

NCB Board of Directors' Report for the Year 2011

Economic Environment

The Saudi economy expanded sharply in 2011, registering nominal growth of 28 percent. This is largely attributed to rising crude oil prices and production levels, and robust domestic demand spurred by a series of royal decrees targeting social needs announced in the first quarter. These amounted to an estimated SR 400 billion in supplementary spending, with SR 110 billion likely to have been disbursed during 2011.

Despite the geopolitical tensions in the Middle East and the European sovereign debt crisis, Saudi light crude prices averaged \$108 per barrel in 2011, 39 percent higher than average 2010 prices. Also, the civil war in Libya enabled the Kingdom, as a swing producer, to increase daily crude production to offset the shortage in supply. Saudi output rose by 13.3 percent, averaging 9.25 million barrels per day.

This production increase accelerated real GDP growth to 6.8 percent year-on-year, compared to 4.1 percent in 2010. Private sector GDP also remained strong, rising by 8.3 percent due to broad-based activity in the non-oil industrial, construction, and transportation sectors.

High crude oil prices and output levels contributed to current and fiscal account surpluses for 2011, standing at 27.6 percent and 14.1 percent of GDP respectively. While government expenditure rose by 23 percent over 2010 to SR 804 billion, government revenues recorded a gain of 49.7 percent to SR 1,110 billion. Consequently, the fiscal budget for 2011 recorded a sizable surplus of SR 306 billion.

Despite these surpluses, fiscal prudence was evident in the sustained growth of government deposits at the Saudi Arabian Monetary Agency (SAMA), where the Kingdom's holdings of net foreign assets reached a record high of SR 1,973 billion by November 2011. Government debt fell to SR 135.5 billion, at only 6.3 percent of GDP, the world's lowest. The debt is also entirely domestic, being mainly with the Kingdom's two pension funds: the General Organization for Social Insurance and the Public Pension Agency.

This scenario has underpinned significant capital inflows, with Saudi Arabia remaining West Asia's largest recipient of foreign direct investment, estimated at \$28 billion in 2010.

In 2011 work continued on several mega projects in the oil and gas, petrochemicals, infrastructure, and utilities sectors. The value of awarded contracts reached SR 179.5 billion through the first three quarters of 2011, showing that the expansion of construction activities continues to be a focal point of the economy. The value of contracts awarded far exceeds 2010's total of SR 106.8 billion, and has potential to surpass the record SR 207 billion of 2009. This illustrates the Saudi government's continued emphasis on capital expenditure designed to improve the Kingdom's physical and social infrastructure.

Various initiatives supporting small- and medium-size enterprises also look promising, for example the 'Kafala' Loan Guarantee Program. This collaboration between the Ministry of Finance (represented by the Saudi Industrial Development Fund) and the local banks has played a significant role, facilitating credit to 1,588 local companies by issuing guarantees covering up to 80 percent of the financed amounts. Programs such as Kafala are critical to the Saudi economy, providing substantial indirect support for job creation.

Business Review

At NCB we have continued to evolve our business along a sustained path, building strength while meeting our customers' needs. This develops the successful approach that characterized our achievements last year.

The Bank continued to optimize its distribution and alternative channels in 2011 through its branch and ATM relocation, refurbishment, and renovation programs. Seven new branches increased the total to 288 Kingdom-wide, while 165 ATMs were added to the network, bringing the total to 1,791.

NCB's customer base grew substantially to more than 2.8 million and customer transactions to more than 280 million, with 88 percent conducted electronically through alternative channels. Total remittance transactions exceeded 1.8 million, due to 12 new QuickPay centers opening. There are now 25 QuickPay centers, with another 13 currently planned.

The Individual Banking sector was reorganized during the year, which contributed positively towards achieving the Bank's business objectives and growth. We continued to enhance operational platforms by investing in IT and network services to ensure the availability and resilience of customer channels. A Contact Center Business Continuity program was also implemented, enhancing NCB's capacity to meet a wide-range of customer needs and services.

In our Individual Banking portfolio of businesses, growth in personal finance was achieved by securing new payroll mandates and, building on this, strong marketing campaigns helped to boost demand for consumer lending. Similarly, demand for credit card products was also high, exemplified by our relaunch of the AIFursan card in partnership with Saudi Arabian Airlines.

Corporate Banking sector had another record year, illustrated by significant growth in the corporate loans portfolio. The Bank gained market share and continued to augment the cross-selling of products and services. NCB has been well placed to secure a growing number of high-profile project finance deals, supporting the development of strategic industries such as mining, power, and contracting.

In further support for the business sector, the Bank has extended its reach and improved services by establishing Corporate Service Centers in the Kingdom's remote regions and industrial areas. In many of these locations, NCB is the only bank providing services tailored to corporate clients. New Corporate Service Centers opened in 2011 brought the total to 7, across the kingdom.

Against a continued backdrop of market volatility and geopolitical uncertainty, NCB Capital – our investment arm – continues to build a market-leading position. Today, it puts advice on asset allocation and a growing discretionary portfolio management business firmly at its center, alongside the firm's highly regarded mutual funds.

NCB Capital won 17 awards in 2011 for its businesses and funds, as well as for its high-profile research output. The firm is also the first and only investment provider in Saudi Arabia and the Middle East to be certified for business continuity management by the British Standards Institute.

Türkiye Finans Katılım Bankası, the leading Turkish participation bank, in which NCB owns a 64.68 percent shareholding, continued to grow in 2011, despite the financial and economic challenges globally and in the domestic market. Total assets grew by 26.5 percent, the result

of robust expansion in the bank's loan portfolio and customer deposits, which rose by 30 percent and 13.2 percent respectively.

Türkiye Finans's branch network comprises 182 branches and is the second largest network in Turkey's participation banking sector. The bank embarked upon two major projects in 2011. In customer segmentation, the bank refined its processes to provide improved offerings to certain segments. In process optimization, it streamlined key operational procedures. As a result, Türkiye Finans achieved net income of TRY 231.6 million in 2011 (about SR 508 million), 12.4 percent higher than 2010.

NCB received several awards in 2011 for Straight Through Payment (STP) from leading international organizations. Two upgrades were the Network Operation Center and the New Generation Network, which improved security and enhanced service availability.

The Bank also maintained its leadership in corporate social responsibility. A number of new programs were launched to enhance NCB's strategic partnerships and geographic coverage. Various initiatives included job opportunity programs that provided entrepreneurs with knowledge, support, and benevolent loans. The Bank also conducted a second study on government sector perceptions of corporate social responsibility in the Kingdom. Four prestigious awards related to corporate social responsibility were received during the year.

With NCB's heightened focus on sustainability, the approach has been to '*embed within and reach out*'. This included integrating sustainability into the Bank's strategic 2015 goals and annual planning process. Looking at environmental achievements, the Bank has recorded energy savings averaging nine percent by installing power-saving equipment in 15 branches. Water meters were installed in 30 branches to measure current consumption and establish baselines for future energy-saving initiatives.

Employees

NCB has continued to build capacity as part of its ongoing effort to recruit, develop, and retain quality personnel. It continues to invest in people and organizational effectiveness, focusing on engagement, development and cross-departmental collaboration, creating a platform for fulfilling its long-term ambitions.

The total number of staff reached 5,879 by the year end, and the Bank's Saudization rate rose to 90 percent.

In 2011, the fourth Corporate Associate Program (CAP4) was launched, recruiting high-quality young Saudi graduates for the Corporate Banking sector. A new version of the Management Associate Program (MAP) was also launched to accelerate the development of staff working within the retail branch network.

In a program aimed at serving its high-net worth and institutional clients, NCB Capital launched a professional accreditation program for wealth managers in conjunction with the Chartered Institute for Securities and Investment.

Financial Results

NCB achieved net income of SR 6,012 million in 2011, an increase of 27.3 percent over 2010. This outstanding result is mainly due to NCB's ability to optimally deploy its assets, its strategy of diversifying income sources, the increase in revenue from core operations, and achieving a 12.5 percent reduction in operating costs.

Fee income from banking services increased by 5.8 percent in 2011; foreign exchange income increased by 36 percent; and gains on sale of investments rose to SR 325 million, compared to SR 283 million in 2010. Despite the prevailing low rates, net special commission income during the year increased by 5.3 percent to SR 8,581 million.

Shareholders' equity increased by 8.3 percent to SR 35.6 billion, while customer deposits increased by 4.5 percent to SR 239.5 billion. Total assets increased by 6.7 percent to reach SR 301.2 billion. This increase was reflected in expanded lending activities, with the loan portfolio increasing by 7.7 percent to SR 135.3 billion.

NCB continued to effectively manage credit risk, taking provisions in 2011 in accordance with its prudent provisioning methodology. As a result, its coverage ratio increased to 140.9 percent in 2011, up from 116.9 percent the previous year.

In 2011 the Bank improved its return on equity to 18.4 percent, up from 15.6 percent in 2010. Meanwhile, its Pillar 1 capital adequacy ratio (tiers 1 and 2) was 18.2 percent.

NCB also maintained its A+ rating from Standard & Poor's and Fitch Ratings. This is the highest rating given to any bank in Saudi Arabia and reflects NCB's financial strength and high liquidity levels, as well as its leading local and regional position.

Appropriation of net income

The Board of Directors recommends that net income for the year 2011 attributable to equity holders of the Parent company be appropriated as follows:

	SR '000
Net income for the year attributable to equity holders of the Parent	6,011,751
Net income for the year attributable to equity holders of the Parent is appropriated as follows:	
Transfer to statutory reserve	1,449,159
Transfers to reserve related to Beirut branch	449
Zakat	452,764
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	1,416,624
Net income for the year attributable to equity holders of the Parent	6,011,751

Directors' remuneration

Annual remuneration of the Board of Directors and its related committees for the year totaled SR 8,473 thousand (2010: SR 7,440 thousand). Attendance fees for the Board and related committees totaled SR 486 thousand (2010: SR 615 thousand). Travel and related expenses were SR 142 thousand (2010: SR 222 thousand).

Auditors

At the annual ordinary general meeting of shareholders held on April 2, 2011 (corresponding to 28/04/1432H), KPMG Al Fozan & Al Sadhan and Ernst & Young were reappointed as joint external auditors to the Bank for the financial year ending December 31, 2011.

Gratitude

The Board of Directors expresses sincere appreciation to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al-Saud; His Royal Highness Prince Naif Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister and Minister of the Interior; and all Government ministers. 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 also expresses appreciation to NCB's shareholders, who again demonstrated unwavering support for the Bank's business strategies, and acknowledges the loyalty of customers, whose continued patronage is fundamental to its success. The Bank's employees represent an invaluable asset, and we pay tribute to the hard work and dedication they have displayed in achieving such encouraging results and responding so positively to the challenges they faced.

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

Board of Directors