

Mashreq posts a 9.4% y-o-y growth in Operating Profit in the first half of 2016

Dubai, UAE; 20th July 2016: Mashreq, one of the leading financial institutions in the UAE, today has reported its financial results for the first half ending 30th June 2016.

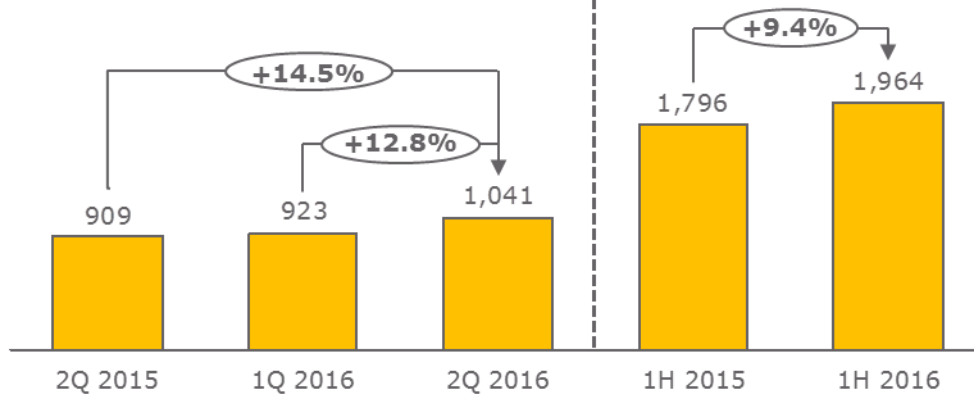
Key highlights [1H 2016 vs 1H 2015]:

- ***Stable growth in Operating Income***
 - Operating Income up 5.1% year-on-year to AED 3.2 billion driven by strong growth in both interest and non-interest income
 - Operating Profit increased by 9.4% year-on-year to AED 2.0 billion
 - Net profit for the first half stood at AED 1.1 billion – stable compared to the normalized Net profit for 1H 2015 (adjusted for the impact of recoveries)
- ***Consistently high proportion of net fee and commission income***
 - Mashreq's best-in-class Net Fee, Commission and Other Income to operating income ratio remained high at 43.2%
 - Insurance, FX & Other Income up by 5.3% year-on-year
- ***Solid balance sheet***
 - Total Assets decreased marginally by 0.4% to AED 114.7 billion while Loans and Advances increased by 2.6% to AED 61.8 billion as compared to December 2015
 - Customer Deposits reduced slightly by 0.4% to reach AED 73.3 billion as compared to December 2015
 - Loan-to-Deposit ratio remained robust at 84.2% at the end of June 2016
- ***Healthy liquidity and capital position***
 - Liquid Assets to Total Assets stood at 26.6% with Cash and Due from Banks at AED 30.5 billion
 - Capital adequacy ratio and Tier 1 capital ratio continue to be significantly higher than the regulatory limit and stood at 16.8% and 15.8% respectively

- **Sustained asset quality**

- Non-Performing Loans to Gross Loans ratio remained stable at 3.5% at the end of June 2016
- Total Provisions for Loans and advances reached AED 3.4 billion, constituting 134.1% coverage for Non-Performing Loans

Operating Profit [AED million]



Mashreq's CEO, H.E. AbdulAziz Al Ghurair, said: "Mashreq's prudent fiscal policies and continued commitment to its focus on placing its customers at the forefront of all decisions has enabled the bank to return a stable performance for the first half 2016. I'm pleased to report that we achieved a respectable year-on-year increase in operating income of 5.1% for the first half 2016 along with a reduction in net operating expenses by 1.3%, leading to a net profit of AED 1.1 billion."

"Each of the bank's business units has faced a variety of challenges this year and each team has risen to those challenges. Some highlights for the first half of the year include the closure of the maiden benchmark sukuk issuance of USD 500 million for Qatar's Ezdan Holding by the Corporate Finance team in collaboration with their Coverage and TCM partners and the introduction of the groundbreaking Happiness Account- a straightforward account that allows customers to choose the options that best suit their needs. We are seeing tremendous take-up for our digital platforms including SnappBiz, which targets the SME sector and transforms the way businesses can interact with the bank and in turn, saves the business owners' time."

Al Ghurair concluded, “We remain cautiously optimistic for the remainder of 2016 and we are conscious of the challenges we may face. Our focus remains on keeping a strong hand on expenses while allowing flexibility to take advantage of opportunities that present themselves over the remainder of the year and into 2017.”

Operating Income

- Total operating income for 1H 2016 was AED 3.2 billion, a year-on-year increase of 5.1% compared to 1H 2015 operating income of AED 3.0 billion.
- Net Interest Income, income from Islamic Financing and interest earned on marketable securities¹⁾ at AED 1.8 billion was up by 7.0% compared to 1H 2015, driven by 5.7% year-on-year increase in loan volume. On a quarterly basis, it has increased by 3.6% from AED 0.9 billion in 1Q 2016. There has been a slight increase of 4 bps in net interest margin from 3.09% in 1H 2015 to 3.13% in 1H 2016 (3.21% in 2Q 2016 vs 3.09% in 1Q 2016).
- Net fee and commission increased by 0.6% year-on-year to reach AED 894 million. Net fee and commission income represented 65.4% of total non-interest income in 1H 2016 as compared to 66.7% in 1H 2015.
- Operating expenses decreased by 1.3% year-on-year and by 0.5% quarter-on-quarter to reach AED 1.2 billion; Efficiency Ratio at 38.0% in 1H 2016 improved with respect to the previous year (40.5% as of 1H 2015).
- Net profit for the quarter increased by 1.4% to AED 539 million from AED 532 million in 1Q 2016. Adjusting for impact of recoveries in 2Q 2015, normalized net profit increased by 3.5% on a year on year basis.

Net interest margin [%] – quarterly ¹⁾

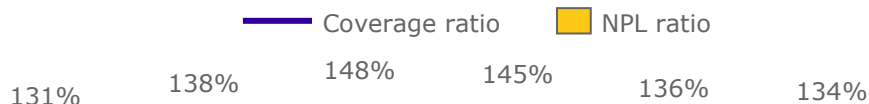


1) NII component booked under Investment income as per IFRS, has been reclassified under NII

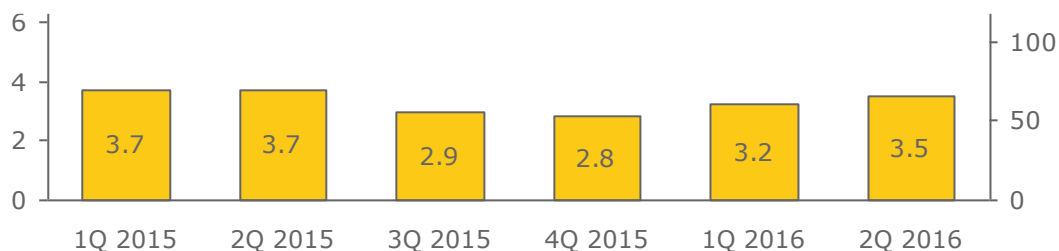
Assets and Asset quality

- Mashreq's Total Assets decreased by 0.4% to reach AED 114.7 billion in 1H 2016, compared to AED 115.2 billion at the end of 2015. Loans and Advances increased by 2.6% YTD to end at AED 61.8 billion. On a year-on-year basis, Loans and Advances grew by 5.7% driven by 46.8% growth in Islamic finance. Liquidity continues to remain healthy with a high liquid asset to total assets ratio of 26.6%. Loan-to-Total Assets Ratio at 53.9% increased slightly as compared to 53.8% at the end of March 2016 (52.2% in December 2015).
- Though conventional deposits increased by 3.2%, Customer Deposits decreased slightly by 0.4% YTD to AED 73.3 billion driven by a fall in Islamic deposits. Loan-to-Deposit ratio stood at 84.2% vs 81.7% in December 2015.
- Non-Performing Loans stood at AED 2.6 billion in June 2016 leading to a Non-Performing Loans to Gross Loans ratio of 3.5% at the end of June 2016 (2.8% in December 2015). Net Allowances for impairment for 1H 2016 were AED 838 million compared to AED 424 million in 1H 2015. Total Provisions for Loans and advances reached AED 3.4 billion, constituting 134.1% coverage for Non-Performing Loans as of June 2016.

NPL and Coverage Ratio [%]



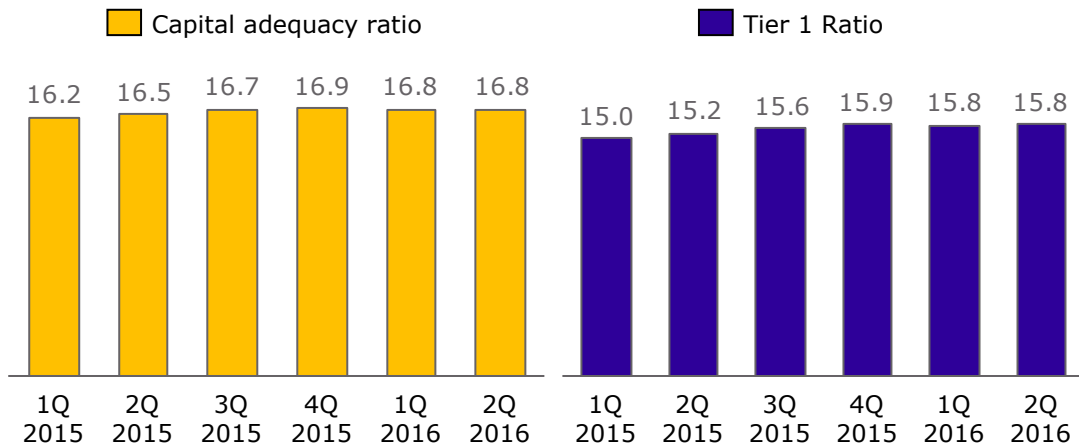
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Capital and Liquidity

- Mashreq's Capital adequacy ratio stood at 16.8% (regulatory minimum of 12%) as of 30 June 2016, compared to 16.9% as of 31 December 2015. Tier 1 capital ratio at 15.8% continues to be significantly higher than the 8% regulatory minimum stipulated by the UAE Central Bank (15.9% as at 31 December 2015)

Capital Adequacy and Tier 1 Ratio [%]



Business Unit Updates:

Corporate Banking:

Global Transaction Services

Mashreq continued to provide bespoke transaction services solutions to clients and was recognized by the industry - Mashreq won the best trade finance award in 2Q of 2016 by M&A awards. The success was based on Mashreq’s expertise in providing unique solutions to its customers for their trade needs and payment obligations. In the second quarter the team has embarked on a special digitization drive to empower its customers by unleashing the power of online banking. In order to improve business efficiency the team has provided customized trainings on mashreqMATRIX – the corporate online banking portal thus reinforcing Mashreq’s commitment to serving its customers by anticipating and exceeding their business needs

Contracting Finance

Contracting Finance continues to maintain its competitive edge in the UAE market in terms of segment specialization and has also successfully been involved in projects across Bahrain, Qatar, Kuwait, Egypt and Oman, capitalizing on the bank’s strong regional presence. Mashreq has delivered its expertise in Contracting Finance through the successful execution of several high-value projects within the Oil & Gas, Civil, Infrastructure and Power Generation industries. During 1H 2016, the success was continued by supporting prominent local and international contractors executing important projects across the region, including Expansion of Bahrain International Airport, Doha Reverse Osmosis

Desalination Plant in Kuwait, Liwa Plastics Polyethylene/Polypropylene Plants in Oman and Cairo Festival City Apartments in Egypt.

Corporate Finance

Corporate Finance continued its momentum by actively pitching and growing its transaction pipeline. Most notably, Corporate Finance together with its coverage and TCM partners closed a maiden benchmark sukuk issuance of USD 500 million with a five-year tenor for Qatar's Ezdan Holding that was successfully oversubscribed by 1.67x and attracted investors from the Middle East (68%), Europe (21%) and Asia (11%). In addition, Corporate Finance also successfully closed a fully underwritten USD 400 million, 7-year term loan for Bahrain Steel that was fully subscribed and the BHD 106.5 Million Bahrain Airport transaction. The Division has been mandated along with partner banks for a USD 300 million syndicated facility by the Government of Sri Lanka- the transaction has been launched in the international debt markets.

For **NBFI** the second quarter marked the start of the IBG growth story with the successful closure of a USD 75 million funded facility for the largest Investment House in Qatar, QInvest; and Mashreq's inaugural participation for a syndicated loan for Sovereign owned Investcorp, Bahrain.

Real Estate Finance & Advisory

Real Estate Finance & Advisory has originated deal flow of more than AED 2.5 billion heading into 3Q 2016. The team has also been successful in launching UAE's first DIFC-based real estate Qualified Investor Fund ("QIF") in partnership with a prominent real estate private equity firm in Abu Dhabi. The QIF will have an equity size of USD 300 million and will also raise debt for Shariah-compliant investments in high-yielding assets.

Retail Banking:

In the second quarter, Mashreq's retail business maintained its leading position and continued providing innovative banking solutions. Reflecting its ongoing commitment to introducing customer-centric financial solutions and unique banking experiences, the Bank launched UAE's first Happiness Account.

Available to customers transferring their salary, the Mashreq Happiness Account offers up to AED 2,500 guaranteed cash in the account as soon as the first salary is transferred. Added to this are free AED 25 worth of Salaam points paid every month the customer makes 5 online bill payments or money transfers. There is also a draw to win AED 100,000 every month for the winner to spend on whatever makes him or her happy. And finally there is a free-for-life credit card available with up to 10% cashback on spends. Giving customers the option to choose what best suits them, the Mashreq Happiness Account can be opened via multiple channels such as branches, call center, SMS and online through the Mashreq website. The new Happiness Account reflects Mashreq's contribution to achieving the nation's vision of the UAE reaching top rank in the global Happiness Index.

Another UAE first is the concept of an E-Account - the only 100% online current account where UAE residents can open a bank account via the Bank's Website. As the only bank in the UAE which is able to digitally on-board new customers, the launch of the E-Account reaffirms Mashreq's commitment to innovation and the offering of convenient banking. The new E-Account allows customer to open an account online without the need to leave their home.

Mashreq has partnered with Emirates National Oil Company (ENOC) to provide payment acceptance for the new Vehicle Identification Pass (ViP) service launched by ENOC. The payment solution will be available on the ViP Online Portal - vip.enoc.ae - allowing ENOC and Mashreq Bank customers to top up their ViP account and make cashless payments for their fuel purchase. Mashreq is the only bank that is powering ENOC's website for wallet top ups, using its world-class eCommerce and mCommerce payments suite.

In its mission to create better opportunities and a brighter future for the underprivileged, Mashreq Al Islami, the Islamic Banking division of UAE's leading financial institution, announced UAE's First Digital Charity Account called 'AHSEN'. In partnership with Beit Al Khair, Dar Al Ber and Fujairah Welfare, three leading humanitarian beneficial entities operating in the UAE, the charity account aims to raise awareness and spread a new way of thinking about donations and charitable benefits while making the process of donating money more traceable and interactive on Mashreq Al Islami's all-new Charity Account. Through an improved online infrastructure, holders of the Mashreq Al Islami Charity Account will be able

to see a list of charity projects administered by either Beit Al Khair or Dar Al Ber or Fujairah Welfare, including the total amount of proceeds needed to complete them.

As part of Mashreq's commitment to support SMEs and provide them with the state of the art banking facilities and innovation, the bank has announced the launch of a new and exclusive mobile banking app for SMEs called 'SnappBiz'. The aim of the app is to provide easier, more efficient and accessible services for SME customers when they are on the go.

International Banking:

Mashreq's International Business continues on its growth trajectory and has achieved and exceeded its targets with the help of a well-balanced approach to markets and asset growth and prudent cost management policies. Furthermore, International Business has continued to consolidate its position as one of the major revenue centres for the bank as a whole contributing more than 25% of the bank's profits.

International Corporate Business trail blazed in the second quarter as mandated lead arrangers and participants in some large syndications for major Corporates globally. In addition to the Corporate banking business, the Islamic business team closed a significant Bond for a well-known, rated Qatari Corporate House. The second quarter of 2016 also witnessed success in the efforts to increase the exposure to the NBFIs (Non-Banking Financial Institutions) segment.

To enhance the experience and convenience of customers in Bahrain, Electronic Fund Transfer System (EFTS) was launched for Corporate Houses through Mashreq Matrix portal. Further developments include the automation of Advices for customers based in Qatar and the launch of a monthly installment facility for Trade loans for customers based in Bahrain.

Overall, International Business continues to make good progress and remains driven to push ahead and seek out new avenues of business opportunities to expand and grow its footprint in the next half of 2016.

Treasury and Capital Market:

In a challenging and volatile macro environment, Mashreq continues to manage its comprehensive Capital Markets products suite across asset classes, supported by an online trading platform and 24 hour dealing room. The FX & Derivatives business continues to be stable amidst uncertainty in underlying markets.

The Rates & Fixed Income business experienced a significant increase in bond trading volumes and revenues as the markets started to stabilize in the second quarter. The regional fixed income market was busy with the spate of new issuances reaching a record, which helped in the market-making and flow business. The business played a key role in the successful placement of first ever private sector corporate sukuk issuance from Qatar, issued by Ezdan Holdings in May. The marketing efforts for the sukuk spanned over 60 investors across the globe resulting in orders of over USD 300 million from 23 investors. The global interest rate environment remained uncertain with the Fed deciding to stay on hold, which kept hedging clients on the sidelines.

The Makaseb Income Fund received the Lipper Fund Award as the best fund over 3 & 5 years in the Bond Emerging Markets Global-Hard Currency category.

2016 First Half Awards:

- **Retail Banking Conference & Awards: London 2016**
 - Middle East Retail Bank of the Year
- **Annual Insights Middle East Call Center Awards**
 - Best Call Center in Middle East in the Finance Industry
 - Best Implementation of Omni Channel in Service
- **Cards & Payment Middle East 2016**
 - Best Credit Card
 - Most Improved Payment Card
- **MEFTECH Innovation Awards 2016**
 - Best Customer Experience Initiative
- **Banker ME Industry Awards 2016**
 - Best Regional Retail Bank
 - Best Banking Innovation
 - Best Real Estate Finance
- **Gallup Great Workplace Award 2016 (3rd year in a row)**

Appendix 1: 2016 First Half Financial Highlights

2Q 2016 Financial Highlights	Half Yearly Trend			Quarterly Trend				
			Δ %				2Q'16 Δ %	
Income statement (AED mn)	1H'16	1H'15	YoY	2Q'16	1Q'16	2Q'15	QoQ	YoY
Net Interest Income & Income from Islamic Financing	1,652	1,623	1.8	834	817	820	2.1	1.8
Fee and commission	894	889	0.6	447	447	462	0.2	(3.2)
Investment Income	197	99	99.1	112	85	53	32.4	111.2
Insurance, FX & Other Income	426	404	5.3	248	178	189	39.2	31.2
Total Operating Income	3,168	3,015	5.1	1,641	1,527	1,524	7.5	7.7
Operating Expenses	(1,204)	(1,220)	(1.3)	(601)	(604)	(615)	(0.5)	(2.4)
Operating Profit	1,964	1,796	9.4	1,041	923	909	12.8	14.6
Impairment Allowance	(838)	(424)	97.7	(472)	(366)	(228)	29.1	107.3
Overseas Tax Expense	(33)	(44)	(25.1)	(15)	(18)	(22)	(14.2)	(28.5)
Non-Controlling Interest	(21)	(33)	(35.2)	(14)	(8)	(16)	81.4	(14.0)
Net Profit for the Period	1,071	1,294	(17.2)	539	532	643	1.4	(16.1)
EPS [AED]	6.03	7.29	(17.2)	3.04	3.00	3.62	1.4	(16.1)
			Δ %				Δ %	
Balance Sheet (AED mn)	Jun'16	Jun'15	YOY	Jun'16	Mar'16	Dec'15	QoQ	YTD
Total Assets	114,665	112,280	2.1	114,665	113,724	115,157	0.8	(0.4)
Loans and Advances	61,755	58,450	5.7	61,755	61,134	60,166	1.0	2.6
Customer Deposits	73,345	75,329	(2.6)	73,345	75,624	73,635	(3.0)	(0.4)
Shareholder's Funds	18,104	16,737	8.2	18,104	17,577	17,769	3.0	1.9
Key Ratios (%)	Jun'16	Jun'15	Δ bps	Jun'16	Mar'16	Dec'15	Δ bps	Δ bps
CAR (Capital Adequacy ratio)	16.79	16.45	0.34	16.79	16.80	16.90	(0.01)	(0.11)
Tier 1 Ratio	15.84	15.23	0.61	15.84	15.81	15.86	0.03	(0.02)
Loan-to-Deposits	84.20	77.59	6.60	84.20	80.84	81.71	3.36	2.49
Return-on-Assets*	1.86	2.37	(0.51)	1.86	1.86	2.17	0.01	(0.31)
Return-on-Equity*	11.95	15.74	(3.79)	11.95	12.04	14.16	(0.09)	(2.21)

*Annualized

-ENDS-

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