

Earnings Release

NCB reports 1H 2017 net income of SAR 5.2 billion

- 2Q 2017 total operating income SAR 4.48 billion; net income SAR 2.45 billion; net special commission margin 3.4%; earnings per share SAR 1.17
- Return on equity 18.8% for 1H 2017
- Total assets SAR 449.8 billion; risk-weighted assets SAR 379.5 billion
- Financing and advances SAR 256.9 billion; Customers' deposits SAR 314.7 billion; Loan to customer deposit ratio 81.6%
- Common equity tier 1 (CET 1) capital ratio 14.1%; Liquidity coverage ratio 166.1%
- NCB maintained its position as Saudi Arabia's leading bank by assets, financing and advances, deposits, investments, total operating income and net income.

Jeddah, 13 August 2017 – In 2Q 2017, NCB delivered a solid set of results with net income stable at SAR 2,451 million. Total operating income declined by SAR 182 million to SAR 4,478 million compared to the same quarter last year. Domestically, operating income was stable as healthy net special commission margin and income were offset by lower fee and investment income. Total operating income from International operations declined by 33%, this was principally driven by around 20% depreciation in the Turkish Lira. Total operating expenses improved by SAR 301 million (-17%) year-on-year to SAR 1,521 million. The cost base improvement was relatively broad-based and benefited from the cessation of intangible assets amortisation as well as currency depreciation in the Turkish subsidiary. The cost to income ratio stood at 34% at the end of June 2017.

Total assets increased by SAR 8,646 million from 31 December 2016 to SAR 449,776 million, which was in line with the more subdued economic environment. Financing and advances grew to SAR 256,901 million as at 30 June 2017. Domestically, financing and advances increased for the Corporate (+3%) and Consumer (+2%) segments, whilst International advances decreased (-6%) due to both organic decline and the weakened Turkish Lira. The NPL ratio stood at 1.64% at the end of the second quarter 2017, with the NPL coverage ratio maintained at 150% and the NCL ratio at 0.7%. Customers' deposits, which represented 81% of NCB's total liabilities mix, were stable at SAR 314,690 million during the first half of 2017. Current and savings accounts, which represented 79% of customers' deposits, grew by 11% since the beginning of the year.

NCB maintained its strong financial position, with a core equity tier 1 capital ratio of 14.1% and a liquidity coverage ratio of 166.1%. Equity attributable to the equity holders of the bank, inclusive of the Tier 1 Sukuk, rose by SAR 1,139 million to SAR 59,876 million from 31 December 2016. Risk-weighted assets increased to SAR 379.5 billion since the beginning of the year.

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

"This quarter's performance was achieved against economic headwinds. As a result, client activity was slightly lower than in the first quarter and dampened the growth momentum of our financing activities. We continue to navigate the current environment by working very closely with our clients, actively managing our expense base and enhancing group-wide efficiency. Our strategy, which we have been executing for the past three years, is geared towards strengthening our domestic leadership position, maintaining our fundamental earnings power and the ability to grow in target sectors where NCB has competitiveness and scale."

Segmental Performance Highlights

Retail Banking

Retail banking provides banking services, including Shariah-compliant lending and current accounts. In the second quarter of 2017, total operating income grew 2% to SAR 2,019 million. Net special commission income improved by 8% compared to last year, due to a 5% increase in retail financing. Fee income declined mainly due to a change in regulations for charging fees on consumer finance. Second quarter operating expenses improved across most expenses categories, reflecting the continued strides made in digitisation and productivity initiatives. The cost to income ratio stood at 45.1% at the end of 2Q 2017. While retail NPLs showed a marginal improvement, an increase in collective impairments drove a SAR 150 million increase in the impairment charges. Year to date, the NPL coverage ratio improved to 259.8%. As a result of a 13.8% improvement in operating efficiency, Retail Banking's net income rose 2% to SAR 933 million.

Corporate Banking

Commercial banking offers products and services to small, medium and large organizations. Total operating income grew 4% to SAR 1,100 million in the second quarter 2017. During the period, net special commission income improved by 10% year-on-year to SAR 820 million despite broadly stable financing balances due to improved margins on the back of higher interest rates. Fee income declined by 12% in 2Q 2017, mainly as a result of lower new lending. In the second quarter 2017, operating expenses improved by 15% and the cost to income ratio improved from 23.4% (+19%) to 19.0%. This improvement was relatively broad-based across most expense categories, reflecting the on-going progress made in cost-optimisation initiatives. While the 2Q impairment charge was lower than the previous quarter, it rose 62% year-on-year. After 4% operating income growth and a 19% improvement

in operating efficiency were more than offset by rising impairments, net income for the second quarter was down (-3%) to SAR 639 million.

Treasury

Treasury provides a full range of treasury and correspondent banking products and services, including money market and foreign exchange, to NCB's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk. In the second quarter 2017, total operating income declined by 7% to SAR 820 million, mainly because of lower dividend income and lower gains on non-trading investments from repositioning the investment portfolio. 2Q 2017 operating expenses improved by 24% to SAR 86 million and the division's cost to income ratio improved (+18%) to 10.5%. This reflects the on-going progress made in cost-optimisation initiatives. Net income decreased 5% to SAR 727 million.

NCB Capital

NCB Capital provides wealth management, asset management, investment banking and shares brokerage services to local, regional and international clients. In the second quarter 2017, total operating income declined 2% to SAR 144 million as a result of lower fee income, mainly resulting from reduced client activity in brokerage. Lower operating income and operating expenses that grew by 6% to SAR 91 million, reduced overall net income by 10% to SAR 54 million for the second quarter 2017.

International

International comprises principally of banking services provided in Turkey by Türkiye Finans Katılım Bankası. Total operating income was 33% lower at SAR 396 million in 2Q 2017, impacted mainly by currency depreciation but declining expenses and lower impairment charges lead to strong net income growth. Net income improved by 51% as a significant reduction in the cost base and improving credit quality more than offset declining operating income. Operating expenses in the subsidiary fell by 30% to SAR 223 million. This improvement resulted from the on-going progress made in cost-optimisation initiatives as well as the cessation of intangible assets amortisation from the start of 2017. Impairment charges for the second quarter 2017, declined by 74% due to limited new NPL formation in the Turkish subsidiary over the period, further aided by the Turkish Lira depreciation.

Income Statement Summary

SAR (mn)			QoQ	YoY				YoY
	2Q 2017	1Q 2017	Δ%	2Q 2016	Δ%	1H 2017	1H 2016	Δ%
Net special commission income	3,473	3,360	+3%	3,348	+4%	6,834	6,784	+1%
Fee and other income	1,005	1,499	-33%	1,312	-23%	2,504	2,600	-4%
Total operating income	4,478	4,860	-8%	4,660	-4%	9,338	9,384	0%
Operating expenses	(1,521)	(1,688)	+10%	(1,822)	+17%	(3,209)	(3,521)	-9%
Total impairment charge	(475)	(423)	-12%	(393)	-21%	(897)	(741)	+21%
Income from operations, net	2,483	2,749	-10%	2,445	+2%	5,232	5,122	+2%
Net income for the period	2,451	2,733	-10%	2,459	0%	5,185	5,113	+1%
EPS	1.17	1.32	-11%	1.18	-1%	2.49	2.47	+1%
Interim DPS, net	1.10	0.00	+100%	0.60	+83%	1.10	0.60	+83%
ROE (%)	17.3%	19.5%	-11%	18.3%	-5%	18.8%	19.6%	-4%
ROA (%)	2.2%	2.5%	-11%	2.2%	+1%	2.3%	2.3%	+3%
Net special commission margin (%)	3.4%	3.4%	-1%	3.2%	+5%	3.4%	3.3%	+4%
Cost to income (%)	34.0%	34.7%	+2%	39.1%	+13%	34.4%	37.5%	-8%
NCL ratio	0.7%	0.6%	-11%	0.6%	-27%	0.7%	0.5%	-26%

Balance Sheet Summary

SAR (mn)	30 June 2017	31 March 2017	Δ%	31 December 2016	Δ%
Investments, net	114,634	107,977	+6%	111,509	+3%
Financing and advances, net	256,901	254,202	+1%	253,592	+1%
Total assets	449,776	448,717	0%	441,130	+2%
Customers' deposits	314,690	313,646	0%	315,618	0%
Debt securities issued	9,926	9,859	+1%	9,918	0%
Total liabilities	388,623	386,855	0%	381,204	+2%
Equity attributable to shareholders	52,876	54,970	-4%	53,038	0%
Total equity	61,152	61,862	-1%	59,926	+2%
Risk weighted assets	379,533	381,777	-1%	352,547	+8%
CET1 ratio	14.1%	14.6%	-4%	15.3%	-8%
T1 ratio	16.0%	16.1%	-1%	16.9%	-5%
TC ratio	18.2%	18.2%	0%	19.2%	-5%
Liquidity coverage ratio (LCR)	166.1%	163.8%	+1%	172.5%	-4%
Basel III leverage ratio	12.2%	12.4%	+1%	12.2%	0%
Loan to deposit ratio	81.6%	81.0%	-1%	80.3%	-2%
NPL ratio	1.6%	1.6%	-5%	1.5%	-9%
NPL coverage ratio	150.0%	150.2%	0%	151.0%	-1%

Segmental Performance

SAR (mn)	2Q 2017	1Q 2017	Δ%	2Q 2016	Δ%
Total Assets					
Retail	109,354	105,446	+4%	110,448	-1%
Corporate	143,320	145,282	-1%	142,694	+0%
Treasury	156,203	157,120	-1%	145,916	+7%
Capital Market	1,465	1,394	+5%	1,528	-4%
International	39,433	39,476	-0%	52,027	-24%
Total	449,776	448,717	+0%	452,614	-1%
Operating Income					
Retail	2,019	1,938	+4%	1,985	+2%
Corporate	1,100	1,244	-12%	1,055	+4%
Treasury	820	1,126	-27%	883	-7%
Capital Market	144	164	-12%	147	-2%
International	396	388	+2%	590	-33%
Total	4,478	4,860	-8%	4,660	-4%
Net income					
Retail	933	894	+4%	912	+2%
Corporate	639	709	-10%	660	-3%
Treasury	727	966	-25%	762	-5%
Capital Market	54	80	-32%	60	-10%
International	98	84	+17%	65	+51%
Total	2,451	2,733	-10%	2,459	0%

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Additional Information

NCB's 2Q 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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