Bank of Sharjah P.J.S.C

Bank of Sharjah P.J.S.C ("the Bank", "The Group") today announced the audited results of the year ended 31 December 2022. The following Management Discussion and Analysis includes financial results for the Group.

Income Statement Highlights
Before IAS 29 & IAS 21

(AED Mn)	Dec'22		Dec'21
Net Interest Income	**496**		435
Non-Interest Income	**404**		364
Operating Income	**900**	*+13%*	799
Net Impairment loss on Financial Assets	**(257)**		(216)
General and administrative expenses	**(386)**	*+15%*	(336)
Net Profit for the year	**245**		225
Total Comprehensive Profit for the year	**220**		285
Profit per Share – fils	**11.33**		10.28

Balance Sheet Highlights
Before IAS 29 & IAS 21

(AED Mn)	Dec'22		Dec'21
Total Assets	**41,990**	*+10%*	38,270
Loans and Advances	**22,811**	*+2%*	22,398
Customers' Deposits	**27,773**	*+5%*	26,492
Total Equity	**3,416**	*+7%*	3,202
Commitments and Contingent Liabilities	**3,456**		3,849

Key Ratios Highlights
Before IAS 29 & IAS 21

	Dec'22	Dec'21
Return on Assets	**0.58%**	0.59%
Return on Equity	**7.17%**	7.02%
Net Interest margin	**1.33%**	1.30%
Cost to Income	**43.06%**	42.20%
Non-Performing Loans Ratio (Gross)	**6.67%**	7.03%
Non-Performing Loans Ratio (Net of ECL & Collateral)	**1.80%**	2.42%
Non-Performing loans Coverage Ratio	**122.53%**	129.11%
Loans and Advances to Deposits Ratio	**82.13%**	84.55%
Capital Adequacy Ratio	**11.51%**	10.79%
Tier 1 Capital Ratio	**10.33%**	9.62%

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The Group realized a total comprehensive profit for the year of AED 220 million, and continues to enjoy robust metrics that remain healthy as a result of strict adherence to maintaining a disciplined and focused approach to lending, recovery and funding. The Group continues to demonstrate comfortable liquidity and a solid capital position with a customer deposit base of AED 25.3 billion (31 December 2021: AED 23.8 billion), a loans-to-deposits ratio of 85.53% (31 December 2021: 89.72%), and a cost-to-income ratio of 40.42% (31 December 2021: 43.13%). Total Equity increased by 7% in 2022, resulting in a Regulatory Capital Adequacy Ratio of 11.51% (31 December 2021: 10.79%) and a Regulatory Tier 1 Capital Ratio of 10.33% (31 December 2021: 9.62%).

Income Statement Highlights
After IAS 29 & IAS 21

(AED Mn)	Dec'22		Dec'21
Net Interest Income	**369**		301
Non-Interest Income	**379**		342
Operating Income	**748**	*+16%*	643
Net Impairment loss on Financial Assets	**(291)**		(128)
General and administrative expenses	**(301)**	*+9%*	(277)
Net (Loss)/Profit for the year	**(159)**		42
Total Comprehensive Loss for the year	**(12)**		(1,982)
(Loss)/Profit per Share – fils	**(7.02)**		1.99

Balance Sheet Highlights
After IAS 29 & IAS 21

(AED Mn)	Dec'22		Dec'21
Total Assets	**37,402**	*+11%*	33,562
Loans and Advances	**21,623**	*+1%*	21,314
Customers' Deposits	**25,281**	*+6%*	23,757
Total Equity	**1,494**	*+6%*	1,411
Commitments and Contingent Liabilities	**3,128**		3,555

Key Ratios Highlights
After IAS 29 & IAS 21

	Dec'22	Dec'21
Return on Assets	**(0.42%)**	0.13%
Return on Equity	**(10.62%)**	3.00%
Net Interest margin	**1.12%**	1.04%
Cost to Income	**40.42%**	43.13%
Non-Performing loans Ratio (Gross)	**5.57%**	6.51%
Non-Performing Loans Ratio (Net of ECL & Collateral)	**1.81%**	2.59%
Non-Performing loans Coverage Ratio	**136.21%**	132.13%
Loans and Advances to Deposits Ratio	**85.53%**	89.72%
Capital adequacy ratio	**11.51%**	10.79%
Tier 1 capital ratio	**10.33%**	9.62%

The discussion and Analysis below are based on figures after application of IAS 29 and IAS 21

Because of the economic situation in the country, The Group's operations in Lebanon, through its subsidiary Emirates Lebanon Bank SAL ("ELBank"), are subject to the imposition of accounting standards IAS 29 & IAS 21. In line with IAS 29, the financial statements of Emirates Lebanon Bank SAL have been restated by applying the general price index of the reporting date to the comparative amounts, in order to reflect the changes in the purchasing power of the LBP on the closing date of the financial statements. The non-monetary items of the statement of financial position as well as the income statement, statement of other comprehensive income and statement of cash flows for the current year of Emirates Lebanon Bank SAL, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index ('CPI'), at the presentation date of its financial statements. The consumer price index at the beginning of the reporting year was 921.40 and closed at 2,045.46.

IAS 29 attempts to account for the hyperinflationary nature of the Lebanese economy, and adjusts the IFRS 9 accounts by applying the change in Lebanon's Consumer Price Index over the accounting period to every line item on the subsidiary's balance sheet. This produces large adjustments which, under the terms of the accounting standard, flow through the accounts either through the P&L and OCI income lines, or directly to Equity. At the end of 2021, the IAS 29 accounting exercise had reflected **a net additional gain of AED 912 million in Equity to The Group, composed of AED 2,860 million negative adjustments to P&L, and AED 3,772 million positive adjustments to Equity.** In the opinion of both Management and The Group's Regulators, this additional capital was illusory and did not present a true representation of the financial position, and so The Group, with the agreement of its Regulators, never took this gain into account when calculating its Capital Ratios. At the end of 2021, this approach was validated, as IAS 21 came into force for the subsidiary's accounts, and effectively zeroed this imaginary gain to Equity.

IAS 21 attempts to account for the effects on The Group of the depreciation of the Lebanese Pound. The negative effect on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income is recognised in the consolidated statement of profit or loss. During 2022, the resulting loss on the net monetary position for Emirates Lebanon Bank SAL was AED 312 million (2021: AED 191 million).

However, in a departure from practice in other jurisdictions, the international audit firms have mandated that the standard not just be applied to the Lebanese Pound balances, but also to the US Dollar balances of the subsidiary.

The methodology used to apply the IAS 21 standard to the US Dollar balances is to multiply every 1 US Dollar on the balance sheet by the Official Peg Rate of 1,507.50 LBP to the USD and divide by the Sayrafa Rate, which at end 2021 was 22,700 LBP to the USD, and at end 2022 was 38,000 LBP to the USD. Thus, every 1 USD on the balance sheet becomes USD 6.6 cents at end 2021, and USD 4.0 cents at end 2022. This would imply, for example, a 96% haircut on Depositors, whereas the IMF is advocating for a zero % haircut on Depositors on deposit balances of up to USD 250,000 (this category of deposit forms 40% of the Subsidiary's deposit portfolio).

Indeed, with the recently implemented new peg of 15,000 Lebanese Lira to the USD, the post IAS 21 & 29 Equity figures as at 31 December 2022 would have stood higher by 60% at AED 2.4 Billion instead of AED 1.5 Billion.

This result will be immediately corrected once the peg is removed, a requirement from IMF within their proposed financial support. The maximum currency translation effect that would be reflected in the Group's equity assuming that the LBP was fully depreciated, would amount to AED 430 million, compared to AED 1.9 billion currently reflected in the Group's equity under currency translation reserve.

Given these factors, it may be difficult for the users of the financial statements (which include the Board, Management, Regulators, Investors, Rating Agencies, etc.) to understand the performance of the Group apart from the effect of its Subsidiary in Lebanon.

In the opinion of The Group's Management, and in agreement with its Regulators, the adjustments to the accounts emanating from IAS 21 are also illusory, and do not present a true representation of the financial position of The Group. With the agreement of its Regulators, The Group's regulatory capital ratios remain those of the pre-IAS 21 & IAS 29 accounts. This approach is consistent with IAS 1 which, in rare circumstances such as those discussed above, allows the Board to conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework.

The subsidiary has continued to operate profitably throughout 2021 and 2022.

The Group's net profit for the year ended 31 December 2022 amounted to AED 245 million (31 December 2021: AED 225 million), and after applying IAS 29 and IAS 21, the reported net loss amounted to AED 159 million (31 December 2021: Profit of AED 42 million).

Total comprehensive income for the year ended 31 December 2022 amounted to AED 220 million (31 December 2021: AED 285 million), and after applying IAS 29 and IAS 21, the reported total comprehensive loss amounted to AED 12 million (31 December 2021: AED 1,982 million).

Total equity as at 31 December 2022 amounted to AED 3,416 million (31 December 2021: AED 3,202 million), and after applying IAS 29 and IAS 21, the reported total equity amounted to AED 1,494 million (31 December 2021: AED 1,411 million). Had the Sayrafa rate of 38,000 LBP/USD been applied only on the LBP components of the balance sheet and profit or loss statement, **the equity would have stood at AED 4,168 million instead of AED 1,494 million.**

In line with our statements above, during the month of September 2022 the Government of Lebanon announced the forthcoming change of the official peg from US Dollar 1,507.50 to 15,000. Had the value of 15,000 been retained the Condensed consolidated Balance sheet of the Group would have reflected the following salient figures:

(AED Mn)	Dec'22 After IAS 29 & IAS 21 @ 15,000 LBP/USD	Dec'22 After IAS 29 & IAS 21 @1,507.5 LBP/USD
Total Assets	**39,218**	**37,402**
Total Liabilities	**36,811**	**35,908**
Total Equity	**2,407**	**1,494**
Cash and Central banks	**4,947**	**3,949**
Loans and Advances	**22,018**	**21,623**
Customers' deposits	**26,067**	**25,281**

Sheikh Mohammed Bin Saud Al Qasimi, Chairman of Bank of Sharjah: "Bank of Sharjah's UAE operations are continuing as per budget. Since its inception, Bank of Sharjah has been one of the driving forces behind the economic growth of the Emirate of Sharjah through its commitment to ESG principles. As we continue our support for environmental and governance initiatives, we are helping to build a larger and stronger community in line with the Bank's overarching sustainability mission. We continue to partner with various entities such as Sharjah City for Humanitarian Services (SCHS), the Al Noor Rehabilitation & Welfare Association for People of Determination, the Ministry of Interior's Saeed Association, and others. This is in line with the Bank's commitment to enable green transformation through the positive leverage of sustainable financing. We look forward to promoting and channelling this commitment, amplifying the positive impact and bringing it closer to our customers and shareholders. We are also pleased to have raised a benchmark issuance amount of USD 500 million in the public USD debt markets in March of 2023 through an offering of senior unsecured notes from the Bank's EMTN Programme. This reflects market confidence in our institution on the eve of the Bank's Golden Jubilee and 50th anniversary."