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 the Government Support Rating (GSR) of 'bbb+', which is two notches below Fitch Ratings' GSR of 'a' 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 2% of sector assets at end-2024).

The Viability Rating (VR) reflects the bank's modest franchise, with Sharjah government ties, improving asset quality, good profitability, and sound funding and liquidity. It also reflects the bank's high obligor and sector concentrations, and moderate capitalisation.

Improved Operating Conditions: Operating conditions have been solid for UAE banks in recent years, and Fitch expects them to remain strong in the medium term. The operating environment is supported by high interest rates and healthy liquidity conditions due to population growth and money transfers into the UAE.

Government Ties Benefit Franchise: The bank has a modest franchise across the UAE, although SIB benefits from its close ties to the Sharjah government, which has 43.6% ownership of the bank. SIB's small market share in the UAE limits pricing power and competitive advantages. Financing growth in 2024 was 14% (2023: 7.5%), above the sector average of 11%.

High Risk Concentrations: Financing concentrations are high, although this is a common feature of UAE banks given the narrow nature of the domestic economy. The top 20 funded and unfunded exposures together represented a high 3.7x common equity Tier 1 (CET1) capital at end-2024, exposing the bank's asset quality to event risk.

Improving Asset-Quality Metrics: SIB's Stage 3 financing ratio declined to 4.8% of gross financing at end-2024 (end-2023: 5.5%) due to financing growth and low Stage 3 financing generation (also reflected by a low 60bp cost of risk in 2023–2024). Financing loss reserves coverage by total provisions increased to 90% at end-2024 (end-2023: 85%; peer average: 95%). Fitch expects SIB's asset-quality metrics to improve in 2025, but high concentrations still weigh on the assessment.

Stable Profitability: The operating profit/risk-weighted assets (RWAs) ratio remained adequate in 2024 (2.3%; 2023: 2.4%). The slight decline was due to RWA growth outpacing operating profit (+8%) on the back of a 30bp reduction in the net financing margin (2024: 2.4%), as expansion was mostly in low-risk and lower-yield assets. Fitch forecasts SIB's operating profit to remain above 2% of RWAs over 2025–2026, supported by financing and fee income growth and stable financing impairment charges.

Moderate Capitalisation: The bank's CET1 ratio fell to 11.5% at end-2024 (end-2023: 12.9%), as RWA growth outpaced internal capital generation, in addition to deduction of treasury shares (equal to 0.8% of RWAs) and annual profit paid on Tier 1 sukuk. Fitch views SIB's core capital ratios as moderate considering the high concentration risks. Fitch expects SIB's CET1 ratio to improve to above 12% by end-2025, supported by the sale of treasury shares and stable profitability.

Sound Funding and Liquidity: SIB is mostly deposit-funded, with deposits constituting 74% of total non-equity funding at end-2024. These deposits, although concentrated, have historically been stable, with about 35% sourced from the sovereign and government-related entities (GREs). The bank maintains a sound liquidity profile, with a gross financing/customer deposits ratio of 76% and high-quality liquid assets covering 20% of customer deposits at end-2024.

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

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	4

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Affirms Sharjah Islamic Bank at 'BBB+', Outlook Stable (March 2025)

Draft AAOIFI Standard 62 Has Not Affected Islamic Banks, but Uncertainties Persist (March 2025)

UAE Banks Performance Underpinned by High Interest Rates and Healthy Liquidity (February 2025)

UAE Banks – Peer Review 2025 (February 2025)

EM Banks Tracker (January 2025)

UAE Banks to Strengthen from New Credit Risk Management Standards (January 2025)

Middle East Banks Outlook 2025 (December 2024)

EMEA Islamic Banks Outlook 2025 (December 2024)

Analysts

Anton Lopatin
+971 4 424 1225
anton.lopatin@fitchratings.com

Mohamed Bassuny Hassan
+44 20 3530 1493
mohamed.bassunyhassan@fitchratings.com

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. This would likely stem from our view of a weaker ability or propensity of the UAE government to provide support. A weaker ability to support would likely result from a downgrade of the sovereign.

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 Long-Term 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.

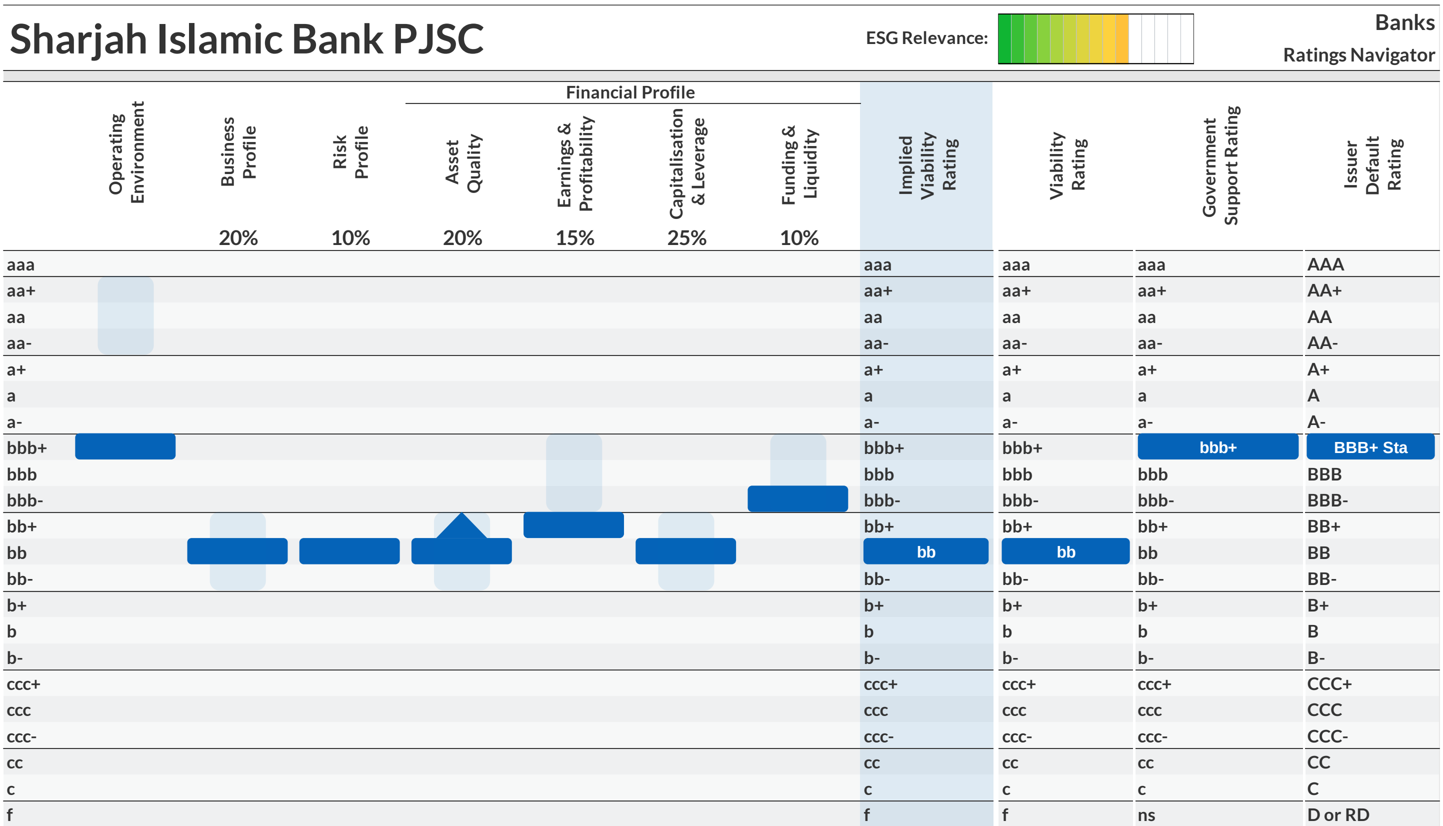
An upgrade of the VR would require a sustained improvement in asset quality, with a Stage 3 financing ratio below 5%, combined with higher core capital buffers (with a CET1 ratio around 15%), considering the bank's above-average concentrations.

Other Debt and Issuer Ratings

The bank's 'F2' Short-Term IDR is the lower of the 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 ex-government support Long-Term IDR (xgs) is equalised with its VR, while the 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 assigned below the 'aa' category implied score due to the following adjustment reason: size and structure of economy (negative), financial market development (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

Operating Environment

Strong Operating Conditions for UAE Banks

UAE banks' strong operating conditions are supported by high oil prices, contained inflation and high interest rates. We expect banks' strong performance to moderate slightly in 2025. Most UAE banks are well positioned for higher interest rates and, since 2021, their earning assets yields have risen more than their funding costs due to a still-high share of cheap current and savings accounts, and a large percentage of floating lending on their loan books.

Fitch expects the strong business and operating environment for UAE banks to remain supportive in 2025, underpinned by high oil prices (2025F: USD70/barrel). Fitch forecasts slightly higher real GDP growth of 3.9% for 2025 (2024: 3.5%). The high oil prices and recovered economic activity since 2021 have underpinned strong GRE spending and resulted in strong non-oil GDP growth, which averaged 6.2% a year over 2021–2023.

We expect non-oil growth to slow to 3.4% in 2025 (2024: 4.3%) as new resident inflows taper off, and oil prices slow. However, strong operating conditions should continue, underpinned by government spending and attractive business conditions in the UAE. In our view, visa reforms and large-scale immigration to the UAE make a new real-estate market crash less likely. A large list of planned and budgeted development and infrastructural projects should underpin banks' business growth in the next five years.

Good liquidity and higher interest rates had resulted in a notable widening of the sector average net interest margin, which improved in 2023 (3.2%; 2021: 2.3%), but reduced to 3.1% in 2024 due to interest cuts in 2H24. Nevertheless, the still-healthy net interest margin and low impairment charges (2024: 9% of pre-impairment operating profit; 2023: 15%) led to the banks' highest-ever operating profit/RWAs ratio — Fitch's core profitability metric — of 3.4% in 2024 (2023: 3.2%).

We expect lending growth to expand by about 9% in 2025 following an acceleration of growth in 2024 (around 11%; 2023: 7.7%). The average impaired loans ratio for Fitch-rated UAE banks declined to 4% at end-2024 (end-2023: 5.1%; end-2022: 6%) due to recoveries, write-offs and lending growth. The coverage of impaired loans by total provisions remained good at 102% at end-2024, but was weaker at some banks due to a reliance on collateral.

Average capital ratios declined by 30bp–50bp in 4Q24 due to dividend payments. The sector average CET1 capital (13.7%), Tier 1 (15.6%) and total capital adequacy (17.1%) ratios at end-2024 were close to end-2023 levels. We expect these to remain stable in 2025 due to growth in line with internal capital generation. Sector deposits grew by 10.5% in 2024, similarly to loan growth, due to solid liquidity conditions, and the sector average loans/deposits ratio was a healthy 79% at end-2024.

Fitch expects UAE banks' financial metrics (asset quality, performance, capitalisation and profitability) to be stable in 2025, and profitability metrics to moderate from high levels following expected interest rate cuts by the US Treasury, which will be followed by the Central Bank of the UAE.

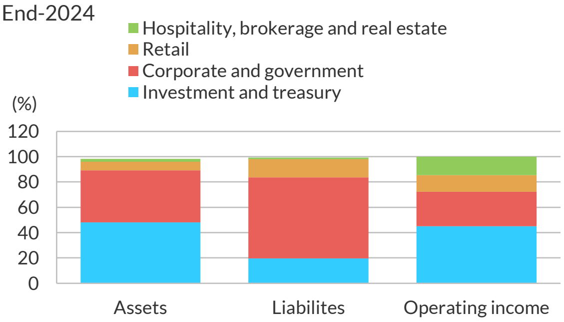
Business Profile

The Sharjah government's ownership stake in SIB underpins strong ties with the Emirate of Sharjah. The stake increased to 43.6% (from 37.6%) following the divestment of Kuwait Finance House (K.S.C.P.)'s stake in August 2024. This is in addition to a 7% stake owned by an endowment fund of the ruler of Sharjah, and 5.2% are self-owned treasury shares. The remaining shares (44.2%) are free float. SIB is the fourth-largest Islamic bank in the UAE, but its small market (around 2% of total banking sector assets) and financing shares limit its competitive advantage. However, SIB remains the largest Islamic bank in its home emirate.

SIB's state-ownership structure leads to higher related-party financing than that reported by other UAE banks, accounting for 25% of total financing (1.4x equity). Related-party transactions are structured on commercial terms, and most are with the government of Sharjah and its commercial GREs. Such transactions aid SIB's business model and franchise, while credit risks associated with related-party financing are acceptable for the bank's 'bb' VR.

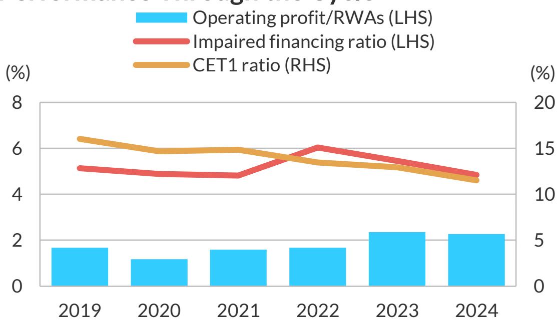
The bank's business model is corporate-oriented (50% of gross financing at end-2024; including SMEs, which represented 17% of total financing). The remainder is split across government and GREs (37%), and retail (13%). The bank's financing book is highly concentrated on real estate and construction (end-2024: 31% of gross financing). This is common for Islamic banks, but SIB's concentration is much higher than the sector average (around 15%). SIB's net financing balance typically does not exceed 50% of its total assets (end-2024: 48%), with the investment and treasury segment (including cash, interbank placements, investment securities and properties) making up most of the other half of assets and operating income (2024: 48% of total assets; 45% of total operating income). The bank also owns multiple subsidiaries in real estate and hospitality, which contributed a healthy 15% of operating income in 2024 (2% of assets).

Operating Segments
End-2024



Source: Fitch Ratings, Fitch Solutions, SIB

Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, SIB

Risk Profile

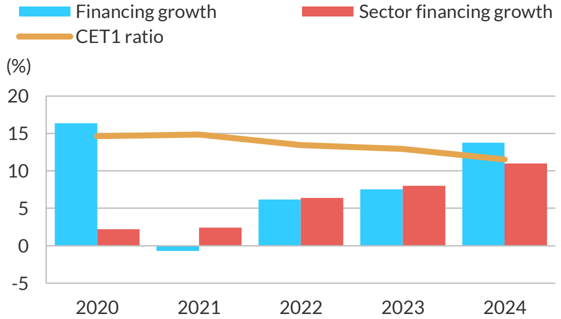
Government and GRE exposures represent a significant proportion of SIB's financing activities (end-2024: 37%), which supports asset-quality metrics. The real estate and construction sectors represent 31% of gross financing. This is common for Islamic banks as financing is mostly asset-based, and is also a feature of UAE banks given the narrow nature and concentration of the domestic economy. However, the sector average share of real estate exposure in total financing is considerably lower at 15%.

SIB's largest 20 obligors (funded and unfunded grouped exposures) represented a high 3.7x CET1 capital at end-2024 (end-2023: 3.3x), which exposes the bank to event risk. About 60% of the largest 20 exposures were to the government of Sharjah and GREs, which are viewed by Fitch as of acceptable risk given the economic environment. These exposures have never reported impaired and have a solid record of credit performance. The bank has sizeable exposures and concentrations to high-net-worth individuals (7% of gross financing), which represents, in Fitch's view, a vulnerability to key person risk. This was one of the main drivers behind previous deterioration of asset-quality metrics in 2022 (when the impaired financing ratio jumped to 6% from 4.8%).

The bank's financing book has been growing faster than the sector over the past two years (2024: 13.8%; 2023: 7.5%), mainly driven by real estate and construction (+52%), and government and GREs (+27%), reflecting the hike in demand for real estate and government projects in the UAE since 2022. We forecast SIB's financing growth to be close to the sector average in 2025 (9%–10%), supported by a still-solid pipeline of real-estate projects across the country, government spending, and private sector growth in the generally favourable UAE operating environment.

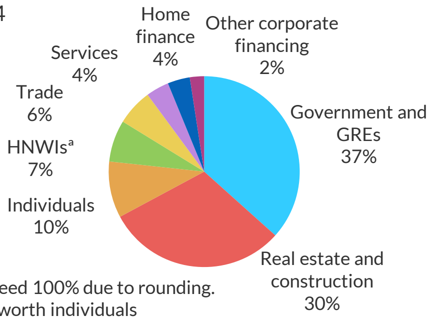
SIB's securities portfolio represented 22% of total assets at end-2024 and grew by 32% in 2024. This was driven by the bank's strategy to lock in high profit rates before an expected decline in 2025–2026, and also reflected healthy liquidity conditions in the banking sector. The portfolio is comprised mainly of sukuk held to maturity (measured at amortised cost), representing 74% of total securities at end-2024, with maturities of up to five years. This is high-quality government sukuk in the UAE, and financial institution and corporate sukuk in other Gulf Cooperation Council countries (mainly Saudi Arabia). Securities classified at fair value through other comprehensive income and through profit and loss represented a combined 26% of total securities (sukuk: 73%; equity securities: 27%).

Financing Growth



Source: Fitch Ratings, Fitch Solutions, SIB

Financing Book, by Sector
End-2024



Values exceed 100% due to rounding.
[a]High-net-worth individuals
Source: Fitch Ratings, Fitch Solutions, SIB

Financial Profile

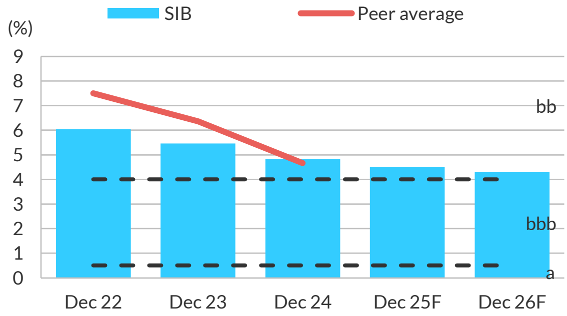
Asset Quality

SIB's Stage 3 financing declined to 4.8% of gross customer financing at end-2024 (end-2023: 5.5%; end-2022: 6.0%), due to 14% financing growth and low Stage 3 financing generation in 2024 at 0.4% of average gross financing (2023: 0.2%). The Stage 2 financing ratio fell to 5.3% (end-2023: 6%; end-2022: 7.8%), driven by stability in Stage 2 financing alongside growth in Stage 1 financing. The total potential problem financing (Stages 2 and 3) ratio decreased to 10.1% (end-2023: 11.5%; end-2022: 13.8%), though it is still above the sector average (9%).

Total loss reserve coverage of Stage 3 financing increased to 90% at end-2024 (end-2023: 85%; end-2022: 79%) as the bank increased its provisioning. Stage 3 financing net of total reserves was only 3% of equity at end-2024 (end-2022: 7%).

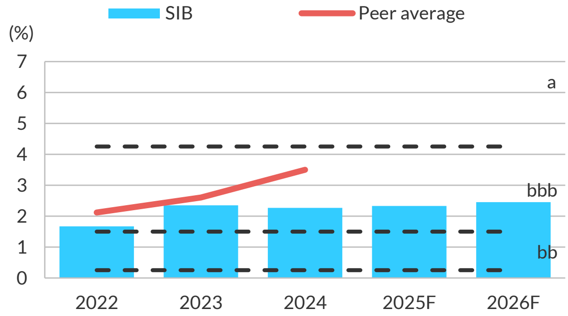
Fitch expects the bank's Stage 3 financing to decline to around 4.5% of gross customer financing by end-2025 on expected recoveries and settlements, as well as financing growth, supported by the strong economic environment in the UAE. Fitch expects reserve coverage to increase further to 95% at end-2025, with similar financing impairment charges as in 2024 (0.6% of average gross financing).

Impaired 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 operating profit/RWAs (Fitch's core profitability metric) was 2.3% in 2024 (2023: 2.4%; sector average: 3.4%) on a lower net financing margin (2024: 2.4%; 2023: 2.7%) and a small decline in net financing and other credit impairment charges that consumed 15.5% of pre-impairment profit (2023: 17.2%), above the sector average (9.8%). The bank's fee income grew by 44% in 2024, driven by trade finance business volumes (+45%), in addition to 6% higher net financing income, supported by operating income growth (+8%). Cost-to-income increased slightly but was well controlled at 37% (2023: 36%).

SIB's return on average equity improved to 16% in 2024 (2023: 14%), although was still lower than the Fitch-rated UAE bank average of 19%.

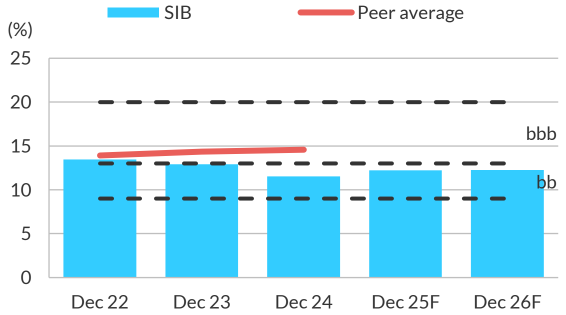
Fitch forecasts the operating profit/RWAs ratio to remain above 2% in 2025, supported by financing growth and stability in its cost/income ratio and financing impairment charges.

Capitalisation and Leverage

SIB's CET1 ratio declined to 11.5% at end-2024 (end-2023: 12.9%; end-2022: 13.5%). The decline resulted from a 12% increase in RWAs due to growth, exceeding internal capital generation, and the deduction of treasury shares and profit paid on Tier 1 sukuk. We expect SIB to sell its treasury shares at a premium in 4Q25, which is equal to 0.8% of RWAs, and forecast the CET1 ratio to increase to 12.2% by end-2025, with adequate internal capital generation and some growth moderation. However, we view the bank's core capital ratios as only adequate in light of high concentration risks.

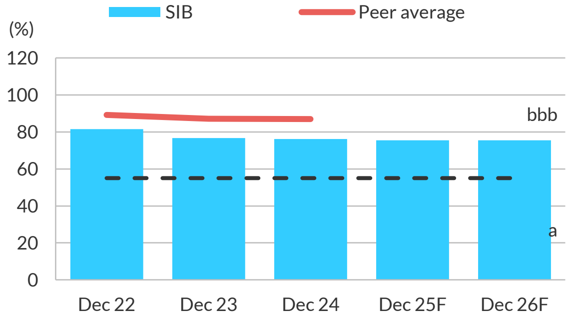
The bank's total capital adequacy (16.2%; end-2023: 18.2%) and Tier 1 capital (15.2%; end-2023: 17%) ratios declined at end-2024, but remain well above minimum regulatory requirements (13% and 10.5%, respectively). Both ratios are supported by USD500 million (3.6% of RWAs at end-2024) of additional Tier 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's 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 of 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 32% of total customer deposits at end-2024. High deposit concentration also reflects an only-moderate share of retail customer deposits (18% at end-2024) due to SIB's modest franchise in the UAE. The bank increased its low-cost current and saving accounts/total deposits to 41% at end-2024 (end-2023: 36%), which should lower its cost of funding.

The bank's gross financing/customer deposits ratio decreased to 76% at end-2024 (end-2023: 77%) due to 14.5% growth in customer deposits, exceeding financing growth. We expect the ratio to remain stable in 2025.

Our funding profile assessment considers SIB's ability to diversify its funding base and reduce asset-liability maturity mismatches by potentially tapping the capital markets under its USD3 billion sukuk issuance programme (outstanding issuance: USD1 billion). SIB complements this with funding from the interbank market (16% of total non-equity funding at end-2023), although the bank is a net lender in the interbank market, with interbank assets/interbank liabilities at 110% at end-2024 (end-2023: 113%).

SIB's liquidity is sound, with its Basel III high-quality liquid assets covering around 20% of total deposits at end-2024.

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 macroeconomic 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.

The peer average includes Abu Dhabi Islamic Bank PJSC (VR: bb+), Dubai Islamic Bank (Public Joint Stock Company) (bbb-), Emirates Islamic Bank PJSC (bbb-), Ajman Bank PJSC (b+), Commercial Bank of Dubai PSC (bb+), The National Bank of Ras Al-Khaimah (P.S.C.) (bbb-), Mashreqbank PSC (bbb), United Arab Bank P.J.S.C. (bb-). Unless otherwise stated, financial year end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 24		31 Dec 23	31 Dec 22	31 Dec 21
	12 months	12 months	12 months	12 months	12 months
	(USDm)	(AEDm)	(AEDm)	(AEDm)	(AEDm)
	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net financing and dividend income	424	1,559	1,514	1,253	1,113
Net fees and commissions	109	399	276	224	227
Other operating income	49	181	186	132	88
Total operating income	582	2,138	1,975	1,609	1,427
Operating costs	212	779	695	611	577
Pre-impairment operating profit	370	1,359	1,281	998	851
Financing and other impairment charges	57	210	221	314	245
Operating profit	313	1,148	1,060	685	606
Other non-operating items (net)	0	0	-218	-34	-92
Tax	27	101	–	–	–
Net income	285	1,048	842	651	514
Other comprehensive income	9	32	119	-294	-50
Fitch comprehensive income	294	1,080	960	357	464
Summary balance sheet					
Assets					
Gross financing	10,728	39,400	34,639	32,209	30,340
– Of which impaired	519	1,905	1,892	1,944	1,458
Financing loss allowances	466	1,713	1,608	1,537	1,331
Net financing	10,262	37,687	33,030	30,672	29,009
Interbank	3,841	14,106	10,241	10,848	10,960
Islamic derivatives	–	–	–	–	–
Other securities and earning assets	5,646	20,735	16,367	11,631	9,161
Total earning assets	19,749	72,528	59,638	53,151	49,130
Cash and due from banks	818	3,003	3,437	3,261	3,384
Other assets	1,002	3,679	2,804	2,711	2,443
Total assets	21,568	79,210	65,879	59,123	54,957
Liabilities					
Customer deposits	14,094	51,758	45,207	39,529	38,494
Interbank and other short-term funding	3,499	12,850	9,054	6,664	4,224
Other long-term funding	997	3,660	1,835	3,670	3,667
Trading liabilities and islamic derivatives	11	42	–	–	–
Total funding and islamic derivatives	18,601	68,311	56,095	49,863	46,385
Other liabilities	707	2,596	1,667	1,627	877
Preference shares and hybrid capital	500	1,837	1,837	1,837	1,837
Total equity	1,761	6,467	6,280	5,796	5,858
Total liabilities and equity	21,568	79,210	65,879	59,123	54,957
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 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.3	2.4	1.7	1.6
Net financing income/average earning assets	2.4	2.7	2.5	2.3
Non-financing expense/gross revenue	36.9	36.0	38.6	41.1
Non-financing income/gross revenue	26.2	21.6	20.8	20.8
Net income/average equity	16.2	14.1	11.3	8.9
Asset quality				
Stage 3 financing ratio	4.8	5.5	6.0	4.8
Stage 2 financing ratio	5.3	6.0	7.8	7.3
Growth in gross financing	13.8	7.5	6.2	-0.7
Growth of total assets	20.2	11.4	7.6	2.5
Financing loss allowances/stage 3 financing	89.9	85.0	79.1	91.3
Net financing write-offs/average gross financing	0.0	0.3	0.2	0.4
Financing impairment charges/average gross financing	0.6	0.6	0.9	0.6
Capitalisation				
Common equity tier 1 ratio	11.5	12.9	13.5	14.9
Tier 1 capital ratio	15.2	17.0	17.9	19.7
Total capital ratio	16.2	18.2	19.1	20.8
Tangible common equity/tangible assets	8.1	9.5	9.7	10.7
Basel leverage ratio	8.9	11.0	11.7	12.9
Net impaired financing/common equity tier 1	3.3	4.9	7.4	2.3
Risk weighted assets/total assets	63.9	68.5	69.5	69.3
Funding and liquidity				
Gross financing/customer deposits	76.1	76.6	81.5	78.8
Growth of total customer deposits	14.5	14.4	2.7	14.5
Customer deposits/total non-equity funding	73.8	78.0	76.5	79.8
Interbank assets/interbank liabilities	109.8	113.1	162.8	259.5
High-quality liquid assets/customer deposits	20.0	18.6	23.8	26.6

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.

The GSR is two notches below the GSR of 'a' for UAE D-SIBs due to SIB's lower systemic importance than larger peers, with about 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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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 the compliance of its operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and a sharia audit. This results in an ESG Relevance Score of '4' for governance structure of the bank, which has a negative impact on the bank's credit profile and is relevant to the ratings in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above our sector guidance for an ESG Relevance Score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.