

Management discussion and analysis report

31 December 2023



مصرف الشارقة الإسلامي
SHARJAH ISLAMIC BANK



KEY HIGHLIGHTS

Sharjah Islamic Bank demonstrated impressive financial performance for the year ended December 31, 2023. The bank's net profit surged by 30.8%, reaching an impressive AED 851.5 million. This notable growth is in comparison to the net profit of AED 650.9 million recorded in the year ended December 31, 2022.

- +30.8% ↑ Net profit for the year ended on December 31, 2023, reached an impressive AED 851.5 million, representing a substantial increase of 30.8% compared to AED 650.9 million in the year ended December 31, 2022. This significant growth reflects the bank's effective management and successful strategies in generating profits.
- +11.4% ↑ The total assets of the Bank reached AED 65.9 billion as at December 31, 2023, marking a 11.4% increase from the end of 2022. This growth in total assets demonstrates the bank's ability to expand its asset base, further solidifying its financial position.
- +7.7% ↑ Investment in Islamic financing increased by 7.7%, reaching AED 33.0 billion as at December 31, 2023, compared to AED 30.7 billion in the previous year. This expansion reflects the Bank's ongoing commitment to providing Islamic financial services and supporting the growth of the sector.
- +14.4% ↑ Customer deposits increased to AED 45.2 billion as at December 31, 2023, reflecting a growth of 14.4% or AED 5.7 billion compared to December 31, 2022. This increase indicates the bank's success in attracting and retaining customer funds.
- +8.7% ↓ The cost-to-income ratio witnessed a significant drop from 38.0% in 2022 to 34.7% as at December 31, 2023. This improvement indicates the bank's success in controlling costs relative to its income, leading to enhanced profitability.
- +9.4% ↑ The NPL ratio stood at 5.6%, while the coverage ratio reached 93.8% as at December 31, 2023. These metrics highlight the bank's prudent approach to managing credit risk and its ability to mitigate potential losses.
- 4.9% ↓ The Bank maintained a robust capital position, with a capital adequacy ratio of 18.9% as at December 31, 2023. This ratio demonstrates the bank's ability to meet regulatory requirements and indicates its strong financial foundation.
- +27.3% ↑ Return on average equity for the year ended December 31, 2023 was computed to be 10.81%, an increase from 8.49% in the previous year. This metric reflects the bank's ability to generate higher returns for its shareholders based on their invested equity.





KEY HIGHLIGHTS

The Bank demonstrated strong asset growth and commitment to Islamic Financing Services

- +108.5%** ↑ The Bank's investment securities measured at fair value increased by 0.3% to reach AED 4.0 billion as at December 31, 2023, compared to AED 3.9 billion in 2022. Conversely, investment securities measured at amortized cost experienced substantial growth of 108.5%, reaching AED 9.6 billion as at December 31, 2023, compared to AED 4.6 billion in the previous year.
- 13.0%** ↓ Liquid assets, which contribute to the bank's overall liquidity position, accounted for 20.8% of the total assets, amounting to AED 13.7 billion as at December 31, 2023. While this represents a decrease from 23.9% in 2022, it still signifies a healthy liquidity level that enables the bank to meet short-term obligations effectively.
- 5.8%** ↓ The advances to deposit ratio, which measures the bank's lending activity relative to its deposit base, stood at 73.1% as at December 31, 2023. This ratio suggests the bank's prudent approach to managing its lending portfolio and maintaining a balanced risk profile.
- +35.9%** ↑ Earnings per share for the year ended December 31, 2023, were recorded at AED 0.23 per share, compared to AED 0.17 per share during the same period in the previous year. This increase reflects the bank's ability to generate higher earnings for its shareholders.
- +19.4%** ↑ Return on average assets for the year ended December 31, 2023 stood at 1.36%, compared to 1.14% in the previous year. This improvement demonstrates the bank's effective utilization of its assets to generate profits.
- +22.7%** ↑ The total operating income for the year ended December 31, 2023 amounted to AED 1,975.0 million, showing a notable increase of 22.7% or AED 366.0 million compared to AED 1,609.1 million reported in the year ended December 31, 2022.
- +29.3%** ↑ Net operating income before impairment of financial assets and revaluation of property for the year ended December 31, 2023 also experienced substantial growth, reaching AED 1,290.6 million, a remarkable increase of 29.3% compared to AED 998.3 million for the year ended December 31, 2022. This improvement demonstrates the Bank's efficiency in managing its core business operations.



PERFORMANCE

Total assets of Sharjah Islamic Bank reached at AED 65.9 billion as at December 31, 2023, a testament to the Bank's growth strategy formulated in light of prudent risk management. Stable growth in total assets by 11.4% is a composition of growth in assets across all financial statement captions including liquid asset growth, growth in Investment in Islamic financing and investment securities at amortised cost.

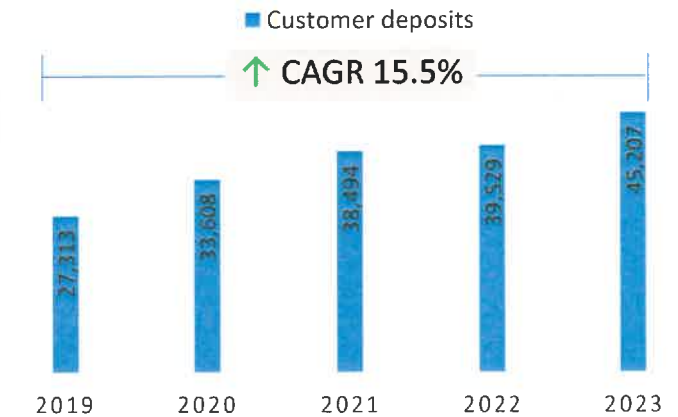
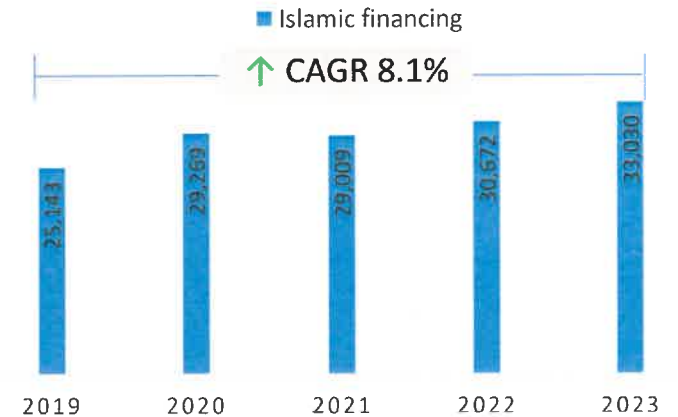
The net investment in Islamic financing by the Bank reached AED 33.0 billion as at December 31, 2023, reflecting an increase of 7.7% or AED 2.4 billion, compared to December 31, 2022. Investments in Islamic financing has continually increased for the Bank with CAGR of 8.1%. This growth implies strong strategy and optimal utilisation of liquidity.

Liquid assets, which contribute to the bank's overall liquidity position, accounted for 20.8% of the total assets, amounting to AED 13.7 billion as at December 31, 2023. While this represents a decrease from 23.9% in 2022, it still signifies a healthy liquidity level that enables the bank to meet short-term obligations effectively.

The bank's investment securities measured at fair value increased by 0.3% to reach AED 4.0 billion as at December 31, 2023, compared to AED 3.9 billion as at December 31, 2022. Conversely, investment securities measured at amortized cost experienced substantial growth of 108.5%, reaching AED 9.6 billion as at December 31, 2023, compared to AED 4.6 billion in the previous year. Significant growth in investment securities measured at amortized cost is owing to rebound of money market post COVID era, marking multiple new sukuk issues.

Bank's customer deposits increased by 14.4% or by AED 5.7 billion and reached at AED 45.2 billion as at December 31, 2023, compared to AED 39.5 billion as at December 31, 2022. Customer deposits have increased with a CAGR of 15.5%, showing strong customer confidence in the Bank. Significant growth is achieved in CASA balance where an increase by 11.0% has taken CASA deposits to 35.2% as at December 31, 2023 of total customer deposits compared to 36.2% as at 31 December 2022.

Balance due to banks increased by AED 2.4 billion, reaching at AED 9.1 billion as at December 31, 2023 as against AED 6.7 billion as at year ended December 31, 2022, in line with Group's liquidity management policies.





PERFORMANCE

BALANCE SHEET

Sukuk payable decreased by AED 1.8 billion and stood at AED 1.8 billion as at December 31, 2023 as against AED 3.7 billion as at December 31, 2022. The Bank repaid a sukuk of USD 500 million on 17 April 2023 through its own sources, evidencing strong liquidity footings.

Sharjah Islamic Bank is strongly capitalized. Total shareholders' equity reached to AED 8.1 billion or 12.3% of total assets. Increase in shareholders equity is a result of net profit attributable to shareholders for the year ended December 31, 2023.

NPL ratio of the Bank stands at 5.6% as at December 31, 2023 as against 6.2% as at December 31, 2022. Improvement in NPL ratio is a resultant of strong recovery on bad financing and increase in overall investments in Islamic financing. Coverage ratio now stands at the 93.8% as at December 31, 2023, including general impairment reserve.

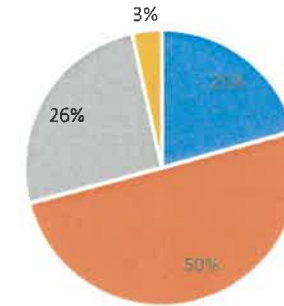
PROFIT AND LOSS

Sharjah Islamic Bank posted a net profit of AED 851.5 million for the year ended December 31, 2023, compared to AED 650.9 million for the year ended December 31, 2022, an increase of 30.8%. Strong profitability is a reflection of considerable increase in profit margins owing to continuous rise in profit rates. As well, rise in consumer demand and UAE economic expansion has played a vital role in profit margin increase. Rise in income for the Bank has outpaced expense increases over the same period owing to effective cost control measures.

The distribution to depositors and sukuk holders reached AED 1,635.9 million for the year ended December 31, 2023 compared to AED 725.3 million for the year ended December 31, 2022; an increase of 125.6%. Profit is allocated for payment to depositors. These profit allocations represent the depositors' share of the Groups' net operating profits based on the profit sharing mechanism between shareholders and depositors as approved by SIB's Shari'a Board.

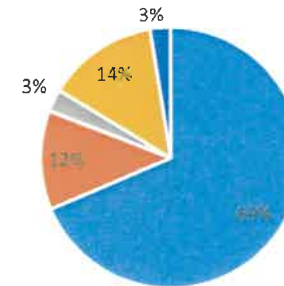
Investment, fees, commission and other income reached AED 522.1 million for the year ended December 31, 2023, compared to AED 395.8 million for the year ended December 31, 2022, with an increase of AED 126.3 million or 31.9%.

SIB Asset Structure



■ Liquid assets ■ Islamic financing ■ Investments ■ Other assets

SIB Liabilities structure



■ Customers' deposits ■ Shareholders' equity
■ Sukuk payable ■ Due to banks
■ Other liabilities





PERFORMANCE

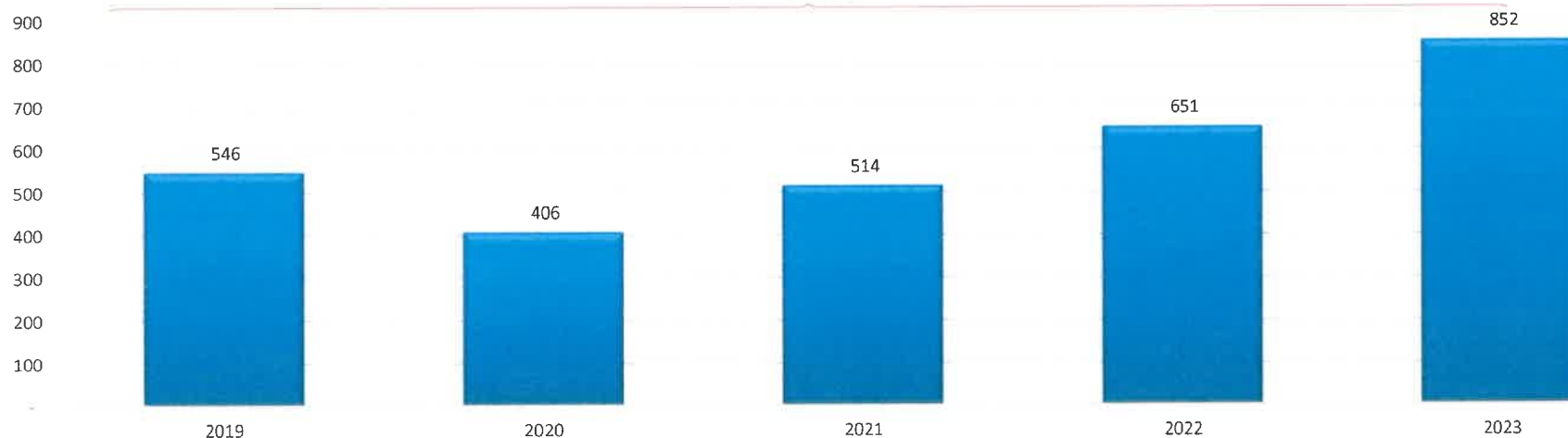
On the expenses side, general and administration expenses reached AED 684.5 million for the year ended December 31, 2023 compared to AED 610.8 million for the year ended December 31, 2022, an increase of 12.1%, while cost to income ratio significantly dropped from 38.0% for the year ended December 31, 2022 to 34.7% for the year ended December 31, 2023.

Impairment on financial assets - net of recoveries and revaluation loss on properties was recorded at AED 439.0 million for the year ended December 31, 2023, compared to AED 347.4 million for year ended Decemebr 31, 2022, a decrease of AED 91.6 million or 26.4%.

Return on average shareholders' equity (ROAE) reached 10.81% for the year ended December 31, 2023 compared to 8.49% of year ended December 31, 2022, while return on average assets (ROAA) reached at 1.36% compared with 1.14% at the year ended December 31, 2022.

Net Profit

11.8%



FINANCIAL HIGHLIGHTS

	31 December	31 December	
	2023	2022	
	Audited	Audited	
Statement of financial position			
Investment securities measured at amortised cost	9,582,292	4,594,791	108.5%
Investments in Islamic financing	33,030,434	30,671,517	7.7%
Customers' deposits	45,206,574	39,529,231	14.4%
NPL ratio	5.6%	6.2%	-9.4%
NPL coverage ratio	93.8%	81.6%	15.0%
Risk weighted assets	45,124,273	41,074,599	9.9%
Common equity tier 1 ratio	13.6%	14.2%	-3.9%
Tier 1 capital ratio	17.7%	18.7%	-5.2%
Capital adequacy ratio	18.9%	19.8%	-4.9%
Financing to deposit ratio	73.1%	77.6%	-5.8%
ASFR	80.7%	77.2%	4.5%
ELAR	15.9%	18.3%	-12.9%
Liquidity asset ratio	20.8%	23.9%	-13.0%

Significant increase in investment securities is owing to rebound of sukuk market amid rising profit rates.

Prudent growth strategy across diversified industry segments on the back of economic rebound has resulted in modest increase in Investment in Islamic financing.

Introduction of retail deposit products, focused approach and excellent customer service has resulted in growth of customer deposits.

Increase in financing portfolio and strong recovery resulted in improved NPF ratio.

The Bank keeps on improving coverage ratio in light of ever challenging macro economic scenarios.

FINANCIAL HIGHLIGHTS

	For the year ended December-23	For the year ended December-22	
Profit and loss statement			
Income from investments in Islamic financing and sukuk	3,088,909	1,938,661	59.3%
Distribution to depositors' and sukuk holders	(1,635,944)	(725,299)	125.6%
Net fee, commission investment and other income	522,057	395,757	31.9%
Total operating income	1,975,022	1,609,119	22.7%
General and administration expenses	(684,454)	(610,824)	12.1%
Net operating income before impairment and revaluation	1,290,568	998,295	29.3%
Impairment on financial assets net and revaluation loss in property investments	(439,028)	(347,381)	26.4%
Profit for the period	851,540	650,914	30.8%
EPS	0.23	0.17	35.9%
Net profit margin	3.1%	2.9%	8.0%
Cost to income ratio	34.7%	38.0%	-8.7%
ROAE	10.81%	8.49%	27.3%
ROAA	1.36%	1.14%	19.3%

Rising profit rates and increase in financing volume across diversified industry segments resulted in significant increase in profit income.

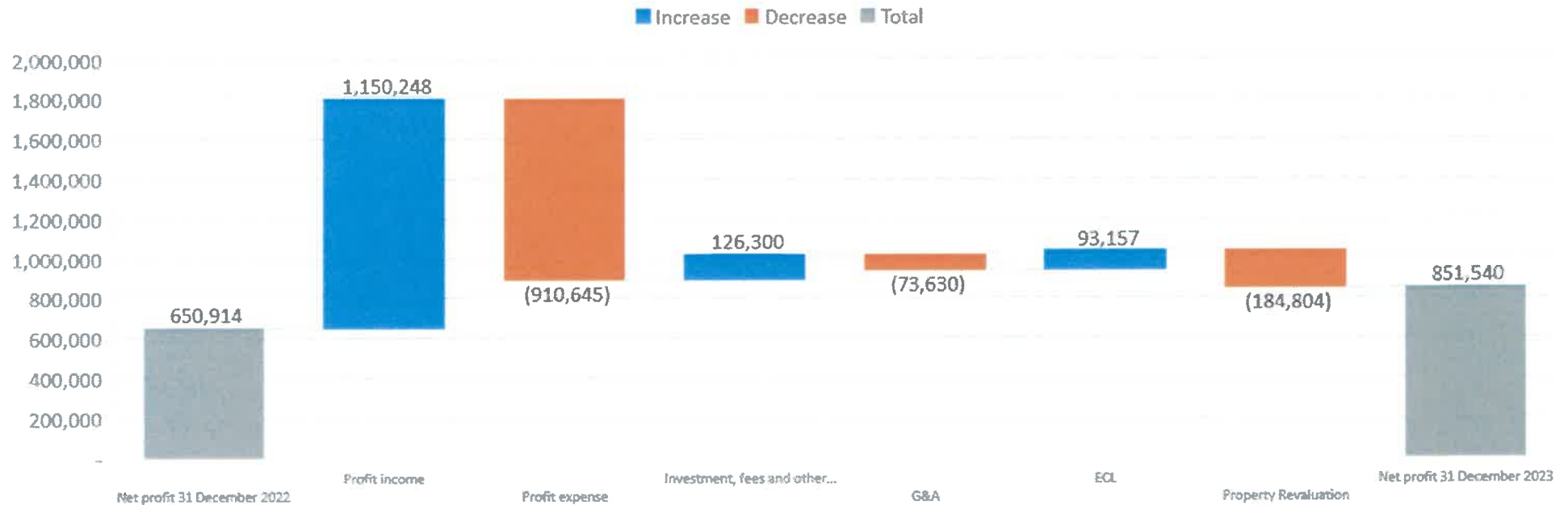
Increase in profit rates and deposit portfolio resulted in higher profit expense

Constant focus on operating efficiency has resulted reduced cost to income ratio.

Return on average equity for the year was computed to be 10.81%, an increase from 8.49% in the previous year. This metric reflects the bank's ability to generate higher returns for its shareholders based on their invested equity.



Profit and Loss Waterfall



- Islamic financing, sukuk investments and deposit portfolio increase resulting in increase in profit income and expense
- Increase in profit rates, resulting in higher profit income and expense
- Increase in off balance sheet customer portfolio management, resulting in improved fees and commission income.
- Recovery of major currencies, improving FX income and higher rental yield resulting in improved other income.





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Thank You

A handwritten signature in blue ink, appearing to read 'Mohamed Ahmed Abdullah', written over a horizontal line.

Mohamed Ahmed Abdullah
Chief Executive Officer