

The Audit Committee Annual Report to the **Board of Directors**

FY2020

Executive Summary

In compliance with SAMA's Revision Committee Organizational Consultation Guide, Appendix- 3-14 highlighted that "The Audit Committee shall prepare at least an annual report to the board of directors. SAIB Audit Committee is pleased to report to the Board of Directors the 2020 Audit Committee report which, will have the following elements:

- Recommending the following years external auditors
- Approval of the banks auditor's report, year-end financial statements and notes thereto. etc."
- A review on the competence and effectiveness of the current year's external auditor and their performance during the year on the audit or any other special services performed.
- An assessment of the internal audit department including any significant observations and recommendations
- An assessment on the extent of compliance of the Bank with the prescribed policies and procedures, code of ethics, etc.
- A review of any significant irregularity reported by SAMA's inspection team.
- Any possible breach of contract, legislation and any legal opinion thereto.
- Reporting of major finding and other aspects of term of the reference and recommendation of any special project commissioned by the Board.
- Conclusion

1. Recommending the following years external auditors

The Audit Committee has reviewed top level evaluation provided by the CFO for PwC, KPMG, PKF, and E&Y firms. The Audit Committee unanimously endorsed the recommendation to appoint KPMG and E&Y as the joint external auditors of the Bank as of and for the year ending December 31, 2021 in its resolution No. AC/21/06 and recommends to the Board of Directors for submission to the general assembly for approval. The details of fees are as following:

SAR

Report's name	**KPMG**	**EY**
Consolidated FS	1,880,000	1,400,000
Standalone FS	110,000	75,000
Loan Loss report	20,000	25,000
Other reports	150,000	-
	2,160,000	**1,500,000**

2. Approval of the banks External Auditor's report, year-end financial statements and notes thereto. etc."

The Audit Committee reviewed the external auditors' presentation on the results of their audit of the consolidated financial statements of the Bank and its subsidiaries (the 'Group'), as of and for the year ended December 31, 2020.

The external auditors confirmed that the audit was completed and there have been no significant changes to their audit plan and strategy. The external auditors have subsequently issued an unmodified audit opinion on the Group's consolidated financial statements.

Certain control improvement points were reported in their Management letter (ML), as following:

1. Financial Planning and Control: Observations – 4
2. Operations: Observations – 1
3. Credit: Observations – 6
4. IFRS 9: Observations – 4
5. Investments: Observations – 4
6. Information Technology Controls: Observations – 9

The Committee charged the Internal Audit Department to follow up and report back to the committee on observations made to ensure that those responsible to take corrective actions, are doing so in accordance with the time frames set out in the management responses included in the management letter.

The external auditors also confirmed the following scope of review:

- Management override of controls: there were no indication of management overriding controls and processes.
- Related party relationships and transactions: no material misstatements and omitted disclosures were noted.
- Revenue recognition (excluding fee income from banking services): no material misstatements were noted.

The Audit Committee unanimously endorsed the FY 2020 Annual Financial Report of the Bank in its resolution No. AC/21/02 and recommends to the Board for their submission to the General Assembly for approval.

3. A review on the competence and effectiveness of the current year's external auditor and their performance during the year on the audit or any other special services performed

On October 13, 2020, external auditors presented their work plan and audit focus areas which include, the following:

I. Valuation of investments at FVOCI which are not traded in active market.
II. Valuation of derivatives.
III. Valuation of an associated company put option.
IV. Expected credit losses on loans and advances.
V. Fee income from banking services.
VI. Management override of controls.

VII. Compliance including AML / KYC.

VIII. Related party relationships and transactions.

IX. Revenue recognition (excluding fee income from banking services).

Also, the external auditors informed that they will be using specialists as part of the bank's audit. Specialists would mainly be involved in the following areas:

i. Information Technology;
ii. Expected Credit Losses;
iii. Actuarial Valuation and;
iv. Valuation of Financial Instruments.

The external auditor fees reported to the Audit Committee last year included the fees for the annual audit and quarterly review services, the annual audit of the standalone financial statements, and the annual report on the SAMA loan loss provision. There were no changes to these fees.

During 2020, SAMA had requested all banks to have its Deferral program reviewed jointly by two audit firms and the Bank requested its external auditors to complete this exercise.
The External auditor fees to issue the report related to the deferral program totaled SAR 356,000 (excluding VAT) which included SAR 178,000 each paid to KPMG and EY.
As updated in the prior year Audit Committee meeting, KPMG also performed the following tasks during 2020:

Withholding tax calculations and payments for the year 2019. This report was required in order to assist the Bank in closing the withholding tax assessment. GAZT requires a SAMA attested certificate and SAMA attests only when one of the auditors issue a Limited Assurance Report on this subject. A total of SR 20,000 was paid to KPMG for this assignment.
Management confirms these were the only additional fees incurred during 2020 which were not previously reported to the Audit Committee.

The external auditors also confirmed that the engagement team and others in the firm have complied with the applicable ethical requirements and that they are independent as statutory joint auditors of the Bank. They also confirmed that they continually assess the independence of the engagement team throughout the engagement.

To conclude that the committee has not identified any issue in the External Auditors' performance to be reported to the Board of Directors.

4. An assessment of the internal audit department including any significant observations and recommendations

The Internal Audit Department with the oversight of the Board Audit Committee conducts audits of all areas of the Bank based on an annual risk assessment conducted by Internal Audit to formulate the annual risk based audit Plan for the year. This process ensures that the Internal Audits are performed whenever necessary with a focus on risks, controls, and reporting. The annual Internal Audit Department Risk Based Plan is approved and monitored by the Audit Committee.

The Internal Audit Reports issued during 2020 did not include any comments which if indicated there were material weaknesses in the Bank's internal control and reporting, which if left un-remediated, could lead to a material deviation of the Bank objectives. The Internal Audit engagements completed during 2020 included the following Business and Support Units:

1. Personal Banking
2. Risk Management
3. Information Technology
4. Transformation group
5. Banking Operations
6. Financial Planning and Control
7. Human Resources
8. Treasury and Investment
9. Information Security
10. Compliance
11. corporate Banking
12. Audit Support Services
13. Corporate Governance

The following provides a summary of the observations noted in the above engagements, the number of observations that have been remediated, and the observations with management action plans which are on target.

1. Total number of engagements: 37
2. Number of observations noted: 238
3. Observations remediated: 97
4. Observations with management action Plans on target: 141

In addition to the above, Internal Audit Department continued to follow up with SAMA on ongoing reviews, and Ad-Hoc assignments.

5. An assessment on the extent of compliance of the Bank with the prescribed policies and procedures, code of ethics, etc.

Compliance and AML provide on quarterly basis an update to the Audit Committee. The update includes:

- Major regulations received during each quarter;
- The progress of planned goals during the financial year by Compliance department;
- SAMA Net requests statistics;
- AML quarterly statistics;
- Status of Whistleblowing incidents received, if any;

- A briefing on latest Compliance Committee;

No Code of Conduct & Whistleblowing incidents were reported during FY 2020.

Also, it is worth mentioning that during FY 2020, Management received 5 penalties with a total amount of SAR 1,920,000 comparing to FY 2019 which Management received 7 penalties with a total amount of SAR 510,400.

During 2020, the audit committee has reviewed and endorsed the following policies:

- Treasury Policy Guide
- Accounting & Disclosure Policy
- Related Party Identification and Disclosure of transactions Policy
- Update of IFRS 9 Governance Framework Policy
- Compliance Policy
- Whistle-blowing policy
- Anti-Money Laundering (AML) & Combating Terrorist Financing (CTF) Policy
- Anti-Fraud, Bribery & Corruption Policy

6. Five Day Disaster Recovery-Live Test

As per SAMA requirements, the Audit Committee reviewed the Bank results of a 5-day live test of all their critical systems at the Disaster Recovery Center (DRC). SAIB has considered transferring all of its critical systems from the Main Data Center (MDC) to DRC at once and operate these systems from the DRC for 5 continuous business days.

As part of the test, the Business Continuity Plan (BCP) was also considered where 4 priority business and support functions were relocated to work at the Business Continuity Sites (BCS). The results of the assessment were communicated to the Audit Committee, the Board of Directors (BoD) and SAMA and their approval for the implementation of this test was acquired.

Switching of critical systems to the DRC was successfully performed on 13th September, 2020 with no major issues. 38 Critical Systems operated without issues for 5 consecutive business days and rolled back on the 17th of September, 2020. Switching of critical system was achieved in 2hrs 24mins which was well before agreed Recovery Time Objective (RTO) of 4hrs. The 4 priority business and support functions relocated to BCS performed all their tasks without any issues.

7. A review of any significant irregularity reported by SAMA's inspection team

During 2020, SAMA's oversight activities with the Bank included the following matters:

1. **SAMA Thematic Inspection of Responsible Lending Principles: Total observations are 2**

   Observations closed - 2

   Open - None
2. **Audit Validation Report of Implementation of IFRS9 Classification Standards: Total observations are 5**

   Observations closed - 4

   Open – 1 (To be Closed in Q1, 2021)
3. **SAMA Treasury Thematic Review: Total observations are 27**

   Observations closed - 27

   Open – None
4. **Audit Validation Report-Targeted Inspection of Internal Audit: Total observations are 27**

   Observations closed - 14

Open – 13 (5 observations to be Closed in Q2,2021 and 8 observations to be Closed in Q3, 2021.)

5. **SAMA Thematic Inspection of Consumer Protection: Total observations are 16**

   Observations closed - 10

   Open – 6 (To be Closed in Q1, 2021)

6. **Thematic Inspection of People Risk: Total observations are 75**

   Observations closed - 73

   Open – 2 (1 observation to be Closed in Q1, 2021 and 1 observation to be Closed in Q4, 2021)

7. **Internal Control Review: Total observations are 37**

   Observations closed - 36

   Open – 1 (To be Closed in Q4, 2021)

8. **SAMA Self-Assessment of Fraud Risk Review: Total observations are 19**

   Observations closed - 18

   Open – 1 (To be Closed in Q2, 2021)

In summary, SAMA has noted a total of 208 observations as summarized above. The Bank has closed 184 of these with 24 open and on target for implementation at this time. Based on the above, the Audit Committee believes that there is adequate follow-up on observations noted by SAMA from the Management and Internal Audit Department.

8. Any possible breach of contract, legislation and any legal opinion thereto.

- **Legal cases lodged by or against the Bank**

There were no cases referred to the Audit Committee in FY 2020 that requires to be reported to the Board of Directors. We have mandated Legal department to report on quarterly basis the status of all cases starting from April 8th, 2020 meeting.

9. Reporting of major finding and other aspects of term of the reference and recommendation of any special project commissioned by the Board

No major findings were identified to be reported to the Board of Directors. The Audit Committee fulfilled its roles and responsibilities as described in its Charter. Also, we do confirm that no special project commissioned by the Board of Directors to the Audit Committee in financial year 2020.

To conclude that based on the periodic reports presented to the committee in 2020 by the internal audit department, the compliance department, the external auditors and the executive management reports. The audit committee considers the soundness and effectiveness of the controls 'efficiency, and that it has not been evident that there are material observations that affect the integrity and fairness of the bank's financial statements for the Financial year 2020. Noting that any internal control system - regardless of the appropriateness of its design and the effectiveness of its application - It cannot provide an absolute assurance.