

Earnings Release

NCB reports 1% year-on-year net income growth after zakat and income tax to SAR of 8.1 billion in 9M 2020

9M 2020 Financial Results Highlights:

- 9M 2020 1% year-on-year net income growth (after zakat and tax) to SAR 8.1 billion on higher operating income and improved operational efficiency offsetting Covid-related pressures on cost of risk, banking fees and margins
- Total operating income increased by 5% to SAR 15.7 billion, driven by higher net special commission income and investment income
- Operating expenses for 9M 2020 were stable at SAR 4.9 billion from lower operational, marketing and travel expenses due to lockdown; Cost-to-income ratio 145bps lower year-on-year to 30.9%
- Total assets were SAR 577 billion, 14% higher year to date primarily on growth of financing, investments and other assets.
- Net financing and advances up SAR 55 billion to reach SAR 337 billion, posting a 19% increase since 31 December 2019
- Customers' deposits grew 16% to SAR 408 billion, with a corresponding CASA ratio of 73%
- Healthy capitalisation with T1 capital ratio of 18.2% and total capital adequacy ratio of 19.2%
- Strong liquidity position with the average Liquidity Coverage Ratio at 185% and the Net Stable Funding Ratio at 121% as at 3Q 2020

Jeddah, 03 November 2020. In the first nine months of 2020, NCB generated 1% year-on-year net income growth after zakat and income tax. This growth was the result of a 5% improvement year-on-year in operating income and improved operational efficiency offsetting Covid-related pressures on cost of risk, banking fees and margins. The overall balance sheet expanded by 14% year to date. The main drivers were 28% growth in Retail financing, principally from strong growth in mortgages, 10% Corporate financing growth and 8% growth in investments as NCB continued to participate in the KSA government issuance of debt securities. Customers' deposits rose 16% in the first nine months of the year, driven by strong CASA growth of 19%. NCB has also continued to maintain healthy capitalisation levels and a strong liquidity position.

Faisal Omar Alsakkaf, Chief Executive Officer of NCB, said: "NCB's financial results in the first nine months of 2020 demonstrate the strength of our diversified business model, our financial position, and, in particular, our ability to accelerate Retail and Digital when our customers need us most. Our resilient performance was underpinned by agile and focused strategy execution, building on our operational strengths while also focusing on core deposit growth and effective risk management.

While there is still some uncertainty ahead for the trajectory to recovery, we are moving forward with renewed confidence in executing on our strategy and capturing emerging opportunities, while also remaining vigilant for challenges that might arise.

During the third quarter, we also announced details about the proposed merger with Samba Financial Group. We are excited about the opportunity of building a new Saudi banking champion through the merger of two prominent Saudi Arabian financial institutions, creating a regional financial powerhouse.”

Additional Performance Highlights

Income Statement highlights for the nine-month period ending 30 September 2020:

NCB reported net income after zakat and income tax of SAR 8,080 million for the first nine months of 2020, up 1% year-on-year. This performance is mainly attributable to a 5% growth in operating income to SAR 15,709 million and improved operating efficiency, more than offsetting a 42% rise in impairments.

Impairments increased by SAR 470 million year-on-year to SAR 1,603 million in the first nine months 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 were stable year-on-year at SAR 4,861 million, due to lower operational, marketing and travel costs due to lockdown as well as early progress made with cost-optimisation initiatives. The cost-to-income ratio stood at 30.9% for the first nine months of 2020.

From a segmental perspective, year-on-year net income for the first nine months of 2020 was registered in all segments, except Corporate, where net income declined 41% to SAR1,281 from a 4% reduction in operating income and higher impairment charges. In Retail, net income grew 7% year-on-year to SAR 4,111 million from 2% operating income growth and a lower impairment charge. Additionally, Treasury's net income increased 7% to SAR 2,824 million from 5% growth in operating income. Capital Markets net income increased 60% on strong growth in brokerage income. Finally, the International segment's net income improved by 296% in SAR terms from 31% higher operating income, despite an average 16% year-on-year depreciation of the Turkish Lira and a higher cost of risk.

Balance Sheet highlights as of 30 September 2020

Total assets increased by SAR 19,774 million from 31 December 2019 to SAR 577,084 million. Investments grew 8% to SAR 144,200 million from continued participation in Saudi Government Bonds and high-quality securities. Financing and advances grew 19% year to date to SAR 336,860 million as at 30 September 2020. Domestically, net financing and advances increased 10% in Corporate, 28% in Retail and 30% in Financial

Institutions financing portfolios. International net financing and advances increased by 20% as 58% growth in local currency was partly offset by 23% depreciation in the Turkish Lira.

The NPL ratio stood at 1.72% as at 30 September 2020, with the NPL coverage ratio at 143.1% and the cost of risk ratio at 70bps. Customers' deposits, which represented 82% of NCB's total liabilities, were up 16% to SAR 408,474 million at the end of the third quarter 2020. This was principally from 19% growth in CASA balances during the quarter, which led to an improvement in the CASA ratio to 73% from 71% as of 31 December 2019.

Despite the uncertain 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.

On 11 October 2020, The National Commercial Bank and Samba Financial Group announced that they have entered into a binding agreement to merge. If approved by shareholder and regulators, the merger will bring together two highly complementary banks to create Saudi Arabia's largest bank with the ability to generate significant value for customers, shareholders and the overall Saudi economy.

Both banks will continue to operate independently until shareholders have voted on the merger and all legal requirements and regulatory approvals are met. The deal is expected to conclude in the first half of 2021. NCB will be the surviving entity into which Samba will merge. New shares in NCB will be issued to Samba shareholders by way of a capital increase. The Merged Bank's headquarter will be in Riyadh.

Income Statement Summary

For the three and nine month period ending 30 September 2020

Figures in SAR millions	3Q 2020	2Q 2020	QoQ % change	3Q 2019	YoY % change	9M 2020	9M 2019	YoY % change
Net special commission income	4,102	3,882	+6%	3,873	+6%	11,997	11,534	+4%
Fee and other income	1,535	884	+74%	1,124	+37%	3,711	3,464	+7%
Total operating income	5,638	4,766	+18%	4,997	+13%	15,709	14,998	+5%
Operating expenses	(1,640)	(1,530)	+7%	(1,577)	+4%	(4,861)	(4,859)	+0%
Total impairment charge	(379)	(828)	-54%	(663)	-43%	(1,603)	(1,133)	+42%
Income from operations, net	3,619	2,408	+50%	2,757	+31%	9,244	9,006	+3%
Net income for the period before Zakat and income tax	3,569	2,388	+49%	2,829	+26%	9,168	9,068	+1%
Net income after zakat and tax attributed to equity holders of the Bank	3,158	2,088	+51%	2,551	+24%	8,080	8,012	+1%
EPS	1.01	0.67	+52%	0.82	+24%	2.59	2.58	+1%
DPS, net	0.00	(1.20)	-100%	0.00	-100%	0.00	1.10	-100%
ROE (%)	18.8%	13.3%	+42%	16.6%	+14%	16.2%	17.6%	-8%
ROA (%)	2.2%	1.6%	+44%	2.1%	+8%	2.0%	2.3%	-11%
Net special commission margin (%)	3.30%	3.33%	-1%	3.62%	-9%	3.40%	3.72%	-8%
Cost to income (%)	29.1%	32.1%	-9%	31.6%	-8%	30.9%	32.4%	-4%
Cost of Risk (%)	0.48%	1.06%	-55%	0.95%	-50%	0.70%	0.55%	+27%

Income Statement – Segmental Results Summary

For the three and nine month period ending 30 September 2020

Figures in SAR millions	3Q 2020	2Q 2020	QoQ % change	3Q 2019	YoY % change	9M 2020	9M 2019	YoY % change
Total operating income								
Retail	2,513	2,526	-1%	2,569	-2%	7,359	7,195	+2%
Corporate	996	941	+6%	1,061	-6%	3,050	3,184	-4%
Treasury	1,417	626	+126%	822	+72%	3,191	3,025	+5%
Capital Market	286	220	+30%	164	+75%	755	561	+34%
International	426	453	-6%	381	+12%	1,354	1,032	+31%
Total	5,638	4,766	+18%	4,997	+13%	15,709	14,998	+5%
Net income before zakat and tax for the period								
Retail	1,436	1,491	-4%	1,545	-7%	4,111	3,837	+7%
Corporate	472	96	+392%	547	-14%	1,281	2,160	-41%
Treasury	1,323	499	+165%	705	+88%	2,824	2,636	+7%
Capital Market	210	142	+48%	81	+158%	522	326	+60%
International	128	160	-20%	(49)	-360%	431	109	+296%
Total	3,569	2,388	+49%	2,829	+26%	9,168	9,068	+1%

Balance Sheet Summary

Figures in SAR millions	30 September 2020	30 June 2020	QoQ % change	30 September 2019	YoY % change	31 December 2019	YTD % change
Investments, net	144,200	146,306	-1%	132,467	+9%	134,077	+8%
Financing and advances, net	336,860	316,299	+7%	279,074	+21%	282,289	+19%
Total assets	577,084	557,310	+4%	496,585	+16%	507,264	+14%
Customers' deposits	408,474	380,398	+7%	340,383	+20%	353,389	+16%
Debt securities issued	1,177	696	+69%	1,664	-29%	1,016	+16%
Total liabilities	500,429	483,375	+4%	429,887	+16%	437,476	+14%
Equity attributable to shareholders of the Bank	65,708	62,888	+4%	58,801	+12%	61,888	+6%
Total equity	76,655	73,935	+4%	66,699	+15%	69,788	+10%
Risk weighted assets	430,952	420,807	+2%	395,998	+9%	390,331	+10%
CET1 ratio	15.8%	15.6%	+2%	15.2%	+4%	16.2%	-2%
T1 ratio	18.2%	18.0%	+1%	16.9%	+7%	18.0%	1%
TC ratio	19.2%	19.0%	+1%	17.8%	+8%	18.7%	2%
Liquidity coverage ratio (LCR)	184.9%	165.0%	+12%	173.2%	+7%	168.9%	10%
Basel III leverage ratio	12.5%	12.4%	+0%	12.4%	+0%	12.8%	-2%
Net stable funding ratio (NSFR)	121.2%	120.0%	+1%	123.2%	-2%	124.4%	-3%
Financing to customer deposit ratio	82.5%	83.1%	-1%	82.0%	+1%	79.9%	3%
NPL ratio	17%	18%	-5%	19%	-9%	18%	-6%
NPL coverage ratio	143.1%	140.9%	+2%	133.1%	+8%	138.1%	4%

Balance Sheet – Segmental Summary

Figures in SAR millions	30 September 2020	30 June 2020	QoQ % change	30 September 2019	YoY % change	31 December 2019	YTD % change
Total assets							
Retail	189,447	169,982	+11%	145,706	+30%	154,386	+23%
Corporate	145,987	145,500	+0%	136,985	+7%	132,775	+10%
Treasury	200,243	202,227	-1%	178,649	+12%	185,235	+8%
Capital Market	2,767	2,455	+13%	1,895	+46%	2,091	+32%
International	38,640	37,146	+4%	33,351	+16%	32,777	+18%
Total	577,084	557,310	+4%	496,585	+16%	507,264	+14%

Additional Information

NCB's 3Q 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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