NCB الأهلي

Sustaining growth

Annual Report 2010

بسم الله الرحمن الرحيم

Custodian of the Two Holy Mosques
King Abdullah Bin Abdulaziz Al-Saud

HRH Prince Sultan Bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation and Inspector General

HRH Prince Naif Bin Abdulaziz Al-Saud
Second Deputy Prime Minister and Minister of the Interior

Sustaining growth

The year was characterized by the growth of NCB's core franchise, expanding significantly in the corporate and SME areas and achieving substantial increases in the volume of loans and deposits.

Prestigious project finance mandates were secured, establishing NCB as the number one institution in Saudi Arabia.

Treasury and Individual Banking recorded gains, attributable to the Group-wide focus on service quality.

Customer experience

Significant investment in enhancing NCB's market-leading customer service expanded the range of channels, giving customers a comprehensive choice of access to our services and products.

Innovation

Instant approval Shariah-compliant cash loans helped grow personal finance business and we developed a mortgage product in response to the Government's aim of opening up home ownership to all.

Strong governance

The effectiveness of governance and risk management structures underpinned the successful growth in Corporate Banking and Treasury operations. They have become crucial business enablers, helping to identify and construct opportunities for customers.

International

Our subsidiary Türkiye Finans Katılım Bankası reflected the growth in Turkey's broader economy, marked by strong retail lending and customer deposits.

Collaborative efficiency

A collaborative and productivity-focused ethos has taken hold, with businesses and support areas coming together to drive growth through innovation, deeper customer relationships, and more efficient servicing.

Individual Banking

Consumer Finance

Corporate Banking

Wealth Management, Brokerage, Asset Management, and Investment Banking

Participation Banking: Retail, Corporate, and International

More than half a century ago, The National Commercial Bank (NCB) was established as Saudi Arabia's first bank. It has since grown to become one of the Arab world's largest financial institutions, with total assets of SR 282.4 billion ($75.3 billion), more than 2.6 million customers, and 9,225 people across the group.

NCB has demonstrated a consistent pattern of growth throughout its history. In recent years, the Bank's expansion efforts have been accelerated by a three-tiered strategy that focuses on growing core business, broadening scope, and expanding geographically.

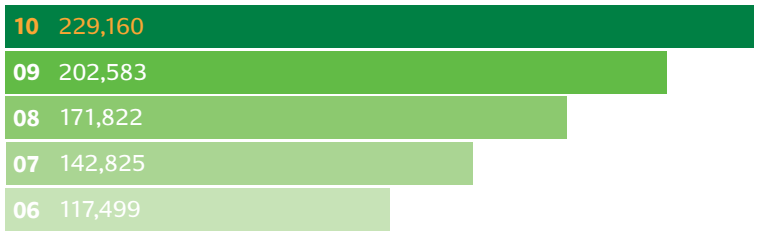
Core growth is driven by a determination to continually improve service quality, providing tailored banking products through a unique array of channels. Broadening scope involves establishing early leadership in emerging products and customer segments. Geographical expansion is being pursued through acquisitions and strategic alliances in attractive regional markets.

NCB is creating sustainable value by harnessing its distinct capabilities, strategic enablers, and unrivaled financial strength to pursue its vision of becoming the region's premier financial services group.

Financial Highlights

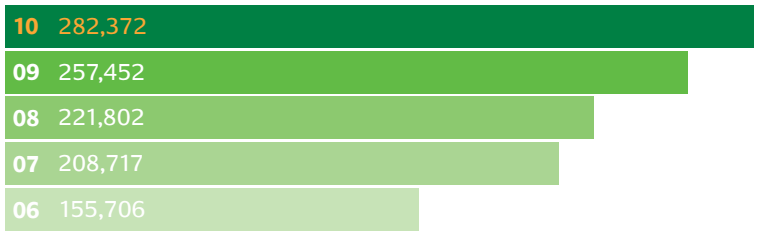
Customer Deposits
SR millions

13.1%



Total Assets
SR millions

9.7%

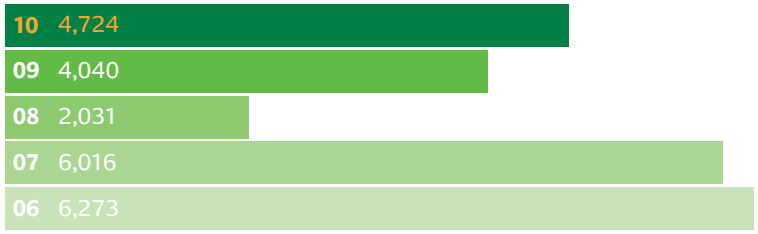


Shareholders' Equity*
SR millions

6.8%

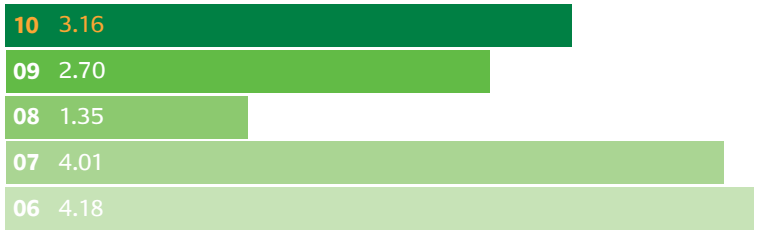
Net Income*
SR millions

16.9%



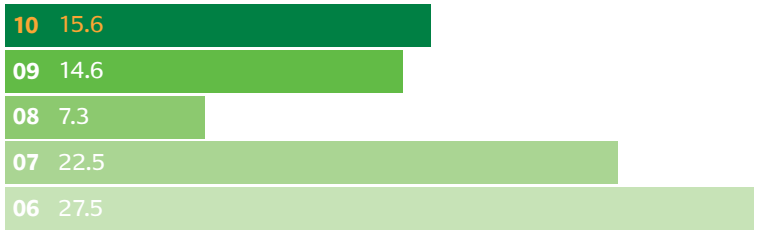
Earnings Per Share*
Saudi Riyals

17.0%



Return on Average Equity* Percent

1.0% point



* Excluding minority interests

NCB 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.

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 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.

NCB maintained its credit ratings at A+ with Standard & Poor's and Fitch Ratings. These are the highest ratings in the Saudi banking sector and reflect NCB's strong financial position.

Significant gains were achieved during the year, particularly in the Corporate Banking and Treasury sectors. At the same time, our reputation for prudence and stability attracted new deposits, not only locally and regionally, but also on an international scale.

Chairman's Statement

The National Commercial Bank performed very well in 2010, especially considering the international market conditions that prevailed as a result of the after-effects of the global financial crisis. The strategy NCB adopted to manage the changed environment has clearly proved successful, creating outstanding new growth in sectors where we were previously less prominent, and consolidating areas of traditional strength.

Significant gains were achieved during the year, particularly in the Corporate Banking and Treasury businesses. At the same time, our reputation for prudence and stability attracted new customers and deposits, not only locally and regionally, but also on an international scale. Such achievements reflect well on the measures taken to maximize our corporate strengths – such as our quality of customer service, the highest standards of corporate governance, and robust risk management processes that underpin all Group operations.

During 2010, NCB's net income rose to SR 4,724 million, an increase of 16.9 percent over the previous year's SR 4,040 million. Customer deposits rose by 13.1 percent to reach SR 229,160 million, reflecting confidence by domestic and external investors over a period when the international banking system remained under stress. Similarly, total assets grew 9.7 percent to SR 282,372 million, representing a very satisfactory performance in difficult conditions. Shareholders' return on equity was 15.6 percent and return on average assets 1.8 percent, compared to 14.6 percent and 1.7 percent in 2009.

Shareholders' equity (excluding minority interests) reached SR 31.3 billion at year-end, an increase of 6.8 percent. As a result, the Bank's capital adequacy ratio reached 18.0 percent, underlining our financial strength and our ability to support future growth.

The Board of Directors proposes paying a final dividend of SR 1,496 million, which equates to SR 1.00 per share. This makes the total paid and proposed for 2010 SR 2,693 million.

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 Sultan Bin Abdulaziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General, His Royal Highness, Prince Naif Bin Abdulaziz Al-Saud, Second Deputy Prime Minister and Minister of the Interior, and all Government ministers.

We thank the Ministry of Finance, the Saudi Arabian Monetary Agency, and the Capital Market Authority for their support and guidance. They have our full commitment in upholding and raising standards that seek to protect the interests of all stakeholders.

We express appreciation to NCB's shareholders, who have demonstrated continuing support for the aspirations we have for the Group and the ways in which we seek to fulfill them. We also pay tribute to our customers. We value the loyalty they have shown and we remain committed to satisfying their needs and preferences.

Finally, we acknowledge the dedication and professionalism of the Bank's employees. They have displayed diligence, skill, and professionalism in adapting to the new market environment, ensuring NCB responded so successfully to its challenges.

Abdullah Salim Bahamdan
Chairman

Board of Directors

Abdullah Salim Bahamdan

Chairman of the Board. Chairman of the Executive Committee, the Credit Committee, and the Risk Committee. Member of the Compensation & Nomination Committee.

Mutlaq Abdullah Al-Mutlaq

Member of the Executive Committee and the Credit Committee.

Abdul-Aziz Abdullah Al-Zaid

Member of the Executive Committee and the Credit Committee.

Abdullah Mohammed Noor Rehaimi

Chairman of the Compensation & Nomination Committee. Member of the Risk Committee.

Abdulkareem A. Abu Alnasr

Member of the Executive Committee, the Credit Committee, and the Risk Committee.

Chief Executive Officer, The National Commercial Bank. Chairman of the Board, NCB Capital. Vice-Chairman, Türkiye Finans Katılım Bankası.

Abdullah Mohamed Al-Ghelaiqa

Member of the Compensation & Nomination Committee.

Abdul-Aziz Ibrahim Alomar

Chairman of the Audit Committee. Member of the Risk Committee and the Compensation & Nomination Committee.

Fouad Mohammad Nour Abu Mansoor

Member of the Audit Committee.

Ibrahim M. Al-Romaih

Member of the Executive Committee and the Credit Committee.

Abdullah Salim Bahamdan
Board Member, Saudi Petrochemicals Company, The Saudi Research and Marketing Group, Al-Jazirah Corporation for Press, Printing and Publishing, Yemen Fisheries Company, Yemen Arab Cement, and Aluminum Products Company.

Mutlaq Abdullah Al-Mutlaq
President, Al-Mutlaq Group. Chairman of the Board, Al-Jazirah Corporation for Press, Printing and Publishing.

Abdullah Mohamed Al-Ghelaiqa
Former Governor of the Saline Water Conversion Corporation. Former Member, Majlis Al Shoura (Consultative Council).

Abdul-Aziz Abdullah Al-Zaid
Assistant Governor for Investment, General Organization for Social Insurance (GOSI). Chairman of the Board, Granada Investment Center. Board Member and Executive Committee Member, Al Qassim Cement Company.

Abdullah Mohammed Noor Rehaimi
President of the General Authority for Civil Aviation. Board Member, Saudi Arabian Airlines. Chairman, Saudi Academy for Aviation. Chairman, Middle East CANSO (Civil Air Navigation Services Organization). Board Member, Savola Group. Former Chairman and Board Member of many joint stock companies, government committees and private institutions.

Abdul-Aziz Ibrahim Alomar
Financial Advisor, Public Investment Fund (PIF). Chairman of the Board, Water and Electricity Company Holding. Vice Chairman of the Board and Chairman of the Audit Committee, Saudi e-Tabadul Company. Board Member and Member of the Executive Committee, Stusid Bank (Tunis). Member of the Audit Committee, Saudi Telecom Company (STC). Board Member, October Pharma (Egypt), Saudi Egyptian Industrial Investment, and The Arab Company for Special Steel (Egypt).

Fouad Mohammad Nour Abu Mansoor
Board Member, Public Pension Agency, Raydah Investment Company. Chief Executive Officer, International Company for Communications Systems Operation. Member of the Saudi Syrian Committee and the Saudi German Committee. Former Deputy Minister of Post, Telephone and Telegram. Former Member, Majlis Al Shoura (Consultative Council).

Ibrahim M. Al-Romaih
CEO, The Saudi Arabian Investment Company (Saudi Sanabel). Former Assistant Secretary General of the Public Investment Fund (PIF). Former Vice Chairman, The Capital Market Authority (CMA). Former Board Member of many joint stock companies.

Abdulkareem A. Abu Alnasr
Chairman of the Board, NCB Capital, and INJAZ-Saudi Arabia. Vice Chairman,Türkiye Finans Katılım Bankası, The Regional Advisory Board of Directors of MasterCard APMEA Region, The Regional Board of INJAZ al-Arab. Member of the Board of Trustees and Executive Committee, the Union of Arab Banks (Lebanon), and The Arab Academy for Banking and Financial Science (Jordan). Member of the Advisory Board for Economic Affairs under the Supreme Economic Council (Saudi Arabia).

The successful growth in our Corporate Banking and Treasury operations was largely due to the effectiveness of our governance and risk management structures and approach.

Against a backdrop of the continued aftershocks from the global economic crisis, Saudi Arabia has enjoyed relative stability and growth in economic performance during 2010. The economy and stock market outperformed many other countries in the region and customer and business confidence indices have risen, reflecting both the positive regulatory handling of the economy and the general financial health of business across the Kingdom.

Indeed, the relative strength of the Saudi economy has seen many customers, both within the GCC and in the region, adopt a flight to quality and safety in their financial planning, with a consequent significant growth in loan and deposit inflows. NCB has been a major beneficiary of this trend, and we put this customer vote of confidence down to the strength of our financial performance and the resilience of our core franchise.

Over the last two years, we have focused on the opportunity to take stock, strengthen our balance sheet, and in so doing build capital and resilience for the future. What is clear is that we are faced with a new economic reality – very different from what we had before – and in preparing ourselves for this we are much stronger today than before.

Sustained growth

At NCB, 2010 was characterized by the growth of our core franchise and brand reputation; an unwavering focus on governance, risk management, and service excellence; and a significant investment in leveraging all of our human capital resource to benefit all our customers. From remote rural towns to the wealthiest families and largest corporate customers, the year saw us work even harder to deepen our relationships with our customers and grow with them.

Despite there being limited expansion of the market as a whole, NCB attracted new business, expanding significantly in the corporate and SME areas, achieving substantial increases in the volume of loans and deposits. Our single-minded focus on service quality clearly resonated well with all of our customers.

Growth was particularly strong in Corporate Banking, which reported the highest level of lending in many years, reflecting our unwavering commitment to support Saudi businesses, big and small, in their expansion plans. Taking a visible and active approach, we aimed to be there first for our existing corporate customers; an ethos that has reignited old relationships while creating new customer alliances.

That commitment also extended to governmental projects, and we were proud to be involved in supporting the execution of the Government stimulus plan, which comprised a number of major infrastructure initiatives. Despite intense competition, NCB secured prestigious mandates in this area in 2010, establishing the Bank as the number one institution in project finance in Saudi Arabia, underwriting in excess of SR 7 billion ($2 billion) of finance in several major projects.

While market volatility can be disruptive, growth in NCB's Treasury operations demonstrated an ability to support our customers successfully in all types of environment, setting up many hedging deals as well as executing new types of commodity transactions to help our customers manage in a highly volatile environment. We invested in technical expertise and strengthened our operational support to create and protect value for customers who have had to adapt to a more turbulent world. In turn, they have responded to this capability building by placing business with us that previously would have been written with international brokers.

Strong growth was also seen in our Individual Banking portfolio of businesses, where we are increasingly differentiating our offering through an acknowledged leadership in the quality of our service and the range of innovative Shariah-compliant products and delivery channels.

We have expanded into new locations around the Kingdom, utilizing our growing branch network to cater for all types of customer. Whether the need is a simple checking account or sophisticated investment advice, we provide the right service in the way our customers prefer. And we have expanded our online presence to provide another convenient route of access. NCB's retail business remains a flagship of the Group, and over the last year we saw significant growth and improvement in this important franchise business.

Internationally, our Turkish subsidiary Türkiye Finans Katılım Bankası, which was acquired in 2008, reflected the growth seen in Turkey's broader economy, continuing to improve its asset quality and liquidity. 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 22.0 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. 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.

Governance and risk management

The successful growth in our Corporate Banking and Treasury operations was largely due to the effectiveness of our governance and risk management structures and approach, helping us to identify and construct opportunities for our customers, while also protecting our franchise and its reputation.

It is no surprise that the speed of growth in 2010 in our Corporate Banking business followed a review of our risk decision-making processes, which resulted in faster turn-around times. Approaching governance in this way benefits shareholders, customers, and our employees, as well as ensuring sound business practice is reinforced while, of course, always fulfilling regulatory requirements.

At the heart of our aim to be the region's premier financial services group is the strategy of strengthening our core business, expanding the scope of activities, and diversifying our geographical reach. All of this is made possible by a common understanding of not just our customers' risk profiles but also a culture that is based on the utmost integrity and transparency. As NCB continues to grow, a sustained emphasis on governance has provided a higher level of assurance to all our stakeholders, helped streamline decision-making, speed up our response to customer needs, and improve accountability and transparency.

Having fully implemented the Basel II capital requirements, this year we moved to adopt the advanced methodology to managing risk capital – the Internal Ratings Based or 'IRB' system. Work on this IRB project will continue throughout 2011 and we expect to be able to adopt the new advanced methodology early in 2012.

All of this is of paramount importance in the current environment as we continue to grow our business and help our customers through still challenging times.

Providing a superior customer experience

NCB's core ethos is always to put our customers at the center of everything we do, and to offer an outstanding experience in every interaction. Our service quality is market leading, and in the last year we have made significant investment in expanding the range of channels that our customers can use to conduct their financial transactions.

By providing a comprehensive range of alternatives, from physical branch locations to online remote access from anywhere in the world, we strive to give customers convenience and choice of access; whether they are undertaking routine day-to-day transactions or looking for guidance on personal finance through investment advice, insurance, and estate planning. Same-day approval of loans and availability of funds is now routine.

Our electronic facilities, including online, ATMs, and telephone banking, accounted for 93 percent of transactions during 2010. Our internet banking provided many user benefits, while *QuickPay* is today the Kingdom's only multi-channel, round-the-clock remittance service. Nevertheless, the 284 NCB branches remain the foundation of our unique network and we have continued to expand our physical reach, mindful of our responsibilities to all the regions in the Kingdom.

In addition to improving the physical environment in each branch, we are also asking our local managers to think and behave as business managers on our customers' behalf, listening and using their knowledge and experience to act as true partners while accessing resources from around the Group to provide what is really needed. Customers have noticed – and appreciate – this more refined approach.

As a result, branch customers are experiencing new levels of staff knowledge, efficiency, and speed of decision-making in their contacts with our professionals – an improvement reflected in the high ratings achieved in customer satisfaction surveys, robust growth in business, and an increasing number of word-of-mouth recommendations.

By improving customer communications in our Consumer Finance business, we have made a strong commitment to simplicity and transparency, moving away from the small print and complex language that traditionally characterized bank documentation. We ensure that terms and conditions are clear and explained to customers, in keeping with our responsible lending principles.

In essence, in 2010 we demonstrated our ability to provide a superior customer experience that ranks best in service quality, is relevant to the needs of the community, and is in line with people's preferences. Customer-centricity is now a genuine competitive edge for NCB and will remain a top priority as we become increasingly professional and service-orientated in all our customer interactions.

Leading with innovation

NCB has been known for its innovation in financial services for over half a century, having pioneered many 'first to market' products and services. Our record includes Saudi Arabia's first credit cards, ATMs, student saving schemes, mutual funds, and the first dedicated ladies' branches. It was also the first bank to receive regulatory approval for the establishment of an independent investment bank – now the Kingdom's biggest – and it is the world's largest Shariah-compliant asset manager. At the end of the year, total assets under management at NCB Capital stood at $14.9 billion. Innovation is embedded in NCB's business culture and 2010 maintained our tradition of introducing new and improved customer benefits.

The previous year's relaunch of AlAhli Online was followed in 2010 by a 64 percent increase in registrations, highlighting customers' enthusiasm for the new features and interface. In line with SAMA's world-class security standards, 'second factor' online authentication has given customers even more peace of mind. Total transactions through non-branch distribution channels amounted to 20 million this year, representing 93 percent of all customer activity.

During the year we upgraded our telephone banking system to enable more efficient communication, by either landline or mobile, through our purpose-built local Contact Centers. As a result, they are now being used by our customers to access more than a quarter of all personal finance products and about one in five new account openings, reflecting our customers' needs to access their banking services through the most convenient route.

Providing customers with new ways to do business with us has been behind our drive to rapidly increase our 'e' capability across the NCB Group. In retail, corporate, investment brokerage, and consumer finance we have invested in new technology and systems that now are of significant benefit to our two million plus customers.

Thinking from a customer's point of view and then working to exceed their expectations has been a guiding principle in every innovation. Offering instant approval of Shariah-compliant cash loans is one such example. We have also advanced our share of credit card business, with a corresponding increase in usage. In addition, we have also developed a mortgage product in response to customer needs.

Internal collaboration is driving efficiency and cross-selling

In today's market conditions, productivity and efficiency are the key – pulling different areas of the Bank together around a client to serve all his needs and secure a greater share of total customer revenue. Through such collaboration we have succeeded in winning new business that previously would not have come to, or perhaps stayed with, NCB.

The services that we tailor for high net-worth individuals through a combination of our private banking and wealth management businesses are prime examples of how we can maximize opportunities to give customers the benefits of our full array of resources.

Our 31 new 'shop-in-shop' facilities in branches around the country proved their value this year in helping these customers access the most relevant support, bringing experts in wealth management close to their customers. Away from these branch facilities, our investment bank, NCB Capital, has developed a new wealth management structure that incorporates high net-worth, institutional and brokerage advisory teams in all three regions, bringing world-class advisory services to our high net-worth customers. From this focus, we have been able to grow a strong discretionary portfolio business.

Throughout the year, our businesses and support areas have come together to drive growth through innovation, deeper customer relationships, and more efficient servicing. Our Individual business worked with counterparts in Consumer, Treasury, and IT to begin to develop youth lifestyle banking strategies to enable students access to our services from their university. And our Corporate Banking specialists worked alongside colleagues in Private Banking, Retail Banking, and NCB Capital to develop the more sophisticated products required by today's growing institutional and ultra high net-worth customers. A collaborative and productivity-focused ethos has really taken hold.

Building capability

If collaboration and productivity are key building blocks of our culture, then coaching, training, and developing our people are essential to underpin this and ensure we deliver the products and services our customers want in the most efficient and effective manner. Again in 2010, we have reinforced our ethos of working together as one team. This was illustrated by our ongoing Ambassadors program, which engages our people in thinking about how they work with one another, and the core behaviors that make us a client-centric organization.

We continue to uphold our commitment to provide opportunities for Saudi nationals, maintaining the upward trend in our Saudization rate, which now stands at 89.4 percent. In a similar vein, 20 percent of all our new hires are now women, reflecting our goal of broadening the diversity of our workforce.

The focus on employee satisfaction as a prerequisite to optimum performance was also evident in the opening of the Employee Service Center, Employee Call Center, and the Bank's Career Website, all contributing to an improved employee experience.

To develop selected managers to their full capacity, the new Management & Leadership Development Program provided segmented coaching programs for more than 100 of NCB's future leaders, providing for clear continuity and succession planning.

Building capability internally was also reflected in 2010 through a number of education programs aimed at enhancing product and technical knowledge. In another example of collaboration, the Islamic Banking Development Group held training sessions with colleagues in Treasury, Risk Management, and Corporate Banking to help them consider how to incorporate these structures into customer thinking. The group also trained its own people to act as first-call decision-makers in new product development. In line with our commitment to expand in Islamic banking, a similar approach was adopted by Compliance as it continued to roll out its training program to help reinforce a strong and unwavering compliance culture.

Sustainability is now a cornerstone

Our strategy in sustainability treats it as a holistic process that embraces all key stakeholders in three inter-dependent areas – people, profit, and planet. As the first company in Saudi Arabia to produce an internationally accredited sustainability report in 2008, and the winner of The King Khalid Award for Sustainability and Business Excellence in 2008, 2009, and 2010, NCB firmly believes that building a sustainable company that supports its economy, society, people, and environment is of paramount importance.

In terms of the first category, we strive to use the expertise, creativity, and skill of our people to compete successfully. This applies equally to our relationships with customers, business partners, and the community, always treating them fairly and with respect.

Although NCB has only a modest footprint in terms of environmental impact, we are still very conscious of instilling responsible stewardship of the environment as integral to our corporate culture, focusing on the things we can influence such as recycling, printing, water consumption, and energy usage.

Profit is also an important component of sustainability, since a company cannot exist without value creation. But short-term gain is valueless if outweighed by the long-term human and environmental costs of its achievement. All NCB departments are introducing recycling and water and energy conservation into their annual planning.

In the area of community, NCB is a recognized leader in Saudi Arabia with a dedicated Corporate Social Responsibility department that has a well-balanced strategy. This includes four well-defined programs which contribute to reducing the unemployment rate by creating job opportunities, supporting educational initiatives in society, promoting health programs across the community, and adopting various social programs to help the needy, while promoting the concept of volunteerism across the Kingdom.

Sustainability is now integral to NCB's corporate philosophy, as is evident in the adoption of several ambitious projects that will bring significant changes, deep within the organization. This new function will help improve knowledge and understanding and act as a catalyst to encourage engagement at every level and in every team.

We will once again be publishing a separate report on this subject in 2011. We do not view sustainability as a one-dimensional issue and we are committed to continuing to raise the bar, for ourselves and for all stakeholders in the community.

2011 outlook

NCB's vision is to be the region's premier financial services group. In 2010 we continued our journey towards this goal by executing our strategy of growing our core businesses, broadening the scope of our activities, and expanding into selected regional markets. We have also continued to invest in strategic enablers such as governance, risk management, technology, and people.

This year we have shown NCB's capability to grow in a challenging global environment – without sacrificing quality or taking undue risk – and we believe we will see many more opportunities that will flow from this momentum. Our balance sheet continues to be strong, service quality indicators are positive, and key business relationships have deepened, thus generating increasing revenues and better understanding of future customer needs.

Of course, there still remain risks in the global financial and economic system, which will ensure that challenging times lie ahead – and no country or region can be complacent about the future.

At NCB, we believe we are a portfolio of businesses and that, being proactive, we have the agility to quickly move on opportunities that present themselves and leverage our financial performance. As we move into a new year and a new economic reality, we will continue to be financially resilient and prudent in decision-making, while we grow our core franchise, develop our people, and at all times manage risk in an appropriate and responsible manner.

Gratitude

NCB's success this year has depended on many people, both inside the organization and beyond. The fact that we have been able to strengthen our position and grow our business in a challenging environment is testament to the way all of our stakeholders have supported us, and I would like to pay tribute to them.

Once again, our shareholders continued to provide unwavering support. The support they provided us in order to be able to implement decisions on fortifying our balance sheet and responding to market opportunities has been in no small way due to their total commitment. Similarly, the wisdom and guidance of my fellow board directors has been critical in helping us to steer the right path.

I would like to thank our customers for the loyalty they have shown us, and the Saudi Arabian Monetary Agency and the Capital Market Authority for their support.

The NCB Group is a people business and our combined team of 9,225 professionals, who work together to provide real benefits to all of our stakeholders, are the backbone of our success this year. I thank them for their hard work and focus, and look forward to their support and significant contribution in 2011.

Abdulkareem A. Abu Alnasr
Chief Executive Officer

Executive Management

From left

Zahid Hummusani – Executive Vice President, Acting Head, Consumer Finance Sector
Faisal Al-Sakkaf – Senior Executive Vice President, Group Chief Financial Officer
Brian Belcher – Senior Executive Vice President, Group Chief Risk Officer
Abdulkareem A. Abu Alnasr – Chief Executive Officer
Saud S. Sabban – Executive Vice President, Head, Human Resources Division

David G. Jones – Senior Executive Vice President, Head, Services Sector
AlSharif Khalid AlGhalib – Senior Executive Vice President, Head, Corporate Banking Sector
Adel Al Howar – Senior Executive Vice President, Head, Individual Banking Sector
Abdulrazak M. Elkhraijy – Executive Vice President, Head, Islamic Banking Development Group
Donald P. Hill – Senior Executive Vice President, Head, International Sector

Leading

Number one in project finance

Despite intense competition, NCB secured several prestigious mandates in 2010, establishing it as the Kingdom's leader in project finance.

Several initiatives led to stronger relationships with corporate clients: faster response on credit requests, upgrading e-services, and expanding the Bank's network of Corporate Service Centers.

The new approach to Risk Management facilitates growth by acting as an enabler, turning a traditional control function into one that identifies potential opportunities.

Reliable

Managing risks, growing with assurance

Maintaining continuous operations in the event of disruption is a fundamental requirement. NCB is the first bank in Saudi Arabia to achieve the BS 25999 certification for Business Continuity Management.

Closer
Always there when needed

NCB is Saudi Arabia's own bank, serving every city, village, and rural community. Our mission is to provide a superior experience, carefully aligned to customers' preferences.

A new generation of customers rely on our highly sophisticated e-channels, offering ease of access for day-to-day banking needs, as well as the entire spectrum of financial services.

Responsible

Working together, making a difference

We are committed to giving back to the community through specialized programs, charitable donations, and sponsorship. This year NCB supported 412 Saudi charities, addressing a diverse range of social needs and activities.

The Disabled Children's Association in Riyadh is supported by NCB, financing prosthetics and other equipment for the disabled.

2010 has been a recovery year for the Saudi economy, with the Kingdom's nominal GDP rising by 16.6 percent to SR 1.63 trillion ($435 billion). This boosted the Kingdom's per capita income to SR 60,148 ($16,039).

The solid performance is attributable to the surge in oil prices, higher crude production, robust domestic demand, and prudent macroeconomic policies. The Arabian light average spot price reached $77.6/bbl in 2010, a 31 percent increase on the 2009 average price of $59/bbl.

In real terms the economy grew by a significant 3.8 percent, higher than the 0.16 percent recorded in 2009, on the back of the increased level of oil production. Average crude oil output rose by 2.5 percent to 8.5 MMBD in 2010. The private sector also maintained its significant contribution to real GDP at 48 percent, growing by 3.7 percent in constant prices, which illustrates the expanding role that private enterprise is assuming in the Saudi economy. The main drivers of private sector growth have been manufacturing, commerce, and construction, posting growth rates of 4.98 percent, 4.4 percent, and 3.7 percent respectively.

The rapid rise in oil prices, coupled with increased production, propelled the Kingdom's fiscal and external positions to elevated levels. The current and fiscal surpluses stood at 6.7 percent and 16.0 percent to GDP in 2010 respectively. Government revenues soared, rising by 44.2 percent to SR 735 billion ($196 billion). And even though expenditure hit a new record of SR 626.5 billion ($167 billion), as the Government continued its commitment to carry an expansionary fiscal policy, the budget surplus registered a sharp rise, amounting to SR 108.5 billion ($29 billion) in 2010, compared to a deficit of SR 87 billion ($23 billion) in 2009.

The Government maintained its fiscal prudence strategy, as evident in the sustained increase in its deposits at the Saudi Arabian Monetary Agency (SAMA), which approached SR 992.6 billion ($265 billion) by December 2010. Consequently, the Kingdom's net foreign assets reached SR 1.65 trillion ($441 billion), the highest on record.

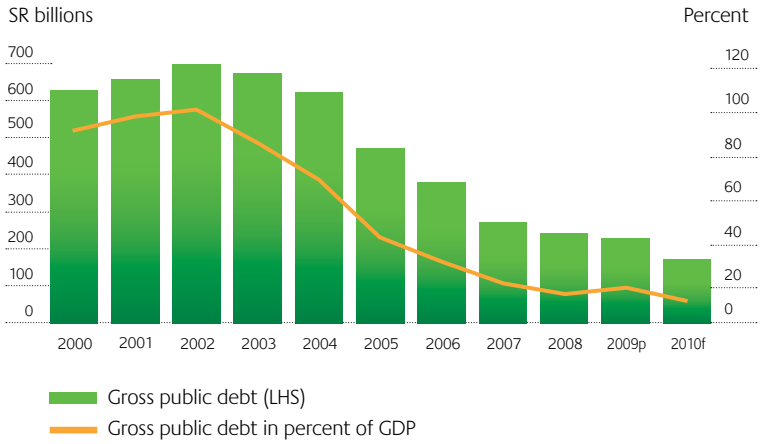
In addition, the Government continued with the settlement of public debt, and capital injections into specialized public credit institutions such as the Saudi Credit and Savings Bank and the Real Estate Development Fund. Public debt repayment was further accelerated, falling to SR 167 billion ($45 billion) – 10.2 percent of GDP. The improvements in the Kingdom's fiscal and external positions under-pinned Moody's decision to upgrade Saudi Arabia's sovereign credit rating from A1 with a stable outlook to Aa3, the fourth highest grade.

A series of external supply shocks kept the inflation rate at 5.3 percent for 2010, closer to the 5.1 percent registered in 2009. On the domestic front, a tight housing market was the prime contributor to inflation, with rent and renovation registering an annual increase of 8.7 percent, albeit at a slower pace since the fourth quarter of 2008. The most prevalent sources of inflation have been surging world prices for food and raw materials, as reflected in the S&P Goldman Sachs Agriculture Index, which posted a staggering 44.5 percent rise in 2010. Against this backdrop, food prices soared by 8.1 percent in 2010 from just 0.2 percent in 2009. This was partially offset by the nominal effective appreciation of the Saudi riyal that rose by 8.5 percent and 4.9 percent respectively against the euro and the pound, reflecting the strength of the US dollar.

The appetite for borrowing, coupled with Saudi banks' willingness to lend, improved in 2010, bringing total banks' claims on the private sector to SR 743 billion ($199 billion), a 4.8 percent year-on-year growth. The main beneficiaries of the resumption of lending were construction, manufacturing, and commerce with annual credit growth of 24.4 percent, 20 percent, and 7 percent respectively. Saudi banks entered the global financial crisis in a healthy position. Prudent rules, capital adequacy ratios higher than the minimum international standard, and a proactive approach to supervision helped maintain stability.

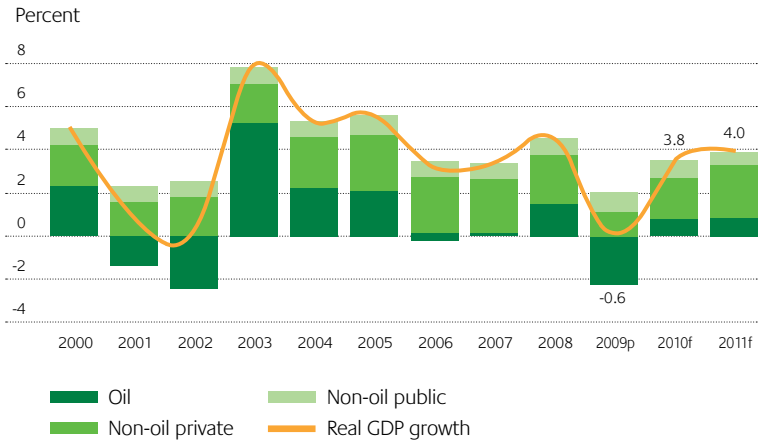
Government Debt

Public debt has been reduced sharply, and now the government is expected to pay off the outstanding debt, but gradually and over an extended period of time.



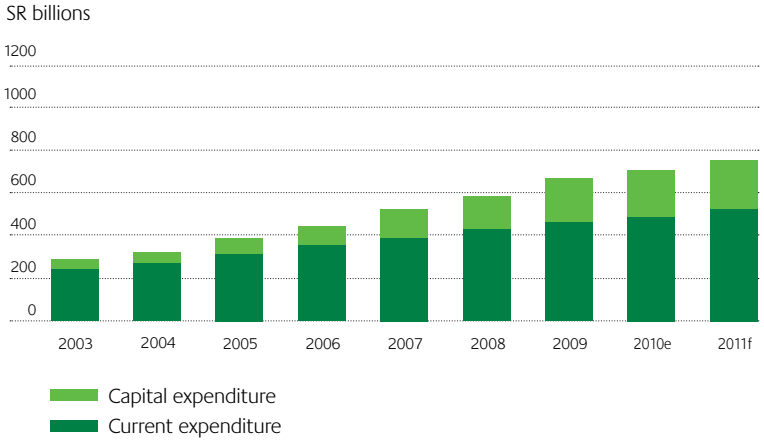
Real GDP Growth, Contribution by Sector

The Saudi economy is well placed to grow at pre-crisis levels, underpinned by government spending, with the non-oil private sector leading the recovery.



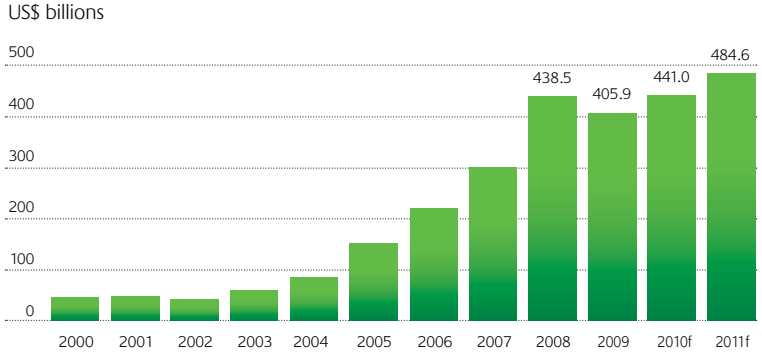
Breakdown of Spending

The government has placed greater emphasis on capital expenditure in order to create job opportunities and support economic growth in the medium-term.



Net Foreign Assets at SAMA

Net foreign assets will exceed its peak position of 2008, enabling the government to pursue its fiscal expansionary policy beyond 2011.



Despite the muted growth in net income, limited credit growth, and reassessment of loan portfolios during this recuperating phase, Saudi banks were able to maintain high capital buffers, adequate provisions, and ample liquidity.

Implementing broad-based structural reforms over recent years largely improved the Kingdom's business environment and its attractiveness for foreign capital inflows. According to the UN World Investment Report 2010, the Kingdom was the largest FDI recipient in West Asia, with receipts totaling $35.5 billion. The World Bank's 'Doing Business 2011' report ranked the Kingdom 11th out of 183 countries for ease of doing business. The 2010/11 Global Competitiveness Report (prepared by the World Economic Forum) ranks Saudi Arabia at 21 out of 139 countries, ahead of China, Turkey, Brazil, and India.

Despite the Kingdom's sound economic fundamentals, the equity market gained only 8.2 percent in 2010 following 2009's impressive 27.9 percent as retail investors, who account for more than 90 percent of overall trading volume, seem to be more influenced by global events than the domestic environment. The average daily trading volume was subdued at around SR 3.1 billion ($828 million), a 39 percent drop from SR 5.1 billion ($1.36 billion) in 2009. The market continued its expansion with the flotation of nine initial public offerings. The total capital raised was SR 3.83 billion ($1.02 billion), demonstrating lost attractiveness due to risk aversion.

In an attempt to restore investor confidence and facilitate the introduction of new financial products and services, the Capital Market Authority (CMA) added two equity traded funds (ETF) to the market. In line with stock trading, ETF trading is also accessible to non-resident foreign investors. Although CMA shows commitment in creating a strong efficient market, the Saudi Stock Market index is still divergent from the strong macro fundamentals and robust corporate profitability.

Work on mega projects continued during 2010, despite tight credit conditions and uncertainty over the economic outlook, with the combined value of projects under implementation and in the pipeline rising to more than SR 2.6 trillion ($694 billion). The total value of contracts awarded reached SR 107 billion (70 percent being signed in the second half of the year), signaling a recovery in the construction sector. Saudi Arabia's 2011 budget reiterated the commitment to enhance the Kingdom's infrastructure, healthcare, and social and economic development. The ninth five-year development plan projected Government expenditure to increase by 67 percent to SR 1.44 trillion ($385 billion), underscoring the medium- to long-term vision to achieve economic growth and balanced development.

Sustaining growth

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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 around AA-/Stable (Standard & Poor's, 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 9.9 percent; credit card usage grew 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 from 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 affirmed the positive results achieved by the Bank.

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

Independent Auditors' Report

Ernst & Young
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

To the Shareholders of The National Commercial Bank:

We have audited the accompanying consolidated financial statements of The National Commercial Bank, a Saudi Joint Stock Company, and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and explanatory notes from 1 to 46 for the year then ended, other than note 41.2 and the information related to 'Basel II disclosures' cross-referenced in note 41.2, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies and the Banking Control Law in the Kingdom of Saudi Arabia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

27 Safar 1432H
31 January 2011
Jeddah

KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
Certified Public Accountant
Registration No. 352

Consolidated Statement of Financial Position

As at 31 December 2010 and 2009

	Note	2010 SR '000	2009 SR '000
ASSETS			
Cash and balances with SAMA	4	**27,932,539**	30,238,593
Due from banks and other financial institutions	5	**11,846,431**	9,270,948
Investments, net	6	**108,065,249**	97,455,306
Loans and advances, net	7	**125,597,091**	112,157,640
Investment in associates, net	8	**827,465**	844,739
Other real estate, net	9	**279,665**	286,888
Property and equipment, net	10	**2,097,005**	2,153,135
Intangible assets, net	11	**922,677**	1,206,965
Goodwill, net	11	**734,744**	983,456
Other assets	12	**4,069,126**	2,854,505
Total assets		**282,371,992**	257,452,175
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**14,331,698**	15,575,021
Customers' deposits	15	**229,160,181**	202,582,508
Debt securities issued	16	**-**	2,624,436
Other liabilities	17	**6,023,420**	5,810,051
Total liabilities		**249,515,299**	226,592,016
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	18	**15,000,000**	15,000,000
Treasury shares	18 & 43	**(177,093)**	(177,093)
Statutory reserve	19	**10,655,725**	9,524,343
Other reserves (cumulative changes in fair values)	20	**1,318,720**	367,151
Retained earnings		**3,807,791**	3,061,538
Proposed dividend	30	**1,495,975**	2,243,963
Foreign currency translation reserve		**(828,860)**	(748,815)
Total shareholders' equity attributable to equity holders of the Parent		**31,272,258**	29,271,087
Non-controlling interests		**1,584,435**	1,589,072
Total shareholders' equity		**32,856,693**	30,860,159
Total liabilities and shareholders' equity		**282,371,992**	257,452,175

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For the years ended 31 December 2010 and 2009

	Note	2010 SR '000	2009 SR '000
Special commission income	22	9,711,254	10,372,154
Special commission expense	22	(1,561,452)	(2,326,509)
Net special commission income		8,149,802	8,045,645
Fee income from banking services, net	23	2,487,858	2,381,305
Foreign exchange income, net		348,786	283,302
Income from FVIS investments, net	24	181,115	213,222
Trading income, net	25	151,154	314,749
Dividend income	26	65,781	51,641
Gains on non-trading investments, net	27	282,760	188,780
Operating income		11,667,256	11,478,644
Salaries and employee-related expenses		2,336,251	2,205,038
Rent and premises-related expenses		401,569	370,184
Depreciation of property and equipment	10	335,156	311,352
Amortisation of intangible assets	11	235,557	206,850
Other general and administrative expenses		1,163,370	1,146,760
Impairment charge for credit losses, net	7.3	1,831,560	2,473,727
Impairment charge on investments, net	6.5	52,883	384,924
Impairment loss on goodwill and intangible assets	11	277,153	-
Operating expenses		6,633,499	7,098,835
Income from operations, net		5,033,757	4,379,809
Other (expenses)			
Donations		(67,503)	(50,073)
Other non-operating (expenses), net	28	(162,850)	(208,377)
Net other (expenses)		(230,353)	(258,450)
Net income for the year		4,803,404	4,121,359
Net income for the year attributable to:			
Equity holders of the Parent		4,723,835	4,040,256
Non-controlling interests		79,569	81,103
Net income for the year		4,803,404	4,121,359
Earnings per share (expressed in SR per share)	29	3.16	2.70

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended 31 December 2010 and 2009

	Note	2010 SR '000	2009 SR '000
Net income for the year		**4,803,404**	4,121,359
Other comprehensive income (loss):			
Net changes arising during the year:			
Revaluation gains on cash flow hedges, net	13	**22,122**	123,060
Revaluation gains (losses) on available for sale investments (AFS), net		**1,136,020**	(490,923)
Foreign currency translation reserve - (losses)/gains		**(110,417)**	78,941
Transfers to consolidated income statement:			
Fair value (gains) on cash flow hedges	13	**(77,913)**	(286,945)
(Gains) on non-trading investments, net (AFS)		**(228,666)**	(332,163)
Impairment charge on investments (AFS)		**89,644**	334,820
Other comprehensive income (loss) for the year		**830,790**	(573,210)
Total comprehensive income for the year		**5,634,194**	3,548,149
Total comprehensive income attributable to:			
Equity holders of the parent		**5,595,359**	3,424,471
Non-controlling interest		**38,835**	123,678
Total comprehensive income for the year		**5,634,194**	3,548,149

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December 2010 and 2009

		Attributable to equity holders of the parent										
					Other reserves							
	Note	Share capital SR '000	Treasury shares SR '000	Statutory reserve SR '000	Available for sale financial assets SR '000	Cash flow hedge SR '000	Retained earnings SR '000	Proposed dividend SR '000	Foreign currency translation reserve SR '000	Total SR '000	Non-controlling interests SR '000	Total SR '000
2010												
Balance as at 1 January 2010		15,000,000	(177,093)	9,524,343	281,941	85,210	3,061,538	2,243,963	(748,815)	29,271,087	1,589,072	30,860,159
Total comprehensive income/ (loss) for the year		-	-	-	1,007,360	(55,791)	4,723,835	-	(80,045)	5,595,359	38,835	5,634,194
Transfer to statutory reserve		-	-	1,251,319	-	-	(1,251,319)	-	-	-	-	-
Transfer related to Lebanon branch		-	-	911	-	-	(911)	-	-	-	-	-
Adjustments in non-controlling interests		-	-	-	-	-	19,739	-	-	19,739	(41,715)	(21,976)
Adjustments related to subsidiaries		-	-	(120,848)	-	-	120,848	-	-	-	-	-
Premium on acquisition of non-controlling interests		-	-	-	-	-	(12,330)	-	-	(12,330)	-	(12,330)
Proposed final dividend for 2010	30	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-
Zakat - NCB & NCBC (included in other liabilities)	17	-	-	-	-	-	(160,854)	-	-	(160,854)	(366)	(161,220)
Dividend paid for 2010 (interim) & 2009 (final)	30	-	-	-	-	-	(1,196,780)	(2,243,963)	-	(3,440,743)	(1,391)	(3,442,134)
Balance as at 31 December 2010		15,000,000	(177,093)	10,655,725	1,289,301	29,419	3,807,791	1,495,975	(828,860)	31,272,258	1,584,435	32,856,693
2009												
Balance as at 1 January 2009		15,000,000	-	8,526,412	801,486	249,095	2,354,313	-	(816,460)	26,114,846	1,420,655	27,535,501
Total comprehensive (loss)/ income for the year		-	-	-	(519,545)	(163,885)	4,040,256	-	67,645	3,424,471	123,678	3,548,149
Transfer to statutory reserve		-	-	997,080	-	-	(997,080)	-	-	-	-	-
Transfer related to Lebanon branch		-	-	851	-	-	(878)	-	-	(27)	-	(27)
Adjustment in non-controlling interests		-	-	-	-	-	(391)	-	-	(391)	45,590	45,199
Adjustment - Lebanon branch		-	-	-	-	-	9,974	-	-	9,974	-	9,974
Acquisition of treasury shares	18 & 43	-	(177,093)	-	-	-	-	-	-	(177,093)	-	(177,093)
Proposed final dividend for 2009	30	-	-	-	-	-	(2,243,963)	2,243,963	-	-	-	-
Zakat (included in other liabilities)	17	-	-	-	-	-	(100,693)	-	-	(100,693)	(851)	(101,544)
Balance as at 31 December 2009		15,000,000	(177,093)	9,524,343	281,941	85,210	3,061,538	2,243,963	(748,815)	29,271,087	1,589,072	30,860,159

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended 31 December 2010 and 2009

	Note	2010 SR '000	2009 SR '000
OPERATING ACTIVITIES			
Net income for the year		4,723,835	4,040,256
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium (accretion of discounts) on non-trading investments, net		52,294	(119,408)
Amortisation of discount on debt securities issued		564	704
(Gains) on non-trading investments, net	27	(282,760)	(188,780)
(Gains) on disposal of property and equipment, net	28	(9,606)	(16,919)
(Gains) on disposal of other real estate, net	28	(2,275)	(9,022)
Depreciation of property and equipment	10	335,156	311,352
Amortisation of intangible assets	11	235,557	206,850
Impairment charge for credit losses, net	7.3	1,831,560	2,473,727
Bank's share in associates' losses	28	17,274	16,538
Impairment charge on investments, net	6.5	52,883	384,924
Impairment loss on goodwill and intangible assets	11	277,153	-
Provision for unrealized revaluation losses of other real estate	28	5,645	8,350
		7,237,280	7,108,572
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		(1,662,730)	(2,352,875)
Held for trading investments		726,966	(119,462)
Held as fair value through income statement (FVIS) investments		(191,663)	3,079,583
Loans and advances		(15,271,011)	(6,813,193)
Other real estate		3,853	(34,225)
Other assets		(1,214,621)	2,706,610
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,243,323)	2,838,724
Customers' deposits		26,577,673	30,760,820
Other liabilities		88,388	(1,312,934)
Net cash from operating activities		15,050,812	35,861,620

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows continued

For the years ended 31 December 2010 and 2009

	Note	2010 SR '000	2009 SR '000
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		71,978,250	47,924,160
Purchase of non-trading / non-FVIS investments		(81,979,460)	(79,696,292)
Purchase of property and equipment	10	(301,363)	(366,459)
Proceeds from disposal of property and equipment		17,060	17,961
Net cash (used in) investing activities		(10,285,513)	(32,120,630)
FINANCING ACTIVITIES			
Net movement in non-controlling interest		(4,637)	168,417
Settlement of debt securities issued		(2,625,000)	-
Dividends paid for 2010 (interim)		(1,196,780)	-
Dividends paid for 2009 (final)		(2,243,963)	-
Cash (used in)/from financing activities		(6,070,380)	168,417
Net increase in cash and cash equivalents		(1,305,081)	3,909,407
Foreign currency translation reserve - cash and cash equivalents		(88,220)	1,850
Cash and cash equivalents at the beginning of the year		29,018,600	25,107,343
Cash and cash equivalents at the end of the year	31	27,625,299	29,018,600
Special commission received during the year		9,774,565	10,956,321
Special commission paid during the year		1,649,848	2,604,026
Supplemental non-cash information			
Net change in fair value and transfer to consolidated statement of income		961,195	(652,151)
Acquisition of treasury shares	43	-	177,093
Acquisition of available for sale investment (equities)	44	1,076,566	284,992

The accompanying notes 1 to 46 form an integral part of these consolidated financial statements.

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of the National Commercial Bank and its subsidiaries (the Group).

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Group operates through its 284 branches (2009: 282 branches) and 6 corporate service centres (2009: 6 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain) in addition to the subsidiaries as detailed below. The Group's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
http://www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

(1.2) Group's subsidiaries

The details of the Group's subsidiaries are as follows:

(a) NCB Capital Company

In April 2007, the Bank formed a capital market company, namely, NCB Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia. The Bank has 90.42% (2009: 89.42%) direct ownership interest in NCB Capital Company and an indirect ownership of 5.90% (2009: 4.17%) (the indirect ownership is held via an intermediary Trust for future grant to NCB Capital employees).

(b) Türkiye Finans Katılım Bankası A.Ş.

The Bank has 64.68% (2009: 64.68%) direct ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has 74.17% (2009: 72.06%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCB Capital. NCB Capital Company acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

(d) The Capital Partnership Group Limited (TCP)

NCB Capital Company acquired 100% ownership interest of The Capital Partnership Group Limited on 1 October 2008. On 30 June 2009, NCB Capital disposed off its 22% ownership interest in this subsidiary without losing control. TCP was incorporated and registered in the Dubai International Financial Centre on 1 November 2006. Its principal activity is providing investment management services.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS). The Group also prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Group's functional currency and have been rounded off to the nearest thousand Saudi Riyals.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries and Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). NCB Capital also consolidates the financial statements of Eastgate and the Capital Partnership Group in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represent the portion of net income and net assets not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in preparing the consolidated financial statements.

(2.5) Critical accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

The Group reviews its loan portfolios to assess an additional portfolio (collective) provision on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments that are not quoted in an active market

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, valuation models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that created the model. To the extent practical, models use only observable market data; however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as provision for impairment on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as provision for impairment on investments.

2. BASIS OF PREPARATION CONTINUED

(2.5) Critical accounting judgments and estimates continued

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill and equity investments cannot be reversed through the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(3.1) Change in accounting policies

The accounting policies adopted are consistent with those used in the Bank's annual consolidated financial statements for the year ended 31 December 2009, except for the amendments in IAS 27 (amended) as mentioned below, effective from 1 January 2010.

IAS 27 (Amended) 'Consolidated and separate financial statements':

The amendment requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss.

(3.2) Investment in associates

Associates are enterprises over which the Bank exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exerts control (see note 2.4). Where the Bank does not have effective control but has significant influence, such investment is then regarded as an associate and accounted for under the equity accounting method (see note 8).

Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the balance sheet remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(3.3) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.4) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and valuation models as appropriate.

(3.4.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.4.2) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(3.5) Foreign currencies

The consolidated financial statements are presented in Saudi Riyals, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency for the Turkish Bank is Turkish Lira, the functional currency of NCB Capital is Saudi Riyals and the functional currency of Eastgate and TCP is U.S. Dollar.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

(b) Foreign subsidiaries

As at the reporting date, the assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, shareholders equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve). The deferred cumulative amount of exchange differences recognised in equity will be recognised in the income statement in 'Other operating expenses' or 'Other operating income' at the time of any future disposal.

Goodwill and intangible assets arising on the acquisition of the foreign subsidiary and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate.

(3.6) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(3.7) Revenue / expenses recognition

Special commission income and expense for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income on the effective yield basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Foreign exchange income from banking services are recognized when earned. Dividend income is recognized when the right to receive dividend income is established.

Fees income is recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

(3.8) Trading income, net

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.9) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, due from banks and other financial institutions or loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.10) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. Identifiable assets acquired (including previously unrecongnized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(3.11) Intangible assets

Intangible assets include the value of the subsidiaries' brands, softwares, customer deposits relationships, loan renewals, credit card relationships, favorable lease contracts and other banking relationships (asset management, private equity and trust structure). Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated useful lives of 2-9 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.12) Investments

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction cost except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(3.12) Investments continued

(b) Held at fair value through income statement (FVIS)

Investments can be designated as FVIS at inception except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured. These include all hedge funds investments that are managed, by the Group directly or indirectly, and whose performance is evaluated on a fair value basis. The Group also classifies some compound debt instruments as Fair Value through Income Statement (FVIS). Under this option, the Group fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host at amortised cost.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale

Available-for-sale investments are those equity and debt securities, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are subsequently measured at fair value. Any unrealised gain or loss arising from a change in their fair value is recognized in "other reserves" under shareholders' equity until the investments are derecognized or impaired. On derecognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

Available for sale investments, where fair value cannot be reliably measured, are carried at cost.

For impairment of available for sale investments, see note 3.15(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.13) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

For presentation purposes, provision for credit losses is deducted from loans and advances.

(3.14) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.15) Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as provision for impairment on investment.

Where a loss has been recognized directly under shareholders' equity, the cumulative net loss recognized in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

For impairment of non-financial assets, see note [2.5(f)].

(3.16) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of such related assets, less any costs to sell (if material).

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of other real estates can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other non-operating income/(expenses).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(3.17) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation.

Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(3.18) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, other than those held for trading or at FVIS or where fair values have been hedged, if any, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.19) Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

(3.20) Provisions

Provisions (other than impairment or credit loss provisions) are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

(3.21) Accounting for leases

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are sold under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules (Ijara), the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.22) Zakat

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on their behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.23) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions maturing within ninety days.

(3.24) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(3.25) Investment management services

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and its subsidiaries and, accordingly, are not included in the consolidated financial statements of the Group.

(3.26) Financing and investment products in compliance with *Shariah* rules

In addition to the conventional banking products, the Group offers certain non-special commission based financing products (including Murabaha, Musharaka, Tayseer (Al Tawarroq), Ijara and Istisna'a) to its customers. The Group also invests in Musharaka investments, in compliance with *Shariah* rules, which are approved and supervised by the *Shariah* Board.

The financing and investment banking products, in compliance with *Shariah* rules, are accounted for using IFRS in conformity with the accounting policies described in these consolidated financial statements and the related balances are included in loans and advances or investments.

(3.27) Deposit products in compliance with *Shariah* rules

The Group offers deposit taking products (such as AlKhayrat) to its customers, in compliance with *Shariah* rules, which are approved and supervised by the *Shariah* Board.

The deposit taking products, in compliance with *Shariah* rules, are accounted for using IFRS in conformity with the accounting policies described in these consolidated financial statements and the related balances are included in customers' deposits.

(3.28) End of Service Benefits

The provision for end of service benefits is based on the rules stated under The Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

The provision for the Bank is also in line with independent actuarial valuation of the Bank liability.

(3.29) Staff Compensation

The Bank Board Of Directors and its Nomination and Compensation committee oversees the design and operation of the Bank's Compensation Policy which is set in-line with SAMA Compensation Rules as well as the Compensation Principles and Standards set by the Financial Stability Board of the Bank of International Settlements in Basel, Switzerland.

Key elements of the Bank's compensation are as follows:

(3.29.1) Fixed Compensation

The fixed compensation element comprises salaries, cash allowances and benefits. The main part, which is salary, is pegged to a market level that supports talent attraction, retention and engagement. The Bank's salary administration is supported by some key processes such as job descriptions and evaluation, pay grading and structure, and salary surveys and reviews to ensure the fairness and effectiveness of the compensation as per the market.

(3.29.2) Variable Compensation

The variable compensation is designed to drive performance and prevent excessive risk taking.

Under this compensation element, the Bank runs two key plans:

(a) Annual Performance Bonus

To reward for the achievement of mission critical set of financial and non financial objectives, the Bank has established a scheme of annual performance bonus. The financial objectives are set to reflect the economic performance of the business and the non financial objectives are set to ensure compliance with control measures such as risk management besides the achievement of other critical objectives relating to employees' development, succession, teamwork and morale. The performance appraisal takes into account the performance of the individual, the business unit and the Bank's achievements. The overall plan award is set as a percentage of the net normalized profit attributable to core performance of employees. No guaranteed bonuses are allowed in employee's contracts.

The cost of such award is recognised in the annual income statement and is normally paid during the 1st quarter of the following year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(3.29) Staff Compensation continued

(3.29.2) Variable Compensation continued

(b) Long Term Performance Plan

The plan aims at rewarding for the achievement of long term corporate success which is measured based on adjusted return on equity (ROE). The plan rolls out in series of cycles and each cycle vests after a period of three years. The Bank's actual performance is assessed at the end of each plan cycle and is linked to risk variables.

Although executives whose actions may influence the Bank's long term corporate success are eligible to participate in this plan, the selection of specific individual to a plan is based on a rigorous vetting process and criteria.

The cost of the plan is measured by reference to a set of expected return on equity pre-determined at the start of the cycle and reviewed annually.

The cost of the plan is recognised over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the plan ('the vesting date'). The expense, recognised for the plan at each reporting date until the vesting date, reflects the Bank's best estimate of the expected cash incentives that will ultimately vest apportioned on a pro-rata basis over the vesting period. The charge or credit to the statement of consolidated income for a financial year represents the movement in cumulative liability recognised as at the beginning and end of that financial year.

(3.29.3) Compensation and Nomination Committee

The Compensation and Nomination Committee is established by the Board of Directors and is composed of four non executive members including the Chairman of the Committee. The Committee's role and responsibilities are reviewed and updated in line with SAMA Compensation Rules as well as the Principles and Standards of the Financial Committee (FSB) of the Bank of International Settlements in Basel, Switzerland.

The Committee is responsible for the development and oversight of the implementation of the compensation policy which aims at promoting our corporate financial soundness and preventing excessive risk taking. The Committee also oversees the design and implementation of compensation plans. The Committee submits its recommendations and reports its actions to the Board of Directors for endorsement and approval when required.

4. CASH AND BALANCES WITH SAMA

	2010 SR '000	2009 SR '000
Cash in hand	**2,759,131**	2,194,623
Balances with SAMA:		
Statutory deposit	**12,153,671**	10,490,941
Current accounts	**9,918**	273
Money market placements (Reverse repos)	**13,009,819**	17,552,756
Total	**27,932,539**	30,238,593

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 35).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 SR '000	2009 SR '000
Current accounts	**4,447,925**	1,949,607
Money market placements	**7,400,381**	7,323,216
Total	**11,848,306**	9,272,823
Provision for impairment and counterparty risk (note 6.4)	**(1,875)**	(1,875)
Due from banks and other financial institutions, net	**11,846,431**	9,270,948

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000
Mutual funds	587,110	1,314,076	-	-	587,110	1,314,076
Held for trading	**587,110**	1,314,076	**-**	-	**587,110**	1,314,076

(b) Held as FVIS

	Domestic		International		Total	
	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000
Compound debt instruments	-	-	-	71,324	-	71,324
Hedge funds and externally managed portfolio	-	-	4,448,001	4,185,014	4,448,001	4,185,014
Held as FVIS	**-**	-	**4,448,001**	4,256,338	**4,448,001**	4,256,338

(c) Available for sale

	Domestic		International		To.tal	
	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000
Fixed rate securities	364,226	363,033	21,293,870	25,466,513	21,658,096	25,829,546
Floating rate securities	-	55,704	5,776,361	7,834,016	5,776,361	7,889,720
Structured credit	-	-	459,448	600,452	459,448	600,452
Mutual funds	-	-	172	172	172	172
Equities	2,578,846	1,606,021	27,869	56,028	2,606,715	1,662,049
Private equity funds	-	-	1,505,224	1,456,955	1,505,224	1,456,955
Musharaka	-	189,657	-	-	-	189,657
Available for sale, gross	2,943,072	2,214,415	29,062,944	35,414,136	32,006,016	37,628,551
Provision for impairment	-	(42,288)	(1,520,939)	(1,776,307)	(1,520,939)	(1,818,595)
Available for sale, net	2,943,072	2,172,127	27,542,005	33,637,829	30,485,077	35,809,956

(d) Held to maturity

	Domestic		International		Total	
	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000
Fixed rate securities	-	-	2,153,841	1,123,437	2,153,841	1,123,437
Floating rate securities	-	-	36,440	71,369	36,440	71,369
Held to maturity, gross	-	-	2,190,281	1,194,806	2,190,281	1,194,806
Provision for impairment	-	-	(1,494)	(1,494)	(1,494)	(1,494)
Held to maturity, net	-	-	2,188,787	1,193,312	2,188,787	1,193,312

6. INVESTMENTS, NET CONTINUED

(e) Other investments held at amortized cost

	Domestic		International		Total	
	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000	2010 SR '000	2009 SR '000
Fixed rate securities	46,773,416	40,891,977	19,214,788	12,815,253	65,988,204	53,707,230
Floating rate securities	3,791,000	462,000	617,676	804,459	4,408,676	1,266,459
Other investments held at amortized cost, gross	50,564,416	41,353,977	19,832,464	13,619,712	70,396,880	54,973,689
Provision for impairment	-	-	(40,606)	(92,065)	(40,606)	(92,065)
Other investments held at amortized cost, net	50,564,416	41,353,977	19,791,858	13,527,647	70,356,274	54,881,624
Investments, net	54,094,598	44,840,180	53,970,651	52,615,126	108,065,249	97,455,306

(6.2) The analysis of the composition of investments is as follows:

	2010			2009		
	Quoted SR '000	Unquoted SR '000	Total SR '000	Quoted SR '000	Unquoted SR '000	Total SR '000
Fixed rate securities	23,503,241	66,296,899	89,800,140	26,633,808	54,026,405	80,660,213
Floating rate securities	5,494,707	4,726,770	10,221,477	6,740,369	2,487,179	9,227,548
Structured credit	-	459,448	459,448	-	600,452	600,452
Compound debt instruments	-	-	-	36,420	34,904	71,324
Mutual funds	587,110	172	587,282	1,314,076	172	1,314,248
Hedge funds and externally managed portfolio	-	4,448,001	4,448,001	-	4,185,014	4,185,014
Equities	2,531,944	74,771	2,606,715	1,587,071	74,978	1,662,049
Private equity funds	-	1,505,224	1,505,224	-	1,456,955	1,456,955
Musharaka	-	-	-	-	189,657	189,657
Investments, gross	32,117,002	77,511,285	109,628,287	36,311,744	63,055,716	99,367,460
Provision for impairment	(245,376)	(1,317,662)	(1,563,038)	(226,010)	(1,686,144)	(1,912,154)
Investments, net	31,871,626	76,193,623	108,065,249	36,085,734	61,369,572	97,455,306

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Development Bonds and Foreign Government and Quasi Government Bonds.

Fixed and floating rate securities include sovereign, corporate and bank bonds, and asset-backed securities including Collateralized Debt Obligations (CDOs) and Collateralized Loans Obligations (CLOs).

Structured credit includes junior notes of Collateralized Debt Obligations and Collateralized Loans Obligations.

(6.3) The analyses of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortized cost are as follows:

(a) Held to maturity

	2010				2009			
	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	2,153,841	115,221	-	2,269,062	1,123,437	80,549	-	1,203,986
Floating rate securities	36,440	-	(4,920)	31,520	71,369	-	(11,171)	60,198
Held to maturity, gross	2,190,281	115,221	(4,920)	2,300,582	1,194,806	80,549	(11,171)	1,264,184
Portfolio (collective) provision	(1,494)	-	-	(1,494)	(1,494)	-	-	(1,494)
Total	2,188,787	115,221	(4,920)	2,299,088	1,193,312	80,549	(11,171)	1,262,690

(b) Other investments held at amortized cost

	2010				2009			
	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	65,988,204	1,884,015	(212,272)	67,659,947	53,707,230	1,329,087	-	55,036,317
Floating rate securities	4,408,676	134,154	(50,566)	4,492,264	1,266,459	37,961	(8,149)	1,296,271
Other investments held at amortized cost, gross	70,396,880	2,018,169	(262,838)	72,152,211	54,973,689	1,367,048	(8,149)	56,332,588
Portfolio (collective) provision	(40,606)	-	-	(40,606)	(92,065)	-	-	(92,065)
Total	70,356,274	2,018,169	(262,838)	72,111,605	54,881,624	1,367,048	(8,149)	56,240,523

Equities reported under available for sale investments include unquoted shares of SR 71.2 million (2009: SR 71.4 million), net of impairment provision, that are carried at cost as their fair values cannot be reliably measured.

Investments which have been pledged under repurchase agreements with banks amounted to SR 6,712 million (2009: SR 6,658 million). The market value of such investments is SR 6,713 million (2009: SR 6,581 million).

(6.4) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2010 SR '000	2009 SR '000
Balance at beginning of the year	1,912,154	2,337,872
Provided during the year	360,513	508,416
Recoveries of amounts previously provided	(307,630)	(123,492)
Written-off against investments sold	(401,999)	(810,642)
Balance at the end of the year	1,563,038	1,912,154

The provision for impairment and counterparty risk related to positive fair value of derivatives and due from banks amounted to SR 2.1 million (2009: SR 2.1 million), see notes 5 and 13.

(6.5) Net charge for impairment provision on investments for the year in the consolidated statement of income:

	2010 SR '000	2009 SR '000
Addition during the year	360,513	508,416
Recoveries of amounts previously provided	(307,630)	(123,492)
Net charge for the year (impairment charge on investments, net)	52,883	384,924

7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

2010	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing loans and advances	1,954,481	32,874,953	89,401,995	2,240,058	126,471,487
Non-performing loans and advances	40,995	436,959	4,347,543	337,113	5,162,610
Total loans and advances	1,995,476	33,311,912	93,749,538	2,577,171	131,634,097
Provision for credit losses	(129,792)	(845,873)	(4,836,465)	(224,876)	(6,037,006)
Loans & advances, net	1,865,684	32,466,039	88,913,073	2,352,295	125,597,091

7. LOANS AND ADVANCES, NET CONTINUED

(7.1) Loans and advances continued

2009	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing loans and advances	1,882,908	32,105,462	75,007,761	2,369,280	111,365,411
Non-performing loans and advances	35,772	424,716	4,614,954	340,123	5,415,565
Total loans and advances	1,918,680	32,530,178	79,622,715	2,709,403	116,780,976
Provision for credit losses	(96,224)	(575,023)	(3,653,233)	(298,856)	(4,623,336)
Loans & advances, net	1,822,456	31,955,155	75,969,482	2,410,547	112,157,640

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara which are stated at cost less provisions for credit losses, of SR 70,035 million (2009: SR 64,172 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 1,846 million (2009: SR 1,445 million).

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

2010	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Balance at beginning of the year	**96,224**	**575,023**	**3,653,233**	**298,856**	**4,623,336**
Provided (reversed) during the year	**127,092**	**860,092**	**1,425,241**	**(4,436)**	**2,407,989**
Bad debts written off	**(90,562)**	**(583,571)**	**(124,907)**	**(49,544)**	**(848,584)**
Recoveries of amounts previously provided	**(2,962)**	**(5,671)**	**(117,102)**	**(20,000)**	**(145,735)**
Balance at the end of the year	**129,792**	**845,873**	**4,836,465**	**224,876**	**6,037,006**

2009	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Balance at beginning of the year	120,677	550,525	2,120,819	142,713	2,934,734
Provided during the year	66,612	696,595	1,752,220	156,857	2,672,284
Bad debts written off	(91,065)	(661,044)	(163,670)	(714)	(916,493)
Recoveries of amounts previously provided	-	(11,053)	(56,136)	-	(67,189)
Balance at the end of the year	96,224	575,023	3,653,233	298,856	4,623,336

(7.3) Net impairment charge for credit losses for the year in the consolidated statement of income:

	2010 SR '000	2009 SR '000
Addition during the year	**2,407,989**	2,672,284
Recoveries of amounts previously provided	**(145,735)**	(67,189)
	2,262,254	2,605,095
(Recoveries) provision against indirect facilities (included in other liabilities) (note 17)	**(6,373)**	25,075
Recoveries of debts previously written-off	**(445,155)**	(165,285)
Direct write-off	**20,834**	8,842
Net charge for the year (impairment charge for credit losses, net)	**1,831,560**	2,473,727

(7.4) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2010	Performing SR '000	Non-performing SR '000	Specific provision SR '000	Non-performing, net SR '000	Loans and advances, net SR '000
Government and quasi Government	9,003,346	-	-	-	9,003,346
Banks and other financial institutions	329,896	37,589	(37,541)	48	329,944
Agriculture and fishing	587,208	12,563	(8,406)	4,157	591,365
Manufacturing	16,366,779	317,661	(219,625)	98,036	16,464,815
Electricity, water, gas and health services	4,294,633	40,400	(35,113)	5,287	4,299,920
Building and construction	7,694,655	1,158,548	(1,115,408)	43,140	7,737,795
Commerce	25,605,584	2,626,161	(2,354,937)	271,224	25,876,808
Transportation and communication	9,503,782	44,846	(39,213)	5,633	9,509,415
Services	15,031,626	141,758	(75,475)	66,283	15,097,909
Consumer loans and credit cards	34,423,030	469,957	(404,889)	65,068	34,488,098
Others	3,630,948	313,127	(136,871)	176,256	3,807,204
	126,471,487	5,162,610	(4,427,478)	735,132	127,206,619
Portfolio (collective) provision					(1,609,528)
Loans and advances, net					125,597,091

2009	Performing SR '000	Non-performing SR '000	Specific provision SR '000	Non-performing, net SR '000	Loans and advances, net SR '000
Government and quasi Government	9,043,689	-	-	-	9,043,689
Banks and other financial institutions	332,678	127,500	(95,800)	31,700	364,378
Agriculture and fishing	316,585	24,692	(12,897)	11,795	328,380
Manufacturing	9,282,381	773,268	(459,527)	313,741	9,596,122
Electricity, water, gas and health services	2,867,782	30,179	(27,535)	2,644	2,870,426
Building and construction	7,278,773	1,319,224	(670,577)	648,647	7,927,420
Commerce	23,882,616	2,333,178	(1,519,788)	813,390	24,696,006
Transportation and communication	8,865,066	55,161	(47,439)	7,722	8,872,788
Services	13,470,869	79,252	(69,067)	10,185	13,481,054
Consumer loans and credit cards	33,988,370	460,488	(362,180)	98,308	34,086,678
Others	2,036,602	212,623	(167,870)	44,753	2,081,355
	111,365,411	5,415,565	(3,432,680)	1,982,885	113,348,296
Portfolio (collective) provision					(1,190,656)
Loans and advances, net					112,157,640

(7.5) Loans and advances include finance lease receivables (including Ijara in compliance with *Shariah* rules) which are analysed as follows:

	2010 SR '000	2009 SR '000
Gross receivables from finance leases:		
Less than 1 year	422,280	235,360
1 to 5 years	4,616,603	4,798,277
	5,038,883	5,033,637
Unearned finance income on finance leases	(1,086,598)	(1,216,152)
Net receivables from finance leases	3,952,285	3,817,485

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 267 million (2009: SR 143 million).

8. INVESTMENT IN ASSOCIATES, NET

	2010 SR '000	2009 SR '000
Cost:		
At beginning of the year	1,463,682	1,463,682
Provision for impairment and share of losses:		
At beginning of the year	(618,943)	(602,405)
Additions (note 28)	(17,274)	(16,538)
At 31 December	(636,217)	(618,943)
Investment in associates, net	827,465	844,739

Investment in associates represents a 60% (2009: 60%) ownership interest in the Commercial Real Estate Markets Company (see note 3.2), 30% (2009: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahali Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

9. OTHER REAL ESTATE, NET

	2010 SR '000	2009 SR '000
Cost:		
At beginning of the year	375,539	340,788
Additions	6,345	70,099
Disposals	(13,490)	(35,348)
At 31 December	368,394	375,539
Provision for unrealized revaluation losses	(88,729)	(88,651)
Total	279,665	286,888

10. PROPERTY AND EQUIPMENT, NET

	2010			2009		
	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	2,540,616	1,703,234	4,243,850	2,409,444	1,544,752	3,954,196
Additions	69,068	232,295	301,363	147,295	219,164	366,459
Disposals and retirement	(23,535)	(150,391)	(173,926)	(16,123)	(60,682)	(76,805)
At 31 December	2,586,149	1,785,138	4,371,287	2,540,616	1,703,234	4,243,850
Accumulated depreciation:						
At beginning of the year	1,012,542	1,078,173	2,090,715	921,777	933,349	1,855,126
Charge for the year	108,820	226,336	335,156	94,626	216,726	311,352
Disposals and retirement	(9,090)	(142,499)	(151,589)	(3,861)	(71,902)	(75,763)
At 31 December	1,112,272	1,162,010	2,274,282	1,012,542	1,078,173	2,090,715
Net book value:						
As at 31 December	1,473,877	623,128	2,097,005	1,528,074	625,061	2,153,135

11. GOODWILL AND INTANGIBLE ASSETS

(11.1) Net book value

	2010		2009	
	Goodwill SR '000	Intangibles SR '000	Goodwill SR '000	Intangibles SR '000
Cost:				
At beginning of the year	2,213,874	1,566,294	2,277,190	1,566,294
Adjustments:				
Partial disposal to non-controlling interests	-	-	(63,316)	-
At 31 December	2,213,874	1,566,294	2,213,874	1,566,294
Amortisation, impairment and foreign currency translation:				
At beginning of the year	1,230,418	359,329	1,230,418	158,307
Amortisation charge for the year	-	235,557	-	206,850
Impairment loss	224,485	52,668	-	-
Foreign currency translation reserve	24,227	(3,937)	-	(5,828)
At 31 December	1,479,130	643,617	1,230,418	359,329
Net book value:				
At 31 December	734,744	922,677	983,456	1,206,965

(11.2) Impairment testing of goodwill

In accordance with the requirements of International Financial Reporting Standards (IAS 36), the Group has performed an impairment test as at 30 November 2010 in respect of the goodwill arising as a result of the acquisition of Türkiye Finans Katılım Bankası A.Ş. and as at 30 September 2010 in respect of The Capital Partnership Group. The goodwill arising on these acquisitions have been allocated to Türkiye Finans Katılım Bankası A.Ş. and the Capital Partnership Group (see (b) below).

The impairment loss of goodwill and intangible assets are as follows:

	2010 SR '000	2009 SR '000
The Capital Partnership Group	277,153	-
Total	277,153	-

No goodwill impairment loss has been recognized for Türkiye Finans Katılım Bankası A.Ş. in 2010 and 2009.

(a) Türkiye Finans Katılım Bankası A.Ş.

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out the impairment test in respect of the goodwill arising as a result of acquiring Türkiye Finans Katılım Bankası A.S, . (TFK). The recoverable amount of TFK has been determined based on fair value less cost to sell. The two key assumptions used in the goodwill impairment testing in respect of TFK are the discount rate and the estimated future cash flow.

The average discount rate of 14% (2009: 15.1%) was used to discount the future cash flow. During 2010, the Group's management have noted a drop in risk free rate from last year and the general stock market index in Turkey improved from 52,825 at end of December 2009 to 66,004 at end of December 2010.

The current year estimate of future cash flow is higher than the projections estimated in the impairment testing conducted last year. A long term growth rate of 4% (2009: 4%) is used in the terminal value calculation which is in line with expected long term inflation rates in Turkey.

Based on the above, the recoverable amount as at 30 November 2010 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2010 in respect of TFK.

(b) The Capital Partnership Group

During the course of 2010, management has concluded that the performance of TCPG, which was acquired in 2008, has not met expectations and consequently impairment trigger has been identified in respect of the related goodwill which arose in respect of the acquisition. In accordance with the requirements of International Financial Reporting Standards, an impairment test has been performed in the quarter ended 30 September 2010 on the goodwill allocated to TCPG cash generating unit ("CGU") and Wealth Management Division of NCB Capital ("WM") CGU.

11. GOODWILL AND INTANGIBLE ASSETS CONTINUED

(11.2) Impairment testing of goodwill continued

(b) The Capital Partnership Group continued

The impairment test has been carried out as follows:

The recoverable amounts have been determined based on value in use calculation. In preparing the forecasts for the value in use calculation, management has made certain assumptions. Amongst these, growth of assets under management, allocated overhead costs and related performance fees are the most important.

The forecasts used cash flow projections based on financial budgets approved by management covering an initial period through to 31 December 2013. A growth rate of 2% (2009: 3.5%) has been applied thereon into perpetuity which is in line with the long term average growth rates for the business and with management's long term expectations for the business. The cash flows are discounted using a pre-tax discount rate of 18% (2009: 14.23%), which reflects market specific risks.

Management considers that the value in use has fallen below the carrying amount which has resulted in full impairment loss on the allocated outstanding goodwill of SR 224 million, and full impairment loss on the outstanding intangibles of SR 53 million.

12. OTHER ASSETS

	2010 SR '000	2009 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	12,244	10,378
- investments	842,121	837,117
- loans and advances	371,722	387,548
- derivatives	53,710	108,065
Total accrued special commission income receivable	1,279,797	1,343,108
Margin deposits against derivatives and repos	655,871	130,036
Positive fair value of derivatives (note 13), net	402,813	545,329
Others	1,730,645	836,032
Total	**4,069,126**	2,854,505

13. DERIVATIVES

(13.1) Derivative products

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and hedging purposes:

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

(b) Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges. Changes in futures contract values are settled daily.

(c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

(d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

(e) Swaptions

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index as at a future date.

(13.2) Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

(13.3) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 33 - credit risk, note 34 - market risk and note 35 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

			Notional amounts by term to maturity					
2010	Positive fair value SR '000	Negative fair value SR '000	Notional amount SR '000	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Monthly average SR '000
Held for trading:								
Special commission rate swaps	223,778	(224,658)	10,754,834	4,000	581,740	6,645,052	3,524,042	11,849,576
Special commission rate options and futures	34,705	(26,859)	2,041,926	135,000	1,400,484	573,942	-	2,527,564
Forward foreign exchange contracts	91,421	(89,497)	54,148,814	32,680,525	20,636,986	831,303	-	44,115,131
Currency options	20,958	(20,958)	4,679,046	4,634,046	45,000	-	-	3,995,614
Held as fair value hedges:								
Special commission rate swaps	-	(190,347)	1,814,332	-	-	-	1,814,332	1,750,988
Held as cash flow hedges:								
Special commission rate swaps	32,168	(2,748)	769,000	100,000	160,000	509,000	-	1,070,667
Total	403,030	(555,067)	74,207,952	37,553,571	22,824,210	8,559,297	5,338,374	
Provision for counterparty risk (note 6.4)	(217)	-						
Fair value, net (note 12 & 17)	402,813	(555,067)						

13. DERIVATIVES CONTINUED

(13.3) Derivatives held for hedging purposes continued

2009	Positive fair value SR '000	Negative fair value SR '000	Notional amount SR '000	Notional amounts by term to maturity: Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Monthly average SR '000
Held for trading:								
Special commission rate swaps	232,742	(219,013)	5,891,769	40,000	65,000	1,258,024	4,528,745	6,081,460
Special commission rate options and futures	47,636	(43,749)	2,866,892	-	1,150,000	1,716,892	-	2,942,568
Swaption	-	-	-	-	-	-	-	412,644
Forward foreign exchange contracts	86,295	(183,999)	39,487,406	30,319,051	9,160,368	7,987	-	45,157,953
Currency options	15,913	(16,287)	1,363,804	687,234	329,806	346,764	-	23,751,163
Held as fair value hedges:								
Special commission rate swaps	78,849	(269,463)	1,759,500	-	-	-	1,759,500	1,946,495
Held as cash flow hedges:								
Special commission rate swaps	84,111	-	4,964,000	-	4,195,000	769,000	-	6,090,167
Total	545,546	(732,511)	56,333,371	31,046,285	14,900,174	4,098,667	6,288,245	
Provision for counterparty risk (note 6.4)"	(217)	-						
Fair value, net (note 12 & 17)	545,329	(732,511)						

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2010	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Description of hedged items						
Fixed rate securities	**2,379,244**	**2,187,768**	Fair value	Special commission rate swap	**-**	(190,347)
Floating rate securities	**767,990**	**769,100**	Cash flow	Special commission rate swap	**32,168**	(2,748)

2009	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Description of hedged items						
Fixed rate securities	2,037,421	1,836,566	Fair value	Special commission rate swap	78,849	(269,463)
Floating rate securities	4,961,325	4,964,000	Cash flow	Special commission rate swap	84,111	-

The losses on the hedging instruments for fair value hedge are SR 0.3 million (2009: SR 179 million). The gains on the hedged items attributable to the hedged risk are SR 0.3 million (2009: SR 179 million). Thus, the net fair value is Nil (2009: Nil).

Approximately 82% (2009: 53%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 18% (2009: 47%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:
The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Reconciliation of movements in the other reserve of cash flows hedges:

	2010 SR '000	2009 SR '000
Balance at beginning of the year	**85,210**	249,095
Gains from changes in fair value recognised directly in equity, net	**22,122**	123,060
(Gains) removed from equity and transferred to consolidated statement of income	**(77,913)**	(286,945)
Balance at end of the year	**29,419**	85,210

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 34 million (2009: SR 157.6 million) from equity to consolidated statement of income, included in the gains above.

For cash flows hedges, the amount shown as balance of other reserves under shareholders' equity as at 31 December 2010 is mainly expected to affect the consolidated statement of income in the forthcoming one to four years.

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 SR '000	2009 SR '000
Current accounts	**1,769,710**	2,751,707
Money market deposits	**5,849,868**	6,165,193
Money market deposits (Repos)	**6,712,120**	6,658,121
Total	**14,331,698**	15,575,021

15. CUSTOMERS' DEPOSITS

	2010 SR '000	2009 SR '000
Current accounts	**142,116,553**	112,756,035
Savings	**153,474**	177,905
Time	**75,708,149**	82,292,423
Others	**11,182,005**	7,356,145
Total	**229,160,181**	202,582,508

Other customers' deposits include SR 2,852 million (2009: SR 2,137 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2010 SR '000	2009 SR '000
Current accounts	**9,685,373**	6,688,540
Savings	**-**	1,446
Time	**35,634,812**	40,721,929
Others	**2,672,858**	1,113,780
Total	**47,993,043**	48,525,695

16. DEBT SECURITIES ISSUED

Under its Euro Medium Term Note Programme, the Bank issued senior unsecured, non-convertible 5 year floating rate notes in the amount of USD 700 million during the fourth quarter of 2005. The notes were listed on the London Stock Exchange carrying an all inclusive rate of 3 months LIBOR plus 35 basis points. The notes matured and have been settled in October 2010.

17. OTHER LIABILITIES

	2010 SR '000	2009 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	7,627	4,273
- customers' deposits	201,974	297,024
- debt securities issued	-	3,259
- derivatives	77,018	70,459
Total accrued special commission expense payable	286,619	375,015
Negative fair value of derivatives (note 13)	555,067	732,511
Zakat (NCB parent) (note 30)	151,529	88,256
Staff-related payables	1,409,173	1,315,730
Accrued expenses and accounts payable	960,797	688,409
Provisions for indirect facilities (note 7.3)	218,413	224,786
Others	2,441,822	2,385,344
Total	**6,023,420**	5,810,051

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares consists of 1,495,975,148 shares of SR 10 each (2009: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders, see note 43.

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 4% of their annual net income to the statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in shareholders' equity. These reserves are not available for distribution.

21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceeding

The Bank is one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States. These lawsuits have been consolidated in a federal court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead lawsuits and asserted a number of threshold jurisdictional and legal defenses. In January 2005, the federal court issued a decision that denied the Bank's motions to dismiss the lead lawsuits, with leave to renew those motions following a limited factual inquiry (discovery) into issues governing the Bank's entitlement to the threshold jurisdictional defenses. The Bank thereafter made a motion to reconsider the Court's ruling and dismiss the claims as legally insufficient without first resolving the Bank's jurisdictional defenses, or alternatively, to adjust the sequence and scope of jurisdictional discovery. On 21 September 2005, the court granted the Bank's motion for reconsideration in part.

Between 2006 and 2008, at the direction of the presiding judge, a magistrate resolved differences between the plaintiffs and the Bank on the scope and time-period of limited discovery aimed at determining whether a US court has jurisdiction over the Bank or not. The Bank provided the limited jurisdictional discovery ordered by the court.

At the direction of the court, the Bank also received discovery from the plaintiffs concerning the basis for their jurisdictional theories. In July 2008, with leave of the court, the Bank made a renewed motion to dismiss all of these lawsuits based on lack of U.S. jurisdiction over the Bank. In August 2008, the plaintiffs requested additional discovery from the Bank before responding to the Bank's motion.

In September 2008, the magistrate supervising discovery postponed plaintiffs' deadline to respond to the Bank's renewed motion to dismiss, pending further consideration of the plaintiffs' requests for additional discovery. In April and May 2009, the magistrate held hearings on those discovery requests.

In January 2010, the magistrate issued a ruling denying the plaintiffs' requests for additional discovery (subject to reconsideration, on one issue, by the presiding judge after the plaintiffs had responded to the Bank's renewed motion to dismiss), and directed the plaintiffs to respond to the Bank's renewed motion to dismiss. Thereafter, the plaintiffs appealed all rulings in the magistrate's discovery order to the presiding judge, and the parties agreed to a schedule for completing the briefing of the Bank's renewed motion to dismiss.

On June 16, 2010, the presiding judge granted the Bank's renewed motion to dismiss all of plaintiffs' claims against the Bank, finding that the evidence did not support the exercise of U.S. jurisdiction over the Bank either generally, or specifically in connection with plaintiffs' claims. The presiding judge also found that the plaintiffs had not demonstrated that any further discovery would be relevant to the question of jurisdiction.

The presiding judge declared that his June 16, 2010 order dismissing the claims against the Bank was a "final judgment" allowing the plaintiffs to take an appeal therefrom. At a July 15, 2010 conference with the Court, the presiding judge acknowledged that he would need to enter a supplemental order to formally certify that his final judgment may be appealed immediately notwithstanding the ongoing proceedings as to the remaining defendants. Following a further (September 13, 2010) round of decisions by the presiding judge, on motions to dismiss made by other defendants, the parties are in the process of agreeing upon the form of a "certification" order for submission to the Court. Based on the public statements of plaintiffs' counsel, it appears likely that plaintiffs will appeal the judgment dismissing the claims against the Bank, once they are certified for appeal.

The Bank's U.S. legal counsel has advised the Bank's management that they believe the judgment dismissing the claims against the Bank has a strong basis in both law and fact, and that the plaintiffs will face significant difficulties in challenging that judgment if they choose to file an appeal.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2010 in respect of building and equipment purchases are not material to the financial position of the Group.

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

2010	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Guarantees	13,400,538	9,688,503	18,856,759	257,745	42,203,545
Letter of credit	12,673,575	3,901,237	1,353,271	28,496	17,956,579
Acceptances	1,673,721	714,096	117,102	-	2,504,919
Irrevocable commitments to extend credit	-	-	880,000	-	880,000
Total	27,747,834	14,303,836	21,207,132	286,241	63,545,043

21. COMMITMENTS AND CONTINGENCIES CONTINUED

(21.3) Credit-related commitments and contingencies continued

2009	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Guarantees	10,387,632	10,253,102	16,287,718	347,305	37,275,757
Letter of credit	9,728,063	1,756,943	1,818,113	95,963	13,399,082
Acceptances	1,529,386	674,732	34,563	-	2,238,681
Irrevocable commitments to extend credit	-	-	982,500	-	982,500
Total	21,645,081	12,684,777	19,122,894	443,268	53,896,020

The outstanding unused portion of commitments including unutilized credit cards limits, which can be revoked unilaterally at any time by the Group, as at 31 December 2010 amounted to SR 28,020 million (2009: SR 25,523 million).

(b) The analysis of commitments and contingencies by counterparty is as follows:

	2010 SR '000	2009 SR '000
Government and quasi Government	**880,053**	983,410
Corporate and establishments	**42,406,503**	34,731,257
Banks and other financial institutions	**19,495,432**	17,802,971
Others	**763,055**	378,382
Total	**63,545,043**	53,896,020

(21.4) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2010 SR '000	2009 SR '000
Less than 1 year	**22,011**	11,522
1 to 5 years	**86,154**	95,340
Over 5 years	**70,869**	97,106
Total	**179,034**	203,968

22. NET SPECIAL COMMISSION INCOME

	2010 SR '000	2009 SR '000
Special commission income:		
Investments - available for sale	**900,892**	1,016,063
Investments - held to maturity	**63,919**	67,510
Other investments held at amortized cost	**1,737,458**	1,473,779
Sub total - investments	**2,702,269**	2,557,352
Due from banks and other financial institutions	**107,237**	253,370
Loans and advances	**6,901,748**	7,561,432
Total	**9,711,254**	10,372,154
Special commission expense:		
Due to banks and other financial institutions	**59,375**	98,418
Customers' deposits	**1,487,223**	2,193,248
Debt securities issued	**14,854**	34,843
Total	**1,561,452**	2,326,509
Net special commission income	**8,149,802**	8,045,645

23. FEE INCOME FROM BANKING SERVICES, NET

	2010 SR '000	2009 SR '000
Fee income:		
Shares brokerage	202,520	344,316
Investment management services	302,571	245,437
Finance and lending	1,021,646	873,159
Others	1,370,409	1,320,965
Total	2,897,146	2,783,877
Fee expenses:		
Shares brokerage	31,503	56,693
Investment management services	13,134	8,014
Others	364,651	337,865
Total	409,288	402,572
Fees from banking services, net	2,487,858	2,381,305

Other fee income includes fees from trade finance, credit cards and other miscellaneous banking activities.

24. INCOME FROM FVIS INVESTMENTS, NET

	2010 SR '000	2009 SR '000
Fair value changes on investments held as FVIS	180,895	211,966
Special commission income on FVIS investments	220	1,256
Total income	181,115	213,222

25. TRADING INCOME, NET

	2010 SR '000	2009 SR '000
Foreign exchange	102,233	138,459
Mutual funds	8,710	12,259
Derivatives	40,053	163,450
Bonds	158	581
Total	151,154	314,749

26. DIVIDEND INCOME

	2010 SR '000	2009 SR '000
Available for sale investments	65,781	51,641

27. GAINS ON NON-TRADING INVESTMENTS, NET

	2010 SR '000	2009 SR '000
Gains on available for sale investments, net	275,141	351,170
Gains (losses) on other investments held at amortised cost, net	7,619	(162,220)
Realized (loss) on held to maturity investments (called by the issuer)	-	(170)
Total	282,760	188,780

28. OTHER NON-OPERATING (EXPENSES), INCOME, NET

	2010 SR '000	2009 SR '000
Income from other real estate		
Rental income, net	28	780
Gain on disposal, net	2,275	9,022
(Provision for) unrealized revaluation loss	(5,645)	(8,350)
Net (loss) income from other real estate	(3,342)	1,452
Overseas income tax of a foreign subsidiary and branches	(118,347)	(129,481)
Bank's share in an associates' (losses) (note 8)	(17,274)	(16,538)
Gain on disposal of property and equipment	9,606	16,919
Net other (expenses)	(33,493)	(80,729)
Total	(162,850)	(208,377)

29. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2010 and 2009 is calculated by dividing the net income attributable to equity holders of the parent for the year by the weighted average number of shares during 2010 and 2009 (see note 18).

The calculation of diluted earnings per share is not applicable to the Group.

30. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount		Rate per share	
	2010 SR '000	2009 SR '000	2010 SR	2009 SR
Interim dividend paid	1,196,780	-	0.80	-
Proposed final dividend	1,495,975	2,243,963	1.00	1.50
Total net dividend	2,692,755	2,243,963	1.80	1.50
Zakat attributable to shareholders of the parent (see note 17)	151,529	88,256		
Total gross dividend	2,844,284	2,332,219		

31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	2010 SR '000	2009 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	15,778,868	19,747,652
Due from banks and other financial institutions maturing within ninety days (note 5)	11,846,431	9,270,948
Total	27,625,299	29,018,600

32. BUSINESS SEGMENTS

A segment is a distinguishable component of the Group, that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments.

For management purposes, the Bank and its subsidiaries are organised into the following main business segments:

Consumer - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals, small sized businesses and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, assets management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and international banking services.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

(32.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

2010	Consumer SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Total assets	45,329,287	76,063,835	131,821,120	1,339,773	27,817,977	282,371,992
Total liabilities	139,543,192	71,245,236	14,845,246	283,002	23,598,623	249,515,299
Fee income from banking services, net	892,214	511,695	9,509	491,507	582,933	2,487,858
Operating income	5,215,359	2,171,065	2,024,614	544,451	1,711,767	11,667,256
Operating expenses	2,925,707	1,437,054	257,177	804,027	1,209,534	6,633,499
of which:						
- Depreciation of property and equipment	181,979	40,155	26,078	19,697	67,247	335,156
- Impairment charge for credit losses, net	777,015	964,293	-	-	90,252	1,831,560
- Impairment charge on investments, net	-	(36,762)	9,312	80,333	-	52,883
- Impairment loss on goodwill and intangible assets	-	-	-	277,153	-	277,153
Net income (parent and non-controlling interests)	2,262,628	708,816	1,725,915	(278,846)	384,891	4,803,404

2009	Consumer SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Total assets	43,372,771	66,018,675	122,759,001	1,433,831	23,867,897	257,452,175
Total liabilities	136,539,938	50,475,600	18,218,470	293,124	21,064,884	226,592,016
Fee income from banking services, net	853,044	407,732	18,013	541,235	561,281	2,381,305
Operating income	6,281,120	2,225,279	570,770	621,759	1,779,716	11,478,644
Operating expenses	2,643,350	1,960,930	635,079	459,702	1,399,774	7,098,835
of which:						
- Depreciation of property and equipment"	177,802	36,718	22,945	15,328	58,559	311,352
- Impairment charge for credit losses, net	630,542	1,457,965	-	-	385,220	2,473,727
- Impairment charge on investments, net	-	-	372,072	12,852	-	384,924
- Impairment loss on goodwill and intangible assets	-	-	-	-	-	-
Net income (parent and non-controlling interests)	3,592,778	218,661	(120,291)	202,499	227,712	4,121,359

32. BUSINESS SEGMENTS CONTINUED

(32.2) The Group's credit exposure, by business segments, is as follows:

2010	Consumer SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Statement of financial position assets	33,955,135	72,843,752	107,611,147	93,372	23,948,481	238,451,887
Commitments and contingencies (credit equivalent)	1,246,094	17,824,628	-	-	15,817,658	34,888,380
Derivatives (credit equivalent)	-	-	2,503,961	16,879	53,673	2,574,513

2009	Consumer SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Statement of financial position assets	33,988,059	63,721,449	94,345,548	131,885	19,954,624	212,141,565
Commitments and contingencies (credit equivalent)	1,002,596	12,263,889	-	-	13,058,242	26,324,727
Derivatives (credit equivalent)	-	-	2,223,225	6,807	75,733	2,305,765

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

33. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high grade securities. Analysis of investments by counterparty is provided in note (33.5). For details of the composition of the loans and advances refer to notes (7.4) and (33.1). Information on credit risk relating to derivative instruments is provided in notes (13) and (33.5) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (33.4).

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio (Level 1 represents very strong quality: top 8 risk rating grades, Level 2 represents good quality: 9th and 10th risk rating grades, Level 3 represents satisfactory quality: 11th and 12th risk rating grades and Level 4 represents satisfactory quality, with higher risk: 13th to 16th risk rating grades). The lowest four grades (17th to 20th rating grades) relate to the non-performing portfolio. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Bank's experience. These risk ratings are reviewed on a regular basis. Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 33.2). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values.The Group holds real estate collateral against transfer of title deed (ifrag) as a collateral but due to the difficulty in siezing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Collateral generally is not held over due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 and 2009.

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.15) for accounting policy of impairment of financial assets].

(33.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions)

The credit quality of loans and advances is managed using internal credit ratings and for due from banks & financial institutions is managed using external credit ratings of Moody's rating agency. The table below shows the credit quality by class of asset.

	Loans and Advances				Due from banks and other financial institutions	
2010	Consume and credit cards SR '000r	Corporate SR '000r	Others SR '000r	Sub total SR '000r	SR '000r	Total SR '000r
Performing:						
Neither past due nor impaired (performing)						
Level 1	-	62,988,958	-	62,988,958	11,848,306	74,837,264
Level 2	-	10,871,225	-	10,871,225	-	10,871,225
Level 3	-	9,606,556	-	9,606,556	-	9,606,556
Level 4	-	1,325,940	-	1,325,940	-	1,325,940
Standard - unrated	32,364,453	3,297,964	2,191,504	37,853,921	-	37,853,921
Total	32,364,453	88,090,643	2,191,504	122,646,600	11,848,306	134,494,906
Past due but not impaired						
Less than 30 days	1,852,684	906,187	23,211	2,782,082	-	2,782,082
30-59 days	456,686	290,947	25,343	772,976	-	772,976
60-90 days	155,611	114,218	-	269,829	-	269,829
Sub Total	2,464,981	1,311,352	48,554	3,824,887	-	3,824,887
Total performing	34,829,434	89,401,995	2,240,058	126,471,487	11,848,306	138,319,793
Less: portfolio (collective) provision	(570,775)	(1,008,505)	(30,248)	(1,609,528)	(1,875)	(1,611,403)
Net performing	34,258,659	88,393,490	2,209,810	124,861,959	11,846,431	136,708,390
Non-performing:						
Total non-performing	477,954	4,347,543	337,113	5,162,610	-	5,162,610
Less: specific provision	(404,890)	(3,827,960)	(194,628)	(4,427,478)	-	(4,427,478)
Net non-performing	73,064	519,583	142,485	735,132	-	735,132

33. CREDIT RISK CONTINUED

(33.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) continued

	Loans and Advances				Due from banks and other financial institutions	
2009	Consume and credit cards SR '000r	Corporate SR '000r	Others SR '000r	Sub total SR '000r	SR '000r	Total SR '000r
Performing:						
Neither past due nor impaired (performing)						
Level 1	-	41,788,834	-	41,788,834	9,272,823	51,061,657
Level 2	-	14,519,905	-	14,519,905	-	14,519,905
Level 3	-	9,770,825	-	9,770,825	-	9,770,825
Level 4	-	1,755,638	-	1,755,638	-	1,755,638
Standard - unrated	31,912,376	4,172,151	2,232,425	38,316,952	-	38,316,952
Total	31,912,376	72,007,353	2,232,425	106,152,154	9,272,823	115,424,977
Past due but not impaired						
Less than 30 days	1,460,760	1,239,940	58,804	2,759,504	-	2,759,504
30-59 days	411,285	859,455	1,584	1,272,324	-	1,272,324
60-90 days	203,949	901,013	76,467	1,181,429	-	1,181,429
Sub Total	2,075,994	3,000,408	136,855	5,213,257	-	5,213,257
Total performing	33,988,370	75,007,761	2,369,280	111,365,411	9,272,823	120,638,234
Less: portfolio (collective) provision	(309,067)	(846,404)	(35,185)	(1,190,656)	(1,875)	(1,192,531)
Net performing	33,679,303	74,161,357	2,334,095	110,174,755	9,270,948	119,445,703
Non-performing:						
Total non-performing	460,488	4,614,954	340,123	5,415,565	-	5,415,565
Less: specific provision	(362,180)	(2,806,829)	(263,671)	(3,432,680)	-	(3,432,680)
Net non-performing	98,308	1,808,125	76,452	1,982,885	-	1,982,885

Performing loans include renegotiated loans as at 31 December 2010 of SR 360 million (2009: SR 277 million).

Standard - unrated loans mainly comprise consumer, credit cards, small businesses and private banking loans.

(33.2) Collateral

Fair value of collateral held by Bank against loans and advances by each category are as follows:

	2010 SR '000	2009 SR '000
Neither past due nor impaired	**38,370,084**	39,111,897
Past due but not impaired	**1,503,451**	3,127,414
Impaired	**697,415**	279,112
Total	**40,570,950**	42,518,423

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Bank with intent to dispose off in case of default by the customer.

(33.3) Credit quality of financial assets (Investments)

The credit quality of investments (excluding investment in equities, hedge funds and externally managed portfolio, mutual funds, private equity funds and musharaka) is managed using external credit ratings of Moody's rating agency.

The table below shows the credit quality by class of asset.

	Investments	
	2010 SR '000	2009 SR '000
Performing:		
High grade (Aaa-Baa3)	**97,020,331**	85,620,077
Standard grade (Ba1-B2)	**2,426,047**	3,759,828
Sub-standard grade (B3-C)	**235,543**	445,923
Unrated	**415,810**	482,873
Total performing	**100,097,731**	90,308,701
Less: portfolio (collective) provision	**(698,187)**	(1,484,161)
Net performing	**99,399,544**	88,824,540
Non-performing:		
Total non-performing	**383,334**	250,837
Less: specific provision	**(363,839)**	(250,837)
Net non-performing (see note 6)	**19,495**	-
Total	**99,419,039**	88,824,540

The unrated investments comprise junior notes under structured credit.

(33.4) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2010 SR '000	2009 SR '000
Assets		
Due from banks and other financial institutions (note 33.1)	**11,846,431**	9,270,948
Investments (note 33.3)	**99,419,039**	88,824,540
Loans and advances, net (note 33.1)	**125,597,091**	112,157,640
Total assets	**236,862,561**	210,253,128
Contingent liabilities and commitments, net (notes 15,17 & 21.3)	**60,474,777**	51,534,990
Derivatives - positive fair value, net (note 13)	**402,813**	545,329
Total maximum exposure	**297,740,151**	262,333,447

33. CREDIT RISK CONTINUED

(33.5) Counterparty analysis of the Group's investment and derivatives, net of provisions.

	Maximum exposure		
2010	Investment, net of provisions SR '000	Derivatives financial instruments, (positive fair value, net) SR '000	Total SR '000
Government and quasi Government	95,952,404	12,977	95,965,381
Corporate	6,589,226	60,609	6,649,835
Banks and other financial institutions	5,523,619	328,356	5,851,975
Others	-	871	871
Net maximum exposure	108,065,249	402,813	108,468,062

	Maximum exposure		
2009	Investment, net of provisions SR '000	Derivatives financial instruments, (positive fair value, net) SR '000	Total SR '000
Government and quasi Government	80,894,818	-	80,894,818
Corporate	11,635,341	254,400	11,889,741
Banks and other financial institutions	4,925,050	288,334	5,213,384
Others	97	2,595	2,692
Net maximum exposure	97,455,306	545,329	98,000,635

34. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Risk Management Committee of the Board of Directors. The Group's Risk Management Division is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(34.1) Market Risk-Trading Portfolio

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using market data for the last one year.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading portfolios. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Management Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall trading position.

The table below shows the VaR related information for the year ended 31 December 2010 and 2009 for both Held for Trading and Held as FVIS portfolios:

	Held for Trading			
2010	Foreign exchange risk SR '000	Special commission risk SR '000	Overall risk SR '000	FVIS SR '000
VaR as at 31 December 2010	3,759	154	3,913	283,884
Average VaR for 2010	2,173	152	2,325	231,075

	Held for Trading			
2009	Foreign exchange risk SR '000	Special commission risk SR '000	Overall risk SR '000	FVIS SR '000
VaR as at 31 December 2009	11	59	70	273,679
Average VaR for 2009	59	93	152	351,222

(34.2) Market Risk-Trading Book

Market risk on non-trading book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(34.2.1) Special Commission Rate Risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commision bearing non-trading financial assets and financial liabilities held as at December 31, 2010, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at December 31, 2010 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All the non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

			Sensitivity of shareholder's equity (other reserves)				
2010	Increase / Decrease in basis points	Sensitivity of special commission income SR '000	within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Currency							
SR	± 10	± 63,664	-	± 88	± 1,196	-	± 1,284
USD	± 10	± 16,429	-	± 167	± 27,404	± 54,009	± 81,580
EUR	± 10	± 785	-	-	-	± 132	± 132
GBP	± 10	± 5,450	-	± 276	± 1,787	-	± 2,063
TRY	± 10	± 1,856	-	-	-	-	-

34. MARKET RISK CONTINUED

(34.2) Market Risk - Non Trading Book continued

(34.2.1) Special Commission Rate Risk continued

2009	Increase / Decrease in basis points	Sensitivity of special commission income SR '000	Sensitivity of shareholder's equity (other reserves) within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Currency							
SR	± 10	± 41,738	± 92	± 1,867	± 2,230	-	± 4,189
USD	± 10	± 10,075	-	-	± 31,577	± 67,231	± 98,808
EUR	± 15	± 201	-	-	-	± 14	± 14
GBP	± 15	± 10,574	-	-	± 5,402	-	± 5,402
TRY	± 15	± 5,561	-	-	-	-	-

Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

2010	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-special commission bearing SR '000	Total SR '000
Assets						
Cash and balances with SAMA	13,009,819	-	-	-	14,922,720	27,932,539
Due from banks and other financial institutions	9,204,522	-	-	-	2,641,909	11,846,431
Investments, net	29,084,119	1,763,842	43,698,880	23,383,245	10,135,163	108,065,249
Loans and advances, net	32,119,254	47,312,970	43,875,321	1,838,071	451,475	125,597,091
Investment in associates, net	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	-	-	-	-	922,677	922,677
Goodwill, net	-	-	-	-	734,744	734,744
Other assets	-	-	-	-	4,069,126	4,069,126
Total assets	83,417,714	49,076,812	87,574,201	25,221,316	37,081,949	282,371,992
Liabilities and shareholders' equity						
Due to banks and other financial institutions	11,407,769	1,162,461	-	1,042	1,760,426	14,331,698
Customers' deposits	64,345,415	11,362,405	220,087	6,720	153,225,554	229,160,181
Other liabilities	-	-	-	-	6,023,420	6,023,420
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	31,272,258	31,272,258
Non-controlling interest	-	-	-	-	1,584,435	1,584,435
Total liabilities and shareholders' equity	75,753,184	12,524,866	220,087	7,762	193,866,093	282,371,992
On-balance sheet gap	7,664,530	36,551,946	87,354,114	25,213,554	(156,784,144)	
Off-balance sheet gap	(1,173,609)	416,214	851,145	(93,750)	-	
Total special commission rate sensitivity gap	6,490,921	36,968,160	88,205,259	25,119,804	(156,784,144)	
Cumulative special commission rate sensitivity gap	6,490,921	43,459,081	131,664,340	156,784,144	-	

2009	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-special commission bearing SR '000	Total SR '000
Assets						
Cash and balances with SAMA	17,552,756	-	-	-	12,685,837	30,238,593
Due from banks and other financial institutions	8,006,505	-	-	-	1,264,443	9,270,948
Investments, net	28,365,673	1,047,995	42,235,116	17,365,379	8,441,143	97,455,306
Loans and advances, net	24,738,618	42,177,046	36,496,271	8,456,682	289,023	112,157,640
Investment in associates, net	-	-	-	-	844,739	844,739
Other real estate, net	-	-	-	-	286,888	286,888
Property and equipment, net	-	-	-	-	2,153,135	2,153,135
Intangible assets, net	-	-	-	-	1,206,965	1,206,965
Goodwill, net	-	-	-	-	983,456	983,456
Other assets	-	-	-	-	2,854,505	2,854,505
Total assets	78,663,552	43,225,041	78,731,387	25,822,061	31,010,134	257,452,175
Liabilities and shareholders' equity						
Due to banks and other financial institutions	14,536,177	670,853	-	-	367,991	15,575,021
Customers' deposits	73,588,522	9,721,821	6,898	4,126	119,261,141	202,582,508
Debt securities issued	2,624,436	-	-	-	-	2,624,436
Other liabilities	-	-	-	-	5,810,051	5,810,051
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	29,271,087	29,271,087
Non-controlling interest	-	-	-	-	1,589,072	1,589,072
Total liabilities and shareholders' equity	90,749,135	10,392,674	6,898	4,126	156,299,342	257,452,175
On-balance sheet gap	(12,085,583)	32,832,367	78,724,489	25,817,935	(125,289,208)	
Off-balance sheet gap	1,963,965	(2,833,432)	963,217	(93,750)	-	
Total special commission rate sensitivity gap	(10,121,618)	29,998,935	79,687,706	25,724,185	(125,289,208)	
Cumulative special commission rate sensitivity gap	(10,121,618)	19,877,317	99,565,023	125,289,208	-	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

(34.2.2) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	2010 Long (short) SR '000	2009 Long (short) SR '000
US Dollar	**5,557,043**	2,637,080
JPY	**28,857**	31,702
EUR	**(5,255)**	(98,829)
GBP	**93,599**	(26,209)
TRY	**4,559,460**	4,389,319

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

34. MARKET RISK CONTINUED

(34.2) Market Risk - Non Trading Book continued

(34.2.2) Currency Risk continued

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2010 on its foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2010			2009		
Currency	Increase/ Decrease in currency rate in %	Effect on profit SR '000	Effect on equity SR '000	Increase/ Decrease in currency rate in %	Effect on profit SR '000	Effect on equity SR '000
US Dollar	-	-	-	-	-	-
JPY	± 10%	± 2,886	-	± 10%	± 3,170	-
EUR	± 10%	± (526)	-	± 10%	± (9,883)	-
GBP	± 10%	± 9,360	-	± 10%	± (2,621)	-
TRY	± 10%	± 28,596	±455,946	± 10%	± 26,559	± 438,932

(34.2.3) Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments quoted in Tadawul and held as available-for-sale at 31 December 2010 and 2009, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2010		2009	
Market index	Increase / Decrease in market prices %	Effect on shareholders' equity (other reserves) SR '000	Increase / Decrease in market prices %	Effect on shareholders' equity (other reserves) SR '000
Impact of change in market prices	± 12%	± 303,833	± 10%	± 155,912

35. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2010 %	2009 %
As at 31 December	41%	40%
Average during the year	39%	46%

(35.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (35.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	On demand SR '000	Less than 3 months SR '000	3 to 12 months SR '000	1 to 5 years SR '000	Over 5 years SR '000	Total SR '000
As at 31 December 2010						
Due to banks and other financial institutions	2,273,594	11,092,367	1,171,752	1,114	-	14,538,827
Customers' deposits	154,109,405	64,217,822	11,415,587	225,685	7,708	229,976,207
Derivative financial instruments (gross contractual amounts payable)	-	26,587,110	20,627,451	1,184,975	13,055	48,412,591
Total undiscounted financial liabilities	156,382,999	101,897,299	33,214,790	1,411,774	20,763	292,927,625

Financial liabilities	On demand SR '000	Less than 3 months SR '000	3 to 12 months SR '000	1 to 5 years SR '000	Over 5 years SR '000	Total SR '000
As at 31 December 2009						
Due to banks and other financial institutions	2,577,547	12,374,466	621,915	4,919	-	15,578,847
Customers' deposits	119,751,954	71,210,257	11,088,887	645,092	-	202,696,190
Debt securities issued	-	3,964	2,636,892	-	-	2,640,856
Derivative financial instruments (gross contractual amounts payable)	-	19,550,614	13,957,991	5,255,169	25,102	38,788,876
Total undiscounted financial liabilities	122,329,501	103,139,301	28,305,685	5,905,180	25,102	259,704,769

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

35. LIQUIDITY RISK CONTINUED

(35.2) Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (35.1) above for the contractual undiscounted financial liabilities.

	Less than 12 months			More than 1 year				
2010	Less than 3 months SR '000	3 to 12 months SR '000	Sub total SR '000	1 to 5 years SR '000	Over 5 years SR '000	Sub total SR '000	No-fixed maturity SR '000	Total SR '000
Assets								
Cash and balances with SAMA	13,617,502	752,104	14,369,606	2,674,717	10,888,216	13,562,933	-	27,932,539
Due from banks and other financial institutions	7,991,541	197,053	8,188,594	889,210	2,768,627	3,657,837	-	11,846,431
Investments, net	16,591,208	15,964,459	32,555,667	42,823,829	32,685,753	75,509,582	-	108,065,249
Loans and advances, net	22,081,290	43,193,191	65,274,481	27,817,684	32,504,926	60,322,610	-	125,597,091
Investment in associates, net	-	-	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	-	-	-	-	-	-	922,677	922,677
Goodwill, net	-	-	-	-	-	-	734,744	734,744
Other assets	287,995	421,889	709,884	329,567	546,284	875,851	2,483,391	4,069,126
Total assets	60,569,536	60,528,696	121,098,232	74,535,007	79,393,806	153,928,813	7,344,947	282,371,992
Liabilities and shareholders' equity								
Due to banks and other financial institutions	11,998,754	160,899	12,159,653	176,971	1,995,074	2,172,045	-	14,331,698
Customers' deposits	78,494,657	22,775,885	101,270,542	14,209,960	113,679,679	127,889,639	-	229,160,181
Other liabilities	594,942	255,288	850,230	199,781	-	199,781	4,973,409	6,023,420
Total liabilities	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	4,973,409	249,515,299
Total shareholders' equity	-	-	-	-	-	-	32,856,693	32,856,693
Total liabilities and shareholders' equity	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	37,830,102	282,371,992

2009	Less than 12 months			More than 1 year				
	Less than 3 months SR '000	3 to 12 months SR '000	Sub total SR '000	1 to 5 years SR '000	Over 5 years SR '000	Sub total SR '000	No-fixed maturity SR '000	Total SR '000
Assets								
Cash and balances with SAMA	18,077,577	646,895	18,724,472	2,142,583	9,371,538	11,514,121	-	30,238,593
Due from banks and other financial institutions	8,324,307	20,943	8,345,250	201,894	723,804	925,698	-	9,270,948
Investments, net	10,976,325	13,012,881	23,989,206	46,203,558	27,262,542	73,466,100	-	97,455,306
Loans and advances, net	19,363,631	43,440,465	62,804,096	27,976,936	21,376,608	49,353,544	-	112,157,640
Investment in associates, net	-	-	-	-	-	-	844,739	844,739
Other real estate, net	-	-	-	-	-	-	286,888	286,888
Property and equipment, net	-	-	-	-	-	-	2,153,135	2,153,135
Intangible assets, net	-	-	-	-	-	-	1,206,965	1,206,965
Goodwill, net	-	-	-	-	-	-	983,456	983,456
Other assets	360,551	478,290	838,841	369,500	572,029	941,529	1,074,135	2,854,505
Total assets	57,102,391	57,599,474	114,701,865	76,894,471	59,306,521	136,200,992	6,549,318	257,452,175
Liabilities and shareholders equity								
Due to banks and other financial institutions	12,666,759	431,724	13,098,483	275,173	2,201,365	2,476,538	-	15,575,021
Customers' deposits	79,300,690	21,807,442	101,108,132	11,274,931	90,199,445	101,474,376	-	202,582,508
Debt securities issued	-	2,624,436	2,624,436	-	-	-	-	2,624,436
Other liabilities	851,570	302,227	1,153,797	228,976	-	228,976	4,427,278	5,810,051
Total liabilities	92,819,019	25,165,829	117,984,848	11,779,080	92,400,810	104,179,890	4,427,278	226,592,016
Total shareholders' equity	-	-	-	-	-	-	30,860,159	30,860,159
Total liabilities and shareholders' equity	92,819,019	25,165,829	117,984,848	11,779,080	92,400,810	104,179,890	35,287,437	257,452,175

36. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(36.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

2010	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
Assets						
Cash and balances with SAMA	27,327,345	2,107	401,984	142,359	58,744	27,932,539
Due from banks and other financial institutions	4,287,911	2,320,337	1,182,921	3,887,525	167,737	11,846,431
Investments, net	53,583,601	13,627,563	23,063,359	1,389,294	16,401,432	108,065,249
Loans and advances, net	106,078,645	130,803	65,625	19,134,515	187,503	125,597,091
Investment in associates, net	827,465	-	-	-	-	827,465
Intangible assets, net	-	-	-	922,677	-	922,677
Goodwill, net	-	-	-	734,744	-	734,744
Total	192,104,967	16,080,810	24,713,889	26,211,114	16,815,416	275,926,196
Liabilities						
Due to banks and other financial institutions	798,485	5,731,533	1,877,608	318,210	5,605,862	14,331,698
Customers' deposits	208,247,754	303,313	24,410	20,550,489	34,215	229,160,181
Total	209,046,239	6,034,846	1,902,018	20,868,699	5,640,077	243,491,879
Commitments and contingencies (note 21.3)	32,878,612	2,597,584	1,634,046	10,300,346	16,134,455	63,545,043
Credit exposure (credit equivalent) (note 32.2):						
Commitments and contingencies	19,194,131	1,086,442	1,089,497	5,883,173	7,635,137	34,888,380
Derivatives	1,220,382	51,995	1,045,044	53,673	203,419	2,574,513

2009	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
Assets						
Cash and balances with SAMA	29,710,340	1,079	354,665	117,797	54,712	30,238,593
Due from banks and other financial institutions	2,822,730	929,611	1,175,208	4,125,341	218,058	9,270,948
Investments, net	44,872,598	9,437,569	29,999,693	1,375,544	11,769,902	97,455,306
Loans and advances, net	96,814,278	190,153	187,514	14,830,120	135,575	112,157,640
Investment in associates, net	844,739	-	-	-	-	844,739
Intangible assets, net	-	64,076	-	1,142,889	-	1,206,965
Goodwill, net	-	224,485	-	758,971	-	983,456
Total	175,064,685	10,846,973	31,717,080	22,350,662	12,178,247	252,157,647
Liabilities						
Due to banks and other financial institutions	1,293,745	4,963,440	1,287,814	44,013	7,986,009	15,575,021
Customers' deposits	184,644,037	512,998	29,200	17,231,981	164,292	202,582,508
Debt securities issued	-	-	2,624,436	-	-	2,624,436
Total	185,937,782	5,476,438	3,941,450	17,275,994	8,150,301	220,781,965
Commitments and contingencies (note 21.3)	26,751,289	958,360	2,277,971	9,341,907	14,566,493	53,896,020
Credit exposure (credit equivalent) (note 32.2):						
Commitments and contingencies	14,482,767	819,765	822,071	4,439,098	5,761,027	26,324,728
Derivatives	1,079,597	45,997	924,486	75,733	179,952	2,305,765

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

(36.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

2010	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
Non performing loans and advances	4,540,055	37,500	585,055	-	5,162,610
Less: specific provision	(4,011,730)	(37,500)	(378,248)	-	(4,427,478)
Net	528,325	-	206,807	-	735,132
2009					
Non performing loans and advances	4,649,470	37,500	638,595	90,000	5,415,565
Less: specific provision	(2,886,342)	(20,408)	(450,538)	(75,392)	(3,432,680)
Net	1,763,128	17,092	188,057	14,608	1,982,885

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for loans and advances and customers' deposits which are carried at cost as well as investments held at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortized cost and held to maturity investments are based on quoted market prices, when available, third party quotes or valuation models in the case of certain fixed rate securities, structured credit and investments where no quoted prices are available. The fair values of these investments are disclosed in note (6).

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation techniques.

38. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument.

Level 2: quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data, and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

38. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY CONTINUED

2010	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets available for sale				
Debt securities	20,133,214	6,535,045	79,939	26,748,198
Structured credit	-	-	125,682	125,682
Mutual funds	-	-	172	172
Quoted equities	2,531,944	-	-	2,531,944
Unquoted equities	-	-	71,243	71,243
Private equity funds	-	-	1,007,838	1,007,838
Sub total	22,665,158	6,535,045	1,284,874	30,485,077
Held for trading				
Mutual funds	587,110	-	-	587,110
Fair value through income statement (FVIS)				
Hedge funds and externally managed portfolio	-	2,936,581	1,511,420	4,448,001
Sub total	-	2,936,581	1,511,420	4,448,001
Total	23,252,268	9,471,626	2,796,294	35,520,188
Derivative financial instruments				
Financial assets	-	402,813	-	402,813
Financial liabilities	-	555,067	-	555,067

2009	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets available for sale				
Debt securities	23,124,734	8,355,334	1,122,079	32,602,147
Structured credit	-	-	76,222	76,222
Mutual funds	-	-	172	172
Quoted equities	1,587,071	-	-	1,587,071
Unquoted equities	-	-	71,362	71,362
Private equity funds	-	-	1,320,086	1,320,086
Musharaka	-	-	152,896	152,896
Sub total	24,711,805	8,355,334	2,742,817	35,809,956
Held for trading				
Mutual funds	1,314,076	-	-	1,314,076
Fair value through income statement (FVIS)				
Compound debt instruments	-	-	71,324	71,324
Hedge funds	-	2,933,620	1,251,394	4,185,014
Sub total	-	2,933,620	1,322,718	4,256,338
Total	26,025,881	11,288,954	4,065,535	41,380,370
Derivative financial instruments				
Financial assets	-	545,329	-	545,329
Financial liabilities	-	732,511	-	732,511

39. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(39.1) The balances as at 31 December included in the financial statements are as follows:

	2010 SR '000	2009 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	406,945	174,060
Customers' deposits	53,322	33,717
Commitment and contingencies	2,671	2,953
Other liabilities - end of service benefits	28,020	24,991
Major shareholders:		
Customers' deposits	12,847,614	12,884,104
Bank's mutual funds:		
Investments	586,110	1,283,191
Customers' deposits	2,558,053	153,072

Major shareholders represent shareholdings of 10% and more of the Bank's issued share capital.

(39.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2010 SR '000	2009 SR '000
Special commission income	5,753	5,530
Special commission expense	170,446	434,721

Bank's Board of Directors include the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 40.

40. GROUP's STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

2010	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)
Categories of employees			
Senior executives	15	29,412	38,892
Employees engaged in risk taking activities	181	70,736	15,255
Employees engaged in control functions	239	74,241	13,932
Other employees	5,052	852,177	178,842
Outsourced employees (engaged in risk taking activities)	-	-	-
Subsidiaries	3,738	506,521	89,597
Group total	9,225	1,533,087	336,518

The forms of payment for fixed and variable compensation are in cash.

Bank's senior executives are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Employees engaged in risk taking activities comprise those officers of business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking the business transactions, and managing the related business risks.

Employee engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2010 is SR 365 million which will be paid to employees at the end of February 2011.

41. CAPITAL ADEQUACY

(41.1) Capital adequacy ratio

The Group'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.

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of position assets, commitments & contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risk which comprise the Pillar 1 minimum capital requirements.

	Eligible capital		Capital Adequacy Ratio (Pillar 1)	
	2010 SR '000	2009 SR '000	2010 %	2009 %
Core capital (Tier 1)	**31,174,410**	28,640,361	**17.1**	18.6
Supplementary capital (Tier 2)	**1,584,662**	1,161,279		
Core and supplementary capital (Tier 1 and Tier 2)	**32,759,072**	29,801,640	**18.0**	19.3

Tier 1 capital of the Group at the year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio (collective) provisions less prescribed deductions.

The Group has implemented Basel II effective 1 January 2008 as stipulated by SAMA. The Group uses the Standardized approach of Basel II to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	Risk weighted assets	
	2010 SR '000	2009 SR '000
Credit risk	**154,962,437**	131,747,075
Operational risk	**19,205,066**	18,727,578
Market risk	**8,261,749**	3,664,722
Total Pillar-1 - risk weighted assets	**182,429,252**	154,139,375

(41.2) Basel II Pillar 3 Disclosures

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Group's website www.alahli.com as required by the Saudi Arabian Monetary Agency (SAMA).

42. INVESTMENT SERVICES

The Bank offers investment management services to its customers. These services include the management of mutual funds with assets totaling SR 32,547 million (2009: SR 28,046 million). All but two of these funds comply with *Shariah* rules and are subject to *Shariah* control on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

43. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt. Treasury shares are deducted from equity and accounted for at cost, being the value of the set-off. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

44. ACQUISITION OF AVAILABLE FOR SALE INVESTMENTS (EQUITIES)

The Bank acquired equities in 2010 and 2009 from a customer as a result of partial set-off of debt.

45. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

IFRS 9 "classification and measurement of financial assets" has been published in its final form and is mandatory for compliance for the accounting year beginning 1 January 2013; though early adoption is allowed. It replaces part of IAS 39 Financial Instruments: Recognition and Measurement. It substitutes the current IAS 39 classification of financial assets (Trading, FVIS, Available for sale, Held to maturity and Held at amortized cost) into two main classifications (Held at amortized cost and held at fair value either through statement of income or through statement of comprehensive income).

46. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 31 January 2011 (corresponding to 27 Safar 1432H).

Designed and produced by Origin Communications Group

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