First Look Note | 3Q26

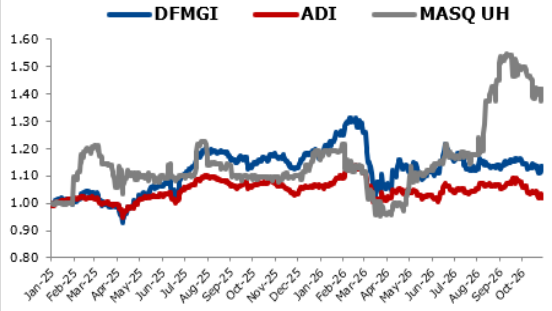
UAE Equity Research | Sector: Banking | Market: DFM

Mashreq Bank (MASQ)

Higher operating income coupled with lower impairments boosted earnings

Current Price	Target Price	Upside/Downside (%)	Rating
AED 307.00	AED 325.00	+6%	HOLD

- Customer deposits increased 26.7% YOY and 4.4% QOQ to AED 237.1 Bn, and net advances rose 33.2% YOY and 12.7% QOQ to AED 190.6 Bn during 3Q26.
- NIMs declined 30 bps YOY and 7 bps QOQ to 3.2% in 3Q26.
- Asset quality improved, with the calculated NPL ratio falling to 1.0% in 3Q26 from 1.1% in 2Q26.
- Cost-to-income ratio improved 37 bps YOY and 54 bps QOQ to 31.3% in 3Q26.
- MASQ maintained a healthy capitalization with a CET1 ratio of 13.2% and a total CAR of 16.7% in 3Q26.
- The Bank raised USD 500 Mn through a perpetual AT1 issuance and a USD 500 Mn five-year senior bond in 3Q26.



Stock Information	
Market Cap (AED, Mn)	61,587.22
Paid Up Capital (Mn)	2,006.10
52 Week High	339.00
52 Week Low	198.45
3M Avg. daily value (AED)	297,241

3Q26 Result Review (AED, Mn)	
Total Assets	405,550
Total Liabilities	358,269
Total Equity	47,281
Total Deposits	237,090
Net Profit	2,033

Financial Ratios	
Dividend Yield (12m)	3.30
Dividend Pay-out (%)	29.92
Price-Earnings Ratio(x)	8.02
Price-to-Book Ratio (x)	1.56
Book Value (AED)	196.18
Return-on Equity (%)	20.71

Stock Performance	
5 Days	-0.78%
1 Months	-6.06%
3 Months	13.70%
6 Months	27.92%
1 Year	28.18%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-5.83%
Year to Date (YTD%)	21.34%

3Q26 Net Profit higher than our estimate

Mashreq Bank ("MASQ"/The Bank) net profit attributable to equity shareholders increased 20.7% YOY to AED 2,033 Mn in 3Q26, higher than our estimate of AED 1,830 Mn. The increase in net profit is primarily due to higher net funded income and non-funded income coupled with decline in impairment, partially offset by increase in general & administration expenses, tax charges and higher share of profit attributable to NCI holders.

P&L Highlights

MASQ's interest income rose 23.7% YOY to AED 4,474 Mn in 3Q26, due to an increase in net loans advances coupled with a rise in asset yield. Similarly, income from Islamic financing increased 32.9% YOY to AED 652 Mn in 3Q26, driven by higher yields and increase in Islamic financing assets. As a result, total funded income grew 24.8% YOY to AED 5,126 Mn in 3Q26. Moreover, funded expenses increased 42.5% YOY to AED 2,833 Mn in 3Q26, owing to an increase in interest bearing liabilities coupled with higher cost of funds. Consequently, net funded income increased 8.2% YOY to AED 2,293 Mn in 3Q26. Calculated NIMs contracted 30 bps YOY to 3.2% in 3Q26. MASQ's net fee and commission income decreased 7.1% YOY to AED 360 Mn in 3Q26. Income from investment securities grew significantly from AED 99 Mn in 3Q25 to AED 264 Mn in 3Q26. Other operating income grew 11.8% YOY to AED 667 Mn in 3Q26. Thus, the Bank's total non-funded income grew 19.2% YOY to AED 1,291 Mn in 3Q26. Consequently, MASQ's total operating income increased 11.9% YOY to AED 3,584 Mn in 3Q26. Furthermore, the Bank's G&A expenses increased 10.6% YOY to AED 1,124 Mn in 3Q26. Thus, cost-to-income ratio improved from 31.7% in 3Q25 to 31.3% in 3Q26. Impairment decreased significantly from AED 121 Mn in 3Q25 to AED 7 Mn in 3Q26. Tax expenses increased 6.4% YOY in AED 380 Mn in 3Q26.

The profit attributable to NCI holders grew from AED 23 Mn in 3Q25 to AED 41 Mn in 3Q26.

Balance Sheet Highlights

The Bank's total assets expanded 32.8% YOY and 10.9% QOQ to AED 405.5 Bn in 3Q26, reflecting broad-based balance-sheet growth. MASQ's net advances increased 33.2% YOY and 12.7% QOQ to AED 190.6 Bn in 3Q26. Customer deposits grew 26.7% YOY and 4.4% QOQ to AED 237.1 Bn in 3Q26, driven by increase in term deposits. Furthermore, the CASA ratio stood at 58% in 3Q26. The loan-to-deposit ratio also increased to 80.4% in 3Q26, compared to 74.4% in 2Q26. Meanwhile, total equity rose 21.5% YOY and 7.3% QOQ to AED 47.3 Bn in 3Q26.

Target Price and Rating

We revise our rating from to REDUCE to HOLD with a revised target price of AED 325.0. MASQ delivered a strong operating performance in 3Q26, with net profit attributable to equity shareholders increasing 20.7% YOY to AED 2.0 Bn, primarily supported by higher net funded income and non-funded income. Operating income increased 11.9% YOY to AED 3.6 Bn in 3Q26, reflecting continued expansion in the Bank's lending franchise and diversified income streams. Net advances grew 33.2% YOY and 12.7% QOQ to AED 190.6 Bn in 3Q26, supported by healthy financing demand across wholesale and retail customers. Calculated NIM contracted by 30 bps YOY and 7 bps QOQ to 3.2% in 3Q26, reflecting the impact of lower benchmark rates and the changing asset and funding mix. Non-funded income remained an important contributor, with net fee and commission income increasing 45.4% QOQ to AED 360 Mn in 3Q26, supported by stronger transaction banking, lending and trade finance activity. Cost-to-income ratio improved by 37 bps YOY and 54 bps QOQ to 31.3% in 3Q26, indicating improved operating efficiency. Customer deposits increased 26.7% YOY and 4.4% QOQ to AED 237.1 Bn in 3Q26, although lending growth outpaced deposit mobilisation during the quarter, resulting in the loan-to-deposit ratio increasing to 80.4% in 3Q26 from 74.4% in 2Q26. The Bank's investment portfolio also expanded 75.1% YOY and 9.9% QOQ to AED 83.7 Bn in 3Q26, reflecting continued deployment of surplus liquidity into securities. The Bank recorded a marginal impairment charge of AED 7 Mn during the quarter, as recoveries from previously written-off accounts helped offset fresh provisioning requirements, resulting in a significantly lower net impairment charge. Asset quality remained strong, with the calculated provision coverage to 153.9% in 3Q26, compared to 149.4% in 2Q26. Calculated NPL ratio which improved to 1.0% in 3Q26 from 1.1% in 2Q26, highlighting sustained asset quality improvement despite strong lending growth. Liquidity remained comfortable, although the Liquid Assets Ratio declined to 23.0% in 3Q26 from 27.6% in 2Q26, as the Bank deployed surplus liquidity towards lending and investment growth. Also, the Liquidity Coverage Ratio moderated to 124% in 3Q26 from 147% in 2Q26, remaining above the regulatory minimum of 100%. Capitalization remained adequate in 3Q26, with the CET1 ratio declining from 13.8% in 2Q26 to 13.2% in 3Q26, primarily driven by an increase in risk-weighted assets to AED 278.3 Bn in 3Q26 from AED 259.8 Bn in 2Q26, driven by strong lending growth. Total CAR moderated from 16.9% to 16.7% over the same period. Furthermore, the Bank raised USD 500 Mn through a perpetual AT1 issuance and a USD 500 Mn five-year senior bond in 3Q26, strengthening its capital and funding base. Overall, capital ratios remained comfortably above regulatory requirements, supporting further balance sheet expansion. MASQ continues to focus on expanding wholesale, retail and SME franchises, strengthening trade and transaction banking relationships and leveraging its international network to support the balance sheet growth. The Bank continued investments in AI and digital capabilities are also supporting operational productivity, with Newton GenAI platform improving investigator productivity in financial crime investigations. We expect MASQ's strong lending momentum, diversified income base, improving asset quality and comfortable capital position to support long term outlook. Accordingly, we revise our rating to HOLD on the stock.

MASQ - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	61.85	16.62	7.30	7.08	9.37	7.65
PB	3.06	2.76	2.12	1.84	1.70	1.50
BVPS	100.839	112.152	145.720	168.367	181.634	206.484
EPS	4.996	18.590	42.349	43.657	32.975	40.394
DPS	1.000	9.000	18.500	21.100	10.200	12.118
Dividend yield	0.3%	2.9%	6.0%	6.9%	3.3%	3.9%

FABS Estimates & Co Data

MASQ – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Interest income	3,616	4,003	4,474	4,294	4.2%	23.7%	11.8%	13,960	17,041	22.1%
Inc. from Islamic financing	491	599	652	616	6.0%	32.9%	8.9%	1,906	2,472	29.7%
Funded income	**4,106**	**4,602**	**5,126**	**4,910**	**4.4%**	**24.8%**	**11.4%**	**15,866**	**19,513**	**23.0%**
Funded expense	-1,988	-2,415	-2,833	-2,605	8.8%	42.5%	17.3%	-7,724	-9,880	27.9%
Net funded income	**2,119**	**2,187**	**2,293**	**2,305**	**-0.5%**	**8.2%**	**4.9%**	**8,141**	**9,633**	**18.3%**
Fee & Commission inc.	388	248	360	285	26.5%	-7.1%	45.4%	1,333	1,386	4.0%
Inc. from Invst. securities	99	286	264	215	22.9%	NM	-7.8%	350	824	NM
Other Operating inc., net	597	679	667	682	-2.2%	11.8%	-1.7%	2,752	2,917	6.0%
Total non-funded income	**1,083**	**1,213**	**1,291**	**1,182**	**9.3%**	**19.2%**	**6.5%**	**4,435**	**5,127**	**15.6%**
Total Op income	**3,202**	**3,400**	**3,584**	**3,487**	**2.8%**	**11.9%**	**5.4%**	**12,576**	**14,759**	**17.4%**
G&A expenses	-1,015	-1,084	-1,124	-1,081	3.9%	10.6%	3.6%	-3,871	-4,502	16.3%
Pre provision profit	**2,187**	**2,316**	**2,461**	**2,406**	**2.3%**	**12.5%**	**6.3%**	**8,705**	**10,258**	**17.8%**
Impairment allowance	-121	209	-7	-169	NM	NM	NM	-444	-67	NM
Income tax exp.	-357	-404	-380	-358	6.2%	6.4%	-5.8%	-1,291	-1,580	22.4%
Non-controlling interests	-23	-49	-41	-50	-17.2%	NM	-15.5%	-131	-183	40.0%
Net Profit	**1,685**	**2,072**	**2,033**	**1,830**	**11.1%**	**20.7%**	**-1.9%**	**6,840**	**8,428**	**23.2%**

FABS estimate & Co Data

MASQ - KPI

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	66.2%	64.3%	64.0%	-220	-35	64.7%	65.3%	53
NIM	3.5%	3.3%	3.2%	-30	-7	3.4%	3.4%	0
Fees & comms/OI	12.1%	7.3%	10.1%	-206	277	10.6%	9.4%	-121
Trading/OI	3.1%	8.4%	7.4%	428	-106	2.8%	5.6%	279
Cost to income	31.7%	31.9%	31.3%	-37	-54	30.8%	30.5%	-28
Provisions/PPP	5.5%	-9.0%	0.3%	-526	929	5.1%	0.7%	-445
NP/OI	52.6%	60.9%	56.7%	409	-423	54.4%	57.1%	272
Cost of risk - Calculated	0.4%	-0.6%	0.0%	-38	60	0.3%	0.0%	-28
Loan-to-deposit - Calculated	76.4%	74.4%	80.4%	395	597	80.2%	79.7%	-47
NPL - Calculated	1.3%	1.1%	1.0%	-37	-17	1.4%	1.1%	-24
Coverage excluding collateral-Calculated	121.3%	149.4%	153.9%	NM	450	110.9%	150.5%	NM
CET 1	14.2%	13.8%	13.2%	-100	-61	12.3%	13.1%	88
Capital adequacy	16.8%	16.9%	16.7%	-3	-19	14.5%	16.6%	212
ROAE	24.0%	20.2%	20.1%	-390	-10	18.8%	20.8%	197
ROAA	2.9%	2.2%	2.2%	-76	-6	2.3%	2.3%	-1

FABS estimate & Co Data

MASQ - Key B/S items

AED Mn	3Q25	4Q25	1Q26	2Q26	3Q26	YOY Ch
Net advances	143,085	164,349	167,697	169,088	190,618	33.2%
QOQ change	6.7%	14.9%	2.0%	0.8%	12.7%	
Total assets	305,464	334,634	344,305	365,748	405,550	32.8%
QOQ change	4.0%	9.5%	2.9%	6.2%	10.9%	
Customer deposits	187,167	204,895	210,171	227,190	237,090	26.7%
QOQ change	5.4%	9.5%	2.6%	8.1%	4.4%	
Total equity	38,924	40,577	41,722	44,045	47,281	21.5%
QOQ change	5.2%	4.2%	2.8%	5.6%	7.3%	

FABS estimate & Co Data

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	348.4	70%	243.9
Relative Valuation (RV)	270.3	30%	81.1
Weighted Average Valuation (AED)			**325.0**
Current market price (AED)			307.0
Upside/Downside (%)			+6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 0.82 and equity risk premium of 3.9%. 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)	13,078
Terminal value (AED, Mn)	**17,461**
Book Value of Equity (as of September 2026)	39,355
FV to Common shareholders (AED, Mn)	**69,894**
No. of share (Mn)	201
Current Market Price (AED)	307.0
Fair Value per share (AED)	**348.4**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net Profit	8,103	8,039	7,603	7,438	7,256	7,104
(-) Equity Charge	-3,206	-3,645	-4,138	-4,560	-4,947	-5,291
Excess Equity	**4,897**	**4,394**	**3,465**	**2,879**	**2,309**	**1,814**
Discounting Factor	0.99	0.91	0.83	0.77	0.70	0.65
Present Value of Excess Equity	**1,207[1]**	**3,982**	**2,886**	**2,204**	**1,625**	**1,173**

Source: FAB Securities, [1]Adjusted for partial year

2) Relative Valuation:

We have used local peers to value MASQ, and it is valued using the PB multiple. It is valued at a 2027 PB multiple of 1.2x in line with the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2026F	2027F	2026F	2027F	2026F	2027F
RAK Bank	5,510	1.3x	1.2x	7.6x	6.6x	6.2%	8.0%
Commercial Bank of Dubai (CBD)	7,884	1.6x	NA	8.8x	NA	5.9%	NA
Emirates NBD	52,764	1.3x	1.1x	8.1x	7.4x	3.3%	3.7%
Abu Dhabi Islamic Bank (ADIB)	21,854	2.8x	2.4x	12.2x	11.0x	4.4%	4.8%
Sharjah Islamic Bank (SIB)	3,418	1.1x	1.1x	9.8x	9.8x	6.8%	3.4%
Average		**1.6x**	**1.4x**	**9.3x**	**8.7x**	**5.3%**	**5.0%**
Median		**1.3x**	**1.2x**	**8.8x**	**8.6x**	**5.9%**	**4.2%**
Max		**1.6x**	**1.5x**	**9.8x**	**10.1x**	**6.2%**	**5.6%**
Min		**1.3x**	**1.1x**	**8.1x**	**7.2x**	**4.4%**	**3.6%**

Source: FAB Securities

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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