

# Mashreq declares a net profit of AED 1.9 Billion for 2016

**Dubai, UAE; 25<sup>th</sup> January 2017:** Mashreq, one of the leading financial institutions in the UAE, today has reported its financial results for the year ending 31<sup>st</sup> December 2016.

## **Key highlights [2016 vs 2015]:**

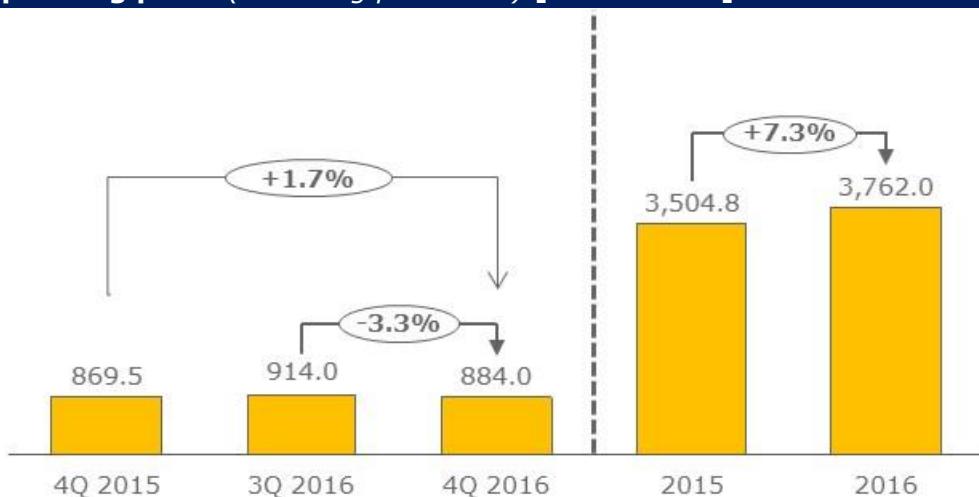
- ***Stable growth in Operating Income***
  - Operating Income up 3.2% year-on-year to AED 6.2 billion driven by strong growth in Net Interest Income & Net Income from Islamic Products
  - Net Interest Income & Net Income from Islamic Products up by 4.2% year-on-year, on the back of a 1.4% y-o-y increase in loan volume
  - Net profit for full year 2016 stood at AED 1.9 billion
- ***Consistently high proportion of net fee and commission income***
  - Mashreq's best-in-class Net Fee, Commission, Investment and Other Income to operating income ratio remained high at 42.2%
  - Net Fee, Commission & Other income increased by 1.8% year on year
- ***Strong balance sheet***
  - Total Assets increased by 6.6% in the year to reach AED 122.8 billion; Customer Deposits increased by 4.6% to reach AED 77.0 billion
  - Loan-to-Deposit ratio remained robust at 79.2% at the end of December 2016
- ***Healthy liquidity and capital position***
  - Liquid Assets to Total Assets stood at 30.4% with Cash and Due from Banks at AED 37.3 billion
  - Capital adequacy ratio and Tier 1 capital ratio continue to be significantly higher than the regulatory limit and stood at 16.9% and 16.0% respectively

- **Stemmed the decline in asset quality**

- Non-Performing Loans to Gross Loans ratio decreased to 3.1% at the end of December 2016 (3.6% as of September 2016).
- The risk charge for the year increased from AED 1.0 billion to AED 1.7 billion and Total Provisions for Loans and advances reached AED 3.3 billion, constituting 151.1% coverage for Non-Performing Loans

Mashreq delivered stable financial results for the year ending December 2016, reporting a net profit of AED 1.9 billion. Earnings per share are strong at AED 10.85 as of December 2016.

**Operating profit (excluding provisions) [AED million]**



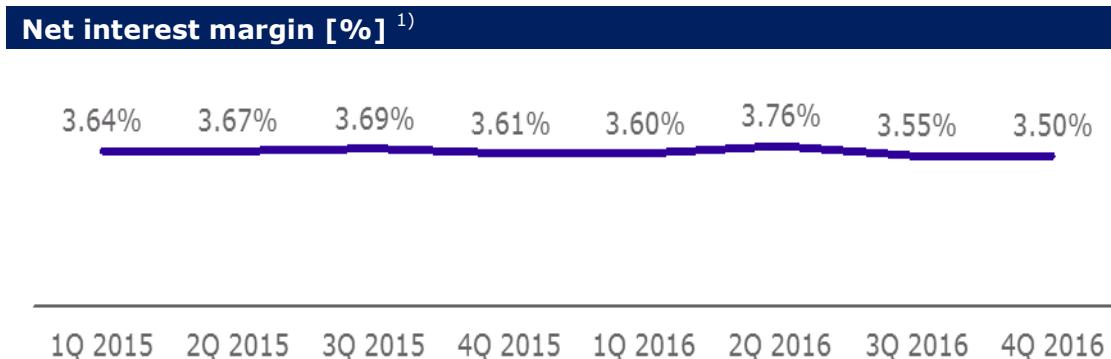
**Mashreq's CEO, Abdul Aziz Al Ghurair commented,** "While the region weathered tough business conditions in 2016, Mashreq had a reasonable year despite the economic climate and low oil prices. Topline, in terms of operating income, rose by 3.2% and our balance sheet grew 6.6%."

**He added,** "We continued to focus on driving efficiency and productivity leading to a reduction in operating expenses by 2.7% and this led to a healthy growth in operating profit of 7.3%. The last quarter saw an improvement in our asset quality, as evidenced by non-performing loans falling 17% quarter on quarter and impairment allowance decreasing by 9.5% in the same period. We are pleased with the strong year end finish and the improving trend in net profit in the fourth quarter, which rose 6.3% against the third quarter of 2016."

**Al Ghurair concluded**, "Mashreq is in a very strong position as it enters 2017 with a diversified balance sheet and customer base. With the government's continued focus on economic diversification, investment in non-hydrocarbon assets, and its smart city initiatives, Mashreq's strategy on innovation and focus on customer experience will serve us well as we enter our 50<sup>th</sup> year."

### **Operating Income**

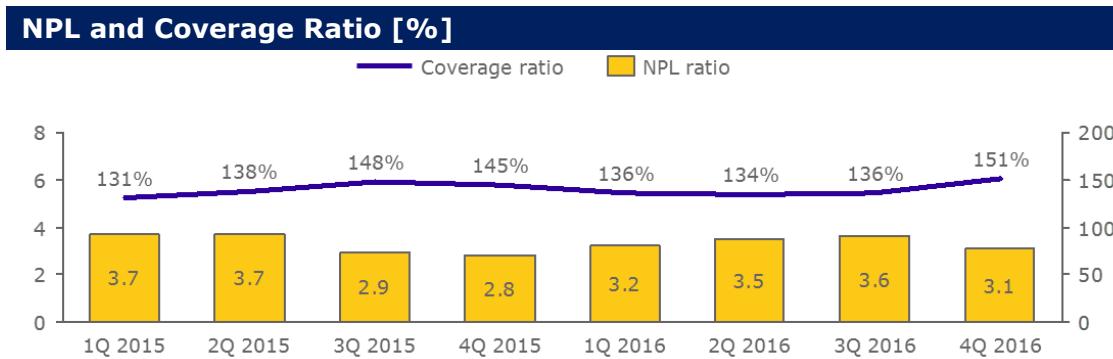
- Total operating income for 2016 was AED 6.2 billion, a year-on-year increase of 3.2% compared to 2015 operating income of AED 6.0 billion.
- Net Interest Income & Net Income from Islamic Products at AED 3.6 billion was up by 4.2% compared to 2015, driven by a 1.4% year-on-year increase in loan volume. There has been a slight decline in net interest margin from 3.60% as of December 2015 to 3.52% as of December 2016. On a quarterly basis, Net Interest Income & Net Income from Islamic Products has increased by 1.7% to AED 891 million in 4Q 2016 as compared to AED 876 million in 3Q 2016.
- Net fee Commission & Other Income increased by 1.8% year-on-year to reach AED 2.6 billion. Net fee and commission income represented 64.8% of total non-interest income in 2016 as compared to 67.5% in 2015.
- Operating expenses decreased by 2.7% year-on-year to reach AED 2.4 billion; Efficiency Ratio at 39.0% in 2016 increased slightly with respect to the last quarter (38.3% as of 9 months 2016).



<sup>1)</sup> Annualized quarterly NIM's; NII component booked under Investment income as per IFRS, has been reclassified under NII

## Assets and Asset quality

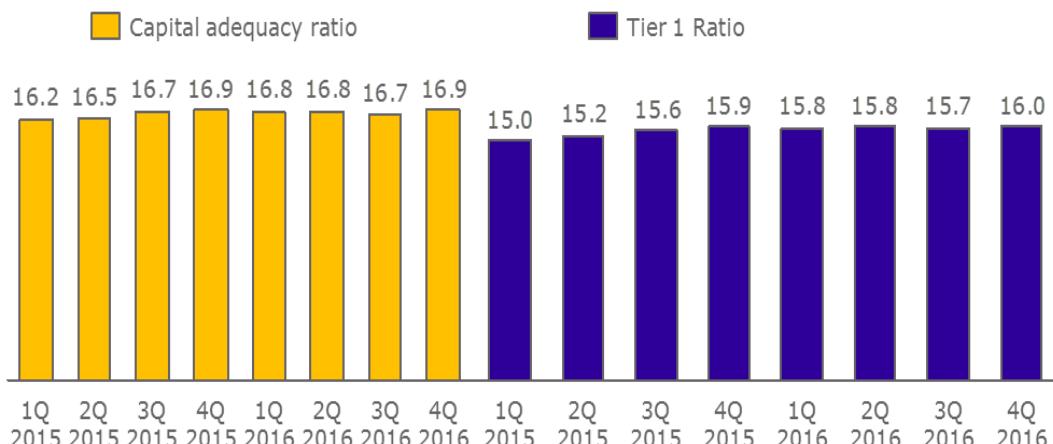
- Mashreq's Total Assets increased by 6.6% to reach AED 122.8 billion in 2016, compared to AED 115.2 billion at the end of 2015. On a year-on-year basis, Loans and Advances grew by 1.4% to end at AED 61.0 billion driven by 14.4% growth in Islamic finance. Liquid Assets to Total Assets stood at 30.4% with Cash and Due from Banks at AED 37.3 billion as of December 2016. Loan-to-Total Assets Ratio at 49.7% fell slightly as compared to 52.3% at the end of 2015 (52.1% in September 2016).
- Customer Deposits at AED 77.0 billion, increased by 4.6% as compared to December 2015, driven by 7.2% growth in conventional deposits. Loan-to-Deposit ratio stood at 79.2% vs 81.7% in December 2015. On a quarter on quarter basis, customer deposits grew by 2.3% from AED 75.3 billion in September 2016.
- Non-Performing Loans reduced to AED 2.3 billion in December 2016 leading to a Non-Performing Loans to Gross Loans ratio of 3.1% at the end of December 2016 (3.6% in September 2016). Net Allowances for impairment for 2016 were AED 1.7 billion as compared to AED 1.0 billion in 2015. Total Provisions for Loans and advances reached AED 3.3 billion, constituting 151.1% coverage for Non-Performing Loans as on December 2016.



## Capital and Liquidity

- Mashreq's Capital adequacy ratio stood at 16.9% (regulatory minimum of 12%) as of December 2016 compared to 16.9% as of 31 December 2015. Tier 1 capital ratio at 16.0% continues to be significantly higher than the 8.0% regulatory minimum stipulated by the UAE Central Bank (15.9% as of 31 December 2015).

## Capital Adequacy and Tier 1 Ratio [%]



### Operational Update:

#### **Corporate Banking:**

The Corporate Banking Group has continued its trend of providing world class financing solutions with an emphasis on both relationship management and the provision of innovative solutions in the form of new products and services.

#### *Global Transaction Services*

Mashreq's Global Transaction Services team maintained its regional dominance in the transaction banking space by winning the Global Finance - World's Best Corporate/Institutional Digital Bank Award in UAE in 2016 for the second consecutive year. In 4Q the team successfully rolled out "mashreqMATRIX Edge" – a state of the art Corporate Mobile Banking application providing an Omni-channel experience to its online corporate customers for viewing and approval functions. The launch of Cardless cash withdrawal services for corporate customers is yet another milestone in Mashreq's journey of digitizing corporate banking services.

#### *Corporate Finance*

Corporate Finance closed a diverse mix of corporate loan market transactions in 4Q which included an AED 305 million syndicated factoring facility for a leading travel agency in the UAE, a refinancing of USD 460 million loan for a Qatar-based

real estate development company, as well as an AED 1.2 billion facility for a real estate company in the UAE. On the financial institutions side, the team closed a USD 400 million loan facility for a Kenya-based supranational trade and development bank. The Division continued its origination efforts focused on developing a healthy pipeline to kick start the New Year.

#### *NBFI*

The NBFI team continues to lead in cross-sell initiatives with all product areas contributing to client solutions. 4Q 2016 marked further diversification of revenue with significant cross-sell achieved with other units of the bank. Some of the 4Q highlights include the closure of a debut transaction in the Real Estate division for a major sovereign wealth fund for AED 440 million and Total Return Swap for a listed UAE stock besides Bridge finance against a large regional divestment in the Private Equity space. The division has added another NTB (new to bank) client in Bahrain, one of the largest financial companies in Bahrain. In addition, under the patronage of a regional PE major, the NBFI team on-boarded the MENA's largest Wholesale Travel Accommodation player on Matrix.

#### *Real Estate Finance & Advisory*

The Real Estate Finance & Advisory has structured and advised on a total deal size of more than AED 7.0 billion in 4Q 2016 including bilateral, club and syndicated facilities. The team closed lucrative and high value transactions for some of the most prestigious and prominent names within the UAE and GCC real estate industry. The team has also now started its pitch to select investors relating to its DIFC-based real estate Qualified Investor Fund ("QIF") which was launched in partnership with an experienced real estate private equity firm in Abu Dhabi. The QIF has an equity size of USD 300 million and will also raise debt for Shariah-compliant investments in high-yielding assets; the initial and GCC wide roadshow for the fund is to begin imminently.

#### Contracting Finance

The unit continues to maintain its competitive edge in the UAE market in terms of segment specialization and has also successfully provided finance for contractors 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 successful execution of several high-value projects

within the Oil & Gas, Petrochemical, Civil, Infrastructure and Power Generation industries. During 2016, Mashreq supported prominent local and international contractors executing many strategic projects across the region. New projects worth AED 17 billion were supported during 2016 increasing the value of the total projects under finance to AED 358 billion as of YE 2016. Projects financed in 2016 include Expansion of Bahrain International Airport, Doha Reverse Osmosis Desalination Plant in Kuwait, Liwa Plastics Plant in Oman and Cairo Festival City Apartments.

**Retail Banking:**

Mashreq's Retail Banking Group launched innovative financial solutions targeted at making the customer's banking experience more engaging and meaningful. During the 4th quarter, the Bank introduced the UAE's First 'Mashreq Bot'; an Artificial Intelligence agent or chat-bot programmed to simulate an intelligent conversation with users. Customers can use the chat-bot to display Mashreq products and perform card-less cash transactions, low-ticket local transfers and inquire about balance and recent transactions on an account.

The Bank also signed a strategic partnership with the leading cinema chain, the Middle East Novo Cinemas to change the customers' cinema experience. For the first time ever in the UAE, Mashreq card holders can experience the full power of loyalty and convenience on any Mashreq credit card through a whopping 50% discount on 2D, 3D, IMAX and 7-Star tickets booked at the box-office, online ([www.Novocinemas.com](http://www.Novocinemas.com)) or through the Novo Cinemas mobile app. Customers can also access dedicated ticketing and F&B counters at Novo Cinemas and get complimentary invites to movie previews and screenings based on their card spends.

During the fourth quarter, Mashreq launched a one month campaign for Emiratis, 'Lounek Emirati' - a special and uniquely designed package that is targeted at UAE nationals. It offers a banking package which is simple, quick and hassle free, a product that blazes the way forward and is tailor-made to suit the Emirati community.

Mashreq for the second year in a row captured the pride of the nation with its #youAE campaign – A campaign which sought from the community what UAE meant for them. The bank launched the campaign with the hashtag #youAE using

a combination of digital platforms, advertising, crowd sourcing and various competitions to encourage everyone to take part and get involved.

**International Banking:**

Mashreq's strategy of geographical diversification of revenue streams is paying rich dividends with its International Business now contributing 24% of the Bank's overall operating income.

The International Business had an exemplary 2016 despite continued challenges in the operating environment caused by sustained economic weaknesses and increased regulatory requirements in some of the countries. Mashreq has become a clear leader as a banker to Financial Institutions in the Indian Subcontinent and Africa. During the year, despite stiff competition Mashreq maintained its leadership position in Pakistan, Bangladesh and Nepal in the FI business with a growing market share in the trade and payments business. In key African countries we expanded our offerings from transactional banking to raising funds for the top Banks and Development Financial Institutions in Africa and continue to be the leading Middle Eastern Bank in the FI business in Africa in terms of geographic coverage and depth of products offered.

The International corporate business also registered a very strong performance across countries and concluded some landmark transactions winning several awards along the way. In line with Mashreq's policy of staying ahead of the curve on the regulatory front, the Bank constantly reviews and further strengthens its Compliance, KYC and AML monitoring policies and systems across the globe and among other initiatives have recently implemented a highly sophisticated state of the art payment screening system in New York.

**Treasury and Capital Market:**

The Treasury and Capital Markets business continued to do well in the last quarter of the year. Despite the general slowdown in the regional economy, FX flow continued to experience momentum in the retail space. FX Trading revenue continued its strong performance amidst increased volatility in underlying markets.

The record level of primary issuance in the GCC, buoyed by the Kingdom of Saudi Arabia's mega-issue, helped the Rates & Fixed Income business reach trading

volumes of USD 5 billion for the year. The uncertain interest rate environment persisted, keeping corporates on the sidelines for hedging interest rate risk. The spike in treasury yields post US elections and the interest rate hike by the US Federal Reserve along with a message to tighten policy in 2017 is expected to drive volumes for rates hedging higher going forward.

Although regional equity markets have witnessed significant volatility in the past year, the equities business witnessed an increase in trading volumes and revenue in Q4, on improved client flows. Trading activity picked up and appetite for leverage grew following OPEC's recent agreement (which was viewed as reducing the burden on GCC economies for further fiscal consolidation)

Mashreq continues to be supported by its comprehensive capital markets products suite across asset classes, an online trading platform and a 24 hour dealing room.

#### **2016 Q4 Awards:**

##### **CSR Label – Dubai Chambers – 2016**

##### **World Finance Awards**

Best Digital Bank – UAE

Best Mobile Banking Application – UAE

##### **Global Finance Digital Bank Conference**

###### *Country awards recognition*

Best corporate digital bank in the U.A.E

Best consumer digital bank in Qatar

Best consumer digital bank in the U.A.E

###### *Regional awards recognition*

Best online deposit, credit and investment product offerings

Best bill payment and presentment

Best web site design

Best integrated consumer bank site

##### **Gulf Business Awards 2016**

Business Leader of the Year – Banking Industry (H.E. AbdulAziz Al Ghurair)

##### **Daman Corporate Health Awards**

Best Corporate Health and Wellness Organization Award

##### **Annual Islamic Business & Finance Awards**

Best Innovation in Islamic Banking Solution

## Appendix 1: 2016 Year End Financial Highlights

| 2016 Financial Highlights                               | Annual Trend   |               |               | Quarterly Trend |               |               |              | 4Q'16 Δ %     |  |
|---|----------------|---------------|---------------|-----------------|---------------|---------------|--------------|---------------|--|
|   | YE'16          | YE'15         | YoY           | 4Q'16           | 3Q'16         | 4Q'15         | QoQ          |               |  |
| <b>Income statement (AED mn)</b>                        |                |               |               |                 |               |               |              |               |  |
| Net Interest Income & Net Income from Islamic Products* | 3,567          | 3,422         | 4.2           | 891             | 876           | 871           | 1.7          | 2.3           |  |
| Fee and commision                                       | 1,685          | 1,724         | (2.3)         | 392             | 399           | 427           | (1.7)        | (8.2)         |  |
| Investment Income                                       | 58             | 9             | 555.8         | (1)             | 11            | (7)           | (113.7)      | (78.3)        |  |
| Insurance,FX & Other Income                             | 859            | 822           | 4.5           | 223             | 211           | 228           | 5.5          | (2.4)         |  |
| <b>Total Operating Income</b>                           | <b>6,169</b>   | <b>5,977</b>  | <b>3.2</b>    | <b>1,504</b>    | <b>1,496</b>  | <b>1,519</b>  | <b>0.5</b>   | <b>(1.0)</b>  |  |
| Operating Expenses                                      | (2,407)        | (2,472)       | (2.7)         | (620)           | (583)         | (650)         | 6.4          | (4.6)         |  |
| <b>Operating Profit</b>                                 | <b>3,762</b>   | <b>3,505</b>  | <b>7.3</b>    | <b>884</b>      | <b>914</b>    | <b>869</b>    | <b>(3.3)</b> | <b>1.7</b>    |  |
| Impairment Allowance                                    | (1,734)        | (1,000)       | 73.4          | (425)           | (470)         | (318)         | (9.5)        | 34.0          |  |
| Overseas Tax Expense                                    | (74)           | (71)          | 5.5           | (17)            | (24)          | (7)           | (31.0)       | 125.4         |  |
| Non-Controlling Interest                                | (28)           | (33)          | (15.5)        | (2)             | (5)           | 12            | (66.8)       | (112.9)       |  |
| <b>Net Profit for the Period</b>                        | <b>1,926</b>   | <b>2,402</b>  | <b>(19.8)</b> | <b>441</b>      | <b>415</b>    | <b>556</b>    | <b>6.3</b>   | <b>(20.7)</b> |  |
| EPS [AED]   | <b>10.85</b>   | 13.53         | (19.8)        | <b>2.48</b>     | 2.34          | 3.13          | 6.1          | (20.9)        |  |
|   |                |               | Δ %           |                 |               |               |              | Δ %           |  |
| <b>Balance Sheet (AED mn)</b>                           | <b>Dec'16</b>  | <b>Dec'15</b> |               | <b>Dec'16</b>   | <b>Sep'16</b> | <b>Dec'15</b> | <b>QoQ</b>   | <b>YTD</b>    |  |
| Total Assets  | <b>122,814</b> | 115,157       | 6.6           | <b>122,814</b>  | 119,624       | 115,157       | 2.7          | 6.6           |  |
| Loans and Advances                                      | <b>60,994</b>  | 60,166        | 1.4           | <b>60,994</b>   | 62,297        | 60,166        | (2.1)        | 1.4           |  |
| Customer Deposits                                       | <b>77,041</b>  | 73,635        | 4.6           | <b>77,041</b>   | 75,276        | 73,635        | 2.3          | 4.6           |  |
| Shareholder's Funds                                     | <b>18,758</b>  | 17,769        | 5.6           | <b>18,758</b>   | 18,498        | 17,769        | 1.4          | 5.6           |  |
| <b>Key Ratios (%)</b>                                   | <b>Dec'16</b>  | <b>Dec'15</b> | <b>Δ bps</b>  | <b>Dec'16</b>   | <b>Sep'16</b> | <b>Dec'15</b> | <b>Δ bps</b> | <b>Δ bps</b>  |  |
| <i>CAR (Capital Adequacy ratio)</i>                     | <b>16.86</b>   | 16.90         | (0.04)        | <b>16.86</b>    | 16.65         | 16.90         | 0.21         | (0.04)        |  |
| <i>Tier 1 Ratio</i>                                     | <b>15.95</b>   | 15.86         | 0.10          | <b>15.95</b>    | 15.73         | 15.86         | 0.22         | 0.10          |  |
| <i>Loan-to-Deposits</i>                                 | <b>79.17</b>   | 81.71         | (2.54)        | <b>79.17</b>    | 82.76         | 81.71         | (3.59)       | (2.54)        |  |
| <i>Return-on Assets**</i>                               | <b>1.62</b>    | 2.17          | (0.55)        | <b>1.62</b>     | 1.69          | 2.17          | (0.07)       | (0.55)        |  |
| <i>Return-on-Equity**</i>                               | <b>10.55</b>   | 14.16         | (3.61)        | <b>10.55</b>    | 10.93         | 14.16         | (0.38)       | (3.61)        |  |

\*NII component booked under Investment income as per IFRS, has been reclassified under NII

\*\*Quarterly figures are Annualized

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