



## 2019 BOARD OF DIRECTORS' REPORT

---

The Board of Directors of The Saudi Investment Bank ("Bank") are pleased to present its Annual Report for the year ended December 31, 2019. In addition to the financial results, the Annual Report includes information about the Bank's activities, achievements, strategies, the composition and oversight of the Board of Directors and its subcommittees, in addition to other complementary data to inform the reader.

### **Overview**

The Bank is a Saudi joint stock company formed pursuant to a Royal Decree M/31 issued in 1976, with its Head Office in Riyadh. The Bank operates 52 branches located throughout the Kingdom of Saudi Arabia. The Bank's major shareholders include:

- General Organization for Social Insurance 16.56%
- Public Pension Agency 13.99%

The Bank's website address is [www.saib.com.sa](http://www.saib.com.sa).

### **Main banking activities**

The Bank offers conventional and Shariah compliant products and services for large corporate clients, individuals, and commercial businesses comprising small and medium size enterprises through the Bank's head office and a network of retail branches located throughout the Kingdom. The Bank also provides financial products and services to corporate, government, and public sector entities through its three regional offices located in Riyadh, Jeddah, and Al-Khobar. The Bank, through its wholly-owned subsidiary Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital), also provides brokerage services in the Saudi and international markets, as well as offering asset management products and services.

The Bank is subject to the laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Saudi Arabian Monetary Authority ("SAMA"). The Bank also follows the regulations issued by the Ministry of Commerce ("MOC") and the Capital Market Authority ("CMA").

### **Significant highlights**

Significant highlights for the year included the approval of the Bank's new three year Strategy by the Board of Directors, continuing progress in several core business areas, increasing our customer base, improving service quality, and further automating the retail banking business. As part of our ongoing retail activities, the Bank continued to enhance the ALASALAH Islamic Banking brand. Under this brand, The Bank also operates 49 Shariah compliant branches within the Kingdom.

The Bank also continued its credit rating review process with Standard & Poor's (S&P), Fitch, and Moody's Ratings the details of which are included later in this report.

During 2019, the Bank received a number of awards including:

- 2nd Place runner up at the Arabia CSR Awards in the Financial Services Category,
- SAIB's 2018 Integrated Report won 7 International Awards and the Best of International Grand Award at the International ARC Awards,
- Best Bank for Social Media Channels in Saudi Arabia 2019 by Global Banking and Finance Review, and
- Corporate Governance Excellence Award presented by the Al Faisal University – College of Business for its excellence in the Corporate Governance Index for Fiscal Year 2018.

The Bank was also awarded the Deutsche Bank 2018 USD Operational Excellence Award for USD Straight-through processing (STP) Payments.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Basis of preparation of the Bank's consolidated financial statements**

The consolidated financial statements (the financial statements) of the Bank as of and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

### **Accounting for Zakat and Income Tax**

The consolidated financial statements as of and for the year ended December 31, 2018 were prepared in accordance with IFRS as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and Income tax (relating to the application of IAS 12 - *Income Taxes* and IFRIC 21 - *Levies* in so far as these relate to Zakat and Income tax) and in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

On July 17, 2019, SAMA issued instructions ("the SAMA Instructions") to banks in KSA to account for Zakat and Income tax in the consolidated statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in KSA, and with other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Bank changed its accounting treatment for Zakat and Income tax by retroactively in 2018 adjusting the impact in line with International Accounting Standard 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

### **Accounting for leases**

In 2019, the Bank also adopted IFRS 16 'Leases', the standard replacing the previous guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases – Incentives', and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.

IFRS 16 was issued in January 2016 and was effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the consolidated statement of financial position, unless the term is 12 months or less or the lease is for a low-value asset item. Thus, the classification required under IAS 17 'Leases' into operating or finance leases was eliminated for Lessees.

### **Financial position**

A summary of the Bank's statement of financial position as of December 31, 2019 compared to December 31, 2018 follows.

#### **Total assets**

Total assets were SAR 100.8 billion as of December 31, 2019 which were higher by SAR 4.7 billion or 4.89% compared to the December 31, 2018 amount of SAR 96.1 billion. The key balance sheet movements are discussed below.

#### **Cash and balances with SAMA**

The Banks cash and balance with SAMA totaled SAR 10.2 billion as of December 31, 2019 compared to SAR 4.9 billion as of December 31, 2018. The increase was primarily due to an increase in overnight placements with SAMA from SAR 977 million on December 31, 2018 to SAR 6.0 billion on December 31, 2019.



## 2019 BOARD OF DIRECTORS' REPORT

---

### Investments

The Bank's investment portfolio totaled SAR 26.2 billion as of December 31, 2019 compared to SAR 24.6 billion on December 31, 2018, representing an increase of SAR 1.6 billion or 6.50%.

Investments classified by major rating agencies as investment grade represented 86.25% of the Bank's investment portfolio as of December 31, 2019, compared to 85.15% as of December 31, 2018.

### Loans and Advances, net

Loans and advances, net as of December 31, 2019 totaled SAR 57.1 billion compared to SAR 59.4 billion as of December 31, 2018, representing a decrease of SAR 2.3 billion or 3.87%. Total performing loans decreased to SAR 57.1 billion as of December 31, 2019 compared to SAR 60.1 billion as of December 31, 2018, which was primarily due to lower consumer loans and overdrafts.

Non-performing loans increased to SAR 2.4 billion as of December 31, 2019 compared to SAR 1.1 billion as of December 31, 2018. Non-performing loans as a percent of total loans and advances was 3.99% as of December 31, 2019, compared to 1.76% as of December 31, 2018. The increase in non-performing loans was due to an evaluation of individual exposures considering the ability of the borrowers to repay.

The allowance for credit losses totaled SAR 2.4 billion as of December 31, 2019 which was 4.04 % of total loans, and 101.31% of non-performing loans. This compared to SAR 1.8 billion as of December 31, 2018 which was 2.93 % of total loans, and 166.74% of non-performing loans. While the ECL coverage of non-performing loans declined in 2019, the credit risk has been mitigated by collateral that the Bank holds against its non-performing exposures.

Loans and advances as of December 31, 2019 include non-interest based banking products including Murabaha agreements, Tawarruq, Istisna'a and Ijarah totaling SAR 39.0 billion, compared to SAR 37.1 billion as of December 31, 2018.

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The estimated fair value of collateral held by the Bank as security for total loans and advances is approximately SAR 47.3 billion as of December 31, 2019, compared to SAR 49.4 billion as of December 31, 2018.

### Customer Deposits

Customer deposits totaled SAR 69.1 billion as of December 31, 2019 compared to SAR 63.7 billion as of December 31, 2018, representing an increase of SAR 5.4 billion or 8.48%. Demand and other deposits totaled SAR 27.4 billion as of December 31, 2019 compared to SAR 25.1 billion as of December 31, 2018, representing an increase of SAR 2.3 billion, or 9.16%. Demand and other deposits represent 39.66% of total deposits in 2019 compared to 39.45 % of total deposits in 2018. Special commission bearing deposits also increased by SAR 3.1 billion during the year ended December 31, 2019, or 8.03%.

### Term Loans

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to prepay of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. In addition, the Bank has not had any defaults of principal or commission on the term loans.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Subordinated Debt**

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in KSA. The Sukuk carried a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk had a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

Where the original maturity date for the Sukuk was June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

### **Total equity**

During the year ended December 31, 2019, the Bank's total equity increased to SAR 14.0 billion compared to SAR 13.4 billion as of December 31, 2018.

The percentage of total equity to total assets as of December 31, 2019 was 13.89%, compared to 13.95% as of December 31, 2018. The Bank's shareholders' equity leverage ratio was 8.40 on December 31, 2019 compared to 8.27 as of December 31, 2018.

### Treasury Shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

The total number of shares outstanding as of December 31, 2019 was approximately 675 million shares after reflecting the Treasury shares held by the Bank.

### Tier 1 Sukuk Program

The Bank completed the establishment of a Shariah compliant Tier I Sukuk Program (the Program) in 2016. The Program has been approved by the Bank's regulatory authorities and shareholders. The Bank had issued securities totaling SAR 1,785 million as of December 31, 2018. During 2019, the Bank issued an additional SAR 215 million in securities under the program, which now totals SAR 2,000 million as of December 31, 2019.

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.



## 2019 BOARD OF DIRECTORS' REPORT

### Capital Adequacy

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern, and to maintain a strong capital base.

Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

The Bank 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 assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

As of December 31, 2019, the Bank's Tier I plus Tier II capital adequacy ratio stood at 18.26% compared to 19.31% as of December 31, 2018.

### Summary results of operations

A summary of the Bank's results of operations for the year ended December 31, 2019 compared to December 31, 2018 follows.

### Operating Income

Total operating income reached SAR 2,818 million in 2019, compared to SAR 2,713 million in 2018, an increase of SAR 105 million, or 3.87%. A summary of the 2019 operating income compared to 2018 follows:

- Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings, reached SAR 2,278 million in 2019 compared to SAR 2,288 million in 2018, a decrease of SAR 10 million, or 0.44%. This decrease was due to a negative rate variance of SAR 74 million and a positive volume variance of SAR 64 million.
- Fees from banking services reached SAR 299 million in 2019, compared to SAR 295 million in 2018, an increase of SAR 4 million, or 1.36%. The increase was due to higher trade finance and card volumes, and an increase in investment management and brokerage business.
- Exchange income reached SAR 156 million in 2019, compared to SAR 141 million in 2018, an increase of SAR 15 million, or 10.64%. The increase was due to increased volumes in customer FX transactions reflecting the Bank's coordination between Treasury, and its Retail and Corporate clients.
- Dividend income was nil in 2019, compared to SAR 5 million in 2018.
- Other investment related gains earned from income recognized through profit and loss and sales of debt securities totaled SAR 54 million in 2019 compared to a loss of SAR 16 million in 2018.
- All other operating income totaled SAR 31 million in 2019, compared to a small net loss in 2018. The increase in 2019 was primarily due to sales of other real estate in 2019 at favorable prices.

### Geographical distribution of operating Income

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and is summarized below in SAR '000.

	Central Region	Western Region	Eastern Region	Total
2019	2,235,624	393,661	188,943	2,818,228
2018	2,014,781	422,442	275,507	2,712,730



## 2019 BOARD OF DIRECTORS' REPORT

### Operating expenses before provisions for credit and other losses

Operating expenses before provisions for credit and other losses totaled SAR 1,234 million in 2019 compared to SAR 1,133 million in 2018, an increase of SAR 101 million or 8.91%. A summary of these operating expenses follows:

- Salaries and employee related expenses in 2019 totaled SAR 626 million which was approximately the same as in 2018. The head count as of December 31, 2019 was 1,437 compared to 1,531 as of December 31, 2018.
- Rent and premises related expenses in 2019 totaled SAR 144 million compared to SAR 152 million 2018, which was primarily due to the change in accounting for leases which lowered the amount of rent expense in 2019 compared to 2018.
- Depreciation and amortization in 2019 totaled SAR 144 million compared to 103 million in 2018, which was primarily due to the increase in depreciation expense relating to Right of Use leased assets.
- Other general and administrative expenses totaled SAR 320 million in 2019 compared to SAR 252 million in 2018, an increase of SAR 68 million or 26.98%. The increase in other operating expenses reflects strategic related costs incurred in 2019 in connection with the Bank's new Strategic Plan, and other non-recurring costs totaling approximately SAR 36 million.

The level of operating expenses in 2019 resulted in a net efficiency ratio of 41.60% compared to 39.30% in 2018.

### Provisions for credit and other losses

The provisions for credit and other losses incurred in 2019 compared to 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Provisions for credit losses:		
Due from banks and other financial institutions	(615)	(10,861)
Investments	(45,821)	10,503
Loans and advances	1,270,770	220,514
Financial guarantee contracts	52,077	26,526
Other assets	(180)	290
Provisions for credit losses	1,276,231	246,972
Provisions for real estate losses	66,406	-
Provisions for credit and other losses	1,342,637	246,972

The increase in the provisions for credit losses on loans and advances recognized by the Bank during 2019 reflects the change in status of certain loans and the revaluation of associated collateral. The provisions were taken as a precautionary measure to improve the financial position of the Bank in the long term and does not mean in any way that the collection efforts of these loans will be discontinued.

### Share in earnings of associates

The Bank's share in earnings of associates totaled SAR 88 million in 2019, compared to SAR 111 million in 2018, a decrease of SAR 23 million. The decrease was primarily due to the settlement of prior year Zakat liabilities for individual associate companies during 2019.



## 2019 BOARD OF DIRECTORS' REPORT

### Provisions for Zakat and Income Tax

The provisions for Zakat and Income Tax totaling SAR 90 million in 2019 was lower than the SAR 868 million in 2018 primarily due to the recognition of the settlement of prior year Zakat liabilities in 2018 totaling approximately SAR 751 million. A summary of the provisions for Zakat and Income in 2019 compare to 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Provisions for Zakat		
- For current period	76,809	89,305
- For 2006 to 2017, net of fair value adjustment	-	711,807
- For 2005	-	38,699
- For subsidiaries, 2011 to 2017	3,300	-
Provisions for Income tax		
- For current period	1,800	28,060
- For prior periods	8,131	-
Provisions for Zakat and Income tax	<u>90,040</u>	<u>867,871</u>

The provisions for Zakat in 2019 also reflect the effects of changes in the method of calculating the Bank's Zakat liability which were published by the General Authority of Zakat & Tax (GAZT) in 2019.

### Net income

The Bank reported net income for the year ended December 31, 2019 of SAR 239.5 million, a decrease of SAR 336.4 million, or 58.41%, compared to the 2018 net income of SAR 575.9 million. The return on average assets was 0.24% in 2019 compared to 0.61% in 2018, and the return on average shareholders' equity was 2.03% in 2019 compared to 4.73% in 2018.

### Profit distribution

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 60 million has been transferred from 2019 net income. The statutory reserve is not currently available for distribution.

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on April 24, 2018 (corresponding to 8 Shaban 1439H). The net dividends were paid to the Bank's shareholders thereafter.

No dividends have been proposed for the year ended December 31, 2019.



## 2019 BOARD OF DIRECTORS' REPORT

### Net income by operating segment

The net income of the Bank's reportable operating segments for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Retail Banking	(622,959)	247,461
Corporate Banking	601,148	833,902
Treasury and Investments	559,557	531,841
Asset Management and Brokerage	33,832	10,607
Others*	(242,077)	(180,043)
Income before provisions for Zakat and Income Tax	329,501	1,443,768
Provisions for Zakat and Income tax	(90,040)	(867,871)
Net income	<u>239,461</u>	<u>575,897</u>

\*Others include the net results related to Information Technology, Operations, Risk, and other support units.

### Five-year financial highlights

A summary of the Bank's operations, financial position, and key ratios follows.

	SAR in millions				
	2019	2018	2017	2016	2015
<b>Operations</b>					
Total income (1)	2,906	2,824	2,792	2,557	2,667
Total expense (2)	1,234	1,133	1,059	1,051	1,033
Operating profit before provisions	1,672	1,691	1,733	1,506	1,634
Provisions for credit and other losses	1,343	247	322	453	305
Provisions for Zakat and Income Tax (3)	90	868	-	-	-
Net income	239	576	1,411	1,053	1,329
<b>Financial position</b>					
Total assets	100,815	96,070	93,796	93,047	93,578
Loans and advances, net	57,112	59,413	59,588	60,249	60,269
Investments	26,175	24,638	21,714	21,448	18,983
Investments in associates	994	1,012	1,020	1,000	939
Term loans	2,012	2,030	2,015	2,032	2,011
Subordinated debt	-	2,006	2,003	2,002	2,000
Customer deposits	69,058	63,690	66,943	65,640	70,518
Shareholders' equity	12,007	11,621	13,494	12,834	12,036





## 2019 BOARD OF DIRECTORS' REPORT

	SAR in millions				
	2019	2018	2017	2016	2015
Tier I Sukuk	2,000	1,785	785	500	-
Total equity	14,007	13,406	14,279	13,334	12,036
<b>Key ratios</b>					
Return on average Shareholders' equity (%)	2.03	4.73	10.72	8.54	11.12
Return on average assets (%)	0.24	0.61	1.51	1.13	1.42
Capital adequacy (%)	18.26	19.31	20.38	18.93	16.94
Equity to total assets (%)	13.89	13.95	15.22	14.33	12.86

- (1) Total income includes total operating income plus share in earnings of associates.  
(2) Total expense includes total operating expenses before impairment charges.  
(3) The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.

### Regulatory payments

The Bank in the ordinary course of its business, makes regulatory payments including Zakat, Income Tax, withholding tax, Value Added Tax, and other regulatory payments.

A summary of the payments made during 2019 follows, which also includes regulatory fines incurred during the year.

### **Zakat Settlement**

In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million was fully provided for through a charge to the consolidated statement of income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million and SAR 124 million on January 1, 2019 and December 1, 2019 respectively, as per the settlement agreement. The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	SAR'000
December 1, 2020	124,072
December 1, 2021	124,072
December 1, 2022	124,072
December 1, 2023	124,072
Undiscounted Zakat settlement liability	496,288
Less: Discount	(42,487)
Net discounted Zakat liability	453,801

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the consolidated statement of income in 2018 and was settled by April 30, 2019.

The Zakat settlement also did not include the year 2005. However, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million which was charged to the consolidated statement of income in 2018 and was settled in 2019.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Income tax and withholding tax assessments**

Certain Income tax and Withholding tax assessments are outstanding for the years 2005 to 2009. The Bank, in consultation with its professional tax and Zakat advisors, has filed appeals for the above assessments with the GAZT, and while management is confident of a favourable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes.

### **Withholding tax**

The Bank paid SAR 12.7 million to the GAZT for Withholding tax for the year ended December 31, 2019.

### **Value Added Tax (VAT)**

The Bank paid SAR 84.1 million to the GAZT for VAT for the year ended December 31, 2019.

### **Other Regulatory Payments**

The Bank paid SAR 47.8 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 19.4 million during the year ended December 31, 2019. The Bank also paid SAR 2.1 million for visa and other related governmental fees during the year ended December 31, 2019.

### **Regulatory penalties and fines**

During 2019, the Bank paid SAR 915,400 in penalties and fines to the following regulatory agencies:

- One CMA fine was paid for SAR 10,000; and
- Fines paid to the Ministry of Municipal and Rural Affairs totaled SAR 395,000.

The Bank also paid the following fines to SAMA:

<u>Fines Amount In SAR</u>	<u>Description of the fine</u>	<u>No. of fines</u>
212,400	Violating SAMA's Instructions for Customer protection	1
298,000	Violating SAMA's instructions of supervision	6

### **Strategy and Strategic phases**

The Bank's new three-year strategy commenced in 2019, and focuses on promoting and capitalizing on the Bank's strengths to unlock potential opportunities to achieve the Bank's long-term financial and other objectives. The new strategy is being implemented in three main phases of Transformation, Building, and Acceleration.

#### **Transformation**

A successful strategy starts with transformation, aiming to move from where the Bank is now, to where the Bank aspires to be. The new strategy properly assessed the Bank's opportunities and strengths, and identified the areas for development focus.

The Bank completed this phase early in 2019 when it launched its Innovation Lab. The Innovation Lab promotes the adoption of a different work style that focuses on innovate talent from across the Bank to work on ideas to monitor customer needs and trends, to consolidate and prioritize business cases, and to ensure short-time response and implementation in both decision-making and resource allocation.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Building**

The Building phase is the implementation and execution of the Strategic Plan. The Bank is focused on developing its infrastructure, strengthening its foundations, making the necessary changes in operations and executing critical projects, as well as deep-rooting its customer loyalty.

### **Acceleration**

The new strategy stresses the positive impact of acceleration and agility, as it enables and promotes close collaboration between business and development, increases efficiency and productivity, and reduces product launch cycle time. The importance of acceleration has increased in recent years, and is governed by speed and technical development. It is the benchmark that will distinguish the Bank from its competitors in the market going forward.

Another key dimension to acceleration is digitization through strengthening existing IT capabilities. It aims to support business needs, build advanced data analytics, and achieve a paper-less culture, as well as creating digital workflows across all functions.

The Bank also values its strategic partnerships, as they are essential in achieving the Bank's strategy. The Bank's FinTech partnerships are also integral enablers to innovation and digitization. These partnerships were formalized to improve customer experience, expand services provided to the customers, and to penetrate the market with unique and easy to use products.

### **Alignment with Vision 2030**

The Bank's new strategy supports Vision 2030 and its executive programs, with a focus on improving banking services and customer experience. It also promotes cashless transactions, a savings culture and financial literacy, and supports the housing market by offering customized housing products. The Bank looks to the future with boundless optimism and high aspiration, and will exert determined efforts to achieve its new strategy and elevate the Bank's performance and excellence.

### **Micro, Small, and Medium Enterprises (MSME)**

#### **MSME unit summary and staffing**

The Bank's MSME staff are spread throughout the Corporate Banking, with the majority of the staff in the SME Banking and Commercial Banking Departments. MSME staff totaled 20 at the end of 2019.

#### **MSMEs training initiatives and workshops**

A summary of the MSME training initiatives and seminars completed during 2019 follows:

- Number of man-days training provided to staff 59 days
- Number of man-days training provided to customers 12 days



## 2019 BOARD OF DIRECTORS' REPORT

### Quantitative Disclosures

The following tables summarize the key financial information for the Bank's MSME operations during 2019 and 2018.

	2019 SAR'000			
	Micro	Small	Medium	Total
Loans to MSMEs-on Balance Sheet (B/S)	49,298	426,760	1,511,487	1,987,546
Loans to MSMEs-off Balance Sheet (Notional amount)	13,793	178,450	697,755	889,998
On B/S MSMEs Loans as a % of total on B/S loans	0.08%	0.72%	2.54%	3.34%
Off B/S MSMEs position as a % of total off B/S position	0.11%	1.44%	5.62%	7.17%
Number of loans (on and off B/S)	22	205	460	687
Number of customers for loans (with Credit Facility Limit)	15	88	153	256
Number of loans guaranteed by Kafalah program (on and off B/S)	7	43	41	91
Amount of loans guaranteed by Kafalah program (on and off B/S)	13,944	32,438	156,357	202,739
	2018 SAR'000			
	Micro	Small	Medium	Total
Loans to MSMEs-on Balance Sheet (B/S)	19,285	457,678	1,357,132	1,834,095
Loans to MSMEs-off Balance Sheet (Notional amount)	10,032	175,869	662,317	848,218
On B/S MSMEs Loans as a % of total on B/S loans	0.03%	0.75%	2.22%	3.00%
Off B/S MSMEs position as a % of total off B/S position	0.09%	1.49%	5.61%	7.19%
Number of loans (on and off B/S)	15	242	504	761
Number of customers for loans (with Credit Facility Limit)	15	94	151	260
Number of loans guaranteed by Kafalah program (on and off B/S)	2	63	5	70
Amount of loans guaranteed by Kafalah program (on and off B/S)	2,032	47,997	24,886	74,915

### Risk management

The complexity of today's financial services sector in a globalized economy requires the identification, measurement, aggregation, and effective management of risks, including an efficient allocation of regulatory capital to support the balance sheet and derive an optimal risk and return ratio. The Bank endeavors to:

- Ensure that significant and measurable risks are identified, quantified and managed proactively; and
- Enhance risk adjusted returns and provide financial comfort and stability to our many customers and other stakeholders.

The Bank's stakeholders including regulators and rating agencies also expect the Bank to have a clear and well-documented risk management framework in place that addresses the various dimensions of the Bank's business.



## 2019 BOARD OF DIRECTORS' REPORT

---

The Bank has a comprehensive set of policies dealing with all aspects of risk management. The Board Approved Risk Management Policy Guide is the overarching policy document prepared in conformity with SAMA guidelines which covers in depth the risks the Bank is exposed to in the pursuit of its business. It also describes the risk governance structures and risk management policies in place for the management, monitoring, and control of the risks through the Board Approved Risk Appetite Framework, Credit Policy Guide, and Treasury Policy Guide.

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be considered (Other Risk Limits);
- The desired balance of risks versus returns by Business Line (Business Unit Risk Appetite measurements); and
- The desired risk culture, compensation programs, business continuity management, information technology and cybersecurity risk, and the overall compliance environment of the Bank for a successful implementation of the RAF (Qualitative Reporting).

The Bank's Board of Directors is responsible for establishing Corporate Governance processes and approving the Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards (most recently IFRS 9 in relation to expected credit loss provisioning), and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy Guide under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Bank's comprehensive IFRS 9 Governance Framework Policy in 2018, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 Governance Framework along with related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a sub-committee of the Board, responsible for recommending policies and other documents for Board approval and for monitoring risks within the Bank. At the management level, the Bank operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee, which are responsible for various areas of risk management. A management level Expected Credit Loss Committee linked to the Bank's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Bank has a Risk Management Group headed by a Chief Risk Officer who is supported by Assistant General Managers in charge of Risk Management, Credit Risk Review, Credit Administration, and Collections.



## 2019 BOARD OF DIRECTORS' REPORT

---

In addition to the above, the Bank's Internal Audit Function Reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Bank-wide basis.

The following provides a description of the Bank's significant risks including how the Bank manages these risks:

### **Credit risk**

Credit Risk arises from the potential that a borrower or counterparty will fail to perform on its financial obligations to the Bank. The exposure to credit risk arises primarily from loans and advances, investments, and due from banks and other financial institutions. Credit risk is also present in off-balance sheet financial instruments such as Letters of Credit, Acceptances, Guarantees, Derivatives, and Commitments to extend credit.

The Bank has a comprehensive framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools. This is supplemented by external ratings of major rating agencies, where available.

In addition, the Bank is improving the overall credit risk control function by further investment in a post sanction review process to mitigate potential credit losses that may arise.

### **Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board of Directors has established commission rate gap limits for stipulated time periods. The Bank also routinely monitors its positions and uses hedging strategies to ensure maintenance of positions within established gap limits.

Currency risk is the risk 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 independently monitored.

Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

### **Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements when needed and at an acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry-up unexpectedly.

The Bank's management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. In addition, the Daily Liquidity Ratio, Net Stable Funding Ratio, and the Loans to Deposit Ratio are monitored regularly and independently to ensure compliance with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios which covers both normal and more severely stressed market conditions. All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events.

The Bank's Operational Risk Management Framework provides a Bank-wide definition of operational risk and lays down tools and processes by which operational risks are identified, assessed, monitored, and controlled. The key components of this framework include the Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Scenario Analysis, and Incident Management, which are comprehensively documented in the Bank's operational risk policies, procedures, and controls.

The continuous assessment of operational risks and their controls in all business and support units of the Bank are monitored through RCSA exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite for the Bank as a whole. This includes monitoring the operational risk losses incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. Global major loss incidents across the banking industry are also duly analyzed to assess their impact if these are incurred in the Bank. The Bank's KRIs cover all the business and support units to facilitate proactive monitoring and management of operational risks.

### **Financial crime risk**

Financial crimes are considered a significant risk for financial institutions and all stakeholders (including customers, staff, shareholders, counterparties etc.). Occurrence of such crimes can have a significant negative impact on the Bank and its reputation.

The Bank has continued to enhance its fraud management framework where the Fraud Prevention and Detection Department (FPDD) operates within. The Fraud Risk Management Framework defines principles of identification, assessment, escalation, investigation, resolution, reporting and corrective action on fraud related issues. It lays down an approach for procedures related to tools and methods engaged by FPDD to protect the Bank from exposure to financial crime. FPDD presents their findings and recommended actions to the Financial Fraud Control Committee (FFCC) on a regular basis.

### **Cyber information security risk**

The Cyber and Information Security Risk landscape continues to be dynamic and challenging. The Bank has proactively addressed on-going Cyber Security challenges and deployed dynamic defenses using multiple countermeasures for prevention, detection, and response. The Bank has also deployed various security measures using the defense in-depth and multilayer security principle to ensure the effectiveness of the overall security posture of the Bank.

The Bank has also strengthened its existing governance structure by implementing industrial security best practices that ensure confidentiality, integrity, privacy, and availability, which are treated as an integral part of all business and technical processes. The Bank also ensures the alignment of the information security and business objectives through the implementation of the Cyber and Information Security Strategy, which is supervised and monitored by the Information Security Steering Committee. Also, the Bank is continuously enhancing the security culture through various awareness and training programs targeting staff and customers.

The Bank also constantly performs security assurance assessments on the Bank's systems and applications to ensure that our business services are secure and reliable. Furthermore, the Bank conducts independent internal and external audits by reputable vendors to ensure the effectiveness of implemented security controls and compliance with regulatory and international standards such as the SAMA cyber security framework (CSF), National cybersecurity authority (NCA), SARIE, SWIFT and Payment Card Industry and Data Security Standard (PCI DSS). The result of the audit exercises proves that the Bank complies with regulations and security standards and shows that our security posture is up to industrial standards and is satisfactory.



## 2019 BOARD OF DIRECTORS' REPORT

---

The Bank has a 24/7/365 Security Operation Center (SOC) which continuously monitors and responds to cyber security threats and attacks in timely manner. As a result of implemented security measures, the Bank has been resilient to numerous cyber-attacks targeting the Middle East and Saudi Arabia with no cyber and information security related downtime or operational losses incurred during 2019.

### **Business Continuity Management**

The Bank recognizes the importance of planning for Business Continuity and has made significant progress in this area in 2019. An effective Business Continuity Plan ('BCP') facilitates in mitigating a serious disruptive incident in a controlled, timely, and structured manner.

During 2019, the Bank further strengthened the testing of its BCPs and procedures. Detailed tests were completed on different occasions. Further, in September 2019 the Bank successfully conducted a continuous five days' disaster recovery test of all critical IT systems by switching and operating them from the Bank's Disaster Recovery Center (DRC) at once, with no dependency on the bank Main Data Center (MDC).

The Bank will continue to enhance its capabilities to respond to major disruptive incidents that may require the activation of its continuity and emergency environments in the DRC for IT systems or its Business Continuity Sites by applying multiple testing scenarios in the coming year.

The Bank has made significant progress in finalizing its new DRC, considering that the last testing activity in September 2019 was conducted from there. The Bank will continue to emphasize ongoing training and awareness of staff on Business Continuity and develop an improved approach to training and workshops. In recognition of its BCM efforts, the Bank is planning to re-new the ISO 22301 Certification for its Business Continuity Management which was recently updated with a new version recently after validation by an independent certification body.

### **Information technology transformation strategy**

There are several factors that drove the Information Technology Group (ITG) during 2019 including the commitment to the Bank's three year strategy, focus on flexible infrastructure and innovative business solutions to meet increasing business demands, rising cost of capital, compliance with more stringent local and international regulatory requirements, and the Board of Directors mandate to support long term sustainability and effective governance.

ITG has completed the following during 2019:

- Completed the Disaster Recovery Center (DRC) and performed the first full business continuity test mandated by SAMA to run the Bank from the DRC for five days and go back to main data center, with no issues.
- Introduced the corporate currency card to serve corporates and government entities, which was the first multi-currency corporate expense card of its kind worldwide.
- Introduced personal finance and refinance applications through Mobile/internet banking.
- Completed the automation of phase 1 of Tanfeeth initiative to comply with SAMA mandates and eGovernment initiatives.
- Introduced the new corporate banking channel (Mobile/Internet).
- Introduced full integration with ApplePay & MadaPay.
- Enhanced integration capabilities which allowed the bank to integrate smoothly with all e-government services, REDF, Bayan, GOSI and other third-party service providers.
- Implemented a new open API platform to allow the Bank to integrate with new FinTech companies and corporate customers.
- Implemented many new business solutions for Treasury, Personal Banking, Corporate Banking, Finance, HR, Risk, Information Security, Business Continuity, and Marketing.

During 2019, ITG also completed a full Tech Refresh and upgrade for its ATM switch, and completed other major enhancements to existing systems as part of the Bank's continuous improvement initiatives.





## 2019 BOARD OF DIRECTORS' REPORT

---

### **Business segments**

In 2019, the Bank achieved a number of key milestones. The Bank continued developing products and services for its different segments in pursuit of fulfilling our customers' needs and expectations.

The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed summary of the business segment results for 2019 and 2018 is presented in note 28 to the consolidated financial statements.

The Bank has three significant business segments, each of which is described below.

### **Retail Banking**

Retail Banking offers conventional and Shariah compliant retail services for individuals, through the Head Office and a network of branches throughout Saudi Arabia. Services include current accounts, savings, and time deposit accounts. The Bank also offers Shariah compliant products through its Shariah compliant branches. The Bank also has a network of ATMs covering all regions of Saudi Arabia.

### **Corporate Banking**

Corporate Banking serves the financial needs of a range of business establishments from micro, small, and medium enterprises (MSMEs) to large corporate entities. Corporate Banking operates from three regional headquarters based in Riyadh, Jeddah, and Al-Khobar as well as through Syndications, Project, and Structured Finance Departments to provide tailor-made financial solutions and highly customized structures.

Offerings span both conventional and Shariah compliant products and services and include facilities related to working capital financing, contract financing, project financing, syndicated financing, real estate financing, capital financing, trade finance, cash management, and treasury services for corporates. It continually strives to increase the range and quality of the Bank's product and service offerings to meet customers evolving needs and expectations.

### **Treasury and Investments**

Treasury and Investment is responsible for the Bank's Asset-Liability management including interest rate risk, market risk, and liquidity, funding and liquidity management. It also manages foreign exchange trading, structure products, as well as managing the Bank's Investment portfolio and derivative products.

Treasury and Investment also manages the Bank's Business Partner Companies, Financial Institutions, Public Institutions, and the Asset Liability Management unit.

### **Customer programs and services**

The Bank offers a range of programs and services to its customers as follows:

#### **Silver, Gold and Platinum customer programs**

The Bank provides its valued customers three customer programs, which are designed to meet its customers banking needs through a package of products and services that suit their different lifestyles. "Gold" and "Platinum" customer programs provide a high class banking relationship and exclusive services tailored for our elite customers; where we serve them in total privacy and luxurious comfort.

#### **Private Banking services**

The Bank provides its valued customers a unique combination of exclusive services through its Private Banking proposition offering elite benefits and advantages tailored to its private banking customers. It is backed by a highly skilled team of relationship managers who come with rich experience and provide valuable advice to our private clients.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **E-Banking Services**

The Bank has been in the forefront of introducing various innovative services and products to its customers in order to provide a friendly digital banking experience that aligns with the Bank's strategy in digitalization. Accordingly, the Bank has introduced new technologies, channels, and services to meet the increasing business demands, which have positively impacted overall customer experience.

The Bank's personal digital banking services have multiple distribution channels, including online banking (Website & Mobile Applications), ATM, Interactive Teller Machines (ITM), and Interactive Voice Recognition (IVR). Our corporate digital banking services currently have multiple distribution channels including corporate online banking, eTrade, ePayroll, Cash Management, and B2B services.

In addition, there have been several services and enhancements introduced to customers during 2019 including:

- Online Account Opening with full KYC, including MADA card issuance and Travel Card application and issuance, using kiosks;
- Online consumer finance application and fulfilment through internet banking;
- Online consumer loan re-finance application and fulfilment through internet banking;
- Integration with ApplePay and MadaPay to link SAIB cards to customer's wallets;
- New Corporate Currency Card application as the first card recognized worldwide as a multi-currency corporate expense card;
- New Corporate Mobile Application, that complements the corporate internet banking platform of the Bank;
- New state of the art mobile banking application using latest technologies;
- Finger Print for account opening authentication;
- Travel card services improvement via the internet banking channel by which now allows customers to add up to 75 currencies, and manage their wallets online;
- New services and enhancements to the e-Trade portal;
- New services and enhancements to internet banking, ATM, and SAIB IVR channels; and
- Internet and mobile banking improvements to international standards to enhance the quality of service to customers.

As digital business development grows in Saudi Arabia, the Bank is also working on new and innovative FinTech-based initiatives to enable digital payment services.

Finally, digital media communication is becoming a key factor in promoting digital channels and services in terms of awareness, promotions, and customer awareness, which has given the Bank an edge in overall customer experience.

### **Branch network and related services**

As of December 31, 2019, the number of branches operating under the Bank was 52, 10 of which contain a ladies sections. The Bank currently operates a network of 393 ATMs & Interactive Teller Machines throughout Saudi Arabia. The Bank also operates more than 9,300 POS terminals.

### **Alasalah Islamic Banking services**

Due to the increase in the importance of Islamic banking and its strategic direction, the Bank has continued its focus on the Alasalah program, which includes many Shariah compliant banking services and products approved by the Bank's Shariah Board. These services are offered through 49 branches in most major cities in the Kingdom.

During 2019, the Bank was able to raise the volume of financing and deposits compliant with Shariah controls, with the volume of financing increasing to SAR 39.0 billion, and deposits increasing to SAR 61.4 billion as of December 31, 2019.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Strategic partnerships**

The Bank has four wholly-owned subsidiaries as follows:

- Alistithmar for Financial Securities and Brokerage Company, which offers brokerage, asset management, investment banking and other services in the Kingdom of Saudi Arabia. The total capital of the Company is SAR 250 million with 25 million shares outstanding. The Company does not have any debt instruments issued. The Company was established in July 2007 as a limited liability company, and in 2015 the Company was converted into a closed joint stock company. The Company provides brokerage services, investment management services in the form of mutual funds and portfolios, custody services and investment banking advisory. Assets under management totaled SAR 18,799 million as of December 31, 2019, of which SAR 1,625 million is considered Shariah approved.
- The Saudi Investment Real Estate Company. The total capital of the Company is SAR 500 thousand. The Company does not have any debt instruments issued. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions.
- Saudi Investment First Company Ltd. The total capital of the Company is SAR 25 thousand, and this Saudi limited liability Company does not have any debt instruments issued. During 2019, the commercial registration of the Company has been de-registered. However, the Company is in the process of completing other formalities for certain regulatory authorities to complete the liquidation.
- SAIB Markets Limited Company, was registered as a limited liability company in the Cayman Islands in July 2017. The total capital of the Company is SAR 187.5 thousand, and this Cayman Islands limited liability Company does not have any debt instruments issued. The objective of this Company is trading in derivatives and Repo activities on behalf of the Bank.

The Bank also has investments in three associate companies in Saudi Arabia as follows:

- American Express (Saudi Arabia) - ("AMEX"), is a Saudi closed joint stock company. The total capital is SAR 100 million with 10 million shares outstanding and the Bank holds a 50% interest, or 5 million shares. The principal activities of AMEX are to issue credit cards and offer other American Express products and services in Saudi Arabia.
- Saudi Orix Leasing Company ("Orix"). Orix is a Saudi closed joint stock company in Saudi Arabia. The total capital is SAR 550 million. Orix has 55 million outstanding shares and the Bank holds 20.90 million shares representing 38% of the outstanding shares. The primary business activities of Orix include lease financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. ("Amlak"). Amlak is a Saudi closed joint stock company in Saudi Arabia. The total capital is SAR 906 million. Amlak has 90.6 million outstanding shares and the Bank holds 29 million shares representing 32% of the outstanding shares. Amlak offers real estate finance products and services in Saudi Arabia.

### **Credit Ratings**

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets, but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards.



## 2019 BOARD OF DIRECTORS' REPORT

---

During the year, the Bank continued its program of rating reviews with Standard & Poor's Ratings Services (S&P), Moody's and Fitch Ratings. A summary of the Bank's current ratings follows:

	<u>Long-term</u>	<u>Short-term</u>	<u>Outlook</u>
Moody's	A3	P-2	Stable
S&P	BBB	A-2	Stable
Fitch	BBB+	F2	Stable

The Bank's stable ratings are the result of our financial performance, asset quality and capitalization levels, supported by a stable strategy and adequate liquidity profile. Our ratings take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets in the Middle East. The ratings also reflect Saudi Arabia's sovereign credit ratings from Moody's, Fitch, and S&P, in addition to the country's economic fundamentals, adherence to BIS norms, and G20 alignment.

### **Compliance Group**

The Compliance Group is an independent group that ensures the Bank's compliance with applicable laws, regulations, and rules, and therefore plays an essential role to preserve the integrity and reputation of the Bank.

Compliance is a culture and it is every one's responsibility starting with the Board of Directors and Executive Management and reaching out to all staff members within the Bank. It is also an integral part of the Bank's day-to-day business and operational activities.

The Responsibilities of Compliance include:

- **Advisory:** Compliance identifies regulatory risks that the Bank faces and provides advice to help mitigating such risks. It also resolves compliance related issues as they arise and advises business units to overcome these issues.
- **Assessment:** The Compliance function designs and helps in implementing controls to protect the Bank from regulatory risks that might expose the Bank to administrative and legal penalties, financial losses, or damage to the Bank's reputation. Compliance is one of the Bank's key success factors due to the significant role it plays in protecting the Bank's reputation and credibility as well as safeguarding shareholders' and depositors' interests by:
  - Managing regulatory risks and avoiding financial penalties due to violations and/or unmanaged changes to rules and regulations;
  - Reviewing the standard operating and accounting procedures, products, services, forms, contracts and agreements to ensure they are in line with latest laws and regulations governing related business segments;
  - Assessing new laws and regulations and providing guidance on their implementation and advising lines of business on regulatory matters;
  - Ensuring effective controls are in place to protect the Bank from violating applicable rules and regulations; and
  - Adding Compliance Committee Meetings as planned to assess all challenges and issues encountered in order to rectify these shortcomings and be in line with regulatory mandates.
- **Monitoring:** Compliance conducts periodical reviews of business areas to ensure that the effectiveness of controls is adequate. The Compliance monitoring function also generates necessary reporting that highlights all identified gaps and assesses the level of Compliance across the Bank.



## 2019 BOARD OF DIRECTORS' REPORT

---

- Correspondence: The Compliance function handles incoming and outgoing communications with regulatory bodies, ensures the Bank is presented in the best manner, and assists in obtaining regulatory approvals for products, services, campaigns, and all other requests that are subject to regulatory no-objections.

### **Anti-Money Laundering & Counter Terrorist Financing Unit**

The Anti-Money Laundering (AML) & Counter Terrorist Financing (CTF) unit is an independent unit that reduces the risk of money laundering and terrorist financing by setting the Bank's AML programs, and policies and procedures to comply with local and international standards.

The responsibilities of the AML & CTF unit include:

- Monitoring and identifying suspicious transactions, performing investigations, classifying suspicious activities, and reporting them to the General Administration of Financial Investigation;
- Reviewing products and services from a regulatory view point and on a risk approached basis;
- Ensuring that enhanced due diligence is applied in all cases warranted to mitigate AML exposure;
- Monitoring and managing high risk accounts and related activities;
- Maintaining a sanction system and related controls;
- Identifying hits which require additional research;
- Ensuring hits/alerts are handled in accordance with defined procedures and meet the standards for both quality and timeliness;
- Monitoring and assisting in the resolution of complex issues;
- Implementing SAMA directives related to deduction and blocking and unblocking of bank accounts; and
- Preparing necessary technical reports in a timely manner and providing all required documents to SAMA.

### **Operational Excellence Unit**

The Bank's Operational Excellence Unit has undertaken a variety of initiatives in 2019 to support service delivery, quality, innovation, and to achieve best banking standards. Initiatives included:

- Launched a number of initiatives aiming at higher levels of achievement in service level agreement adherence;
- Established a variety of awareness campaigns through the Bank's website, social media network, brochures to all branches, and outreach educational visits to public and private facilities; and
- Completed several process improvement projects. These projects were aimed at optimization and standardization of process flow and have reflected positively on customers' various touchpoints throughout their journey.

### **Human Resources Group**

The Bank has always invested in people and their engagement as a key strategic driver. This is evident by "working environment" awards granted by several recognizing bodies. Building on this success, and further inspired by Vision 2030's quality of life, the Bank has adapted "Happiness" as an approach to doing business.

#### **Saudization and employee development**

The Bank continues to invest in the employment and development of Saudi talent. As of December 31, 2019, the Saudization ratio was 87.4% with female staff representing 20.9% of the workforce. Around 48% of staff have received formal training and the Bank has offered more than 208 different eLearning modules to its staff. Furthermore, 13 distinguished Saudi graduates were enrolled in the Bank's Graduate Development Program which prepares them for a successful career within the Bank.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Employee Benefits**

Benefits payable to employees at the end of their services are accrued in accordance with guidelines set by the Saudi Labor Regulations and as per the Bank's accounting policies. The amount of provision made during the year ended December 31, 2019 for employees' end of service benefits was SAR 38.4 million. The balance of the accrued benefits outstanding is approximately SAR 174.5 million as of December 31, 2019.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each Plan. All payments were completed during the year and there are no outstanding amounts as of December 31, 2019. The amount of provision made during the year ended December 31, 2019 for these plans was approximately SAR 5 million.

### **Related party balances and transactions**

In the ordinary course of its activities, the Bank transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia and during 2019, SAMA issued rules on Banks exposures to Related Parties. These updates specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions policy complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and/or their relatives;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank's management that require a no objection approval from SAMA.

Relatives include spouses, children, parents, grandparents, brothers and sisters, grandchildren and offspring and whom either a principal shareholder or a member of management, of the Bank or any of the associate, might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.



## 2019 BOARD OF DIRECTORS' REPORT

---

### Related party balances

The balances as of December 31, 2019, resulting from such transactions included in the consolidated statement of financial position are as follows:

	<u>SAR'000</u>
Management of the Bank, their relatives and/or their affiliated entities:	
Loans and advances	363,327
Customer deposits	1,084,621
Tier 1 Sukuk	7,000
Commitments and contingencies	88,145
Investments	400,727
Principal shareholders of the Bank and/or their relatives:	
Customer deposits	2,448,755
Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives:	
Loans and advances	873,967
Customer deposits	63,155
Tier 1 Sukuk	2,000
Commitments and contingencies	62,764
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:	
Customer deposits and other liabilities	176,722

### Related party transactions

Income and expense for the year ended December 31, 2019, pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	<u>SAR'000</u>
Management of the Bank and/or members of their immediate family:	
Special commission income	6,258
Special commission expense	2,873
Fee income from banking services	111
Principal shareholders of the Bank and/or members of their immediate family:	
Special commission expense	13,864
Rent and premises-related expenses (Building rental)	7,758
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Special commission income	31,143
Special commission expense	373
Fee income from banking services	3,328
Board of Directors and other Board Committee member remuneration	7,118

### The Board of directors and board committees

In the General Assembly meeting held on February 10, 2019, the Bank's board members were elected for a three year term starting from February 14, 2019.



## 2019 BOARD OF DIRECTORS' REPORT

---

### Board members

The names of the members of the Board of Directors, Board Committees, and their classification, qualifications and experience follows:

#### Mr. Abdallah Saleh Jum'ah

Classification: Non-Executive Member (Chairman)

Current job: Retired

Previous jobs:

1. President and Chief Executive Officer - Saudi Aramco
2. Executive Vice President for International Affairs - Saudi Aramco
3. Senior Vice President for Human Resources - Saudi Aramco
4. Senior Vice President for Industrial Relations - Saudi Aramco

Qualifications:

1. Bachelor of Political Science, American University, Beirut and Cairo
2. Business Management Program, Harvard University, Cambridge, USA

Current Memberships:

1. Board member - The Saudi Investment Bank (L)
2. Board member - Saudi Airlines Corporation (UL)
3. Board member - Hasana Investment Company (UL)
4. Vice Chairman - Zamil Industrial (L)

Previous Memberships:

In Kingdom

1. Board member - Saudi Aramco (UL)
2. Board member and CEO - Saudi Consolidated Electric Company (SCECO) (L)
3. Board member - Saudi Aramco Mobil Refinery Co. Ltd. (SAMREF) (UL)

OOK (overseas)

1. Board member - S-Oil, South Korea (L)
2. Board member - Petron Corporate, Philippines (L)
3. Board member - Motor Oil Hellas, Greece (L)
4. Board Member - Saudi Petroleum International, United States (UL)
5. Chairman of the Board - Motiva Enterprise, United States (UL)
6. Board member - Aramco Overseas Company, Holland (UL)
7. Board member - Halliburton Company, United States (L)
8. Member - JP Morgan Chase & Co. Int. Advisory Council, United States (L)
9. Advisory Board member - Schlumberger Business Consulting, France (L)
10. Advisory Board member - Reliance Int., India (L)

#### Mr. Abdulaziz Al-Khamis

Classification: Non-Executive Member (Vice Chairman)

Current job: Investment Advisor, Alra'idah Investment Co

Previous jobs:

1. Vice governor for investment - Public Pension Agency
2. Director General for Financial Investment - Public Pension Agency
3. Fixed Income Chief Dealer, Investment Management Department - Saudi Arabian Monetary Authority





## 2019 BOARD OF DIRECTORS' REPORT

---

4. Assistant Chief Dealer, Investment Management Department - Saudi Arabian Monetary Authority
5. Senior Fixed Income Dealer, Investment Management Department - Saudi Arabian Monetary Authority

Qualifications: Bachelor of Economics, North-eastern University, Boston, USA

Current Membership:

1. Board member - The Saudi Investment Bank
2. Board member - Tawuniya Insurance Company
3. Board member - The United Insurance Company, Bahrain

Previous Membership:

1. Board member - Petrochem
2. Board member - Sipchem
3. Board member - Saudi Polymer Company
4. Board member - Gulf Polymers Distribution Company, UAE

### **Mr. Abdul Rahman Al-Rawaf**

Classification Non-executive Member

Current job: General Manager of Deposit and Bond Management - Hasana Investment Company

Previous jobs:

1. General Manager of International Markets - Hasana Investment Company
2. Director of Investment Portfolio Management - General Organization for Social Insurance
3. Financial Analyst in the General Administration of Investment - General Organization for Social Insurance

Qualifications:

1. Bachelor of Science, Arkansas State University
2. Master of Public Administration, University of Southern California

Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member - Jabal Omar Development Company

Previous Memberships:

1. Board Member - The Industrialization and Energy Services Company.
2. Board Member - Sahara Petrochemical Company.
3. Board Member - Samba Financial.
4. Board Member - Bank Aljazira
5. Member of several committees (Audit, Executive Committee, Nominations and Rewards) in several other companies and banks

### **Dr. Fouad Al-Saleh**

Classification: Independent Member

Current job:

1. Chairman - Project & Construction Company (Saudi Projacs)
2. Chairman - Fouad Saud Al-Saleh & Associates

Previous jobs:

1. Chief of Contract Administration and Construction - Ministry of Defence



## 2019 BOARD OF DIRECTORS' REPORT

---

2. Assistant Director of Contract Administration and Construction - Ministry of Defence
3. Assistant Director of Construction and Maintenance Department - Ministry of Defence
4. Director of Project Management Department - Ministry of Defence
5. Director General of Construction Management Department - Ministry of Defence
6. Military Services with the Rank of Engineer Colonel

### Qualifications:

1. Bachelor of Civil Engineering (Civil Engineer) St. Martin College, Olympia, Washington
2. Masters of Civil Engineering (Construction Management), University of Washington, Seattle
3. PhD of Civil Engineering (Construction Management), University of Washington, Seattle

### Current Memberships:

1. Board member - The Saudi Investment Bank.
2. Board member - The Saudi Electric Industries Company Limited (SEICO)
3. Board member - Saudi Manufacturing Company.

### Previous Memberships:

1. Member of American Association of Construction Managers
2. Member of American Society of Civil Engineers
3. Member of the Society of American Value Engineers
4. Member of British Arbitration Association
5. Member of Project Management Institute
6. Member of American Arbitration Association

### **Mr. Saleh Al-Athel**

Classification: Independent Member

Current job: Retired

Previous job: Assistant General manager, Saudi industrial development fund (SIDF)

### Qualifications:

1. Bachelor of Philosophy and sociology, University of Damascus, Syria
2. Management Higher Diploma, University of Hartford, USA

### Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member - Saudi Specialized Laboratories Company - Motabaqah

### Previous Memberships:

1. Board Member - Saudi House for consultation
2. Board Member - Saudi Electrical Industries Company
3. Board Member - Saudi Laboratory company
4. Board Member - Saudi Telecommunication Company



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Mr. Mohammad Al-Ali**

Classification: Independent Member

Current job: Retired

Previous jobs:

1. Senior Vice President of Finance - Saudi Aramco
2. Financial Controller - Saudi Aramco
3. Chief Internal Auditor - Saudi Aramco
4. Director of International Accounting and Financial Reports - Saudi Aramco
5. Petroleum sales coordinator and financial accountant - Saudi Aramco

Qualifications:

1. Bachelor of Accounting, University of Texas Arlington
2. Master of Business Administration, University of Denver
3. Education program for executives, Carnegie Mellon University and Oxford University Creative Placement Center

Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member - Saudi Energy Efficiency Services Company

Previous Memberships:

1. Member of several executive committees of Saudi Aramco
2. Chairman of Saudi Aramco Investment Company
3. Chairman of Aramco International Overseas Company
4. Chairman of Saudi Aramco Trading
5. Board member of the management of Arabic pipes
6. Chairman of the Board of Governors of the GCC-BDI "Board of Directors Institute"

### **Mr. Mohammed Algrenees**

Classification : Non-executive Member

Current job : Head of Local Equity and Fixed income -Alraidah Investment Co.

Previous jobs:

1. Investment Portfolio Manager - HSBC, Saudi Arabia.
2. Head of Local Shares division - AlAhli capital company
3. Investment Portfolio Manager - Jadwa investment company

Qualifications: Bachelor of Chemical Engineering, Kuwait University, Kuwait

Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member - Taiba Investment Company

### **Mr. Yasser Aljarallah**

Classification: Independent Member

Current job

1. Chief Executive Officer & Co-Founder -Rawafed Investment Company, KSA
2. Chief Executive Officer & Co-Founder –Tharwaa Investment Company, UAE



## 2019 BOARD OF DIRECTORS' REPORT

---

### Previous jobs:

1. Co-Founder, PI Capital –USA.
2. Chief Executive Officer & Co-Founder - Tharwaa Alkhaleej General Trading LCC- UAE.
3. Co-Founder & Chief Executive Officer – Hadaf Aljazeera General Trading LLC-UAE.

### Qualifications:

1. Bachelor of Economics, University of Southern California. USA
2. Master of Economics University of Southern California. USA

### Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member - Inma medical services LLC –KSA
3. Co-Founder & Board Member- Tharwa Escan Investments LCC UAE

### Previous Memberships:

1. Founder & Board Member - Methaq Takaful Insurance Company, UAE
2. Board Member - Advanced Emerging Capital, UK
3. Board Member - VC Bank, Bahrain

### **Mr. Mohammed Bamaga**

Classification: Independent Member

Current job: Chief Executive Officer, Information technology - Saudi Airlines

### Previous jobs

1. Regional General Manger of Information Technology–SABIC.
2. Managing Director – Accenture. Middle East
3. Director of Information Technology – Sadara Co

Qualifications: Bachelor of Management Information Systems from King Fahad University for Petroleum and Minerals, Saudi Arabia.

### Current Memberships:

1. Board Member - The Saudi Investment Bank
2. Board Member and Chief of Audit and Risk - Dammam Airports Company
3. Board Member - The Saudi Federation for Cybersecurity, Programming and Drones

Previous Memberships: Member of the Advisory Board, Computer Sciences College, King Fahad University for Petroleum and Minerals

### **Audit Committee non Board Members**

#### **Mr. Monahy Al-Moreikhy**

Classification: Independent Audit Committee Member

Current job: Retired

### Previous Jobs:

1. Head of Internal Audit - Bank Albilad
2. Department Manager of automated audit - Al Rajhi Bank
3. Department Manager of IS Operation & Control - Al Rajhi Bank
4. Department Manager of IS Audit & Security - AlRajhi Bank.
5. Manager of Programming Systems - Ministry of Defense.



## 2019 BOARD OF DIRECTORS' REPORT

---

Qualifications: Bachelor of Computer Science and Mathematics, University of East Washington

Current Memberships: Independent Audit Committee member - The Saudi Investment Bank

### **Mr. Abdullah Al-Anizi**

Classification: Independent Audit Committee Member

Current Job: Group Chief Audit Executive - Saudi Telecom Group

Previous Jobs:

1. General Manager of Information Systems and Network Audit - Saudi Telecom Group
2. General Manager investment and operational audit - Saudi Telecom Group
3. Senior Manager - SAMBA Financial Group

Qualifications:

1. Bachelor of Information Systems from the Faculty of Computer Science, King Saud University.
2. Executive Master of Business Administration, King Fahd University of Petroleum and Minerals
3. Certified Internal Auditor.
4. Certified Information System Auditor.
5. Certification in Risk Management (IIA).
6. Certified Fraud Examiner

Current Memberships:

1. Independent Audit Committee member - The Saudi Investment Bank
2. Independent Audit Committee member - Alahli Capital
3. Independent Audit Committee Member - MetLife AIG ANB Cooperative Insurance
4. Independent Audit Committee Member - Al-Tayyar Travel Group
5. Independent Audit Committee Member - The National Agricultural Development Company NADEC

### **Mr. Fayez Belal**

Classification: Independent Audit Committee Member

Current Job: Retired

Previous Jobs:

1. Chief Financial Officer - Saudi Aramco Trading Company
2. Chief Financial Officer - Sasref
3. Chief Financial Officer- Petrolube Co
4. Manager Treasury Services - Saudi Aramco
5. Manager Finance & Accounting - Petro Rabigh

Qualifications: Bachelor of Accounting, King Abdulaziz University KSA

Current Membership: Independent Audit Committee member - The Saudi Investment Bank

### **Shariah Committee non Board Members**

#### **Dr. Mohamed Elgari**

Classification: Independent Member of the Shariah Committee



## 2019 BOARD OF DIRECTORS' REPORT

---

Current Job: Chairman of the Shariah Committee - Saudi Investment Bank

Previous Jobs:

1. Professor of Islamic Economics, King Abdulaziz University
2. Director of Islamic Economics Research Center, King Abdulaziz University
3. Expert in Islamic Fiqh Academy, Organization of the Islamic Conference (Jeddah Complex)

Qualifications:

1. Bachelor from King Abdulaziz University in Jeddah
2. Master's degree from University of California
3. PhD degree University of California

Current Memberships:

1. Chairman of the Shariah Committee Saudi Investment Bank
2. Member of the Islamic Classification Board of the Islamic Rating Agency (Bahrain).
3. Member of the Advisory Board of the Harvard Series in Islamic Law, Harvard Law School
4. Founding member of the National Society for Human Rights in Saudi Arabia
5. Member of the Shariah Board of The International Shariah Research Academy for Islamic Finance (ISRA), Malaysia

Previous Membership

1. Member of the Shariah Council, AAOIFI (Bahrain).
2. Member of the Scientific Committee of the Islamic Institute for Research and Training, Islamic Development Bank in Jeddah.

### **Dr. Abdulaziz Almezeini**

Classification: Independent Member of the Shariah Committee

Current Job: Shariah Committee Member - The Saudi Investment Bank

Previous Job: Legal associate at Al-Gasim law firm in association with Allen & Overy LLP in Riyadh

Qualifications:

1. PhD degree in law and exact specialization in Islamic finance from Georgetown University in Washington, D.C. The thesis was entitled "Selling debt in Islamic jurisprudence, comparative analytical comparative study."
2. Master's degree in law and exact specialization Financial regulations and regulations of Georgetown University in the American capital Washington.
3. Master of Systems from the Higher Institute of Judiciary at Imam Muhammad bin Saud Islamic University in Riyadh. The research was entitled: "Internal Crimes of Information in Financial Markets, A Comparative Juristic Study".
4. Bachelor in Islamic Law, Faculty of Shariah, Imam Muhammad bin Saud Islamic University, Riyadh

Current Memberships:

1. Shariah Committee Member - The Saudi Investment Bank
2. Member of the faculty of the Higher Judicial Institute at Imam Muhammad bin Saud Islamic University in Riyadh (currently).
3. Founding partner in the office of Mohammed al - Marzouq lawyers and consultants in cooperation with Ku

Previous Memberships: Chairman of The Preparatory Committee at The Saudi Investment Bank



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Dr. Ibrahim Al-Lahim**

Classification: Independent Member of the Shariah Committee

Current Job: Shariah Committee Member - The Saudi Investment Bank

Previous Job: Professor of the hadiths of judgments and Faculty member at the College of Shariah and Fundamentals of Religion, the Qassim University

Qualifications:

1. Bachelor degree in Islamic law (Shariah), College of Islamic law (Shariah), Al-Imam Muhammad Ibn Saud University, Riyadh, KSA
2. Master's degree in the Sunnah of the Prophet, Faculty of the fundamentals of religion in Riyadh
3. PhD in the Sunnah of the Prophet on the subject of the hadiths of judgments

Current Memberships:

1. Shariah Committee Member - The Saudi Investment Bank
2. Chairman of the Shariah Committee at MedGulf

### **Senior Management**

The names of the Senior Management of the Bank with their qualifications and experience follows:

#### **Mr. Faisal Al-Omran Chief Executive Officer**

Mr. Al-Omran joined the Bank in 2007. Prior to his current position as CEO, Mr. Al-Omran was the Deputy CEO and prior to that was the Bank Treasurer and Chief Investment Officer. Mr. Al-Omran holds a Bachelor's Degree with honors in Finance and Accounting from Northeastern University, and throughout his career he has attended various executive management courses at reputable institutions and universities including the London Business School and INSEAD.

#### **Mr. David Johnson Chief Financial Officer**

Mr. Johnson joined the Bank in 2009. Prior to joining the Bank, he spent approximately thirty years with KPMG and PricewaterhouseCoopers (PwC) serving primarily in the banking and financial services industries. In 1999, he relocated to Riyadh where he continued specializing in financial services and related industries. Mr. Johnson holds a Bachelor of Science degree in Accounting from Iowa State University, with minor degrees in economics and finance.

#### **Mr. Salman Al-Fughom Treasurer and Chief Investment Officer**

Mr. Al-Fughom joined the Bank in 2006 in treasury investments. Prior to joining the Bank, he was an investment analyst at the Saudi Arabian Monetary Authority (SAMA), where he worked for almost three years. Mr. Al-Fughom also held the position of Deputy Treasurer and Chief Investment Officer for two years before being promoted to Treasurer and Chief Investment Officer in 2017. Mr. Al-Fughom holds a bachelor's degree in engineering and business management from the University of Greenwich and a master of science in investment management from Cass Business School, UK.

#### **Mr. Ramzi Al-Nassar General Manager of Retail Banking**

Mr. Al-Nassar joined the Bank in 1990. Earlier in his career he served as an Officer in the International Banking Division at Riyadh Bank and in several managerial roles ranging from Project Engineer to Head, Contract Accounts Department for the General Petroleum & Mineral Organization (Petromin). He earned a Bachelor's Degree in Petroleum Engineering from King Saud University in Riyadh.



## 2019 BOARD OF DIRECTORS' REPORT

---

**Mr. Majed A. Fakeeh**  
**General Manager of Corporate Banking**

Mr. Fakeeh joined the Bank in his current position in 2012. Prior to joining the Bank, he was Chief Corporate Banker and Senior Credit Officer at NCB, where he worked for twelve years. Mr. Fakeeh also held the positions of Team Leader and Relationship Officer on Corporate Banking. Mr. Fakeeh also worked at the Bank as a Relationship Officer from 1995 to 2000. Mr. Fakeeh holds a Bachelor's Degree in Business Administration majoring in Finance from King Saud University.

**Mr. Mohammed A. Al Fraih**  
**General Manager of Information Technology Group**

Mr. Al-Fraih joined the Bank in 2016. He has 22 years of extensive experience in the areas of IT and business across various industries. He holds a Bachelor of Science Degree in Computer and Information Science from King Saud University.

**Mr. Mansour Al-Obaikan**  
**Chief Risk Officer**

Mr. Al-Obaikan joined the Bank in 2018, and was appointed as Chief Risk Officer in Dec 2019. Prior to joining the Bank, he worked in SABB from 2007 onwards in various positions in Corporate Banking and Global Banking & Markets. He holds a Bachelor's Honor's degree in Finance from Prince Sultan University, in addition to attending several management courses and professional programs at reputable institutions including HSBC U.K, HSBC India, HSBC Middle East, the International Institute for Management Development, INSEAD, IMD Business School and Euromoney.

**Ms. Nasreen Al-Dossary**  
**General Manager of Human Resources**

Ms. Al-Dossary joined the Bank in 2018. Prior to joining the Bank, she had around 23 years of varied work experience across various industries. She was the first Vice President of the National Committee for Women and also a Board member for many companies. She holds a Master Degree in Business Administration from the University of Hull, and has published a number of papers related to Human Resource management at many international conferences and symposiums.

**Mr. Majed El-Rubaiaan**  
**General Manager of Operations**

Mr. El-Rubaiaan joined the Bank in 2001. He has over 20 years of banking experience in Banking Operations. Before joining the Bank, he had five years' experience working at Banque Saudi Fransi in Banking Operations. Mr. El-Rubaiaan has a diploma from the Texas School of Business - USA in Office Information Systems and is certified by the International Chamber of Commerce, France, as a Documentary Credit Specialist. Mr. El-Rubaiaan also graduated from the Bank's Fast Track Management Program in 2014. Mr. El-Rubaiaan is also Certified in Business Excellence by Columbia Business School, USA in 2019.

**Mr. Waleed Al-Omary**  
**Chief Internal Auditor**

Mr. Al-Omary joined the Bank in 2006. He was appointed to his current position in 2017. Prior to his current position, he was the Deputy Chief Internal Auditor since 2015. He also worked in various positions in the Internal Audit function with combined experience of more than thirteen years. Mr. Al-Omary holds a Bachelor's Degree in English and has attended various management and technical courses on Internal Audit.





## 2019 BOARD OF DIRECTORS' REPORT

---

### **Mr. Badr Allaf** **General Manager of Compliance Group**

Mr. Allaf joined the Bank in 2017. Prior to joining the Bank, he was an executive team member & Chief AML and CTF Compliance Group at Bank AlJazira, where he worked for ten years. Mr. Allaf also held the position of western and southern regions Chief Compliance Officer at SAMBA Financial Group. Mr. Allaf holds a bachelor's degree in mechanical power engineering from King Abdulaziz University.

### **Board Committees and their composition**

The Board has the ultimate responsibility for the success, soundness and solvency of the Bank and is accountable for protecting depositors' and shareholders' funds. The main responsibilities of the Board members include challenging, contributing, approving and monitoring the business strategy of the Bank, approving and overseeing the implementation of the Bank's overall risk management strategies, monitoring and overseeing the Bank's performance and risks through laid down limits for management, including those for its subsidiaries. The Board operates through six Committees as given below:

1. The **Executive Committee** is comprised of five Board members. This committee supervises the credit and financial policies of the Bank, and oversee the Bank's business strategy and its execution. The Committee's responsibilities include reviewing, monitoring and approving key financial and non-financial business, investment and operational decisions of the Bank within the authority defined by the Bank.
2. The **Audit Committee** is comprised of five members, two Board members and three non-Board members. The Audit Committee's activities include ensuring quality and accuracy of financial accounting and financial statements including review of quarterly and annual financial statements and recommendation to the Board for approval, Supervising and Reviewing the effectiveness and independence of the Internal audit and External Auditors, reviewing the Compliance and Anti-money laundering processes including code of conduct and whistleblowing cases, reviewing and evaluating the nature and effectiveness of the Bank's Internal Control system including IT systems controls, their security and their vulnerabilities, and recommending the appointment of the External Auditors.
3. The **Nomination and Remuneration Committee** is comprised of four Board members. This committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the requirements for the suitable skills for membership of the Board of Directors, reviewing the structure of the Board of Directors, and recommending changes thereto. It is also responsible to recommend to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines. It is also responsible for approving the appointment and remuneration of senior executives of the Bank, reviewing and supervising the implementation of succession planning and training of the Bank's Board members, the CEO and the direct reports of the CEO.
4. The **Governance Committee** is composed of three board members. The committee is responsible for promoting and implementing best practices of governance by acting on behalf of the Board to ensure the implementation of these practices in all activities of the Bank. The Committee also monitors the Bank's compliance with relevant local and international regulations. The Committee monitors and guides the Governance function in the Bank, its ownership of corporate governance policies, processes and procedures.
5. The **Risk Committee** is comprised of four Board members. This committee supervises the risk management activities of the Bank including market, credit, operational, and other risks. The Risk Committee's activities include setting the Bank's Risk Management Strategy, setting the Bank's Risk Appetite framework, periodically reviewing the actual risk profile against the approved risk capacity and risk appetite, reviewing the Internal Capital Adequacy Assessment Plan and the Internal Liquidity Adequacy Assessment Plan, reviewing stress test results and review of the risks relating to the Bank's subsidiaries and their potential impact.
6. The **Shariah Committee** is comprised of three members and is responsible for providing Shariah opinions on submitted applications and related contracts and forms. The Committee is also



## 2019 BOARD OF DIRECTORS' REPORT

responsible for ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function. In addition, the Committee answers Shariah related enquiries for the Bank and its customers.

The composition of the six Board Committees is presented below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Governance Committee	Risk Committee	Shariah Committee
Mr. Abdulaziz Al-Khamis, (Chairman)	Mr. Mohammad Al-Ali (Chairman)	Dr. Fouad Al-Saleh (Chairman)	Mr. Yasser Aljarallah (Chairman)	Mr. Mohammed Algrenees (Chairman)	Dr. Mohamed Elgari (Chairman)
Mr. Abdul Rahman Al-Rawaf	Mr. Mohammed Bamaga	Mr. Abdulaziz Al-Khamis	Mr. Mohammad Al-Ali	Mr. Mohammad Al-Ali	Dr. Ibrahim Al-Lahim
Dr. Fouad Al-Saleh	Mr. Abdullah Al-Anizi (non-board)	Mr. Saleh Al-Athel	Mr. Saleh Al-Athel	Mr. Yasser Aljarallah	Dr. Abdulaziz Almezeini
Mr. Saleh Al-Athel	Mr. Monahy Al-Moreikhy (non-board)	Mr. Abdul Rahman Al-Rawaf	-	Mr. Mohammed Bamaga	-
Mr. Mohammed Algrenees	Mr. Fayez Belal (non-board)	-	-	-	-

### Directors' attendance

The details of the attendance of the Board and non-Board members in the Bank's Board, and Board committee meetings held during the year follows.

### Board meetings

Five Board of Directors meetings were held during 2019 as follows:

Board member	Board of Directors meetings attended				
	February 14, 2019	March 26, 2019	July 1, 2019	September 26, 2019	December 12, 2019
Mr. Abdallah Saleh Jum'ah	x	x	x	x	x
Mr. Abdulaziz Al-Khamis	x	x	x	x	x
Mr. Abdul Rahman Al-Rawaf	x	x	x	x	x
Dr. Fouad Al-Saleh	x	x	x	x	x
Mr. Saleh Al-Athel	x	x	x	x	x
Mr. Mohammad Al-Ali	x	x	x	x	x
Mr. Mohammed Algrenees	x	x	x	x	x
Mr. Mohammed Bamaga	x	x	x	x	x
Mr. Yasser Aljarallah	x	x	x	x	x

### Executive Committee meetings

Twelve Executive Committee meetings were held during 2019 as follows:

Committee member	Executive Committee meetings attended											
	Jan 15, 2019	Mar 5, 2019	Apr 8, 2019	May 5, 2019	May 27, 2019	Jun 30, 2019	Jul 28, 2019	Sep 1, 2019	Sep 25, 2019	Oct 30, 2019	Nov 26, 2019	Dec 22, 2019
Mr. Abdulaziz Al-Khamis	x	x	x	x	x	x	x	x	x	x	x	x
Mr. Abdul Rahman Al-Rawaf	x	x	x	x	x	x	x	x	x	x	x	x
Dr. Fouad Al-Saleh		x	x	x	x	x	x	x	x	x	x	x
Mr. Saleh Al-Athel		x	x	x	x	x	x	x	x	x	x	x
Mr. Mohammed Algrenees		x	x	x	x	x	x	x	x	x	x	x
Dr. Abdulaziz Al Nowaiser (A)	x											
Mr. Mishari Al Mishari (A)	x											

(A) Former Board member



## 2019 BOARD OF DIRECTORS' REPORT

### Audit Committee meetings

Five Audit Committee meetings were held during 2019 as follows:

Committee member	Audit Committee meetings attended				
	January 29, 2019	March 25, 2019	June 30, 2019	September 25, 2019	December 11, 2019
Mr. Mohammad Al-Ali	x	x	x	x	x
Mr. Mohammed Bamaga		x	x	x	x
Mr. Abdullah Al-Anizi	x	x	x	x	x
Mr. Monahy Al-Moreikhy	x	x	x	x	x
Mr. Fayez Belal		x	x	x	x
Dr. Fouad Al-Saleh	x				
Mr. Salih Al-Kholaify (B)	x				

(B) Former member

### Nomination and Remuneration Committee meetings

Five Nomination and Remuneration Committee meetings were held during 2019 as follows:

Committee member	Nomination and Remuneration Committee meetings attended				
	February 3, 2019	April 8, 2019	May 5, 2019	September 25, 2019	December 9, 2019
Dr. Fouad Al-Saleh		x	x	x	x
Mr. Abdulaziz Al-Khamis		x	x	x	x
Mr. Abdul Rahman Al-Rawaf	x	x	x	x	x
Mr. Saleh Al-Athel	x	x	x	x	x
Dr. Abdulaziz Al Nowaiser (A)	x				
Mr. Mishari Al Mishari (A)	x				
Dr. Abdulraouf M. Mannaa (A)	x				

(A) Former Board member

### Governance Committee meetings

Three Governance Committee meetings were held during 2019 as follows:

Committee member	Governance Committee meetings attended		
	March 25, 2019	September 25, 2019	December 11, 2019
Mr. Yasser Aljarallah	x	x	x
Mr. Mohammad Al-Ali	x	x	x
Mr. Saleh Al-Athel	x	x	x

### Risk Committee meetings

Four Risk Committee meetings were held during 2019 as follows:

Committee member	Risk Committee meetings attended			
	March 11, 2019	June 24, 2019	September 15, 2019	November 25, 2019
Mr. Mohammed Algrenees	x	x		x
Mr. Mohammad Al-Ali	x	x	x	
Mr. Yasser Aljarallah	x	x	x	x
Mr. Mohammed Bamaga	x	x	x	x



## 2019 BOARD OF DIRECTORS' REPORT

### Shariah Committee meetings

Five Shariah Committee meetings were held during 2019 as follows:

Committee member	Shariah Committee meetings attended				
	February 5, 2019	March 14, 2019	September 4, 2019	October 17, 2019	December 25, 2019
Dr. Mohamed Elgari	x	x	x	x	x
Dr. Abdulaziz Almezeini	x	x	x	x	x
Dr. Ibrahim Al-Lahim	x	x	x	x	x

### Ordinary General Assembly Committee meetings

One Ordinary General Assembly meeting was held during 2019 as follows:

Date of meeting	Members Attended
February 10, 2019	Mr. Abdallah Saleh Jum'ah Dr. Fouad Al-Saleh Mr. Abdulaziz Al Khamis Mr. Saleh Al-Athel Mr. Abdul Rahman Al-Rawaf Mr. Mohammad Al-Ali

### Extraordinary General Assembly Committee meetings

Two Extraordinary General Assembly meetings were held during 2019 as follows:

Date of meeting	Members Attended
March 28, 2019	Mr. Abdulaziz Al-Khamis Mr. Abdul Rahman Al-Rawaf Dr. Fouad Al-Saleh Mr. Mohammed Algrenees Mr. Saleh Al-Athel Mr. Yasser Aljarallah
April 18, 2019	Mr. Abdulaziz Al-Khamis Mr. Abdul Rahman Al-Rawaf Dr. Fouad Al-Saleh Mr. Mohammed Algrenees Mr. Mohammed Bamaga Mr. Yasser Aljarallah

### Performance of the Board of directors

Corporate Governance continues to be an important concern in the business world in relation to how companies are managed. The Board of Directors is entrusted to oversee the business, including implementation of the Bank's strategic objectives, approving risk strategy, approving corporate governance rules and principles of professional conduct, and supervision of senior management.

As per the Principles of Corporate Governance for Banks Operating in Saudi Arabia, issued by Saudi SAMA and endorsed by the CMA and International practices, the Board carries out, on an annual basis an internal assessment of the Board as a whole, of the individual Board members, and of the Board Committees and every three years this is carried out by an external consultant. The aim is to review the effectiveness of its own controls and work procedures, update its policies and procedures, and make necessary changes whenever the need arises. The Bank has received the Corporate Governance Excellence award for the third time from AIFaisal University.



## 2019 BOARD OF DIRECTORS' REPORT

In 2018, the Board of Directors engaged the GCC Board Directors Institute (BDI) to complete an external Board evaluation. The BDI report was completed in October 2018. The overall conclusion of the BDI report was that the Governance Framework and Systems of the Bank conform to both National and International Corporate Governance best practices. The Board is a high standard board, it has good group dynamics, is very committed, there is some excellent work being done at the Committee level as well as the Board level, and the Bank has a very good framework in terms of Corporate Governance. The report was considered very favorable and indicated that the Bank is considered in the top 5% of Boards that BDI have reviewed.

### **Changes in the Bank's ownership (Board of Directors and Senior Executives)**

The Board of Directors is composed of natural persons represented on the Board in their personal capacities. Below is the list of the overall ownership of Bank's shares by the Board of Directors and senior executives and their immediate relatives who have an interest in such ownership.

#### **Directors**

No	Name	Shares at the beginning of the year	Shares at the end of the year	Net Change	Percentage of Change
1	Mr. Abdallah Saleh Jum'ah	283,170	283,170	-	0%
2	Mr. Abdulaziz Al-Khamis	1,666	1,666	-	0%
3	Mr. Abdul Rahman Al-Rawaf	1,666	1,666	-	0%
4	Dr. Fouad Al-Saleh	354,982	369,301	14,319	4%
5	Mr. Saleh Al-Athel	253,153	253,153	-	0%
6	Mr. Mohammad Al-Ali	2,498	2,498	-	0%
7	Mr. Mohammed Algrenees	100	100	-	0%
8	Mr. Mohammed Bamaga	-	1,015	1,015	100%
9	Mr. Yasser Aljarallah	101,583,123	101,583,123	-	0%

#### **Senior Executives**

No	Name	Shares at the beginning of the year	Shares at the end of the year	Net Change	Percentage of Change
1	Mr. Faisal Al-Omran	18,209	18,209	-	0%
2	Mr. Ramzi Al-Nassar	250,000	250,000	-	0%
3	Mr. David Johnson	255,785	255,785	-	0%
4	Mr. Salman Al-Fughom	72,399	80,000	7,601	10%

There were no debt instruments held by Board members or Senior executives during 2019.

### **Number of orders related to the register of company shareholders and the dates and causes of such applications**

The Bank ordered the following 12 end of month registers on the dates indicated during 2019:

- |                      |                       |
|----------------------|-----------------------|
| 1. January 02, 2019  | 7. July 02, 2019      |
| 2. February 04, 2019 | 8. August 04, 2019    |
| 3. March 04, 2019    | 9. September 02, 2019 |
| 4. April 02, 2019    | 10. October 02, 2019  |
| 5. May 02, 2019      | 11. November 04, 2019 |
| 6. June 10, 2019     | 12. December 02, 2019 |



## 2019 BOARD OF DIRECTORS' REPORT

### Directors' and Senior Executives' Remuneration

The Bank's policy regarding remuneration of the Chairman and members of the Board of Directors is based on the limits set out in the Companies Regulations and the instructions of the Saudi Arabian Monetary Authority, as stated in the Bank's Governance Manual, which is available on the Bank's website.

The remuneration paid to directors and executives during the year ended December 31, 2019 was as follows:

	(SAR '000)	
	Independent Directors	Non-Executive Directors
<b>Board members remuneration</b>		
Allowance for attending Board Meetings	65	60
Allowance for attending Committee meetings	150	210
Remuneration of Board members	1,765	2,923
Total	1,980	3,193
Expense allowance	123	50

	(SAR '000)	
	Audit Committee Members	Shariah Committee Members
<b>Non-Board Committee member remuneration</b>		
Fixed Remuneration	729	450
Allowances for attending committee meetings	97	86
Total	826	536

There was no variable remuneration paid to the Board members or other non-Board committee members during 2019.

	(SAR '000)
	Senior Executives
<b>Senior Executive remuneration</b>	
<b>Fixed remuneration</b>	
Salaries	10,587
Allowances	4,638
Sub total	15,225
<b>Variable remuneration</b>	
Deferred Amount	794
Short-term incentive plans	4,496
Long-term incentive plans	6,509
Sub total	11,799
End-of service award	3,701
Total	30,725



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Board of Directors' declaration**

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

1. Proper books of account have been maintained;
2. The system of internal control is sound in design and has been effectively implemented; and
3. There are no significant doubts concerning the Bank's ability to continue as a going concern.

Based on the information and data provided, there are no significant doubts concerning any contracts or activities where the Bank is a party thereof, or where the Banks Board of Directors, CEO, Chief Financial Officer, or any other related person has an interest in.

The Bank has worked in enhancing effective communication and transparency with all shareholders to ensure consistency and transparency of disclosures at all times. To this end the Bank has established procedures to ensure that shareholders' suggestions and feedback relating to the Bank and its performance are well reported to the Board.

### **Auditors**

The Extraordinary General Assembly meeting held on April 18, 2019 appointed KPMG Al Fozan and Partners and Deloitte and Touche & Co as the Bank's auditors for the financial year 2019.

### **Auditors' unqualified opinion on the annual financial statements**

The 2019 auditor's report indicates that "the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (collectively referred to as "IFRS as endorsed in KSA")".

The auditor's report also indicates that "nothing has come to our attention that causes us to believe that the Bank is 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 Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2019".

### **The Board of Directors' recommendation and reason to replace the auditors**

The Board of Directors has not recommended to replace the auditors before the end of their assignment period.

### **Corporate governance, community service and sustainability**

The Bank's governance substantially complies with the Principles of Corporate Governance for Banks Operating in Saudi Arabia issued by SAMA in March 2014.

The Bank also complies with the Corporate Governance guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on May 20, 2019.

### **Bank's code of conduct and ethical standards**

The Bank's ethical standards and Code of Conduct represent a standard and a Guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Bank is committed to instill and maintain a culture of professionalism where the utmost ethical standards prevail. The Bank's Code of Conduct is based on fundamental principles of integrity, confidentiality, and professionalism. It applies to all Directors, employees, consultants, affiliates, and any other person that may represent the Bank. The Bank operates under the governing authority of its Board of Directors, which oversees the implementation and effectiveness of the Bank's ethical standards and Code of Conduct.



## 2019 BOARD OF DIRECTORS' REPORT

---

### **Annual review of the effectiveness of internal control**

Management is responsible for establishing and maintaining an adequate and effective internal control system across the Bank. An Internal control system includes the policies, procedures, and processes, which are designed under supervision of the Board of Directors to achieve the strategic objectives of the Bank.

The scope of the Bank's internal control system validation includes the assessment of the adequacy and effectiveness of the internal control system across the Bank. All significant and material findings related to internal controls are reported to the Audit Committee of the Bank. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interests of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to strengthen the control environment at a grass root level through a continuous process of reviewing and streamlining procedures to prevent and rectify any control deficiencies. Each function, under the supervision of senior management, is entrusted with the responsibility to oversee the rectification of control deficiencies identified by internal and external auditors, and various control units across the Bank.

The Management of the Bank has adopted the Internal Controls Integrated Framework as recommended by the Saudi Arabian Monetary Authority through its Guidelines on Internal Controls issued in 2013.

The Internal Control System of the Bank has been designed to provide reasonable assurance to the Board, on management of risks and to achieve the Bank's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Based on the results through ongoing testing and assessment of controls carried out during the year, Management considers that the Bank's existing internal control system is adequate and operating effectively. For further enhancing of controls, Management continuously evaluates the internal control system of the Bank.

Based on the above, the Board has duly endorsed Management's evaluation of the Bank's internal control system.

### **Community service and sustainability**

Governed by the Bank's Sustainability Program, the Bank actively worked to maximize its corporate strategy, contribute to the community, and ensure alignment with Saudi Arabia's Vision 2030 and The United Nations Sustainable Development Goals.

The Bank recognizes its important role in helping the Kingdom and community grow and in developing a sustainable economy. Our sustainability strategy is to influence all stakeholders and to be aligned to practices that benefit society, the economy, and the nation. The Bank has a responsibility to its communities – from providing support to employees, to increasing awareness on important local issues and striving to make a positive impact within society. This effort was recognized by the Bank being awarded a 2019 Arabia CSR Award. This Regional Award recognizes the consistent demonstration of responsible sustainable practices and the Banks leadership position in this field within the Region.

The Bank's WooW Alkhair program continues to grow with over 45 Charities participating in the program, creating a qualitative integration between the Bank and its customers in donations of over SAR 824,000 in 2019. The Bank and its Customers invested in the community through sponsoring events such as supporting Productive Families, providing winter clothing and school kits to various Charities, hosting needy children at various events within the Kingdom, and donating to sustainable charitable causes.





## 2019 BOARD OF DIRECTORS' REPORT

---

From an environmental perspective, our Building Management System reduces water and electricity consumption from our various buildings and shows reductions of over 10% in usage and a positive impact on the environment. Active campaigns to recycle clothing, paper, plastics and electronic items continued with year on year recyclable metrics. Our Volunteer Team continued to increase with over 150 Volunteers contributing in over 20 community activities in 2019.

The Bank continues to implement programs to attract and employ young Saudi graduates, and promote gender equality with corresponding increases in our female workforce.

The Bank continues to retain its Global Reporting Initiative (GRI) Gold Community Membership, commitment of the United Nations Global Compact universal sustainability principles and is a Business Network Member of the International Integrated Reporting Council.

### **Conclusion**

It is a pleasure, once again, for the Board of Directors to express its gratitude to the Government of the Custodian of the Two Holy Mosques, and in particular to the Ministry of Finance, as well as to the Saudi Arabian Monetary Authority, the Ministry of Commerce, and the Capital Market Authority, for their continued and constructive support. The Board of Directors would also like to thank its shareholders and customers for their support and trust which encourages us to achieve more. The Board of Directors acknowledges with appreciation the dedication and loyalty of the Bank's officers and staff to improve the performance of the Bank in order to achieve its strategic objectives.