (4,978,513)         |
| Murabaha                                     | -  | -                                    | (61,718)                            | (61,718)            |
| Credit cards                                 | (198,102)                                | (65)                                 | -                                   | (198,167)           |
| 2020   | Kingdom of<br>Saudi Arabia<br>(SAR '000) | GCC and<br>Middle East<br>(SAR '000) | South East<br>of Asia<br>(SAR '000) | Total<br>(SAR '000) |
| <b>Non-performing</b>                        |  |                                      |                                     |                     |
| Mutajara                                     | 1,647,513                                | 5,423                                | -                                   | 1,652,936           |
| Instalment sale                              | 690,942                                  | 25,559                               | 11,900                              | 728,401             |
| Murabaha                                     | -  | -                                    | 37,929                              | 37,929              |
| Credit cards                                 | 25,848                                   | -                                    | -                                   | 25,848              |
| <b>Allowance for impairment of financing</b> |  |                                      |                                     |                     |
| Mutajara                                     | (2,983,324)                              | (12,570)                             | -                                   | (2,995,894)         |
| Installment sale                             | (4,289,808)                              | (62,293)                             | (46,822)                            | (4,398,923)         |
| Murabaha                                     | (55,734)                                 | -                                    | -                                   | (55,734)            |
| Credit cards                                 | (20,805)                                 | -                                    | -                                   | (20,805)            |

Refer to Note 7.1.A for performing financing.



## 29 - Fair value of financial assets and liabilities

### Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1** - quoted prices in active markets for the same instrument (i.e. without modification or additions).
- Level 2** - quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
- Level 3** - valuation techniques for which any significant input is not based on observable market data.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability,; or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

285

## Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy [refer Note 2d (ii)]. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| 2021  | Carrying value<br>(SAR '000) | Level 1<br>(SAR '000) | Level 2<br>(SAR '000) | Level 3<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <b>Financial assets</b>                                 |                              |                       |                       |                       |                     |
| <b>Financial assets measured at fair value</b>          |                              |                       |                       |                       |                     |
| FVSI Investments –<br>Mutual funds                      | 2,650,605                    | –                     | 2,415,228             | 235,377               | 2,650,605           |
| FVOCI equity investments                                | 5,322,369                    | 5,298,010             | –                     | 24,359                | 5,322,369           |
| FVSI Sukuk  | 3,745,521                    | –                     | 3,745,521             | –                     | 3,745,521           |
| FVOCI Sukuk   | 1,532,611                    | –                     | 1,532,611             | –                     | 1,532,611           |
| Structure products                                      | 788,765                      | –                     | –                     | 788,765               | 788,765             |
| Derivative financial<br>instruments                     | 208,582                      | –                     | 208,582               | –                     | 208,582             |
| <b>Financial assets not measured at fair value</b>      |                              |                       |                       |                       |                     |
| Due from banks and other<br>financial institutions      | 26,065,392                   | –                     | –                     | 26,181,679            | 26,181,679          |
| Investments held<br>at amortised cost                   |                              |                       |                       |                       |                     |
| – Murabaha with Saudi<br>Government and SAMA            | 22,611,987                   | –                     | 22,900,999            | –                     | 22,900,999          |
| – Sukuk   | 46,518,108                   | –                     | 46,717,099            | –                     | 46,717,099          |
| – Structured products                                   | 1,000,000                    | –                     | –                     | 1,038,043             | 1,038,043           |
| Gross Financing   | 462,028,811                  | –                     | –                     | 478,238,097           | 478,238,097         |
| <b>Total</b>  | <b>572,472,751</b>           | <b>5,298,010</b>      | <b>77,520,040</b>     | <b>506,506,320</b>    | <b>589,324,370</b>  |
| <b>Financial liabilities</b>                            |                              |                       |                       |                       |                     |
| <b>Financial liabilities not measured at fair value</b> |                              |                       |                       |                       |                     |
| Due to banks and other<br>financial institutions        | 17,952,140                   | –                     | –                     | 18,198,581            | 18,198,581          |
| Customers' deposits                                     | 512,072,213                  | –                     | –                     | 511,991,640           | 511,991,640         |
| <b>Total</b>  | <b>530,024,353</b>           | <b>–</b>              | <b>–</b>              | <b>530,190,221</b>    | <b>530,190,221</b>  |

| 2020  | Carrying value<br>(SAR '000) | Level 1<br>(SAR '000) | Level 2<br>(SAR '000) | Level 3<br>(SAR '000) | Total<br>(SAR '000) |
|---|------------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <b>Financial assets</b>                                 |                              |                       |                       |                       |                     |
| <b>Financial assets measured at fair value</b>          |                              |                       |                       |                       |                     |
| FVSI Investments –<br>Mutual funds                      | 2,545,864                    | –                     | 2,291,749             | 254,115               | 2,545,864           |
| FVOCI equity investments                                | 3,687,266                    | 3,662,877             | –                     | 24,389                | 3,687,266           |
| FVSI Sukuk  | 2,588,595                    | –                     | 2,588,595             | –                     | 2,588,595           |
| FVOCI Sukuk   | 604,332                      | –                     | 604,332               | –                     | 604,332             |
| Structure products                                      | 1,502,525                    | –                     | –                     | 1,502,525             | 1,502,525           |
| Derivative financial<br>instruments                     | 32,611                       | –                     | 32,611                | –                     | 32,611              |
| <b>Financial assets not measured at fair value</b>      |                              |                       |                       |                       |                     |
| Due from banks and other<br>financial institutions      | 28,654,842                   | –                     | –                     | 29,128,159            | 29,128,159          |
| Investments held at<br>amortised cost                   |                              |                       |                       |                       |                     |
| – Murabaha with Saudi<br>Government and SAMA            | 22,904,021                   | –                     | 23,226,882            | –                     | 23,226,882          |
| – Sukuk   | 25,240,452                   |                       | 26,155,715            | –                     | 26,155,715          |
| – Structured products                                   | 1,000,000                    | –                     | –                     | 1,048,310             | 1,048,310           |
| Gross financing   | 323,183,457                  | –                     | –                     | 331,028,641           | 331,028,641         |
| <b>Total</b>  | <b>411,943,965</b>           | <b>3,662,877</b>      | <b>54,899,884</b>     | <b>362,986,139</b>    | <b>421,548,900</b>  |
| <b>Financial liabilities</b>                            |                              |                       |                       |                       |                     |
| <b>Financial liabilities not measured at fair value</b> |                              |                       |                       |                       |                     |
| Due to banks and other<br>financial institutions        | 10,764,061                   | –                     | –                     | 10,909,221            | 10,909,221          |
| Customers' deposits                                     | 382,631,003                  | –                     | –                     | 382,641,604           | 382,641,604         |
| <b>Total</b>  | <b>393,395,064</b>           | <b>–</b>              | <b>–</b>              | <b>393,550,825</b>    | <b>393,550,825</b>  |

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant current effective profit rate. Investments held at amortised cost, due to/from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/SAMA murabaha rates.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realised through disposal. Subsequent changes in fair value are recognised immediately in the consolidated statement of income without reversal of deferred day one profits and losses.

During the current year, no financial assets/liabilities have been transferred between level 1 and/or level 2 of the fair value hierarchy.

288

## 30 - Related party transactions

In the ordinary course of business, the Group transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

|   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---|--------------------|--------------------|
| <b>Related parties</b>  |                    |                    |
| <b>Members of the Board of Directors</b>  |                    |                    |
| Mutajara  | 172,442            | 59,321             |
| Current accounts  | 376,377            | 242,323            |
| <b>Companies and establishments guaranteed by members of the Board of Directors</b> |                    |                    |
| Mutajara  | 12,127,165         | 10,222,874         |
| Contingent liabilities*   | 4,664,225          | 3,664,052          |
| <b>Associate</b>  |                    |                    |
| Contributions payable   | 116,038            | 321,512            |
| Receivable against claims   | 332,173            | 169,437            |
| Bank balances   | 253,332            | 188,276            |

\* Off-balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Income from financing and other financial assets | 40,275             | 32,141             |
| Mudaraba fees                                    | 85,394             | 72,689             |
| Employees' salaries and benefits (air tickets)   | 1,061              | 795                |
| Rent and premises related expenses               | 2,119              | 5,522              |
| Contribution – policies written                  | 709,180            | 721,077            |
| Claims incurred and notified during the period   | 661,300            | 440,395            |
| Claims paid                                      | 498,565            | 465,270            |
| Board of Directors' remunerations                | 5,948              | 6,009              |

The amounts of compensations recorded in favour of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Short-term benefits                              | 104,038            | 107,097            |
| Provision for employees' end of service benefits | 3,679              | 3,406              |

The executive management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly.

## 31 - Mudaraba funds

Mudaraba funds comprise the following as at 31 December:

|                                     | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|-------------------------------------|--------------------|--------------------|
| Customers' Mudaraba and investments | 37,458,437         | 29,216,806         |
| <b>Total</b>                        | <b>37,458,437</b>  | <b>29,216,806</b>  |

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off-balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

## 32 - Special commissions excluded from the consolidated statement of income

The following represents the movements in charities account, which is included in other liabilities (see Note 13) for the year ended 31 December:

|                                   | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|-----------------------------------|--------------------|--------------------|
| Balance at beginning of the year  | 8,885              | 10,994             |
| Additions during the year         | 36,616             | 11,745             |
| Payments made during the year     | (15,730)           | (13,854)           |
| <b>Balance at end of the year</b> | <b>29,771</b>      | <b>8,885</b>       |

## 33 - Investment management services

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 58,255 Mn. (2020: SAR 50,220 Mn.). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates/subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 683,351 Mn. at 31 December 2021 (2020: SAR 1,166 Mn.).

## 34 - Capital adequacy

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting provisions under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity.

Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent three years.

Starting June 2021, the Group has opted to apply SAMA allowance to recognise 100% of IFRS9 transitional adjustment amount in the Bank's Common Equity Tier 1 (CET 1) which resulted in an increase of SAR 2,883 Mn. as of December 2021.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

|  | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|--|--------------------|--------------------|
| Credit risk-weighted assets                  | 385,415,205        | 280,373,990        |
| Operational risk-weighted assets             | 37,798,847         | 33,318,660         |
| Market risk-weighted assets                  | 2,414,738          | 9,316,353          |
| <b>Total Pillar I – risk-weighted assets</b> | <b>425,628,790</b> | <b>323,009,003</b> |

|                                    | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|------------------------------------|--------------------|--------------------|
| Tier I – capital                   | 70,191,539         | 58,118,518         |
| Tier II capital                    | 4,817,690          | 3,504,675          |
| <b>Total tier I and II capital</b> | <b>75,009,229</b>  | <b>61,623,193</b>  |

#### Capital adequacy ratio

|                         |       |       |
|-------------------------|-------|-------|
| Tier I ratio (%)        | 16.49 | 17.99 |
| Tier I and II ratio (%) | 17.62 | 19.08 |

## 35 - Shariah compliant derivatives

The table below summarises the positive and negative fair values of Shariah compliant derivatives, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

### (A) Profit rate swaps

Profit rate swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency profit rate swaps, principal, fixed and floating profit payments are exchanged in different currencies.

### (B) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currency and profit rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

### (C) FX Swaps

| Derivative financial instruments<br>31 December 2021 | Notional amounts by term to maturity |                     |                       |                  |                  |                  |                  |
|--|--------------------------------------|---------------------|-----------------------|------------------|------------------|------------------|------------------|
|  | Positive fair value                  | Negative fair value | Notional amount Total | Within 3 months  | 3-12 months      | 1-5 years        | Over 5 years     |
|  | (SAR '000)                           | (SAR '000)          | (SAR '000)            | (SAR '000)       | (SAR '000)       | (SAR '000)       | (SAR '000)       |
| <b>Held for trading:</b>                             |                                      |                     |                       |                  |                  |                  |                  |
| Profit rate swaps                                    | 179,694                              | (150,455)           | 17,305,197            | -                | 7,034,837        | 4,218,159        | 6,052,201        |
| Foreign exchange forward contracts                   | 12,224                               | (11,853)            | 227,966               | 170,101          | 57,865           | -                | -                |
| FX Swaps   | 16,664                               | (5,327)             | 7,443,526             | 7,443,526        | -                | -                | -                |
| <b>Total</b>   | <b>208,582</b>                       | <b>(167,635)</b>    | <b>24,976,689</b>     | <b>7,613,627</b> | <b>7,092,702</b> | <b>4,218,159</b> | <b>6,052,201</b> |



| Derivative financial instruments<br>31 December 2020 | Notional amounts by term to maturity |                                   |                                     |                               |                           |                         |                            |
|--|--------------------------------------|-----------------------------------|-------------------------------------|-------------------------------|---------------------------|-------------------------|----------------------------|
|  | Positive fair value<br>(SAR '000)    | Negative fair value<br>(SAR '000) | Notional amount Total<br>(SAR '000) | Within 3 months<br>(SAR '000) | 3-12 months<br>(SAR '000) | 1-5 years<br>(SAR '000) | Over 5 years<br>(SAR '000) |
| <b>Held for trading:</b>                             |                                      |                                   |                                     |                               |                           |                         |                            |
| Profit rate swaps                                    | 30,460                               | (22,157)                          | 9,127,752                           | -                             | -                         | 5,438,733               | 3,689,019                  |
| Foreign exchange forward contracts                   | 2,151                                | (1,889)                           | 1,353,546                           | 786,539                       | 567,007                   | -                       | -                          |
| FX Swaps   | -                                    | -                                 | -                                   | -                             | -                         | -                       | -                          |
| <b>Total</b>   | <b>32,611</b>                        | <b>(24,046)</b>                   | <b>10,481,298</b>                   | <b>786,539</b>                | <b>567,007</b>            | <b>5,438,733</b>        | <b>3,689,019</b>           |

FX swaps are agreements between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate and forward rates quoted in the interbank market. The two parties will then settle their respective foreign exchange notional amounts governed by the previously agreed specific forward rate. The forward rate locks in the exchange rate at which the funds will be exchanged in the future.

modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Effective date of the change: Accounting years beginning on or after 1 April 2021.

## 36 - Standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from accounting years on or after 1 January 2022. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

### • Amendment to IFRS 16, "Leases" – COVID-19-related rent concessions extension of the practical expedient

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease

### • A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16:

Amendments to IFRS 3, "Business combinations" update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, "Property, plant and equipment" prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.

Amendments to IAS 37, "Provisions, contingent liabilities and contingent assets" specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, "First-time Adoption of IFRS", IFRS 9, "Financial instruments", IAS 41, "Agriculture" and the Illustrative Examples accompanying IFRS 16, "Leases".

Effective date of the change: Accounting years beginning on or after 1 January 2022.

- **Amendments to IAS 1, "Presentation of financial statements", on classification of liabilities:**

These narrow-scope amendments to IAS 1, "Presentation of financial statements", clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the "settlement" of a liability.

Effective date of the change: Accounting years beginning on or after 1 January 2023.

- **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:**

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Annual periods beginning on or after 1 January 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.

Effective date of the change: Accounting years beginning on or after 1 January 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.

- **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction:**

These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

Effective date of the change: Accounting years beginning on or after 1 January 2023.

- **IFRS 17, "Insurance contracts", as amended in June 2020:**

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Effective date of the change: Accounting years beginning on or after 1 January 2023.

- **A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts:**

The amendment relates to insurers' transition to the new Standard only, it does not affect any other requirements in IFRS 17.

IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time.

The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.

Effective date of the change: Accounting years beginning on or after 1 January 2023.

## 37 - Zakat

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

(a) Provisions for Zakat and Income tax for the years ended 31 December is summarised as follows:

|                                       | 2021<br>(SAR '000) | 2020<br>(SAR '000) |
|---------------------------------------|--------------------|--------------------|
| Beginning balance for Zakat Provision | 3,812,601          | 4,627,204          |
| Provided during the year              | 1,698,579          | 1,218,071          |
| Payments made during the year         | (2,086,251)        | (2,032,674)        |
| Provisions for Zakat and Income tax   | 3,424,929          | 3,812,601          |

(b) The Group has filed the required Zakat returns with the ZATCA which are due on 30 April each year. The Group's Zakat calculations and corresponding accruals and payments for Zakat are based on the ownership of the Bank to each of its subsidiaries.

On 14 March 2019, the ZATCA published rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning 1 January 2019. In addition to providing a

new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at four times and eight times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it should not fall below the minimum floor nor should exceed the maximum cap as prescribed by the Rules.

The Group has provided for Zakat for the year ended 31 December 2021 and 2020 on the basis of the Group's understanding of these rules.

295

## 38 - Subsequent events

On 8 December 2021, the Group entered into a sale and purchase agreement with the shareholders of Ejada Systems Limited Company ("Ejada") pursuant to which the Group will full acquire the Ejada subject to certain conditions which will be either satisfied or waived in accordance with terms of the agreement. On 16 January 2022, the Group announced that it obtained SAMA's and General Authority for Competition on the acquisition. The Group has not exercised control on Ejada as of 31 December 2021.

On 23 January 2022, the Group issued 6500 Perpetual Sukuk Certificates (Sukuk) of SAR 1 Mn. each, and payable quarterly in arrears. The Group has a call option which can be exercised on or after 1 January 2027 as per the terms mentioned in the related offering circular. The expected profit distribution on the Sukuk is the base rate for three months in addition to a profit margin of 3.50%.

On 16 Rajab 1443 H (corresponding to 17 February 2022), the Bank's Board of Directors recommended to the Extraordinary General Assembly to increase the Bank's capital from SAR 25,000 Mn. to SAR 40,000 Mn. by granting bonus shares (three shares for every five shares owned). The paid-up capital increase of SAR 15,000 Mn. will be capitalised from retained earnings. The proposed grant is subject to obtaining necessary approvals from official authorities and Extraordinary General Assembly on the capital increase and number of granted shares.

## 39 - Impact of COVID-19 on expected credit losses ("ECL") and SAMA programmes

The Corona virus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections. Despite having

previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, where required. The Group has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

During the period ended 31 December 2021, the Group has revised the scenario probabilities used for the determination of ECL. In 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings used in the ECL to the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models, the Group has therefore recognised overlays of SAR 486 Mn. for corporate as at 31 December 2021.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Group will continue to reassess its position and the related impact on a regular basis.

## SAMA support programmes and initiatives

### Private Sector Financing Support Programme ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Programme ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of the deferred payments programme launched by SAMA in March 2020 and with further extensions to the programme till March 2022 announced subsequently, the Group deferred payments and extended maturities on financing facilities to all eligible MSMEs as follows:

|                              | Instalment<br>deferred<br>(SAR Bn.) | Cost of<br>deferral<br>(SAR Mn.) |
|------------------------------|-------------------------------------|----------------------------------|
| <b>Support Programmes</b>    |                                     |                                  |
| April 2020 – September 2020  | 3.1                                 | 89.2                             |
| October 2020 – December 2020 | 1.9                                 | 26.7                             |
| January 2021 – March 2021    | 3.2                                 | 49.6                             |
| April 2021 – June 2021       | 3.5                                 | 186.4                            |
| July 2021 – September 2021   | 0.7                                 | 46.2                             |
| October 2021 – December 2021 | 1.0                                 | 57.7                             |
| January 2022 – March 2022    | 1.1                                 | 44.2                             |

297

The payment reliefs were considered as short-term liquidity support to address customer' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement.

The Group continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed

as assessment with respect to SICR for the customers still under DPP programme as at 31 December 2021 and recorded an additional overlay of SAR 228 Mn. during the period as a result of the potential impact of stage movement.

In order to compensate the related cost that the Group has incurred under SAMA and other public authorities programme, the Group has received, during years ended 31 December 2021 and 2020, multiple profit free deposits from SAMA. The outstanding balance of such deposits is SAR 7.6 Bn. and SAR 3.6 Bn. as of 31 December 2021 and 31 December 2020 respectively, with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2021, total amount of SAR 334.5 Mn. (31 December 2020: SAR 165.5 Mn.) had been recognised in the statement of income with respect to related deposits with an aggregate of SAR 22.8 Mn. deferred grant income as at 31 December 2021 (31 December 2020: SAR 159.1 Mn.).

## 40 - Approval of the Board of Directors

The consolidated financial statements were approved by the Board of Directors on 13 Rajab 1443H (corresponding to 14 February 2022).

# Supplementary

GRI Content Index 300

Glossary of Key Islamic Finance Terms 303

Corporate Information 305

# GRI Content Index

GRI 102-55

300

| GRI Standard                             | Disclosure   | Page number(s) and/or direct answers |
|--|--|--------------------------------------|
| <b>GRI 101: Foundation 2016</b>          |  |                                      |
| <b>GRI 102: General Disclosures 2016</b> |  |                                      |
|  | <b>Organizational profile</b>  |                                      |
|  | 102-1 Name of the organization                                       | 305                                  |
|  | 102-2 Activities, brands, products, and services                     | 9-11, 64                             |
|  | 102-3 Location of headquarters                                       | 305                                  |
|  | 102-4 Location of operations   | 305                                  |
|  | 102-5 Ownership and legal form                                       | 305                                  |
|  | 102-6 Markets served   | 10-11                                |
|  | 102-7 Scale of the organization                                      | 12                                   |
|  | 102-8 Information on employees and other workers                     | 90                                   |
|  | 102-9 Supply chain   | 109, 121                             |
|  | 102-10 Significant changes to the organization and its supply chain  | 6                                    |
|  | 102-11 Precautionary Principle or approach                           | 6                                    |
|  | 102-12 External initiatives  | None                                 |
|  | 102-13 Membership of associations                                    | None                                 |
|  | <b>Strategy</b>  |                                      |
|  | 102-14 Statement from senior decision-maker                          | 16                                   |
|  | <b>Ethics and integrity</b>  |                                      |
|  | 102-16 Values, principles, standards, and norms of behavior          | 8                                    |
|  | <b>Governance</b>  |                                      |
|  | 102-18 Governance structure  | 142                                  |
|  | 102-22 Composition of the highest governance body and its committees | 149                                  |
|  | 102-23 Chair of the highest governance body                          | 132                                  |
|  | 102-25 Conflicts of interest   | 151                                  |
|  | 102-35 Remuneration policies   | 155-159                              |
|  | 102-36 Process for determining remuneration                          | 154                                  |
|  | <b>Stakeholder engagement</b>  |                                      |
|  | 102-40 List of stakeholder groups                                    | 38                                   |
|  | 102-41 Collective bargaining agreements                              | None                                 |



| GRI Standard                                   | Disclosure   | Page number(s) and/or direct answers |
|--|--|--------------------------------------|
|  | 102-42 Identifying and selecting stakeholders                          | 38                                   |
|  | 102-43 Approach to stakeholder engagement                              | 39                                   |
|  | 102-44 Key topics and concerns raised                                  | 40-46                                |
|  | <b>Reporting practice</b>  |                                      |
|  | 102-45 Entities included in the consolidated financial statements      | 193-194                              |
|  | 102-46 Defining report content and topic boundaries                    | 6                                    |
|  | 102-47 List of material topics   | 46-47                                |
|  | 102-48 Restatements of information                                     | 6                                    |
|  | 102-49 Changes in reporting  | 6                                    |
|  | 102-50 Reporting period  | 6                                    |
|  | 102-51 Date of most recent report                                      | 6                                    |
|  | 102-52 Reporting cycle   | 6                                    |
|  | 102-53 Contact point for questions regarding the report                | 6                                    |
|  | 102-54 Claims of reporting in accordance with the GRI Standards        | 6                                    |
|  | 102-55 GRI content index   | 300-302                              |
|  | 102-56 External assurance  | None                                 |
| <b>Specific Disclosures</b>                    |  |                                      |
| <b>GRI 200: Economic</b>                       |  |                                      |
| <b>GRI 103: Management approach 2016</b>       | 103-1 Explanation of the material topic and its Boundary               | 46                                   |
|  | 103-2 The management approach and its components                       | 47                                   |
|  | 103-3 Evaluation of the management approach                            | 47                                   |
| <b>GRI 203: Indirect Economic Impacts 2016</b> | 203-1 Infrastructure investments and services supported                | 124                                  |
| <b>GRI 204: Procurement practices 2016</b>     | 204-1 Proportion of spending on local suppliers                        | 122                                  |
| <b>GRI 207: Tax 2019</b>                       | 207-1 Approach to tax  | 170                                  |
|  | 207-2 Tax governance, control, and risk management                     | –                                    |
|  | 207-3 Stakeholder engagement and management of concerns related to tax | –                                    |
|  | 207-4 Country-by-country reporting                                     | –                                    |

| GRI Standard   | Disclosure   | Page number(s) and/or direct answers |
|--|--|--------------------------------------|
| <b>GRI 300: Environmental</b>                        |  |                                      |
| <b>GRI 103: Management approach 2016</b>             | 103-1 Explanation of the material topic and its Boundary   | 46                                   |
|  | 103-2 The management approach and its components   | 47                                   |
|  | 103-3 Evaluation of the management approach  | 47                                   |
| <b>GRI 302: Energy 2016</b>                          | 302-4 Reduction of energy consumption  | 119-120                              |
| <b>GRI 303: Water and Effluents 2018</b>             | 303-3 Water withdrawal   | 119                                  |
| <b>GRI 305: Emissions 2016</b>                       | 305-5 Reduction of GHG emissions   | 119                                  |
| <b>GRI 400: Social</b>                               |  |                                      |
| <b>GRI 103: Management approach 2016</b>             | 103-1 Explanation of the material topic and its Boundary   | 46                                   |
|  | 103-2 The management approach and its components   | 47                                   |
|  | 103-3 Evaluation of the management approach  | 47                                   |
| <b>GRI 401: Employment 2016</b>                      | 401-1 New employee hires and employee turnover   | 90 and 95                            |
|  | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | 93 and 159                           |
|  | 401-3 Parental leave   | 92                                   |
| <b>GRI 404: Training and Education 2016</b>          | 404-1 Average hours of training per year per employee  | 103                                  |
|  | 404-2 Programs for upgrading employee skills and transition assistance programs                          | 102                                  |
| <b>GRI 405: Diversity and Equal Opportunity 2016</b> | 405-1 Diversity of governance bodies and employees   | 91                                   |
| <b>GRI 406: Non-discrimination 2016</b>              | 406-1 Incidents of discrimination and corrective actions taken   | No incidents                         |
| <b>GRI 416: Customer Health and Safety 2016</b>      | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services      | No incidents                         |
| <b>GRI 417: Marketing and Labeling 2016</b>          | 417-3 Incidents of non-compliance concerning marketing communications                                    | No incidents                         |
| <b>GRI 418: Customer Privacy 2016</b>                | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data       | No complaints                        |
| <b>GRI 419: Socioeconomic Compliance 2016</b>        | 419-1 Non-compliance with laws and regulations in the social and economic area                           | No incidents                         |

# Glossary of Key Islamic Finance Terms

**Ajr**  
commission or fee charged for services

**Akar**  
instalment sale to invest in property

Financing to give customers an opportunity to invest in property with repayment to the Bank in the form of instalments over a period of time.

**Bai al Arboon**  
down payment sale

A sale agreement

In which a down payment is provided in advance as part payment towards the price of the commodity for reserving the commodity. The down payment is forfeited if the buyer does not return to take the commodity and the seller is entitled to sell the commodity.

**Bai Al Ajel**  
deferred payment sale

A sale on a deferred payment basis. Equipment or goods are sold by the Bank to the client for an agreed lump sum price which includes the profit required by the Bank without disclosing the cost. The client may pay by instalments within a pre-agreed period, or in a lump sum.

**Bai Inah**  
sale and buy-back

The sale and buy-back of an asset for a higher price than that for which the seller originally sold it. The seller immediately buys back the asset just sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale.

**Eirad**  
credit facilities granted against assignment of an income stream for a specific period.

**Fiqh**  
Islamic jurisprudence

**Gharar**  
uncertainty

One of three fundamental prohibitions in Islamic finance (the other two being Riba and Maysir). Gharar is a concept that covers certain types of haram uncertainty whereby one or more parties stand to be deceived through ignorance of an essential element in the contract. Gambling is a form of Gharar because the gambler is ignorant of the result of the gamble. The prohibition on Gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

**Halal**  
lawful, permissible

**Haram**  
unlawful, forbidden

Activities, professions, contracts and transactions that are explicitly prohibited by the Quran or the Sunnah.

**Hawala**  
bill of exchange, remittance

A contract which allows a debtor to transfer his debt obligation to a third party who owes the former a debt. The mechanism of Hawala is used for settling international accounts by book transfers, thus obviating the need for a physical transfer of cash.

**Ijara**  
leasing

A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

**Ijara Thumma Bai**  
leasing to purchase

The same principle governing an Ijara contract, but at the end of the lease period the lessee buys the asset for an agreed price through a purchase contract.

**Ijarah wa Iqtina**  
buy-back leasing

**Istisnaa**  
advance purchase of goods or buildings  
A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed. This type of financing, along with Salam, is used as a purchasing mechanism, and Murabaha and Bai Al Ajel are for financing sales.

**Kafalah**  
guarantee

Sharia principle governing guarantees. It applies to a debt transaction in the event of a debtor failing to pay.

**Maysir**  
gambling

One of three fundamental prohibitions in Islamic finance (the other two being Riba and Gharar). The prohibition on Maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

**Mudaraba**  
trust financing, profit sharing

An investment partnership, whereby the investor (the Rab al mal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income.

The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudaraba is sometimes referred to as a sleeping partnership.

A joint Mudaraba can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudaraba.

## **Mudarib** entrepreneur in a Mudaraba contract

The entrepreneur or investment manager in a Mudaraba who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudaraba is similar to a diversified pool of assets held in a discretionary asset management portfolio.

## **Murabaha** cost-plus financing

A form of credit in which the Bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

The legality of this financing technique has been questioned because of its similarity to Riba. However, the modern Murabaha has become a popular financing technique among Islamic banks, used widely for consumer finance, real estate and the purchase of machinery and for financing short-term trade.

## **Musharaka** joint venture, profit and loss sharing

An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharaka contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting shares in a limited company.

This equity financing arrangement is widely regarded as the purest form of Islamic financing. The two main forms of Musharaka are –

- Permanent Musharaka: an Islamic bank participates in the equity of a project and receives a share of the profit on a *pro rata* basis. The length of contract is unspecified, making it suitable for financing projects where funds are committed over a long period.
- Diminishing Musharaka: this allows equity participation and sharing of profits on a *pro rata* basis, and provides a method through which the Bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the Bank's share in the profit for the equity held by the Bank. Simultaneously the entrepreneur purchases some of the Bank's equity, progressively reducing it until the Bank has no equity and thus ceases to be a partner.

## **Mutajar** an asset financing mechanism with deferred payment

A financing agreement whereby the bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, thus making the client a debtor to the Bank for the sale amount and for the period agreed in the contract.

## **Qard Hasan** benevolent loan

A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract.

## **Riba** interest

An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan. Any risk-free or "guaranteed" rate of return on a loan or investment is Riba. Riba in all its forms is prohibited in Islam.

In conventional terms, Riba and "interest" are used interchangeably, although the legal notion extends beyond mere interest.

## **Sharia** Islamic jurisprudence

## **Sukuk** Islamic bond

An asset-backed bond which is structured in accordance with Sharia and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

## **Takaful** Islamic insurance

Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements, such as Gharar and Riba.

## **Tawarruq** reverse Murabaha

In personal financing, a client with a genuine need buys an item on credit from the Bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

## **Ujrah** fee

The financial charge for using services, or Manfaat (wages, allowance, commission, etc.).

## **Waqf** charitable trust

## **Zakat** religious tax

An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor. According to Islam, Zakat – the third pillar of Islam – purifies wealth and souls. Zakat is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business.

# Corporate Information

GRI 102-1, 102-3, 102-4, 102-5

## Name

Al Rajhi Banking and Investment Corporation

## Trade Name

Al Rajhi Bank

## Commercial Registration No.

1010000096

## Registered Logo



## Auditors

Ernst and Young  
KPMG Al Fozan & Partners

## Head Office/Registered Office

Al Rajhi Bank  
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Unit No. 1  
Riyadh 12263 – 2743  
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E-mail: [care@alrajhibank.com.sa](mailto:care@alrajhibank.com.sa)

## Legal Form

A Saudi joint stock company, formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (29 June 1987), in accordance with Article 6 of the Council of Ministers Resolution No. 245, dated 26 Shawal 1407H (23 June 1987).

305

## Stock Exchange Listing

The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul).  
Stock code: 1120.SE

## Subsidiary Companies and Branches

| Name of subsidiary  | Country of operation    | Country of establishment |
|---|-------------------------|--------------------------|
| Tuder Real Estate Company – KSA (formerly: Al Raji Real Estate Development Company) | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Al Rajhi Corporation Limited – Malaysia   | Malaysia                | Malaysia                 |
| Al Rajhi Capital Company – KSA  | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Al Rajhi Bank – Kuwait  | Kuwait                  | Kingdom of Saudi Arabia  |
| Al Rajhi Bank – Jordan  | Jordan                  | Kingdom of Saudi Arabia  |
| Al Rajhi Takaful Agency Company – KSA   | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Al Rajhi Company for management services  | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Emkan Finance Company   | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Tawtheeq company  | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |
| Al Rajhi Financial Markets Ltd  | Cayman Islands          | Cayman Islands           |
| International Digital Solutions Co. (Neoleap)                                       | Kingdom of Saudi Arabia | Kingdom of Saudi Arabia  |





