

# **Management Discussion & Analysis Report**

First Half 2021

**14<sup>th</sup> July 2021**

## Mashreq posts AED 85 Million Net Profit for 1H 2021

**Dubai, UAE; 14<sup>th</sup> July 2021:** Mashreq, one of the leading financial institutions in the UAE, today has reported its financial results for the first half ending 30<sup>th</sup> June 2021.

### Key highlights:

- ***Operating Income on an increasing trajectory***
  - Operating Income has increased by 1.4% over the previous year to AED 2.9 billion due to improvements in fees and commission
  - Mashreq's non-interest income to operating income ratio improved to 49.8% (47.1% as of June 2020)
  - Operating profit at AED 1.6 billion is a 4.6% increase compared to 1H 2020 as a result of increased operating income and reduced operating expense
  - Impairment allowance stands at AED 1.5 billion vs AED 978 million for 1H 2020, reflecting conservative provisioning policy
- ***Comfortable Liquidity & Capital position***
  - Growth of 8.1% YTD in Customer deposits to reach AED 95.4 billion
  - Liquid Assets ratio stood at 31.8% with Cash and Due from Banks at AED 50.1 billion as on 30<sup>th</sup> June 2021
  - Capital adequacy ratio and Tier 1 capital ratio stood at 14.0% and 12.8% respectively
- ***Strong Growth in the Loan Portfolio***
  - Total assets increased by 9.0% YTD to AED 172.8 billion and Loans and Advances increased by 8.0% YTD to AED 77.3 billion
  - Loan-to-Deposit ratio remained stable at 81.0% at the end of June 2021
- ***Stabilizing Credit Environment***
  - Non-Performing Loans to Gross Loans ratio was at 4.7% as of end of June 2021, down from 4.9% at the end of last quarter
  - Total provision for loans and advances reached AED 5.3 billion and coverage ratio stood at 117.0% as on 30<sup>th</sup> June 2021 (up from 104.3% in March 2021)

**H.E AbdulAziz Al Ghurair, Chairman of Mashreq Bank, said:**

"Recording a net profit of AED 85 million during the first half of 2021, I believe we are fortunate to have been steered through the pandemic and its far-reaching impacts by a national leadership that has taken proactive measures to protect business interests, jobs and economic stability.

As regional and global markets adjust to the dynamics of a partially vaccinated world population and a fast-evolving virus, the near to mid-term-outlook remains uncertain. The extension of TESS to June 2022 reflects this reality. However, we remain cautiously optimistic that with the continued support of the UAE national government, a continued economic recovery and Mashreq's ongoing digital transformation, the future looks promising.

Given the changing dynamics of the workplace, our operating model to 'Work from Anywhere' means the bank is well placed to leverage the full potential of its key technology platforms to offer a seamless experience to our customers. These attributes will ensure that we continue to generate solid returns for our shareholders and remain ahead of the existential change impacting our industry."

**Ahmed Abdelaal, Group CEO, Mashreq Bank, said:** "Our focused strategy and advanced digital transformation program served Mashreq well throughout the first half of 2021. These fundamentals have ensured that the Bank's financial strength remains robust throughout the period, as evidenced by our capital adequacy ratio of 14.0%, Tier 1 ratio of 12.8% and a liquid-to-total-assets ratio of 31.8%.

Additionally, our core businesses across retail banking, corporate and investment banking, and our international franchises remain strong. Loan growth has grown by 8% YTD, and we have seen strong performance across all segments. These results are in line with the broader economic recovery and are a testament to the efficacy of the bank's deep customer relationships and customer-centric strategy.

The Bank also saw a YTD growth of 8.1% in customer deposits and a high share of CASA of over 57% which points towards growing confidence in the national economy. That confidence is tempered by a conservative risk policy, which in H1 contributed to a higher level of provisions but a reduction of 20 bps in our nonperforming loan (NPL) ratio.

Throughout the first half of the year, we continued to roll out our operating model and invest in our people. We released our inaugural Mashreq Sustainability Report which outlined our commitment to addressing key areas of environment, social and governance (ESG), where our contribution can make a meaningful impact. We have also seen an acceleration in the scale and complexity of our digital transformation from the branches to our partnerships with FinTechs, and going forward, we continue to invest in innovative, creative platforms that add value to our customers and shareholders.

I am also proud to announce that Mashreq was once again named the Best Digital Bank in Middle East by Euromoney in 2021. The achievement is our second consecutive win from the Euromoney Awards for Excellence and recognises our objectives of driving transformative change and improving the personalisation of the customer experience for all our stakeholders."

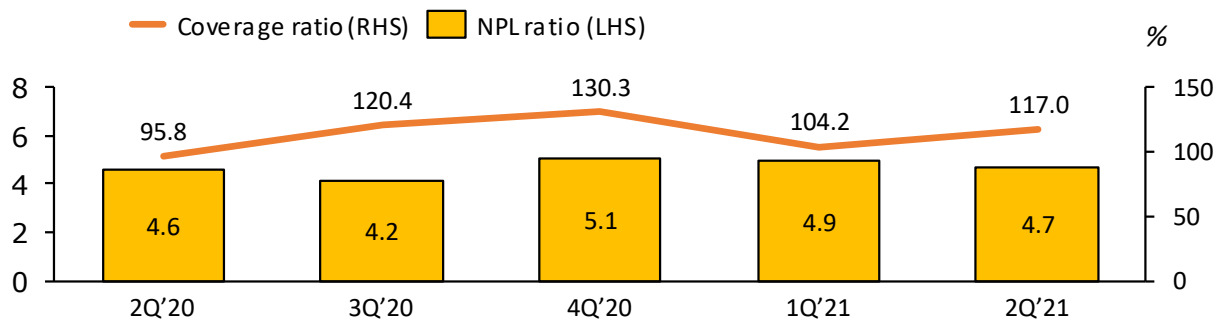
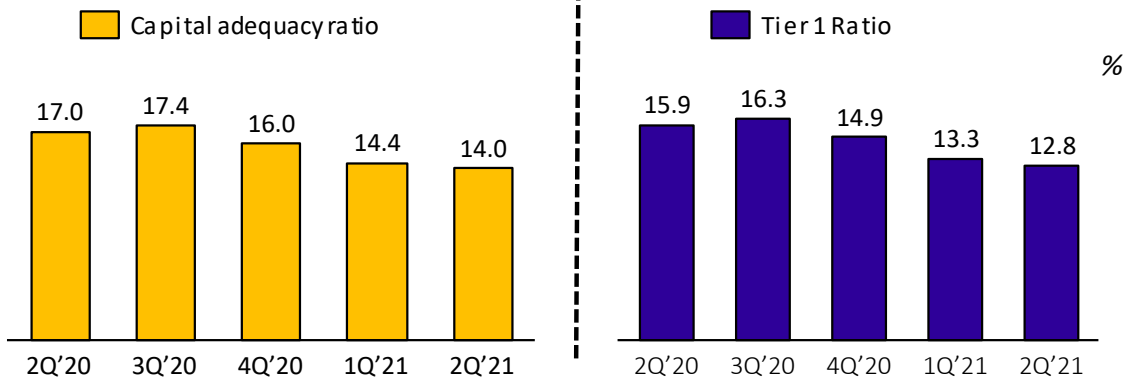
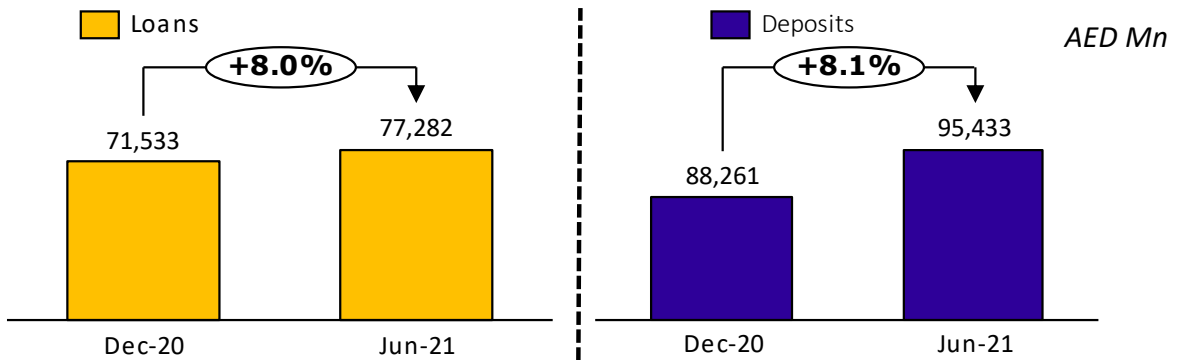
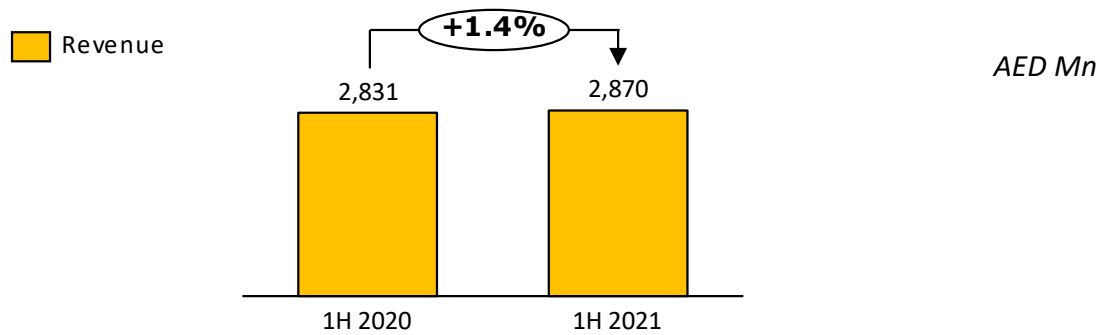
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## Financial Highlights:

1H 2021 Financial Highlights	Half Yearly Trend			Quarterly Trend				
	1H		Δ %	2Q	1Q	2Q	Δ %	
	2021	2020	YoY	2021	2021	2020	QoQ	YoY
Income statement (AED mn)								
Net Interest Income & Income from Islamic Financing	1,440	1,499	(3.9)	743	698	717	6.4	3.5
Fee and commission	819	653	25.4	369	449	305	(17.7)	21.3
Investment Income	134	222	(39.6)	105	29	95	268.5	11.4
Insurance,FX & Other Income	477	458	4.3	243	234	191	4.0	27.0
<b>Total Operating Income</b>	<b>2,870</b>	<b>2,831</b>	<b>1.4</b>	<b>1,461</b>	<b>1,409</b>	<b>1,308</b>	<b>3.6</b>	<b>11.7</b>
Operating Expenses	(1,221)	(1,255)	(2.7)	(601)	(620)	(623)	(3.0)	(3.5)
<b>Operating Profit</b>	<b>1,649</b>	<b>1,576</b>	<b>4.6</b>	<b>860</b>	<b>789</b>	<b>685</b>	<b>8.9</b>	<b>25.4</b>
Impairment Allowance	(1,496)	(978)	52.9	(785)	(711)	(570)	10.5	37.9
Tax Expense	(26)	(21)	21.5	(12)	(14)	(10)	(14.9)	14.7
Non-Controlling Interest	(41)	(41)	(0.1)	(20)	(21)	(20)	(7.7)	(2.8)
<b>Net Profit for the Period</b>	<b>85</b>	<b>535</b>	<b>(84.0)</b>	<b>42</b>	<b>43</b>	<b>85</b>	<b>(1.4)</b>	<b>(50.1)</b>
EPS [AED]	0.48	3.01	(84.0)	0.24	0.24	0.48	(1.4)	(50.1)
	Jun	Jun	Δ %	Jun	Mar	Dec	Δ %	
Balance Sheet (AED mn)	2021	2020	YoY	2021	2021	2020	QoQ	YTD
Total Assets	172,763	173,310	(0.3)	172,763	162,253	158,523	6.5	9.0
Loans and Advances	77,282	76,464	1.1	77,282	75,797	71,533	2.0	8.0
Customer Deposits	95,433	98,555	(3.2)	95,433	90,205	88,261	5.8	8.1
Shareholder's Funds	19,302	21,241	(9.1)	19,302	18,881	19,431	2.2	(0.7)
	Jun	Jun	Δ bps	Jun	Mar	Dec	Δ bps	
Key Ratios (%)	2021	2020	YoY	2021	2021	2020	QoQ	YTD
CAR (Capital Adequacy ratio)	13.97	16.99	(302)	13.97	14.44	16.01	(47)	(204)
Tier 1 Ratio	12.83	15.85	(302)	12.83	13.31	14.87	(48)	(204)
Loan-to-Deposits	80.98	77.58	340	80.98	84.03	81.05	(305)	(7)
Return-on Assets*	0.11	0.71	(59)	0.11	0.12	-0.88	(0)	99
Return-on-Equity*	0.89	5.00	(412)	0.89	0.90	-6.24	(1)	713

\*Annualized

**Exhibits:**



**2Q 2021 Awards:**

- Euromoney Regional Awards for Excellence
  - Middle East's Best Digital Bank
- MEA Finance
  - Digital Banking Innovation of the Year
  - Best Cybersecurity and Risk Management Implementation
  - Best Branch Digitisation Implementation
- Finance Derivative
  - Best Smart Retail Bank Middle East 2021
- Global Finance
  - Innovation in Cash Management – Collateral Cheque Management Solution
  - Innovation in Islamic Finance – Personal Finance Application
- World Economic Magazine
  - Best Digital Bank UAE 2021
- E-Business Awards 2021
  - Digital SME Bank of the Year
- DFM Brokers Excellence Rating Model Award
  - 5 Stars DFM Brokers Excellence Rating for 2020

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