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

FINANCIAL STABILITY REPORT 2024

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MESSAGE FROM
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The UAE financial system performed strongly in 2024, underpinned by prudent policies, and an exceptional ability to adapt and maintain stability amidst heightened global macro-financial risks. The emerging risks stemmed from geopolitical conditions, high levels of economic and trade uncertainty, tightening financial and monetary policies, and climate-related risks.

The strength and flexibility of our financial system is a direct result of the strong fundamentals of the UAE economy, prudential measures, effective risk management, proactive policies and measures of the CBUAE, as well as the positive cooperation with local and international partners in order to keep pace with ongoing changes.

Despite growing global economic challenges, rising risks, as a result of high levels of global debt, and the rapid technological progress, the UAE maintained strong economic and financial conditions throughout 2024. A fruitful milestone was the sustained GDP growth, estimated at 4%, the solidity and resilience of the banking system, and the strong capital and liquidity buffers, which were well above regulatory requirements.

Sustained credit growth, improved asset quality, and continued profitability were key drivers of the strong results achieved. The UAE economic outlook remains positive, with the GDP growth expected to reach to 4.4% in 2025, and increase to 5.4% in 2026.

Policies and procedures implemented in 2024 played a crucial role in strengthening the UAE's financial stability. The Financial Stability Council continued in 2024 to assess emerging risks and coordinate policy response, based on its core objectives to promote and protect financial stability at the UAE's level, identify systemic risks, and facilitate cooperation between financial regulatory authorities and other entities.

The CBUAE has also taken proactive measures to prevent overheating in credit growth, and established a preventive framework to mitigate the potential impact of economic slowdowns on financial stability, through the development of a counter-cyclical capital buffer.

These measures also included the promotion of Artificial Intelligence (AI) and supervisory technology initiatives to detect emerging threats within the financial infrastructure transformation program, strengthen a proactive, collaborative and risk-based approach, and build a strong and effective financial system in the UAE.

The results of the regulatory stress testing, conducted by the CBUAE in 2024, confirmed that the UAE banking system can withstand hypothetical scenarios involving a global recession triggered by geopolitical tensions, sustained interest rate hikes and ongoing inflationary pressures.

The banking system demonstrated its capacity to maintain solvency and liquidity standards, and provide credit to support the UAE economy. To address the climate-related threats, the CBUAE intensified its efforts on enhancing the financial system's response to climate-related risks by integrating assessments of these risks within the broader financial stability framework.

The CBUAE, responding to the growing presence of virtual assets in capital markets, has actively collaborated with relevant federal and local authorities to reinforce the regulatory framework. These efforts have strengthened the fight against money laundering, terrorist financing and the funding of illegal organisations.

This reflects the UAE's strong commitment to global best practices in combating financial crime, especially after its removal from the FATF grey list in February 2024.

The CBUAE excelled in its journey towards digital transformation, making significant advances in delivering innovative digital financial payment solutions. This was reflected in the progress made in the practical implementation of the UAE's financial infrastructure initiatives, specifically the development of the national strategy for payment systems.

In this context, the CBUAE launched Domestic Card Scheme "Jaywan" and the Instant Payment Platform (Aani) witnessed strong adoption in 2024. In cooperation with regional and international partners, significant progress was made to the UAE Central Bank Digital Currency "the Digital Dirham" and the Central Banks Digital Currency "Al-Jisr", in order to enhance the efficiency and resilience of the UAE financial system in the short and long term.

Finally, despite accelerated change and heightened global challenges and risks, the UAE's macroeconomic and financial system outlook remain positive. Through its forward-looking and prudential initiatives, the CBUAE is positioned to achieve continued steady progress, effectively translating the vision of the nation's wise leadership, the UAE's development plans, and its strategic goals into actions.

The development of the regulatory and supervisory framework of the financial system is a key pillar to ensure sustainable resilience, and driving continued growth and propensity in the UAE.

EXECUTIVE SUMMARY

The Central Bank of the UAE (CBUAE) presents the Financial Stability Report 2024, offering a comprehensive assessment of the UAE's financial system amid continued global and domestic challenges. The report reviews macroeconomic trends, financial market conditions, sectoral performance and regulatory developments, focusing on resilience and emerging risks.

In 2024, global financial stability risks increased compared to the previous year, driven by heightened geopolitical tensions, persistent inflationary pressures and ongoing market volatility. Despite this challenging global context, the UAE's domestic financial stability risks remained contained and broadly unchanged from 2023, supported by robust economic fundamentals, prudent regulation and effective risk management.

The UAE banking sector maintained its strength, with capital and liquidity buffers well above regulatory requirements, improved asset quality and continued profitability. Balanced lending and strong deposit growth supported a stable funding profile, while key indicators reflected operational efficiency and sound risk management practices.

Comprehensive stress tests conducted in 2024 confirmed that UAE banks could absorb severe macroeconomic shocks and continue to provide credit, even under hypothetical adverse scenarios. Banks were projected, under these adverse scenarios, to maintain capital and liquidity above minimum requirements, highlighting the sector's resilience to global risks.

The insurance sector continued to expand, with growth in written premiums, improved profitability and adequate solvency. The sector supported recovery from the April 2024 floods by delivering timely claims and financial assistance to affected households and businesses.

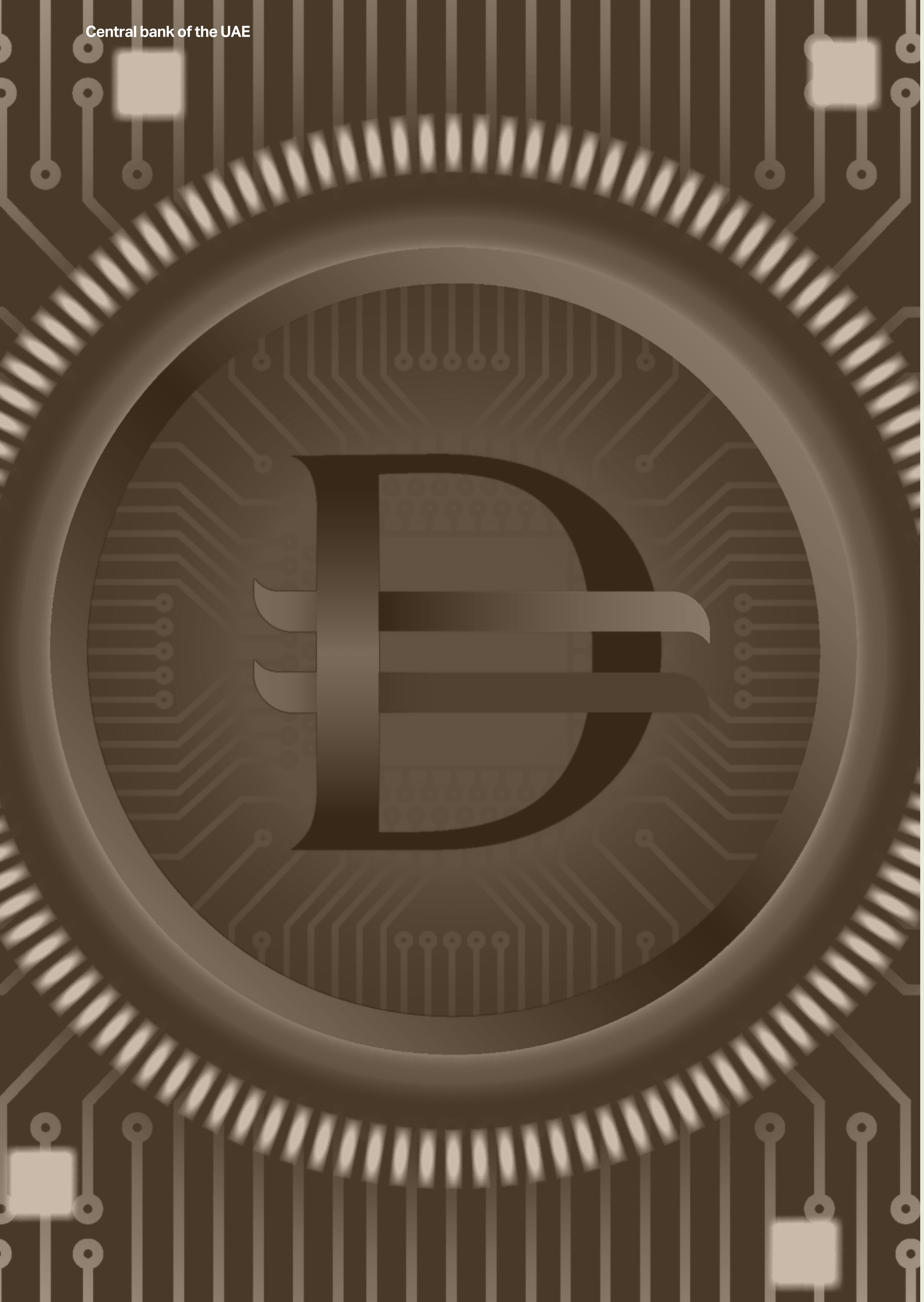
The pace of digital transformation accelerated, marked by greater adoption of financial technology, digital payments, expanded banking services and the integration of artificial intelligence and data analytics.

An important milestone in 2024 was the operationalisation of the UAE's Financial Stability Council (FSC), following its introduction in the 2023. The FSC has enhanced coordination among key stakeholders, strengthened systemic risk oversight and facilitated timely policy responses to horizontal risks.

Regulatory and supervisory frameworks were further enhanced in 2024, with new macroprudential tools, strengthened cybersecurity requirements, advances in sustainable finance and expanded climate risk assessments. These measures align with international best practices while addressing the UAE's specific needs.

Looking ahead, the outlook for the UAE financial system remains positive, underpinned by strong economic fundamentals, high banking sector capitalisation and prudent economic management. Continued vigilance is required in the face of global uncertainties, market volatility, geopolitical risks, climate change and cybersecurity threats.

The CBUAE reaffirms its commitment to proactive risk monitoring, regulatory innovation and transparency. Through ongoing collaboration with domestic and international partners, the CBUAE will continue to strengthen financial system resilience and support the UAE's vision towards building the country as a leading global financial centre.



PART ONE. MACRO-FINANCIAL ENVIRONMENT

1.1 MACRO-FINANCIAL DEVELOPMENTS

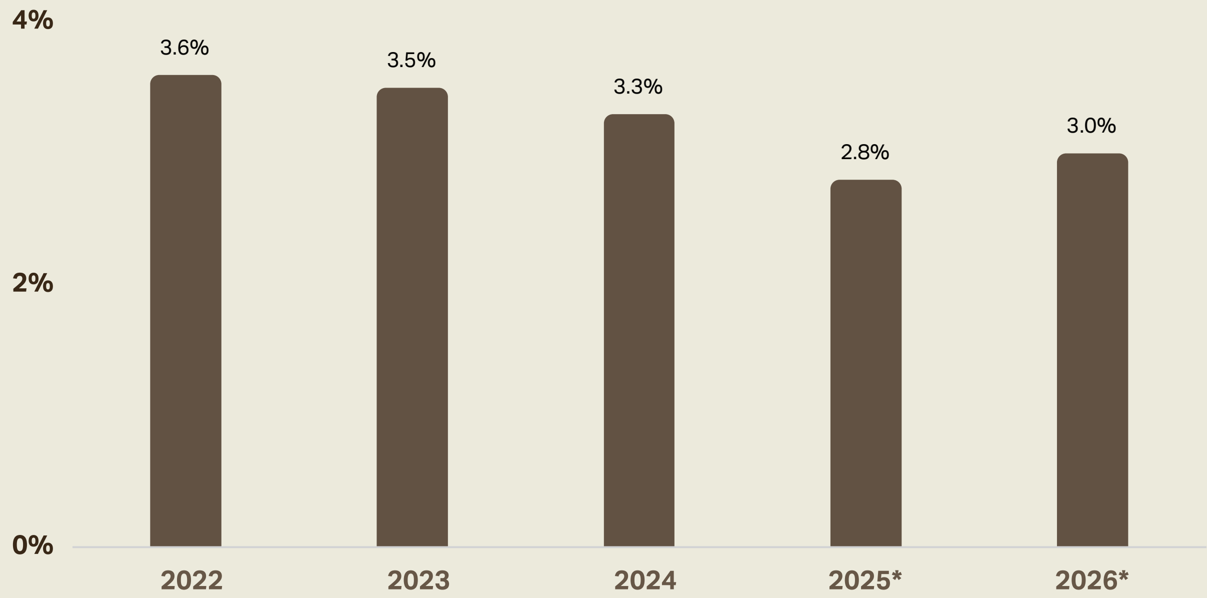
The UAE economy exhibited solid growth in 2024, driven by hydrocarbon activity and the expansion of key sectors such as tourism and trade. Non-hydrocarbon industries played a vital role in advancing diversification efforts, with further growth anticipated in the years ahead. Despite rising global uncertainty and declining oil prices, economic performance is expected to remain firm in 2025 and 2026, supported by structural reforms, increasing foreign investment and adjustments to oil production under OPEC+ agreements.

1.1.1 Global Economy

In 2024, the global economy remained resilient, with inflation continuing to moderate and growth holding firm despite geopolitical tensions and trade uncertainties. Most major central banks, with the exception of the Bank of Japan, initiated rate-cutting cycles in response to moderating inflation and less vibrant labour employment. Additionally, elections in some jurisdictions reshaped the political landscape, influencing economic policy and market sentiment. The International Monetary Fund (IMF) reported a 3.3% global GDP growth for 2024. Global inflation eased to approximately 5.7%, progressing towards target levels in many economies, driven by normalising supply chains, cooling labour markets, the lagged impact of monetary policy and disinflation in goods prices.

The global economic outlook for 2025 remains uncertain, with relatively modest growth and persistent challenges. The IMF projects global GDP growth at 2.8% in 2025 and 3.0% in 2026. However, risks remain, including trade disruptions, geopolitical conflicts and realignments in global supply chains, which could undermine economic stability. High public and private debt levels and associated costs may further constrain fiscal space, limiting the scope for stimulus measures and social programmes.

Chart 1.1.1: Global Real GDP Growth Rates (%)



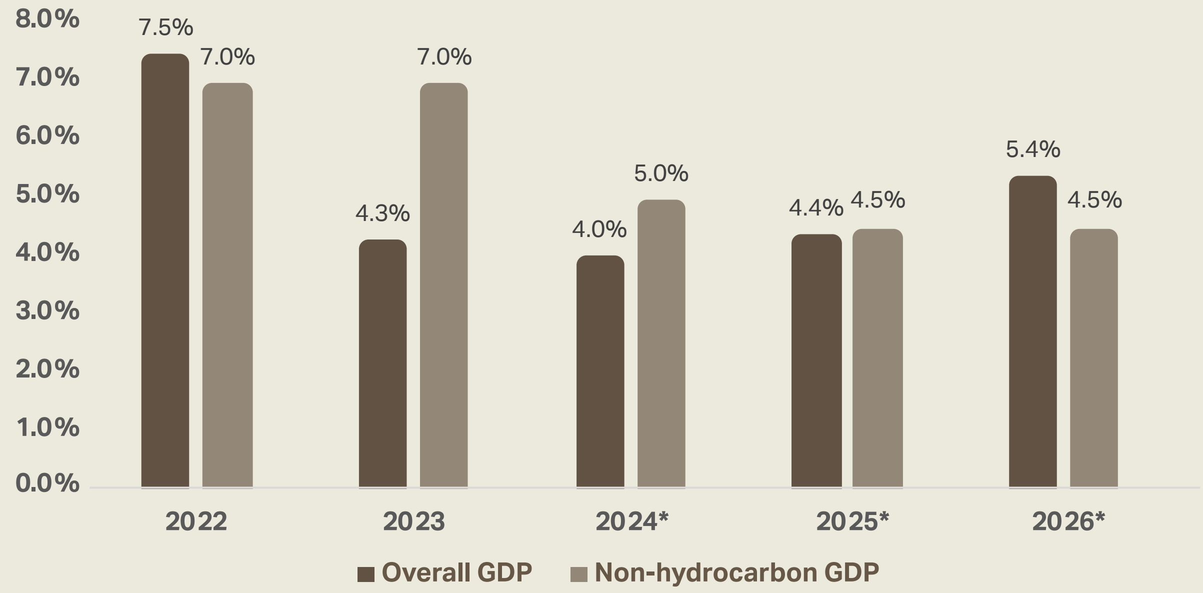
Source: IMF, World Economic Outlook, April 2025.
Note: *= forecast

1.1.2 UAE Economy

The UAE economy demonstrated resilience in 2024, expanding by 4.0% year-on-year (Y-o-Y) in Q3, slightly surpassing the 3.9% growth recorded in Q2. This momentum was fuelled by an uptick in hydrocarbon activity, accounting for approximately 25% of GDP. The CBUAE estimates full-year 2024 GDP growth at 4.0%. The non-hydrocarbon sector – a key driver of economic diversification – posted 4.7% growth in Q3 2024, reflecting solid activity in trade, manufacturing and real estate, though tempered by a slight slowdown in construction, transportation and financial services. Nevertheless, the outlook remains positive, with non-hydrocarbon GDP expected to grow by 4.5% in both 2025 and 2026, aligning with the UAE's broader diversification strategy, including initiatives such as Operation 300 Billion[1] and the UAE Tourism Strategy 2031.[2]

Overall GDP growth is projected to reach 4.4% in 2025 and rise further to 5.4% in 2026, mainly due to an anticipated recovery in oil production under OPEC+ plans. Structural economic reforms increased foreign investment, and Comprehensive Economic Partnership Agreements (CEPAs) will further bolster economic resilience.

Chart 1.1.2: UAE Total and Non-Hydrocarbon GDP Growth Rates (%)



Source: Federal Competitiveness and Statistics Centre (2022- 2023) and CBUAE (2024-2026)
* Estimates and Projections

Inflation in the UAE remained stable and moderate in 2024, averaging 1.7%, a marginal increase from 1.6% in the previous year and significantly below the global average of 5.7%. This stability was primarily driven by low tradable inflation, with Abu Dhabi's inflation at 0.5% and Dubai's at 3.3% for the year. The CBUAE forecasts inflation at 1.9% for both 2025 and 2026. This expected slight increase compared to 2024 is primarily driven by non-tradable inflation, partially offset by moderating energy and non-energy commodity prices.

1.1.3 Capital Market Developments

Short-term interest rates declined in the second half of 2024 as the CBUAE reduced its Base Rate from 5.4% in September to 4.4%, aligning with the trajectory of the U.S. Federal Reserve's Interest on Reserve Balances. The policy rate pass-through was effective, with key UAE short-term benchmarks closely tracking the Base Rate.

[1] Ministry of Industry and Advanced Technology, UAE. "Operation 300 Billion: The UAE's Industrial Strategy." Launched in 2021, this strategy aims to enhance the contribution of the industrial sector to the UAE's GDP by 2031.

[2] UAE Government. "UAE Tourism Strategy 2031." Announced in 2022, this initiative seeks to position the UAE as a global tourism destination by increasing the sector's contribution to GDP to AED 450 billion by 2031.

The gap between the Base Rate and overnight interbank rates narrowed during 2024. The Dirham Overnight Interest Average (DONIA) rate averaged 22 basis points below the Base Rate in 2024, compared to 31 basis points in 2023. This persistent spread reflects the banking sector's consistent liquidity surplus underlined by high overnight reserve balances at the CBUAE.

In line with lower policy rates towards the end of 2024 and expectations of continued monetary easing, yields on Monetary Bills (M-Bills) decreased in the latter half of the year. The average yield on the 28-day M-Bills dropped from 5.65% at the first auction of 2024 to 4.70% at the final auction. Secondary market spreads to U.S. Treasury Bills for tenors of 1, 3, and 6 months ranged between 22 and 31 basis points.

The Ministry of Finance added depth in the sukuk market by issuing AED 11.6 billion through its T-Sukuk auctions. Maturities ranged from May 2026 to September 2029, with yields between 3.65% and 4.77%. Investor demand was robust, with bid-to-cover ratios ranging from 3.35 to 8.92. This strong demand resulted in tight spreads to U.S. Treasuries of similar maturities, ranging from 0 to 15 basis points, reflecting significant domestic and global appetite for UAE sovereign AED-denominated assets.

The cost of insuring against sovereign default in Abu Dhabi and Dubai decreased steadily in 2024. Abu Dhabi's sovereign credit default swap (CDS) spreads narrowed by approximately five basis points on average across the term structure, remaining near historic lows. This decline underscores the UAE's positive economic outlook, supported by a strong fiscal position and substantial sovereign wealth fund activity despite global uncertainties.

1.1.4 Global Macro-financial Risks

In 2024, global financial stability encountered significant challenges from elevated interest rates, ongoing geopolitical tensions, and heightened market volatility. Key risks emerged from increasing global debt, evolving monetary policies, major political event. In the latter half of 2025, uncertainty surrounding international trade policies and the possibility of retaliatory measures further threatened the stability of global trade. Additionally, a slower-than-anticipated economic recovery in some major economies—affected by property sector weaknesses and demographic shifts—posed risks for commodity exporters.

1.1.5 Fiscal Debt Sustainability

Rising global debt levels, subdued economic growth and demographic pressures have heightened concerns about fiscal sustainability. While inflation has moderated in some regions, central banks remain cautious about reducing interest rates, keeping borrowing costs elevated.

Emerging markets with substantial foreign-currency debt are particularly vulnerable to capital outflows and currency depreciation if U.S. and European interest rates remain high. According to the IMF[3], persistently elevated real interest rates exacerbate debt servicing burdens, increasing fiscal pressures and financial instability (see Box 4 for analysis on sovereign bonds).

1.1.6 Emerging Threats

Technological disruptions, including AI-driven trading systems and cybersecurity threats, also present systemic risks. While artificial intelligence offers opportunities to enhance operational efficiency, it could lead to market distortions (see Box 2 for further information on AI).

Climate risks remain a persistent challenge. Extreme weather events threaten assets and economic activity, while the transition to low-carbon economies introduces financial risks, including stranded assets, valuation shocks and changes to business models. It may also lead to persistent impacts on inflation and output as well as monetary policy trade-offs.

1.1.7 UAE Macro-financial Conditions

The UAE maintained robust macro-financial conditions throughout 2024, underpinned by a resilient banking sector, economic diversification and demographic growth. However, with structural transformation progresses, potential cyclical risks may emerge. Extrapolative expectations of perpetual asset price growth risk pushing valuations beyond sustainable levels and may lead to loose credit conditions.

[3] IMF, 2024, "The Fiscal and Financial Risks of a High-Debt", Slow-Growth World, https://www.imf.org/en/Blogs/Articles/2024/03/28/the-fiscal-and-financial-risks-of-a-high-debt-slow-growth-world

1.1.8 Credit Growth and Financial Cycle

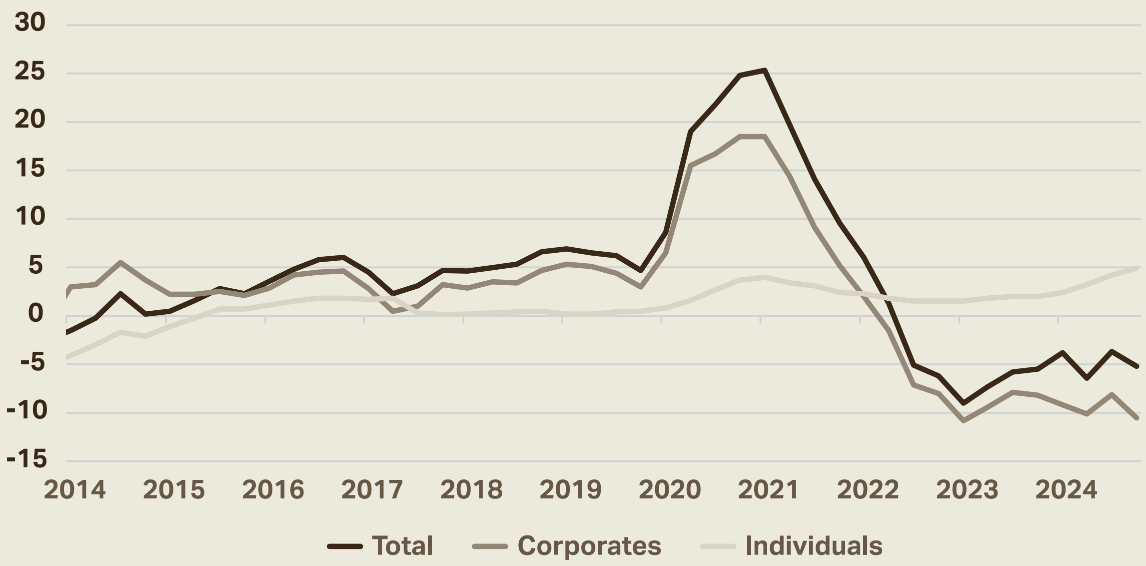
Strong credit growth and sharp rises in asset prices—particularly in real estate—have historically signalled mounting systemic risks. Over the past two years, private sector credit[4] in the UAE increased by 13.8% driven primarily by strong bank lending.[5]

Household credit growth has been the primary driver, increasing by 30% over the past two years and growing 17% year-over-year in Q4 2024, mainly due to robust growth in housing loans.[6] This trend raises prudential concerns, as feedback loops between credit booms and real estate valuations could heighten market fragilities, increasing the risk of abrupt price corrections.

Due to strong GDP growth, the ratio of private sector credit to nominal non-oil GDP has remained stable in recent years, with the overall credit-to-GDP gap at -5% in 2024. Sector breakdown, however, reveals contrasting trends: household credit is above its long-term average, showing a positive gap of 5%, while corporate credit lags behind with a negative gap of -10%.

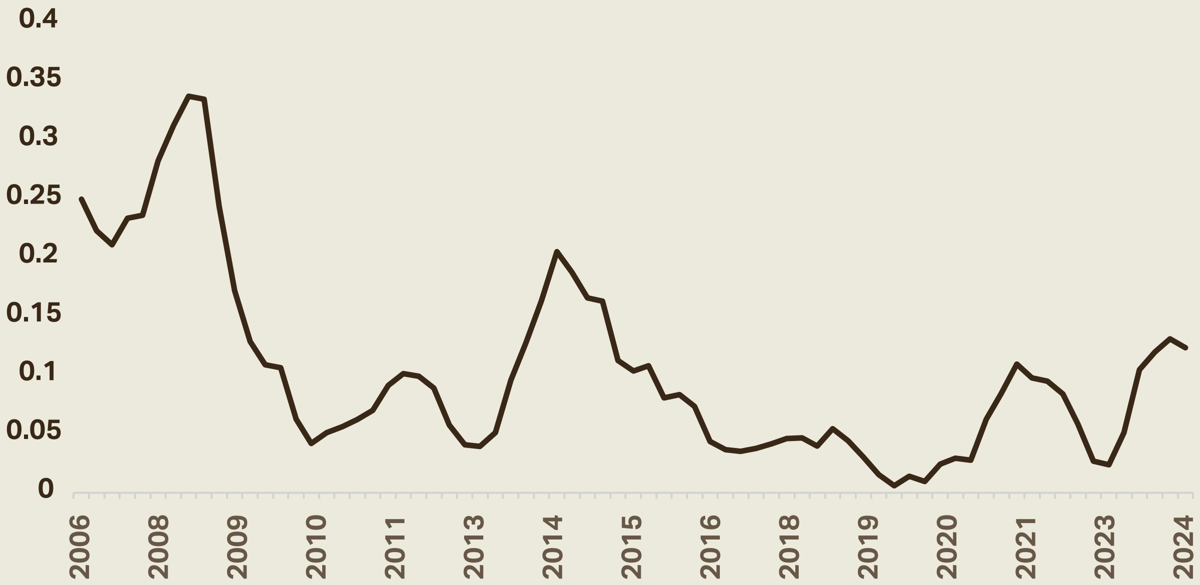
The CBUAE monitors financial cycles using a composite Financial Cycle Indicator, which combines credit growth trends and key asset price movements. In 2024, the Financial Cycle Indicator registered an expansion, indicating the economy's transition into an expansionary financial cycle phase. Such developments typically correlate with rising systemic risks, necessitating heightened macroprudential vigilance.

Chart 1.1.3: Credit to Non-Oil GDP Gaps (%)



Source: CBUAE

Chart 1.1.4: UAE Financial Cycle Index



Source: CBUAE. Note: Financial cycle indicator indicates position of the UAE in the domestic financial cycle. Higher value indicates more expansionary phase of the financial cycle. Cyclical systemic risks tend to accumulate in an expansionary phase of the cycle.

1.1.9 Financial Stability Trend Index and Funding Structure

The CBUAE's Financial Stability Trend Index (FSTI) provides a comprehensive assessment of macro-financial conditions, incorporating various indicators, including the financial health of UAE banks. In 2024, the FSTI reflected robust conditions underpinned by well-capitalised and highly liquid UAE banks.

The ratio of non-core liabilities to core liabilities[7] remained stable at 21%, below the historical average of 24%, supported by strong growth in resident deposits. Additionally, a low non-core to M2 ratio of 23% indicates that the banking system is primarily funded by stable, deposit-based sources. This strong funding foundation enhances the sector's capacity to support future credit growth. Meanwhile, the loan-to-deposit ratio for banks continued its downward trend, staying below 80% in 2024.

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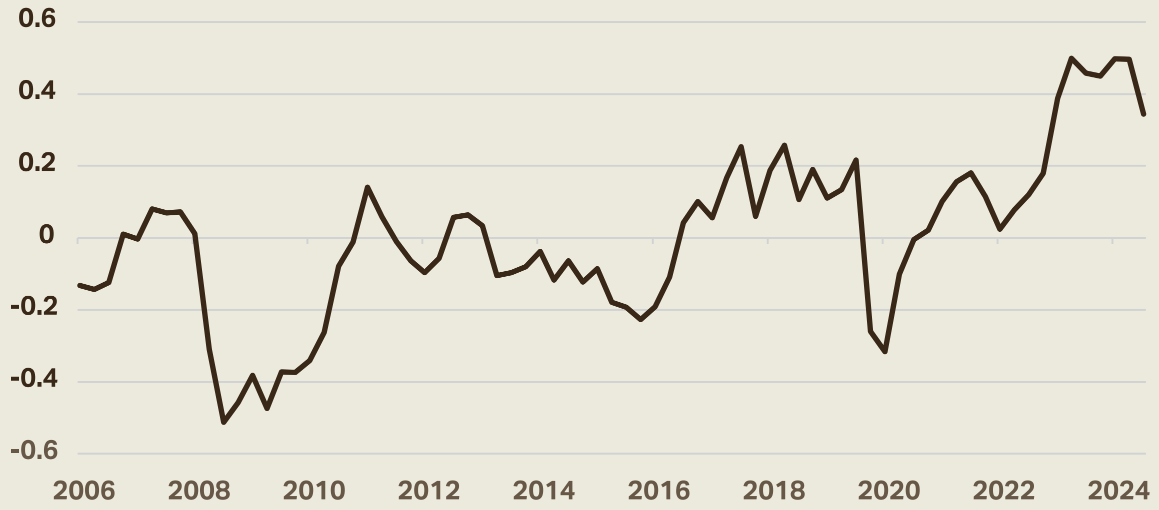
4 Total private credit is defined as the total credit borrowed by the resident private sector in the UAE, inclusive of government-related entities (GREs) and exclusive of the government sector.

5 In 2024, the CBUAE estimates 71% of private sector credit originates from UAE banks, 12% comes through bond issuance, and 17% from abroad captured by syndicated loan.

6 Housing loans grew by 33% over the past two years and more than 20% Y-o-Y in 2024.

7 Lower value of the ratio implies more stable funding profile of the banking system. The CBUAE classifies core liabilities as resident deposits from governments, non-financial corporations, and households, whilst considering the rest as non-core liabilities.

Chart 1.1.5: UAE Financial Stability Trend Index



Source: CBUAE. Note: Positive values of the FSTI indicate a more resilient banking sector relative to macro-financial vulnerabilities, based on a simple percentile ordering of historical values.

Chart 1.1.6: Non-Core Liabilities to Core Liabilities Ratio (%)

Source: CBUAE

1.1.10 Policy Response

In terms of policy changes, the CBUAE has introduced a countercyclical capital buffer (see Box 1) and is reviewing other macroprudential tools to address both structural and cyclical risks to financial stability. These pre-emptive measures aim to reduce excessive credit-fuelled growth while creating a critical cushion against potential economic slowdowns and their effects on financial stability.

The UAE's Financial Stability Council, established by the "Decree Federal Law No-(13) of 2023," continued its mandate in 2024. The Council, chaired by the Chairman of the Central Bank, convened twice in 2024 to assess emerging risks and coordinate policy responses. Its work remains guided by the law's core objectives: promoting financial stability, identifying systemic risks and strengthening cooperation among regulatory authorities and other relevant stakeholders.

Box 1: Introducing a positive, cycle neutral countercyclical capital buffer in the UAE

Macroprudential policy seeks to mitigate systemic risks that could have serious negative consequences for the financial system, its services and the broader economy. One of the primary tools to enhance system-wide resilience is the countercyclical capital buffer (CCyB). By increasing regulatory capital requirements through a higher CCyB rate, the CBUAE ensures that additional capital is available to withstand potential economic downturns. During periods of stress, the CBUAE can release the CCyB, providing banks with extra capacity to support lending. This mechanism helps maintain the flow of credit to the real economy, cushioning the impact of shocks and potentially shortening the duration of crises.

Before 2020, the CBUAE, similar to many jurisdictions, maintained a CCyB rate of 0%. However, the COVID-19 pandemic underscored the importance of pre-built, releasable capital buffers during periods of stress. In response, several central banks have adopted a proactive, forward-looking approach by introducing a positive, cycle-neutral countercyclical capital buffer (pCCyB). The pCCyB establishes a non-zero CCyB rate during a "neutral" phase of the financial cycle, when cyclical systemic risks are moderate. This approach aims to strengthen resilience throughout all stages of the financial cycle and enhances the capacity of macroprudential authorities to respond to systemic shocks, including those that materialise unexpectedly.

The CBUAE has decided to implement a pCCyB of 0.50% in the UAE. This initiative is well-timed, given the current robust state of the domestic economy and the favourable conditions in the banking sector. Furthermore, the introduction of the pCCyB aligns with the Basel Committee on Banking Supervision's recent guidance and the International Monetary Fund's 2024 Article IV Mission recommendations.

Key points of the implementation include:

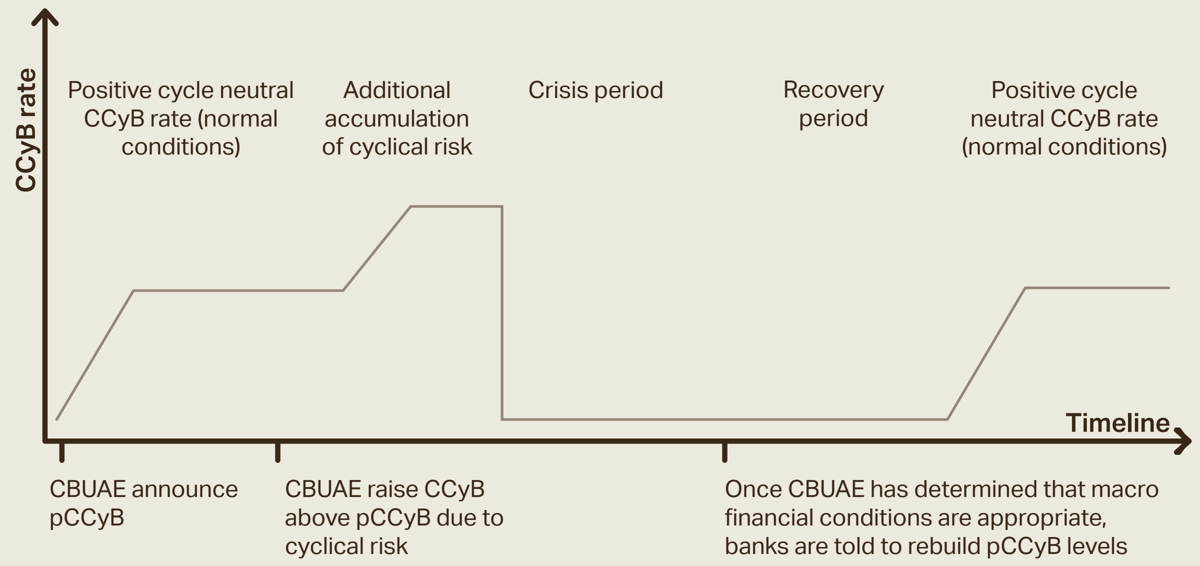
- The CCyB requirement is set at 0.50% for private-sector credit exposures.
- The requirement must be met using only Common Equity Tier 1 (CET1) capital.
- The rate will be effective on 1 January 2026.

The CBUAE agreed to set a CCyB rate to 0.5% during neutral risk conditions. This strategy recognises the difficulties in accurately assessing cyclical systemic risks and the inherent time lags in CCyB implementation (Box 1 Chart 1). Increases in capital requirements during favourable macro-financial conditions are expected to have minimal impact on the economy or credit availability. This is consistent with recent research findings and CBUAE's internal analyses, which examined the primary transmission channels of this policy through banks' balance sheets. Given the ongoing strong profitability and capital surpluses of the domestic banking sector, the assessment indicated that any impact on GDP growth, lending, dividends, and banking sector profitability is very small and short-lived. Furthermore, the long-term benefits of a more resilient financial system are anticipated to significantly outweigh any potential short-term costs.

The CBUAE continues to monitor various indicators, including credit growth, underwriting standards domestic economic conditions, asset prices (particularly real estate), risk appetite and global developments, for signs of emerging cyclical risks. The CBUAE may re-assess the CCyB rate above the 0.5% baseline if these indicators signal heightened imbalances, elevated risk levels or excessive risk taking. Banks will typically be given a 12-month period to meet the higher CCyB requirement, allowing adequate time for capital planning.

Conversely, the CBUAE will reduce the CCyB rate—partially or fully—if systemic risks materialise, during economic downturns or as a result of sudden shocks to the domestic financial system, with such adjustments taking immediate effect. The intention is to ensure that, during such crisis periods, the CCyB acts as a usable capital buffer allowing banks to support the UAE economy and financial markets, thereby minimising the second order economic impact of restricted access to credit. Banks will then be required to gradually rebuild their capital levels to the pCCyB baseline as economic conditions and the credit impairments of banks stabilise. The pace of restoration will depend on the banks' ability to balance continuing credit provision to creditworthy borrowers with the need to reinforce overall loss absorbency. This framework seeks to safeguard financial resilience while avoiding disruptions to credit supply in the real economy.

Box 1 Chart 1: CBUAE's approach to setting the CCyB



Box 2: Artificial Intelligence and Financial Stability

The rapid development of Artificial Intelligence (AI) technologies, particularly Generative AI (Gen AI) and its subset, Large Language Models (LLMs), is reshaping the financial landscape. With careful integration and oversight, AI can be a powerful catalyst for a more robust and diverse financial system.

The Evolution of AI in Finance: Stages of Adoption

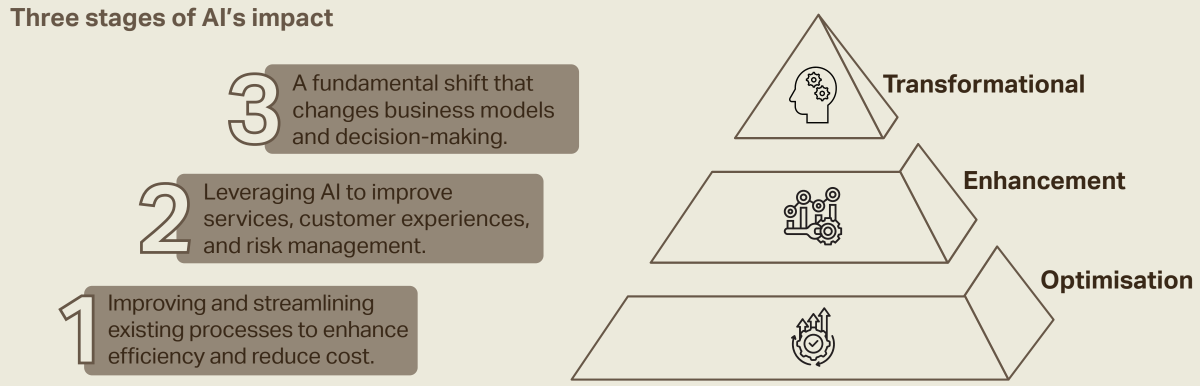
AI adoption in the financial sector can be understood in three stages: optimisation, enhancement and transformation. Each stage signifies a deeper level of integration within financial systems.

Optimisation: At this stage, AI is primarily employed to streamline processes, reduce costs and improve operational efficiency. Applications include automating routine tasks, refining risk management practices and analysing large datasets. These advancements enhance institutional efficiency and resilience, thereby contributing to financial stability during periods of stress.

Enhancement: At this stage, AI is deployed to improve customer experiences, develop sophisticated risk management tools and provide predictive insights. Such applications enable financial institutions to adapt to dynamic market conditions whilst offering more tailored products and services to clients.

Transformation: This stage represents a potential future shift, in which AI could fundamentally alter financial intermediation and market dynamics. Autonomous decision-making systems, predictive analytics and AI-driven innovations by fintechs can potentially disrupt traditional business models and redefine institutional operations. While AI may enhance financial inclusion by expanding access to services, it also presents significant challenges, including the risk of discrimination in the provision of financial products. Ensuring fairness, transparency and robust oversight will be essential to mitigate these risks as AI adoption progresses.

Box 2 Chart 1: Three stages of AI



Financial Stability Implications of AI Integration

From a financial stability perspective, AI presents both opportunities and challenges. At the optimisation stage, efficiency gains strengthen operational resilience, reduce costs and bolster institutional capacity to withstand financial pressures. Enhanced fraud detection and risk management tools reinforce the robustness and integrity of the financial system. However, these systems depend on data quality and the sound design of AI models, both of which require continuous oversight to avoid unintended consequences.

As financial institutions progress to the enhancement stage, the scale and scope of AI applications expand. AI-driven advisory systems, predictive analytics and intelligent automation improve market functioning by providing deeper insights and fostering innovation. However, increasing reliance on AI introduces challenges such as "black-box" decision-making, where the lack of transparency in AI models complicates risk assessments. Additionally, issues relating to data privacy, ethical considerations and model governance become increasingly important.

At the transformation stage, AI's disruptive potential becomes more pronounced. Autonomous decision-making systems, capable of executing trades or making credit decisions without human intervention, can enhance market efficiency and liquidity. AI-powered fintech firms offer personalised financial products at lower cost, encouraging greater competition and financial inclusion. However, such advancements may also heighten systemic vulnerabilities within the financial system. For example, algorithmic herding behaviours, where AI systems react similarly to market signals, could amplify market volatility and exacerbate systemic risks during periods of stress. Furthermore, the complexity of advanced AI models may obscure vulnerabilities, necessitating robust risk management frameworks to address potential shocks adequately.

Safeguarding Financial Stability

The CBUAE adopts a proactive, collaborative, risk-based approach to harness AI's benefits while safeguarding financial stability. In this regard, the CBUAE issued Guidelines for Financial Institutions Adopting Enabling Technologies in 2021, setting clear expectations for the responsible adoption of AI and other advanced technologies by financial institutions. These guidelines promote sound governance, robust risk management, transparency in AI models and effective data governance, while fostering innovation.

From a supervisory perspective, the CBUAE is also advancing the use of Supervisory Technology (SupTech), which incorporates AI-driven analytics to enhance risk identification and the early detection of emerging threats. It can also complete manual tasks previously undertaken by supervisors, leaving greater capacity for those supervisors to engage in forward-looking judgement.

By striking the right balance between innovation and resilience, and through ongoing supervisory enhancement and adherence to established guidelines, the CBUAE aims to ensure that AI contributes to a robust, inclusive and efficient financial system for the UAE.

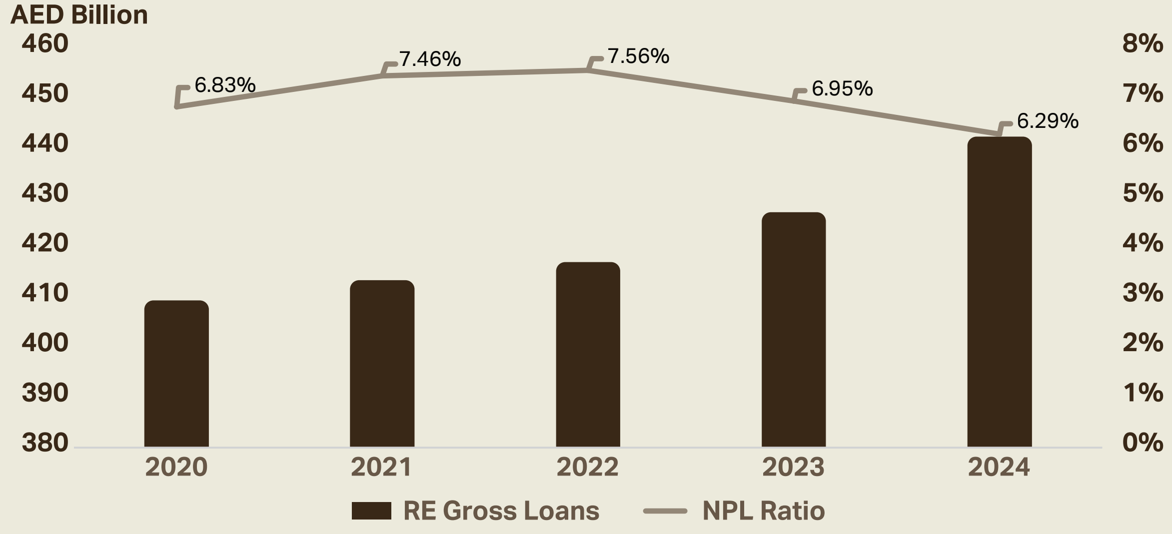
1.2 ASSET MARKETS

The UAE real estate market in 2024 experienced notable growth, with real estate and construction activities accounting for 17.3% of non-hydrocarbon GDP and real estate loans rising by 3.5%, while non-performing loans declined to 6.3%. Abu Dhabi's residential market saw a slowdown in villa transactions but moderate gains in apartment sales and prices, while Dubai's market continued to surge, with substantial increases in both apartment and villa sales and double-digit growth in median prices and rents. In capital markets, the combined capitalisation of ADX and DFM exceeded AED 3.9 trillion, and the investment funds sector expanded significantly.

1.2.1 Real Estate Market

The UAE has experienced notable growth in both the real estate and tourism sectors. Real estate-related activities accounted for 17.3%[8] of the UAE's real non-oil GDP in 2024. During the year, real estate-related loans grew by 3.5%, while non-performing loans declined to 6.3%. The total banking sector loans that are secured by real estate reached around 20% in 2024.

Chart 1.2.1: Real Estate Gross Loans and NPL ratio



Source: CBUAE

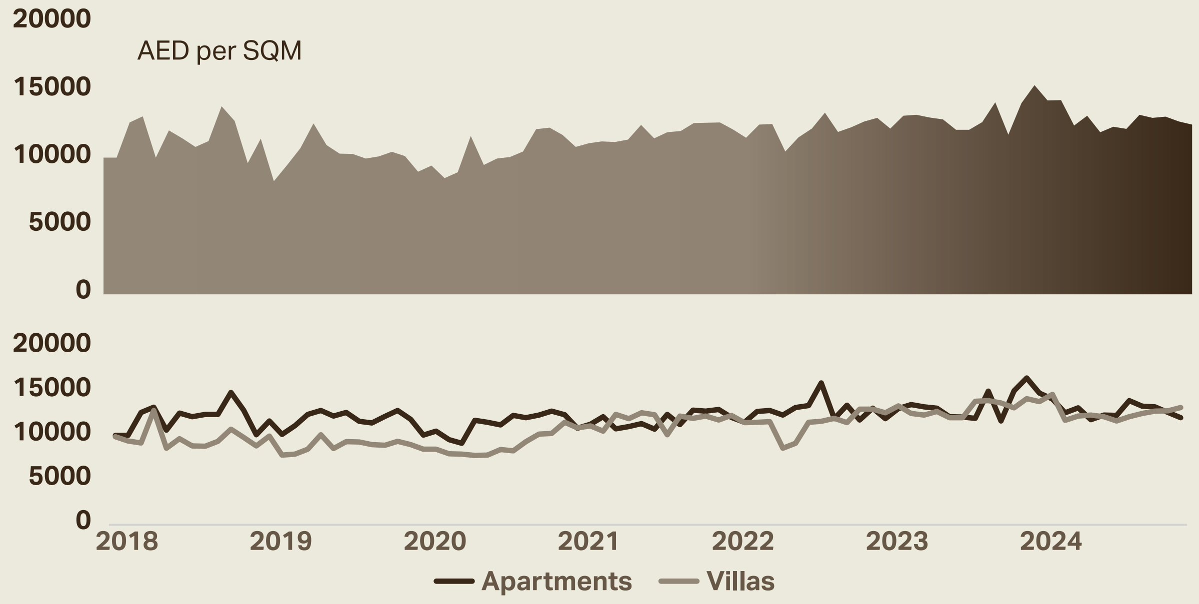
1.2.2 Abu Dhabi Real Estate

Abu Dhabi's residential real estate market experienced a slowdown in sales transactions in 2024. More than 10,000 apartment and villa sales transactions were recorded during the year. Apartment transactions increased by 14.0% Y-o-Y, driven by sales of ready units, despite a decline in off-plan transactions. By contrast, villa sales transactions fell by 36.4% Y-o-Y, as off-plan villa sales saw a significant decline, while sales of ready villas increased.

Median sales prices showed mixed trends, with overall prices moderating by 0.3% Y-o-Y. Apartment prices rose by 1.5%, while villa prices declined by 3.8%. Off-plan apartment prices increased by 8.3% Y-o-Y, while ready villa prices rose by 14.4% Y-o-Y.

8 First 9 months of 2024 GDP, including real estate and construction. Source: FCSC.

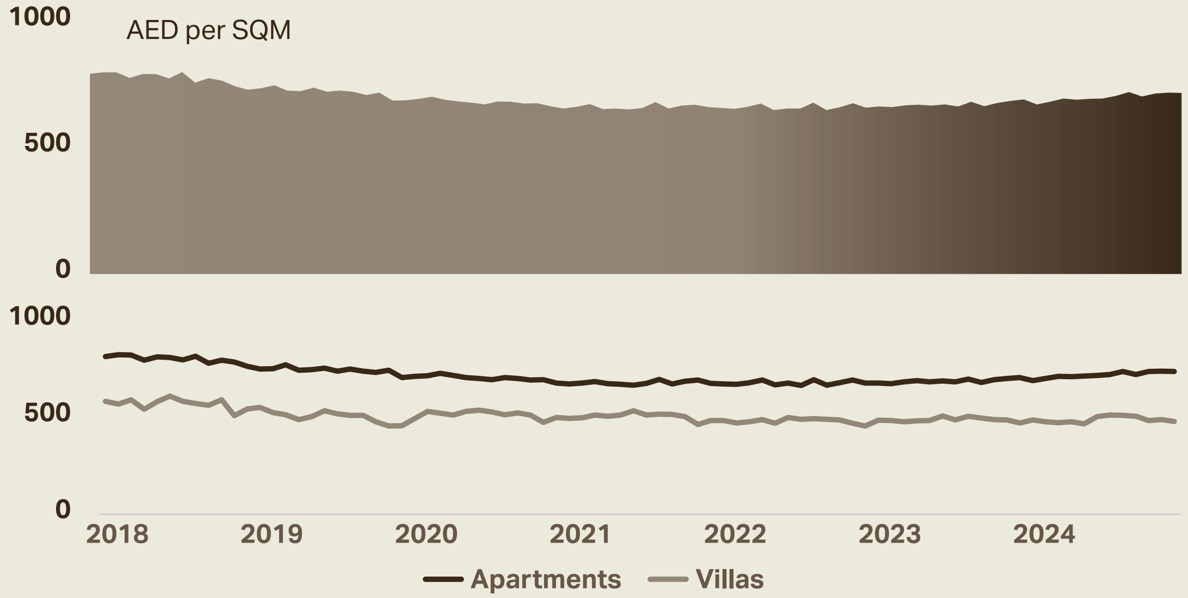
Chart 1.2.2: Abu Dhabi Median Residential Sales Price



Source: CBUAE estimates based on data from ADREC and DLD

Rental transactions increased by 1.9% Y-o-Y in 2024. Apartment rentals also grew by 1.9% Y-o-Y, with renewals rising and new leases declining compared to the previous year. Similarly, villa rental transactions rose by 2.0% Y-o-Y, supported by a rise in new leases. Median rental prices rose by 4.4% Y-o-Y, with apartment rents growing by 4.6% Y-o-Y, driven by an increase in new apartment rentals. Villa median rental prices remained stable, with a 0.7% Y-o-Y increase.

Chart 1.2.3: Abu Dhabi Median Residential Rent Price



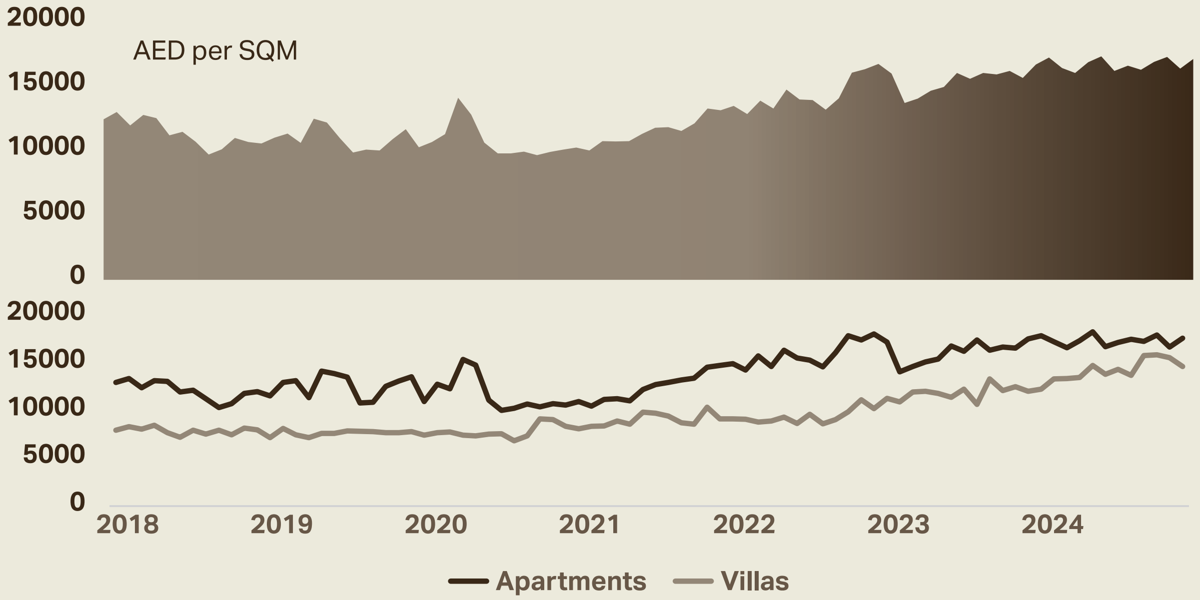
Source: CBUAE estimates based on data from ADREC and DLD

1.2.3 Dubai Real Estate

Dubai's residential real estate market continued its upward trajectory, with apartment and villa sales transactions growing by 42.5% Y-o-Y in 2024. Apartment sales transactions rose by 45.5%, driven by strong demand for both off-plan and ready units. Villa sales transactions grew by 25.3%, primarily supported by off-plan sales.

Median sales prices in Dubai rose by 8.7% Y-o-Y, with villa prices increasing by 22.6% and apartment prices growing by 7.5%.

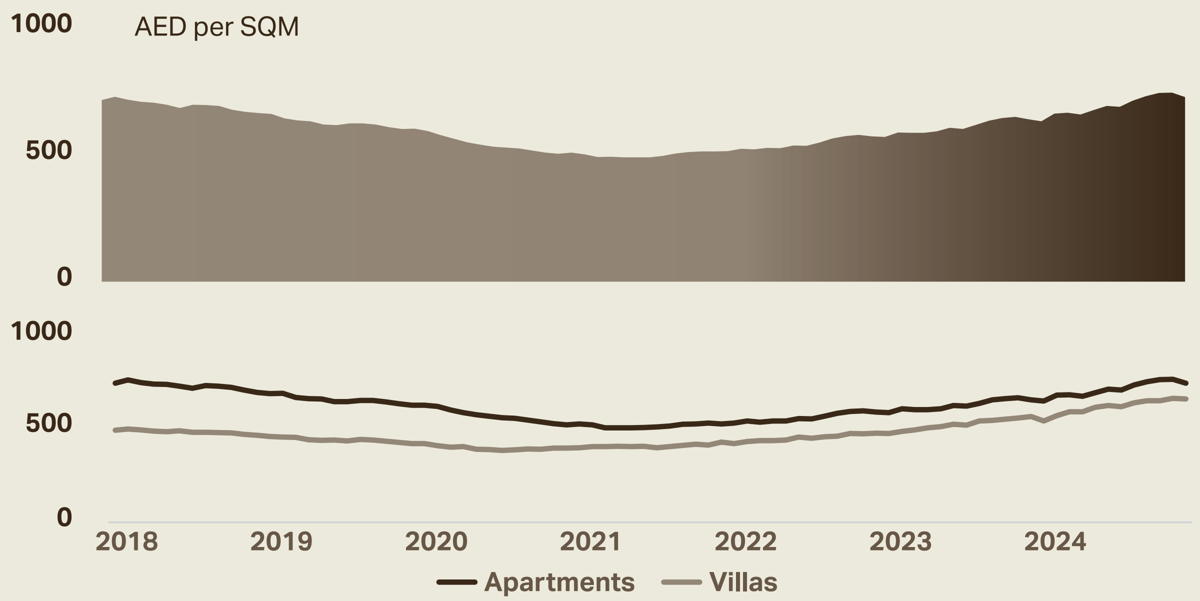
Chart 1.2.4: Dubai Median Residential Sales Price



Source: CBUAE estimates based on data from ADREC and DLD

Rental transactions in Dubai saw modest growth, increasing by 0.6% in 2024. Apartment rental transactions rose by 1.2%, while villa rentals grew by 4.4%. Median rental prices surged by 13.8% Y-o-Y, with apartment rents up by 13.6% and villa rents rising by 18.2%.

Chart 1.2.5: Dubai Median Residential Rent Price



Source: CBUAE estimates based on data from ADREC and DLD

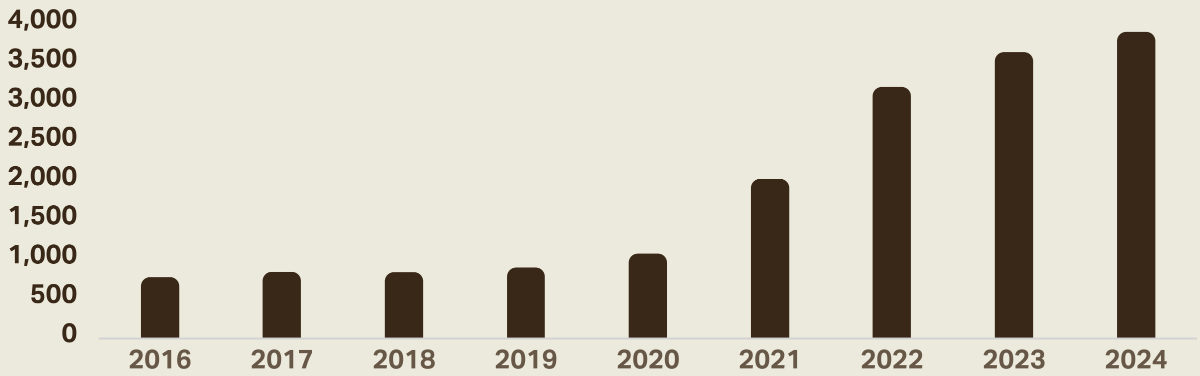
1.3 CAPITAL MARKETS

Contribution from the Securities and Commodities Authority (SCA).

1.3.1 Overview

The UAE's capital markets witnessed a significant increase in activity during 2024. The combined market capitalisation of the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) exceeded AED 3.9 trillion driven by new listings and an increase in market prices, particularly on the DFM. The investment funds sector also experienced significant growth over the year.

Chart 1.3.1: Market Capitalisation of UAE Equity Markets



Source: SCA

The ADX experienced mixed performance in 2024. While the FTSE ADX General Index declined by 2%, the number of trades increased by 33.4%. Net institutional investments reached AED 3.51 billion, with total trading volume rising by 7.0% to AED 342.4 billion. Foreign investors accounted for approximately 40% of trading activity.

The ADX continued to expand its exchange-traded fund (ETF) market, listing 15 ETFs with a total trade value of AED 2 billion. Additionally, the ADX launched the FTSE ADX 15 Islamic Index to meet growing demand for Sharia-compliant investment products, with a market value exceeding AED 2.6 trillion.

Table 1.3.1: ADX Performance

Abu Dhabi Securities Exchange "ADX"*	2023	2024	% Change
Index (point)	9,578	9,419	-2%
Trading value (AED billion)**	320	342	7%
Trading volume (Billion shares)**	58	90	55%
Number of Trades**	3,487,955	4,655,223	33%
Market Capitalisation (AED billion)***	2964	3003	1%
Net Foreign Investment (Buy - Sell) (AED billion)	-10	24	-
Net Institutional investors (Buy - Sell) (AED billion)	6	4	-43%

Source: SCA. * Data source: ADX website. **includes: domestic public and private companies, direct deals, ETFs and SPACs.***includes: public and private companies

The DFM recorded notable growth in 2024, with the DFM General Index rising by 27.1% to close at 5,158.67, its highest level in a decade. Market capitalisation increased by 32% compared to the previous year, reaching AED 907 billion. For the second consecutive year, Dubai was the best-performing market in the GCC, extending a four-year upward trend.

Investor participation rose significantly, with 138,262 new investors joining the market, representing a 120.5% increase over 2023. Of these, 85% were foreign investors. Foreign investors contributed 50% of the total trading volume, up from 47% in 2023, while institutional trading activity increased to 65%, compared to 58% in the prior year.

Table 1.3.2: DFM Performance

Dubai Financial Market "DFM"*	2023	2024	% Change
Index (point)	4,060	5,159	27%
Trading value (AED billion)**	101	107	6%
Trading volume (Billions share)**	53	52	-1%
Number of Trades**	1,916,437	2,550,223	33%
Market Capitalisation (AED billion)**	687	906	32%
Net Foreign Investment (Buy - Sell) (AED billion)	5.1	2	-
Net Institutional investors (Buy - Sell) (AED billion)	0.8	2	157%

Source: SCA * As per DFM website. **Includes public and private companies (domestic- foreign) direct deals and ETFs. ***Includes public and private companies.

1.3.2 Investment Funds

The investment funds sector expanded significantly in 2024, reflecting broader market developments and increased capital inflows. During the year, 18 new locally domiciled investment funds were licensed, bringing the total number of registered locally domiciled funds to 46—a 58% increase compared to 2023. The total Assets Under Management (AUM) for these funds reached AED 4.2 billion, which remains small relative to UAE's broader economic and fiscal landscape.

1.3.3 Key Risks and Mitigation Measures

The capital markets landscape in 2024 navigated a shifting risk environment shaped by the rapid expansion of virtual assets and persistent geopolitical and macroeconomic uncertainties. Recognising these evolving risks, SCA, in partnership with the Virtual Assets Regulatory Authority (VARA), responded with a comprehensive regulatory framework. This framework emphasises robust anti-money laundering standards and investor protection, aiming to bolster stability and confidence in the sector. Concurrently, ongoing geopolitical tensions and unexpected macroeconomic developments contributed to market fluctuations, though overall volatility remained moderate. To address these evolving risks, exchanges and regulatory bodies implemented several robust measures. Daily margin model evaluations were conducted to ensure timely adjustments to market parameters, enhancing resilience against stress scenarios. The launch of an independent clearing house and a dedicated depository centre improved counterparty risk management and settlement stability, representing a significant development for the country's financial infrastructure. Upgrades to trading infrastructure boosted operational efficiency while strengthened market-making programs supported liquidity, particularly for newly listed securities. Additionally, policy enhancements were introduced to limit collateral exposure to individual financial institutions, thereby reducing systemic vulnerabilities and promoting a more secure and stable market environment.

1.3.4 Regulations

In 2024, the SCA implemented regulatory enhancements to bolster the UAE's financial sector and align with global standards, including a new resolution for Special Purpose Vehicles (SPVs) to stimulate investment funds and support securitisation and sukuk issuance. Additionally, in collaboration with VARA, a comprehensive framework for virtual asset activities was introduced. The SCA also approved seven equity offerings totalling AED 22.7 billion, facilitated two direct listings worth AED 6.4 billion, and registered ten bond and sukuk offerings with a combined value of AED 40.37 billion.

PART TWO. BANKING SECTOR ASSESSMENT

2.1 BANKING SECTOR ASSESSMENT

The UAE banking system remained resilient with robust fundamentals despite global uncertainties. Sustained credit growth, supported by strong customer demand from corporate and retail sectors, and favourable liquidity and funding conditions. Asset quality indicators improved due to a notable reduction in non-performing loans (NPLs). The UAE banking system maintained adequate capitalisation and strong profitability.

2.1.1 Overview

The UAE banking sector's total assets reached AED 4.6 trillion by the end of 2024, reflecting an annual growth of 12.0%. The UAE banking sector comprised 61 licensed banks, of which 23 are UAE national banks and 38 branches of foreign banks operating in the UAE (see Box 3 for an outline of the CBUAE's prudential framework).

The global banking industry navigated a complex operating environment in 2024, shaped by an uncertain global economic outlook, policy rate inflection, geopolitical instability, supply chain disruptions, and the rapid digitalisation of financial services.

Global financial conditions were mixed in 2024. While most major central banks shifted toward easing monetary policy conditions as inflation rates improved, the degree and timing of policy changes varied across regions. Banks should adopt prudent measures to manage potential implications in light of global uncertainties, particularly concerning the impact of trade tariffs and market volatility.

Global and regional geopolitical uncertainties increased in 2025, affecting the operating environment. The introduction of new policies, including tariffs, exacerbated trade tensions and heightened risks of supply chain disruptions which could affect the global economic outlook. UAE banks should closely monitor these developments and, where necessary, mitigate any potential spillover risks from the global economy to the domestic banking sector.

Climate-related risks and opportunities in climate finance remained strategic drivers of banks' business strategies and risk management frameworks. In 2024, the CBUAE published principles for sustainability-related disclosures[9] and conducted a climate-change stress test to support the banking system's climate resilience.

2.1.2 Credit Environment

The loan portfolio of the UAE banking system expanded by 9.5% during the year, primarily driven by increased domestic lending. Retail and private corporate credit were the key contributors to this growth in the domestic loan portfolio. These two segments contributed close to two-thirds of the total loan growth.

According to the CBUAE's credit sentiment survey,[10] there was a notable rise in loan demand from households and businesses. A favourable domestic economic outlook helped offset the impact of elevated interest rates. Additionally, strong funding conditions and ample credit capacity within the banking sector supported banks' appetite for credit growth, enabling them to meet the increased loan demand in 2024.

2.1.2.1 Retail Credit Exposures

Retail credit issued by UAE banks recorded robust growth of 16.8% in 2024, with expansion observed across all key retail sub-categories. Car loans, mortgage loans, credit card lending, and personal loans experienced notable growth rates of 23.6%, 20.1%, 14.7%, and 9.4% respectively. Despite relatively higher borrowing costs, retail lending benefited from positive economic conditions, strong retail credit demand and sentiment, and government structural measures, including longer-term residency programmes.

2.1.2.2 Wholesale Credit Exposure

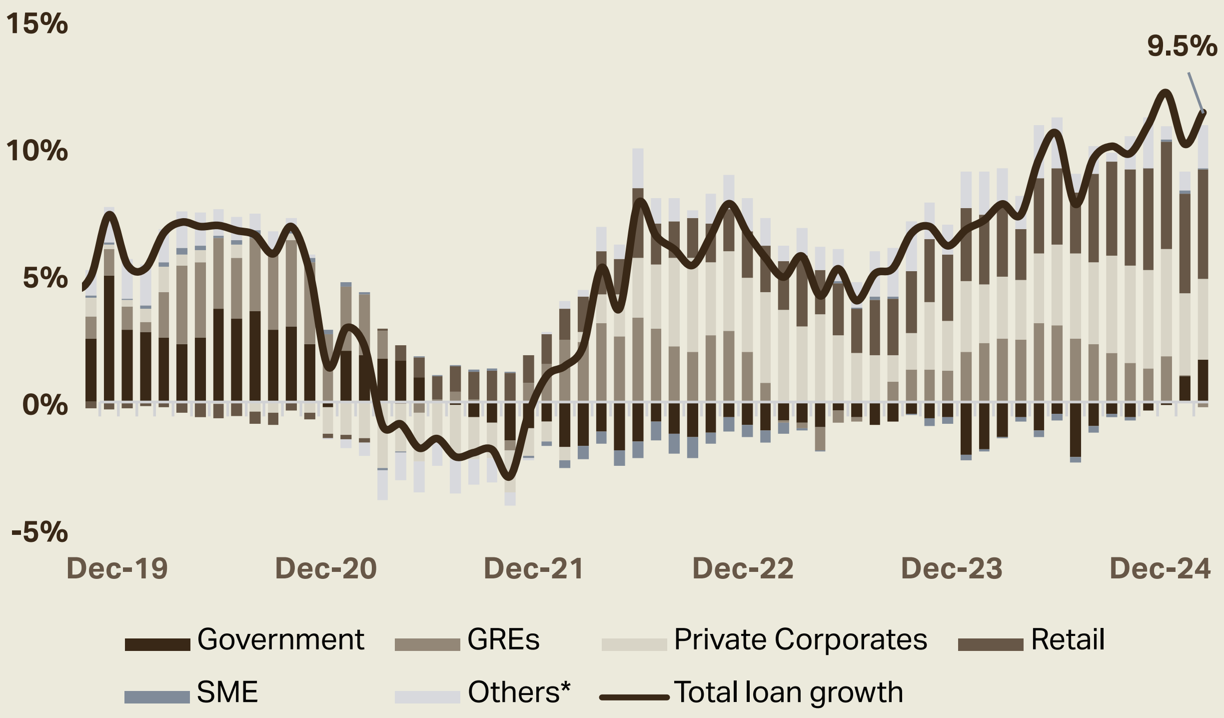
Aggregate wholesale credit[11] recorded a growth rate of 7.5% in 2024, primarily driven by increased financing to private corporate and government segments, which grew by 7.1% and 13.6%, respectively. This reflects sustained demand for business financing and infrastructure projects. Lending to SMEs began to recover, growing at a modest pace of 1.1% during the year. Lending to the government sector rebounded from the previous year's decline, increasing by 13.6%. However, lending to government-related corporate entities slightly contracted, declining by 1.1%.

[9] For more information, please visit "Principles for Sustainability-Related Disclosures | CBUAE Rulebook"

[10] The Credit Sentiment Survey published by the CBUAE in Q4 2024, https://www.centralbank.ae/en/news-and-publications/publications/quarterly-reports/credit-sentiment-survey-q4-2024/

[11] Wholesale Credit comprised lending to the private corporate, government-related corporates, government, trade finance, high-net-worth individuals, SMEs and non-bank financial institutions.

Chart 2.1.1: Banking System Loan Growth (Y-o-Y, %)

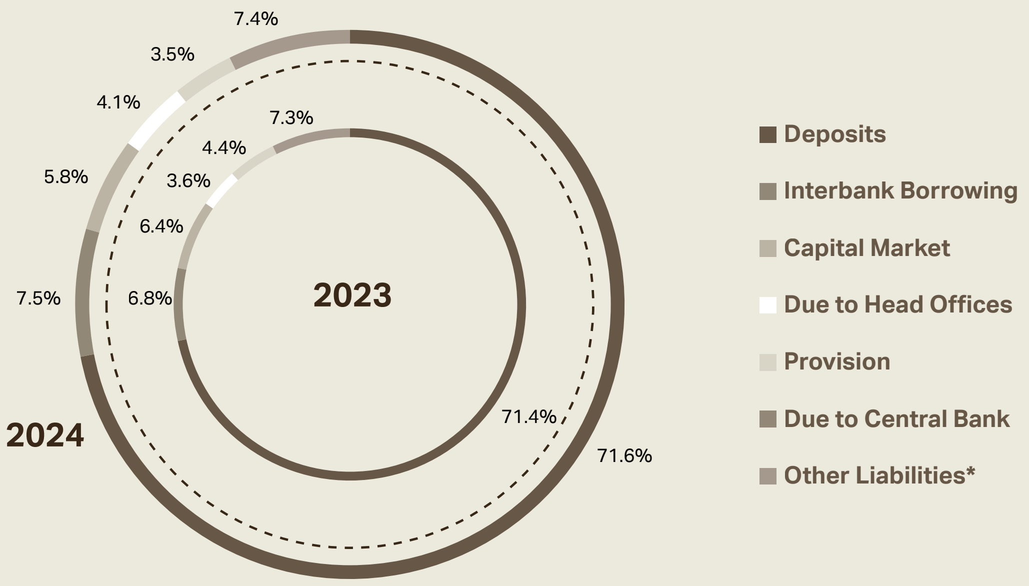


Source: CBUAE. *Others comprised of non-bank financial institutions, high-net-worth individuals and trade bills

2.1.3 Funding and Liquidity

The liability structure of the UAE banking system comprised primarily of deposits, which accounted for 71.6% of total liabilities. This was further complemented by interbank borrowing, representing 7.5% of total liabilities, while capital market funding contributed by a smaller share of 5.8%.

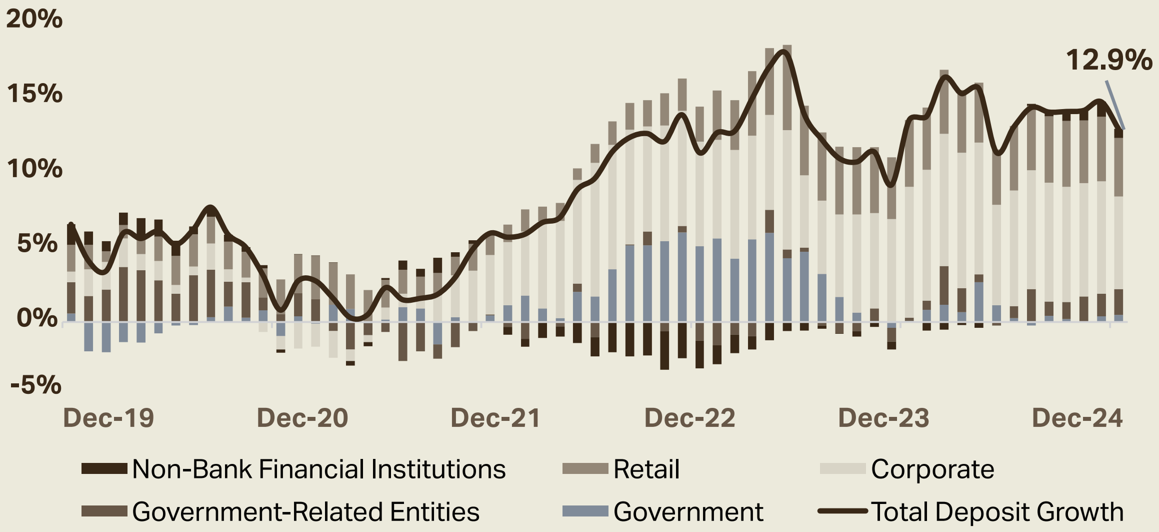
Chart 2.1.2: Banking System's Liabilities Composition (Share of Total Liabilities, %)



Source: CBUAE. *Other liabilities include bankers draft, net inter-branch transactions, negative fair value of derivatives and other liabilities

In 2024, the overall liquidity and funding conditions of the UAE banking system remained favourable, benefiting from continued strong deposit growth. Total deposits in the banking system recorded a double-digit increase of 12.9% Y-o-Y. This growth was primarily driven by resident deposits, which accounted for 86.6% of the total increase in deposits in 2024.

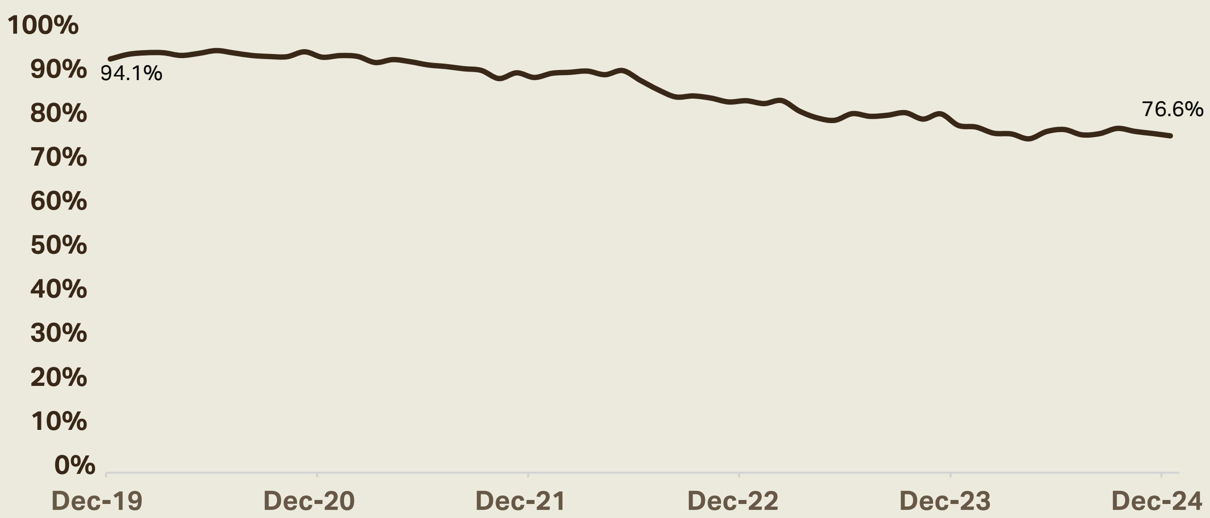
Chart 2.1.3: UAE Banking System's Deposits Growth, (Y-o-Y, %)



Source: CBUAE

The growth in aggregate deposits was driven by strong inflows from the private corporate and retail sectors. Private corporate deposits increased by 14.3% and retail deposits grew by 14.2% during 2024. These two segments contributed close to 80% of the total deposit growth. The composition of total deposits within the UAE banking system comprised primarily term deposits and demand deposits. Given the relatively higher interest rates, term deposits grew by 14.1%, while demand deposits increased by 10.0% in 2024.

Chart 2.1.4: UAE Banking System's Loan-to-Deposit Ratio, (%)



Source: CBUAE

The aggregate Loan-to-Deposits (LTD) ratio improved in 2024, declining to 76.6% from 79.0% in 2023 and 84.6% in 2022. This was 10.4 percentage points below the 5-year average, highlighting the ample lending capacity of the UAE banking system to meet credit demand.

Key liquidity ratios underscored the strong liquidity position of the banking system in 2024, with the year-end Eligible Liquid Asset Ratio (ELAR) at 21.3% and the year-end Liquidity Coverage Ratio (LCR) at 156.2%. Additionally, funding indicators remained robust, with the Advances to Stable Resources Ratio (ASRR) and Net Stable Funding Ratio (NSFR) recorded at 72.2% and 113.4%, respectively.[12]

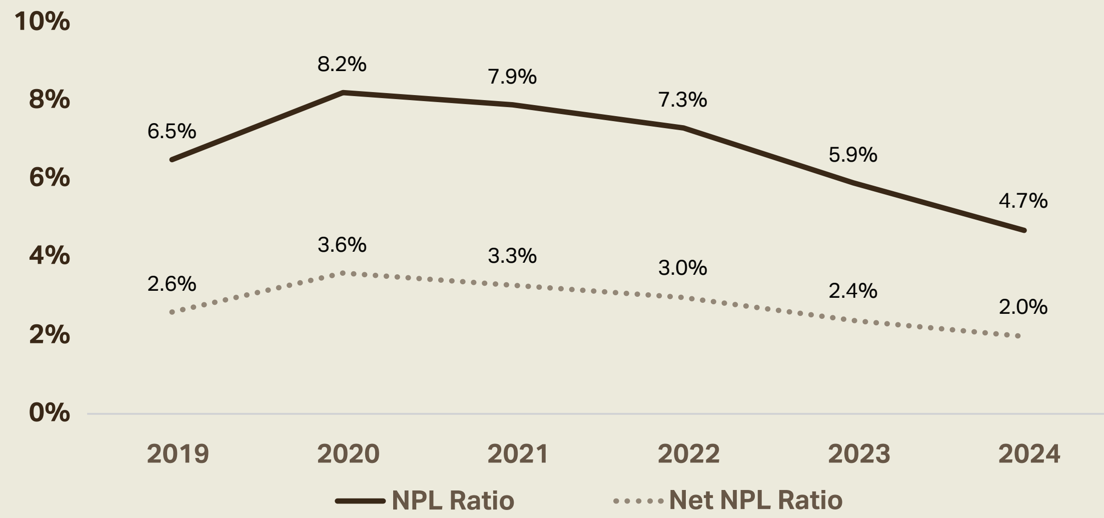
2.1.4 Asset Quality

The asset quality ratios[13] within the UAE banking system exhibited a notable improvement in 2024, continuing the positive trend observed in recent years. The NPL ratio of the UAE banking system further improved to 4.7%, a notable decrease from the 5.9% recorded in 2023. This marks a substantial improvement from the peak of 8.2% in 2020. The Net NPL ratio[14], which excludes specific provisions taken by banks, also improved to 2.0% in 2024 from 2.4% in the preceding year.

The improvement in asset quality indicators was attributed to the sizable reduction in non-performing loans, which declined by 14.0% during 2024. The gradual growth of the banking sectors' balance sheet also contributed to improvements in asset quality, albeit the primary driver was the reduction in non-performing loans.

Supported by a stable domestic economic environment and effective supervisory measures from the CBUAE, UAE banks have improved asset quality through enhanced non-performing loans (NPL) management and ongoing supervisory dialogue. The issuance of the Credit Risk Management Regulation and Standards in 2024 has further strengthened the sector's framework by requiring licensed financial institutions to implement robust, board-approved credit risk frameworks covering the entire credit lifecycle-from origination to recovery and write-offs. Institutions must ensure that provisions and write-offs are timely, realistic, and supported by regularly reviewed policies for managing problem exposures and distressed assets.

Chart 2.1.5: Banking System Asset Quality Ratios (%)



Source: CBUAE

[12] For more information on liquidity and funding ratio requirements refer to Box 3 of this report and the Regulations regarding Liquidity at Banks in the CBUAE Rulebook.

[13] For the methodology of the NPL ratio and the Net NPL ratio reporting, refer to CBUAE (2019): Central Bank of the UAE Enhances its Reporting of Non-performing Loans.

[14] The Net NPL ratio excludes specific provisions and provides a better indicator of asset quality by taking into account the provisioning levels in the UAE banking system.

2.1.5 Profitability

The UAE banking system maintained strong profitability during 2024, with net profit increasing by 10.2% Y-o-Y. The growth in profitability remained solid, albeit at a more moderate pace compared to the previous year as interest rates moderated. The rise in net profit was primarily driven by robust total income, supported by significant growth in non-interest income and a reduction in net impairment charges.

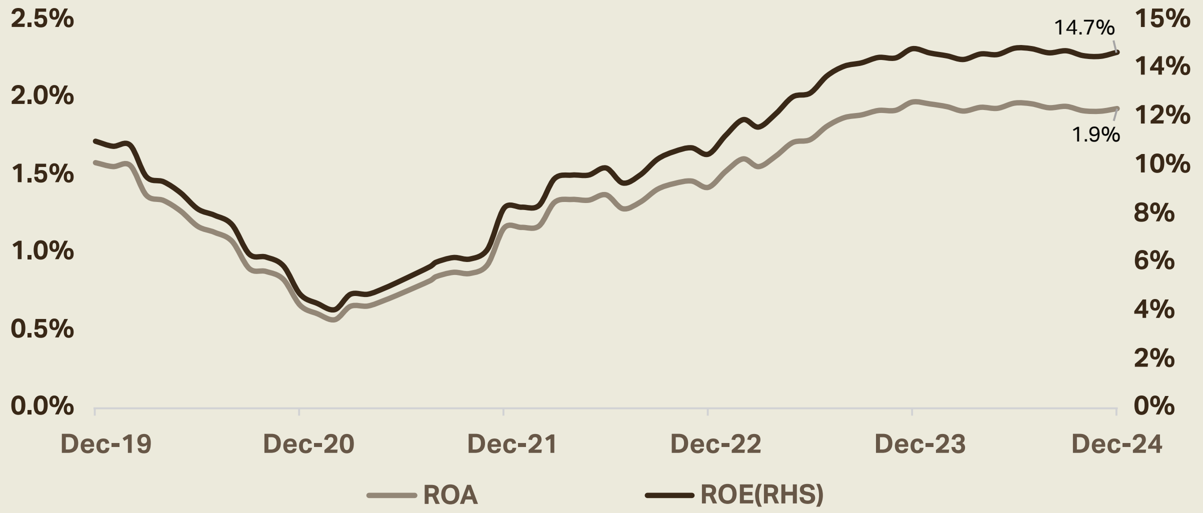
Total operating income rose by 10.9% Y-o-Y, driven by a 6.8% Y-o-Y growth in net interest income and a 21.7% Y-o-Y increase in non-interest income. The moderation in policy rates affected the aggregate net interest income, resulting in slower growth compared to the previous year. Consequently, the net interest margin moderated to 2.5% in 2024, from 2.6% in 2023.

Total operating expenses increased by 9.5% Y-o-Y, although at a slower pace than the previous year, as banks worked to stabilize costs amid moderating income growth. The rise in expenses was largely attributed to higher staff costs and IT outsourcing. Despite this, the aggregate cost-to-income ratio improved further, declining by 0.4 percentage points to 31.5%, reflecting effective cost management strategies.

Net impairment charges decreased by 28.1% Y-o-Y, amid positive economic conditions in the UAE, further supporting profitability. The UAE banking sector's tax expenses increased in 2024, along with the increase in the UAE's effective tax rate.

The overall banking system's profitability indicators remained strong, with the Return on Assets (ROA) reaching 1.9% and the Return on Equity (ROE) 14.7%.

Chart 2.1.6: UAE Banking System's Profitability Indicators (%)



Source: CBUAE

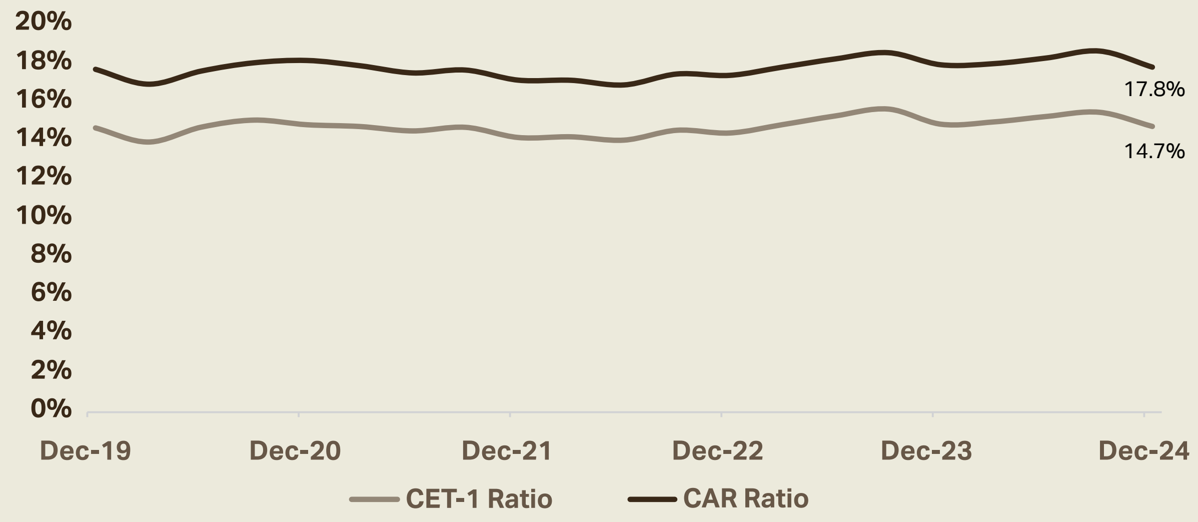
2.1.6 Capital Adequacy

The UAE banking system maintained a sufficient capital position in 2024, with buffers on average well above the minimum regulatory requirements. The overall Capital Adequacy Ratio (CAR) and CET-1 ratio remained stable at 17.8% and 14.7%, respectively, as of December 2024.

The overall CAR experienced a slight decline of 0.1 percentage points compared to the previous year, primarily due to higher growth in Risk-Weighted Assets (RWA) under the Pillar-1 framework relative to the growth in eligible capital. Total RWA increased by 11.7% Y-o-Y, driven largely by the expansion of total assets, while eligible capital grew by 10.9% Y-o-Y in 2024. Credit risk-weighted assets (CRWA) remained the largest component of RWA, accounting for 88.3%, although its share declined slightly compared to the previous year. Operational and market risk elements accounted for 8.8% and 2.9% to total RWA, respectively.

Additionally, the UAE banking system recorded an average leverage ratio of 9.5% in December 2024, well above the minimum regulatory requirement, underscoring the system's robust capital adequacy and financial resilience.[15]

Chart 2.1.7: UAE Banking System's Capital Ratios (%)



Source: CBUAE

2.1.7 External Exposures[16]

Consolidated external assets accounted for 39.8% of the total consolidated assets of the UAE banking system in 2024. The cross-border assets held by the local operations of UAE-based banks accounted for 27.1% and UAE banks' foreign branches and subsidiaries' assets accounted for 12.7% of the total consolidated assets.

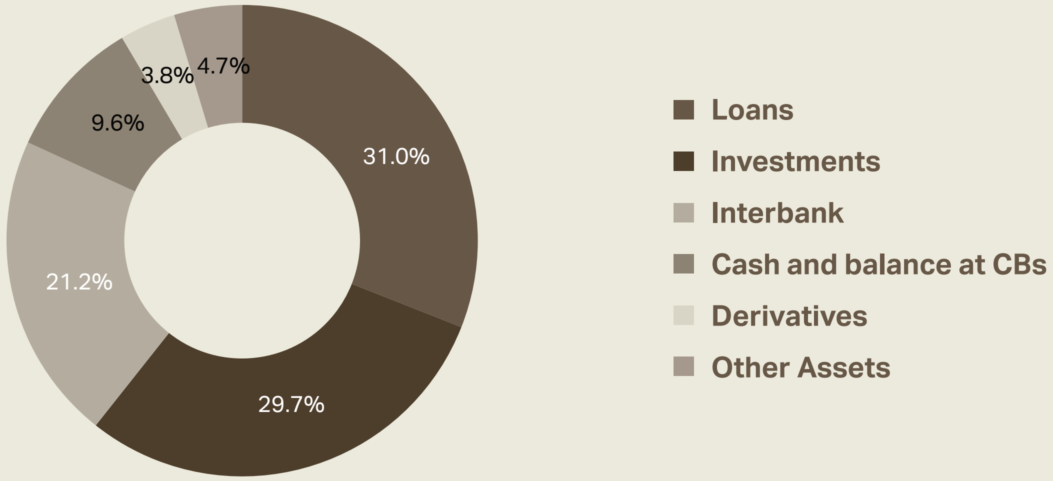
The consolidated external assets of the UAE banking system grew by 12.5% Y-o-Y in 2024, in line with the growth of total consolidated assets of 10.8%. As a result, the share of consolidated external assets to total consolidated assets increased only marginally by 0.6 percentage points.

The composition of consolidated external assets mainly comprised loans (primarily wholesale lending), followed by investment assets and interbank lending. Corporate loans accounted for more than half of the consolidated external loans, followed by government lending, NBFI loans, and trade bills.

[15] D-SIB have an additional D-SIB leverage ratio buffer requirement of 0.5%.

[16] The UAE banking system's external exposures comprised of cross-border exposure of UAE licensed banks' local operations and of UAE national banks' foreign subsidiaries and branches. The consolidated exposures exclude intragroup exposures between the head office and foreign branches and subsidiaries.

Chart 2.1.8: UAE Banking System's Consolidated External Asset Composition (%)



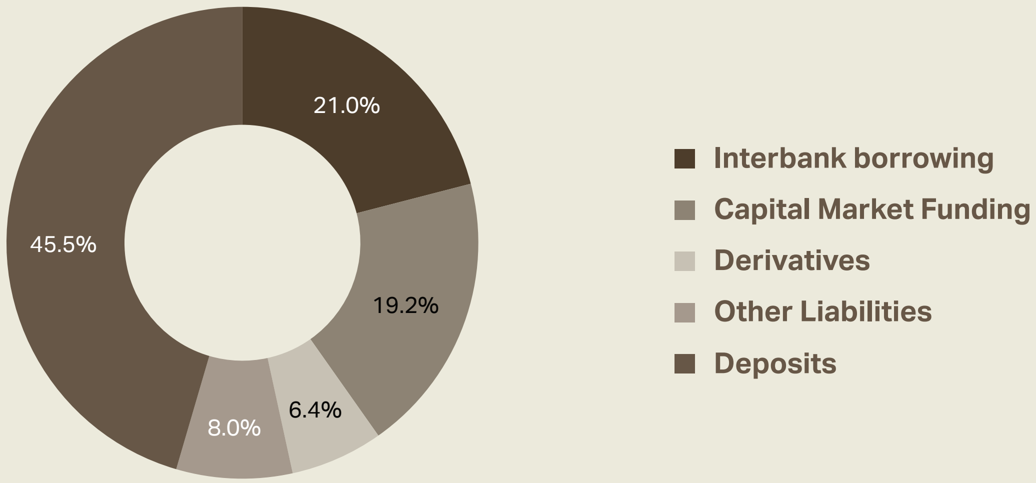
Source: CBUAE

Consolidated external liabilities accounted for 26.6% of the total consolidated assets of the UAE banking system. UAE bank local operation cross-border liabilities accounted for 16.5% and UAE banks' foreign branches and subsidiaries' liabilities accounted for 10.1% of the total consolidated assets.

The consolidated external liabilities of the UAE banking system declined by 9.4% Y-o-Y in 2024, amid favourable domestic funding conditions in the UAE. As a result, the share of consolidated external liabilities to total consolidated liabilities declined by 0.4 percentage points.

The consolidated external liabilities continued to be dominated by deposits, followed by interbank borrowing and capital market funding. Corporate deposits contributed close to half of consolidated external deposits, followed by retail deposits, NBFI deposits and government deposits.

Chart 2.1.9: UAE Banking System's Consolidated External Liabilities Composition (%)



Source: CBUAE

Box 3: Key Bank Prudential Ratio Requirements in the UAE

Capital requirements

The CBUAE requires all banks operating in the UAE to comply with CBUAE capital regulations, which follow the standardised approach of the Basel III capital standards.[17,18] In addition to the minimum Pillar 1 capital requirements, banks have to fulfil capital buffer requirements with CET-1 capital (see table below). A Capital Conservation Buffer (CCB) of 2.5% in the form of CET-1 capital applies to all banks. The counter-cyclical capital buffer on UAE exposures was announced to be 0.5% as of 2026. The CBUAE maintained the designation of four banks as D-SIBs and increased the D-SIB buffer for one of the banks during 2024.

Box 3: Table 1: Capital Requirements in the UAE

Capital Requirement	Minimum Requirement – excluding Capital Conservation Buffer	Minimum Requirement – including Capital Conservation Buffer
CET-1 Ratio	7.0%	9.5%
Tier-1 Ratio	8.5%	11.0%
Capital Adequacy Ratio	10.5%	13.0%
Additional CET-1 Requirements		
D-SIB Capital Buffer[19]	0.5% - 2.5% individual capital surcharge for designated D-SIBs Note: First Abu Dhabi Bank (FAB): 2.0%, Emirates NBD (ENBD): 1.5%, Abu Dhabi Commercial Bank (ADCB) and Dubai Islamic Bank (DIB): 0.5%	
Counter-Cyclical Buffer	0% on UAE private sector credit exposures until end of 2025. 0.5% as of 2026. Note: The counter-cyclical capital buffer requirements for exposures in other jurisdictions are subject to the respective authorities.	

Source: CBUAE

Bank Leverage Ratio Requirements in the UAE

All banks operating in the UAE must comply with CBUAE leverage ratio standards, which follow Basel III leverage ratio standards.[20] All banks must meet the leverage ratio minimum requirements at all times with Tier 1 capital.

Box 3: Table 2: Leverage Ratio Requirements in the UAE

Leverage Requirement	Minimum Requirement
Leverage Ratio	3.0%
Additional Requirements	**Minimum Requirement**
D-SIBs Leverage Ratio Buffer	0.5% additional Leverage Ratio minimum requirement for the designated D-SIBs

Source: CBUAE

Liquidity requirements

Following the Basel III Liquidity Standards, the CBUAE applies Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements to five national banks operating in the UAE.[21,22] The remaining banks operating in the UAE are regulated according to UAE-specific requirements based on Eligible Liquid Asset Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR).

[17] Specialised Banks with Low Risk have to fulfil an Aggregate Capital Funds to total assets ratio of 12.5%.
[18] The CBUAE capital requirement will be further revised in the coming years following the revised Basel III capital standards.
[19] For more information on DSIBs Assessment Methodology, refer to the FSR 2020.
[20] Specialised Banks with Low Risk do not have to fulfil a leverage ratio requirement.
[21] Banks subject to these LCR/NSFR requirements are First Abu Dhabi Bank, Emirates NBD, Abu Dhabi Commercial Bank, Dubai Islamic Bank, and Mashreq.
[22] The CBUAE liquidity requirement will be further revised in the coming years following the revised Basel III liquidity standards.

Box 3: Table 3: Liquidity Requirements in the UAE

Ratio	Requirement
Liquidity Coverage Ratio	Min 100%
Net Stable Funding Ratio	Min 100%
Eligible Liquid Assets Ratio	Min 10%
Advances to Stable Resources Ratio	Max 100%

Source: CBUAE

Borrower-based controls

The CBUAE applies Loan-to-Value (LTV) ratio requirements to retail mortgages. LTV requirements were segmented for owner-occupied, subsequent, and off-plan properties. The CBUAE, as part of TESS, adjusted LTV ratio requirements for first-time home buyers. This measure has remained in place and was deemed appropriate in the current macro-financial environment.

Box 3: Table 4: Loan to Value Ratio Requirements

UAE Nationals	
First House / Owner Occupier	
Value of Property	**Loan-to-Value Ratio**
Less than or equal to AED 5 million	Max 85% of the value of the property
More than AED 5 million	Max 75% of the value of the property
Subsequent property	
Max 65% of property value	
Off-plan schemes	
Max 50% of property value	

Expatriates	
First House / Owner Occupier	
Value of Property	**Loan-to-Value Ratio**
Less than or equal to AED 5 million	Max 80% of the value of the property
More than AED 5 million	Max 70% of the value of the property
Subsequent property	
Max 60% of property value	
Off-plan schemes	
Max 50% of property value	

Source: CBUAE

In addition to LTV ratio requirements, the CBUAE enforces a maximum debt-burden ratio (DBR) of 50% of gross monthly income for expatriates and 60% for nationals, respectively. This means that a borrower's total monthly debt repayments, including the proposed mortgage, must not exceed half of their gross monthly income at any time. Furthermore, the maximum financing amount is capped at up to 8 years of annual income for UAE nationals and up to 7 years of annual income for expatriates. The maximum tenor for mortgage loans is set at 25 years.

CBUAE Rulebook

The CBUAE Rulebook, published on the CBUAE website, provides access to the regulations, standards, and guidelines issued by the CBUAE. The CBUAE Rulebook aims to reflect the regulatory framework currently in place. In addition, for an overview of key regulatory developments during 2024, please refer to the section on Legislation and Regulatory Developments in the CBUAE Annual Report 2024.

2.2 REGULATORY STRESS TEST

The CBUAE conducted its 2024 regulatory stress test to evaluate the resilience of UAE banks under a hypothetical adverse scenario. This scenario envisioned a synchronised global recession triggered by geopolitical risks and persistently high interest rates. The results demonstrated that the UAE banking system could withstand such shocks while maintaining solvency and liquidity standards, and continue to provide credit to the UAE economy.

Under the adverse scenario, the average CET-1 ratio declined by 312 basis points, from 14.0% to 10.9%, but remained above the regulatory minimum requirements. Liquidity stress tests also confirmed that banks could endure significant deposit outflows and restricted market funding access for up to 60 days. Banks maintained a liquidity surplus of AED 290 billion for a 30-day stress period and AED 241 billion for a 60-day period, ensuring systemic liquidity stability.

2.2.1 Introduction

Maintaining the resilience of the UAE financial system remains a cornerstone of the CBUAE's mandate. CBUAE employs a comprehensive stress testing framework as a forward-looking tool to assess systemic resilience. This framework integrates both bottom-up and top-down methodologies to evaluate risks across the banking sector.

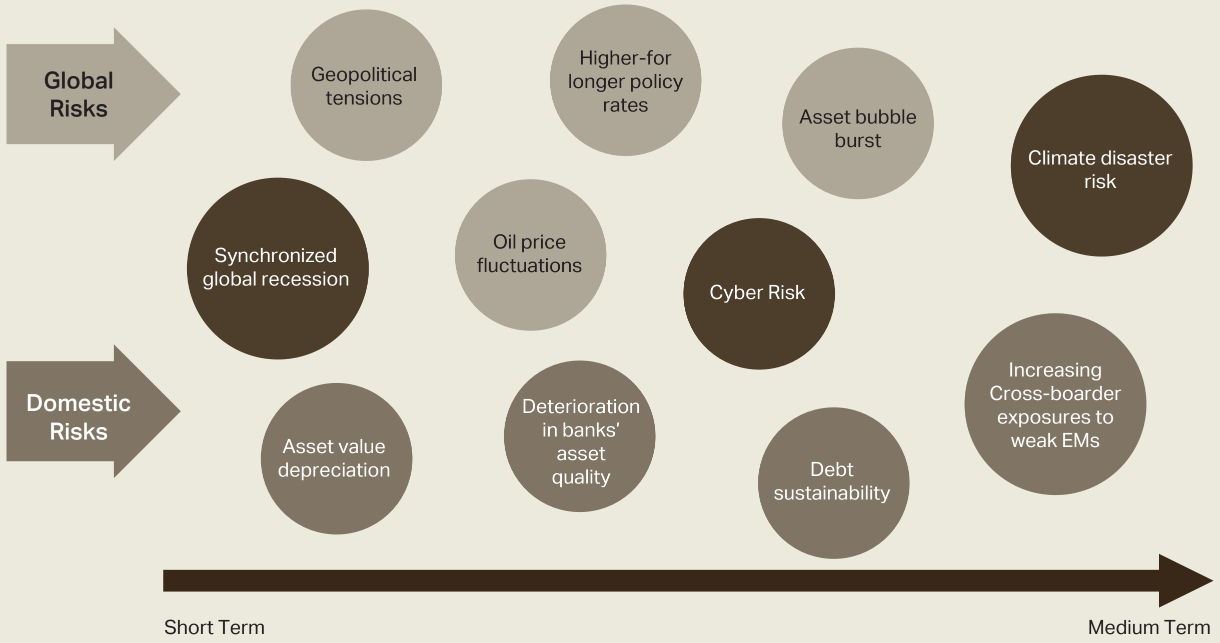
To enhance its risk assessment capabilities, the CBUAE also employs supplementary methodologies, including sensitivity stress tests to evaluate specific risk factors, liquidity stress tests to gauge resilience under liquidity shocks and thematic stress testing tailored to address particular vulnerabilities observed across the sector. This multi-layered approach ensures thorough risk identification and proactively maintains the overall stability of the UAE financial system.

The 2024 stress testing program incorporated inputs based on the latest economic developments and risk assessments. This section discusses the results of the programme, including bottom-up and top-down solvency and liquidity stress tests, as well as thematic scenario analyses.

2.2.2 Scenarios and Methodology

The CBUAE's stress testing process begins with identifying vulnerabilities, risk triggers, and transmission channels that could potentially disrupt financial stability[23].

Chart 2.2.1: Key Hypothetical Risks to the UAE Economy and Financial System



Source: CBUAE

The Baseline Scenario reflected consensus macro-financial projections, characterised by robust non-oil sector growth, stable oil production and moderate inflation. Housing prices were anticipated to rise, with steady economic expansion in Dubai and Abu Dhabi.

In contrast, the Adverse Scenario incorporated a synchronised global recession driven by geopolitical tensions, prolonged high interest rates and inflationary pressures. Key features of this scenario included disruptions to global trade, volatile commodity markets and weaker global economic activities. These factors were projected to adversely impact the UAE economy through declining asset values, heightened credit risks and increased cross-border exposure to weaker emerging markets, all of which contribute to a deteriorating quality of assets on the balance sheets of the UAE banks partaking in the exercise.

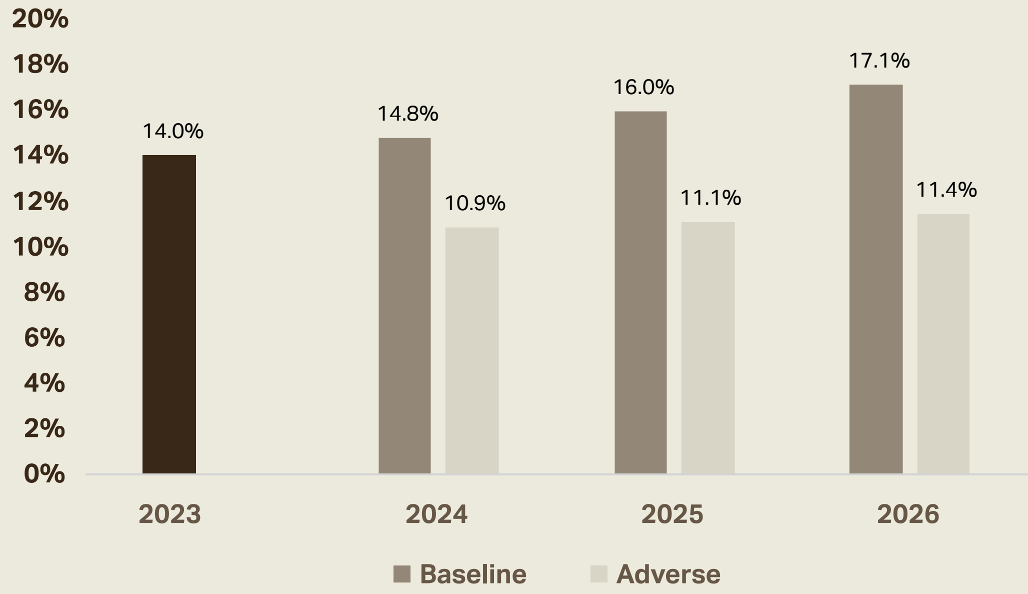
2.2.3 Bottom-up Stress Test Results

The 2024 bottom-up stress test demonstrated that the UAE banking sector would remain adequately capitalised, even under the severe conditions outlined in the Adverse Scenario. The CET-1 ratio declined by 312 basis points, from 14.0% to a low of 10.9%, yet remained above the minimum regulatory requirement.[24]

[23] The stress test scenarios consist of scenario narratives, variable paths and shocks. The scenario narrative describes vulnerabilities, shocks and associated propagation channels. The variable paths include quarterly projections over the projection horizon for 12 macro-financial variables, covering key sectors of the UAE economy – real GDP, real non-oil GDP, UAE oil production, CPI, oil price, real estate prices, stock price indices, three-month EIBOR and hotel occupancy rates. Participating banks have the option to use additional variables following CBUAE approval of the relevant scenario expansion methodology and scenario paths of additional variables.

[24] All national UAE banks and four large foreign banks participated in the 2024 bottom-up stress test.

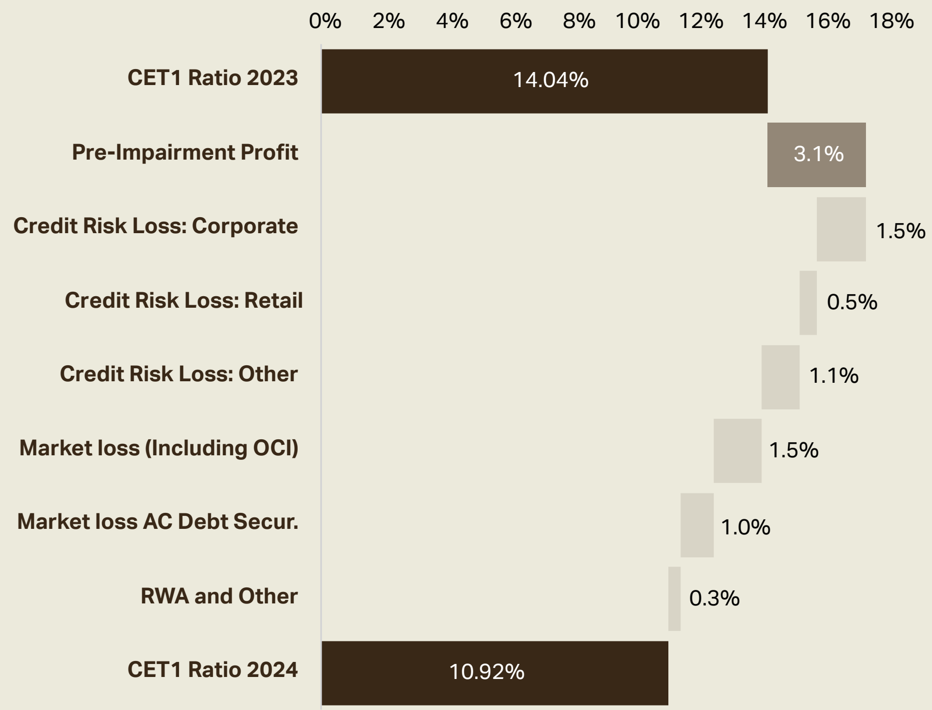
Chart 2.2.2: CET-1 Capital Ratios under the Stress Test



Source: CBUAE

The primary drivers of capital deterioration were credit and market risk losses, partially offset by pre-impairment profits. Credit risk losses, particularly in the corporate lending segment, were more than double those in the Baseline Scenario. Market risk losses arose largely from shocks to interest rates and credit spreads, which negatively impacted banks' holdings of debt securities. Pre-impairment profits were 20% lower than in 2023 under the adverse scenario due to the assumptions of banks inability to fully pass-through higher funding costs to their customers.

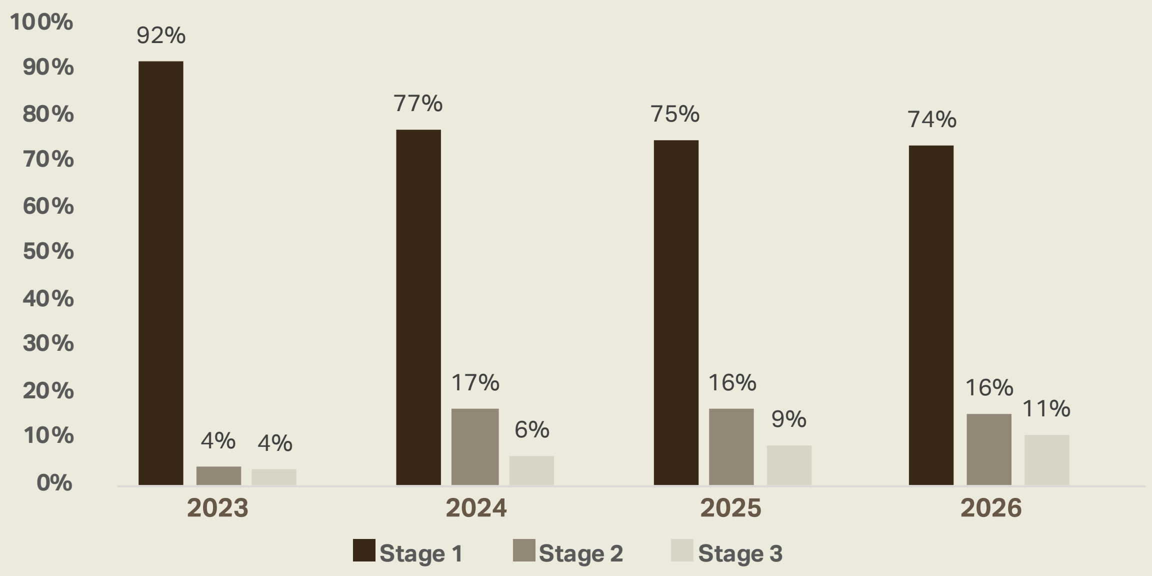
Chart 2.2.3: Decompositions of CET-1 Ratio Change 2023-2024



Source: CBUAE

Exposures classified as Stage 2 and Stage 3 under IFRS 9 showed a substantial increase. Stage 2 exposures rose from 4% to 16%, while Stage 3 exposures increased from 4% to 11%, reflecting higher default rates across corporate, retail, SME, government, and off-balance sheet lending.

Chart 2.2.4: Stress Test Chart - IFRS 9 Stage Distribution



Overall, the results highlighted the resilience of the UAE banking sector, which demonstrated the capacity to meet minimum solvency requirements, despite significant stress.

2.2.4 Top-Down Liquidity Stress Test Findings

Liquidity stress tests, conducted as part of the 2024 programme, evaluated banks' ability to withstand deposit outflows and limited access to capital markets over 30- and 60-day horizons. The tests considered specific and market-wide liquidity shocks, drawing lessons from past global financial crises.

The results indicated that UAE banks maintain robust liquidity positions, supported by a stable deposit base and a well-diversified portfolio of high-quality liquid assets (HQLA). Even under severe stress conditions, banks were able to withstand significant deposit outflows. Liquidity surpluses were estimated at AED 290 billion for the 30-day horizon and AED 241 billion for the 60-day horizon, demonstrating sufficient buffers to ensure systemic stability.

To complement these tests, the CBUAE employed the Liquidity Mismatch Index (LMI), which measures the gap between the market liquidity of assets and the funding liquidity of liabilities. The LMI for UAE banks remained stable, averaging around 120, indicating that banks consistently hold more liquid assets than necessary to meet short-term obligations.

2.2.5 Climate Risk Scenario Analysis

The CBUAE conducted a top-down climate physical risk analysis in 2024 to evaluate the financial implications of climate change on banks' real estate lending portfolios, given their vulnerabilities to physical risk hazards. The analysis focused on two key hazards—storm surges and rainfall-induced flooding—using high-resolution flood maps and projections based on the Intergovernmental Panel on Climate Change (IPCC) scenarios for 2050.

In the assessment, the physical risk scenarios were applied as immediate shocks to the target portfolio. The findings revealed that climate-related risks could lead to property devaluation and increased credit risks, leading to greater provisioning, losses and therefore erosion of regulatory capital. For instance, under severe storm surge scenarios, loss in property valuation ranged between 6% and 14%, while Loss Given Default (LGD) rates could rise by up to 300 basis points. Although the direct capital impact was estimated at only one-third of a percentage point of CET1 capital ratios, additional risks from macroeconomic disruptions and insurance sector spillovers could amplify losses.

This analysis underscores the importance of integrating climate risk into financial stability assessments and highlights the need for proactive measures, such as risk-adjusted lending policies and investment in resilient infrastructure.

2.2.6 Enhancements in Stress Testing Methodology

The CBUAE has made significant strides in refining its stress testing framework. These improvements include automated data validation, alignment with internal risk models, and more detailed assessments of specific risks. The integration of artificial intelligence (AI) tools has also enhanced scenario design by improving risk scanning and benchmarking. These tools help identify complex relationships and hidden risks, providing valuable insights for scenario development and further enriching the testing process.[25]

2.2.7 Stress Testing Policy Implications

The results of the 2024 stress tests provide a robust foundation for policy decisions. They have informed the approval of dividend distributions, enhanced the supervision of banks, and supported the implementation of macroprudential tools. These findings also guide the development of corrective measures to address specific vulnerabilities and reinforce the resilience of the UAE banking sector.

Looking ahead, the CBUAE plans to expand its stress testing framework in 2025. This includes a focus on more granular assessments of climate-related physical risks through a bottom-up exercise. By continuously refining its methodologies and incorporating emerging risks, the CBUAE ensures that the UAE financial system remains well-prepared to identify emerging risks, navigate evolving challenges and maintain its stability.

Box 4: Liquidity Mismatch Index (LMI)

The CBUAE has employed the Liquidity Mismatch Index (LMI) as part of its liquidity stress scenario analysis to assess the resilience of banks under adverse conditions. The LMI, as defined by Brunnermeier, Gorton and Krishnamurthy[26], measures the mismatch between the market liquidity of assets and the funding liquidity of liabilities. This framework provides critical insights into banks' ability to meet short-term obligations during periods of stress.

The LMI is derived from two main components:

- **Asset Liquidity:** This reflects the cash equivalent value that can be generated from a bank's assets under stress, adjusted for factors such as market conditions and haircuts.
- **Liability Liquidity:** This represents the liquidity needs arising from the maturity structure of a bank's liabilities, accounting for roll-over risks and the likelihood of liquidity stress.

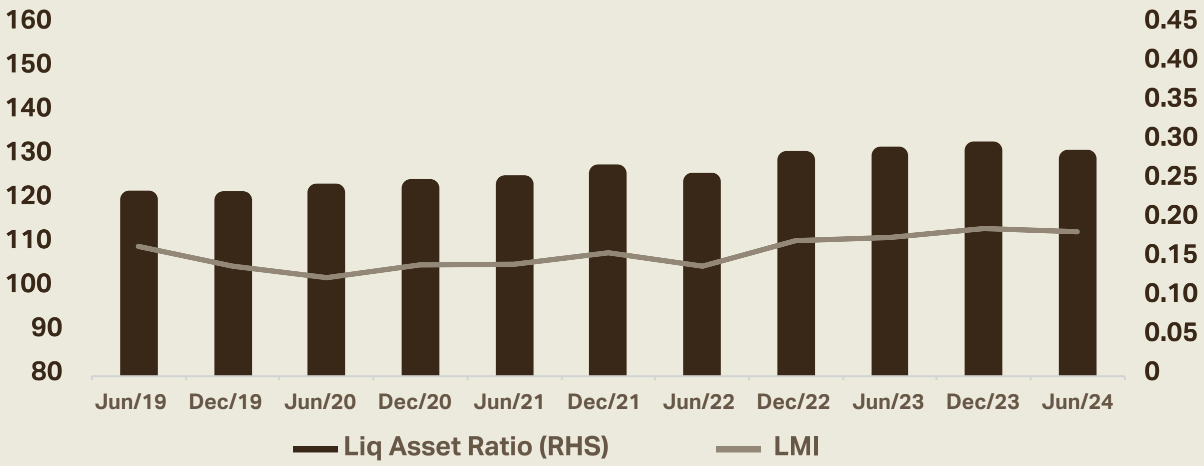
The LMI is calculated as a weighted sum, reflecting the relative liquidity of each asset and liability class. Moreover, time-varying weights are applied to each maturity bucket, representing its marginal contribution to liquidity generation (i.e. reflect banks' optimisation in choosing their liquidity mismatch) with shorter-term buckets receiving higher weight to reflect banks' liquidity optimisation strategies.

Aggregating the Liquidity Mismatch Index (LMI) across banks offers a system-wide view of liquidity risks, aiding the CBUAE in implementing financial stability measures. The LMI complements existing liquidity stress testing framework by providing a more granular and dynamic assessment of liquidity risk. The LMI's time-varying weights for different maturity buckets reveal vulnerabilities at specific time horizons, contrasting with the LCR's uniform 30-day focus, which may overlook risks in shorter or longer maturities. The index represents a shortfall of liquid assets relative to liabilities. Thus, an LMI >100 indicates that a bank possesses more liquid assets than liabilities in the stress-test scenario, suggesting it is unlikely to encounter short-term liquidity difficulties.

[25] Emerging AI tools, such as Large Language Models (LLMs), are increasingly useful for risk scanning and scenario design. These tools process and summarize vast amounts of data from publications and stakeholder discussions, identifying hidden risks and complex relationships. AI-generated scenarios complement human-generated ones by uncovering vulnerabilities, risk triggers, and transmission channels, providing a valuable benchmark for stress test narratives.

[26] Brunnermeier, Markus K., Gorton, Gary, and Krishnamurthy, Arvind. "Liquidity Mismatch Measurement." In Risk Topography: Systemic Risk and Macro Modeling, edited by Markus K. Brunnermeier and Arvind Krishnamurthy, 99–112. University of Chicago Press, 2014. DOI:10.7208/chicago/9780226077628.003.0005

Box 4: Chart 1: LMI and Liquid Asset Ratio



Source: CBUAE

The chart illustrates the computed LMI[27] in the UAE from June 2019 to June 2024. The LMI has remained relatively stable, fluctuating around 120, indicating a consistent ability to maintain more liquid assets than required funding liabilities. Meanwhile, the Liquid Asset Ratio (RHS of graph)[28] shows an upward trend, suggesting an increase in the proportion of liquid assets within the banks' portfolios. Overall, these results indicate a stable liquidity position for large banks in the UAE, reflecting their capacity to manage liquidity effectively amid evolving market conditions.

Box 5: Climate Risk Scenario Analysis - Assessing Financial Implications for the UAE

Climate risk scenario analysis has become an essential tool for evaluating the financial implications of climate change, enabling policymakers and financial institutions to identify vulnerabilities and develop mitigation strategies. Climate-related financial risks are broadly categorised into:

- **Transition Risk:** Stemming from the shift to a low-carbon economy due to changes in policies, regulations, and market dynamics.
- **Physical Risk:** Resulting from climate-related events such as floods or storms, which can disrupt infrastructure, economic activity, and supply chains.

These risks can lead to asset devaluation, increased credit risks, and market volatility, potentially straining financial institutions through higher non-performing loans and weakened investor confidence. Left unchecked, climate risks could amplify credit, market, and operational vulnerabilities, threatening financial stability.

Recognising these challenges, the CBUAE has integrated climate risk assessments into its financial stability framework. In 2023, it conducted a bottom-up transition risk analysis to evaluate the impact of climate policy changes on individual banks. In 2024, the development focus shifted to a top-down physical risk analysis, assessing systemic financial implications of climate-related disasters. This study followed the Network for Greening the Financial System (NGFS) framework, incorporating hazard mapping, exposure evaluation, vulnerability assessment, and financial risk estimation.

Key Elements of the 2024 Analysis

Hazard Assessment

The analysis focused on two acute, location-specific hazards—storm-surges-induced coastal flooding and rainfall-induced flooding. High-resolution flood maps (30x30m) were employed to model inundation levels under current conditions and future climate scenarios up to 2050. Two scenarios were considered:

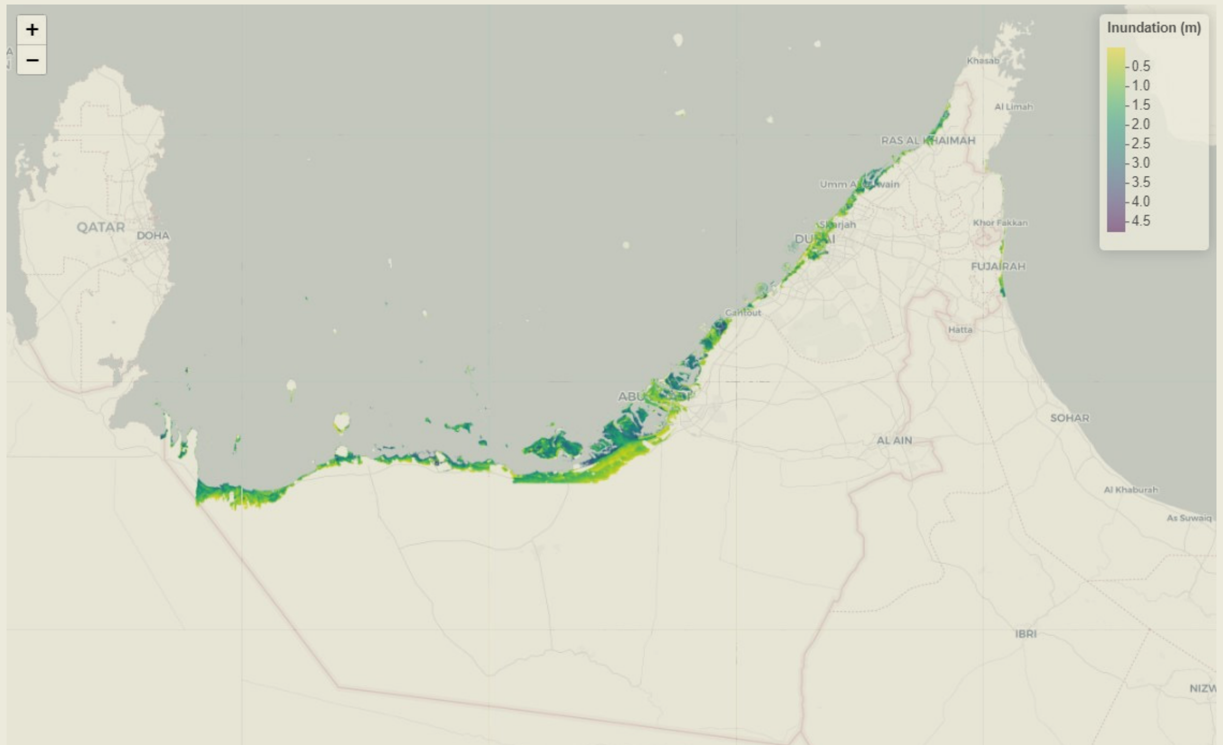
- A middle-of-the-road scenario with a temperature rise of +2.7°C since pre-industrial levels.
- A fossil-fuelled growth scenario with a temperature rise of +4.4°C since pre-industrial levels.
  Both 1-in-100-year and 1-in-250-year flood probabilities were analysed.

Flood maps provide high-resolution spatial data on flood inundation depths across the country, serving as a critical input for hazard assessment. Each map corresponds to a specific flooding hazard—storm-surge or rainfall flooding—under the relevant scenarios outlined below. Two sample flood maps are shown below.

[27] The analysis focuses on selected UAE large-sized banks

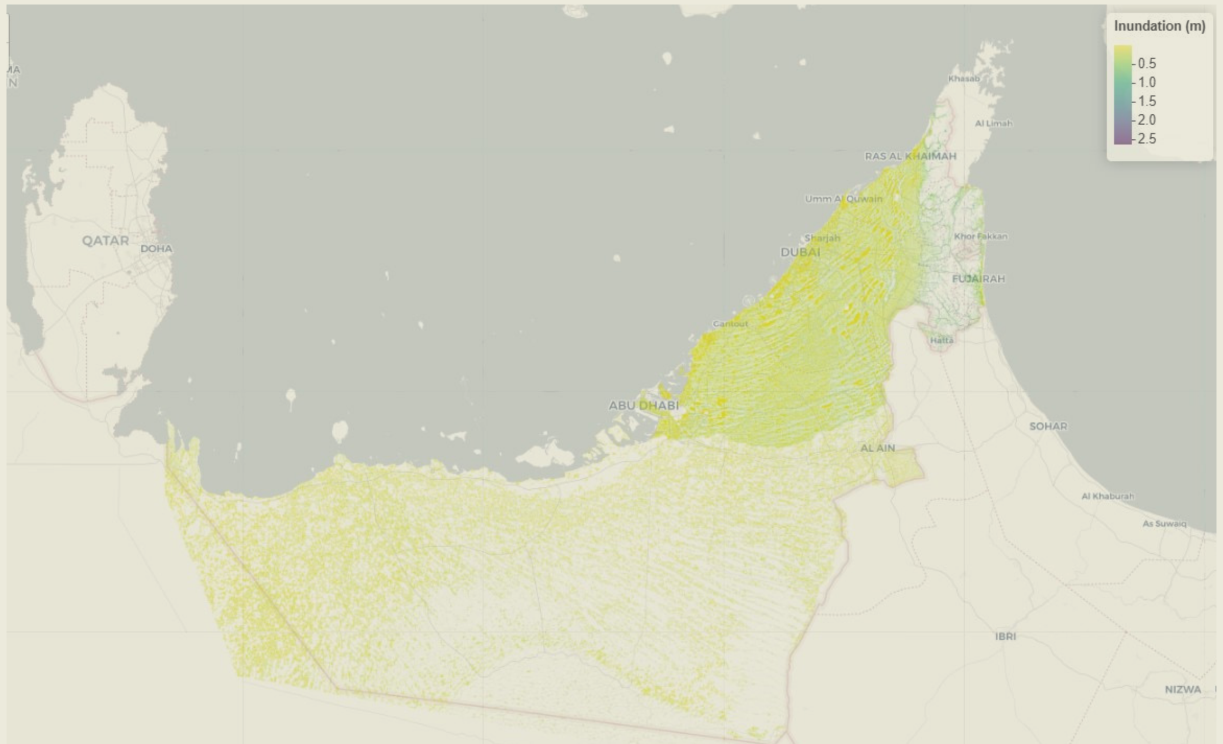
[28] Liquid Asset to Total Liabilities Ratio is a financial metric that assesses a bank's ability to meet its short-term obligations with its most liquid assets. Ratio in range of 0.3 - 0.5 implies bank can cover its short-term liquidity requirements.

Box 5: Chart 1: Flood Map - 100-year Storm Surge 2050 SSP 8.5



Source: Intensel

Box 5: Chart 2: Flood Map - 100-year Rainfall Flood 2050 SSP 8.5



Source: Intensel

Exposure Evaluation

The study assessed residential and commercial real estate collateral exposure, leveraging an extensive dataset from UAE national banks and foreign branches, covering over 100,000 properties.

Vulnerability Assessment

Depth-damage curves, which quantify the relationship between flood depth and asset damage, were used to estimate economic losses of collateral values. These curves varied by property type (e.g., villas, apartments, commercial spaces) to ensure precise calculations. Tools such as Hazus[29], developed by the Federal Emergency Management Agency (FEMA), were employed to provide standardised depth-damage relationships widely used in financial risk modelling and disaster mitigation planning.

Financial Implications

The results revealed significant potential impacts of climate risks on the financial system. Coastal flooding posed higher tail risks due to rising sea levels, while rainfall flooding exhibited relatively lower incremental risks.

- Storm Surge Risks: Loss in property valuation were estimated to range between 6% and 14%, depending on flood severity. Severe storm scenarios could raise average Loss Given Default (LGD) by up to 300 basis points, reflecting higher collateral damage and reduced recovery values.
- Capital Impact: LGD deterioration translates into higher provisioning needs, which in turn erodes capital buffers. This effect was estimated to reduce CET1 by approximately one-third of a percentage point, assuming no change in Probability of Default (PD). Additional losses could arise if PDs increase in more vulnerable segments, such as commercial real estate. Broader macroeconomic impacts, business disruptions, and insurance sector spillovers could also amplify losses.

Policy Implications and Next Steps

The findings from the 2024 climate risk scenario analysis underscore the importance of proactive risk management strategies in the UAE banking sector. Key recommendations include:

- Enhancing stress testing frameworks to incorporate climate risk projections.
- Developing risk-adjusted lending policies to mitigate exposure to high-risk assets.
- Investing in resilient infrastructure such as improved property level insurance coverage, flood defenses in high-exposure zones, and data systems that support climate informed credit risk analysis to minimise future economic losses.

Building on this year's top-down approach, the CBUAE plans to conduct a bottom-up physical risk scenario analysis in 2025. This exercise will focus on more granular assessments and incorporate indirect financial losses, further strengthening the integration of climate risks into financial stability assessments. These efforts demonstrate the CBUAE's commitment to safeguarding the resilience of the UAE financial system in the face of accelerating climate change.

[29] FEMA's Hazus provides standardized tools and data for estimating risk from earthquakes, floods, tsunamis, and hurricanes.

PART THREE. UAE NON-BANK FINANCIAL INSTITUTIONS AND FINANCIAL INFRASTRUCTURE ASSESSMENT

3.1 NON-BANK FINANCIAL INSTITUTIONS AND FINANCIAL INFRASTRUCTURE

The UAE insurance sector remained resilient, with an adequate solvency position and continued growth in gross written premiums showing enhanced protection of policyholders. Overall, finance companies remained adequately capitalized with further improvements in liquidity levels, although the overall sector continued to experience profitability and asset quality challenges. The UAE exchange business continued to demonstrate resilience and stable operations across its core activities of remittance services, foreign exchange, and wage administration.

3.1.1 Insurance

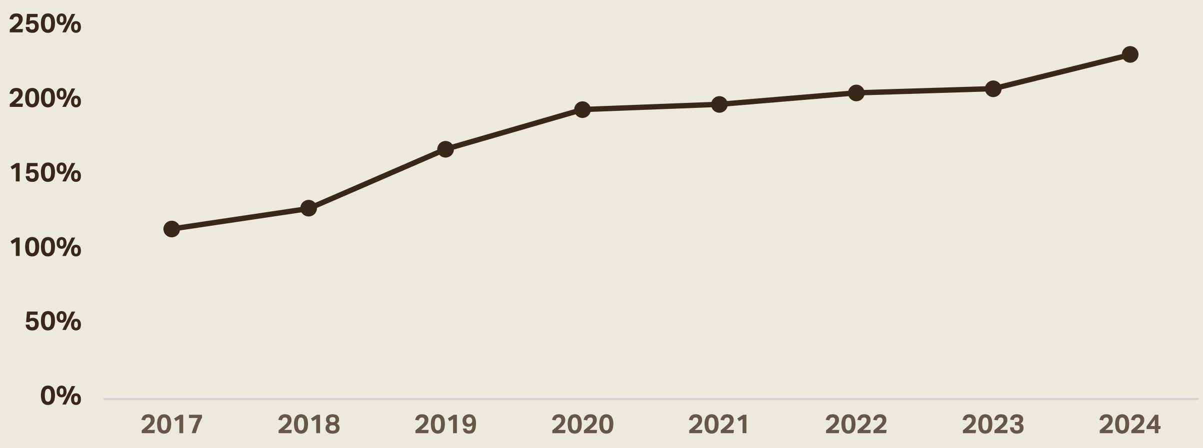
The UAE insurance sector remained resilient in 2024, with total assets increasing to AED 144.4 billion, up from AED 130.3 billion in 2023. The sector demonstrated adequate solvency, sustained profitability, and growth across key performance indicators, ensuring the protection of policyholders[30].

The implementation of Decretal Federal Law No. (48) of 2023 Concerning the Organisation of Insurance Operations introduced stricter licensing and compliance requirements, and enhanced consumer protections, thereby strengthening the regulatory framework for the sector[31]. Additionally, the Central Bank of the UAE (CBUAE) introduced new regulations, including fitness and propriety standards for governance[32] and updated rules for insurance brokers[33], covering licensing, reporting and supervisory requirements.

3.1.1.1 Solvency

The sector maintained an adequate solvency position, with a Solvency Capital Ratio (SCR) of 232%. This improvement was driven by a modest increase in required capital compared to the growth in available own funds (See Chart 3.1.1).

Chart 3.1.1: UAE Insurance Capital Solvency Ratio (%)



Source: CBUAE

[30] The insurance sector implemented the new templates of International Financial Reporting Standard regarding accounting for insurance contacts (IFRS-17), along with financial impact assessment guidelines in 2024.

[31] The Decretal Federal Law No. (48) of 2023 Concerning Organization of Insurance Operations: https://rulebook.centralbank.ae/en/rulebook/federal-decree-law-no-48-2023-regulating-insurance-activities

[32] CBUAE - Fitness and Propriety Regulation: https://rulebook.centralbank.ae/en/rulebook/fitness-and-propriety-regulation

[33] CBUAE - Insurance Brokers' Regulation: https://rulebook.centralbank.ae/en/rulebook/insurance-brokers%E2%80%99-regulation

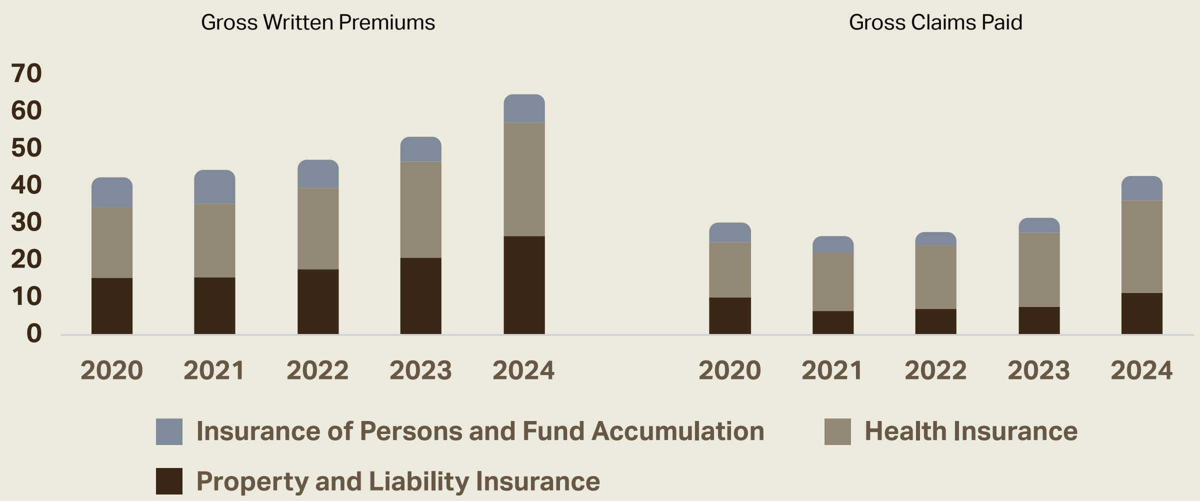
3.1.1.2 Gross Written Premiums

Gross written premiums (GWP) experienced substantial growth, expanding by 21.4% Y-o-Y to AED 64.8 billion. Property and liability insurance premiums grew by 27.9%, while health insurance premiums increased by 18.5%, and insurance of persons and fund accumulation premiums rose by 11.9%. Health insurance accounted for 47.4% of total premiums[34], followed by property and liability insurance at 41.0%, and insurance of persons and fund accumulation at 11.6%.

3.1.1.3 Gross Claims Paid

Gross claims paid across all insurance types rose by 35.8%, reflecting increased payouts for insurance of persons and fund accumulation, property and liability, and health insurance (See Chart 3.1.2). The sector played a vital role in economic recovery following unprecedented weather conditions in April 2024, with incurred claims allocated for related damages.

Chart 3.1.2: Gross Written Premiums and Claims Paid (AED billion)



Source: CBUAE

3.1.1.4 Profitability and Retention

The insurance sector's profitability was bolstered by sustained underwriting performance, where GWP growth outpaced claims payouts, improving the loss ratio. Technical provisions grew by 25.6% to AED 95.7 billion, enhancing capacity to meet policyholder obligations. However, the investment portfolio contracted by 3.9% to AED 74.2 billion, representing 51.4% of total assets, with investments diversified across equity, bonds, real estate and deposits.

The retention ratio of written premiums improved to 54.3% in 2024, amounting to AED 35.2 billion, compared to 53.9% (AED 28.8 billion) in 2023. This upward trend indicates increased premiums retained within the UAE, signifying the sector's stability and development, balanced with the use of appropriate risk transfer tools to specialized reinsurance institutions.

3.1.2 Payment and Settlement Systems

In 2024, the Central Bank of the UAE (CBUAE) advanced the development of the national payment and settlement infrastructure under its National Payment Systems Strategy (NPSS), bolstering the efficiency and resilience of the UAE's financial system.

[34] The role of health insurance is expected to continue growing, along with extended mandatory health insurance coverage to all the Emirates for private sector employees and domestic workers starting 1 January 2025: https://www.mohre.gov.ae/en/media-center/awareness-and-guidance/health-insurance-scheme.aspx

The CBUAE also made progress on the Jaywan Domestic Card Scheme, which processes debit card transactions locally to ensure payment data remains within the UAE while reducing foreign exchange costs. These initiatives, part of the broader Financial Infrastructure Transformation (FIT) Programme, align with the CBUAE's strategy to promote innovation, security and financial inclusion within the payment ecosystem.

Cross-border payment capabilities were further enhanced through participation in regional and international initiatives, including the GCC Real-Time Gross Settlement System (AFAQ), the Arab Regional Payment System (BUNA)[35] and central bank digital currency (CBDC) projects. These efforts contributed to a significant rise in payment. Moreover, effective cross-border payment capabilities are foundational to financial stability. They enable risk diversification, support the smooth functioning of global trade and finance, reduce systemic risks, and provide resilience in times of crisis.[36]

To improve financial messaging, the CBUAE worked towards implementing the ISO20022 standard in alignment with SWIFT's roadmap. This initiative supports richer and more detailed transaction data, enhancing client experience, reducing manual interventions and strengthening fraud prevention, which can support financial stability objective. Extensive testing with international counterparts ensured readiness for ISO20022 adoption.

3.1.3 Financial Market Infrastructure

3.1.3.1 National Payment System Strategy

The Aani Instant Payment Platform (IPP) saw strong adoption in 2024. Aani enables customers to transfer funds up to AED 50,000 instantly on a 24/7 basis. The platform's features, such as proxy payments, QR-code-based payments, requests to pay and split payments, have streamlined transaction processes and supported digitalisation efforts.

3.1.3.2 Domestic Card Scheme

The CBUAE launched the Jaywan Domestic Card Scheme, enabling the local routing of point-of-sale (POS) transactions through UAESWITCH. In collaboration with Al Etihad Payment (AEP), the second phase of the scheme will involve designing specifications and launching UAE-branded domestic cards. All Jaywan transactions are denominated in UAE dirhams, eliminating foreign exchange fees and currency conversion barriers.

3.1.3.3 Operational Capacity

The operational capacity of the UAE payment systems such as Image Cheque Clearing System (ICCS), UAE Funds Transfer System (UAEFTS), UAE Direct Debit System (UAEDDS), UAE Payment Gateway System (UAEPGS), UAE Wages Protection System (UAEWPS), UAE SWITCH, Immediate Payment Instruction (IPI), increased by 27 million transactions, and 2.9 trillion in value in 2024.

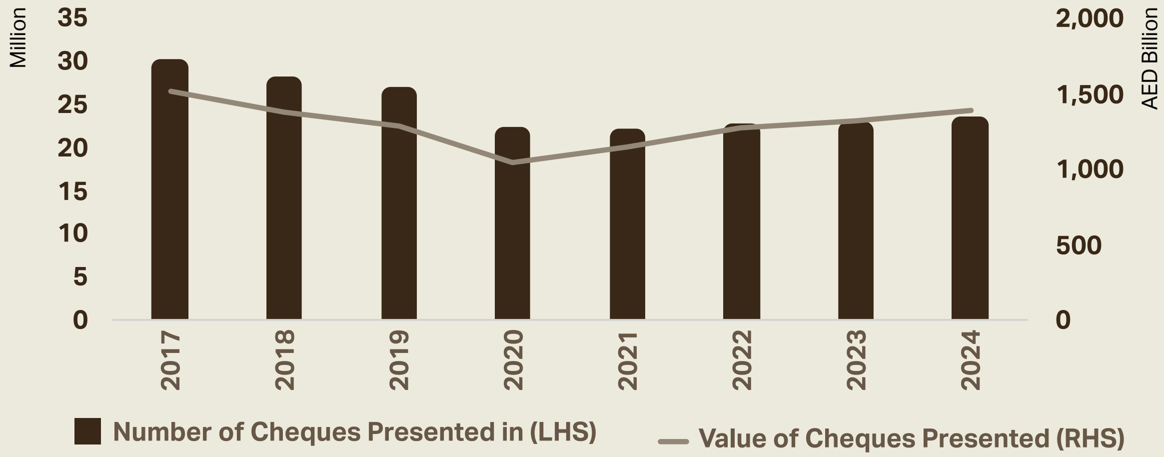
The transaction growth was due to various measures adopted by the CBUAE, one of which was to increase the limit of IPI transactions from AED 25,000 to AED 50,000. The UAEFTS contributed approximately additional 20 million incremental transactions in count and 22.50% increment in value terms to record around AED 19.9 trillion, without impacting the usage of other system

The Image Cheque Clearing System (ICCS) processed a volume of 23.45 million Cheques worth AED 1.38 trillion (an increase of 2.23% transaction and 5.33% in value compared to last year, respectively).

[35] Main difference between AFAQ and BUNA lies in geographic scope, currency support, participant eligibility, and service range.

[36] Cross-border payment have also become a topic of considerable focus at the Financial Stability Risk Board, see https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/cross-border-payments-2/.

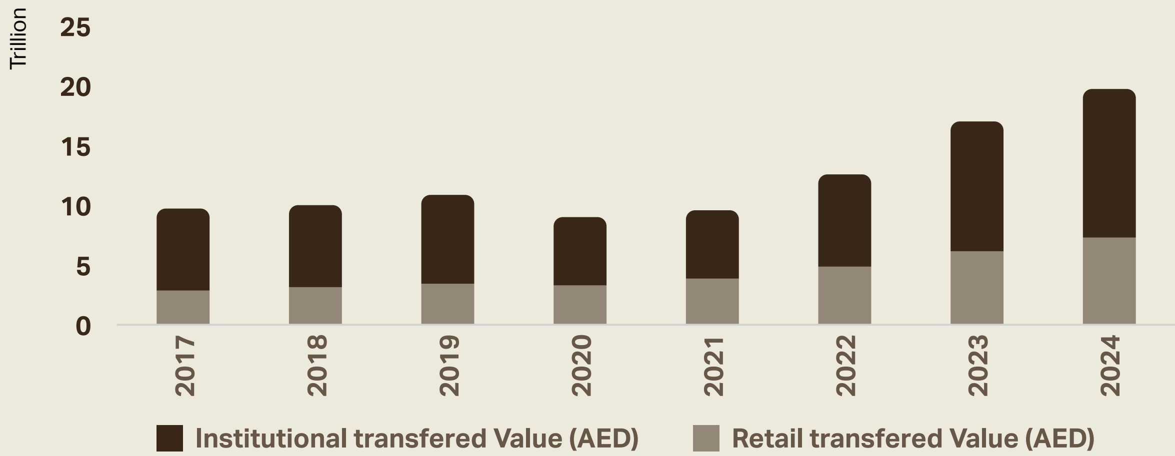
Chart 3.1.3: Presented Cheques through ICCS



Source: CBUAE

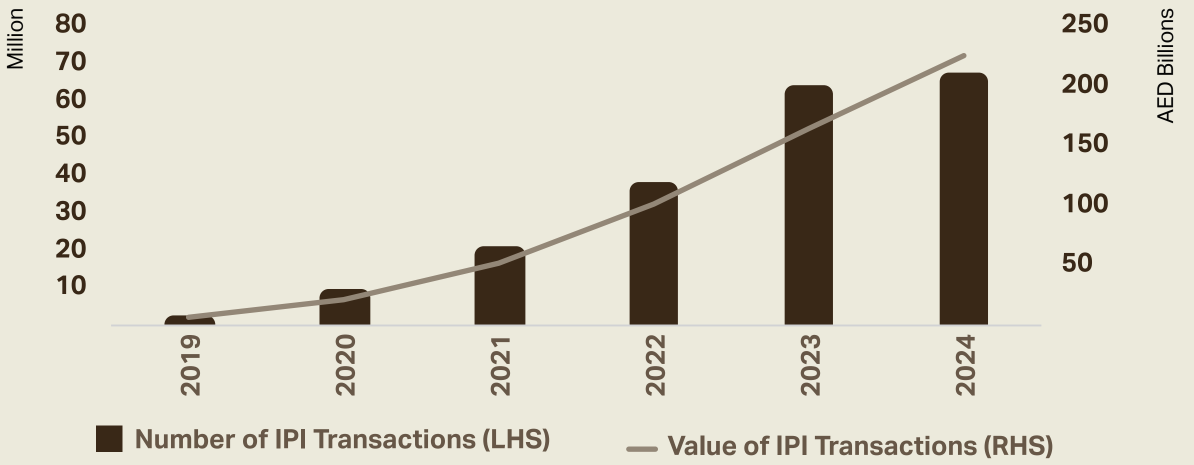
The UAE Funds Transfer System (UAEFTS) processed 109.7 million transactions worth AED 7.4 trillion for retail transfers (evidencing an increase of 22.57% in volume and an increase of 20.63% in value) respectively compared to last year), while institutional transfers were 757,000 worth AED 12.5 trillion (an increase of 12.37% in volume and an increase of 13.37% in value compared to last year).

Chart 3.1.4: Value of Transactions through FTS System



Source: CBUAE

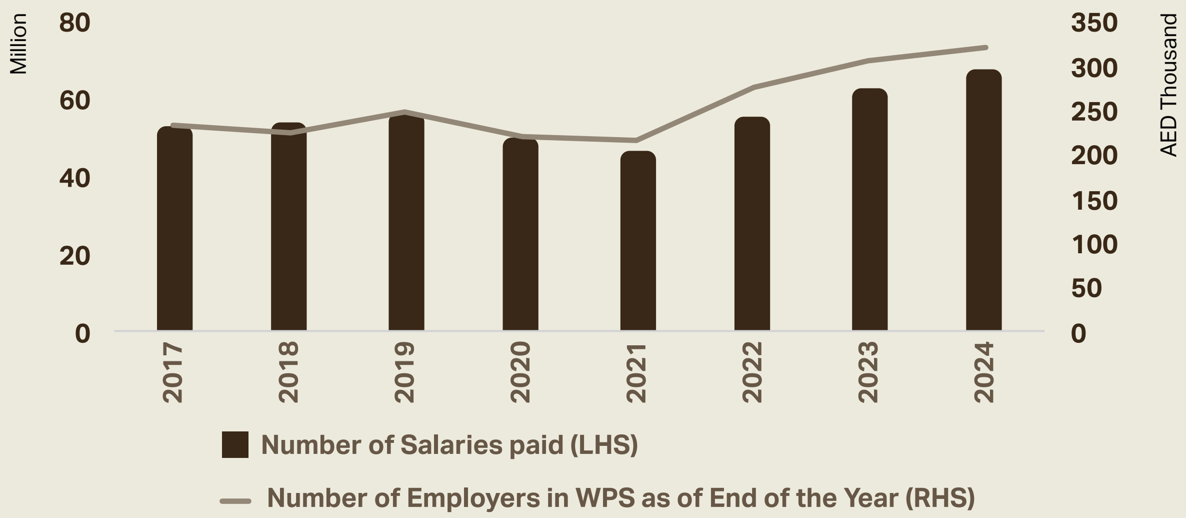
Chart 3.1.5: IPI Value and Number of Transactions



Source: CBUAE

The average number of registered employees on the UAEWPS increased from 5.9 million in 2023 to 6.1 million in 2024. The total number of salaries increased from AED 62.6 million to AED 67.5 million, and there was an increase in the value of salaries paid amounting to AED 341.1 billion in 2024 compared to AED 296.1 billion in 2023. Further, the number of employers registered on 31 December 2024 in the UAWPS increased to 321,007 from 306,451 evidencing an increase of 5% compared to 2023.

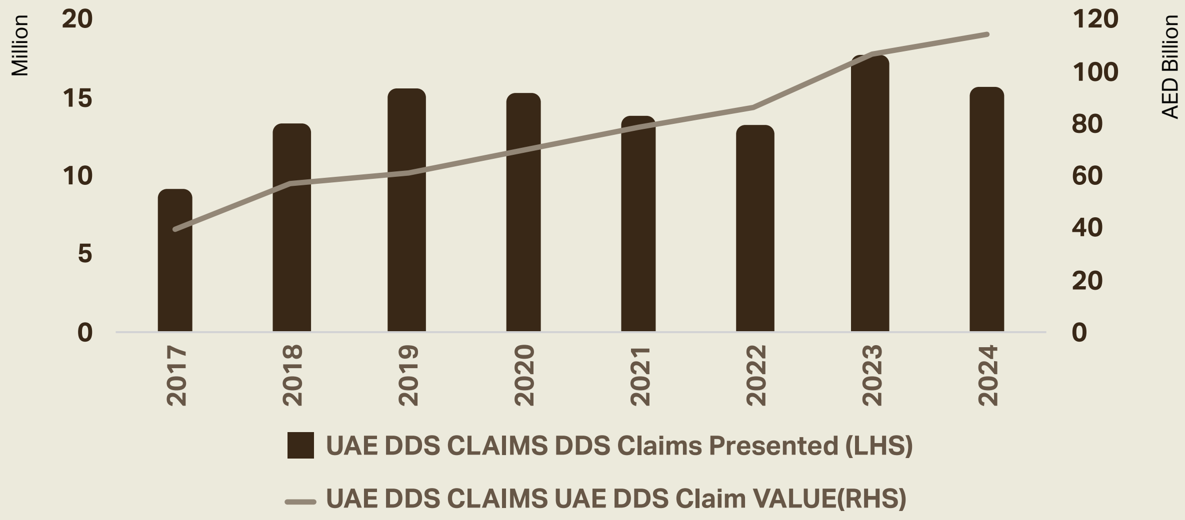
Chart 3.1.6: Transactions through Wage Protection System



Source: CBUAE

The UAE Direct Debit System (UAEDDS) performed 15.7 million transactions worth AED 114.2 billion evidencing a 12% decrease in the number of transactions while the value of transactions increased by 6.8%.

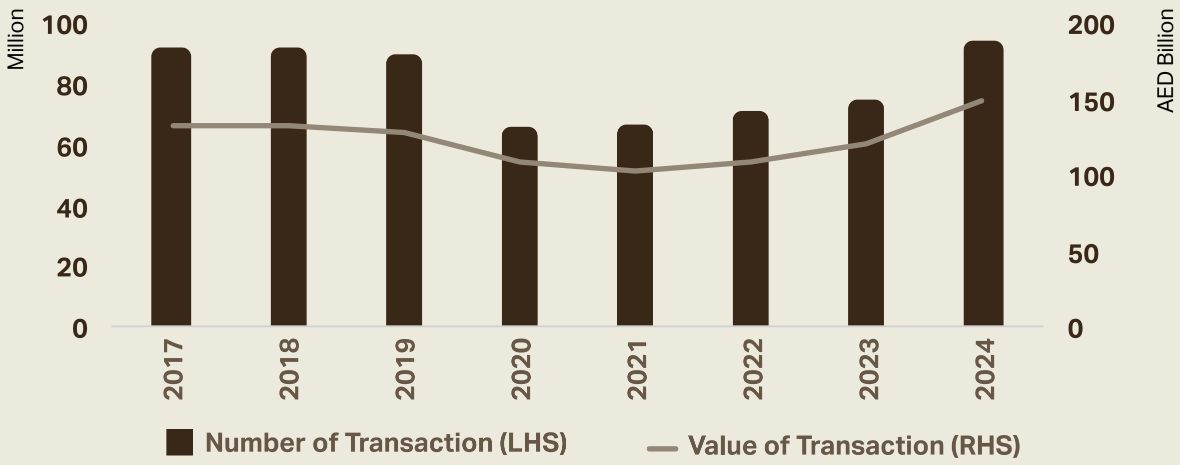
Chart 3.1.7: Claims through UAE Direct Debt System



Source: CBUAE

The UAE Switch volume & value increased approximately by 27%, reaching 94.3 million transactions worth AED 148.9 billion as compared to 74.2 million transactions worth 120 billion last year.

Chart 3.1.8: UAE Switch: Value and Number of Transactions

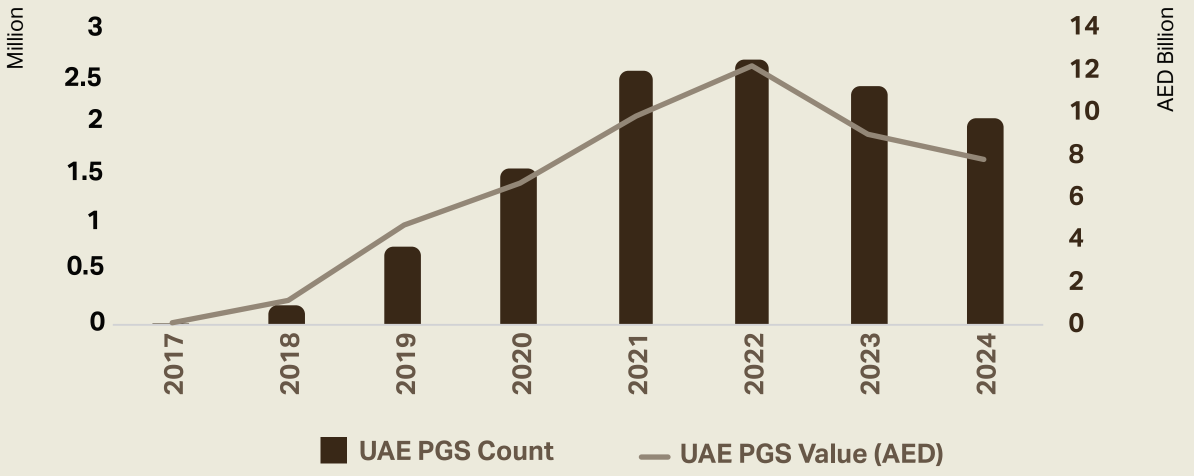


Source: CBUAE

The number of transactions on the Instant Payment Instruction System (IPI) increased noticeably to 64.1 million transactions amounting to AED 164.7 billion in 2023, compared to 38.3 million transactions amounting to AED 101 billion in 2022.

Chart 3.1.9: Transactions processed using UAE Payment Gateway System (UAEPGS)

In 2024, UAEPGS processed 2.1 million transactions worth AED 7.8 billion evidencing a decrease of 13.3% in count and 12.82% in value compared to the previous year.



Source: CBUAE

3.1.3.4 Assessment and Supervision

In 2024, CBUAE strengthened the resilience of the regulated Financial Market Infrastructures by ensuring compliance with international standards and reinforcing regulatory coordination.

A key development was the designation of Al Etihad Payment (AEP) as a systemically important payment system (SIPS). In this context, an on-site assessment against the Principles for Financial Market Infrastructures (PFMIs) was launched, with completion expected by Q2 2025. This initiative aims to mitigate systemic risks and assure the safety and efficiency of payment operations.

Collaboration with SCA was further reinforced through regular engagements to align oversight approaches for FMIs regulated by this authority. The Memorandum of Understanding (MoU) between the two authorities was amended to formalize cooperation mechanisms, ensuring a more coordinated oversight framework.

Additionally, CBUAE also ensured the follow-up of recommendations from the on-site supervisory assessment of Buna, in coordination with regional Central Banks. This effort aims to assure Buna's operational resilience and mitigate cross-border settlement risks.

3.1.4 Finance Companies

The total assets of finance companies remained practically unchanged, while asset quality concerns increased and profitability declined in 2024. However, the sector as a whole maintained adequate capital and liquidity buffers.

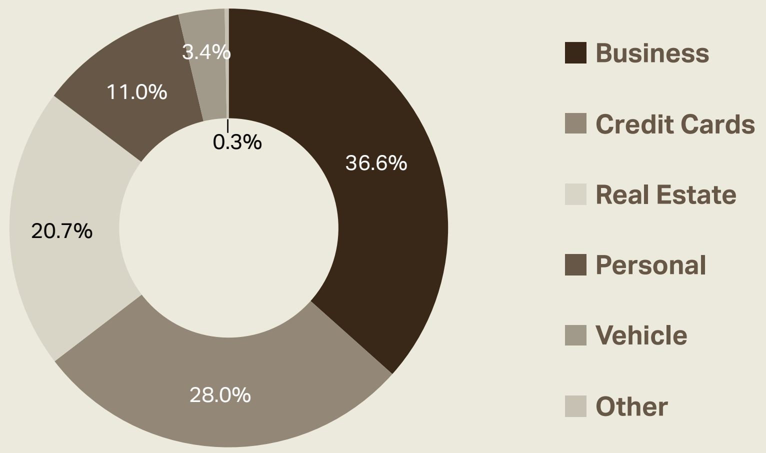
3.1.4.1 Assets

With one newly licensed company, the number of active finance companies operating in the UAE increased to 16, of which three were owned by banks. Total gross assets of finance companies increased by 0.2% during 2024 to AED 23.1 billion. Loans remained the main component of finance companies' assets, accounting for 53.1% of total assets in 2024.

3.1.4.2 Lending

After a 9.7% reduction in credit activities in 2023, finance company lending in 2024 declined further by 4.9% to AED 12.3 billion, representing a small proportion of overall lending by UAE financial institutions. The lending portfolio of finance companies consisted mainly of business loans and credit cards, which accounted for almost 65% of the total loan portfolio, followed by real estate and personal loans. The share of personal loans, business loans and credit cards grew in 2024, while other key loan segments declined.

Chart 3.1.10: Finance Companies' Loan Portfolio (%)



Source: CBUAE

3.1.4.3 Liquidity

Finance companies are prohibited, as per CBUAE regulation, from taking retail deposits. Corporate deposits and funding from banks and related parties are thus their main sources of funding. In 2024, the total funding of finance companies expanded by 1.4% to AED 6.7 billion from AED 6.6 billion in 2023.

The average Liquid Assets Ratio[37] of finance companies further improved in 2024 and reached 59.2%. Continuing liquidity measures taken by finance companies increased liquidity, coupled with weaker demand for new financing during the year.[38]

3.1.4.4 Asset Quality

The asset quality of finance companies deteriorated in 2024. The average Net NPL ratio[39] climbed to 11.7%, from 7.9% in 2023. At the same time, loan provisions, including specific and general provisions, only moderately increased by 0.9% to AED 3.0 billion. The Provision Coverage declined to 89.3%.

3.1.4.5 Capital Adequacy and Profits

Overall, the finance companies sector remained adequately capitalised in 2024, with a capital-to-total-assets ratio of 53.7%, down 0.7 percentage points from last year despite a minimal rise in aggregate capital funds.[40]

After a strong result in 2023, which was supported by non-recurring items, the finance company sector's profit declined by 47.1% to AED 0.6 billion in 2024.

3.1.5 Exchange Businesses

The UAE exchange business sector comprised 67 licensed and actively operating exchange houses, regulated and supervised by the CBUAE. This is a decline from 77 exchange houses in the previous year mainly driven by mergers and acquisitions as well as increased prudent enforcement against non-compliant entities. The exchange business sector, however, remained resilient, largely due to an increased branch network offsetting the decline in the number of exchange houses, increased digital channel offerings and the continued demand for remittance operations and foreign currency exchange service.

[37] This ratio is calculated by dividing liquid assets, as defined in Art. 12.1 of the Finance Companies Regulation, by net aggregate liabilities.

[38] Bank-owned finance companies reported significantly higher Liquid Assets Ratios than non-bank owned institutions.

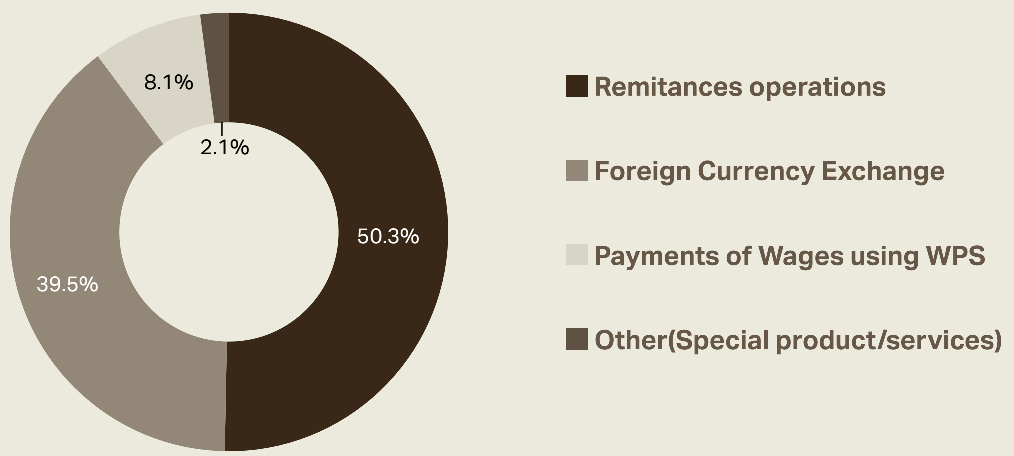
[39] The Net NPL ratio is defined as non-performing loans divided by gross loans; interest in suspense (IIS) and specific provisions are deducted from both numerator and denominator.

[40] Pursuant to Art. 11.1 of the Finance Companies Regulation, aggregate capital funds consist of paid-up capital, reserves and retained earnings.

3.1.5.1 Products and Services

The UAE exchange houses, serving mainly the large expatriate population in the UAE, primarily generate revenue through remittance services, foreign currency exchange, and the administration of wage payments. This is complemented by a range of valued added services including but not limited to local and foreign bill payments, mobile phone top-ups and cash collection towards savings and investment products. In 2024, core income of exchange houses increased by 1.7%. While the growth of core income was at a slower pace than the previous year it represented a continued rebound from a temporary drop in exchange business activities during the pandemic.

Chart 3.1.11: Core Income of Exchange Businesses (%)



Source: CBUAE

3.1.5.2 Foreign Currency Exchange

In 2024, the income from foreign currency exchange business experienced a decline of 1.2%. The income from foreign exchange services represented AED 1.2 billion. Comprising 39.5% of exchange houses' total core income.

3.1.5.3 Remittance Operations

Income from remittance operations increased by 2.4 %. The income from remittance operations represented AED 1.5 billion. Remittance operations continued to be the main source of exchange business activities, accounting for 50.3% of the sector's total core income.

3.1.5.4 Wage Payments Administration

Payments of wages through the Wage Protection System (WPS) represented an 8.1% share of the total core income. Income from the administration of wage payments increased by 9.4% in 2024. The income from administration of wage payments represented AED 0.2 billion.

3.1.5.5 Aggregate Expenses

The exchange house sector recorded an increase of 7.7% in aggregate expenses, with the aggregate expense representing AED 2.6 billion. The aggregate expenses are spread across key expense categories, including interest, commission, staff, administrative, and other expenses.

3.1.5.6 Profit

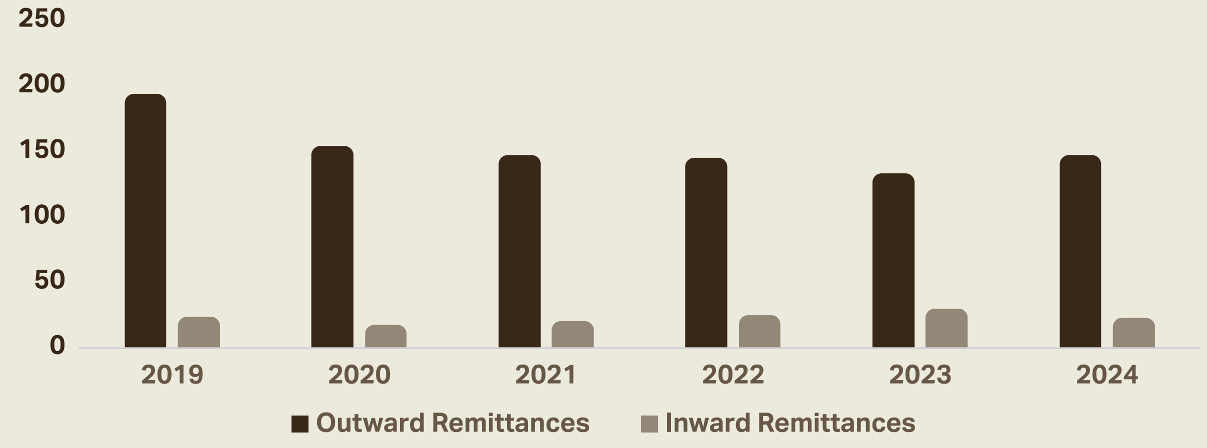
The exchange house sector recorded a decrease of 25.6% in net profits. The net profits represented AED 578.4 million in 2024. This was driven by a slower pace of revenue growth from core activities, which was more than offset by rising overall expenses.

3.1.5.7 Remittances Operations

Outward remittances through exchange houses recorded a 10.5% Y-oY increase to AED 147.8 billion. The primary categories for outward remittances were personal remittances (AED 99.8 billion), trade remittances (AED 26.9 billion), other remittances (AED 8.3 billion), and investment remittances (AED 0.6 million). The top three countries for outward remittances were India (28.0% of the total), Pakistan (13.1% of the total), and Bangladesh (8.5% of the total).

Inward remittances through exchange houses recorded a 22.6% Y-o-Y decline during 2024 to AED 23.4 billion. The largest inward remittances were trade remittances (AED 14.9 billion), followed by personal remittances (AED 12.0 billion), other remittances (AED 3.7 billion), and investment remittances (AED 0.5 million). The top three countries for inward remittances were Oman (24.6% of the total), Kuwait (14.3% of the total), and Jordan (7.9% of the total).

Chart 3.1.12: Remittances through Exchange Houses (AED billion)



Source: CBUAE

3.1.5.8 Capital Adequacy

The overall capital position in the exchange business sector declined by -3.8% during 2024, reaching AED 3.9 billion. The moderation of the overall capital position also reflects the decline in the number of licensed exchange houses. The sector's capital accounted for 47.8% of the sector's total assets as of December 2024.[41]

3.1.6 Digital Dirham

The CBDC "Digital Dirham" initiative prioritizes financial stability as a core objective in its Central Bank Digital Currency (CBDC) strategy. By leveraging advanced blockchain technology, the Digital Dirham aims to enhance the resilience and efficiency of the financial system, ensuring it remains robust amid evolving global and domestic economic challenges.

CBDC contributes to financial stability by providing a secure, reliable, and regulated digital payment alternative. It reduces reliance on traditional payment systems that may be vulnerable to disruptions, offering a safer means for settling transactions. The CBUAE's initiatives, such as the bilateral CBDC bridge with Saudi Arabia and participation in the "mBridge" project with the BIS, highlight how cross-border CBDCs can strengthen liquidity and stability in international trade and payments systems.

Domestically, the Digital Dirham safeguards financial stability by enabling efficient and transparent retail and wholesale payment systems. It ensures that payment processes are less prone to systemic risks and operational inefficiencies. The CBDC framework is designed to mitigate risks of money laundering, cyber threats, and fraud, bolstering trust in the financial ecosystem.

Furthermore, the integration of CBDC into the UAE's financial infrastructure supports economic diversification and resilience, aligning with the nation's long-term goals. By fostering financial inclusion and providing an accessible digital currency, the Digital Dirham ensures broad participation in the formal economy, ultimately contributing to a more stable and inclusive financial environment.

Through these measures, the CBUAE demonstrates its commitment to maintaining financial stability while embracing innovation and technological progress in the monetary system.

[41] The required minimum paid-up capital for Exchange Houses based on CBUAE regulation is AED 50 million for entities incorporated as limited liability companies and for Exchange Houses operating as sole proprietorships or partnerships, the minimum paid-up capital ranges between AED 2 million to 10 million depending on the type of licence.

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