FitchRatings

**Banks**
Islamic Banks
United Arab Emirates

# Emirates Islamic Bank PJSC

## Key Rating Drivers

Emirates Islamic Bank PJSC's (EI) Issuer Default Ratings (IDRs) are driven by potential support from its 99.9% shareholder, Emirates NBD Bank PJSC (ENBD; A+/Stable/F1). EI's Viability Rating (VR) factors in the bank's improved but moderate franchise, adequate asset quality that is now in line with peers', adequate capital and strong profitability, as well as a stable retail funding profile underpinned by healthy liquidity. The VR also considers high concentration risk.

**Shareholder Support Rating of 'a+':** EI's IDRs are in line with ENBD's. ENBD's IDRs are based on potential support from the UAE authorities, which we believe would flow through to EI. Fitch Ratings believes support would be forthcoming because of EI's role and record in the group, the very high reputational risk to ENBD of an EI default, and the Central Bank of the UAE's (CBUAE) propensity to support as EI and ENBD operate in the same market.

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

**Group Benefits for Business Profile:** Our assessment of EI's business profile reflects the benefits of being a retail-oriented bank and the third-largest Islamic bank in the country, as well as those stemming from being part of the ENBD group. However, the bank still has a niche franchise in the UAE, with about 2% of system assets and deposits.

**Moderate Risk Profile:** UAE nationals account for more than 75% of the retail portfolio and the rest are mostly affluent expatriates with salary assignment. Exposure to SMEs is below 5% of total financing and has been on a rundown basis. EI's financing book is less concentrated than local and regional peers' given the bank's retail focus.

**Adequate Asset Quality:** EI's asset quality has recovered from the pandemic. The Stage 3 (S3) financing ratio reduced to 7% at end-2022 from 8.2% at end-2021 mainly due to high financing growth and a decline in net S3 financing. Stage 2 (S2) financing was only 2.4% of total financing at end-2022 and we do not expect high migration to S3. Reserve coverage of S3 loans strengthened to 128% at end-2022 from 115% at end-2021.

**Strong Profitability; Above Peers:** EI's profitability has recovered strongly from the pandemic low, with return on average equity of 14% in 2022 comparing well with medium-sized peers. The net financing margin increased by 70bp to a strong 4.1% due to the book repricing and a high proportion of zero-cost funding. Operating return on risk-weighted assets (RWAs) improved to 2.35% in 2022 (2021: 1.80%). We expect profitability to improve in 2023 from continued high financing growth and low financing impairment charges (FICs) given already high provisioning.

**Adequate Core Capital:** EI has strong capital buffers and its capital ratios compare well with the peer average, but we view them as only adequate in light of the bank's risk profile. The common equity Tier 1 (CET1) ratio was 17.9% at end-2022, down from 18.6% at end-2021 due to strong financing growth, but still comfortably above the minimum regulatory requirement of 9.5% and the peer average of 13.5% at end-2022. We do not expect significant pressure on capitalisation given the bank's adequate reserve coverage.

**Stable Funding; Healthy Liquidity:** EI's funding is well-managed and underpinned by its Islamic franchise. Strong deposit collection in retail (77% of total deposits) led to a decrease in the financing-to-deposits ratio to 94% at end-2022 from 100% at end-2021. Low-cost CASA were 73% of deposits at end-2022 and have proven sticky. EI's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are comfortably above the minimum regulatory requirements.

## Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | A+ |
| Short-Term IDR | F1 |
| Viability Rating | bb+ |
| Shareholder Support Rating | a+ |

**Sovereign Risk (United Arab Emirates)**

| | |
|---|---|
| Long-Term Foreign-Currency IDR | AA- |
| Long-Term Local-Currency IDR | AA- |
| Country Ceiling | AA+ |

**Outlooks**

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

## Applicable Criteria

Bank Rating Criteria (September 2022)
Sukuk Rating Criteria (June 2022)

## Related Research

Fitch Affirms Emirates Islamic Bank at 'A+'/Stable; Upgrades VR to 'bb+' (April 2023)
Fitch EM100 Banks Tracker: End-1H22 (December 2022)
United Arab Emirates' Banks – Peer Review (December 2022)
Middle East Banks Outlook 2023 (December 2022)
United Arab Emirates (December 2022)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

EI's IDRs are equalised with ENBD's. Accordingly, EI's IDRs would be downgraded if ENBD's IDRs are downgraded. ENBD's IDRs could be downgraded on an adverse change to the UAE authorities' ability or propensity to provide support. EI's IDRs could also be downgraded and be below ENBD's if EI becomes less core to the group and if Fitch believes ENBD's propensity to provide support has weakened, although this is unlikely.

Asset-quality deterioration leading to materially weaker capitalisation and loss-absorption capacity or an increase in the bank's risk appetite with high growth in riskier segments would lead to a downgrade of the VR.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of EI's IDRs would require an upgrade of ENBD's IDRs, which is unlikely as ENBD's support-driven Long-Term IDR of 'A+' is already one notch above the UAE domestic systemically important banks' Government Support Rating, reflecting the bank's flagship status in the UAE, and Dubai in particular.

An upgrade to the VR is unlikely unless the bank sees significant expansion in its domestic franchise and improvement in its risk profile and asset quality, while maintaining other financial metrics at their current levels.

## Other Debt and Issuer Ratings

### Debt Rating Classes

**EI Sukuk Company Limited**

| Rating level | Rating | Watch |
|---|---|---|
| Senior unsecured: long term | A+ | n.a. |

Source: Fitch Ratings

The rating of senior unsecured debt (sukuk) issued by EI's special purpose vehicle (SPV), EI Sukuk Company Limited, is in line with the bank's Long-Term IDR because Fitch views the likelihood of default on senior unsecured obligations issued by the SPV the same as that of the bank.

## Significant Changes from Last Review

### VR Upgraded to 'bb+'

On 3 April 2023, Fitch upgraded EI's VR to 'bb+' from 'bb'. The upgrade reflects a stronger business profile, improved asset quality over the past two years and a profitability recovery to sound levels, while capital buffers have remained solid.

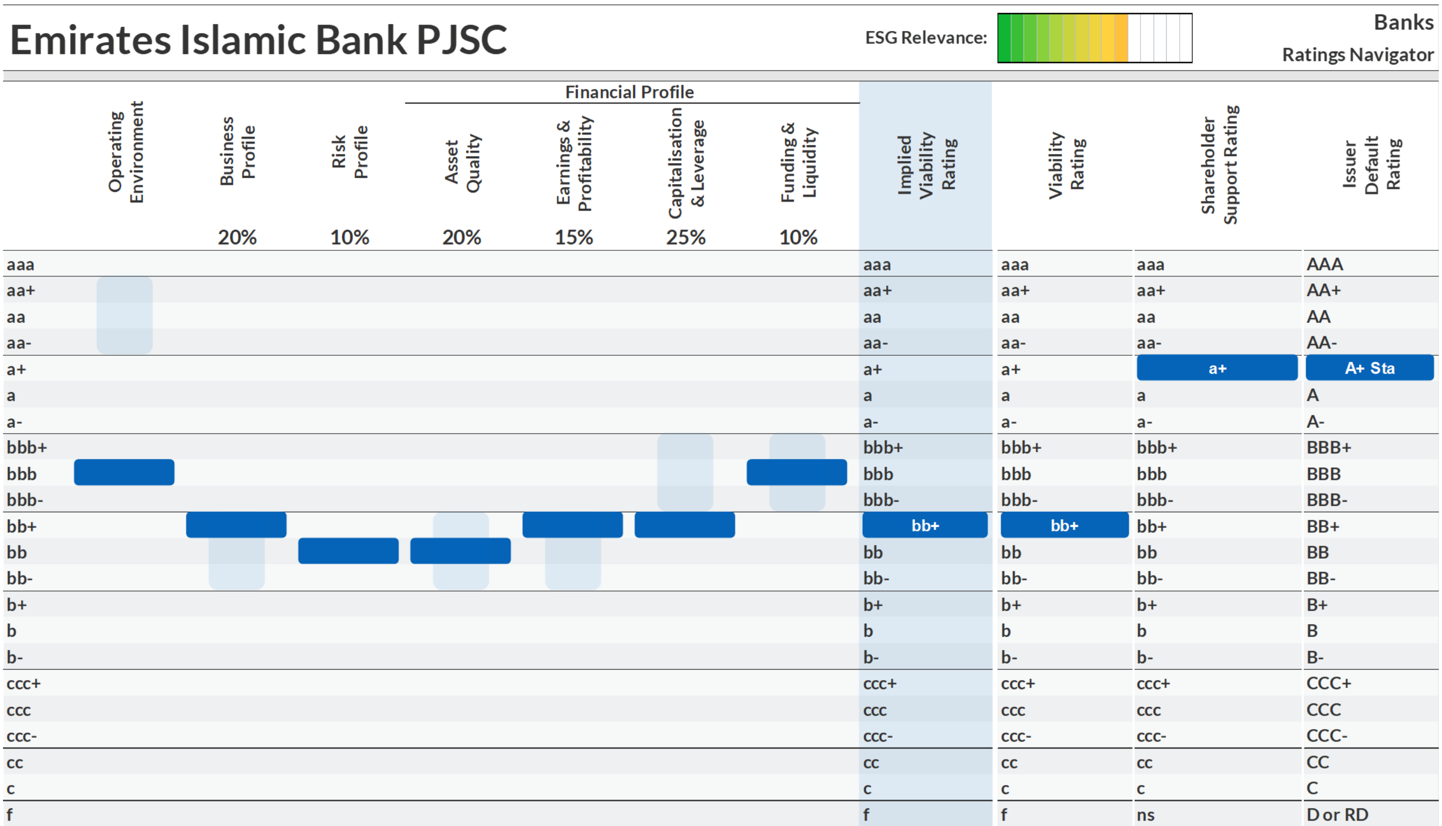
### Neutral Sector Outlook for 2023

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

### Higher Interest Rates Underpin Profitability

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

## Ratings Navigator




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

## VR - Adjustments to Key Rating Drivers

The operating environment score of 'bbb' is below the 'aa' category implied score due to the following adjustment reasons: size and structure of economy (negative), financial market development (negative) and regulatory and legal framework (negative).

The capital and leverage score of 'bb+' is below the 'bbb' category implied score due to the following adjustment reason: risk profile and business model (negative).

## Company Summary and Key Qualitative Factors

### Operating Environment

#### *Favourable Operating Environment Conditions Support Banks*

UAE banks' credit profiles are generally improving as the operating environment continues to strengthen. The general business and operating environment were supportive for the banking sector in 2022 and Fitch expects this trend will continue in 2023, underpinned by high oil prices (Fitch forecasts USD85/barrel in 2023 and USD75/barrel in 2024). Fitch forecasts a real GDP growth of 2.1% in 2023 and 2.7% in 2024. Non-oil real GDP should grow by 3.4% in 2023 and 2.1% in 2024, after an estimated growth of 6.3% in 2022. The PMIs have been on an expansionary phase since 1Q21, remaining well above historical averages. PMIs have slightly reduced since end-3Q22, reflecting some concerns over future business conditions; still, we expect them to remain strong and expansionary, with high oil prices underpinning operating conditions. Global growth prospects are weaker with rising risks of a recession in major economies (the US, EU and China). These are key risks for our growth forecasts, given the UAE's strong exposure to the world economy and its reliance on oil revenue.

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

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

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

### Business Profile

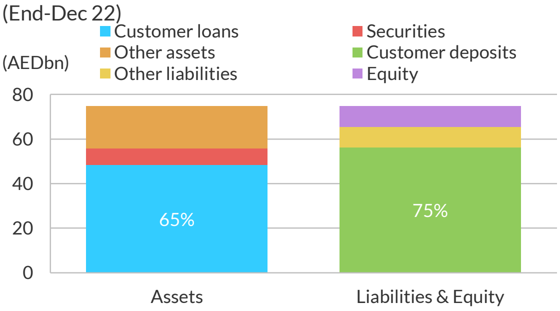
EI benefits from its association with ENBD and ranks as the third-largest Islamic bank in the country. However, the bank still has a niche franchise in the UAE with about 2% of system assets and deposits despite its large branch network.

EI was launched in 2004 to offer sharia-compliant banking services. EI and ENBD operate as separate legal entities with different banking licences but EI's company profile benefits from its association with ENBD. In 2012, the Dubai government asked ENBD to acquire Dubai Bank and, as a result, the majority of assets and liabilities were transferred to EI.

EI's business model is largely focused on retail banking, which accounted for 59% of the financing book at end-2022. Personal banking is largely focused on personal and mortgage financing. Personal banking generates about 80% of the bank's operating income.

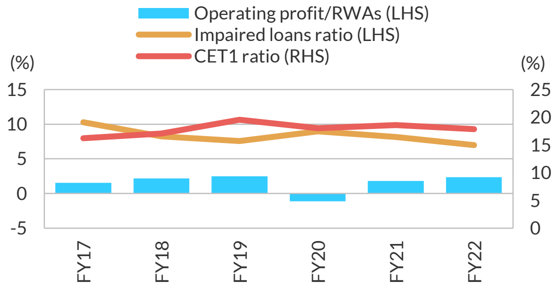
The bank is increasing its focus on affluent and high-net-worth clients as these provide a stable deposit base and are a key driver for fee income through wealth management. EI is also increasingly targeting affluent-and-below expatriates; these have been largely untapped by the bank and provide strong asset yields and fee income. In 2022 the bank started home finance backed by public housing agencies, which has provided significant growth in retail financing coupled with higher sourcing on other products (up 28% yoy).

### Balance Sheet
(End-Dec 22)




Source: Fitch Ratings, EI

### Performance Through the Cycle




Source: Fitch Ratings, EI

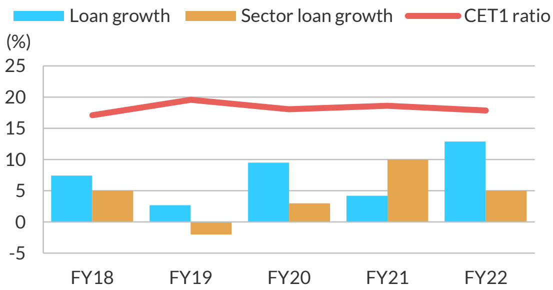
## Risk Profile

Personal financing is based on salary transfers with a maximum 50% debt service burden ratio and a maximum tenor of 48 months. The average contractual financing to value of the mortgage portfolio was 58% at end-2022 and has been declining from its previous levels. UAE nationals account for more than 75% of the retail portfolio, and the share of low-income expatriates has declined to less than 5% as part of the bank's strategy.

The exposure to small businesses (less than 5% of the financing book) has been on a rundown basis since 2016 as this segment was affected by liquidity tightening and the fall in commodity prices in 2015-2016.

EI's financing book is less concentrated than local and regional peers' given the bank's retail focus. The top 20 exposures (funded and unfunded) were 135% of total equity at end-2022, and the top 20 funded exposures were 20% of gross financing. The bank has room to grow in real estate financing as its total exposure of 22% of RWAs was below the regulatory limit of 30% at end-2022.

### Loan Growth




Source: Fitch Ratings, EI

## Financial Profile

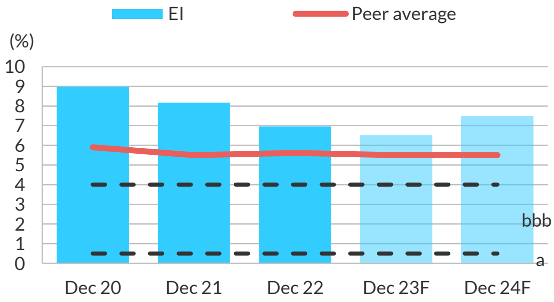
### Asset Quality

EI's asset quality has improved materially over the past five years and especially since 2020 as a result of the clean-up of its corporate portfolio, higher financing growth and limited deterioration in retail due to the strong profile of its clientele. The S3 financing ratio was down to 7% at end-2022 from 8.2% at end-2021 and the total problem loans ratio (including S2 financing) is moderate at 9.4%, while still above the peer average.

In 2022, EI wrote off only 0.2% of average gross financing (2021: 0.8%, 2020: 1.7%) and new impaired financing were the lowest in three years (2022: AED142 million; 2021: 305 million; 2020: 1,794 million) due to tightening financing standards in the mid-corporate segment, especially in real estate and contracting.

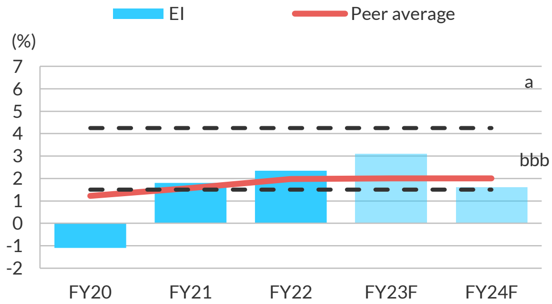
Reserve coverage of S3 financing improved to 128% at end-2022 (end-2021: 115%) as the bank booked additional provisions (AED0.4 billion in 2022) to boost its reserve coverage. S3 financing were 94% covered by specific reserves. S2 financing have remained low at 2.4% of the total book due to the retail nature of EI's book. We do not expect significant migration to S3 in 2023 given tightening corporate underwriting in the past three years, and as financing growth is largely fuelled by home financing guaranteed by public agencies.

#### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions

#### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions

### Earnings and Profitability

EI's net profit margin improved by 70bp to 4.1% in 2022 (3.3% in 2021) as the bank repriced its asset book efficiently by 90bp while funding costs increased by only 20bp. The bank's net profit margin is positively correlated with an increase in interest rates and is, therefore, expected to improve further. EI's net profit margin compares well with that of peers, supported by a focus on high-yielding retail financing and a high portion of low-cost CASA deposits.

Operating return on RWAs improved to 2.4% in 2022 (2021: 1.8%) on the back of higher margins and slightly lower FICs (which absorbed only 25% of pre-provision operating profit). We do not anticipate an additional hike in FICs as the bank has adequate reserve coverage and as asset quality is not expected to deteriorate significantly.

EI's cost-to-income ratio was down to 48% in 2022 from 52% in 2021 thanks to higher operating income, digitalisation and optimisation of the branch network. The higher cost base compared with peers reflects the bank's retail focus which, in turn, benefits the cost of funding. Non-interest income is 26% of gross revenue and is mainly in the form of fees and commissions.

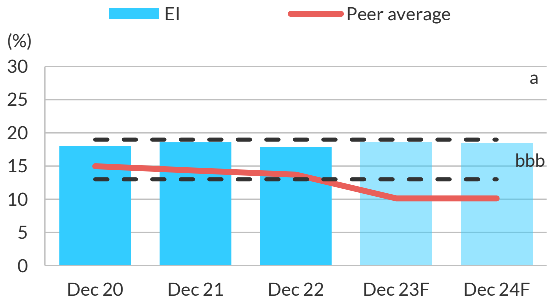
### Capital and Leverage

EI has strong capital buffers and its capital ratios compare well with peers. High financing growth led to the CET1 ratio decreasing to 17.9% at end-2022 from 18.6% at end-2021. The ratio is comfortably above the minimum regulatory requirement of 9.5% and compares well with peers. The total capital ratio of 19% at end-2022 is among the strongest in the sector.

Impaired financing is adequately covered by reserves. Unreserved S2 and S3 financing formed less than 5% of CET1 capital at end-2022, and we do not expect a sharp deterioration in the bank's asset quality.

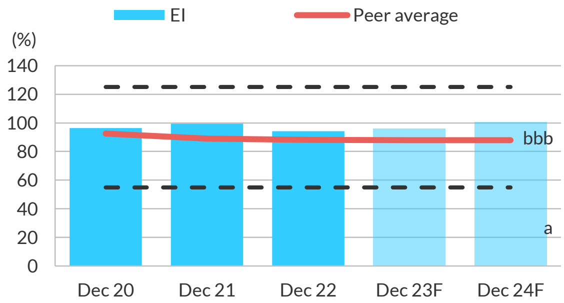
EI has not been distributing dividends and Fitch expects the bank to be able to raise capital from its parent if needed (as evidenced in 2016 when EI received AED1.5 billion of capital from ENBD). EI's growth expectations for the coming years should not undermine capital adequacy.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions

## Funding and Liquidity

EI's deposit base is less concentrated than peers' owing to its retail focus, with retail deposits forming 77% of the deposit base. At end-2022, the 20 largest deposits were 25% of total deposits. EI's high proportion of CASA (73% of deposits at end-2022) provides the bank with a lower cost and more stable deposit base. The bank has issued two sukuk under its SPV EI Sukuk Company Limited maturing in 2025 and 2026, which helps reduce maturity gaps.

EI's liquidity is well managed. The bank's financing-to-deposits ratio decreased to 94% at end-2022 from 100% at end-2021 due to strong collection of retail deposits. Net liquid assets (including cash balances less mandatory reserves, net interbank placements and investment-grade securities) covered 31% of total deposits at end-2022. The bank's LCR and NSFR of 184% and 112%, respectively, at end-2022 were comfortably above the 100% minimum regulatory requirements.

## 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 are 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 are Fitch's forecasts.

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

# Financials

## Financial Statements

| | 31 Dec 22 | | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|---|
| | Year end | Year end | Year end | Year end | Year end |
| | (USDm) | (AEDm) | (AEDm) | (AEDm) | (AEDm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net financing & dividend income | 639 | 2,345.4 | 1,717.2 | 1,708.6 | 1,894.6 |
| Net fees and commissions | 124 | 455.1 | 369.3 | 371.7 | 481.6 |
| Other operating income | 104 | 381.5 | 311.5 | 7.7 | 294.1 |
| Total operating income | 866 | 3,182.0 | 2,398.0 | 2,088.0 | 2,670.3 |
| Operating costs | 419 | 1,540.4 | 1,242.5 | 1,136.1 | 1,170.1 |
| Pre-impairment operating profit | 447 | 1,641.6 | 1,155.5 | 951.9 | 1,500.2 |
| Financing & other impairment charges | 109 | 401.5 | 332.4 | 1,434.1 | 439.2 |
| Operating profit | 338 | 1,240.1 | 823.1 | -482.2 | 1,061.0 |
| Other non-operating items (net) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Tax | n.a. | n.a. | n.a. | n.a. | n.a. |
| Net income | 338 | 1,240.1 | 823.1 | -482.2 | 1,061.0 |
| Other comprehensive income | -131 | -479.7 | -75.5 | 90.0 | 116.5 |
| Fitch comprehensive income | 207 | 760.4 | 747.6 | -392.2 | 1,177.5 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross financing | 14,454 | 53,081.7 | 47,033.1 | 45,140.8 | 41,227.4 |
| - Ow impaired | 1,005 | 3,692.1 | 3,843.7 | 4,052.2 | 3,113.2 |
| Financing loss allowances | 1,283 | 4,712.7 | 4,419.1 | 4,331.8 | 3,730.9 |
| Net financing | 13,171 | 48,369.0 | 42,614.0 | 40,809.0 | 37,496.5 |
| Interbank | 1,257 | 4,614.5 | 2,768.7 | 3,651.7 | 16,141.4 |
| Islamic derivatives | 50 | 184.1 | 118.4 | 131.8 | 95.4 |
| Other securities and earning assets | 2,079 | 7,636.4 | 6,981.3 | 5,191.3 | 4,266.8 |
| Total earning assets | 16,557 | 60,804.0 | 52,482.4 | 49,783.8 | 58,000.1 |
| Cash and due from banks | 3,275 | 12,026.3 | 10,688.2 | 19,633.5 | 5,151.5 |
| Other assets | 526 | 1,933.4 | 1,733.8 | 1,154.0 | 1,623.9 |
| Total assets | 20,358 | 74,763.7 | 64,904.4 | 70,571.3 | 64,775.5 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 15,342 | 56,343.7 | 47,269.1 | 46,878.1 | 45,322.7 |
| Interbank and other short-term funding | 512 | 1,880.1 | 2,548.4 | 7,813.9 | 4,922.4 |
| Other long-term funding | 1,000 | 3,672.5 | 3,672.5 | 5,510.9 | 3,679.9 |
| Trading liabilities and Islamic derivatives | 52 | 191.5 | 126.6 | 142.3 | 0.0 |
| Total funding and Islamic derivatives | 16,906 | 62,087.8 | 53,616.6 | 60,345.2 | 53,925.0 |
| Other liabilities | 930 | 3,415.6 | 2,736.8 | 2,374.1 | 2,544.9 |
| Preference shares and hybrid capital | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total equity | 2,522 | 9,260.3 | 8,551.0 | 7,852.0 | 8,305.6 |
| Total liabilities and equity | 20,358 | 74,763.7 | 64,904.4 | 70,571.3 | 64,775.5 |
| Exchange rate | | USD1 = AED3.6725 | USD1 = AED3.6725 | USD1 = AED3.6725 | USD1 = AED3.6725 |

Source: Fitch Ratings, Fitch Solutions, EI

## Key Ratios

| | 31 Dec 22 | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.4 | 1.8 | -1.1 | 2.5 |
| Net financing income/average earning assets | 4.1 | 3.3 | 3.1 | 3.5 |
| Non-financing expense/gross revenue | 48.4 | 51.8 | 54.4 | 43.8 |
| Net Income/average equity | 14.0 | 9.9 | -5.9 | 13.5 |
| | | | | |
| **Asset quality** | | | | |
| Impaired financing ratio | 7.0 | 8.2 | 9.0 | 7.6 |
| Growth in gross financing | 12.9 | 4.2 | 9.5 | 2.7 |
| Financing loss allowances/impaired financing | 127.6 | 115.0 | 106.9 | 119.8 |
| Financing impairment charges/average gross financing | 0.8 | 0.9 | 3.1 | 1.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 17.9 | 18.6 | 18.0 | 19.6 |
| Fully loaded common equity Tier 1 ratio | n.a. | n.a. | n.a. | n.a. |
| Fitch Core Capital ratio | n.a. | n.a. | n.a. | n.a. |
| Tangible common equity/tangible assets | 12.4 | 13.2 | 11.1 | 12.8 |
| Basel leverage ratio | 12.0 | 12.3 | n.a. | n.a. |
| Net impaired financing/common equity Tier [1] | -10.8 | -6.8 | -3.5 | -7.5 |
| Net impaired financing/Fitch Core Capital | n.a. | n.a. | n.a. | n.a. |
| | | | | |
| **Funding & liquidity** | | | | |
| Gross financing/customer deposits | 94.2 | 99.5 | 96.3 | 91.0 |
| Liquidity coverage ratio | n.a. | n.a. | n.a. | n.a. |
| Customer deposits/total non-equity funding | 91.0 | 88.4 | 77.9 | 84.1 |
| Net stable funding ratio | n.a. | n.a. | n.a. | n.a. |

Source: Fitch Ratings, Fitch Solutions, EI

## Support Assessment

| Shareholder Support | |
|---|---|
| Parent IDR | A+ |
| Total Adjustments (notches) | 0 |
| Shareholder Support Rating | a+ |
| | |
| **Shareholder ability to support** | |
| Shareholder Rating | A+/ Stable |
| Shareholder regulation | Equalised |
| Relative size | Equalised |
| Country risks | Equalised |
| | |
| **Shareholder propensity to support** | |
| Role in group | Equalised |
| Reputational risk | Equalised |
| Integration | 1 Notch |
| Support record | Equalised |
| Subsidiary performance and prospects | Equalised |
| Legal commitments | 2+ Notches |

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

EI's IDRs reflect Fitch's view that EI is a key and integral subsidiary of its 99.9% shareholder, ENBD. In turn, ENBD's IDRs are based on potential support from the UAE authorities, if needed. In Fitch's view, this support would flow through to EI given EI's role and record in the group (offering retail, SME and small corporate Islamic finance services), the very high reputational risk to ENBD of an EI default, as well as the CBUAE's inclination to favour support as EI operates in the same home market as ENBD.

Fitch also believes that any required support would be immaterial given EI's small size relative to the parent and particularly the sovereign. EI's share in ENBD's consolidated assets was about 10% at end-2022.

# Environmental, Social and Governance Considerations

### Credit-Relevant ESG Derivation

| Emirates Islamic Bank PJSC has 1 ESG rating driver and 5 ESG potential rating drivers | | | | Overall ESG Scale |
|---|---|---|---|---|
| Emirates 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. | key driver | 0 | issues | 5 |
| Emirates 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. | driver | 1 | issues | 4 |
| Emirates 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. | potential driver | 5 | issues | 3 |
| Emirates Islamic Bank PJSC has exposure to operational implementation of strategy but this has very low impact on the rating. | not a rating driver | 3 | issues | 2 |
| Emirates 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. | | 5 | issues | 1 |
| Emirates Islamic Bank PJSC has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating. | | | | |

### 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. |

EI has an ESG Relevance Score of '4' for Governance Structure in line with other Islamic banks (in contrast to a typical ESG relevance score of '3' for comparable conventional banks), given that all Islamic banks need to ensure compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and a sharia audit, which has a negative impact on their credit profiles, and is relevant to the rating in conjunction with other factors.

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

Except for the matters discussed above, the highest level of ESG credit relevance, if present, 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 to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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

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