

mashreq



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Mashreq

1H 2020 FINANCIAL RESULTS PRESENTATION

22nd July 2020

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Performance Highlights

Financial Results

Appendix

Performance highlights

> Net profit for 1H 2020 declined sharply to AED 535 million

> Consistently high fee and other income proportion (47.1%)

> Strong growth in assets (8.7% YTD)

> Impairment allowance increased sharply to AED 978 million in 1H 2020; NPL to gross advances is at 4.6%

> Efficiency stands at 44.3%; Operating costs have fallen w.r.t last year (decreased by 4.7% Y-o-Y)

*Significant
impact of the
economic
fallout of the
COVID-19
crisis*

Financial highlights – Consolidated Income statement [AED million]

Consolidated Income statement

	1H 2020	1H 2019	Variance
Operating income	2,831	3,074	(7.9%)
Operating expense	(1,255)	(1,316)	(4.7%)
Operating profit	1,576	1,758	(10.3%)
Impairment allowance	(978)	(482)	103.1%
Net profit	535	1,222	(56.2%)

Comments

- > **Operating income** decreased by 7.9% primarily due to a decrease in net interest income driven by fall in NIM's (declining interest rate environment & COVID-19 relief)
- > **Operating expenses** decreased by 4.7% vis-à-vis last year driven by branch rationalization and other initiatives
- > **Impairment allowance** increased by 103.1% driven by a challenging credit environment especially in middle markets and corporate banking
- > As a result, **Net profit** decreased by 56.2% and stands at AED 535 million

Financial highlights – Consolidated Balance sheet [AED million]

Consolidated Balance sheet

	Jun 2020	Dec 2019	Variance
Total Assets	173,310	159,431	8.7%
Loans & Advances	76,464	76,167	0.4%
Customers' deposits	98,555	90,969	8.3%
Shareholders Equity	21,241	21,533	(1.4%)
Risk weighted assets	136,469	137,164	(0.5%)

Comments

- > **Customer loans and advances** at AED 76 billion, increased by 0.4% primarily due to a 8.6% growth in Islamic loans
- > **Customer deposits** increased by 8.3% to AED 98.6 billion mainly as a result of a 10.7% increase in conventional deposits. Advances to Deposit ratio at 77.6% is well within established guidelines. CASA constitutes 42.8% of total deposits
- > **Shareholders Equity** decreased by 1.4% due to dividend payout and is at AED 21.2 billion
- > **Risk weighted assets** decreased by 0.5% to reach AED 136.5 billion driven by a 39.7% decrease in Market Risk

Financial track record

	30 Jun 2020	31 Dec 2019	30 Jun 2019
Capital adequacy			
Tier I Capital Ratio	15.9%	15.2%	15.0%
Total Capital Ratio	17.0%	16.3%	16.2%
Liquidity			
Liquid Assets to Total Assets ¹⁾	37.3%	32.6%	29.3%
Advances to Deposits	77.6%	83.7%	91.1%
Liquidity Coverage Ratio (LCR)	171%	237%	132%
Asset quality			
NPL Coverage Ratio	95.8%	116.8%	128.0%
NPL to Gross Advances	4.6%	3.6%	3.5%
Performance			
ROA	0.7%	1.5%	1.9%
ROE	5.0%	9.9%	12.0%
Net Interest Margin	2.20%	3.01%	3.16%
Efficiency Ratio	44.3%	43.8%	42.8%
Fee and other income to total income	47.1%	38.2%	39.8%

Note: 1) Total Assets excludes contra items

Performance Highlights

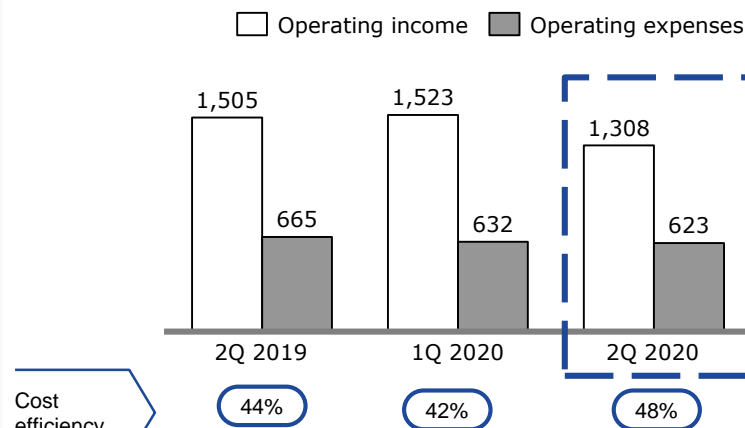


Financial Results

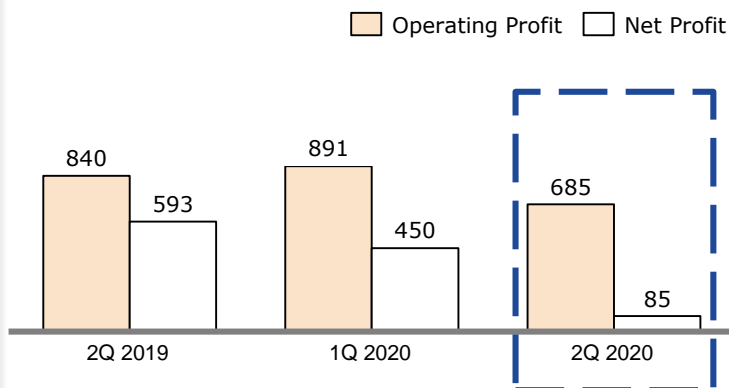
Appendix

Operating income, expense and net profit [AED million]

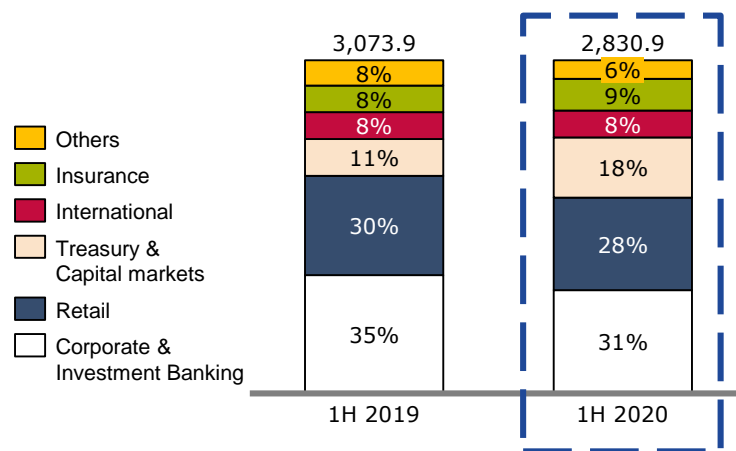
Operating income and expenses



Net profit



Operating income split by segments

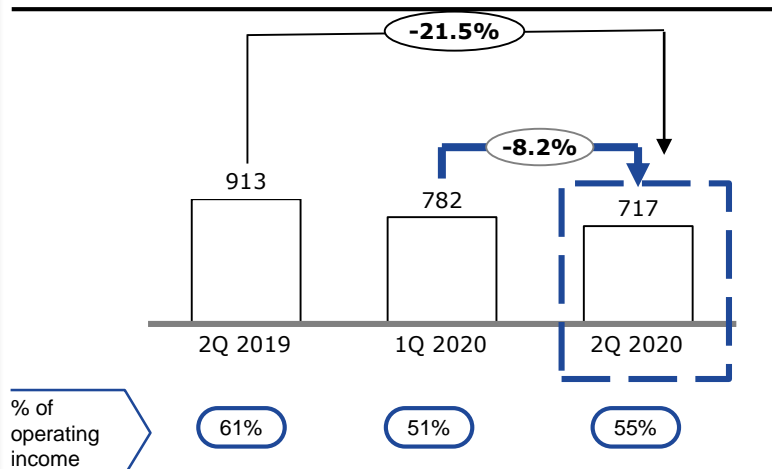


Key Points

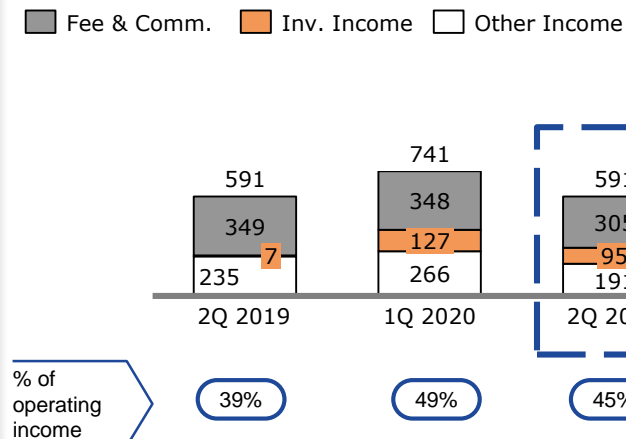
- > 1H 2020 Operating Income has decreased by 7.9% Y-o-Y and stands at AED 2.8 billion. Investment income has increased significantly by AED 168 million Y-o-Y.
- > On a Q-o-Q basis, 2Q 2020 operating income decreased by 14.1% driven by a decline in NII and income from Islamic financing
- > Efficiency ratio for 1H 2020 stood at 44% and 2Q 2020 at 48% on the back of lower revenues
- > Operating profit for 2Q 2020 decreased by 23.1% Q-o-Q to AED 685 million. Net profit decreased by 81.2% Q-o-Q mainly as a result of increased risk cost (+39.4 % vs 1Q 2020)
- > Corporate banking accounted for the largest portion of 1H 2020 Operating Income with a 31% contribution, followed by Retail Banking at 28%
- > *Note: Segments have been realigned in the year wherein Retail now includes Retail Overseas and Corporate and Investment banking includes global FI business. Previously both were included within International Banking. Prior period numbers have been restated accordingly*

Operating income mix [AED million]

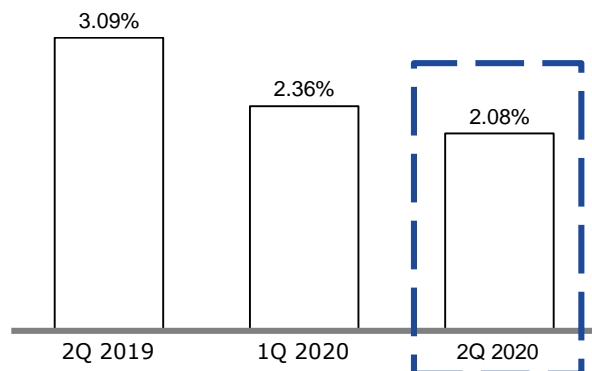
Net interest income



Non-interest income



Net interest margin¹⁾ [%]

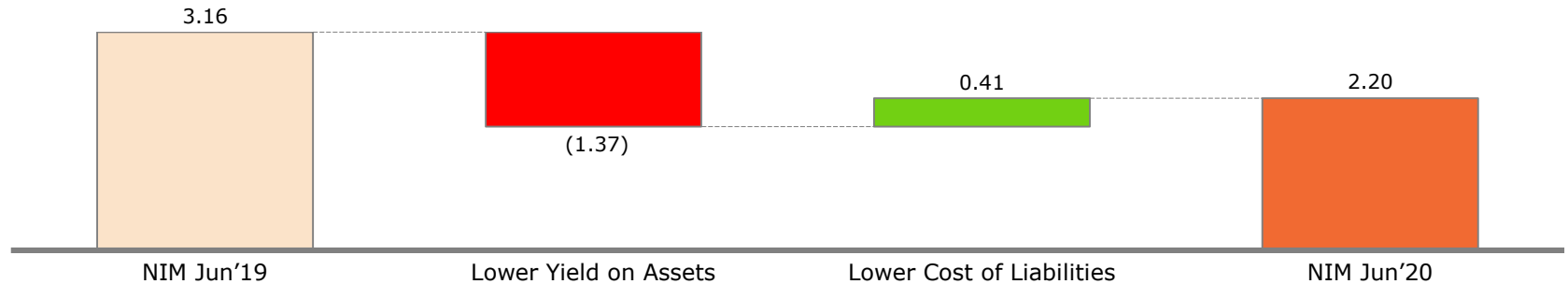


Key Points

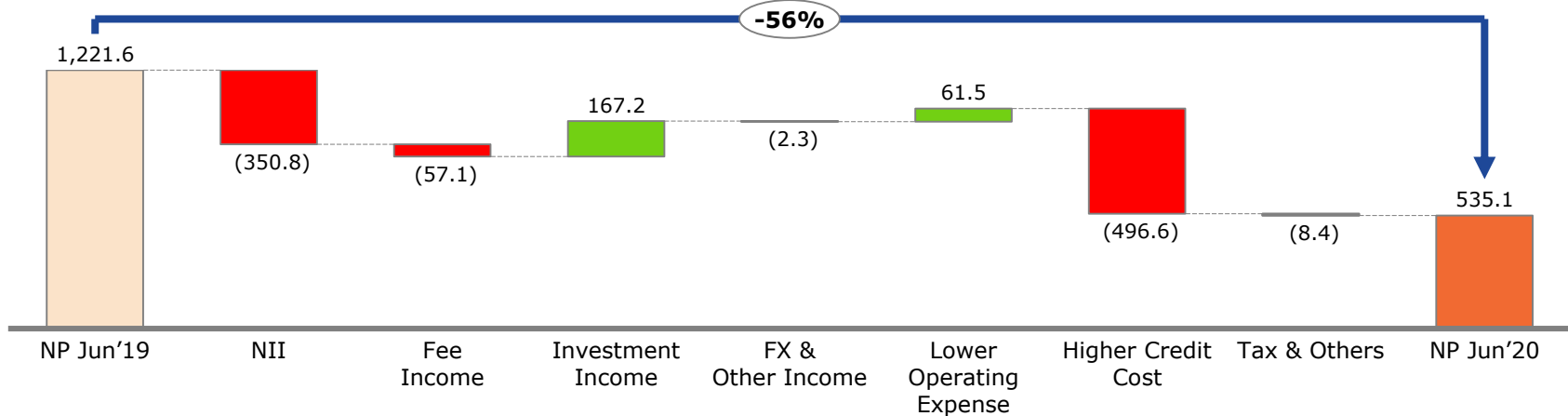
- > 2Q 2020 Net Interest Income decreased by 8.2% Q-o-Q and 21.5% Y-o-Y mainly due to a decrease in EIBOR and a change in the liability mix
- > Quarterly NIM's have fallen by 101 bps Y-o-Y and 28 bps Q-o-Q due to lower asset yields and higher cost/ proportion of long term funds
- > Non-interest income decreased by 20.3% Q-o-Q driven by an decrease in insurance, FX and other income. Investment income has increased to AED 95 Mn in 2Q 2020 vs AED 7 Mn in 2Q 2019
- > Non interest income as % of total income remained high at 45% for 2Q 2020

Key Financial Indicator Bridges [%;AED Mn]

Net Interest Margin Bridge [%]



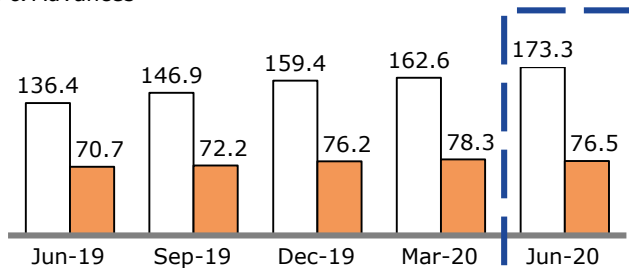
Net Profit Bridge [AED Mn]



Asset mix [AED billion]

Total Assets and Net Loans & Advances

□ Total Assets
■ Net Loans & Advances

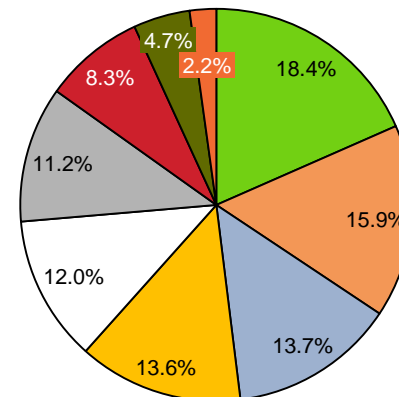


Net Loans to Total Assets ¹⁾

56% 54% 52% 54% 49%

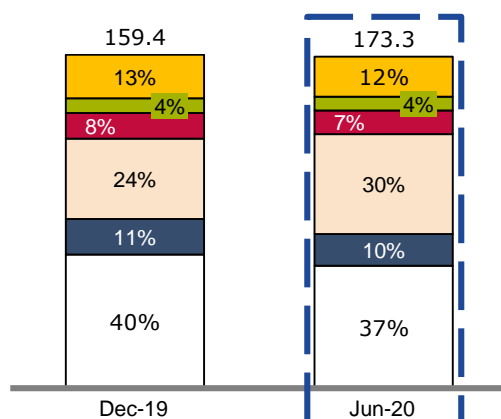
Gross Loans portfolio split as of Jun 2020 (AED 81.1 billion)

■ Trade
■ Govt/GRE
■ Manufacturing
■ Construction
■ Services
■ Personal
■ Residential Mortgage
■ Transport & Comm.
■ Financial institutions



Asset split by segments ²⁾

■ Others
■ Insurance
■ International
■ Treasury & Capital markets
■ Retail
■ Corporate & Investment Banking



Key Points

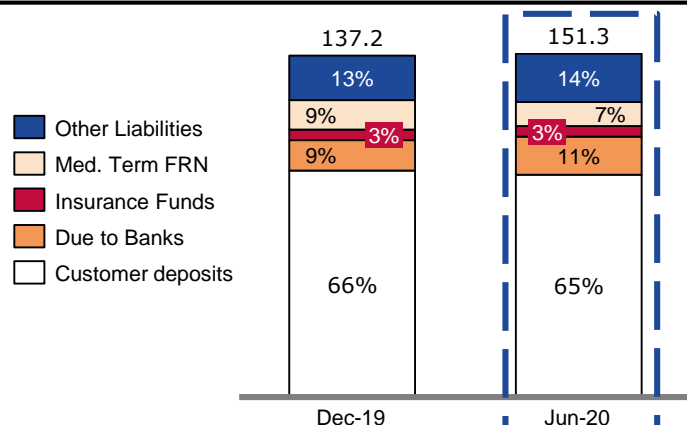
- > Total assets increased by 8.7% YTD to AED 173.3 billion, as compared to AED 159.4 billion in December 2019.
- > Net Loans & advances remained steady at around AED 76.5 billion
- > Personal segment contributes 11.2% of the Gross Loans while residential mortgage represents 8.3%
- > Trade is the biggest proportion of Gross Loans at 18.4%. Diversified loans portfolio with no individual sector accounting for more than 19% of the total loan portfolio
- > Corporate Banking accounts for 37% of total assets as of June 2020. Retail Assets stand at 10%.

¹⁾ Total Assets excludes contra items

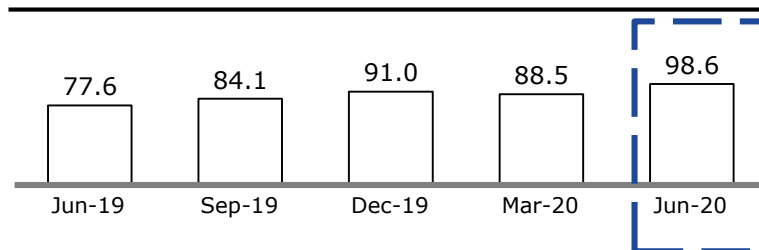
²⁾ Segments have been realigned in the year wherein Retail now includes Retail Overseas and Corporate and Investment banking includes global FI business. Previously both were included within International Banking. Prior period numbers have been restated accordingly.

Liability mix [AED billion]

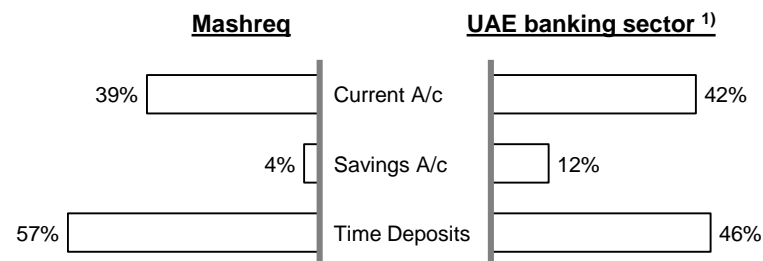
Liability mix



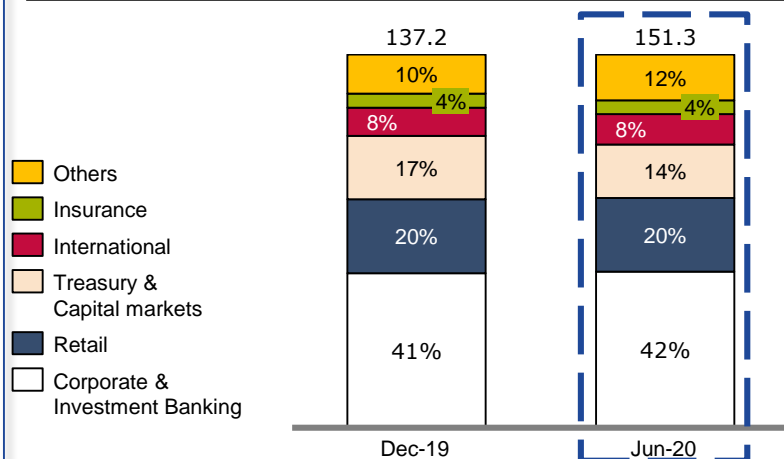
Customer deposits



Customer deposits split comparison (June 2020)



Liabilities split by segments ²⁾



Key Points

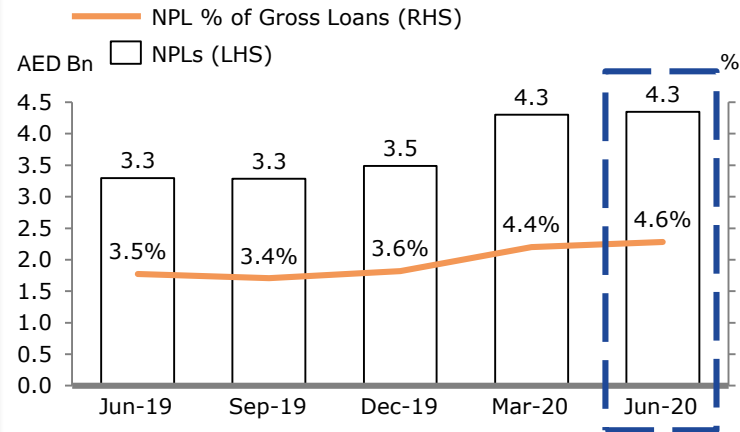
- > Customer deposits accounted for 65% of total liabilities
- > CASA accounts for 43% of customer deposit as compared to overall Market at 54%; Time deposits contributed 57% of total deposits vs 46% for the Market
- > Corporate Banking accounts for the largest portion of liabilities at 42% as on June 2020

1) Represents data of UAE banking sector as of April 2020 sourced from Central Bank Statistical Bulletin

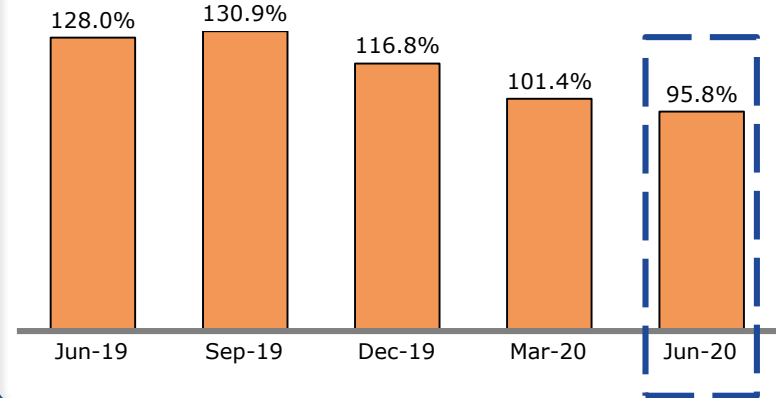
2) Segments have been realigned in the year wherein Retail now includes Retail Overseas and Corporate and Investment banking includes global FI business. Previously both were included within International Banking. Prior period numbers have been restated accordingly.

Asset quality and liquidity [AED billion]

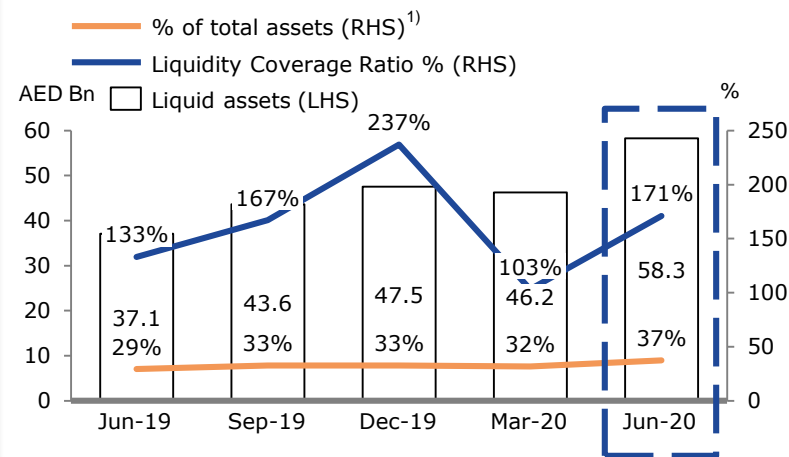
NPL's and % of Gross Loans



NPL Coverage Ratio [%]



Liquid assets trend



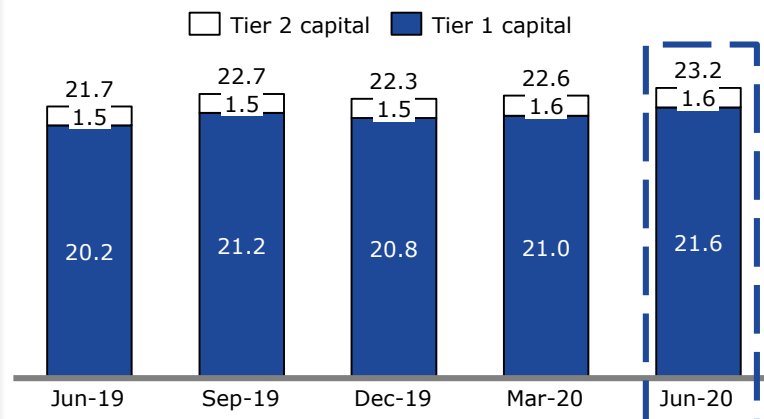
Key Points

- > Mashreq has set aside AED 978 million net for Impaired assets in 1H 2020. General provisions stand at 1.98% of Credit Risk Weighted Assets
- > NPLs have increased by 24.8% in the year to reach AED 4.3 billion. NPL's as % of Gross loans is at 4.6%
- > Coverage ratio in June 2020 stands at 95.8%
- > Liquid assets to total assets as of June 2020 was at 37% increased from 33% in December 2019
- > LCR ratio stands at 171% which has fallen from 237% in Dec 2019 due to the decrease in High Quality Liquids Assets (HQLA) and increase in net cash outflows.

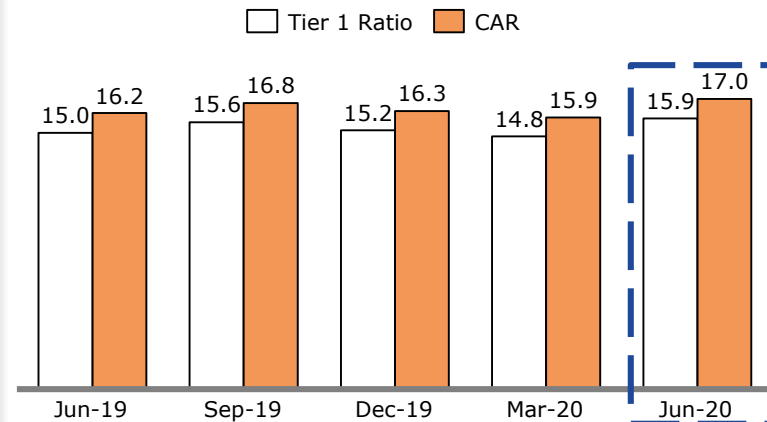
1) Total Assets excludes contra items

Capital adequacy [AED billion; %]

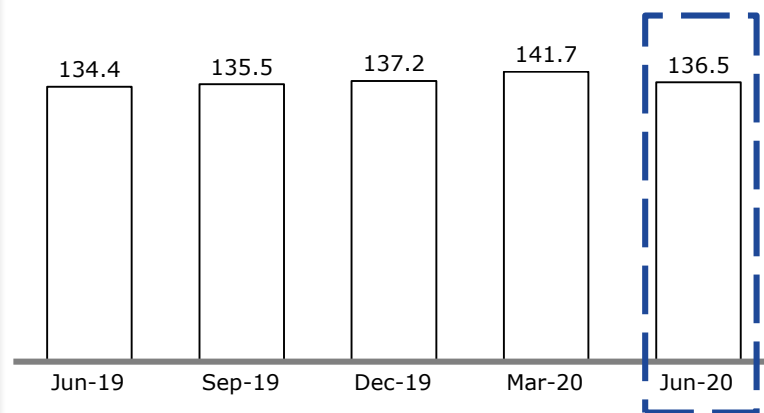
Tier I and Tier II Capital [AED billion]



Tier I and Capital Adequacy Ratios [%]



Risk-weighted assets [AED billion]

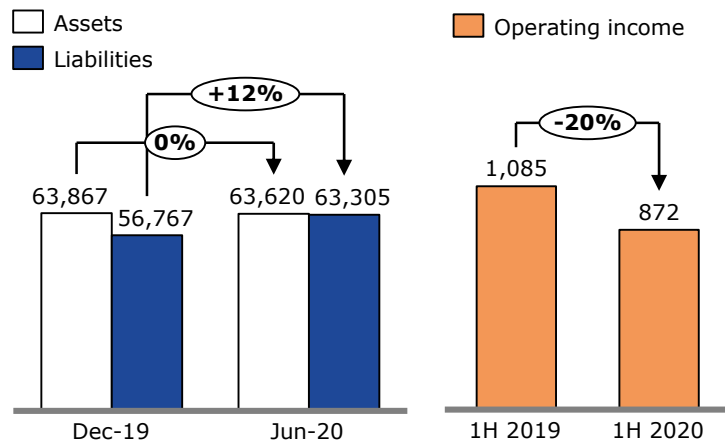


Key Points

- > As per Central bank regulation for Basel III, the CAR requirement is 13% (inclusive of capital conservation buffer) and 8.5% of RWA for Tier 1 capital.
- > Tier 1 capital ratio of the bank was at 15.9% as of June 2020
- > The bank's overall capital adequacy ratio at 17.0% is higher than the regulatory requirements as per Central Bank of UAE (Basel III)
- > RWA/Total assets has decreased from 86% in December 2019 to 79% in June 2020

Business segment information [AED million]

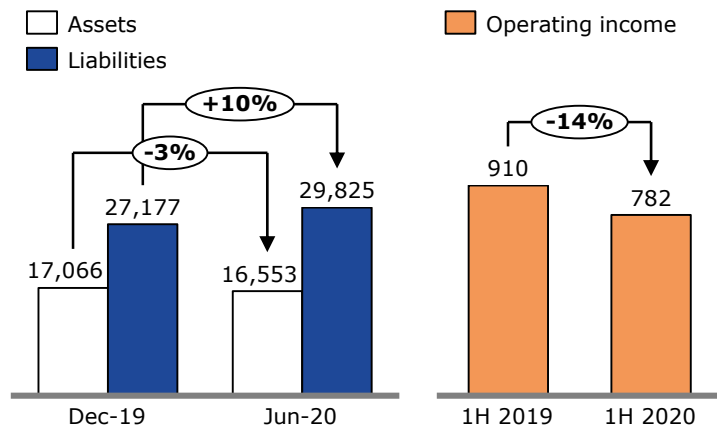
Corporate & Investment Banking



Key Points

- > Corporate banking is the biggest segment in Mashreq in terms of assets (37% of assets) and liabilities (42% of total liabilities) as of June 2020
- > Assets increased by 12% and stand at AED 63.6 billion
- > Operating income decreased by 20% Y-o-Y, accounting for 31% of total operating income in 1H 2020
- > **EMEA Finance:** Best cash management services in the Middle East

Retail Banking

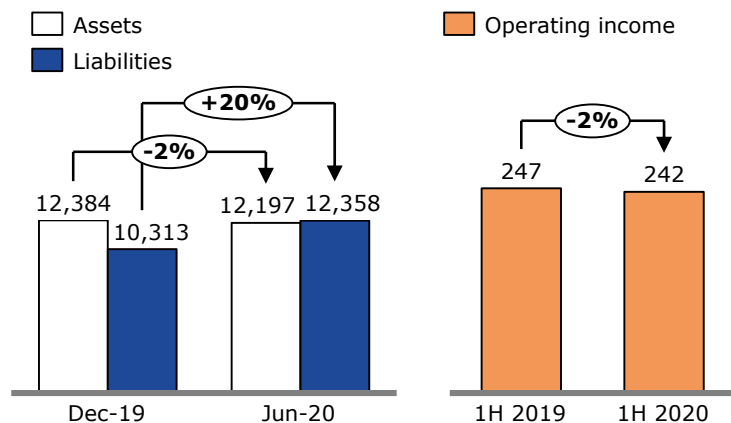


Key Points

- > Retail banking is the second largest contributor of operating income at 28% in 1H 2020
- > Y-o-Y operating income decreased by 14% driven by a change in the portfolio mix towards secured assets
- > Retail banking assets have decreased by 3% and stand at AED 16.6 billion. Liabilities have increased by 10% and are AED 29.8 billion as of June 2020 (20% of total liabilities)
- > **CFI.co: Capital Finance International 2020 award** : Best Smart Retail Bank
- > **International Banker 2020 Banking Awards, arranged by Finance Publishing** : Best Innovation in Retail Banking UAE 2020

Business segment information [AED million]

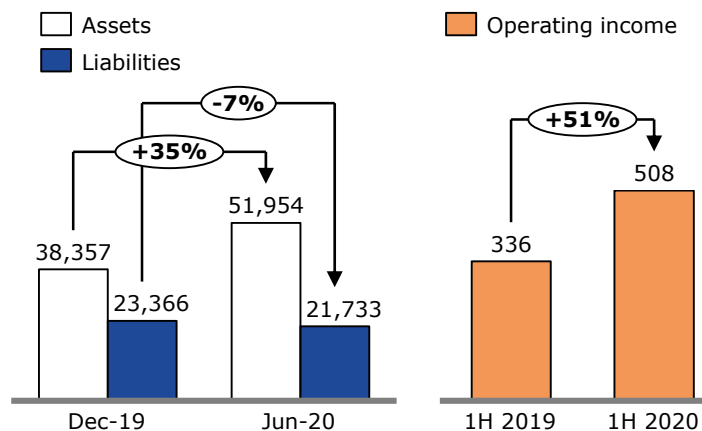
International Banking



Key Points

- > International business contributed 9% of operating income and 8% of liabilities in 1H 2020
- > International Banking assets decreased by 2% as compared to December 2019 and make up 7% of total assets. Liabilities increased by 20% and stand at AED 12 billion
- > Y-o-Y operating income decreased by 2% to AED 242 million
- > **EMEA Finance:** Best structured finance deal in Europe: Duferco's USD 750 million 5-year pre-export advance facility

Treasury & Capital Markets



Key Points

- > Treasury & Capital Markets accounts for 30% of assets and 14% of liabilities as of June 2020
- > Assets increased by 35% in the year and stood at AED 51.9 billion due to a focus on liquidity
- > TCM Operating income contributed 18% to the total operating income in 1H 2020. Investment income increased significantly by AED 168 million Y-o-Y
- > Operating income, which includes funding center income, increased by 51% driven by gains in Investment income.

Performance Highlights

Financial Results

► Appendix

2Q 2020 financials – Consolidated Income statement [AED million]

Income statement	2020	2020	2019	Variance (% change)	
	2Q	1Q	2Q	2Q 2020 vs 1Q 2020 (Q-o-Q)	2Q 2020 vs 2Q 2019 (Y-o-Y)
Net interest income	717	782	913	(8.2)	(21.5)
Net Fees and commission	305	348	349	(12.5)	(12.7)
Net Investment income	95	127	7	(25.6)	1,316.0
Other income	191	266	235	(28.1)	(18.6)
Total operating income	1,308	1,523	1,505	(14.1)	(13.1)
Operating expenses	(623)	(632)	(665)	(1.5)	(6.4)
Operating profit	685	891	840	(23.1)	(18.4)
Impairment allowance	(570)	(409)	(221)	39.4	158.2
Tax expense	(10)	(11)	(6)	(5.1)	76.8
Non-Controlling Interest	(20)	(21)	(20)	(2.6)	4.1
Net Profit	85	450	593	(81.2)	(85.7)

June 2020 financials – Consolidated Balance sheet [AED million]

Balance sheet	30 Jun 20	31 Dec 2019	YTD
Assets			
Cash and balances with central banks	33,155	20,940	58%
Deposits and balances due from banks	25,108	26,566	(5%)
Other financial assets measured at fair value	3,749	4,522	(17%)
Other financial assets measured at amortised cost	10,515	10,875	(3%)
Investment in Associates	21	29	(28%)
Loans and advances measured at amortised cost	60,763	61,710	(2%)
Islamic financing and investment products measured at amortised cost	15,701	14,457	9%
Acceptances	16,029	12,903	24%
Other Assets	3,354	2,738	22%
Reinsurance contract assets	2,762	2,586	7%
Investment properties	474	474	0%
Property and equipment	1,679	1,631	3%
Total assets	173,310	159,431	9%
Liabilities			
Deposits and balances due to banks	14,140	11,184	26%
Repurchase agreements with banks	2,791	1,089	156%
Customers' deposits	84,597	76,440	11%
Islamic customers' deposits	13,958	14,529	(4%)
Acceptances	16,029	12,903	24%
Other Liabilities	5,410	4,951	9%
Medium-term loans	9,781	11,839	(17%)
Insurance and life assurance funds	4,641	4,254	9%
Total liabilities	151,348	137,188	10%
Total Equity	21,962	22,243	(1%)
Total Liabilities and Equity	173,310	159,431	9%

