

# Mashreq Bank

YE 2016 Results



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# YE 2016 Results

- > Performance highlights

- > Financial results

## Performance highlights

- > Stable growth in operating income (3.2% Y-o-Y) and operating profit (7.3% Y-o-Y)
- > Industry leading share of CASA in deposits (62.8%)
- > Consistently high fee and other income proportion (42.2%)
- > Steady growth in loans and advances (1.4% Y-o-Y)
- > Provisions increased to AED 1.7 billion leading to ample coverage (Coverage 151.1%, NPL to advances 3.1%); General provisions stand at 1.6% of Credit Risk Weighted Assets
- > Prudent cost management resulting in improved efficiency (39.0%)
- > Diversified revenue base from international operations (24%)

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

### Consolidated Income statement

	2016	2015	Variance
<b>Operating income</b>	6,169	5,977	3.2%
<b>Operating expense</b>	2,407	2,472	(2.7%)
<b>Operating profit</b>	3,762	3,505	7.3%
<b>Impairment charges</b>	1,734	1,000	73.4%
<b>Net profit</b>	1,926	2,402	(19.8%)

### Comments

- > **Operating income** up by 3.2% driven by 4.2% growth in net interest income
- > **Operating expenses** decreased by 2.7%
- > **Impairment charges** increased by 73.4%; however adjusting for the impact of one-off recoveries the normalized increase is 39.1% (large one-off recovery of AED 247 million during 2015)
- > **Net profit** lower by 19.8% primarily on account of an increase in impairment charges. Adjusting for impact of recoveries in 2015, normalized net profit decreased by ~10% on a year on year basis

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

### Consolidated Balance sheet

	31 Dec 2016	31 Dec 2015	Variance
<b>Total Assets</b>	122,814	115,157	6.6%
<hr/>			
<b>Loans &amp; Advances</b>	60,994	60,166	1.4%
<hr/>			
<b>Customers' deposits</b>	77,041	73,635	4.6%
<hr/>			
<b>Total Equity</b>	19,486	18,486	5.4%
<hr/>			
<b>Risk weighted assets</b>	118,874	113,514	4.7%

### Comments

- > **Total assets** increased by 6.6% and stood at AED 123 billion
- > **Customer loans and advances** at AED 61 billion, increased by 1.4%, led by a 14.4% growth in Islamic loans
- > **Customer deposits** increased by 4.6% to reach AED 77 billion – the growth in conventional deposits of 7.2% was brought down by a 15.5% decline in Islamic deposits; CASA increased by 6.5% and constitutes 62.8% of total deposits
- > **Total Equity** increased to AED 19.5 billion
- > **Risk weighted assets** increased by 4.7% to reach AED 118.9 billion

## Financial track record

	<u>31 Dec 2016</u>	<u>30 Sep 2016</u>	<u>31 Dec 2015</u>
<b>Capital adequacy</b>			
<b>Tier I Capital Ratio</b>	16.0%	15.7%	15.9%
<b>Total Capital Ratio</b>	16.9%	16.7%	16.9%
<b>Liquidity</b>			
<b>Liquid Assets to Total Assets</b>	30.4%	26.8%	29.9%
<b>Advances to Deposits</b>	79.2%	82.8%	81.7%
<b>Asset quality</b>			
<b>NPL Coverage Ratio</b>	151.1%	136.0%	145.0%
<b>NPL to Gross Advances</b>	3.1%	3.6%	2.8%
<b>Performance</b>			
<b>ROA</b>	1.6%	1.7%	2.2%
<b>ROE</b>	10.6%	10.9%	14.2%
<b>Net Interest Margin</b>	3.52%	3.59%	3.60%
<b>Efficiency Ratio</b>	39.0%	38.3%	41.4%
<b>Fee and other income to total income</b>	42.2%	42.6%	42.8%

# **YE 2016 results**

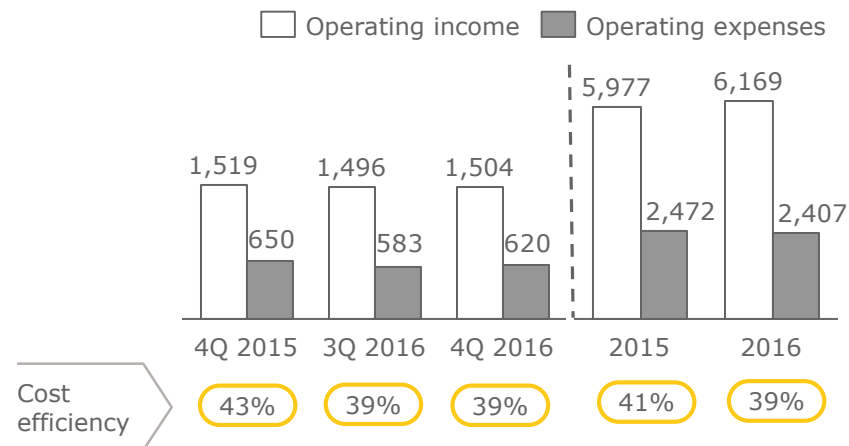
> Key highlights

> Financial results

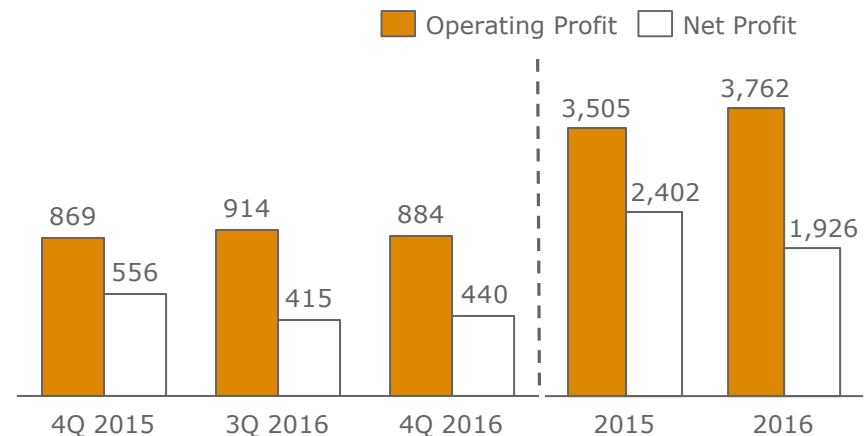


# Operating income, expense and net profit [AED million]

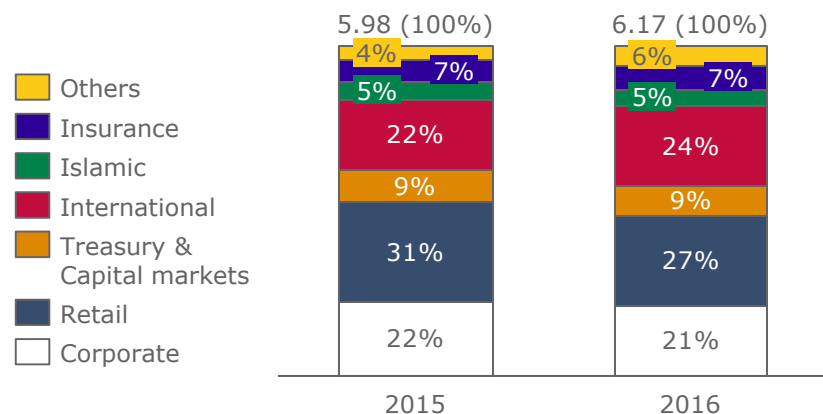
## Operating income and expenses



## Net profit



## Operating income split by segments

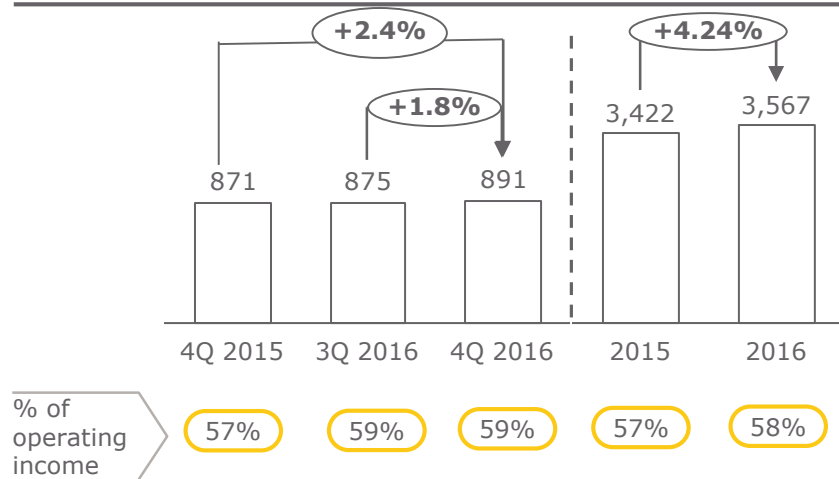


## Key Points

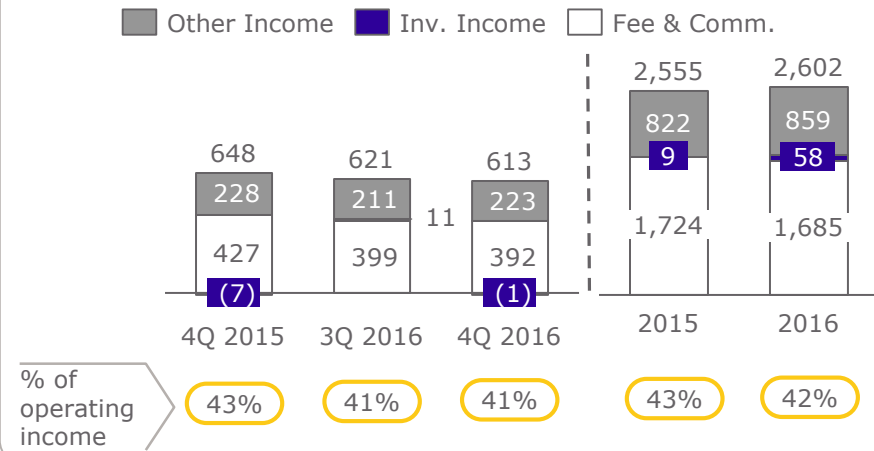
- > 4Q 2016 Operating Income remained stable at AED 1.5 billion
- > On a Q-o-Q basis 4Q 2016 operating income increased by 0.6% while expenses increased by 6.4%
- > Efficiency ratio improved to 39.0% for YE 2016 as compared to 41.4% in YE 2015
- > Operating profit for the quarter increased by 1.8% Y-o-Y but decreased by 3.1% Q-o-Q
- > Net profit for the quarter decreased by 20.7% Y-o-Y however increased by 6.4% Q-o-Q
- > Retail banking accounted for the largest portion of YE 2016 Operating Income with 27% contribution, followed by International Banking

# Operating income mix [AED million]

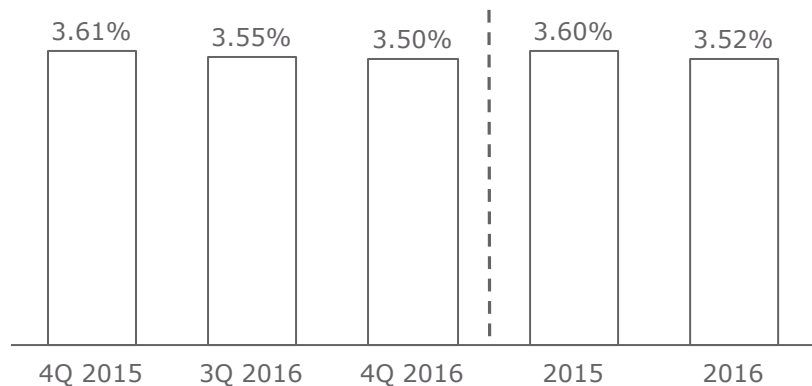
## Net interest income<sup>1)</sup>



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



## Net interest margin<sup>2)</sup> [%]



## Key Points

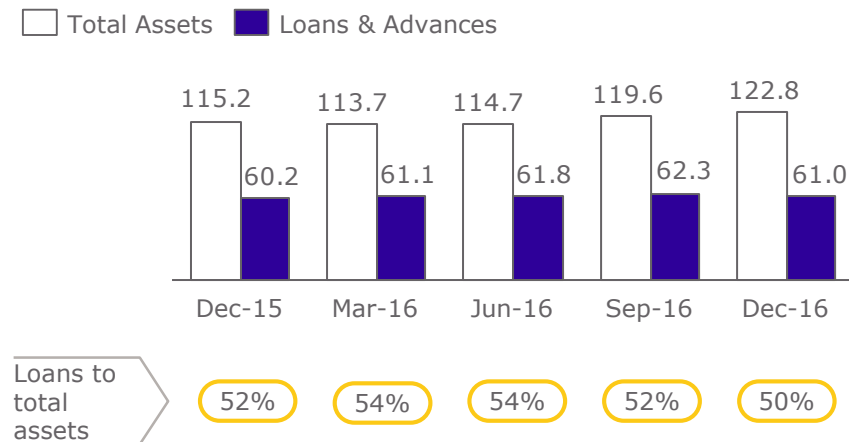
- > 4Q 2016 Net Interest Income increased by 2.4% Y-o-Y driven by 1.4% increase in loan growth; on a Q-o-Q basis Net Interest Income increased by 1.8%
- > Non interest income decreased by 1.2% Q-o-Q primarily driven by a decrease in fee & commission income
- > Non interest income as % of total income remained high at 41% for 4Q 2016
- > Total Insurance premiums in Oman Insurance Company (OIC) grew at healthy pace of 11.5% vs. the prior year
- > NIM's have decreased 5 basis points Q-o-Q

1) NII component booked under Investment income as per IFRS, has been reclassified under NII in the above representation

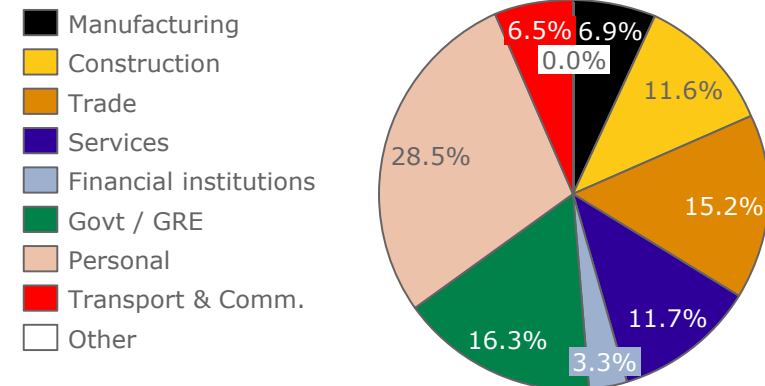
2) Based on annualized quarterly NII

## Asset mix [AED billion]

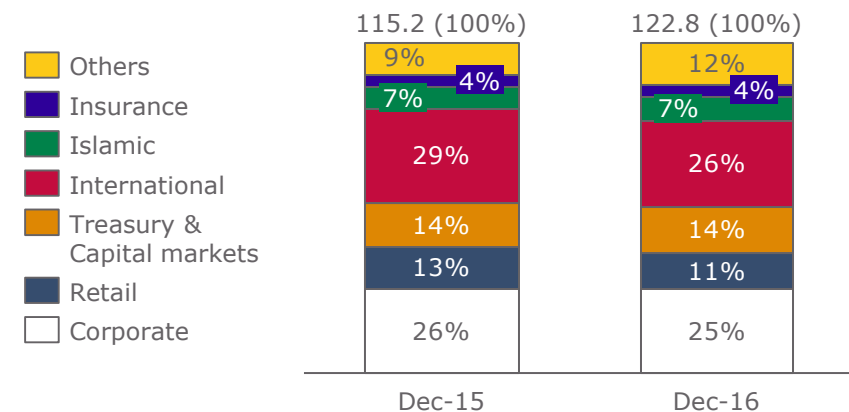
### Total Assets and Loans & Advances



### Gross Loans portfolio split as of December 2016



### Asset split by segments

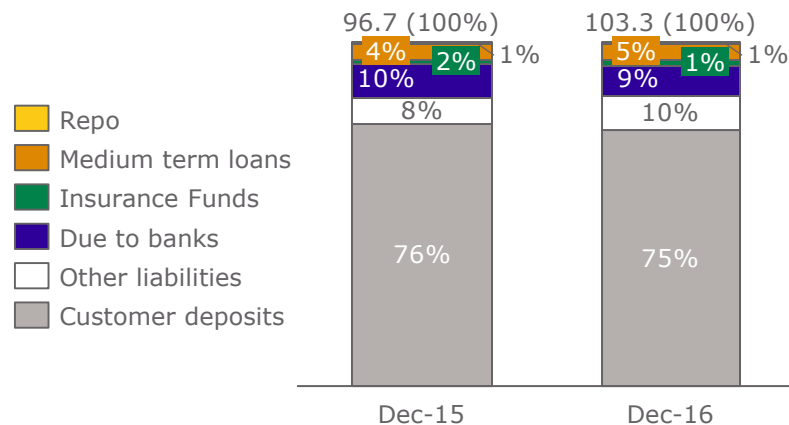


### Key Points

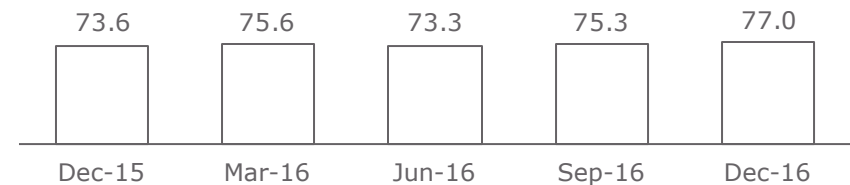
- > Total assets increased by 6.6% to reach AED 122.8 billion, as compared to AED 115.2 billion in December 2015
- > Loans & advances increased by 1.4% in the year to reach AED 61.0 billion led by transport & communication
- > Personal segment contributes 27.9% of the Gross Loans
- > Diversified loans 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 26% of the assets as of December 2016

# Liability mix [AED billion]

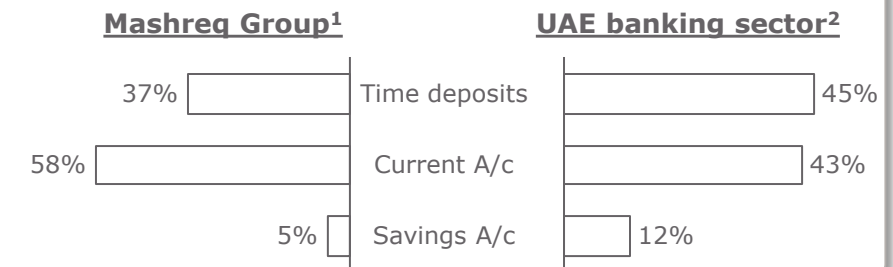
## Liability mix



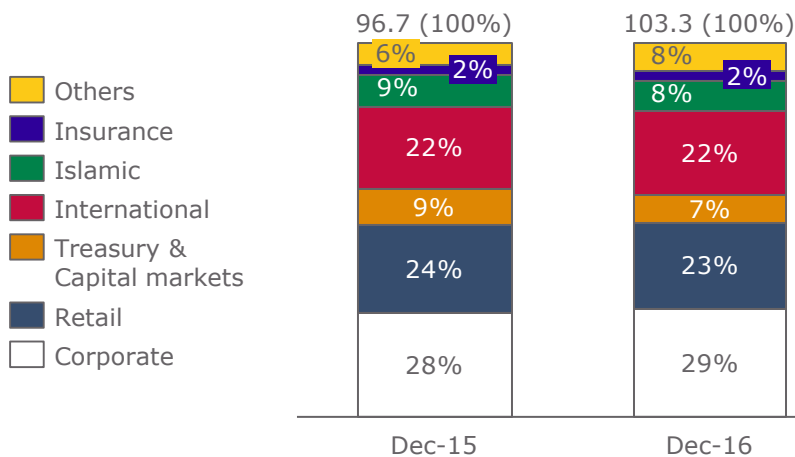
## Customer deposits



## Customer deposits split comparison (Dec 2016)



## Liabilities split by segments



## Key Points

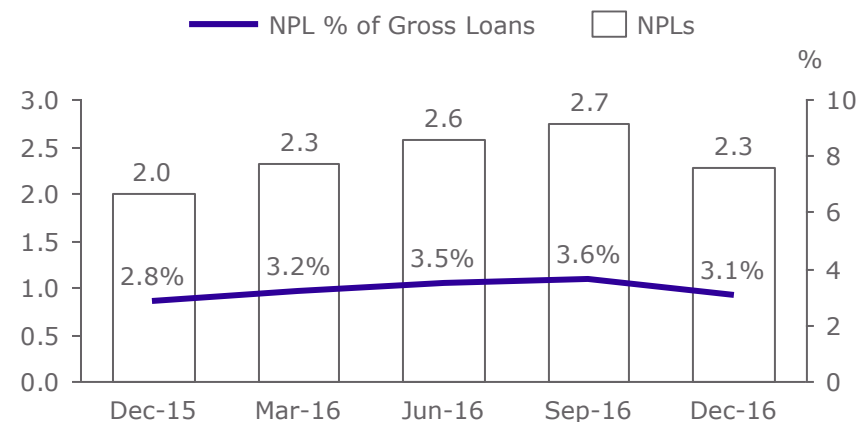
- > Customer deposits accounted for 75% of total liabilities, slightly lower than in December 2015
- > Customer deposits increased by 4.6% as compared to December 2015
- > CASA formed a majority portion of customer deposits at 63% as compared to overall market at 55%; Time deposits contributed 37% of total deposits vs 45% for the market
- > Corporate Banking accounts for the largest portion of liabilities at 29%

1) Represents data of Mashreq Group including overseas deposits

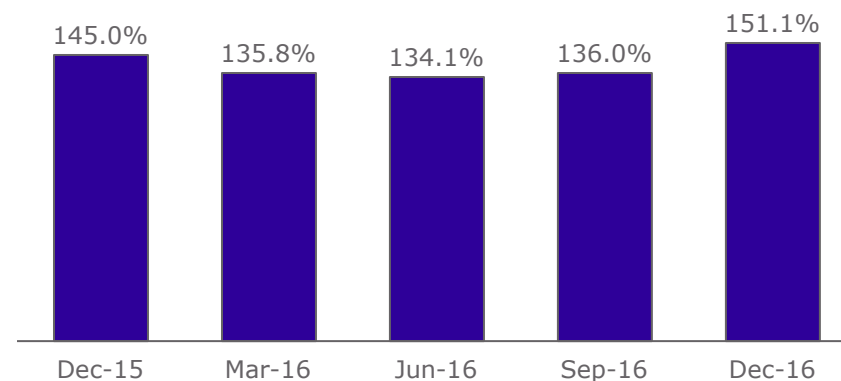
2) Represents data of UAE banking sector as of November 2016 sourced from Central Bank Statistical Bulletin

# Asset quality and liquidity [AED billion]

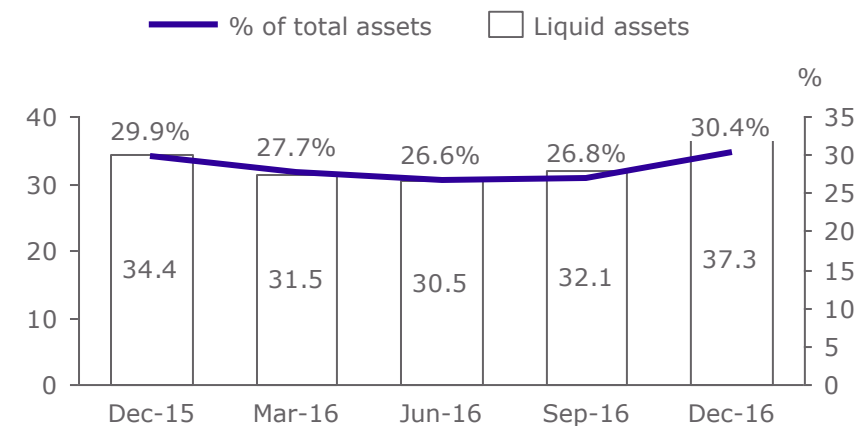
## NPLs and % of Gross Loans



## NPL Coverage Ratio [%]



## Liquid assets trend

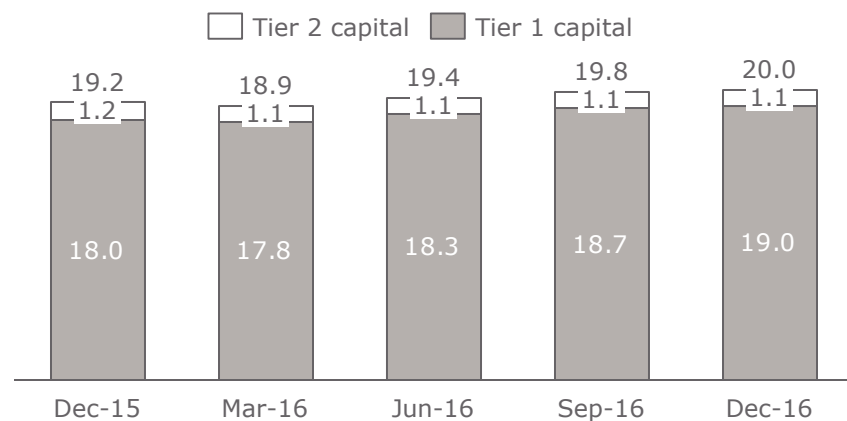


## Key Points

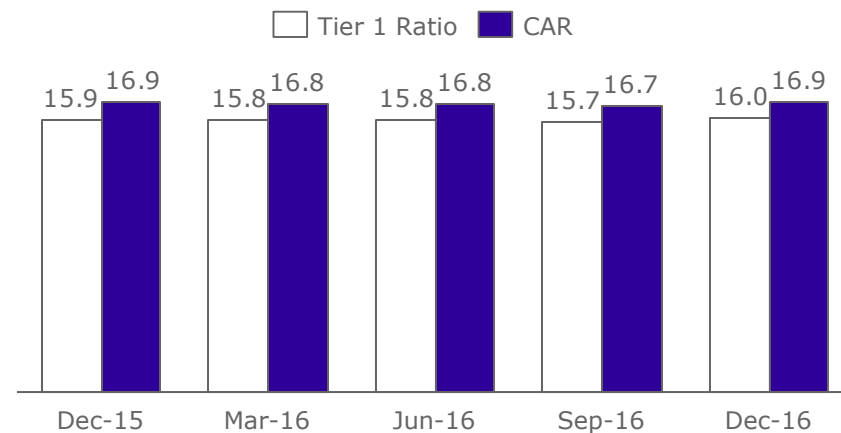
- > Continuing with a prudent provisioning policy, Mashreq has set aside AED 425 million net for Impaired assets in 4Q 2016. General provisions now stand at 1.6% of Credit Risk Weighted Assets
- > NPLs have decreased by 17% to reach AED 2.3 billion as compared to September 2016. Consequently the NPLs as % of Gross loans has decreased to 3.1%
- > Coverage ratio in December 2016 remains high at 151.1%
- > Liquid assets to total assets as of December 2016 was at 30.4%, as compared to 29.9% in December 2015 and 26.8% in September 2016

# Capital adequacy [AED billion; %]

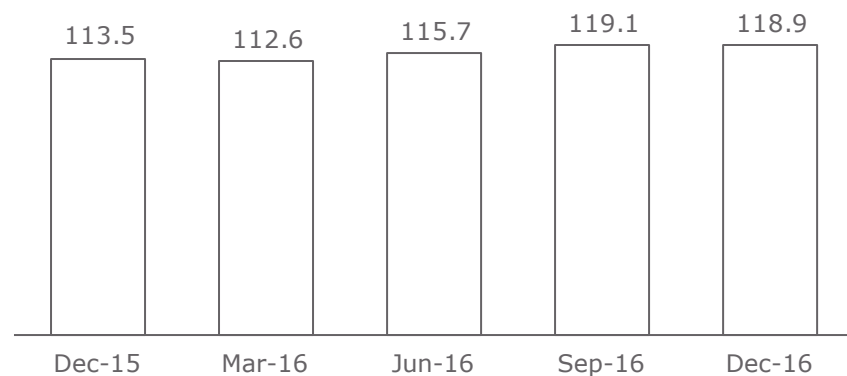
## Tier I and Tier II Capital [AED billion]



## Tier I and Capital Adequacy Ratios [%]



## Risk-weighted assets [AED billion]

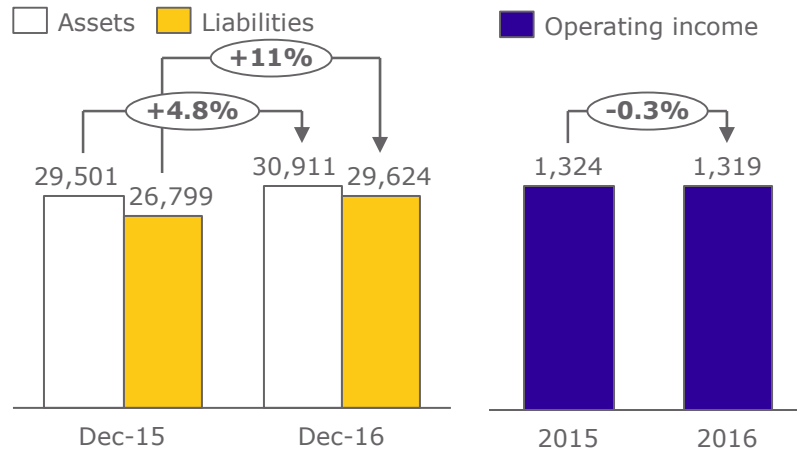


## Key Points

- > Tier 1 capital increased to reach AED 19.0 billion
- > Tier 1 capital ratio of the bank was at 16.0% as of December 2016; 22 bps increase as compared to September 2016
- > The banks' overall capital adequacy ratio at 16.9% is higher than the regulatory requirements as per Central Bank of UAE (Basel II)

## Business segment information [AED million]

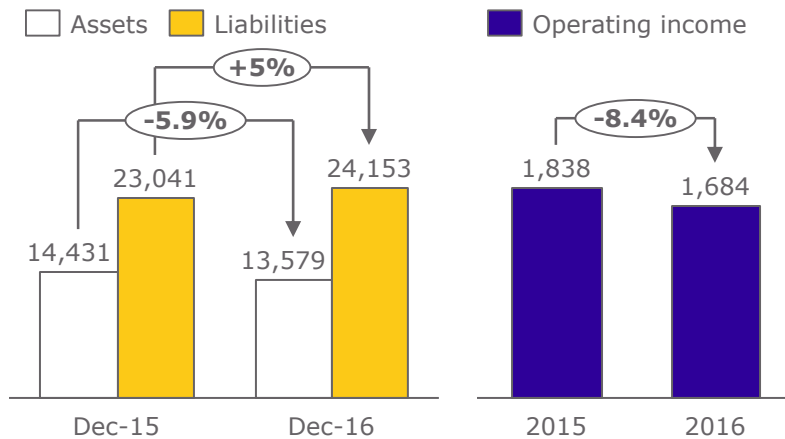
### Corporate Banking



### Key Points

- > Corporate banking is the biggest segment in Mashreq in terms of liabilities (29% of total liabilities)
- > Assets at AED 30.9 billion increased by 4.8% as compared to Year End 2015, and make up 25% of total assets in December 2016
- > Operating income decreased by 0.3% in 2016 as compared to last year, accounting for 21% of total operating income in 2016
- > Won "Best Real Estate Finance" in 2016 from the Banker ME Industry Awards

### Retail Banking

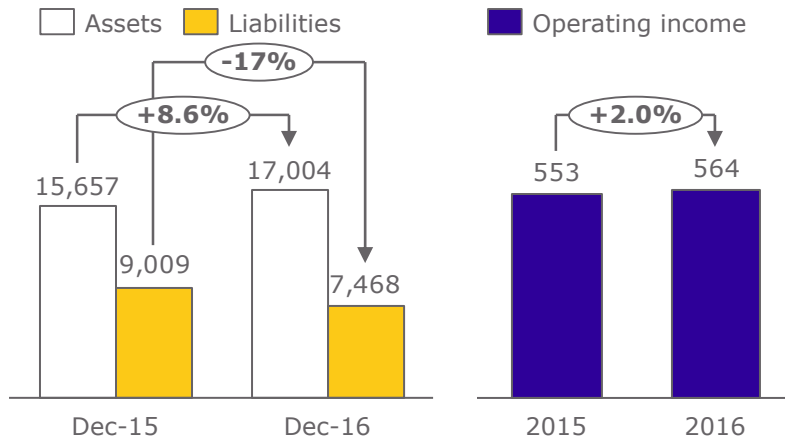


### Key Points

- > Retail banking is the largest contributor towards operating income at 27%
- > Y-o-Y operating income decreased by 8.4% driven by Business Banking
- > Retail banking assets decreased by 5.9% and stand at AED 13.6 billion
- > Won multiple awards including "Best Regional Retail Bank" by Banker ME Industry Award 2016

## Business segment information [AED million]

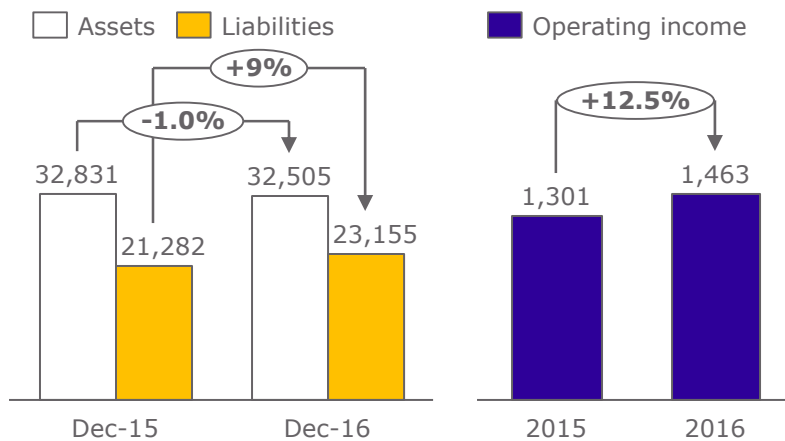
### Treasury & Capital Markets



### Key Points

- > Treasury & Capital markets accounts for 14% of assets and 7% of liabilities as of December 2016; Assets increased by 8.6% in 2016
- > TCM Operating income contributed 9% to the total operating income in YE 2016
- > Operating income increased by 2% as compared to YE 2015

### International Banking



### Key Points

- > International Banking is the largest segment in terms of assets at 26%
- > Additionally, contribution of International business formed 24% of operating income and 22% of liabilities
- > International Banking assets decreased by 1.0% as compared to December 2015
- > Y-o-Y operating income grew by 12.5% driven by Egypt



# APPENDIX

## 4Q 2016 financials – Consolidated Income statement [AED million]

Income statement	2016		2015	Variance (% change)	
	4Q	3Q	4Q	4Q 2016 vs 4Q 2015 (Y-o-Y)	4Q 2016 vs 3Q 2016 (Q-o-Q)
Net interest income <sup>1)</sup>	891	875	871	2.4%	1.8%
Fees and commission	392	399	427	(8.2%)	(1.7%)
Investment income / (loss) <sup>1)</sup>	(1)	11	(7)	(78.3%)	(113.7%)
Other income	223	211	228	(2.3%)	5.7%
<b>Total operating income</b>	<b>1,505</b>	<b>1,496</b>	<b>1,519</b>	<b>(0.9%)</b>	<b>0.6%</b>
Operating expenses	(620)	(583)	(650)	(4.6%)	6.4%
<b>Operating profit</b>	<b>885</b>	<b>913</b>	<b>869</b>	<b>1.8%</b>	<b>(3.1%)</b>
Impairment allowance	(425)	(470)	(318)	34.0%	(9.5%)
Overseas tax expense	(17)	(24)	(7)	125.4%	(30.9%)
Minority interest	(2)	(5)	12	(112.9%)	(66.8%)
<b>Net income</b>	<b>441</b>	<b>414</b>	<b>556</b>	<b>(20.7%)</b>	<b>6.4%</b>

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

Income statement	2016	2015	Variance (% change)
Net interest income <sup>1)</sup>	3,567	3,422	4.2%
Fees and commission	1,685	1,724	(2.3%)
Investment income / (loss) <sup>1)</sup>	58	9	555.8%
Other income	859	822	4.5%
<b>Total operating income</b>	<b>6,169</b>	<b>5,977</b>	<b>3.2%</b>
Operating expenses	(2,407)	(2,472)	(2.7%)
<b>Operating profit</b>	<b>3,762</b>	<b>3,505</b>	<b>7.3%</b>
Impairment allowance	(1,734)	(1,000)	73.4%
Overseas tax expense	(74)	(71)	5.5%
Minority interest	(28)	(33)	(15.5%)
<b>Net income</b>	<b>1,926</b>	<b>2,402</b>	<b>(19.8%)</b>

## 4Q 2016 financials - Consolidated Balance sheet [AED million]

Balance sheet	31 Dec 2016	31 Dec 2015	Variance (% change)
<b>Assets</b>			
Cash and balances with Central Banks	18,630	19,424	(4.1%)
Deposits and balances due from Central Banks	18,668	15,010	24.4%
Loans and advances	53,428	53,555	(0.2%)
Islamic financing and investment products	7,565	6,611	14.4%
Other financial assets	13,268	11,918	11.3%
Goodwill	15	18	(14.6%)
Interest receivable and other assets	9,552	6,929	37.9%
Investment properties	521	528	(1.4%)
Property and equipment	1,166	1,165	0.1%
<b>Total Assets</b>	<b>122,814</b>	<b>115,157</b>	<b>6.6%</b>
<b>Liabilities</b>			
Deposits and balances due to banks	8,932	9,232	(3.2%)
Repurchase agreement with banks	606	735	(17.6%)
Customers' deposits	69,947	65,244	7.2%
Islamic customers' deposits	7,093	8,391	(15.5%)
Insurance and life assurance funds	1,511	1,560	(3.2%)
Interest payable and other liabilities	10,267	7,404	38.7%
Medium-term / long-term loans	4,972	4,106	21.1%
<b>Total Equity</b>	<b>19,486</b>	<b>18,486</b>	<b>5.4%</b>
<b>Total Liabilities and Equity</b>	<b>122,814</b>	<b>115,157</b>	<b>6.6%</b>