

# Mashreq Bank

1H 2016 Results



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# 1H 2016 Results

> Performance highlights

> Financial results

## Performance highlights

- > Stable growth in operating income (5.1% Y-o-Y) and operating profit (9.4% Y-o-Y)
- > A 10 bps increase in quarterly NIM (3.21% in 2Q 2016 vs 3.11% in 2Q 2015)
- > Consistently high fee and other income proportion (43.2%)
- > Steady growth in loans and advances (5.7% YOY)
- > Adequate coverage (Coverage 134.1%, NPL to advances 3.5%)
- > Prudent cost management resulting in improved efficiency (38.0%)
- > Diversified revenue base from international operations (23%)

## Financial highlights – Consolidated Income statement [AED million]

### Consolidated Income statement

	1H 2016	1H 2015	Variance
<b>Operating income</b>	3,168	3,015	5.1%
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<b>Operating expense</b>	1,204	1,220	(1.3%)
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<b>Operating profit</b>	1,964	1,796	9.4%
<hr/>			
<b>Impairment charges</b>	838	424	97.7%
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<b>Net profit</b>	1,071	1,294	(17.2%)

### Comments

- > **Operating income** up by 5.1% driven by 7.0% growth in net interest income
- > **Operating expenses** decreased by 1.3%
- > **Impairment charges** increased by 97.7% (large one-off recovery of AED 204 million in 1H 2015)
- > **Net profit** lower by 17.2% primarily on account of an increase in impairment charges. Adjusting for impact of recoveries in 1H 2015, normalized net profit stood flat on a year on year basis

## Financial highlights – Consolidated Balance sheet [AED million]

### Consolidated Balance sheet

	30 Jun 2016	31 Dec 2015	Variance
<b>Total Assets</b>	114,665	115,157	(0.4%)
<hr/>			
<b>Loans &amp; Advances</b>	61,755	60,166	2.6%
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<b>Customers' deposits</b>	73,345	73,635	(0.4%)
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<b>Total Equity</b>	18,823	18,486	1.8%
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<b>Risk weighted assets</b>	115,670	113,514	1.9%

### Comments

- > **Total assets** stable at AED 115 billion
- > **Customer loans and advances** at AED 61.8 billion, increased by 2.6%, led by a 24.4% growth in Islamic loans
- > **Customer deposits** stable at AED 73 billion – the growth in conventional deposits of 3.2% was offset by a 28.2% decline in Islamic deposits; CASA increased by 4.1% to form 64.4% of total deposits
- > **Total Equity** increased to AED 18.8 billion
- > **Risk weighted assets** increased by 1.9% to reach AED 115.7 billion

## Financial track record

	<u>30 Jun 2016</u>	<u>31 Mar 2016</u>	<u>31 Dec 2015</u>
<b>Capital adequacy</b>			
<b>Tier I Capital Ratio</b>	15.8%	15.8%	15.9%
<b>Total Capital Ratio</b>	16.8%	16.8%	16.9%
<b>Liquidity</b>			
<b>Liquid Assets to Total Assets</b>	26.6%	27.7%	29.9%
<b>Advances to Deposits</b>	84.2%	80.8%	81.7%
<b>Asset quality</b>			
<b>NPL Coverage Ratio</b>	134.1%	135.8%	145.0%
<b>NPL to Gross Advances</b>	3.5%	3.2%	2.8%
<b>Performance</b>			
<b>ROA</b>	1.9%	1.9%	2.2%
<b>ROE</b>	12.0%	12.0%	14.2%
<b>Net Interest Margin</b>	3.1%	3.1%	3.1%
<b>Efficiency Ratio</b>	38.0%	39.5%	41.4%
<b>Fee and other income to total income</b>	43.2%	42.1%	42.8%

# 1H 2016 results

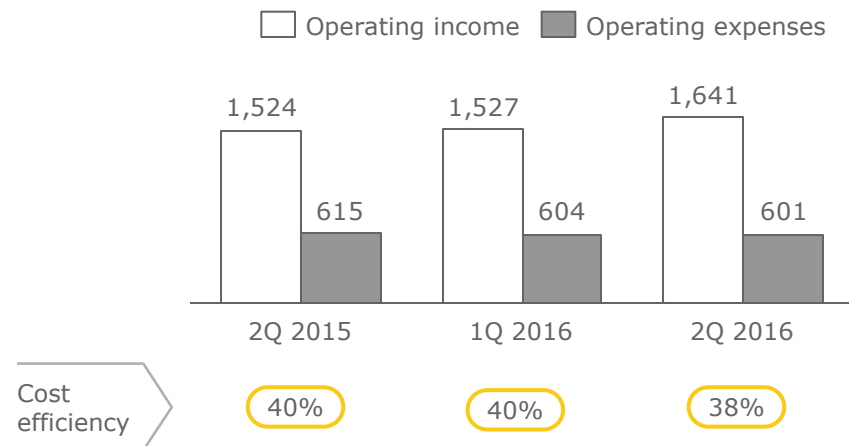
- > Key highlights

- > Financial results

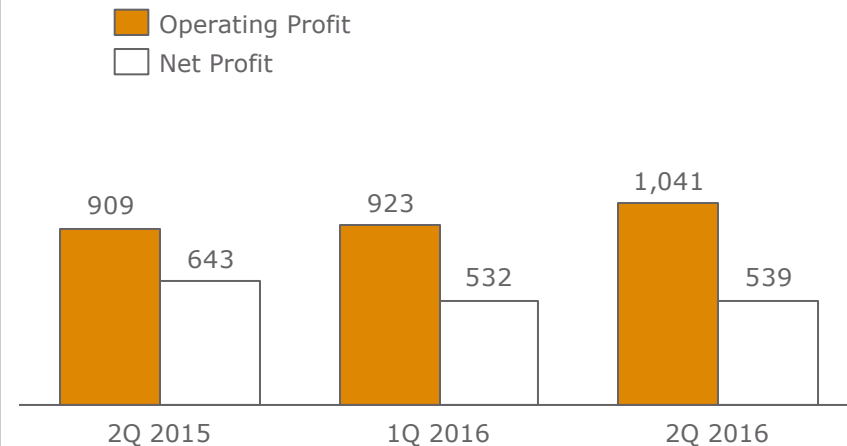


# Operating income, expense and net profit [AED million]

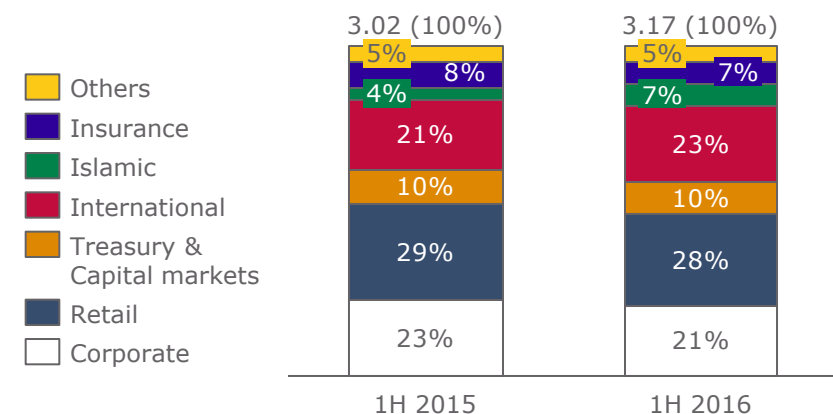
## Operating income and expenses



## Net profit



## Operating income split by segments

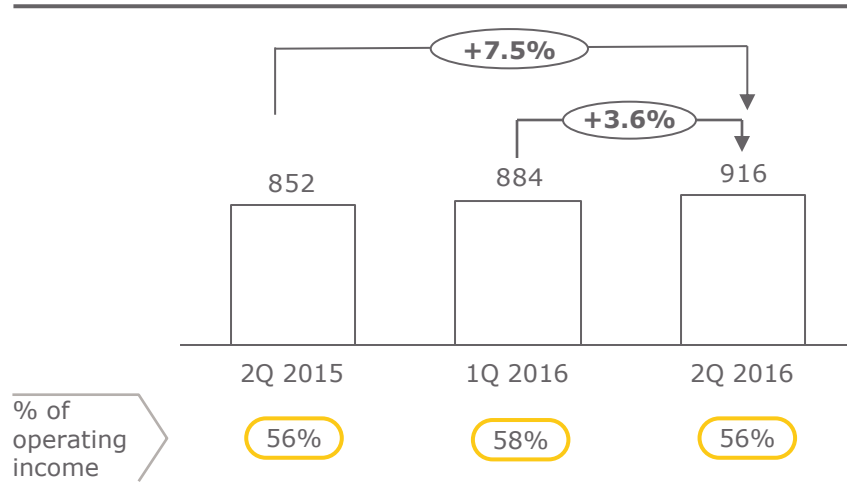


## Key Points

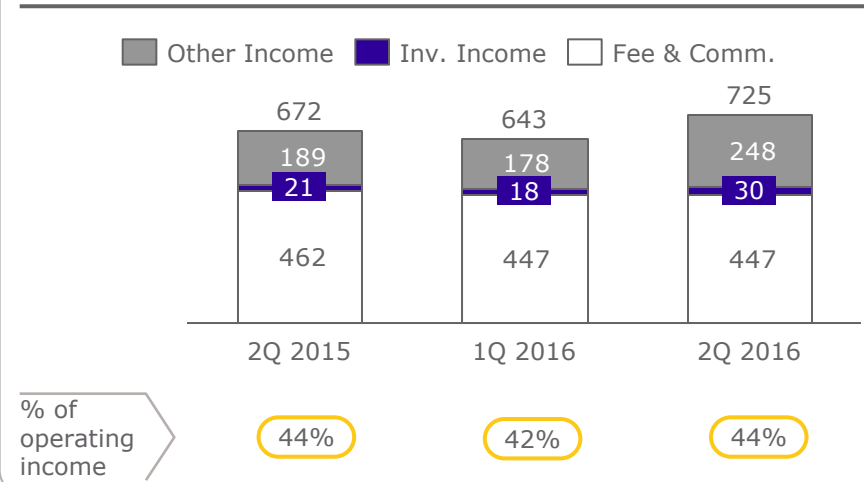
- > 2Q 2016 Operating Income grew by 7.7% Y-o-Y while expenses fell by 2.4%
- > On a Q-o-Q basis 2Q 2016 operating income increased by 7.5% while expenses decreased by 0.5%
- > Efficiency ratio stood at 38.0% for 1H 2016 as compared to 41.4% in YE 2015
- > Operating profit for the quarter increased by 14.6% Y-o-Y and by 12.8% Q-o-Q
- > Net profit for the quarter decreased by 16.1% Y-o-Y but increased by 1.4% Q-o-Q
- > Retail banking accounted for the largest portion of 1H 2016 Operating Income with 28% contribution, followed by International Banking and Corporate Banking

# Operating income mix [AED million]

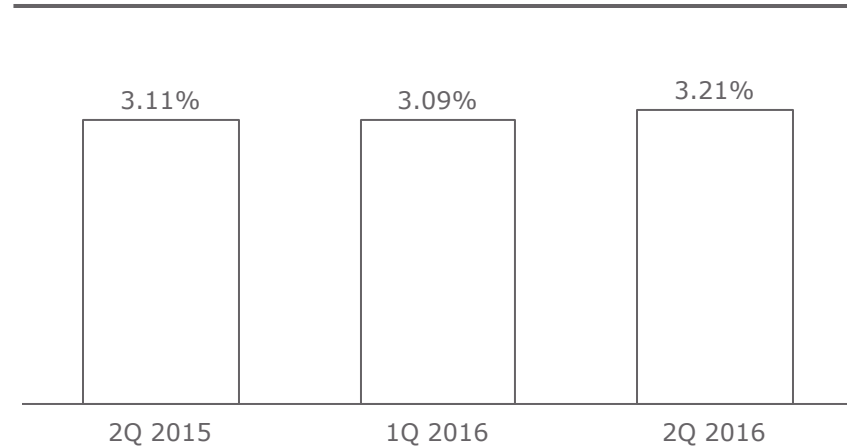
## Net interest income<sup>1)</sup>



## Net fee and other income<sup>1)</sup>



## Net interest margin<sup>1)</sup> [%]



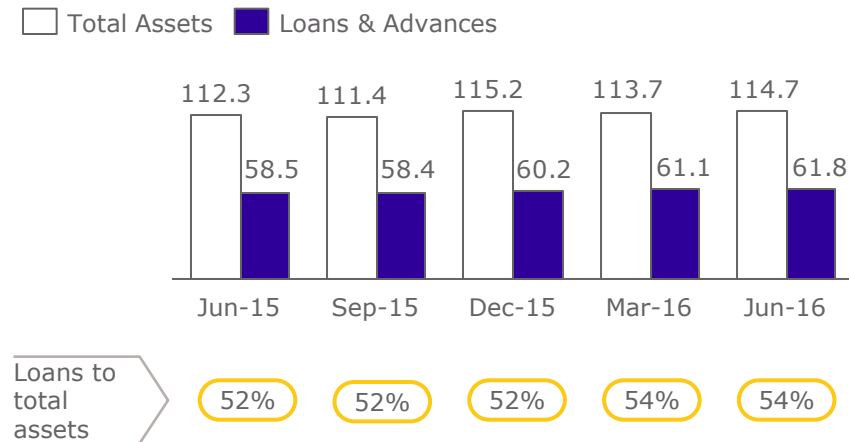
## Key Points

- > 2Q 2016 Net Interest Income increased by 7.5% Y-o-Y driven by 5.7% increase in loan growth; on a Q-o-Q basis Net Interest Income increased by 3.6%
- > Net Fee & other income increased by 12.8% Q-o-Q primarily driven by an increase in other income and investment income. There has been a 66.7% increase in Investment income Q-o-Q
- > Non interest income as % of total income remained high at 44% for 2Q 2016
- > NIM's have increased 12 basis points Q-o-Q

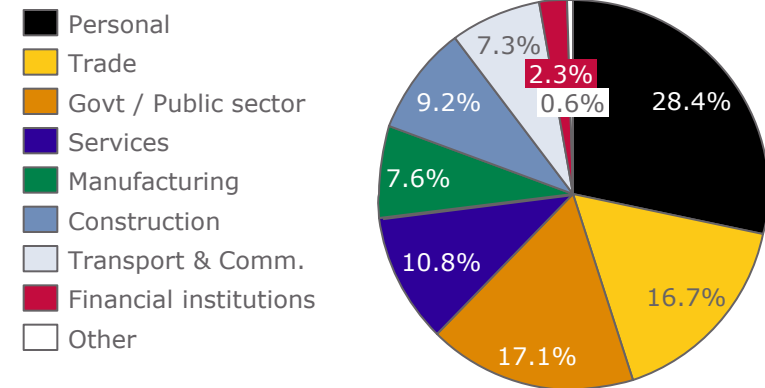
1) NII component booked under Investment income as per IFRS, has been reclassified under NII in the above representation; Based on annualized quarterly NII

## Asset mix [AED billion]

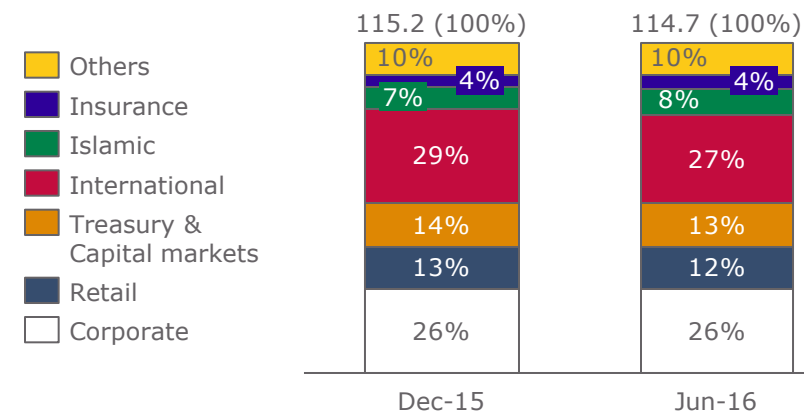
### Total Assets and Loans & Advances



### Loans portfolio split as of June 2016



### Asset split by segments

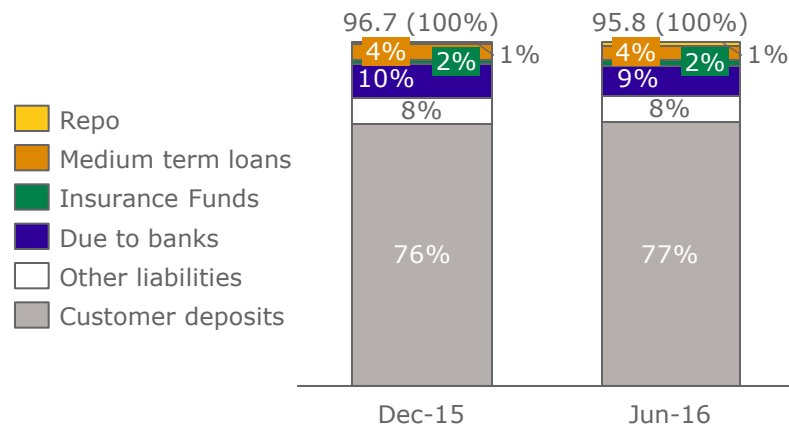


### Key Points

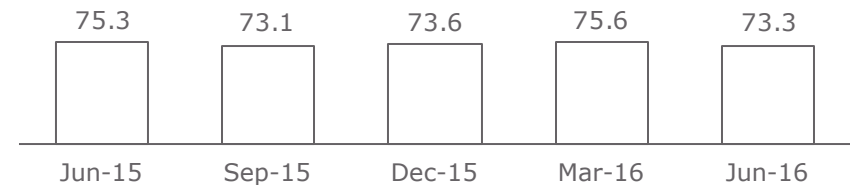
- > Total assets decreased by 0.4% to reach AED 114.7 billion, as compared to AED 115.2 billion in December 2015
- > Loans & advances increased by 2.6% in the year to reach AED 61.8 billion led by Personal, Trade & Govt. / Public Sector
- > Personal segment contributes 28.4% of the Gross Loans
- > Diversified loans portfolio with no individual sector accounting for >20% of the total corporate loan portfolio
- > Assets mix fairly balanced between domestic and international locations with International business accounting for 27% of the assets as of June 2016

# Liability mix [AED billion]

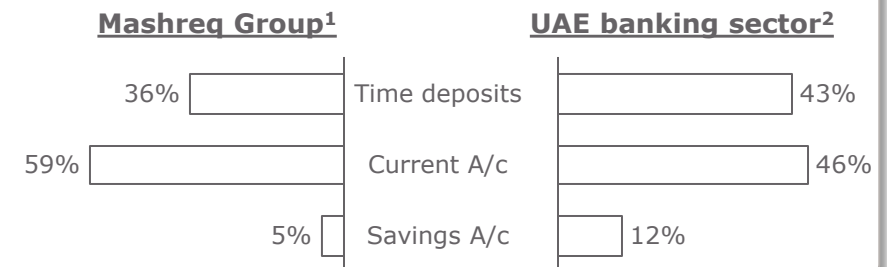
## Liability mix



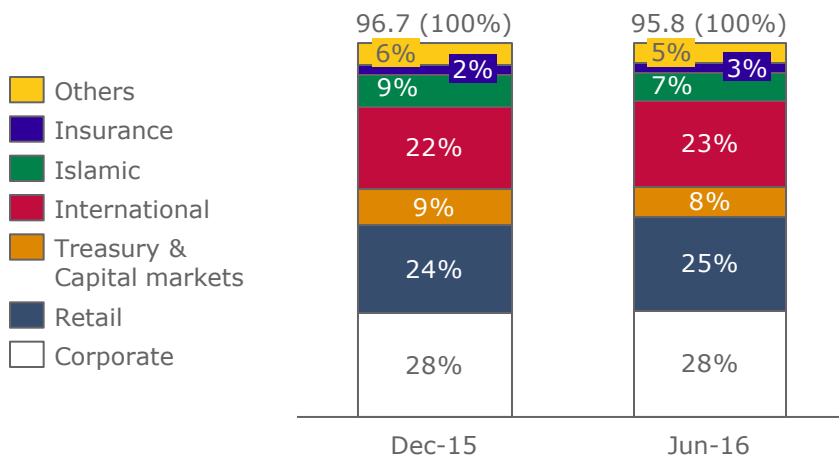
## Customer deposits



## Customer deposits split comparison (Jun 2016)



## Liabilities split by segments



## Key Points

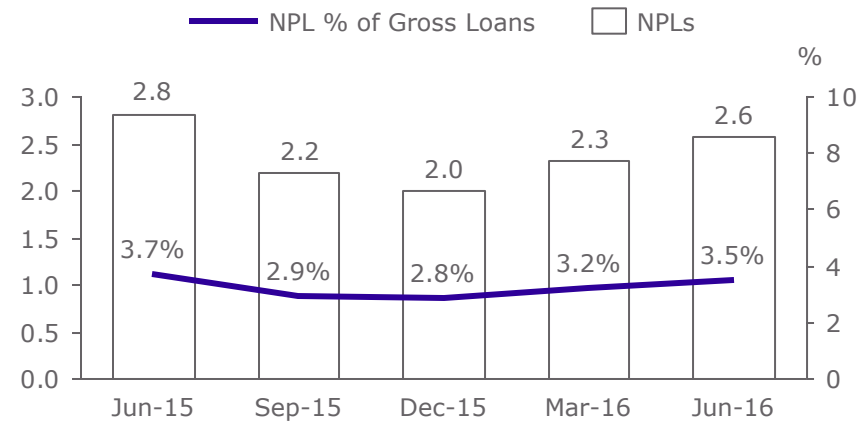
- > Customer deposits accounted for 77% of total liabilities, slightly higher than in December 2015
- > Customer deposits decreased by 0.4% as compared to December 2015
- > CASA formed a majority portion of customer deposits at 64% as compared to overall market at 57%; Time deposits contributed 36% of total deposits vs 43% for the market
- > Corporate Banking accounts for the largest portion of liabilities at 28% followed by Retail Banking at 25%

1) Represents data of Mashreq Group including overseas deposits

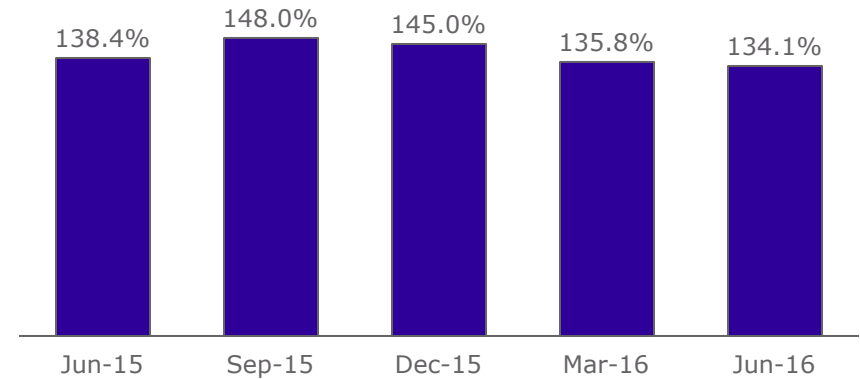
2) Represents data of UAE banking sector as of May 2016 sourced from Central Bank Statistical Bulletin

# Asset quality and liquidity [AED billion]

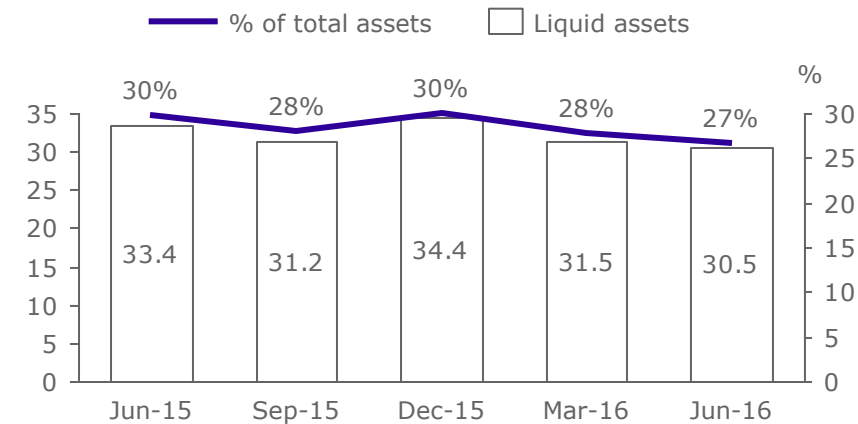
## NPLs and % of Gross Loans



## NPL Coverage Ratio [%]



## Liquid assets trend

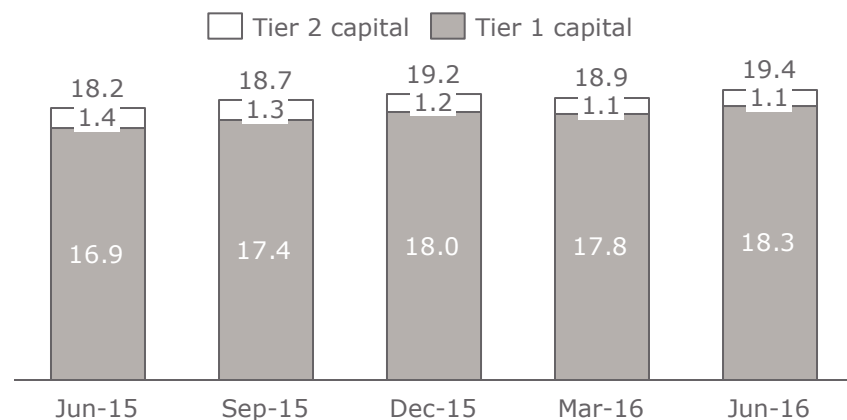


## Key Points

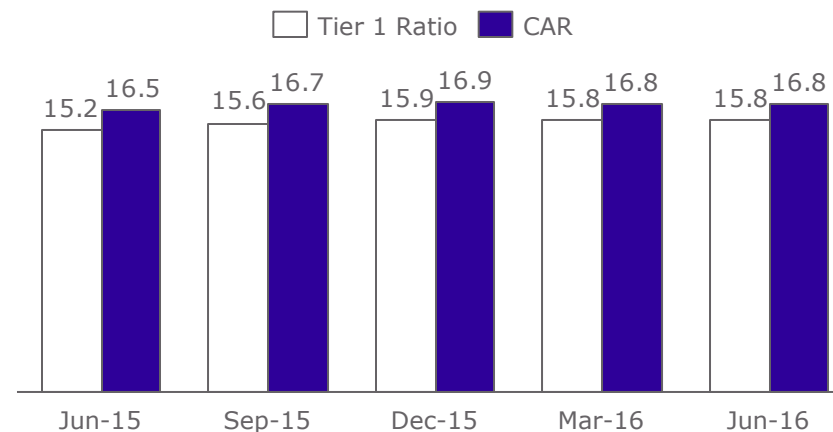
- > NPLs have increased slightly to reach AED 2.6 billion as compared to March 2016. Consequently the NPLs as % of Gross loans has increased to 3.5%
- > Coverage ratio in June 2016 remains high at 134%
- > Continuing with a prudent provisioning policy, Mashreq has set aside AED 472 million net for Impaired assets in 2Q 2016
- > Liquid assets to total assets as of June 2016 was at 26.6%, as compared to 29.9% in December 2015 and 27.7% in March 2016

# Capital adequacy [AED billion; %]

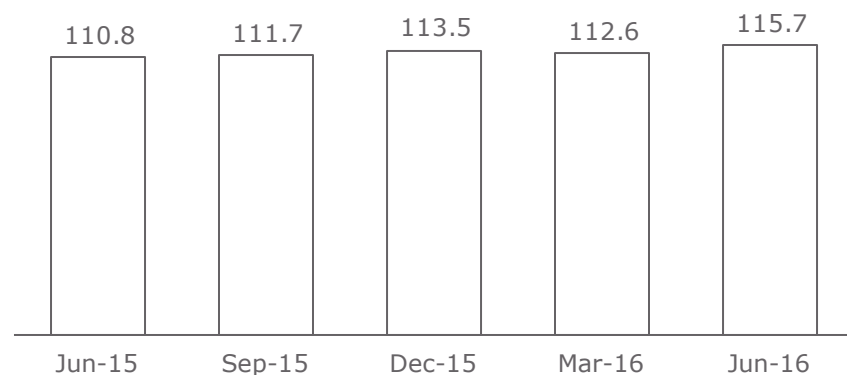
## Tier I and Tier II Capital [AED billion]



## Tier I and Capital Adequacy Ratios [%]



## Risk-weighted assets [AED billion]

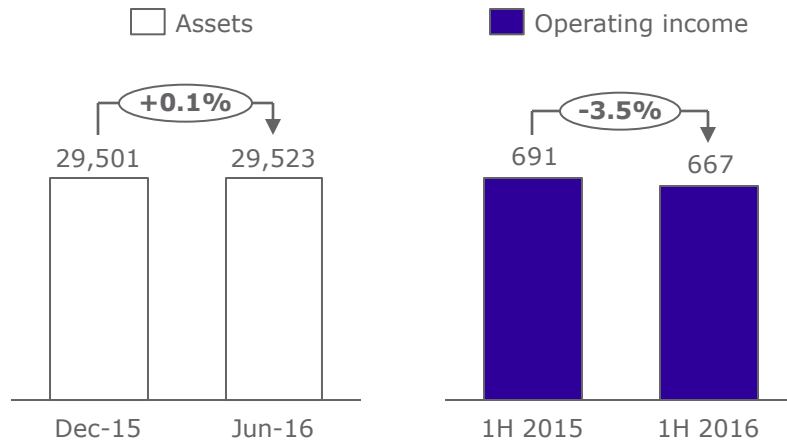


## Key Points

- > Tier 1 capital increased to reach AED 18.3 billion
- > Tier 1 capital ratio of the bank was at 15.8% as of June 2016 stable as compared to March 2016
- > The banks' overall capital adequacy ratio at 16.8% is higher than the regulatory requirements as per Central Bank of UAE (Basel II)

## Business segment information [AED million]

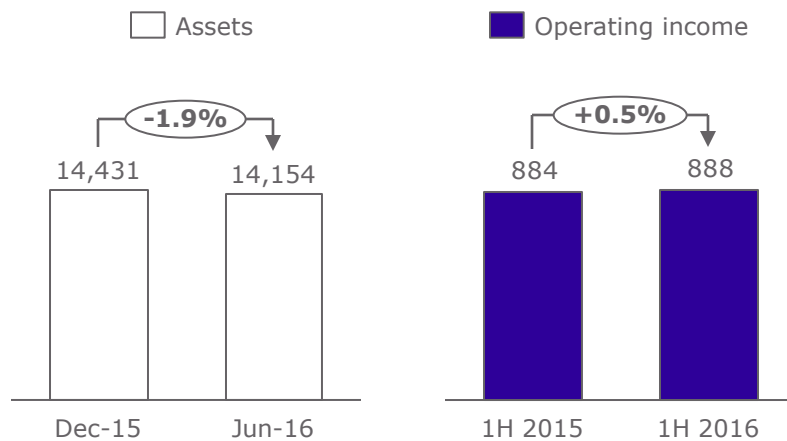
### Corporate Banking



### Key Points

- > Corporate banking is the biggest segment in Mashreq in terms of liabilities (28% of total liabilities)
- > Assets remained stable at AED 29.5 billion as compared to Year End 2015, and make up 26% of total assets in 1H 2016
- > Operating income decreased by 4% in 1H 2016 as compared to last year, accounting for 21% of total operating income in 1H 2016
- > Won "Best Real Estate Finance" in 2016 from the Banker ME Industry Awards

### Retail Banking

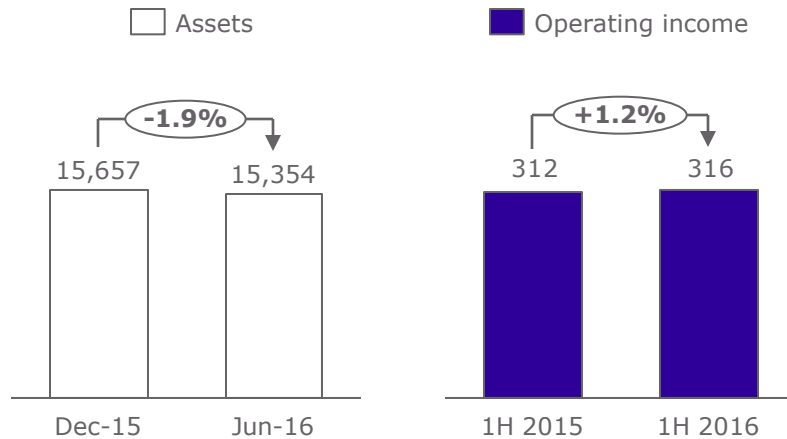


### Key Points

- > Retail banking is the largest contributor towards operating income at 28%
- > Y-o-Y operating income grew by 1% driven by Business Banking and Mashreq Gold
- > Retail banking assets decreased slightly by 2% but remain at a stable value of AED 14.0 billion
- > Won multiple awards including "Best Regional Retail Bank" by Banker ME Industry Award 2016

## Business segment information [AED million]

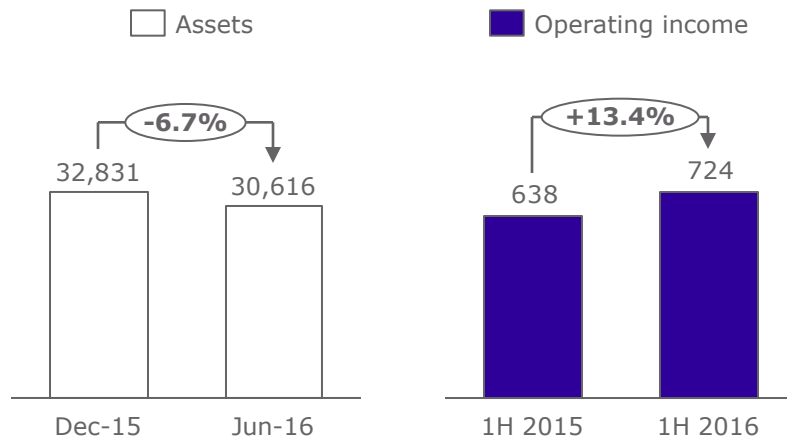
### Treasury & Capital Markets



### Key Points

- > Treasury & Capital markets accounts for 13% of assets and 8% of liabilities as of June 2016; Assets decreased by 2% in the first half of 2016
- > TCM Operating income contributed 10% to the total operating income in 1H 2016
- > Operating income increased by 1% as compared to 1H 2015

### International Banking



### Key Points

- > International Banking is the largest segment in terms of assets at 27%
- > Additionally, contribution of International business formed 23% of operating income and 23% of liabilities
- > International Banking assets decreased by 7% as compared to December 2015
- > Y-o-Y operating income grew by 13% driven by Egypt
- > Electronic Fund Transfer System (EFTS) was introduced for customers in Bahrain to enhance their experience and to facilitate them in their transactions



# APPENDIX

## 2Q 2016 financials – Consolidated Income statement [AED million]

Income statement	2016		2015	Variance (% change)	
AED million	2Q	1Q	2Q	2Q 2016 vs 2Q 2015 (Y-o-Y)	2Q 2016 vs 1Q 2016 (Q-o-Q)
Net interest income <sup>1)</sup>	916	884	852	7.5%	3.6%
Fees and commission	447	447	462	(3.2%)	0.2%
Investment income / (loss) <sup>1)</sup>	30	18	21	42.9%	66.7%
Other income	248	178	189	31.2%	39.2%
<b>Total operating income</b>	<b>1,641</b>	<b>1,527</b>	<b>1,524</b>	<b>7.7%</b>	<b>7.5%</b>
Operating expenses	(601)	(604)	(615)	(2.4%)	(0.5%)
Impairment allowance	(472)	(366)	(228)	107.3%	29.1%
Overseas tax expense	(15)	(18)	(22)	(28.5%)	(14.2%)
Minority interest	(14)	(8)	(16)	(14.0%)	81.4%
<b>Net income</b>	<b>539</b>	<b>532</b>	<b>643</b>	<b>(16.1%)</b>	<b>1.4%</b>

## 2Q 2016 financials - Consolidated Balance sheet [AED million]

Balance sheet	30 Jun 2016	31 Dec 2015	Variance (% change)
<b>Assets</b>			
Cash and balances with Central Banks	14,901	19,423	(23.3%)
Deposits and balances due from Central Banks	15,606	15,010	4.0%
Loans and advances	53,529	53,555	(0.05%)
Islamic financing and investment products	8,226	6,611	24.4%
Other financial assets	13,774	11,918	15.6%
Goodwill	18	18	0.5%
Interest receivable and other assets	6,948	6,929	0.3%
Investment properties	524	528	(0.8%)
Property and equipment	1,139	1,165	(2.2%)
<b>Total Assets</b>	<b>114,665</b>	<b>115,157</b>	<b>(0.4%)</b>
<b>Liabilities</b>			
Deposits and balances due to banks	8,291	9,232	(10.2%)
Repurchase agreement with banks	974	735	32.5%
Customers' deposits	67,318	65,244	3.2%
Islamic customers' deposits	6,027	8,391	(28.2%)
Insurance and life assurance funds	1,588	1,560	1.8%
Interest payable and other liabilities	7,576	7,404	2.3%
Medium-term / long-term loans	4,069	4,106	(0.9%)
<b>Total Equity</b>	<b>18,823</b>	<b>18,486</b>	<b>1.8%</b>
<b>Total Liabilities and Equity</b>	<b>114,665</b>	<b>115,157</b>	<b>(0.4%)</b>