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 '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 SIB would be likely to arise at a time when the sovereign itself was experiencing some form of stress.

The Viability Rating (VR) reflects the bank's modest franchise, vulnerable asset-quality, only moderate profitability, and only adequate capital ratios in light of high financing concentrations. It also reflects sound funding and high liquidity.

Government Support Rating of 'bbb+': SIB's Government Support Rating (GSR) of 'bbb+' reflects the UAE's strong capacity to support the banking system and its long record of supporting domestic banks. However, it also factors in SIB's moderate systemic importance due to its smaller market share (around 1.6% of UAE banking system assets at end-2022).

Favourable Environment: Fitch Ratings expects operating conditions to remain solid for UAE banks in 2023. The sector's credit growth will remain modest at 4%–5% in 2023 due to weak credit demand, tighter underwriting standards and higher interest rates, but the latter may result in stronger profitability, particularly for banks with higher shares of current and savings accounts.

Modest but Growing Franchise: The VR reflects the bank's modest, but 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 in the UAE (less than 2% of total banking sector assets at end-2022) limits pricing power and competitive advantages.

High Concentration: Financing concentrations are high, albeit a common feature of UAE banks given the narrow nature of the domestic economy. The top 20 exposures (funded and unfunded) represented a high 3.2x common equity Tier 1 (CET1) capital at end-2022, which exposes the bank to event risk.

Vulnerable Asset Quality: SIB's Stage 3 (impaired) financing increased to 6% of gross financing at end-2022 (end-2021: 4.8%; end-2020: 4.9%) due to impaired exposures from high-net-worth individuals, which reflects the bank's vulnerability to event risk. Financing loss reserves coverage decreased to 79% at end-2022 (end-2021: 91.3%) and is lower than peers'.

Moderate Profitability: SIB's operating profit/risk-weighted assets (RWAs) ratio rebounded from 2020 lows to 1.7% in 2022 (2021: 1.6%; 2020: 1.2%) but remained below the 2.3% average for Fitch-rated peers. This was driven by 13% growth in operating profit, resulting from higher net financing income (+11%) and investment income (2022: AED90 million; 2021: AED38 million).

Only Adequate Core Capitalisation: SIB's CET1 ratio declined to 13.5% at end-2022 (end-2021: 14.9%) due to 6% gross financing growth and unrealised losses through other comprehensive income equivalent to 5% of CET1 capital in 2022. We view the bank's core capital ratios as only adequate in light of high concentration risks.

Sound Funding; High Liquidity: SIB is mostly deposit-funded (76% of total non-equity funding at end-2022). Deposits are concentrated but historically stable, with around 36% coming from the sovereign and government-related entities. The bank complements its funding with sukuk issuance, demonstrating sound access to capital markets. SIB maintains a good liquidity position, with a gross loans/customer deposits ratio of 81% at end-2022, and held a large stock of net liquid assets covering 30% of customer deposits at end-2022.

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 (September 2022)

Sukuk Rating Criteria (June 2022)

Related Research

Fitch Affirms Sharjah Islamic Bank's IDR at 'BBB+', Outlook Stable; Downgrades VR to 'bb' (April 2023)

Fitch EM100 Banks Tracker: End-1H22 (December 2022)

United Arab Emirates' Banks – Peer Review (December 2022)

Middle East Banks Outlook 2023 (December 2022)

United Arab Emirates (December 2022)

UAE Islamic Banks: 1H22 Results Dashboard (November 2022)

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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. It would likely stem from our view of weaker ability or propensity of the UAE government to provide support. The former would likely require 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 significantly weakening.

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 as we do not expect the bank's systemic importance to increase significantly.

An upgrade of the VR would require a lower appetite for growth, a sustained improvement in asset quality, with a Stage 3 ratio below 5%, combined with higher core capital buffers (with a CET1 ratio above 15%) considering the bank's above-average concentrations.

Other Debt and Issuer Ratings

Debt Rating Classes

SIB Sukuk Company III Limited

Rating level	Rating
Senior unsecured: long term	BBB+

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 from Last Review

VR Downgraded to 'bb'

On 4 April 2023, Fitch downgraded SIB's VR to 'bb' from 'bb+'. The downgrade reflects the deterioration in the bank's asset quality and capital ratios, especially given high sector and obligor financing concentrations, recent and expected future high financing growth, and only moderate profitability.

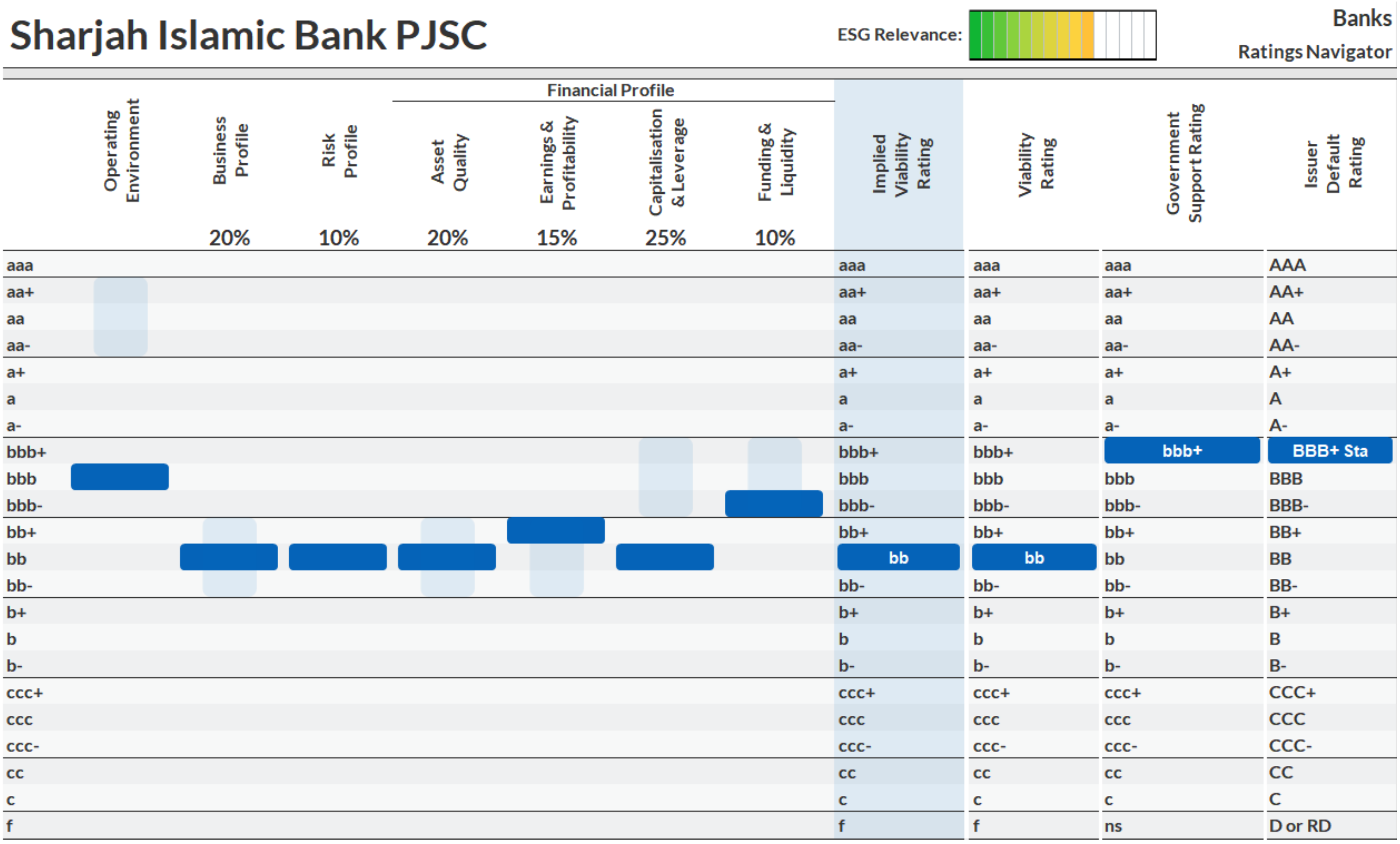
Neutral Sector 2023 Outlook

Major UAE banks reported strong profits in 2022, because business conditions improved despite geopolitical uncertainties and global recession risks. We expect real GDP growth of 2.1% in 2023, significantly down from 7.6% in 2022. The sector's credit growth will remain modest at 4%–5% in 2023 (and in line with internal capital generation) due to weak credit demand, higher interest rates and tighter underwriting standards. Asset quality metrics should remain broadly stable. The impact of rising interest rates on customer affordability should be manageable given solid operating conditions and high oil prices.

Higher Interest Rates Underpin Profitability

Fitch-rated banks' average net interest margin improved by 42bp, to 2.8%, in 2022. Impairment charges also reduced, consuming 24% of pre-impairment operating profit in 2022 (2021: 33%). As a result, the return on average equity ratio increased to 14.5% in 2022 (2021: 11.2%). We expect UAE banks' profitability metrics to continue benefitting from higher rates in 2023. Lenders with higher shares of current and savings accounts should benefit the most.

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 - Adjustments to Key Rating Drivers

The operating environment score of 'bbb' is 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' is 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

Favourable Operating Environment Conditions Support Banks

UAE banks' credit profiles are generally improving as the operating environment continues to strengthen. The general business and operating environment were supportive for the banking sector in 2022, and Fitch expects this trend will continue in 2023, underpinned by high oil prices (Fitch forecasts USD85/barrel in 2023 and USD75/barrel in 2024). Fitch forecasts a real GDP growth of 2.1% in 2023 and 2.7% in 2024. Non-oil real GDP should grow by 3.4% and 2.1% in 2023 and 2024, after an estimated growth of 6.3% in 2022.

The Purchasing Managers' Indexes (PMIs)have been expanding since 1Q21, remaining well above historical averages. Despite some reduction in PMIs since the end of 3Q22, reflecting uncertain future business conditions, we expect these to remain strong and expansionary, with high oil prices underpinning operating conditions. Global growth prospects are weaker and there are rising risks of recession in major economies, such as the US, EU, and China. These are key risks for our growth forecasts, given the UAE's strong exposure to the world economy and reliance on oil revenues.

The sector non-performing loans ratio (net of interest in suspense), as calculated by the Central Bank of the UAE (CBUAE), fell to 6.4% at end-2022 (end-2021: 7.3%), but remains higher than at end-2019 (6.0%) due to the lingering impact of the pandemic and materialisation of single-name risk. The loan-deferral scheme ended at end-1H22 and we do not expect further negative impacts given the strong operating conditions. We expect the sector's S3 loans ratio to decline in 2023 as favourable economic conditions should support credit performance, but higher rates could weaken households' and corporates' ability to service their debt, which is a key risk to credit performance.

Capital levels have remained broadly stable due to modest loan growth and reasonable internal capital generation. The sector's average CET1 ratio (as reported by the CBUAE) was 14.4% at end-2022 and is expected to remain at around this level in 2023 amid modest loan growth and stable dividend pay-outs.

Fitch expects banks' funding and liquidity profiles to remain strong, underpinned by modest lending growth and solid deposit inflows from high oil revenues. The Fitch-calculated average loans/deposits ratio declined to 82% at end-2022 (end-2021: 88%) for Fitch-rated banks. Strong liquidity conditions in the UAE are evidenced by negative EIBOR-LIBOR spreads as the supply of liquidity is boosted by higher oil prices from the government and government-related entities (GREs; 31% of domestic deposits at end-2022). High deposit concentration remains a key risk but this is mitigated by the sector's high-quality liquidity assets covering customer deposits by a strong 36% at end-2022.

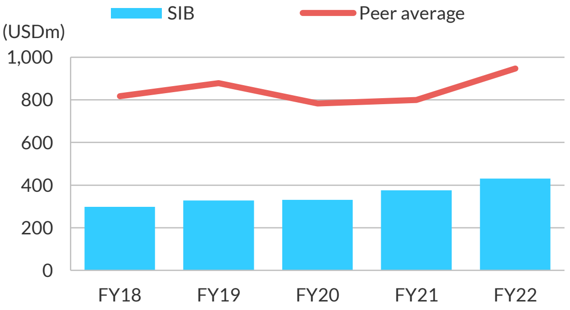
Business Profile

The Sharjah government's 37.6% ownership in 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 is the fourth-largest Islamic bank in the UAE but its small market share of 1.6% in total banking sector assets and financing limits its competitive advantage.

Given SIB's state-ownership structure, related-party financing activities are significant, at 17% and 123% of total assets and total equity, respectively, at end-2022. Related-party transactions are structured on commercial terms and most are with the government of Sharjah and commercial government-related entities (GREs). In our view, this does not present significant risks for creditors given the credit-quality of these exposures.

Financing concentrations are high and expose the bank to event risk. The corporate (including high-net-worth individuals; HNWIs) and government segments accounted for 44% and 43% of total assets and total operating income, respectively, at end-2022. Retail made up 8% of total assets (21% of operating income), with retail financings composed mainly of personal financings (61%) and mortgages (34%) at end-2022.

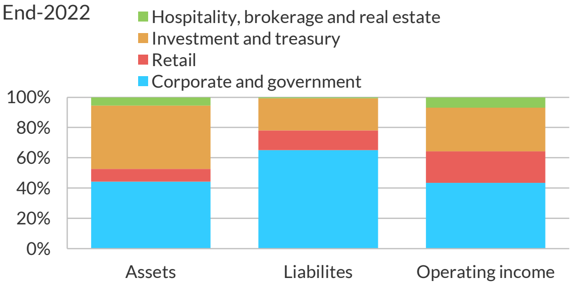
Total Operating Income



Source: Fitch Ratings, Fitch Solutions

Operating Segments

End-2022



Source: Fitch Ratings, SIB

Risk Profile

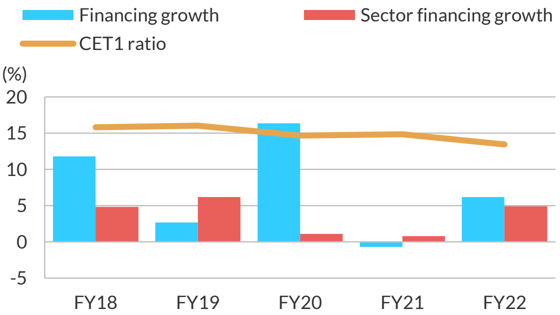
Government and GRE exposures represent a significant proportion of SIB's financing activities (36% at end-2022), which supports asset-quality metrics as none of these exposures has become impaired. The real estate and construction sectors represent 24% of gross financing and this proportion has been rising since 2016.

Financing concentrations are a common feature of UAE banks given the narrow nature of the domestic economy. Nevertheless, the largest 20 obligors (funded and unfunded grouped exposures) represented a high 3.2x CET1 capital at end-2022 (end-2021: 3.3x), which exposes the bank to event risk. Although around 60% of the top 20 are UAE government and its related entities, SIB has sizeable exposures and concentrations to HNWIs, which was the main driver behind the deterioration of its asset quality metrics in 2022.

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 2022, asset growth picked up to 8% (3% in 2021) and gross financing increased by 6.2% (after a 0.7% contraction in 2021) on the back of higher government spending on existing and new projects, benefitting from higher oil revenues. We forecast financing growth of around 8% in 2023 supported by government spending, but also private sector growth, driven by high oil prices and the stable operating environment in UAE.

SIB is also exposed to market risks and sensitive to rising rates as its securities portfolio (end-2022: 14% of total assets) comprised 42% securities classified at fair value through other comprehensive income (FVOCI) and 4% through profit & loss (P&L) at end-2022. In 2022, the bank incurred losses from its securities at FVOCI equivalent to 4% of equity due to rising rates.

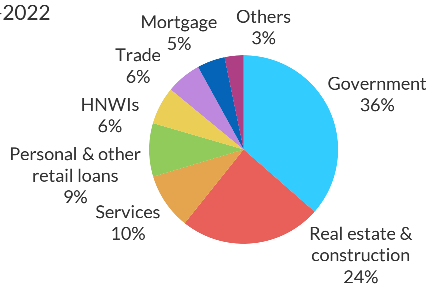
Financing Growth



Source: Fitch Ratings, SIB

Financing Book Split by Sector

End-2022



Source: Fitch Ratings, SIB

Financial Profile

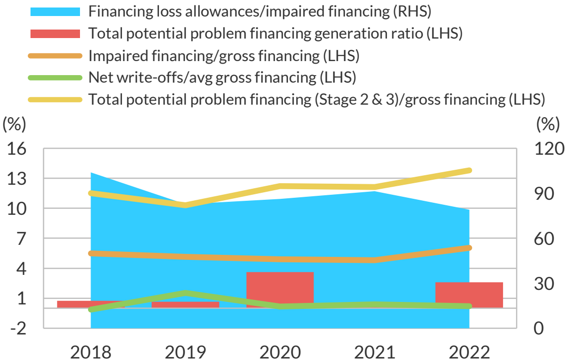
Asset Quality

SIB's Stage 3 (impaired) financing increased to 6% of gross financing at end-2022 (4.8% end-2021) due to the HNWIs segment, in which the bank has sizeable exposures. However, the impaired financing ratio remained in line with the peer weighted average of 5.8%. The Stage 2 financing ratio also increased at end-2022 to 7.8% (end-2021: 7.3%) due to the real estate and construction segments (57% of total Stage 2 financings). The total potential problem financing (Stages 2+3) ratio increased to 13.8% at end-2022 (end-2021: 12.1%) and is higher than the Fitch-rated banks' weighted average of 11% in the UAE.

Financing loss reserve coverage of Stage 3 financing declined to 79% at end-2022 (end-2021: 91%) and was below the peer average of 99%. Unreserved impaired financing/equity increased to 7% at end-2022 (end-2021: 2%).

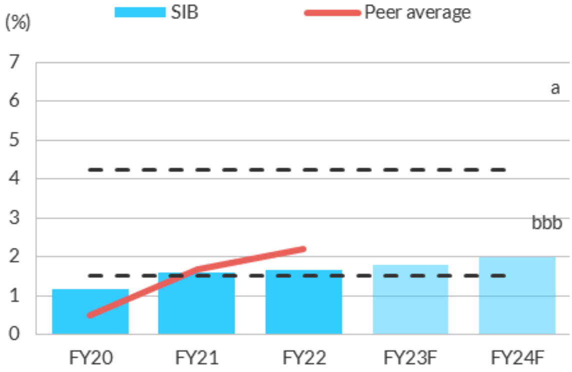
We expect the bank's Stage 3 financing ratio to decline slightly to around 5.9% by end-2023 and financing loss reserve coverage to increase on the back of some expected recoveries and settlements as well as financing growth, supported by stable economic conditions in the UAE.

Asset Quality Through the Cycle



Source: Fitch Ratings, SIB

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

SIB's operating profit/risk-weighted assets ratio increased to 1.7% in 2022 (2021: 1.6%; 2020: 1.2%) but remained lower than the Fitch rated peer average of 2.3% in 2022. The rebound in our core metric was mainly driven by an 11% increase in net financing income, which was supported by profit rate hikes and financing growth, but also partly driven by investment income, which grew by 2.4x and reached AED90 million in 2022 (AED38 million in 2021). The net financing margin increased to 2.4% in 2022 (2021: 2.2%) but was below the peer average of 2.8%.

Financing impairment charges (FICs) increased by 60% in 2022 and consumed 31% of pre-impairment operating profit (2021: 29%) to support financing loss reserve coverage after the sharp increase in Stage 3 (impaired) financing (+33%) in 2022. We expect FICs to remain high in 2023.

The bank's cost/income ratio reduced further to 39% in 2022 (2021: 41%; 2020: 46%) owing to higher revenue generation. We expect this trend to continue in 2023 as higher financing growth and rates support the revenue base.

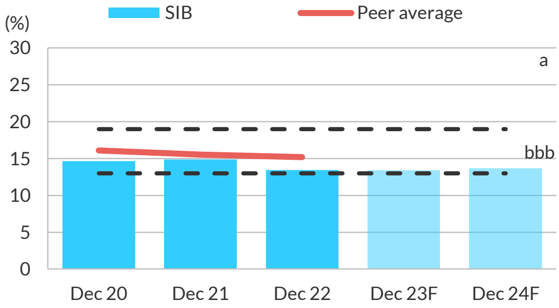
We forecast operating profit/RWAs to increase to around 1.8% in 2023, supported by higher net financing margins and net financing income due to higher profit rates and financing growth of 7%–8%, which is expected to offset higher FICs, with a stable cost-to-income ratio.

Capital and Leverage

SIB's CET1 ratio declined to 13.5% at end-2022 (end-2021: 14.9%) and was lower than the sector average ratio of 14.4%. The decline resulted from an 8% increase in RWAs due to assets and financing growth, in addition to unrealised OCI losses from its securities portfolio that resulted from rising profit rates and led to a 70bp decline in the CET1 ratio. We forecast the CET1 ratio to remain around 13.5% in 2023, supported by good internal capital generation that would offset higher RWAs from financing and assets growth. However, we view the bank's core capital ratios as only adequate in light of high concentration risks.

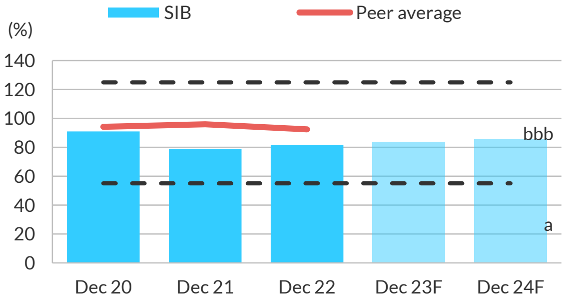
SIB's total capital adequacy and Tier 1 capital ratios have declined but remained adequate at 19.1% and 17.9%, respectively, at end-2022 (end-2021: 21% and 19.7% respectively), against minimum regulatory requirements of 13% and 10.5%. Both ratios were boosted in 2019 by the issuance of a USD500 million additional Tier 1 sukuk.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Financing/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

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-2022. High deposit concentration also reflects a lower share of retail customer deposits (17% of the total at end-2022), which reflects SIB's modest franchise in the UAE.

The bank's gross financing-to-customer deposits ratio increased to 81% at end-2022 (end-2021: 79%), but was in line with the peer weighted average; the decline was driven by 6.2% financing growth in 2022, while customer deposit growth was lower at 3%. 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. We expect the financing to customer deposits ratio to increase slightly to around 84% in 2023 due to financing growth.

SIB's liquidity is high and provides a solid buffer, with Fitch-calculated net liquid assets covering around 30% of total deposits at end-2022, down from 40% at end-2021 because of higher sukuk payables and due to banks. SIB is a net lender in the interbank market with interbank assets/interbank liabilities at 163% at end-2022 (end-2021: 259%).

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Emirates Islamic Bank PJSC (VR: bb+), The National Bank of Ras Al-Khaimah (P.S.C.) (bb), Commercial Bank of Dubai PSC (bb+).

Financials

Financial Statements

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	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	330	1,213.4	1,094.3	973.9	897.6
Net fees and commissions	61	224.2	226.6	185.6	217.8
Other operating income	47	171.5	106.5	99.6	112.1
Total operating income	**438**	**1,609.1**	**1,427.4**	**1,259.1**	**1,227.5**
Operating costs	166	610.8	576.8	561.4	585.4
Pre-impairment operating profit	**272**	**998.3**	**850.6**	**697.7**	**642.1**
Financing & other impairment charges	85	313.8	244.5	255.9	96.8
Operating profit	**186**	**684.5**	**606.1**	**441.8**	**545.3**
Other non-operating items (net)	-9	-33.6	-92.0	-36.0	0.2
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	177	650.9	514.1	405.8	545.5
Other comprehensive income	-80	-293.7	-50.2	20.6	72.4
Fitch comprehensive income	97	357.2	463.9	426.4	617.9
Summary balance sheet					
Assets					
Gross financing	8,770	32,208.9	30,340.2	30,556.4	26,261.3
- Ow impaired	529	1,944.0	1,458.3	1,493.8	1,350.5
Financing loss allowances	419	1,537.4	1,331.2	1,287.8	1,118.4
Net financing	**8,352**	**30,671.5**	**29,009.0**	**29,268.6**	**25,142.9**
Interbank	2,954	10,848.2	10,959.9	7,831.8	7,948.1
Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	3,167	11,631.1	9,161.4	10,633.4	8,527.3
Total earning assets	**14,473**	**53,150.8**	**49,130.3**	**47,733.8**	**41,618.3**
Cash and due from banks	888	3,261.4	3,383.5	3,391.5	2,450.8
Other assets	738	2,710.7	2,443.0	2,475.5	2,321.4
Total assets	**16,099**	**59,122.9**	**54,956.8**	**53,600.8**	**46,390.5**
Liabilities					
Customer deposits	10,764	39,529.2	38,493.7	33,608.3	27,313.1
Interbank and other short-term funding	1,815	6,664.4	4,223.9	5,973.1	5,128.0
Other long-term funding	999	3,669.7	3,667.4	5,500.7	5,503.1
Trading liabilities and Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and islamic derivatives	**13,577**	**49,863.3**	**46,385.0**	**45,082.1**	**37,944.2**
Other liabilities	443	1,627.2	877.0	873.3	917.1
Preference shares and hybrid capital	500	1,836.5	1,836.5	1,836.5	1,836.5
Total equity	**1,578**	**5,795.9**	**5,858.3**	**5,808.9**	**5,692.7**
Total liabilities and equity	**16,099**	**59,122.9**	**54,956.8**	**53,600.8**	**46,390.5**
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, Sharjah Islamic Bank PJSC

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (%) (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.6	1.2	1.7
Net financing income/average earning assets	2.4	2.2	2.1	2.2
Non-financing expense/gross revenue	38.6	41.1	45.5	48.3
Financing and securities impairment charges/ Pre-impairment Operating Profit	31.4	28.7	36.7	15.1
Net Income/average equity	11.3	8.9	7.1	9.9
Asset quality				
Impaired financing ratio	6.0	4.8	4.9	5.1
Growth in gross financing	6.2	-0.7	16.4	2.7
Financing loss allowances/impaired financing	79.1	91.3	86.2	82.8
Financing impairment charges/average gross financing	0.9	0.6	0.8	0.3
Capitalisation				
Common equity Tier 1 ratio	13.5	14.9	14.7	16.0
Tier 1 Capital Ratio	17.9	19.7	19.5	21.6
Total Capital Ratio	19.1	20.8	20.7	22.8
Risk Weighted Assets/ Total Assets	69.5	69.3	70.3	70.6
Tangible common equity/tangible assets	9.7	10.7	10.8	12.3
Net impaired financing/common equity Tier 1	7.4	2.3	3.7	4.4
Funding & liquidity				
Gross financing/customer deposits	81.5	78.8	90.9	96.2
Interbank Assets/ Interbank Liabilities	162.8	259.5	131.1	155.0
Customer deposits/total non-equity funding	76.5	79.8	71.6	68.7
Growth of Total Customer Deposits	2.7	14.5	23.1	3.3

Source: Fitch Ratings, Fitch Solutions, Sharjah Islamic Bank PJSC

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.

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