

Earnings Release

NCB reports 9% net income growth to SAR 10.7 billion in 2018

FY 2018 Financial Highlights:

Net income grew 9% to SAR 10.7 billion on higher operating income and lower credit costs

Total operating income increased by 3% to SAR 18.9 billion driven by net commission margin improvement

Net financing and advances increased 6% to SAR 265.3 billion from year-end 2017

Customers' deposits grew 3% to SAR 318.7 billion and CASA deposits ratio improved to 80% from year-end 2017

Strong capitalization with tier 1 capital ratio of 18.5% and total capital ratio of 20.6%

Average 4Q 2018 liquidity coverage ratio of 176% demonstrates strong liquidity position

Jeddah, 31 January 2018. NCB reported 9% year-on-year net income growth in 2018, driven by a 3% improvement of operating income and -17% lower impairment charges, which were partially offset by 0.4% marginally higher operating expenses. The overall balance sheet expanded by 2% from 6% growth in financing and 3% growth in deposits during the year. NCB has continued to maintain its strong capitalisation level and healthy liquidity position.

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

"During 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 FY 2018 increased 3% year-on-year to SAR 18,927 million principally from 5% growth in net special commission income (NSCI) to SAR 14,370 million. The growth in net special commission income was supported by a 13 basis points NSCI margin improvement compared to FY 2017, resulting from a higher interest rate environment and an improved deposit mix. Fee and other income in 2018 were lower year-on-year at SAR 4,557

million as 2% growth in fee and foreign exchange income was offset by lower investment-related income.

NCB's operating expenses were relatively stable, reflecting the business growth, cost of living allowances to employees and the impact of VAT introduced at the start of the year. These were partially offset by the continued strides made in digitization and productivity initiatives, and lower depreciation. The impairment charge for FY 2018 17% lower year-on-year, aided by a major one-off recovery of SAR 120 million of a previously written off loan account, higher Retail recoveries from continued collection efforts, and the IFRS 9 adoption adjustment. These were partially offset by the full write-off of goodwill amounting to SAR 204 million during Q4 2018.

From a segmental perspective, the FY 2018 net income growth was led by Retail, where net income grew 18% to SAR 4,611 million from 10% operating income growth and lower impairment charges. Further, net income in Corporate grew 13% to SAR 2,237 million from -22% lower operating expenses and lower impairment charges, which more than offset a -5% lower operating income, attributable to lower average volumes. Treasury's net income remains stable and Capital Markets net income grew 23% on the back of higher fee income. The International segment's net income declined by -62% mainly from Goodwill impairment during Q4 2018 as well as due to 20% depreciation of average Turkish Lira during FY 2018 as compared with FY 2017.

NCB reported 4Q 2018 net income of SAR 2,647 million, up 4% year-on-year. The improvement was a result of 5% growth in operating income, across both net special commission and fee income, and 10% lower operating expenses, which were partially offset by 68% higher impairment charges.

Total assets grew 2% from 31 December 2017 to SAR 453,390 million as at 31 December 2018. Net financing and advances increased 6% to SAR 265,317 million as at 31 December 2018 as a result of solid growth in domestic lending of 9% in Corporate and 7% in Consumer. This was partially offset by a -19% decline in international lending due to 20% year-on-year Turkish Lira depreciation.

Credit quality remained healthy as the NPL ratio stood at 1.9% as at 31 December 2018 similar to the previous year-end, while NPL coverage ratio decreased to 142% from 143%. Customers' deposits grew by 3% to SAR 318,699 million, of which current and savings accounts represented 80% as at 31 December 2018 compared to 77% at year-end 2017.

NCB maintained its strong financial position, with a core equity tier 1 capital ratio of 16.6%, a tier 1 capital ratio of 18.5% and a total capital ratio of 20.6%. The average liquidity coverage ratio of 176.0% during 4Q 2018 and financing to customer deposit ratio of 83.3% as at 4Q 2018 demonstrate a comfortable liquidity position.

Income Statement Summary

SAR (million)	4Q 2018	3Q 2018	QoQ % change	4Q 2017	YoY % change	FY 2018	FY 2017	YoY % change
Net special commission income	3,741	3,637	+3%	3,375	+11%	14,370	13,661	+5%
Fee and other income	1,015	1,094	-7%	1,140	-11%	4,557	4,684	-3%
Total operating income	4,756	4,732	+1%	4,516	+5%	18,927	18,345	+3%
Operating expenses	(1,475)	(1,606)	-8%	(1,632)	-10%	(6,446)	(6,424)	+0%
Total impairment charge	(601)	(616)	-2%	(357)	+68%	(1,635)	(1,969)	-17%
Income from operations, net	2,680	2,510	+7%	2,526	+6%	10,846	9,953	+9%
Net income attributed to equity holders of the Bank	2,647	2,454	+8%	2,556	+4%	10,667	9,802	+9%
EPS	0.85	0.79	+8%	0.82	+4%	3.44	3.16	+9%
DPS, net	1.10	0.00		0.60	+83%	2.09	1.70	+23%
ROE (%)	18.0%	16.7%	+8%	17.8%	+1%	18.1%	17.4%	+4%
ROA (%)	2.4%	2.2%	+8%	2.4%	+0%	2.4%	2.2%	+7%
Net special commission margin (%)	3.64%	3.60%	+1%	3.41%	+7%	3.61%	3.48%	+4%
Cost to income (%)	31.0%	33.9%	-9%	36.1%	-14%	34.1%	35.0%	-3%
Cost of Risk (%)	0.6%	0.9%	-33%	0.4%	+33%	0.49%	0.74%	-33%
Segmental Composition of Net income attributed to equity holders								
Retail	1,209	1,260	-4%	1,168	+4%	4,611	3,898	+18%
Corporate	765	282	+171%	574	+33%	2,237	1,972	+13%
Treasury	712	778	-8%	614	+16%	3,345	3,342	+0%
Capital Market	76	68	+13%	90	-15%	363	295	+23%
International	(115)	65	-277%	111	-204%	111	295	-62%
Total	2,647	2,454	+8%	2,556	+4%	10,667	9,802	+9%

Balance Sheet Summary

SAR (million)	31 December 2018	30 September 2018	QoQ % change	31 December 2017	YoY % change
Investments, net	118,090	116,504	+1%	114,578	+3%
Financing and advances, net	265,317	268,245	-1%	249,234	+6%
Total assets	453,390	459,080	-1%	444,792	+2%
Customers' deposits	318,699	325,461	-2%	308,942	+3%
Debt securities issued	9,431	8,636	+9%	10,250	-8%
Total liabilities	387,721	395,805	-2%	380,516	+2%
Equity attributable to shareholders of the Bank	57,737	55,504	+4%	56,041	+3%
Total equity	65,669	63,274	+4%	64,276	+2%
Risk weighted assets	360,189	361,091	-0%	361,107	-0%
CET1 ratio	16.6%	15.9%	+4%	15.7%	+5%
T1 ratio	18.5%	17.8%	+4%	17.7%	+5%
TC ratio	20.6%	20.0%	+3%	20.0%	+3%
Liquidity coverage ratio (LCR)	176.0%	184.4%	-5%	177.3%	-1%
Basel III leverage ratio	13.5%	12.9%	+5%	13.0%	+3%
Financing to customer deposit ratio	83.3%	82.4%	+1%	80.7%	+3%
NPL ratio	1.9%	1.8%	+5%	1.9%	+3%
NPL coverage ratio	141.5%	154.0%	-8%	142.6%	-1%
Segmental Composition of Total assets					
Retail	125,908	123,856	+2%	116,530	+8%
Corporate	138,203	142,725	-3%	126,184	+10%
Treasury	154,763	159,829	-3%	162,510	-5%
Capital Market	1,602	1,666	-4%	1,388	+15%
International	32,915	31,003	+6%	38,180	-14%
Total	453,390	459,080	-1%	444,792	+2%