

# **Management Discussion & Analysis Report**

Year End 2019

**3<sup>rd</sup> February 2020**

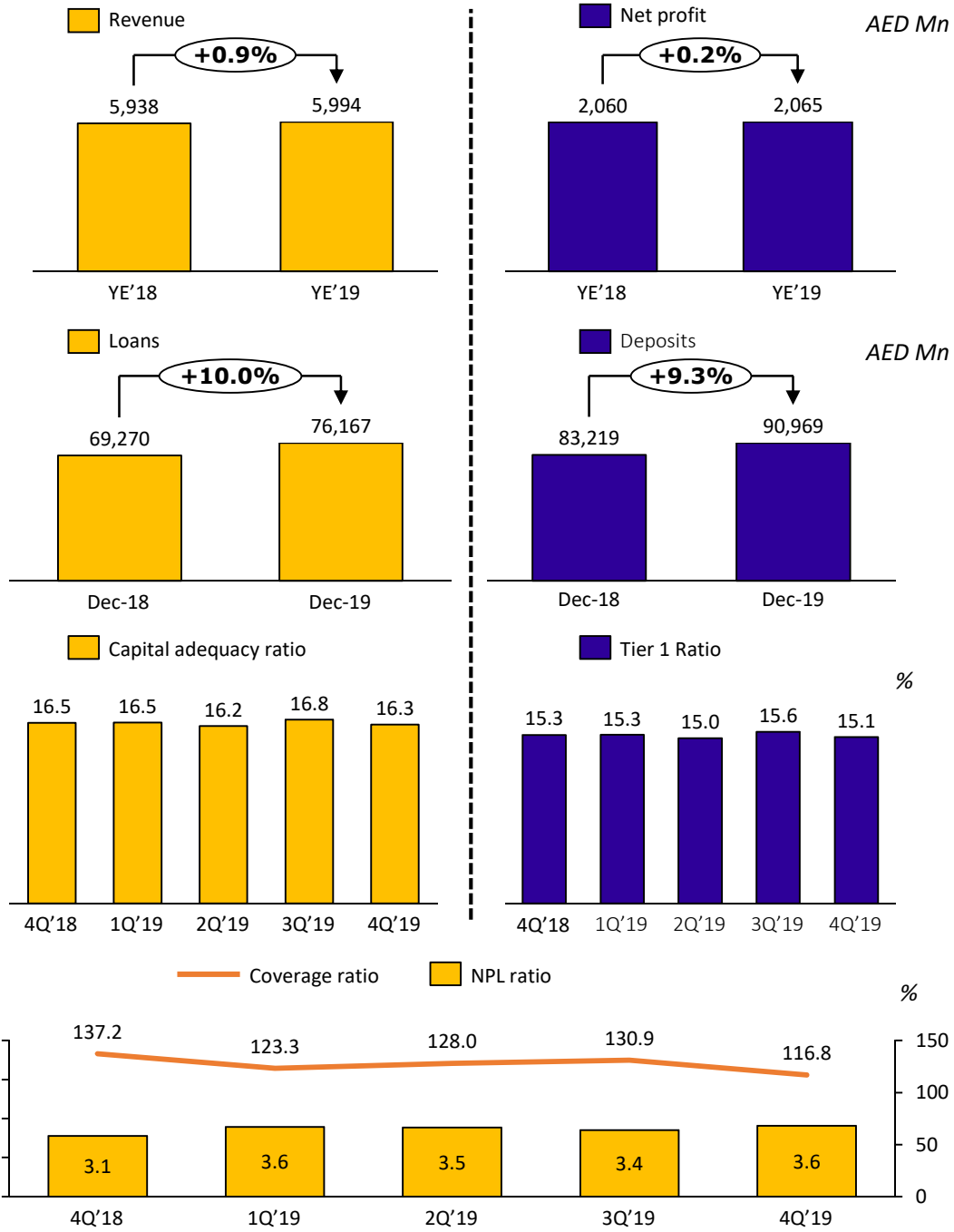
## **Mashreq posts AED 2.1 Bn Net Profit for YE 2019**

**Dubai, UAE; 3<sup>rd</sup> February 2020:** 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 2019.

### **Key highlights [YE 2019 vs YE 2018]:**

- **Stable Net Profit**
  - Net profit for YE 2019 stood at AED 2.1 billion – stable vs 2018
  - Impairment Allowance down by 1.5% YoY
- **High proportion of non-interest income**
  - Mashreq's best-in-class non-interest income to operating income ratio remained high at 38.2%
  - Significant growth in Investment Income (AED 150 Mn in 2019 vs AED 27 Mn in 2018)
- **Solid liquidity & Capital position**
  - Liquid Assets ratio stood at 32.6% with Cash and Due from Banks at AED 47.5 billion as on 31<sup>st</sup> December 2019
  - Capital adequacy ratio and Tier 1 capital ratio continue to be significantly higher than the regulatory limit and stood at 16.3% and 15.1% respectively
- **Strong Balance Sheet Growth**
  - Total Assets grew by 11.8% to AED 159.4 billion while Loans and Advances increased by 10.0% to reach AED 76.2 billion as compared to December 2018
  - Customer Deposits grew by 9.3% during the year to reach AED 91.0 billion
  - Loan-to-Deposit ratio remained strong at 83.7% at the end of 31<sup>st</sup> December 2019
- **Sustained Asset Quality**
  - Non-Performing Loans to Gross Loans ratio stood at 3.6% at the end of December 2019
  - Total Provisions for Loans and advances reached AED 4.0 billion, constituting 116.8% coverage for Non-Performing Loans

**Exhibits:**



### Financial Highlights:

YE 2019 Financial Highlights	Annual Trend							
	YE		Δ %	4Q	3Q	4Q	Δ %	
Income statement (AED mn)	2019	2018	YoY	2019	2019	2018	QoQ	YoY
Net Interest Income & Income from Islamic Financing	3,707	3,643	1.8	960	898	851	6.9	12.7
Fee and commission	1,365	1,413	(3.4)	327	328	351	(0.2)	(6.7)
Investment Income	150	27	464.6	39	56	1	(30.4)	-
Insurance,FX & Other Income	772	855	(9.8)	142	170	141	(16.7)	0.9
<b>Total Operating Income</b>	<b>5,994</b>	<b>5,938</b>	<b>0.9</b>	<b>1,468</b>	<b>1,452</b>	<b>1,344</b>	<b>1.1</b>	<b>9.2</b>
Operating Expenses	(2,623)	(2,618)	0.2	(629)	(677)	(671)	(7.1)	(6.2)
<b>Operating Profit</b>	<b>3,371</b>	<b>3,320</b>	<b>1.5</b>	<b>838</b>	<b>775</b>	<b>673</b>	<b>8.2</b>	<b>24.6</b>
Impairment Allowance	(1,212)	(1,230)	(1.5)	(507)	(223)	(393)	127.5	29.2
Tax Expense	(23)	(25)	(7.5)	(7)	(2)	3	234.6	(339.7)
Non-Controlling Interest	(71)	(5)	-	(16)	(14)	29	14.9	(156.3)
<b>Net Profit for the Period</b>	<b>2,065</b>	<b>2,060</b>	<b>0.2</b>	<b>308</b>	<b>536</b>	<b>312</b>	<b>(42.5)</b>	<b>(1.4)</b>
EPS [AED]	11.63	11.60	0.2	1.73	3.02	1.76	(42.5)	(1.4)
	Dec	Dec	Δ %	Dec	Sep	Dec	Δ %	
<b>Balance Sheet (AED mn)</b>	<b>2019</b>	<b>2018</b>	<b>YoY</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>QoQ</b>	<b>YTD</b>
Total Assets	159,431	142,561	11.8	159,431	146,874	142,561	8.5	11.8
Loans and Advances	76,167	69,270	10.0	76,167	72,170	69,270	5.5	10.0
Customer Deposits	90,969	83,219	9.3	90,969	84,109	83,219	8.2	9.3
Shareholder's Funds	21,533	20,144	6.9	21,533	21,224	20,144	1.5	6.9
	Dec	Dec	Δ bps	Dec	Sep	Dec	Δ bps	
<b>Key Ratios (%)</b>	<b>2019</b>	<b>2018</b>	<b>YoY</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>QoQ</b>	<b>YTD</b>
CAR (Capital Adequacy ratio)	16.28	16.45	(17)	16.28	16.75	16.45	(47)	(17)
Tier 1 Ratio	15.15	15.33	(18)	15.15	15.63	15.33	(48)	(18)
Loan-to-Deposits	83.73	83.24	49	83.73	85.81	83.24	(208)	49
Return-on Assets*	1.48	1.64	(16)	1.48	1.78	1.64	(30)	(16)
Return-on-Equity*	9.91	10.17	(26)	9.91	11.33	10.17	(142)	(26)

\*Annualized

**Mashreq's CEO, Ahmed Abdelaal, said:** "Mashreq Bank continued to register strong performance and achieved a healthy net profit of AED 2.1 billion in the year. Importantly, this was achieved whilst maintaining a capital adequacy ratio and a Tier 1 capital ratio that was significantly higher than the regulatory limit at 16.3% and 15.2%, respectively. All of our businesses performed well and our total assets grew by 11.8% to AED 159.4 billion, while Loans and Advances increased by 10% over December 2018 to reach AED 76.2 billion.

The past year will be remembered as one that saw significant milestones for the bank. During 2019 we invested in, and executed, several digitization initiatives which will enable us to improve productivity, achieve cost efficiencies, enhance customer experience and unlock further value across our businesses. Notable among these was our branch transformation initiative, our collaboration with DIFC to launch the region's first production-ready Blockchain KYC data sharing consortium in Q1 2020 and our new digital offering NeoBiz geared towards SMEs – the backbone of the nation's economy.

The banking industry is evolving at a rapid pace and our clients, shareholders and regulators have a high expectation from banks to offer quick and real time services. This offers significant opportunities for banks such as Mashreq to capitalize on. Our core focus therefore continues to be towards catering to growing customer demand, enhancing the customer experience and empowering our people. Our digital transformation journey is not without its challenges but I am delighted to say that our staff have embraced this and our employee engagement score remains high. This is testimony to the expertise, professionalism and drive of our people, and our investment in the upskilling, learning and personal development necessary to keep us at the forefront of the digital revolution. We remain wholly committed to nurturing and developing Emirati talent. We have a dedicated national development program as we strongly believe they hold the key to establishing the UAE's future legacy.

The added value that we can bring to our clients through innovation and technology is paramount to us and will remain the cornerstone of our strategy and the center of any transformation program that we conduct now or in the future."

**Mr. Abdelaal concluded,** "As we head into 2020 – hailed as the Year of Getting Ready for the next 50 years in the UAE – there is never a doubt in my mind that we are approaching a significant period in the banking industry. The onus is now on us as an organization to continue seizing the opportunities in this era of disruption and innovation. The evolving needs of our customers is always the primary consideration whenever we roll out new initiatives, and therefore digitization continues to remain at the heart of our strategy. In the end, the goal is to provide outstanding customer experience, and I am delighted to say that we are well on track to deliver on that promise in the future also."

**-ENDS-**

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**YE 2019 Awards:**

<ul style="list-style-type: none"> <li>• <b>Global Banking &amp; Finance Awards</b> <ul style="list-style-type: none"> <li>○ Best Mobile Banking Application UAE 2019</li> <li>○ Best Bank for Factoring UAE 2019</li> <li>○ Best Bank for Structure Financing UAE 2019</li> <li>○ Best Retail Bank UAE 2019</li> </ul> </li> <li>• <b>Khaleej Times &amp; MIT Sloan DIGITRANS 2019</b> <ul style="list-style-type: none"> <li>○ Global Digital Leader</li> <li>○ Digital Leader – Banking</li> </ul> </li> <li>• <b>EMEA Finance</b> <ul style="list-style-type: none"> <li>○ Most Innovative Bank in the Middle East</li> <li>○ Best Local Bank UAE</li> </ul> </li> <li>• <b>Gartner Eye on Innovation Award EMEA</b></li> <li>• <b>The 5th edition of Customer Experience Week Middle East</b> <ul style="list-style-type: none"> <li>○ Best Customer Centric Contact Centre</li> </ul> </li> <li>• <b>Banker Middle East</b> <ul style="list-style-type: none"> <li>○ Best Retail Bank in the Middle East</li> <li>○ Best Innovative Digital Banking Proposition in the Middle East</li> <li>○ Best Credit Card in the UAE</li> <li>○ Best Priority Banking Service</li> <li>○ Best Digital Banking Services in the UAE</li> <li>○ Best SME Exchange Service</li> <li>○ Best Customer Service for SME</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>World Finance Digital Banking Awards 2019</b> <ul style="list-style-type: none"> <li>○ Best Consumer Digital Bank - 2019 - UAE</li> <li>○ Best Mobile Banking App - 2019 – UAE</li> </ul> </li> <li>• <b>World's Best Bank Awards from Global Finance</b> <ul style="list-style-type: none"> <li>○ Best Bank in the UAE for 2019</li> </ul> </li> <li>• <b>The Banker</b> <ul style="list-style-type: none"> <li>○ Deal of the Year - Africa - Loans (Telecom Egypt USD 500 Million Syndicated Loan Facility) Also entered by First Abu Dhabi Bank</li> <li>○ Deal of the Year - Asia Pacific - Loans (Bank of Ceylon \$100m syndicated facility with accordion tranche)</li> <li>○ Deal of the Year- Middle East- Islamic Finance (VIP Investments \$109m Islamic acquisition facility)</li> </ul> </li> <li>• <b>The Asian Banker Award</b> <ul style="list-style-type: none"> <li>○ Best Process Automation Initiative in the Middle East</li> </ul> </li> <li>• <b>Business Leader of the Year Award</b> <ul style="list-style-type: none"> <li>○ Most Admired Financial Services Provider</li> <li>○ Organization with Best Employee Relations Practices</li> </ul> </li> <li>• <b>CXO 50 2019</b> <ul style="list-style-type: none"> <li>○ IT pioneer in the Middle East</li> </ul> </li> </ul>
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<ul style="list-style-type: none"> <li>○ Best Real Estate Advisory</li> <li>• <b>WealthBriefing MENA Region Awards 2019</b> <ul style="list-style-type: none"> <li>○ Best Private Bank servicing the UAE</li> <li>○ Best Private Bank – Investment Management Platform</li> </ul> </li> <li>• <b>Finx Awards</b> <ul style="list-style-type: none"> <li>○ MENA Fintech Personality</li> </ul> </li> <li>• <b>Global Finance</b> <ul style="list-style-type: none"> <li>○ Best Bank in the UAE</li> <li>○ Most Innovative Consumer Digital Bank in the UAE and Middle East</li> <li>○ Most Innovative Corporate Digital Bank in the UAE</li> <li>○ The Innovators 2019 - Corporate Real-time Payments Tracker</li> <li>○ Best Online Deposit, Credit and Investment Product Offerings in the UAE and Middle East</li> <li>○ Best Bill Payment &amp; Presentment in the UAE and Middle East</li> </ul> </li> <li>• <b>Customer Experience Week Middle East by IQPC</b> <ul style="list-style-type: none"> <li>○ Best Customer Centric Contact Center</li> </ul> </li> <li>• <b>New Age Banking Awards 2019, powered by BusinessLive Middle-East</b> <ul style="list-style-type: none"> <li>○ Most Innovative Bank</li> <li>○ Excellence in Innovation in Digital Banking</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>CIO 100 Award 2019</b> CIO 100 Award in recognition of the excellence and achievement in shaping the regional IT landscape</li> <li>• <b>UAE Innovation Award</b></li> <li>• <b>EMEA Finance</b> <ul style="list-style-type: none"> <li>○ Best structured finance house in the Middle East: Mashreq Bank</li> <li>○ Most innovative structured finance deal in EMEA: Shorouq</li> <li>○ Best syndicated Murabaha facility: United Eastern Medical Services</li> <li>○ Best Islamic facility (financial institution): Al Baraka Bank</li> <li>○ Best structured finance deal in North Africa: Telecom Egypt</li> <li>○ Best Local Currency Loan in the Middle East: Abdul Latif Galadari</li> <li>○ Best cash management services in EMEA</li> <li>○ Best factoring services in EMEA</li> <li>○ Best payment services in EMEA</li> <li>○ Best treasury services in EMEA</li> <li>○ Best FX services in EMEA</li> </ul> </li> <li>• <b>IFN Awards</b> <ul style="list-style-type: none"> <li>○ Best Cross Border Deal of the Year</li> </ul> </li> </ul>
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