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 2021. 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, management 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 31 December 2021

- **Total Assets at AED 38,270 million, up by 7% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 33,562 million, down by 7% compared to end 2020 after applying IAS 29 & IAS 21.**
- **Total Equity at AED 3,202 million, up by 9% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 1,411 million, down by 55% compared to end 2020 after applying IAS 29 & IAS 21.**
- **Net Loans and Advances at AED 22,398 million, up by 9% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 21,314 million, up by 4% compared to end 2020 after applying IAS 29 & IAS 21.**
- **Total Customers' Deposits at AED 26,492 million, up by 12% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 23,757 million, compared to AED 23,673 as at end 2020 after applying IAS 29 & IAS 21.**
- **Operating Income of AED 799 million, up by 44% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 643 million, compared AED 663 million compared to end of 2020 after applying IAS 29 & IAS 21.**
- **General and administrative expenses of AED 336 million, up by 1% compared to end 2020 before applying IAS 29 & IAS 21, and at AED 277 million, down by 31% compared to end 2020 after applying IAS 29 & IAS 21.**
- **Net Profit of AED 225 million, compared to a loss of AED 24 million end 2020 before applying IAS 29 & IAS 21, and Net Profit of AED 42 million, compared to a Net Loss of AED 666 million end 2020 after applying IAS 29 & IAS 21.**
- **Loans and Advances to Deposits Ratio at 89.72%**
- **Non-Performing Loans ratio (Net of expected credit loss and collateral) at 2.50%**
- **Capital adequacy ratio at 10.79% and Tier 1 capital ratio (excluding hyperinflation) at 9.62%**

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Income Statement Highlights

(AED Mn)	Dec'21 After IAS 29 & IAS 21	Dec'20 After IAS 29	Dec'21 Before IAS 29 & IAS 21	Dec'20 Before IAS 29
Net Interest Income	**301**	569	**435**	473
Non-Interest Income	**342**	93	**364**	80
Operating Income	**643**	663	**799**	553
Net Impairment loss on Financial Assets	**(128)**	(744)	**(216)**	(684)
General and administrative expenses	**(277)**	(401)	**(336)**	(332)
Net Profit/(Loss) for the year	**42**	(666)	**225**	(24)
Total Comprehensive (Loss)/Profit for the year	**(1,982)**	(724)	**285**	(82)
Profit/(Loss) per Share – fils	**0.02**	(0.30)	**0.10**	(0.02)

Balance Sheet Highlights

(AED Mn)	Dec'21 After IAS 29 & IAS 21	Dec'20 After IAS 29	Dec'21 Before IAS 29 & IAS 21	Dec'20 Before IAS 29
Total Assets	**33,562**	36,143	**38,270**	35,866
Loans and Advances	**21,314**	20,519	**22,398**	20,519
Customers' Deposits	**23,757**	23,673	**26,492**	23,673
Total Equity	**1,411**	3,165	**3,202**	2,929
Commitments and Contingent Liabilities	**3,555**	5,404	**3,849**	5,404

Key Ratios Highlights

	Dec'21 After IAS 29 & IAS 21	Dec'20 After IAS 29	Dec'21 Before IAS 29 & IAS 21	Dec'20 Before IAS 29
Return on Assets	**0.13%**	(1.84%)	**0.59%**	(0.07%)
Return on Equity	**3.00%**	(21.05%)	**7.02%**	(0.82%)
Net Interest margin	**1.04%**	1.86%	**1.30%**	1.55%
Cost to Income	**43.13%**	61.16%	**42.20%**	60.31%
Non-Performing loans Ratio (Gross)	**6.51%**	12.08%	**7.03%**	12.68%
Non-Performing loans Coverage Ratio	**132.13%**	71.65%	**129.11%**	71.65%
Loans and Advances to Deposits Ratio	**89.72%**	86.68%	**84.55%**	86.68%
Capital adequacy ratio	**10.79%**	10.71%	**10.79%**	10.71%
Tier 1 capital ratio	**9.62%**	9.52%	**9.62%**	9.52%

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 23.8 billion (31 December 2020: AED 23.67 billion), with a loans-to-deposits ratio of 90% (31 December 2020: 87%) and a cost-to-income ratio of 43% (31 December 2020: 61%).

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 year was 284.04 and closed at 921.40.

Under IAS 29, 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 recognized in the consolidated statement of profit or loss. During 2021, the resulting negative effect on the net monetary position for Emirates Lebanon Bank SAL was AED 191 million (2020: 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 22,700, has rendered the USD equal to 6.6 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 year ended 31 December 2021 amounted to AED 225 million (2020: Loss of AED 24 million) before applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements, the reported Net Profit for the year ended 31 December 2021 amounted to AED 42 million (2020: Loss of AED 666 million). As a result, the net income for the year decreased by AED 183 million (2020: AED 642 million).

The total comprehensive income for the year ended 31 December 2021 amounted to AED 285 million (2020: Loss AED 82 million) before applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements, the reported total comprehensive loss for the year ended 31 December 2021 amounted to AED 1,982 million (2020: Loss of AED 724 million). As a result, the total comprehensive income for the year decreased by AED 2,267 million (2020: AED 642 million).

The total equity as at 31 December 2021 amounted to AED 3,202 million (2020: AED 2,929 million) before applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements. After applying IAS 29 and Sayrafa rate of 22,700 LBP/USD in the consolidated financial statements, the reported total equity as at 31 December 2021 amounted to AED 1,411 million (2020: AED 3,165 million). As a result, total equity apparently decreased by AED 1,791 million (2020: Positive AED 236 million). Had the Sayrafa rate of 22,700 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 3,371 million instead of AED 1,411 million.**