



# BUSINESS REVIEW



AS THE LEADING BANK IN SAUDI ARABIA, NCB DELIVERED A STRONG AND RESILIENT 2020 PERFORMANCE AGAINST A BACKDROP OF THE GLOBAL COVID-19 PANDEMIC, UNDERPINNED BY THE STRENGTH AND DIVERSITY OF THE NCB FRANCHISE AND DRIVEN BY RELENTLESS AND SUCCESSFUL STRATEGIC EXECUTION.

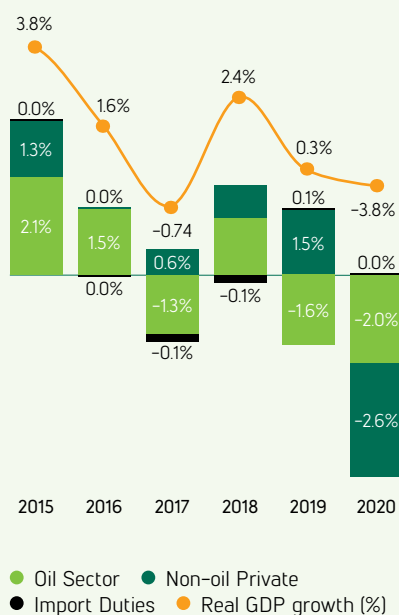
#### OPERATING ENVIRONMENT

2020 was a challenging year across the globe. As the coronavirus pandemic enveloped the world during the first quarter, economic activity worldwide was disrupted, with material declines and volatility in financial markets, oil prices, and interest rates. However, the Government of Saudi Arabia responded swiftly to meet the unfolding situation head-on and protect the wellbeing of citizens. This included numerous containment and health response measures, such as increasing awareness, applying social distancing measures, introduction of e-government solutions, and launching a comprehensive and coordinated health response.

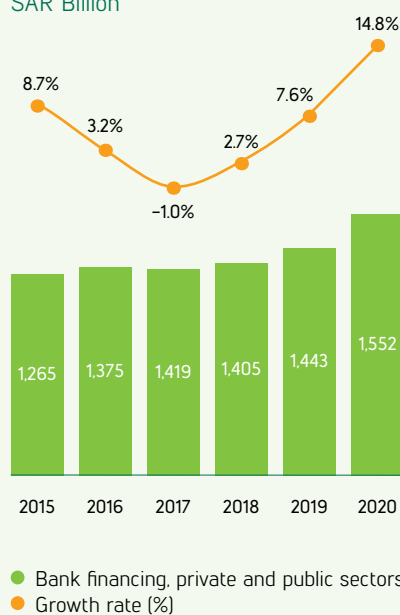
Further, to reduce the impact on the Saudi Economy, a comprehensive set of more than 80 policy responses and support measures to offset the impacts of the global Covid-19 pandemic was implemented. These measures included the Saudi Central Bank's Private Sector Financing Support Program, SAMA Liquidity Support for the Saudi Banking Sector, the Health Sector Support Program, and substantial repo rate cuts by the Ministry of Finance. Several fiscal policy changes were also implemented, including raising the debt-to-GDP ceiling to 50%, VAT increasing to 15%, and others. For the banking sector specifically, the support measures included profit-free deposits, liquidity support facilities, and fee reimbursements from the Saudi Central Bank.



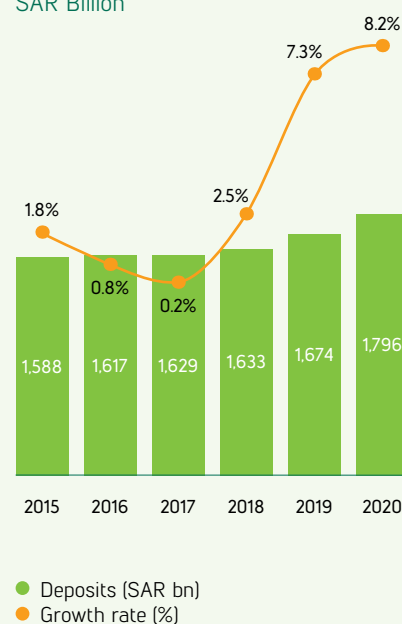
### REAL GDP GROWTH\*



### BANK FINANCING SAR Billion



### BANK DEPOSITS SAR Billion



### SAUDI ARABIA 2021 CAPEX BUDGET

# 101bn

#### SAR

Continued capital expenditure projected at SAR 101 billion in 2021 will have a stimulative effect on the economy.

Aided by these decisive actions, signs of normalization, stabilization, and recovery emerged during the second half of the year, with many market and economic indicators returning to pre-Covid levels by year-end. Interest rates remain low and are expected to remain so in the near term, while oil prices have trended up at the start of 2021 from previous lows in 2020.

Given the deterioration of the global economic outlook resulting from the pandemic, lockdown measures and lower average oil prices, Saudi Arabia's 2020 GDP is expected to contract, and the Government fiscal deficit is forecast to widen as a percent of GDP. Promisingly, GDP is expected to recover and return to growth in 2021.

### NCB GROUP BUSINESS REVIEW

NCB is the largest financial institution in the Kingdom of Saudi Arabia, providing a comprehensive suite of offerings to every major client segment. With its scale, reach, and leading market positions across corporate and retail banking, treasury, and capital markets, NCB offers a well-diversified and resilient business model, able to weather market challenges and leverage opportunities.

The NCB Group also has a controlling stake in Türkiye Finans Katılım Bankası (TFKB), a participation bank in Turkey that provides long-term diversification benefits and access to a large regional market. NCB Group has total assets of almost SAR 599 billion, serves over nine million clients and employs over 13,000 people.

With the onset of the Covid-19 pandemic in early 2020, the year presented a unique and challenging set of uncertainties and operating environment conditions. NCB responded proactively to the emerging situation. At the outset of the pandemic, the Bank's focus was to ensure continuity of customer service as well as the safety and wellbeing of our customers, employees, and the wider community.

At the start of the crisis, the Bank rapidly initiated business continuity management protocols, including holding regular Business Continuity Management committee review meetings and providing regular updates to the Saudi Central Bank. NCB further acted quickly to safeguard our employees' health by instituting health and safety standards and employee training and awareness campaigns. Crucially, during periods of restricted movement put in place to fight the spread of Covid-19, the Bank facilitated effective remote working, aided by technology and accelerated automation of internal processes.



During the lockdown and curfew periods, NCB maintained all customer-facing systems above minimum service level agreements, and all channels operated with business-as-usual availability throughout, preventing disruption of service to customers. Branches and remittance centers, in periods not affected by lockdown measures, remained fully operational.

The Bank also played its part in helping the wider Saudi community deal with the fallout from the health pandemic, through donations to the Saudi Health Endowment Fund and Social Welfare Fund totaling SAR 53 million and through the distribution of personal protective equipment such as face-masks, gloves, and sanitizers to the public, as well as food aid to vulnerable members of the community.

NCB effectively implemented the Government support measures including those catering to the MSME segment and the Fee Waiver programs. In addition to the Government programs, the Bank also implemented support measures for the healthcare sector.

During the year NCB faced an increase in cost of credit, particularly in the Corporate business, as well as yield compression on lower rates, losses on instalment deferrals, and pressure on fee income, although profit-free deposits from the Saudi Central Bank alleviated these pressures in part. Signs of stabilization and early shoots of recovery became evident during the second half of the year.

Nevertheless, NCB returned a strong and resilient performance, with a focus on capturing opportunities and sustaining shareholder value by leveraging the Group's strong leadership and governance. This was backed by a deep talent pool, well-diversified business model, strong liquidity and capital position, and its leading domestic franchise and international presence. NCB's advanced digital platform and efficient operations also made a significant contribution to maintaining momentum on its ambitious agenda.

Against this challenging backdrop, the overall performance of the Group was resilient, with net income for 2020 stable and growing to reach SAR 11.44 billion, on strong 18% balance sheet growth. Importantly, the Bank maintained its credit ratings during the year, with the NCB credit outlook improving. Such demonstrated resilience was underpinned by the strength and diversity of the NCB franchise and – above all – driven by relentless strategic execution, mainly an accelerated focus on residential finance and digitization.

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## NCB DOMESTIC RETAIL FINANCING IN 2020

# +42%

NCB's Retail business in Saudi Arabia achieved a 42% increase in financing and advances.

Such resilience was underpinned by the strength and diversity of the NCB franchise and – above all – driven by relentless strategic execution, mainly an accelerated focus on residential finance and digitization. Once again NCB has been the fortunate recipient of recognition and accolades from many prestigious local and international bodies which have acknowledged NCB's many successes and achievements during 2020, and the tireless efforts of NCB's management and staff in effective strategy execution and delivery of results.

NCB is also hard at work on its highly anticipated merger agreement with Samba Financial Group. Shareholder and regulatory approvals have been secured, with anticipated Legal Day 1 set for April 1, 2021, creating the opportunity to leverage expanded scale, reach, and digital capabilities to provide enhanced products and deliver unparalleled customer experience.

The combined entities' increased scale, the sharing of best practices, and annual efficiency gains are expected to generate substantial synergies and growth potential to maximize value for all stakeholders. The merger aims to create a new Saudi banking champion and regional financial powerhouse, to be named Saudi National Bank, in line with Vision 2030 and marking a significant milestone for the Kingdom's banking sector.

### Strategic and Operational Review 2020

#### Group Strategy Overview

NCB's strategic vision is to be the premier financial services group in the region by being number one in revenues and profit, the best in customer service, the best digital bank, and the employer of choice. NCB seeks to achieve this vision through a relentless focus on execution of its strategic plan, optimizing asset deployment at its individual business segments, specifically:

**Retail:** Grow financing with a focus on mortgages and full digitization of distribution and service.

**Corporate:** Improve returns through focused expansion, managing for value, targeting mega financing, SME banking, and investing in transaction banking

**Treasury:** Sustain investment returns by focusing on recurring revenues while maintaining the investment book's overall quality and liquidity.

**Subsidiaries:** Increase value contribution by focusing on growing key lines of business while enhancing efficiency and productivity.

Also, funding priorities underpin these asset deployment objectives:

**Current accounts:** Grow by expanding the distribution and coverage model, increasing digital sales, and upgrading cash management solutions.

**Wholesale funding:** Expand funding options by implementing comprehensive wholesale funding programs across maturity ranges that optimize mix and cost.

These strategic priorities are in turn supported by Group strategic enablers as follows:

**Digital transformation:** Expand digital functionality deployment by digitizing end-to-end customer journeys and use predictive analytics to drive sales and servicing.

**Productivity and lean distribution:** Scale up robotics' utilization and leverage artificial intelligence to further improve productivity and performance. Expand the branch network while adding smaller branch formats and implementing advanced digital technologies

**Human capital:** Attract, retain, and develop top talent while fostering Saudization and female participation in the workforce.

### Financial Overview

#### Balance Sheet

The overall balance sheet expanded by 18% during the year. The main drivers were 23% growth in net financing and advances, predominantly in the Retail segment from residential mortgages, and 8% growth in investments, as NCB continued to actively participate in Saudi government issuances of both short and longer-term debt securities. Throughout these developments, NCB maintained its strong capitalization and healthy liquidity position.

#### Investments

Net investments totaled SAR 144.9 billion as of 31 December, 2020, an 8% annual increase, gained from continued traction in the Bank's role as a market maker for Saudi Government debt securities issuances. The portfolio is built on high-quality securities, with 85% being investment grade.

#### Financing and Advances

Net financing and advances grew strongly by 23% to reach SAR 346.7 billion as of 31 December, 2020. This was driven by a 42% increase in the domestic retail segment, strongly supported by the 99% growth in residential financing. Corporate segment advances increased by 3% as healthy underwriting during the first quarter of the year was partly offset later by the onset of Covid-19 and the resulting moderation in demand for financing and higher levels of repayments.

### Balance Sheet

	2020 SAR Million	2019 SAR Million	Change %
Investments, net	144,853	134,077	+8%
Financing and advances, net	346,708	281,843	+23%
Total assets	599,446	506,819	+18%
Customers' deposits	416,419	353,389	+18%
Debt securities issued	1,773	1,016	+74.5%
Total liabilities	519,231	437,476	+19%
Equity attributable to shareholders of the Bank	69,210	61,443	+13%
Total equity	80,215	69,343	+16%
Non-performing loans ratio (%)	1.72%	1.84%	-6%
Non-performing loans coverage ratio (%)	143.5%	138.1%	+4%
Risk weighted assets	425,439	389,997	+9%
Core equity Tier 1 ratio (%)	16.9%	16.1%	+5%
Tier 1 ratio (%)	19.3%	17.9%	+8%
Total capital adequacy ratio (%)	20.3%	18.7%	+9%
Liquidity coverage ratio (%)	172.4%	168.9%	+2%
Basel III leverage ratio (%)	12.5%	12.7%	-1%
Financing to customers' deposits ratio (%)	83.3%	79.8%	+4%

The Financial Institutions portfolio increased 57% to SAR 17.9 billion from high-quality regional exposures and participation in Saudi government-sponsored syndicated transactions. Net financing and advances for the International segment grew by 14%, as strong 45% growth in local currency was partly offset by Turkish lira depreciation of 20%, with the strong underlying momentum driven by financing demand and a strategic shift in the financing mix towards Retail, lower interest rates, and the alleviation of the Turkish regulatory asset ratio requirement.

#### Customers' Deposits

Customers' deposits increased by 18% to SAR 416.4 billion due to 27% growth in call & current accounts arising from progress in improving the affluent segment proposition and NCB's focus on digital account opening and cash management. This enabled further optimization of the funding mix, resulting in an 8% reduction in more expensive time deposits and taking overall current and call account balances to 77% of total customers' deposits as of 31 December, 2020 compared to 71% a year earlier.

#### Credit Quality

The impact of Covid-19 earlier in the year resulted in a 15% increase in non-performing loans year-on-year, mainly in our domestic corporate business. Nevertheless, overall credit quality was stable with a non-performing loans ratio of 1.72% at year-end compared with 1.84% in 2019.

This stability was sustained despite the challenging operating environment, through strong and improving Retail credit quality and financing growth, offset by some pressure in non-performing financing in the international segment.

Non-performing loans coverage was similarly stable at a healthy 143.5% at year-end, up from 138.1% in 2019.

#### Capital

NCB maintained its strong capital position to remain comfortably above minimum regulatory requirements, with a Core Equity Tier 1 capital ratio of 16.9%, a Tier 1 capital ratio of 19.3%, and a Total Capital Adequacy Ratio of 20.3% of Pillar I risk-weighted assets. Capitalization was aided by retained earnings generation and net issuance of SAR 3.2 billion in qualifying additional Tier 1 Sukuk, partly offset by Pillar 1 risk-weighted assets growth of 9% to SAR 425.4 billion, attributable to growth in financing.

#### Liquidity

NCB maintained a strong and stable liquidity profile, with a Liquidity Coverage Ratio of 172.4% in 2020 compared to 168.9% in 2019. The ratio of financing to customers' deposit stood at 83.3%, compared to 79.8% in 2019, while the Net Stable Funding Ratio was 122.5% compared to 124.2% a year earlier.

NCB's cost-to-income ratio improved by 33 basis points to reach 30.3%, with the continued focus on digitization and productivity.

### Income Statement

	2020 SAR Million	2019 SAR Million	Change %
Net special commission income	16,687	16,382	+2%
Fee and other income	4,771	4,192	+14%
Total operating income	21,458	20,575	+4%
Operating expenses	-6,497	-6,299	+3%
Total impairment charge	-1,951	-1,420	+37%
Income from operations, net	13,010	12,856	+1%
Net income after Zakat and tax attributed to equity holders of the Bank	11,440	11,401	+0%
Earnings per share (SAR)	3.68	3.68	-0%
Dividends per share, net (SAR)	0.00	2.30	-100%
Return on average equity (%)	16.8%	18.5%	-9%
Return on average assets (%)	2.09%	2.39%	-13%
Net special commission margin (%)	3.46%	3.91%	-11%
Cost to income ratio (%)	30.3%	30.6%	-1%
Cost of risk (%)	0.60%	0.51%	+17%
Dividends, net	0	6,900	-100%

### Income Statement

NCB Group's net income after Zakat and income tax grew 0.3%, showing 16.8% return on equity. This was achieved from a 4% increase in operating income, and improved operational efficiency offsetting higher operating expenses and Covid-related pressures on the cost of risk.

### Operating Income

Total operating income grew to SAR 21.5 billion, a 4% annual increase.

Net special commission income totaled SAR 16.7 billion, with an increase of 2% from growth in commission-sensitive assets, partly offset by a net special commission margin contraction from 3.91% to 3.46%. The decline in net special commission margin resulted from the lower interest rate environment, with effective mitigation resulting from moving towards higher-yielding residential financing, demand deposit acquisition and a better funding mix of cost bearing funds.

Fee and other income grew by 14% to SAR 4.8 billion in 2020. This was attributed to 27% higher investment-related income realized on debt and equity instruments and an 18% rise in fees from banking services where higher investment management, brokerage, and credit card income offset pressures from fee waivers and lower activity during curfews and lockdowns earlier in the year.

Exchange income also contributed with 13% growth due to increased activity in TFKB and from progress in the domestic retail segments, and healthy activity in the NCB QuickPay remittance business.

### Operating Expenses

Total operating expenses rose by 3% to SAR 6.5 billion, primarily resulting from a 12% rise in general and administrative expenses due to the VAT increase in July and more information and technology costs to support increased demand for digital transactions. Nevertheless, the cost-to-income ratio improved by 33 basis points to reach 30.3%, even below the year-end 2019 level, as efficiencies were gained from the continued focus on digitization and productivity improvements, reduced rent and premises costs, and lower operational expenses during lockdown periods earlier in the year.

### Impairment Charge

The impairment charge increased by 37% to SAR 2.0 billion, resulting from various adjustments and assessments undertaken by the Bank in response to the evolving Covid-19 situation. These adjustments included the recalibration of ECL (expected credit loss) models, including updated macroeconomic forecasts and higher probabilities of downturn scenarios. Revised models also took a proactive approach to forward-looking and accelerated corporate credit risk assessments.



### Delivery Against Guidance

	2019 Reported	2020 Reported	Original Guidance	Revised Guidance
Financing growth	+6%	<b>+23%</b>	+10% - 12%	~ <b>+20%</b>
Net special commission margin	3.9%	<b>3.5%</b>	3.6% - 3.8%	<b>3.4% - 3.6%</b>
Cost to income ratio	30.6%	<b>30.3%</b>	Below 32%	<b>Below 33%</b>
Cost of risk	0.5%	<b>0.6%</b>	0.6% - 0.8%	<b>Below 0.8%</b>
Tier 1 capital ratio	17.9%	<b>19.3%</b>	16% - 18%	<b>Above 18%</b>



At the same time, however, retail impairments and recoveries improved, reflecting a high-quality, mostly salary-assigned portfolio. Together with strong financing growth and normalization of corporate credit in the second half of the year, this resulted in a moderate rise of nine basis points to 0.60% in the cost of risk for the year.

#### Delivery Against Guidance

As part of NCB's Investor Relations program, market guidance was provided at the beginning of the year for the expected outcome of key financial metrics. However, the onset of the Covid-19 pandemic in March dramatically shifted the macro-economic environment and heightened uncertainty relative to the Bank's original pre-pandemic expectations. This necessitated a revision of guidance in NCB's first quarter investor communications as well as subsequent re-assessments and revisions in the Bank's quarterly reporting of results as the situation unfolded and evolved.

Nevertheless, despite these factors and uncertainties, NCB reported results that mostly exceeded or were in line with both original and revised guidance for 2020.

Net financing and advances grew 23%, materially exceeding the original guidance of 10-12% and ahead of the revised indications of around 20%. This was primarily attributable to stronger than expected momentum in residential financing, and arising Financial Institutions opportunities.

At the outset of 2020, the Bank expected the net special commission margin to moderate to a range of 3.6% to 3.8%, from the 3.8% reported in 2019. However, following material US Federal Reserve cuts in fund rates in March, and due also to the subsequent 125 basis points cut in the repo rate by the Saudi Ministry of Finance to 1.0%, NSCI Margin guidance was revised to range between 3.4% and 3.6%. The reported 2020 NSCI Margin of 3.46% was in line with those revised expectations.

NCB reported a cost to income ratio of 30.3%, well below the respective original and revised indications of below 32% and 33%. This resulted from cost optimization initiatives and ongoing efficiencies gained from the Bank's focus on digitization and productivity.

The 0.6% cost of risk for 2020 was at the lower end of the originally expected range of 0.6% to 0.8%, and in line with the revised guidance of below 0.8%. This was an extremely favorable outcome under the circumstances, led by greater than expected financing growth and improved retail credit impairments and recoveries.

In terms of capitalization, NCB ended the year with a Tier 1 capital ratio of 19.3% from retained earnings generation and additional Tier 1 Sukuk issuance, comfortably above the guidance range of greater than 18%.

## Group Strategic Enablers

### Digital Transformation

The key focus areas of NCB's digitization drive are to migrate customers to digital channels through superior user experiences and to increase digital sales. NCB aims to:

- Offer mobile first banking solutions.
- Leverage advanced data analytics to grow digital sales and improve fulfillment of customer needs.
- Implement a 'digital branch' strategy, improving customer experience from agile digitization.

Covid-19 accelerated digital uptake during the year, and the Bank further built on its leading digital capabilities through an accelerated push in digital sales and service, supported by advanced data analytics and agile operating models.

In 2020 the Bank launched several initiatives and improvements across its broad range of digital banking channels for both Retail and Corporate, enabling customers to conduct their banking transactions more efficiently and with greater convenience. These expanded functionalities boosted Retail digital sales penetration from 51% to 65% year-on-year, while Corporate digital sales grew by 18 ppts to 63%.

Retail digital account opening rose to 88% from 71%, and the volume of digital transactions reached 77% of the total base, an annual increase of 15%. Corporate Transaction Banking services digital penetration reached 64% in 2020, from 42% in 2019. Also, AlAhlieCorp reached almost 85,000 clients in 2020, a growth of 65% relative to the previous year.

The enhanced digital resources for customers, in combination with changes in customer behavior due to Covid-19, enabled a further reduction of about one-third in branch financial transactions, now comprising only 1.5% of the total compared to 2.2% in 2019.

### Productivity and Lean Distribution

Continuous process improvement, automation of back-office operations, and enhancements of customer care and experience remained key strategic focus areas.

A priority was to accelerate robotic process automation. The usage of bots increased six-fold to a total of 300, with 200 processes automated and resulting in efficiency gains of 1,157 working hours per day. In addition, 52 technology projects were delivered to automate back-office activities to complement the digital transformation program that was running simultaneously.

## LEAN BRANCH DISTRIBUTION STRATEGY PROGRESS

# +91

### SELF-SERVICE KIOSKS

91 new self-service kiosks were deployed in 2020, bringing the Kingdom wide total to 406.

In response to Covid-19, the 'July Mission Program' was launched to accelerate the digitization of products and services. This resulted in the launch of the QuickPay and residential finance apps and full digitization of the personal finance for customers. To support Retail Banking's focus on residential finance, the product workflow and operations model was re-engineered, resulting in efficiency gains and a reduction in end-to-end turnaround times.

Despite disruption from the pandemic, business-as-usual levels of availability were maintained for digital channels and ATMs, while a successful migration to remote working during curfews was achieved seamlessly.

NCB's distribution strategy involves rolling out lean branches with self-service technology to expand the branch network and enhance in-branch sales while improving the customer experience. During 2020, NCB continued its focus on lean branch distribution by introducing additional technology and self-service options to complement the physical network while maintaining the second-largest branch and ATM network in the Kingdom at 431 and 3,571 respectively, and the number of self-service kiosks increased by 91 to 406 by year-end.

Headcount increased marginally through specialized hiring. The staff's productivity remained high at SAR 12 million net operating income per full-time employee, with the front-to-back office ratio improving 50bps to 72.7%. These efforts helped to mitigate cost pressures arising from Covid-19 related expenditures and the VAT rate increase in July, thereby containing the Bank's cost to income ratio at 30.3% relative to 30.6% for the previous year.

#### Human Capital

NCB holds a strategic aspiration to be the Employer of Choice in Saudi Arabia. Its people are a crucial enabler for the achievement of the Bank's strategic and operational agenda. The Bank's efforts to retain highly qualified employees and provide them with opportunities for career advancement have resulted in maintaining staff attrition at only 2.9%.

Of NCB employees, 98.6% are Saudi nationals and senior management are 100% Saudis. The Bank continues its commitment to improving female participation in the workforce. New hires in 2020 were 22.7% female and women now account for 14.2% of total employees, compared to 13.5% at the end of 2019.

NCB operates several structured recruitment and training programs to support the Bank's future needs. The Rowad AlAhli program, aimed at recruiting and training the Saudi leaders of tomorrow.



graduated 65 employees during the year, while 165 employees qualified from the Branches New Hire program, designed to develop retail bankers.

The specialized AlAhli Technology Program qualified 36 employees, taking the total number of graduates to 85.

Learning and personal development plans were increasingly delivered digitally, with over 5,317 individual employees (and 7,440 with eLearning mandatory courses), participating in these development programs during the year. A further 93 employees took part in the Bank's leadership development and coaching programs. The Bank also supports its workforce through comprehensive programs to promote wellbeing and engagement, and to foster a fulfilling and rewarding work environment.

The Bank operates a share-based long-term deferred compensation incentive plan for executives and senior managers who influence the success of the bank. It also provides risk-based compensation for material risk takers and controllers, deferring a portion of their variable pay. These plans are designed to retain promising leaders and align their compensation with shareholders' interests and the risk profile of the Bank.

NCB received recognition for its market-leading employee training and development programs by being honored for 'Best Human Resource Development' by *Banker Middle East*.



## Retail Banking – Financial Overview 2020

	2020 SAR Million	2019 SAR Million	Change %
Total assets	<b>204,642</b>	154,249	+33%
Financing and advances, net	<b>173,802</b>	122,652	+42%
Customers' deposits	<b>237,364</b>	209,905	+13%
Operating income	<b>10,030</b>	9,708	+3%
of which			
Net special commission income	<b>9,480</b>	8,960	+6%
Fee income from banking services, net	<b>501</b>	443	+13%
Operating expenses	<b>-4,169</b>	-3,929	+6%
Impairment charge	<b>-58</b>	-449	-87%
Other income (expenses)	<b>-37</b>	69	-154%
Net income for the period before Zakat and income tax	<b>5,765</b>	5,398	+7%
% of total assets	<b>34.1%</b>	30.4%	+12%
Cost to income (%)	<b>41.6%</b>	40.5%	+3%
Cost of risk (%)	<b>0.04%</b>	0.39%	-90%
Return on assets (%)	<b>3.21%</b>	3.74%	-14%

### RETAIL BANKING PROFITABILITY IN 2020

# 5.8bn

Strong growth in 2020 saw Retail Banking's net income grow 7% to SAR 5.8 billion.

### SEGMENTAL BUSINESS REVIEW

#### Retail Banking

NCB's Shariah-compliant Retail branch network and Private Banking franchise deliver comprehensive and innovative banking, serving the full spectrum of customer segments through a physical network and digital distribution platform. In Retail financing, NCB is a primary player with a large and growing market share, excelling in its offering of personal finance, residential finance, auto lease, and credit cards. Retail Banking also effectively serves its customers through its well-positioned and comprehensive offering, including current accounts, liabilities solutions, and QuickPay remittance services.

#### Strategic and Operational Review 2020

Retail Banking's primary strategic objective in 2020 was to grow financing with a focus on mortgages and digitization. Additional strategic focus areas included current accounts acquisitions, the transformation of the affluent segment, and ongoing digitization of customer needs.

Net financing expanded 42% to SAR 173.8 billion during the year, boosting Retail's market share of outstanding credit balances to 23.7% in 2020 from 21.5% in 2019. This growth was primarily driven by the strategic focus on residential finance, a major pillar of the Vision 2030 national strategy. To play our full part in transforming the nation's home ownership, NCB undertook a large-scale transformation of the mortgage business.

This included improving the performance management framework, establishing an integrated leads and pipeline management model, leveraging advanced analytics and direct marketing campaigns to quadruple lead conversion rates, and an overhaul of the operations model, including process automation with robotics and the use of artificial intelligence.

These initiatives resulted in a 99% increase – SAR 36.5 billion – in the mortgage portfolio to SAR 73.5 billion through close cooperation with the Ministry of Housing and Real Estate Development Fund and in alignment with the national priority to increase home ownership. This took NCB's Mortgage market share of outstanding credit balances to 25.0% compared to 20.9% in 2019. In the second half of the year, mortgage origination reached record levels to become the largest portfolio within Retail. The Ministry of Housing recognized NCB's mortgage finance efforts as Saudi Arabia's 'Best Real Estate Finance Bank'.

At the start of 2020, Retail Banking initiated a program to transform the affluent banking business, Wessam AlAhli, resulting in significant improvements to the business proposition and a 10% increase in affluent customer current account balances. This was achieved through increased relationship manager coverage and training, upgrading the credit card proposition and transactional services, and improving customer relationship management systems and lead management.

## Business Review Continued

Retail Banking's continued focus on enhancing digital customer onboarding, current account opening and creating a fully digital experience, delivered very rapid service delivery times via the digital platforms. As a result, new customer acquisition increased significantly, and 88% of current accounts were opened digitally in 2020, representing a 17% annual increase.

Retail Banking's remittances business, QuickPay, had a very successful year where a significant transformation and revamped operating model significantly enhanced the value proposition for customers. This resulted in 47% growth in remittance volumes, comfortably more than double the 19% market growth. QuickPay also launched a dedicated digital remittance proposition surpassing the competition in functionality to accelerate digital market penetration. As a result, digital adoption has boosted digital migration and marked a growth of 77% in remittance-active digital clients. These achievements led to NCB receiving the 2020 'Best Bank for Remittances' award from Global Banking and Finance Review.

NCB continued to play a vital role in supporting small businesses through its Business Banking program, in line with Saudi Vision 2030 objectives. The Bank also implemented installment deferments for the healthcare sector and unemployed individuals,

as well as fee waivers in response to Covid-19 disruption, while maintaining a fully operational branch network throughout. Overall digital sales penetration across the product offering reached 65% for the year compared to 51% in 2019.

### Financial Overview 2020

Retail Banking's total operating income grew 3% from SAR 9.7 billion to reach SAR 10.0 billion. Net special commission income amounted to SAR 9.5 billion, up 6% due to a 42% increase in retail financing, led by strong mortgage origination, partly offset by margin pressure from the lower rate environment. Fee income from banking services, net grew 13%. Impairment charges for 2020 improved to SAR 58 million from SAR 449 million, due to increased collections and recoveries and an overall improvement in credit quality as the financing mix shifted towards higher grade, secured mortgage financing.

Operating expenses for Retail increased by 6% to SAR 4.2 billion as a result of the rise in VAT and additional costs to support increased demand for digital transactions.

The combined impact of healthy operating income growth and an improved cost of risk resulted in substantial growth in Retail Banking's net income – up 7% to SAR 5.8 billion.



29bn

The Bank maintained its leadership in MSMEs financing, with total credit extended reaching SAR 29 billion.

### Corporate Banking – Financial Overview 2020

	2020 SAR Million	2019 SAR Million	Change %
Total assets	139,448	132,100	+6%
Financing and advances, net	132,694	128,253	+3%
Customers' deposits	140,539	107,424	+31%
Operating income	4,084	4,711	-13%
of which			
Net special commission income	3,646	4,210	-13%
Fee income from banking services, net	440	501	-12%
Operating expenses	-943	-870	+8%
Impairment charge	-1,438	-552	+160%
Other income (expenses)	-25	-17	+46%
Net income for the period before Zakat and income tax	1,679	3,272	-49%
% of total assets	23.3%	26.1%	-11%
Cost to income (%)	23.1%	18.5%	+25%
Cost of risk (%)	1.06%	0.41%	+157%
Return on assets (%)	1.24%	2.46%	-50%

### Corporate Banking

NCB's market-leading Corporate Banking franchise offers innovative Shariah-compliant and conventional financing, deposit products, transaction banking, and commercial services to the full spectrum of Saudi businesses, from small and medium enterprises to institutions with the most sophisticated specialized financing needs. With distinct capabilities in project finance and structured finance, Corporate Banking covers the full spectrum of customer segments with its comprehensive offering.

### Strategic and Operational Review 2020

As the leading business of its kind in Saudi Arabia, Corporate maintained its partnership and relationship-based customer approach in 2020.

The year's challenging operating environment resulted in higher credit costs arising from Covid-19 and margin pressure from the lower interest rate environment. Despite these headwinds, the Corporate Banking Group achieved SAR 1.7 billion in net income. Much of the credit quality impact was mitigated by an increased focus on managing credit risk to proactively manage the portfolio for value. In this regard, the Bank reviewed risk appetite, refreshed credit guidelines, and conducted proactive and extensive reviews of potentially distressed customers. These actions successfully mitigated the credit quality impact of Covid-19 and resulted in a normalization of the cost of risk during the second half of the year.

Corporate Banking made strong progress in its strategic agenda to enhance its transaction banking proposition, particularly through digitization and enabling online transactions across both trade finance and cash management. These efforts resulted in a 22-percentage point growth in transaction banking services penetration, 65% growth in active AlAhlieCorp clients, and a 2.6 percentage point increase in point-of-sale market share by transaction value, further aided by significant growth in current accounts during the year. The Saudi Annual Trade Finance Summit recognized NCB as 'Best Bank in Trade Finance Transformation in KSA'.

Despite some flattening of corporate credit demand during the year, Corporate Banking remained active in underwriting a steady stream of high-quality business, particularly in Vision 2030 targeted sectors. NCB led and financed several landmark infrastructure projects, including sustainable energy production projects in Saudi Arabia and the GCC region, and other key core infrastructure initiatives. NCB also executed large acquisition and refinancing transactions in the waste recycling industry and specialized financing of a VLCC (very large crude carrier) by Saudi's top tier shipping industry.



Corporate Banking continued to maintain its market-leading status in MSME (small business) banking and Kafalah-based financing (the Government and bank-backed scheme for small businesses) with SAR 29bn total credit extended to MSME's, and SAR 2.9bn total financings guaranteed by the Kafalah program, with NCB ranked first by market share in the new Kafalah 95 program introduced by SAMA, a loan guarantee program to combat Covid-19 impacts. The Bank further assisted MSME customers by participating in support packages extended by Saudi authorities, including installment deferrals.

A key focus area was the continued enhancement of the customer experience through productivity initiatives and digitization. Corporate's digital penetration rose to 86% from 64% in 2019, and customer usage of the corporate online platform grew 56%.

#### Financial Overview 2020

Total operating income for Corporate Banking declined by 13% to SAR 4.1 billion compared to SAR 4.7 billion in 2019. Net special commission income dropped only 13% to SAR 3.6 billion despite more than halved benchmark rates by the US Fed and Saudi Central Bank and higher average financing balances. Fee income decreased by 12% to SAR 440 million resulting from lower trade finance fees, which in turn reflected a softer trade finance market during the year.

Corporate financing levels were up 3% to SAR 132.7 billion, driven by continued healthy origination momentum, in particular during the first quarter of 2020, partly offset by elevated repayments towards the end of the year and a general flattening of demand for corporate credit following the Covid-19 outbreak.

Customers' deposits grew by 31% to SAR 140.5 billion, from strong call & current account growth driven by traction gained in transaction banking and digital account opening, albeit also including an element of anticipated transitional deposits as NCB is a trusted partner benefitting from its strong relationships with institutional depositors.

Operating expenses increased by 8% to SAR 943 million, including the impact of the VAT increase. The corporate impairment charge increased by SAR 886 million to SAR 1,438 million for 2020, impacted by Covid-19 related ECL model adjustments and pro-active, accelerated corporate credit risk assessments.

The combination of pressures, largely related to Covid-19 impacts and the overall operating environment, resulted in a 49% reduction in net income to SAR 1.7 billion.

## Treasury – Financial Overview 2020

	2020 SAR Million	2019 SAR Million	Change %
Total assets	211,401	185,601	+14%
Investments, net	144,853	134,077	+8%
Operating income	4,609	3,908	+18%
of which			
Net special commission income	2,281	1,970	+16%
Fee income from banking services, net	93	84	+11%
Other operating income	2,235	1,854	+21%
Operating expenses	-349	-445	-22%
Impairment charge	-14	56	-125%
Other income (expenses)	-48	-23	+106%
Net income for the period before Zakat and income tax	4,198	3,497	+20%
% of total assets	35.3%	36.6%	-4%
Cost to income (%)	7.6%	11.4%	-33%
Return on assets (%)	2.11%	2.09%	+1%

### HIGHER INVESTMENT RETURNS IN 2020

# +27%

The investment book was further optimized and favorable market conditions contributed to 27% growth in investment related income.

### Treasury

NCB operates the largest Treasury business in the Saudi Arabian banking sector, providing a full range of Treasury and correspondent products and services. These include money market and foreign exchange as well as investment and trading activities (local and international), and managing liquidity risk, market risk, and credit risk related to investments.

### Strategic and Operational Review 2020

Treasury's strategic objective was to sustain investment returns by focusing on recurring revenues while maintaining the overall quality and liquidity of the investment book.

The investment portfolio grew by 8% as Treasury continued to bolster its position as a primary dealer in Sukuk and other debt securities issuances by the Saudi Government, where the Bank is consistently ranked first in the primary dealership program by the National Debt Management Center. Treasury leveraged market opportunities to grow investment returns, yielding 18% growth in total operating income.

Treasury also maintained the quality of the investment book, with SAR 122.7 billion being Saudi Government debt and investment-grade securities. The Group liquidity position was healthy and comfortable, with a year-end liquidity coverage ratio of 172%.

Treasury maintained its leading market position across its broad range of products. This was achieved through diligent investment portfolio management, a dynamic hedging approach, as well as continued focus on an innovative product offering for customers including Shariah-compliant liquidity instruments. Notable highlights included the opening of online gold accounts to enable mass retail investors to include gold in their portfolios via the digital channels, as well as launching a supply chain financing solution agreement with the Ministry of Finance.

Treasury's strategic objective for funding was to expand options by implementing comprehensive wholesale funding programs across maturity and seniority spectrums that optimize mix and cost. The Bank generated longer-term, diversified funding through club deals and bilateral loans. This included a \$1.05 billion syndicated term Murabaha, the largest ever by a Saudi bank. A certificate of deposit program was established to further widen the liquidity pool and diversify the investor base. NCB also successfully issued SAR 4.2 billion at very competitive terms and redeemed SAR 1 billion in qualifying additional Tier 1 Sukuk during 2020.



### NCB Capital – Financial Overview 2020

	2020 SAR Million	2019 SAR Million	Change %
Client assets under management	185,589	156,009	+19%
Brokerages volume	509,439	183,375	+178%
Operating income	1,133	787	+44%
of which			
Net special commission income	19	18	+3%
Fee income from banking services, net	1,084	715	+52%
AUM-related fee income	537	500	+7%
Brokerage-related fee income	429	124	+246%
Other operating income	30	53	-43%
Operating expenses	-317	-328	-3%
Net income for the period before Zakat and income tax	816	459	+78%
% of total assets	0.5%	0.4%	+25%
Cost to income (%)	27.9%	41.6%	-33%
Return on assets (%)	31.06%	24.88%	+25%

With SAR 186 billion in assets under management, NCB Capital is the Kingdom's largest asset manager.

#### Financial Overview 2020

Treasury reported a strong performance, with total operating income up 18% to SAR 4.6 billion. This resulted from higher investment income – from both net special commission income and capital gains – as well as improved client revenue from increased cross-selling activities. Operating expenses declined 22% to SAR 349 million, while investment impairments were negligible.

The growth of operating income, together with improving operating efficiency, resulted in a 20% rise in Treasury net income to SAR 4.2 billion.

#### NCB Capital

NCB Capital is Saudi Arabia's largest investment bank and asset manager, offering wealth management, asset management, investment banking, and brokerage services to the Kingdom's retail, affluent, high net worth, and institutional clients.

#### Strategic and Operational Review 2020

NCB Capital's strategic focus areas were to sustain and grow market leadership by driving product innovation, growing client assets under management and recurring revenues, increasing brokerage and securities services revenue market share, and supporting the growing financial, investment and advisory needs of Government-related entities, while continuing to increase efficiency and improve productivity.

With SAR 186 billion in client assets under management, up 19% year on year, across various local and international asset classes at the end of 2020 and an MQ1 rating – Moody's highest for investment manager quality – NCB Capital is the Kingdom's largest asset manager and one of the region's largest providers of employee savings programs.

During the year, NCB Capital's Wealth & Asset Management businesses launched the NCB Capital Aviation Fund II, NCB Capital Tier One Sukuk Fund III, and NCB Capital Credit Fund I and expanded its AIAhli REIT Fund (1) – adding SAR 5.7 billion to NCB Capital's assets under management – and increased the number of clients on the firm's employee savings program platform by 43%.

In recognition of these achievements, NCB Capital was named 'Best Investment Bank, KSA' in the *Middle East Finance* awards; 'Best Asset Management Company, KSA' and 'Best Wealth Management Company, KSA' by *International Finance*. AIAhli Multi-Asset Growth Fund, AIAhli Asia Pacific Index Fund, and AIAhli Freestyle Saudi Equity Fund together won three Lipper Fund awards for "providing strong, risk-adjusted performance relative to their peers".

In the competitive local brokerage sector, NCB Capital's Securities business succeeded in growing its market share while maintaining its ranking as Saudi Arabia's second-largest broker.

NCB CAPITAL NET INCOME IN 2020

# 816mn

Strong performance in 2020 saw NCB Capital net income before Zakat & tax grow 78% to reach SAR 816 million.

Much of this success can be attributed to the strengthening of the firm's digital channels, higher international brokerage adoption, the rollout of the equity administration offering, and expansion of research and margin trading activities.

In investment banking, NCB Capital built on its leadership in debt and equity issuance by being appointed joint lead manager for the \$5 billion KSA Government global sovereign debt issuance; joint bookrunner for the \$8 billion Saudi Aramco international bond issuance; and lead manager, underwriter, joint coordinator, and bookrunner for the SAR 2.2 billion BinDa-wood IPO, among several other notable transactions.

NCB Capital also made significant progress towards improving efficiency and productivity, all of which improved its cost to income ratio to 27.8% compared to 41.6% in 2019.

**Financial Overview 2020**

NCB Capital's net income increased by 78% to SAR 816 million, as a result of higher operating income and lower operating expenses.

Operating income rose by 44%, primarily as brokerage income more than tripled to SAR 429 million on higher local stock exchange market volumes and higher brokerage market share from continued efforts to enhance the platform and engage with and acquire clients. A 19% growth in client assets under management, leading to 7% growth in related income, further contributed to an exceptional year for NCB Capital.



Türkiye Finans Katılım Bankası – Financial Overview 2020

	2020 SAR Million	2019 SAR Million	Change %
Total assets	40,789	32,777	+24%
Financing and advances, net	22,332	19,524	+14%
Customers' deposits	29,802	25,608	+16%
Operating income	1,602	1,461	+10%
of which			
Net special commission income	1,261	1,224	+3%
Fee income from banking services, net	142	176	-19%
Other operating income	199	61	+228%
Operating expenses	-719	-727	-1%
Impairment charge	-441	-475	-7%
Other income (expenses)	32	34	-4%
Net income for the period before Zakat and income tax	475	293	+62%
% of total assets	6.8%	6.5%	+5%
Cost to income (%)	44.9%	49.7%	-10%
Cost of risk (%)	2.00%	2.22%	-10%
Return on assets (%)	1.29%	0.89%	+45%

TÜRKİYE FINANS CUSTOMERS'  
DEPOSITS GROWTH

298bn

SAR

TFKB achieved 16% growth in customers' deposits, reaching a total of SAR 29.8 billion, driven by strong current account growth.

Türkiye Finans Katılım Bankası

NCB has a 67.03% controlling stake in Shariah-compliant Türkiye Finans Katılım Bankası (TFKB), a participation bank that operates by attracting current accounts and profit-sharing investment accounts and extending financing to retail and corporate clients through finance, lease, and profit/loss sharing partnerships.

Strategic and Operational Review 2020

The operating environment in 2020 was challenging, marked by the Covid-19 pandemic, further depreciation of the Turkish Lira, and ongoing inflationary pressures. Despite these constraints, TFKB remained well-capitalized and liquid and achieved a strong financial performance.

The key strategic objectives were to improve productivity and to continue the Bank's transformation program, including the expansion and improvement of digital capabilities to meet customer needs, strengthen liquidity, diversify funding, strengthen underwriting, improve collections, and increase automation.

Through digitization and automation, the number of active mobile customers increased by 39%, while digital channel usage improved to 95.2%. Active customers of TFXTarget, the Bank's mobile investment platform, rose by 50% as functionality was enhanced. TFKB tripled the number of remote digital customer applications and doubled the number of digital customer acquisitions.

The Bank further developed alternative distribution channels, including ATMs, points of sale, telephone banking, and online banking, having launched several initiatives to improve the quality of its services and products. Robotic process automation was accelerated, with bots operating 60 business processes that saved 130,000 working hours.

TFKB's collection systems, from early warning to non-performing loan collection, were revamped, resulting in 38% lower delinquency rates and a 31% improvement in collections. Several projects enhanced the underwriting infrastructure with upgraded models and increased automation. Further, with the adoption of sophisticated artificial intelligence, the time taken to process retail loans was significantly reduced, further increasing customer convenience.

TFKB continued expanding its network, with 10 new branches opened in eight high-potential and underpenetrated locations while one existing branch was closed. As a result, the total number of branches was 319 at year-end. The number of employees grew by 7.8 percent.

The Turkish operation achieved strong progress in its strategic priorities of growing current and savings accounts, increasing those by 54% to SAR 14.5 billion, along with the higher-yield personal finance business, a growth of 79% in Turkish lira terms.



#### Financial Overview 2020

Despite domestic economic headwinds, TFKB achieved a strong financial performance, reporting total operating income growth of 10% to SAR 1.6 billion, or 32% in Turkish Lira terms. This was achieved through growth in core business lines and improved foreign exchange and trading gains.

Operating expenses declined by 1% to SAR 719 million. In Turkish Lira terms operating expenses increased by 21%, due to inflationary pressures and additional expenses incurred to manage Covid-19. The impairments charge improved by 7% to SAR 441 million (14% deterioration in Turkish Lira terms), from additional Covid-19 provisions and an improvement in non-performing loan coverage, partly offset by the year-on-year benefit of elevated impairments in 2019 when the Turkish banking regulator called on the banking sector to classify certain exposures to non-performing loans.

During the year, the Turkish regulatory asset ratio requirement was lifted, initially put in place in order to encourage Turkish banks to grow financing to stimulate economic activity. As a result, for the full year TFKB financing grew 14% to SAR 22.3 billion – 45% in local currency – but partly offset by continued Turkish lira depreciation of 20%. The strong growth arose from higher financing demand in corporate, coupled with attractive lower interest rates.

TFKB's current account acquisition strategy also achieved significant progress, and the Bank reported 16% growth in customers' deposits (44% in local currency), to reach SAR 29.8 billion.

As a result of the strong growth in underlying operating income, together with improved operating efficiency and a relatively modest increase in the cost of risk, net income rose 62% to SAR 475 million in 2020, equating to 79% growth in Turkish Lira terms.