

## Earnings Release

# NCB reports 8.7% net income growth year-on-year to SAR 5.6 billion in 1H 2018

- 1H 2018 net income growth of 8.7% year-on-year to SAR 5.6 billion on higher operating income and lower impairment charges; EPS of SAR 1.80, higher by SAR 0.14
- Total operating income in 1H 2018 increased by 1.1% to SAR 9.4 billion driven by 1.0% increase in domestic operating income and higher international operating income despite 10.7% depreciation of average year-on-year Turkish Lira rate.
- Operating expenses for 1H 2018 increased 5.0% to SAR 3.4 billion from VAT, cost of living allowance announced this year and domestic expansion, partially offset by the ongoing digitization and productivity initiatives; Cost to income ratio 134bps higher to 35.7%.
- 1H 2018 impairment charge at SAR 418 million, down 53.7% due to a major one-off recovery, continued retail collection efforts and lower corporate impairment charge.
- Total assets at SAR 454.4 billion, 2.4% higher than 31 December 2017 primarily from financing.
- Net financing and advances at SAR 266.0 billion, posted a SAR 16.8 billion increase from 31 December 2017 indicating positive signs of progress towards an economic recovery.
- Customers' deposits grew to SAR 317.7 billion; CASA ratio of 79.1%.
- Strong capitalisation with T1 ratio of 18.1% and Pillar I total CAR of 20.3%.
- Average Liquidity Coverage Ratio of 211.9% in 2Q 2018 and Financing to customer deposit ratio of 83.8% as at 2Q 2018 demonstrate comfortable liquidity position.

**Jeddah, 1 August 2018.** NCB reported a solid 8.7% year-on-year net income growth in 1H 2018, driven by improvement of operating income (1.1%) and lower impairment charges (-53.7%) which were partly offset by higher operating expenses (5.0%). The overall balance sheet increased (2.4%) from financing (6.7%) and deposits (2.8%) in 1H 2018. NCB has continued to strengthen its capitalisation level and maintained a healthy liquidity position.

**Saeed M. Al Ghamdi, Chairman of the Board of NCB Group:**

"NCB's new Board of Directors has commenced its term in May 2018, coinciding with the delivery of solid operating and financial performance for the second quarter of 2018. By effectively employing our diversified business model and comprehensive strategy, we continue to deliver strong returns to shareholders. In 2018, as planned we will continue to leverage scale and competitiveness advantages to capture opportunities and achieve sustainable growth in line with our strategic priorities."

## Group Performance Highlights

NCB reported 1H 2018 net income of SAR 5,566.4 million, up 8.7% year-on-year. This performance is mainly attributable to a 53.7% impairment charge improvement, mainly due to (i) a major one-off recovery of SAR 120 million of a written off Corporate loan account (ii) continued retail collection efforts resulting in improved credit quality and higher recovery, and (iii) lower corporate impairment charge. Operating income increased by SAR 101.6 million year-on-year to SAR 9,439.8 million. Domestically, total operating income also increased by SAR 84.0 million as higher net special commission income (+2.8%) and fees from banking services (+6.3%) were offset by lower investment-related income (-19.7%). Operating income from International operations increased (2.2%) due to improved investment-related income partly limited by a 10.7% depreciation of the average Turkish Lira rate year-on-year. The NSCI margin was 3.61%, a 9bps improvement compared to 1H 2017. Operating expenses increased (5.0%) driven by domestic operations (6.4%) and international operating expenses were 3.5% lower supported by the depreciation of the average Turkish Lira rate year-on-year. The cost to income ratio for the 1H 2018 was 35.7%.

NCB reported strong Q2 2018 net income of SAR 2,579.5 million, up 6.7% year-on-year. The improvement was a result of higher net special commission income, and managing risk cost which were offset partially by higher operating expenses. Total operating income rose by SAR 182.2 million to SAR 4,660.6 million compared to the same quarter last year. Domestically, operating income increased by SAR 150.4 million as higher net special commission income (+3.3%) and fees from banking services (+4.6%) were partially offset by lower non-recurring investment-related income. Total operating income from international operations rose by 8.0% due to improvement of other revenue. Total operating expenses increased by SAR 37.2 million (1.9%) year-on-year to SAR 2,032.7 million. The cost base incremental was relatively broad-based, reflecting VAT and cost of living allowance to employees announced this year and continued expansion and growth. This was partly offset by the continued strides made in digitization and productivity initiatives, lower depreciation as well as currency depreciation in the Turkish subsidiary. The cost to income ratio for the quarter ended 30 June 2018 was 36.3%.

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 increased by SAR 10,508.2 million from 31 December 2017 to SAR 454,374.1 million as at 30 June 2018. Net financing and advances increased (+6.7%) to SAR 266,043.1 million as at

30 June 2018 driven by increase in domestic lending (+8.7%), partially offset by a decline in international lending (-9.9%) due to 17.2% year-on-year Turkish Lira depreciation.

Domestically, Corporate and Consumer & Credit Card net financing and advances increased by SAR 11.0 billion and SAR 2.5 billion, respectively, indicating a strong growth and early signs of an improving economic environment. The NPL ratio stood at 1.74% as at 30 June 2018, while NPL coverage increased to 161.4% from 142.6% at the previous year-end, partly ascribed to the IFRS 9 adoption adjustments. Customers' deposits grew to SAR 317.7 billion, of which current and savings accounts represented 79.1% as at 30 June 2018.

NCB maintained its strong financial position, with a core equity tier 1 capital ratio of 16.2%, a tier 1 capital ratio of 18.1% and a total capital ratio of 20.3%. The average liquidity coverage ratio for 2Q 2018 was 211.9%. Equity attributable to the shareholders of the bank, exclusive of the Tier 1 Sukuk, rose 1.7% by SAR 966.2 million to SAR 57,006.8 million from 31 December 2017.

Pillar I Risk-weighted assets increased to SAR 365.1 billion since the beginning of the year due to substantial growth in financing during 1H 2018, partially alleviated by lesser risk weight on residential real estate financing allowed by SAMA.

### Outlook

For the remainder of 2018, NCB expects Saudi Arabia's economic growth to improve to 2.6% from a 0.9% 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 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 2Q 2018, operating income grew 5% year-on-year to SAR 2,070 million. 2Q 2018 net special commission income improved 2% due to a 5% increase in retail financing and improved net commission margin compared with 2Q 2017. Fee income increased 10% mainly from financing-related fees. The impairment charge in the current quarter decreased by SAR 53 million year-on-year due to higher recoveries. However, 17% increase in operating expenses offset these gains and consequently, Retail Banking's net income declined by SAR 7 million (-1%) to SAR 894 million.

Retail Banking's net income for 1H 2018 improved by SAR 118 million (+7%) to SAR 1,851 million on rising operating income (+3%) and improved productivity that resulted in 8% lower operating expenses. The operating income increase was supported by higher net special commission income (+2%) compared to last year due to a 3% increase in retail financing, higher current accounts, and an improvement in net commission margin.

### Corporate Banking

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

In the 2Q 2018, Total operating income declined 14% to SAR 891 million in 2Q 2018 as compared with 2Q 2017. During the period, net special commission income dropped 12% year-on-year to SAR 745 million mainly on account of lower average financing during 2Q 2018. Fee income decreased by 17.0% quarter-on-quarter on lower financing and trade fees. In the current quarter, the impairment charge declined to SAR 115 million from SAR 247 million in 2Q 2017 driven by IFRS9 adoption adjustment. This has resulted in a 5% net income decrease over 2Q 2017.

1H 2018 net income grew to SAR 1,300 million, 1% higher than 1H 2017, primarily due to lower impairment charges that decreased by SAR 432 million (-85%) due to the reasons stated above. Net operating income was lower by 17% on the back of a 17% decreases each in net special commission income and fee 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 2Q 2018, total operating income grew 18% year-on-year to SAR 1,096 million on the back of 25% higher net special commission income that reached SAR 797 million as compared with SAR 638 million in 2Q 2017. Operating expenses were a slightly by SAR 32 million. As a result, net income improved 18% to SAR 979 million.

In the first half of 2018, operating income grew 13% to SAR 2,380 million mainly from a 35% higher net special income that reached SAR 1,612 million and a 54% higher fee income to reach SAR 74 million, partially offset by 20% decrease in other operating income. Impairment charge increased by SAR 88 million to SAR 95 million in 2Q 2018. As a result, net income increased by 10% to SAR 2,034 million for 1H 2018.

### Capital Markets

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

In 2Q of 2018, operating income grew 22% year-on-year to SAR 176 million mainly from a 19% increase in fee income to SAR 167 million on account of higher AUM and brokerage related fees. As a result, net income to equity holders increased 59% to SAR 84 million for 2Q 2018.

In the first half of 2018, operating income improved 31% to SAR 404 million mainly from a 30% higher fee income to SAR 389 million. As a result, net income to equity holders increased 68% to SAR 220 million for 1H 2018.

#### International

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

Total operating income was 9% higher at SAR 427 million in 2Q 2018 limited by a 10.7% depreciation of the average Turkish Lira rate year-on-year. Operating expenses declined 9% to SAR 204 million in part due to the Turkish Lira depreciation. Impairment charges for 2Q 2018 increased 105% on account of higher NPL inflows. Consequently, net income to equity holders increased 26% to SAR 83 million.

In the first half of 2018, operating income improved 2% to SAR 799 million and operating expenses decreased to SAR 420 million. These were partially offset by higher impairment charges (+26%). As a result, net income attributed to equity holders increased 34% to SAR 162 million for 1H 2018.

### Income Statement Summary

SAR (mn)	2Q 2018	1Q 2018	QoQ % change	2Q 2017	YoY % change	1H 2018	1H 2017	YoY % change
Net special commission income	3,573	3,419	+5%	3,473	+3%	6,992	6,832	+2%
Fee and other income	1,087	1,361	-20%	1,005	+8%	2,448	2,506	-2%
<b>Total operating income</b>	<b>4,661</b>	<b>4,779</b>	<b>-2%</b>	<b>4,478</b>	<b>+4%</b>	<b>9,440</b>	<b>9,338</b>	<b>+1%</b>
Operating expenses	(1,692)	(1,673)	+1%	(1,516)	+12%	(3,366)	(3,205)	+5%
Total impairment charge	(340)	(78)	+336%	(479)	-29%	(418)	(902)	-54%
<b>Income from operations, net</b>	<b>2,628</b>	<b>3,028</b>	<b>-13%</b>	<b>2,483</b>	<b>+6%</b>	<b>5,656</b>	<b>5,232</b>	<b>+8%</b>
<b>Net income attributed to equity holders of the Bank</b>	<b>2,579</b>	<b>2,987</b>	<b>-14%</b>	<b>2,417</b>	<b>+7%</b>	<b>5,566</b>	<b>5,120</b>	<b>+9%</b>
EPS	0.83	1.45	-43%	1.17	-29%	1.80	2.49	-28%
DPS, net	1.00	0.00		0.73	+37%	1.00	0.73	+37%
ROE (%)	17.5%	20.6%	-15%	17.3%	+1%	19.0%	18.8%	+2%
ROA (%)	2.4%	2.7%	-14%	2.2%	+8%	2.5%	2.3%	+9%
Net special commission margin (%)	3.62%	3.59%	+1%	3.46%	+5%	3.61%	3.49%	+3%
Cost to income (%)	36.3%	35.0%	+4%	33.9%	+7%	35.7%	34.3%	+4%
Cost of Risk (%)	0.5%	-0.01%	-4254%	0.7%	-31%	0.26%	0.68%	-62%

## Balance Sheet Summary

SAR (mn)	30 June 2018	31 March 2018	QoQ % change	30 June 2017	YoY % change	31 December 2017	YTD % change
Investments, net	114,978	113,555	+1%	114,634	+0%	114,578	+0%
Financing and advances, net	266,043	252,777	+5%	256,901	+4%	249,234	+7%
<b>Total assets</b>	<b>454,374</b>	<b>437,506</b>	<b>+4%</b>	<b>450,486</b>	<b>+1%</b>	<b>443,866</b>	<b>+2%</b>
Customers' deposits	317,653	309,001	+3%	314,690	+1%	308,942	+3%
Debt securities issued	8,754	10,528	-17%	9,926	-12%	10,250	-15%
<b>Total liabilities</b>	<b>389,342</b>	<b>372,645</b>	<b>+4%</b>	<b>389,334</b>	<b>-0%</b>	<b>379,590</b>	<b>+3%</b>
<b>Equity attributable to shareholders of the Bank</b>	<b>57,007</b>	<b>56,684</b>	<b>+1%</b>	<b>52,876</b>	<b>+8%</b>	<b>56,041</b>	<b>+2%</b>
<b>Total equity</b>	<b>65,032</b>	<b>64,861</b>	<b>+0%</b>	<b>61,152</b>	<b>+6%</b>	<b>64,276</b>	<b>+1%</b>
Risk weighted assets	361,096	357,954	+1%	379,533	-5%	361,107	-0%
CET1 ratio	16.2%	16.2%	+0%	14.1%	+14%	15.7%	3%
T1 ratio	18.1%	18.2%	-0%	16.0%	+13%	17.7%	3%
TC ratio	20.3%	20.4%	-0%	18.2%	+12%	20.0%	2%
Liquidity coverage ratio (LCR)	211.9%	198.6%	+7%	166.1%	+28%	177.3%	20%
Basel III leverage ratio	13.1%	13.5%	-2%	12.2%	+7%	13.0%	1%
Financing to customer deposit ratio	83.8%	81.8%	+2%	81.6%	+3%	80.7%	4%
NPL ratio	1.7%	1.8%	-4%	1.6%	+6%	1.9%	-7%
NPL coverage ratio	161.3%	164.5%	-2%	150.0%	+8%	142.6%	13%

### Segmental Performance Summary

SAR (mn)	2Q 2018	1Q 2018	QoQ % change	2Q 2017	YoY % change	1H 2018	1H 2017	YoY % change
<b>Total operating income</b>								
Retail	2,070	1,896	+9%	1,970	+5%	3,966	3,863	+3%
Corporate	891	1,000	-11%	1,039	-14%	1,891	2,279	-17%
Treasury	1,096	1,284	-15%	932	+18%	2,380	2,107	+13%
Capital Market	176	228	-23%	144	+22%	404	308	+31%
International	427	372	+15%	393	+9%	799	782	+2%
<b>Total</b>	<b>4,661</b>	<b>4,779</b>	<b>-2%</b>	<b>4,478</b>	<b>+4%</b>	<b>9,440</b>	<b>9,338</b>	<b>+1%</b>
<b>Net income attributed to equity holders</b>								
Retail	894	956	-6%	901	-1%	1,851	1,733	+7%
Corporate	539	761	-29%	565	-5%	1,300	1,285	+1%
Treasury	979	1,056	-7%	833	+18%	2,034	1,850	+10%
Capital Market	84	135	-37%	53	+59%	220	131	+68%
International	83	78	+6%	66	+26%	162	121	+34%
<b>Total</b>	<b>2,579</b>	<b>2,987</b>	<b>-12%</b>	<b>2,417</b>	<b>+9%</b>	<b>5,566</b>	<b>5,120</b>	<b>+9%</b>

  

	30 June 2018	31 March 2018	QoQ % change	30 June 2017	YoY % change	31 December 2017	YTD % change
<b>Total assets</b>							
Retail	113,479	104,445	+9%	110,187	+3%	108,503	+5%
Corporate	147,389	141,465	+4%	143,589	+3%	133,051	+11%
Treasury	157,626	153,884	+2%	155,851	+1%	162,709	-3%
Capital Market	1,575	1,513	+4%	1,465	+8%	1,388	+13%
International	34,306	36,199	-5%	39,395	-13%	38,214	-10%
<b>Total</b>	<b>454,202</b>	<b>437,506</b>	<b>+4%</b>	<b>450,486</b>	<b>+1%</b>	<b>443,866</b>	<b>+2%</b>