



...his world

1995







King Fahad Bin Abdulaziz Al Saud

*The Custodian of the Two Holy Mosques*



His Royal Highness Prince Abdullah  
Bin Abdulaziz Al Saud

*Crown Prince and First Deputy Prime Minister  
Commander of the National Guard*



His Royal Highness Prince Sultan  
Bin Abdulaziz Al Saud

*Second Deputy Premier  
Minister of Defence and Aviation  
and Inspector General*

## Our Vision

The National Commercial Bank

# *is the* **LEADING** **bank in Saudi Arabia**

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*Our dual purpose is to enhance the value of the firm and to serve society;*

*We are the first choice for customers and for talented employees;*

*We are primarily a consumer bank providing deposit, investment and innovative, tailored products to retail, middle income and high net worth customers;*

*We engage selectively in corporate business with a full range of financial services for the commercial sector and specialist financial services for large corporate clients. NCB is building a diversified portfolio with returns commensurate with the risks;*

*Our core values are customer service, reward for performance and teamwork.*

# Financial Highlights

for the year ended

**31st December 1995**

(in millions of Saudi Riyals)

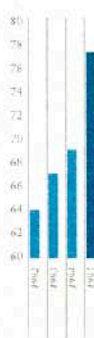
## 1995 Performance

	1995	1994	Change	%
Total assets	76,660	69,468	7,192	10.35
Total customer deposits	55,920	52,794	3,126	5.93
Total liabilities	69,387	62,371	7,016	11.25
Total partners' equity	7,272	7,097	175	2.47
Contra accounts	99,470	57,095	42,375	74.22
Operating income	5,388	3,569	1,820	50.99
Operating expenses	4,680	2,873	1,807	62.90
Net operating income	707	696	11	1.58
Other income (expense)	(7)	(117)	110	94.02
Net income	700	579	121	20.9

## Selected ratios %

Return on partners' equity	9.9	8.3
BIS total ratio	21.3	20.9
Partners' equity as % of total assets	9.5	10.2
Loans & advances as % of total assets	51.4	47.6
Securities as % of total assets	20.3	26.3
Liquid assets ratio	41.2	45.5
Deposits to loans & advances	142	160

Total Assets  
\$Billion



## Chairman's Statement



I am pleased, on behalf of everyone at The National Commercial Bank, to report on a year in which our new energies were released into the banking market of Saudi Arabia with considerable success.

The achievements of 1995 have been built upon the strong foundations established over the three previous years. NCB has been able to improve its net return on partners' equity from 8.3% to 9.9% which continues the trend towards a more acceptable level relative to the market as a whole.

The 1995 year end marks a watershed for the Bank. We have more than adequate provisions against future risk, we have a strong capital base, a healthy portfolio, excellent performance and a professional management team. As a result NCB is now, more than ever before, ready to take its place among its publicly listed peers.

The results for 1995 were satisfactory for our bank in a variety of respects described more fully later in this report, but I am most pleased to note the degree to which The National Commercial Bank was able throughout 1995 to contribute in important ways to the national economy during its period of transition.

Our loan portfolio increased by 15% during a year when the economic adjustment process that started in 1994 continued to restrict growth. Many of our clients experienced strains in their liquidity positions and NCB stepped forward wherever possible to accommodate creditworthy borrowers in their times of need.

We are responsible for the deployment of a sizable portion of the country's savings and we intend to perform this role responsibly and professionally. The banker's job is to say "no" as much as it is to say "yes". Society is not served in any respect when bad loans are made. Recognising our special responsibility and realizing its pressures, we welcome the opportunity to contribute to the long-term interests of our country.

We continued our programme of streamlining our operations in line with the bank's strategy of modernisation within the competitive national and international banking environment.

Despite this, we were able to recruit more than 260 qualified Saudi nationals during the year. Our investment in training continues to accelerate and represents the fastest climbing expenditure category. We shall continue to meet our commitment to the development of the Kingdom's manpower base. This undertaking will build in coming years.

In the Saudi Arabian banking marketplace, customers are used to having choices and they are proving unforgiving of the product or service provider who does not measure up to world standards. NCB sees itself as a key player in this necessary process.

NCB Investment Services introduced seven new funds during the year. NCB has also developed a sophisticated 'securitisation' expertise that is safe and liquid while serving the financing needs of middle-income car buyers.

With a view to bringing shopping convenience and the latest technological banking methodology to the Kingdom, NCB has installed 3500 'point of sale' terminals in merchants' establishments throughout the country. The year also saw the bank increase its number of ATM machines by some 30% over 1994. This is part of the process of diversifying our delivery channels which also includes adding greater functionality to existing systems. In this way, we are improving the quality and range of client services while making them available "anytime, anywhere".

Our Treasury has expanded its range of services to encompass the most modern techniques of risk management. These financial tools are required by our clients in order to face safely the dangers that lurk in today's volatile markets. NCB understands that the Kingdom cannot be isolated from the instability which has damaged so many important participants in the world's financial marketplace, but our derivatives and hedging tools will enable our clients to avoid



# Releasing *new* ENERGIES

many of the pitfalls into which others have fallen during the past year.

Our commitment to the community includes working closely with the authorities in advising upon and raising the capital needed to finance essential projects. Additionally, NCB has continued its policy of donating significant amounts to charities in the Kingdom. We have always led the way in this area and fully intend to do so in the future.

In times of economic restraint the role of a country's largest bank is one which requires a delicate balance of service and responsibility. As I look forward into 1996, I would urge our customers to take a careful, even cautious approach to their commercial and personal budgets. It would be irresponsible of the banking community not to seek to discourage customers from over-ambitious borrowing against the current economic background.

New ways to boost non-oil revenues are being explored. Privatisation of certain public sector enterprises will constitute an important part of the ongoing adjustment process. The private sector should be given the opportunity to maintain and renovate many of the utilities and services currently operated by the government, on condition that this will result in lower cost, better performance and greater employment opportunities for the national workforce.

Various forms of innovative financing can help offset the effect of the budgetary squeeze. Contractors and suppliers could be called upon to include financing proposals in their bids for major projects. The build, operate and transfer approach, whereby the contractor is repaid from the proceeds of the project after its completion, may also become applicable for certain projects. Loans have already been made by commercial banks to SABIC's affiliates, utility companies and other autonomous government bodies with non-recourse to the government. Banks in the Kingdom are eager for good project financing opportunities whereby the cash flows generated from the projects will be sufficient to pay back the loan without the need to depend on transfers from the government.

The Ministry of Finance and National Economy and the Saudi Arabian Monetary Agency continued to give great assistance and encouragement to the banking community. The environment for banking in the Kingdom needs to remain clear and unambiguous and the highest personal and corporate standards must not only be practiced but be seen to be practiced. The management of NCB feels this responsibility strongly. I am confident that, under the

guidance of The Custodian of the Two Holy Mosques King Fahad Bin Abdulaziz Al Saud, the Crown Prince and First Deputy Prime Minister HRH Prince Abdullah Bin Abdulaziz Al Saud and the Second Deputy Premier Minister of Defence and Aviation HRH Prince Sultan Bin Abdulaziz Al Saud and their ministers, appropriate and supportive policies and guidance will always be forthcoming.

In my travels around the Kingdom, I am constantly impressed by the friendship, loyalty and courtesy shown by NCB's customers and staff to each other in the course of their everyday contact. It is a tradition that needs to, and I am sure will, continue into our shared future.

For more than anything else, NCB represents the embodiment of what is best in the Saudi traditions of honesty and courtesy and exemplifies these by the efficient provision of modern banking services. Doing so honours the Bank and its customers, its employees past and present, our heritage and our country.

On behalf of The National Commercial Bank and its staff, I take this opportunity to express to our customers our gratitude for their continued support and encouragement to explore the many new ways in which we can be of further service.

To the Bank's staff, sincere thanks must be given for their contribution to an excellent overall performance including the substantial improvements achieved in our quality of customer service. My colleagues in management have put in another strenuous year developing and implementing new initiatives to keep NCB at the forefront of the domestic and regional banking industry. Indeed, everyone has displayed an ingenuity and dedication which deserves our respect, gratitude and admiration.



Mohammed Salim Bin Mahfouz  
Chairman

# *The* **MANAGEMENT** *committee*



From left to right:

**Mohamed Salim Al-Batati** Deputy General Manager and Member General Management Committee, **Michael A. Callen** Senior Advisor, **Ahmed Banaja** Deputy General Manager and Member General Management Committee, **Sheikh Mohammed Bin Salim Bin Mahfouz** Chairman General Management Committee and Chief Executive, **Abdullah Salim Bahamdan** Deputy General Manager and Member General Management Committee, **Abdulahadi Ali Shayid** Deputy General Manager and Member General Management Committee, and **Omar Abdul Qader Bajamal** Deputy General Manager and Member General Management Committee.



## Key Facts *about* NCB

*The National Commercial Bank has:*

- *The largest Capital Base of any bank in Saudi Arabia*
- *The Rank of Number One Bank in the Arab World*
- *Experience. Founded in 1953, NCB is the oldest Saudi bank*
- *250 Retail Banking Branches Kingdomwide*
- *34 Dedicated Branches offering Islamic products*
- *Overseas Branches in Bahrain and Beirut*
- *Representative Offices in Major Financial Centres*
- *Over 570 International Correspondent Banks*
- *The Middle East's largest and most up-to-date Treasury Dealing Room*
- *Saudi Arabia's leading Investment Services business – 7 new funds launched in 1995*
- *3,500 Electronic Point of Sale Terminals (POS) in retail outlets: 26% of the market*
- *208 Al-Abli Express NCB-owned Automatic Teller Machines (ATMs) – up by 30% on 1994 – now 18% of the national market*
- *Al-Abli Express card access to a network of 1,200 ATMs nationwide and 800,000 worldwide*
- *NCB VISA and MasterCard issued grew by 300% in 1995*
- *4,900 staff – down by over 30% in two years*
- *260 Saudi graduates joined NCB in 1995*

# DIVISIONAL

## *Management*

From left to right:

Fred Crawford, Abdullah Salim Bahamdan, Dr Saeed Martan, Dr Abdurouf Banaja, Don Hill, Khalid Basrani, David Allars, Ahmed Banaja, Osama Mattar, Farouk Eid, Saleh Kaaki, Saud Sabban



### **Fred Crawford**

#### *Investment Services*

P.O. Box 15844, Jeddah 21454, Saudi Arabia.  
Tel: 669 6640 Ext. 417 Telex: 600051  
Fax: 699 6388

### **Abdullah Bahamdan**

#### *Corporate & Institutional Banking*

P.O. Box 22216, Riyadh 11495, Saudi Arabia.  
Tel: (01) 479 2616 Telex: 404515  
Fax: (01) 477 0952

### **Dr. Saeed Martan**

#### *Islamic Banking*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 4103 Telex: 605571  
Fax: 642 6673

### **Dr. Abdurouf Banaja**

#### *International Banking*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 4206 Telex: 605571  
Fax: 644 9474

### **Don Hill**

#### *Treasury*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 3709 Telex: 605571  
Fax: 643 7472

### **Khalid Basrani**

#### *Support Services*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 2818 Telex: 605571  
Fax: 643 9595

### **David Allars**

#### *Audit*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 2903 Telex: 605571  
Fax: 644 0260

### **Ahmed Banaja**

#### *Retail Banking*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 2700 Telex: 605571  
Fax: 643 3333

### **Osama Mattar**

#### *Finance & Accounting*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 644 6644 Ext. 3409 Telex: 605571  
Fax: 644 6644 Ext. 3490

### **Farouk Eid**

#### *Corporate Public Relations*

P.O. Box 3333, Jeddah 21481, Saudi Arabia.  
Tel: 644 7979 Telex: 605571  
Fax: 644 6468

### **Saleh Kaaki**

#### *Systems & Operations*

P.O. Box 3555, Jeddah 21481, Saudi Arabia.  
Tel: 643 7885 Telex: 605572 Fax: 644 0873

### **Saud Sabban**

#### *Private Banking*

P.O. Box 51266, Jeddah 21543, Saudi Arabia.  
Tel: 660 7868 Fax: 661 0037

# REVIEW

## of Activities

*During 1995, The National Commercial Bank has continued to forge ahead with new initiatives, policies, products and services that meet the changing needs of the Saudi Arabian marketplace and which reinforce the Bank's place as a modern and dynamic international financial institution.*

### These are just some of the highlights:

Net profit increased by 21 per cent to SR700.3 million in 1995 from SR579 million in 1994. This figure is in line with our expectations and has been achieved through improvements in our market share and continuing cost controls.

Net income, before loan loss provisions, rose sharply by 49% to SR1003 million. This substantial performance was achieved by healthy contributions from all of NCB's customer-serving divisions.

The Bank's risk-weighted Tier 1 capital adequacy ratio, as defined by the 'Basic Guidelines', at the year end was 21.3%, again well in excess of internationally required levels.

Customers' deposits increased by a healthy 5.93%, while loans and advances rose by 19.4%. These achievements reflect the Bank's continuing growth in market share as befits the Kingdom's largest commercial banking institution.

Overall, total staff, depreciation and general administrative expenses increased by 5% in 1995. Staff costs, however, declined by 4%.

Staff levels continued to fall in absolute terms, in line with our five-year strategy embarked upon in 1993. By the end of 1995 the number of employees had been reduced to 5,014 including the recruitment of 180 Saudi graduate trainees in October.

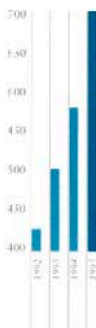
All the Bank's divisions contributed to the good results reported for 1995. There was steady progress from NCB's consumer financial services, including our retail branch network, electronic banking, and investment services operations. Further advances came from our corporate banking, corporate finance, and corporate business banking groups. NCB's two younger customer driven divisions, Private Banking, and Islamic Banking, both achieved commendable growth in their contributions to the Bank's results.

NCB's Treasury made a significant contribution to the overall increase in profitability. Demonstrating its ability to take full benefit from changing market conditions, Treasury's 1995 performance wholly justified the substantial investment in human and technological resources made by NCB management. The application of the latest developments in technologies, systems and risk management helped the division to apply creative financial market solutions to our customers' needs. The opening of a new 'leading-edge' dealing room was one of the highlights of NCB's year.

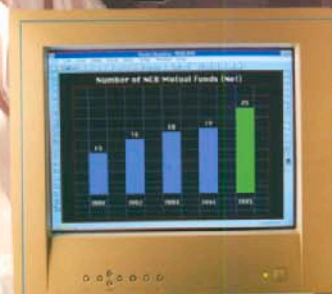
Those responsible for the less glamorous but equally vital support divisions accomplished many remarkable advances in 1995. The number and rapid pace of changes in technology, methodology, systems and procedures across the year in all parts of the Bank has been awe-inspiring when viewed together as a whole. Indeed, the enthusiasm and drive of the teams managing all divisions and the response of their staff to new methods, practices and markets is highly commendable.

The greater concentration on agreed goals and strategic objectives has led to a healthy degree of pressure and the need to focus on training, retraining and yet more training as an addition to normal daily workloads. The result has been to bring out the best in loyal and dedicated colleagues who are providing a new spirit to NCB's internal teamwork. This in turn is being transformed into a new energy that is recognised and appreciated by existing and new customers alike.

Net Income  
SR. Millions



# his VOCATION... *his bank*



His vocation is teaching children to be the pride of the Kingdom whilst investing in his own child's future with the finest investment funds from his bank.

Our growing range of mutual funds provides investors with a range of high-quality, innovative investment opportunities.



markedly improving customer service levels. Where possible, service cost reductions were shared with our customers by providing them with added value services that place NCB ahead of its market competitors.

### Corporate & Institutional Banking

A welcome milestone for the Bank and this Division was the appointment of a Saudi national as Head of Corporate Banking for the first time since the Corporate Banking Group was started in 1980.

During 1995, a substantial effort was put into enhancing customer service through a more integrated approach, involving cross-selling products and services, coupled with the implementation of the 'total relationship management' concept. Thus NCB business relationship managers were appointed to act as client coordinators with responsibility to service the entire banking requirements of corporate customers. These CIBD managers are backed up by Trade Finance, Treasury, Investment, Islamic Banking and Electronic Banking specialists.

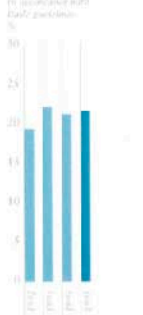
This enhanced, formalised partnership between NCB and its corporate and institutional customers has resulted in a more pro-active, problem-solving approach from which several new products have already evolved.

NCB now offers discounting of drafts under Deferred Letters of Credit for both established and new clients. This enables the Bank to provide up-front funding for contractors where Supplier Credit Agreements have been reached. Given the liquidity limitations currently affecting the banking community in Saudi Arabia, such a service offers an important option for corporate accounts wishing to finance contractors and to hedge interest rate and currency risks.

Another example is a tailored options facility, originally developed for NCB's customer Riyadh Cable, which has an innovative structure of credit facilities allowing the customer the option to manage balance sheet exposure. As business becomes more receptive to various types of hybrid transactions, this type of innovative approach from NCB is attracting new clients from among the Kingdom's largest corporations.

As one of the most active players in the Kingdom's corporate banking sector, NCB continued its tradition of supporting the development of Saudi Arabia's infrastructure and its public sector. NCB has been a major provider of facilities to corporate clients undertaking projects related to the Telecommunications Expansion Project (TEP6) and is actively supporting companies involved in satellite communications. The communications sector is, perhaps, at present the most important public and private growth area, given the substantial Government support pledged to this part of the Kingdom's infrastructure.

The National Commercial Bank  
Advantage ratio end of year  
in comparison with  
other banks



### Retail Banking

Retail Banking received a high level of positive customer reaction to the introduction of state-of-the-art computer systems linking the whole of NCB's branch network. The Division recognised and responded to our customers' need to transact their business in an environment that is convenient, pleasant and efficient. During the year, 39 branches were remodelled to totally new standards that make over 80% of floor space available to our customers. This programme will continue over the coming years.

Independent research indicates that NCB is now consistently the top bank in the Kingdom on key customer service performance measures. The Division continues to strive to provide the speed, accuracy, accessibility and convenience of service that customers require and expect from the Kingdom's leading retail bank.

To be able to deliver the high standards of service expected, Retail Banking has undergone a major transformation of its people and how they are organised, trained and deliver. Following extensive market research, the Division deliberately moved further towards a market focused organisation, enhancing the marketing function that supports market sector managers and service channel management. The expertise acquired is already showing evidence of increasing the penetration of NCB's customer-driven performance culture into all aspects of our work.

Part of NCB's long-term strategy is to give its customers ease of access to their bank. During 1995, the number of NCB Automated Teller Machines (ATMs) - marketed under the name Al-Ahli Express - was increased by 30% to 208 machines, with access to a national network now totalling over 1,200 machines. The Al-Ahli Express service became fully global in 1995 and the card can now be used in 800,000 locations worldwide. During the year, the number of NCB electronic point of sale terminals (POS) with retailers was almost doubled to 3,500 - giving NCB a 26% market share.

Another area of consumer financial services success was the growth of NCB VISA and MasterCard issuance, which increased by 300% over 1994. Credit turnover from these cards increased by a gratifying 283%, making NCB the leading credit card network in the Kingdom.

Throughout the year there were, once again, substantial achievements in reducing divisional costs. Many benefits continued to flow from NCB's investment in leading-edge banking technology and this, as well as personnel productivity improvements and retraining, permitted Retail Banking to operate with significantly less staff while

## Review of Activities

NCB's expertise in project finance continued to provide opportunities in 1995. As reported last year, CIBD is involved in the financing of a US\$3.9 billion telephone system expansion project awarded to AT&T by the Ministry of PT&T. This is in addition to the US\$75 million of facility arranged by NCB to finance the installation of new subscriber lines in the Riyadh area.

The division's efforts in 'structured finance' continued to be successful in 1995, with a further SR300 million arranged for Abdul Latif Jameel and a SR73 million facility for the Al-Hamrani and Al-Sulaiman United Company. This product has generated considerable interest in the market and 1995 could provide another successful year of opportunity.

In September 1995, NCB closed a syndicated SR700 million Term Loan transaction for the Al-Zamil Group where NCB was lead underwriter, principal coordinator and Agent Bank.

A US \$700 million Term Loan Facility for Saudi Petrochemical Company (SADAF), which was underwritten by an eight-bank group in late 1994 (of which NCB was a major underwriter), closed in November 1995 after an extremely successful syndication among a group of 44 local, regional and international banks. NCB is Agent Bank.

NCB took a SR200 million participation in a loan to Saudi Oger totalling SR800 million. NCB acted as the Saudi Royal Loan Agent.

Innovative training of NCB's Corporate Banking Officers and the emphasis on total customer relationship management across the Bank, provided the necessary tools to improve individual and group decision making and problem solving.

### Treasury

From early in 1995, customers of NCB Treasury began to notice a significant improvement in the quality and breadth of services as the Treasury Division began to install and implement the latest information technology and risk management systems. Installation was completed in the summer, when the Treasury moved into its new, state of the art dealing room and a satisfying growth in the volume and value of transactions followed.

Combining leading-edge technology and dealing room design with highly experienced and well trained people has created a unique capability in the region. The result is that NCB Treasury is able to offer a world-class service that is setting new standards for such facilities throughout the Middle East.

The Treasury business basically consists of an idea that develops into a transaction. People and ideas go together and the best ideas go with the best people. Over the past few years NCB has assembled a multi-talented, multinational team of treasury professionals with one shared purpose, to serve the Bank's clientele in new and imaginative ways while adhering to the highest standards of professional excellence.

Customers are provided with the consistent, high quality, comprehensive problem solving and transactional services designed to achieve specific results. Enhanced service quality and results through NCB's substantial investment has set NCB Treasury apart from its competitors, making NCB the rightful 'Bank of Choice' for treasury and capital markets services.

### Investment Services

In 1995 NCB once again reinforced its position as the leading player in investment services in Saudi Arabia. With its strong tradition of listening to its customers and meeting their investment needs, NCB has achieved and sustained a dominant mutual fund market share, administering well over 20,000 investment accounts.

A strong flow of seven new fund introductions and the careful implementation of a state-of-the-art customer administration and reporting system give testimony to NCB's determination to match products specifically tailored to the Saudi and Arab markets with world-class technology and information systems support.

In the first quarter of 1995 NCB launched four open-end funds – the NCB Global Trading Equity Fund, NCB Saudi Royal Trade Fund, NCB Europe Equity Fund and NCB Japan Equity Fund and one closed-end fund – the NCB Installment Finance I Fund.

In the fourth quarter NCB launched an open-end fund – NCB Arab Equity Fund – and a closed-end fund – NCB Capital Protected Fund I.

The NCB Global Trading Equity Fund, the first of its kind, invests in global companies that derive their main source of income from trading and manufacturing rather than interest income.

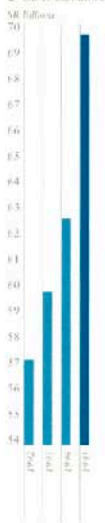
The NCB Saudi Royal Trade Fund provides a Murabaha-based investment with capital protection and weekly liquidity. This addition brings the total of NCB's 'Islamic Funds' to three and broadens the options available to customers seeking investments based strictly on Islamic investment principles.

The NCB Installment Finance I Fund, denominated in Saudi Riyals, offers investors a unique opportunity to invest in a pool of high quality automobile installment sales contracts.

The NCB Europe and the NCB Japan Equity Funds bring a good balance to NCB's portfolio of regional and country equity funds.

The NCB Arab Equity Fund is the first of its kind. It is specifically positioned to enable GCC investors to take

Customer Deposits  
& Other Liabilities





# his BUSINESS his bank

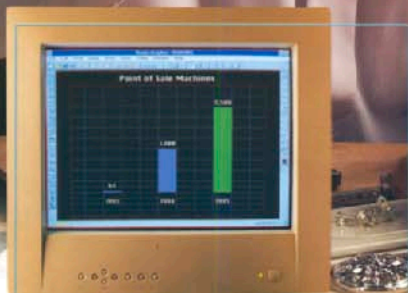
**Number of Electronic Branches lines per month**

Year	Number of Electronic Branches lines per month
2000	150,000
2001	150,000
2002	1,500,000

His business is the selection and refinement of edible corn oil and sending it to market on trucks financed by his Bank.

With more than 65,000 branch transactions per day, NCB serves the financing needs of personal and business clients throughout the Kingdom.

# his CRAFT... his bank



His craft is timeless – the past, captured in fine gold, amber and pearls for ladies' downies. Skills, accuracies and qualities that are reflected in his choice of bank.

NCB enables him to combine ancient skills with the latest in point-of-sale technology – adding convenience to him and his customers.

long-term partnerships, the Islamic Banking Division has been successful in finding innovative solutions to the financing needs of its customers.

Musharaka, Mudaraba, Personal and Commercial Murabaha, Ijara and Istisnaa are the principal financing schemes that the Division offers its customers. By the end of 1995, the total Islamic financing arranged by the Division approached SR1 billion.

The Islamic Banking Division was also active in international markets during the year. It participated in an international Islamic syndication to finance the exports of a leading Saudi company. NCB also enhanced its relations with other leading Islamic banks in the region and worldwide, with the aim of selectively establishing long term strategic alliances.

The 'Harvard University Islamic Investment Study', a unique research programme of which NCB was the founding sponsor, has reached the end of its first phase. The findings are to be published in 1996 and the study is expected to become the authoritative source and a major contribution to understanding in this field.

The activities of NCB Islamic Banking continue to be monitored by an independent team of leading Islamic Banking scholars to assure compliance with Islamic principles. In addition, the Division's vigorous staff training programme is enhancing in-house expertise in Islamic Banking and will ensure the appropriate service methods and quality for its unique client base.

Parallel to the worldwide development of Islamic Banking, the Islamic Banking Division of NCB will further extend its activities in 1996, both in Saudi Arabia and the Gulf countries and consolidate the strength of NCB in this important market.

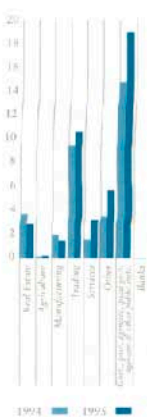
#### Private Banking Division

NCB Private Banking, created in 1993, maintained steady progress and is now a noteworthy contributor to net income with a client base growing in line with expectations. With the continued development of its discreet banking and investment products and services, the Division is more and more becoming recognised as the leading Saudi bank serving the Kingdom's 'high net worth' individuals.

During 1995, Private Banking launched a personalised shopping card service under the patented name of 'Private Selection'. This has been well received by clients and is the first of its kind in the Kingdom.

Responding to the ever increasing popularity of NCB Private Banking among wealthy Saudi women, the Division has again increased its team of female relationship managers, all of whom receive extensive training. They offer to this discriminating and financially active group of clients, personalised 'home visit' banking, discretionary investment management and independent financial advice.

Loans & Advances by Sector - Domestic (Mio. SR Billion)



advantage of the opportunities in the Arab stock markets. The NCB Capital Protected Fund I was introduced as a direct response to a growing market need for this type of product.

In conjunction with its aggressive new fund introduction programme, NCB has also in place a totally new client administration system, Corlux. This is among the best systems available to the industry and will upgrade and broaden the range of investment services available to NCB's customers.

NCB believes it is exceptionally well positioned to continue to provide its customers with the optimum investment solutions to their financial problems. The 1995 programme of significant investment in new products and technology is a continuing testimony to the value NCB places on its partnership with its investment customers.

#### Islamic Banking

Islamic Banking continued to be one of NCB's fastest growing business segments.

Among the first of the domestic banks to recognise the significance of customer trends towards this growing niche market, NCB leads the region in providing a comprehensive range of Islamic Banking, investment and financial services through dedicated branches under specialised Islamic Banking management. In 1995, the number of branches delivering Islamic products was increased from 27 to 34. Average customer deposits through these branches also registered a healthy increase of some 15% during the year.

The Islamic Banking Division successfully introduced a number of dedicated investment funds and Mudaraba investment portfolios in 1995. As a result, customers' deposits and investment funds under the direct management of the Division had exceeded SR2.8 billion by the end of the year.

An innovative Global Trading Equities Fund developed according to Islamic Banking principles has successfully established the market standards in this field. The Mudaraba investment portfolios offered by the Division provided flexible, personalised answers to the needs of discerning investors with a view of strict compliance to Islamic Banking principles.

In line with the commitment of NCB to support all sectors contributing to the national economy, Islamic Banking provides unique financing products to customers seeking alternatives to conventional bank loans. Strengthened by the Bank's initiatives to open communications with its clients, and with its reputation for confidentiality and

markedly improving customer service levels. Where possible, service cost reductions were shared with our customers by providing them with added value services that place NCB ahead of its market competitors.

### Corporate & Institutional Banking

A welcome milestone for the Bank and this Division was the appointment of a Saudi national as Head of Corporate Banking for the first time since the Corporate Banking Group was started in 1980.

During 1995, a substantial effort was put into enhancing customer service through a more integrated approach, involving cross-selling products and services, coupled with the implementation of the 'total relationship management' concept. Thus NCB business relationship managers were appointed to act as client coordinators with responsibility to service the entire banking requirements of corporate customers. These CIBD managers are backed up by Trade Finance, Treasury, Investment, Islamic Banking and Electronic Banking specialists.

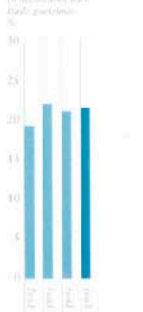
This enhanced, formalised partnership between NCB and its corporate and institutional customers has resulted in a more pro-active, problem-solving approach from which several new products have already evolved.

NCB now offers discounting of drafts under Deferred Letters of Credit for both established and new clients. This enables the Bank to provide up-front funding for contractors where Supplier Credit Agreements have been reached. Given the liquidity limitations currently affecting the banking community in Saudi Arabia, such a service offers an important option for corporate accounts wishing to finance contractors and to hedge interest rate and currency risks.

Another example is a tailored options facility, originally developed for NCB's customer Riyadh Cable, which has an innovative structure of credit facilities allowing the customer the option to manage balance sheet exposure. As business becomes more receptive to various types of hybrid transactions, this type of innovative approach from NCB is attracting new clients from among the Kingdom's largest corporations.

As one of the most active players in the Kingdom's corporate banking sector, NCB continued its tradition of supporting the development of Saudi Arabia's infrastructure and its public sector. NCB has been a major provider of facilities to corporate clients undertaking projects related to the Telecommunications Expansion Project (TEP6) and is actively supporting companies involved in satellite communications. The communications sector is, perhaps, at present the most important public and private growth area, given the substantial Government support pledged to this part of the Kingdom's infrastructure.

The National Commercial Bank  
Advantage ratio end of year  
in comparison with  
other banks



### Retail Banking

Retail Banking received a high level of positive customer reaction to the introduction of state-of-the-art computer systems linking the whole of NCB's branch network. The Division recognised and responded to our customers' need to transact their business in an environment that is convenient, pleasant and efficient. During the year, 39 branches were remodelled to totally new standards that make over 80% of floor space available to our customers. This programme will continue over the coming years.

Independent research indicates that NCB is now consistently the top bank in the Kingdom on key customer service performance measures. The Division continues to strive to provide the speed, accuracy, accessibility and convenience of service that customers require and expect from the Kingdom's leading retail bank.

To be able to deliver the high standards of service expected, Retail Banking has undergone a major transformation of its people and how they are organised, trained and deliver. Following extensive market research, the Division deliberately moved further towards a market focused organisation, enhancing the marketing function that supports market sector managers and service channel management. The expertise acquired is already showing evidence of increasing the penetration of NCB's customer-driven performance culture into all aspects of our work.

Part of NCB's long-term strategy is to give its customers ease of access to their bank. During 1995, the number of NCB Automated Teller Machines (ATMs) - marketed under the name Al-Ahli Express - was increased by 30% to 208 machines, with access to a national network now totalling over 1,200 machines. The Al-Ahli Express service became fully global in 1995 and the card can now be used in 800,000 locations worldwide. During the year, the number of NCB electronic point of sale terminals (POS) with retailers was almost doubled to 3,500 - giving NCB a 26% market share.

Another area of consumer financial services success was the growth of NCB VISA and MasterCard issuance, which increased by 300% over 1994. Credit turnover from these cards increased by a gratifying 283%, making NCB the leading credit card network in the Kingdom.

Throughout the year there were, once again, substantial achievements in reducing divisional costs. Many benefits continued to flow from NCB's investment in leading-edge banking technology and this, as well as personnel productivity improvements and retraining, permitted Retail Banking to operate with significantly less staff while



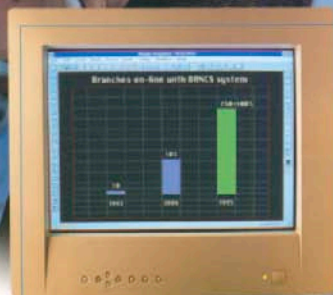
# her DEDICATION... her bank



Her dedication is the efficient running and management of an operating theatre and the care of 12 patients – and being able to access her bank account at anytime – night or day.

**The expanding 24-hour cash network of Al-Ahli Express ATMs enables her to fit her banking around her lifestyle.**

# his TALENT... his bank



His talent is in his ability to select and trade in the finest herbs and the rarest spices and use his bank's trade finance to expand his business.

Increasing branch efficiency by converting to fully-automated on-line systems has enabled the Bank to substantially improve its service to all its customers.



productivity and has led to a greater awareness throughout NCB of the opportunities available for its customers to improve their international relationships and profitability.

#### Finance & Accounting

A significant improvement was achieved in automated accounting and management information systems. For example, it was only necessary to close the Bank's branches for one evening business session in order successfully to complete the year end 1995 closing procedure. This was a major advance on the disruption to customer service experienced in previous years.

New accounting standards and specifications policies were introduced for the branch network and expense payments were centralised into one head office unit.

The Division is embarking on a bankwide Unified Single General Ledger project which will enhance the computerisation of its accounting systems and facilitate the analysis of financial data.

#### General Support Services

Any organisation operating in today's financial markets needs advanced support services that deliver the best in administrative and legal back-up and human resources management. By efficiently centralising specialist skills and facilities, NCB General Support Services releases the Bank's business units to concentrate on their customer-driven functions.

In 1995 NCB implemented an advanced project covering remuneration, awards, incentives and management evaluation of individual performance. The Bank also made sound progress in modifying salary structures to meet the future needs and expectations of staff. This was accomplished in the context of substantial levels of change throughout NCB, with the aim of assisting the Bank to recognise, encourage and retain those employees who can best contribute to the future success of the enterprise.

A substantial advertising campaign after the end of the academic year attracted some 3,000 applications for graduate level entry into a career in NCB. Extensive training programmes were introduced to facilitate the induction of the selected 180 young Saudis. Their recruitment and one year graduate traineeships are in keeping with NCB's commitment to the Kingdom's continuing policy encouraging Saudisation.

Determined to invest in relevant information technology, an electronic archive system has been introduced which will

assist the optimum use of the Bank's available resources, such as equipment, systems and manpower, and enable the Division to clear an accumulation of employee documents and hard copy files from its archives.

Management services have undergone basic changes in systems and procedures relating to the security transportation of funds and post and the distribution of printed material and stationery. The contracting out of these functions has led to annual savings of more than SR10 million as well as improving levels of service. A number of other banks in the Kingdom have subsequently followed NCB's lead in this area.

A new database of the Bank's property assets enables specific quality and service control standards to be ensured in the design, materials specification and construction or modernisation of buildings, especially branches.

#### Communications and Social Responsibility

One of NCB's most fundamental business principles is that we practice open communications and maintain a continual, healthy dialogue across all units and levels. In 1995 a major initiative was started that has focused on the improvement of both internal and external communications through training and the introduction of new methodologies, systems and technology.

NCB made substantial investments to improve access to information for its customers, employees, correspondent banks, business partners, regulators and the media and to inform, educate and entertain in the cause of improving mutual understanding. The quality and volume of NCB's internal communications, public relations and advertising activity has improved and more is expected in 1996.

The potential role that can be played for the good of society by an institution of the size and influence of The National Commercial Bank in its domestic and regional communities is not underestimated. During 1995, the Bank was involved in an array of local, national and international causes. At home they included support for a national civil defence day, the Kingdom's first bank fraud symposium organised with SAMIA, and educational, cultural and medical charities. Internationally, in an immediate response to the Bosnia Appeal made by the Custodian of the Two Holy Mosques, King Fahd, each of NCB's employees donated one day's salary to the Muslims of Bosnia-Herzegovina. The SR1 million raised by this magnificent gesture of solidarity with suffering was added to the SR12 million donated by NCB's partners to the same cause.

Other donations made by The National Commercial Bank during the year amounted to SR56.8 million.

Return on  
Partners' Equity  
%



# Auditors' Report

## To the Partners of The National Commercial Bank:

We have audited the balance sheet of The National Commercial Bank (a general partnership) (the 'Bank') as of 31 December 1995 and the related statements of income, changes in partners' equity, and cash flows for the year then ended, including the related notes 1 to 21 which form part of these financial statements. These financial statements, which have been derived from computerised accounting records maintained in Arabic in the Kingdom of Saudi Arabia, are the responsibility of the Bank's management and have been prepared by them in accordance with the requirements of the Banking Control Regulations and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express our opinion on the financial statements.

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

- present fairly, in all material respects, the financial position of the Bank as of 31 December 1995 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and International Accounting Standards, and
- comply with the requirements of the Banking Control Regulations and the Bank's partnership deed in so far as they affect the preparation and presentation of the financial statements.

Dr Abdullah Abdulrahman Boesheh  
Registration No. 66

Salah El-Ayouty  
Registration No. 32

Whitney Murray & Co  
Chartered Accountants

Issa El-Ayouty & Co  
Accountants and Auditors

Jeddah: 26 Ramadan 1416 H  
Corresponding to: 15 February 1996

# Balance Sheet

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

Assets	Notes	1995	1994
Cash and balances with SAMA	3	2,836,948	2,958,100
Due from banks	4	13,182,997	10,378,640
Trading securities	5	270,287	357,591
Loans and advances, net	6	39,366,248	33,043,538
Investment securities, net	7	15,564,773	17,887,967
Fixed assets, net	8	1,642,551	1,475,736
Other real estate	9	1,799,408	1,850,507
Other assets	10	1,996,499	1,515,756
<b>Total assets</b>		<b>76,659,711</b>	<b>69,467,835</b>
<b>Liabilities and partners' equity</b>			
<b>Liabilities</b>			
Customers' deposits	11	55,920,415	52,794,449
Due to banks	12	10,683,759	7,449,931
Other liabilities	13	2,781,201	2,126,407
<b>Total liabilities</b>		<b>69,387,375</b>	<b>62,370,787</b>
<b>Partners' equity</b>			
Capital	14	6,000,000	6,000,000
Statutory reserve	15	1,272,120	1,097,048
Retained earnings		216	-
<b>Total partners' equity</b>		<b>7,272,336</b>	<b>7,097,048</b>
<b>Total liabilities and partners' equity</b>		<b>76,659,711</b>	<b>69,467,835</b>
Contra accounts	16	99,470,392	37,094,747

The attached notes 1 to 21 form part of these financial statements.

Mohammed Bin Salim Bin Mahfouz  
Chairman General Management Committee

# Statement of Income

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

	Notes	1995	1994
<b>Income from major operations</b>			
Special commissions income		3,867,366	2,434,863
Foreign exchange		85,534	77,140
Gains (losses) on trading securities		69,770	(263,772)
Income from investment securities		1,118,836	868,161
Gains on other real estate	17	18,972	231,385
Banking services		185,678	174,905
Other		41,433	45,635
<b>Total income from major operations</b>		<b>5,387,589</b>	<b>3,568,317</b>
<b>Expenses of major operations</b>			
Special commissions cost		2,983,226	1,452,123
Provision for loan losses	6	302,816	93,763
Salaries and other staff-related costs		778,695	811,299
Depreciation of fixed assets and other real estate	8 & 9	117,103	86,932
Other general and administrative expenses		498,380	428,579
<b>Total expenses of major operations</b>		<b>4,680,220</b>	<b>2,872,696</b>
<b>Net income from major operations</b>		<b>707,369</b>	<b>695,621</b>
<b>Other income (expense)</b>			
Gains (losses) on investment securities	18	107,209	(209,233)
Gains (losses) on disposal of fixed assets		(2,705)	5,080
Income from trading securities		-	49,472
Other (expense) income		(41,236)	79,197
Donations and charitable contributions		(57,845)	(31,150)
Zakat		(12,504)	(10,000)
		(7,031)	(116,634)
<b>Net income</b>		<b>700,288</b>	<b>578,987</b>

The attached notes 1 to 21 form part of these financial statements.

# Statement of Cash Flows

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

	1995	1994
Cash flows from operating activities:		
Net income	700,288	578,987
Adjustment of net income to net cash flow from operating activities:		
Provision for loan losses – net	302,816	93,763
Loss on valuation of investment securities	150,000	226,779
Depreciation of fixed assets and other real estate	117,103	86,932
Loss (gain) on disposal of fixed assets	2,705	(5,080)
	1,272,912	981,381
Net (increase) decrease in operating assets:		
Due from banks	(2,804,357)	4,949,514
Trading securities	87,304	1,552,884
Loans and advances	(6,625,326)	(5,811,487)
Other real estate	43,479	23,834
Other assets	(480,743)	(3,947)
Net increase (decrease) in operating liabilities:		
Customers' deposits	3,125,966	1,355,940
Due to banks	3,235,828	746,141
Other liabilities	564,035	71,245
Net cash flow generated from operating activities	[1,581,102]	3,865,505
Cash flows from investing activities:		
Net increase in investment securities	2,173,194	(4,246,207)
Purchase of fixed assets	(282,321)	(156,644)
Proceeds from disposal of fixed assets	3,318	20,977
Net cash flow absorbed in investing activities	1,894,191	(4,381,874)
Cash flows from financing activities:		
Profits paid	(434,241)	–
Net cash flow absorbed in financing activities	(434,241)	–
Net decrease in cash and balances with SAMA	(121,152)	(516,369)
Cash and balances with SAMA at beginning of the year	2,958,100	3,474,469
Cash and balances with SAMA at end of the year	2,836,948	2,958,100
Supplementary information on non-cash activities:		
Operating activities: transfer from trading securities to investment securities	–	10,048,963
Financing activities: profit for distribution	525,000	434,241

The attached notes 1 to 21 form part of these financial statements.

# Statement of Changes in Partners' Equity

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

Description	Notes	Capital	Statutory reserve	Retained earnings
<b>1995</b>				
Balance at beginning of the year		6,000,000	1,097,048	—
Net income		—	—	700,288
Transfer to statutory reserve	15	—	175,072	(175,072)
Profit for distribution		—	—	(525,000)
Balance at end of the year		6,000,000	1,272,120	216
<b>1994</b>				
Balance at beginning of the year		6,000,000	952,302	—
Net income		—	—	578,987
Transfer to statutory reserve	15	—	144,746	(144,746)
Profit for distribution		—	—	(434,241)
Balance at end of the year		6,000,000	1,097,048	—

The attached notes 1 to 21 form part of these financial statements.



# Notes to the Financial Statements

for the year ended

31st December 1995

## 1. General

The National Commercial Bank (the 'Bank') was established as a general partnership by a Royal Decree in Rajab 1369 H (corresponding to May 1950) and was registered in the commercial register under No. 1588 in Dhul-Hijja 1376 H (corresponding to July 1957). Due to the death of the partners and sales of shares between their heirs and due to other amendments, the partnership deed of the National Commercial Bank needs to be amended. The legal formalities relating to the amendment of the partnership deed in accordance with the provisions of the Regulations for Companies are still in progress.

The objectives of the Bank are to provide all types of banking services. The Bank operates through 250 branches (1994: 241 branches) in the Kingdom of Saudi Arabia and two branches overseas.

## 2. Summary of significant accounting policies

### (a) Regulatory

The Bank is subject to the Companies Regulations and the Banking Control Regulations in the Kingdom of Saudi Arabia. The financial statements are prepared in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency (SAMA), International Accounting Standards and the requirements of the General Presentation and Disclosure Standard issued by the Ministry of Commerce.

### (b) Accounting convention

The financial statements are prepared under the historical cost convention.

### (c) Securities portfolios

The Bank maintains two separate and distinct securities portfolios, namely 'investment securities' and 'trading securities'. The designation is made by the Bank's management between the two portfolios at the time of purchase and no transfers are made between them after such date unless the management has justifications for such transfers.

### (i) Trading securities

Securities purchased for trading purposes are carried at market value. The realized and unrealized gains or losses are included in income from major operations. Income from these securities is classified as other income.

### (ii) Investment securities

Securities acquired by the Bank for the purpose of investment are stated in the balance sheet at cost adjusted for amortization of premiums and accretion of discounts, net of provision for permanent decline in value.

Amortization and accretion are computed using the straight-line method over the remaining maturity period. The amortized premium and discount and the income earned by the Bank on these securities are included under income from major operations.

In case of a permanent diminution in the value of any individual security, a provision is made for the amount of diminution. Such provision as well as gains and losses arising on disposal of investment securities, are classified as other income/expense.

### (d) Provision for loan losses

Provision is made against specific loans and advances following a study of the portfolio that takes into account the recoverability of those debts and the general economic conditions. Such provision is charged to expenses of major operations.

Loans and advances are written off only in circumstances where all possible means of receiving have been exhausted and after taking into account the expected recoveries.

Provision for loan losses is deducted from loans and advances in the balance sheet.

### (e) Fixed assets

Fixed assets are stated in the balance sheet at cost net of accumulated depreciation. Freehold land is not depreciated. The cost of other fixed assets is depreciated using the straight-line method over their expected useful lives, based on the following annual percentage rates:

Buildings	2.5%
Furniture, cars and equipment	10% to 25%

The cost of buildings set up on leasehold land are depreciated over the lease period.

### (f) Other real estate

The Bank acquires certain real estate against settlement of overdue loans and advances. Such real estate is recorded at the lower of net value of outstanding loans and advances and the fair current value of the acquired real estate at the settlement date.

The loss in value arising on periodical valuations of other real estate and gains or losses on disposal are included in income from major operations.

The cost of buildings included under other real estate is depreciated using the straight-line method at an annual rate of 2.5%.

Other real estate is stated in the balance sheet net of accumulated depreciation and provision for decline in book value.

Notes to the Financial Statements *(continued)*  
for the year ended  
**31st December 1995**

**(g) Contra accounts**

Contingencies and commitments incurred in the Bank's ordinary course of business are recorded as contra accounts and disclosed as off balance sheet items.

These items include undertakings to grant letters of credit, letters of guarantee, commitments to purchase and sell foreign currencies, interest rate and foreign currency related swaps and other miscellaneous contingent liabilities.

Commitments for purchase and sale of foreign currencies, interest rate and foreign currency related swaps are recorded at gross values.

**(h) Income recognition**

Income and expenses are recognised on an accrual basis. However, income on loans and advances classified as non-performing is recognised on a cash basis until the loan or advance is reclassified as performing whereupon the recognition of income reverts to an accrual basis.

Income from Islamic products is generally recognised on an accrual basis except for income from Musharakah transactions which is recognised on a cash basis.

Accumulated special commissions in suspense are deducted from loans and advances in the balance sheet.

**(i) Foreign currencies**

Transactions in foreign currencies are translated to Saudi Riyals at the exchange rates prevailing on the dates of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Riyals at the rates of exchange prevailing at that date.

Realized and unrealized gains and losses on exchange are credited or charged to income from major operations.

**(j) Financial instruments**

The Bank enters into forward transactions, swaps and options to hedge the risks accompanying the management of its assets and liabilities, or for trade purposes, and also on behalf of clients.

Forward foreign exchange contracts are recorded in Saudi Riyals at the spot rates prevailing at the deal date. Premiums and discounts relating to the forward foreign exchange contracts are amortized or accreted on a straight-line basis over the period of the contract. Contracts outstanding at the balance sheet date are valued at the spot exchange rate prevailing at that date. Realized and unrealized gains and losses on exchange are credited or charged to income from major operations.

Other transactions concluded to hedge asset and liability risks are treated in the same manner as that adopted in respect of the item hedged. Transactions concluded for trade purposes are valued at market value. Realized and unrealized gains or losses are included in income from major operations.

**(k) Employees' end of service benefits**

Benefits payable to the employees of the Bank are provided for in accordance with the guidelines set by the Saudi Arabian Labor Law and the balance is included in other liabilities.

**(l) Zakat**

Zakat is computed in accordance with the Regulations set by the Department of Zakat and Income Tax based on the financial statements at the year end and classified as other expense in the income statement.

# Notes to the Financial Statements (continued)

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

## 3. Cash and balances with SAMA

	1995	1994
a) Cash in hand	865,527	829,511
b) Balances with SAMA		
Statutory deposit	1,916,937	1,933,386
Current accounts	54,484	195,203
	<b>2,836,948</b>	<b>2,958,100</b>

In accordance with Article (7) of the Banking Control Regulations, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its call, time, savings and other deposits calculated at the end of each Gregorian month.

## 4. Due from banks

a) Domestic	1995	1994
Call accounts	147,667	73,421
Time deposits	1,171,770	1,058,158
	<b>1,319,437</b>	<b>1,131,579</b>
b) Foreign branches of domestic banks		
Time deposits	591,403	125,000
c) International		
Call accounts	1,378,824	1,605,396
Time deposits	9,893,333	7,516,665
	<b>11,272,157</b>	<b>9,122,061</b>
	<b>13,182,997</b>	<b>10,378,640</b>

## 5. Trading securities

a) Domestic	1995	1994
Quoted shares	16,580	-
Units in investment funds managed by the Bank	42,547	94,450
	<b>59,127</b>	<b>94,450</b>
b) International		
Externally managed portfolios (shares, bonds and others)	211,160	263,141
	<b>270,287</b>	<b>357,591</b>

The cost of acquisition of trading securities as at 31 December 1995 amounted to SR263 million (1994: SR 494 million).

Notes to the Financial Statements (continued)  
for the year ended  
**31st December 1995**  
(in thousands of Saudi Riyals)

**6. Loans and advances, net**

	1995	1994
<b>a) Domestic</b>		
Private sector		
Real estate	2,796,034	3,704,036
Agriculture	195,209	140,690
Manufacturing	1,512,869	1,978,667
Trading	10,479,384	9,391,257
Services	3,181,413	1,549,059
Other	5,658,572	3,504,284
Government, government agencies, quasi government and other public institutions	18,924,819	14,740,099
Banks	-	82,674
	<b>42,748,300</b>	<b>35,090,766</b>
<b>b) International</b>		
Private sector		
Other	778,634	1,490,286
Government, government agencies, quasi government and other public institutions	369,353	638,995
Banks	410,342	359,915
	<b>1,558,329</b>	<b>2,489,196</b>
	<b>44,306,629</b>	<b>37,579,962</b>
Provision for loan losses and accumulated commissions in suspense	(4,940,381)	(4,536,424)
	<b>39,366,248</b>	<b>33,043,538</b>

Total non-performing loans and advances on which no income was recognised amounted to SR7417 million (1994: SR6,915 million). In addition to the above provision, the Bank has collateral or other securities against these loans and advances.

In 1995 commissions from certain loans and advances amounting to SR346 million (1994: SR226 million) have been suspended.

The movement in the provision for loan losses and accumulated commissions in suspense is as follows:

	1995	1994
Balance at beginning of the year	4,536,424	4,798,662
Amounts written off in settlement for:		
- real estate which devolved to the Bank	(10,070)	(94,151)
- other	(235,148)	(486,154)
Provided during the year:		
- provision for loan losses, net of recoveries	302,816	93,763
- special commissions suspended	346,359	226,304
Balance at end of the year	4,940,381	4,536,424
The net amount of the provision for loan losses charged to operating expenses is made up as follows:		
Provided during the year - provision for loan losses	302,816	130,000
Recoveries	-	(56,237)
Net amount charged to income from major operations	302,816	93,763



# Notes to the Financial Statements (continued)

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

## 7. Investment securities, net

	1995	1994
a) Domestic		
Shares – net of provision SR150 million (1994: SR Nil)	784,378	934,454
Fixed rate bonds	6,549,767	5,064,577
Fixed rate treasury bills	1,994,818	2,943,230
	9,328,963	8,942,261
b) International		
Shares different currencies – net of provision SR28 million (1994: SR32 million)	82,830	71,747
Fixed rate treasury bonds (US Dollar)	4,580,192	3,432,713
Other fixed rate government bonds (different currencies)	423,707	1,179,759
Fixed rate commercial bonds (different currencies)	1,149,081	4,261,487
	6,235,810	8,945,706
	15,564,773	17,887,967

The market/fair value of investment securities as at the balance sheet date amounted to SR15,733 million (1994: SR17,017 million).

## 8. Fixed assets, net

	Land	Buildings	Furniture, cars and equipment	Total
Cost				
Balance at beginning of the year	268,752	1,377,712	483,305	2,129,769
Additions	35,437	80,590	166,294	282,321
Disposals	–	–	(11,601)	(11,601)
Balance at end of the year	304,189	1,458,302	637,998	2,400,489
Accumulated depreciation				
Balance at beginning of the year	–	361,352	292,681	654,033
Additions	–	35,023	74,460	109,483
Disposals	–	–	(5,578)	(5,578)
Balance at end of the year	–	396,375	361,563	757,938
Net book values				
31 December 1995	304,189	1,061,927	276,435	1,642,551
31 December 1994	268,752	1,016,360	190,624	1,475,736

## 9. Other real estate

	1995	1994
Balance at beginning of the year, net	1,850,507	1,881,679
Additions	18,399	68,391
Disposals	(61,878)	(92,425)
Depreciation on buildings for the year	(7,620)	(7,338)
Balance at end of the year, net	1,799,408	1,850,507

## 10. Other assets

	1995	1994
Customers' liabilities on acceptances	655,166	493,025
Accrued commission receivable	917,612	484,100
Other	423,721	538,631
	1,996,499	1,515,756

# Notes to the Financial Statements (continued)

for the year ended

**31st December 1995**

(in thousands of Saudi Riyals)

## 11. Customers' deposits

	1995	1994
a) Domestic		
Call accounts	22,678,879	22,024,626
Notice accounts	578,874	1,922,926
Savings	738,446	823,229
Time deposits	11,620,133	9,942,328
Other	2,454,362	2,528,105
	38,070,694	37,241,214
b) International		
Call accounts	47,924	46,699
Savings	13,227	23,624
Time deposits	17,614,340	15,297,977
Other	2,112	1,919
	17,677,603	15,370,219
c) Accrued commissions	172,118	183,016
	55,920,415	52,794,449

Customers' deposits including foreign currency deposits amounted to SR17,823 million (1994: SR17,044 million).

Customers' deposits include an amount of SR128 million (1994: SR457 million) against sales of fixed rate bonds under repurchase agreements.

## 12. Due to banks

	1995	1994
a) Domestic		
Call accounts	208,221	47,324
Notice accounts	278	597,000
Time deposits	4,851,750	3,522,087
	5,060,249	4,166,411
b) Foreign branches of domestic banks		
Time deposits	1,096,250	155,000
c) International		
Call accounts	916,623	1,772,620
Time deposits	3,612,637	1,355,900
	4,529,260	3,128,520
	10,685,759	7,449,931

## 13. Other liabilities

	1995	1994
Acceptances outstanding	655,166	493,025
Profit for distribution	525,000	434,241
Other	1,601,035	1,199,141
	2,781,201	2,126,407

## 14. Capital

During 1992 the Bank's capital was increased to SR6,000 million. The legal formalities relating to the amendment of the partnership deed in accordance with the provisions of the Regulations for Companies in respect of the increase in capital have not been completed.

## 15. Statutory reserve

In accordance with the Banking Control Regulations, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. This reserve is not available for distribution.



# Notes to the Financial Statements (continued)

for the year ended

31st December 1995

(in thousands of Saudi Riyals)

## 16. Contra accounts

Contingent liabilities:	1995	1994
Letters of credit	4,983,547	3,643,028
Letters of guarantee	6,289,372	6,942,615
	11,272,919	12,585,643
Forward and future contracts:		
Forward contracts to purchase foreign currencies	40,207,736	17,813,794
Forward contracts to sell foreign currencies	39,928,090	25,680,259
Interest rate swaps	7,756,521	360,250
Other	305,126	654,801
	88,197,473	44,509,104
	99,470,392	57,094,747

The Bank's management does not anticipate any material loss as a result of these contingencies and commitments.

The net open foreign currency position, mainly in US Dollars, amounted to SR2,362 million (1994: SR2,230 million).

## 17. Gains on other real estate

	1995	1994
Gain on sale of other real estate	1,666	217,955
Rental income	17,306	15,430
	18,972	231,385

## 18. Gains (losses) on investment securities

	1995	1994
Gain on disposal of investments	257,209	17,546
Loss on valuation of investments	(150,000)	(226,779)
	107,209	(209,233)

## 19. Transactions with related parties

During its ordinary course of business, the Bank transacts business with the partners, some members of the General Management

Committee and parties related to them. The balances on these transactions as at 31 December 1995 in the balance sheet amounted to:

	1995	1994
Loans and advances	211,530	507,362
Customers' deposits	252,323	918,436
Indirect credit facilities	33,197	31,860

## 20. Investment services

The Bank provides certain investment management services to its customers. These services include the management of a variety of investment funds in association with professional investment managers. The assets of these funds do not form part of the Bank's assets and, accordingly, are not included in the financial statements of the Bank.

## 21. Assets and liability maturities

The asset and liability maturities comprise the following:

	1995		1994	
	Assets	Liabilities	Assets	Liabilities
Less than one month	38,702,081	54,126,606	27,772,925	50,334,382
One month to one year	12,710,881	11,988,600	13,730,409	9,864,432
One to five years	14,967,356	485,968	9,417,852	40,566
Over five years	4,840,935	5,000	13,704,650	5,000
	71,221,253	66,606,174	64,625,836	60,244,380

The above reflects the contractual maturities of the assets and liabilities, and accordingly does not represent the anticipated maturities based on the Bank's experience of maturing deposits and managing its liquidity. The maturity profile is monitored by management on a daily basis to ensure adequate liquidity is maintained.

The above asset and liability amounts do not include fixed assets, other real estate and other assets and liabilities, due to the special nature of these accounts.

# The SAUDI Economy

## *Responding to Fiscal Adjustment*

### Introduction

The economic adjustment process that started in 1994 continued last year and is likely to be intensified in the coming few years. The macro-economic objectives of the Sixth Development Plan, 1996-2000, include boosting non-oil merchandise exports, raising domestic non-oil revenues, reducing external imbalances and gradually eliminating the budget deficit, with the aim of achieving a balanced budget by the end of the plan period.

Due to higher oil revenues, public spending cuts and buoyant non-oil exports, the overall financial position of the country has improved last year. In May 1995, the Kingdom paid back the last instalment on its only sovereign international loan to date. Foreign reserves rose by \$2 billion, from \$7.4 billion in 1994 to \$9.4 billion in 1995, providing a respectable five months import cover. A noticeable improvement in the Kingdom's external balances was also recorded, with the current account deficit dropping to an estimated \$5 billion in 1995 from \$9 billion the year before. Saudi Riyal interest rates edged lower with 3-months deposit rates averaging 5.86% in December last year down from an average of 6.94% in January. Several commercial banks have reported good results for 1995 and the stock market index ended the year up 7%.

The higher than expected oil revenues last year alleviated the need to adopt stricter austerity measures and facilitated the partial settlement of some domestic arrears to contractors, suppliers and farmers. In March 1995, the government issued SR5.5 billion worth of bonds to 120 contractors, about 50% of which was discounted for cash with banks. In September, the government paid SR2.7 billion it owed to farmers. This helped inject liquidity into the system, with money supply (M2) growing by 4.5% in the first three quarters of the year compared to the same period the

year before. Speculation against the depreciation of the Saudi Riyal subsided completely last year. The average differential between domestic and dollar interest rates narrowed to the 10-20 basis points level, indicating the return of confidence to the Riyal exchange market.

### Overall Performance and Trends

According to the Ministry of Finance and National Economy, nominal GDP growth in 1995 came at around 4.3%, up from 1.4% in 1994, —3.9% in 1993 and 2.7% in 1992 (table 1). However, real GDP growth is believed to have been flat in the last two years. After dropping by 0.4% in 1992, the cost of living index rose by 0.8% in 1993 and was up by only 0.6% in 1994. The index rose by nearly 5% in 1995, reflecting higher prices of utilities, transportation (associated with higher gasoline prices and increase in domestic airfares) and higher telephone charges and visa and work fees.

Last year's surge in oil prices reflected positively on oil sector GDP, where nominal growth is estimated at 8.5%. Growth in non-oil activities slowed to around 2%, with public sector GDP estimated to have grown by around 1.8%. The decline in government expenditure last year has been partially made up for by the ongoing expansionary activities of the autonomous government institutions. These institutions have been financing new projects by raising the required capital without recourse to the government's budget.

Private sector activities are estimated to have slowed down in 1995 to a nominal growth rate of 2%, down from 4% in 1994. The private sector is feeling the heat of government retrenchment and domestic demand has been restrained by higher import prices and the rise in prices of utilities, gasoline and certain other public sector services. The delayed payments to

contractors and suppliers have strained the financial position of several private sector companies forcing them to trim activities.

Certain private sector activities are likely to remain subdued in 1996, while others will continue to enjoy positive growth prospects. The Kingdom's high indigenous population growth of 3.5% annually will help maintain the current tempo of growth of domestic demand for such goods and services that depend more on demographic rather than on cyclical economic trends (e.g. food and beverage, clothing, light consumer goods, furniture, health care, education, communication, etc.). Mining, utilities, and telecommunications are projected to show positive growth rates due to the several expansionary projects currently being implemented in these sectors. Construction activities related to plant expansion will therefore benefit from these projects. The Kingdom continues to be a growing market for franchising ventures, private sector education, training and health care, information technology, leisure and entertainment related activities. Export oriented industries such as petrochemicals and plastics among others will continue to do well this year and so will banking and insurance, even though growth in these sectors may not match that of 1994-1995.

Those sectors which are influenced more by cyclical economic variables such as commerce and trade and those that are dependent to a large extent on public sector orders such as infrastructure related construction activities, heavy equipment and supplies, operations and maintenance, shipping, trucking and agriculture, will feel the brunt of lower government expenditures and overall economic slowdown this year. The retrenchment in activities and the ongoing freeze on public sector wages are likely to restrain

# Saudi Arabia: Indicators and Economic Trends

	1990	1991	1992	1993	1994	1995*
<b>GDP in Current Prices (SR billion)</b>	385	442	461.4	444	449.9	489.3
<b>Composition of GDP (%)</b>						
Oil Sector	38	38.5	41.2	36.4	35.1	36.8
Non-Oil Sector	62	61.5	58.8	63.6	64.9	63.2
Private Sector	36.1	34.1	34.6	37.5	38.4	37.6
Government Sector	25.9	27.4	24.2	26.1	26.5	25.6
Consumer Price Inflation (%)	2.1	4.7	-0.4	0.8	0.6	5.0
Real Growth in GDP (%)	9.3	9.9	2.7	-0.7	0.0	-0.2
<b>Nominal Growth in GDP (%)</b>	26.6	14.8	4.4	-3.8	1.3	4.3
<b>Nominal Growth in</b>						
Oil Sector GDP (%)	62.6	13.2	11.3	-15.1	-2.2	8.5
Non-Oil Sector GDP (%)	11.2	12.9	-0.6	3.9	3.5	2.1
Private Sector	6.9	6.8	5.3	4.1	4.0	2.0
Government Sector	18.0	21.6	-8.1	3.7	2.9	1.8

Source: Central Department of Statistics, Statistical year book 1994.  
IMF, Recent Economic Developments, September 1995.

\* Estimates except for nominal GDP growth of 4.3% and inflation of 5%.

consumers' purchasing power, depressing demand for such items as consumer durables, vehicles and electronics.

## Manufacturing and Mining

The manufacturing sector which accounts for around 8.8% of GDP is estimated to have grown by 7.5% in 1995. The growth was due to the sharp rise in the value of petrochemicals produced and exported and the increase in other private manufacturing activities, especially food and beverage industries and light consumer products. Domestic production of cement is estimated to have increased by 1.8% last year to 17 million tons and is forecast to reach 18 million tons in 1996.

Private investment in the industrial sector picked up sharply in the past few years. The number of industrial licenses issued rose from 349 in 1992 to 652 in 1994. In the first half of 1995 the number of licenses issued exceeded the total of those issued during all of 1994. The number of new industrial plants actually established rose from 73 in 1993 to more than 90 in 1995. Exports of non-petrochemical products which rose by 5% in 1994 are estimated to have increased by 12% in 1995.

Substantial deposits of minerals are known to exist in the Kingdom. These include copper, phosphates, gold, iron ore, silver, uranium, bauxite, coal, tungsten, and zinc.

Gold production from the Mahd al-Dahab mine has averaged 2.5 tons per year. New initiatives for the mining of iron ore, copper, and phosphates, involving investment of \$2.8 billion and substantial participation by the private sector, have been undertaken. In the period to the year 2000, non-oil mineral activities are targeted to grow at more than 9% annually, which is higher than any other sector of the economy.

## Construction

The construction sector which accounts for 9.3% of GDP is estimated to have grown by around 2% in 1995. The planned increase in net lending by SIDF, the major capacity expansion projects underway in the utilities, oil and petrochemical sectors and the expanded private investment plans in hospitals, schools, hotels, and entertainment centres point to another slight nominal growth in 1996 as well. The Saudi construction market is becoming more of a creditor rather than a cash-rich market. Outstanding commercial bank credit extended to the construction sector has been on the rise in the past few years reaching a peak of SR14.9 billion in mid-1995, compared to SR14.1 billion in 1994 and SR10.9 billion in 1990.

## Agriculture

During 1995, the agricultural sector continued the process of adjustment to

changing grain policies, with the total crop area and production declining modestly. GDP generated in the agricultural sector, which accounts for 6.6% of total GDP, is estimated to have been marginally lower last year and the outlook for 1996 is unlikely to be much different. The ongoing retrenchment in this sector has followed growth rates of around 3% during 1991-1994. The composition of output has also shifted as wheat production declined from 4.1 million tons in 1991 to an estimated 2 million tons in 1995, and the production of barley increased from 0.4 million tons to an estimated 3 million tons over the same period. The procurement price for wheat was lowered from SR2 per kilogram in 1994 to SR1.5 per kilogram in 1995, but the procurement price for barley was left unchanged at the internationally competitive price of SR1 per kilogram. While the production of other crops remained broadly unchanged, production of red meat, eggs, poultry, and milk, increased significantly over the past four years.

## Utilities

After growing at an average annual rate of 3.7% in 1994, GDP generated in the utilities sector is estimated to have grown by 2.5% in 1995. The provision of utilities in the past at significantly subsidised rates, as well as the rapid growth of population,



## The Saudi Economy *(continued)*

has led to a sharp increase in demand. In order to ensure a more efficient use of available capacity and restrain growth in demand, the government increased fees and charges for utilities last year and started to implement a number of projects for expanding power generation capacity by about 5000 MW.

The ongoing expansion projects are being financed without drawing on the government, largely through borrowing from the commercial banks (e.g. the Ghazlan Power Station of the Eastern province) or from the revenues generated from the increased electricity tariffs. Around SR2.7 billion (\$720 million) of additional revenues are estimated to accrue annually. These will go to a special fund that will be drawn upon to finance power projects. The government has also launched a major expansion of water desalination capacity designed to add 260 million gallons per day to its existing level of 540 million gallons per day. In addition, a \$4.8 billion telephone expansion project has been initiated in collaboration with the US company AT&T, to be financed from the project's future revenue stream.

### The Finance Sector

Most bank results for 1995 showed higher assets and increased profits from the year before. Total commercial bank credit reached SR141.3 billion in the first half last year, up 9.5% on the same level a year ago. Manufacturing, mining, building and construction, finance, commerce and the government sectors recorded an increase in commercial bank credit, while loans and facilities extended to the other sectors were lower. By mid-1995, the government was the second largest debtor of commercial banks accounting for 19.6% of total outstanding commercial bank credit, followed respectively by commerce (18.3%), construction (10.5%) and manufacturing (9.4%).

Total assets of commercial banks ended the third quarter of 1995 at SR323.9 billion, up 6.2% on their corresponding level the year before. Claims on the private sector ended the third quarter of 1995 at SR119.9 billion, up 8.3% on their corresponding level the year before, while claims on the public sector and other assets reached SR95.5 billion, up from SR90.5 billion on a year ago level. While demand for commercial bank credit is forecast to rise further this year, banks are likely to become more careful in extending new loans and more prudent in their analysis and control of risk. Rapid growth in loans recorded in the last three years, especially to contractors and second tier corporates, and the aggressive marketing to capture a larger market share are likely to lead to higher write-offs this year.

### The Saudi Stock Market

While the Saudi stock market index rose by 7.7% in 1995, the total number and value of shares traded declined by 23% and 7% respectively compared to the previous year. The turnaround in the official index was primarily due to the rise in stock prices of banks and industrial sector companies, these were up 7.2% and 31.4% respectively last year. The indices of all other sectors were down on the year with the index of the services companies dropping by 19.8%, followed by electricity (down 10.7%), agriculture (down 10.4%) and cement (down 3.4%).

Only one new company in the services sector, Thimmar, entered the primary market last year, bringing the total number of companies whose shares are traded on the Saudi stock market to 69. No new shares were issued by existing companies during the year. Total market capitalisation rose by 5.7% from SR145.1 billion at the end of the 1994 to SR153.4 billion a year later.

A gentle uptrend in share prices is forecast for 1996 supported by lower Saudi Riyal interest rates. Many companies are considered undervalued at current prices, given their low price earning ratios and price to book value. The outlook remains bullish on industrial companies, especially export oriented ones (e.g. SABIC and SAFECO) and on selective banking and service sector companies.

# Main offices

## of The National Commercial Bank

### GENERAL MANAGEMENT

**Saudi Arabia**  
P.O. Box 3555 Jeddah 21481  
Tel: (9662) 644 6644  
Tlx: 605571 NCBH SJ  
605573 NCBH SJ  
605578 NCBK SJ  
601086 NCBH SJ  
Telefax: (9662) 644 6644

### OVERSEAS BRANCHES

**Lebanon**  
Saudi National Commercial Bank  
Verdun Plaza, Corniche Al-Mazra'a  
P.O. Box 11-2335  
Tel: (9611) 860 863/865 059  
Tlx: SAUDIB 43619 LE  
Telefax: (9611) 867 728

**Bahrain**  
Saudi National Commercial Bank  
2nd Floor Diplomat Tower  
Bldg. No. 315 Road, 1705  
Block 317, P.O. Box 10363  
Diplomatic Area, Manama - Bahrain  
Tel: (973) 531 1182  
Telefax: (973) 530 657

### SNCB SECURITIES

**SNCB Securities (London) Ltd.**  
23 Chesham Street, London SW1X 8NQ  
Tel: (44171) 896 0360  
Tlx: 269786 NCBUB G  
Telefax: (44171) 896 0361

**SNCB Securities Inc (New York)**  
33 East 67th Street  
New York N.Y. New York 10021  
Tel: (212) 805 2550  
Telefax: (212) 805 2553/4

### OVERSEAS OFFICES - REPRESENTATIVE OFFICES

**United Kingdom**  
The National Commercial Bank  
3rd Floor, 78 Cornhill  
London EC3V 3QQ  
Tel: (44171) 283 9233  
Telefax: (44171) 929 4373

**Germany**  
The National Commercial Bank  
Wilhelm - Leuschner-Strasse 406  
D-60329, Frankfurt Am Main 1  
Tel: (4969) 250 181  
Tlx: 416507 NCBF D  
Telefax: (4969) 237 137

**Korea**  
The National Commercial Bank  
Seoul Representative Office  
Unit 1504, Jangkyo Building  
No. 1, Jangkyo-dong, Chung-ku  
Seoul 100-760  
Korea  
Tel: (822) 778 5011  
Telefax: (822) 778 9304

**Singapore**  
The National Commercial Bank  
6 Battery Road No. 14-01  
Singapore 0104  
Tel: (65) 222 8496  
Tlx: RS 27196 NCBSEN  
Telefax: (65) 222 8396

**Japan**  
The National Commercial Bank  
The Imperial Tower 10 B 5  
1-4-4 Uchisaiwaicho, 1-Chome  
Chiyoda-Ku, Tokyo 100  
Tel: (813) 3502 1228/9  
Tlx: J26676 NCBTK  
Telefax: (813) 3502 4998



