

Earnings Release

NCB reports net income of SAR 4.9 billion in 1H 2020

1H 2020 Financial Results Highlights:

- NCB achieved SAR 4.9bn Net Income after zakat and income tax for the first six months of 2020, lower by 10% year-on-year; impacted by higher credit costs and lower fee and other income due to operating environment conditions and Covid-19
- Total operating income increased by 1% to SAR 10.1 billion, driven by higher net special commission income
- Operating expenses for 1H 2020 declined 2% to SAR 3.2 billion from lower operational, marketing and travel expenses due to lockdown.; Cost-to-income ratio 83bps lower year-on-year to 32.0%
- Total assets were SAR 557 billion, 10% higher year to date primarily on growth of financing, investments and other assets.
- Net financing and advances up SAR 34 billion to reach SAR 316 billion, posting an 12% increase since 31 December 2019
- Customers' deposits grew 8% to SAR 380 billion, with a corresponding CASA ratio of 77%
- Healthy capitalization with T1 capital ratio of 18.0% and total capital adequacy ratio of 19.0%
- Strong liquidity position with the average Liquidity Coverage Ratio at 165% and the Net Stable Funding Ratio at 120% as at 2Q 2020

Jeddah, 12 August 2020. NCB generated net income after zakat and income tax of SAR 4.9 billion in the first half of 2020. This represents a 10% year-on-year decline mostly impacted by higher credit costs and lower fee and other income. The overall balance sheet expanded by 10% year to date. The main drivers were 12% growth in Retail financing, principally from strong growth in mortgages, 9% Corporate financing growth and 9% growth in investments as NCB continues to participate in the KSA government issuance of debt securities. Customers' deposits rose 8% in the first half of the year, driven by strong CASA growth of 17%. NCB has also continued to maintain healthy capitalisation levels and a strong liquidity position.

Faisal Omar Alsakkaf, Chief Executive Officer of NCB, said: "NCB has adjusted with agility to the 'new normal'. The strengths of the bank are reinforced by healthy growth in total assets, customers' deposits and Retail lending. Our mortgage sales engine has been particularly successful. We have accelerated our push in digital sales and service, resulting in a further increase in digital transactors and account openings. NCB's position of strength and operational resilience are the result of years of effective strategy execution. Our diversified business model, strong financial position and, in particular, our ability to scale up

Retail and Digital, gives us a strong competitive advantage which has enabled us to deliver a net income of SAR 4.9bn in the current challenging environment.”

Additional Performance Highlights

Income Statement highlights for the six-month period ending 30 June 2020:

NCB reported net income after zakat and income tax of SAR 4,922 million for the first half of 2020, a 10% year-on-year decline impacted by higher credit costs and lower fee and other income due to the impact of the operating environment including the effects of the global Covid-19 pandemic. NCB reported 2Q 2020 net income of SAR 2,088 million, down 22% year-on-year. The interim dividend is being deferred, reflecting NCB's commitment to maintain a strong capital base in times of uncertainty, and preserve our capacity to support customers and financing activities.

Impairments increased by SAR 754 million year-on-year to SAR 1,224 million in the first half of 2020, from Covid-19 related adjustments. These included recalibration of ECL models for revised macroeconomic forecasts and scenario probabilities, as well as proactive and accelerated corporate credit risk assessments and higher NPL inflow.

NCB's total operating expenses improved 2% year-on-year to SAR 3,221 million, due to lower operational, marketing and travel expenses due to lockdown.. The cost-to-income ratio stood at 32.0% for the first half of 2020.

From a segmental perspective, year-on-year net income for the first half of 2020 was impacted by a decline in Corporate, where the SAR 808 million net income was 50% lower year-on-year from a 3% reduction in operating income and higher impairment charges. The Treasury business', net income was down 22% to SAR 1,500 million from a 19% reduction in operating income driven by lower investment related income. In Retail, net income grew 17% year-on-year to SAR 2,674 million from 5% operating income growth and a lower impairment charge. Capital Markets net income increased 28% on strong growth in brokerage income. Finally, the International segment's net income improved by 92% in SAR terms from 43% higher operating income, despite an average 18% year-on-year depreciation of the Turkish Lira and a higher cost of risk.

Balance Sheet highlights as of 30 June 2020

Total assets increased by SAR 50,046 million from 31 December 2019 to SAR 557,310 million. Investments grew 9% to SAR 146,306 million from continued participation in Saudi Government Bonds, and high-quality securities. Financing and advances grew 12% year to date to SAR 316,299 million as at 30 June 2020.

Domestically, net financing and advances increased 9% in Corporate, 12% in Retail and 36% in Financial Institutions financing portfolios. International net financing and advances increased by 19% as 37% growth in local currency was partly offset by 18% depreciation in the Turkish Lira. The NPL ratio stood at 1.82% as at

30 June 2020, with the NPL coverage ratio at 140.9% and the cost of risk ratio at 82bps. Customers' deposits, which represented 79% of NCB's total liabilities, were 8% higher to SAR 380,398 million as at 30 June 2020. This was principally from strong 17% growth in CASA balances during the quarter, which led to an improvement in the CASA ratio to 77% from 71% as of 31 December 2019.

Despite the challenging operating environment, NCB aims to continue to deliver strong value to shareholders through disciplined implementation of its long-term strategy, effective execution of its operating plans, and decisive and agile tactical responses to Covid-19 disruptions.

Income Statement Summary

For the three and six month period ending 30 June 2020

Figures in SAR millions	2Q 2020	1Q 2020	QoQ % change	2Q 2019	YoY % change	1H 2020	1H 2019	YoY % change
Net special commission income	3,882	4,013	-3%	3,907	-1%	7,895	7,662	+3%
Fee and other income	884	1,292	-32%	1,143	-23%	2,176	2,340	-7%
Total operating income	4,766	5,305	-10%	5,050	-6%	10,071	10,001	+1%
Operating expenses	(1,530)	(1,692)	-10%	(1,666)	-8%	(3,221)	(3,282)	-2%
Total impairment charge	(828)	(396)	+109%	(325)	+155%	(1,224)	(470)	+160%
Income from operations, net	2,408	3,218	-25%	3,060	-21%	5,626	6,249	-10%
Net income for the period before Zakat and income tax	2,388	3,211	-26%	3,047	-22%	5,599	6,239	-10%
Net income after zakat and tax attributed to equity holders of the Bank	2,088	2,834	-26%	2,686	-22%	4,922	5,461	-10%
EPS	0.67	0.91	-27%	0.86	-23%	1.58	1.76	-10%
DPS, net	(1.20)	1.20	-200%	1.10	-209%	0.00	1.10	-100%
ROE (%)	13.3%	18.4%	-28%	17.4%	-24%	15.2%	18.0%	-16%
ROA (%)	1.6%	2.2%	-29%	2.3%	-32%	1.9%	2.4%	-21%
Net special commission margin (%)	3.33%	3.59%	-7%	3.78%	-12%	3.46%	3.77%	-8%
Cost to income (%)	32.1%	31.9%	+1%	33.0%	-3%	32.0%	32.8%	-3%
Cost of Risk (%)	1.06%	0.55%	+92%	0.47%	+124%	0.82%	0.34%	+141%

Income Statement – Segmental Results Summary

For the three and six month period ending 30 June 2020

Figures in SAR millions	2Q 2020	1Q 2020	QoQ % change	2Q 2019	YoY % change	1H 2020	1H 2019	YoY % change
Total operating income								
Retail	2,526	2,321	+9%	2,386	+6%	4,847	4,627	+5%
Corporate	941	1,113	-15%	966	-3%	2,053	2,123	-3%
Treasury	626	1,148	-45%	1,129	-45%	1,774	2,203	-19%
Capital Market	220	249	-12%	217	+1%	469	398	+18%
International	453	475	-5%	354	+28%	928	651	+43%
Total	4,766	5,305	-10%	5,050	-6%	10,071	10,001	+1%
Net income before zakat and tax for the period								
Retail	1,491	1,183	+26%	1,155	+29%	2,674	2,292	+17%
Corporate	96	712	-87%	693	-86%	808	1,614	-50%
Treasury	499	1,001	-50%	972	-49%	1,500	1,931	-22%
Capital Market	142	171	-17%	141	+1%	312	244	+28%
International	160	144	+11%	86	+86%	304	158	+92%
Total	2,388	3,211	-26%	3,047	-22%	5,599	6,239	-10%

Balance Sheet Summary

Figures in SAR millions	30 June 2020	31 March 2020	QoQ % change	30 June 2019	YoY % change	31 December 2019	YTD % change
Investments, net	146,306	133,000	+10%	126,630	+16%	134,077	+9%
Financing and advances, net	316,299	305,214	+4%	274,830	+15%	282,289	+12%
Total assets	557,310	535,007	+4%	476,588	+17%	507,264	+10%
Customers' deposits	380,398	375,241	+1%	327,438	+16%	353,389	+8%
Debt securities issued	696	565	+23%	1,865	-63%	1,016	-31%
Total liabilities	483,375	470,027	+3%	409,476	+18%	437,476	+10%
Equity attributable to shareholders of the Bank	62,888	57,159	+10%	59,248	+6%	61,888	+2%
Total equity	73,935	64,979	+14%	67,112	+10%	69,788	+6%
Risk weighted assets	420,807	415,612	+1%	384,162	+10%	390,331	+8%
CET1 ratio	15.6%	14.4%	+8%	15.8%	-1%	16.2%	-4%
T1 ratio	18.0%	16.0%	+12%	17.6%	+2%	18.0%	0%
TC ratio	19.0%	16.9%	+12%	18.4%	+3%	18.7%	1%
Liquidity coverage ratio (LCR)	165.0%	176.1%	-6%	185.5%	-11%	168.9%	-2%
Basel III leverage ratio	12.4%	11.4%	+9%	13.0%	-4%	12.8%	-3%
Net stable funding ratio (NSFR)	120.0%	117.1%	+2%	125.5%	-4%	124.4%	-4%
Financing to customer deposit ratio	83.1%	81.3%	+2%	83.9%	-1%	79.9%	4%
NPL ratio	1.8%	1.7%	+6%	1.8%	+1%	1.8%	-1%
NPL coverage ratio	140.9%	139.5%	+1%	144.7%	-3%	138.1%	2%

Balance Sheet – Segmental Summary

Figures in SAR millions	30 June 2020	31 March 2020	QoQ % change	30 June 2019	YoY % change	31 December 2019	YTD % change
Total assets							
Retail	169,982	162,520	+5%	142,614	+19%	154,386	+10%
Corporate	145,500	142,029	+2%	134,980	+8%	132,775	+10%
Treasury	202,227	194,327	+4%	164,661	+23%	185,235	+9%
Capital Market	2,455	2,307	+6%	1,767	+39%	2,091	+17%
International	37,146	33,823	+10%	32,566	+14%	32,777	+13%
Total	557,310	535,007	+4%	476,588	+17%	507,264	+10%

Additional Information

NCB's 2Q 2020 financial statements, earnings release, investor presentation and financial data supplement are available on the NCB IR website at:

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

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