FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

UAE Equity Research | Sector: Banking | Market: ADX

Sharjah Islamic Bank (SIB)

Higher financing volumes and investment income underpinned strong profit growth

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.90	AED 3.85	+32.8%	BUY

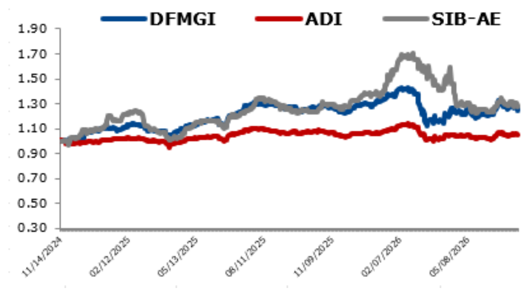
- Net advances rose 16.0% YOY and 6.7% QOQ to AED 49.9 Bn in 2Q26, reflecting the Bank's strong strategy and efficient utilisation of capital and liquidity resources.
- Customer deposits increased 12.6% YOY but declined 3.3% QOQ to AED 59.4 in 2Q26.
- CASA deposits rose to 43.7% in 2Q26 from 42.7% in 1Q26.
- The Bank's asset quality remained broadly stable, with the calculated NPL ratio declining marginally from 3.7% in 1Q26 to 3.6% in 2Q26, while coverage moderated from 93.4% in 1Q26 to 91.8% in 2Q26.
- Completed a successful rights issue of 1.08 Bn shares at an issue price of AED 2.4 per share, strengthening shareholders' equity and the Bank's capital base.

2Q26 Net Profit higher than our estimate

Sharjah Islamic Bank's (SIB) net profit increased 11.9% YOY to AED 423 Mn in 2Q26, higher than our estimate of AED 373 Mn. The earnings growth was primarily supported by higher net funded income, driven by higher financing volumes, coupled with growth in non-funded income driven by rise in Investment income, partially offset by higher general & admin expenses, increased provisions, and higher corporate tax charges.

P&L Highlights

Funded income increased 9.9% YOY to AED 1,064 Mn in 2Q26, supported by strong growth in net loans and advances, due to strong demand across diversified sectors, partially offset by a decline in asset yields. Depositors share of profit declined 2.1% YOY to AED 573 Mn in 2Q26, reflecting a lower cost of funds, partially offset by growth in customer deposits. Consequently, net funded income rose 28.3% YOY to AED 491 Mn in 2Q26, with the NIMs improving 23 bps YOY and 5 bps QOQ to 1.9% in 2Q26. Non-funded income increased 7.3% YOY to AED 266 Mn in 2Q26, supported by higher investment income, partially offset by lower net fees and commission income, foreign exchange income, and other income. Net fees and commission income declined 19.0% YOY to AED 136 Mn in 2Q26. Meanwhile, investment income increased significantly from AED 21 Mn in 2Q25 to AED 75 Mn in 2Q26. Additionally, foreign exchange income decreased 8.2% YOY to AED 29 Mn in 2Q26. Similarly, other income declined 5.7% YOY to AED 25 Mn in 2Q26, primarily due to lower income from hospitality, and other income, partially offset by higher rental income and gains from disposal of properties. As a result, total operating income increased 20.0% YOY to AED 757 Mn in 2Q26. G&A expenses rose



Stock Information	
Market Cap (AED, Mn)	12,542.40
Paid Up Capital (Mn)	3,529.83
52 Week High	3.56
52 Week Low	2.49
3M Avg. daily value (AED)	8,490,371

2Q26 Result Review (AED, Mn)	
Total Assets	94,545
Total Liabilities	82,368
Total Equity	12,177
Total Deposits	59,368
Net Profit	423

Financial Ratios	
Dividend Yield (12m)	6.02
Dividend Pay-out (%)	52.94
Price-Earnings Ratio(x)	8.26
Price-to-Book Ratio (x)	1.31
Book Value (AED)	2.18
Return-on Equity (%)	16.52

Stock Performance	
5 Days	-2.35%
1 Months	0.34%
3 Months	-8.25%
6 Months	1.10%
1 Year	14.60%
Month to Date (MTD%)	-1.36%
Quarter to Date (QTD%)	-1.36%
Year to Date (YTD%)	1.75%

16.6% YOY to AED 241 Mn in 2Q26. However, the calculated cost-to-income ratio improved by 93 bps YOY to 31.9% in 2Q26. Impairment charges increased substantially from AED 8 Mn in 2Q25 to AED 50 Mn in 2Q26. Corporate tax expense increased 12.4% YOY to AED 42 Mn in 2Q26, reflecting higher profit before tax.

Balance Sheet Highlights

Total assets increased 11.6% YOY and 4.0% QOQ to AED 94.5 Bn in 2Q26, reflecting the Bank's capacity to enhance its asset portfolio, further strengthening its financial position. Net advances grew 16.0% YOY and 6.7% QOQ to AED 49.9 Bn in 2Q26. Customer deposits also increased 12.6% YOY but declined by 3.3% QOQ to AED 59.4 Bn in 2Q26. CASA deposits increased to 43.7% of total deposits in 2Q26, compared to 42.7% in 1Q26. Consequently, the loan-to-deposit ratio increased from 76.1% in 1Q26 to 84.0% in 2Q26. The Bank's asset quality remained broadly stable, with the calculated NPL ratio declining 68 bps YOY and 14 bps QOQ to 3.6% in 2Q26, while the calculated coverage ratio declined to 91.8% in 2Q26 from 93.4% in 1Q26. Meanwhile, the capital adequacy ratio strengthened to 19.5% in 2Q26 from 15.5% in 1Q26, while the CET1 ratio improved to 15.6% in 2Q26 from 11.5% in 1Q26, remaining comfortably above the regulatory minimum requirements.

Target Price and Rating

We maintain BUY rating on SIB with a target price of AED 3.85. SIB recorded strong growth in profitability in 2Q26, driven by effective management execution and the successful implementation of its profit-generating strategies. Furthermore, net advances increased 16.0% YOY and 6.7% QOQ to AED 49.9 Bn in 2Q26. This growth highlights the Bank's steadfast commitment to providing Islamic financial services and fostering sectoral growth. Customer deposits also increased 12.6% YOY to AED 59.4 Bn in 2Q26, demonstrating strong customer relationships as well as the competitiveness of the Bank's products and profit rates. Additionally, the financing-to-deposit ratio increased to 84.0% in 2Q26, compared to 76.1% in 1Q26, reflecting the Bank's prudent management of its financial portfolio while maintaining a well-balanced risk profile. Additionally, CASA deposits increased to 43.7% of total deposits in 2Q26 from 42.7% in 1Q26, while the Bank's NIM expanded 23 bps YOY to 1.9% in 2Q26. Furthermore, the cost-to-income ratio improved to 31.9% in 2Q26 from 32.8% in 2Q25, indicating enhanced operating efficiency and improved profitability. Asset quality also improved, with the calculated NPL ratio declining to 3.6% in 2Q26 from 4.3% in 2Q25. However, calculated NPL coverage ratio declined to 91.8% in 2Q26 from 93.4% in 1Q26. Liquid assets represented 20.9% of total assets in 2Q26, remaining above the Bank's strategic minimum liquidity threshold of 20% and indicating a strong liquidity position to meet its short-term obligations. Furthermore, the Group maintained a strong capital position, with the CAR improving to 19.5% in 2Q26 from 15.5% in 1Q26, primarily supported by the successful rights issue, while the CET 1 ratio improved to 15.6% in 2Q26 from 11.5% in 1Q26. Furthermore, calculated ROAA stood at 1.6% in 2Q26 compared to 1.5% in 2Q25. ROAE decreased to 14.8% in 2Q26 from 16.5% in 2Q25. During the period, the Bank completed a successful rights issue of 1.1 Bn shares at an issue price of AED 2.4 per share, strengthening shareholders equity and the Bank's capital base. Thus, based on these factors, we assign a BUY rating.

SIB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	18.32	16.84	12.56	9.74	7.68	8.39
PB	1.61	1.62	1.50	1.38	1.22	1.14
BVPS	1.811	1.791	1.944	2.115	2.383	2.562
EPS	0.159	0.173	0.232	0.299	0.379	0.347
DPS	0.076	0.095	0.100	0.150	0.200	0.226
Dividend yield	2.6%	3.3%	3.4%	5.2%	6.9%	7.8%

FABS Estimates & Co Data

SIB – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Income from fin. & leasing	968	1,046	1,064	1,064	0.0%	9.9%	1.7%	3,900	4,350	11.5%
Depositors' share of profit	-585	-582	-573	-594	-3.5%	-2.1%	-1.5%	-2,318	-2,451	5.7%
Net funded income	**383**	**464**	**491**	**470**	**4.4%**	**28.3%**	**5.7%**	**1,582**	**1,899**	**20.0%**
Fees and commissions	197	169	174	184	-5.3%	-11.5%	3.2%	726	763	5.0%
Fee and commission Exp	-28	-34	-38	-37	2.7%	33.4%	12.3%	-127	-151	18.4%
Investment income	21	-20	75	18	NM	NM	NM	22	85	NM
Foreign exchange income	32	22	29	26	11.8%	-8.2%	30.5%	112	101	-10.0%
Other income	27	42	25	40	-37.4%	-5.7%	-40.0%	170	162	-5.0%
Total non-funded income	**248**	**180**	**266**	**231**	**15.1%**	**7.3%**	**48.1%**	**904**	**959**	**6.1%**
Total operating income	**631**	**644**	**757**	**701**	**8.0%**	**20.0%**	**17.5%**	**2,486**	**2,859**	**15.0%**
General & admin. expenses	-207	-234	-241	-231	4.4%	16.6%	3.3%	-897	-1,018	13.4%
Pre-provision profit	**424**	**410**	**515**	**470**	**9.7%**	**21.7%**	**25.6%**	**1,588**	**1,841**	**15.9%**
Provisions	-8	9	-50	-59	-15.7%	NM	NM	-217	-230	6.1%
Profit before tax	**416**	**419**	**465**	**410**	**13.4%**	**11.9%**	**11.1%**	**1,448**	**1,611**	**11.3%**
Corporate tax	-38	-38	-42	-37	14.3%	12.4%	9.8%	-130	-145	11.4%
Net Profit attributable	**378**	**381**	**423**	**373**	**13.3%**	**11.9%**	**11.2%**	**1,317**	**1,466**	**11.3%**

FABS estimate & Co Data

SIB - KPI

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	60.7%	72.1%	64.8%	418	-726	63.6%	66.4%	280
NIM	1.7%	1.9%	1.9%	23	5	1.7%	1.8%	12
NIS	1.7%	2.0%	2.0%	28	3	1.8%	1.9%	14
Fees & comms/OI	31.2%	26.2%	23.0%	-819	-320	29.2%	26.7%	-254
Cost to income	32.8%	36.3%	31.9%	-93	-440	36.1%	35.6%	-50
Provisions/PPP	1.9%	-2.1%	9.7%	784	1,185	13.7%	12.5%	-116
NP/OI	60.0%	59.1%	55.9%	-405	-319	53.0%	51.3%	-172
Cost of risk (calculated)	0.1%	-0.1%	0.4%	33	47	0.5%	0.5%	-3
Loan-to-deposit	81.5%	76.1%	84.0%	247	786	81.8%	81.9%	9
NPL (Calculated)	4.3%	3.7%	3.6%	-68	-14	3.8%	3.7%	-8
NPL Coverage (Calculated)	87.4%	93.4%	91.8%	444	-157	97.5%	99.0%	152
CET 1	11.5%	11.5%	15.6%	415	409	11.9%	12.0%	9
Capital adequacy	15.8%	15.5%	19.5%	372	393	16.2%	15.7%	-44
ROAE	16.5%	18.7%	14.8%	-171	-388	16.5%	14.4%	-207
ROAA	1.49%	1.59%	1.59%	10	0	1.55%	1.54%	-1

FABS estimate & Co Data

SIB - Key B/S items

AED Mn	2Q25	3Q25	4Q25	1Q26	2Q26	YOY Ch
Net advances	42,987	43,663	45,550	46,745	49,873	16.0%
QOQ ch	6.6%	1.6%	4.3%	2.6%	6.7%	
Total assets	84,708	86,580	90,313	90,867	94,545	11.6%
QOQ ch	2.3%	2.2%	4.3%	0.6%	4.0%	
Customer deposits	52,721	54,573	55,673	61,390	59,368	12.6%
QOQ ch	1.2%	3.5%	2.0%	10.3%	-3.3%	
Total equity	10,439	9,000	9,530	9,186	12,177	16.7%
QOQ ch	27.9%	-13.8%	5.9%	-3.6%	32.6%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value SIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	4.09	70.0%	2.86
Relative Valuation (RV)	3.29	30.0%	0.99
Weighted Average Valuation (AED)			**3.85**
Current market price (AED)			2.90
Upside/Downside (%)			+32.8%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.90 and equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,280
Terminal value (AED, Mn)	2,439
Book Value of Equity (as of June 2026)	13,923
FV to Common shareholders (AED, Mn)	**17,642**
No. of shares (Mn)	4,314
Current Market Price (AED)	2.90
Fair Value per share (AED)	**4.09**

Residual Income Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	1,353	1,344	1,350	1,366	1,384
(-) Equity Charge	-689	-989	-1,022	-1,080	-1,138
Excess Equity	**665**	**356**	**328**	**287**	**246**
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	**319**[1]	**314**	**266**	**213**	**167**

Source: FAB Securities, [1]Adjusted for partial year

2) Relative Valuation:

We have used local peers to value SIB, and it is valued using the PB multiple. It is valued with a 2026 PB multiple of 1.3x in line with its peers.

BANK	Market	P/B (x)		P/E (x)		Dividend Yield (%)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Mashreq Bank	14,146	1.3	1.2	7.6	7.0	4.0%	NA
RAK Bank	4,967	1.1	1.3	6.4	8.6	7.8%	5.7%
Emirates NBD	52,727	1.3	1.1	8.5	7.7	3.3%	3.7%
Abu Dhabi Commercial Bank	30,953	1.3	1.2	10.0	8.9	4.5%	4.8%
Dubai Islamic Bank	15,131	1.2	1.1	8.7	8.4	4.7%	4.9%
Commercial Bank of Dubai	7,680	1.5	1.4	8.6	9.5	6.1%	NA
Average		**1.3x**	**1.2x**	**8.3x**	**8.3x**	**5.1%**	**4.8%**
Median		**1.3x**	**1.2x**	**8.5x**	**8.5x**	**4.6%**	**4.9%**
Max (Quartile 3)		**1.3x**	**1.3x**	**8.6x**	**8.8x**	**5.7%**	**5.1%**
Min (Quartile 1)		**1.2x**	**1.1x**	**7.8x**	**7.8x**	**4.1%**	**4.5%**

Source: FAB Securities

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Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	ahmad.banihani@Bankfab.com
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

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