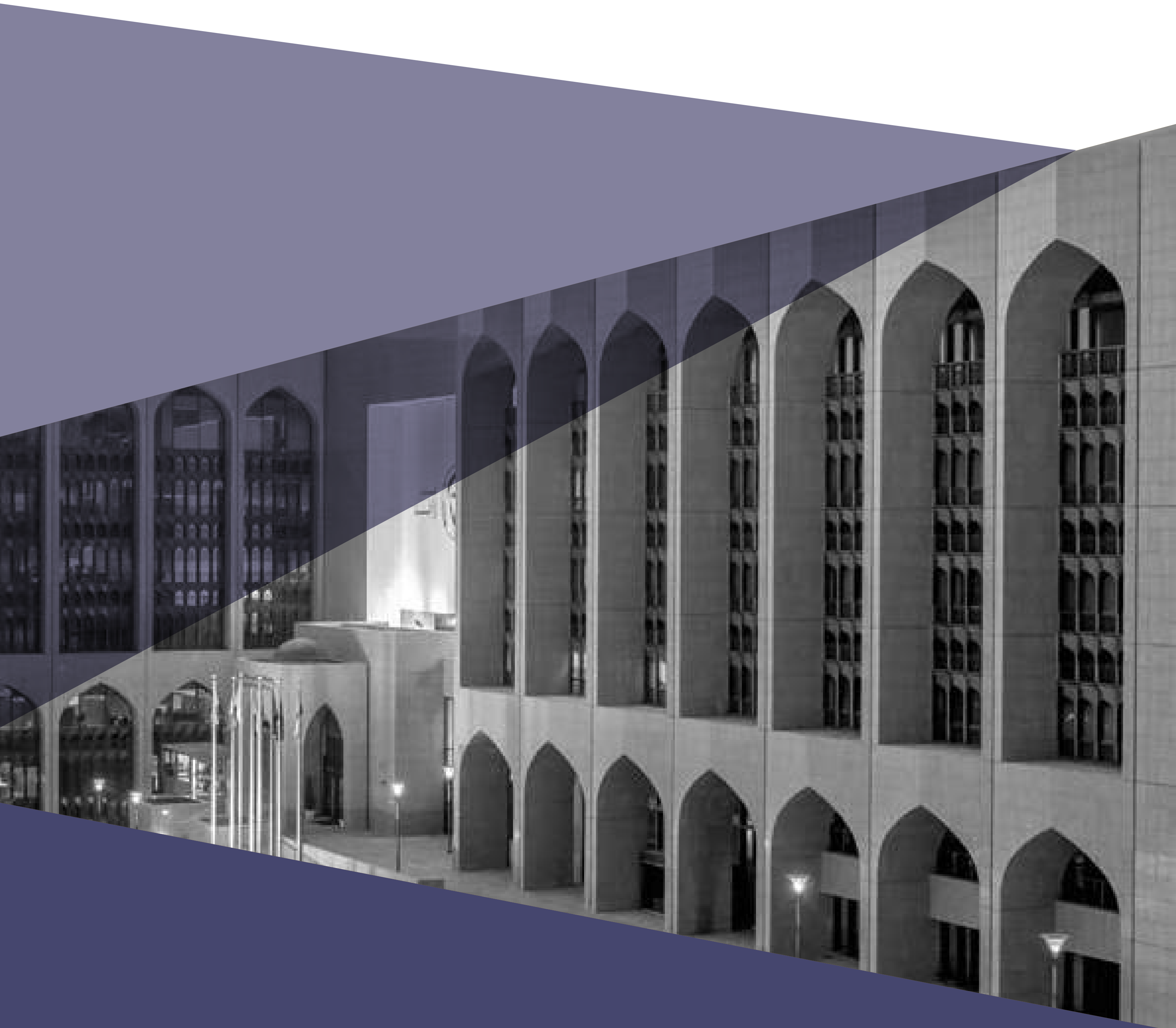
مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

United Arab Emirates

FINANCIAL STABILITY REPORT
2018



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PREFACE

The Central Bank of the UAE (CBUAE) is committed to ensuring stability and resilience of the UAE financial and banking system and thereby contribute to further progress and prosperity of the United Arab Emirates. The objective of the Financial Stability Report is to provide relevant information, financial data, and stability assessments related to the strength and vulnerabilities of the UAE financial system and in this manner reinforce the confidence and transparency in the banking and financial system.

The report covers a comprehensive assessment of the financial and banking system in the UAE. The assessment contains detailed banking system assessment, including regulatory stress testing, regulatory developments, macro-financial conditions and other aspects relevant to financial stability. Further, I would like to express my gratitude to the Securities and Commodities Authority and the Insurance Authority for contributing with assessments of key developments in their respective sectors.

In 2018, an important milestone for the CBUAE, was the issuance of the Decretal Federal Law No. (14) of 2018 regarding the Central Bank & Organization of Financial Institutions and Activities. The new law significantly reinforces the CBUAE role and regulatory powers, promotes effective oversight over the banking and financial system in line with the latest international best practices and standards, and contributes to comprehensive development of the financial and banking sectors in the UAE.

Looking ahead, the new law of 2018 defines the contribution to promotion and protection of stability of the financial system in the United Arab Emirates as one of the three principal objectives of the CBUAE. In 2018, the CBUAE established an executive-level Financial Stability Policy Committee (FSPC) chaired by the Governor that will facilitate the thorough fulfilment of this objective. The FSPC provides a focused platform for CBUAE efforts concerning financial stability, crisis preparedness, and relevant research.

On this occasion, I would like to also commemorate some key legislative milestones in the CBUAE history. It commenced with the establishment of the UAE Currency Board per the Federal Law No. (2) of 1973. The CBUAE was formally established in 1980 by the Union Law No. (10) concerning the Central Bank, the Monetary System and Organization of Banking. This was further complemented by the Federal Law No. (6) of 1985 regarding Islamic Banks, Financial Institutions and Investment Companies.

The new law of 2018 replaces the above mentioned laws and represents a significant step in the CBUAE journey. Looking back, I would like to express my deepest appreciation to the distinguished chairmen and members of the CBUAE Boards of Directors, my distinguished predecessors, and our former and current colleagues who have contributed substantially to the CBUAE and to the progress and stability of the UAE financial and banking system during the last five decades.

Mubarak Rashed Al Mansoori
Governor

EXECUTIVE SUMMARY

The macroeconomic growth and outlook of the UAE economy stabilised during 2018 supported by improved average oil prices during the year, more proactive fiscal strategy, announcement of structural reform initiatives, stable financial markets, and reforms benefiting fiscal diversification and sustainability. Real estate market prices and rents declined for a fourth consecutive year contributed by supply of newly developed real estate properties.

The UAE banking system remained adequately capitalised with capital ratios well above the minimum regulatory requirements. The funding and liquidity indicators reflected solid liquidity buffers and funding conditions with the key stable funding metrics improving further during the year. Strong financial performance and operating efficiency were reflected in rising net profits and lower cost-to-income ratio of the overall banking system.

Bank lending growth improved during 2018 relative to the slow growth during the previous year, driven by corporate sector lending. In contrast, retail sector lending remained stagnant. While the non-performing loans ratio increased slightly during 2018, the specific provision coverage also improved. For this reason, considering the increase in specific provisions, the resulting unprovisioned part of non-performing loans decreased.

The Central Bank of the UAE (CBUAE) further enhanced the regulatory framework for the UAE banking sector, including implementation of regulatory Basel III requirements on capital, risk management, controls and compliance and issuance of the IFRS 9 guidance. Further, the CBUAE designated one additional bank during 2018 as systemically important, increasing the number of Domestic Systemically Important Banks in the UAE to four.

During 2018, the number and total assets of finance companies operating in the UAE decreased. The CBUAE also issued a new regulatory framework for finance companies. The UAE finance companies diverged in terms of operating performance and asset quality. The sector, however, remained small relative to the asset-size of the banking system, with limited potential to transmit systemic risk to the UAE financial system as a whole.

To evaluate the resilience of individual banks and the banking system as a whole to potential macro-financial shocks, the CBUAE conducted the 2018 annual regulatory stress test. Overall, the stress test demonstrated that the UAE banking system remained resilient to the considered adverse macro-financial shocks. Furthermore, payment systems operated and supervised by the CBUAE remained resilient and continued to operate without major disruptions.

CENTRAL BANK OF THE UNITED ARAB EMIRATES HISTORY TIMELINE

1980:

Central Bank of the UAE was established as per the Union Law No. (10) of 1980 the Monetary System and Organization of Banking.

1973:

UAE Currency Board was established as per the Federal Law No. (2) of 1973

1985:

Enhanced legal framework as per the Federal Law No. (6) of 1985 regarding Islamic Banks, Financial Institutions and Investment Companies.

> *"The new law of 2018 defines the contribution to promotion and protection of stability of the financial system in the United Arab Emirates as one of the three principal objectives of the Central Bank of the UAE."*

2012:

Publication of the first Financial Stability Report of the Central Bank of the UAE.

2018:

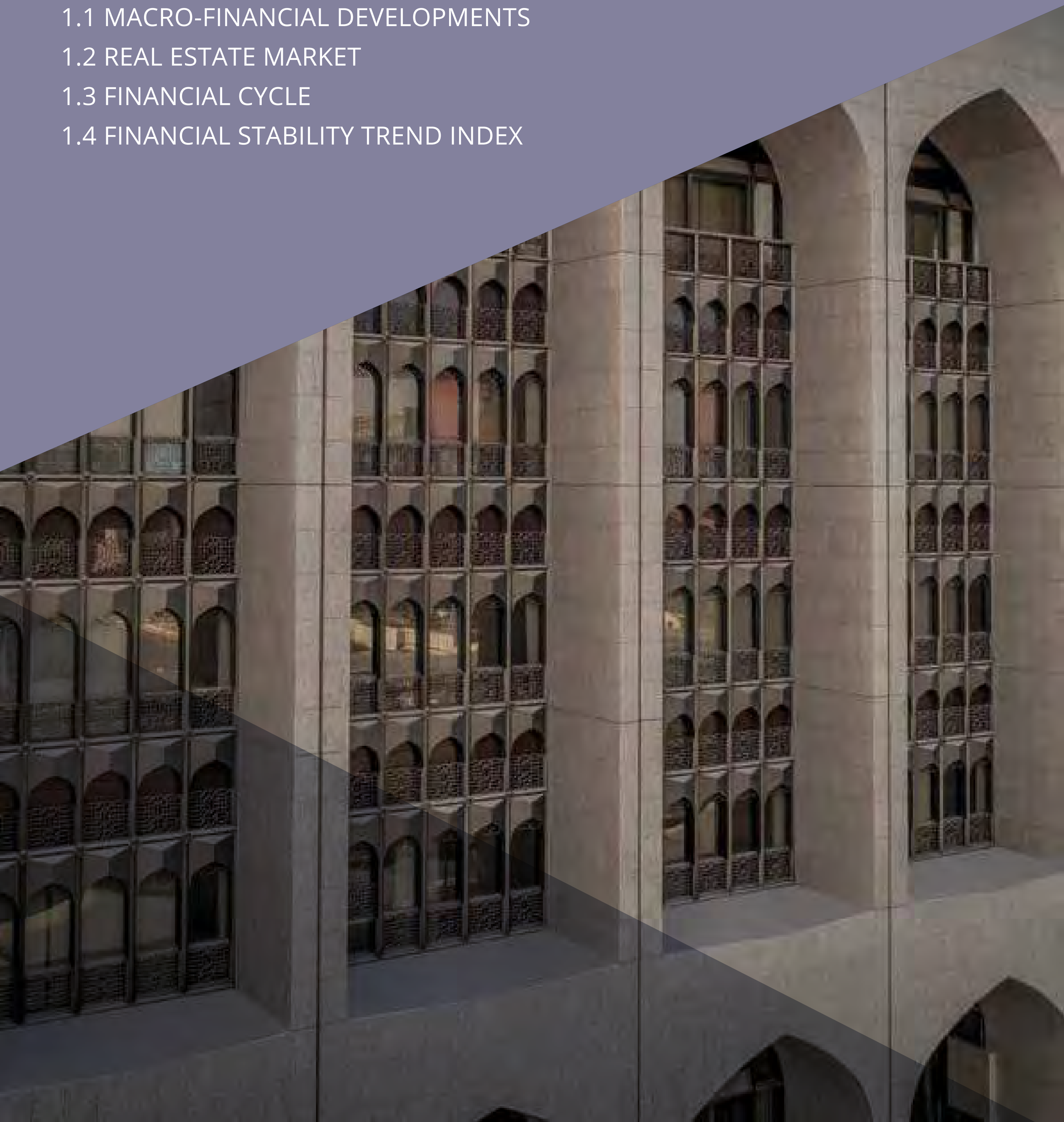
Issuance of the Decretal Federal Law No. (14) of 2018 regarding the Central Bank & Organization of Financial Institutions and Activities.

2018:

Establishment of the Financial Stability Policy Committee (FSPC) of the Central Bank of the UAE.

PART ONE

MACRO-FINANCIAL CONDITIONS



1.1 MACRO-FINANCIAL DEVELOPMENTS

Macroeconomic and financial market conditions remained supportive of financial stability in the UAE. Global economic growth and domestic non-oil sectors growth lost some momentum during 2018. It is projected that real GDP growth of the UAE economy will improve in 2019 supported by fiscal stimulus, preparations for the EXPO 2020 and solid oil revenue. The average price of oil recovered during 2018. Although the macro-financial outlook remained supportive of financial stability, the financial system participants need to remain mindful of potential global and regional macro-financial risks.

GLOBAL ECONOMY

The global economic growth slowed in the second half of 2018 and growth estimates for both 2018 and 2019 were revised downwards owing to uncertainties related to trade confrontations and slowdown in the euro area and China, in addition to evolving risks in some emerging economies. The average price of Brent crude oil increased by 31% in 2018, compared to the previous year, reaching USD 71 per barrel. OPEC agreement to extend the supply cut in 2018 supported oil prices. In addition, some oil supply disruptions solidified the upward pressure on international oil prices.

Steps towards monetary policy normalisation in the US resulted in further lifting up of policy interest rates to the range of 2.25-2.5% during 2018. This led to an increasing divergence in monetary policies among developed economies, with the European Central Bank and the Bank of Japan maintaining negative interest rates. Uncertainties continued to surround Brexit and its effect on the British Pound and the UK economy. Towards the end of 2018, markets started pricing in slower path for monetary policy normalisation in the mentioned economies, including the US.

DOMESTIC ECONOMY

The non-oil sectors advanced at a softer pace, growing by 1.3% in 2018 compared to an expansion of 1.9% in the previous year. The overall real GDP growth is estimated at 1.7% according to the latest statistics from Federal Competitiveness and Statistics Authority, mainly led by the oil sector, which registered a growth of 2.8%. CBUAE projects that growth will further accelerate in 2019, reaching 2.0%, supported by the fiscal stimulus announced by the federal and local governments, preparations for the EXPO 2020 in Dubai and solid oil revenue. In addition, the federal government announced new measures to stimulate private sector, such as relaxation of foreign ownership requirements and some visa policies.

CBUAE estimates of the external Balance of Payments for the UAE indicate that non-hydrocarbon exports increased by 2.1% in 2018 in tandem with an increase in hydrocarbon exports by 13.9%, which resulted in a trade balance surplus of 19.7% of the GDP and a current account surplus of 9.1% of the GDP. Inflation remained moderate amid improvements in external sector. Headline CPI inflation climbed to 3.1% in 2018 from 2.0% in 2017 due to the implementation of VAT at the beginning of 2018 and transmission of higher crude oil prices to domestic fuel market. In contrast, lower house rent prices helped to dampen the impact from VAT and higher fuel prices.

FINANCIAL MARKET DEVELOPMENTS

Reflecting the US Federal Reserve four interest rate hikes during the year, CBUAE increased the 1-week Certificate of Deposit base rate to 2.25%. The EIBOR-LIBOR money market spreads narrowed on average for all key maturities. The 3-month EIBOR-LIBOR spread decreased from 25 basis points in 2017 to 13 basis points in 2018.

In the currency market, the 12-month AED forward points edged lower to 30 basis points by the end of 2018, from around 50 basis points at the beginning of the year. Compared to other GCC countries, the AED forward points remained one of the lowest in the region, suggesting narrow interest rate differentials and a strong financial market confidence.

On the credit markets, the Abu Dhabi and Dubai CDS spreads remained stable. The average Dubai CDS spread in 2018 was lower at 118 basis points compared to the previous year (2017: 124 basis points), while the 2018 average of Abu Dhabi CDS spreads remained at low although increasing slightly to 63 basis points (2017: 54 basis points).

The stock-price indices in the domestic equity markets diverged between Abu Dhabi and Dubai. The ADX index in 2018 was higher compared to 2017, driven by the banking sector. The reverse was observed for the DFM index, which declined during 2018, mainly contributed by the real estate sector. The combined market capitalisation of both of the stock markets was around AED 875billion.[1]

GLOBAL MACRO - FINANCIAL RISKS

The major themes underpinning the development of the global macro financial risk environment was centred around the pace of policy tightening in the US, unresolved trade tensions between the US and China, the potential volatility around Brexit, elevated private and public sector debt in several countries, fluctuations in the commodity prices and heightened geopolitical risks in the region.

The UAE banking system remained resilient in 2018, weathering these risks. Nevertheless, banks need to remain vigilant to counter potential risks, ensuring that necessary prudential and risk mitigation actions are in place.

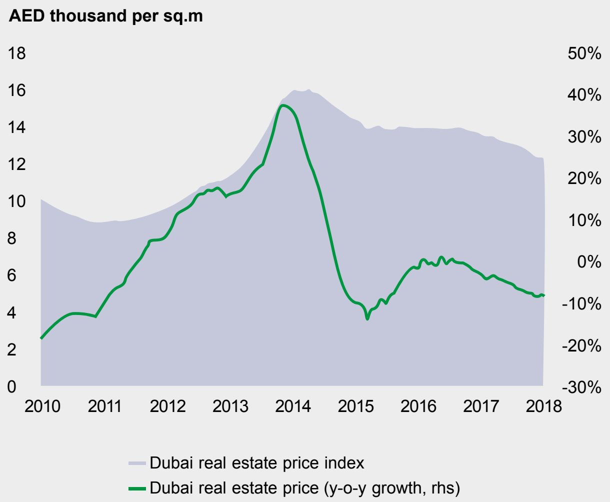
1.2 REAL ESTATE MARKET

The overall environment in the real estate sector remained on downward trend as residential and commercial real estate prices declined during 2018 for a fourth consecutive year. The downward price trend was contributed by an increase in the supply of residential and commercial real estate properties in Dubai and Abu Dhabi, partially in preparation for EXPO 2020. Residential and commercial real estate rent prices and average daily revenue per hotel room also declined in both Dubai and Abu Dhabi.

RESIDENTIAL REAL ESTATE MARKET

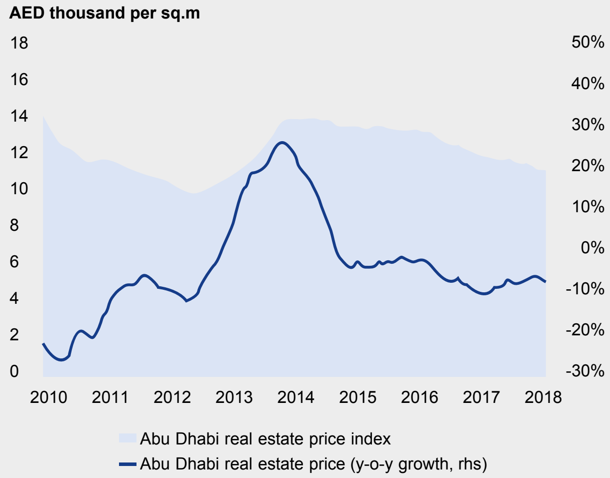
Residential real estate sales prices continued their decline for the fourth consecutive year in both Abu Dhabi and Dubai. The pace of decline in Abu Dhabi slowed to 6.8% in 2018 from 9.1% in 2017. In Dubai, prices declined 8.6% in 2018 compared to a 3.8% decline in 2017.[2,3] The growth of residential real estate supply in Abu Dhabi expanded by 8.1% in 2018 compared to a 6.3% increase in 2017. Dubai residential real estate supply grew by 7.8% in 2018 compared to 9.4% in 2017.

DUBAI RESIDENTIAL REAL ESTATE PRICE INDEX



Source: REIDIN

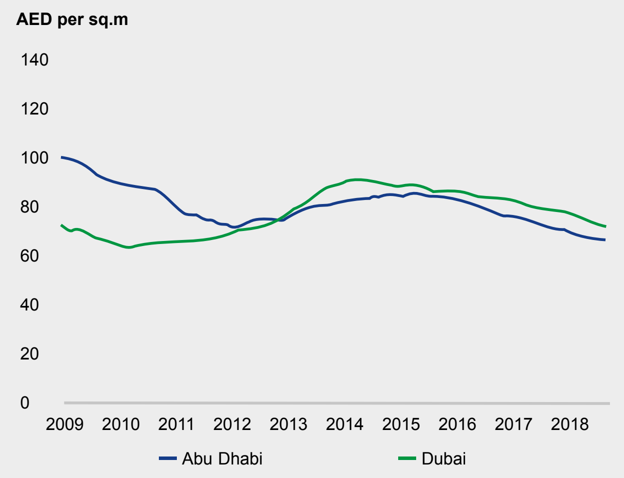
ABU DHABI RESIDENTIAL REAL ESTATE PRICE INDEX



Source: REIDIN

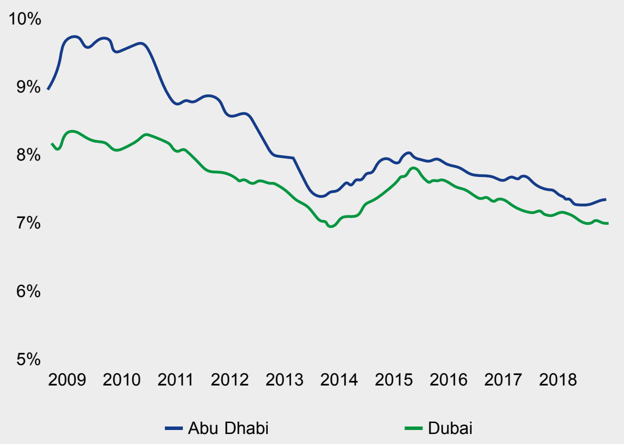
Residential real estate rental prices declined in both Abu Dhabi and Dubai. Abu Dhabi rental prices declined 9.6% in 2018 compared to an 11.4% decrease in 2017. In Dubai rental prices declined 10.4% in 2018 compared to a 7.4% decline in 2017.[4] While residential real estate sales prices and rent prices declined in tandem, rental prices declined at a faster pace. Consequently, the gross yield on residential property investment declined slightly to around 6.8% in both Dubai and Abu Dhabi.

MONTHLY RESIDENTIAL RENTAL PRICES



Source: REIDIN

RESIDENTIAL GROSS YIELD



Source: REIDIN

COMMERCIAL REAL ESTATE MARKET

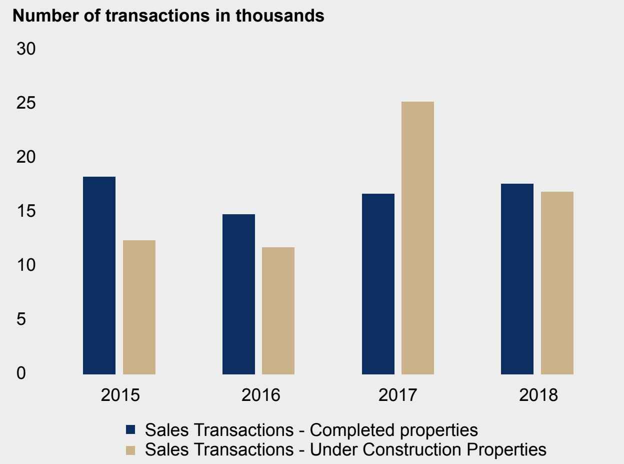
In commercial real estate, office space rent prices declined at a faster pace compared to the previous year in both Dubai and Abu Dhabi. In Dubai, office space rents declined 4.8% in 2018 compared to a 2.4% decline in 2017. In Abu Dhabi, office space rents declined 8.5% in 2018 compared to a 7.3% decline in 2017. While rent prices declined further, the supply of completed office space increased in 2018, growing by 1.6% in Dubai, and 11.0% in Abu Dhabi. Office occupancy rates in Dubai and Abu Dhabi remained stable at 80% in 2018.[5]

REAL ESTATE TRANSACTIONS

In addition to the above-mentioned increases in real estate supply and the decline in real estate prices in Dubai, the demand for real estate, measured by the number of real estate transactions also witnessed a drop in 2018. The total number of sales transactions in Dubai declined by 17.9% in 2018 compared to a 59.2% increase in 2017. Although the number of sales transactions in Dubai for completed properties increased by 5% in 2018, the pace decelerated compared to the 13.7% increase in 2017.

The sales transactions for properties under construction declined 33.1% in 2018 compared to a 116.7% increase in 2017. In 2018, the demand for completed properties outpaced that of the demand for properties under construction. Sales transactions for properties under construction were half of total sales transactions, compared to 60% in 2017. New regulations such as the 10-year visas for certain categories of expatriate residents and the 100% foreign ownership in companies for certain categories of businesses could improve the demand for real estate by expatriates. Transaction data is not available in Abu Dhabi.

DUBAI REAL ESTATE SALES TRANSACTIONS



Source: REIDIN

HOSPITALITY SECTOR

The total number of international tourists increased by 0.8% in Dubai to 15.9 million international guests in the year 2018.[6] The number of tourists in Abu Dhabi, measured by the total number of hotel guests, increased by 3.5% to around 5.0 million.[7] Nonetheless, the average daily revenue (ADR) per hotel room decreased in both emirates. In Dubai, the ADR declined by 5.5% to AED 465 during 2018, while average hotel occupancy remained stable at 80%. The ADR in Abu Dhabi declined by 3.8% to AED 405 in 2018, while the average hotel occupancy rate remained stable at around 72%. The total number of hotel rooms grew at around the same pace in both Dubai and Abu Dhabi. In Dubai, the number of available hotel rooms grew by 7.9% to 115,967. In Abu Dhabi, the number of available hotel rooms grew by 7.8% to 32,971. New regulations on free visas for transiting passengers and the announcement of a VAT refund scheme for tourists could positively affect the tourism sector.

1.3 FINANCIAL CYCLE

Private credit grew at a slightly stronger pace than in the year before and also slightly stronger than nominal non-oil GDP, thus impacting the credit-to-non-oil -GDP gap positively, which was estimated to be around -21% as of December 2018. Non-core liabilities to core liabilities ratio of the banking sector remained stable during 2018 close to its historical average, while the growth of capital market funding increased slightly during the year.

CREDIT CYCLE

Credit cycles tend to go through periods in which funds are relatively easy to borrow followed by a contraction in the availability of credit or a tightening credit standards by banks. Credit Sentiment Surveys of the Central Bank of the UAE (CBUAE) showed that factors such as quality of bank asset portfolio, economic outlook, and change in tolerance for risk were important in determining the changes in credit standards.

The total private credit in the UAE represents funds borrowed by non-bank UAE entities and comprises of three components: UAE bank loans, issuance of bonds by UAE entities, and borrowing of UAE entities from abroad. UAE bank loans represent around 70% of the private credit in the UAE and the rest is equally split between the other two categories.[8]

The average private credit growth in the UAE over the past ten years was 5.2%. However, in the past three years, private credit grew at a slower rate than the average. In 2018 private credit growth was 3.5%, a slight acceleration from 2.5% during the previous year.

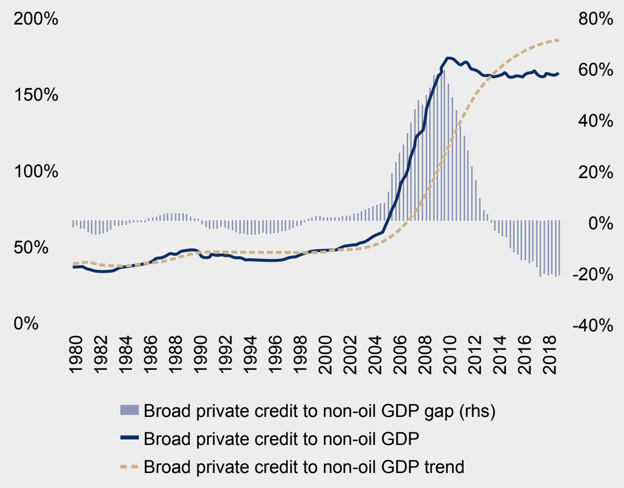
CREDIT-TO-GDP GAP

The credit-to-GDP gap is one of the main indicators for analysing credit cycles and to guide the build-up of the countercyclical capital buffer in response to excessive credit growth.

At the end of 2018, the private-credit-to-non-oil GDP gap was -21%.[9] Negative values imply that the credit growth is lagging behind the long-term trend, which signals absence of excessive credit growth.

This negative value has marginally diminished though mainly because of the pick-up in private credit growth, which was slightly stronger than the growth of nominal non-oil GDP. Looking ahead, the gap could narrow due to expected stronger credit growth according to the credit sentiment survey, improved GDP outlook, in addition to the flattening of the long-term trend.

TOTAL PRIVATE CREDIT TO NON-OIL GDP, LONG-TERM TREND AND GAP



Source: CBUAE, Federal Competiveness and Statistics Authority Bloomberg and CBUAE staff estimate

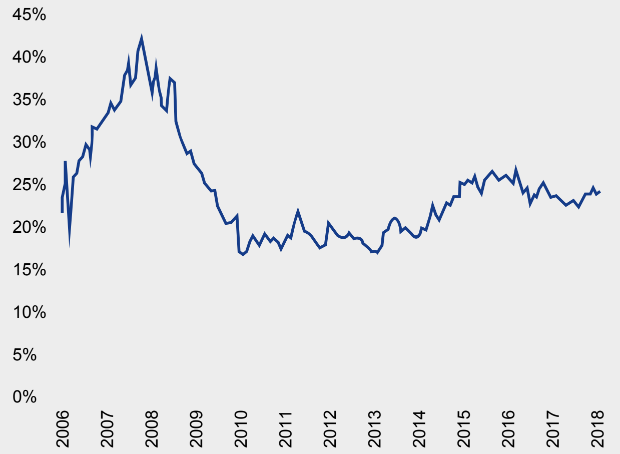
The gap analysis is a statistical method and it has some known technical shortcomings. In addition, in the case of the UAE, the credit growth in the early 2000s coincided with significant structural changes in the non-oil economy and financial deepening. Therefore, the expansionary phase of the credit cycle might be biased upwards by the structural changes.[10]

The credit-to-non-oil-GDP gap estimated with a structural shift in 2007 suggests that the gap in 2018 would be around -2%, slightly higher than the last year level (-3%). Overall, the credit cycle in the UAE, measured by the credit-to-non-oil-GDP gap, seems to be bottoming out of the contractionary phase, proven by a stronger lending growth and overall private credit growth in 2018.

Changes in banks funding behaviour can coincide with credit cycles. Therefore, an increase in the stock of non-core[11] liabilities can serve as an indicator of a potential build-up of systemic vulnerabilities arising from the several funding channels of the banking system. This is relevant to account for the joint dynamics between the credit and asset price cycles and their relationship with bank funding structure.

The non-core liabilities to core liabilities ratio remained around 24% throughout 2018, close to its historical average, indicating a stable phase of the funding cycle and its structure in the UAE banking system. Furthermore, changes in capital market funding can also complement this picture. Capital market funding grew 6.4% during 2018 and represented around 7% of total liabilities of the UAE banking system.[12]

NON-CORE LIABILITIES TO CORE LIABILITIES IN THE UAE BANKING SYSTEM



Source: CBUAE

1.4 FINANCIAL STABILITY TREND INDEX

During the course of 2018, the overall Financial Stability Trend Index (FSTI)[13] indicated a relatively stable macro-financial environment. Improvements in profitability and liquidity in the banking sector, and in the Economic Composite Indicator (ECI), were the main drivers of the index despite the volatility in oil prices and decline in real estate prices.

The Financial Stability Trend Index (FSTI) combines eighteen variables within three sub-indices, the banking, economy and financial market indices. A positive FSTI value suggests supportive conditions whereas a negative value suggests deteriorating conditions. The index is not intended to be used as an early warning indicator of financial stress or crisis but rather to reflect the contemporaneous macro-financial conditions for financial stability.

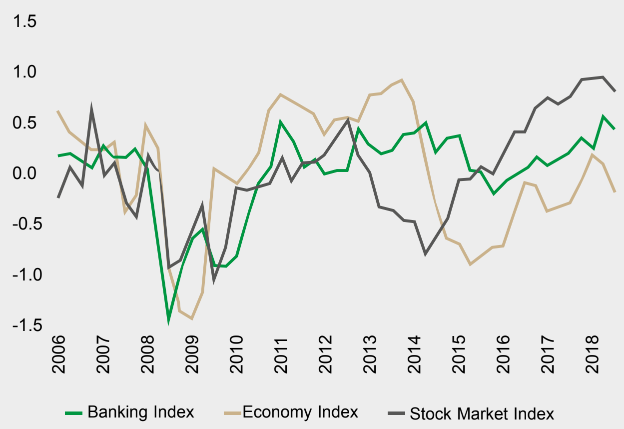
During 2018, the index fluctuated in the positive territory reaching a value of 0.3 at the end of the year. During the first three quarters of the year, the index continued its upward trend indicating a favourable environment, reaching levels almost comparable to those before the oil prices slump experienced in 2014 - 2016.

During the course of the year, the index gained from improvements in the profitability and liquidity of the banking sector and lower loan-to-deposit ratio. In addition, recovery in the ECI, which reflects the economic growth, contributed positively.

In spite of the upside of the overall index, factors that impacted the index negatively were the non-performing loan ratio and volatility in the equity prices of publicly listed banks in the UAE. In addition, declining oil prices in the last quarter the year adversely affected the index.

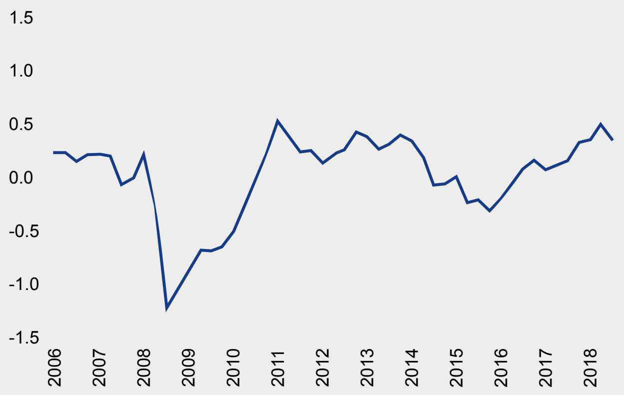
The FSTI in a broad view indicates a stable and supportive environment for financial stability. The banking and securities market sub-indices remained positive and showed an improvement in their trends. Despite the economy sub-index remained negative, it has been recovering during the past three years.

UAE FINANCIAL STABILITY TREND INDEX (FSTI): SUB-INDICES



Source: CBUAE

UAE FINANCIAL STABILITY TREND INDEX (FSTI)

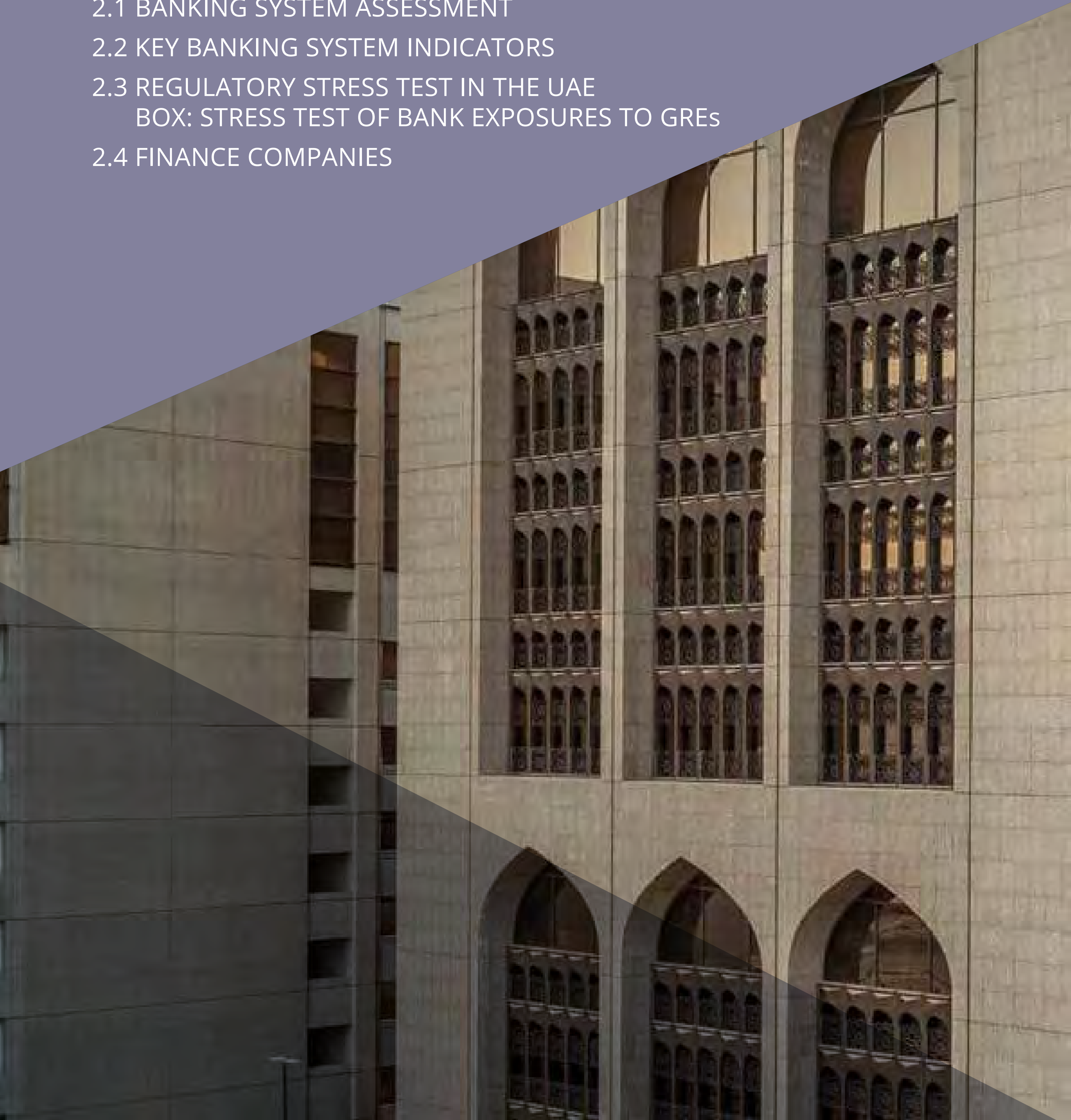


Source: CBUAE

13. For more details on the methodology, refer to Financial Stability Reports 2017, 2016 and 2015.

PART TWO

FINANCIAL SYSTEM ASSESSMENT



2.1 BANKING SYSTEM ASSESSMENT

The UAE banking system remained adequately capitalised with capital ratios well above the minimum regulatory requirements. The funding and liquidity indicators reflected solid liquidity buffers and funding conditions with key stable funding metrics improving further during the year. Financial performance and operating efficiency remained strong as reflected in rising net profits and lower cost-to-income ratio. While the non-performing loans ratio increased slightly during 2018, the specific provision coverage also improved. For this reason, considering the increase in specific provisions, the resulting unprovisioned part of non-performing loans decreased. The UAE banking system stability benefited from the implementation of Basel III standards and the IFRS 9 requirements.

2.1.1 OVERVIEW

The UAE banking system assets amounted to AED 2.9 trillion in 2018, which accounted for about 208% of the UAE nominal GDP or 263% of the non-oil nominal GDP. The banking system comprised 22 licensed UAE national banks and 38 licensed branches of foreign banks, and covered both conventional and Islamic banking.[14] UAE national banks accounted for 88% of the total assets of the UAE banking system.

Overall, the banking system remained focused on traditional loan-based commercial banking activities principally funded by deposits. As such, credit risk remains the core risk exposure, in particular in the lending portfolio. The financial investment portfolio comprises mainly of highly rated debt securities. In comparison to credit risk exposures, the share of market risk exposures remained small.

To evaluate the resilience of the UAE banking system to potential macro-financial shocks, the Central Bank of the UAE (CBUAE) conducted annual regulatory stress test during 2018, including risk factors stemming from shocks in real estate prices, oil revenues, and rising funding cost. Overall, the stress test demonstrated that the UAE banking system remained resilient to the considered macro-financial shocks.[15]

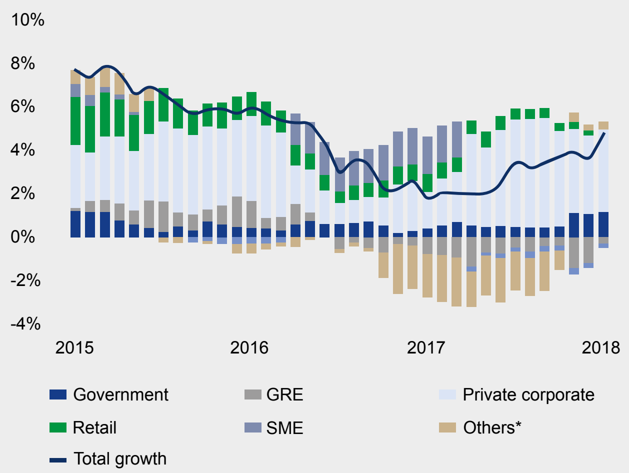
2.1.2 LENDING PORTFOLIO

BANKING SYSTEM STRUCTURE OF BANK LENDING PORTFOLIO

The loan portfolio of the UAE banking system expanded by 4.8% during 2018. The growth rate more than doubled from the subdued lending growth of 1.7% during 2017. The rebound was primarily driven by corporate sector lending, while lending to the government sector also increased particularly during the last quarter of the year. In contrast, retail sector lending remained stagnant throughout the year.

The UAE banking system lending portfolio of AED 1.7 trillion comprised 65% of wholesale corporate loans, 21% of retail loans, 12% of lending to the government sector, with the remaining 2% extended to non-bank financial institutions. Bank loans were primarily extended to UAE residents with non-resident lending remaining less than 10% of total loans.[16] Lending to UAE residents expanded by 3.9% in 2018.

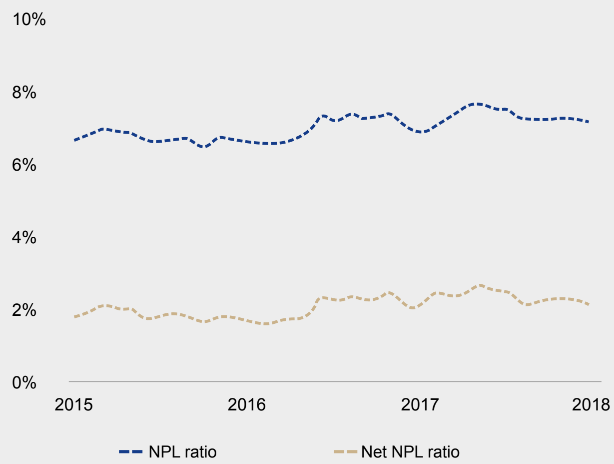
UAE BANKING SYSTEM: LENDING GROWTH



Source: CBUAE

*NBFI, High net worth individuals and Trade bills

UAE BANKING SYSTEM: ASSET QUALITY RATIOS FOR RETAIL LOAN PORTFOLIO



Source: CBUAE

BANKING SYSTEM WHOLESALE CORPORATE LENDING PORTFOLIO

The wholesale corporate lending portfolio combines bank lending to the private corporate sector, government related corporate entities (GREs), small and medium enterprises (SMEs), [17] and high-net-worth individuals (HNIs). Bank lending to private corporate sector was the most dynamic within wholesale lending throughout 2018 growing by 10.2%. Conversely, lending to the GREs (-3.2%) and SMEs (-2.6%) contracted.

The share of private corporate loans increased to 65.4% of total wholesale corporate loans during 2018, while the share of the GRE loans decreased to 17.2%, and the share of SME lending decreased to around 8.6%.

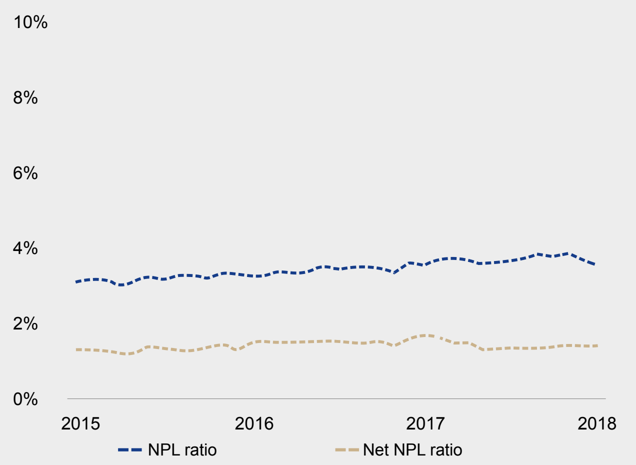
During 2018, the NPL ratio for the private corporate sector edged higher to 6.9% (2017: 6.6%). The Net NPL ratio for the sector, which excludes specific provisions, reached 1.8% (2017: 1.6%).[18] Within the wholesale corporate portfolio, the asset quality of the SME loans remained the weakest, followed by the private corporate sector, while the asset quality of GRE and HNI loans remained relatively stable.[19]

BANKING SYSTEM RETAIL LENDING PORTFOLIO

Retail lending remained stagnant during 2018 declining by 0.1%, compared with the 3.4% growth during the previous year. While the growth of residential mortgage loans remained strong (9.2%) during the year, the stagnant overall retail lending was underpinned by the contraction in other three largest retail subcategories, personal loans (-1.0%), credit card loans (-0.6%), and car loans (-13.4%).

The NPL ratio of retail loans declined to 3.5% in 2018 from 3.6% in the previous year despite the contraction in retail lending. The stable NPL ratio was reflected across most of the retail portfolio subcategories. The Net NPL ratio, which excludes specific provision, improved to 1.2% in 2018 from 1.6% in the previous year due to an increase in specific provisions coverage on retail non-performing loans by 14.3%.

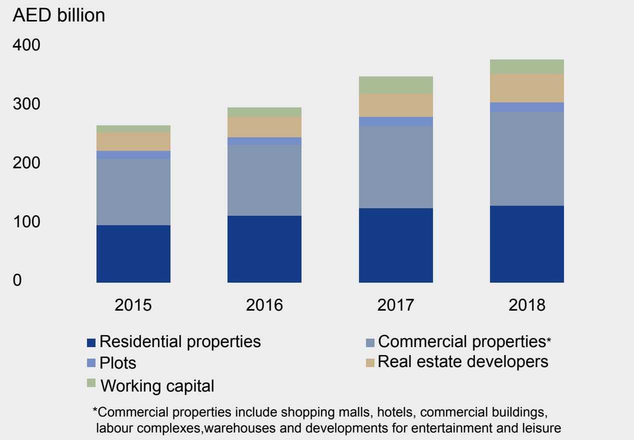
UAE BANKING SYSTEM: ASSET QUALITY RATIOS FOR RETAIL LOAN PORTFOLIO



Source: CBUAE

UAE bank loan exposure to the real estate sector grew at a more moderate pace during 2018 at 8.5% compared to 18.1% in 2017. The outstanding balance of real estate loans amounted to AED 379 billion at the end of 2018, which was slightly above 20% of total loans. The asset quality of the commercial and residential real estate loans remained stable during 2018, while it deteriorated for the construction sector.

UAE BANKING SYSTEM: COMPOSITION OF BANK REAL ESTATE LOAN PORTFOLIO (BY PROPERTY TYPE)

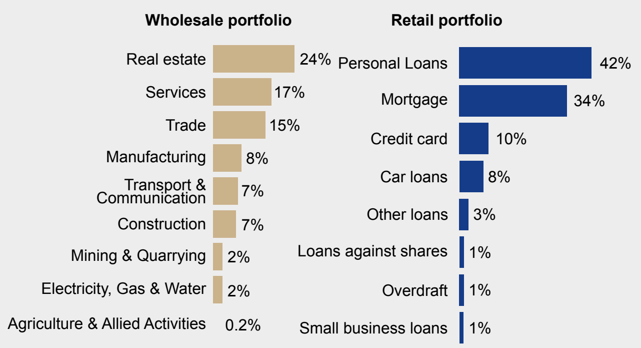


Source: CBUAE

SECTORAL EXPOSURES IN THE LENDING PORTFOLIO

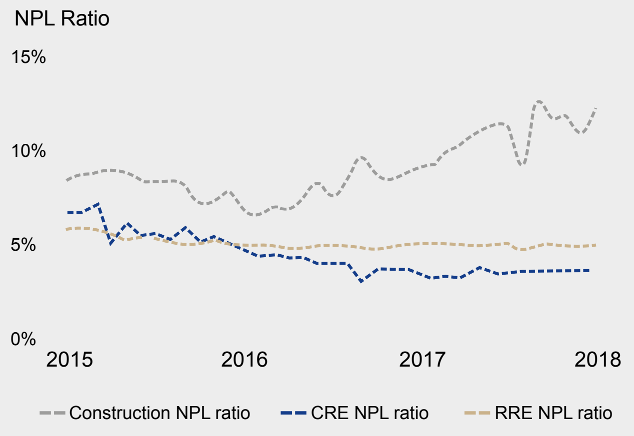
Reflecting the structure of the non-oil UAE economy, the key sectoral exposures in the wholesale lending portfolio are real estate, services, trade, and construction. While real estate and construction are two different segments, they share a similar trait in their dependence on the performance of the real estate market. The key sectors within the retail portfolio are personal loans, mortgages, credit card loans and car loans.

UAE BANKING SYSTEM: SECTORAL EXPOSURE OF THE WHOLESALE AND RETAIL LOAN PORTFOLIOS (% OF TOTAL LOANS)



Source: CBUAE

UAE BANKING SYSTEM: ASSET QUALITY OF REAL ESTATE AND CONSTRUCTION SECTOR LOAN PORTFOLIO



Source: CBUAE *Note: CRE-Commercial real estate, RRE-Residential real estate*

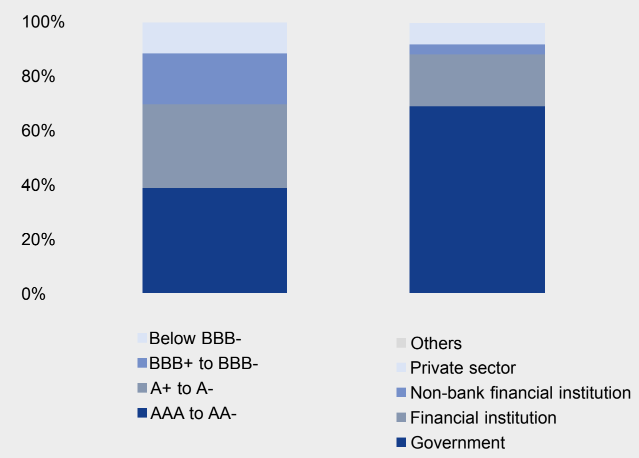
2.1.3 FINANCIAL INVESTMENT PORTFOLIO

The overall financial investment portfolio of the UAE banking systems accounted for AED 302 billion and comprised primarily of debt securities, representing a 97% share and a much smaller equity portfolio with a 3% share. More than 92% of the debt securities were held in the banking book[20] with the remaining fraction in the trading book. While more than 95% of debt securities were denominated in USD, the share of the equity portfolio in local currency was much higher at 40%.

During 2018, the overall financial investment portfolio expanded by 8.0% and accounted for 10.5% of total assets (2017: 9.9%). The increase was primarily driven by investments in debt securities that grew 8.7% during the year, which benefited diversification and liquidity of bank assets. These developments were reflected in the rising share of sovereign debt securities in the Eligible Liquid Assets,[21] which doubled since 2016 to account for 15.2% during 2018.

On aggregate, the debt securities portfolio of UAE banks reflected low counterparty credit risk with approximately 88% of the portfolio rated investment grade. High-quality investment grade securities, in the AAA to AA- rating buckets, accounted for 40% of the portfolio mostly comprising of sovereign debt. Further, strong-quality investment grade securities, in the A+ and A- rating bucket, account for additional 30% of the overall debt securities portfolio.[22]

UAE BANKING SYSTEM: COMPOSITION OF DEBT SECURITIES PORTFOLIO BY RATING AND ISSUER



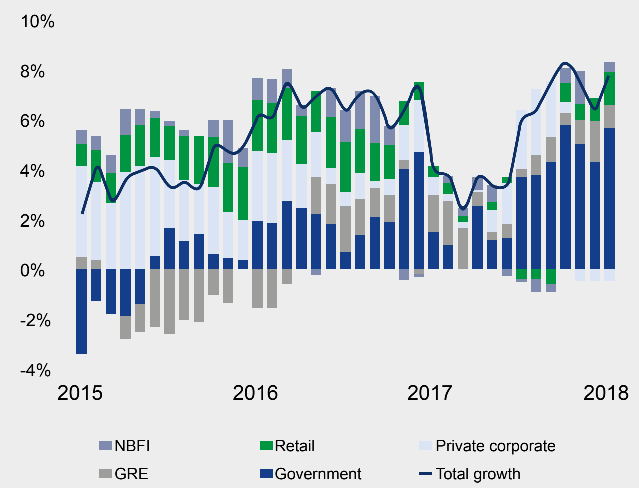
Source: CBUAE

2.1.4 FUNDING AND LIQUIDITY

BANKING SYSTEM DEPOSIT FUNDING

Bank funding remained supported by deposit growth of 7.9% during 2018 (2017: 4.7%). Deposits remain the primary source of UAE bank funding representing 71% of total liabilities (excluding capital and reserves). In 2018, the deposit growth was driven by government deposits and supported by the growth of retail sector and GRE deposits, while private corporate deposits declined slightly.

UAE BANKING SYSTEM: DEPOSIT GROWTH



Source: CBUAE

Wholesale corporate sector deposits[23] account for the highest share, contributing half of the total deposits in the UAE banking sector (comprising 77% of deposits of private corporates and 23% of deposits of government related corporate entities). The retail sector accounts for 25% and government sector for 19% of total deposits. The remainder represents deposits of non-bank financial institutions.

Time deposits retained the highest share of 53% and recorded a strong annual growth of 17.2% during 2018, which was partially related to the rising policy and market interest rates during the year. In contrast, demand deposits (which represent 39% of total deposits) contracted by 0.7% and saving deposits (which represent the remainder) also contracted by 2.8% during the year.

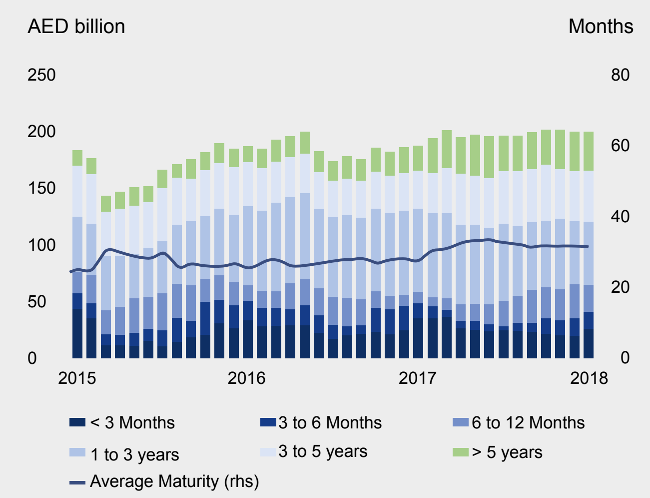
Foreign currency deposits accounted for more than one third of total deposits of the UAE banking sector. However, more than 70% of these deposits are from UAE residents, mainly the government sector accounts with UAE national banks. During 2018, foreign currency deposits growth of 18.0% outpaced the growth of AED deposits of 3.2%, largely due to government deposits denominated in USD.

BANKING SYSTEM CAPITAL MARKET FUNDING

Banks continued to diversify their funding with debt securities funding that grew by 6.4% during 2018 and accounted for 7.0% of total liabilities. The majority of the debt-securities were denominated in foreign currencies – in particular the USD (85%) while the AED represented only a very small share – as the local currency debt securities market remained shallow.

Further, the debt securities funding portfolio of UAE banks shifted during recent years towards longer-term maturities improving the overall stability of funding. Average maturity of debt securities funding improved from 24 months in 2015 to 32 months at the end of 2018 (2017: 28 months). Debt securities with maturity over 12 months accounted for more than 65% of the total capital market funding portfolio.

UAE BANKING SYSTEM: CAPITAL MARKET FUNDING

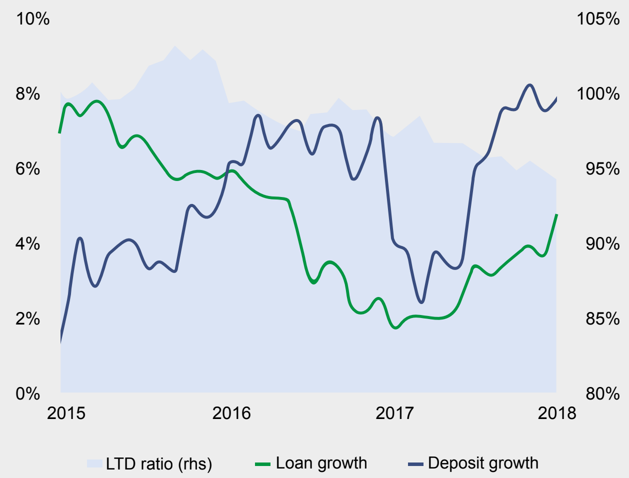


The interbank funding of the UAE banking system remained relatively small and grew in line with total liabilities. Consequently, the share of interbank funding of 6.0% on total liabilities remained stable during 2018 (2017: 5.9%). The overall UAE banking system is a net lender in the international interbank markets, lending more to foreign banks, in particular in USD, than borrowing from banks abroad. [24]

BANKING SYSTEM LIQUIDITY AND FUNDING ASSESSMENT

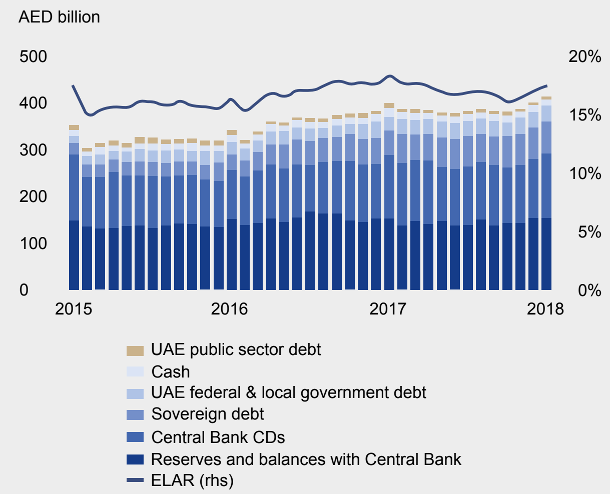
The stronger deposits growth compared to lending, resulted in a lower overall Loan-to-Deposit (LTD) ratio of 94.3% compared to 97.1% in 2017. The lower LTD ratio indicated less reliance on non-deposit sources of funding. Similarly, the overall foreign currency (FCY) LTD ratio edged lower to 64.3% (2017: 69.0%) implying a strong coverage of foreign currency denominated loans by the foreign currency deposits base.

UAE BANKING SYSTEM: LOANS-TO-DEPOSIT RATIO



Source: CBUAE

UAE BANKING SYSTEM: LIQUID ASSETS AND ELIGIBLE LIQUID ASSET RATIO (ELAR)



Source: CBUAE

The Advances to Stable Resources Ratio (ASRR), which measures loans and advances as a share of stable sources of funding, also improved to 82.3% in 2018 compared to 84.5% in 2017. The ASRR is a more complex measure of stable funding than the LTD ratio as it provides a more granular assessment of funding sources. The ratio implies adequate stable funding, well below the maximum regulatory ASRR capped at 100%.

Aggregate banking system Eligible Liquid Asset Ratio (ELAR), which measures the ratio of eligible liquid assets held by banks to total balance sheet liabilities, reached 17.5% at the end of 2018 compared to 18.3% in 2017, well above the regulatory minimum of 10%.[25] While the eligible liquid assets grew (2.4%) during the year, the decline in the ELAR was primarily due to the larger annual increase in liabilities (6.8%).

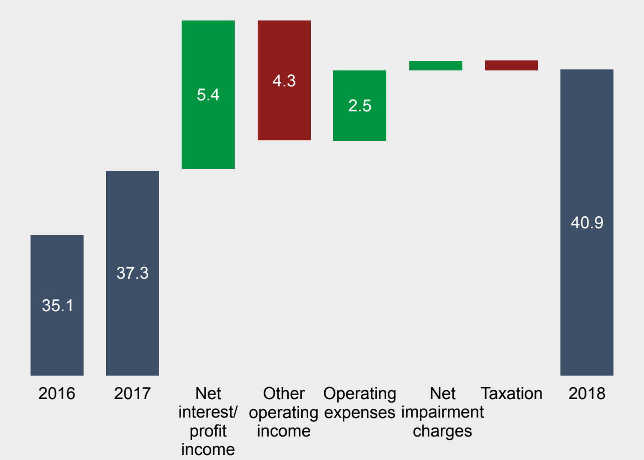
The Basel III Liquidity Coverage Ratio (LCR) measures banks' liquidity buffers to withstand a funding shock over a 30-day stress period and the Basel III Net Stable Funding Ratio (NSFR) measures the stability of bank funding. In 2018, four UAE banks were approved by the CBUAE under the Basel III compliant liquidity framework. The LCR and NSFR of these four banks were above the minimum prescribed requirements.

2.1.5 PROFITABILITY AND CAPITAL ADEQUACY

FINANCIAL PERFORMANCE OF THE BANKING SYSTEM

Overall, the financial performance of the banking system improved during 2018, with an increase in net interest income, decrease in operating expenses, and improved operating efficiency. Aggregate banking system net profits grew 9.8% and the cost-to-income ratio improved to 35.9% in 2018. The overall Return on Assets (ROA) remained at 1.5% in 2018 as bank assets expanded broadly in line with net profits.

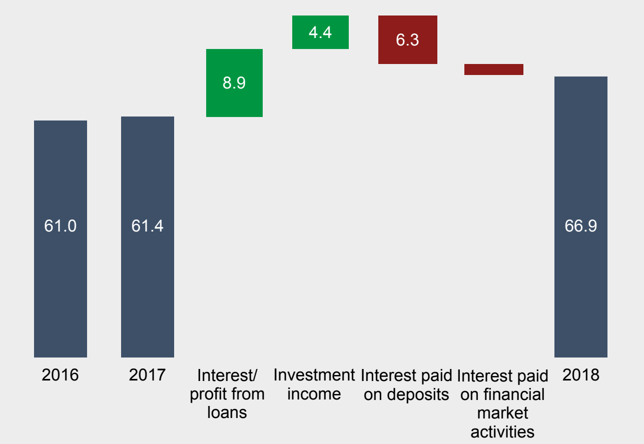
UAE BANKING SYSTEM: PROFITABILITY (AED BILLION)



Source: CBUAE

The effects of improved credit growth and rising interest rates environment during the year resulted in higher interest income on loans and investments compared to interest expenses. However, as other operating income[26] declined by 14.0% during 2018, the resulting total operating income of the UAE banking system remained relatively stable increasing by 1.2% compared to the previous year.

UAE BANKING SYSTEM: DRIVERS OF NET INTEREST INCOME (AED BILLION)



Source: CBUAE

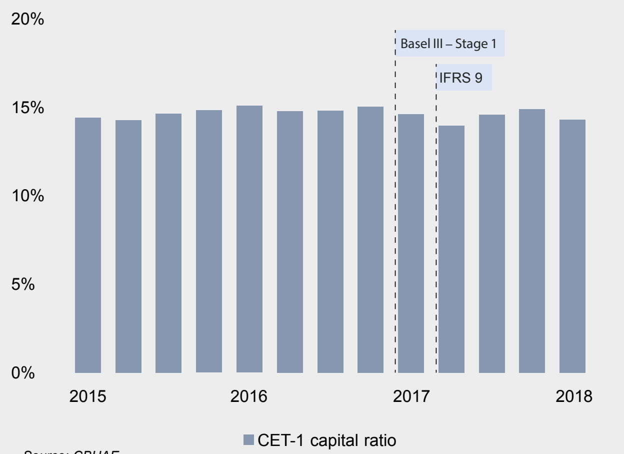
The operating efficiency of the UAE banking system improved as reflected in the cost-to-income ratio. The overall cost-to-income ratio decreased to 35.9% in 2018, compared to 39.1% in 2017. The improvement in the cost efficiency during 2018 was contributed primarily by lower operating expenses, which decreased by 7.0%. Mergers in the Abu Dhabi banking sector also contributed to the improvement in cost efficiency.

CAPITAL ADEQUACY OF THE BANKING SYSTEM

The overall UAE banking system remained adequately capitalized with capital ratios well above minimum regulatory requirements. At the end of 2018, the overall CET-1 capital ratio was 14.3%, the Tier-1 capital ratio represented 16.2%, and the total Capital Adequacy Ratio was 17.5%, compared to the minimum capital requirements of 9.5%, 11%, and 13%, respectively.[27, 28]

Capital adequacy ratios were impacted by (i) the implementation of the Basel III capital requirements in Q4 2017 that improved the quality of bank capital and (ii) the implementation of the IFRS 9 standards in Q1 2018 with a more forward-looking recognition of provisions.[28,29] Developments during the rest of the year, particularly in improved earnings and new capital issuances led to stabilization of the capital base.[30]

UAE BANKING SYSTEM: CET-1 CAPITAL RATIO



Source: CBUAE

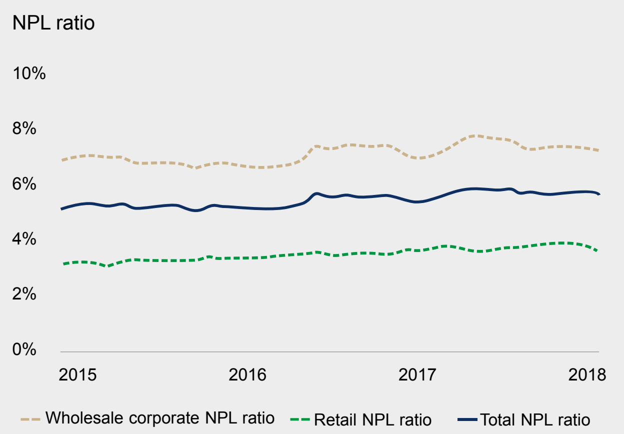
Risk-weighted assets of the banking system represented nearly 80% of the total bank assets, reflecting traditional loan-based commercial banking business model with relatively low investment banking, trading, capital market, and structured products exposures. Consequently, credit risk remained the core exposure of the UAE banking system with a nearly 90% share on total risk-weighted assets.[31]

The overall market risk exposure of the UAE banking system remained stable and small also during 2018. Market risk represented only a 3.1% share of total risk-weighted assets (2017: 3.0%). Interest rate risk in the trading book constituted more than half of the exposures in the market-risk RWA with the share of foreign exchange risk, equity-price risk, and commodities-price risk remaining relatively low.

2.1.6 ASSET QUALITY OF THE BANKING SYSTEM

The NPL ratio of the UAE banking system edged higher to 5.6% in 2018 from 5.3% in the previous year. The NPL ratio of UAE national banks was lower than the banking system as a whole at 4.6% (2017: 4.4%). Regarding the core segments, the NPL ratio of the wholesale corporate sector was 7.2% (with the SME segment reflecting the weakest asset quality) and the NPL ratio of the retail loan portfolio was 3.5%.[32]

UAE BANKING SYSTEM: NPL RATIO OF CORE LOAN PORTFOLIO



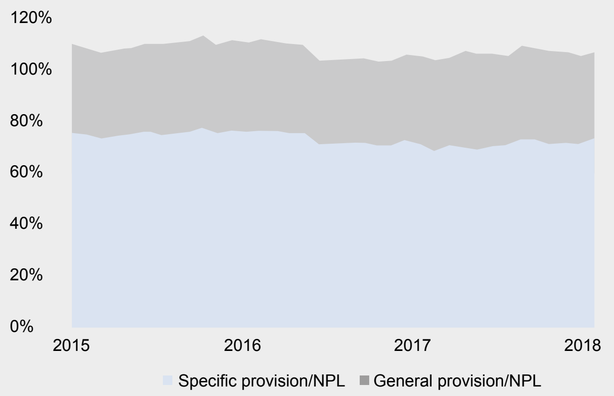
Source: CBUAE

The CBUAE regulation requires suspending interest on loans, which are 90 days past due or have been provisioned. Suspended interest cannot be credited to the profit and loss account. As such, suspended interest is not considered part of non-performing loans. Further, in few specific cases non-performing loans differ from loans with suspended interest.

In the past, the reporting of non-performing loans in the Financial Stability Report included interest in suspense. In line with accounting standards, regulatory treatment and practices in other jurisdictions, the reporting of the NPL ratio has been revised to exclude interest in suspense. During 2018, the suspended interest remained stable representing 1.6% of total gross loans (2017: 1.5%).[33]

The UAE banks are required to hold specific provisions for non-performing assets and general provisions for performing assets. The specific provision coverage of the non-performing loans improved to 70.0% during 2018 (2017: 68.1%). The total provision coverage of non-performing loans, which includes specific and general provisions, was at 106.1% during 2018 and 114.7% for UAE national banks.

BANKING SYSTEM: PROVISION COVERAGE



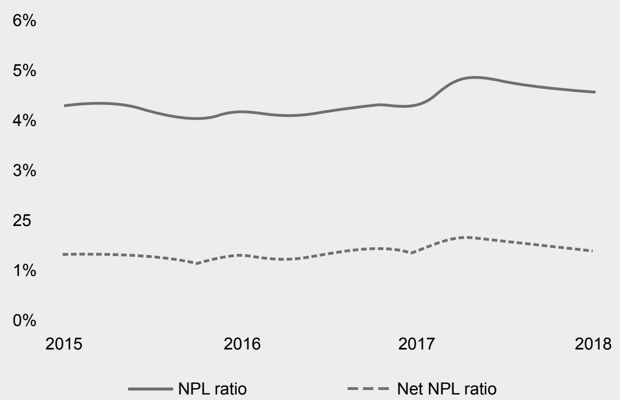
Source: CBUAE

The differences in write-off policies and provisions between jurisdictions as well as individual banks may have a significant impact on the NPL ratio. To account for the differences in write-off and provisioning policies, the Net NPL ratio is calculated net of specific provision. It provides a comparable measure of asset quality between jurisdictions, portfolios, or banks with different provisioning and write-off policies.

By excluding the specific provisions, the Net NPL is an indicator of the unprovisioned part of non-performing loans and the maximum of additional specific provisions to fully provision for the NPL. The Net NPL ratio of the UAE banking system decreased to 1.7% in 2018 from 1.9% during the previous year. The Net NPL ratio for UAE national banks was lower at 1.4% compared to the overall UAE banking system.[34]

The improvement in the Net NPL ratio was mainly due to the increase in the specific provision of the UAE banking system by 18.3% during 2018, resulting in a decline of unprovisioned NPLs. This was in part contributed by the implementation of the IFRS 9 standard during the year supported by the CBUAE IFSR 9 guidance and reinforced by prudential supervision conducted by the CBUAE.

UAE NATIONAL BANKS: ASSET QUALITY



Source: CBUAE

The delinquency ratio measures the loans past due between 30 and 90 days as a share of total loans. The delinquency ratio for the UAE banking system edged lower to 0.8% in 2018 compared to the previous years (2017: 0.9%, 2016: 1.1%). Quarterly default rates, which measures newly impaired loans during a quarter, also edged lower to 0.6% in Q4 2018 (Q4 2017: 0.7%, Q4 2016: 1.1%).

2.1.7 EXTERNAL EXPOSURES OF THE UAE BANKING SYSTEM

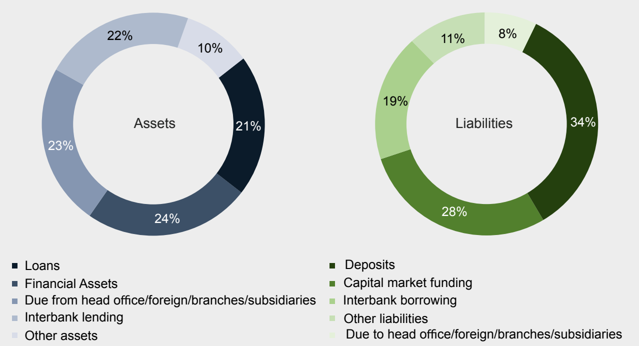
CROSS-BORDER ASSETS AND LIABILITIES

External exposures of the UAE banking system comprise cross-border assets and liabilities of banks operating in the UAE and the overseas subsidiaries and branches of UAE national banks. The cross-border assets of the UAE banking system accounted for about 24% of the total assets, while cross-border liabilities accounted for about 22% of their total liabilities of the UAE banking system.[35]

Cross-border assets of the UAE banking system comprised investments in financial assets (with a share of 24%),[36] exposure to head office and subsidiaries (23%), cross-border interbank lending (22%), and non-resident loans (21%). Cross-border liabilities comprised non-resident deposits (with a share of 34%), capital market funding (28%), and cross-border interbank borrowing (19%).

The size and composition of the cross-border assets and liabilities remained broadly unchanged compared to the previous years. The GCC region accounted for the largest share of cross-border deposits (45%) and cross-border loans (30%) followed by Asia and Europe. The UAE banking system is a net lender on international interbank markets with the main counterparts in Europe, GCC, and Asia.

UAE BANKING SYSTEM: COMPOSITION OF CROSS-BORDER ASSETS AND LIABILITIES



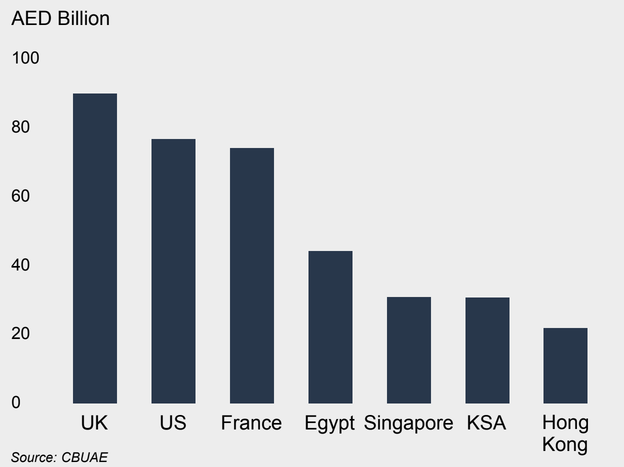
Source: CBUAE

OVERSEAS SUBSIDIARIES AND BRANCHES OF UAE NATIONAL BANKS

Total assets of overseas subsidiaries and branches of UAE national banks accounted for 16.6% of their total assets. The largest subsidiaries or branches of UAE national banks by asset size were incorporated in the UK, France, US, Egypt, and Singapore. The liabilities of the overseas subsidiaries and branches of UAE national banks comprised mainly of deposits accounting for 37% of total liabilities and borrowing from head offices representing 27%.

The assets of overseas subsidiaries and branches of UAE national banks consisted of balances with Central Banks (33%), loans (27%) and exposure to head office (21%). Loans extended by the overseas subsidiaries and branches of UAE national banks were largely to corporate counterparties, which accounted for about 77% of their loan portfolio and retail borrowers accounting for 9% of total loan portfolio.

UAE NATIONAL BANKS: ASSET SIZE OF OVERSEAS SUBSIDIARIES AND BRANCHES BY LOCATION



Source: CBUAE

CROSS-BORDER INTERBANK EXPOSURES

The UAE banking system's cross-border interbank lending accounted for 5.8% of total banking system assets in 2018, while the cross-border interbank borrowing accounted for 4.0% of total liabilities. Overall, cross-border interbank borrowing by UAE banks remained relatively low. The UAE banking system remained a net lender in the foreign interbank markets.

The interbank exposure to specific countries or counterparties remained small. The key counterparties of cross-border interbank lending were Turkey, Egypt, and the UK, accounting for 0.6%, 0.5% and 0.4% of total assets, respectively. The key counterparts of interbank borrowing were the UK, France and the US, accounting for 0.9%, 0.5% and 0.3% of total UAE banks liabilities, respectively.

A network analysis on cross-border interbank exposures conducted by the CBAUE revealed that the cross-border interbank market pose limited systemic threat due to the relatively small size of the exposures to single country counterparties compared to bank capital. In addition, main counterparties of UAE interbank lending had relatively small bilateral interbank exposures, which limits second round effects.

2.2 KEY BANKING SYSTEM INDICATORS

KEY INDICATORS FOR UAE BANKING SYSTEM

	2016	2017	2018
Capital Adequacy			
CET-1 capital to RWA ratio	15.1%	14.6%	14.3%
Tier-1 capital to RWA ratio	17.3%	16.6%	16.2%
Total capital to RWA ratio	18.9%	18.1%	17.5%
Profitability			
ROA	1.4%	1.5%	1.5%
Cost-to-income ratio	38.0%	39.1%	35.9%
Lending Indicators			
Loan-to-deposit ratio	99.4%	97.1%	94.3%
Loan-to-deposit ratio in foreign currency	75.1%	69.0%	64.3%
Liquidity and Funding			
Eligible Liquid Asset Ratio	16.2%	18.3%	17.5%
Advances to Stable Resources Ratio	86.2%	84.5%	82.3%
Asset Quality			
NPL ratio	5.1%	5.3%	5.6%
Net NPL ratio (net of specific provisions)	1.5%	1.8%	1.8%
Provision Coverage			
Specific provision coverage ratio	72.7%	68.1%	70.0%
Total provision coverage ratio	113.0%	109.0%	106.1%

KEY INDICATORS FOR UAE NATIONAL BANKS

	2016	2017	2018
Capital Adequacy			
CET-1 capital to RWA ratio	14.6%	14.0%	13.7%
Tier-1 capital to RWA ratio	17.1%	16.3%	16.0%
Total capital to RWA ratio	18.5%	17.7%	17.2%
Profitability			
ROA	1.6%	1.6%	1.7%
Cost-to-income ratio	36.6%	36.6%	33.1%
Lending Indicators			
Loan-to-deposit ratio	100.4%	98.0%	94.0%
Loan-to-deposit ratio in foreign currency	71.4%	64.5%	58.0%
Liquidity and Funding			
Eligible Liquid Asset Ratio	14.9%	17.1%	16.6%
Advances to Stable Resources Ratio	88.1%	86.1%	83.4%
Asset Quality			
NPL ratio	4.6%	4.4%	4.6%
Net NPL ratio (net of specific provisions)	1.3%	1.4%	1.4%
Provision Coverage			
Specific provision coverage ratio (net of IIS)	72.6%	69.7%	70.1%
Total Provision coverage ratio (net of IIS)	118.0%	119.5%	114.7%

KEY INDICATORS FOR UAE ISLAMIC BANKS

	2016	2017	2018
Capital Adequacy			
CET-1 capital to RWA ratio	12.4%	11.4%	12.7%
Tier-1 capital to RWA ratio	16.5%	15.3%	16.2%
Total capital to RWA ratio	17.1%	16.4%	17.3%
Profitability			
ROA	1.5%	1.7%	1.8%
Cost-to-income ratio	40.0%	37.9%	37.5%
Lending Indicators			
Loan-to-deposit ratio	96.1%	92.2%	93.0%
Loan-to-deposit ratio in foreign currency	93.9%	88.9%	82.5%
Liquidity and Funding			
Eligible Liquid Asset Ratio	16.8%	20.0%	19.6%
Advances to Stable Resources Ratio	86.7%	83.1%	81.6%
Asset Quality			
NPL ratio	6.4%	5.2%	4.8%
Net NPL ratio (net of specific provisions)	1.8%	1.8%	1.7%
Provision Coverage			
Specific Provision coverage ratio	72.9%	66.5%	65.6%
Total Provision coverage ratio	143.9%	120.3%	125.0%

2.3 REGULATORY STRESS TEST IN THE UAE

The Central Bank of the UAE (CBUAE) conducted the third annual regulatory stress test in 2018. The purpose of the stress test was to evaluate the resilience of individual banks and the banking sector as a whole to severe but plausible hypothetical adverse scenarios. In this stress test, the methodology was extended to cover additional risks stemming from rising interest rates environment as well as liquidity risk for five large banks. The coverage was broadened by including UAE branches of selected foreign banks. The results of the adverse scenario showed a 3-year cumulative common equity tier one ratio (CET-1 ratio) reduction of 320 basis points (bps) to 10.7%, which is above the regulatory minimum level. The stress test results demonstrate resilience of the banking system to adverse shocks and critical risks considered under the adverse scenario.

OVERVIEW OF REGULATORY STRESS TESTING IN THE UAE

Annual regulatory bottom-up stress test was introduced in 2015 to assess the capacity of UAE banks to withstand severe yet plausible hypothetical economic shocks and to support banks' internal stress testing and risk management capacities.

The objective of the 2018 stress test was to assess capital adequacy of individual banks and the UAE banking system to a common set of adverse shocks. The focus of the stress test was to explore potential systemic risks from a hypothetical adverse scenario in the real estate market, sustained decline in oil prices and rising interest rates environment to simulate their impact on the UAE banking sector. The coverage of the stress test was also broadened in this exercise by including both UAE national banks and selected large foreign banks covering more than 90% of total banking sector assets.

In addition to credit and market risks, the 2018 stress test also assessed the potential funding liquidity risk impact from rising interest rates on banks' net interest income.

STRESS TESTING SCENARIOS

The stress test evaluates the resilience of individual banks and the banking sector as a whole under a common macroeconomic baseline and adverse scenarios.

The baseline scenario is built based on the CBUAE economic growth forecast over the next three years, whereas the adverse scenario reflects stressed economic and financial conditions, addressing the following potential threats to financial stability in the UAE:

- Significant downward repricing risk of UAE real estate assets;
- The dependence on oil revenue of the UAE economy in the context of persistent decline in the oil price; and
- Rising funding costs in the banking sector with the potential spillover to the real economy.

To reflect each of the risks, the shocks in the adverse scenario were calibrated based on the following hypothetical economic stress factors:

- Oversupply of real estate projects and weak demand due to growing geopolitical risks and subdued confidence leads to abrupt re-pricing in the UAE housing market;
- Lower global demand for oil stemming from escalation in trade tensions and oil supply glut from US shale oil boom push the oil price down to USD 30 territory. Meanwhile, increasing funding costs in the UAE are prompted by a hawkish shift in monetary tightening from the world's biggest central banks;
- Low oil prices and weak real estate market drag on UAE real GDP growth; and
- Increased funding costs and slow pass-through to customers put UAE banks' net-interest income under pressure.

The CBUAE calibrated shocks on macroeconomic variables to reflect each of the systemic risks over a three-year time horizon. The anchor variable in the scenario was Brent oil price with a peak-to-trough decline of 42% to $35 in the first year. Real GDP growth rate would fall to -2% in the first year and slowly recover to positive growth at the end of the second year. The average real estate prices in Dubai and Abu Dhabi would decrease 19% and 18% peak-to-trough. Finally, the Emirates Interbank Offer (EIBOR) rate would spike by 300bps in the first year. Other macroeconomic variables included in the scenario are Abu Dhabi and Dubai hotel room occupancy rates and UAE oil production data.

Similar to the previous CBUAE stress testing exercises, a two-notch downgrade of all Emirates sovereign ratings was assumed. Market risk shocks on exchange rates[37], interest rates and equities were developed under the adverse scenario. A summary of the market risk shocks is presented in the table right.

TABLE: SUMMARY OF MARKET RISK SHOCKS

Interest rates	
AED and USD	+300 bps
The rest of the world	+200 bps
Foreign Exchange Rates (Against USD)	
JPY	+10%
GBP	-5%
The rest of the world	-10%
Equities	
All Countries	-15%

TABLE: OVERVIEW OF THE STRESS TEST METHODOLOGY

Type	Impact	Methodology
Credit risk	Profit and Loss (P&L)	· Credit risk losses for loans and advances through banks' stress testing models · Prescribed haircuts for debt securities · Largest foreign derivative counterparty default
	Risk Weighted Assets (RWA)	· Credit rating transitions through transition matrices calculated using Standardised Approach
Market risk	P&L	· Full revaluation based on the market risk shocks · The largest derivative counterparty default with 60% loss given default · Prescribed haircuts on debt securities · The losses are fully realised in the first year of the adverse scenario
	RWA	· Basel 2 Standardised Approach
Operational risk	P&L	· No change
	RWA	· Basel 2 Standardised Approach
Pre-impairment profit	Net interest income	· Based on banks' internal estimation and subject to cap and floor assumptions to pass through rising interest rates to banks' funding cost and to their loans · The floor assumptions are applied to banks' funding cost increase stemming from rising interest rate in the scenario · The cap assumptions are applied to banks' pass-through rates from funding costs to lending rates
	Non-interest income	· Based on banks' internal estimation and CBUAE imposed caps on maximum non-interest income can be realised under the adverse scenario
	Operating expenses & other operating income	· Based on banks' internal estimation and CBUAE imposed floors on minimum operating expenses should be realised under the adverse scenario
Liquidity risk	5 Large banks	· Basel III Liquidity Coverage Ratio (LCR) covering a 30-day stress period Basel III LCR covering a 60-day stress period

TABLE: SUMMARY OF REGULATORY INITIATIVES BY

STRESS TESTING METHODOLOGY

Participating banks were required to cover the following risks in the stress test:

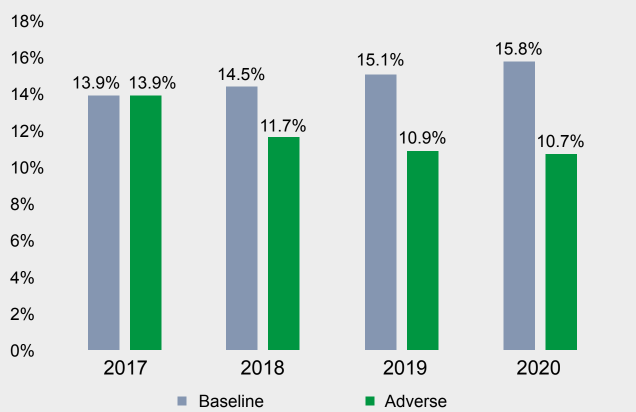
- Credit risk, including sovereign and bank exposures;
- Market risk in the trading book and available for sale debt securities and their designated hedges;
- Counterparty credit risk – large derivative counterparty default and debt security haircuts;
- Net interest income from rising interest rate environment; and
- Liquidity risk of the five large banks through extended, more severe liquidity coverage ratio.

To take into account occurred capital issuances in the first year of the stress-testing horizon, the CBUAE-approved rights issuance amounting to AED 8.1 billion in the stress test.

STRESS TEST RESULTS

- The participating UAE banks reported weighted average CET-1 capital ratio at 13.9% as of December 2017.[38]
- Under the baseline scenario, the banks reported an aggregate increase of CET-1 capital ratio of 190 bps leading to a 15.8% CET-1 capital ratio at the end of 2020.
- Under the adverse scenario, banks reported an aggregate decrease of CET-1 capital ratio of 320 bps resulting to a 10.7% CET-1 capital ratio at the end of 2020.

STRESS TEST: CET-1 RATIO PROJECTION UNDER BASELINE AND ADVERSE SCENARIOS

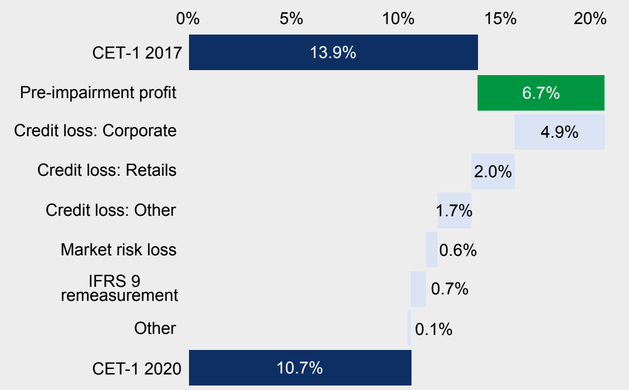


Source: CBUAE

The contribution of different profit and loss (P&L) and balance sheet items to the change in the aggregate CET-1 capital ratio between 2017 and 2020 under the adverse scenario comprises:

- Pre-impairment profits had a positive impact on CET-1 ratio at 670 bps though showing a cumulative decrease comparing to the starting point of the stress test.
- Credit risk losses arising from the impairment of loans and advances were the main contributor to the stress impact. Corporate and retail credit risk losses subtracted 490 bps and 200 bps from the CET-1 capital ratio as of end-2020. The IFRS 9 remeasurement impact on CET-1 capital ratio was -70 bps.
- Other relevant direct drivers of banks' capital depletion were market risk and other losses. Market risk losses were fully recognised in the first year of the stress test horizon (i.e. in 2018), and had a negative impact on the CET-1 capital ratio of 60 bps. Other risk losses included the impact from the increase in risk weighted assets due to rating migration.

STRESS TEST: CONTRIBUTORS TO CET-1 RATIO CHANGE

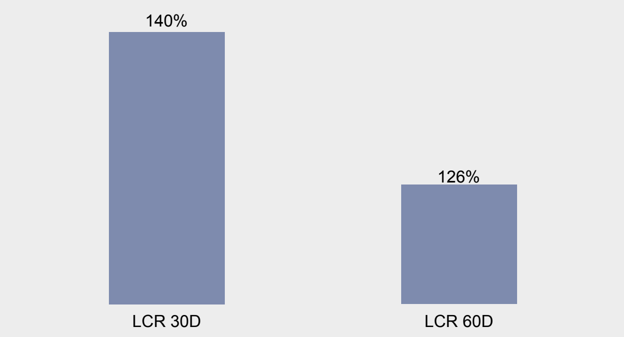


Source: CBUAE

LIQUIDITY RISK ASSESSMENT

The stress test was extended to cover liquidity risk of five large banks including all four designated domestic systemically important banks. The liquidity risk impact was measured through Basel III LCR (covering a 30-day stress period) and extended to covering a 60-day stress period. The average large banks' LCR decreased from 140% (30 days) to 126% (60 days)[39]. The drop was driven by a significant increase of cash outflow after 30 days. Looking at individual bank level, all five large banks were able to maintain 30 days LCR well above 100%.

STRESS TEST: 30 DAYS LCR AND 60 DAYS LCR



Source: CBUAE

STRESS TEST SUPERVISORY CHALLENGE AND POLICY ACTIONS

The CBUAE performed a thorough review on banks' stress testing submissions focusing on the following four key areas:

- Reporting template and documentation quality;
- Governance and validation processes;
- Consistency of stress testing models; and
- Peer benchmarking and comparison to CBUAE internal top-down estimation.

The results and findings from the stress test serve as an input to the CBUAE risk based supervision in maintaining financial soundness of the banking sector. Further, a more formal linkage of regulatory stress testing with the Pillar 2 assessment is under finalisation.

Overall, the stress testing results demonstrate resilience of the UAE banking system to adverse shocks and critical risks considered under the adverse scenario. Submissions in 2018 showed that the stress-testing capacity of UAE banks has improved compared to previous years, despite more stringent evaluation criteria against bank internal stress testing models.

Nevertheless, the results showed that two small and two medium sized banks did not meet the minimum CET-1 or total capital adequacy ratio under the adverse scenario in the three year horizon. The total assets of the four banks represent 5.0% of the total assets of UAE national banks. The failure of these banks in the stress test does not pose potential financial stability risk to the UAE banking system. Nonetheless, stress testing results are designed to contribute to the CBUAE risk-based banking supervision.

BOX: STRESS TEST OF BANK EXPOSURES TO GRES

In addition to the regulatory bottom-up stress test, the CBUAE also conducts top-down stress tests regularly. In 2018, a top-down thematic stress test focusing on bank exposures to the government-related enterprises (GREs) sector was performed.

BACKGROUND

The vulnerabilities in the GRE sector during the 2009 crisis had negative spill over effects to the UAE banking sector. To address stakeholders' concern on potential financial risks stemming from the GRE sector, the CBUAE conducted a GRE thematic stress test during Q3 2018. The thematic stress test evaluated the impact of hypothetical distress in the GRE sector on the UAE national banks similar to 2009 crisis and incorporating additional shocks in the real estate sector.

SCENARIOS

Two scenarios were considered, (i) a historical scenario and (ii) an adverse scenario. In the historical scenario, the severity of shocks to GREs were calibrated to the level of 2009 crisis. In the adverse scenario, additional shocks in the real estate sector were considered on top of the historical scenario. The stress test focused on direct impact on UAE national banks' loans and debt securities as of Q1 2018 through one-year expected credit loss calculation.

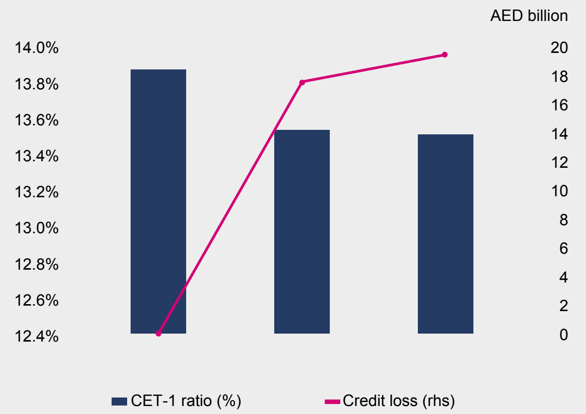
The following steps were taken:

- The starting point: Using the current credit default swap (CDS) implied probabilities of default (PD) for GREs and 45% loss given default (LGD) as a starting point to calculate expected credit risk loss;
- The historical scenario: Calibrate CDS implied PD to the level in 2009 and assume 60% LGD;
- The adverse scenario: On top of losses from the historical scenario, additional losses occur from the default of four real-estate related GREs, and assume 60% LGD.

CONCLUSION

Banks are well capitalised to withstand hypothetical severe GRE shocks. In the thematic stress test, the overall CET-1 ratio of UAE national banks decreased by 90 basis points (bps) in historical scenario to 13.0% and by 100 bps in hypothetical adverse scenarios to 12.9%.

STRESS TEST: CET-1 RATIO AND PROJECTED EXCESS LOSS



Source: CBUAE

2.4 FINANCE COMPANIES

The number and total assets of finance companies operating in the UAE contracted during 2018. The total assets of finance companies operating in the UAE accounted for only 1.4% of the UAE banking system assets; reflecting limited potential to transmit systemic risk to the UAE financial system as a whole. In 2018, the Central Bank of the UAE (CBUAE) issued a new regulatory framework for finance companies operating in the UAE. Finance companies remain vulnerable to credit risk in the loan portfolio and concentration in funding sources.

FINANCE COMPANIES IN THE UAE

UAE non-bank financial institutions comprise of finance companies, investment companies, insurance companies, and pension funds. This section focuses on finance companies regulated and supervised by the Central Bank of the UAE (CBUAE).

The role of licensing, regulation, and supervision of investment companies, previously conducted by the CBUAE, was transferred to the Securities and Commodities Authority (SCA) during 2018.

The number of finance companies operating in the UAE decreased during 2018 from 27 to 21. Five finance companies were bank owned, i.e. around a quarter of the total number of finance companies.

LAW REGULATING FINANCE COMPANIES

Under the market development pillar of the CBUAE regulatory framework, the Central Bank issued a regulation for non-bank financial institutions in 2018, which sets out a new regulatory framework for finance companies operating in the UAE. The regulation includes requirements for a specific business model, governance model, risk management, and appropriate controls and compliance functions.

In comparison to banks, finance companies are not permitted to take retail deposits and their permitted activities are restricted to (a) retail finance, including personal loans, credit cards and vehicle loans; (b) mortgage finance, including residential mortgages and commercial mortgages; (c) wholesale finance, including loans to large corporate borrowers, small and medium-sized enterprises, micro-financing, finance and operating leasing and wage protection schemes; (d) pre-paid cards; and (e) distribution of third party products as an agent.

ASSETS OF FINANCE COMPANIES

Total assets of UAE finance companies declined by about 11.1% in 2018 and reached AED 40.5 billion (2017: AED 45.6 billion). The assets accounted for 2.7% of nominal GDP and 3.6% of nominal non-oil GDP. The decline in the assets size was partially due to the reduction in the number of finance companies operating in the UAE and the decline in assets of the existing finance companies compared to 2017.

Bank-owned finance companies represented nearly 29.8% of the total assets. The industry segment is dominated by the six largest finance companies, each with more than AED 4 billion in assets, that collectively comprised more than 72.4% of the total assets, and of which two of them are bank-owned.

Nonetheless, the total assets of finance companies accounted for only 1.4% of the UAE banking system's assets in December 2018, indicating that the size of this sector has a limited contribution to the overall potential systemic risks of the UAE financial system.

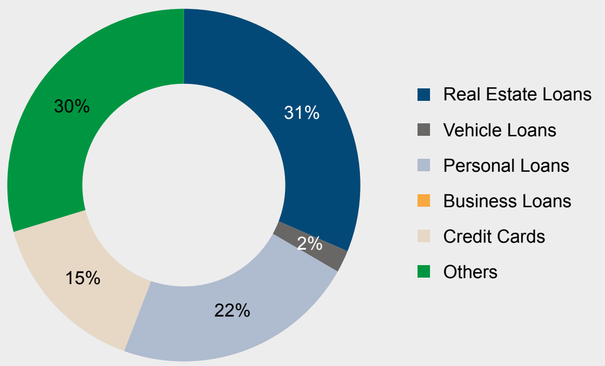
Finance companies' assets comprised primarily of loans, which accounted in 2018 for about 57.5% of the total assets.

FINANCE COMPANIES LENDING

The loans and advances portfolio declined by 16.0% year-on-year compared to December 2017, reaching AED 23.3 billion. The concentration of the lending activities in the six largest finance companies accounted for 72% of the total loans portfolio.

The structure of the finance companies' loans portfolio comprised of lending to the real estate sector representing 31.5%. The real estate lending portfolio contracted in 2018, which was due to the reduction in the number of operating finance companies; and the contraction of the real estate loan portfolio of the existing finance companies. Secondly, personal loans had a share of 21.7% and credit card loans represented 15.4% in December 2018.

FINANCE COMPANIES: LOAN PORTFOLIO COMPOSITION



Source: CBUAE

Lending to the real estate sector was concentrated in four finance companies, which accounted for 96.1% of the total real estate loans portfolio in December 2018. In particular, two out of the four finance companies concentrated in real estate are bank owned and represented 50.5% of the total real estate loans of UAE finance companies.

LIABILITIES OF FINANCE COMPANIES

During 2018, liabilities reached AED 27.4 billion. The main sources of funding were wholesale corporate deposits, and liabilities due to parent companies. Liabilities of finance companies mainly comprised of wholesale deposits, which represented 64%, while liabilities due to parent, subsidiaries and associates comprised 9.2% of total liabilities. The liabilities due to parents and subsidiaries are particularly large from bank-owned finance companies.

FINANCE COMPANIES' ASSET QUALITY AND PROVISIONS

Asset quality of finance companies was diverse with nearly half of the finance companies with NPL ratios below 10%, while in contrast several finance companies recorded elevated NPL ratios in excess of 20%. As the asset quality remains diverse, an overall combined NPL ratio of the sector would not adequately represent the situation in the group of finance companies with relatively stable asset quality nor in the group of finance companies with elevated NPL levels. The provisions for non-performing assets grew in 2018 reaching AED 4.7 billion. Specific provisions was the largest component comprising 82% of the total provisions. The finance companies are also required to keep general provisions on the performing financial assets, which represent the remaining share.

FINANCE COMPANIES' CAPITAL AND PROFITABILITY

The capital of finance companies remained adequate. Capital and reserves reached AED 13.1 billion at the end of 2018. Consequently, the overall ratio of capital and reserves to total assets of finance companies operating in the UAE was 32.3%.

In 2018, the finance companies had an overall negative comprehensive income of AED 177.4 million. However, losses were concentrated in six out of 21 finance companies, with the remainder remaining profitable. Out of the six finance companies, which recorded losses, only one was bank-owned.

PART THREE

REGULATORY DEVELOPMENTS

3.1 OVERVIEW OF REGULATORY DEVELOPMENTS IN 2018

The Central Bank of the UAE (CBUAE) further strengthened the regulatory framework, aimed at enhancing the resilience of the UAE financial sector. The regulatory framework is based on five pillars: (i) Risk Management, (ii) Basel III Framework (iii) Controls and Compliance, (iv) Resolution Framework and (v) Market Development, along with an overarching Corporate Governance Framework. In addition, the CBUAE initiated the development of the framework for Islamic finance.

TABLE: SUMMARY OF REGULATORY INITIATIVES BY THE CBUAE IN 2018

Areas	Description
Risk Management	Issuance of a new risk management framework for banks comprising five regulations covering overall risk management, operational risk, market risk, interest rate risk, and country and transfer risk.
Basel III Framework	New regulatory standards supporting the Basel 2017 Capital regulation (Leverage Ratio, Counterparty Credit Risk, Credit Value Adjustment, Securitisations, Equity Investment in Funds, and Pillars 2 and 3) were substantially advanced in 2018 and planned to be published in 2019.
Controls and Compliance	Regulations on internal controls, compliance and internal audit, which give significant responsibility to the heads of compliance and internal audit, as well as on financial reporting and external audit, which require transparent financial reporting and high quality external audits in banks.
	Issuance of regulation on dormant accounts in banks and protection of customers' rights.
	Update of the current AML/CFT regulatory framework for all financial institutions was undertaken, in preperation for the future planned FATF Mutual Evaluation.
	The controls and compliance pillar will be fully completed in 2019 with the issuance of two more regulations for banks on major acquisitions and significant ownership transfer.
Resolution Framework	CBUAE to commence in 2019, its work on the Resolution Framework pillar of the regulatory framework, which will cover recovery and resolution planning.
Market Development	Issuance of regulation for non-bank financial institutions in 2018, which sets out the new regulatory framework for finance companies operating in the UAE. The regulation includes requirements for a specific business model, governance model, risk management and appropriate controls and compliance functions.
	A regulation on crowd-funding as well as a strategy and regulations aimed to support the financing of the UAE's micro, small and medium-sized (SME) business in coordination with the wider UAE authorities were further developed during 2018, and are planned to be published in 2019.
	Further work on regulations relating to payments and Fintech to commence in 2019.
Corporate Governance	A corporate governance framework is planned for issuance in 2019. The regulation introduces sector-wide polices in line with international best practices which includes; inclusion of independent directors in the composition of banks' boards and mandatory committees, maximum terms for independent directorships, the reinforcement of the fit-and-proper process for members of boards and senior management as well as the introduction of minimum disclosure requirements in banks' annual governance reports.
Islamic Finance	The CBUAE initiated in 2018 the development of its regulatory framework for Islamic finance with focus areas including the legal and regulatory framework for Islamic banks, liquidity support mechanisms and the wider UAE Islamic finance knowledge economy.

3.2 IMPLEMENTATION OF BASEL III STANDARDS IN THE UAE

The implementation of the Basel III framework started in 2017. The Basel III capital framework represents an important pillar in the regulatory framework of the Central Bank of the UAE (CBUAE). The CBUAE intends to achieve full implementation of the Basel III capital framework during 2019. Since the implementation of the capital regulation and standards, banks in the UAE have been compliant with the strengthened capital requirements. The regulation introducing Basel III liquidity standards was published in 2015 and the Basel III liquidity ratios were applicable to four designated banks in 2018.

BASEL III CAPITAL ADEQUACY REGULATION

The CBUAE issued Basel III related regulations on Capital Adequacy in 2017. During 2018, the CBUAE issued accompanied standard on Capital Supply and a related guidance. These regulations strengthen the quality of capital in line with the Basel Committee's Basel III framework. The Basel III framework also introduces capital buffers, which are required to be fulfilled using CET-1 capital. Banks and foreign branches are expected to operate well above the buffer requirements. Any breach of these buffers due to market and/or idiosyncratic stress will result in supervisory actions.

The Capital Conservation Buffer (CCB) requirements were phased in and are fully implemented as of 2019. The capital requirements in the UAE are summarized in the table below.

While the Capital Conservation Buffer (CCB) applies to all banks as a percentage of their risk weighted assets (RWA) in the form of the CET-1 capital, the Domestic Systemically Important Banks (D-SIB) buffer is imposed on banks that are designated by the Central Bank as systemically important in the domestic financial system. As of the end of 2018, the CBUAE designated four UAE national banks as systemically important.[40]

TABLE: CAPITAL REQUIREMENTS IN THE UAE

Capital Requirement	2019
Minimum CET-1 ratio	7.0%
Minimum Tier-1 ratio	8.5%
Minimum Capital Adequacy Ratio (CAR)	10.5%
Capital Conservation Buffer (CCB)	2.5%
Domestic Systemically Important Banks (D-SIB) buffer	0.5%-2.0% individual capital surcharge for identified D-SIBs
Counter-Cyclical Buffer (CCyB)	0%-2.5%

Domestic Systemically Important Banks (D-SIB) are obliged to hold more capital to ensure not only their soundness and stability but also to help safeguard the stability of the UAE financial system. The principles outlined in the BCBS framework on Global Systemically Important Banks established the regulatory requirements for D-SIBs. The framework requires additional capital buffers in the form of CET-1 maintained by the D-SIBs.[41]

The CBUAE also published in 2018 a Basel compliant framework for Tier Capital Issuances to further enhance the quality of capital and as part of the Basel III implementation in the UAE.

FURTHER BASEL III STANDARDS

The CBUAE continues with the implementation of a Basel III framework in the UAE broadly in line with the timelines of the Basel III standards issued by the Basel Committee. The Basel III capital project implemented and plans to implement the following capital standards and guidance as per the table below.

Leverage ratio that serves as a backstop to the risk-based capital measures is intended to constrain excess leverage in the banking system. The leverage ratio regulation is scheduled for 2019. Pillar 2 standard on Supervisory Review Process and Pillar 3 standard on Disclosure Requirements which form a part of the Basel III framework, are also planned to be published by the end of 2019.

BASEL III LIQUIDITY STANDARDS

In the UAE, banks manage their liquidity based on CBUAE Regulation No. 33/2015 published in 2015. The Regulation is applicable to all banks in the UAE. It introduced a Basel complaint LCR/NSFR framework for large internationally active banks and an alternate liquidity framework for all other banks. In 2018, four banks were approved to implement the Basel III compliant liquidity standards. In 2018, banks in the UAE were in compliance with the liquidity requirements.

TABLE: IMPLEMENTATION OF BASEL III CAPITAL STANDARDS IN THE UAE

Topic of Standard	Publication Dates
Capital Adequacy Regulation	2017
Tier Capital Supply	2018
Tier Capital Issuance	2018
Counterparty Credit Risk	2019 (expected)
Credit Value Adjustments	2019 (expected)
Leverage Ratio	2019 (expected)
Securitization and Equity Investments in Funds	2019 (expected)
Criteria for the Eligibility of External Rating Agencies	2019 (expected)
Pillar 2 – Supervisory Review Process	2019 (expected)
Pillar 3 – Disclosure Requirements	2019 (expected)

3.3 DOMESTIC SYSTEMICALLY IMPORTANT BANKS

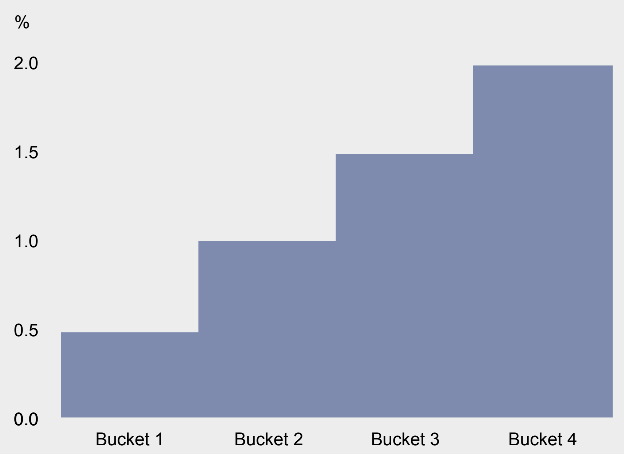
In the UAE, four banks were designated as Domestic Systemically Important Banks (D-SIBs). The Central bank of the UAE (CBUAE) designated First Abu Dhabi Bank (FAB), Emirates NBD (ENBD) Abu Dhabi Commercial Bank (ADCB) and Dubai Islamic Bank (DIB) as D-SIBs. These four banks are subject to additional D-SIB capital buffers.

The Central Bank of the UAE has conducted annual assessments in order to identify the Domestic Systemically Important Banks since 2016. UAE D-SIBs methodology is based on five criteria. Four of them are recommended by the Basel Committee for Banking Supervision (BCBS), size, interconnectedness, substitutability and complexity. Supervisory overlay is an additional criterion that has been added to adjust for the UAE local market specifics. The assessment covered national banks at their consolidated group level; whereas foreign banks at their UAE branch level.[42]

Initially, three banks were identified as D-SIBs in 2017. In 2018, a fourth bank, Dubai Islamic Bank, was added to the group because of its D-SIB score exceeding CBUAE predetermined threshold. Based on an assessment conducted in Q4 2018, all four designated D-SIBs, FAB, ENBD, ADCB and DIB remained at their assigned levels of additional D-SIB capital buffers as per the CBUAE assessment.

To ensure designated banks have a higher level of loss absorbency, higher capital requirements are being required to be held in Common Equity Tier 1 (CET-1) depending on the different buckets of systemic importance. As of 2019, the transitional arrangements expired, meaning 100% of the D-SIB buffer applies, therefore designated banks have to be fully compliant with the additional buffer that range from 0.5% to 2.0%.

ADDITIONAL D-SIB CET-1 CAPITAL AS A PERCENTAGE OF RWA



Source: CBUAE

TABLE: DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIB) BUFFER

Bucket	Banks in the bucket	D-SIB capital buffer
Bucket 1	DIB, ADCB	0.5%
Bucket 2	-	1.0%
Bucket 3	ENBD, FAB	1.5%
Bucket 4	-	2.0%

3.4 IMPLEMENTATION OF IFRS 9 IN THE UAE

International accounting standard IFRS 9 specifies the classification and measurement of financial assets and liabilities. The IFRS 9 standard was implemented in the UAE by banks and finance companies from 1 of January 2018. The new accounting standard is expected to result in more timely and forward-looking recognition of credit losses, and thus has the potential to improve financial stability if implemented in a sound manner by banks. To ensure appropriate and consistent implementation of IFRS 9, the CBUAE issued a guidance note in early 2018. The CBUAE also decided to introduce a prudential backstop, so that the overall provisioning under the IFRS 9 shall not be lower than the provisioning mandated by the CBUAE provisioning requirements.

The CBUAE supported the adoption of IFRS 9, which introduces a more forward-looking approach to recognition of credit losses, referred to as the expected loss approach. It replaces the previous accounting standard, based on incurred loss approach, which has demonstrated clear shortcomings before, during and after the global financial crisis.

The CBUAE assessed that the implementation of the new accounting standard was associated with certain risks. Primarily, the CBUAE was concerned that the implementation may lead to insufficient provisioning due to the modelling risk. Impact studies performed by the CBUAE during 2016 and 2017 revealed that banks faced obstacles to effectively implement IFRS 9 due to:

- Lack of historical credit loss data and potential use of inappropriate proxy data;
- Complexity of modelling parameters, which some banks have not used in risk management on regular basis (probability of default, loss given default, exposure at default);
- Reliance on a single commercial data vendor;
- Lack of expertise within the sector potentially affecting appropriate staging of exposures, disclosures and the overall provisioning methodology; and
- The preparedness of the auditing profession to critically review IFRS 9 models.

In view of the above, to ensure appropriate and consistent implementation of IFRS 9, the CBUAE issued a guidance note in early 2018, which covers areas such as governance and control, staging and transferring. The CBUAE also decided to maintain the existing minimum provisioning requirement under its current prudential regulation; if the IFRS 9 impairments are lower than the CBUAE minimum provisioning requirement, the bank or the finance company will be required to cover the shortfall.

CBUAE further performed an analysis of the initial impact of IFRS 9 on national banks. It showed that the average increase in total provisions was 17%, and the overall reduction of capital adequacy ratio (CET1) was 77 basis points. Overall, the introduction of the IFRS 9 has not had any adverse impact on the banking industry, as banks remained adequately capitalised and profitable.

Going forward, the CBUAE will continue to closely monitor the implementation of the IFRS 9, and will have a continued dialogue with supervised banks. In addition, the CBUAE will engage with the auditing industry to facilitate the establishment of industry standards and best practices in relation to IFRS 9 modelling.

PART FOUR

PAYMENT SYSTEMS, CAPITAL MARKETS, AND INSURANCE SECTOR

4.1 UAE Payment and Settlement Systems

4.2 UAE Capital Markets

4.3 UAE Insurance Sector

4.1 UAE PAYMENT AND SETTLEMENT SYSTEMS

During 2018, the UAE payment systems remained resilient and continued to operate without major disruptions, thereby contributing to the stability and efficiency of the UAE financial system. The Central Bank of the UAE (CBAUE) has a principal role in the development, operations, management, and oversight of key UAE payment and settlement systems and continues to enhance their robustness, efficiency and effectiveness.

4.1.1 PAYMENT SYSTEMS OPERATED BY THE CBUAE

The UAE payment systems are well established and diversified. The Central Bank of the UAE (CBUAE) operates the following payment systems, which continued to function smoothly and maintained high system availability during 2018:

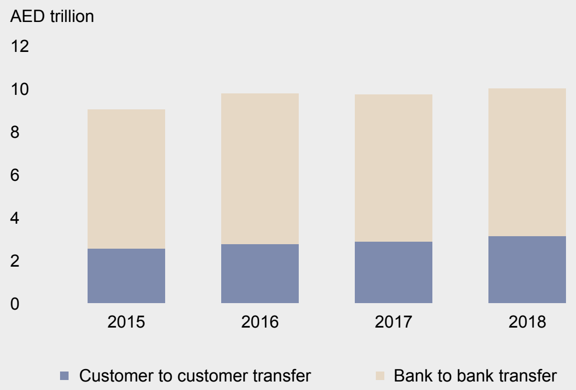
- UAE Funds Transfer System (UAEFTS)
- Image Cheque Clearing System (ICCS)
- UAE Direct Debit System (UAEDDS)
- UAE Wages Protection System (UAEWPS)
- UAE ATM Sharing Scheme (UAE Switch)
- UAE Payment Gateway System (UAEPGS)

UAE FUNDS TRANSFER SYSTEM (UAEFTS)

The UAEFTS facilitates fund transfers in the UAE conducted in local currency. The UAEFTS continued to perform with 100% availability during 2018. The number of UAEFTS transactions increased by 17.0% year-on-year reaching 43.7 million. The transaction values increased by 2.8% reaching AED 10 trillion, compared to a negative growth of 0.8% during 2017.

The number of UAEFTS bank-to-bank transfers was about 0.5 million with the amount of AED 6.8 trillion. The number of customer-to-customer transfers was 43.2 million, which amounted to AED 3.2 trillion.

UAE FTS: VALUE OF TRANSACTIONS

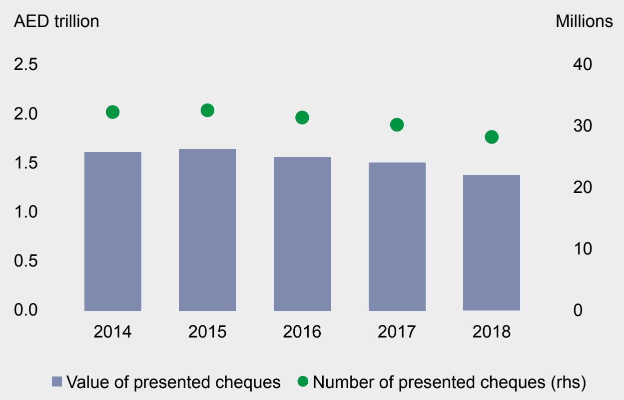


Source: CBUAE

IMAGE CHEQUE CLEARING SYSTEM (ICCS)

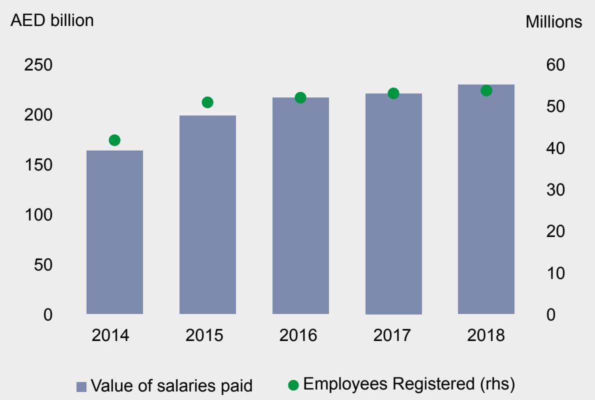
The ICCS operated in 2018 with a lower volume and value of cheques compared to 2017. The number of presented cheques declined by 6.6% year-on-year to 28 million cheques, while the value declined by 9.1% to AED 1.4 trillion. The value and volume of presented checks remained significant but declined for the fourth year in a row, implying a gradual shift in the preferences of payment system method. The CBUAE is the Clearing House for all cheques, acting as the intermediary for all data and image flow between the collecting and paying banks.

ICCS: TOTAL VALUE AND NUMBER OF PRESENTED CHEQUES



Source: CBUAE

UAE WPS: VALUE AND NUMBER OF TRANSACTIONS

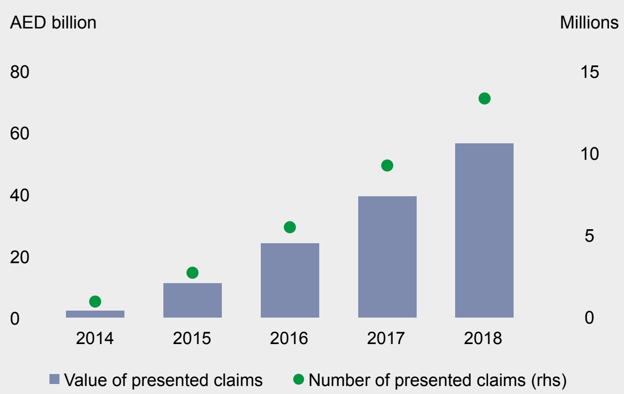


Source: CBUAE

UAE DIRECT DEBIT SYSTEM (UAEDDS)

The UAEDDS processed 13.4 million presented claims during 2018 valued at AED 57 billion. This was an increase of 45.4% in volume and 45.1% in value from the previous year. The growth in volume and value reflected a continued increase in the usage of direct debit transactions in the UAE.

UAEDDS: PRESENTED CLAIMS



Source: CBUAE

UAE WAGES PROTECTION SYSTEM (UAEWPS)

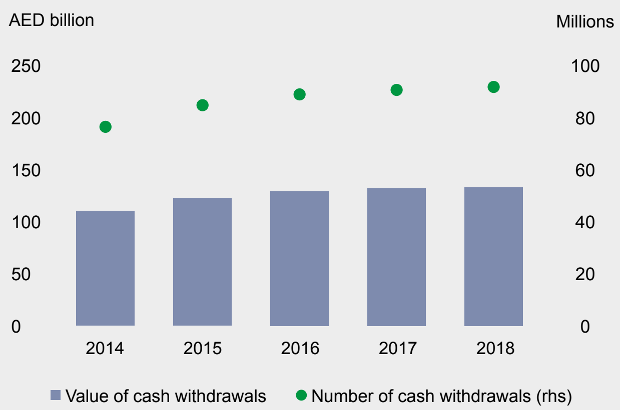
The WPS provides a safe, secure, and efficient mechanism to streamline the timely payment of wages to employees by their employers. The value of WPS transactions expanded by around 5.1% year-on-year in 2018 to AED 230 billion (2017: 3.8% to AED 219 billion).

UAE ATM SHARING SCHEME (UAE SWITCH)

The growth of cash withdrawals through the UAE switch remained stable but moderated in 2018 compared to the previous years. The value of cash withdrawals via the UAE switch grew only 0.2% year-on-year to AED 131.9 billion compared to a 3.0% growth in 2017.

The UAE Switch enables cardholders the use of the ATMs of different financial institutions in the UAE. In addition, the UAE Switch through its connection to GCCNET allows cardholders the use of ATMs of financial institutions in other Gulf Cooperation Council (GCC) countries.

CASH WITHDRAWALS MADE BY UAE CARD HOLDERS IN THE UAE



Source: CBUAE

UAE PAYMENT GATEWAY SYSTEM (UAEPGS)

The UAE Payment Gateway System allows the processing of e-commerce transactions at merchants' level by using current and saving account held at any bank in the UAE without the need for bilateral agreements between the two sides. The UAEPGS was launched during 2016. In 2018, the usage of UAEPGS transactions grew to over AED 1 billion.

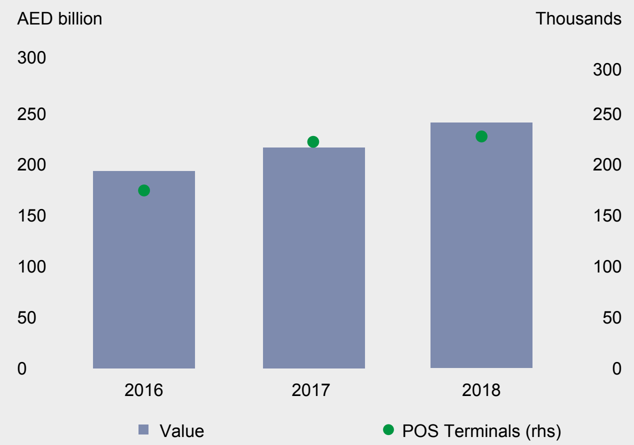
4.1.2 PAYMENT CARDS INFRASTRUCTURE IN THE UAE

The UAE is characterized by a strong and wide-spread payment card infrastructure. This is also reflected by a high compliance with the EMV standards,[43] continued increase in the usage and issuance of payment cards, and the expansion of Point-of Sales (POS) terminals in the UAE over the last five years.

The number of payment cards and POS terminals continued to grow during 2018. The value of POS transactions increased further reaching AED 241 billion in 2018.

The rate of growth of the POS terminals in the UAE slowed down in 2018 compared to the previous years (growing at 3.6% year-on-year during 2018) as some dormant terminals were removed by providers in addition to the standard rate of decommissioning POS terminals of closing businesses.

NUMBER OF POS TERMINALS AND TRANSACTION VALUE



Source: CBUAE

4.1.3 SYSTEMICALLY IMPORTANT PAYMENT SYSTEMS

A systemically important payment system is one in which a failure could have serious consequences throughout the UAE financial system. The Central Bank recognizes two systemically important payment systems in the UAE: the UAE Funds Transfer System (UAEFTS) and the Image Cheque Clearing System (ICCS). As far as other systems are concerned, the Central Bank assesses these systems as prominent because of their importance and convenience to the public; UAE Direct Debit System (UAEDDS) and the UAE Payment Card Infrastructure.

4.1.4 KEY DEVELOPMENTS IN THE UAE PAYMENT SYSTEMS

In 2018, several initiatives were undertaken to enhance the robustness, efficiency and effectiveness of the payment and settlement systems operated by the Central Bank:

- Delivery of the National Payment Systems Strategy (NPSS);
- Launch of the Joint Central Bank Digital Currency (CBDC) and Distributed Ledger Technology Proof of Concept (Project Aabir);
- Improving Renminbi clearing arrangements in the UAE;
- Revamping the UAE Switch; and
- Launch of the Court Cases Management System (CCMS).

4.1.5 DEVELOPMENT PRIORITIES AND KEY INITIATIVES FOR 2019

The CBUAE priorities and key initiatives for 2019 should further enhance the payment system infrastructure as well as contribute to the relevant UAE-wide strategic initiatives. The major initiatives during 2019 include:

- Pursue the implementation of the National Payment Systems Strategy (NPSS);
- Continue providing support to the Payment Services Providers;
- Strengthen the compliance of Payment Systems with international standards;
- Launch the Phase 2 of the payment gateway project;
- Execute a number of proof-of-concept projects to test certain processes on blockchain technology; and
- Issuance of Commemorative Coin and Bank Note.
- Expand payment system infrastructure networks with other jurisdiction payment systems.

4.2 UAE CAPITAL MARKETS

(CONTRIBUTED BY THE SECURITIES AND COMMODITIES AUTHORITY)

The Securities and Commodities Authority (SCA) has a key role in organizing and regulating UAE capital markets with the objectives to enhance the framework necessary to develop UAE-based capital markets, safeguard the rights of financial market investors, promote transparency and corporate governance practices, ensure a provision of administrative services for the UAE capital markets, and foster a culture of innovation. During 2018, the total market capitalisation of the Abu Dhabi and Dubai Stock markets combined reached AED 874.8 billion.

4.2.1 OVERVIEW OF THE PERFORMANCE OF THE UAE STOCK MARKETS

The performance of the Abu Dhabi Stock Exchange (ADX) and the Dubai Financial Market (DFM) diverged during 2018. While the ADX Index increased by 11.8% year-on-year, the DFM index declined by 25.0%. As a consequence, the market capitalization of Abu Dhabi and Dubai stock markets combined remained stable at AED 874.8 billion with a 0.9% year-on-year decline compared to 2017.

PERFORMANCE OF THE ABU DHABI STOCK EXCHANGE (ADX)

TABLE: PERFORMANCE OF THE ADX

ABU DHABI STOCK EXCHANGE (ADX)	2017	2018	Annual Change
Index	4,398	4,915	11.8%
Traded value (AED billion)	48.1	39.5	-17.8%
Traded volume (billion Shares)	28.2	15.4	-45.6%
Trades	347,329	273.949	-21.1%
Market Cap (AED billion)	488.6	528.8	8.2%
Net foreign Investment (AED billion)	1.7	1.9	10.5%
(Buy - Sell) (AED billion)	1.9	2.1	8.2%

Source: Securities and Commodities Authority

PERFORMANCE OF THE DUBAI FINANCIAL MARKET (DFM)

TABLE: PERFORMANCE OF THE DFM

Dubai Financial Market (DFM)	2017	2018	Annual Change
Index	3,370	2,530	-25.0%
Traded value (AED billion)	114.2	59.1	-48.0%
Traded volume (billion shares)	80.7	44.6	-45.0%
Trades	1,067,694	659,650	-38.0%
Market Cap (AED billion)	394.0	346.0	-12.0%
Net foreign Investment (AED billion)	-1.2	-1.4	-21.3%
(Buy - Sell) (AED billion)	1.0	0.3	-65.5%

Source: Securities and Commodities Authority

4.2.2 REVIEW AND ANALYSIS OF RISKS

Performance of the financial markets:

Most of the global stock markets, including the USA, Europe and Asia, saw negative performance during the year, whereby the decline in 2018 was the worst since the global financial crisis.

The upgrade of the Saudi market into Emerging markets on MSCI, and the many reforms that took place during the year attracted many foreign investments from other Gulf markets, especially the UAE market.

Trading volumes in the stock market were lower due to several reasons, including reluctance of some investors to invest in the stock markets due to the uncertainty surrounding the leading global economies as a whole, as well as slow economic performance of some of the leading sectors in the market such as the real estate market.

Geopolitical events in the region and their impact on the economic outlook in general, have led investors to resort to holding cash and investment instruments that are of very low risk.

The news associated with some of the listed companies, whether due to some governance practices failure or major financial losses, or other legal problems, contributed to the general sentiment in the market.

The U.S. Federal Reserve raised interest rates during the past two years. As the dirham is pegged to the dollar, domestic interest rates increased. This may have had some impact on the performance of stock markets too, since the burden of leverage increased.

Gold prices gained in 2018, especially in the last quarter, which led to the usual decline in stock market performance. With the dollar weakening gold becomes a safe haven for long-term investments.

SCA has developed different scenarios for potential impactful future developments and how to deal with them given different market situations. These scenarios have been translated into initiatives that SCA can undertake in light of the identified internal and external challenges ahead.

SCA has been publishing warnings to the public about unlicensed providers of services and products, as well as the transfer of serious violations to the competent judicial bodies, which contributed to the achievement of deterrence and reduced the number of violations.

The emergence of new and innovative financial products and services by emerging technology companies such as blockchain and security tokens continued in 2018. These developments and innovations in the capital markets and the financial industry in general present both opportunities and challenges for regulatory bodies. They need to keep pace with these developments and assess their impact on industry and markets while taking into account the need to allow for positive innovations. Innovations can lead to the development of services, mechanisms, processes and business models that promote and provide financial services and products for individuals and institutions and help reduce costs and raise efficiency. However, such technological innovations are not free of certain risks, the most important of which are regulatory and legal risks due to the uncertainty in the classification, licensing and control of such companies and services, the difficulty of monitoring cross-border transactions, the operational risks of enterprises adopting this technology, the risks of electronic security, privacy and data protection.

Despite the issuance of warnings about investing in digital assets and cryptocurrencies by regulatory bodies such as the central banks, securities regulators and international financial markets, and despite the extreme volatility in their prices, there is a segment of investors that are still seeking investments in such instruments for quick profits, ignoring the many risks associated with them.

4.2.3 REVIEW OF RECENT REGULATORY DEVELOPMENTS AND OTHER INITIATIVES

SCA raised the alarm about all digital, token-based fundraising activities or investment schemes in the UAE, whether referred to as Initial Coin Offerings (ICOs), initial token offerings, token presale, or token crowd sale. SCA urged investors to be fully aware of the risks associated with ICO investments.

SCA amended the requirements for listing the securities of financial free zones companies on the UAE markets. The amendment includes the cancellation of the requirement that the number of shares to be listed may not be more than 30% of the company's capital. This amendment expected to increase listings on UAE markets.

In view of the rapid development of the financial technology (FinTech) sector worldwide and the ongoing introduction of new and innovative financial products and services, the SCA Board of Directors approved draft regulations setting the regulatory controls for the FinTech sector in the form of a pilot regulatory environment (Sandbox) to enhance and support the financial integrity of the financial technology companies known as FinTech companies.

SCA entered into an MoU with the Insurance Authority (IA) to promote bilateral cooperation.

SCA became a board member of the International Organization of Securities Commissions (IOSCO) from 2018 to 2020.

The Board of Trustees of the Securities and Commodities Authority's Training Center (SCATC) made a number of decisions on SCATC's developments and plans which included: the inclusion of a new assortment of services which is considered to meet the needs of capital market professionals, an initiative by the British University in Dubai to employ blockchain technologies to improve SCATC's services and transfer knowledge.

The Chairman of SCA, issued Decision No. (27/Chairman) of 2018 amending the Securities Brokerage Regulation. The decision provides that the paid-up capital for trading and clearing members shall not fall below AED 30 million and that the bank guarantee provided shall not be less than AED 20 million, a minimum net equity of 75% of the paid-up capital shall also be maintained at all times. These changes enable small companies to remain in the market, as well as big ones.

Ras Al Khaimah Courts Department and Public Prosecution Department have entered into two MoUs with the Securities and Commodities Authority (SCA) and the Abu Dhabi Securities Exchange (ADX). The MoUs aim to establish electronic connectivity and facilitate the exchange of information and data to simplify procedures and provide better services to customers. They also aim to enhance mutual cooperation in all areas and to share knowledge and expertise, thus serving the interest of the parties involved.

The Board of Directors of SCA issued a directive to pursue the licensing of crowdfunding platform operators as per the plan. The regulation will provide for the protection of the rights of financiers, the establishment of supervisory measures that ensure sound implementation and reduced risks, and the obligation that platform operators know their customers through the KYC (Know Your Client) documents. SCA will make sure to adopt the best international practices.

SCA continued its efforts to complete the regulatory framework that is required for market upgrade; SCA will send its new draft law to the concerned authorities for approval. Currently, SCA is in the process of drafting additional regulations that help bridge the gaps for market upgrade (i.e. ICO, securities dealers, micro prudential, securitization).

At the same time, SCA is working to increase the depth of the market by introducing new regulations that allow for more diversification of products or investment instruments, such as preferred stocks, as well as projects to enhance the liquidity of the financial market such as the crowdfunding and the mechanism for financing SMEs.

In light of the rapid development of the digital tokens market and the response thereto by the regulators in a number of countries worldwide towards regulating the ICOs, SCA approved a plan to regulate the ICOs and recognize them as securities.

The Board of Trustees of the Securities and Commodities Authority's Training Center, the SCA Board of Directors approved the pilot launch of the qualification project to prepare the UAE students in the Colleges of Technology for employment in the financial markets.

As part of the initiatives outlined under its strategic plan, and after having conferred with the financial markets operating in the country, SCA held a series of consultations with a number of leading government institutions to implement an initiative that aims to find innovative solutions to finance pioneering enterprises, such as creating channels through which such enterprises can access the capital markets operating in the country and make use of the financing methods available, given the role that these enterprises play in achieving sustainable development.

SCA organized several workshops for the representatives of the brokerage companies in the UAE with a view to discuss the tools and techniques that ensure the application of the new concept of the brokerage companies, which would enhance their role and functions to transform into a model of integrated financial services companies, especially with the introduction of an integrated methodology to upgrade the UAE financial markets to the rank of developed markets in accordance with the UAE Government's Strategy 2021.

In general, SCA has a roadmap to 2021 which includes a list of priorities for the projects it works for during the year: access to advanced financial markets, sustainable financial markets, a leading Islamic capital market, supporting brokerage firms to offer integrated financial services, ICO's that include securities, the development of innovative capital using smart solutions, and maintaining the UAE's among top 10 competitive countries in the world. The Authority's list of priorities also includes launching joint initiatives with financial markets to increase market depth and liquidity.

SCA as a policy maker and a government regulator of one of the key drivers of the economy, the capital markets, has taken on itself the responsibility to actively support the achievement of the UAE national sustainability agenda through all area that fall within its purview. These areas include but are not limited to; providing new cost-effective means for obtaining finance for sustainable projects and ventures, enhancing corporate governance practices in companies that incorporate sustainability in their strategic decision making, promoting high quality disclosure of sustainability related matters, encouraging investors and those who act on their behalf to become strong advocates of sustainable investing and providing them with the information, tools, channels and instruments to do so, and incorporating the concepts of sustainability into its regulatory policies wherever possible and relevant. SCA has developed a master plan to guide SCA conversation with stakeholders and to help share SCA vision and perspectives with all relevant parties as well as the public. This plan will be executed in collaboration with key partners and stakeholders.

4.3 UAE INSURANCE SECTOR

(CONTRIBUTED BY THE INSURANCE AUTHORITY)

The UAE insurance sector has a vital role and function in the economy in addressing risk exposures, as well as protecting individuals, corporates, and properties against potential risk events. The strength of the UAE insurance sector ranks among the largest insurance markets in the Middle East and North Africa (MENA) region. The Insurance Authority organizes and oversees the insurance sector in the UAE.

4.3.1 INSURANCE SECTOR'S PERFORMANCE

LICENSED INSURANCE COMPANIES AND RELATED PROFESSIONS

The insurance sector witnessed the entry of new players in the market as well as the insurance related professions, as follows:

TABLE: LICENSED INSURANCE COMPANIES AND RELATED PROFESSIONS

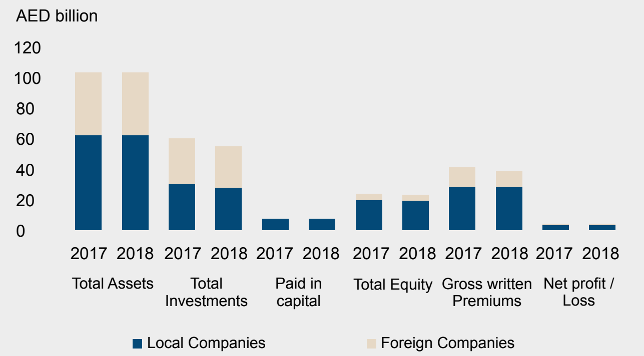
Item		2017	2018
Insurance Companies	Conventional Companies	50	50
	Takaful companies	12	12
	Total number of insurance Companies	62	62
	Total branches of insurance companies in the market	331	334
Insurance Agents		22	22
Insurance Broker Companies		178	164
Insurance Consultant	Companies	24	22
	Individuals	26	25
Actuaries	Companies	1	1
	Individuals	59	50
Loss & Damage Adjusters	Companies	41	48
	Individuals	72	69
Third Party Administrator "TPA"		27	28

Source: Insurance Authority

KEY INDICATORS OF INSURANCE COMPANIES' PERFORMANCE

The volume of Gross Written Premiums of the insurance market decreased to AED 43.7 billion, according to the preliminary data for 2018, compared to AED 44.8 billion in 2017. The Gross Written Premiums of local insurance companies amounted to AED 27.7 billion in 2018, compared to AED28.1 billion in 2017. The Gross Written Premiums of foreign insurance companies amounted to AED 15.9 billion in 2018, compared to AED 16.6 billion in 2017.

KEY INDICATORS OF INSURANCE COMPANIES' PERFORMANCE



Source: Insurance Authority

*preliminary data of 2018

4.3.2 LEGISLATIVE AND REGULATORY LANDSCAPE

During 2018, the Insurance Authority in the UAE continued its strong efforts to update legislations regulating the insurance sector in order to ensure an appropriate environment for development and to enhance the role of the insurance industry, as follows:

THE FULL IMPLEMENTATION OF THE FINANCIAL REGULATIONS ON INSURANCE COMPANIES

The issuance of the Financial Regulations on Insurance Companies in 2014 put the UAE at the forefront of the Middle East with regard to adopting the latest solvency requirements similar to the European model.

The Financial Regulations required a significant upgrade of almost all internal systems and procedures for insurance companies operating within the UAE and in recognition of this, there were alignment periods from one to three years for various components of the regulations, but they are now in full force for all financial reporting beginning with year-end 2017.

During 2018, the Insurance Authority held numerous workshops for the industry, issued new regulations for the financial requirements of foreign branches, exposed a new draft for regulation of the life insurance industry, exposed a draft for regulation of insurance agent and producer, issued updates to the standardized financial reporting forms (eForms), and continued in depth inspections of all insurance companies with the goal of helping companies comply with all regulations.

During 2017, the International Accounting Standards Board (IASB) issued new International Financial Reporting Standard regarding accounting for insurance contacts (IFRS-17) that is expected to become effective in 2022. While this may seem like a long way, the impacts on company operations are expected to be so significant that the Insurance Authority issued a circular in November 2018 requiring all companies to complete their gap analysis, and a roadmap to implement IFRS-17 by year-end 2021, in early 2019.

NEW INSURANCE REGULATIONS AND INITIATIVES DURING 2018

During 2018, the Insurance Authority was keen to complete the promulgation of the legislation regulating the insurance sector in order to ensure an appropriate environment for its development and to enhance the role of the insurance industry, as follows:

NEW REGULATIONS FOR FOREIGN BRANCHES

During 2018, the Insurance Authority issued Board of Directors Decision No. (14) Pertinent to the Application of Financial Solvency Requirements Stipulated in Chapter Two of the Financial Regulations for Insurance Companies and the Financial Regulations for Takaful Insurance Companies on the Branches of Foreign Companies Operating in the State, which aim at protecting the rights of policyholders and shareholders of insurance companies alike.

Within Chapter (2) of the Financial Regulations, the requirements for maintaining a strong capital base and a strong solvency position are clearly spelled out for all companies and Takaful operators in the UAE. However, unlike the national companies organized within the UAE, it is common for foreign branches to maintain a significant portion of their capital outside of the UAE within their international group structure.

Decision No. (14) aims to strike a balance between the efficient use of capital for international groups operating a foreign branch in the UAE and the protection of policyholders in the UAE by providing various options and rules for each foreign branch to securitize their capital commitment to the UAE policyholders. The foreign branches can create a trust account or secure a letter of guarantee from a UAE bank, among other options.

INSTRUCTION CONCERNING BANK-ASSURANCE

Insurance Authority Board of Directors Decision No. (13) of 2018 Instructions Concerning Marketing Insurance Policies through Banks, was issued to organizing the bank-assurance activities between insurance companies and banks, which was prepared following the coordination between the Insurance Authority and the Central Bank of the UAE.

The new instructions regulate all procedures and bank-assurance operations, which resulted in the elimination of the previous problems due to the clear identification of the roles of the insurance company and the bank in the agreement.

The main items included in the new instruction for bank-assurance are as follows:

- Identification types of the insurance policies that may be marketed through banks.
- Approval conditions and procedures for approval to market insurance policies through banks.
- The contentions of the agreement signed between the company and the bank concerning the marketing of insurance policies.

REGULATION ON LICENSING AND REGISTRATION OF INSURANCE CONSULTANTS AND ORGANIZATION OF THEIR OPERATIONS

The regulation explains the instructions for the duties of the insurance consultant, instructions and procedures for licensing and registration, along with rules of practice.

INSURANCE DISPUTES RESOLUTION COMMITTEES

Pursuant to article No. (110) of the Federal Law No. (3) of 2018 on the amendment of certain provisions of the Federal Law No. (6) of 2007 concerning the establishment of the Insurance Authority & organization of its operations, the work is in progress to form the insurance disputes resolution committees.

DRAFT REGULATIONS FOR LIFE INSURANCE

The Insurance Authority conducted a detailed study of practices in the life insurance segment during 2016, which led to the first draft of Regulations for Life Insurance in late 2016. During 2017, the Insurance Authority conducted numerous workshops with the industry to consider their comments and feedback regarding the impacts from the first draft, circulated a revised second draft of Regulations for Life Insurance, and conducted numerous workshops with the industry to hear comments on the second draft.

After revising the second draft, during 2018 the Draft Regulations for life insurance was circulated to other regulators, since some aspects of the Life Regulations overlap with these other authorities. In late 2018, the Insurance Authority exposed the third draft for industry comments and the intention is to put the new regulations into effect in mid-2019.

DRAFT REGULATIONS FOR INSURANCE AGENTS AND PRODUCERS

The first two drafts for the Regulations for life insurance included sections on licensing and regulating insurance agents and producers. Because agents and other producers sell more than life insurance, the Insurance Authority removed these parts from the Regulations for Life Insurance and released a separate Draft Regulations for Insurance Agents and Producers.

STRENGTHENING THE FINANCIAL REPORTING REQUIREMENTS

During 2018, the Insurance Authority continued to enhance the financial reporting standards by updating the eForms and expanding the data quality reporting requirements. In addition to the enhancements for the solvency requirements for foreign branches noted above, other key updates to the eForms include refinement of the details for many forms, new refinements to the solvency calculations for all companies, the addition of benchmarks for performance ratios and the identification of key ratios used as an early warning system, and the inclusion of many new forms specifically focused on life insurance.

IFRS-17

The new International Financial Reporting Standard regarding accounting for insurance contracts (IFRS-17) that is expected to become effective in 2022 will have a wide-ranging impact on how insurance financial results are reported.

Following after the companies complete their internal gap analyses and implementation roadmaps in early 2019, the Insurance Authority will be supporting the companies as they update systems and operations to comply with the new accounting standards. As part of the transition to reporting under IFRS-17, the Insurance Authority will also be reviewing all of the current financial reporting requirements and solvency calculations to ensure that they keep pace with this change.

4.3.3 EMIRATISATION AND TRAINING

The Insurance Authority signed a joint-cooperation agreement with The Chartered Insurance Institute (CII) and launched the initiative of "Maharati / My Skills" to train and qualify UAE Nationals free of charge and to provide the employees in the sector with the appropriate skills and qualifications in all fields of insurance.

The training initiative implemented in two phases, the first offering training for the basic certificates to prepare UAE Nationals and employees for the second phase. The second phase is to obtain the degree of Diploma in Insurance (DIP), followed by Advanced Diploma in Insurance (ACII), and then the Fellowship of the Chartered Insurance Institute (FCII), which is the highest specialized qualification in insurance.

It is worth to mention that during the year 2018, the Insurance Authority trained 23% of the UAE Nationals employees in the insurance sector.

LIST OF ABBREVIATIONS

ACII	Advanced Diploma in Insurance
ADCB	Abu Dhabi Commercial Bank
ADNOC	Abu Dhabi National Distribution Company
ADR	Average Daily Revenue
ADX	Abu Dhabi Securities Exchange
AED	United Arab Emirates Dirham
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Plan
BIS	Bank for International Settlements
Bps	Basis Points
CAR	Capital Adequacy Ratio
CBUAE	Central Bank of the UAE
CBDC	Central Bank Digital Currency
CCB	Capital Conservation Buffer
CCMS	Court Cases Management System
CCP	Central Counterparty
CD	Certificate of Deposit
CDS	Credit Defaults Swaps
CET-1	Common Equity Tier 1
CII	Charted Insurance Institute
CPMI	Committee on Payments and Market Infrastructures
DFM	Dubai Financial Market
DGCX	Dubai Gold & Commodities Exchange
DIB	Dubai Islamic Bank
DIP	Diploma in Insurance
D-SIBs	Domestic Systemically Important Banks
ECL	Expected Credit Loss
EIBOR	Emirates Inter-bank Offered Rate
ELAR	Eligible Liquid Asset Ratio
EMV	Europay-Mastercard-Visa
ENBD	Emirates NBD
ESG	Environmental, Social and Governance
FAB	First Abu Dhabi Bank
FCY	Foreign Currency
FCII	Fellowship of Chartered Insurance Institute
FED	Federal Reserve System
FI	Financial Institution
FinTech	Financial Technology
FSTI	Financial Stability Trend Index
GBP	Pound Sterling
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEMC	Growth and Emerging Markets Committee
GFC	Global Financial Crisis
GREs	Government-Related Entities
HHI	Herfindahl-Hirschman Index
HNIs	High Net Worth Individuals
HO	Head Office
IA	Insurance Authority
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICO	Initial Coin Offerings
ICSS	Image Cheque Clearing System
IFRS	International Financial Reporting Standard
IIS	Interest in Suspense
IOSCO	International Organization of Securities Commissions
JPY	Japanese Yen
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-bank Offered Rate
LGD	Loss Given Default
LSRR	Lending to Stable Resource Ratio
LTD	Loan To Deposit
MENA	Middle East and North Africa
MGF	Minimum Guarantee Fund
MoU	Memorandum of Understanding
NBFI	Non-Bank Financial Institutions
NPL	Non-Performing Loans
NPSS	National Payment Systems Strategy
OECD	Organisation for Economic Co-Operation and Development
OFC	Offshore Financial Centre
OPEC	Organization of the Petroleum Exporting Countries
OTC	Over The Counter
PD	Probabilities of Default
P&L	Profit and Loss
PFMI	Principles for Financial Market Infrastructure
PIN	Personal Identification Number
PJSC	Public Joint Stock Company
POS	Point of Sale
ROA	Return on Assets
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SCA	Securities and Commodities Authority
SCATC	Securities and Commodities Authority Training Center
SCR	Solvency Capital Requirement
SIFIs	Systemically Important Financial Institutions
SMEs	Small and Medium Enterprises
Sq.m.	Squared Meter
SROs	Self-Regulatory Organizations
UAE	United Arab of Emirates
UAEDDS	UAE Direct Debit System
UAEFTS	Funds Transfer System
UAEPGS	Payment Gateway System
US	United States
USD	United States Dollar
VAT	Value Added Tax
WPS	Wages Protection System

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