



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.



COMMEMORATING THE CBUAE'S GOLDEN JUBILEE



**H.H. SHEIKH MOHAMED
BIN ZAYED AL NAHYAN**

PRESIDENT OF THE
UNITED ARAB EMIRATES

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THE CBUAE BOARD OF DIRECTORS



**H.H. SHEIKH MANSOUR
BIN ZAYED AL NAHYAN**
CHAIRMAN



**H.E. ABDULRAHMAN
AL SALEH**
VICE CHAIRMAN



**H.E. JASSEM
MOHAMMAD BU
ATABAH AL ZAABI**
VICE CHAIRMAN



**H.E. KHALED
MOHAMED BALAMA**
GOVERNOR



**H.E. YOUNIS HAJI AL
KHOORI**
MEMBER



**H.E. SAMI DHAEN
AL QAMZI**
MEMBER



**H.E. ALI MOHAMMED
BAKHEET AL
RUMAITHI**
MEMBER



MESSAGE FROM H.H. SHEIKH MANSOUR BIN ZAYED AL NAHYAN

VICE PRESIDENT

DEPUTY PRIME MINISTER AND CHAIRMAN OF THE PRESIDENTIAL COURT CHAIRMAN OF THE BOARD OF DIRECTORS

In line with the United Arab Emirates' steadfast commitment to drive development across diverse sectors and enhance its competitiveness, the Central Bank of the UAE (CBUAE) in 2023 remained dedicated to safeguarding the UAE's financial and monetary stability and protecting the integrity of its financial system.

In 2023, we marked the CBUAE's Golden Jubilee, reaffirming our commitment to fostering sustainability and innovation and keeping pace with the latest global financial, economic, and environmental developments.

The CBUAE's 2023 Annual Report highlights the progress delivered in our journey towards excellence and the realisation of our vision to be among the top central banks globally.

The UAE's GDP growth was 3.6% in 2023, with the country's strong projected economic performance for 2024 confirming continued resilience.

The CBUAE projects that the UAE's real GDP will increase to 3.9% in 2024, driven by a robust growth of 5.4% in the non-oil sector.

The UAE is committed to sustainability and effectively combating climate change, demonstrated by the successful hosting of COP28. The conference set higher standards for climate action, with the UAE placing an emphasis on addressing climate change through an ambitious climate action strategy and its Net Zero 2050 initiative.

The CBUAE's efforts are aligned to the UAE leadership's targets of mitigating climate change, particularly through the Green and Sustainable Finance Initiative aimed at addressing climate-related risks. Furthermore, the CBUAE united the UAE banking sector to mobilise AED 1 trillion in sustainable finance by 2030, a key announcement made during COP28. Looking ahead, the CBUAE remains committed to implementing measures to mitigate climate-related risks and their potential impact on financial stability. This is in addition to continuing to assess the business models of licensed financial institutions (LFIs) to ensure their alignment with the transition towards a green economy.

The CBUAE also played an active role in advancing the ongoing digital transformation of the country's financial infrastructure. We launched Al Etihad Payments (AEP) to manage the digital financial infrastructure and the UAE Domestic Card Scheme (DCS), Jaywan. Additionally, we developed the necessary infrastructure for the launch of the CBUAE's Central Bank Digital Currency (CBDC) and a new Instant Payments Platform (IPP), Aani, which aims to enhance financial inclusion in the country.

Emiratisation within the financial sector remains a key priority for us. In 2023, we witnessed a significant increase in Emiratisation rates, demonstrated by the successful hiring of 2,720 UAE nationals, exceeding the target of 1,875. The Emiratisation rate in leading jobs in banks has increased by 8% to 31% in total.

In the area of anti-money laundering and countering the financing of terrorism (AML/CFT), in February 2024, the Financial Action Task Force (FATF) recognised the UAE's strengthening of its frameworks in line with international best practice. As part of our commitment to safeguard the integrity of the UAE's financial system, we will continue to work closely with other global central banks and relevant international authorities to uphold global AML/CFT standards.

As part of our commitment to protecting consumer's rights, we issued "Ombudsman Unit for the United Arab Emirates regulation", followed by the launch of "Sandak" Unit, the first independent unit with a legal personality to settle banking and insurance disputes in the United Arab Emirates and in the Middle East and North Africa.

I would like to express my gratitude to our senior management, employees, and stakeholders for their support and commitment to the CBUAE's vision of becoming a top global central bank. We are confident that the CBUAE will continue its unwavering pursuit of excellence, innovation, and robust policymaking to enhance monetary stability and preserve the integrity of the UAE's financial system.



MESSAGE FROM H.E. KHALED MOHAMED BALAMA

GOVERNOR

Over the course of the last 50 years, the CBUAE has played a crucial role in bolstering monetary and financial stability and propelling economic growth in the UAE. Having marked its Golden Jubilee in 2023, the CBUAE continued this journey through the introduction of several innovative initiatives within its wider Financial Infrastructure Transformation (FIT) programme aimed at transforming the UAE's financial sector

As part of the commemorative activities of the CBUAE's Golden Jubilee, His Highness Sheikh Mansour bin Zayed Al Nahyan, Vice President, Deputy Prime Minister, Chairman of the Presidential Court, and Chairman of the Board of the CBUAE, authorised the first issuance of the CBUAE's Central Bank Digital Currency (CBDC), the Digital Dirham. This is in addition to successfully initiating the first live cross-border payment on the mBridge Minimum Viable Product platform to China, demonstrating its effectiveness.

The CBUAE places great importance on the realisation of its digital transformation strategy, which commits to fostering growth and enhancing confidence in the financial sector. This strategy entails strengthening partnerships with other central banks and international standard-setting bodies. Complementing these efforts, the CBUAE has launched a range of initiatives geared towards establishing a robust and innovative financial market, as well as a resilient infrastructure for the banking and insurance sectors. These endeavours ultimately result in the CBUAE's continued preservation of the UAE's monetary and financial stability and its implementation of a robust regulatory and supervisory framework for LFIs.

This commitment has also led to the establishment of a new subsidiary, Al Etihad Payments, which now manages the UAE's payment system infrastructures and is responsible for introducing innovation digital payments solutions such as the new Instant Payments Platform, Aani, the UAE Domestic Card Scheme, Jaywan, and the UAE Wages Protection System.

To further advance the UAE's digital assets agenda, the CBUAE developed a virtual assets regulatory and supervisory framework in 2023. This move marks a necessary step in digital asset regulation and is part of a much wider focus on establishing regulatory frameworks for safe and diverse payments in the UAE.

Stemming from its commitment to safeguard financial stability, the potential impact of a CBDC was assessed in 2023. Based on the results of the assessment, subsequent CBDC-related safeguards have been developed within the CBUAE's legal and policy framework.

Financial stability risks associated with climate change were also evaluated by the CBUAE through climate risk stress tests. These pilot climate risk stress tests analysed the impact of the top 20 largest corporate borrowers from vulnerable sectors on the banking sector by utilising Network for Greening the Financial System (NGFS) climate scenarios.

As part of its wider efforts to collaborate with international counterparts, the CBUAE co-led the Financial Stability Board's workstream on stablecoins and co-hosted the COP28 UAE TechSprint together with the Bank for International Settlements (BIS) and the COP28 Presidency.

Climate-related risks have also formed part of the CBUAE's work in enhancing its regulatory and supervisory framework. In 2023, the CBUAE conducted the first thematic review of selected banks on the quality of their climate-related financial risk management with the aim of ensuring that LFIs adhere to robust risk management frameworks.

The Digital Dirham complements the CBUAE's monetary policy tools, which are designed to preserve the integrity of the exchange rate. It also maintains consistency between the UAE's open capital account and the Dirham Monetary Framework (DMF).

In keeping with the visionary leadership and support of His Highness Sheikh Mansour bin Zayed Al Nahyan, the CBUAE continued to bolster the participation of Emiratis in the financial sector through specialised education and training programmes. A prime example of this is the Ethraa programme. In 2023, banks' Emiratisation rate increased to more than 31% against a 2026 target of 45%.

Serving as a testament to its commitment to enhance consumer protection, the CBUAE established Sanadak, the region's first independent financial ombudsman unit with a legal personality to receive and process consumer complaints against licensed LFIs. This was previously a responsibility of the CBUAE's Consumer Protection Department and Insurance Dispute Resolution Committee.

In conclusion, I wish to thank His Highness Sheikh Mansour bin Zayed Al Nahyan, Vice President, Deputy Prime Minister, Chairman of the Presidential Court, and Chairman of the Board of the CBUAE, and the Board of Directors for their support of the CBUAE's transformation strategy. I also extend my gratitude to all CBUAE staff members for their diligence and dedication. Their commitment, guided by the CBUAE's visionary leadership, is fundamental as we look to continue ensuring financial stability and safeguarding the integrity of the financial system, ultimately delivering on our ambition of becoming a leading global central bank.

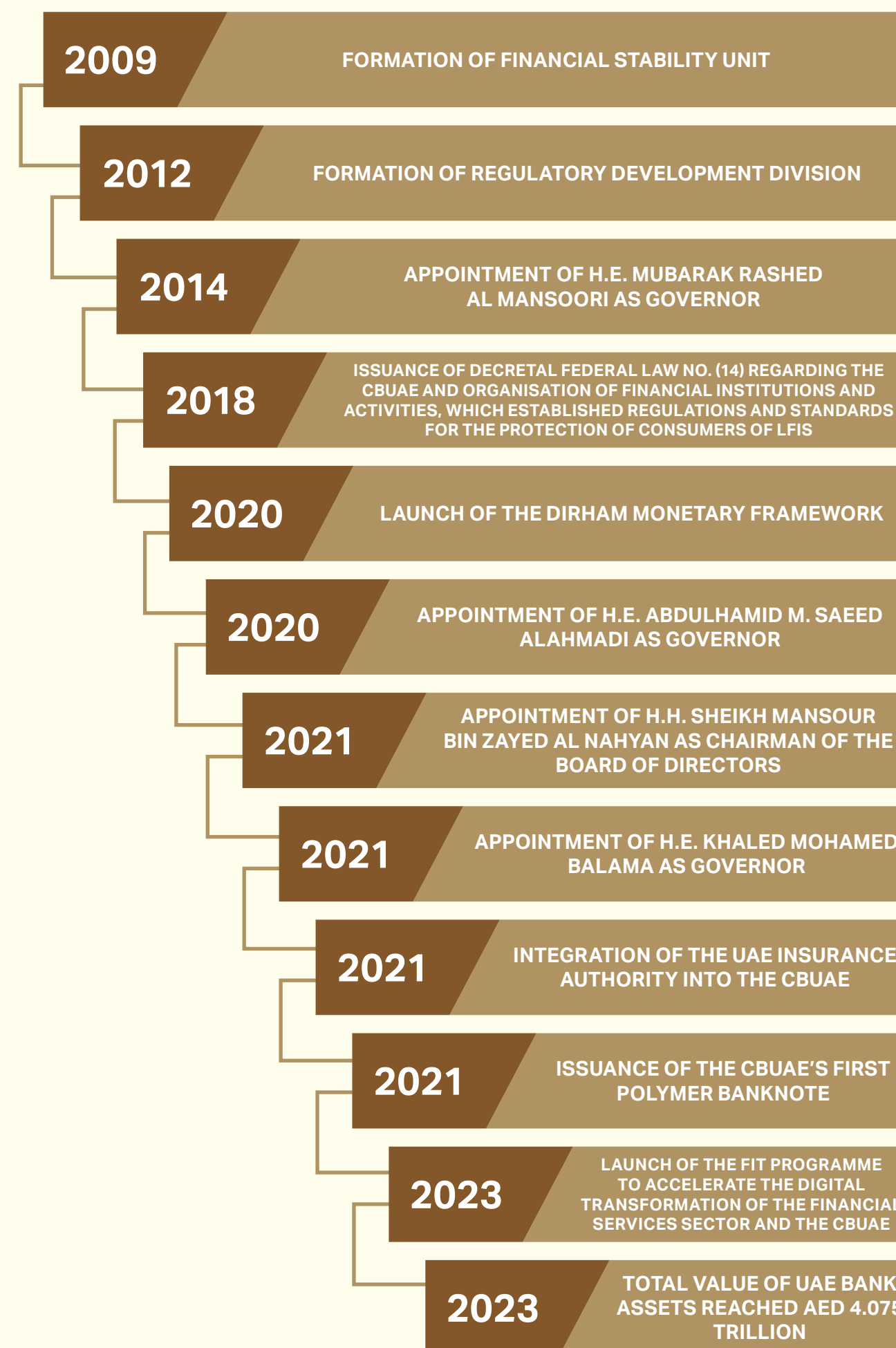
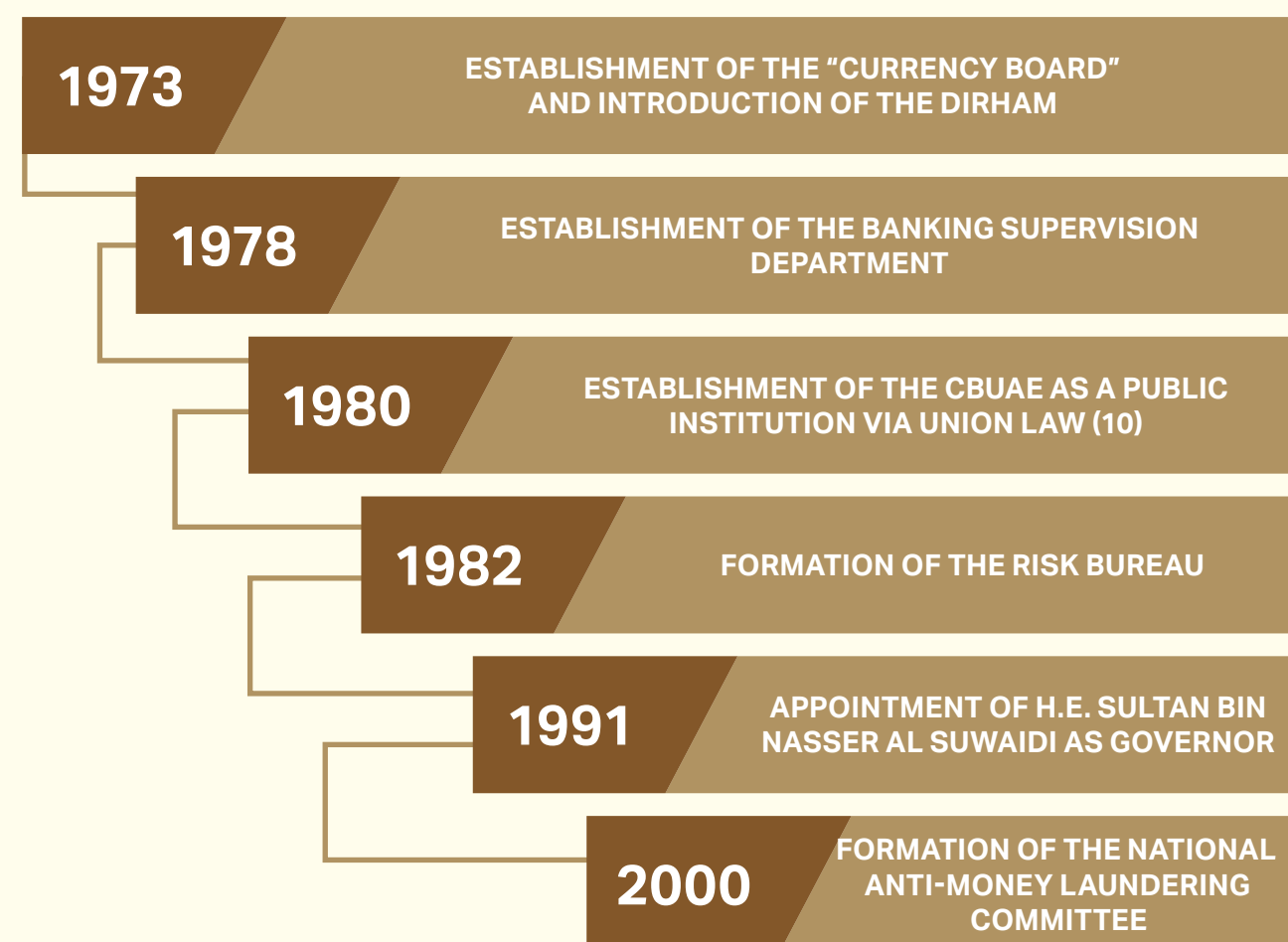
04 THE CBUAE'S GOLDEN JUBILEE

Celebrating its Golden Jubilee in 2023, the CBUAE marked five decades of steadfast progress that have contributed to the UAE's financial and monetary stability and fostered the growth of its financial sector.

In the 50 years since its founding, the nation has undergone significant transformation, and under wise leadership, the CBUAE has consistently adapted to change through continuous evolution. The establishment of a national currency represented a historic juncture for the CBUAE and the country, recognising the role an independent currency plays in ensuring monetary stability. Subsequently, in 1997, the Dirham was pegged to the Dollar, a forward-looking strategy that allowed the UAE to solidify sovereign control over its economy while simultaneously ensuring price stability.

Over the past 50 years, the CBUAE has expanded its mandate and created a robust organisational structure focused on supervision, regulation, financial stability, financial crime and consumer protection.

As the CBUAE looks ahead to the next 50 years, it is guided by a strategic vision to be among the top central banks globally - a vision that is built upon trust, stability, innovation, transformation, and sustainability. The CBUAE is pleased to present its progress over the past 50 years and sets out its aspirations for contributing to an innovative and sustainable future.

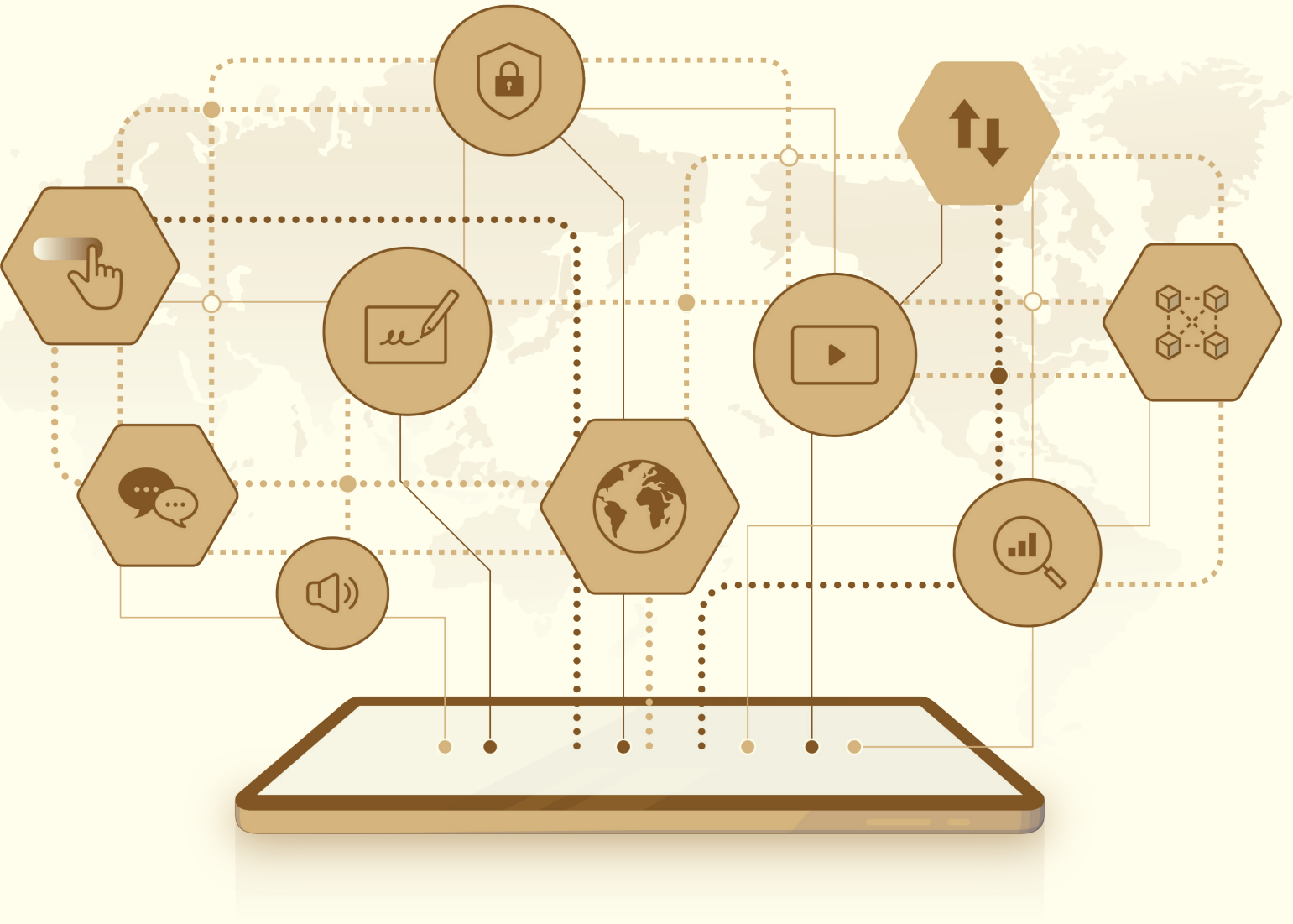


ORGANISATIONAL STRUCTURE OF THE CBUAE

Over the last 50 years, the CBUAE has worked to establish a network of several independent entities dedicated to supporting the fulfilment of core areas of its mandate. These include AI Etihad Payments, the Emirates Institute of Finance, the Financial Intelligence Unit, Oumolat and Sanadak.



05 PROGRESS DELIVERED AGAINST 2023-2026 STRATEGY



VISION

To be among the top central banks globally in promoting monetary and financial stability and supporting the UAE's competitiveness.



MISSION

Enhancing monetary management, financial stability, and protecting consumers through effective supervision of LFIs, the prudent management of reserves, robust financial infrastructure and the adoption of digital technologies.



VALUES

Being Competitive

Our ambition is to be a global leader across various fields by investing in innovative technology grounded in best practices and research.

Being Proactive

Establishing a proactive mindset that increases ownership, accountability, and innovation through empowering and enabling employees across all levels and facilitating effective decision-making.

Being Transparent

Creating transparency and openness with the highest integrity across the organisation through effective communication and collaboration.

Being Talent-centric

Building a caring, talent-centric organisation that rewards and recognises employees and emphasises their development.

THE CBUAE’S STRATEGY

Within the CBUAE’s strategy are a series of objectives to foster monetary and financial stability that will enable the UAE to be among the top-ranked nations for stability in accordance with international ratings and rankings. Additionally, the CBUAE’s strategic outcomes are measured according to international or national assessment and rating methodologies in various areas.

CORE CBUAE STRATEGIC OUTCOMES

Improved Islamic finance governance indicator ranking

In 2023, the UAE advanced to the 6th position in the international ranking of Islamic finance governance indicators by the Islamic Corporation for the Development of the Private Sector.

Improved Emiratisation across various sectors

The strategic outcome of improving Emiratisation across various sectors underscores the CBUAE’s commitment to enhancing workforce diversity and national participation. All targets were achieved, and the actual growth significantly surpassed expectations.




Improved financial stability and banking sector resilience




The UAE banking system has shown improvement in bank soundness indicators based on the CBUAE’s internal comparison methodology, which leverages data from IMF Financial Soundness Indicators. The aggregate comparison score has shifted from 14 to 12. The comparison was conducted among a select group of 25 peer countries from the G20, BRICS and the GCC. Similarly, the CBUAE’s Standalone Banking System Rating, measured through Moody’s Baseline Credit Assessment, improved from 19 to 9. This was also assessed against the CBUAE’s internal comparison methodology.

STRATEGY IN ACTION

Underpinning the achievement of these overarching objectives is a three-year strategy which commenced in 2023 and rests on eight actionable pillars.

PILLAR	ACTION
<div></div> <div>Support UAE competitiveness, diversity and growth in the financial sector in line with future economic trends</div>	<ul style="list-style-type: none">Engaged in a series of international partnerships, including with the Reserve Bank of India, with the aim to support trade growth.Initiated market research to enhance ease of access to banking products and services for SMEs while ensuring regulatory integrity and consumer protection.Launched the COP28 UAE TechSprint, a global initiative that promotes technology innovation in scaling sustainable finance alongside COP28, BIS and the Emirates Institute of Finance (EIF).Continued to deliver the Ethraa programme, an initiative by the EIF in conjunction with the CBUAE to equip Emirati talent with the necessary skills to pursue careers in the financial sector.Contributed to the development of AED as a regional settlement currency.
<div></div> <div>Establish robust and innovative financial market infrastructure and support shaping the future of the UAE’s financial technology and digitalisation journey</div>	<ul style="list-style-type: none">Issued the Digital Dirham as legal tender, approved 28 CBDC-specific policy decisions and completed a retail CBDC pilot to evaluate the feasibility of the Digital Dirham as a universal payment instrument.Provisioned the CBDC cloud infrastructure, built and deployed the CBDC Issuance and Distribution Platform and mBridge Minimum Viable Product platform. Additionally, onboarded 13 banks and tested the CBDC issuance, redemption and transfer, as well as cross-border payments on the mBridge platform.Established a new subsidiary, AI Etihad Payments, with a remit to develop commercial and retail payment activities.Launched a new Instant Payments Platform under the brand name Aani.Completed Phase 1 of the Domestic Card Scheme programme, which aims to route domestic card-present point-of-sale transactions through the UAESWITCH.Continued its support for the Arab Regional Payment System (BUNA), which is co-ordinated by the Arab Monetary Fund and aims to improve the clearing and settlement of cross-border payments in the Arab region.Implemented the GCC-RTGS (Real-Time Gross Settlement) (AFAQ) system—which is co-ordinated by the Gulf Payments Company—and recorded the first cross-border transaction initiated by a UAE-based commercial bank.

 <p>Enhance monetary and financial stability</p>	<ul style="list-style-type: none"> • Revamped the foreign exchange swaps facility for fine-tuning open market operations (OMOs) and introduced a US dollar liquidity facility, effectively complementing the Dirham-denominated liquidity insurance facility. • Adopted a surplus liquidity target to help calibrate OMOs to absorb sufficient surplus liquidity and increase the efficient transmission of the Base Rate to the financing conditions in the UAE. • Increased the reserve requirement for demand deposits from 7% to 11% as part of the phased exit from the TESS. • Enhanced the transparency of the DMF and its related monetary policy measures by publishing daily liquidity indicators relating to the aggregate balance of the banking sector. • Conducted a system-wide thematic review of asset quality for selected exposures above AED 500 million, including borrowers and related facilities. • Conducted two key stress tests in 2023, including a bottom-up assessment of banks' capital and liquidity buffers against a severe scenario, and a pilot climate risk stress test utilising NGFS climate scenarios.
 <p>Advance the regulatory and supervisory framework for LFIs</p>	<ul style="list-style-type: none"> • Amended regulations to permit Restricted License Finance Companies to offer Buy Now, Pay Later solutions. • Issued the "Principles for the Effective Management of Climate-related Financial Risks" to enhance the regulatory framework for managing climate-related risks. • Developed a series of new fintech regulations, including the Open Finance Regulation and the Sandbox Conditions Regulation. • Launched the digital Central Bank Rulebook, which aims to improve transparency and ease of access to regulatory documents. • Issued updated regulation on large exposures for the banking sector.
 <p>Enhance trust and confidence in the UAE's financial services sector</p>	<ul style="list-style-type: none"> • Established Sanadak - a dedicated financial services ombudsman independent unit to receive and handle consumer complaints and pursue redress if necessary. • Increased supervision activities and the conclusion of multiple assessments and analyses in 2023. These include the ongoing National Risk Assessment, Sectoral Risk and Topical Risk Assessments, Typology Reports, and Best Practice Guidance on Remedial Actions and Enforcement. • Supported cross-government efforts to combat financial crime leading to removal from the Financial Action Task Force's list of 'Jurisdictions under Increased Monitoring'.

 <p>Strengthen the role of the insurance sector in providing the necessary protection for society and the economy</p>	<ul style="list-style-type: none"> • Issued Decretal-Federal Law No.48 of 2023 on the Organisation of Insurance Operations to strengthen the legal framework for regulating the insurance sector. • Issued the standards for Shari'ah governance for Takaful insurance companies. • Issued two important standards pertaining to external Shari'ah audits for banking and Takaful insurance. • Issued the first Takaful Insurance Report.
 <p>Attract, retain, and empower top talent and provide efficient and effective corporate services and digital infrastructure</p>	<p>Human Capital</p> <ul style="list-style-type: none"> • Launched the first phase of the digital learning initiative, the 'Knowledge Bank'. • Launched the inaugural in-house Data-Based Decision-Making programme in collaboration with the EIF and Saïd Business School, which focuses on enhancing the leadership capabilities of the CBUAE's management. • Established the Graduate Development Programme in partnership with the EIF. • Launched the Advanced Executive Certificate, in cooperation with the Institute of Bankers, which is designed to build relevant specialist skills in prudential and conduct risk. <p>Risk Management</p> <ul style="list-style-type: none"> • Obtained the International Organisation for Standardization in Anti-Bribery Management Systems (ISO 37001:2016) certification. • Enhanced the CBUAE's operational resilience through a comprehensive review of its Business Continuity programme.
 <p>Implement innovative practices to further improve the flexibility, proactivity and responsiveness of the CBUAE work environment</p>	<ul style="list-style-type: none"> • Collaborated with the EIF to create the Innovation Hub, an initiative which promotes innovation and collaboration in the financial industry and supports the upskilling for UAE citizens by engaging with stakeholders to leverage their resources. • Sponsored 11 UAE nationals as part of the Future Tech Leaders programme.

06 2023 AT A GLANCE

AED
4.075 trillion

Size of UAE banking sector in consolidated total commercial bank assets

AED
53.2 billion

Size of UAE insurance sector in gross written premiums

12.6%

Increase in gross written premiums Y-o-Y

AED
128 million

Financial sanctions/penalties imposed by the CBUAE

247

Total number of prudential examinations conducted by the CBUAE in 2023

1006

Number of full-time CBUAE group employees

62%

CBUAE
Emiratisation rate

118

Enforcement cases decided

38

Foreign banks operating in the UAE

7

Number of stored value facilities licensed in the UAE

181

Total number of AML/CFT examinations conducted by the CBUAE in 2023

1.6%

Inflation rate

23

Local banks operating in the UAE

60

Number of licensed insurance companies in UAE

12

Number of retail payment services providers and card schemes licensed in the UAE

07 ECONOMIC DEVELOPMENTS



After a remarkable 2022, when real GDP expanded at 7.5% in the UAE, growth stood at 3.6% in 2023. This was largely due to OPEC+ agreed production cuts, with oil GDP contracting by 3.1% over the year. Non-oil economic activity also softened to 6.2% in real terms, down from 7.1% in 2022. For 2024, the CBUAE projects real overall output growth rebounding to 3.9%, primarily on the back of a strong growth in the non-oil sector.

With global growth projected by the IMF to remain steady at 3.1% in 2024, the UAE's expected outperformance shows a resilient economy amidst a still subdued global backdrop. UAE foreign trade significantly

contributed to last year's economic performance, with non-oil exports and re-exports increasing by 12.3% to reach AED 756 billion, driven by increased shipments of gold, diamonds, and telecommunications equipment. According to the IMF, global inflation is projected to decline from 6.8% in 2023 to 5.8% in 2024 due to easing supply-side constraints, tight monetary stances worldwide, loosening labour markets, and lower energy prices. Inflation in the UAE fell to 1.6% in 2023 from 4.8% in 2022, with the CBUAE forecasting an acceleration in inflation to 2.3% in 2024, which would still be significantly below the world average.

7.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

7.1.1 Economic Growth

The January 2024 update of the IMF World Economic Outlook (WEO) projects global growth at 3.1% in 2024, unchanged compared to 2023. Stronger than expected economic resilience in the United States and some large emerging markets, as well as fiscal support in China, led to a 0.2 percentage point upward revision compared to the October 2023 forecast. Despite the upward revision, the forecast for 2024 remains below the historical average of 3.8% during 2000-2019, largely on account of tight monetary stances worldwide, the gradual withdrawal of fiscal support amid high debt levels, and slow productivity growth.

Advanced Economies

Advanced economies are expected to grow by 1.5% in 2024, a marginal slowdown from the 1.6% estimated for 2023. The lagged effects of tighter monetary policies, gradual fiscal tightening, and a cooling labour market are likely to contain domestic demand. Growth in the euro area is instead projected to recover, increasing from a modest 0.5% to 0.9% in 2024. This increase reflects an uptick in household spending as the impact of energy price shocks subsides and inflation declines, supporting real income growth.

Japan’s growth is forecast to decelerate from an estimated 1.9% in 2023 to 0.9% in 2024, as the factors that stimulated the economy are gradually fading. This includes a depreciated yen, pent-up demand, and

a resurgence in business investment after previous project delays.

Emerging Markets and Developing Economies

The IMF forecasts that growth in emerging markets and developing economies will remain steady at 4.1% in 2024. This, however, masks diverging trends. Specifically, in emerging and developing markets in Asia, growth is anticipated to decelerate from 5.4% in 2023 to 5.2% in 2024, largely due to growth in China from 5.2% in 2023 to 4.6% in 2024. Despite the expected slowdown, the 2024 forecast for China was revised upward by 0.4 percentage points from October 2023, a reflection of stronger-than-expected growth and increased government investment in infrastructure aimed at countering the effects of natural disasters. India is expected to continue its strong growth performance supported by persistent strength in domestic demand. Yet, the economy is projected to expand at a marginally lower pace, with growth expected to decline to 6.5% in 2024 from 6.7% in 2023. Other regions, including emerging and developing Europe, the Middle East and Central Asia, and Sub-Saharan Africa, are instead forecast to grow faster than in 2023, projected at 2.8%, 2.9%, and 3.8%, respectively, for 2024.

GCC Countries

While growth is expected to accelerate from 0.6% in 2023 to 3.3% in 2024, oil production cuts continue to weigh on the outlook for GCC economies.

The non-hydrocarbon sector in several GCC countries continues to exhibit strong growth momentum, propelled by increased domestic demand, a rise in gross capital inflows, and the implementation of reforms aimed at diversifying the economy away from oil.

Table 7.1.1 Real GDP Growth in Selected Countries (%)

	2022	2023 estimate	2024 forecast
World Output	3.5	3.1	3.1
Advanced Economies	2.6	1.6	1.5
United States	1.9	2.5*	2.1
Euro area	3.4	0.5	0.9
Japan	1.0	1.9*	0.9
United Kingdom	4.3	0.3*	0.6
Emerging Market	4.1	4.1	4.1
China	3.0	5.2*	4.6
India	7.2	6.7	6.5
Gulf Cooperation Council (GCC)	7.9	0.6	3.3
UAE	7.5	3.6*	3.9**
Saudi Arabia	8.7	-0.9*	2.7
Qatar	4.9	2.4	2.2
Kuwait	8.9	-0.6	3.6
Oman	4.3	1.2	2.7
Bahrain	4.9	2.7	3.6

Source: IMF World Economic Outlook, January 2024; IMF Country Report No. 23/413, December 2023. Notes: GCC aggregates represent GDP-weighted averages of the member countries; *actual number. **CBUAE forecast.

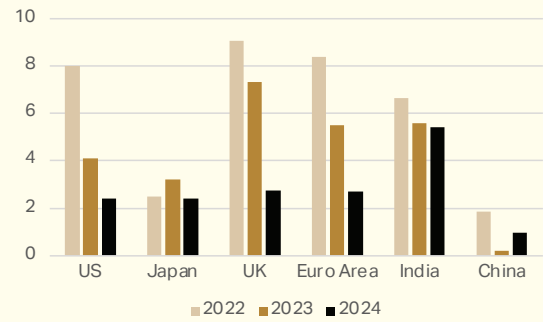
7.1.2 Inflation

Global inflation is projected to decline from 6.8% in 2023 to 5.8% in 2024. This deceleration reflects faster-than-expected inflation declines in many countries due to easing supply-side constraints, tight monetary stances worldwide, loosening labour markets, and lower energy prices.

Advanced Economies

According to the January 2024 update of the IMF’s WEO, inflation in advanced economies is forecast to decline from 4.6% in 2023 to 2.6% in 2024, supporting real income and household spending. In the US, annual inflation fell to 4.1% in 2023 and is forecast to decline further to 2.4% in 2024, reflecting the effects of tight monetary policies and decreasing energy prices. Similarly, the inflation rate in the euro area declined to 5.4% in 2023, largely on the back of weak commodity prices and is anticipated to reach 2.7% in 2024. In the UK, annual inflation experienced a fall throughout 2023, with an average rate of 7.3% for the year. It is expected to further decline to 2.8% in 2024, which can be attributed to decreases in both energy and food prices. Japan’s annual inflation rate increased to 3.2% in 2023, primarily driven by higher costs for utilities, daily necessities, and food. However, it is projected to moderate to 2.4% in 2024.

Figure 7.1.1 Annual Average CPI Inflation in Selected Economies (%)



Source: IMF World Economic Outlook, October 2023; national sources for 2023 and 2024.

Emerging Markets and Developing Economies

The IMF projects inflation in emerging markets and developing economies to decline to 8.1% in 2024 from 8.5% in 2023. In China, the inflation rate remained low at an average of 0.2% due to weak demand and falling energy prices. However, China’s inflation rate is expected to rebound to 1% in 2024 as global commodity prices increase. The inflation rate in India also declined compared to the previous year, averaging 5.6% in 2023, and it is expected to moderate to 5.4% in 2024. Inflation also moderated across other emerging markets in Asia, Eastern Europe, and Latin America, reflecting tight monetary stances.

GCC Countries

Similar to the rest of the world, GCC countries experienced lower inflation compared to 2022, with inflation rates below those observed in advanced economies and the majority of emerging markets and developing economies. For 2024, however, the inflation forecasts

display mixed trends across countries.

Table 7.1.2 Average CPI Inflation in GCC Countries (%)

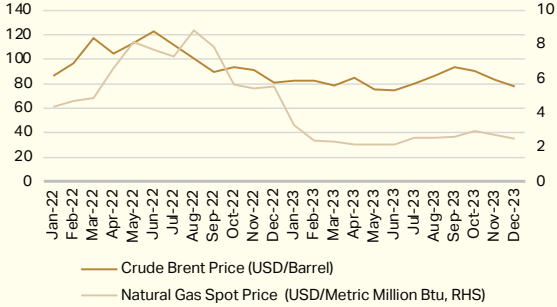
	2022	2023	2024 Forecast
UAE	4.8*	1.6*	2.3**
Saudi Arabia	2.5	2.3	2.2
Qatar	5.0	2.8	2.3
Kuwait	4.0	3.6	3.1
Oman	2.8	1.0	1.7
Bahrain	3.6	0.1	1.4

Source: IMF World Economic Outlook, October 2023; national sources.
Notes: *Federal Competitiveness and Statistics Centre, **CBUAE forecasts.

7.1.3 Commodity Prices

By year-end 2023, the price of Brent Crude reached USD \$78 per barrel, down from USD \$81 per barrel a year earlier. Oil prices peaked in September, exceeding USD \$90 per barrel for the first time in 10 months, driven by Saudi Arabia and Russia’s extension of voluntary production cuts until the end of 2023. Similarly, prices for natural gas fell to USD \$2.2 per MMBtu in the first half of 2023 from USD \$5.5 per MMBtu in December 2022 before rising to USD \$2.5 per MMBtu in December 2023. Gold and precious metals experienced a surge in prices amid global uncertainty and increased demand, as China reopened its economy earlier in the year and regional conflicts persisted through to the end of 2023. Gold prices reached USD \$2,063 per ounce at the end of 2023, up from USD \$1,824 in December 2022.

Figure 7.1.2 Brent Crude and Natural Gas Prices



Source: US Energy Information Administration (EIA).

7.1.4 Monetary Policy

Global financial conditions tightened significantly throughout 2023, primarily due to persistent inflationary pressures. These trends were exacerbated by the conflict between Russia and Ukraine, which led to higher energy prices and supply chain disruptions. Although financial conditions loosened somewhat towards the end of 2023 amid easing inflation, they tightened again at the beginning of 2024 due to expectations that major central banks would keep interest rates higher for longer.

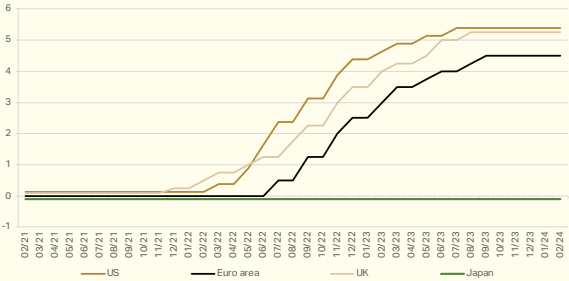
In response to persistent inflationary pressures, major central banks worldwide continued their tightening cycle in 2023, determined to bring inflation closer to their targets. The Federal Reserve implemented further hikes, with the Federal Funds Rate ultimately reaching 5.5% at the end of the year. The European Central Bank (ECB) similarly continued raising interest rates, though cautiously given the euro area’s economic fragilities stemming from the ongoing geopolitical tensions. The ECB’s main refinancing operations rate reached

4.5% by the end of the year. The Bank of England (BoE) also continued to battle inflation with rate hikes throughout the year, with the policy rate reaching 5.25% by year-end. The Bank of Japan (BoJ), facing mounting inflationary pressures and a weakening yen, began to shift its policy stance. While still maintaining a negative policy rate, the BoJ began to phase out its yield curve control policy, allowing the 10-year government bond yield to increase.

The ongoing disinflation process and resilient economic growth have reduced the threat of a severe downturn, making the risks to global growth more evenly balanced. On the upside, faster deflation could further ease global financial conditions. Stronger-than-projected fiscal support could also temporarily boost growth, although it may lead to more demanding adjustments in the future. Finally, increased momentum in structural reforms could enhance productivity and generate positive international spillovers. On the downside, new spikes in commodity prices due to geopolitical tensions – such as the continued conflict in the Red Sea – and disruptions in supply or enduring high inflation could prolong the period of tight monetary policies and put further strain on global financial conditions.

IMF projections indicate that policy rates for the Federal Reserve, the ECB, and the BoE are expected to remain at their current levels until the second half of 2024 before they begin to decrease as inflation gradually converges towards their targets. The BoJ, however, is anticipated to maintain a supportive monetary policy stance.

Figure 7.1.3 Policy Rates in Selected Economies (%)



Source: Bloomberg.

7.2 UAE EXTERNAL SECTOR

7.2.1 Non-Oil Trade

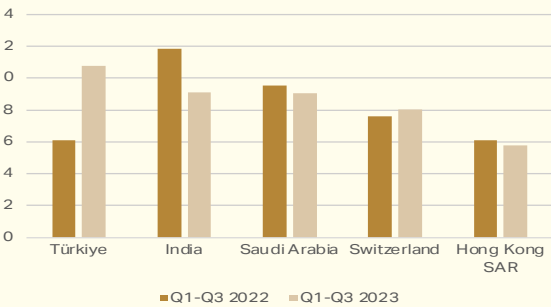
The sum of non-oil exports and re-exports for the first nine months of 2023 increased by 12.3% year-over-year, reaching AED 756 billion, up from AED 673 billion during the same period in 2022.¹ This increase is largely attributed to higher exports of gold, diamonds, and telecommunications equipment.

During the reporting period, non-oil exports increased by 12.4% compared to the same period in the previous year, amounting to AED 299 billion. Türkiye emerged as the UAE’s major non-oil export partner, accounting for 10.8% of exports, followed by India and Saudi Arabia, each with 9.1%. Overall, the most exported non-oil goods were gold, which accounted for 39.7% of the total non-oil exports, followed by aluminium at 6.5%, and petroleum oils and oils obtained from bituminous minerals at 6%. Re-exports also grew in the first three quarters of the year by 12.2% Y-o-Y, reaching AED 457 billion. Saudi Arabia,

holding a share of 10.6%, remained the most important destination for UAE re-exports, followed by Iraq (10.4%) and India (7.7%). Telecommunications equipment and diamonds dominated re-exports, accounting for 17.5% and 12.3% of the total, respectively.

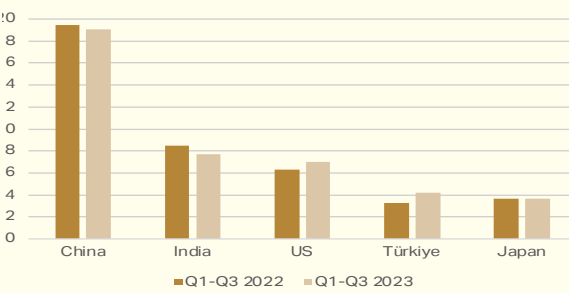
Imports increased significantly by 16.9% Y-o-Y in the first nine months of 2023 compared to the same period in 2022, reaching AED 1,013 billion. This increase was supported by robust growth in the non-oil sector and a slight appreciation of the currency vis-à-vis trading partners. Gold topped the list of the most imported goods, accounting for 19.2% of imports, followed by telecommunications equipment (9.8%), motor vehicles (6.4%), and diamonds (5.2%). China was the most important trading partner, accounting for 19% of total imports, followed by India at 7.7% and the United States at 7%.

Figure 7.2.1 Share of UAE Non-Oil Exports by Trading Partner (% of Non-Oil Exports)



Source: Federal Competitiveness and Statistics Centre.

Figure 7.2.2 Share of UAE Imports by Trading Partner (% of Imports)

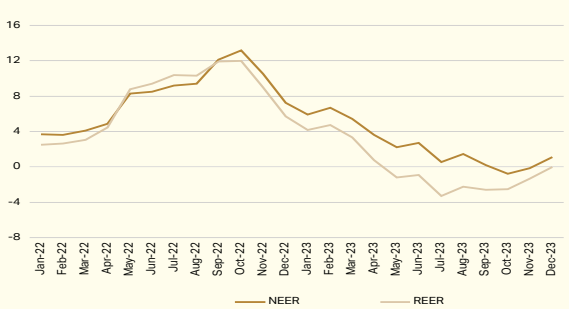


Source: Federal Competitiveness and Statistics Centre.

7.2.2 Exchange Rate

The nominal effective exchange rate (NEER), which considers the bilateral exchange rates of the UAE’s trading partners, appreciated on average by 2.4% in 2023. However, the real effective exchange rate (REER), which accounts for inflation differentials between the UAE and its trading partners, depreciated by 0.1% on average during the same period, as domestic inflation was lower compared to its main trading partners.

Figure 7.2.3 Nominal and Real Effective Exchange Rates (Y-o-Y, %)



Source: Bank for International Settlements.

7.3 ECONOMIC DEVELOPMENTS IN THE UAE

7.3.1 Real GDP Outlook

After an exceptional 2022, real GDP growth in the UAE stood at 3.6% in 2023, reflecting both oil production cuts as per the OPEC+ decisions and cooling non-oil economic activity. For 2024, the CBUAE projects real output growth to increase by 3.9% on the back of a robust growth in the non-oil sector. Growth is projected to accelerate to 6.2% in 2025, as oil production is forecast to increase significantly due to the June 2024 OPEC+ decisions, and forecasted trends in the non-oil sector are expected to continue.

Table 7.3.1. Real GDP Growth in the UAE (%)

	2021	2022	2023	2024	2025
				Forecast	Forecast
Overall GDP	4.4	7.5	3.6	3.9	6.2
Non-oil GDP	6.5	7.1	6.2	5.4	5.3
Oil GDP	-1.1	8.5	-3.1	0.3	8.4

Sources: Federal Competitiveness and Statistics Centre for 2021-2023, the CBUAE for 2024-2025.

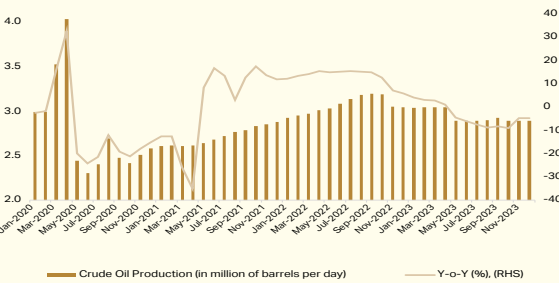
Oil GDP

The OPEC+ agreements to cut production by 1.2 Mb/d starting April 2023 weighed heavily on oil GDP for the year. The oil sector contracted by 3.1% in 2023. In 2024, oil output is expected to remain almost flat and grow at 0.3%, in line with the production plan announced at the June 2024 OPEC+ meeting. In 2025, oil GDP is expected to expand by 8.4% with production levels increasing

¹ At the time of writing, trade data is available up to September 2023.

significantly. However, the uncertainty surrounding these projections is high due to geopolitical reasons (Red Sea disruptions, conflicts in Gaza and between Russia and Ukraine), the risk of a global slowdown triggered by the need to hold higher interest rates for longer, as well as the possibility of further OPEC+ agreed changes in oil production.

Figure 7.3.1 Average UAE Crude Oil Production



Source: Organisation of the Petroleum Exporting Countries.

Non-Oil GDP

The non-oil sector continued to perform strongly in 2023. After recording a growth rate of 7.1% in 2022, non-oil GDP expanded by 6.2% in 2023. The strong performance reflects a variety of factors, including the recovery in global travel and tourism in the aftermath of the full removal of COVID-19-related restrictions, the strong performance in real estate and construction sectors propelled by migration inflows. Additionally, increased profits in the financial sector benefiting from high-interest rates, an expanding manufacturing sector, and increased activity associated with events such as COP28, have also contributed positively to non-oil sector growth.

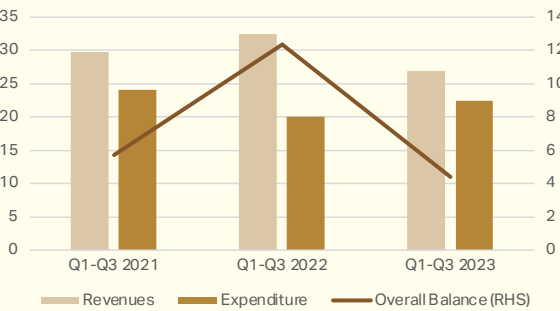
For 2024, the CBUAE projects non-oil GDP growth to slow to 5.4% due to a stabilisation of migration inflows, slowing growth in key trading partners, and carryover effects from a strong 2023. In 2025, non-oil GDP growth is expected to remain steady at 5.3%. Successful reform implementation and a decline in interest rates in advanced economies, which could boost external demand and trigger capital inflows in emerging markets, pose upside risks to non-oil growth. On the other hand, downside risks include new supply disruptions associated with geopolitical shocks, upticks in inflation that could lead to persistently tight monetary conditions and depressed external demand, as well as a deepening of property sector woes in China.

Government Investment and Consumption

The consolidated fiscal balance for the first nine months of 2023 posted a surplus of AED 61 billion, equivalent to 4.4% of GDP. This figure represented a 64.7% decline compared to the same period in 2022, primarily attributed to reduced oil-related revenues resulting from declines in both the value and volume of produced and exported crude oil. Total revenue fell by 18.4% Y-o-Y to AED 370 billion (26.9% of GDP). The recent introduction of a federal corporate tax is poised to further strengthen government finances, contributing to diversifying revenue sources away from the oil sector. Government expenditure increased by 10.1% to AED 309 billion (22.5% of GDP) in the first three quarters of 2023 compared to the same period in 2022. This increase

reflects a rise in current expenditure by 7.9% to AED 291 billion (21.2% of GDP) and an increase in capital expenditure by 64.1% to reach AED 18 billion (1.3% of GDP). Capital spending, however, remains below the pre-COVID 5-year average of 2.9% of GDP.

Figure 7.3.2 Consolidated Fiscal Balance (% of GDP)



Sources: UAE Ministry of Finance; Federal Competitiveness and Statistics Centre; CBUAE.

Private Investment and Consumption

The UAE’s private sector continues to perform strongly. The non-oil private sector Purchasing Managers’ Index stood at 57.4 by the end of 2023, significantly above the neutral 50 mark, indicating a dynamic business environment and sustained economic expansion. Consistent with this, private sector credit increased by 5.8% in 2023, reflecting sustained demand for credit. Employment data also points to a vibrant private sector. Additionally, the monthly average number of employees in the private sector increased by 10.3%; similarly, the private sector monthly average salary increased by 5.2%, providing individuals with increased purchasing power and thereby supporting consumer spending.²

7.3.2 Analysis of Selected Economic Sectors

Real Estate and Construction

Real estate and construction are key sectors of the UAE economy, accounting for 17% of the UAE’s non-oil GDP. At the same time, the dynamics in these sectors have significant implications for inflation, as housing and utility costs and rents represent more than one-third of the CPI basket. In 2023, the number of real estate sales transactions increased by 68.4% in Abu Dhabi to about 13,300, largely driven by a rise in apartment sales (89.5%) and, to a lesser extent, by villa sales (52.8%).³ Off-plan sales dominated the increase in the number of transactions, with a 103% rise compared to a 22.8% increase in existing property sales. The median sales price in Abu Dhabi in 2023 remained broadly stable for apartments at almost 13,000 AED per square metre, while for villas, it increased by 10.2% to 13,382 AED per square metre. The median price per square metre for off-plan apartments in Abu Dhabi remained broadly unchanged in 2023, while the price for ready apartments increased by 7.6%. The villa segment showed opposite trends, with the median sales price per square metre for units under construction up by 10.3% and the one for ready apartments declining by 2.3%. The number of sales transactions in Dubai reached over 110,000 in 2023, increasing by 44.7% compared to the previous year.

² Employment and wage calculations are based on data from the CBUAE Wage Protection System.
³ Calculations for Abu Dhabi are based on data from Quanta, and calculations for Dubai are based on data from the Dubai Land Department. The figures reported correspond to values after data cleansing.

Transactions grew by 49.9% for apartment sales, while they increased by 20.3% for villa sales. Similar to Abu Dhabi, off-plan sales registered a larger increase than sales of ready apartments and villas, 60.5% versus 26.2%, respectively. In 2023, the median sales price in Dubai marginally declined for apartments by 0.8% to 15,961 AED per square metre, while it increased by 26.6% for villas, reaching 11,741 AED per square metre. Yet, there are differences between off-plan and ready units. In 2023, the median price per square metre for off-plan apartments declined by 1.2% but increased for ready ones by 6.1%. Villas registered higher inflation rates, with the median sales price per square metre increasing by 29.4% for off-plan units and by 20.4% for ready units.

Rental prices for apartments and villas in Dubai increased by 10.1% and 14.3%, respectively, pointing to sustained demand despite growing supply. In Abu Dhabi, the increase in rental prices was significantly lower, at 1.3% for apartments and 1% for villas.

Tourism and Hospitality

The tourism and hospitality sector in the UAE, which accounts for 13% of the non-oil GDP, displayed a robust performance in 2023. In Abu Dhabi, the average hotel occupancy rate during the first 10 months of 2023 was 71%, slightly above the rate registered during the same period in 2022. The average revenue per available room increased by 24%, reaching AED 293. Dubai welcomed 17.2 million international visitors, marking a 19.4%

rise compared to the previous year. The number of international tourists to Dubai also surpassed the pre-pandemic levels recorded in 2019 by approximately 2.5%. Furthermore, the average occupancy rate for hotels in Dubai was 77%, up from 73% in 2022. The latter part of 2023 saw many hotels in Dubai and Abu Dhabi registering full occupancy as they welcomed guests attending the Formula 1 event in Abu Dhabi and the COP28 conference in Dubai.

2023 was also exceptionally busy for both the Abu Dhabi and Dubai airports. Abu Dhabi Airports experienced a substantial increase in passenger traffic, reaching almost 23 million passengers in 2023, up 44.5% Y-o-Y. Moreover, Abu Dhabi's global reach has notably widened, with 117 destinations now accessible via 28 airlines. The Abu Dhabi International Airport's Terminal A opened in November 2023 and welcomed 4.5 million passengers in its first 60 days, with more than 24,000 flights during this time. This new terminal is capable of accommodating 45 million passengers per year.

Dubai Airports recorded high traffic, reaching 87 million passengers in 2023 or 31.7% more than in 2022. As of end-2023, the Dubai International Airport connected to 262 destinations in 104 countries worldwide via over 100 international carriers. The outlook is also positive. Etihad Airways announced its plans to double its fleet to 150 aircraft, enabling it to triple its passenger capacity to 30 million by 2030. Emirates Airlines announced the acquisition of aircraft for USD \$52 billion (c. AED 191 billion), a move set to boost the

tourism sector and passenger traffic in the forthcoming years.

Manufacturing Sector

The manufacturing sector, representing 14% of non-oil GDP, made a significant contribution to the country's economy in 2023, adding AED 197 billion to the nominal GDP. This supports the UAE's ambitions to achieve its strategic initiative, Operation 300bn. The initiative aims to enhance the sector's role in the national economy and double its contribution to GDP to AED 300 billion for the period 2021-31. The sector recorded a 7% increase in productivity since the launch of the initiative in March 2021. Exports of manufactured goods also grew, rising by 17%, and efforts to support local supply chains resulted in a 17% growth in investment, reaching AED 61 billion.

7.3.3 Inflation

Inflation in the UAE declined to 1.6% in 2023 from 4.8% in 2022. The disinflation observed during the year largely reflects lower energy prices, which passed through to transportation prices' decline of 5.6%. Across the other components of the consumer basket, the largest price increases took place in Restaurants and Hotels (6.6%), Food and Beverages (3.8%), Furniture and Household Goods (3.2%), and Textile, Clothing and Footwear (3.2%). Data indicates that prices in Dubai increased by 3.3%, while

in Abu Dhabi, they remained broadly unchanged, recording a modest 0.1% increase. The difference between the inflation rates in the two Emirates is largely explained by the higher inflation and weight of the housing component in the Dubai inflation basket (5.7% and 40%, respectively) compared to the Abu Dhabi inflation basket (0.3% and 30%, respectively).

In 2024, CBUAE forecasts inflation to accelerate to 2.3%, still significantly below the world average, on the back of higher commodity prices (oil, wheat, and corn) and the expected depreciation of the exchange rate. At the same time, inflationary pressures from domestic demand are expected to be subdued in light of the deceleration in migration inflows, a slowdown in non-oil output growth, and some inertia from the previous year. In 2025, inflation is projected to remain unchanged at 2.3%.

7.4 MONETARY AND FINANCIAL DEVELOPMENTS IN THE UAE

7.4.1 Interest rates

Short-term interest rates in the UAE have continued to increase, following the trajectory of the effective US Federal Funds rate during the first half of the year. CBUAE raised the Base Rate from 4.4% at the end of 2022 to 5.4% in July 2023 and kept its key policy rate unchanged until the end of the year.

The gap between the overnight interbank rates and the Base Rate has recently started narrowing again. The Dirham Overnight Interest Average (DONIA) rate averaged around 32 basis points lower than the Base Rate during the year, reflecting large system-wide surplus liquidity in the banking sector, which increased by more than 10%, reaching AED 124.8 billion at the end of 2023. During the last quarter of the year, the gap between DONIA and the Base Rate started narrowing (by about four bps) as the CBUAE stepped up structural OMOs.

Consistent with higher policy rates, yields on Monetary Bills (M-Bills) kept increasing steadily in 2023. The average yield on the 28-day M-Bill rose from 4.54% in the first auction of the year to 5.61% in the last auction, with a secondary market spread to US Treasury Bills of between 20-30bps on average. Yields on longer-date M-Bills also increased, but the M-Bills curve flattened slightly.

After its premier issuance of Dirham-denominated Treasury bonds (T-Bonds) in 2022, the UAE federal government tapped the market twice last year. In January and March 2023, respectively, the UAE issued T-Bonds totalling AED 2.2 billion at maturities of two, three, and five years. It also launched Treasury sukuk throughout the year and issued a total of AED 5.5 billion with maturities of two, three, and five years. All primary auctions attracted strong investor interest and were more than five times oversubscribed.

CBUAE's issuance of M-Bills falls within the core objective of supporting the development of a local capital market and enhancing the collateralisation within the financial system. Together with the regular issuance of local currency bonds, M-Bills help establish a continuous yield curve, which provides a liquid and reliable benchmark and reference index for financial transactions within the UAE, including long-term mortgages and capital projects. The yield curve shows the interest rates of bonds at different maturities and indicates the expected return on the invested capital at different investment terms.

7.4.2 Banking Sector

The UAE banking sector's total assets expanded by 11.1% Y-o-Y in 2023, reaching AED 4,075 billion by year-end. The number of licensed banks remained at 61, while the number of banks' physical branches continued to decline, reflecting the ongoing digital transformation in the banking industry that has accelerated since the COVID-19 pandemic.

The CBUAE's credit sentiment survey pointed to consistent loan demand, and despite relatively high interest rates during the year, bank credit grew at a rate of 6% Y-o-Y - mainly directed to the private sector. The net non-performing loan (Net NPL) ratio continued to decline, reaching 2.4% as of the end of 2023, indicating improvements in the asset quality

indicators of bank loan portfolios.

Overall, the banking system in the UAE continued to demonstrate strong fundamentals, with adequate capitalisation, strong profitability, and sufficient liquidity and funding buffers, driven by robust deposit growth of 13.5% Y-o-Y. As a result, the loan-to-deposit ratio continued to edge lower, reaching 79% at the end of 2023, reflecting ample bank lending capacity.

7.4.3 Insurance Sector

In 2023, gross written premiums (GWP) in the insurance sector increased by 12.6% Y-o-Y, the highest rate over the past 10 years, reaching AED 53.2 billion at the end of the year. Similarly, gross paid claims increased by 12.4% Y-o-Y in 2023 and reached AED 31.1 billion. By the end of 2023, the retention ratio stood at 52.8%, and technical provisions increased to AED 74.6 billion, registering a growth rate of 8.8% Y-o-Y. New licences of related insurance professions increased by 2% to 499, while the number of insurance companies decreased from 62 in 2022 to 60 in 2023.

7.4.4 Equity Markets

By the end of 2023, the Abu Dhabi Securities Exchange's market capitalisation stood at AED 2.9 trillion. The Dubai Financial Market's (DFM) Share Price Index registered an 11.9% increase Y-o-Y, with the DFM market capitalisation reaching AED 671.9 billion.

08 OPERATIONAL HIGHLIGHTS

8.1 MONETARY POLICY AND DOMESTIC MARKETS

Dirham Monetary Framework

The UAE's domestic liquidity market and related monetary policies are guided by the DMF. In line with the DMF strategy to align with global standards, the CBUAE revamped the foreign exchange swaps facility as part of its fine-tuning OMOs, while a new US dollar liquidity facility was introduced as a complement to the Dirham-denominated liquidity insurance facility. It also adopted a surplus liquidity target to inform the size of OMOs based on internal liquidity forecasts. The move encourages banks to manage their daily funding needs through money markets while increasing the efficient transmission of the CBUAE's policy rate, the Base Rate, to financing conditions in the UAE.

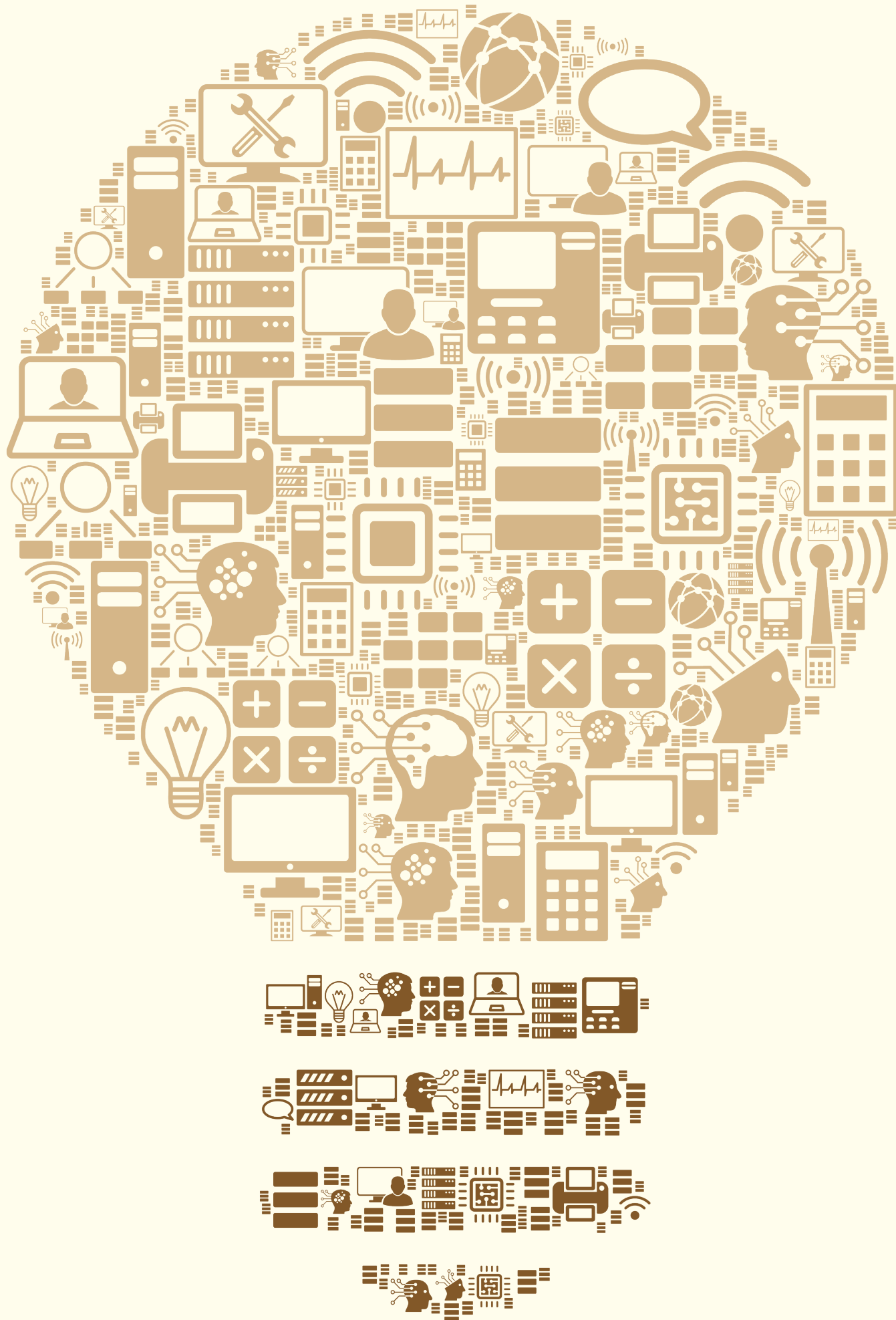
The CBUAE further improved its Monetary Policy and Domestic Markets website by publishing daily liquidity indicators of the banking sector's aggregate balance, which has helped further enhance the transparency of the DMF and its related monetary policy measures. Additionally, daily monitoring dashboards for interest rates were designed and implemented, providing yield curve analysis and network modelling for interbank lending. In its current form, the CBUAE's monetary policy framework aligns with leading central banks globally with respect to transparency.

The Evolution of M-Bills

The bi-weekly issuance of M-Bills accelerated during the year. Increased issuance is mainly driven by the structural surplus liquidity from FX inflows (resulting in net CBUAE FX purchases for a total of USD 45.8 billion). It also meets the growing demand for marketable and safe AED-denominated assets. With the outstanding stock reaching AED 172 billion, the increase in the issuance of M-Bills continues to foster greater collateral availability within the UAE's financial system.

By leveraging the issuance and trading infrastructure for M-Bills, the CBUAE has been able to support the development of the UAE Ministry of Finance's new Treasury Sukuk programme.

The issuance and trading infrastructure for M-Bills enabled the CBUAE to support the development of the UAE Ministry of Finance's new Treasury Sukuk (T-Sukuk) programme in 2023. The arrangement sees the CBUAE act as Registrar, Auction Agent, Issuing Agent and Paying and Calculation Agent. By year-end, the programme reached an outstanding volume of AED 5.5 billion, with primary auctions being heavily oversubscribed. The issuance of T-Sukuk also supports the commitment to consolidating the UAE's position as a leading global hub for Islamic finance. Furthermore, it points towards the robust nature of the CBUAE infrastructure for Dirham-denominated debt issuance as the CBUAE expands its usage to other UAE government-related bodies.



M-Bills contribute to the development of a stable Dirham-denominated pool of liquidity by providing safe assets to money market participants and investors.

The continuous issuance of both M-Bills and government-related securities continues to enhance the efficacy of the DMF and its policies while contributing to the maturity of the UAE's capital markets. Both of these types of securities underpin the evolving Dirham risk-free pricing benchmark for UAE financial transactions. Consequently, they are contributing to the development of multiple new financial instruments. They also create a stable Dirham-denominated pool of liquidity by providing safe assets to money market participants and investors.

Restoring Statutory Reserve Requirements

As part of its phased exit from the Targeted Economic Support Scheme (TESS), the CBUAE increased the cash reserve requirement for demand deposits from 7% to 11% in April 2023. The ratios applicable to demand and time deposits will then be 14% and 1%, respectively. The implementation of this change will conclude the pandemic-related liquidity support that has been provided to the UAE banking sector as part of the TESS programme.

Implementation of the Digital Dirham

The CBUAE assessed the potential impact of the Digital Dirham on monetary and financial stability and developed a set of core policy principles related to its implementation. Such principles ensure that the Digital Dirham can utilise all of the benefits that the new payment technology

offers while preserving monetary stability. As an alternative form of central bank money, the Digital Dirham complements the CBUAE's monetary policy tools, which are designed to preserve the integrity of the exchange rate regime and the UAE's open capital account. Once implemented, the Digital Dirham will help the CBUAE avoid the potential risk of currency substitution and adapt the settlement infrastructure to make use of greater digitalisation in managing system-wide liquidity. As firms, households and the government convert some of their cash holdings into the Digital Dirham, the amount of currency in circulation and bank deposits relative to the total money supply is likely to decline somewhat – all else being equal. However, planned holding limits and non-remuneration will circumscribe the use of the Digital Dirham and prevent the disintermediation of banks.

Digital Dirham serves to adapt the settlement infrastructure to make use of greater digitalisation in managing system-wide liquidity.

As the implementation of the Digital Dirham takes shape, the CBUAE will consider changes to current liquidity management and insurance facilities to ensure that the introduction of the Digital Dirham is consistent with the DMF's monetary policy objectives. However, the adoption of the Digital Dirham is unlikely to affect the current range of open market operations.

8.2 FINANCIAL STABILITY

The UAE financial sector demonstrated continued resilience in 2023, navigating global economic headwinds. This stability is attributed to a combination of factors, including strong capital and liquidity

buffers maintained by UAE banks, prudent lending practices, and a rise in overall banking sector profitability.

Macroprudential Policy Framework

The CBUAE actively employs a macroprudential policy framework to safeguard financial stability. As a key pillar of this, the CBUAE conducted its annual review of the Domestic Systemically Important Banks (D-SIBs) framework in 2023. While designations for existing D-SIBs (First Abu Dhabi Bank, Emirates NBD, Abu Dhabi Commercial Bank, and Dubai Islamic Bank) remained unchanged, one bank was identified as having heightened systemic importance. This bank will be subject to higher capital requirements. This targeted approach reinforces the D-SIB framework's effectiveness in mitigating risks associated with large, interconnected banks.

In 2023, a comprehensive assessment of the potential financial stability risks associated with the introduction of a CBDC was also carried out. This assessment informed the CBUAE's legal and policy framework, which was amended to incorporate specific safeguards. These include, but are not limited to, phased rollout, non-interest-bearing structure, and holding limits to help mitigate potential vulnerabilities or disruptions to the financial system, while allowing participants to maximise the benefits associated with CBDC adoption.

Stress Testing

The CBUAE carried out two key stress tests in 2023. A bottom-up stress test

assessed banks' capital and liquidity buffers against a severe scenario encompassing tightening monetary policy and a potential global downturn. Notably, the test incorporated borrower loan servicing capacity and the potential for unrealised losses on debt securities. The results demonstrated the banking sector's sufficient capital buffers to withstand such an adverse scenario while maintaining the provision of credit to the UAE economy.

The CBUAE also carried out a pilot bottom-up climate risk stress test, the details of which may be found in *Section 8.6 Sustainability*.

The CBUAE carried out two key stress tests in 2023.

Financial System Surveillance

Regular surveillance exercises have supported the CBUAE in monitoring the financial sector in 2023. These include the evaluation of vulnerabilities and resilience across both banking and non-banking institutions. The CBUAE also reports on financial system surveillance on both a monthly and quarterly basis covering banking sector soundness, thematic topics, potential risks and their mitigants. This is in addition to its continued assessment of global, regional, and domestic emerging risks to understand their impact on the UAE's financial system. Supported by the CBUAE's Financial Stability Policy Committee, this work ensures that the CBUAE can act to mitigate systemic risk by proposing macro-prudential policies and crisis management measures for the banking and insurance sectors.

8.3 SUPERVISION

8.3.1 Prudential Supervision of Financial Institutions

In 2023, CBUAE continued its work to ensure the safety and soundness of the financial sector by assessing banks’ asset quality, liquidity, operational resilience, and capital to protect depositors’ funds.

The risk rating tool developed under the risk-based supervision framework was a key driver for allocating resources to supervisory activities in 2023. To ensure optimum resource allocation, the CBUAE maintains a holistic view of the changing business landscape facilitated by dynamic interaction within the sector. The high-level summary of the supervisory onsite actions includes baseline examinations of three LFI, over 30 limited-scope and follow-up examinations, as well as over 100 thematic examinations. In addition, eight examinations of finance companies and 38 exchange houses were conducted during the year.

Baseline examinations are comprehensive examinations of all risks covered in the Risk Assessment Methodology. They intend to provide a full understanding of current risks within an LFI and their approach to managing and mitigating them. Limited scope examinations cover various risk areas, but with less intensity and may be used as a ‘health check’, where moderate deterioration across multiple risk elements is observed by the off-site supervision. Thematic inspections, however, may focus on, for example, activities that are common across a peer group or a special area evident in a number of institutions – such as the management of cyber security risk at banks. Follow-up examinations are performed to validate findings or actions proposed to be closed by LFIs.

The CBUAE’s total prudential examinations increased from 181 in 2022 to 247 in 2023.

The examination programme remained flexible to ensure that the CBUAE was responsive to emerging risks, fulfilling its legal mandate for effective supervision. The CBUAE issued multiple reports on a daily, monthly and quarterly basis in relation to offsite surveillance, including a daily broadcast of the latest published news and articles of the banking sector and a monthly report on banks’ dashboards, which comprise various supervisory and non-supervisory information relating to each entity. This is in addition to a quarterly report which calculates the supervisory score of each bank.

The CBUAE’s objectives for the baseline, follow-up, and thematic risk-based reviews of LFIs included the measurement of financial performance and validation of compliance with regulatory requirements. The CBUAE assessed the broad range of prudential risks, including quality of risk management, governance, capital, liquidity, earnings, credit quality, and control measures over service and operational resilience.

To ensure the sector continuously meets cyber-related regulations, the CBUAE also regularly conducts audits and spot-checks on LFIs in this area.

The CBUAE continues to develop its ability to perform specialised supervision through subject matter experts and training initiatives. The quality and consistency of the examination process, which is an ongoing focus, has been further streamlined through the establishment of the Standard Operating Procedures.

Table 8.3.1 Prudential Examinations Conducted in 2023

	2022	2023
Bank Baselines/ Full Scope	7	3
Bank Limited Scope/ Follow-up	15	30
Bank-Thematic Examinations-Banks Covered	76	117
Finance Companies	14	8
Exchange Houses	29	39
Insurance Company Baselines	1	2
Insurance Company Limited Scope	8	10
Insurance Company Thematic Examinations	4	8
Insurance Related Professions	27	30
Total	181	247

Table 8.3.2 Total Number of Licensees by Type in 2023

	Total as of 2022	Total as of 2023
Banks	61	61
Finance Companies	16	17
Exchange Businesses	84	77
Representative Offices of Banks	63	62
SVFs	4	7
Retail Payment Services Providers	2	12
Monetary Intermediaries ⁴	3	0
Insurance Companies	62	60
Insurance Brokers	168	163
Insurance Agents	29	26
Insurance Consultants	51	52
Loss and Damage Adjusters	136	146
Actuaries	74	74
Third-Party Administrator Companies “TPA”	21	22
Insurance Policies Price Comparison Websites	13	16
Hawala Providers	45	37
Total	832	832

⁴ The activities under the Monetary Intermediaries currently fall within the licensed activities by SCA, and it is not considered as a licensed activity by the CBUAE post the issuance of the Decretal Federal Law No. (14) of 2018 Regarding the Central Bank and Organisation of Financial Institutions and Activities.

8.3.1.1 Banking

Foreign Operations of Local Banks

As part of its approach to undertake risk-based supervision on a consolidated basis, the CBUAE continued strengthening its regulatory cooperation with relevant overseas counterparts in 2023. This supports the CBUAE’s ongoing oversight of the foreign operations of locally incorporated banks.

The CBUAE conducted two overseas examinations based on its risk-based supervisory plan. It also refined its requirements for Long-Form Audit Reports (LFAR), which focus on assessing the application of its prudential standards to key risk areas of the overseas operations of locally incorporated banks. The seven UAE national banks within the LFAR scope covered 13 foreign jurisdictions.

To support its monitoring capabilities, the CBUAE leverages the LFAR as an additional supervisory tool to extend the reach of supervisory activities of the foreign and cross-border operations of local banks. In such circumstances, LFAR provides additional information to enable the CBUAE to assess any evolving or emerging risks on a consolidated basis. Additionally, the LFAR approach and scope were amended to be more risk-focused across banks with cross-border activities.

Thematic Examinations

Advanced Asset Quality Thematic Examination

By year-end, the CBUAE had conducted a system-wide thematic review of asset quality for selected exposures that each exceed AED 500 million to understand their performance across all material lenders. The key objective of the thematic review was to enhance and improve the consistency of the borrowers’ credit risk classifications across the banking system. This ensures the adequacy of provisions for non-performing loans and identifies any potential future risks that require close monitoring and review.

Thematic Examination of Corporate Governance

The CBUAE conducted a thematic examination of corporate governance for selected banks in 2023. This specifically assessed the effectiveness of mechanisms through which the board and senior management execute their oversight responsibilities.

Thematic Examination of Pillar 2 Capital

The CBUAE conducted a thematic review of a selection of banks on their respective Pillar 2 capital planning. This has helped to identify areas of weakness in banks’ internal processes when assessing their capital needs in relation to their risk appetite and profile.

Thematic Examination of Liquidity

The CBUAE also conducted a targeted liquidity review to ensure that banks have a robust liquidity management framework and risk management strategy, suitable policies and procedures, and an adequate level of resilience to liquidity stress.

Thematic Examination of Stress Testing

Alongside the Pillar 2 analysis, the CBUAE conducted a thematic examination of stress testing of selected banks to review their internal stress testing frameworks. This work helps the CBUAE to understand how banks assess their material risks and the adequacy of their respective capital resources and liquidity.

Thematic Examination of Exposure to Climate Risk

For the first time, the CBUAE conducted a targeted review of how selected banks incorporate the management of material climate-related financial risks into their business strategies while supporting their respective implementation of corporate governance and internal control frameworks.

Thematic Examination of Regulatory Reporting

The CBUAE carried out a thematic examination of regulatory reporting by selected banks to ensure prudential and statistical returns are submitted in adherence to regulatory requirements. They included the examination of adherence to timelines, accuracy and consistency, including the assessment of

the appropriateness of the bank’s senior management’s responsibilities and the role of internal and external auditors. The outcome of the thematic examinations was communicated to individual LFIs highlighting any observed issues with required action points to be addressed within a stipulated period.

Commercial Credit System

The CBUAE enhanced its Commercial Credit System (CCSYS) to increase the effectiveness of commercial credit monitoring, ensuring that lenders have greater visibility on the financial obligations of their existing and potential borrowers while also improving data quality and supervisory oversight.

Analytics and Modelling

Continuing to enhance its risk analytics capabilities to support banking supervision, the CBUAE conducted forward-looking diagnostics of bank data, which it uses to prioritise examinations. These enhanced analytical capabilities enable the CBUAE to assess the implications of the sudden rise in interest rates on banks across their balance sheet. This new tool was deployed to further support supervisory initiatives, guide banks, and engage at a deeper level to identify, measure and mitigate interest rate risk.

In addition, each UAE bank submitted a self-assessment against the CBUAE’s Model Management Standards and Guidance, which was published in 2022. Supervisory oversight of financial risk modelling continued with the review of these submissions.

This work led to the implementation of a model management framework in most banks, with the objective of ensuring that banks’ models meet quantitative and qualitative standards. This enhances the CBUAE’s ability to support informed decision-making and reduce the risk of potential underestimation of provisions and overestimation of capital.

Supervisory Review and Evaluation Process

The CBUAE completed seven Supervisory Review and Evaluation Processes (SREP) in 2023, which included all D-SIBs, in addition to other large national banks, which were sampled for close monitoring by the SREP Steering Committee. SREP is based on each financial institution’s group consolidated structure. The CBUAE SREP framework involves a comprehensive assessment of an institution’s overall business model, corporate governance, and the risk to and adequacy of its capital and liquidity resources.

Fitness and Propriety Assessments

As fitness and propriety assessments are critical for maintaining the integrity and stability of the financial system, Board members, designated functions, and senior management must undergo the Fit and Proper Process prior to their nomination, appointment, reappointment or contract renewal. The CBUAE continues to ensure that relevant individuals within authorised LFIs have undergone the Fit and Proper Process in accordance with international criteria and must be approved by the CBUAE. By the close of the year, the CBUAE had conducted 531 Fit and Proper assessments across LFIs and rejected a total of 194 appointment requests.

Regulatory Cooperation

A Memorandum of Understanding (MoU) enables CBUAE and host supervisors to share information based on the principle of reciprocity. The main activities within this framework include handling requests from the Securities and Commodities Authority, UAE federal ministries, law enforcement agencies, and UAE and foreign regulators.

Table 8.3.3 Banks (by Category)

Banks (By Category)	National	Foreign
Commercial	21	27
Restricted	1	11
Specialised	1	-
Total	23	38

Table 8.3.4 Banks (by Emirate)

Banks (By Emirate)	Abu Dhabi	Dubai	Sharjah	Ajman	Umm Al Quwain	Ras Al-Khaimah	Fujairah
Commercial	14	26	4	1	1	1	1
Restricted	6	6	-	-	-	-	-
Specialised	1	-	-	-	-	-	-
Total							61

8.3.1.2 Insurance

Insurance Regulation

Following its replacement of the UAE Insurance Authority in 2021, the CBUAE issued a series of regulatory changes to ensure robust insurance regulation in the UAE. This included the issuance of the Decretal Federal Law No. (48) of 2023 Concerning Organisation of Insurance Operations, which sets out an earlier deadline for the publishing of financial statements by insurance companies. Additionally, the law sets out regulations related to presenting financial statements to the general assembly and letters of guarantee for branches of foreign companies. Furthermore, the law includes additional requirements for branches of foreign insurance companies to obtain a letter of guarantee with a determined minimum amount.

IFRS-17 and ICFR

As part of its work in maintaining high standards for internal controls and processes for the insurance industry, the CBUAE oversaw the implementation of IFRS-17 and Internal Controls

for Financial Reporting (ICFR) by insurance firms and mandated that insurance firms meet a minimum list of requirements in their reporting.

Following the initial year of implementation of IFRS-17 by insurance companies, which became effective on 1 January 2023, the CBUAE monitored the quality of financial reporting through a review of quarterly submissions by insurance companies. This is to ensure a proper transition from the previous standard and the accuracy of its technical implementation. To support this, the CBUAE held a series of meetings with insurance companies and appointed actuaries to guide the technical aspects of the IFRS-17 transition.

To ensure effective ICFR in the UAE insurance sector, and after the CBUAE's review of ICFR assessments submitted by insurance firms, additional requirements for the management assessment process were issued. The process entails management's assessment of the company's internal controls, including those implemented to ensure the reliability of their financial reporting process, in accordance with the applied internal control framework. These internal controls are also designed to mitigate the risk of material misstatement in financial reporting. This can also aid insurance firms in the identification of deficiencies in the design or the operating effectiveness of the tested controls. The CBUAE expects the IFRS-17 implementation to drive significant changes and, in many instances, a re-design of companies' internal processes and controls.

Industry Inspection Visits and Communications

The CBUAE played an active role in maintaining a sound insurance sector by conducting onsite visits to licensed entities throughout the year. Inspections applied a risk-based approach to confirm entities' ability to manage risks and ensure the protection of policyholder rights.

The CBUAE conducted 50 different onsite inspections during 2023 that covered insurance companies and related professions.

The 50 onsite inspections comprised 20 insurance companies and 30 related professions, and the primary outcome of the supervisory activities were:

- 1- Identification of the degree of compliance with relevant insurance laws and regulations, including those pertaining to governance, risk management and internal controls, and operational risk
- 2- Monitoring the progress towards compliance with newly issued regulatory requirements, such as the implementation of first-year requirements of Corporate Governance Regulations for Insurance Companies
- 3- Ensuring that insurance companies' management has taken the necessary corrective actions following the CBUAE's onsite examination findings

Additionally, the CBUAE held a series of interactive industry workshops to communicate regulatory updates and

developments. The workshops targeted insurance companies, actuaries, and external auditors.

Insurance Industry Growth

Driven by the increase in the number of licensed-related professions, the insurance industry in the UAE continued to grow in 2023, with the number of licensed insurance entities increasing from 553 to 559. Gross written premiums (GWP) increased by 12.7% year-on-year to AED 53.2 billion, and the number of written insurance policies reached 7.7 million. Total assets invested by insurance companies amounted to AED 73.9 billion at the end of Q3 2023 compared to AED 69.5 billion for the same period in 2022.

Table 8.3.5 Total Number of Insurance Companies in 2023

	National Conventional	National Takaful	Foreign
Total	23	10	27
	60		

8.3.1.3 Non-Banking Entities

Finance Companies

The CBUAE completed eight risk-based finance company (FC) examinations in Abu Dhabi and Dubai. The examinations’ outcomes led to findings requiring actions from the finance companies with specified due dates. Additionally, regulatory return forms were analysed quarterly, and the risk scores of individual FCs, which considers the size of an institution and its relative risk profile, were updated. The CBUAE’s interim

risk assessment guides the supervisory activities to be undertaken during the ongoing on- and off-site supervision of the FC.

Table 8.3.6 Number of Finance Companies Licensed

	Conventional	Islamic
Total	9	8
	17	

Exchange Houses and Remittances

The 72 licensed and actively operating exchange houses supervised by the CBUAE continue to play a key role in providing access to financial services for those unable to participate in the formal banking sector and offering competitive remittance prices to the public. Expatriates, particularly low-wage earners, can receive their salaries securely and remit funds back to their home countries on a regular basis, often to support families.

The CBUAE conducts regular assessments on exchange houses via onsite examinations or offsite reviews of their business. A rating of the exchange house, alongside an analysis of their impact on the financial sector, complexity of the business model and business volumes, are all considered during the annual review. These reviews help to form the following year’s supervision strategies.

Table 8.3.7 Number of Exchange Houses and Remittances Licensed by Type

	Category A	Category B	Category C
Total	8	34	35
	77		

Payments Providers

Throughout the year, the CBUAE continued to attract new financial technology providers, with an increase in the number of applications and licences for retail payment services and card scheme (RPSCS) providers and stored value facilities (SVF). Stored value facilities licensees may hold and store customer funds for purchasing goods and services. Retail payment services and card scheme licensees primarily facilitate the routing of payments from one point to another, without the ability to store customer funds except temporarily for transit, typically up to 24 hours.

Table 8.3.8 Number of Retail Payment Services Providers and Card Schemes

	Abu Dhabi	Dubai
Total	1	11
	12	

Table 8.3.9 Number of Stored Value Facilities

	Abu Dhabi	Dubai
Total	3	4
	7	

Technical readiness evaluations were performed on about 20 applicants in progressive stages of readiness for

licensing under the RPSCS and SVF Regulations. The evaluation consisted of assessing applicants’ compliance with critical elements of the regulations, and their operational readiness to undertake deposit-taking and/or payment activities in accordance with their responsibilities to UAE citizens and residents.

Thorough examinations were undertaken on a number of existing licensees to assess continuous compliance with their regulatory obligations, verify the operation of their business in accordance with the material on which licenses were provided, and evaluate the ability of the licensee to manage its risks and sustain its financial performance objectives.

8.3.2 Financial Crime Supervision

In August 2020, the CBUAE established a dedicated department to handle all anti-money laundering, counter-terrorism financing, and counter-proliferation financing matters. This mandate has since expanded to incorporate financial crime risks. It is tasked with supervising compliance across the UAE financial services sector in line with the nation’s Financial Crime Legal Framework and National Risk Assessment. The department’s primary responsibility is to ensure LFIs comply with AML/ CFT requirements, with the objective of countering money laundering, the financing of terrorism and proliferation financing, in accordance with guidelines set by FATF and the CBUAE.

The CBUAE’s strong domestic collaboration with the UAE’s law enforcement authorities led to the completion of multiple assessments and analyses in 2023. These include the ongoing National Risk Assessment, Sectoral Risk and Topical Risk Assessments, Typology Reports, and Best Practice Guidance on Remedial Actions and Enforcement.

This increase in resources has allowed the CBUAE to increase the number of inspections, with the number reaching 181 in 2023. This compares to 94 in 2022.

The department’s creation has significantly increased the CBUAE’s supervision of LFIs and Registered Hawala Providers (RHPs). As a result, all entities are subject to supervisory engagements through onsite and targeted risk-based inspections.

Additionally, the CBUAE mandated that all LFIs in the UAE must appoint a ‘skilled person’ from the CBUAE-approved panel of professional service firms to conduct annual reviews on compliance and effectiveness of their respective AML/CFT programmes.

This work resulted in several LFIs and RHPs were subjected to remedial actions and enforcement fines totalling AED 113,675,000. The CBUAE also participated in national thematic reviews on Targeted Financial Sanctions and Suspicious Activity Reporting.

Using the latest technology and data analytics, the CBUAE is better able to identify and address emerging risks, bringing greater coherence across all

inputs from real-time examinations, thematic reviews, compliance officer reports, industry events and adverse news monitoring on LFIs. These inputs are used to update AML/CFT risk scores and, where required, enable appropriate supervisory interventions.

Ongoing education and active engagement with international partners are cornerstones of the AML/CFT approach. They provide the opportunity to share ideas and experiences and adapt emerging best international practices. Regular engagement with the public and private sectors also embeds a whole-of-government approach to all aspects of AML/CFT.

In 2023, the CBUAE issued more than 20 notices, circulars, and guidance in the field of anti-money laundering, counter-terrorist financing and counter-proliferation financing. This is in addition to conducting over 35 outreach sessions to more than 36,000 participants from the private sector.

Following a lengthy focus on building a robust AML/CFT framework, the Financial Action Task Force removed the UAE from the list of ‘Jurisdictions under Increased Monitoring’ in February 2024. The UAE is committed to maintaining a proactive role in fighting financial crimes at the international level through a risk-based supervisory approach.

Table 8.3.10 Supervisory Activities in the Area of Market Conduct and AML/CFT Supervision in 2023

Supervisory Contacts 2023	Banks	Finance Companies	Insurance Agents	Insurance Companies	Insurance Brokers	Exchange Houses	Registered Hawala Providers
On-Site Examinations	26		16	16	8	43	39
Offsite AML/CFT Data Returns	57	8				78	36
Total	83	8	16	16	8	121	75

8.3.3 Market Conduct and Consumer Protection

Market Conduct

Raising Awareness and Improving Compliance

The CBUAE conducted several reviews of LFIs during the year to assess their understanding and application of consumer protection regulations and standards. These reviews were largely carried out through on-site examinations.

Additionally, several off-site supervisory activities were carried out by the CBUAE ranging between thematic reviews, desk reviews, and complaints data analysis. Thematic reviews are greater in scope and aim to test compliance in a particular area of focus on an industry-wide level with many institutions. Desk reviews target a limited number of LFIs with a specific and highly targeted regulatory scope. Complaint data analysis reviews are conducted to identify common trends, providing the CBUAE with the ability to react and address issues in a timely manner.

Auto Finance Balloon Product Thematic Review

A review of auto finance providers in 2023 identified a ‘balloon structure’, which indicated a potential case of non-compliance with regulatory guidelines. A balloon product structure can be designed in a way that a balloon payment towards the maturity of the loan facility circumvents debt burden ratio (DBR) regulatory limits, presenting a breach of consumer protection standards. Following reviews, several companies were found to be offering the product to the market. A number of discussions, portfolio reviews and deep dives into product structures were carried out – leading to the identification of gaps that could expose consumers to financial risk.

Salary Advance Offering to Vulnerable Consumers Thematic Review

The review of salary advance products provided by LFIs set out to assess levels of fairness and due care when dealing with vulnerable low-income consumers. The exercise has addressed the often-excessive fees associated with the salary advance product, as well as disclosure and transparency issues while lending to these consumers.

Credit Card Consideration into Debt Burden Ratio Assessment Thematic Review

Several participating LFIs underwent an analysis of their consumers' debt ratio and affordability computation of credit cards for retail customers in 2023. The review involved intensive meetings with participating LFIs as well as reviews of their policy documents that led to the discovery of bad practices in relation to the CBUAE's regulations, leading to poor consumer outcomes.

Small and Medium Enterprise Research

With a view to empowering small and medium-sized enterprises (SMEs), the CBUAE initiated market research to inform its policy formulation on easing access to banking products and services and ensuring regulatory integrity and consumer protection. Detailed reports covered literature review, benchmarking, and gap analysis to provide a holistic understanding of the UAE SME market and a strategic roadmap. The roadmap details recommended initiatives to address the gaps and challenges faced by the SME segment in the UAE market.

Additional Measures

To promote ethical conduct of business operations, the CBUAE began enforcing principles-based consumer protection regulations for LFIs. These specifically pertain to customer's mobility in being able to move their banking relationships – including lending facilities – from one LFI to another based on competitive pricing or better services. Some LFIs have been found to embed and delay unnecessary processes through delaying the issuance of liability letters, mandating that customers provide copies of counter offers, or prolonging retention processes, amongst other practices, that make it difficult for customers to move to a different LFI. Additionally, four guidance notes were issued to provide LFIs with a better understanding of consumer protection regulations and standards.

Consumer Protection

Regulatory Enhancements and Consumer Protection

Following amendments to the Federal Laws governing the banking and insurance sectors, new regulations were introduced to enhance consumer protection and dispute resolution mechanisms, such as the CBUAE's issuance of the Ombudsman Regulation.

Sanadak

Following a resolution from the CBUAE Board of Directors and amendments to the Decretal Federal Law no. 14 of 2018 regarding the Central Bank & organization of financial institutions and activities, and its amendments, the CBUAE issued the Ombudsman Regulation.

Subsequently, the CBUAE established Sanadak, an independent financial ombudsman unit with a mandate to receive and handle consumer complaints. Sanadak is the first independent and unique complaint resolution entity in the Middle East and North Africa region, catering specifically to the consumers of LFIs and insurance companies. Sanadak provides easy access and quick turnaround to the consumers for the resolution of their complaints and be guided by the principles of efficiency, accessibility, fairness, and integrity. The CBUAE worked throughout 2023 to engage with stakeholders across the financial industry to assess their feedback and requirements in the setup of the entity.



Expediting the Court Case Management System

To further optimise the execution of court orders addressed to LFIs, the CBUAE has enhanced the effectiveness of its Court Case Management System (CCMS). This was achieved through the issuance of a comprehensive rulebook delineating the distinct roles and responsibilities of courts and LFIs.

A primary objective of the enhanced CCMS is to improve operational efficiencies and reduce processing times and associated costs. It also streamlines the overall operations related to court order execution by LFIs. Through the updated CCMS framework, court orders are now issued more swiftly, benefiting both LFIs and consumers by facilitating quicker resolutions of disputes.

CCMS was successfully integrated into the Abu Dhabi Judiciary Department in 2023, acting as a benchmark that can be replicated across the UAE. The CBUAE's collaboration with the Abu Dhabi Judiciary Department also provides scope to standardise and improve the efficiency of legal proceedings relating to the settlement of financial disputes in the UAE.

The CBUAE continues to prioritise the refinement and improvement of the CCMS, with ongoing efforts to extend its integration and benefits across the nation.

8.3.4 Legislation and Regulation

8.3.4.1 Legal Framework

Key elements of the UAE’s legal and regulatory framework were enhanced in 2023, in line with international best practices. The processes and topics that were reformed included recovery, large exposures for banks, risk management and internal controls for the insurance sector, and support for the financial technology sector.

During 2023, the CBUAE prepared Decree-Law No. 48 on the Organisation of Insurance Operations. The legislation is part of the CBUAE’s efforts to strengthen the legal framework for regulating the insurance sector. The law includes a range of provisions, including the need for insurance companies to maintain technical provisions, a solvency margin and an outline of licensing requirements for insurance companies and branches of foreign insurers. The new law also provides the CBUAE with expanded powers to intervene in insurance-related lawsuits, allowing it to submit clarifications, data or information it deems appropriate in relation to a lawsuit.

Legal Status for the Digital Dirham

To provide a legal basis for the issuance of a CBDC, several amendments have been made to the Central Bank Law [Decretal Federal Law No. (14) of 2018] regarding the Central Bank and the Organisation of Financial Institutions and Activities. These amendments allow the CBUAE to issue currency in digital form, grant the Digital Dirham legal tender status, and ensure that all references to the UAE Dirham in other laws also refer to the Digital Dirham.

8.3.4.2 Regulatory Framework

The CBUAE continued to strengthen its regulatory framework and supervisory capabilities to ensure the stability and resilience of the financial sector. Key developments in the CBUAE’s regulatory landscape included updates to the banking and insurance sectors, advancements in financial technology, and the introduction of new regulations and standards. The CBUAE also focused on enhancing its supervisory education initiatives to foster collaboration, increase understanding of its supervisory standards, and develop the skills of its supervision workforce. Further regulatory developments relating to sustainability are set out in *Section 8.6 Sustainability*.

The CBUAE Regulations issued in 2023

- Large Exposures Regulation (updated)
- Revised Finance Companies Regulation (short-term credit)
- Recovery Planning Regulation
- Risk Management and Internal Controls Regulation for Insurance Companies
- Risk Management and Internal Controls Standards for Insurance Companies
- Principles for the Effective Management of Climate-Related Financial Risks
- Standards for Shari’ah Governance for Takaful Insurance Companies
- Establishment of an Ombudsman Unit for the United Arab Emirates Regulation
- Clarifications re ESCROW Account Requirements for Insurance Operations
- Regulation to Impose Financial Sanctions for Strict Liability Violations
- Sandbox Regulation
- Open Finance Regulation



Recovery and Resolution

To further strengthen its recovery and resolution frameworks, the CBUAE issued the Recovery Planning Regulations. The regulation’s objective is to improve LFI’s governance and forward planning to effectively deal with periods of financial stress. The regulation requires LFIs to maintain recovery plans that set out how they will identify, manage, and recover from instances of severe stress on their business.



Banking Regulatory Framework

In alignment with international standards and best practices, an updated regulation on large exposures for the banking sector was issued in 2023. The new framework provides additional detail on how large exposures must be measured and how groups of connected counterparties should be identified.



Insurance Regulatory Framework

The CBUAE’s insurance regulatory framework was further developed, with accompanying standards for risk management and internal controls, that introduced clear requirements

for key control functions and risk management for insurance companies.

Following the issuance of the governance regulation and standards in 2022, the CBUAE issued the standards for Shari'ah governance for Takaful insurance companies in 2023. These set out how Takaful insurance companies must be run in compliance with the principles of Islamic finance.



Open Finance

As part of the CBUAE's strategic focus on financial

technology and innovation, a series of new regulations were developed, including the Open Finance Regulation.

The Open Finance Regulation establishes a framework for the licensing, supervision and operation of an Open Finance Framework in the UAE. Its primary objective is the establishment of a function for the secure, consented exchange of financial data and the initiation of financial services between regulated parties. These include financial data holders, service owners and market participants as data recipients and service initiators. The framework aims to encourage innovation, promote competition and benefit consumers through enhanced transparency across financial products and services.



Regulatory Sandbox

The Sandbox Conditions Regulation sets out the rules

for participants to test innovative business models, products and services in relation to financial services within a defined space and duration and subject to appropriate regulatory oversight and supervision. The regulation also helps participants to understand how best to structure their business in a regulatory-compliant manner whilst also enabling the CBUAE to understand the impact of such participant's activities on the pursuance of their objectives.



Buy Now, Pay Later

Addressing the emergence of short-term credit products,

often referred to as 'buy now pay later', the CBUAE introduced a new 'restricted finance company' licence type within its revised finance companies regulation. The new licence type is specifically tailored to the provision of short-term credit, introducing clear requirements that are applicable to lenders and products of this type.



Digital Rulebook

With a view to widening access to regulatory

information; the CBUAE launched its digital Rulebook at <https://rulebook.centralbank.ae/en>. The site is a service developed specifically for

the financial industry and the wider public as a platform that provides seamless access to all laws, standards, and guidelines. It includes additional features such as dynamic referencing between documents, the provision of consolidated versions, viewing an amendment history, and the ability to view all documents directly in a browser on any device.



Supervisory Education Initiative

The Supervisory Education Initiative

aims to provide a comprehensive approach to outreach, foster collaboration and increase understanding of the CBUAE's supervisory standards and regulatory framework.

The CBUAE, in collaboration with the Irish Institute of Bankers, continued to deliver the accredited Risk-Based Supervision Professionals programme to ensure that its supervisors are equipped to identify risks within LFIs and take appropriate supervisory action. In addition, the launch of the Advanced Executive Certificate, which is designed to build relevant specialist skills in prudential and conduct risk, resulted in the certification of 39 UAE national supervisors.

To support the upskilling of its Emirati workforce, the CBUAE launched the Graduate Development Programme in partnership with the EIF. As part of its first cohort, the programme empowered nine UAE nationals to build in-demand skills across many of the CBUAE's functional areas.

The CBUAE also sponsored 11 UAE nationals as part of the Future Tech Leaders programme - an initiative undertaken by the EIF in collaboration with Saïd Business School, the University of Oxford, and the Massachusetts Institute of Technology. The programme is designed to educate participants on the technological advancements shaping the financial industry, focusing on data science, software engineering and cybersecurity. The participants proceeded to join the CBUAE to begin careers in the areas of information technology and data management.

With a view to increasing understanding of the CBUAE's regulations and ensuring compliance, the Regulatory Update Series was launched in 2023, with several internal and external briefings having been held. These provided an overview of new or updated regulations and standards, in addition to guidance and support to enhance awareness of the CBUAE's regulatory framework. External sessions were arranged for the industry, at times in collaboration with other entities such as the UAE Banks Federation or the EIF. Internal sessions are arranged for CBUAE's supervisory staff. Where required, internal briefings are supplemented with customised workshops to introduce tools to support the examination of LFIs.

8.3.5 Enforcement

The CBUAE continued to take vigorous enforcement actions to provide effective deterrence against breaches of legislation and regulatory framework. In accordance with UAE law, the CBUAE’s regulations, and FATF guidelines, the CBUAE’s enforcement actions included significant financial sanctions, remediation of regulatory violations, the appointment of a monitor with oversight powers, validation and reporting on an LFI’s remediation compliance and revoking licenses to conduct any financial activity in the UAE.

118 Enforcement Decisions Made in 2023

The CBUAE decided on 118 cases in 2023, imposing financial penalties totalling almost AED 128 million. The financial and administrative penalties were directed at banks, insurance companies, exchange houses, insurance-related professions, finance companies and hawaladars.

Additional enforcement action was taken against banks and an insurance company on behalf of the UAE Ministry of Finance. These were for matters pertaining to non-compliance with the Foreign Account Tax Compliance Act and Common Reporting Standard. These actions were taken in collaboration with the Organisation for Economic Co-operation and Development and the United States Internal Revenue Service.

Table 8.3.11 Enforcement Sanctions and Penalties in 2023

LFI Category	Number of Firms Penalised	Financial Penalties in AED
Banks	23	97,040,000
Insurance Companies	36	5,078,405
Insurance Related Professions	31	4,464,000
Exchange Houses	19	14,135,000
Finance Companies	2	2,016,000
Hawaladars	7	5,000,000
Total	118	127,733,405

By the end of the year, 10 banks had received financial sanctions. One bank was sanctioned for its weak AML and sanctions compliance framework. The remaining 13 were sanctioned for failing to comply with the Emiratisation Legislation.

One insurance company received a financial sanction for its failure to comply with AML Legislation, whilst three insurance companies were administratively sanctioned for their failure to comply with the Insurance Legislation. The remaining 32 insurance companies were financially sanctioned for their failure to comply with the Emiratisation Legislation.

Additionally, financial sanctions were imposed against 30 insurance-related professions and firms for their failure to comply with the Emiratisation Legislation, while one insurance-related profession and firm was administratively sanctioned for a failure to comply with the Insurance Legislation.

10 exchange houses were financially and administratively sanctioned for their failure to comply with the AML Legislation. The remaining nine exchange houses were financially sanctioned for their failure to comply with the Emiratisation Legislation. One finance company was financially sanctioned for its failure to comply with the Emiratisation Legislation, whilst another finance company was sanctioned for its failure to comply with the AML Legislation. Seven Hawaladars were administratively sanctioned for their failure to comply with the AML Legislation.

Grievances and Appeals Committee

The Grievances and Appeals Committee received and decided upon four appeals of Enforcement Notifications decided by the CBUAE. Three of the appeals were rejected, while the fourth appeal was partially satisfied.

Table 8.3.12 Grievances and Appeals Decided in 2023

LFI Category	Outcome	Number of cases
Exchange House	Appeal rejected	4
Hawaladar	Appeal rejected	
Exchange House	Appeal rejected	
Exchange House	Appeal partially satisfied	

8.4 ISLAMIC FINANCE

The CBUAE’s Higher Shari’ah Authority provided support to Islamic finance in 2023 through a series of initiatives to promote sustainability, increase compliance with regulations, improve governance arrangements, and strengthen Takaful insurance.

Prudential Aspects

A key to the CBUAE’s objectives is to strengthen the Shari’ah compliance and governance framework within the UAE. Consequently, several new resolutions and standards were issued, helping to guide relevant stakeholders. The CBUAE also issued two important standards pertaining to external Shari’ah audits for banks and Takaful insurance companies that complement previous Shari’ah governance standards and provide further guidance to institutions. Despite external Shari’ah audits not currently being mandatory for Islamic financial institutions, the standards set out a detailed framework in the event that an institution, in line with its governance practices, elects to carry out an external Shari’ah audit.

Takaful Insurance

The Takaful fund is now considered a separate legal entity that provides further protection to Takaful customers following the issuance of Law No. 48 (the “Insurance Law 2023”). The CBUAE also issued a Shari’ah governance standard for Takaful insurance companies, which requires Takaful companies to implement a three-lines of defence approach in their

Shari'ah governance frameworks. This is to provide further assurance that Takaful insurance companies comply with Islamic rules and principles, including promoting Emiratisation within Shari'ah governance functions.

Communication and Regulatory Cooperation

Setting out to enhance its communications with key stakeholders in 2023, the CBUAE conducted high-level meetings with the aim of developing the Islamic finance industry within the country. These meetings were particularly important following the issuance of Decree-Law No. (50) of 2022 – the Commercial Transaction Law. Additionally, the CBUAE collaborated with foreign regulators to achieve standardisation and enhancement of Islamic finance practices while also hosting experience-sharing events and discussions to foster collaboration and regulatory harmonisation amongst stakeholders.

8.5 EMIRATISATION OF THE FINANCIAL SECTOR

The CBUAE plays a key role in supporting LFIs in the UAE to improve their Emiratisation strategies and achieve set targets.

Key 2023 Emiratisation achievements supported by the CBUAE

- **LFIs surpassed targets, achieving 145% growth Y-o-Y, with a total of 2720 Emirati nationals joining against the target of 1875**
- **Emiratisation in critical roles reached 31% – an 8% increase Y-o-Y**
- **The Ethraa programme has successfully facilitated the placement of UAE nationals into critical roles, supported by a specialised training plan**
- **Emiratisation in executive committee roles (a direct report to a CEO or General Manager) is 21% – a 20% increase Y-o-Y**
- **UAE nationals' representation in critical roles in the insurance sector reached 23% – a 26% increase Y-o-Y**

In 2023, the CBUAE enhanced the overall efficiency and effectiveness of LFIs' Emiratisation workflows by tracking and monitoring key indicators and targeting shortfalls.

To provide one-on-one guidance, the CBUAE also organised Emiratisation meetings with Chief Human Resources Officers, Emiratisation Managers, and Compliance Managers from LFIs. The discussions focused on the Emiratisation strategy, future plans and the support needed from the CBUAE to meet the set targets. Additionally, in partnership with the EIF, the CBUAE organised four 'open days' to assist organisations in identifying UAE nationals who can join LFIs.

The CBUAE also actively onboarded suppliers with high In-Country Value to incentivise stronger Emiratisation strategies and build the local economy.

8.6 SUSTAINABILITY

Sustainability is pivotal to the CBUAE's mandate of ensuring financial stability and a competitive financial system for the UAE. As part of its work to contribute to the UAE's sustainability strategy, the CBUAE sets out to develop a resilient financial sector by ensuring that climate-related risks are managed appropriately by LFIs.

The CBUAE supported the UAE's Year of Sustainability through a wide range of initiatives, overseen by the high-level Committee on Green and Sustainable Finance, chaired by H.E. Khaled Mohamed Balama, the Governor. The Committee's role was to lead the CBUAE's wide-ranging sustainable finance efforts throughout the year and at COP28, including the delivery of sustainable finance initiatives.

COP28 UAE TechSprint

During Finance Day at COP28, the CBUAE announced the results of the COP28 UAE TechSprint – a global initiative that promotes technology innovation in scaling sustainable finance. Hosted by the CBUAE and in partnership with the COP28 Presidency, the BIS, and the EIF, the initiative attracted 126 proposals from 31 countries. All prototypes submitted were judged by an independent panel of expert judges who selected the top innovative solutions and were recognised at the CBUAE's event at COP28. The application

of advanced technologies to sustainable finance encompassed artificial intelligence, distributed ledger technology, internet of things and sensory technologies.



Sustainable Finance

During Finance Day at COP28, the CBUAE announced that it had united the UAE banking sector to mobilise AED 1 trillion in sustainable finance by 2030, advancing the forward-looking sustainable finance ambitions of the UAE and setting the foundations for enabling sustainable transformation and climate action.

Global Climate Action Through Fostering Sustainable Finance

The CBUAE, in cooperation with the COP28 Presidency, organised a global event on Finance Day at COP28 to drive global sustainable finance efforts towards a sustainable future. Held on Finance Day at COP28, the event aligned with the CBUAE's strategy to lead sustainable finance efforts to enable climate action. The CBUAE event at COP28 brought together global leaders of key international financial institutions to address global climate action and foster sustainable finance.

Climate Stress Testing

The effect of climate transition risk on corporate lending by UAE banks to risk-vulnerable sectors was evaluated in 2023. The pilot bottom-up climate risk stress test analysed the impact from the top 20 largest corporate borrowers from these vulnerable sectors on the banking sector by utilising NGFS climate scenarios. The impact was measured through risk metrics such as the probability of default and loss in the event of default by the corporates.

Regulatory Developments

To enhance the regulatory framework for managing climate change risk in the financial sector, the “Principles for the Effective Management of Climate-related Financial Risks” were developed and released. The Principles were developed through a collaboration with the UAE Sustainable Finance Working Group (SFWG), which the CBUAE is a member of, with the aim of raising standards in identifying, managing and mitigating climate-related financial risks. Informed by the Basel Committee principles on climate-related financial risk management, the SFWG’s Principles also constitute a declaration of common understanding among its members.

Additionally, the SFWG finalised the ‘Principles for Sustainability-Related Disclosures for Reporting Entities’, highlighting principles for enhanced transparency and the quality of reporting on environmental, social, and governance matters. A summary of high-level design principles was also prepared to inform the development of the UAE sustainable

finance taxonomy. They set out to improve market clarity and transparency, identify green investment opportunities, and provide the industry with business and investment opportunities for sustainable economic growth.

Supervision

During 2023, the CBUAE completed its first Climate Related Financial Risk Thematic Review, spanning selected banks and insurance companies to determine their compliance with the Principles for the Effective Management of Climate Related Financial Risk. The results of the review were discussed with the industry at the UAE Financial Sector Sustainability Roundtable. This marks the CBUAE’s first supervisory efforts to ensure banks manage their climate-related financial risks prudently and effectively.

Financial Sector Sustainability Roundtable

To support the CBUAE’s efforts of promoting sustainability in the financial sector and facilitating collaboration and knowledge sharing amongst stakeholders, the UAE Financial Sector Sustainability Roundtable was organised to highlight the latest regulatory and industry developments in the UAE. The 2023 Roundtable brought together senior members of the CBUAE with selected CEOs and senior executives in the financial sector to discuss the opportunities for the development of sustainable finance in the UAE, address key issues and challenges faced by LFIs and highlight regulatory efforts relating to the management of climate-related financial risks.

Islamic Sustainable Finance

To encourage Islamic financial institutions to integrate sustainability into their practices and activities in 2023, the CBUAE produced ten directives aimed at instituting and effectively implementing sustainability-related measures.

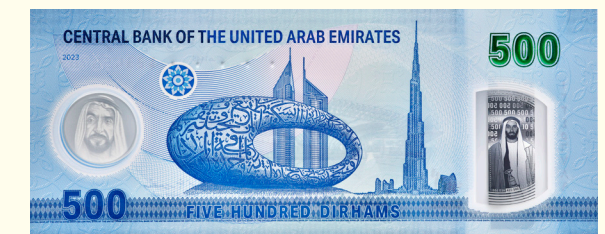
Global Islamic Sustainable Finance Roadmap

Ahead of COP28, the CBUAE hosted meetings and a roundtable event that was attended by the Islamic Financial Services Board (IFSB), the General Council for Islamic Banks and Financial Institutions (CIBAFI), and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These meetings considered various contemporary Islamic finance issues pertaining to sustainability and climate-related risks and opportunities, accounting and disclosure standards, and Shari’ah standards. The event resulted in the signing of a ‘declaration of commitment’ by all three parties.

Currency Management

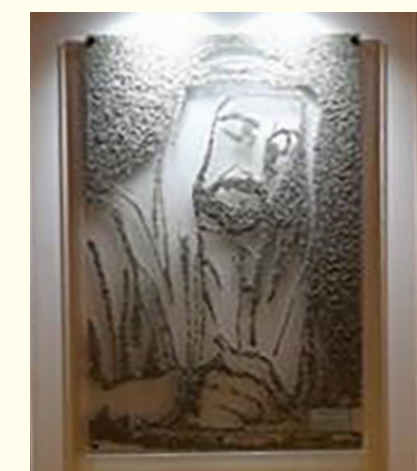
The CBUAE’s new AED 500 banknote was launched during the UAE’s Year of Sustainability. The banknote’s design showcases the country’s globally recognised approach to climate action and innovation of sustainable solutions to climate change. The banknote features imagery of the Terra Sustainability Pavilion in Expo City Dubai, where COP28 was hosted, the Museum of the Future, Emirates Towers and the Burj Khalifa, which derives most of its power from solar energy.

The CBUAE’s new banknotes are up to three times more durable than traditional currency and is constructed from a fully recyclable, advanced polymer material, reducing its environmental impact.



Art Through Banknotes Initiative

The CBUAE Youth Council, in collaboration with the Ministry of Culture and Youth, organised an art competition during COP28 called ‘Art Through Banknotes’. Participating artists created art using shredded banknotes on one of the following themes: finance, trade, or gender equality. The winners were selected based on input from a panel of judges and public voting. The CBUAE Youth Council also organised the CBUAE Goes Green initiative, raising awareness and engaging CBUAE employees in sustainability.



8.7 PAYMENTS
INFRASTRUCTURE

8.7.1 Payment Systems

With innovation at the core, the CBUAE is strategically committed to establishing and operationalising advanced payment services and infrastructure that contribute to financial stability and financial inclusion in the UAE.

In accordance with its operational plan for the year 2023, the CBUAE conducted on-site assessments against the Principles for Financial Market Infrastructures (PFMI) for its payment systems, namely the Fund Transfer System, UAE Switch, Image Cheque Clearing System, Direct Debit System, and Wage Protection System. The results of these assessments, along with pertinent recommendations, have been shared with the CBUAE’s SRC for implementation by the relevant entities. Several recommendations have been formulated especially to strengthen the legal basis of the system in terms of electronic certification, cybersecurity, and protection of personal data. Furthermore, enhancements have been suggested regarding the risk management framework, including the establishment of a risk map in line with the PFMI and the adoption of the Cyber Resilience Oversight Expectations. Additionally, the CBUAE has led the initiation of the first assessment of the cross-border payment system BUNA against the PFMI, with the collaboration of other concerned central banks.

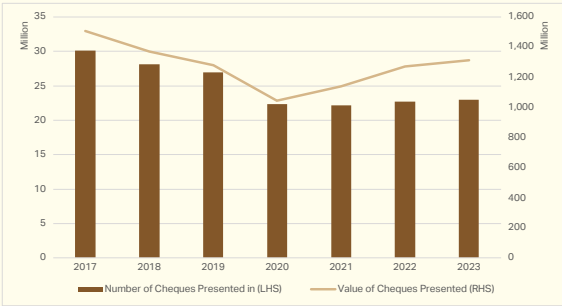
Operational Capacity of the UAE’s
Payment Systems

The CBUAE’s payment systems remained operationally robust in 2023.

a) Image Cheques Clearing System
(ICCS)

A total of 22.9 million cheques worth AED 1.31 trillion were presented to the ICCS in 2023, representing an increase of 1.11% in volume and 3.14% growth in value compared to 2022.

Figure 8.7.1 Cheques presented through ICCS

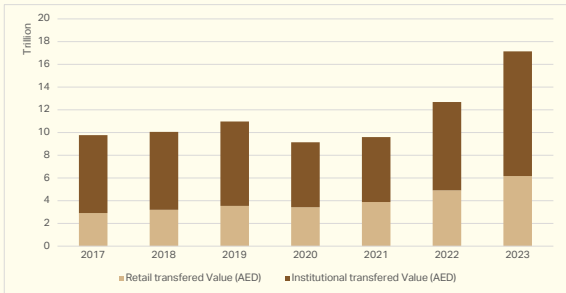


Source: CBUAE

a) UAE Funds Transfer System (UAEFTS)

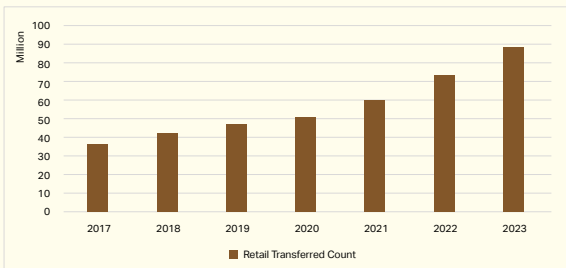
The UAEFTS processed 89.5 million transactions worth AED 6.14 trillion for retail transfers in 2023, an increase of 20% in volume and 25% in value compared to 2022. A total of 674,000 institutional transfers worth AED 11 trillion were made as of 31 December 2023, Y-o-Y increase of 6.44% in volume and 41.31% in value.

Figure 8.7.2 Value of Transactions through UAEFTS



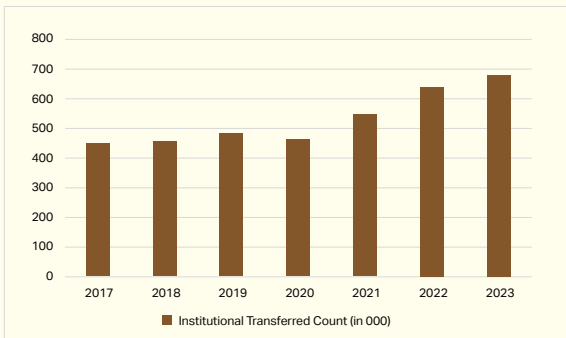
Source: CBUAE

Figure 8.7.3 Number of Retail Transactions through UAEFTS



Source: CBUAE

Figure 8.7.4 Number of Institutional Transactions through UAEFTS

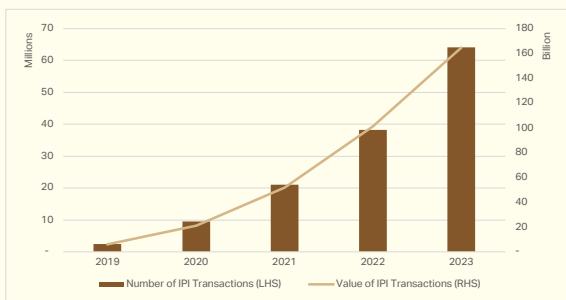


Source: CBUAE

b) Instant Payment Instruction (IPI)

The number of transactions on the IPI increased noticeably to 64.1 million transactions, amounting to AED 164.7 billion in 2023, compared to 38.3 million transactions, amounting to AED 101.02 billion in 2022.

Figure 8.7.5 Value and Number of Transactions using IPI

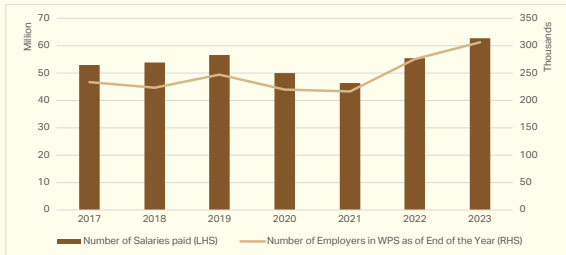


Source: CBUAE

c) UAE Wages Protection System (UAEWPS)

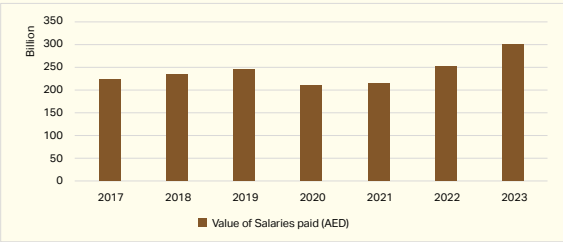
The average number of registered employees on the UAEWPS increased from 5.2 million in 2022 to 5.9 million in 2023. The total number of salaries increased from AED 55.5 million to AED 62.6 million, and there was an increase in the value of salaries paid, amounting to AED 296 billion compared to AED 246 billion in 2022. Furthermore, the number of employers registered on 31 December 2023 in the WPS increased to 306,450 from 275,680 - an increase of 11% compared to 2022.

Figure 8.7.6 Transactions through UAEWPS



Source: CBUAE

Figure 8.7.7 Value of Salaries Paid through UAEWPS

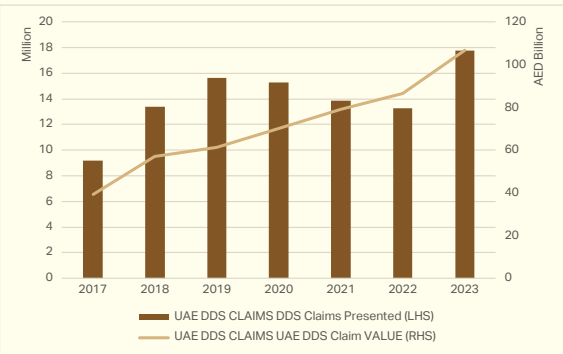


Source: CBUAE

d) UAE Direct Debit System (UAEDDS)

The UAEDDS performed 17.8 million transactions worth AED 106.9 billion in 2023 - a 33.96% increase in the number of transactions compared to 2022. The value of transactions increased by 23.74% Y-o-Y.

Figure 8.7.8 Claims through UAEDDS

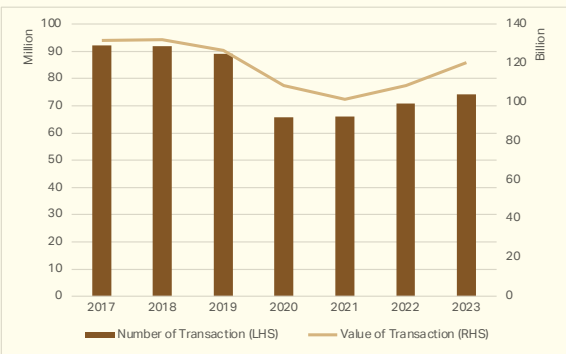


Source: CBUAE

e) UAE Switch System (UAE SWITCH)

The UAE SWITCH processed 74.2 million transactions worth AED 120 billion in 2023. This is a Y-o-Y increase of 4.72% in the number of transactions and 10.89% increase in value.

Figure 8.7.9 Transactions Processed through UAE SWITCH in 2023

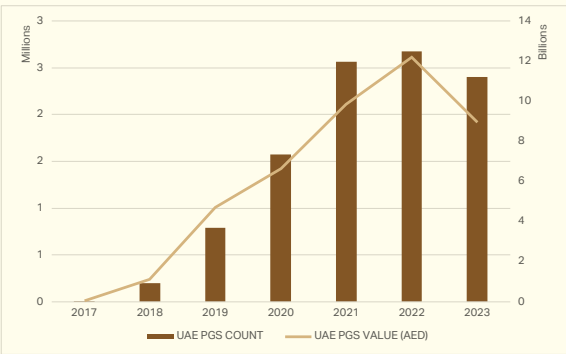


Source: CBUAE

f) UAE Payment Gateway System (UAEPGS)

The UAEPGS processed 2.4 million transactions worth AED 8.95 billion in 2023 - a decrease of 10% in volume and 27% in value compared to 2022.

Figure 8.7.10: Transactions Processed through UAEPGS



Source: CBUAE

Instant Payments Platform: Aani

As part of its NPSS, the CBUAE developed the IPP in 2023. Branded 'Aani', the platform was developed with the participation of a group of pilot financial institutions. Aani represents the beginning of the next generation of payment services in the region, giving the flexibility needed to respond to the rapidly changing payment market.

The new platform provides seamless, secure, and instant digital payments. Furthermore, in keeping with the UAE's vision of becoming a global digital payment hub, Aani enables LFIs and payment service providers to offer customers an enhanced user experience. While nine participants are already actively using the platform, the CBUAE is working towards onboarding other eligible financial institutions and payment service providers to the platform.

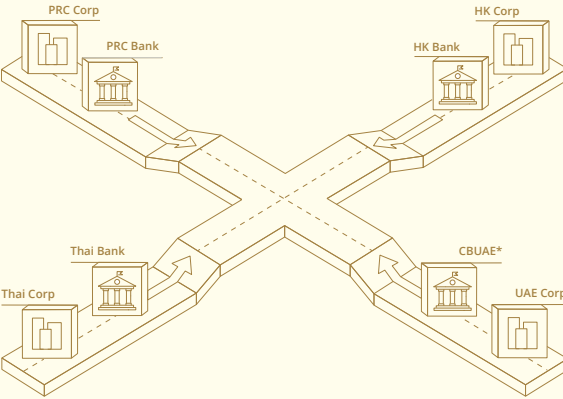


CBDC and mBridge

The CBUAE made substantial progress in the design, build, testing and deployment of the payment infrastructure of its CBDC, the Digital Dirham, in 2023. The CBUAE provided the core infrastructure and onboarded 13 LFIs to the Issuance and Distribution platform as well as mBridge. The CBUAE can now issue, redeem and distribute the Digital Dirham to UAE LFIs using a custom-built DLT blockchain platform in token form. The Issuance and Distribution platform will be used for all CBDC channels, including retail, wholesale and cross-border.

mBridge, a multi-CBDC common platform for wholesale cross-border payments, also saw further advancement in 2023. As a founding member, the CBUAE worked with the Digital Currency Institute of the People's Bank of China, the Bank of Thailand, the Hong Kong Monetary Authority, and the BIS Innovation Hub Hong Kong Centre to develop mBridge into becoming an MVP. Utilising distributed ledger technology, mBridge aims to facilitate real-time peer-to-peer cross-border payments using CBDCs, with a focus on international trade. It is designed to provide efficient, low-cost, and instant cross-border payments in central bank money, with the goal of enhancing trade. Collaboration with other central bank founding members led to the formulation of an appropriate legal framework and governance model to support the launch of the mBridge MVP.

The CBUAE also deployed the mBridge MVP platform in the UAE and completed the integration between mBridge and the CBUAE's Issuance and Distribution platform, RTGS. In January 2024, His Highness Sheikh Mansour bin Zayed Al Nahyan, the Chairman of the CBUAE, made the first live mBridge MVP cross-border Digital Dirham payment of AED 50 million to China to settle a capital market transaction.



Global participation in mBridge continues to grow, with over 25 observing members consisting of other global central banks and institutions such as the IMF and the World Bank. Many of the observing members are expected to upgrade their status and participate in the pilot stage of mBridge in the coming months.

Domestic Card Scheme: Jaywan

Further enhancing the national digital payments infrastructure, the CBUAE completed Phase 1 of the new DCS programme, Jaywan. The key objectives set by the CBUAE for the development of its DCS are to support the localisation of card payment operations within the UAE, increase the competitiveness of electronic payments from a cost perspective, improve the oversight of card transactions and enforce payment data residency locally.

A phased approach to implementing the DCS proceeded throughout 2023, with the 1st Phase routing all card-present POS transactions in the UAE through the UAESWITCH. This Phase was fully completed in cooperation with all card acquirers and issuers operating in the country.

Regional Payment Systems: AFAQ and BUNA

Regionally, the CBUAE participated in AFAQ, aiming to enable the real-time processing of cross-border payments among GCC countries when using their domestic currencies. The CBUAE is working towards improving how UAE-based entities use the system as a reliable, safe and faster means of cross-border payments in the region.

In parallel, the CBUAE continued its support for BUNA, which aims to improve the clearing and settlement of cross-border payments in the Arab region. This is enabled through the use of a basket of settlement currencies, among which is AED as the first settlement currency in BUNA. The CBUAE is also working closely with UAE-based banks to ensure they can benefit from BUNA services and pass on its benefits to their customers.

Financial Messaging

The CBUAE continued to align with global best practices, introducing ISO20022, a standard on financial messaging. The standard is being implemented in a phased approach across certain key business areas within the CBUAE, in line with the roadmap published by SWIFT. ISO 20022 is also being implemented by banks, corporations, payment systems, and financial application providers to conduct payment operations. It is currently used by a number of Real-Time Payment (RTP) schemes and in some RTGS markets.

ISO 20022 will enable richer, better structured and more granular transaction data to be included in payment messages. Additional information for payment service providers and their customers will enable a better client experience, and other benefits include less manual intervention, more accurate compliance processes, higher resilience and improved fraud prevention measures.

Al Etihad Payments

The CBUAE established a new subsidiary under the commercial name of Al Etihad Payments (AEP) in 2023.

Its primary purpose is managing the day-to-day operations of the different payment systems and financial market infrastructures required by the UAE market. In line with the strategic objectives and directions of the CBUAE and governed by a separate Board of Managers, AEP is now in charge of the operations of the IPP, the UAESWITCH, and the UAE Wages Protection System.

The CBUAE also carried out a comprehensive, root-and-branch modernisation of its infrastructure and data centre for payment systems. The work has helped the CBUAE to strengthen the efficiency of the operation and resiliency of the payment systems and associated infrastructures. All modernisations are completed in line with the highest international standards such as the PFMI.

8.7.2 Currency Management

In 2023, the CBUAE issued a range of new banknotes and commemorative coins that reflect the UAE’s commitment to sustainability, culture, sport, and education.

New AED 1000 Banknote

On April 10, 2023, the CBUAE put into circulation the new AED 1000 polymer banknote, designed to highlight the nation’s history. The symbols and imagery used on the banknote refer to the UAE’s culture and tourism landmarks, alongside its ambitions to be a leader in space exploration, as achieved in the Emirates Mars Mission ‘Hope Probe’ journey in 2021.



- 1 Sheikh Zayed bin Sultan Al Nahyan and model space shuttle
- 2 Features shades of brown similar to the denomination currently in circulation with the addition of fluorescent blue of the UAE’s national brand in the centre to help the public with easy identification
- 3 Barakah Nuclear Energy Plant in Abu Dhabi

The banknote also includes new security and accessibility features to enhance consumer confidence and combat counterfeiting. Additionally, the CBUAE has added prominent symbols in Braille to help blind and visually impaired consumers identify the banknote’s value.

Due to its unique designs, technical characteristics, and innovative security features, the AED 1000 banknote won the “Best New Banknote” award at the regional level as part of the Banknote and ID Document of the Year Awards organised by High-Security Printing EMEA. The CBUAE was also recognised as the “Currency Manager of the Year” by the Central Banking Awards 2024, owing to the innovation of the note.

**Bolstering Sustainability:
AED 500 Polymer Banknote**

In commemoration of the UAE’s 52nd National Day, the CBUAE issued a new AED 500 polymer banknote with distinctive designs and advanced security features. The banknote’s design highlights the UAE’s sustainability journey and affirms its strong track record on climate action, including its hosting of COP28. The note also highlights the UAE’s commitment to a sustainable future rooted in the principles set forth by the late Sheikh Zayed bin Sultan Al Nahyan.



- 1 Terra Sustainability Pavilion in Expo City Dubai
- 3 Museum of the Future, Emirates Towers, Burj Khalifa

The aesthetic of the AED 500 banknote incorporates a range of harmonious blue shades, similar to the banknote of the same denomination currently in circulation, facilitating easy identification for the public. Fluorescent blue markings on the reverse side mark the UAE’s national brand, enhanced by intricate drawings and engravings utilising advanced intaglio printing techniques. The banknote also integrates advanced security features by incorporating multicoloured security chip technology.

**Minting and Issuance of
Commemorative Coins**

**Issuance of Commemorative Coins on
the Occasion of Dubai International
Holy Quran Award’s Silver Jubilee**

In collaboration with the Dubai International Holy Quran Award, the CBUAE issued 8,000 silver commemorative coins to mark the Award’s Silver Jubilee. Since its establishment in 1997, the Award has succeeded in encouraging the spirit of competition in memorising the Holy Quran and honoured individuals who have excelled in this practice. The issuance features eight different coins, each with a unique design relating to the various contests and activities held by the Dubai International Holy Quran Award.



**Issuance of Commemorative Silver
Coins on the Occasion of the 12th
Edition of Mohammed Bin Rashid Al
Maktoum Creative Sports Award**

To celebrate the 12th edition of the Mohammed bin Rashid Al Maktoum

Creative Sports Award, the CBUAE issued 3,000 silver commemorative coins to highlight the UAE’s work in advancing its global standing in the field of sports. The Award honours individuals, teams and organisations that have made significant sporting contributions locally and globally.



**Issuance of Commemorative Coins for
the Hamdan Bin Rashid Al Maktoum
Foundation for Distinguished Academic
Performance’s Silver Jubilee**

In cooperation with the Hamdan Bin Rashid Al Maktoum Foundation for Distinguished Academic Performance, the CBUAE issued 1,000 commemorative silver coins to mark the occasion of the Foundation’s Silver Jubilee since its founding in 1998. The coins aim to encourage improved educational performance at all levels and sectors under the supervision of the Ministry of Education in the UAE.



**Issuance of commemorative coins for
International Council on Archives Abu
Dhabi 2023**

To mark the International Council on Archives (ICA) Abu Dhabi 2023, which was

hosted from 9 to 13 October 2023, the CBUAE issued 150 gold and 1,400 silver commemorative coins. Held every four years since its inaugural session in 1950, the ICA Congress is among the most important global forums for professionals, institutions and industries engaged with archives, records and information management.



**8.8 FOREIGN RESERVES
MANAGEMENT**

The prudent management of foreign exchange reserves is a core responsibility of the CBUAE. Accordingly, the CBUAE invests its foreign exchange reserves in safe and liquid investment-grade assets that meet the parameters set by the Board of Directors.

The CBUAE’s self-assessment shows that the investment process follows best practices and observes the IMF Guidelines for Foreign Exchange Reserve Management. The CBUAE’s policy objective for holding foreign exchange reserves is to support confidence in the exchange rate policy and mitigate disturbances arising from the balance

of payments or the domestic banking system. Foreign Exchange Reserves also facilitate transactions in foreign currency with government departments and the local banking system while maximising returns at an acceptable level of risk.

Amid a challenging monetary environment exacerbated by geopolitical tensions, the CBUAE executed its core functions of sound reserve management, managing a record amount of foreign reserves in 2023, backed by effective bond and money market investment operations.

8.9 DIGITALISATION AND INNOVATION

In 2023, the CBUAE launched the FIT programme to accelerate the digital transformation of the financial services sector and enable the UAE’s competitiveness as a financial and digital payments hub. The FIT programme comprises the introduction of nine key initiatives, which the CBUAE has made robust progress in implementing over the last year. These include:

	Domestic Card Scheme	The UAE’s first unified, secured, and efficient card payment platform to facilitate the growth of e-commerce and digital transactions in the country.
	eKYC	A secure and user-friendly platform to facilitate non-face-to-face customer on-boarding and ongoing customer due diligence.
	CBDC	CBDC for both cross-border payments and domestic usage in order to circumvent challenges in cross-border payments and drive innovation for domestic payments respectively.
	Open Finance	Driving innovation and competitiveness as well as collaboration in the financial services sector through interconnectivity and interoperability among all players and institutions.
	SupTech	Advanced SupTech supporting the CBUAE’s regulatory and supervisory processes.
	Innovation Hub	A collaborative platform for engagement, research and development for financial technology providers.
	Instant Payments Platform	A secure, efficient, and robust payments platform that supports financial inclusion through access to digital payments.
	Financial Cloud	A secure, resilient, scalable, and reliable sovereign financial infrastructure.
	Excellence & Customer Experience	Supporting robust customer experiences and fostering a culture of excellence across the financial sector.

8.9.1 Digital Dirham

In 2023, the CBUAE made significant progress in implementing its CBDC, the Digital Dirham. This included enacting amendments to the Central Bank Law to give the Digital Dirham legal tender status, as well as marking the first issuance and cross-border payment of the Digital Dirham.

The Digital Dirham is a new form of digital money to be issued by the CBUAE, which is fully fungible and exchanged at par with cash and bank deposits. The Digital Dirham will support retail, wholesale and cross-border applications and will accelerate the digital economy and drive financial inclusion.

Figure 8.9.1 Functionalities, Features and Impact of the Digital Dirham



The Digital Dirham is designed to improve payment efficiency, strengthen monetary policy implementation, and support cross-border trade.

The CBUAE has designed the Digital Dirham as a universal payment instrument and store of value. It will be a secure, low-cost, and trusted form of payment.

Figure 8.9.2 Digital Dirham Bearer Instrument



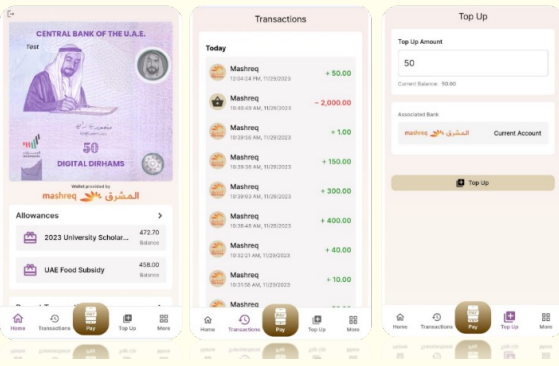
To realise the impact of the Digital Dirham and evaluate its feasibility and viability, the CBUAE completed a real-value retail pilot of four important digital economy use cases. They included:

- Fractional ownership of tokenised assets
- Smart tourist wallet
- Smart social benefit payments
- Parent/child sub-wallet

The use cases demonstrated CBDC’s potential to accelerate the transformation of the digital economy through features such as tokenisation, smart contracts, and programmability.

The CBUAE also developed the Digital Dirham app, through which test end-users could choose their wallet provider, top up and obtain Digital Dirham, redeem payments, and execute use cases.

Figure 8.9.3 Digital Dirham Prototype Wallet



The Digital Dirham was also used in the initiation of the first cross-border payment made through the mBridge platform, as detailed in *Section 8.7.1 Payment Systems*.

8.9.2 SupTech (Supervisory Technology)

SupTech plays a key role in meeting the FIT programme’s objectives, including in the creation of a resilient, secure and advanced digital infrastructure. The SupTech programme has been developed to enhance the effectiveness of supervisory processes by leveraging data to enhance decision-making, foster innovation, and support the adoption of new technologies across the economy by enabling faster licensing through workflow, automation and decision support.

- **Providing risk-based, proactive supervision aided by advanced analytics**
- **Improving financial intelligence through network analysis**
- **Enabling a single view of all LFIs**
- **Launching a single, unified portal for managing the interaction with FIs and tracking their financial data and entity structure**
- **Enabling event-triggered alerts for the CBUAE**
- **Enabling advanced Data and AI capabilities for the CBUAE licencing, supervision, inspection, and enforcement**
- **Improving the workflow management of supervision by digitising and automating standardised tasks such as the upload, verification, and approval of documents**
- **Enabling proactive supervision by developing forward-looking capabilities through emerging technologies such as natural**

language processing, network analysis and predictive analysis

- **Unlocking a granular view of data through big data and network analytics**
- **Developing a risk-based outlook projection of LFIs for supervision**

SupTech also supports the CBUAE’s vision to automate and streamline supervision activities. Additionally, it enables robust micro- and macro-prudential practices and supervision of market conduct while easing the onboarding processes for LFIs and contributing to their compliance with regulations. These outcomes will improve financial stability by monitoring key activities and better protect the UAE financial system from money laundering and other financial crimes.

Enterprise Data Management

The CBUAE’s enterprise data management (EDM) capabilities are aligned with its vision and strategy. They ensure the data governance standards are applied while leveraging advanced technology to enhance data management, analytics, and reporting. Enterprise Data Management will establish a new unified architecture to consolidate and streamline data sourcing, storage, and access, facilitating insights generation and real-time analytics.

- **Implement an advanced Data Management platform with analytics tools, policies, and procedures**
- **Enable Artificial Intelligence to analyse patterns and trends, provide**

additional analytical insight, and support supervision professionals

- **Govern data throughout the lifecycle, from creation to eventual archiving or destruction, in line with internationally recognised data retention practices and UAE legal requirements**
- **Embed data privacy management into all processes**

The programme sets out to design and develop an EDM, in addition to data governance and data quality capabilities, to manage all data gathered from various sources. This will enable self-service reporting and advanced analytics to be performed and disseminated. Improved strategic planning, reporting, analysis, and value management are also envisaged through data consolidation and the provision of a suite of business intelligence solutions. This will enable all CBUAE staff to use data comfortably and to make data-driven decisions.

8.9.3 Financial Technology and Virtual Assets

Throughout 2023, the CBUAE spearheaded several financial technology-related initiatives that have contributed to the transformation of the financial sector in the UAE. As these initiatives unfold, the CBUAE will continue to play a vital role in shaping a more inclusive, efficient, and secure financial system.

Electronic Know-Your-Customer System

By establishing a single version of the truth, the CBUAE's electronic Know Your Customer (eKYC) platform primarily provides LFIs with a more streamlined approach to opening customer accounts. The platform also aims to ensure the quality of data available for consumption whilst facilitating cost reductions and efficiency gains across the financial ecosystem.

By year-end 2023, the CBUAE was progressing toward the conclusion of a Federal Law that will govern the eKYC platform. The governance structure and technology platform, which is in the final stages of development, is envisaged to be a collaborative effort under the supervisory guidance of the CBUAE. In 2023, the CBUAE collaborated with multiple federal institutions, including the Ministry of Justice, the Ministry of Finance, the Federal Authority for Identity, Citizenship, Customs & Port Security, and the AI Etihad Credit Bureau.

Regulatory Sandbox

The newly established Regulatory Sandbox is an initiative designed to foster innovation within the financial technology sector. This experimental provision specifically allows innovative financial technology firms to test and refine novel products and services within a controlled regulatory environment, thus mitigating risk while encouraging creativity and technological advancement.

The new Regulatory Sandbox will allow entrepreneurs and startups to navigate the regulatory landscape with greater ease and confidence.

It also provides a pathway for innovative solutions to reach the market and contribute to the broader UAE economy.

Virtual Assets

The CBUAE embarked on the Payment Token Services project in 2023, which aimed at regulating and supervising all activities in virtual assets when used as a means of payment to ensure financial and monetary stability and consumer protection. As part of Phase 1 of the project, the CBUAE completed an extensive risk analysis that identified risks arising from different virtual asset-related activities in the UAE.

Based on the forward-looking risk assessment, a gap analysis was then conducted to identify and mitigate the risks posed by virtual assets. The CBUAE also established a blueprint for a framework to collect virtual assets-related data—including stablecoins—that are used as a means of payment. The CBUAE drafted the Payment Token Services Regulation, a comprehensive regulatory framework aimed at regulating entities conducting the issuance, transfer, custody, and conversion of Payment Tokens.

As part of Phase 2 of the project, the CBUAE has worked on the development of a comprehensive Licensing and Supervision Framework for licensing and supervising

payment token service providers in the UAE. This initiative underscores the CBUAE's commitment to fostering a secure and regulated environment for the growing field of virtual assets.

8.9.4 Open Finance

As part of the FIT programme, the CAs part of the FIT programme, the CBUAE completed the design stage of its Open Finance initiative – leading to the finalisation of arrangements with the CBUAE's technology partners to deliver a sophisticated, flexible and modern platform. The initiative enables LFIs and financial technology companies to access and act on customer financial data to build personalised experiences for their customers. It does so by allowing consumers to seamlessly share their financial data across different platforms and service providers. Instead of juggling between multiple accounts, customers can see their complete financial picture in one place or application. With this comprehensive understanding of the financial picture, the application can then tailor its offerings for the individual customer.

Additionally, the CBUAE will establish a centralised application programming

interface (API) hub designed to provide seamless, aggregated APIs to financial technology companies and banks, and is currently engaging with industry stakeholders to develop the relevant technical standards.

8.9.5 Innovation Hub

The CBUAE, in collaboration with the EIF Innovation Hub, launched the Innovation Hub, a nationwide centre of excellence for the financial sector, to help build a mature innovation ecosystem.

The Innovation Hub consists of six thematic labs.

- **regLAB** – a policy tool for regulatory sandboxing
- **digitalLAB** – a tool for technical sandboxing for new digital products and services
- **learnLAB** – training and educating
- **futureLAB** – scans, benchmarks and research trends for future market developments
- **colLAB** – fosters local and international collaborations
- **thinkLAB** – think tank that brings together different disciplines through research programs

In 2023, colLAB developed several partnerships within the ecosystem while the Innovation Hub's labs worked on multiple initiatives. A key highlight was the colLAB partnership with the BIS Innovation Hub, which helped to drive the COP28 UAE TechSprint led by the CBUAE and the COP28 Presidency.

Looking ahead, the Innovation Hub will continue to provide thought leadership around transformational programmes such as Generative AI and Open Finance to help expand the reach of the core use cases. The labs will also provide industry consultation to help build on these transformational programmes as they expand their reach.

Security and Resilience: Information Technology

Information technology served a vital role throughout the year for the CBUAE in maintaining the security of its data and systems while also pioneering innovations. CBUAE has successfully built a certified Tier III data centre that meets the highest standards for infrastructure functionality and availability while the system design is consistent with Uptime objectives.

The CBUAE also invested in enhancing the resilience of its infrastructure technology to support both the banking and insurance sectors. This included the establishment of an integrated security and network operation centre providing cybersecurity response services.

In addition, a number of energy-saving technologies were integrated to help the CBUAE reduce its carbon footprint, such as reducing its datacentre rack space from seven full racks to less than half a rack.

As part of its work supporting the

digitisation of the national financial ecosystem, the CBUAE worked closely with the Federal Tax Authority and the General Pension and Social Security Authority to support them in their respective digital transformation journeys.

From an application integration perspective, the CBUAE ensured that all data exchange initiatives with external entities followed the API First principle in 2023. Furthermore, integrations were established with several government bodies, including but not limited to The Honorable Courts, the Ministry of Interior, and the Ministry of Human Resources and Emiratization.

8.10 HUMAN CAPITAL

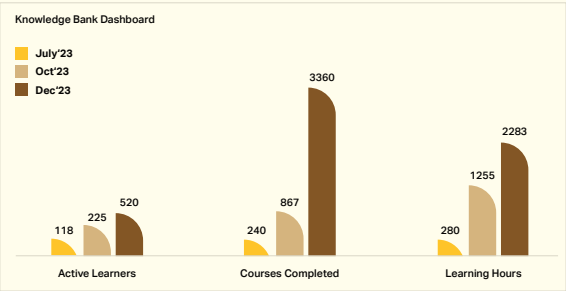
Significant investments were made to build and equip the CBUAE’s workforce with the talent and skills required to implement its strategic objectives.

Recruitment efforts remained strong throughout the year as the CBUAE hired 115 full-time employees, including 47 UAE nationals, resulting in an Emiratisation rate of 62%. This is in addition to making key appointments for positions including Chief Financial Officer, Chief Monetary Policy, Chief Operating Officer, Chief Information Technology Officer, and Chief Data Officer.

Streamlining the HR Process Through Digital Innovations

Enhancing its talent development capabilities, the CBUAE launched the ‘Knowledge Bank’ - a new platform that offers employees access to educational materials from established digital learning providers, including Coursera, OpenSesame and Intuition. Since its launch, the Knowledge Bank has experienced significant adoption, with 73% of employees actively engaging with the platform. Furthermore, a total of 3,360 courses have been completed, with employees collectively achieving 2,283 hours of learning.

Figure 8.10.1 Knowledge Bank Activity Overview



The induction system of the CBUAE was also overhauled in 2023, which was made possible by leveraging innovative digital technologies that better support newly hired team members, enhance their onboarding experience, and facilitate a smooth transition into the organisation.

The maintenance of a resilient talent pipeline continued to be a core focus for the CBUAE in 2023 to ensure that it can continue to attract and retain high-calibre talent, drive a high-performing culture, and ensure sustainable workforce growth.

As part of this, the CBUAE introduced Lighthouse, an AI-powered talent assessment platform that provides a comprehensive suite of online assessment tools to measure cognitive ability, personality traits and aspirations, as well as feedback surveys for people managers. Over 100 employees utilised the platform to conduct capabilities assessments, offering valuable insights into the collective strengths and areas for development within the CBUAE’s workforce.

Leadership Development

At the managerial level, five of the CBUAE’s leadership team members completed the Leadership Development Programme delivered by Saïd Business School and the University of Oxford in 2023. The executive programme enhances participants’ strategic influence within the organisation through core leadership skills and insights into change and innovation.

Additionally, the CBUAE launched its

inaugural, in-house Data-Based Decision-Making programme in collaboration with the EIF and Saïd Business School. The programme focused on enhancing the leadership capabilities of its management. Thirty members of the senior leadership team completed the programme, which focused on developing analytics capabilities for informed decision-making and the fostering of innovation.

8.11 OUTREACH

8.11.1 Communications

In 2023, the CBUAE continued to communicate transparently through various channels, including its website and social media, to ensure stakeholders remained informed of its key regulatory, supervisory, and operational developments.

A series of official publications were released in 2023, including an annual report, financial stability report and Takaful insurance report. The CBUAE also issued the UAE Islamic Finance Report 2023, which provided an overview of the development of Islamic finance sectors and supporting ecosystems, alongside recent UAE initiatives focused on ESG and sustainable finance.

This is in addition to the CBUAE's quarterly publications, such as its quarterly economic review and credit sentiment survey.

COP28 Communications

Working alongside the BIS, the COP28 Presidency, and the Emirates Institute of Finance, the CBUAE delivered a comprehensive social media campaign to ensure the COP28 UAE TechSprint gained sufficient attention from targeted candidates worldwide. This work resulted in a record 126 submissions from 31 countries.

The outputs of the COP28 UAE TechSprint were consolidated in a report titled 'Scaling climate action: Unleashing innovative technologies in sustainable finance'. The report highlighted the key trends in sustainable finance technology, outlined the proposed COP28 UAE TechSprint problem statements, and provided an overview of the finalists' technologies.



The CBUAE also organised the 'Global Climate Action Through Fostering Sustainable Finance' panel discussion, hosted on Finance Day during COP28, with the aim of driving global climate action through real, sustainable finance solutions. The panel included H.E. Khaled Mohamed Balama, Governor of the CBUAE, H.E. Kristalina Georgieva, Managing Director of the IMF, H.E. Ravi Menon, Managing Director of the Monetary Authority of Singapore, and H.E. Mark Carney, UN Special Envoy for Climate Action.

Golden Jubilee



To mark its Golden Jubilee, the CBUAE organised a showcase of several of its key initiatives in the presence of His Highness Sheikh Mansour bin Zayed Al Nahyan. His Highness witnessed the graduation of the first batch of 1,056 UAE citizens from the Ethraa programme, where they completed a high-level training and qualification programme at the EIF.

The ceremony showed the development journey that the CBUAE has witnessed over the last five decades, highlighting its efforts to strengthen financial and monetary stability in the UAE. This is in addition to launching a package of projects within the FIT programme, including the UAE's first DCS, Jaywan, and the Open Finance platform. It was during this ceremony that His Highness Sheikh Mansour initiated the first cross-border payment directly with China for AED 50 million in Digital Dirham through the mBridge platform.

Increasing CBUAE's Visibility

The CBUAE increased its visibility regionally and internationally through the active engagement of its senior management in important forums throughout the year, including the delivery of keynote speeches and participation in panel discussions. This involvement encompasses events such as the G20 meeting in Brazil, the Arab Monetary Fund meeting, COP28, the Annual Meeting of the International Trade and Macroeconomic Program, and the International Islamic Liquidity Management Corporation meeting, among others.

8.11.2 International Relations

Through a series of initiatives and engagement activities in 2023, the CBUAE has facilitated the signing of Memoranda of Understanding and agreements with key global and domestic stakeholders. Furthermore, the CBUAE has hosted and managed delegation visits from international organisations, including the IMF, and the World Bank, among others providing valuable opportunities for information exchange and dialogue between organisations and relevant stakeholders. Top officials, including the H.E. Khaled Mohamed Balama, the Governor, and assistant governors, represented the CBUAE at high-level international forums, including G20 meetings, and supported the UAE in its accession to the BRICS group.

The CBUAE has played a key role in facilitating knowledge transfer and capacity building by arranging several IMF technical assistance programmes for local entities. These programmes have strengthened partnerships with international institutions and empowered local entities with the resources and expertise needed to drive sustainable development and growth.

To support the UAE's objective to deepen international ties, the CBUAE worked to negotiate the Financial Services section of the Economic Partnership Agreement and other free trade agreements in 2023. This work is fundamental to fostering the nation's position as a global trade and logistics hub.

INR-AED Local Currency Settlement System

The visit of Indian Prime Minister, His Excellency Narendra Modi, supported the development of an MoU to develop the INR-AED local currency settlement system that was signed between the CBUAE and the Reserve Bank of India. The MoU seeks to develop the exchange market in the currency pair INR-AED to facilitate trade and settlement, direct investment, remittance settlement, financial market development, and economic growth and stability between the two countries. The aim is for the UAE and India to use local currencies to settle current accounts and permissible capital account transactions, leading to the development of an exchange market where the two currencies are traded and quoted against each other. Such a development will lower correspondent banking costs in terms of reduced settlement time and lessen transaction costs flowing from a direct quote between the two currencies.

To foster trading under the LCSS, RBI and the CBUAE have established a joint working group of commercial banks tasked with developing a market in the INR-AED currency pair. These banks will seek to establish derivative markets to offer participants a hedging capability. They will also consider offering liquidity and investment options for participants who may hold liquidity in either of the two currencies.

8.11.3 Research and Economic Analysis

The CBUAE conducts research, economic analysis, and forecasting to inform the management of international and domestic economic developments to guide decision-making processes.

In an important development, the CBUAE began producing monthly economic surveillance briefings that outline potential risks in the economy. It also continued to publish the Quarterly Economic Review, which offers details into recent trends and prospects. Furthermore, it continued to work on economic analysis and forecasting towards the upgrading of a small-scale, internally consistent macroeconomic framework to estimate and predict the main macroeconomic variables. Additionally, CBUAE reached a technical assistance agreement with the IMF to further improve its macroeconomic framework by incorporating macro-financial linkages and the specificities of the oil sector.

The CBUAE has also implemented plans to improve the accuracy of its economic activity forecasts in the non-oil sector of the economy, with a specific focus on manufacturing, construction and real estate, tourism, transportation, and financial and insurance services. These account for approximately two-thirds of the non-oil economy. Meetings were held with more than 30 different major public and private stakeholders to understand the trends within each industry, in addition to the impact of COVID-19 on their businesses, their plans and outlook

for their domain and the wider economy. Dialogue also included the sustainability plans that these institutions have outlined to meet the national target of net zero greenhouse gas emissions by 2050.

The CBUAE also laid the foundations to engage in in-reach and outreach activities. For example, preparatory work was carried out to build a new internal Research Seminar Series, with the intention of providing a space for knowledge exchange and fostering brainstorming. This, in turn, will be instrumental in starting the CBUAE Working Paper Series in the near future.

In collaboration with the EIF and New York University Abu Dhabi, CBUAE organised the Sixth Annual Meeting of the Central Bank Research Association's International Trade and Macroeconomic programme. This marked the first time the conference has been held in the Middle East, bringing together central bank experts and researchers from across the world to discuss novel research papers covering topics related to global trade, supply chain resilience, and economic interdependencies.

The CBUAE also participated in external conferences, both in the UAE and globally, presenting its work on the drivers of inflation in the UAE, the role of the supply chain in the inflation expectation formation mechanism, and the need for effective measures to support the green transition.

09 OVERSIGHT AND DISCLOSURES



9.1 GOVERNANCE

The CBUAE is committed to international best practices for governance to ensure high levels of organisational efficiency and accountability in support of its mission and vision.

Board Level Committees

Board Risk Committee

The Board Risk Committee is responsible for risk management frameworks, which include the definition of risk types associated with all the CBUAE activities, risk measurement, risk appetite, risk limits, and risk management policies. It is also tasked to monitor and review the continued improvement of the CBUAE's information security, the overall risk management practices and processes across the CBUAE and make relevant recommendations to the Board of Directors.

Members

Chairman: H.E. Dr. Ali Mohammed Bakhit
AlMadawi Al Rumaithi

Member: H.E. Younis Haji Abdulla
Hussain Al Khoori

Audit Committee

The Audit Committee is responsible for overseeing the integrity of the CBUAE's financial reporting and disclosure processes and reviewing and recommending the external auditor's terms of engagement, selection, appointment and fees. The committee also oversees the CBUAE's internal audit function.

Members

Chairman: H.E. Younis Haji Abdulla
Hussain Al Khoori

Member: H.E. Sami Ahmad Dhaen Al Qamzi

Member: Mr. Abdulaziz Abdulla Al Khoori

Board Human Resources Committee

The Human Resources Committee is responsible for reviewing the CBUAE's organisational structure and HR policies, approving the selection criteria for Heads of Departments, and recommending changes to the Board of Directors.

Members

Chairman: H.E. Sami Ahmad Dhaen Al Qamzi

Member: H.E. Dr. Ali Mohammed Bakhit

AlMadawi Al Rumaithi

Member: Ms. Lubna Al Mheri

Executive Level Committees

Financial Stability Policy Committee

The objective of the CBUAE’s Financial Stability Policy Committee is to identify threats to financial stability through macro-surveillance and mitigate systemic risk by proposing macro-prudential policies and crisis management measures for the banking and insurance sectors. The committee meets at least four times annually.

Monetary and Reserve Management Committee

The Monetary and Reserve Management Committee’s objective is to fulfil the CBUAE’s goals for monetary stability through the design and use of monetary policy tools. It oversees foreign reserve management through the proposal of investment policy and tactical reserve asset allocation and investment guidelines. The committee meets at least four times annually.

Supervisory and Regulatory Committee

The CBUAE’s Supervisory and Regulatory Committee is responsible for overseeing the safety and soundness of financial institutions licensed by the CBUAE by proposing and implementing prudential regulations, licensing regulations, consumer protection, market conduct and financial crime regulations, and payment systems oversight, as well as enforcement actions. The committee also makes high-impact supervisory decisions or recommends them for adoption by the Board. The committee

meets at least twelve times annually.

Executive and Strategy Committee

The CBUAE’s Executive and Strategy Committee considers and decides on all operational matters falling within its area of competence as related to operations and support functions to ensure efficient and effective use of the CBUAE resources. The Committee also discusses all subjects related to the strategy of the CBUAE, which may affect its services and strategic and operational initiatives. The Executive and Strategy Committee also serves as the forum for the Governor to discuss general steering matters of the CBUAE with the senior management team. The Executive Committee is charged with monitoring and steering the implementation of the CBUAE Transformation plan and with reviewing and approving the CBUAE initiatives in the areas of Digital Innovation and FinTech. The committee meets at least six times annually.

Committee on Green and Sustainable Finance

The Committee on Green and Sustainable Finance leads the CBUAE’s cross-functional sustainability initiatives and advances sustainable finance in the UAE. The Committee also oversaw the CBUAE’s wide-ranging sustainable finance initiatives

during COP28 and the Year of Sustainability in the UAE.

Risk and Compliance Policy Committee

The CBUAE’s Risk and Compliance Policy Committee is responsible for recommending a holistic ERMF to the Board Risk Committee and overseeing the implementation of policies and processes to maintain adequate and effective risk management across all areas of the CBUAE. It is also charged with ensuring compliance with all internal and external policies, rules, and regulations applicable to the CBUAE and its subsidiaries. The committee meets at least three times annually.

Human Capital Committee

The objective of the CBUAE’s Human Capital Committee is to review and recommend HR policies and frameworks and matters related to the organisational structure, compensation, departmental mandates,

and Emiratisation to the Board Human Resources Committee. The committee meets at least four times annually.

9.2 RISK PROFILE

Risk Management and Compliance

The CBUAE has worked towards elevating the maturity of its risk management capabilities during 2023. This work stems from the understanding that robust risk management is integral to sustaining financial integrity and excellence in a complex business environment. By enhancing risk management capabilities, the CBUAE is reinforcing its ability to adapt to unforeseen risks efficiently by adapting its resilience in managing them.

Operational Resilience

The CBUAE enhanced its operational resilience through a comprehensive review of its Business Continuity programme in 2023. This is critical work in maintaining essential functions during and after a disruption and ensuring responsiveness to the evolving risk landscape. The review resulted in the enhancement of several resilience-related capabilities, including

business continuity, crisis management, crisis communications, IT disaster recovery, and health and safety.

Prioritising its Health, Safety and Environment programme, the CBUAE integrated principles of maintaining a safe and healthy workplace environment within its premises, prioritising safety of employees and stakeholders, and promoting a culture of safety within resilience planning. Emphasising a commitment to safeguarding employees and the environment, the CBUAE integrated the principles of maintaining a secure workplace environment to its Health, Safety and Environment programme and to its resilience planning.

Information Security

The CBUAE works in collaboration with multiple partners and stakeholders to detect and protect against cybersecurity-related threats within the financial sector. This includes promoting a secure financial environment through collaborative activities such as regular cyber war gaming exercises. These 'war games' are continually enhanced with increased partner participation, maintenance and enhancement of an industry-wide information-sharing platform, providing valuable early threat detection across the financial sector.

Furthermore, the CBUAE embarked on obtaining PCI DSS (Payment Card Industry Data Security Standard) certifications for its subsidiary AEP to ensure the payment systems meet industry security

requirements. The CBUAE also invested in IT disaster recovery systems in 2023 to enhance technological resilience and ensure the IT landscape and data are safeguarded. This has significantly fortified readiness and resilience.

Operational Risk

Looking at enhancing its operational risk strategies, the CBUAE has adopted an integrated risk management approach tailored to address all operational risks inherent to its activities. This framework has been refined to align with the CBUAE's strategic and statutory objectives, prioritising proactive risk management strategies concerning internal processes, personnel, system failures, and external events. The comprehensive approach is underpinned by the ongoing development of operational risk policies, risk appetite statements, assessment methodologies, the risk taxonomy of the CBUAE, and processes - all of which, when enacted, will contribute to cultivating a robust risk-aware culture across the organisation.

The CBUAE also optimised its ability to pre-emptively identify, assess, and monitor a diverse spectrum of operational risk exposures. Additionally, the automation of risk reporting using GRC and analytical tools has streamlined the flow of information, facilitated agile risk management, and enabled well-informed decision-making processes.

Financial Risk

With the primary objective of effective management of financial risks arising from its foreign reserves, the CBUAE developed an organisation-wide ERMF, risk appetite policy, risk taxonomy, and risk assessment methodology. The ERMF was developed to form an overarching framework for all the CBUAE risk management processes in alignment with widely adopted standards and international practices. The Risk Appetite Policy was designed to create a holistic document capturing all risks faced by the CBUAE. Additionally, the Risk Universe was complemented by the Risk Taxonomy, with each risk broken down into granular levels. The existing financial risk policies and frameworks were also amended and enhanced to reflect the CBUAE's evolving mandates.

The CBUAE also completed significant updates to its collateral risk control frameworks related to monetary management operations in line with the Dirham Monetary Framework. The collateral risk control framework rests on the most relevant and widely adopted collateral risk metrics. It ensures the prudent management of the CBUAE exposure in collateralised operations through appropriate acceptance criteria and adequate haircuts.

Compliance and Internal Audit

In 2023, the CBUAE made progress in strengthening its internal regulatory compliance function. It also established a comprehensive compliance framework defining the roles, responsibilities, and processes for ensuring adherence to rules, regulations, and standards.

Underscoring its commitment to best practices in ethics and compliance, the CBUAE obtained the International Organisation for Standardization in Anti-Bribery Management Systems (ISO 37001:2016) certification, issued by Bureau Veritas, in 2023.

Introduced in 2016, the certification ensures that an organisation is implementing effective anti-bribery management legislation and utilising widely accepted controls, systems, and best practices. These are in line with global best practices to prevent, detect, and address bribery and promote an ethical, transparent, open, and compliant workplace culture.

The CBUAE also implemented a new third-party risk assessment process as part of the new e-procurement system to ensure that vendors or counterparties are thoroughly reviewed. This process covers key risks such as compliance, financials, operations, information security, and operational resilience.

Additionally, in line with the internal audit plan, the CBUAE:

- Conducted an internal review of ten departments / functions, five branches, and nine concurrent activities
- Performed quarterly internal follow-up of corrective actions
- Provided regular reporting to senior management and the Board Audit Committee
- Acted as liaison for State Audit Institution reviews
- Performed an annual internal audit quality assessment

9.3 FINANCIAL STATEMENTS

Table 9.3.1 The CBUAE's Balance Sheet as of 31 December 2023

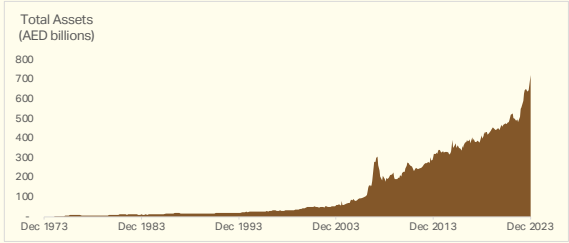
	31 December 2022	31 December 2023
(Amounts in AED thousands)		
ASSETS		
Cash and balances with banks	279,251,948	370,655,170
Deposits placed with banks	63,425,470	100,956,618
Derivative financial instruments	5,839,837	7,269,973
Loans and advances	5,554,692	2,103,137
Investments at fair value through profit and loss	21,695,694	23,504,731
Investments at fair value through other comprehensive income	112,405,303	163,663,148
Investments at amortised cost	46,343,985	30,379,548
Gold bullion	16,044,601	18,146,561
Property and equipment	683,188	720,218
Other assets	1,309,915	3,402,384
TOTAL ASSETS	552,554,633	720,801,488
LIABILITIES AND EQUITY		
LIABILITIES		
Monetary bills and certificates of deposit	164,747,589	213,611,090
Current accounts and deposits	236,659,869	331,602,652
Derivative financial instruments	16,159,749	6,703,894
Deferred grant	298,164	282,277
Currency issued	120,011,331	135,780,402
Other liabilities	3,807,015	7,380,536
TOTAL LIABILITIES	541,683,717	695,360,851
EQUITY		
Fully paid-up capital	20,000,000	20,000,000
General reserve	3,501,467	9,421,442
Fair value reserve	(12,783,664)	(4,101,410)
Retained earnings	153,113	120,605
TOTAL EQUITY	10,870,916	25,440,637
TOTAL LIABILITIES AND EQUITY	552,554,633	720,801,488

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The external auditor issued an unqualified opinion on the financial statements for the year ending 31 December 2023.

Financial Highlights

The CBUAE closed the year with the largest balance sheet in its history while maintaining a focus on prudent reserve management to safeguard monetary and financial stability. The growth of the asset base to AED 720.8 billion (or USD 196.3 billion) reflects strong net capital inflows in the UAE.

Figure 9.3.1 The CBUAE's total assets from 1973 to 2023



Solid asset growth of 30% year-on-year was driven by increased net US dollar-denominated inflows in the local economy, amplified by outstanding market conditions and increased investment valuations. The assets of the CBUAE predominantly comprise investments in foreign currency-denominated high-quality liquid assets.

The monetary base cover ratio stood at 102% at the end of 2023. The monetary base comprises interest-bearing instruments for market liquidity absorption, such as monetary bills, Islamic certificates of deposits, and the overnight deposit facility, aligned to the Federal Reserve System, as well as cash issued by the CBUAE. The non-interest-bearing reserve requirements form part of the monetary base and the reserve requirements are progressively increasing towards pre-pandemic levels.

The CBUAE's equity level rebounded following the recovery in global valuations. The valuations were negatively impacted during 2022 by the unprecedented increase in global interest rates in reaction to the inflationary pressures witnessed worldwide. The equity level has been restored to pre-pandemic levels.

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FIGURE 8.7.3	NUMBER OF RETAIL TRANSACTIONS THROUGH UAEFTS
FIGURE 8.7.4	NUMBER OF INSTITUTIONAL TRANSACTIONS THROUGH UAEFTS
FIGURE 8.7.5	VALUE AND NUMBER OF TRANSACTIONS USING IPI
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LIST OF ABBREVIATIONS

AAOIFI	ACCOUNTING AND AUDITING ORGANISATION FOR ISLAMIC FINANCIAL INSTITUTIONS
AECB	AL ETIHAD CREDIT BUREAU
AED	ARAB EMIRATES DIRHAM
AEP	AL ETIHAD PAYMENTS
AFAQ	THE AFAQ PAYMENTS SYSTEM IS OPERATED BY THE GULF PAYMENTS COMPANY AND OWNED BY GCC CENTRAL BANKS
API	APPLICATION PROGRAMMING INTERFACE
AML	ANTI-MONEY LAUNDERING
AML/CFT	ANTI-MONEY LAUNDERING/ COUNTERING FINANCING OF TERRORISM
BCBS	BASEL COMMITTEE ON BANKING SUPERVISION
BNPL	BUY-NOW-PAY-LATER
BRICS ⁵	BRAZIL, RUSSIA, INDIA, CHINA AND SOUTH AFRICA
BUNA	ARAB REGIONAL PAYMENTS SYSTEM
CBDC	CENTRAL BANK DIGITAL CURRENCY
CBUAE	CENTRAL BANK OF THE UAE
CCMS	COURT CASE MANAGEMENT SYSTEM
CCSYS	CENTRAL BANK RISK BUREAU’S COMMERCIAL CREDIT SYSTEM
CIBAFI	GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS
CMMI	CAPABILITY MATURITY MODEL INTEGRATION
CPI	CONSUMER PRICE INDEX
UAE DDS	UNITED ARAB EMIRATES DIRECT DEBIT SYSTEM
DMF	DIRHAM MONETARY FRAMEWORK
DONIA	DIRHAM OVERNIGHT INTEREST AVERAGE
ECB	EUROPEAN CENTRAL BANK
EDM	ENTERPRISE DATA MANAGEMENT
EIF	EMIRATES INSTITUTE OF FINANCE
EKYC	ELECTRONIC KNOW YOUR CUSTOMER
EMDE	EMERGING MARKETS AND DEVELOPING ECONOMIES
ERMF	ENTERPRISE RISK MANAGEMENT FRAMEWORK
FATF	FINANCIAL ACTION TASK FORCE
FCSC	FEDERAL COMPETITIVENESS AND STATISTICS CENTRE
FDI	FOREIGN DIRECT INVESTMENT
FIT	FINANCIAL INFRASTRUCTURE TRANSFORMATION
G20	GROUP OF TWENTY
GCC	GULF COOPERATION COUNCIL
GCC-RTGS	GULF COOPERATION COUNCIL - REAL-TIME GROSS SETTLEMENT SYSTEM
GDP	GROSS DOMESTIC PRODUCT

⁵ Other countries have joined and are applying to join the BRICS group. Confirmed additions include Egypt, Ethiopia, Iran, and the UAE.

ICAAP	INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
ICCS	IMAGE CHEQUE CLEARING SYSTEM
ICFR	INTERNAL CONTROLS OVER FINANCIAL REPORTING
IFIS	ISLAMIC FINANCIAL INSTITUTIONS
ICP	FEDERAL AUTHORITY FOR IDENTITY, CITIZENSHIP, CUSTOMS & PORT SECURITY
IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
IFSB	ISLAMIC FINANCIAL SERVICES BOARD
IMF	INTERNATIONAL MONETARY FUND
ISO	INTERNATIONAL ORGANISATION FOR STANDARDISATION
IPI	INSTANT PAYMENT INSTRUCTION
IPP	INSTANT PAYMENTS PLATFORM
LFI	LICENSED FINANCIAL INSTITUTION
LIBOR	LONDON INTER-BANK OFFER RATE
LCSS	LOCAL CURRENCY SETTLEMENT SYSTEM
MENA	MIDDLE EAST AND NORTH AFRICA
MOU	MEMORANDUM OF UNDERSTANDING
MPPF	CBUAE MACROPRUDENTIAL POLICY FRAMEWORK
MVP	MINIMUM VIABLE PRODUCT
NGFS	NETWORK OF CENTRAL BANKS AND SUPERVISORS FOR GREENING THE FINANCIAL SYSTEM
NEER	NOMINAL EFFECTIVE EXCHANGE RATE
NPSS	NATIONAL PAYMENT SYSTEMS STRATEGY
OPEC	ORGANISATION OF PETROLEUM EXPORTING COUNTRIES
PCI DSS	PAYMENT CARD INDUSTRY DATA SECURITY STANDARD
PFMI	PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURE
PSSD	PAYMENTS AND SECURITIES SETTLEMENTS DIVISION
RBI	RESERVE BANK OF INDIA
RHP	REGISTERED HAWALA PROVIDER' UNDER RBI
RPSCS	RETAIL PAYMENT SERVICES AND CARD SCHEMES
RTGS	REAL-TIME GROSS SETTLEMENT
SUPTECH	SUPERVISORY TECHNOLOGY
SREP	SUPERVISORY REVIEW AND EVALUATION PROCESS
SVF	STORED VALUE FACILITIES
UAEDDS	UAE DIRECT DEBIT SYSTEM
UAEFTS	UAE FUNDS TRANSFER SYSTEM
UAEPGS	UAE PAYMENT GATEWAY SYSTEM
UAESWITCH	UAE NATIONAL CARD SWITCH
UAEWPS	UAE WAGES PROTECTION SYSTEM
Y-O-Y	YEAR-ON-YEAR

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