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 2020. The following Management Discussion and Analysis includes financial results for the Group.

2020 was marked by COVID 19 and other significant development that impacted markets where the Group operates. Despite all challenging environments, the Group's UAE operations demonstrated resilient performance underpinned by the robust fundamentals of the Bank.

The Group's balance sheet remains strong, with total assets standing at AED 36.14 billion (31 December 2019: AED 31.69 billion) reflecting an increase of 14% and Total Equity of AED 3.17 billion (31 December 2019: AED 3.02 billion) reflecting an increase of 5%.

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 23.67 billion (31 December 2019: AED 21.33 billion) reflecting an increase of 11% for the year, with a loans-to-deposits ratio of 82% (31 December 2019: 83%) and a cost-to-income ratio of 61% (31 December 2019: 57%).

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) published in December 2020 the inflation forecasts. Whereby, the Lebanese economy is considered a hyperinflationary for the purposes of applying IAS 29 and for the retranslation of foreign operations in accordance with IAS 21 and its effects on the consolidated financial statements for the year ending 31 December 2020.

Consequently, and subsequent to the preliminary release of salient financial figures mid-February 2021, the Group was invited to apply IAS 29 and IAS 21 financial reporting in Hyperinflationary Economies to its subsidiary, Emirates Lebanon Bank SAL starting from 1st January 2020.

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Accordingly, the financial statements of Emirates Lebanon Bank SAL have been restated by applying a general price index to the historical cost, 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 balance sheet, income statement, statement of other comprehensive income and statement of cash flows of Emirates Lebanon Bank SAL, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index ('CPI'). The re-expression of non-monetary items is made from the date of initial recognition in the statements of financial position and considering that the financial statements are prepared under the historical cost criterion. The consumer price index at the beginning of the reporting period was 115.54 and closed at 284.04.

The net audited effect of hyperinflation on the Consolidated Equity was positive and amounted to AED 236 million, representing the difference between AED 642 million negative variation on the P&L figures and AED 879 million positive variation on total equity. This has pushed the Net equity of the Group by AED 236 million to AED 3.365 million versus AED 3.018 million as at end 2019.

However, in view of the prevailing "uncertainty" an AED 200 million additional provision at Group level was booked reducing the hyperinflation difference to a mere AED 36 million and rendering the whole hyperinflation calculation and exploratory delays, to a futile exercise.

The Net Profit of the Group's UAE operations amounted to AED 309 million and prior to hyperinflation the Consolidated Net Profit reached AED 176 million after considering the provisions needed for the Lebanese Subsidiary.

Upon application of AED 842 million as Hyperinflation effect plus other deductions the Group recognized a Net Loss of AED 666 million and a Total Comprehensive Loss of AED 724 million versus a positive equity component of AED 879 million.

Sheikh Mohammed Bin Saud Al Qasimi, Chairman of Bank of Sharjah, stated that despite Covid-19 the Bank performed exceptionally well and delivered positive and eloquent results that under hyperinflation accounting moved from P&L directly to equity. From Board of Directors' perspective protecting shareholders equity is the most important responsibility.

While this situation might perdure the exploratory time lost to finalize and release financials hopefully will not be repeated.

Bank of Sharjah looks forward now to the quick convening of the General Assembly and move with a new impetus towards releasing Q1 figures.

Financial Highlights

- ✔ Total Assets at AED 36,143 million, up by 14% compared to 31 December 2019
- ✔ Net Loans and Advances at AED 19,456 million, up by 10% compared to 31 December 2019
- ✔ Total Customers' Deposits at AED 23,673 million, up by 11% compared to 31 December 2019
- ✔ Operating Income of AED 663 million, compared to AED 564 million for the same year of 2019
- ✔ Net Profit before hyperinflation of AED 176 million
- ✔ Net Loss of AED 666 million, compared to AED 488 million for the same year of 2019
- ✔ Return on Assets at (1.84%) and Return on Equity at (21.05%)
- ✔ Loans and Advances to Deposits Ratio at 82.19%
- ✔ Non-Performing Loans ratio (Net) at 8.86%
- ✔ Capital adequacy ratio at 10.71%
- ✔ Tier 1 capital ratio at 9.52%

Income Statement Highlights

(AED Mn)	Dec'20 After hyperinflation & additional ECL	Dec'20 Before hyperinflation and additional ECL	Dec'19
Net Interest Income	569	473	416
Non-Interest Income	94	80	148
Operating Income	**663**	**553**	**564**
Net Impairment loss on Financial Assets	(744)	(484)	(439)
Goodwill impairment	-	-	(273)
Non-Operating Income	**449**	**449**	**-**
Net (Loss)/Profit for the year	**(666)**	**176**	**(488)**
Total Comprehensive (Loss)/Profit for the year	**(724)**	**118**	**(635)**
(Losses)/Profit per Share – fils	(31.18)	8.93	(23.53)

Balance Sheet Highlights

(AED Mn)	Dec'20 After hyperinflation and additional ECL	Dec'20 Before hyperinflation and additional ECL	Dec'19 Restated
Total Assets	36,143	36,066	31,689
Loans and Advances	19,456	19,456	17,736
Customers' Deposits	23,673	23,673	21,326
Total Equity	3,165	3,129	3,018
Commitments and Contingent Liabilities	5,404	5,404	5,320

Key Ratios Highlights

	Dec'20 After hyperinflation and additional ECL	Dec'20 Before hyperinflation and additional ECL	Dec'19 Restated
Return on Assets	(1.84%)	0.49%	(1.54%)
Return on Equity	(21.05%)	5.63%	(15.59%)
Net Interest margin	1.93%	1.59%	1.67%
Cost to Income	61.16%	60.31%	57.40%
Non-Performing loans Ratio (Gross)	12.68%	12.68%	13.62%
Impaired Loan Coverage Ratio	71.65%	71.65%	69.16%
Loans and Advances to Deposits Ratio	82.19%	82.19%	83.16%
Capital adequacy ratio	10.71%	11.33%	11.59%
Tier 1 capital ratio	9.52%	10.14%	10.42%

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