

Management discussion and analysis report









30 June 2024



مصرف الشارقة الإسلامي
SHARJAH ISLAMIC BANK

KEY HIGHLIGHTS

Sharjah Islamic Bank PJSC (the “Bank” or “SIB”) and its subsidiaries (together referred to as the “Group”) demonstrated impressive financial performance for the six month period ended 30 June 2024, where the Group’s net profit before tax surged by 25.8%, reaching an impressive AED 622.4 million. This notable growth is in comparison to the net profit before tax of AED 494.6 million recorded during the same period in 2023. Net profit after tax for the six month period ended 30 June 2024 was AED 566.2 million.

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25.8% The Group demonstrated strong financial performance in Q2 2024, characterized by a notable 25.8% increase in net profit before tax to AED 622.4 million, compared to AED 494.6 million in Q2 2023. Concurrently, the Group achieved a net profit after tax of AED 566.2 million during the same period with an increase of 14.5%. This substantial growth underscores the efficacy of the Group’s management and the success of its profit-generating strategies.
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12.7% The Group’s total assets surged to AED 74.2 billion as of 30 June 2024, reflecting a robust 12.7% escalation from the year-end figure 65.9 billion of 31 December 2023. This expansion in total assets underscores the Group’s capacity to enhance its asset portfolio, thereby reinforcing its financial strength.
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6.6% The Group’s investment in Islamic financing saw a notable increase of AED 2.2 billion, resulting in an increase of 6.6% in investments in Islamic financing. As of 30 June 2024, the total reached AED 35.2 billion, compared to AED 33.0 billion as of 31 December 2023. This expansion underscores the Group’s steadfast commitment to providing Islamic financial services and fostering sectoral growth.
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9.4% Customer deposits increased by 9.4% to reach AED 49.5 billion as compared to AED 45.2 billion as at 31 December 2023 demonstrating strong business relationships with its customers as well as the competitiveness of the Group’s products.
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4.9% The Group’s cost-to-income ratio experienced an improvement from 34.7% for the year ended 31 December 2023, to 33.0% for the six month period ended 30 June 2024. This enhancement underscores the Group’s adeptness in managing costs in proportion to its income, ultimately contributing to improved profitability.
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1.8% The Non-Performing Financing (“NPF”) ratio improved to 5.5% as at 30 June 2024, compared to 5.6%, while the coverage ratio reached 94.7% as of 30 June 2024, compared to 93.8% as of 31 December 2023. These metrics highlight the Group’s prudent approach to managing credit risk and its ability to mitigate potential losses.
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5.1% The Group maintained a robust capital position, with a capital adequacy ratio of 17.2% as of 30 June 2024. This ratio demonstrates the Group’s ability to meet regulatory requirements and indicates its strong financial foundation.
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7.2% Annualized return after tax on average equity for the six month period ended 30 June 2024 was computed to be 13.76%, an increase from 12.84% for the six month period ended 30 June 2023. This metric reflects the Group’s ability to generate higher returns for its shareholders.



KEY HIGHLIGHTS

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

- 29.0% ↑ Investment securities measured at amortized cost experienced substantial growth of 29.0%, reaching AED 12.4 billion as of 30 June 2024, compared to AED 9.6 billion as of 31 December 2023. The Group's investment securities measured at fair value were AED 3.8 billion as of 30 June 2024, compared to AED 4.0 billion as of December 2023.
- 10.4% ↑ Liquid assets, pivotal in bolstering the Group's liquidity profile, constituted 22.9% of the total assets, equating to AED 17.0 billion as of 30 June 2024. This marks a rise from 20.8% as of December 2023, maintaining a robust liquidity level crucial for the Group to adeptly fulfill short-term obligations.
- 2.6% ↑ As of 30 June 2024, the financing to deposit ratio, a key indicator of the Group's lending activity compared to its deposit base, was recorded at 71.2%. This ratio underscores the Group's judicious strategy in overseeing its financing portfolio, ensuring a well-balanced risk profile.
- 14.3% ↑ Earnings per share for the period ended 30 June 2024, were recorded at AED 0.16 per share, compared to AED 0.14 per share during the same period in the previous year. This increase reflects the Group's ability to generate higher earnings for its shareholders.
- 1.8% ↑ Annualized return on average assets for the period stood at 1.62% after tax, compared to 1.65% in the previous period. The ratio has stayed largely stable as compared to previous period despite the introduction of a 9% corporate tax with effect from 1 January 2024 demonstrating the Group's effective utilization of its assets to generate profits.
- 6.7% ↑ The total operating income for the first six months period ended 30 June 2024 amounted to AED 1,029 million, showing an increase of 6.7% or AED 64.6 million compared to AED 964.5 million reported in the same period of 2023.
- 6.3% ↑ Net operating income, before impairment of financial assets, also experienced a growth, reaching AED 689.6 million, an increase of 6.3% compared to AED 648.7 million in the corresponding period of 2023. This improvement demonstrates the Group's efficiency in managing its core business operations.



PERFORMANCE

Total assets of the Group reached at AED 74.2 billion as at 30 June 2024, a testament to the Group's growth strategy formulated in light of prudent risk management. Stable growth in total assets by 12.7% 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 Group reached AED 35.2 billion as of 30 June 2024, reflecting a net increase of 6.6% or AED 2.2 billion, compared to the year-end balance of 31 December 2023. Investments in Islamic financing has continually increased for the Group with CAGR of 5.4%. This growth implies strong strategy and optimal utilisation of liquidity.

Fueling the Group's liquidity fortress, liquid assets comprised a formidable 22.9% of total assets, totaling a staggering AED 17.0 billion as of 30 June 2024. This surge marks a notable uptick from 20.8% as at 31 December 2023, signaling a buoyant liquidity reservoir that empowers the Group to seamlessly navigate short-term obligations. Such numbers resonates with the Group's strategic vision of maintaining a minimum liquidity threshold of 20%.

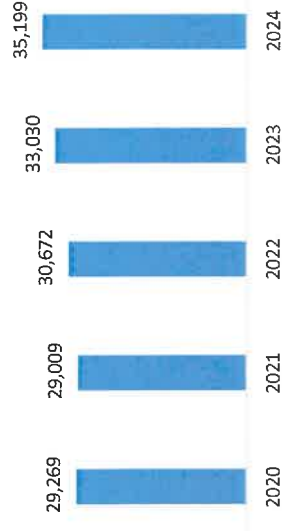
Investment securities measured at amortized cost experienced substantial growth of 29.0%, reaching AED 12.4 billion as of 30 June 2024, compared to AED 9.6 billion as at 31 December 2023. Significant growth in investment securities measured at amortized cost is owing to rebound of money market post Covid era, marking multiple new sukuk issues.

Customer deposits increased by 9.4% to reach AED 49.5 billion as compared to AED 45.2 billion as at 31 December 2023. Customer deposits have increased with a CAGR of 11.7%, demonstrating strong business relationships with its customers as well as the competitiveness of the Group's products. CASA balance comprised 34% of total customer deposits as at 30 June 2024.

Balance due to banks increased by AED 3.6 billion, reaching at AED 12.6 billion as at 30 June 2024 as against AED 9.1 billion as at year ended 2023, in line with Group's liquidity management policies.

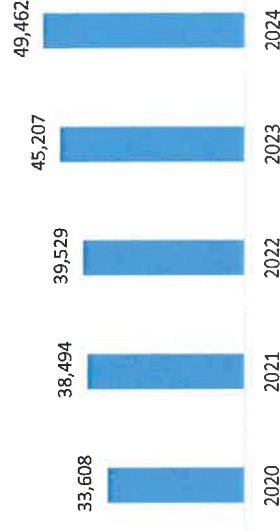
↑ CAGR 5.4%

Islamic financing



↑ CAGR 11.7%

Customer deposits



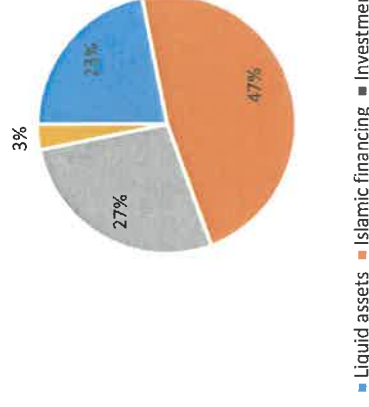
PERFORMANCE

BALANCE SHEET

The Group is strongly capitalized. Total shareholders' equity reached to AED 8.3 billion or 11.2% of total assets.

NPF ratio of the Group stands at 5.5% as at 30 June 2024 as against 5.6% as at 31 December 2023. Improvement in NPF ratio is a resultant of strong recovery on bad financing and increase in overall investments in Islamic financing. Coverage ratio now stands at the 94.7% as at 30 June 2024, including general impairment reserve.

SIB Asset Structure



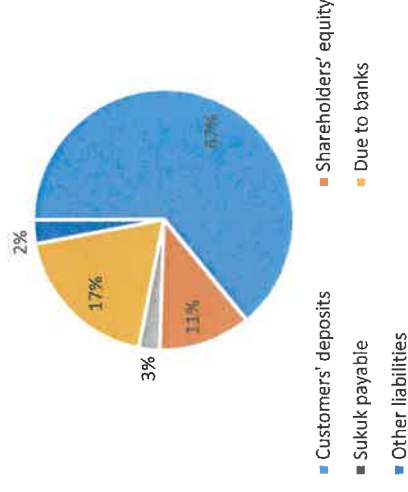
PROFIT AND LOSS

The Group posted a net profit before taxation of AED 622.4 million for the six month period ended 30 June 2024, compared to AED 494.6 million for the period ended 30 June 2023, an increase of 25.8%. The Group achieved a net profit after tax of AED 566.2 million during the same period with an increase of 14.5%. Strong profitability is a reflection of stable profit margins due to rise in consumer demand and UAE economic expansion, increase in fee and commission income as well as reduction in the Group's overall impairment provisions as compared to prior period. Rise in income for the Group has outpaced expense increases over the same period owing to effective cost control measures and robust business growth strategies.

The distribution to depositors and sukuk holders reached AED 1,034 million for the first six month period ended at 30 June 2024 compared to AED 720.4 million for the same period 2023; an increase of 43.5%. Profit is allocated for payment to Mudaraba depositors. These profit allocations represent the depositors' share of the Group's net operating profits based on the profit sharing mechanism between shareholders and depositors as approved by the Group's Shari'a Board.

Investment, fees, commission and other income reached AED 294.1 million for the six month period ended at 30 June 2024, compared to AED 243.8 million for the same period 2023, with an increase of AED 50.2 million or 20.6%.

SIB Liabilities structure



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PERFORMANCE

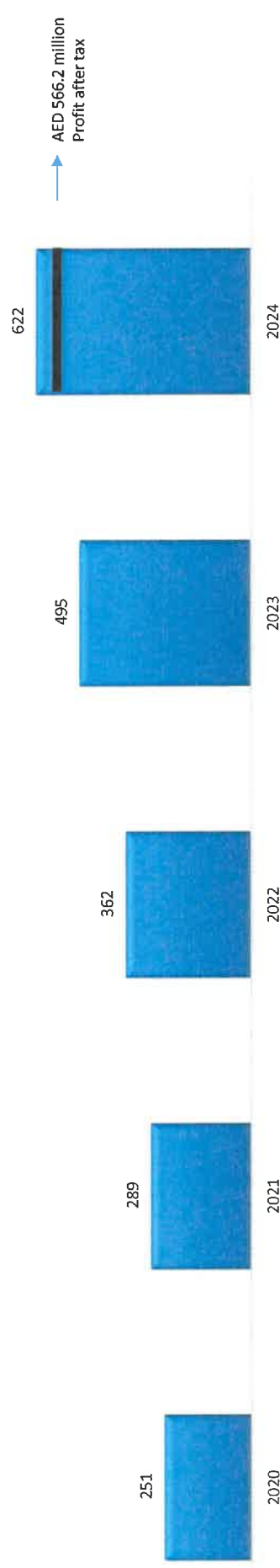
On the expenses side, general and administration expenses reached AED 339.4 million for the first six months period ended 30 June 2024 compared to AED 315.7 million for the similar period 2023, an increase of 7.5%, while cost to income ratio dropped from 34.7% last year to 33.0% at the 30 June 2024.

Impairment on financial assets - net of recoveries was recorded at AED 67.3 million for the six month period ended at 30 June 2024, compared to AED 154.2 million for same period 2023, a decrease of AED 86.9 million or 56.4%.

Return on average shareholders' equity (ROAE) after tax reached 13.76 % as at 30 June 2024 compared to 10.81% of year ended 2023, while return on average assets (ROAA) reached at 1.62% after tax compared with 1.36% at the year ended 2023.

↑ CAGR 25.5%

Net Profit – Six month period ended 30 June



FINANCIAL HIGHLIGHTS

	30 June 2024	31 December 2023	
	Un-audited	Audited	
Statement of financial position			
Investment securities measured at amortised cost	12,363,457	9,582,292	29.0%
Investments in Islamic financing	35,198,673	33,030,434	6.6%
Customer deposits	49,461,891	45,206,574	9.4%
NPF ratio	5.5%	5.6%	-0.6%
NPF coverage ratio	94.7%	93.8%	0.9%
Risk weighted assets	49,981,504	45,124,273	10.8%
Common equity tier 1 ratio	12.4%	12.9%	-3.9%
Tier 1 capital ratio	16.1%	17.0%	-5.4%
Capital adequacy ratio	17.2%	18.2%	-5.1%
Financing to deposit ratio	71.2%	73.1%	-2.6%
ASFR	75.2%	80.7%	-6.8%
ELAR	15.3%	15.9%	-3.9%
Liquidity asset ratio	22.9%	20.8%	10.4%
Cost to income ratio	33.0%	34.7%	-4.95%
ROAE - annualised	13.76%	10.81%	27.3%
ROAA - annualised	1.62%	1.36%	18.8%

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

Prudent growth strategy across diversified industry segments as well as continuous customer demand has resulted in 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 Group keeps on improving coverage ratio in light of ever challenging macro economic scenarios.

FINANCIAL HIGHLIGHTS

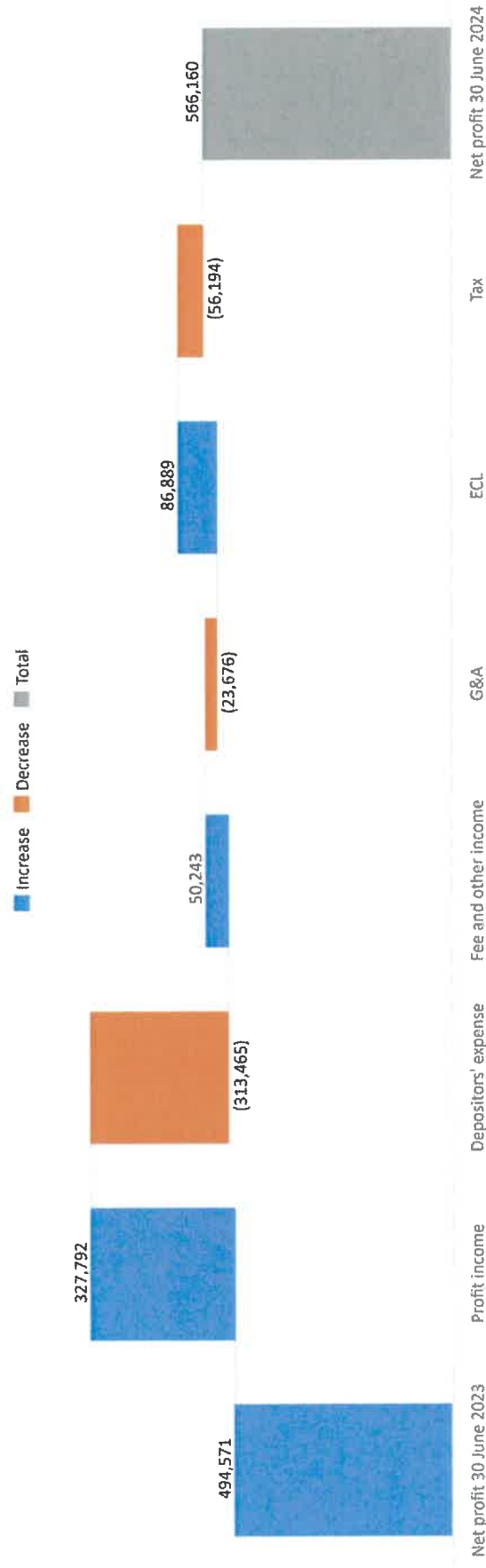
	For 6 month period ended	For 6 month period ended	
	June-24	June-23	
Statement of profit or loss			
Income from investments in Islamic financing and sukuk	1,768,873	1,441,081	22.7%
Distribution to depositors' and sukuk holders	(1,033,902)	(720,437)	43.5%
Net fee and commission income	179,814	125,652	43.1%
Total operating income	1,029,049	964,479	6.7%
General and administrative expenses	(339,410)	(315,734)	7.5%
Net operating income before impairment	689,639	648,745	6.3%
Impairment on financial assets - net of recoveries	(67,285)	(154,174)	-56.4%
Profit for the period before taxation	622,354	494,571	25.8%
Net profit for the period	566,160	494,571	14.5%
Earnings per share	0.16	0.14	14.3%

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

Profit and Loss Waterfall

For the six month period ended 30 June 2024



- 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; and
- Higher rental yield resulting in improved other income.

Management discussion and analysis report for the year ended 30 June 2024

Thank You



Mohamed Ahmed Abdullah
Chief Executive Officer