

Earnings Release

NCB reports 11% net income growth to SAR 8.0 billion in 9M 2018

9M 2018 Financial Highlights:

- Net income grew 11% to SAR 8.0 billion on higher operating income and lower credit costs
- Total operating income increased by 2% to SAR 14.2 billion driven by margin improvement
- Net financing and advances increased 8% to SAR 268.2 billion from year-end 2017
- Customers' deposits grew 5% to SAR 325.5 billion and CASA deposits improved to 79% from year-end 2017
- Strong capitalization with tier 1 capital ratio of 17.8% and total capital ratio of 20.0%
- Average 3Q 2018 liquidity coverage ratio of 184.4% demonstrates strong liquidity position

Jeddah, 30 October 2018. NCB reported 11% year-on-year net income growth in 9M 2018, driven by an improvement of operating income (+2%) and lower impairment charges (-36%) which were partially offset by higher operating expenses (+4%). The overall balance sheet increased by 3% from financing (+8%) and deposits (+5%) during the year to date. NCB has continued to maintain its strong capitalisation level and healthy liquidity position.

Faisal Omar Alsakkaf, Chief Executive Officer of NCB, said:

"During the first nine months of 2018, NCB delivered a solid operating and financial performance and continued to generate strong returns for our shareholders. This performance was testament to the relentless focus on our customers' needs, the execution of our strategic plans as well as encouraging signs of increased economic activity in the Kingdom."

Additional Performance Highlights

Operating income for 9M 2018 increased 2% year-on-year to SAR 14,171 million principally from 3% growth in net special commission income to SAR 10,629 million. The growth in net special commission income was supported by a 10 basis points NSCI margin improvement compared to 9M 2017, resulting from a higher interest rate environment and an improved deposit mix. Fee and other income in 9M 2018 were stable year-on-year at SAR 3,542 million as 3% growth in fee and foreign exchange income was offset by lower investment-related income.

NCB's operating expenses increased 4%, reflecting the growing business, cost of living allowances to employees announced earlier this year and the impact of VAT introduced from Jan 1st. These were partially offset by the continued strides made in digitization and productivity initiatives, and lower depreciation. The impairment charge for 9M 2018 lower by 36% year-on-year aided by a major one-off recovery of SAR 120 million of a previously written off loan account as well as higher Retail recoveries from continued collection efforts in addition to IFRS 9 adoption adjustment.

From a segmental perspective, the 9M 2018 net income growth was led by Retail, where net income grew 25% to SAR 3,402 million from 10% operating income growth and lower impairment charges. The net income growth in Treasury (+4%), Capital Markets (+39%) and International segments (+23%) further contributed to improvement in net income, whilst Corporate witnessed a 9% decline in net income as lower operating income (-18%), attributable to lower average volumes, more than offset a 42% improvement in credit costs. International contribution was limited due to 20% depreciation of average Turkish Lira during 9M 2018 as compared with 9M 2017.

NCB reported 3Q 2018 net income of SAR 2,454 million, up 15% year-on-year. The improvement was a result of 5% growth in operating income, across both net special commission and fee income, on relatively stable operating expenses, and aided by a 14% improvement in credit costs.

Total assets grew 3% from 31 December 2017 to SAR 459,080 million as at 30 September 2018. Net financing and advances increased 8% to SAR 268,245 million as at 30 September 2018 as a result of solid growth in domestic Corporate (+11%) and Consumer (+7%) lending, indicating early signs of an improving economic environment. This was partially offset by a decline in international lending (-22%) due to 38% year-on-year Turkish Lira depreciation.

Credit quality remained healthy as the NPL ratio stood at 1.8% as at 30 September 2018 compared with 1.7% at the previous year-end, while NPL coverage increased to 154% from 143%, partly ascribed to IFRS 9 adoption adjustments. Customer deposits grew by 5% to SAR 325,461 million, of which current and savings accounts represented 79% as at 30 September 2018 compared with 77% at year-end 2017.

NCB maintained its strong financial position, with a core equity tier 1 capital ratio of 15.9%, a tier 1 capital ratio of 17.8% and a total capital ratio of 20.0%. The average liquidity coverage ratio of 184.4% during 3Q 2018 and financing to customer deposit ratio of 82.4% as at 3Q 2018 demonstrate a comfortable liquidity position.

Income Statement Summary

SAR (million)	3Q 2018	2Q 2018	QoQ % change	3Q 2017	YoY % change	9M 2018	9M 2017	YoY % change
Net special commission income	3,637	3,573	+2%	3,453	+5%	10,629	10,286	+3%
Fee and other income	1,094	1,087	+1%	1,038	+5%	3,542	3,544	-0%
Total operating income	4,732	4,661	+2%	4,492	+5%	14,171	13,830	+2%
Operating expenses	(1,606)	(1,692)	-5%	(1,587)	+1%	(4,972)	(4,792)	+4%
Total impairment charge	(616)	(340)	+81%	(709)	-13%	(1,034)	(1,611)	-36%
Income from operations, net	2,510	2,628	-4%	2,195	+14%	8,166	7,426	+10%
Net income attributed to equity holders of the Bank	2,454	2,579	-5%	2,126	+15%	8,020	7,246	+11%
EPS	0.79	0.83	-5%	1.02	-23%	2.59	2.34	+11%
DPS, net	0.00	1.00	-100%	0.00		1.00	1.10	-9%
ROE (%)	16.7%	17.5%	-4%	15.2%	+10%	18.5%	17.4%	+6%
ROA (%)	2.2%	2.4%	-7%	1.9%	+13%	2.4%	2.2%	+9%
Net special commission margin (%)	3.60%	3.62%	-1%	3.48%	+4%	3.60%	3.50%	+3%
Cost to income (%)	33.9%	36.3%	-7%	35.3%	-4%	35.1%	34.6%	+1%
Cost of Risk (%)	0.88%	0.50%	+78%	1.1%	-18%	0.46%	0.81%	-44%
Segmental Composition of Net income attributed to equity holders								
Retail	1,360	1,009	+35%	874	+56%	3,402	2,731	+25%
Corporate	162	424	-62%	236	-31%	1,272	1,398	-9%
Treasury	798	979	-18%	879	-9%	2,833	2,728	+4%
Capital Market	68	84	-20%	74	-9%	287	205	+40%
International	65	83	-22%	63	+4%	227	184	+23%
Total	2,454	2,579	-5%	2,126	+15%	8,020	7,246	+11%

Balance Sheet Summary

SAR (million)	30 September 2018	30 June 2018	QoQ % change	30 September 2017	YoY % change	31 December 2017	YTD % change
Investments, net	116,504	114,978	+1%	116,900	-0%	114,578	+2%
Financing and advances, net	268,245	266,043	+1%	256,852	+4%	249,234	+8%
Total assets	459,080	454,374	+1%	446,191	+3%	443,866	+3%
Customers' deposits	325,461	317,653	+2%	302,593	+8%	308,942	+5%
Debt securities issued	8,636	8,754	-1%	10,166	-15%	10,250	-16%
Total liabilities	395,805	389,342	+2%	383,456	+3%	379,590	+4%
Equity attributable to shareholders of the Bank	55,504	57,007	-3%	54,433	+2%	56,041	-1%
Total equity	63,274	65,032	-3%	62,736	+1%	64,276	-2%
Risk weighted assets	361,091	361,096	-0%	379,814	-5%	361,107	-0%
CET1 ratio	15.9%	16.2%	-2%	14.5%	+9%	15.7%	1%
T1 ratio	17.8%	18.1%	-2%	16.4%	+9%	17.7%	1%
TC ratio	20.0%	20.3%	-2%	18.5%	+8%	20.0%	0%
Liquidity coverage ratio (LCR)	184.4%	211.9%	-13%	172.5%	+7%	177.3%	4%
Basel III leverage ratio	12.9%	13.1%	-2%	12.7%	+2%	13.0%	-1%
Financing to customer deposit ratio	82.4%	83.8%	-2%	84.9%	-3%	80.7%	2%
NPL ratio	1.8%	1.7%	+6%	1.8%	+3%	1.9%	-2%
NPL coverage ratio	153.9%	161.3%	-5%	142.3%	+8%	142.6%	8%
Segmental Composition of Total assets							
Retail	123,856	118,068	+5%	111,565	+11%	113,327	+9%
Corporate	142,725	142,800	-0%	139,843	+2%	128,227	+11%
Treasury	159,829	157,626	+1%	154,259	+4%	162,709	-2%
Capital Market	1,666	1,575	+6%	1,562	+7%	1,388	+20%
International	31,003	34,306	-10%	38,962	-20%	38,214	-19%
Total	459,080	454,374	+1%	446,191	+3%	443,866	+3%