

Mashreq posts a 5.2% y-o-y growth in Net Profit in the first half of 2018

Dubai, UAE; 18th July 2018: Mashreq, one of the leading financial institutions in the UAE, today has reported its financial results for the first half ending 30th June 2018.

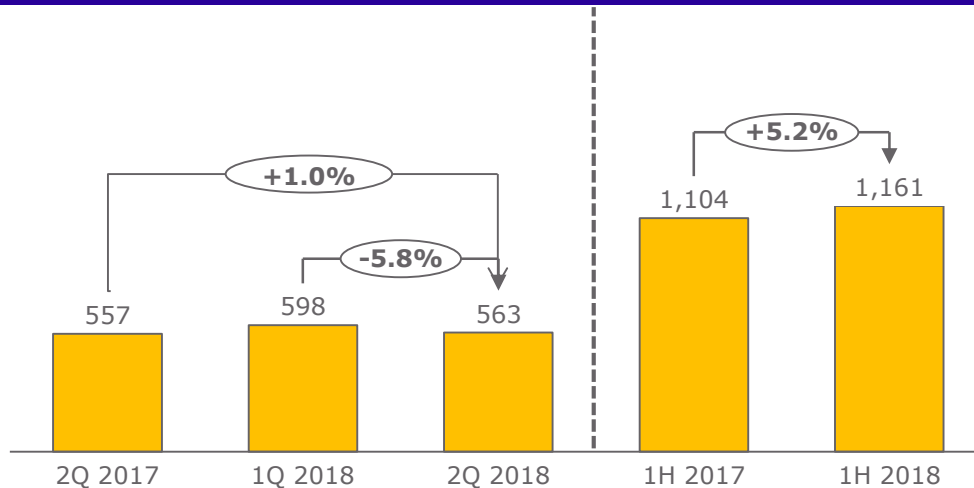
Key highlights [1H 2018 vs 1H 2017]:

- ***Steady growth in Net Profit***
 - Operating Income is up by 3.7% and stands at AED 3.1 billion
 - Net profit for the first half stood at AED 1.2 billion - a 5.2% increase YoY
 - Impairment Allowance down by 9.6% YoY
- ***Consistently high proportion of non-interest income***
 - Mashreq's best-in-class non-interest income to operating income ratio remained high at 40.3%
 - Insurance, FX & Other Income up by 24.2% year-on-year
- ***Solid balance sheet***
 - Total Assets increased by 1.4% in the year to AED 127.0 billion whereas Loans and Advances increased by 7.9% to AED 67.7 billion as compared to December 2017
 - Customer Deposits increased 2.3% YTD and are at AED 77.8 billion
 - Loan-to-Deposit ratio remained robust at 87.0% at the end of June 2018
- ***Healthy liquidity and capital position***
 - Liquid Assets to Total Assets stood at 25.9% with Cash and Due from Banks at AED 32.8 billion
 - Capital adequacy ratio and Tier 1 capital ratio continue to be significantly higher than the regulatory limit and stood at 17.0% and 15.9% respectively

• **Sustained asset quality**

- Non-Performing Loans to Gross Loans ratio remained stable at 2.9% at the end of June 2018
- Total Provisions for Loans and advances reached AED 4.2 billion, constituting 179.1% coverage for Non-Performing Loans

Net Profit [AED million]



Mashreq's CEO, H.E. AbdulAziz Al Ghurair, said: "Mashreq's innovation-led transformation strategy implemented in the past year has resulted in a solid set of financial results for the first half of 2018. We recorded a positive year-on-year net profit increase of 5.2% amounting to AED 1.2 billion for 1H 2018. Our balance sheet shows healthy liquidity and capitalization metrics, well above the required regulatory standards. Our prudent risk management approach has also resulted in our provisions now covering 179.1% of non-performing loans."

"We have achieved increased operational efficiencies thanks to an agility-based model which adopts new cognitive technologies and cloud services within our back-end systems. We have also integrated bot-based digital workers for transactions translating into a quicker, more seamless and improved customer experience. Having seen this approach become successful within retail banking, we are working on transforming the rest of our business and driving agility within both our Corporate and International Banking divisions.

With the UAE banking sector continuing to grow on the back of improved economic growth in 2018, we are optimistic of a growth rate aligned to the market, and going forward, are focused on achieving this via increased digital

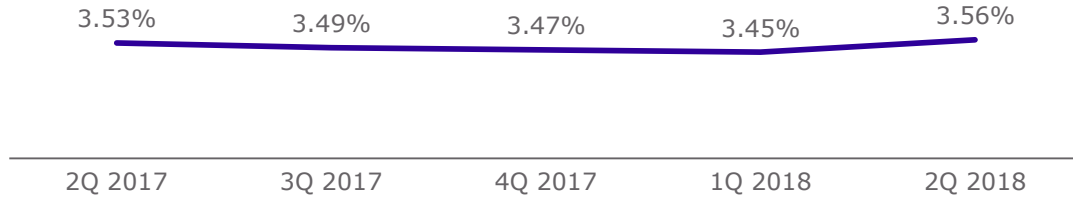
capabilities. We are encouraged by the positive response to our digital-only proposition, Mashreq Neo, and will build on our advantage to create a loyal base within this new customer segment.”

Al Ghurair concluded, “Ultimately, Mashreq, at its heart, is a community-first bank, and we are proud to be a recipient of the Gallup Great Workplace Award for the fifth year in a row. We continue to look to our people for inspiration, strength and guidance on how to transform from being a bank to becoming the preferred financial partner of the UAE.”

Operating Income

- Total operating income for 1H 2018 was AED 3.1 billion, a year-on-year increase of 3.7% compared to 1H 2017 operating income of AED 3.0 billion. Insurance, FX and other Income contributed to AED 96 Mn of the increase; revenue from Net Interest Income and Income from Islamic Financing also saw an increase of AED 92 Mn.
- Net Interest Income and income from Islamic Financing increased by 5.2% YoY and stands at AED 1.9 billion. On a quarterly basis, it increased by 3.9% to AED 0.9 billion in 2Q 2018. 1H 2018 Net Interest Margin has increased by 12 bps compared to 1H 2017.
- Total non-interest income increased by 1.4% - the decline in fee, commission and Investment income was compensated by a 24.2% increase in FX, Insurance and other income. Net fee and commission income represented 59.1% of total non-interest income in 1H 2018 as compared to 61.9% in 1H 2017.
- Operating expenses for the first half increased by 11.5% year-on-year to reach AED 1.3 billion; Efficiency Ratio at 42.2% in 1H 2018 increased with respect to the previous year (39.3% as of 1H 2017) on the back of increased investment in technology and branch transformation project.
- Net profit for the first half increased by 5.2% to AED 1.2 billion from AED 1.1 billion in 1H 2017 (AED 563 million in 2Q 2018 vs AED 598 million in 1Q 2018).

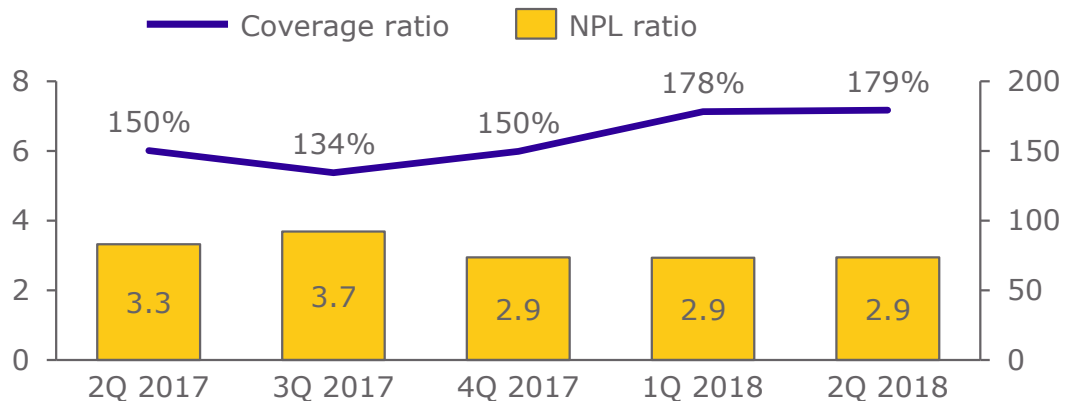
Net interest margin [%] – quarterly ¹⁾



Assets and Asset quality

- Mashreq's Total Assets increased by 1.4% to reach AED 127.0 billion in 1H 2018, compared to AED 125.2 billion at the end of 2017. Loans and Advances increased by 7.9% YTD to end at AED 67.7 billion driven by 6.8% growth in conventional finance. Liquidity continues to remain healthy with a high liquid asset to total assets ratio of 25.9%.
- Non-Performing Loans stood at AED 2.5 billion in June 2018 leading to a Non-Performing Loans to Gross Loans ratio of 2.9% at the end of June 2018 (2.9% in December 2017). Net Allowances for impairment for 1H 2018 were AED 589 million compared to AED 652 million in 1H 2017. Total Provisions for Loans and advances reached AED 4.2 billion, constituting 179.1% coverage for Non-Performing Loans as of June 2018.

NPL and Coverage Ratio [%]

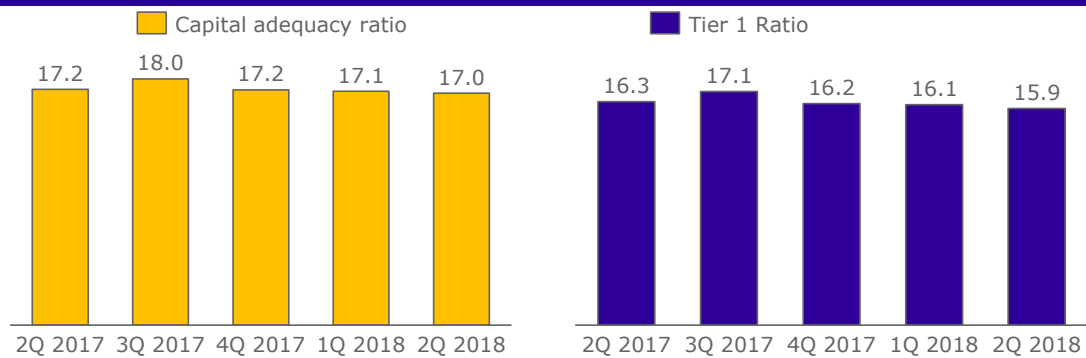


¹⁾ Annualized quarterly NIM's

Capital and Liquidity

- Total Customer Deposits increased by 2.3% YTD to AED 77.8 billion due to an increase in both conventional deposits (0.5% YTD) & Islamic Deposits (20.3% YTD). Loan-to-Deposit ratio stood at 87.0% in June 2018 vs 82.5% in December 2017.
- Mashreq's Capital adequacy ratio as per Basel III stood at 17.0% as of June 2018 (against regulatory minimum of 12.375% for 2018 including Capital conservation buffer) compared to 17.2% as of 31 December 2017. Tier 1 capital ratio at 15.9% (16.2% as of 31 December 2017) continues to be significantly higher than the 8.5% regulatory minimum stipulated by the UAE Central Bank.

Capital Adequacy and Tier 1 Ratio [%]¹⁾



¹⁾ 4Q 2017 onwards Capital Ratios are as per Basel III

Business Unit Updates

Corporate Banking

Contracting Finance

The division continued to maintain its competitive edge in the UAE market and further demonstrated and leveraged upon its decade old relationships in Mashreq's presence countries by successfully providing finance to contractors for projects across Bahrain, Kuwait, Egypt, KSA and Oman thereby capitalizing on the bank's strong regional presence. Mashreq continues to demonstrate its expertise in Contracting Finance through successful execution of several high-value projects within the Oil & Gas, Petrochemical, Civil, Infrastructure and Power & Water Industries.

During 2Q 2018, Mashreq supported prominent local and international contractors and executed several strategic projects across the region. New projects in excess of AED 25 billion were financed during 2018 and these projects will enhance the region's strategic reserves, support their infrastructure development and diversify the economy along with enrichment of the cultural outlook.

In addition to the above, the division has partnered with industry experts as part of Mashreq's strategic focus on industry specialization. It aims at adding value to the Contracting Industry through in-depth knowledge sharing, insights and interactions through a rich mix of events, research and reports of high value content, which are shared with the wider community in partnership with industry experts. Mashreq Construction Hub was created and is dedicated to be a go-to digital space for the Contracting Industry for openly discussing key issues, challenges and opportunities in the construction industry.

Energy, Service and Manufacturing

Energy Services and Manufacturing continued to focus on its asset and liability growth trajectory where the business generated a funded asset growth of 30% YoY on account of closing some large transactions with a robust pipeline for the second half of 2018.

Energy Sector team formulated and started the implementation of a new strategy that led to capturing end-to-end regional trade flows of crude and oil derivatives resulting in boosting trade volumes by 32% YoY fueled by structured trade solutions in the midstream domain. The pipeline also demonstrates our new credentials in the renewable energy space.

The services unit, through the shariah compliant Mashreq Al Islami (MAI), has successfully secured two mandated lead arranger roles; the first a 6 year USD 109 million Syndicated Term Loan to finance the leveraged buyout (LBO) of a logistics Group, supporting a Chinese backed inbound acquisition into the UAE and the Middle East. The second an 8 year USD 105 million Club facility to help acquire and construct accommodation space for a leading manpower and logistics group as it expands its workforce to support its growth.

The MNC unit closed a series of Discounting transactions on a non-recourse basis in excess of USD 100 million for key product led multinationals against their distributors' trade receivables, and expanded the customer base by leveraging on the regional footprint of Mashreq in MENA and the product sweet and service excellence.

The Manufacturing sector team was awarded mandated lead arranger for a USD 250 million syndicated term loan for acquisition finance to an industry leader to acquire their key distributor and thus demonstrating Mashreq's enhanced credentials to offer customer value propositions by evaluating the customers' ecosystems. It also won a USD 150 million bilateral short term bridge loan to be taken out by a project finance facility to a global player in the ferrous metals manufacturing and extrusion.

Corporate Origination and Business Development ("COBD")

The Corporate Origination & Business Development team (COBD) that was constituted earlier this year is now completely embedded and has started producing results. This team remains unique in its remit across competition with a sole responsibility to originate new corporate business for the bank and remains industry agnostic covering the entire UAE market. After the successful closure of its first transaction for a molasses producer in 1Q 2018 for USD 55 million, the

team has closed another transaction for USD 100 million within the Healthcare space. The team is also nearing closure of another sizeable transaction within the Education space for a reputable school chain based out of Sharjah which reflects the bank's appetite alignment with UAE directives & focus on Healthcare & Education.

Furthermore, and despite currently changing market dynamics the team is expecting to close few transactions over the next month for roughly AED 750 million which is a reflection of the very decent pipeline of transactions built over the last few months & which is spread across various industries including aviation / shipping / real estate as well as services as manufacturing covering both conventional and Islamic facilities.

Clearly the efforts of this team are bearing results through their market knowledge and expertise in deal structuring where they work in close collaboration with the various industry sectors as well as the corporate finance team.

Corporate Finance

Corporate Finance continued its strong run into 2Q 2018 by playing a lead role in arranging and closing 8 transactions within 2Q 2018 aggregating over AED 6 Billion and acting as the JLA for a USD 400 million Sukuk issuance by a prominent Real Estate name from the region.

Amidst the challenging regional landscape, Corporate Finance successfully closed deals beyond its conventional syndication markets. Notable amongst these, is the successful origination and execution of Mashreq's first syndication for a top Egyptian borrower through a USD 100 million fully underwritten facility. It progressed the India strategy, by successful repeat of the off-balance sheet structure devised in 1Q 2018, through arranging another USD 240 million pre-export finance facility for one of India's largest companies. In 2Q 2018, Corporate Finance continued its leading position in the syndicated FI loan space by successfully book running and closing four syndicated loans for Stanbic Bank Kenya Ltd. in Kenya, Access Bank in Nigeria, Vakif Bank and Al Baraka Turk Katilim Bankasi A.S in Turkey; each of these were oversubscribed by 2x, 1.6x, 1.6x and 1.06x respectively.

Closer to home and within the GCC region, Corporate Finance continued to leverage its expertise in structuring transactions by acting as the sole lead on two Acquisition Finance Facilities in support of acquisition bids, while meeting challenging timelines and other constraints of the respective sponsors. Amongst this an Acquisition Finance Loan of USD 500 million was provided in support of a local group's acquisition of a prominent business in UAE. Moreover, Mashreq structured and arranged sharia-compliant facilities to part finance SAR 1.0 billion leveraged acquisition of a GCC based group by a local sponsor and strategic investors listed on the Hong Kong Stock Exchange.

Global Transactional Services

GTS team has continued its drive of moving customers towards increased digitization, building the momentum through adoption of an agile business model of working closely with the coverage teams across different business verticals. Mashreq won the Best Digital Bank in the Middle East award in 2Q of 2018 from Euromoney Middle East Awards for Excellence. This recognition reinforces Mashreq's leadership position in the transaction banking space in the region

Real Estate Finance & Advisory

The Real Estate Finance & Advisory unit continued its strong momentum from 1Q 2018 into 2Q 2018 through its significant support for UAE based real estate companies and developers. The team was successful in closing a number of large transactions during the first half of 2018 and have built a robust pipeline of transactions for the second half 2018 – which include bilateral, club and syndicated facilities in addition to its bespoke advisory mandates for some of the most prestigious and prominent names (including real estate funds) in the UAE and GCC real estate sector. The division continues its well established and market leading support for the UAE real estate industry through developing tailored debt and advisory structures for its clients.

Retail Banking

The bank's retail segment achieved several major milestones over the second quarter. The bank's investment on the enhancement of its digital capabilities has positively impacted the growth rates and resulted in new sourcing.

Business Banking has delivered a number of digital innovations which has improved efficiencies and provided the customers with an improved banking

experience. The digital innovations include the launch of the Business First Account, allowing customers free access to the Mashreq Business Online and

Snapp Bizz - the business banking app. The platforms enable the customers to initiate and approve transfers, authorize and access multiple accounts, make international and local transfers and access their previous account information history at any time. This has resulted in a shift, with 88% of the financial transactions now taking place via the digital channels such as online and mobile channels. In the second quarter, Mashreq also partnered with the Department of Economic Development (DED) to become one of the first banks in the UAE to offer banking services to E-traders thus opening up a new market opportunity for Mashreq.

In April, Mashreq launched Quick Remit for its Indian expatriate customers, providing instant account transfers to India at attractive exchange rates. The FX segment has witnessed an 18% increase at an overall portfolio level with Quick Remit to India increasing by 73%.

Mashreq Neo has seen unprecedented customer growth peaking at over 300% versus the fourth quarter of last year. The growth in our customer base is complemented by an increased level of engagement from Neo customers in addition to an increase in average account balance and spending. As the first fully functional digital bank in the UAE, Mashreq Neo will continue to leverage its first-to-market position, and expand its range of innovative banking solutions for a new generation of tech-savvy customers.

Mashreq Payments enjoyed a successful second quarter owing to the success of Alipay, which has enjoyed a growth rate of 20x in the volume of transactions since its launch in March this year. Mashreq's Alipay service has been widely accepted by the UAE market and the bank aims to expand the number of point-of-sale (PoS) terminals which accept Alipay to 400 by July. Mashreq is the first bank in the UAE to offer Poynt Smart Terminals equipped to accept a wide range of payment types including credit and gift cards, NFC such as Apple Pay, Android Pay, Samsung Pay and Alipay. The Poynt platform integrates easily into the existing store architecture; accepts enterprise-grade store apps and offers UAE retailers an unmatched product and service proposition, while offering customers the ability to pay in any way they choose.

Mashreq's digital-led innovation strategy was also embedded within our retail marketing strategy given its reach, interactivity and simplicity. The opportunity to build online communities and engage with them to gather insights and feedback is invaluable and we have already launched campaigns that speak directly and effectively with our audiences. An example of this was the #MashreqMegaFans, a social platform that we created to support our customers' passion for sports. Through this initiative we reached out to a large audience of both existing and prospective customers, encouraging them as they supported their favorite sporting teams. This initiative received an overwhelming response and appreciation from employees, customers as well as the wider community.

International Banking

International banking continues to contribute sizably to the Banks's overall revenues. The recently launched India corporate business is showing signs of traction with many leading Indian corporate names in the pipeline. To support the growth of our business we have moved to new spacious state of the art premises in both India and New York. The international banking business has also embarked on the "Agile" journey to improve efficiency and speed up decision making. Many new automated solutions are being implemented across the globe as part of Mashreq's digitization journey and these initiatives will help support business growth and also contribute to customer delight.

Treasury and Capital Market

FX

Whilst corporate and retail FX flows continue to be weighed down by regional sentiment, the Energy and NBFIs segments have relatively outperformed the market. Trading revenue continues to maintain its momentum amidst sustained market volatility.

Rates & Fixed Income

Momentum in liability hedging business continued in 2Q as interest rates maintained an upward trend. The Fed's decision to raise rates in June and confirmation of its plans to hike rates twice more in 2018 will drive liability hedging further along with the Bank's plans to expand its balance sheet. Regional credit markets witnessed a sharp slowdown in the quarter on the back of Ramadan and summer – this impacted bond trading volumes.

The division worked on closing the Damac sukuk transaction in April – Mashreq was a Joint Lead Manager and the Rates & Fixed Income team led distribution efforts across multiple geographies for a successful completion of the deal. Volumes for investment products remained sluggish during the quarter but are likely to pick up post the summer period.

Equities

The impact on business due to a decline in local market volumes was partially offset by growth in regional and international volumes. Saudi Arabia's upgrade to Emerging Market status by FTSE and MSCI has been the key driver of flows in regional markets. We expect this trend to continue in the second half of the year and will look to capitalize on our multi-market access platform.

Asset Management

Business has had a busy 1H 2018 with a new multi-asset product being launched and attracting new AUMs. Volatile markets have resulted in a general cautiousness and investment plans are under increased scrutiny. The Mashreq Al-Islami Income Fund has outperformed respective peers during volatile markets. With more products coming up and being shortlisted for new mandates, business is expected to grow as the year progresses.

Corporate Treasury Sales

The new sales team continued its active coordination with CIBG relationship teams in 2Q to increase cross-sell business. The results are evident in the shape of increased client coverage statistics and some conversions from new-to-bank clients. Increased business is expected across asset classes in the coming months as the team actively engages in a targeted client calling programme.

2018 First Half Awards:

- **Gallup Great Workplace Award – 5th year**
- **Euromoney Middle East Awards**
 - Best Digital Bank in the Middle East
- **Insights Middle East Call Center Awards**
 - Best Call Center in the Middle East
 - Best Customer Experience
 - Best Contact Center Manager
 - Best Customer Experience Manager
 - Best Problem Solver
- **Banker Middle East – Industry Awards**
 - Best Retail Bank in the Middle East
 - Best Digital Bank in the UAE
- **Banker Middle East – Products Awards**
 - Best Credit Card - Smartsaver Global
 - Best Savings Product- Mashreq Millionaire
 - Best Premium Credit Card- Solitaire
 - Best Customer Loyalty Program- Salaam Rewards
- **CFI.co award**
 - Best Smart Retail Bank – Middle East 2018
- **MasterCard MENA Leadership Forum**
 - Best Converged Wallet Award
- **EMEA Finance**
 - The Best Bank in the UAE
 - The Best Product Launch
- **Dubai Chamber of Commerce CSR Label**
 - Mashreq is the only UAE financial institution to achieve this accreditation for the seventh consecutive year since 2011

- **CIO 100 Award 2018**
 - CIO 100 Award in recognition of the excellence and achievement in shaping the regional IT landscape
- **Global Banking and Finance Review**
 - Best Mobile Banking Application UAE 2018
 - Best Retail Bank UAE 2018
 - Best Bank for Factoring UAE 2018
 - Mashreq Al Islami - Most Innovative Islamic Banking Solutions Provider UAE 2018
- **Gartner Eye on Innovation Awards**
 - Most Innovative Digital Cost Saving Initiative
- **Microsoft Dynamics Digital Transformation Award**
 - Microsoft Dynamics Digital Transformation Award - Banking Industry category
- **Ethos - Service Olympian Award**
 - Best Call Center

Appendix 1: 2018 First Half Financial Highlights

2Q 2018 Financial Highlights	Half Yearly Trend			Quarterly Trend				
			Δ %				2Q'18 Δ %	
Income statement (AED mn)	1H'18	1H'17	YoY	2Q'18	1Q'18	2Q'17	QoQ	YoY
Net Interest Income & Income from Islamic Financing	1,854	1,762	5.2	945	909	909	3.9	3.9
Fee and commission	739	763	(3.0)	383	357	387	7.4	(0.9)
Investment Income	18	74	(75.1)	5	13	39	(62.1)	(86.9)
Insurance, FX & Other Income	493	397	24.2	254	239	200	6.2	26.8
Total Operating Income	3,104	2,994	3.7	1,586	1,518	1,535	4.5	3.4
Operating Expenses	(1,310)	(1,175)	11.5	(718)	(592)	(606)	21.2	18.4
Operating Profit	1,794	1,819	(1.4)	869	925	929	(6.1)	(6.4)
Impairment Allowance	(589)	(652)	(9.6)	(287)	(302)	(341)	(5.0)	(15.8)
Overseas Tax Expense	(21)	(46)	(53.1)	(7)	(14)	(22)	(49.3)	(66.6)
Non-Controlling Interest	(22)	(18)	22.3	(11)	(11)	(9)	3.3	29.2
Net Profit for the Period	1,161	1,104	5.2	563	598	557	(5.8)	1.0
EPS [AED]	6.54	6.22	5.2	3.17	3.37	3.14	(5.8)	1.0
			Δ %				Δ %	
Balance Sheet (AED mn)	Jun'18	Jun'17	YoY	Jun'18	Mar'18	Dec'17	QoQ	YTD
Total Assets	126,997	125,794	1.0	126,997	123,419	125,188	2.9	1.4
Loans and Advances	67,686	62,430	8.4	67,686	65,193	62,734	3.8	7.9
Customer Deposits	77,791	77,855	(0.1)	77,791	76,526	76,061	1.7	2.3
Shareholder's Funds	19,412	19,098	1.6	19,412	18,872	20,363	2.9	(4.7)
Key Ratios (%)	Jun'18	Jun'17	Δ bps	Jun'18	Mar'18	Dec'17	Δ bps	Δ bps
CAR (Capital Adequacy ratio) ¹⁾	16.97	17.24	(27)	16.97	17.10	17.16	(13)	(19)
Tier 1 Ratio	15.85	16.34	(49)	15.85	16.13	16.19	(28)	(34)
Loan-to-Deposits	87.01	80.19	682	87.01	85.19	82.48	182	453
Return-on Assets*	1.84	1.78	7	1.84	1.92	1.66	(8)	19
Return-on-Equity*	11.68	11.66	2	11.68	12.20	10.49	(52)	119

* Annualized

1) June 2017 Capital Ratios as per Basel II and Dec 2017, March 2018 and June 2018 as per Basel III

-ENDS-

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