

Earnings Release

NCB reports 10.5% net income growth year-on-year to SAR 3 billion in 1Q 2018, the highest ever quarterly income in its history

- 1Q 2018 net income growth of 10.5% year-on-year to SAR 3 billion on lower impairment charges; EPS of SAR 1.45, higher by SAR 0.13
- Total operating income decreased by 1.7% to SAR 4.8 billion driven by 1.5% decline in domestic operating income and 3.2% depreciation in average year-on-year Turkish Lira rate
- Operating expenses for 1Q 2018 improved 0.9% to SAR 1.7 billion from ongoing digitization and productivity initiatives, partially offset by VAT and cost of living allowance announced this year; Cost to income ratio 27bps higher to 35.0%
- 1Q 2018 impairment charge at SAR 77.7 million, down 81.6% due to a major one-off recovery, continued retail collection efforts and a minimal rise in corporate impairment charge
- Total assets at SAR 437.5 billion, 1.4% lower than 31 December 2017 from optimising the balance sheet mix
- Net financing and advances at SAR 252.8 billion, posted a SAR 3.5 billion increase from 31 December 2017 indicating early signs of economic recovery
- Customers' deposits remained stable at SAR 309.0 billion; CASA ratio of 76.8%
- Strong capitalisation with T1 ratio of 18.2% and CAR of 20.4%
- Average Liquidity Coverage Ratio of 198.6% in 1Q 2018 and Financing to customers' deposits ratio of 81.8% demonstrate comfortable liquidity position

Jeddah, 8 April 2018. NCB reported its highest ever quarterly net income to equity holders of SAR 3 billion; a solid 10.5% year-on-year growth in 1Q 2018, driven by lower impairment charges (-81.6%) and improving operating expenses (-0.9%) more than offsetting lower operating income (-1.7%). The overall balance sheet was stable and additional steps were taken in 1Q 2018 to further optimize its composition. NCB has continued to strengthen its capitalisation level and maintained a healthy liquidity position.

Mansour S. Al Maiman, Chairman of the Board of NCB Group:

"NCB continued to effectively execute its strategy during the first quarter of 2018, leading to a solid operating and financial performance, as well as excellent shareholder returns. We successfully implemented a number of new digitization and optimization efforts to enhance the services we offer to our clients while maintaining strict cost discipline. For the remainder of 2018, we expect a more favorable operating environment and have set clear strategic priorities to achieve sustainable growth."

Group Performance Highlights

NCB reported 1Q 2018 net income of SAR 2,986.9 million, up 10.5% year-on-year. This performance is mainly attributable to an 81.6% impairment charge improvement, was due to (i) a major one-off recovery of SAR 120 million of a fully written off Corporate loan account (ii) continued retail collection efforts resulting in improved credit quality and higher recovery, and (iii) a minimal rise in corporate impairment charge owing to prudent provision adequacy level despite inflow from stage 2 to 3 under IFRS 9. Operating income declined by SAR 80.6 million to SAR 4,779.2 million compared to the same quarter last year. Domestically, total operating income also decreased by SAR 66.3 million as higher net special commission income (+2.3%) and fees from banking services (+7.9%) were more than offset by lower investment-related income (-21.0%). Operating income from International operations declined (-4.2%) due to lower net special commission income (-3.0%) and fees from banking services (-12.1%). The NSCI margin was 3.59%, a 7bps improvement compared to 1Q 2017. Operating expenses improved (-1.2%) driven by domestic operations while international operating expenses were 0.5% higher despite a 3.2% depreciation of the average Turkish Lira rate year-on-year. The cost to income ratio for the 1Q 2018 was 35.0%.

Effective 1 January 2018, NCB has adopted IFRS 9 and replaced IAS 39, which changed the methodology of calculating credit losses from an incurred loss to an expected loss basis. The net differences in carrying balances of various financial assets after the adoption of IFRS 9, amounting to SAR 1,309.0 million, were recognized in retained earnings and other reserves.

Total assets decreased by SAR 6,359.6 million from 31 December 2017 to SAR 437,506.3 million as at 31 March 2018. Net financing and advances increased (+1.4%) to SAR 252,776.8 million as at 31 March 2018 driven by increase in domestic lending (+2.2%), partially offset by a decline in international lending (-5.1%) due to 4.0% year-on-year Turkish Lira depreciation.

Domestically, Corporate and Consumer net financing and advances increased by SAR 2.9 billion and SAR 0.7 billion, respectively, indicating a solid start to the year and early signs of an improving economic environment. The NPL ratio stood at 1.8% as at 31 March 2018, while NPL coverage increased to 164.5% from 142.6% at the previous year-end, partly ascribed to the IFRS 9 adoption adjustments. Customers' deposits remained stable at SAR 309.0 billion, of which current and savings accounts represented 76.8% as at 31 March 2018.

NCB maintained its strong financial position, with a core equity tier 1 capital ratio of 16.2%, a tier 1 capital ratio of 18.2% and a total capital ratio of 20.4%. The average liquidity coverage ratio for

1Q 2018 was 198.6%. Equity attributable to the shareholders of the bank, exclusive of the Tier 1 Sukuk, rose 1.1% by SAR 643.1 million to SAR 56,683.7 million from 31 December 2017. Risk-weighted assets decreased to SAR 358.0 billion since the beginning of the year in part due to lesser charges on residential real estate financing allowed by SAMA.

Outlook

For the remainder of 2018, NCB expects Saudi Arabia's economic growth to improve to 2.0% from a 0.8% decline in 2017, driven by higher oil prices, budgetary pro-growth measures and continued progress made by implementing the Kingdom's Vision 2030 to diversify the economy and create employment opportunities for Saudis.

NCB Group has set three strategic priorities for 2018:

- 1) Corporate Banking: optimizing the operating model in corporate banking to capture accelerating growth from Vision 2030 initiatives and to reduce the cost of credit.
- 2) Residential Financing: scaling up the product offering and sales capacity in residential mortgages to capture growth through government programs.
- 3) Current Accounts and Capital Base Focus: growing current accounts by leveraging branch expansion for customer acquisition as well as enhancing the coverage model for key client segments, while sustaining the capital base to support lending growth.

In addition, these strategic priorities are supported by continued focus on our lean distribution and digitization productivity enablers, which in combination position the bank well for the expected growth in economic activity in 2018 and beyond.

Segmental Performance Highlights

Retail Banking

Retail banking provides banking products and services, including Shariah-compliant lending and current accounts to individuals and private banking customers.

In the 1Q 2018, operating income grew 17.5% year-on-year to SAR 2,277.7 million. 1Q 2018 net special commission income improved by 21.2% due to a 5% increase in retail financing and improved net commission margin compared with 1Q 2017. Fee income increased by 10.9% mainly from financing-related fees. The impairment charge in the current quarter decreased by SAR 123.2

million year-on-year due to higher recoveries and lower NPL inflows. Consequently, Retail Banking's net income rose by SAR 460.5 million (+52.5%) to SAR 1,338.4 million on increased operating income and improved cost of risk.

Corporate Banking

Corporate banking offers a wide variety of banking products and services to small, medium and large organizations.

Total operating income declined 19.9% to SAR 989.9 million in 1Q 2018. During the period, net special commission income dropped 22.5% year-on-year to SAR 714.5 million. The main reason being lower commission yields resulting from lower SAIBOR rates compared with 1Q 2017 and major repayments during Q4 2017, despite a 1.8 pick up on net financing and advances during the current quarter. Fee income decreased by 17.0% year-on-year on lower financing fees. In the first quarter, the impairment charge declined from SAR 259.5 million in the comparable quarter of 2017 to a net recovery of SAR 39.9 million driven by recovery of a major previously written-off account and one-off benefit of IFRS9 adoption adjustment. This supported a 4.9% net income increase as the lower impairments more than offset the reduction in operating income.

Treasury

Treasury provides a full range of treasury and correspondent banking products and services to NCB's clients, including money market and foreign exchange, in addition to carrying out investment and trading activities (local and international).

In the first quarter of 2018, total operating income declined by 19.6% year-on-year to SAR 911.9 million. This mainly reflected 10.6% lower net special commission income on earning assets and a 21.0% reduction of investment related income. Investment impairments were higher by SAR 84.8 million. Net income declined by 29.9% to SAR 683.8 million.

Capital Markets

NCB Capital (subsidiary) provides wealth management, asset management, investment banking and shares brokerage services to local, regional and international clients.

In the first quarter of 2018, operating income improved 39.1% to SAR 227.6 million mainly from higher fee income at the asset management and investment banking businesses, while operating expenses increased by 6.4% to SAR 88.8 million. As a result, net income to equity holders increased by 74.6% to SAR 135.0 million for 1Q 2018.

International

International is comprised of banking activities of Turkish participation bank, Türkiye Finans Katılım Bankası (subsidiary).

Total operating income was 4.2% lower at SAR 372.1 million in 1Q 2018 due to a 3.2% depreciation of the average Turkish Lira rate year-on-year. Operating expenses rose 0.3% to SAR 216.3 million largely from increases in staff costs. Impairment charges for 1Q 2017 declined by 24.9% due to limited new NPL formation, further aided by the Turkish Lira depreciation. Net income to equity holders increased by 42.2% to SAR 78.5 million on the back of lower provisions.

SAR (mn)	1Q 2018	4Q 2017	QoQ % change	1Q 2017	YoY % change
Net special commission income	3,419	3,378	+1%	3,359	+2%
Fee and other income	1,361	1,138	+20%	1,500	-9%
Total operating income	4,779	4,516	+6%	4,860	-2%
Operating expenses	(1,673)	(1,642)	+2%	(1,688)	-1%
Total impairment charge	(78)	(347)	-78%	(423)	-82%
Income from operations, net	3,028	2,526	+20%	2,749	+10%
Net income attributed to equity holders of the Bank	2,987	2,556	+17%	2,703	+11%
EPS	1.45	1.23	+18%	1.32	+10%
DPS, net	0.00	0.60	-100%	0.00	
ROE (%)	20.6%	17.8%	+15%	19.5%	+6%
ROA (%)	2.7%	2.4%	+17%	2.5%	+12%
Net special commission margin (%)	3.59%	3.49%	+3%	3.52%	+2%
Cost to income (%)	35.0%	36.4%	-4%	34.7%	+1%
Cost of Risk (%)	0.0%	0.4%	-103%	0.6%	-102%

Balance Sheet Summary

SAR (mn)	31 March 2018	31 December 2017	QoQ % change	31 March 2017	YoY % change
Investments, net	113,555	114,578	-1%	107,977	+5%
Financing and advances, net	252,777	249,234	+1%	254,202	-1%
Total assets	437,506	443,866	-1%	448,996	-3%
Customers' deposits	309,001	308,942	+0%	313,646	-1%
Debt securities issued	10,528	10,250	+3%	9,859	+7%
Total liabilities	372,645	379,590	-2%	387,133	-4%
Equity attributable to shareholders of the Bank	56,684	56,041	+1%	54,970	+3%
Total equity	64,861	64,276	+1%	61,862	+5%
Risk weighted assets	357,954	361,107	-1%	381,777	-6%
CET1 ratio	16.2%	15.7%	+3%	14.6%	+10%
T1 ratio	18.2%	17.7%	+2%	16.1%	+12%
TC ratio	20.4%	20.0%	+2%	18.2%	+11%
Liquidity coverage ratio (LCR)	198.6%	177.3%	+12%	163.8%	+21%
Basel III leverage ratio	13.5%	13.0%	+3%	12.4%	+9%
Financing to customer deposit ratio	81.8%	80.7%	+1%	81.0%	+1%
NPL ratio	1.8%	1.9%	-3%	1.6%	+15%
NPL coverage ratio	164.5%	142.6%	+15%	150.2%	+10%

SAR (mn)	1Q 2018	4Q 2017	QoQ % change	1Q 2017	YoY % change
Total operating income					
Retail	2,278	2,221	+3%	1,938	+18%
Corporate	990	1,092	-9%	1,236	-20%
Treasury	912	624	+46%	1,134	-20%
Capital Market	228	174	+31%	164	+39%
International	372	405	-8%	388	-4%
Total	4,779	4,516	+6%	4,860	-2%
Net income attributed to equity holders					
Retail	1,338	1,196	+12%	878	+52%
Corporate	751	691	+9%	716	+5%
Treasury	683	455	+50%	976	-30%
Capital Market	135	90	+51%	77	+75%
International	78	125	-37%	55	+42%
Total	2,987	2,556	+17%	2,703	+11%
	31 March 2018	31 December 2017	QoQ % change	31 March 2017	YoY % change
Total assets					
Retail	104,445	108,503	-4%	105,663	-1%
Corporate	141,465	133,051	+6%	142,027	-0%
Treasury	153,884	162,709	-5%	160,486	-4%
Capital Market	1,513	1,388	+9%	1,394	+9%
International	36,199	38,214	-5%	39,425	-8%
Total	437,506	443,866	-1%	448,996	-3%

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Additional Information

NCB's 4Q 2017 financial statements, earnings release, investor presentation and financial data pack are available to the general public on the IR website:

http://www.alahli.com/en-us/Investor_Relation

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