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, as reflected in its Government Support Rating (GSR) of 'bbb+', two notches below Fitch Ratings' 'a' GSR for UAE domestic systemically important banks (D-SIBs). SIB's GSR reflects the UAE's strong ability for, and record of, supporting the banking system. However, it also factors in SIB's limited systemic importance due to its smaller market share (about 1.6% of sector assets at end-2023).

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

Favourable Environment: Operating conditions were solid for UAE banks in 2023, and Fitch expects these to remain strong in 2024. We forecast that lending growth will slow slightly in 2024, to 5% (9M23: 6.2%), due to still-high interest rates and lower demand for credit after the post-pandemic recovery. We expect the sector's solid average financial metrics will largely be sustained in 2024.

Modest Franchise; Sharjah's Ties: The bank has a modest 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 limits pricing power and competitive advantages. Financing growth in 2023 was 7.5% (2022: 6.4%), the same as Fitch-rated peers' average growth.

High Risk Concentrations: Financing concentrations are high, although a common feature of UAE banks, given the narrow nature of the domestic economy. The top 20 funded and unfunded exposures represented a high 3.3x common equity Tier 1 (CET1) capital at end-2023, exposing the bank's asset quality to event risk.

Stable Stage 3 Ratio: At end-2023, SIB's Stage 3 (impaired) financing ratio declined to 5.5% of gross financing (end-2022: 6.0%), close to the sector average, but above its four-year low at end-2021 (4.8%) due to impaired exposures from high-net-worth individuals in 2022. Total financing loss reserves coverage increased to 85% at end-2023 (end-2022: 79%), but was lower than the Fitch-rated peer average of 96%. Fitch expects SIB's asset quality to remain stable in 2024, with a Stage 3 financing ratio of 5.0% and reserve coverage increasing to 91%.

Moderate Profitability: SIB's operating profit went up to 2.4% of risk-weighted assets (RWAs) in 2023 (2022: 1.7%), as higher profit rates (net financing margin widened 20bp in 2023 to 2.7%) and 30% lower financing and other credit impairment charges lifted operating profit growth by 56%. Nevertheless, SIB's ratio is still below the Fitch-rated peers average of 3.2%. We forecast SIB's profitability will remain moderate over the medium term, at about current levels in 2024.

Only Adequate Core Capitalisation: SIB's CET1 ratio fell to 12.9% at end-2023 (end-2022: 13.5%) due to financing growth exceeding internal capital generation. The bank's ratio is now slightly lower than the Fitch-rated banks' average of 13.8%. We view the bank's core capital ratios as only adequate in light of high concentration risks and expect the CET1 ratio to be about 13% at end-2024.

Sound Funding and Liquidity: SIB is mostly deposit-funded (78% of total non-equity funding at end-2023). These deposits are concentrated but have been historically stable, with about 36% from the sovereign and government-related entities. SIB maintains a good liquidity position, with a gross loans/customer deposits ratio of 77%, and its high-quality liquid assets covered 19% of customer deposits at end-2023.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Long-Term IDR (xgs)	BB(xgs)
Short-Term IDR (xgs)	B(xgs)
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 (March 2024)

Related Research

Fitch Affirms Sharjah Islamic Bank's IDR at 'BBB+', Outlook Stable (March 2024)

UAE Banks - Peer Review 2024 (February 2024)

UAE Banks Datawatch 3Q23 (February 2024)

EMEA Islamic Banks Outlook 2024 (December 2023)

Middle East Banks Outlook 2024 (December 2023)

Strong Operating Conditions for GCC Banks; UAE Outperforming (September 2023)

United Arab Emirates (August 2023)

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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 a weaker ability or propensity of the UAE government to provide support. The former would likely result from a downgrade of the sovereign, which is not our base case, considering the Stable Outlook on the UAE's rating.

Pressure on SIB's VR could result from a sustained increase in the Stage 3 financing ratio to above 7%, and capital buffers above regulatory 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 due to the bank's narrow franchise in the UAE.

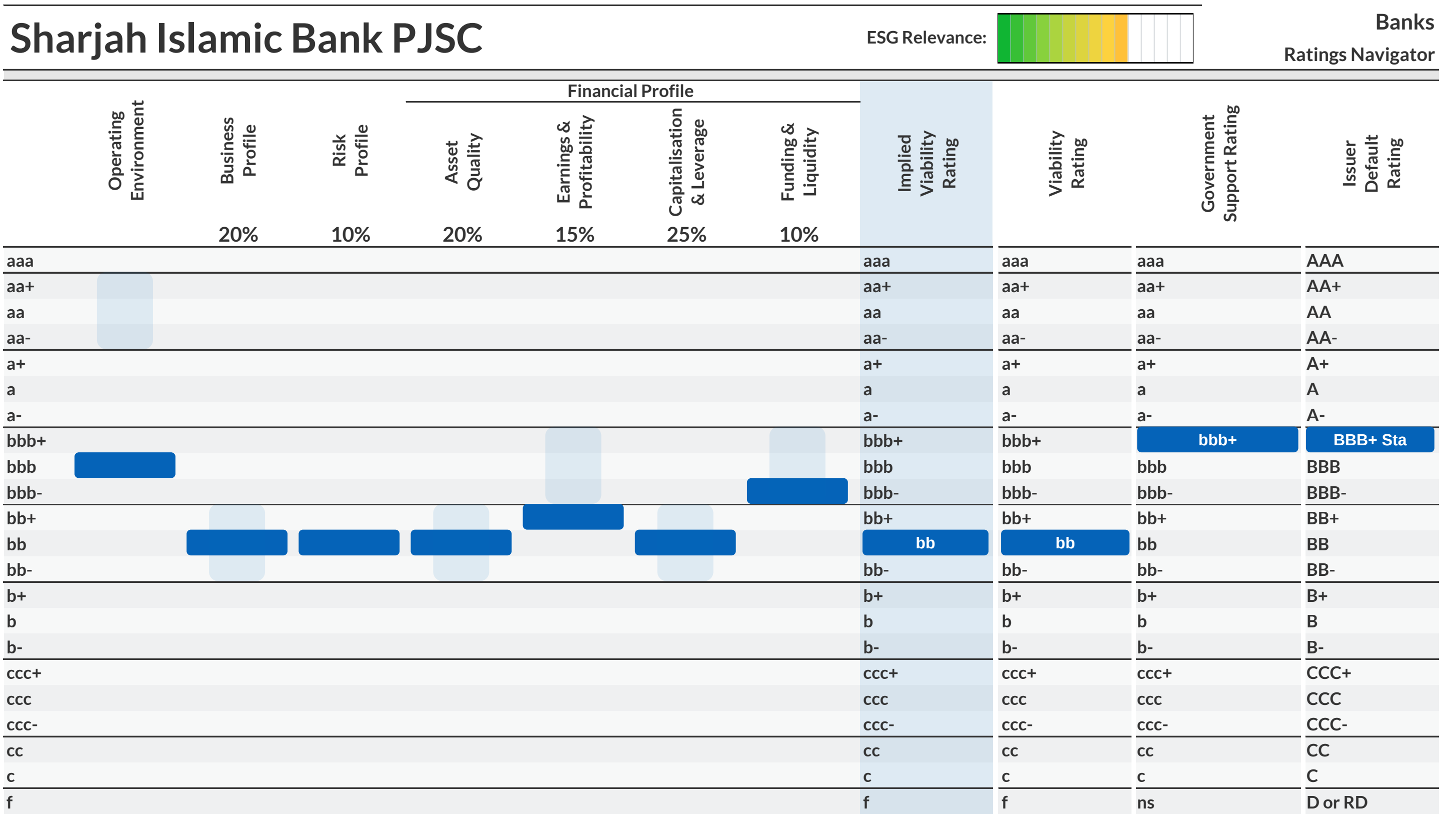
An upgrade of the VR would require a lower appetite for growth, a sustained improvement in asset quality, with a Stage 3 ratio below 5%, combined with higher core capital buffers (with a CET1 ratio above 15%), considering the bank's above-average concentrations.

Other Debt and Issuer Ratings

The bank's 'F2' Short-Term IDR is the lower of two options mapping to a 'BBB+' Long-Term IDR. This is because a large 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 was experiencing some form of stress.

SIB's Long-Term IDR (xgs) is equalised with its VR. SIB's Short-Term IDR (xgs) is mapped to its Long-Term IDR (xgs).

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 below the ‘aa’ category implied score due to the following adjustment reasons: size and structure of economy (negative), financial market development (negative), regulatory and legal framework (negative).

The earnings and profitability score of ‘bb+’ is below the ‘bbb’ category implied score due to the following adjustment reason: revenue diversification (negative).

Company Summary and Key Qualitative Factors

Strong Operating Conditions for UAE Banks

UAE banks are benefitting from strong operating conditions, supported by high oil prices, contained inflation and high interest rates. Their financial metrics were strong in 2023 and Fitch expects these to largely sustain in 2024. Banks operating conditions were supported by high oil prices (2023: USD82/barrel; 2024F: USD80/barrel) and higher interest rates. We forecast the UAE's real GDP growth will accelerate moderately, to 3.6% in 2024 (2023: 2.2%), but non-oil GDP growth will slow to a still-reasonable 3.1%, from 4.4% in 2023.

The operating environment is also supported by higher interest rates and healthy liquidity conditions due to population growth and money transfers in the UAE. Most UAE banks are well-positioned for higher interest rates and earning asset yields increased more than funding costs in 2022–2023, due to banks' high shares of cheap current and savings accounts. We expect UAE banks' financial metrics (asset quality, performance, capitalisation and profitability) to be stable in 2024.

Good liquidity and higher interest rates resulted in a notable widening of the sector average net interest margin (NIM; 3.3% in 9M23, compared to 2.8% in 2022 and 2.3% in 2021), which, in combination with lower cost of risk (70bp in 9M23, down from 90bp in 2022) due to the favourable economic environment, resulted in record-high profits for UAE banks in 2023. We expect the sector average profitability metrics to be maintained in 2024, with an average NIM above 3%.

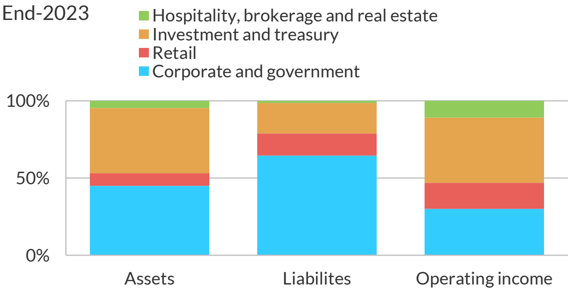
Business Profile

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) on the bank's conversion to Islamic status in 2002, with its shareholding level unchanged since then. 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 a big part of total assets (end-2023: 18%) and equity (148%). Related-party transactions are structured on commercial terms and most are with the government of Sharjah and its commercial government-related entities (GREs). We view SIB's government and GRE transactions as positive for its business model and franchise, while credit risks associated with related party financing are acceptable for SIB's 'bb' VR.

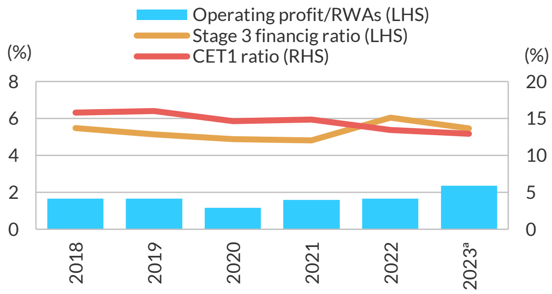
Financing concentrations are high and expose the bank to event risk. The corporate (including high-net-worth individuals) and government segments accounted for 44% and 30% of total assets and total operating income, respectively, at end-2023. Retail made up 8% of total assets (17% of operating income), with retail financings composed mainly of personal (63%) and mortgage financing (31%) at end-2023. Investment and treasury segment (including cash, interbank placements, investment securities and properties) made up around 42% of the bank's assets at end-2023 and total operating income in 2023.

Operating Segments



Source: Fitch Ratings, SIB

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, SIB

Risk Profile

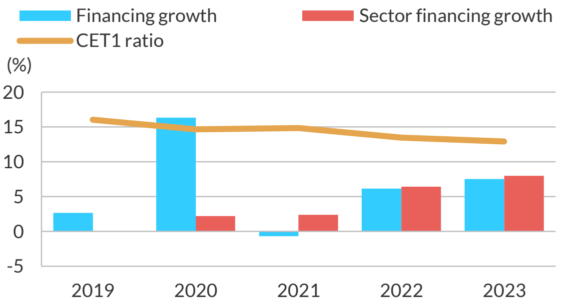
Government and GRE exposures represent a significant proportion of SIB's financing activities (end-2023: 35%), which supports asset-quality metrics as none of these exposures are reported as impaired. The real estate and construction sectors represent 31% of gross financing (compared to 16% sector average) and this proportion has been rising since 2016.

Financing concentrations are a common feature of UAE banks, given the narrow nature and concentration of the domestic economy. Nevertheless, the largest 20 obligors (funded and unfunded grouped exposures) represented a high 3.3x CET1 capital at end-2023 (end-2022: 3.2x), which exposes the bank to event risk. Although about 59% of the largest 20 exposures at end-2023 were to the government of Sharjah and its related entities, SIB has sizeable exposures and concentrations to HNWIs, which were the main driver behind the deterioration of its asset quality metrics in 2022 (when the impaired financing ratio jumped to 6% from 4.8%).

The bank's financing book has been increasing in size slightly above the sector over the past two years (2023: 7.5%; 2022: 6.4%), mainly driven by real estate financing (+31%) and construction (+81%), reflecting an uptick in demand for real estate in the UAE post pandemic. We forecast SIB's financing growth close to that for the sector in 2024 (forecasted at 5%–7% range), supported by solid real estate demand, government spending and private sector growth in the generally favourable UAE operating environment.

SIB is exposed to market risks from its securities portfolio (end-2023: 21% of total assets) comprised 71% securities classified at fair value through other comprehensive income (FVOCI) and 5% through profit and loss (P&L). However, as profit rates are viewed to be at their peak, and Fitch expects them to start declining in 2H24, we do not expect high revaluation losses on this portfolio similar to 2022 (when negative other comprehensive income consumed 45% of net income).

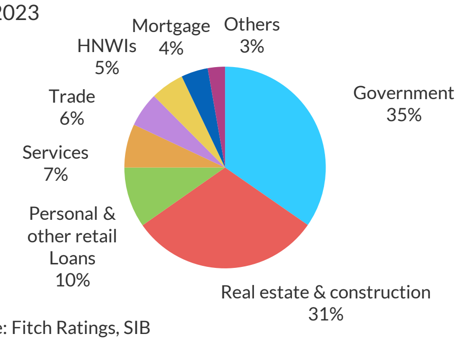
Financing Growth



Source: Fitch Ratings, Fitch Solutions, SIB

Financing Book Split by Sector

End-2023



Source: Fitch Ratings, SIB

Financial Profile

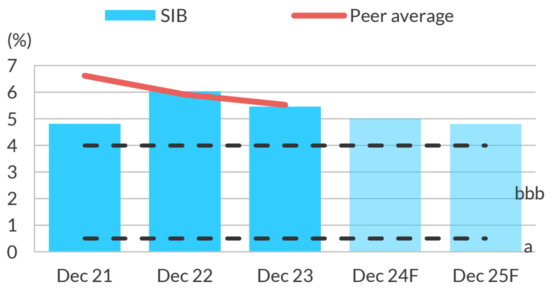
Asset Quality

SIB's Stage 3 (impaired) financing declined to 5.5% of gross customer financing at end-2023 (end-2022: 6.0%) due to 7.5% growth and low Stage 3 financing generation in 2023 (calculated as a net increase in Stage 3 exposures plus write-offs to average gross financing) at 0.2% – down from 1.7% in 2022. The Stage 3 financing ratio was close to the Fitch-rated UAE bank average of 4.9% at end-2023. The Stage 2 financing ratio also fell to 6.0% at end-2023 (end-2022: 7.8%; end-2021: 7.3%), driven by settlements and reclassifications to Stage 1. The total potential problem financing (Stages 2+3) ratio decreased to 11.5% at end-2023 (end-2022: 13.8%; end-2021: 12.1%), but was slightly above the Fitch-rated banks' average of 9.9% in the UAE.

Financing total loss reserve coverage of Stage 3 financing increased to 85% at end-2023 (end-2022: 79%; end-2021: 91%), but remained below the sector average of 96%. Unreserved impaired financing/equity declined to 4.5% at end-2023 (end-2022: 7%).

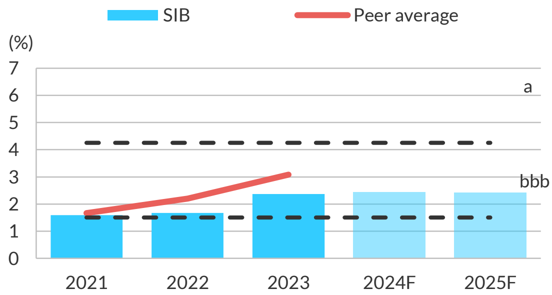
Fitch expects the bank's Stage 3 financing ratio to decline to around 5.0% by end-2024 on the back of some expected recoveries and settlements as well as financing growth, supported by stable economic conditions in the UAE. We expect reserve coverage to increase in 2024, with a similar level of financing provisioning charges as 2023 (0.6% of average gross financing).

Stage 3 Financing/Gross Financing



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

SIB's profitability was supported by higher profit margins and lower credit impairment charges in 2023. The operating profit/RWAs ratio increased to 2.4% in 2023 (2022: 1.7%; 2021: 1.6%), but remained lower than the Fitch-rated peer average of 3.2% in 2023. The improvement in our core metric was mainly driven by an 21% increase in net financing income, following profit rate hikes and financing growth leading to a higher net financing margin (2023: 2.7%; 2022: 2.5%; peer average 2023: 3.3%). Non-financing income (22% of total operating income) also contributed to higher operating profitability, with net fees and commissions up by 23% year-on-year, driven by higher business volumes. Financing and other credit impairment charges decreased by 30% in 2023 due to recoveries and less provisioning needs supported by the favourable operating environment in the UAE.

The bank's cost/income ratio reduced further to 35% in 2023 (2022: 39%) owing to higher operating income, and is close to the peer average of 30%. We expect a stable cost/income ratio in 2024 as financing growth and rates will continue supporting the revenue base.

SIB's return on average equity improved to 14% in 2023 (2022: 11%), although was still lower than the Fitch-rated bank average of 17%, SIB's net profit was undermined by revaluation losses of its investment property (AED218 million in 2023, equivalent to 20% of operating profit), which we view as of one-off nature.

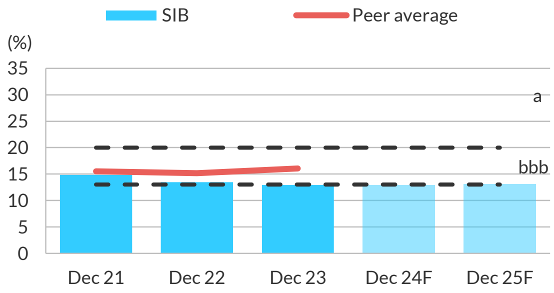
Fitch forecasts the operating profit/RWAs ratio to remain stable at around 2.4% in 2024, supported by stable net financing margins and financing growth of 7%–8%, with a stable cost/income ratio and financing impairment charges.

Capital and Leverage

SIB's CET1 ratio declined to 12.9% at end-2023 (end-2022: 13.5%; end-2021: 14.9%), and was lower than the rated peer average of 13.8%. The decline resulted from a 10% increase in RWAs due to assets and financing growth, exceeding internal capital generation from retained profit and OCI gains. We forecast the CET1 ratio to remain at about 13% at end-2024, supported by 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.

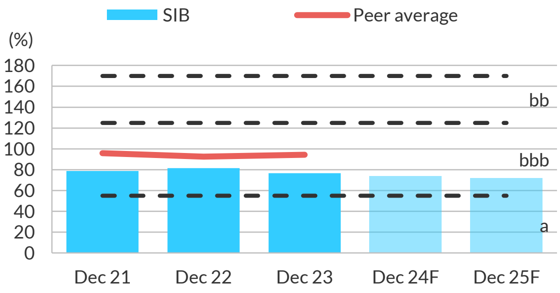
SIB's total capital adequacy and Tier 1 capital ratios have also declined to 17.0% and 18.2%, respectively, at end-2023 (end-2022: 17.9% and 19.1%, respectively), against minimum regulatory requirements of 13% and 10.5%. Both ratios are supported by a USD500 million (4.1% of RWAs at end-2023) additional Tier 1 sukuk issued in 2019.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Financing/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

SIB funding profile benefits from a stable customer deposit base from sovereign and public sector entities, mainly from Sharjah and, to a lesser 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-2023. High deposit concentration also reflects only a moderate share of retail customer deposits (21% of the total at end-2023), which reflects SIB's modest franchise in the UAE.

The bank's gross financing/customer deposits ratio decreased to 77% at end-2023 (end-2022: 81.5%) due to 14.4% growth in customer deposits, and is broadly in line with the Fitch-rated peer average. We expect the ratio to decline below 75% at end-2024 from further expected growth in customer deposits exceeding the bank's financing growth.

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 USD1.5 billion sukuk issuance programme (outstanding issuance: USD500 million). SIB also complements its funding from the interbank market (17% of total non-equity funding at end-2023), albeit the bank is a net lender in the interbank market with interbank assets/interbank liabilities at 113% at end-2023 (end-2022: 163%).

SIB's liquidity is adequate, with its Basel III high-quality liquid assets covering around 19% of total deposits at end-2023.

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 boundaries for 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+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 December 2023		31 December 2022	31 December 2021	31 December 2020
	Year end (USDm) Audited - unqualified	Year end (AEDm) Audited - unqualified	Year end (AEDm) Audited - unqualified	Year end (AEDm) Audited - unqualified	Year end (AEDm) Audited - unqualified
Summary income statement					
Net financing and dividend income	412	1,513.9	1,252.8	1,112.9	987.8
Net fees and commissions	75	275.5	224.2	226.6	185.6
Other operating income	51	185.6	132.1	87.9	85.7
Total operating income	**538**	**1,975.0**	**1,609.1**	**1,427.4**	**1,259.1**
Operating costs	186	684.8	610.8	576.8	561.4
Pre-impairment operating profit	**351**	**1,290.2**	**998.3**	**850.6**	**697.7**
Financing and other impairment charges	60	220.3	313.8	244.5	255.9
Operating profit	**291**	**1,069.9**	**684.5**	**606.1**	**441.8**
Other non-operating items (net)	-59	-218.4	-33.6	-92.0	-36.0
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	**232**	**851.5**	**650.9**	**514.1**	**405.8**
Other comprehensive income	32	118.7	-293.7	-50.2	20.6
Fitch comprehensive income	264	970.2	357.2	463.9	426.4
Summary balance sheet					
Assets					
Gross financing	9,432	34,638.7	32,208.9	30,340.2	30,556.4
- Ow impaired	515	1,891.7	1,944.0	1,458.3	1,493.8
Financing loss allowances	438	1,608.3	1,537.4	1,331.2	1,287.8
Net financing	**8,994**	**33,030.4**	**30,671.5**	**29,009.0**	**29,268.6**
Interbank	2,788	10,240.7	10,848.2	10,959.9	7,831.8
Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	4,457	16,367.1	11,631.1	9,161.4	10,633.4
Total earning assets	**16,239**	**59,638.2**	**53,150.8**	**49,130.3**	**47,733.8**
Cash and due from banks	936	3,436.6	3,261.4	3,383.5	3,391.5
Other assets	764	2,804.2	2,710.7	2,443.0	2,475.5
Total assets	**17,938**	**65,879.0**	**59,122.9**	**54,956.8**	**53,600.8**
Liabilities					
Customer deposits	12,309	45,206.6	39,529.2	38,493.7	33,608.3
Interbank and other short-term funding	2,465	9,053.9	6,664.4	4,223.9	5,973.1
Other long-term funding	500	1,834.9	3,669.7	3,667.4	5,500.7
Trading liabilities and Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and Islamic derivatives	**15,274**	**56,095.4**	**49,863.3**	**46,385.0**	**45,082.1**
Other liabilities	451	1,656.9	1,627.2	877.0	873.3
Preference shares and hybrid capital	500	1,836.5	1,836.5	1,836.5	1,836.5
Total equity	**1,713**	**6,290.2**	**5,795.9**	**5,858.3**	**5,808.9**
Total liabilities and equity	**17,938**	**65,879.0**	**59,122.9**	**54,956.8**	**53,600.8**
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, SIB

Key Ratios

	31 December 2023	31 December 2022	31 December 2021	31 December 2020
Ratios (%, annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.4	1.7	1.6	1.2
Net financing income/average earning assets	2.7	2.5	2.3	2.2
Financing and securities impairment charges/pre-impairment operating profit	17.1	31.4	28.7	36.7
Non-financing expense/gross revenue	35.5	38.6	41.1	45.5
Net income/average equity	14.3	11.3	8.9	7.1
Asset Quality				
Stage 3 financing ratio	5.5	6.0	4.8	4.9
Stage 2 financing ratio	6.0	7.8	7.3	7.3
Financing loss allowances/Stage 3 financing	85.0	79.1	91.3	86.2
Financing impairment charges/average gross financing	0.6	0.9	0.6	0.8
Net write-offs/ average gross financing	0.3	0.2	0.4	0.2
Growth in gross financing	7.5	6.2	-0.7	16.4
Growth in total assets	11.4	7.6	2.5	15.5
Capitalisation				
Common equity Tier 1 ratio	12.9	13.5	14.9	14.7
Tier 1 capital ratio	17.0	17.9	19.7	19.5
Total capital ratio	18.2	19.1	20.8	20.7
Tangible common equity/tangible assets	9.5	9.7	10.7	10.8
Basel leverage ratio	11.0	11.7	12.9	13.1
Net impaired financing/common equity Tier 1	4.9	7.4	2.3	3.7
Risk weighted assets/total assets	68.5	69.5	69.3	70.3
Funding and Liquidity				
Gross financing/customer deposits	76.6	81.5	78.8	90.9
Customer deposits/total non-equity funding	78.0	76.5	79.8	71.6
Growth of total customer deposits	14.4	2.7	14.5	23.1
High-quality liquid assets/customer deposits	18.6	23.8	26.6	24.8

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 DSIBs' GSR of 'a' due to SIB's lower systemic importance than larger peers, with less than a 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

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

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.

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 the 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 ESG Relevance Score of '4' for the bank, 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 (above sector guidance for an 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 effect 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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