

NCB Board of Directors' Report for the Year 2010

Economic Environment

The global economy resumed growth this year, after the most severe economic downturn since World War II. Rebounding from a 0.6 percent contraction in 2009, aggregate global GDP is expected to have expanded by 4.8 percent in 2010. However, this was an uneven recovery, with emerging economies achieving robust growth of 7.1 percent while advanced economies grew by no more than 2.7 percent. This discrepancy highlights the continued presence of structural weakness, illustrated by the fragility of the US recovery, European sovereign debt concerns, and worries about emerging market bubbles. The impact of these factors contributed to market turbulence in 2010, as did the liberal monetary policies adopted in response to them.

For the Saudi economy, 2010 was a year of cautious normalization, with GDP growth estimated to have rebounded from 0.6 percent in 2009 to 3.8 percent in 2010. This is expected to rise to 4.0 percent in 2011. The recovery was due to the continued relative stability of oil prices in a comfortable range, with the average rising by 28 percent from US\$ 60 per barrel in 2009 to more than US\$ 75 in 2010, which enabled the Kingdom to post a current account surplus of SR 108.5 billion in 2010, approximately 6.7 percent of GDP. However, oil production barely increased as OPEC maintained its quotas in the face of perceived demand-side risks.

Although the government's fiscal policy has supported aggregate local demand and ensured continuity of strategic investment priorities, the private sector is taking longer to recover. While confidence levels have improved, business and investor sentiment remain volatile.

Global economic problems and challenges in addressing regional imbalances both contributed to persistent risk aversion. In the low interest-rate environment, banks' lending recovered by a modest 3.2 percent year-on-year in Q3 (2010). Similarly, equity and debt capital markets showed only tentative gains towards the end of the year. The TASI stock market index advanced by less than 5 percent in 2010.

Reflecting the improvement in the local economy, the Saudi Arabian Monetary Agency (SAMA)'s net foreign reserves – drawn down during much of 2009 – recovered to some US\$ 430 billion, a level last seen in early 2009.

Additional public sector spending has been indirectly channeled through the enhanced resources of the Public Investment Fund and the Saudi Industrial Development Fund. While the government's enhanced role has supported aggregate demand, the proportion allocated to capital expenditure in the 2010 budget reached the historically high level of 48 percent. This investment should help to boost the economy's longer-term productive potential.

However, the 2011 budget estimates revenues of SR 540 billion and expenditures of SR 580 billion, producing a deficit of SR 40 billion. Despite the government's countercyclical fiscal policy, public debt levels remain extremely low by international standards, and the sovereign ratings of the Kingdom remained strong during the crisis at AA-/Stable (Standard & Poor's and Fitch Ratings).

The main macroeconomic challenge facing Saudi Arabia is a marked resumption of inflationary pressures, with the consumer price index reaching a year-on-year peak of 6.1 percent in August 2010. Inflation is expected to fall to 5 percent in 2011, supported by a benign monetary environment.

Business review

In 2010 NCB continued to deliver on its three-pronged strategy of growing core business, broadening the scope of operations (services and products), and expanding into target markets in the MENA region. Major initiatives were undertaken to improve customer service, raise productivity, and enhance the overall customer experience.

The Bank continued to optimize its distribution and alternative channels in 2010 through its branch and ATM relocation, refurbishment, and renovation programs. Three new branches increased the total to 284 Kingdom-wide, while 137 ATMs were added to the network, bringing the total to 1,626. NCB's customer base grew substantially in 2010 to over 2.3 million, and customer transactions rose to more than 257 million, with 89 percent conducted electronically through alternative channels. Notably, 94 percent of the Bank's IPO related transactions were carried out through alternative channels.

NCB continued to improve productivity by implementing a Contact Center Business Continuity program and upgrading IT service quality programs. The latter resulted in 97 percent of complaints being resolved within the standard time. Total remittance transactions exceeded 1 million, due to ten new *QuickPay* centers opening in 2010. There are now 18 *QuickPay* centers, with another five currently planned.

Consumer Finance business grew significantly in 2010 as the value of consumer loans rose by 9.9 percent; credit card usage grew by 16 percent; mortgage financing rose by 37 percent; and the auto leasing market grew in line with new passenger car sales, at approximately 10 percent.

The Bank successfully structured the financing of large industrial and commercial projects in the Kingdom throughout 2010. As a result of this activity, global data provider *Dealogic* rated NCB as the No. 1 Project Finance Bank in the Middle East and Africa.

NCB also continued to grow its commercial base, placing additional teams in Corporate Service Centers to further strengthen its geographical reach and expanded product offerings. Additionally, new electronic products and services enabled transaction migration to *e-Corp*, *e-Trade*, and *B2B* during the year. These solutions were developed with the latest security measures in the industry, using Multi-Factor Authentication technology. These initiatives contributed to an increase in the Bank's share of corporate business. They also maintained NCB's strategic focus on Corporate Banking being a major contributor to future growth, while supporting the development of the country.

Despite international and local market volatility, NCB Capital – the investment arm of NCB – maintained its leading position in asset management, with 37 percent of total assets under management in the Kingdom. In 2010 the firm was named *Best Islamic Asset Management Institution of the Year* at the World Islamic Funds & Capital Markets Conference, for its contribution to the development of the Shariah-compliant funds industry. NCB Capital was also named *Best Asset Manager* at the Islamic Business and Finance Magazine Awards, recognizing exceptional performance and development work in Islamic fund management. And NCB Capital was voted *Best Research House* in Euromoney's 2010 Middle East research survey.

NCB Capital launched a number of new products during the year, including the *Sukuk Fund*, *Saudi Dynamic Trade Equity Fund (TEF) II*, and *Trade Finance Discretionary Profile Management*.

On the investment banking side, NCB Capital was appointed joint financial advisor for the privatization of Saudi Arabian Airlines' core strategic business unit. It was also appointed joint financial advisor and lead manager for the Knowledge Economic City and AlJouf Cement Initial Public Offerings. These mandates demonstrated NCB Capital's leadership in investment banking, with more than 50 percent of IPO activities during 2010.

Türkiye Finans Katılım Bankası, in which NCB owns a 64.68 percent shareholding, continued to grow in 2010, despite the financial and economic difficulties globally and in the domestic market. Total assets grew by 22.9 percent, the result of robust expansion in the bank's loan portfolio and customer deposits, by 11.3 percent and 22 percent respectively.

Five new branches opened in 2010, expanding Türkiye Finans's network to 182 retail locations – the largest network in Turkey's participation banking sector. In addition, the bank continued to improve and grow its alternative channels, including ATMs, POS terminals, phone banking, and Internet banking. A new sales and service model was rolled out to enhance customer focus and product experience. Various internal initiatives were also launched to improve overall operating efficiency.

As a result, Türkiye Finans achieved record net income of TRY 206 million (approximately SR 500 million) for 2010, representing a 20.2 percent increase over the previous year.

NCB maintained its leadership role in corporate social responsibility and launched a number of new community programs that enhanced its strategic partnerships and geographic coverage. One of the Bank's new initiatives supports entrepreneurs through customized training programs, free financing, and consultancy support. The Bank also conducted a second study on the perception of corporate social responsibility in the Kingdom, and received several awards for its community support initiatives.

The Bank also continues to demonstrate leadership in the area of sustainability, which was again recognized at the Global Competitiveness Forum in Riyadh. The King Khalid Award for Responsible Competitiveness was NCB's third consecutive achievement at this prestigious event, and is testament to NCB's ongoing commitment to social, environmental, and economic development in the Kingdom.

Employees:

NCB Human Resources continued to meet the challenge of driving a performance culture and developing the Bank's Saudi talent pool through rigorous training and capability-building programs. The Bank's total number of staff reached 5,443 by the year-end, and its Saudization rate rose to 89.4 percent.

Financial Results

The Bank achieved net income of SR 4,724 million in 2010, an increase of 16.9 percent over 2009. This growth demonstrated the Bank's ability to effectively deploy funds and diversify its sources of revenue. It also reflects the Bank's success in implementing strategies to deliver superior customer services, along with excellence in innovation and risk management.

NCB continued to grow its core activities in 2010. Customer deposits increased by 13.1 percent to SR 229,160 million, and net loans and advances grew by 12 percent to SR 125,597 million, which contributed to a 1.3 percent increase in special commission net income. The improved

performance of investment portfolios reinforced the positive results achieved by the Bank in its core activities.

The Bank built adequate provisions in 2010 as a prudent measure to safeguard its strong financial position, in line with NCB's established and proven conservative approach.

These positive results further reinforced NCB's strong financial position. Total assets grew by 9.7 percent to reach SR 282,372 million at the end of 2010. Shareholders' equity grew by 6.8 percent to reach SR 31,272 million, mainly due to higher earnings in 2010. The capital adequacy ratio improved to 18 percent at year-end 2010. The Bank maintained its credit ratings at A+ with the two international credit rating agencies, Standard & Poor's and Fitch Ratings. These are the highest ratings in the Saudi banking sector and reflect NCB's strong financial position.

Appropriation of net income

The Board of Directors recommends that net income for the year 2010 attributable to equity holders of the Parent company be appropriated as follows:

	SR ('000)
Net income for the year	4,803,404
Less: Net Income for the year attributable to non-controlling interest	79,569
Net income for the year attributable to equity holders of the Parent	4,723,835
Net Income for the Year attributable to equity holders of the Parent is appropriated as follows:	
Transfer to statutory reserve	1,251,319
Transfers to reserve related to Beirut branch	911
Zakat	160,854
Interim paid dividend (SR 0.8 per share)	1,196,780
Final proposed dividend (SR 1 per share)	1,495,975
Transfer to retained earnings	617,996
Net Income for the year attributable to equity holders of the Parent	4,723,835

Directors' Remuneration:

Annual remuneration of the Board of Directors and its related committees for the year totaled SR 7,440 thousand (2009: SR 13,473 thousand). Attendance fees for the Board and related committees totaled SR 615 thousand (2009: SR 483 thousand). Travel and related expenses were SR 222 thousand (2009: SR 146 thousand).

Auditors

At the annual ordinary general meeting of shareholders held on March 31, 2010 (corresponding to 15/04/1431H), KPMG Al Fozan & Al Sadhan and Ernst & Young were reappointed as joint external auditors to the Bank for the financial year ending December 31, 2010.

The Board of Directors takes this opportunity to express its deep appreciation and gratitude to: the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud; His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General; and His Royal Highness Prince Nayef bin Abdulaziz Al-Saud, Second Deputy Prime Minister and Minister of Interior of Saudi Arabia. The Board also extends thanks to the Ministry of Finance, the Saudi Arabian Monetary Agency, and the Capital Market Authority for their continued support and backing of the Saudi banking sector. This support has been clearly reflected by the economic growth of the Kingdom.

The Board of Directors extends its thanks and deep appreciation to NCB's customers, correspondents, and shareholders for their continuing confidence and support, and to NCB's staff for their dedication and professionalism that have supported this year's achievements.

May the peace, mercy and blessings of Allah be upon you.

Board of Directors