

Management Discussion & Analysis Report

First Half 2020

Mashreq posts AED 535 Mn Net Profit for 1H 2020

Dubai, UAE; 22nd July 2020: Mashreq, one of the leading financial institutions in the UAE, today has reported its financial results for the first half ending 30th June 2020.

Key highlights [1H 2020 vs 1H 2019]:

- **Decline in Profit due to impact of COVID-19**
 - Net profit for 1H 2020 declined sharply to AED 535 million due to significant increase in impairment allowance in the second quarter on the back of tough operating environment
- **High proportion of Non-Interest Income**
 - Mashreq's non-interest income to operating income ratio remained high at 47.1%
- **Adequate Liquidity & Capital position**
 - Maintained liquidity despite market volatility and pandemic uncertainty
 - Growth of 8.3% YTD in Customer deposits to reach AED 98.6 billion
 - Liquid Assets ratio stood at 37.3% with Cash and Due from Banks at AED 58.2 billion as on 30th June 2020
 - Capital adequacy ratio and Tier 1 capital ratio stood at 17.0% and 15.9% respectively
- **Stable Loan Portfolio**
 - Total assets increased by 8.7% YTD to AED 173.3 billion and Loans and Advances remained at AED 76.5 billion
 - Loan-to-Deposit ratio remained at 77.6% at the end of June 2020
- **Challenging Credit Environment**
 - Non-Performing Loans to Gross Loans ratio increased slightly from 4.4% to 4.6% as of end of June 2020
 - Impairment allowance increased sharply from AED 482 Mn in 1H '19 to AED 978 Mn in 1H '20; total provision reached AED 4.3 billion as of end of June 2020

Operational Highlights

The economic situation brought about by COVID-19 coupled with the oil price decline has led to a challenging credit environment that is being actively managed. The Bank continues to monitor local developments that affect our offices across the world. Customers have successfully and seamlessly connected with the Bank through its full suite of channels including digital and online channels. Service levels are maintained, customer complaints are resolved as per SLAs and the Bank continues to ensure that customers are able to meet their banking requirements in line with their expectations.

All our business units are also constantly revisiting their current portfolio and business processes to mitigate any potential risk emerging from the impact of the COVID-19 situation. We continue to closely monitor the situation and have invoked crisis management actions to ensure safety and security of Bank staff and an uninterrupted service to our customers. Return to Office protocols have also been invoked in a phased manner aligned to applicable government regulations.

Ahmed Abdelaal, Group CEO, Mashreq Bank, said: "Despite headwinds caused by unprecedented challenges, Mashreq remains resilient. Our robust approach to business continuity ensured our operations were unimpeded throughout the first half of the year and our customers were able to stay connected with uninterrupted access to all our services. This is a testament to our digital capabilities and focus on customer experience."

"Clearly this unprecedented shock to the economy will not leave banks unaffected, but Mashreq will continue to monitor and manage the evolving risks, and steer the business to mitigate the impact of the crisis. We expect the business environment to remain tough moving forward, but our agility-based model and exceptional digital capabilities mean we are well positioned to continue supporting our customers and the wider economy of the UAE, as we endeavor to weather the challenges that lie ahead."

H.E AbdulAziz Al Ghurair, Chairman of Mashreq, said: "During the first half of the year, Covid-19 sent tremors of uncertainty across the global and regional economy, as lockdowns were imposed across most of the world. Despite this, Mashreq maintained adequate liquidity to meet our business needs, and ensure we were able to effectively serve our customers,

clients and communities during this unprecedented situation, while prioritizing the health and safety of our people.”

“As we navigate the ongoing economic uncertainty, we remain well placed to handle a variety of scenarios, and will continue to operate prudently to manage any risks that lie ahead. Undoubtedly, significant challenges are on the horizon, but we have every bit of confidence that we will overcome them, and the UAE will prove its strength and resilience to make a robust recovery.”

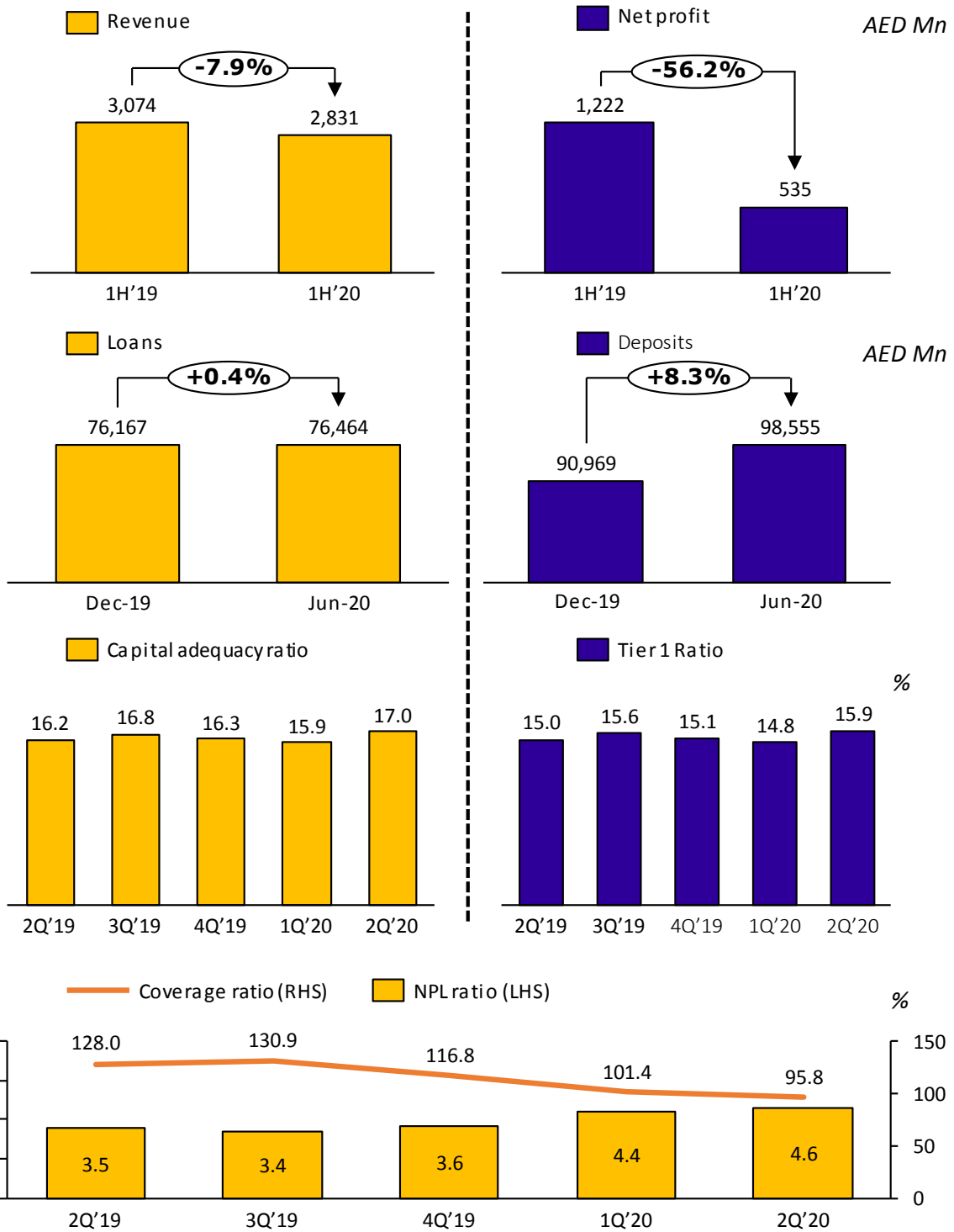
Financial Highlights:

1H 2020 Financial Highlights	Half Yearly Trend			Quarterly Trend				
	1H		Δ %	2Q	1Q	2Q	Δ %	
	2020	2019	YoY	2020	2020	2019	QoQ	YoY
Income statement (AED mn)								
Net Interest Income & Income from Islamic Financing	1,499	1,850	(19.0)	717	782	913	(8.2)	(21.5)
Fee and commission	653	710	(8.0)	305	348	349	(12.5)	(12.7)
Investment Income	222	54	306.8	95	127	7	(25.6)	1,316.0
Insurance,FX & Other Income	458	460	(0.5)	191	266	235	(28.1)	(18.6)
Total Operating Income	2,831	3,074	(7.9)	1,308	1,523	1,505	(14.1)	(13.1)
Operating Expenses	(1,255)	(1,316)	(4.7)	(623)	(632)	(665)	(1.5)	(6.4)
Operating Profit	1,576	1,758	(10.3)	685	891	840	(23.1)	(18.4)
Impairment Allowance	(978)	(482)	103.1	(570)	(409)	(221)	39.4	158.2
Tax Expense	(21)	(14)	56.6	(10)	(11)	(6)	(5.1)	76.8
Non-Controlling Interest	(41)	(41)	1.5	(20)	(21)	(20)	(2.6)	4.1
Net Profit for the Period	535	1,222	(56.2)	85	450	593	(81.2)	(85.7)
EPS [AED]	3.01	6.88	(56.2)	0.47	2.54	3.34	(81.2)	(85.7)
	Jun	Jun	Δ %	Jun	Mar	Dec	Δ %	
Balance Sheet (AED mn)	2020	2019	YoY	2020	2020	2019	QoQ	YTD
Total Assets	173,310	136,428	27.0	173,310	162,561	159,431	6.6	8.7
Loans and Advances	76,464	70,724	8.1	76,464	78,285	76,167	(2.3)	0.4
Customer Deposits	98,555	77,610	27.0	98,555	88,496	90,969	11.4	8.3
Shareholder's Funds	21,241	20,718	2.5	21,241	21,001	21,533	1.1	(1.4)
	Jun	Jun	Δ bps	Jun	Mar ¹⁾	Dec	Δ bps	
Key Ratios (%)	2020	2019	YoY	2020	2020	2019	QoQ	YTD
CAR (Capital Adequacy ratio)	16.99	16.16	83	16.99	15.99	16.28	100	72
Tier 1 Ratio	15.85	15.03	82	15.85	14.85	15.15	100	71
Loan-to-Deposits	77.58	91.13	(1,354)	77.58	88.46	83.73	(1,088)	(614)
Return-on Assets*	0.71	1.89	(118)	0.71	1.24	1.49	(53)	(78)
Return-on-Equity*	5.00	11.96	(695)	5.00	8.47	9.91	(347)	(491)

1) March 2020 CAR & Tier 1 are restated due to IFRS 9 ECL provision add back as per 'regulations regarding provisions and capital requirement' circular issued by Central Bank

*Annualized

Exhibits:



2Q 2020 Awards:

EMEA Finance

- Best Structured Finance House in the Middle East
- Most Innovative Sukuk award to a sukuk issuance advised by Mashreq, the world's first fintech sukuk from financial services company Wethaq.
- Best structured finance deal in Europe: Duferco's US\$750mn 5-year pre-export advance facility
- Best structured finance deal in the Middle East: Shorouq's enhanced US\$2bn pre-export facility
- Best corporate sukuk: Arabian Centres Company's US\$500mn debut sukuk
- Best syndicated Ijara facility: Arabian Centres Company's US\$1.2bn asset-backed dual currency Ijara syndicated facility
- EMEA Finance - Best Cash Management Services in the Middle East
- EMEA Finance - Best Factoring Services in the Middle East
- EMEA Finance - Best FX Services in the Middle East
- EMEA Finance - Best Payment Services in the Middle East
- EMEA Finance - Best Treasury Services in the Middle East
- EMEA Finance - Most innovative bank in the Middle East

Efma-Capgemini Financial NewTech Challenge 2020 Award by FinTechVisor

- Bank + NewTech Effective Collaboration - MoEngage in collaboration with Mashreq Neo

CFI.co: Capital Finance International 2020 award

- Best Smart Retail Bank Middle East.

International Banker 2020 Banking Awards, arranged by Finance Publishing

- Best Commercial Bank UAE 2020,
- Best Innovation in Retail Banking UAE 2020
- Best Customer Service Provider Middle East 2020

2020 Winning Deals - Bonds, Loans & Sukuk Middle East Awards 2020

- Export Finance Deal of the Year - Emirates Global Aluminium
- Structured Loan Deal of the Year - National Energy Services Reunited (NESR)/ NPS Holdings Limited
- Syndicated Loan Deal of the Year by a Debut Borrower - Alternative Investments LLC / Ittihad International Investment LLC

Global Finance

- Best Bank for New Financial Technology in Middle East

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