S&P Global Ratings

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Sharjah Islamic Bank

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Sharjah Islamic Bank

Ratings Score Snapshot

Issuer Credit Rating
A-/Stable/A-2

SACP: bbb- → **Support: 0** → **Additional factors: 0**

Anchor	bbb-	
Business position	Moderate	-1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	+3

Issuer credit rating
A-/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Strong capitalization.	Sizable lending exposure to the real estate and construction sectors.
High systemic importance in the United Arab Emirates (UAE).	Limited geographical diversification.
Strong relationship with the government of Sharjah.	High single-name concentration.

We expect Sharjah Islamic Bank to retain strong capital levels, despite growth. We expect Sharjah Islamic Bank (SIB) to fully refinance its Tier 1 sukuk, which is callable in mid-2025, and to distribute about 40% of its profits as dividends. We do not anticipate a major increase in domestic lending activities given our modest assumptions about credit growth in the UAE. However, we expect the bank's foreign exposures to increase as it targets Saudi Arabia and other markets through its investment business.

SIB's asset quality will remain commensurate with the sector average. As of year-end 2023, Stage 3 financings accounted for 5.5% of total financings, an improvement from 2022 due to write-offs and settlements of its problem loans. However, we think that this ratio will improve to below 5% over 2024 on the back of restructurings exiting cool-off periods.

Outlook

In our view, the stable outlook reflects that the bank's creditworthiness will benefit from strong capitalization and exposure to the Sharjah government and its related entities over the next 18-24 months.

Downside scenario

We could consider a negative rating action if we observed a deterioration of asset quality or weaker-than-expected capitalization. The risk-adjusted capital (RAC) ratio dropping below 10%, which could come from faster-than-expected growth, would signal this. We could also take a negative rating action if we see a material deterioration in the creditworthiness of the Sharjah government, the bank's largest counterparty, or if we consider SIB's systemic importance to have lowered.

Upward scenario

A positive rating action is remote in the next 18-24 months, since it would require SIB to materially strengthen both its franchise and capitalization, with the RAC ratio sustainably exceeding 15%. Alternatively, it would require the UAE government's already strong creditworthiness to materially improve.

Key Metrics

Sharjah Islamic Bank--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	12.8	23.7	1.4-1.7	3.3-4.0	6.4-7.8
Growth in customer loans	6.2	7.5	6.3-7.7	6.3-7.7	6.3-7.7
Growth in total assets	7.6	11.4	7.6-9.3	7.6-9.3	5.9-7.2
Net interest income/average earning assets (NIM)	2.4	2.6	2.4-2.7	2.3-2.5	2.3-2.5
Cost-to-income ratio	38.6	34.9	35.9-37.7	37.0-38.9	37.0-38.9
Return on average common equity	11.2	14.1	12.2-13.5	11.6-12.8	11.6-12.8
Return on assets	1.1	1.4	1.1-1.3	1.0-1.2	1.0-1.2
New loan loss provisions/average customer loans	1.0	0.7	1.0-1.1	0.9-1.0	0.9-1.0
Gross nonperforming assets/customer loans	6.0	5.5	4.4-4.8	4.3-4.8	4.3-4.7
Net charge-offs/average customer loans	0.2	0.3	0.3-0.3	0.3-0.3	0.2-0.2
Risk-adjusted capital ratio	11.1	10.4	10.2-10.7	10.0-10.5	9.9-10.4

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb-' For Banks Operating Mostly In The UAE

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The bank operates mostly in the UAE, where the anchor is 'bbb-'.

The UAE has a wealthy economy with strong fiscal and external positions. We forecast credit growth in the UAE to somewhat decline in 2024-2025, largely due to corporate and government sectors, owing to the still high cost of borrowings. We expect asset quality to remain broadly stable, with only a slight increase in nonperforming loans and credit losses. It is likely that real estate markets will slowdown, however, we think that the risks from these exposures are contained for most market participants.

Nevertheless, structural weaknesses persist, including high exposure to cyclical sectors, high single-name concentration, and exposure to some struggling government-related entities (GREs).

We anticipate that higher interest rates will support banks' performances. While banks will face greater funding cost pressure, we think that higher policy rates will facilitate wider margins. We expect the cost of risk to increase only slightly, so banks' profitability will improve. In our view, UAE banks enjoy sound funding profiles, with stable deposits from the public-sector and GREs providing more than a quarter of total deposits. Banks also remain in a net external asset position, and we do not expect this to change over the next 12-24 months.

Business Position: A Midsize Financial Institution With An Entrenched Niche

SIB is a midsize institution in the UAE market with total assets of about AED 70 billion (USD 19 billion) representing about 1.6% of the market total. It ranks fourth among local Islamic banks with a share of approximately 7%-8% in the UAE Islamic market as of end-2023. The bank is the flagship financial institution in the Emirate of Sharjah. The government cumulatively owns 37.55% of the bank, with Kuwait Finance House being the second-largest shareholder with a 18.2% share, and the rest diversly held.

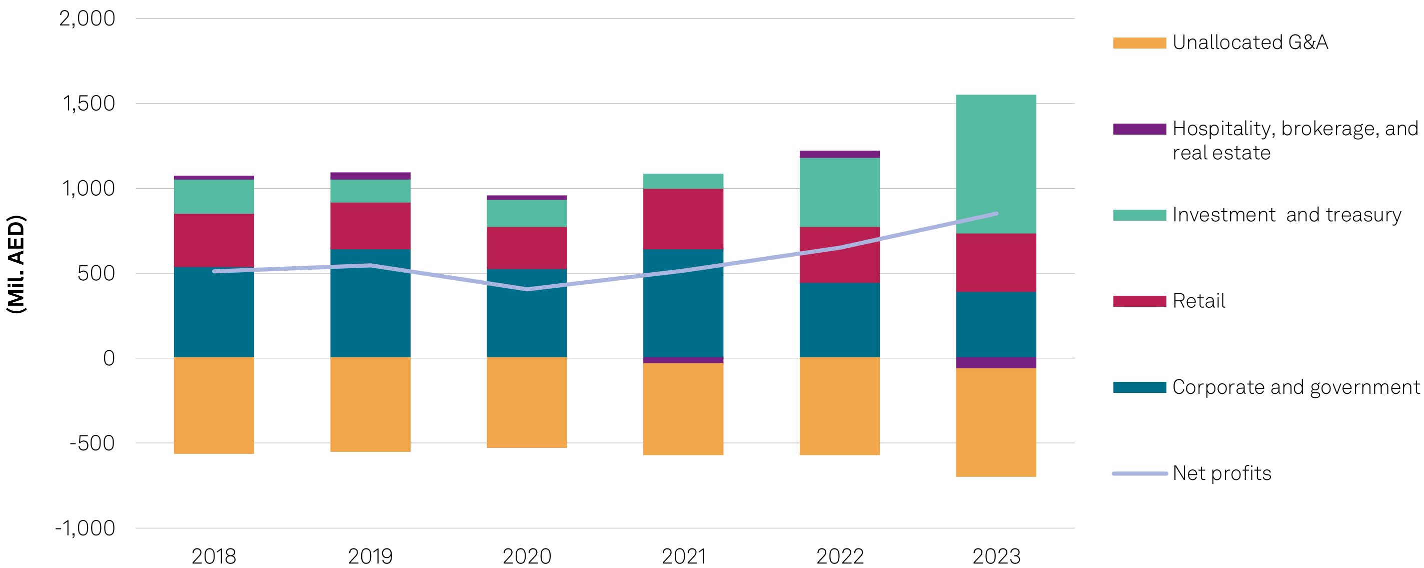
SIB lends to the government of Sharjah and GREs, which are key exposures of the bank. Exposure to the bank's major shareholders and other related parties (mostly various government vehicles) stands at about 30% of the bank's financings. We think that the bank will lend to the emirate and its GREs further linking its intrinsic credit quality with those of the Sharjah government. Additionally, it has also expanded its government portfolio to GREs in Abu Dhabi and Dubai since the COVID-19 pandemic.

SIB is expanding into retail by offering lucrative rates on longer-term deposits and cash back on credit cards. These efforts will help SIB to refinance the June 2025 bond maturity, arguably at cheaper rates. We will monitor the bank's ability to cross-sell products to this new clientele and the effect of these activities on the bank's business profile.

Its investment business is a differentiating factor. Despite the bank's smaller balance sheet compared with many of its peers, SIB is active in the sukuk capital market space. It is also building a proprietary book. It completed an inaugural Murabaha transaction with the Turkiye Wealth Fund in 2024 and has been active in picking up Saudi risk.

Chart 1

Investment and treasury became major contributors to the bank's profitin 2023
SIB segment performance



AED--United Arab Emirates Dirham. Source: S&P Global Ratings.

Capital And Earnings: Strong Although Buffers Are Eroding

We see capitalization as a positive rating factor for SIB, although the margin over the criteria threshold has been eroding. We forecast that the bank's projected RAC ratio (before concentration adjustments) will remain at 10.0%-10.5% over the next 12-24 months. We specifically expect that:

- SIB will expand its financing portfolio by 7% per year over 2024-2026, broadly in line with the market average. Assets will however grow faster as the bank builds exposure to Saudi Arabia.
- The intermediation margins will stay broadly flat or slightly decrease as repricing of the Murabaha portion of the financing portfolio is offset by the expected decline in the central bank's rates.
- We expect SIB to refinance the SIB Tier 1 Sukuk, callable in mid-2025. At this stage we do not factor any upsize or additional new capital.
- Cost of risk will likely stay at about 100 basis points (bps), in line with historical levels.

Based on our calculations, SIB's three-year average earnings buffer is about 70 bps, which indicates reasonable capacity for earnings to cover expected losses over a complete economic cycle. We consider the bank's quality of capital to be satisfactory--hybrids account for about a quarter of total adjusted capital as of end-2023. Our forecasts exclude any materialization of concentration risk or any escalation in geopolitical risk in the region, which could lead to higher pressure on the UAE economy.

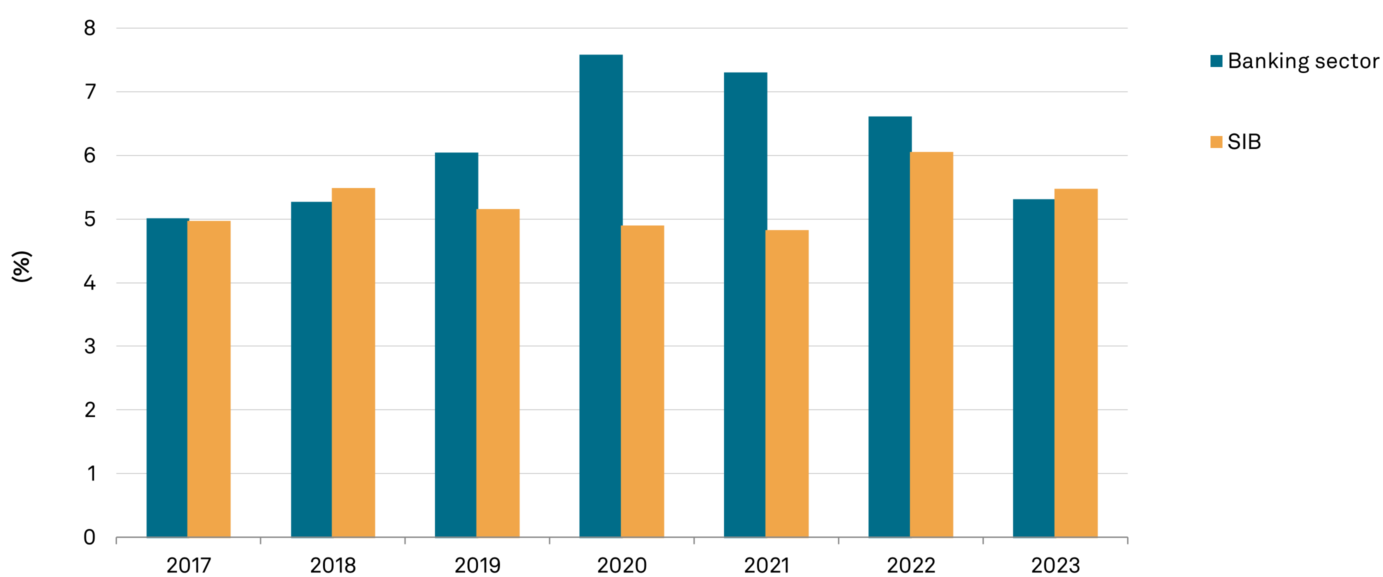
Risk Position: Asset Quality Commensurate With The Sector Average

Like other Gulf Cooperation Council (GCC) banks, a key source of risk for SIB lies in high single-party concentration. The 20 largest funded and unfunded corporate gross credit exposures represented 23.0% of the bank's loan book as of end-2023 (excluding those to the government of Sharjah and its arms). Like its peers, SIB exhibits high real estate and construction exposures. As of end-2023, financings to these sectors comprised about 30% of the financings book, similar to UAE banking industry average. This number is further inflated by the bank's exposure to high-net-worth individuals, which is frequently linked to underlying income generating real estate risks.

SIB's stock of problematic financings (Stage 2 and Stage 3, as per International Financial Reporting Standards 9) as a share of total financings has historically been commensurate with the systemwide average. As of year-end 2023, Stage 3 financings accounted for 5.5% of total financings, an improvement from 2022 due to write-offs and settlements of its problem loans. However, we think that this ratio will improve to below 5% over 2024 on the back of restructurings exiting cool-off periods resulting in improving coverage ratios.

Chart 2

SIB's nonperforming loans have been commensurate with sector average
Share of nonperforming loans as % of gross financings



Source: S&P Global Ratings.

SIB's stand-alone credit quality remains closely linked to that of the government of Sharjah. With about 36% of the financing book relating to government departments and authorities (mostly the government of Sharjah), SIB's credit quality is tightly linked to that of the government of Sharjah. Any deterioration in the government financial profile will likely put pressure on the bank's stand-alone credit profile.

Funding And Liquidity: Liquid Balance Sheet With Sizable Deposit Funding

SIB's funding profile is in line with its domestic peers. The bank funds itself predominantly from domestic customer deposits. As of Dec. 31, 2023, SIB's loan-to-deposit ratio stood at 73% and the ratio of stable funding resources to funding needs was healthy at almost 125%, according to our calculations. SIB enjoys steady access to deposits from the government entities and various pension funds.

Like most banks in the GCC, SIB exhibits funding concentrations. Its ratio of top 20 depositors to total deposits remained high at 36% as of year-end 2023, and mainly comprised deposits from government and public-sector entities. More recently however, the bank has started attracting retail deposits, capping the maximum amount under new offering at UAE dirham 100 million per person, refinancing its 2023 sukuk and adding to the diversification of its funding base, and supporting growth in core customer deposits.

The bank has a liquid balance sheet owing to a sizable sukuk portfolio. Broad liquid assets covered short-term wholesale funding needs by 2.35x, and net broad liquid assets covered 27.5% of short-term customer deposits as of December 2023.

Support: 3 Notches Of Uplift For Government Support

The issuer credit rating ('A-') on SIB is three notches higher than its stand-alone credit profile ('bbb-'), reflecting our view of a high likelihood of extraordinary government support for SIB if needed. This is in line with the bank's high systemic importance in the UAE. SIB is the fourth-largest Islamic bank in the UAE, with a market share of 7%-8% in terms of Islamic loans and deposits. The assessment also reflects the bank's strong relationship with the government of Sharjah, which owns 37.55% of SIB. We also consider the UAE authorities as highly supportive of the banking system, with a strong track record of support.

Additional Rating Factors

No additional factors affect the ratings on SIB.

Environmental, Social, And Governance

We think that environmental, social, and governance credit factors influence SIB's credit quality to a similar extent compared with industry and country peers. Although we estimate that the bank has relatively limited direct lending to sectors exposed to energy transition risk, the indirect exposure (via the overall dependence of the UAE economy on hydrocarbons) is higher. Social risks are not significantly different from those of its industry peers. Sharjah's government directly and indirectly owns 37.55% of the bank, which helps SIB maintain key relationships with the Sharjah government and GREs. That said, we think that the ownership structure has not resulted in any governance weakness. In the past few years, SIB has not been involved in any material reputational controversies, has not experienced any incidents related to noncompliance with laws and regulations, and has not been subject to any significant legal or regulatory fines or settlements. Finally, we think that the banking regulations in the UAE is less focused on consumer protection compared with more developed economies, meaning SIB's exposure to misselling penalties or other retail conduct risks is rather limited.

Key Statistics

Table 1

Sharjah Islamic Bank--Key figures

		--Year-ended Dec. 31--			
(Mil. AED)	**2024***	**2023**	**2022**	**2021**	**2020**
Adjusted assets	70,055.6	65,817.3	59,060.9	54,956.8	53,600.8
Customer loans (gross)	34,977.8	34,638.8	32,208.9	30,340.3	30,556.4
Adjusted common equity	6,086.8	5,924.7	5,689.7	5,559.2	5,405.6
Operating revenues	504.7	1,959.4	1,584.2	1,404.5	1,247.4
Noninterest expenses	174.3	684.5	610.8	576.8	561.5
Core earnings	259.7	1,054.3	659.7	583.2	430.1

*Data as of March 31. AED--UAE dirham.

Table 2

Sharjah Islamic Bank--Business position

		--Year-ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Total revenues from business line (AED mil.)	504.7	1,975.0	1,609.1	1,427.5	1,259.2
Commercial banking/total revenues from business line	28.5	30.0	43.5	54.6	52.9
Retail banking/total revenues from business line	14.7	17.0	20.7	24.6	28.2
Commercial and retail banking/total revenues from business line	43.2	47.0	64.2	79.2	81.1
Other revenues/total revenues from business line	56.8	53.0	35.8	20.8	18.9
Return on average common equity	16.6	14.1	11.2	8.8	7.1

*Data as of March 31.

Table 3

Sharjah Islamic Bank--Capital and earnings

		--Year-ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	16.5	17.7	17.9	19.7	19.5
S&P Global Ratings' RAC ratio before diversification	N/A	10.4	11.1	13.1	13.8
S&P Global Ratings' RAC ratio after diversification	N/A	8.2	8.5	10.2	7.9
Adjusted common equity/total adjusted capital	76.8	76.3	75.6	75.2	75.2

Table 3

Sharjah Islamic Bank--Capital and earnings (cont.)

		--Year-ended Dec. 31--			
(%)	**2024***	**2023**	**2022**	**2021**	**2020**
Net interest income/operating revenues	72.9	74.2	76.6	77.9	78.1
Fee income/operating revenues	15.4	14.1	14.2	16.1	14.9
Market-sensitive income/operating revenues	5.0	7.1	5.7	2.7	3.6
Cost-to-income ratio	34.5	34.9	38.6	41.1	45.0
Preprovision operating income/average assets	1.9	2.0	1.7	1.5	1.4
Core earnings/average managed assets	1.5	1.7	1.2	1.1	0.9

*Data as of March 31. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Sharjah Islamic Bank--Risk-adjusted capital framework data

(Mil. AED)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	21,594.1	3,607.8	16.7	5,977.2	27.7
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	9,306.9	2,804.6	30.1	5,463.3	58.7
Corporate	26,967.0	24,226.2	89.8	35,771.7	132.6
Retail	4,972.8	3,547.7	71.3	5,280.5	106.2
Of which mortgage	1,224.1	1,095.6	89.5	729.9	59.6
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	6,179.3	7,539.5	122.0	11,188.9	181.1
Total credit risk	69,020.2	41,725.7	60.5	63,681.4	92.3
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	718.5	9.5	1.3	7,043.2	980.3
Trading book market risk	--	166.1	--	404.9	--
Total market risk	--	175.6	--	7,448.1	--
Operational risk					
Total operational risk	--	3,132.2	--	3,673.8	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	45,033.6	--	74,803.3	100.0
Total Diversification/ Concentration Adjustments	--	--	--	19,449.8	26.0
RWA after diversification	--	45,033.6	--	94,253.1	126.0

Table 4

Sharjah Islamic Bank--Risk-adjusted capital framework data (cont.)

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments	7,669.2	17.0	7,761.2	10.4
Capital ratio after adjustments‡	7,669.2	17.0	7,761.2	8.2

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.AED -- United Arab Emirates Dirham. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Table 5

Sharjah Islamic Bank--Risk position

	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Growth in customer loans	3.9	7.5	6.2	(0.7)	16.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	26.0	29.4	29.1	75.0
Total managed assets/adjusted common equity (x)	11.5	11.1	10.4	9.9	9.9
New loan loss provisions/average customer loans	0.5	0.7	1.0	0.8	0.9
Net charge-offs/average customer loans	0.4	0.3	0.2	0.4	0.2
Gross nonperforming assets/customer loans + other real estate owned	5.4	5.5	6.0	4.8	4.9
Loan loss reserves/gross nonperforming assets	84.6	85.0	79.1	91.3	86.2

*Data as of March 31. RWA--Risk-weighted assets. N/A--Not applicable.

Table 6

Sharjah Islamic Bank--Funding and liquidity

	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Core deposits/funding base	74.6	80.3	79.3	83.0	74.5
Customer loans (net)/customer deposits	74.0	73.1	77.6	75.4	87.1
Long-term funding ratio	81.1	86.2	87.3	93.1	87.5
Stable funding ratio	120.4	123.3	123.0	133.6	104.2
Short-term wholesale funding/funding base	21.4	15.8	14.6	8.1	14.6
Broad liquid assets/short-term wholesale funding (x)	1.9	2.4	2.5	4.7	1.4
Broad liquid assets/total assets	34.6	31.8	31.1	31.6	17.6
Broad liquid assets/customer deposits	53.8	46.4	46.6	45.1	28.0
Net broad liquid assets/short-term customer deposits	25.9	27.5	28.1	35.6	8.4
Short-term wholesale funding/total wholesale funding	75.5	68.8	59.8	38.4	49.5

*Data as of March 31.

Sharjah Islamic Bank--Rating component scores

Issuer Credit Rating	A-/Stable/A-2
SACP	bbb-
Anchor	bbb-
Economic risk	6

Sharjah Islamic Bank--Rating component scores (cont.)	
Issuer Credit Rating	**A-/Stable/A-2**
Industry risk	5
Business position	Moderate
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	+3
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of May 10, 2024)*	
Sharjah Islamic Bank	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
25-Mar-2021	A-/Stable/A-2
26-Mar-2020	A-/Negative/A-2
27-May-2019	A-/Stable/A-2

Ratings Detail (As Of May 10, 2024)*(cont.)	
Sovereign Rating	
Sharjah (Emirate of)	BBB-/Stable/A-3
Related Entities	
SIB Sukuk Co. III Ltd.	
Senior Unsecured	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.