FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

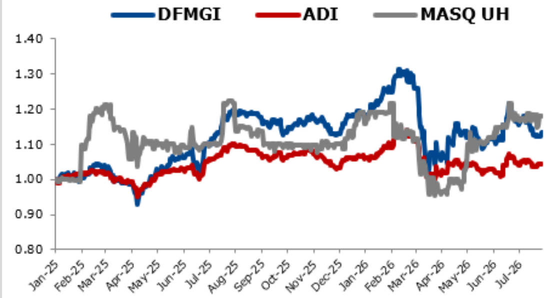
UAE Equity Research | Sector: Banking | Market: DFM

Mashreq Bank (MASQ)

Higher core income and impairments reversals boosted the top-line

Current Price	Target Price	Upside/Downside (%)	Rating
AED 260.10	270.00	+3.8%	HOLD

- Customer deposits increased 27.9% YOY and 8.1% QOQ to AED 227.2 Bn, and net advances rose 26.1% YOY and 0.8% QOQ to AED 169.1 Bn during 2Q26.
- NIMs declined 15 bps YOY and grew 17 bps QOQ to 3.3% in 2Q26.
- Asset quality improved, with the NPL ratio falling to 1.1% in 2Q26 from 1.2% in 1Q26, reflecting disciplined underwriting and prudent portfolio management.
- Cost-to-income ratio grew 97 bps YOY and 96 bps QOQ to 31.9% in 2Q26.
- MASQ maintained a healthy capitalization with a CET1 ratio of 13.8% and a total CAR of 16.9% in 2Q26.



Stock Information	
Market Cap (AED, Mn)	52,178.62
Paid Up Capital (Mn)	2,006.10
52 Week High	330.00
52 Week Low	198.45
3M Avg. daily value (AED)	784,604

2Q26 Result Review (AED, Mn)	
Total Assets	365,748
Total Liabilities	321,703
Total Equity	44,045
Total Deposits	227,190
Net Profit	2,072

Financial Ratios	
Dividend Yield (12m)	3.94
Dividend Pay-out (%)	29.92
Price-Earnings Ratio(x)	7.06
Price-to-Book Ratio (x)	1.37
Book Value (AED)	189.47
Return-on Equity (%)	20.84

Stock Performance	
5 Days	1.21%
1 Months	1.60%
3 Months	5.09%
6 Months	2.81%
1 Year	4.46%
Month to Date (MTD%)	1.21%
Quarter to Date (QTD%)	2.04%
Year to Date (YTD%)	2.81%

2Q26 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit increased 25.7% YOY to AED 2,072 Mn in 2Q26, higher than our estimate of AED 1,745 Mn. The increase in net profit is primarily due to higher funded and non-funded income coupled with impairments reversals, partially offset by growth in G&A expenses, tax charges and higher share attributable to NCI holders.

P&L Highlights

MASQ's interest income rose 16.9% YOY to AED 4,003 Mn in 2Q26, due to an increase in net advances and investments coupled with a rise in asset yield. Similarly, income from Islamic financing increased 29.0% YOY to AED 599 Mn in 2Q26, driven by an increase in Islamic financing assets and higher yields. As a result, total funded income grew 18.3% YOY to AED 4,602 Mn in 2Q26. Moreover, funded expenses increased 27.4% YOY to AED 2,415 Mn in 2Q26, owing to an increase in interest bearing liabilities and higher cost of funds. Consequently, net funded income increased 9.6% YOY to AED 2,187 Mn in 2Q26. MASQ's net fee and commission income decreased 16.3% YOY to AED 248 Mn in 2Q26. Income from investment securities grew significantly from AED 100 Mn in 2Q25 to AED 286 Mn in 2Q26. Other operating income grew 0.4% YOY to AED 679 Mn in 2Q26. Thus, the Bank's total non-funded income grew 13.1% YOY to AED 1,213 Mn in 2Q26. Consequently, MASQ's total operating income increased 10.9% YOY to AED 3,400 Mn in 2Q26. Furthermore, the Bank's G&A expenses increased 14.3% YOY to AED 1,084 Mn in 2Q26. Thus, cost-to-income ratio grew 97 bps YOY to 31.9% in 2Q26. MASQ recorded impairment reversal of AED 209 Mn in 2Q26, compared to impairments charges of AED 144 Mn in 2Q25. Tax expenses increased from AED 295 Mn in 2Q25 to AED 404 Mn in 2Q26. The profit share to NCI holders grew from AED 32 Mn in 2Q25 to AED 49 Mn in 2Q26.

Balance Sheet Highlights

The Bank's total assets expanded 24.6% YOY and 6.2% QOQ to AED 365.7 Bn in 2Q26, reflecting broad-based balance-sheet growth. MASQ's net advances increased 26.1% YOY and 0.8% QOQ to AED 169.1 Bn in 2Q26. Customer deposits grew 27.9% YOY and 8.1% QOQ to AED 227.2 Bn in 2Q26. Furthermore, the CASA ratio improved to 63% of total deposits in 2Q26, continuing to provide a stable, low-cost funding base that supports both profitability and liquidity. The loan-to-deposit ratio also decreased to 74.4% in 2Q26, compared to 75.5% in 2Q25. Meanwhile, total equity rose 19.1% YOY and 5.6% QOQ to AED 44.0 Bn in 2Q26.

Target Price and Rating

We maintain our HOLD rating on MASQ with a target price of AED 270.0. MASQ delivered a strong set of 2Q26 results, with net profit increasing 25.7% YOY to AED 2.1 Bn, primarily driven by higher funded income, stronger income from investment securities and other operating income, together with a reversal in impairment charges. The Bank continued to maintain healthy balance sheet momentum with loans net advances increasing 26.1% YOY and 0.8% QOQ to AED 169.1 Bn in 2Q26. MASQ's investment portfolio also expanded 23.0% QOQ to AED 76.1 Bn in 2Q26, as surplus deposits were deployed into high-quality liquid securities. Customer deposits grew 27.9% YOY and 8.1% QOQ to AED 227.2 Bn in 2Q26, outpacing loan growth and strengthening the Bank's funding profile. Furthermore, CASA deposits accounted for 63% of total deposits during 2Q26. However, Bank's NIMs contacted by 15 bps YOY to 3.3% in 2Q26, while the cost-to-income ratio increased by 97 bps YOY to 31.9%. Asset quality remained healthy, supported by a decline in calculated NPL ratio to 1.1% in 2Q26, although provision coverage moderated to 149.4% in 2Q26, compared to 159.7% in 1Q26. Meanwhile, liquidity and capitalisation remained robust, with a Liquid Assets Ratio of 27.6%, and an LCR of 147% during 2Q26. The Bank liquidity ratio also remained healthy with a CET1 ratio of 13.8% and a total CAR of 16.9% in 2Q26, enabling the Bank to support future growth while maintaining comfortable regulatory buffers. MASQ also continued to generate healthy shareholder returns, reporting a ROAE of 21.0% in 2Q26. While we remain constructive on the Bank's strong balance sheet, resilient funding profile, solid capital position and healthy profitability, we believe these positives are largely reflected in the current valuation. Accordingly, we maintain our HOLD rating on the stock.

MASQ - Relative valuation

(at CMP)	2022	2023	2024	2025	2026F
PE	14.52	6.38	6.18	8.19	7.22
PB	2.41	1.85	1.60	1.49	1.32
EPS	18.590	42.349	43.657	32.975	37.406
BVPS	112.152	145.720	168.367	181.634	204.644
DPS	9.000	18.500	21.100	10.200	11.222
Dividend yield	3.3%	6.9%	7.8%	3.8%	4.2%

FABS Estimates & Co Data

MASQ – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Interest income	3,426	3,654	4,003	3,716	7.7%	16.9%	9.6%	13,960	15,965	14.4%
Inc. from Islamic financing	464	544	599	562	6.6%	29.0%	10.2%	1,906	2,389	25.3%
Funded income	**3,890**	**4,198**	**4,602**	**4,278**	**7.6%**	**18.3%**	**9.6%**	**15,866**	**18,354**	**15.7%**
Funded expense	-1,895	-2,160	-2,415	-2,221	8.7%	27.4%	11.8%	-7,724	-9,398	21.7%
Net funded income	**1,995**	**2,038**	**2,187**	**2,057**	**6.3%**	**9.6%**	**7.3%**	**8,141**	**8,956**	**10.0%**
Fee & Commission inc.	296	468	248	445	-44.3%	-16.3%	-47.1%	1,333	1,306	-2.0%
Inc. from Invst. securities	100	48	286	53	NM	NM	NM	350	771	120.0%
Other Operating inc., net	676	872	679	671	1.1%	0.4%	-22.2%	2,752	2,834	3.0%
Total other OI	**1,072**	**1,388**	**1,213**	**1,169**	**3.7%**	**13.1%**	**-12.6%**	**4,435**	**4,911**	**10.7%**
Total Op income	**3,067**	**3,426**	**3,400**	**3,226**	**5.4%**	**10.9%**	**-0.8%**	**12,576**	**13,868**	**10.3%**
G&A expenses	-948	-1,060	-1,084	-994	9.1%	14.3%	2.3%	-3,871	-4,202	8.5%
Pre provision profit	**2,119**	**2,367**	**2,316**	**2,232**	**3.7%**	**9.3%**	**-2.1%**	**8,705**	**9,666**	**11.0%**
Impairment allowance	-144	-87	209	-116	NM	NM	NM	-444	-232	NM
Income tax exp.	-295	-353	-404	-328	23.1%	36.8%	14.3%	-1,291	-1,509	16.9%
Non-controlling interests	-32	-43	-49	-44	11.3%	NM	12.4%	-131	-196	50.0%
Net Profit	**1,648**	**1,883**	**2,072**	**1,745**	**18.8%**	**25.7%**	**10.0%**	**6,840**	**7,729**	**13.0%**

FABS estimate & Co Data

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MASQ - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	65.0%	59.5%	64.3%	-71	484	64.7%	64.6%	-15
NIM	3.4%	3.1%	3.3%	-15	17	3.4%	3.2%	-15
Fees & comms/OI	9.7%	13.7%	7.3%	-236	-638	10.6%	9.4%	-118
Trading/OI	3.3%	1.4%	8.4%	515	702	2.8%	5.6%	277
Cost to income	30.9%	30.9%	31.9%	97	96	30.8%	30.3%	-48
Provisions/PPP	6.8%	3.7%	-9.0%	-1,580	-1,267	5.1%	2.4%	-270
NP/OI	53.7%	55.0%	60.9%	721	598	54.4%	55.7%	NM
Cost of risk - Calculated	0.5%	0.2%	-0.6%	-109	-83	0.3%	0.2%	NM
Loan-to-deposit - Calculated	75.5%	79.8%	74.4%	-107	-536	80.2%	77.6%	-256
NPL - Calculated	1.5%	1.2%	1.1%	-38	-2	1.4%	1.1%	-24
Coverage excluding collateral-Calculated	116.8%	159.7%	149.4%	NM	-1,028	110.9%	150.5%	NM
CET 1	14.8%	12.7%	13.8%	-96	114	12.3%	13.3%	100
Capital adequacy	17.5%	15.8%	16.9%	-62	114	14.5%	16.2%	169
ROAE	25.9%	20.1%	20.2%	-574	10	18.8%	19.4%	52
ROAA	3.0%	2.3%	2.2%	-80	-2	2.3%	2.1%	-13

FABS estimate & Co Data

MASQ - Key B/S items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	1,34,120	1,43,085	1,64,349	1,67,697	1,69,088	26.1%
QOQ change	6.6%	6.7%	14.9%	2.0%	0.8%	
Total assets	2,93,635	3,05,464	3,34,634	3,44,305	3,65,748	24.6%
QOQ change	7.7%	4.0%	9.5%	2.9%	6.2%	
Customer deposits	1,77,645	1,87,167	2,04,895	2,10,171	2,27,190	27.9%
QOQ change	3.6%	5.4%	9.5%	2.6%	8.1%	
Total equity	36,996	38,924	40,577	41,722	44,045	19.1%
QOQ change	4.7%	5.2%	4.2%	2.8%	5.6%	

FABS estimate & Co Data

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Valuation:

We use the Residual Income and Relative Valuation (RV) method to value MASQ. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	263.5	70%	184.4
Relative Valuation (RV)	285.4	30%	85.6
Weighted Average Valuation (AED)			**270.0**
Current market price (AED)			260.1
Upside/Downside (%)			+4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.82 and equity risk premium of 4.6%. Government bond yield is calculated after adding Dubai 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	8,307
Terminal value (AED, Mn)	**6,538**
Book Value of Equity (as of June 2026)	38,010
FV to Common shareholders (AED, Mn)	**52,855**
No. of share (Mn)	201
Current Market Price (AED)	260.1
Fair Value per share (AED)	**263.5**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	7,504	7,021	6,463	5,993	5,527
(-) Equity Charge	-3,321	-3,742	-4,177	-4,542	-4,852
Excess Equity	**4,183**	**3,279**	**2,286**	**1,451**	**675**
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	**2,018**	**2,899**	**1,853**	**1,078**	**460**

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value MASQ, and it is valued using the PB multiple. It is valued at a 2026 PB multiple of 1.4x in line with the peers.

Company	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
RAK Bank	4,967	1.2x	1.3x	6.4x	8.6x	7.8%	5.7%
Commercial Bank of Dubai (CBD)	7,680	1.5x	1.4x	8.6x	9.5x	6.1%	NA
Emirates NBD	52,727	1.3x	1.1x	8.5x	7.7x	3.3%	3.7%
Abu Dhabi Islamic Bank (ADIB)	21,557	2.7x	2.4x	12.0x	10.9x	4.3%	4.7%
Sharjah Islamic Bank (SIB)	2,564	1.1x	NA	8.6x	NA	7.6%	NA
Average		**1.6x**	**1.6x**	**8.8x**	**9.2x**	**5.8%**	**4.7%**
Median		**1.4x**	**1.4x**	**8.6x**	**9.1x**	**6.1%**	**4.7%**
Max		**1.8x**	**1.9x**	**8.6x**	**9.8x**	**7.6%**	**5.2%**
Min		**1.2x**	**1.3x**	**8.5x**	**8.4x**	**4.3%**	**4.2%**

Source: FAB Securities

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Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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