

Bank of Sharjah P.J.S.C

Bank of Sharjah P.J.S.C ("the Bank" "The Group") today announced the reviewed results of the period ended 30 June 2022. The following Management Discussion and Analysis includes financial results for the Group.

It is important to stress on the fact that the Lebanese financial crisis makes the Lebanon episode unique compared to other global crises. The application of IAS 21 and IAS 29 coupled with such high level of uncertainty have contributed to unrealistic and unnecessary material misrepresentation of the financial statements when these two standards are adopted without recognition of the most important standard in this respect IAS 1. In such circumstance, IAS 1 should have ruled these two standards whereby it clearly states that, in extremely rare circumstances as discussed above, the Board may 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. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure.

Financial Highlights as at 30 June 2022

- Total Assets at AED 37.9 billion, down by 1% compared to end 2021 before applying IAS 29 & IAS 21, and at AED 33.4 billion, down by 1% compared to end 2021 after applying IAS 29 & IAS 21.
- Total Equity at AED 3.3 billion, up by 4% compared to end 2021 before applying IAS 29 & IAS 21, and at AED 1.5 billion, up by 7% compared to end 2021 after applying IAS 29 & IAS 21.
- Net Loans and Advances at AED 22.1 billion, down by 1% compared to end 2021 before applying IAS 29 & IAS 21, and at AED 21.1 billion, down by 1% compared to end 2021 after applying IAS 29 & IAS 21.
- Total Customers' Deposits at AED 27.5 billion, up by 4% compared to end 2021 before applying IAS 29 & IAS 21, and at AED 25 billion, up by 5% compared to end 2021 after applying IAS 29 & IAS 21.
- Operating Income of AED 432 million, up by 19% compared to the same period of 2021 before applying IAS 29 & IAS 21, and at AED 360 million, down by 7% compared to the same period of 2021 after applying IAS 29 & IAS 21.
- General and administrative expenses of AED 163 million, up by 1% compared to the same period of 2021 before applying IAS 29 & IAS 21, and at AED 128 million, down by 32% compared to the same period of 2021 after applying IAS 29 & IAS 21.
- Net Profit of AED 121 million, compared to a profit of AED 120 million for the same period of 2021 before applying IAS 29 & IAS 21, and Net Loss of AED 195 million, compared to a Net Loss of AED 467 million for the same period of 2021 after applying IAS 29 & IAS 21.
- Loans and Advances to Deposits Ratio at 84.6%
- Non-Performing Loans ratio (Net of expected credit loss and collateral) at 2.0%
- Capital adequacy ratio at 11.7% and Tier 1 capital ratio (excluding hyperinflation) at 10.5%



Management Discussion & Analysis Report
for the period ended 30 June 2022

Income Statement Highlights

| (AED Mn) | Jun'22 Before IAS 29 & IAS 21 | Jun'21 Before IAS 29 & IAS 21 | Jun'22 After IAS 29 & IAS 21 | Jun'21 After IAS 29 |
|---|-------------------------------------|-------------------------------------|------------------------------------|------------------------|
| Net Interest Income | 289 | 225 | 226 | 243 |
| Non-Interest Income | 143 | 137 | 134 | 140 |
| Operating Income | 432 | 362 | 360 | 383 |
| Net Impairment loss on Financial Assets | (140) | (63) | (138) | (54) |
| General and administrative expenses | (163) | (162) | (128) | (187) |
| Net Profit/(Loss) for the period | 121 | 120 | (195) | (467) |
| Total Comprehensive Profit/(Loss) for the period | 133 | 140 | 53 | (447) |
| Profit/(Loss) per Share – fils | 5.50 | 5.45 | (8.90) | (21.20) |

Balance Sheet Highlights

| (AED Mn) | Jun'22 Before IAS 29 & IAS 21 | Dec'21 Before IAS 29 & IAS 21 | Jun'22 After IAS 29 & IAS 21 | Dec'21 After IAS 29 & IAS 21 |
|--|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Total Assets | 37,904 | 38,270 | 33,360 | 33,562 |
| Loans and Advances | 22,089 | 22,398 | 21,140 | 21,314 |
| Customers' Deposits | 27,538 | 26,492 | 25,003 | 23,757 |
| Total Equity | 3,335 | 3,202 | 1,512 | 1,411 |
| Commitments and Contingent Liabilities | 3,560 | 3,849 | 3,211 | 3,555 |

Key Ratios Highlights

| | Jun'22 Before IAS 29 & IAS 21 | Dec'21 Before IAS 29 & IAS 21 | Jun'22 After IAS 29 & IAS 21 | Dec'21 After IAS 29 & IAS 21 |
|--------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|------------------------------------|
| Return on Assets | 0.64% | 0.59% | (1.17%) | 0.13% |
| Return on Equity | 7.25% | 7.02% | (25.87%) | 3.00% |
| Net Interest margin | 1.74% | 1.30% | 1.57% | 1.04% |
| Cost to Income | 37.93% | 42.20% | 35.68% | 43.13% |
| Non-Performing loans Ratio (Gross) | 7.17% | 7.03% | 6.50% | 6.51% |
| Non-Performing loans Coverage Ratio | 136.73% | 129.11% | 142.69% | 132.13% |
| Loans and Advances to Deposits Ratio | 80.21% | 84.55% | 84.55% | 89.72% |
| Capital adequacy ratio | 11.65% | 10.79% | 11.65% | 10.79% |
| Tier 1 capital ratio | 10.46% | 9.62% | 10.46% | 9.62% |



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

The Group continues to enjoy a high asset quality and other 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 also enjoy comfortable liquidity and a solid capital position with a customer deposit base of AED 25 billion (31 December 2021: AED 23.8 billion), with a loans-to-deposits ratio of 84.55% (31 December 2021: 89.72%) and a cost-to-income ratio of 35.68% (31 December 2021: 43.13%).

The Group's operations in Lebanon, through its subsidiary Emirates Lebanon Bank SAL ("ELBank"), continued to witness unprecedented events stemming from political and economic turmoil, since 17 October 2019. The Group has complied with Banque du Liban ("BDL") Circular No. 13129, dated 4 November 2019, calling for the increase by 20% of the equity of Lebanese banks prior to 30 June 2020. It is important to stress that the operating income before impairments and application of hyper inflationary accounting standards of ELBank remains in line with last year's comparable results.

The International Monetary Fund (IMF) publishes inflation forecasts. Applying the October 2020 IMF information and the indicators laid out in IAS 29, the Lebanese economy continued to be considered a hyperinflationary economy for the purposes of applying the above standard. Accordingly, the Group continued end 2021 the adoption of IAS 29 on its consolidated financial statements and as a result of the effect of changes in Foreign Exchange Rates, and for the first time, end 2021 to adopt IAS 21 as well for its subsidiary, Emirates Lebanon Bank SAL on the consolidated financial statements.

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 period was 921.40 and closed at 1,286.76.

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 the period ended 30 June 2022, the resulting loss on the net monetary position for Emirates Lebanon Bank SAL was AED 287 million (30 June 2021: AED 577 million).



The application of IAS 21 on the USD denominated Assets and Liabilities of our Lebanese subsidiary, by multiplying One US Dollar with the peg rate of 1507.50 and dividing the result by the Sayrafa rate of 25,200, has rendered the USD equal to 6.0 cents. **This result will be immediately corrected once the peg is removed.** The removal of the peg is a requirement from IMF within their proposed financial support. It is understood, this would have a positive effect on the Equity level of the subsidiary as around 80% of the subsidiary's assets and liabilities are denominated in USD.

The Bank's consolidated financial statements are impacted by the application of the International Financial Reporting Standards on hyperinflation and foreign exchange on the consolidation of the Bank's subsidiary in Lebanon. This impacts every single line item of the Bank's consolidated statement of financial position and the consolidated statement of profit or loss. As a result, 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.

The net profit for the period ended 30 June 2022 amounted to AED 121 million (30 June 2021: AED 120 million) before applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements, the reported Net Loss for the period ended 30 June 2022 amounted to AED 195 million (30 June 2021: AED 467 million). As a result, the net income for the period decreased by AED 316 million (30 June 2021: AED 587 million).

The total comprehensive income for the period ended 30 June 2022 amounted to AED 133 million (30 June 2021: AED 140 million) before applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements, the reported total comprehensive profit for the period ended 30 June 2022 amounted to AED 53 million (30 June 2021: Loss of AED 447 million). As a result, the total comprehensive income for the period decreased by AED 80 million (30 June 2021: AED 587 million).

The total equity as at 30 June 2022 amounted to AED 3,335 million (31 December 2021: AED 3,202 million) before applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 25,200 LBP/USD in the consolidated financial statements, the reported total equity as at 30 June 2022 amounted to AED 1,512 million (31 December 2021: AED 1,411 million). As a result, total equity decreased by AED 1,823 million (31 December 2021: AED 1,791 million). Had the Sayrafa rate of 25,200 USD/LBP been applied only on the LBP components of the balance sheet and profit or loss statement, **the equity would have stood at AED 3,708 million instead of AED 1,512 million.**



Management Discussion & Analysis Report
for the period ended 30 June 2022

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

| | | |
|-------------------------|---------------------------|--------------------|
| Total Assets: | AED 35,913 million versus | AED 33,360 million |
| Total Liabilities: | AED 33,151 million versus | AED 31,849 million |
| Total Equity: | AED 2,762 million versus | AED 1,512 million |
| Cash and Central banks: | AED 4,735 million versus | AED 3,122 million |
| Loans and Advances: | AED 21,632 million versus | AED 21,140 million |
| Customers' deposits: | AED 26,215 million versus | AED 25,003 million |

Sheikh Mohammed Bin Saud Al Qasimi expressed his satisfaction with the results achieved by the Bank's UAE operations noting that the delay in publication of the Group's financial interim statements will soon be a matter of the past. He further marked his hope that the latest tripartite accord for the maritime border, between Lebanon and Israel, will usher a new era of prosperity and peace allowing Lebanon to reach gradual return to financial stability.