FitchRatings

Banks
Islamic Banks
United Arab Emirates

Sharjah Islamic Bank PJSC

Key Rating Drivers

Sharjah Islamic Bank PJSC's (SIB) Issuer Default Ratings (IDRs) are driven by potential support from the UAE authorities, if needed.

The Viability Rating (VR) reflects the bank's modest franchise, satisfactory asset-quality metrics and moderate profitability, only adequate capital ratios given financing concentrations. It also reflects an acceptable strategy, a fairly conservative risk appetite, and sound funding and high liquidity.

Government Support: SIB's 'bbb+' Government Support Rating (GSR) reflects the UAE's strong capacity to support the banking system and its long record of supporting domestic banks. However, it also factors in Fitch Ratings' view of SIB's moderate systemic importance due to its smaller market share (around 1.7% of UAE banking system assets).

The 'F2' Short-Term IDR is the lower of two options mapping to a 'BBB+' Long-Term IDR. This is because a significant part of UAE banking sector funding is related to the government and financial distress for the bank would likely arise at a time when the sovereign itself was experiencing some form of stress.

Modest but Growing Franchise: The VR remains constrained by the bank's modest, albeit growing franchise across the UAE, although SIB benefits from its close ties to the Sharjah government, given its 37.6% ownership. SIB's small market share limits pricing power and competitive advantage.

High Concentration: Financing concentrations are a common feature of UAE banks and are hardly avoidable given the narrow nature of the domestic economy. The top 20 exposures (funded and unfunded) represented a high 3.3x common equity Tier 1 (CET1) at end-2021, which exposes the bank to event risk.

Satisfactory Asset Quality: SIB's Stage 3 (impaired) financing declined to 4.8% of gross financing at end-2021 (4.9% at end-2020), supported by some write-offs (0.4% of gross financings in 2021) and low problem financing generation (0.2% of gross financing). Financing loss reserves coverage was satisfactory at 91.3% at end-2021 (end-2020: 86.2%). Asset quality metrics compare favourably with peers' average.

Moderate Profitability: SIB's operating profit/risk-weighted assets (RWAs) ratio rebounded to 1.5% in 2021 (2020: 1.1%), supported by a lower cost of funding, higher non-financing revenues and lower financing impairment charges (FICs). Net income rebounded in 2021 but still 6% below 2019 levels and we expect a recovery to pre-pandemic levels in 2022.

Only Adequate Core Capitalisation: SIB's CET1 ratio increased to 14.9% at end-2021 from 14.7% at end-2020 amid muted financing growth. The bank's comfortable capital buffers and sound reserve coverage (91.3% at end-2021) underpin a healthy loss-absorption capacity, but we view the bank's core capital ratios as only adequate in light of high concentration risks.

Sound Funding; High Liquidity: SIB is largely deposit-funded (79.8% of total non-equity funding at end-2021). Deposits are concentrated but historically stable with 36% coming from the sovereign and GREs. The bank complements its funding with sukuk issuance, demonstrating sound access to capital markets. SIB maintains a strong cushion of net liquid assets which covered 39% of customer deposits at end-2021.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bb+
Government Support Rating	bbb+

Sovereign Risk (United Arab Emirates)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AA+

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Sukuk Rating Criteria (February 2021)

Related Research

Fitch Affirms Sharjah Islamic Bank at 'BBB+'; Outlook Stable (April 2022)

Fitch Ratings 2022 Outlook: Middle East Banks (December 2021)

Fitch Affirms the United Arab Emirates at 'AA-'; Outlook Stable (November 2021)

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Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

A downgrade of SIB's Long-Term IDR would require a downgrade of the GSR. The latter would likely stem from a weaker ability of the UAE government to provide support, as reflected in a downgrade of the UAE sovereign, which is not our base case considering the Stable Outlook on the sovereign rating.

Pressure on SIB's VR could result from a sustained increase in the Stage 3 financing ratio above 7% and capital buffers above minimum requirements weakening significantly.

Factors that could, individually or collectively, lead to positive rating action/upgrade

Positive rating action on the IDR would require an upgrade of the bank's GSR and is unlikely in the short to medium term. Fitch does not expect the bank's systemic importance to significantly increase.

An upgrade of the VR is unlikely as it would require significant expansion in the bank's domestic franchise and reduced concentration, while maintaining financial metrics at their current levels.

Other Debt and Issuer Ratings

Debt Rating Classes

SIB Sukuk Company III Limited

Rating Level	Rating	Rating Watch
Senior Unsecured: Long Term	BBB+	n.a.

Source: Fitch Ratings

The rating of the senior unsecured notes issued under the bank's trust certificate sukuk issuance programme through its special purpose vehicle (SPV) SIB Sukuk Company III Limited is in line with the bank's Long-Term IDR because Fitch views the likelihood of default on any senior unsecured obligation issued by the SPV as being the same as that of the bank.

Significant Changes

Sector Level

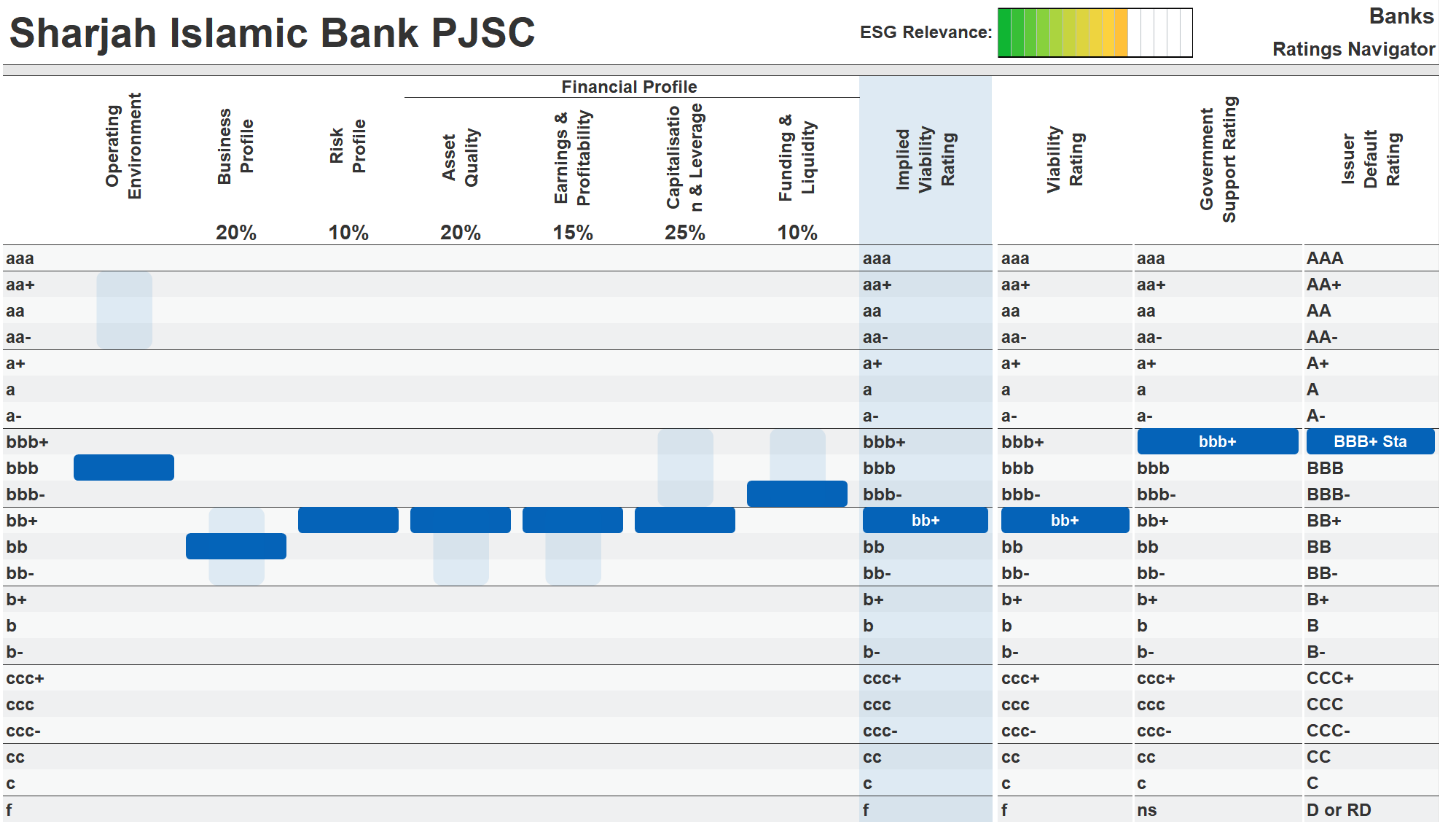
Unprecedented Government Support Packages: The support measures introduced by the Central Bank of United Arab Emirates (CBUAE) for the banking system to protect borrowers during the pandemic are still in place but will start decreasing as the economy recovers. The loan deferral scheme has been extended until end-1H22.

Modest Recovery Expected in the Real Estate Sector: We believe residential real estate prices will continue to increase in 2022, though at a slower pace than in 2021. According to the Bank for International Settlements (BIS), Dubai's apartment prices have increased by around 12% since October 2021, supported by strong growth momentum in transaction volumes in 2021. We believe the growth momentum will slow down in 2022 on the back of continuing new supply, higher valuations and rising interest rates which should dampen property demand.

Higher Rates and Favourable Economic Conditions to Underpin Profitability: We expect high oil prices, rising interest rates and strong economic conditions to support the sector's profitability in 2022-23. A high exposure to short-term corporate loans (78.4% of sector's loans at end-January 2022) and a high share of low-cost Current Accounts and Saving Accounts (CASA) deposits (63% of domestic deposits as reported by the CBUAE) should support the banks' margins in a rising rates environment.

Better economic conditions and credit performance, underpinned by high oil prices, should also support a reduction in the banks' impairment charges which absorbed on average 31% of pre-impairment operating profits in 2021 (2020: 56%).

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Key Rating Drivers Adjustments

The Operating Environment score of 'bbb' has been assigned below the 'aa' category implied score due to the following adjustment reason: Size and Structure of Economy (negative), Financial Market Development (negative), Regulatory and Legal Framework (negative)

The capitalisation and leverage score of 'bb+' has been assigned below the 'bbb' category implied score, due to the following adjustment reason: Risk profile and business model (negative)

Company Summary and Key Qualitative Factors

Operating Environment

Pressures on UAE banks' credit profiles are easing as the operating environment continues to recover. The general business and operating environment for banks was reasonable in 2021 and is expected to remain supportive in 2022, underpinned by high oil prices (Fitch forecasts USD100/barrel in 2022 and USD80/barrel in 2023). We expect real GDP growth of 6.3% in 2022 and 3.8% in 2023 (2021: 2.8%), supported by strong non-oil real GDP growth of 4.5% in 2022 and 3.3% in 2023 (2021: 3.9%). We expect the sector's credit growth to remain low at 3% in 2022 as credit demand will be constrained by higher rates and continuing corporate repayments.

The UAE banks' average Stage 3 loans ratio increased to 6.6% at end-2020 from 5.1% at end-2019 due to the impact of the global pandemic and materialisation of single-name risk. The ratio slightly increased to 7.0% at end-2021 as banks continued to downgrade some exposures impacted by the global pandemic. The loan deferral scheme was extended until end-1H22, which will continue, to some extent, to cloud transparency of asset quality reporting. 'Group 2 loans' as per CBUAE guidelines (exposures that are expected to be significantly affected by Covid-19 in the long-term) represented less than 2% of gross loans at end-2021. We expect the sector's Stage 3 loans ratio to remain broadly stable in 2022 as favourable economic conditions should support credit performance.

Capital levels have remained stable owing to modest loan growth and reasonable pre-impairment operating profitability. The sector's average CET1 ratio was 13.6% at end-2021 and is expected to remain at around this level in 2022 amid muted loan growth and stable dividend pay-outs.

Banks' funding and liquidity profiles should remain strong, supported by modest growth and solid deposit inflows. Deposit growth in 2021 was mainly driven by low-cost CASA deposits and outpaced loan growth. The average loan-to-deposit ratio declined to 89% at end-2021 from 93% at end-2020. High deposit concentration remains a key risk. However, liquidity conditions should remain strong with high oil prices supporting deposits inflows from government and GREs (around a third of domestic deposits).

Business Profile

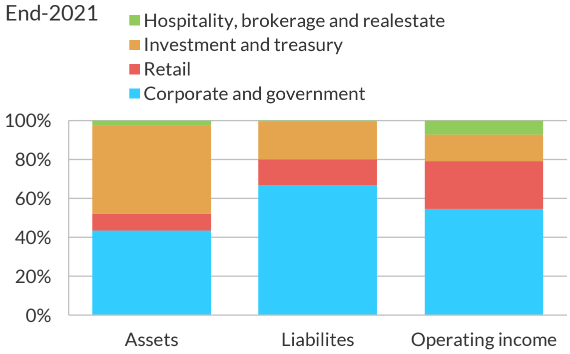
The Sharjah government's 37.6% ownership of SIB underpins strong ties with the Emirate of Sharjah. Kuwait Finance House (K.S.C.P.) (KFH; A/Stable/bb+) joined as an important investor (18.2% stake) upon the bank's conversion to Islamic status in 2002. The remaining (44.2%) is a free float. SIB became the fourth-largest Islamic bank in the UAE when Noor Bank was taken over by Dubai Islamic Bank in 1Q20.

Given SIB's state-ownership structure, related-party financing activities are significant, at 16% and 114% of total assets and total equity respectively at end-2021. Related-party transactions are structured on commercial terms and most are with the government of Sharjah and government related entities (GRE). In our view, this does not present significant risks for creditors given the credit-quality of these exposures.

SIB's business model has been stable through the various economic cycles. Its focus on corporate and government financing underpins the bank's lower-risk business model. These segments (including high-net-worth individuals) accounted for 44% and 55% of total assets and total operating income respectively, at end-2021. Retail made up 9% of total assets, with retail financings composed mainly of personal financings (60%) and mortgages (35%). SIB maintained consistent execution through the cycle, especially in maintaining healthy asset-quality metrics and strengthening reserve coverage, with a more conservative risk appetite than peers.

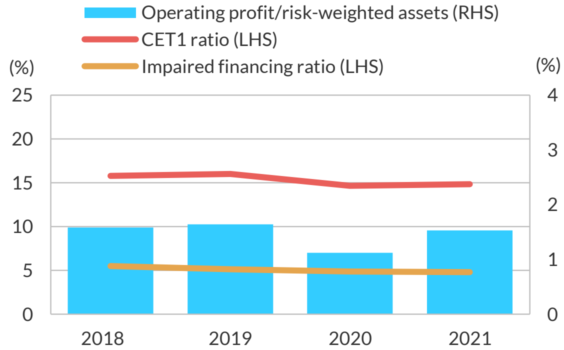
Operating Segments

End-2021



Source: Fitch Ratings, SIB

Performance Through the Cycle



Source: Fitch Ratings, SIB

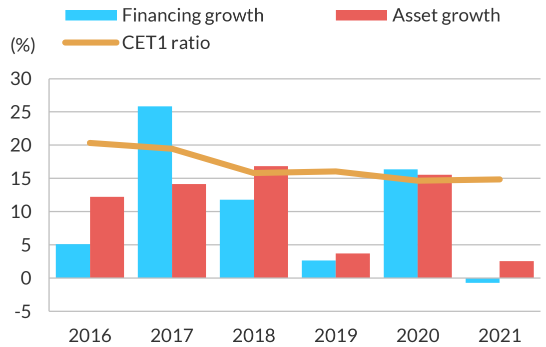
Risk Profile

Government and GREs represent a significant proportion of SIB's financing activities (35% at end-2021), which supports asset-quality metrics as none of these exposures has become impaired. The real estate and construction sectors represent 25% of gross financing, and this proportion has been rising since 2016.

Financing concentrations are a common feature of UAE banks and are hardly avoidable given the narrow nature of the domestic economy. Nevertheless, the top 20 exposures (funded and unfunded) represented a high 3.3x CET1 at end-2021, which exposes the bank to event risk.

The bank's financing growth was quite volatile through the cycles as it has been driven by the Emirate of Sharjah's financing needs. In 2021, asset growth slowed down and gross financing decreased by 0.7% after strong growth in 2020 (+16.4%), due to repayments and the bank's conservative risk appetite and cautious lending strategy. We project growth in 2022 would be higher as project financing is expected to lead growth on the back of higher government spending on existing and new projects (as oil revenues increase with the hike in oil prices).

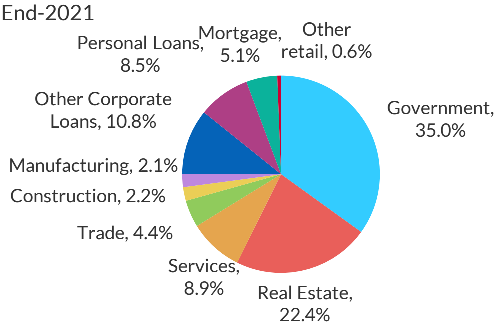
Asset Growth



Source: Fitch Ratings, SIB

Financing Split

End-2021



Source: Fitch Ratings, SIB

Financial Key Rating Drivers

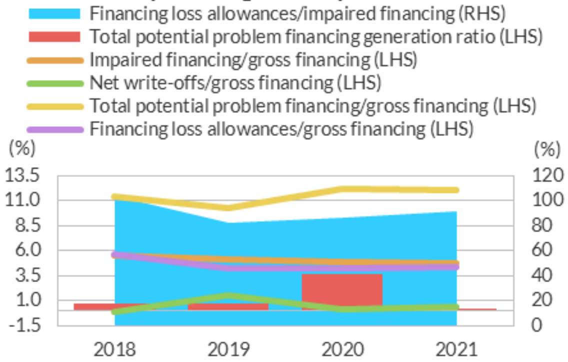
Asset Quality

SIB's Stage 3 (impaired) financing ratio of 4.8% at end-2021 (4.9% end-2020) was one of the lowest among domestic banks, supported by the bank's conservative risk appetite and high exposure to the government of Sharjah and GREs. The Stage 2 financing ratio remained stable at end-2021 at 7.3%, concentrated mainly in the real estate and construction segments (65% of total stage 2 financings). The total potential problem financing (Stages 2+3) ratio was stable at 12.1% at end-2021 (end-2020: 12.2%).

We expect the bank's Stage 3 financing ratio to decline in 2022-23 on the back of stronger financing growth and favourable economic conditions and total reserve coverage of Stage 3 financing to increase close to 100%.

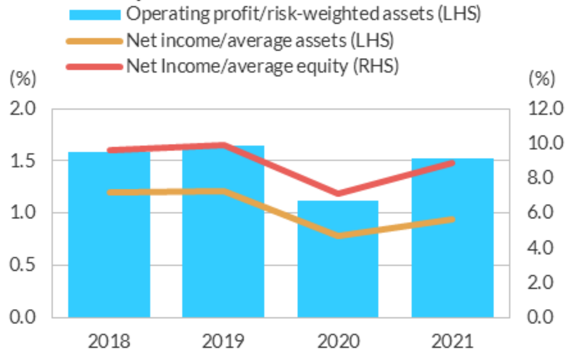
Deferred financing and other related balances due to Covid-19 measures reduced to 12% of gross financing at end-2021 (end-2020: 24%). We do not expect significant credit deterioration from these exposures given the stronger economic conditions.

Asset Quality Through the Cycle



Source: Fitch Ratings, SIB

Profitability



Source: Fitch Ratings, SIB

Earnings and Profitability

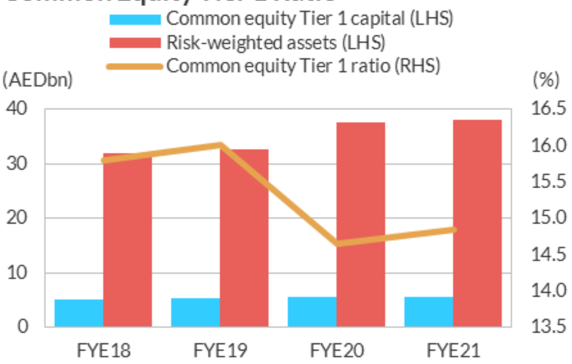
SIB's operating profit/risk-weighted assets-to-RWAs ratio recovered to 1.5% in 2021 (2020: 1.1%) The rebound in our core metric was driven by higher revenues (above pre-pandemic levels) and lower FICs than in 2020. We expect rate hikes in 2022-2023 to support the net financing margin (NFM; 2.2% in 2021) and revenue growth. We expect FICs to gradually converge towards pre-pandemic levels as asset quality improves and coverage buffers remains strong, supporting the bank's net income growth.

The bank's cost/income ratio continued its downward trend to 41.9% in 2021 from 56% in 2018 owing to lower operating expenses and good revenue generation. We expect this trend to continue in 2022-23 as higher financing growth and rates will support revenue generation.

Capital and Leverage

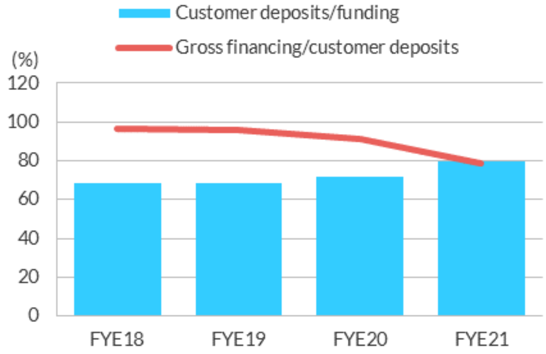
The bank's CET1 ratio of 14.9% at end-2021 (14.7% end-2020) compares well with domestic-rated peers. We expect the ratio to decline slightly in 2022 as financing growth picks up. SIB's total capital adequacy and Tier 1 capital ratios were 20.8% and 19.7%, respectively, at end-2021, against minimum regulatory requirements (excluding forbearance) of 13% and 10.5%. Both ratios were boosted in 2019 by the issuance of a USD500 million additional Tier 1 sukuk. We view the bank's core capital ratios as only adequate in light of high concentration risks.

Common Equity Tier 1 Ratio



Source: Fitch Ratings, SIB

Funding Profile



Source: Fitch Ratings, SIB

Funding and Liquidity

SIB benefits from a loyal customer deposit base from sovereign and public sector entities, mainly from Sharjah and to a lower extent Abu Dhabi and Dubai. This supports the bank's record in ensuring healthy liquidity even in times of system-wide funding stress, as in 2014-2016. However, this results in high deposit concentration with the top 20 deposits accounting for 37% of total customer deposits at end-2021. High deposit concentration also reflects a lower share of retail customer deposits (16% of the total at end-2021), which reflects SIB's modest franchise in the UAE.

The bank's gross financing-to-customer deposits ratio declined to 79% at end-2021 from 96.4% at end-2019 on the back of muted financing growth in 2021 and strong customer deposit growth of 19% on average in 2020-2021. Our assessment of the bank's funding profile takes into consideration the bank's ability to diversify its funding base and reduce asset-liability maturity mismatches by potentially tapping the capital markets under the bank's USD3 billion sukuk issuance programme.

SIB's liquidity is high and provides a solid buffer, with Fitch-calculated net liquid assets covering around 39% of total deposits in 2021, a sharp increase from 23% at end-2020, because of lower sukuk liabilities, higher bank placements and the bank not growing its financing book in 2021. SIB is a net lender in the interbank market with interbank assets/interbank liabilities at 260% at end-2021 (end-2020: 131%).

Financials

Financial Statements

		31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	Year End	Year End	Year End	Year End	Year End
	USDm	AEDm	AEDm	AEDm	AEDm
	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net financing & dividend income	298	1,094.3	973.9	897.6	865.6
Net fees and commissions	62	226.6	185.6	217.8	191.8
Other operating income	23	83.6	81.6	104.5	98.9
Total operating income	382	1,404.5	1,241.1	1,219.9	1,156.3
Operating costs	157	576.8	561.4	585.4	614.2
Pre-impairment operating profit	225	827.7	679.7	634.5	542.1
Financing & other impairment charges	67	244.5	255.9	96.8	36.8
Operating profit	159	583.2	423.8	537.7	505.3
Other non-operating items (net)	-19	-69.1	-18.0	7.8	5.1
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	140	514.1	405.8	545.5	510.4
Other comprehensive income	-14	-50.2	20.6	72.4	-48.2
Fitch comprehensive income	126	463.9	426.4	617.9	462.2
Summary Balance Sheet					
Assets					
Gross financing	8,261	30,340.2	30,556.4	26,261.3	25,580.6
- ow impaired	397	1,458.3	1,493.8	1,350.5	1,400.9
Financing loss allowances	362	1,331.2	1,287.8	1,118.4	1,456.8
Net financing	7,899	29,009.0	29,268.6	25,142.9	24,123.8
Interbank	2,984	10,959.9	7,831.8	7,948.1	7,217.2
Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	2,495	9,161.4	10,633.4	8,527.3	9,335.7
Total earning assets	13,378	49,130.3	47,733.8	41,618.3	40,676.7
Cash and due from banks	921	3,383.5	3,391.5	2,450.8	2,440.9
Other assets	665	2,443.0	2,475.5	2,321.4	1,627.9
Total assets	14,964	54,956.8	53,600.8	46,390.5	44,745.5
Liabilities					
Customer deposits	10,482	38,493.7	33,608.3	27,313.1	26,438.3
Interbank and other short-term funding	1,150	4,223.9	5,973.1	5,128.0	6,548.8
Other long-term funding	999	3,667.4	5,500.7	5,503.1	5,499.6
Trading liabilities and Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and islamic derivatives	12,630	46,385.0	45,082.1	37,944.2	38,486.7
Other liabilities	239	877.0	873.3	917.1	871.2
Preference shares and hybrid capital	500	1,836.5	1,836.5	1,836.5	n.a.
Total equity	1,595	5,858.3	5,808.9	5,692.7	5,387.6
Total liabilities and equity	14,964	54,956.8	53,600.8	46,390.5	44,745.5
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions. SIB

Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.5	1.1	1.6	1.6
Net financing income/average earning assets	2.2	2.1	2.2	2.3
Non-financing expense/gross revenue	41.9	46.2	48.6	56.0
Net Income/average equity	8.9	7.1	9.9	9.6
Asset Quality				
Impaired financing ratio	4.8	4.9	5.1	5.5
Growth in gross financing	-0.7	16.4	2.7	11.8
Financing loss allowances/impaired financing	91.3	86.2	82.8	104.0
Financing impairment charges/average gross financing	0.6	0.8	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	14.9	14.7	16.0	15.8
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	15.4	15.4	17.4	16.8
Tangible common equity/tangible assets	10.7	10.8	12.3	12.0
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired financing/common equity Tier 1	2.3	3.7	4.4	-1.1
Net impaired financing/Fitch Core Capital	2.2	3.6	4.1	-1.0
Funding & Liquidity				
Gross financing/customer deposits	78.8	90.9	96.2	96.8
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	79.8	71.6	68.7	68.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions. SIB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	**bbb+**
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Positive
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

SIB's GSR of 'bbb+' reflects potential support from the UAE authorities if required. Fitch's view of support factors in the sovereign's strong ability to support the banking system, underpinned by solid net external asset positions, still strong fiscal metrics and recurring hydrocarbon revenue. Fitch expects the propensity of the sovereign to support the banking sector to remain high given the very strong, timely and predictable record of supporting domestic banks.

SIB's GSR is two notches below the UAE Domestic Systemically Important Banks' GSR of 'a' due to SIB's lower systemic importance compared to larger peers, with less than 2% market share of UAE banking system assets.

Environmental, Social and Governance Considerations

FitchRatings **Sharjah Islamic Bank PJSC**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Sharjah Islamic Bank PJSC has 1 ESG rating driver and 5 ESG potential rating drivers

- Sharjah Islamic Bank PJSC has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Sharjah Islamic Bank PJSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Sharjah Islamic Bank PJSC has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Sharjah Islamic Bank PJSC has exposure to operational implementation of strategy but this has very low impact on the rating.
- Sharjah Islamic Bank PJSC has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Sharjah Islamic Bank PJSC has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

As an Islamic bank SIB needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and a sharia audit. This results in a Governance Structure Relevance Score of '4' for the bank (in contrast to a typical ESG relevance score of '3' for comparable conventional banks), which has a negative impact on the bank's credit profile and is relevant to the rating in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for Exposure to Social Impacts (in contrast to a typical ESG Relevance Score of '2' for comparable conventional banks), which reflects that Islamic banks have certain sharia limitations embedded in their operations and obligations, although this only has a minimal credit impact on the entities.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.