United Arab Emirates

مصرف الإمارات العربية المتحدة المركزي

CENTRAL BANK OF THE U.A.E.

Annual Report

2016

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Message from
H.E. the Chairman of the Board of Directors

As a result of persistent oil prices and ongoing fiscal consolidation, and on the back of weakening global growth, the UAE economy continued to be doubly affected in 2016. First, as a major oil and natural gas exporter, government revenues fell as did liquidity in the economy. Second, as an open economy, the UAE was affected by the weakening global economy, which means less FDI and less non-energy export opportunities at our main export partners.

The national economy, however, continued to show remarkable resiliency, as non-oil activities continued to grow at a respectable rate. Meanwhile, inflation moderated primarily as a result of softening housing sector, which led to a slowdown in the prices of non- tradables, while the prices of tradables decreased in 2016 on account of continued appreciation of the dirham relative to major trading partners and generally low inflation rates abroad.

The Central Bank has been challenged by the continued volatility in the global economy, including the interest rate liftoff in the US (the country of the peg for our Dirham), and the need to increase our capacity to counter external spillovers on the domestic economy. To that end, we have been monitoring developments in the banking sector. In addition to the upward reversal in government deposits, banks have also benefited in 2016 from an increase in customer deposits, and used their reserves and investments at the Central Bank to accommodate the sustained, albeit slowing, demand for credit. Therefore, bank lending remained solid in 2016 in support of growth in the non-energy sectors.

However, with continued uncertainty in the global economy, the central bank needs to ensure the right balance between efficient intermediation and financial stability. To that end, the Central Bank continues its close monitoring of the liquidity situation of banks and other indicators of financial prudence. Going forward, we will maintain this commitment while standing ready to provide liquidity support to banks as deemed necessary to ensure continued healthy financing of the non-energy sectors and further diversification of our economy, in preparation for “After Oil Era” which is becoming a strategic objective of the federal government of the UAE.

Last but not the least, the Central Bank will continue to join efforts with the Ministry of Finance and other stakeholders to improve statistics collection, processing and publication, and ensure better policy coordination to diversify sources of financing the prospective deficit and reduce pressures on liquid resources available in support of private activity. The Fiscal Coordination Council will continue to play a pivotal role towards gradual fiscal consolidation and the issuance of the Public Debt Law to deepen the financial market, benchmark the yield curve in domestic currency and increase options to mobilize domestic savings and attract capital inflows.

Message from H.E. the Governor of the Central Bank

Several adverse factors such as dipping oil prices, the slowdown in the global economy, increasing fiscal vulnerabilities for oil exporting countries, in addition to the Emerging Economies' struggle with weakening currencies and mounting debts, have added to the challenges that our open economy continues to face.

Our banking sector, however, remained sufficiently liquid, with both the ratios of liquid assets to total assets and lending to stable resources at prudent levels, while indicators of financial soundness continue to bode well for the ability of banks to support credit while adhering to the guidelines of financial stability.

Going forward, small and Medium Enterprises (SMEs) are the engine of growth and employment in the UAE. Therefore, we continue to work with major stakeholders to ease constraints and put Federal Law No. 2 of 2014 into action so that SMEs can have access to financing at affordable costs. Indeed, the Central Bank's decision to set up a "Team for Implementation of a Strategy in support of Small and Medium Enterprises" was the first step in that direction, and we are currently moving forward with stakeholders in order to fill the gaps and remove the building obstacles so that SMEs and Start-ups get the support and financing needed to play their vital role in the economy.

Providing the financial system under our jurisdiction with appropriate regulations remains obviously a priority for us. Therefore, the year 2016 witnessed the adoption of the Regulatory Framework regarding "Stored Values and Electronic Payments in the UAE" that aims to facilitate the adoption of safe, secure, consumer-centric and innovative digital payments services in the UAE. Other regulations adopted include: Risk Management, finalization of Basel III capital requirements for banks, the set-up of a new regulatory framework for non-bank financial institutions, consultation with the banking sector on new SME regulations, and a regulation on crowd funding. We are confident that these new regulations will put our regulatory and supervisory framework at par with best practice, thereby contributing to safeguard the financial system, while providing the economy with the needed financing.

Our Vision

Promoting monetary and financial stability towards sustainable economic growth.

Our Mission

Enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards.

Our Values

Talent Centric

Transparency

Proactivity

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List of Abbreviations

ADSM:	*Abu Dhabi Stock Market*
AED:	*Arab Emirates Dirham*
BRIC:	*Brazil, Russia, India, and China*
CPI:	*Consumer Price Index*
DFM:	*Dubai Financial Market*
ECB:	*European Central Bank*
EIBOR:	*Emirates Inter-Bank Offer Rate*
FATF:	*Financial Action Task Force*
FIU:	*Financial Intelligence Unit*
GREs:	*Government Related Entities*
LIBOR:	*London Inter-Bank Offer Rate*
MENAFATF:	*Middle East & North Africa Financial Action Task Force*
PCE	*Private Consumption Expenditure*
PMI:	*Purchasing Managers Index*
RBI:	*Reserve Bank of India*
STRs:	*Suspicious Transaction Reports*
UAE:	*United Arab Emirates*

Part one: The Economic, Monetary and Banking Developments

Chapter1. International Economic Developments

Despite the deceleration in 2016, the global economy managed to navigate its way through troubled waters and perform at a decent rate, although reinforcing downward trend of growth. Geopolitical risks remained high in 2016 as a result of the Brexit vote, a still-inflamed Middle East, the impeachment of the president in Brazil and the election of Donald Trump in the U.S. presidential elections, among others. Many developed economies benefited from accommodative monetary policies due to the low global inflation environment. While cheap money is strengthening business and consumer confidence, ultra-low interest rates and unconventional monetary policies cannot last forever. This situation is raising doubts about how authorities will stimulate these economies once inflation starts to take off.

In 2016, the GDP figures releases for the US and the UK showed that the collective economies performed relatively well, with the Eurozone's GDP numbers suggesting an optimistic level of growth in the 19-nations area.

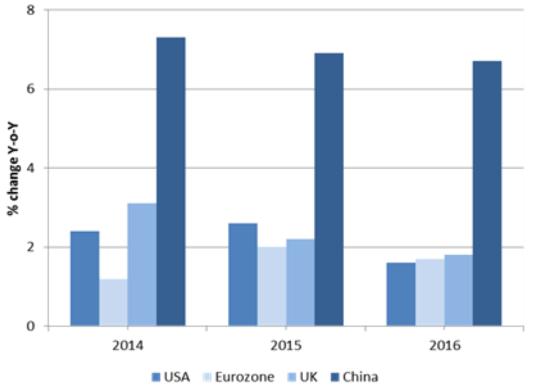
In the US, for the year 2016, real GDP increased by 1.6 percent, compared with 2.6 percent in 2015. The increase in real GDP in 2016 reflected increases in consumer spending, residential investment, state and local government spending, exports, and federal government spending. These contributions were partly offset by declines in private inventory investment and business investment. Imports increased.

In the Eurozone, for 2016, GDP grew by 1.7%[1], a slight deceleration from 2015's 2%. Domestic demand is in the driver's seat as an improving labor market and expansionary monetary policy continue to support economic activity. Economic sentiment rests at a multi-year high despite 2016 being a rollercoaster of a year in terms of political developments.

The UK's GDP growth was 1.8% higher in 2016 compared with a growth of 2.2% a year ago. The data were closely watched as Q4 was just the second full quarter of activity after Britain's historic vote to leave the European Union. Initial predictions of economic doom after the Brexit vote have so far failed to materialize, with the exception of the crashing pound, and economic data have broadly held up well. Growth was once again largely driven by a booming services sector, which grew 0.8% from the previous three months, however data showed Britain's dominant services sector expanded in December at the slowest pace in seven months. Services is the dominant sector of the UK economy, making up roughly 80% of all GDP.

In 2016, China's economy grew by 6.7%. That was in line with estimates from the Head of China's State Planning Agency. China's statistics bureau said that consumption accounted for 64.6 percent of GDP in 2016, while per capita consumption rose 8.9 percent on year to 17,111 yuan (USD 2,490). Property development contributed to growth, with total investment rising by 6.9% for the year, up 5.9 percentage points from 2015.

Figure 1.1. GDP growth for selected economies



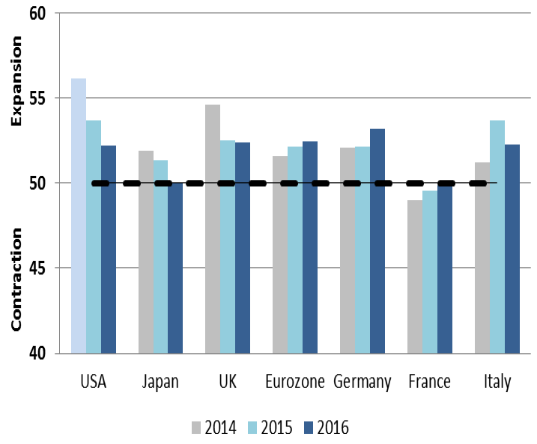
Source: Bloomberg

Economic activity in the developed world as measured by the Purchasing Management Index (PMI) shows that for the selected economies in Figure 1.2 it has seen an improvement in 2016 in the Eurozone as a whole and in

[1] As the official figures are still not published by Eurostat, this figure represents the average of the four quarters Y-o-Y growth.

the selected major Eurozone players, while in the US, Japan and the UK it decelerated. .

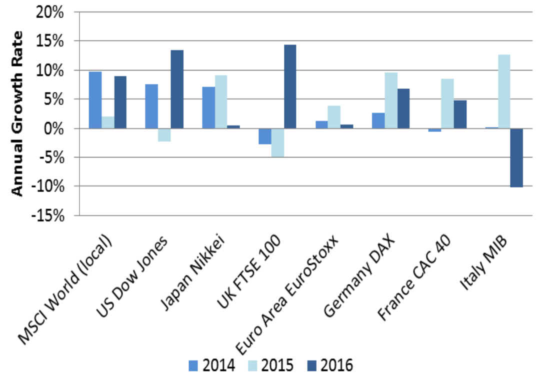
Figure 1.2. Average Annual PMI levels



Source: Bloomberg

The US, in particular, saw a decrease in the PMI, on average in 2016, from 53.7 in 2015 to 52.2, while the UK PMI declined marginally from 52.5 to 52.4. In addition, the Eurozone's PMI level was at 52.2 on average in 2015 and ended up with an average of 52.5 in 2016. The French PMI notched up from 49.6 in 2015 to 49.8 in 2016 with an average still below the 50 mark. A PMI reading above 50 indicates expansion and below 50 a contraction.

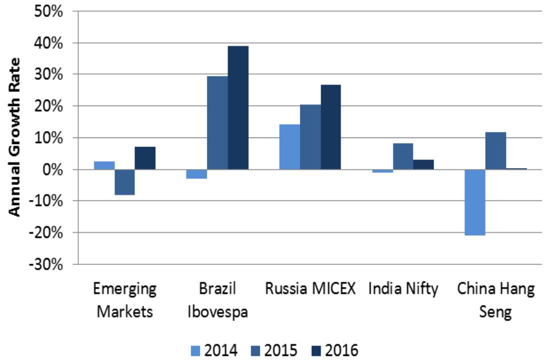
Figure 1.3. Annual percentage change of equity indices (local) in developed economies



Source: Bloomberg

In Figure 1.3, all developed equity markets experienced positive annual returns in 2016, with the exception of the Italian MIB, which declined by 10.2%. The highest return increase was for the US Dow Jones and the UK FTSE 100, which grew by 13.4% and 14.4% respectively.

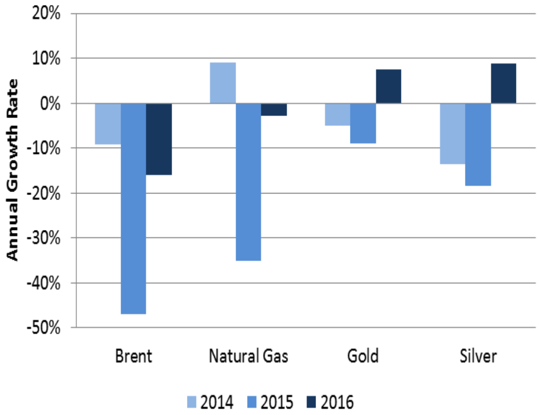
Figure 1.4. Annual stock market index percent changes in BRIC countries (local)



Source: Bloomberg

Similarly, in Figure 1.4., equity markets had a positive return on an annual basis for the BRIC, with Brazil and Russia being the top performers with 38.9% and 26.8% Y-o-Y, at the end of 2016.

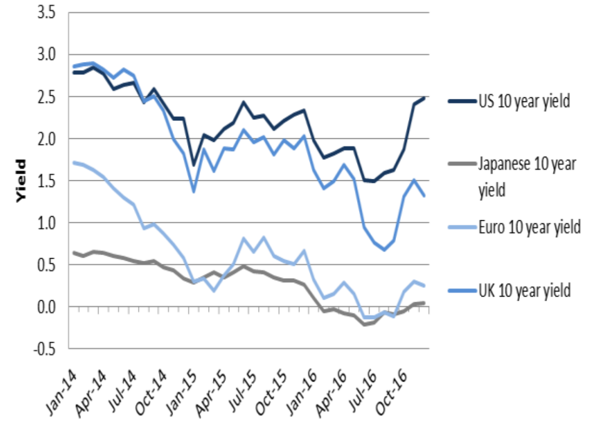
Figure 1.5. Selected commodity price levels annual changes



Source: Bloomberg

The year 2016 saw an improvement of the precious metals in the selected commodity prices, Y-o-Y (Figure 1.5.) by 7.6% and 8.8% for gold and silver respectively, with both having a negative growth in 2015. However, the selected energy commodities – oil (Brent) and natural gas posted again an annual decline, similar to 2015, of 15.9% and 2.8% respectively.

Figure 1.6. 10-year government bond yields (%)

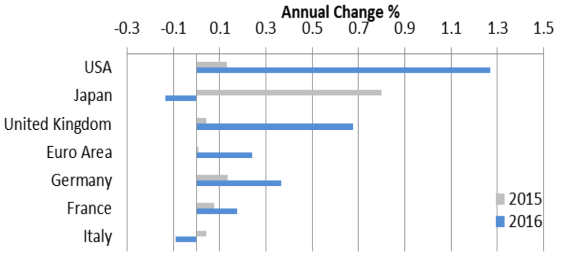


Source: Bloomberg

Global bond yields have continued to rise markedly in the second half of 2016 (Figure 1.6). After core fixed income markets had plumbed new historical depths in mid-2016, overall yields had jumped sharply by the end of November – in fact by a high magnitude. But despite record high duration risk, there were few signs of stress in credit markets as spreads remained tight and volatility was contained. Initially supported by positive macroeconomic news globally, the rise in yields sharply accelerated after the US presidential election. Buoyant US equity markets also echoed that distant event, suggesting that markets expected a boom in the United States and higher corporate profits on an anticipated shift towards more expansionary fiscal policy, lower taxes and laxer regulation.

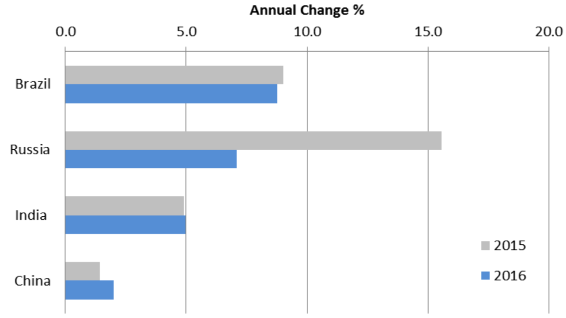
The charts (Figure 1.7 and Figure 1.8) below on consumer prices show the difference between the developed and the developing world. Whereas the developed world is struggling with lower inflation rates, with exception of the US, the developing world experienced higher inflation rates with the exception of China. However, in 2016, all of the selected developed economies have experienced an increase in inflation compared to 2015, except for Japan and Italy. For the BRIC economies, inflation is moderating, with exception of China.

Figure 1.7. Year-on-Year consumer price change in the developed economies



Source: Bloomberg

Figure 1.8 Year-on-Year consumer price change in emerging economies



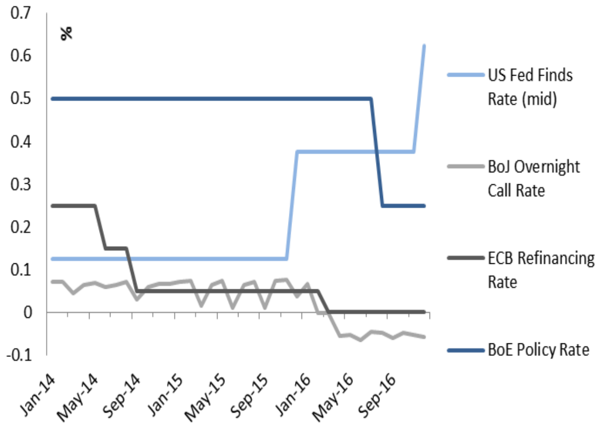
Source: Bloomberg

In terms of monetary policy, the major event in 2016 remained the action the U.S. Federal Reserve took on December 14 (Figure 1.9), by raising its federal funds rate by 25 basis points to 0.75%, as widely expected, and providing forecast that it would raise its rate three times in 2017. The Fed said the decision to raise the rate was "in view of realized and expected labor market conditions."

Other than that, the ECB has moved their refinancing rate down by 5 basis points to 0% in March, to try to tackle further the problem with near-zero inflation and Bank of England, has cut their policy rate in August by 25 basis points to 0.25%, in order to stimulate the economy, after the Brexit vote. Since February, the Bank of Japan overnight call rate has become negative, reaching -0.58% in December 2016.

The effects of introducing negative interest rate policies in Japan and Europe remain unclear, with a risk of unintended consequences, such as a deterioration of bank balance sheets and tightening of credit conditions, which could destabilize fragile and undercapitalized banks. While the path of policy interest rates in the U.S. remains unclear, interest rate differentials relative to other developed economies are expected to widen, potentially triggering financial volatility, capital outflows from developing economies and abrupt adjustments in exchange rates.

Figure 1.9. Policy rates of developed countries



Source: Bloomberg

Growth in the Middle East and North Africa (MENA) region is estimated to have slowed down in 2016, reflecting fiscal consolidation in some countries and oil production constraints in others.

Growth slowed in the Gulf Cooperation Council (GCC) countries as oil sector weaknesses continued to spread to non-oil sectors in 2016, against the backdrop of continued fiscal consolidation. At the same time, output is estimated to have accelerated in Iran and Iraq thanks to large gains in oil production and, in Iran due to a recovery in agriculture, automotive production, trade and transport, following the sanctions removal.

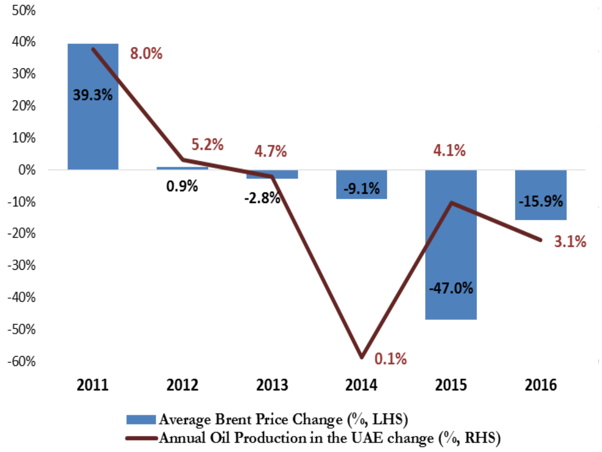
Chapter 2. Domestic Economic Developments

Despite the sharp decline of oil prices that started mid-2014, the UAE economy showed a remarkable resilience in 2016. Real GDP is estimated to have expanded by 2.6%, driven primarily by a real growth of 2.7% of the non-oil sector. Although it declined compared to 2015, the annual average Purchasing Managers' Index (PMI) remained in the expansion area and stood at 53.9 with a steady monthly increase in the last quarter of 2016. High diversification of the UAE's economy has helped economic growth to show a remarkable resilience to external and adverse oil price shocks. In fact, the UAE has been selected by the UNCTAD among the group of most promising economies for FDI flows in 2016-2018. Consumer Prices increased by 1.8% in 2016 and are projected to increase by 2.1% in 2017. The fiscal consolidation initiated by the government in 2015 slowed down and government spending fell only by 2.6% during the first nine months of 2016 in contrast to a decline of 11.5% during the same period in 2015.

2.1 Economic Activity and Growth

The annual average Global Brent price continued its decreasing path in 2016. It fell further by 16% to reach $44 per barrel on average in 2016 against an average level of $52 per barrel in 2015 (see Figure 2.1.a). Although the decline is less sharp than the one observed in 2015 (47%), the Global Brent price drop continued to weigh on economic activity in the UAE.

Figure 2.1.a. Average Global Brent Prices and Oil Supply in the UAE Developments (%)

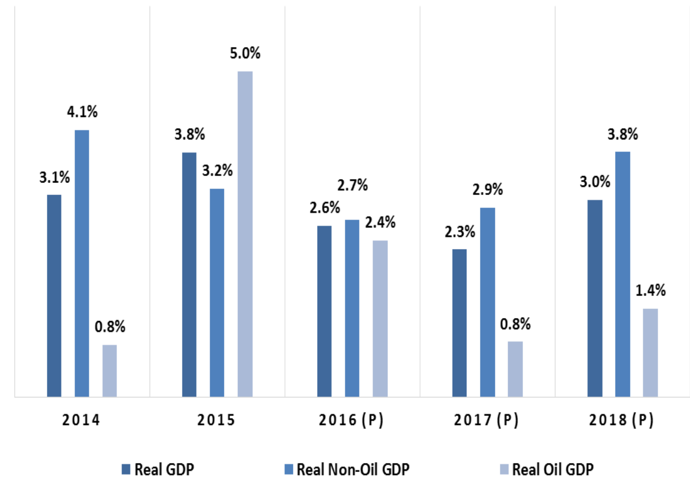


Source: IMF & ADNOC

According to the Central Bank's projections, real GDP is projected to grow by 2.6% in 2016 against a growth rate of 3.8% in 2015 (see Figure 2.1.b). Real oil GDP is estimated to have expanded by 2.4% in 2016 against a 5% growth in 2015. These developments are in line with the oil production changes (see Figure 2.1.a). In fact, oil production grew by 4.1% in 2015 while it grew by 3.1% in 2016 leading to higher contribution of the oil sector to real GDP growth in 2015 compared to that observed in 2016.

On the other hand, the non-oil sector which contributes around 68% to the total nominal GDP[2], is estimated to have slowed down significantly in 2016 in real terms, growing by 2.7% compared to 3.2% in 2015.

Figure 2.1.b Economic Growth in the UAE (%)



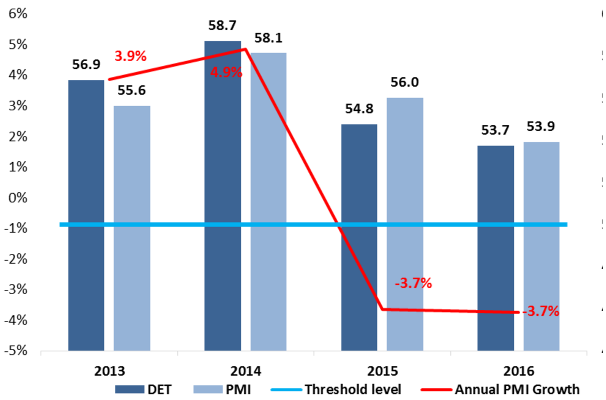
Source: Federal Competitiveness and Statistics Authority (FCSA) for 2013, 2014 and 2015, and Central Bank estimates and projections for 2016-2017.
Note: For more details concerning the Central Bank projections, see "Box: GDP forecasting model of the Central Bank of the UAE" in the Quarterly Economic Report for Q4 2015 in the CBUAE website.

This global growth trend in the non-oil sector was confirmed by the Purchasing Mangers' Index (PMI) annual readings. The 2016's reading shows an annual average PMI of 53.9 compared to 56 index in

[2] The average ratio of the nominal non-oil GDP to the total nominal GDP for the period 2001-2015.

the previous year. While it is standing in the expansion area (above the 50 threshold-level), the average annual PMI has declined by 3.7% in 2016 after a similar decline in 2015 (see Figure 2.1.c), in contrast to an important increase by 4.9% in 2014. The PMI is a diffusion index that tracks the non-oil economic activity in the UAE. The developments of the PMI are the weighted aggregated developments of 13 sub-indices that constitute the whole economy's PMI. The 13 sub-indices are namely Stocks of Purchases, Quantity of Purchases, Purchase Prices, Output Prices, Output New Orders, New Export Orders, Employment, Staff Costs, Future Output, Backlogs of work, Overall Input Costs and Suppliers' Delivery Times.

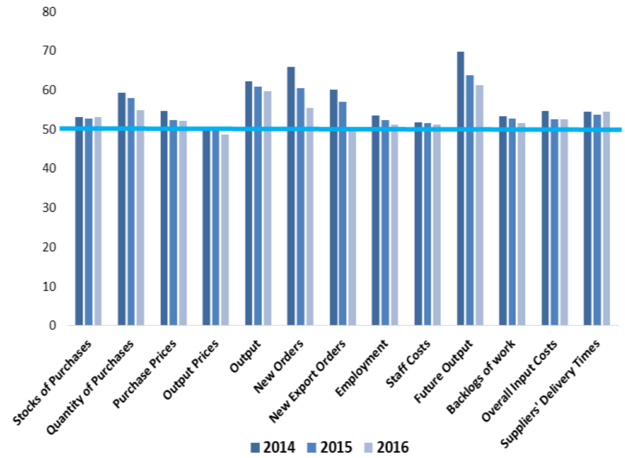
Figure 2.1.c Annual Average Purchasing Managers' Index (PMI) and Annual Average Dubai Economic Tracker (DET)



Source: Markit & Emirates NBD

Except for the Output Prices and New Export Orders which displayed 48.7 and 49.7 on average in 2016, respectively, all the remaining average sub-indices stood in the expansion area in 2016 (see Figure 2.1.d). The Future Output sub-index was the highest with a reading of 61.3 and Employment and Staff Costs were the lowest with a similar reading of 51.2.

Figure 2.1.d Annual Average PMI sub-indices for the UAE



Source: Markit & Emirates NBD

The tightening of the goods market has filtered into the labor market, where Employment and Staff Costs sub-indices fell by 2.2% and 0.6%, respectively.

Similarly to the PMI, the annual average Dubai Economy Tracker (DET), an index that tracks the economic activity in Dubai, dropped by 1.8% in 2016 compared to 2015. Notwithstanding this decline, the annual average DET stood at 53.7 in 2016, above the 50 threshold-level after a 54.8 level in 2015.

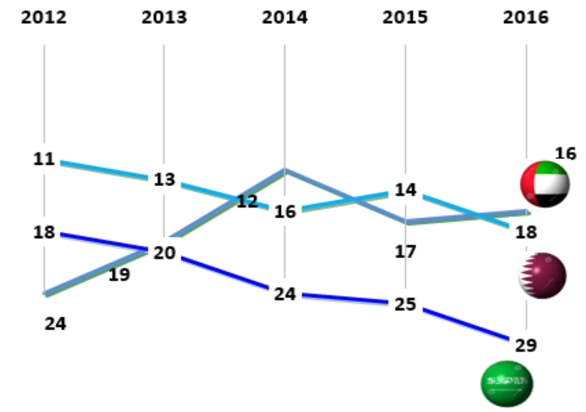
The high diversification of the UAE's economy has helped the economic growth to show a remarkable resilience to external and adverse oil price shocks. The commitment of the UAE to the OPEC output-cut decision, effective January 2017, and the subsequent positive response of oil prices, have revived the confidence sentiment in the markets and in the UAE's economic outlook.

Taking into account all these events, the Central Bank of the UAE (CBUAE) has published its real GDP growth forecasts for 2017 and 2018. Real Non-Oil GDP is projected to grow by 2.9% and 3.8% in 2017 and 2018, respectively. Real Oil GDP is projected to grow by 0.8% and 1.4%, respectively, during the two coming years. Consequently, real GDP is projected to expand by 2.3% and 3% in 2017 and 2018, respectively.

This positive sentiment regarding the UAE's economy and capacities was backed by international ranking and reports. The World Investment Report for 2016 released by UNCTAD selected the UAE among the group of most promising home economies for 2016-2018[3]. In addition, the report pointed out that the UAE is the second largest FDI recipient in the West Asia region, after Turkey, with a stable amount of inflows estimated at $11 billion. The UAE is the only oil-exporter country that could preserve the FDI inflows despite the depressed oil prices and geopolitical uncertainties. The ratio of net foreign direct investment to GDP rose from 2.66% in 2014 to 2.96% in 2015.

Moreover, according to the 2016-2017 competitiveness report, the UAE topped Arab countries and moved from 17th to 16th position in the 2015-2016 period, beating Qatar which moved from 14th to 18th. The Saudi Arabia's ranking has deteriorated from 25th to 29th (see Figure 2.1.f).

Figure 2.1.f The Competitiveness Index Ranking

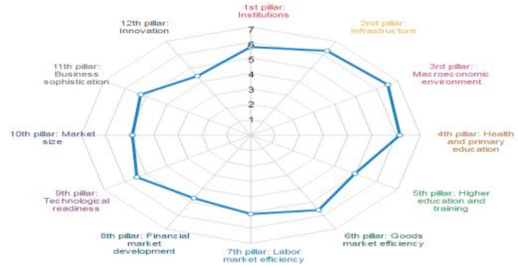


Source: Federal Competitiveness and Statistics Authority (FCSA).

The analysis of the 12 pillars of the competitiveness index shows that the UAE was among the first 20 countries listed in 76 out of 114 sub-indicators. The UAE also occupied the 1st position in the sub-indicator "Absence of crime and violence in business", and the 2nd position in "People's confidence in the leadership", along with the sub-indicator "Lack of wasteful government spending".

Regarding infrastructure, the UAE occupied the 1st position internationally in the "Quality of roads" sub-indicator, and second position in "Airports and airlines infrastructure quality". The UAE occupies also the 1st position in ease of paying taxes, 4th in the ease of obtaining construction permits and ease of connecting electricity, 9th in the protection of minor investors and 11th in the ease of registration of properties (see Figure 2.1.g).

Figure 2.1.g The ranking of the UAE in the 12 pillars of the Competitiveness Index



Source: World Economic Forum Report.

2.2 Consumer Price Index and Inflation

Although consumer prices continued to rise in 2016, the inflation rate has declined significantly during the year. Disinflation started in the fourth quarter of 2015 until the third quarter of 2016, where the inflation rate reached its lowest reading (1.3%) in August 2016 since October 2013. In the fourth quarter of 2016, average quarterly inflation rate rebounded again and reached 1.9%.

Globally, all growth measures of consumer prices in 2016 were lower than the one observed in 2015. The average consumer price inflation rate reached 1.8% in 2016 against 4.1% in 2015, with an end-of-period price inflation of 1.2% against 3.6% in 2015 (see Table 2.2).

It is noteworthy that the decline of transportation costs weighed significantly on the inflation rate (see Figure 2.2.b). Transportation prices account for 14.6% of the standard consumption basket in the UAE. The subsidy-cut reform initiated by the government in 2015 has aligned the domestic oil retail prices to the international oil price fluctuations, leading to a higher volatility of transportation costs. The decline of oil prices in the international energy market that started mid-2014 has generated a decline of the average transportation costs in the UAE by 4.1% in 2016. The decline was the largest in August 2016, where transportation costs fell by more than 11% on a year-on-year basis.

[3] The group contains 15 countries namely: UAE, China, USA, UK, Germany, France, India, Netherlands, Japan, Canada, Italy, Turkey, Australia, South Africa and Norway.

Table 2.2 UAE CPI Inflation (%)

	Weight	2013	2014	2015	2016	2017[4] (p)
Total CPI Inflation	100	1.1	2.3	4.1	1.8	2.1
Total CPI Inflation (end-of-period)	100	1.4	3.1	3.6	1.2	2.6
CPI Inflation of Tradable	34	1.6	2.2	1.4	0.0	-
CPI Inflation of Non-tradable	66	1.0	2.6	5.5	2.3	-
Housing CPI inflation	34	0.3	3.1	8.8	4.1	-
Transportation CPI inflation	10	1.0	1.4	2.0	-4.1	-

Source: Federal Competitiveness and Statistics Authority (FCSA).
Note: All the changes are computed on a Y-o-Y basis and based on the annual average CPI, unless otherwise indicated.

However, according to the Central Bank's forecasts, inflation is projected to pick up slightly in 2017, in line with the rebound in economic activity. Average Consumer price inflation is projected to increase by 2.1% in 2017 with an end-of-period increase of 2.6%. The projected increase is boosted, in part, an expected increase of transportation costs in line with increasing oil future prices after the OPEC output-cut to which the UAE has fully committed.

The non-tradables prices continue to dominate the global consumer price developments (see Figure 2.2.a). Accounting for 66% of a standard consumption basket in the UAE, non-tradables prices grew by 2.3% in 2016 against a 2.1% increase in the previous year. However, the non-tradables prices in 2016 were marked by a spectacular decline of housing price inflation, reflecting the economic slowdown. The average housing costs covering rents and utilities account for 34% of the consumption basket and more than 51% of non-tradables' group. Housing CPI inflation increased by 4.1% against 8.8% in 2015. Although it started recovering from August 2016, housing prices are growing at a very slower pace than the previous year, a reflection of a slowdown in demand with economic activity.

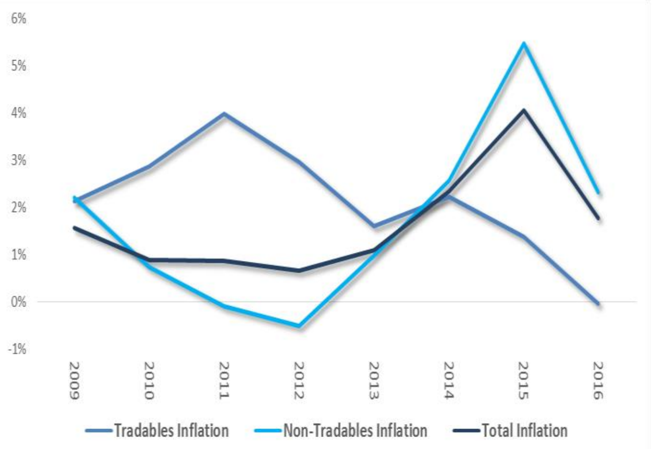
Housing costs declined significantly in both Dubai and Abu Dhabi. The JLL (Jones Lang LaSalle) reported that the fall of rental prices in both cities was driven mainly by the drop of the rents of residential units. The latest readings of the real estate market in 2016 showed that rental prices of apartments in Dubai and Abu Dhabi fell by 6% and 7% on a year-on-year basis, respectively. Similarly, the rental price of villas in Dubai and Abu Dhabi displayed an annual decline of 8% and 4%, respectively.

In mid-December 2016, Abu Dhabi reinstated the 5% residential rent cap. This comes three years after the rent cap was suspended, and at a time when the average rents in Abu Dhabi have fallen by about 5% on a year-on-year basis, due to job losses and cuts in public spending, which continue to tighten demand (see Box 1 for more details on the real estate market developments).

The average price of tradables remained unchanged in 2016 against an increase of 1.4% in 2015. These developments were driven by the decline of the inflation rate of the beverages and furniture and the increase of textiles prices. The prices of the beverages and furniture grew by 1.1% and 0.3%, respectively, in 2016 against an increase of 1.2% and 2.2% in 2015. The prices of Textiles, clothing and footwear jumped by 3.3% in 2016 after a drop by 1.6% in 2015.

On the other hand, education costs which account for 7.7% of the global consumption basket increased in 2016 by 4.2% against 3.8% in 2015.

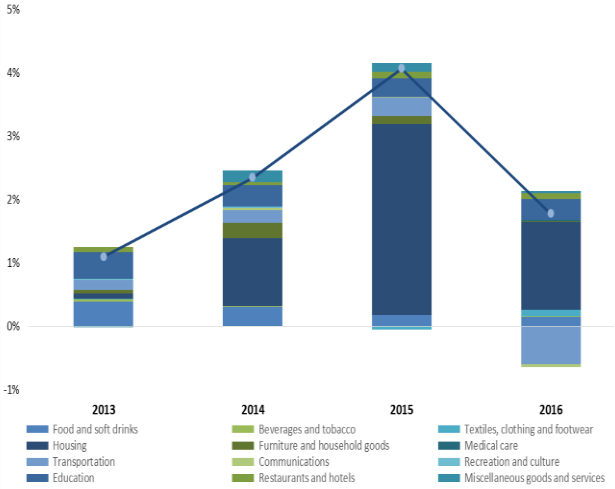
Figure 2.2.a. Tradables and Non-Tradables Inflation (%)



Source: Federal Competitiveness and Statistics Authority (FCSA).

[4]The projections were computed using an ARIMA (2,1,2) model. The model was chosen using the Akaike and Schwartz information criteria. Stationarity test was implemented using the KPSS and Augmented Dicker Fuller techniques.

Figure 2.2.b Contribution of different sub-components to the Total CPI Inflation (%)



Source: Federal Competitiveness and Statistics Authority (FCSA).

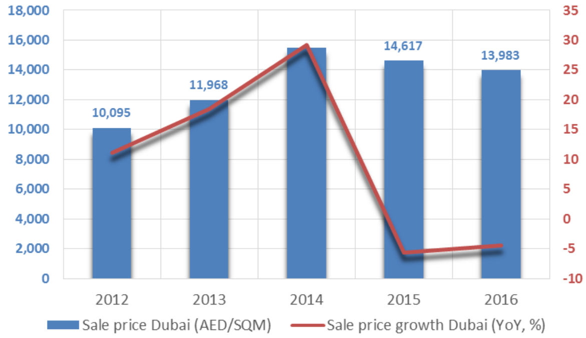
Box: Annual Developments in the Real Estate

According to REIDIN Price Index[5], the Real estate market in the UAE has seen different patterns of change for the residential segment. In fact, the property prices in Dubai decreased by 4.6% during 2016, while prices remained unchanged in Abu Dhabi market. Therefore, the rental yield has contracted during 2016 in both emirates (7.16% for Abu Dhabi and 7.36% for Dubai), due to the continued fall in rents since 2014, but both markets are still attractive for investors.

Dubai residential Market

For Dubai, the recent data showed a fall in residential property price of 4.6%, after a decrease of 5.5% in 2015 (Figure 1). Indeed, the average price in property market reached 13,983 dirham per square meter (aed/m^2), following 14,617 aed/m^2 in 2015.

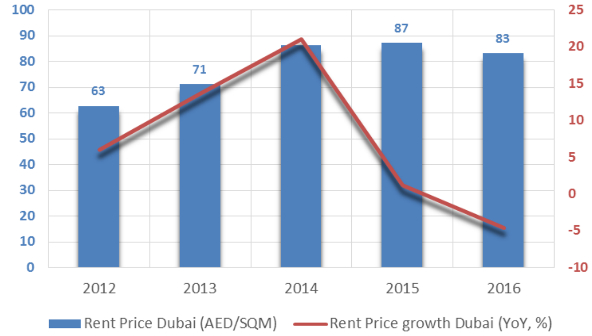
Figure 1: Dubai Residential Sale Prices



Source: REIDIN

Since the downward cycle in mid-2014, the fall in prices has led to the fall in rents in Dubai (Figure 2). Indeed, the rent prices declined by 4.6% in 2016, following an increase of 1% during the previous year.

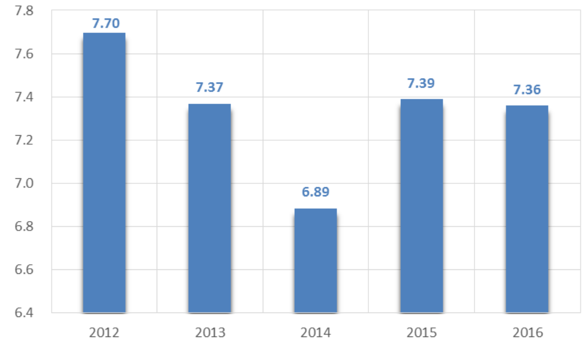
Figure 2: Dubai Residential Rent Prices



Source: REIDIN, Central Bank of the UAE

As for the rental yield, Dubai registered a yield of 7.36% during 2016, down from 7.39% in the previous year (Figure 3), owing to a faster pace of decline in rent relative to property values. This trend reflected the decline of demand, in line with developments in the job market, compared to existing supply, during this period. Despite this continued decline in the rental yield, it remained attractive for investors.

Figure 3: Dubai rental yield (%)



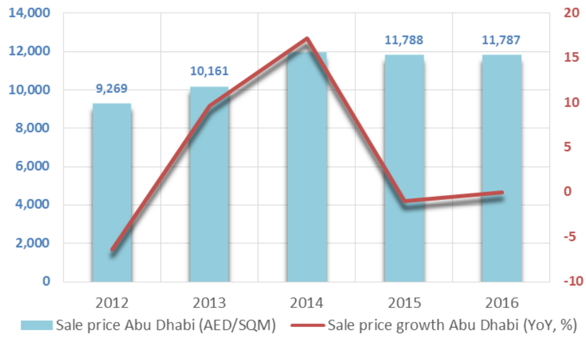
Source: REIDIN, Central Bank of the UAE

[5] REIDIN Residential Sales Price Index series are calculated on a monthly basis and cover 21 areas and 6 districts in Dubai. For Abu Dhabi, the indices cover 7 areas and 5 districts.

Abu Dhabi residential Market

In 2016, the average price in Abu Dhabi housing market remained unchanged compared to the previous year, reaching 11,787 aed/m^2. Thus, the observed downward trend exhibits a slight recovery in the residential market during 2016 (Figure 4).

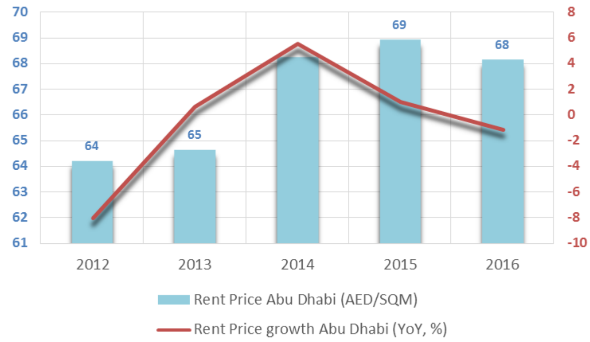
Figure 4: Abu Dhabi Residential Prices



Source: REIDIN

Concerning the rental market in Abu Dhabi, rent values declined by 1.13% in 2016, after an increase of 1.25% in the previous year, in consistency with the lagged effect on the job market and the outlook for the economy given fluctuations in the oil price (Figure 5).

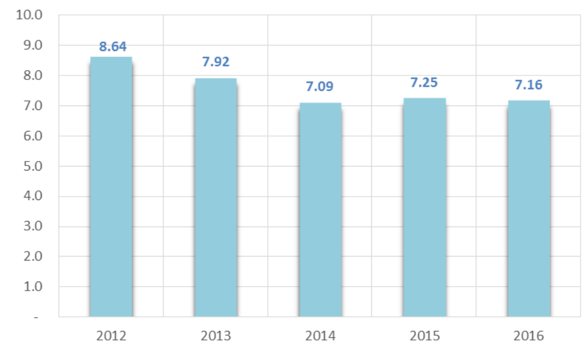
Figure 5: Abu Dhabi Residential Rent Prices



Source: REIDIN

In addition, the continued decline in prices relative to rents has led to an increase in rental yield from a low of 7.09% in 2014 to a high of 7.25% in 2015 (Figure 6). However, relatively stable prices during 2016, combined with further decline in rents have led the rental yield to contract, reaching 7.16% in 2016.

Figure 6: Abu Dhabi rental yield (%)

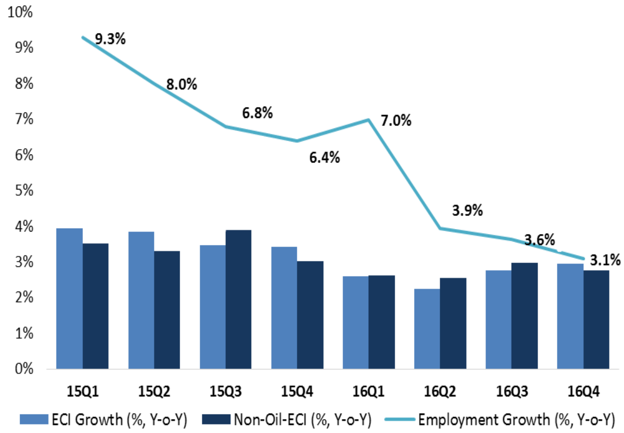


Source: REIDIN

2.3 Employment and labor market dynamics

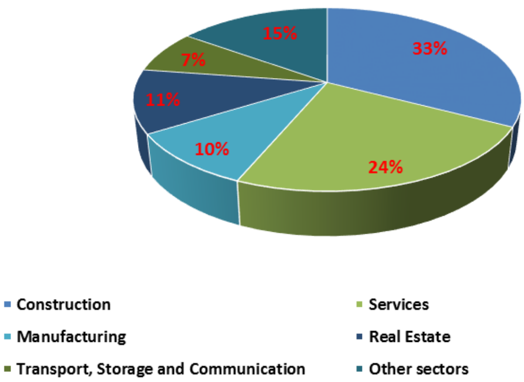
The number of employed persons by the UAE economy for different sectors has increased in 2016 by 3.1% (see Figure 2.3.a). On the other hand, the labor demand has expanded at a slower pace than 2015 where the total employment grew by 6.4%.

Figure 2.3.a. Employment Growth and Economic Activity in the UAE



Source: Central Bank of UAE and Ministry of Human Resources and Emiratisation

Figure 2.3.b. Composition of Employment in the UAE by Sector (2014-2016)



Source: Ministry of Human Resources and Emiratisation

The resiliency of the labor market is stemming from the resilience of most sectors which continue to recruit despite the economic slowdown. The construction sector which is taking on around 33% of the total employment (see Figure 2.3.b) increased its labor demand by 3.7% in 2016 against a 7% increase in 2015. Similarly, the real estate sector, which absorbs around 11% of the total employment, has increased its labor demand by 6.3% against an increase of 12.6% in 2015 (see Figure 2.3.c).

Figure 2.3.c. Employment Growth by Sector (%, y-o-y)

Source: Ministry of Human Resources and Emiratisation

The transport, Storage and Communication sector has increased its labor demand by 3.2% in 2016 against 8.1% in 2015. At a smaller scale, the services sector increased its labor demand only by 0.8% in 2016 after a 4.6% expansion in 2015.

The manufacturing sector was the only exception in 2016. With a 10% share of the labor market, the manufacturing sector has decreased its labor demand by 0.1% in 2016. After a period of expansion in 2015, where its labor demand jumped by 1.6%. The manufacturing sector activity has slowed down significantly in 2016. The credit demand by the sector, which is correlated at 78% to the manufacturing labor demand, increased only by 0.5% in 2016 against a credit growth of 6.1% in 2015 (see Figure 2.3.d).

Figure 2.3.d. Employment and Credit growth in the Manufacturing sector

Source: Ministry of Human Resources and Emiratisation & CBUAE

2.4 Exchange Rate and Foreign Trade Balance

The Dirham continued its appreciation in 2016 although at a slower pace compared to 2015. Globally, it appreciated against its most trade partners.

From the import side, the Dirham ended up 2016 by a weighted appreciation against its top-nine non-dollarized import partners of 1.57% in the fourth quarter of 2016 (see Table 2.3.a), to reach an annual weighted appreciation of 1.21% for 2016 against a 4.49% in 2015.

Except for the Japanese Yen, the Dirham appreciated against all its import partners with an average bilateral appreciation of 3.2% in 2016. The highest annual appreciation was against the British Pound where the Dirham gained 13.2% in 2016 against a 7.7% appreciation in 2015. The Brexit and its subsequent events and consequences weighed significantly on the Pound. In the second place is China which is the main import partner to the UAE with an import share of 12.4%. The Dirham appreciated against the Yuan by 5.7%.

In addition, the Dirham gained 4.7%, 2.6% and 2.4% against the Indian Rupee, the South Korean Won and the Swiss Franc, respectively in 2016. India, South Korea and Switzerland contribute altogether by more than 15% of the total imports to the UAE.

The exception was the Japanese Yen. The Dirham lost more than 10% against the Japanese Yen where Japan constitutes the fourth most important import partner to the UAE with an import share of 5.65%.

On the export side, the Dirham has appreciated against its top-nine non-dollarized export partners by 1.49% in 2016 compared to an appreciation of 3.35% in 2015 (see Table 2.3.b). The most important gain of the Dirham was 11% against the Turkish Lira, where Turkey constitutes the fourth most important export partner receiving 5.16% of the total UAE non-oil exports, after India (12.47%), Switzerland (5.64%) and Iraq (5.61%). The Dirham appreciated also against the Chinese Yuan by 5.7% where China receives around 2.34% of the total non-oil exports. Except for the Iraqi Dinar against which the Dirham lost 0.4% in 2016, the Dirham has appreciated against all its main export partners and the average bilateral appreciation was around 3.4%.

Table 2.3.a Dirham appreciation against currencies of top non-dollarized import partners

Currency	Share of UAE imports (%) 2015	% Change of Currencies per Dirham (Q4-Q3) 2016	% Change of Currencies per Dirham 2015-2014	% Change of Currencies per Dirham 2016-2015
Chinese Yuan	12.40	2.53	2.0	5.7
Indian Rupee	9.70	0.76	5.1	4.7
Germany (EUR)	6.48	3.54	19.5	0.3
Japanese Yen	5.65	7.08	14.3	-10.1
UK Pound	3.35	5.67	7.7	13.2
Italy (EUR)	2.99	3.54	19.5	0.3
South Korean Won	2.87	3.48	7.4	2.6
France (EUR)	2.53	3.54	19.5	0.3
Swiss Franc	2.53	2.60	5.1	2.4
Total	**48.50**			
Weighted Appreciation		**1.57**	**4.49**	**1.21**

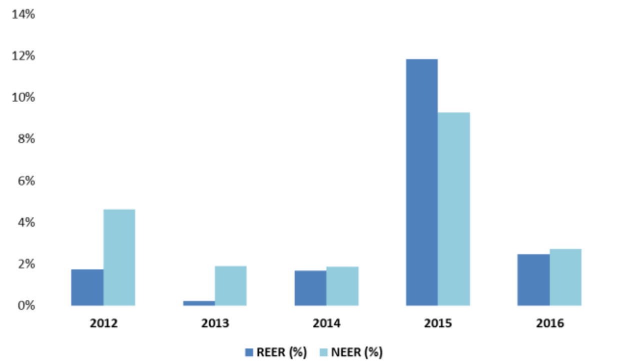
Source: Data on Imports shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2015.Data for the exchange rate are the quarterly average observations, recorded and displayed by Bloomberg.

Table.2.3.b Dirham appreciation against currencies of top non-dollarized partners for non-oil Exports

Currency	Share of UAE Exports (%) 2015	% Change of Currencies per Dirham (Q4-Q3) 2016	% Change of Currencies per Dirham 2015-2014	% Change of Currencies per Dirham 2016-2015
Indian Rupee	12.47	0.76	5.1	4.7
Swiss Franc	5.64	2.60	5.1	2.4
Iraqi Dinar	5.61	0.29	2.3	-0.4
Turkish Lira	5.16	10.95	24.5	11.0
Singapore Dollar	4.26	4.34	8.5	0.5
Kuwaiti Dinar	4.01	0.80	5.7	0.4
Chinese Yuan	2.34	2.53	2.0	5.7
Netherlands (EUR)	1.84	3.54	19.5	0.3
Pakistan	1.78	0.16	1.7	1.9
Total	**43.11**			
Weighted Appreciation		**1.17**	**3.35**	**1.49**

Source: Data on Exports shares (weights) are provided by the Federal Competitiveness and Statistics Authority (FCSA) for 2015. Data for the exchange

Figure 2.4.a Nominal and Real Effective Exchange rates Appreciation



Source: Bank of International Settlement (BIS)

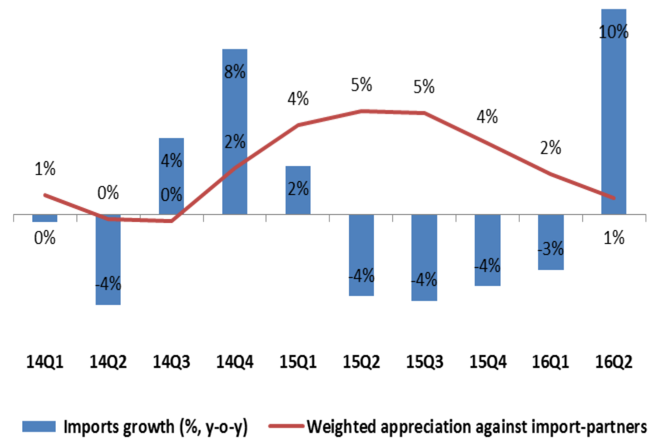
The appreciation of the Dirham against its trade partners in 2016 was confirmed by the average Real and Nominal Effective Exchange Rates developments (see Figure 2.3.a). The annual average REER, has increased by 2.5% to which the average NEER growth contributed by an annually average increase of 2.7%. The contribution of the relative price change to the REER appreciation was around 0.2% in 2016.

The impact of the Dirham's appreciation on the UAE non-oil imports is documented in Figures 2.4.b[6].

Cheaper imports boosted the amount of nominal imports in the second quarter of 2016. A weighted appreciation of the Dirham against its import partners by 1% in the second quarter of 2016, on the heels of a sequence of previous quarterly appreciations, was followed by a jump of nominal imports by 10% on a year-on-year basis.

On the other hand, in Figure 2.4.c., non-oil exports showed more resiliency to the Dirham's appreciation although its growth rate is declining over time. Despite the Dirham's appreciation, non-oil exports were expanding in 2015 and the first half of 2016. Nominal non-oil exports increased by 3% on a year-on-year basis in the second quarter of 2016 against a 15% increase during the first quarter and an average quarterly increase of 19% year-on-year in 2015. However, the growth rate of nominal non-oil exports has been decreasing more recently.

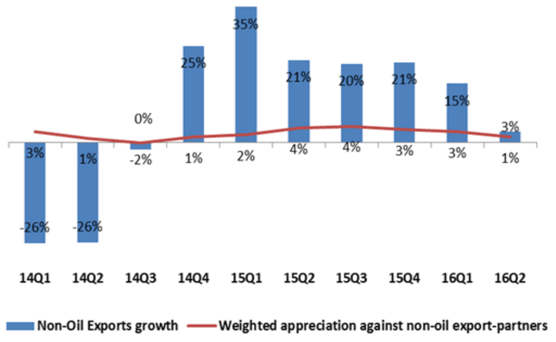
Figure 2.4.b Nominal Imports and Dirham's Weighted Appreciation developments (%, y-o-y)



Source: Federal Competitiveness and Statistics Authority (FCSA).

[6] Trade data are available only until the second quarter of 2016.

Figure 2.4.c Nominal Non-Oil Exports and Dirham's Weighted Appreciation developments (%, y-o-y)



Source: Federal Competitiveness and Statistics Authority (FCSA).

2.5 Fiscal Stance

The fiscal consolidation initiated by the government in 2015, after an important plunge of oil prices since mid-2014, has slowed down during the first nine months of 2016[7].

Total government spending declined by 2.6% during the first nine months of 2016 while the drop was around 11.5% during the same period in 2015 (see Table 2.5). Capital spending resumed its growth in support of capacity development and non-energy growth. It increased by 66.6% during the first nine months of 2016 while it declined by 31.4% during the same period in 2015. Capital spending fell by 35.8% in 2015, weighing significantly on non-energy growth in 2015.

Moreover, the compensation of employees continued its expansion in 2016 but at a slower pace than in 2015. During the first nine months, it increased by 5.3% after a significant rebound of 33.8% during the same period in 2015.

Other expenses cover all Abu Dhabi's transfers made on behalf of the Federal Government and accounts mainly for military expenditures. These expenses declined by 5.8% during the first nine months of 2016 on account of an important decline of 88.7% during the first quarter of 2016. In contrast, Other Expenses dropped by 16.7% during the first nine months of 2015.

The first nine months of 2016 were marked by a continuous increase of the amount of subsidies and transfers to GREs. They grew by 58% on account of a spectacular increase by 108.5% during the second quarter of 2016. The government has initiated mid-2015 an energy subsidy reform which tends to cut energy subsidies. Consequently, the increase of the amount of subsidies can be attributed to a net increase of transfers to GREs.

On the revenue side, total government revenues improved significantly during the first nine months of 2016. They increased by 22% compared to the same period of 2015. This improvement of revenues was triggered by an 18.4% increase of social contributions and an increase of others revenues by 163.7%. These other revenues include principally the property income, sales of goods and services and fines and penalties. It is noteworthy that these revenues include neither the profit transfers from the national oil company to the sovereign wealth funds, nor the government investment income.

Nonetheless, tax revenues have declined during the first nine months of 2016 by 48.4% on account of a reduction of taxes on oil companies, the highest reading since 2012. Taxes in connection to royalties on oil companies declined by 30.3% during the first nine months of 2015 leading to a total drop of 37.3% in 2015.

[7] Fiscal data for the last quarter of 2016 are not available yet.

Table.2.5 Consolidated Government Finances

In billions of Dirhams

	2014	2015					Change (%, Y-o-Y)					2016			Change (%, Y-o-Y)				
		Q1	Q2	Q3	Q4	2015	2015Q1	2015Q2	2015Q3	2015Q4	2015	Q1	Q2	Q3	2016Q1	2016Q2	2016Q3	(Jan-Sep)2015 – (Jan-Sep) 2014	(Jan-Sep)2016 – (Jan-Sep) 2015
Revenues (a)	**380.7**	**74.9**	**84.2**	**64.8**	**60.7**	**284.7**	**-17.0**	**-14.2**	**-31.5**	**-37.9**	**-25.2**	**85.7**	**102.7**	**84.9**	**14.3**	**21.9**	**31.1**	**-20.8**	**22.0**
Taxes(*)	279.9	54.9	50.6	41.9	28.1	175.4	-19.4	-25.4	-44.5	-59.0	-37.3	21.1	26.0	28.9	-61.5	-48.5	-30.9	-30.3	-48.4
Social contributions	5.3	1.1	1.1	1.0	1.3	4.5	14.0	-27.8	172.1	-46.5	-14.6	1.5	1.2	1.2	37.5	3.4	15.0	11.6	18.4
Other revenues	95.5	19.0	32.5	21.8	31.4	104.7	-10.4	13.2	17.1	16.6	9.7	63.1	75.5	54.8	232.2	132.2	151.0	7.0	163.7
Expenditure (b)	**414.6**	**89.9**	**96.1**	**85.6**	**93.3**	**364.8**	**-13.6**	**-7.4**	**-13.5**	**-13.6**	**-12.0**	**51.0**	**104.0**	**109.5**	**-43.3**	**8.3**	**28.0**	**-11.5**	**-2.6**
Compensation of employees	47.5	14.4	15.8	14.5	14.4	59.1	36.4	38.0	27.3	2.1	24.4	15.5	15.8	15.8	7.6	0.1	8.8	33.8	5.3
Use of goods and services	49.5	10.5	13.5	10.8	16.3	51.0	18.3	11.5	-22.0	10.4	3.0	10.4	14.8	11.1	-0.6	9.5	3.6	-0.1	4.6
Consumption of fixed capital	3.8	0.9	1.1	0.9	1.5	4.4	0.3	48.1	-14.8	37.7	16.7	1.1	1.5	1.2	32.1	38.2	31.8	7.9	34.4
Interest	4.1	0.5	0.5	0.6	1.3	2.9	-52.4	-49.1	-38.3	13.8	-29.5	0.2	0.4	0.3	-49.0	-16.0	-45.5	-46.9	-36.7
Subsidies	12.1	3.1	3.1	3.1	3.1	12.3	22.1	-14.1	-10.3	19.9	1.7	4.3	6.4	3.8	41.4	108.5	24.2	-3.2	58.0
Grants	21.9	3.1	2.8	2.5	2.1	10.6	-67.9	-54.9	-55.1	507.3	-51.8	0.5	0.5	8.6	-85.4	-81.3	247.0	-60.9	13.6
Social benefits	61.4	12.9	15.2	13.5	11.6	53.2	2.2	9.5	-16.1	-38.4	-13.4	6.3	5.4	5.4	-51.6	-64.7	-60.4	-2.3	-59.2
Other expenses	174.4	39.9	35.4	33.4	37.0	145.7	-23.8	-13.6	-10.2	-15.7	-16.4	4.5	47.8	50.1	-88.7	34.8	49.8	-16.7	-5.8
Net acquisition of non-financial assets	39.9	4.7	8.7	6.4	5.9	25.6	-15	-36.7	-33.3	-47.2	-35.8	8.1	11.4	13.3	73.8	31.2	109.7	-31.4	66.6

(*) It is mostly Royalties on oil and gas

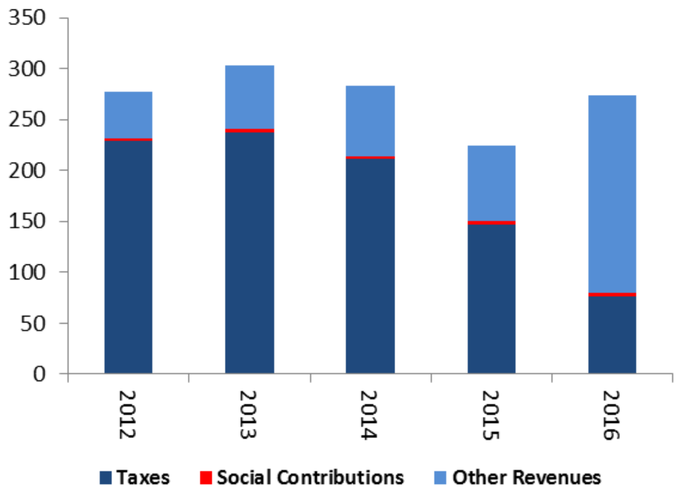
Source: - UAE Ministry of Finance, revenues do not include ADNOC transfers and government investment income.

- Other Revenues covers: Property income (interest, dividends, rent), Sales of goods and services (including administrative fees), Fines and penalties and other revenues not elsewhere classified. Effective 2016Q1, the Emirate of Abu Dhabi has added some transfers of important investment authorities from financing accounts to revenues, included in the distributed profit computation.
- Subsidies include social and price subsidies as well as transfers to GREs.
- Other expenses include the payments of Abu Dhabi made on behalf of the Federal Government, specially the Armed Forces expenditures.

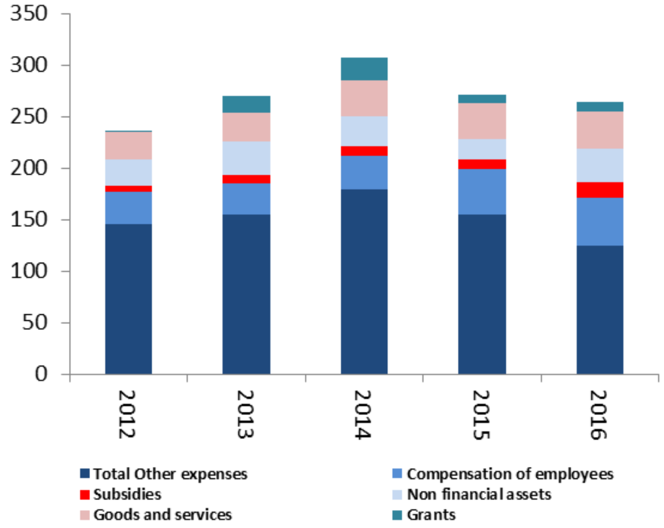
Note: All values are expressed in Billions of Dirhams unless otherwise indicated.

Government Finance

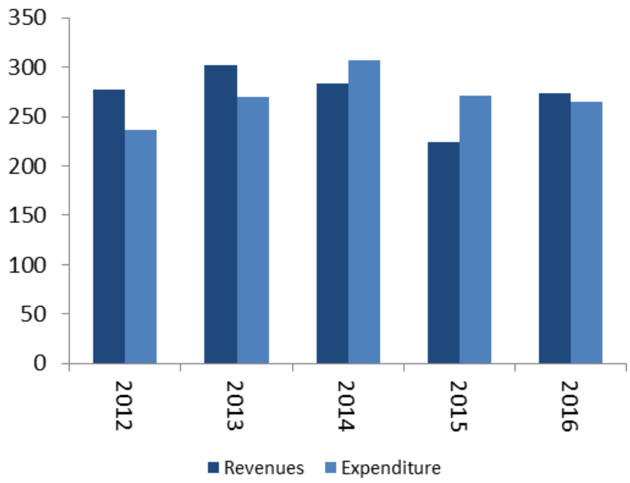
2.5. a General Government Revenues
(Billions of Dirhams)



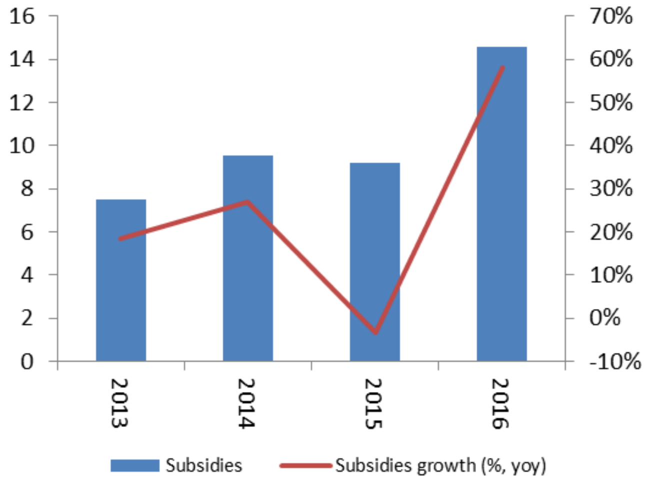
2.5.b General Government Expenditures
(Billions of Dirhams)



2.5.c Fiscal Stance
(Billions of Dirhams)



2.5.d Development in Subsidies and transfers to GREs
(Billions of Dirhams)



Source: Ministry of Finance.
Note 1: Other expenses cover all the payments of Abu Dhabi Government made on behalf of the federal government, including the Armed Forces expenditures. The total revenues do not include ADNOC transfers and government investment income. Total expenditures are also adjusted so that Abu Dhabi capital transfers are excluded.
Note 2: Since the data for the last quarter of 2016 are not available yet and for comparability issues, only observations of the first nine months of each year are taken into account.

2.6 Financial developments

2.6.1 Share Price Volatility

The economic slowdown and the decline of oil prices weighed on the financial markets in the UAE.

In 2016, the average share price index declined for both Abu Dhabi and Dubai securities markets. In Abu Dhabi, the share price index dropped by 2.7% compared to 2015. However, the average market capitalization rebounded by 5.2% on account of an important recovery of the securities markets in the third quarter of 2016.

The financial market in Dubai showed less resilience to the economic slowdown than Abu Dhabi's market, since both the share price index and the market capitalization deteriorated in 2016. The average share price index in Dubai declined by 9.3% in 2016 compared to 2015, similarly Dubai's market capitalization fell by 5.4%.

Despite the deterioration of the Share Price Indices in both markets, price volatility[8] declined. In Abu Dhabi, price volatility dropped by 15.3% in 2016. Moreover, the volatility of the Share Price Index in Dubai has declined by 57% compared to the previous year.

The volatility decline in both securities markets is due to the positive sentiment regarding the resiliency of the non-oil sector which helped re-establishing investors' confidence and reduced uncertainty.

Table 2.6.1 UAE – Securities Markets

		2016Q1	2016Q2	2016Q3	2016Q4	2016
Abu Dhabi	**Change of Share Price Index (%)**	-0.5	3.9	1.7	-2.7	-2.7
	Change of Market Capitalization (%)	1.0	1.9	5.8	-3.0	5.2
Dubai	**Change of Share Price Index (%)**	-2.7	5.5	3.4	-2.3	-9.3
	Change of Market Capitalization (%)	-3.4	6.4	1.4	-3.3	-5.4

Source: Abu Dhabi Securities Exchange and Dubai Financial Market
Note: Changes computation (Q-o-Q) is based on quarterly average of end-of-month values for the share price index and market capitalization.

2.6.2 Credit Default Swaps Premiums

The positive spillovers stemming from the positive developments of oil prices in 2016 and the resilience of the non-oil sector has removed an important part of uncertainty and reduced default likelihood of sovereigns and GREs. The spreads of Credit Default Swaps (CDS) has largely tightened in 2016.

The CDS of Sovereigns fell by 33.6% and by 36% in Abu Dhabi and Dubai, respectively, in 2016 compared to the previous year.

The CDS of DP World declined by 22% in 2016 with an average quarterly level of 143.6 bps, the lowest reading since mid-2014. The CDS of Dubai Holding fell by 28%, showing the lowest reading since the end of 2015.

Table 2.6.2. UAE - Credit Default Swaps (CDS)

	2013	2014	2015	2016
Sovereigns				
Abu Dhabi	55.0	63.5	92.6	61.5
Dubai	220.0	226.6	233.7	149.8
GREs				
DP World	167.5	212.0	183.9	143.6
Dubai Holding	325.8	330.7	421.0	303.8

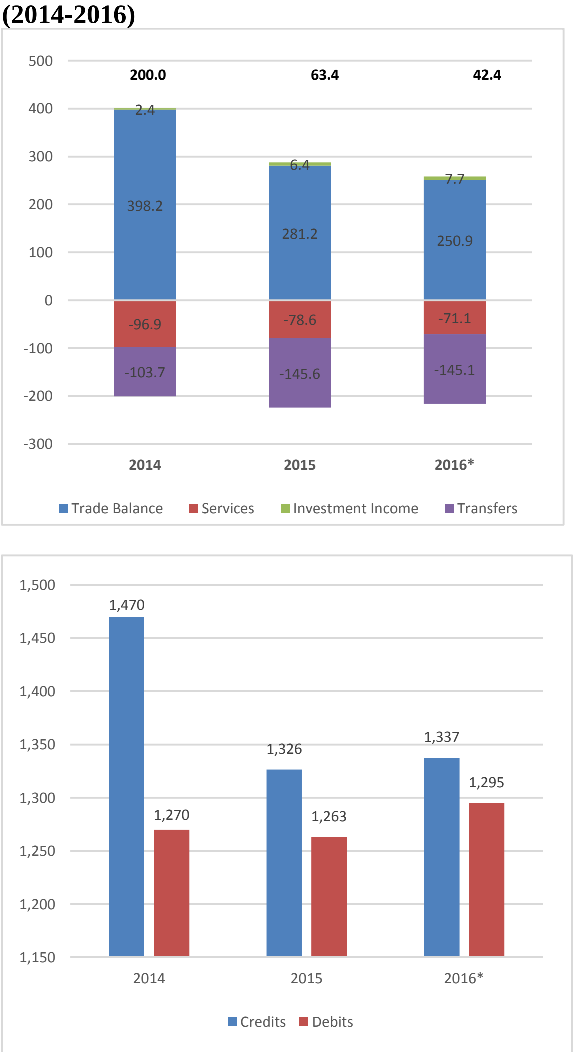
Source: Bloomberg.
Note: All data are the observed end-of-period values. Premiums are expressed in basis points.

[8] The volatility is measured by the standard deviation.

2.7 Developments in the Balance of Payments

The current account surplus decreased from AED 63.4 billion (4.7% of GDP) in 2015 to AED 42.4 billion in 2016 (3.1% of GDP). The decrease by 33.2% of the surplus in 2016 is attributed to the decrease in the trade balance that was caused by the increase of imports and the decrease of exports associated with the oil price evolution and the appreciation of the dirham. Notwithstanding the reduction in the trade balance surplus, narrower deficit in the services balance has mitigated the decline in the current account surplus along with a small increased surplus in the income account, reflecting shrinking inflows on foreign investments and more outflows for outstanding liabilities.

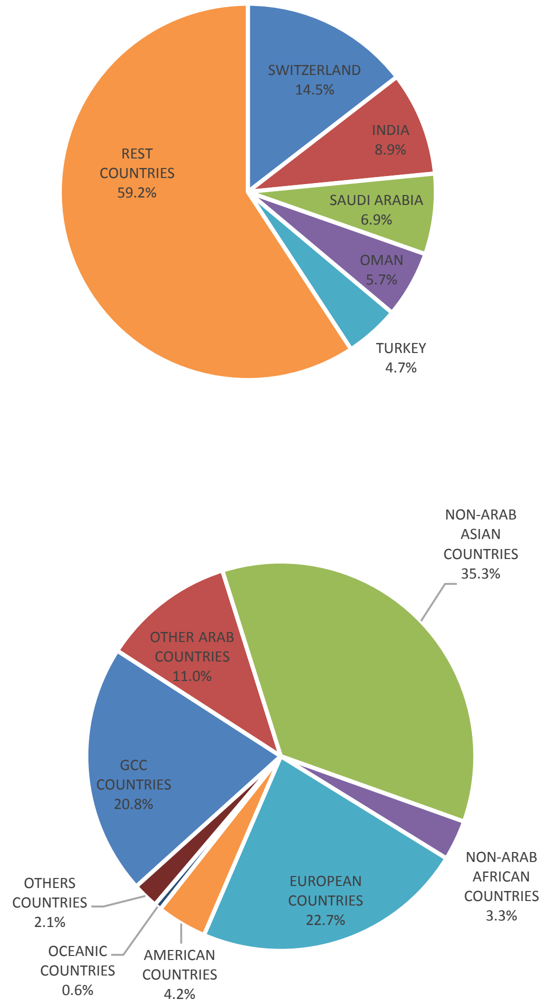
Figure 2.7.1: Evolution of Current Account (2014-2016), a. by main accounts, b. Evolution of total Credits and Debits of the current account (2014-2016)



In billion AED

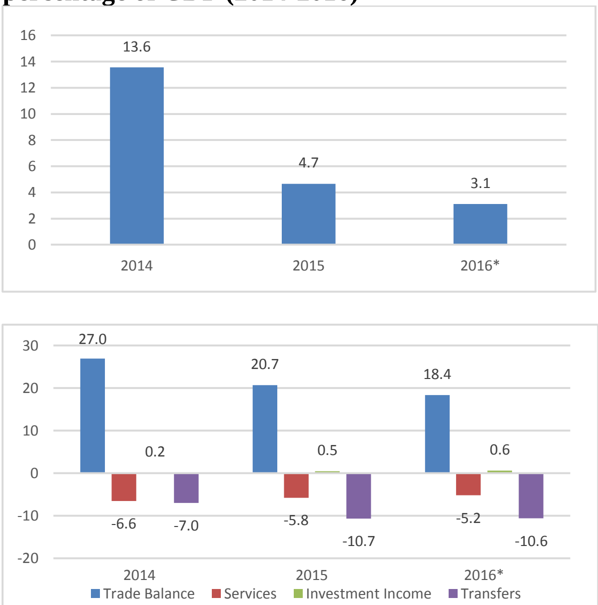
In 2016, the hydrocarbon exports decreased by 17.3% (AED 39.2 billion) compared to 2015, due mostly to a decline in the price of crude oil and other products. This decrease was partially offset by a rise in non-hydrocarbon exports by 4% or AED 15.4 billion, notwithstanding the higher exchange rate of the dirham relative to major trading partners (figure 2). Despite a small increase in re-exports, total exports (FOB, in free-on-board prices) decreased by AED 6.8 billion.

Figure 2.7.2: Non-oil exports of the UAE by value a. main exporting partners and b. by group of countries (first half of 2016)



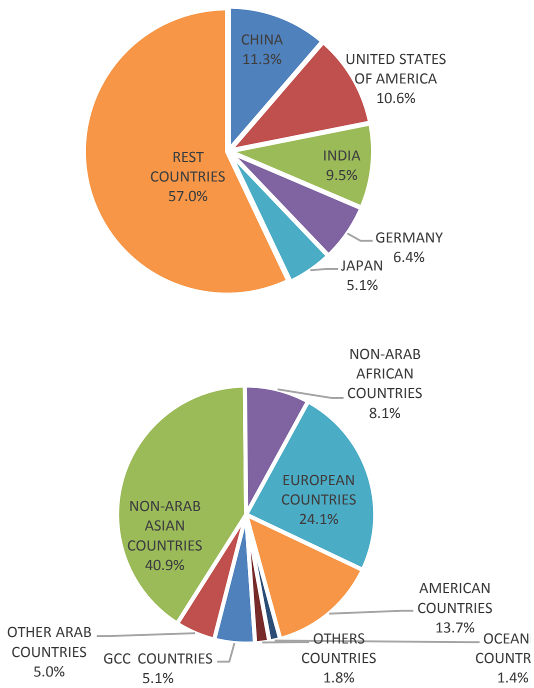
Source: Federal Competitiveness and Statistics Authority

Figure 2.7.3: a. Current account as percentage of GDP and b. Current account main categories as percentage of GDP (2014-2016)



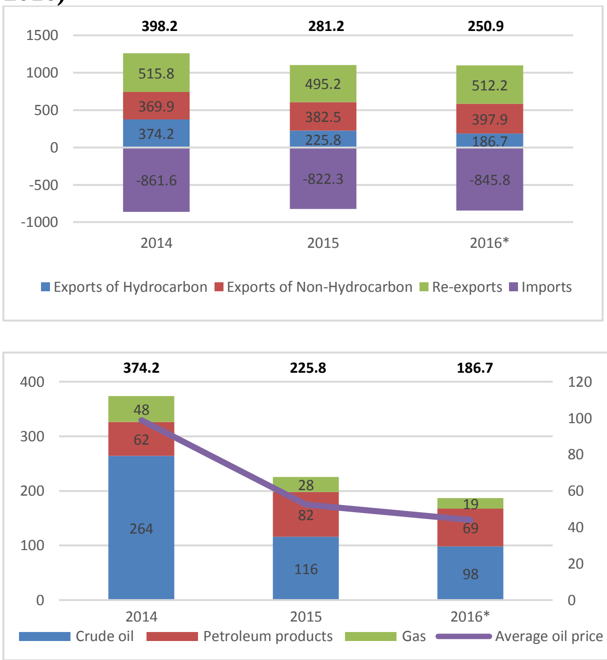
Meanwhile, total imports (CIF), i.e., including the cost of insurance and freight for the transport of the goods from the importing partners (figure 4), increased by AED 27.7 billion, in 2016. Nonetheless, the surplus of the trade balance remains substantial reaching 18.4% of GDP in FOB prices.

Figure 2.7.4: Imports of the UAE by value a. main importing partners and b. by group of countries (first half of 2016)



Source: Federal Competitiveness and Statistics Authority

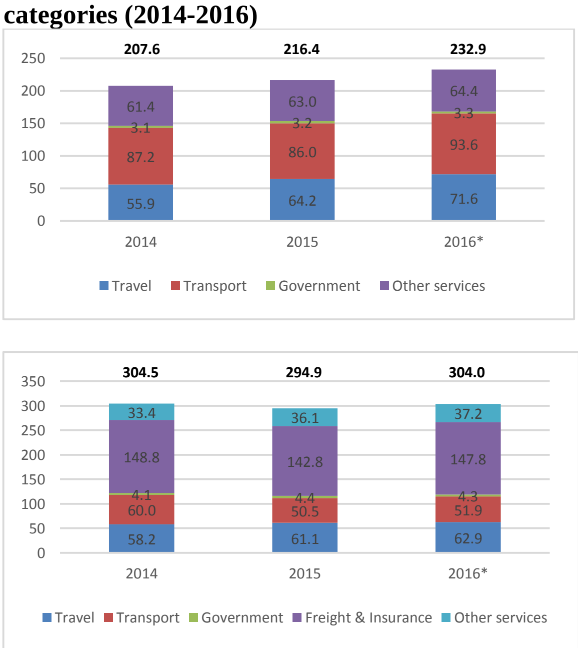
Figure 2.7.5: a. Trade Balance by its components and b. Hydrocarbon exports by category (2014-2016)



In billion AED

As regards to services, the lower fuel prices boosted the increase in both the credit and debit in travel and transport items, representing 71% of credits and 38% of debits. Net travel recorded an inflow of AED 8.7 billion compared to an inflow of AED 3.1 billion in 2015 and inbound tourism in the UAE strengthened recording 11.5% increase.

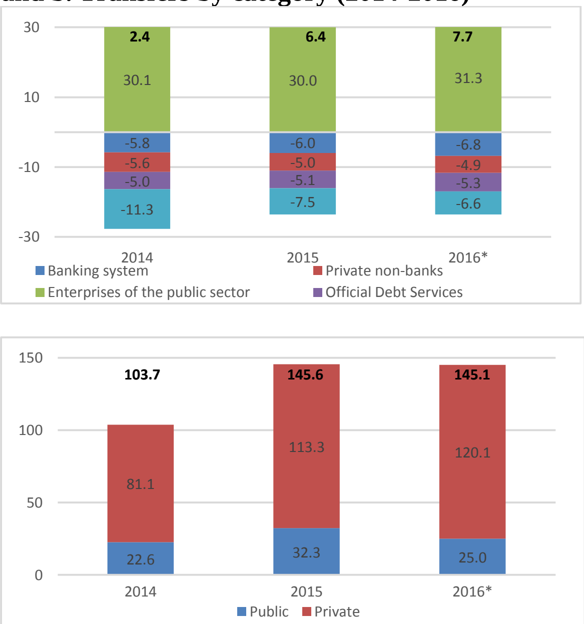
Figure 2.7.6: a. Credits of Services by main categories and b. Debits of Services by main categories (2014-2016)



In billion AED

Net investment income increased and recorded inflow of AED 7.7 billion in 2016. Transfers, however, registered offsetting trends, where the public transfers decreased while the private transfers increased, widening the net outflow in 2016 by AED 0.5 billion.

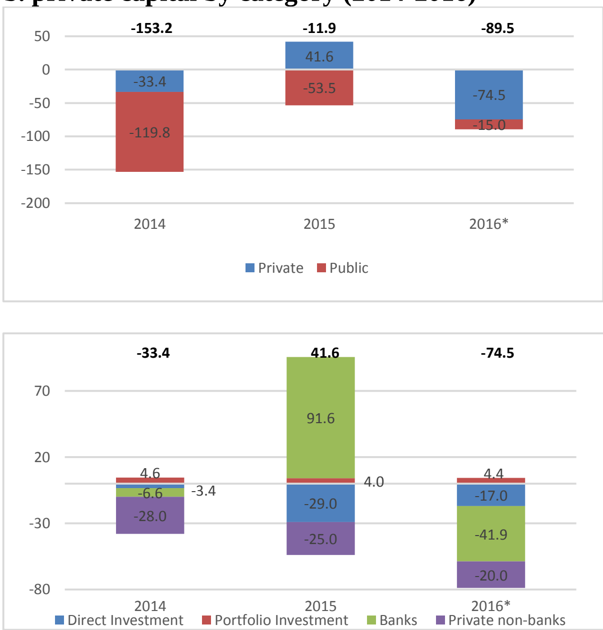
Figure 2.7.7: a. Investment Income by category and b. Transfers by category (2014-2016)



In billion AED

The deficit of the financial account widened by AED 77.6 billion during 2016, reaching AED 89.5 billion or 6.6% of GDP. The change in 2016 was mostly driven by the activity of the banking sector. A reduction was recorded in the outward foreign direct investment (FDI) by AED 11.3 billion (reflecting a one off outflows in 2015) that was complemented by a marginal increase in inward foreign direct investment by AED 0.7 billion, reaching AED 33 billion. The financial outward flows by the public sector entities (primarily in connection to investments by Sovereign Wealth Funds) decreased in line with the reduction in oil exports, reaching AED 15 billion.

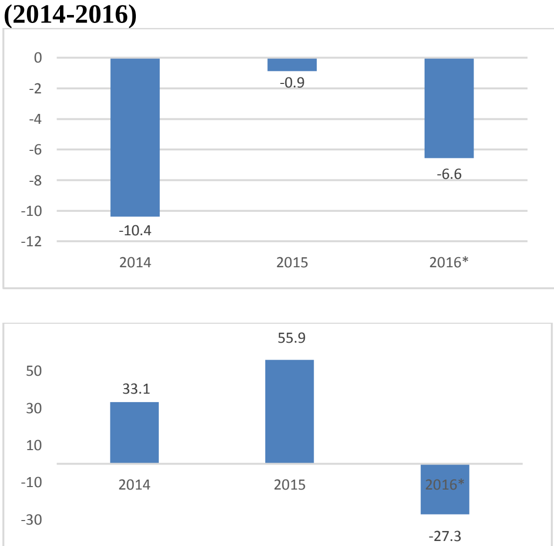
Figure 2.7.8: a. Evolution of private and public capital of the financial account (2014-2016) and b. private capital by category (2014-2016)



In billion AED

The combined effects of narrower current account surplus and a wider deficit in the financial account resulted in deficit in the overall balance of payments that reached AED 26.1 billion in 2016 (1.9% of GDP). The net foreign assets of the Central Bank, including the reserve position with the IMF, decreased during the same period by AED 27.3 billion.

Figure 2.7.9: a. Financial account as a percentage of GDP (2014-2016) and b. Evolution of reserves (2014-2016)



In billion AED

Table 2.7.1: U.A.E Balance of Payments Estimates

In billions of Dirhams

	2014	2015	% change	% GDP	2016*	% change	% GDP
Current Account Balance	**200.0**	**63.4**	**(68.3)**	**4.7**	**42.4**	**(33.2)**	**3.1**
Trade Balance (FOB)	**398.2**	**281.2**	**(29.4)**	**20.7**	**250.9**	**(10.8)**	**18.4**
Trade Balance (CIF)	**246.2**	**136.1**	**(44.7)**	**10.0**	**101.6**	**(25.3)**	**7.4**
Total Exports of Hydrocarbon	**374.2**	**225.8**	**(39.6)**	**16.6**	**186.7**	**(17.3)**	**13.7**
Crude Oil Exports	264.1	115.9	(56.1)	8.5	98.1	(15.4)	7.2
Petroleum Products Exports	62.2	81.8	31.4	6.0	69.2	(15.4)	5.1
Gas Exports	47.8	28.1	(41.2)	2.1	19.4	(31.1)	1.4
Total Exports of Non-Hydrocarbon	**369.9**	**382.5**	**3.4**	**28.1**	**397.9**	**4.0**	**29.2**
Free Zone Exports	237.7	221.3	(6.9)	16.3	216.1	(2.4)	15.8
Other Exports [1]	132.2	161.2	21.9	11.9	181.8	12.8	13.3
Re Exports [2]	**515.8**	**495.2**	**(4.0)**	**36.4**	**512.2**	**3.4**	**37.5**
Total Exports & Re Exports (FOB)	**1,259.9**	**1,103.5**	**(12.4)**	**81.1**	**1,096.7**	**(0.6)**	**80.4**
Total Imports (FOB)	**(861.6)**	**(822.3)**	**(4.6)**	**(60.5)**	**(845.8)**	**2.9**	**(62.0)**
Total Imports (CIF)	**(1,013.7)**	**(967.4)**	**(4.6)**	**(71.1)**	**(995.1)**	**2.9**	**(72.9)**
Other Imports [3]	(696.4)	(676.4)	(2.9)	(49.7)	(716.3)	5.9	(52.5)
Free Zone Imports	(295.5)	(275.9)	(6.6)	(20.3)	(268.7)	(2.6)	(19.7)
Imports (gas)	(21.8)	(15.1)	(30.7)	(1.1)	(10.1)	(33.1)	(0.7)
Services (NET)	**(96.9)**	**(78.6)**	**(18.9)**	**(5.8)**	**(71.1)**	**(9.5)**	**(5.2)**
Credits	**207.6**	**216.4**	**4.2**	**15.9**	**232.9**	**7.7**	**17.1**
Travel	55.9	64.2	14.8	4.7	71.6	11.5	5.2
Transport	87.2	86.0	(1.4)	6.3	93.6	8.9	6.9
Air	86.6	85.4	(1.4)	6.3	93.0	8.9	6.8
Postal	0.6	0.6	0.0	0.0	0.6	2.3	0.0
Government Services	3.1	3.2	3.2	0.2	3.3	3.3	0.2
Other services	61.4	63.0	2.5	4.6	64.4	2.3	4.7
Construction	8.8	9.0	2.3	0.7	9.2	2.2	0.7
Intellectual property	6.0	6.2	3.3	0.5	6.3	1.6	0.5
Information & Computer & Telecommunication	19.9	20.4	2.5	1.5	20.9	2.5	1.5
Information	0.2	0.2	0.0	0.0	0.2	0.0	0.0
Computer	15.6	16.0	2.6	1.2	16.4	2.5	1.2
Telecommunication	4.1	4.2	2.4	0.3	4.3	2.4	0.3
Other [4]	26.7	27.4	2.5	2.0	28.0	2.4	2.1
Debits	**(304.5)**	**(294.9)**	**(3.1)**	**(21.7)**	**(304.0)**	**3.1**	**(22.3)**
Travel	(58.2)	(61.1)	4.9	(4.5)	(62.9)	3.0	(4.6)
Transport	(60.0)	(50.5)	(15.8)	(3.7)	(51.9)	2.7	(3.8)
Air	(59.6)	(50.1)	(15.9)	(3.7)	(51.5)	2.7	(3.8)
Postal	(0.4)	(0.4)	0.0	(0.0)	(0.4)	2.7	(0.0)
Government Services	(4.1)	(4.4)	7.3	(0.3)	(4.3)	(2.3)	(0.3)
Freight & Insurance	(148.8)	(142.8)	(4.0)	(10.5)	(147.8)	3.4	(10.8)
Other services	(33.4)	(36.1)	8.1	(2.7)	(37.2)	3.0	(2.7)
Construction	(10.3)	(11.1)	7.8	(0.8)	(11.4)	3.0	(0.8)
Intellectual property	(7.2)	(7.8)	8.3	(0.6)	(8.0)	3.0	(0.6)
Information & Computer & Telecommunication	(7.0)	(7.5)	7.1	(0.6)	(7.7)	3.0	(0.6)
Information	(1.8)	(1.9)	5.6	(0.1)	(2.0)	3.0	(0.1)
Computer	(1.8)	(1.9)	5.6	(0.1)	(2.0)	3.0	(0.1)
Telecommunication	(3.4)	(3.7)	8.8	(0.3)	(3.8)	3.0	(0.3)
Other [4]	(8.9)	(9.7)	9.0	(0.7)	(10.0)	3.1	(0.7)
Investment Income (NET)	**2.4**	**6.4**	**166.7**	**0.5**	**7.7**	**20.3**	**0.6**
Banking System [5]	(5.8)	(6.0)	3.4	(0.4)	(6.8)	13.3	(0.5)
Private non-banks	(5.6)	(5.0)	(10.7)	(0.4)	(4.9)	(2.0)	(0.4)
Enterprises of Public Sector	30.1	30.0	(0.3)	2.2	31.3	4.3	2.3
Official Debt Services (Interest)	(5.0)	(5.1)	2.0	(0.4)	(5.3)	3.9	(0.4)
Foreign Hydrocarbon Companies in UAE	(11.3)	(7.5)	(33.6)	(0.6)	(6.6)	(12.0)	(0.5)

Table: U.A.E. balance of payments estimates (continued)							
	2014	**2015**	**% change**	**% GDP**	**2016***	**% change**	**% GDP**
Transfers (NET)	**(103.7)**	**(145.6)**	**40.4**	**(10.7)**	**(145.1)**	**(0.3)**	**(10.6)**
Public	(22.6)	(32.3)	42.9	(2.4)	(25.0)	(22.6)	(1.8)
Private	(81.1)	(113.3)	39.7	(8.3)	(120.1)	6.0	(8.8)
Financial Account	**(153.2)**	**(11.9)**	**(92.2)**	**(0.9)**	**(89.5)**	**652.1**	**(6.6)**
Capital Account							
Financial Account	(153.2)	(11.9)	(92.2)	(0.9)	(89.5)	652.1	(6.6)
a. Private capital	(33.4)	41.6	(224.6)	3.1	(74.5)	(279.1)	(5.5)
a-1 Direct Investment	(3.4)	(29.0)	752.9	(2.1)	(17.0)	(41.4)	(1.2)
a-1-1 Outward	(43.1)	(61.3)	42.2	(4.5)	(50.0)	(18.4)	(3.7)
a-1-2 Inward	39.7	32.3	(18.6)	2.4	33.0	2.2	2.4
a-2 Portfolio Investment	4.6	4.0	(13.0)	0.3	4.4	10.0	0.3
a-3 Banks	(6.6)	91.6	(1,487.9)	6.7	(41.9)	(145.7)	(3.1)
a-3-1 Securities	(39.6)	(12.4)	(68.7)	(0.9)	(11.5)	(7.3)	(0.8)
a-3-1 Other investment (loans, deposits)	33.0	104.0	215.2	7.6	(30.4)	(129.2)	(2.2)
a-4 Private nonbanks	(28.0)	(25.0)	(10.7)	(1.8)	(20.0)	(20.0)	(1.5)
b. Enterprises of Public Sector	(119.8)	(53.5)	(55.3)	(3.9)	(15.0)	(72.0)	(1.1)
Errors and omissions	(13.5)	4.7	(134.9)	0.3	21.0	347.9	1.5
Overall balance	**33.4**	**56.2**	**68.5**	**4.1**	**(26.1)**	**(146.4)**	**(1.9)**
Change in Reserves at the Central Bank **	(33.4)	(56.2)	68.5	(4.1)	26.1	(146.4)	1.9
Change in Reserve Position with IMF & SDR**	0.3	0.3	15.7	0.0	1.2	308.3	0.1
**Total change in International Reserves ** **	**(33.1)**	**(55.9)**	**68.9**	**(4.1)**	**27.3**	**(148.8)**	**2.0**
UAE Central Bank							
Foreign Assets (including the IMF)	288.2	345.1	19.7	25.4	313.6	(9.1)	23.0
Foreign Assets of the Central Bank	283.9	341.1	20.1	25.1	310.8	(8.9)	22.8
Reserve Position with IMF & SDR	4.3	4.0	(6.8)	0.3	2.8	(29.8)	0.2
Reserve Position with IMF	1.5	1.3	(11.7)	0.1	2.0	59.2	0.2
SDR	2.9	2.8	(4.3)	0.2	0.8	(71.2)	0.1
Foreign Liabilities	8.0	8.9	11.6	0.7	4.7	(47.2)	0.3
Net Foreign Assets (including the IMF)	280.3	336.2	20.0	24.7	308.9	(8.1)	22.6
Net Foreign Assets at the Central Bank	275.9	332.1	20.4	24.4	306.1	(7.9)	22.4

(1) *Including Estimates of other Exports from all Emirates*
(2) *Including Re-exports of Non-Monetary Gold*
(3) *Including Estimates of Imports from all Emirates and Imports of Non-Monetary Gold*
(4) *Includes estimation for financial services, research and development services, professional and management consulting services, technical, trade-related and other business services and the rest of insurance services apart from cargo*
(5) Central Bank and all Banks

Note: The data for Services account and Outward FDI have been revised following the results of surveys conducted with the consultancy firm

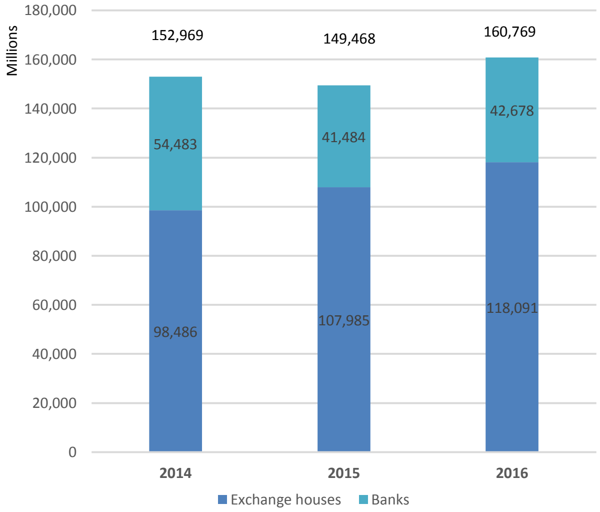
* *Preliminary Estimates Subject to Revision*
*** *Negative indicates an increase, positive indicates a decrease*

Box: Workers' Remittances

The workers' remittances outflows in 2016 recorded AED 160.8 billion registering 7.6% or AED 11.3 million increase compared to the same period of 2015 (AED 149.5 billion) (figure 1) according to the combined data reported from the exchange houses and the banks to the Banking Supervision Department of the Central Bank (BSD). The outflows of the workers' remittances that were settled through the exchange houses only recorded AED 118.1 billion in 2016 (9.4% or AED 10.1 billion increase compared to 2015).

The increasing trend in 2016 of the total outflows of private transfers could be attributed to the rate of appreciation of the nominal effective exchange rate of the dirham by 2.8% on average (the average index for 2016 118 using BIS data) compared to 2015.

Figure 1. Evolution of Workers' remittances settled through Banks and Exchange houses in the UAE 2014-2016



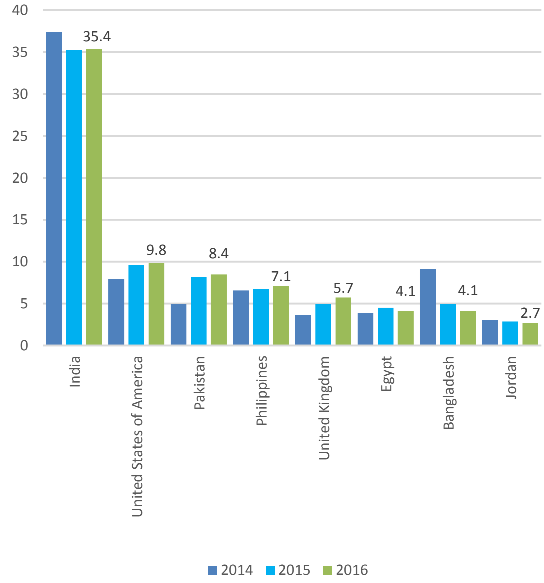
Source: CBUAE, Banking Supervision Department

In 2016, BSD's data indicate that 73% of the financial transfers are being conducted through the exchange houses and 27% through the banks. According to the market participants' estimates and the latest available data of 2016, the major companies in the field of exchange houses that possess the largest market share account for around 93% of the market for workers' remittances outflow from the UAE through exchange houses[1].

The most important country of destination for workers' remittances during 2016 was India that accounted for 35.4% of the outflows of workers' remittances in accordance with the significant share of expats from India in the UAE (figure 2). According to available population statistics, dated October 2008 from the Federal Competitiveness and Statistics Authority, 82.7% of the employees in the UAE belong to Asian Non-Arab Countries, which include India.

The next five most important countries in the share of outflows of expat workers were the United States of America (9.8%), Pakistan (8.4%), Philippines (7.1%) and the United Kingdom (5.7%).

Figure 2. Share of the major countries for workers' remittances during 2014-2016 (percentage of total, exchange houses and banks)



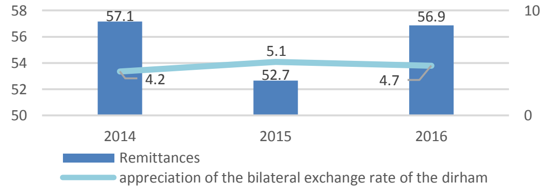
Source: CBUAE, Banking Supervision Department

The outflows of remittances from the UAE to selected countries increased largely with the appreciation of the dirham bilateral exchange rate relative to the currency of the recipient country (Figure 3).

[1] The largest market share account the companies that include Al Ansari, UAE Exchange, Lulu Exchange, Razouki, Ahalia, etc.

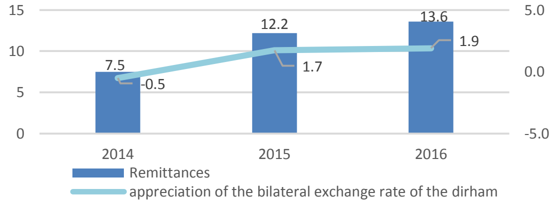
Figure 3. Evolution of the remittances versus the bilateral exchange rate in selected countries (2014-2016)

a. India



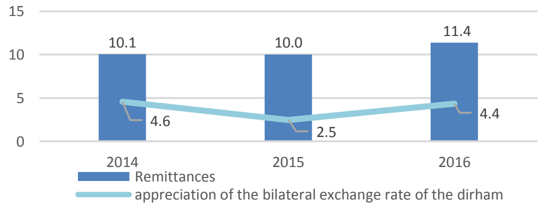
In millions of dirhams

b. Pakistan



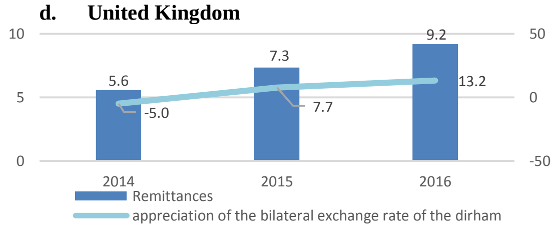
In millions of dirhams

c. Philippines



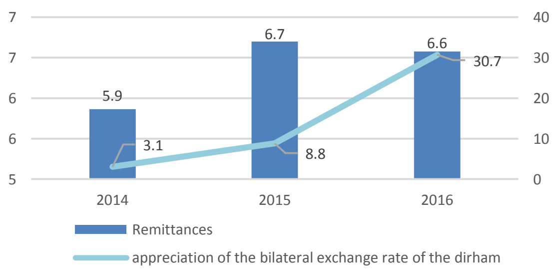
In millions of dirhams

d. United Kingdom



In millions of dirhams

e. Egypt



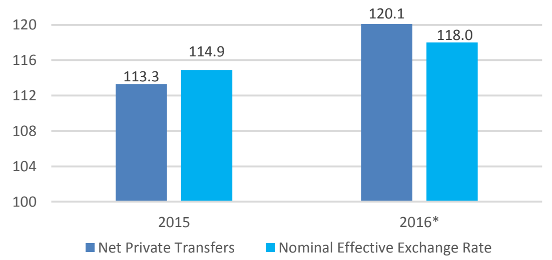
In millions of dirhams

Note: For all countries the graphs depict the outflows of remittances in millions of AED and the average annual appreciation of the bilateral exchange rate of the dirham with respect to their currency.

Source: CBUAE, Banking Supervision Department, Bloomberg

The total net payments (outflows) of workers' remittances[1] show an increasing trend for the period 2015-2016 (6% increase), along with the movement in the nominal effective exchange rate of the dirham relative to the currencies of major trading partners which appreciated on average by 2.8%. The total recorded net workers' remittances for 2016 (AED 120.1 billion) represents 106% of the total for 2015 (at AED 113.3 billion). Higher outflows, coupled with less oil receipts has squeezed the surplus of the current account balance.

Figure 4. Evolution of the Net Private Transfers and the Nominal Effective Exchange rate (2015-2016)



** Provisional data*

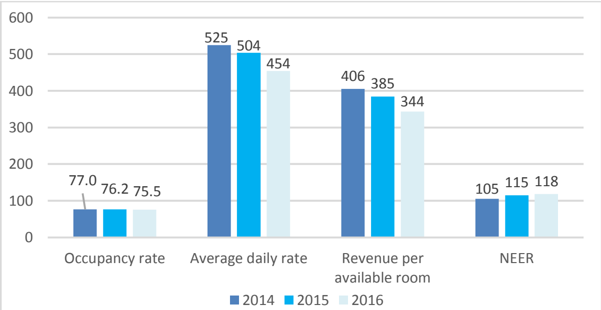
Source: CBUAE, Bank of International Settlements

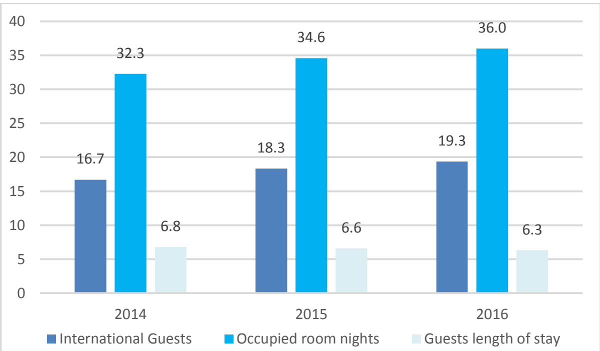
[1] The private transfers in the balance of payments include personal transfers (workers' remittances) and other current transfers. Other current transfers include, for example, current taxes on income, wealth etc., social contributions, benefits and current international cooperation. Information on other transfers is not currently available.

Box: Exchange Rate Appreciation and Tourism Activity in the UAE

An increasing trend in attracting international visitors is depicted in figure 1 for the period 2014-2016, notwithstanding the continued appreciation of the dirham in nominal effective terms, based on the combined data available from Dubai and Abu Dhabi emirates, which contribute the largest shares of the total aggregate. The increase in international guests was managed by a pricing strategy as there was a decrease in the average daily rate and the revenue per available room, which solidified the increase in occupied room nights and sustained the average hotel occupancy rate at a similar level to previous years.

Figure 1: Major combined indicators of Dubai and Abu Dhabi inbound tourism, 2014-2016





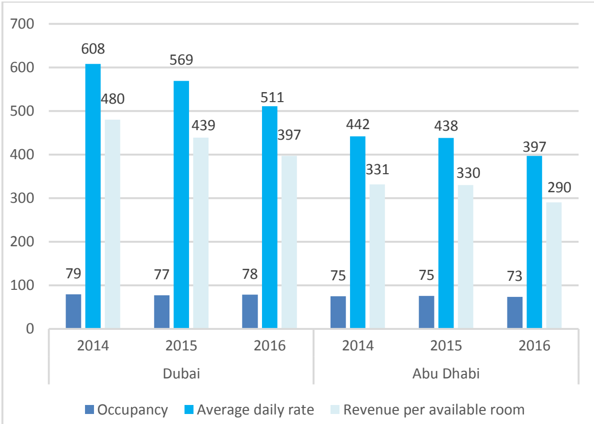
Note: International Guests and occupied room nights in million, average daily rate and revenue per available room in AED

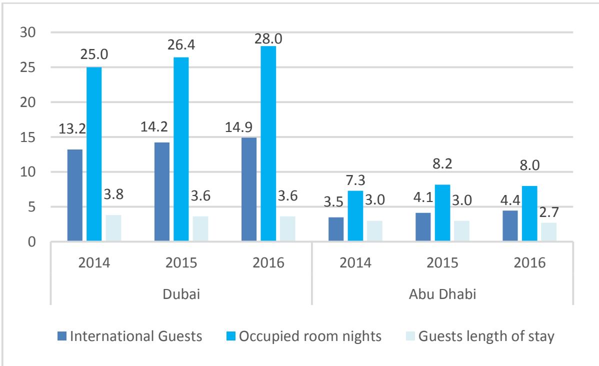
Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority, Bank of International Settlements

Focusing on the developments in each of the emirates of Dubai and Abu Dhabi, Figure 2 demonstrates that the appreciation of the dirham did not prevent the increasing trend of guest arrivals, both in Dubai and in Abu Dhabi. In parallel, there is evidence of decreased average length of tourists' stay despite the increase in tourist arrivals, which adversely affected the evolution of receipts. The evidence suggests a strategy to retain tourists by providing more discounts to avert a slowdown in the growth rate of tourism.

Indeed, reduction is evident in the average daily rate and the revenue per available room for both emirates, which resulted in an increase in the occupied room nights and sustained the average hotel occupancy rates at similar levels to previous years.

Figure 2: Major indicators of Dubai and Abu Dhabi inbound tourism, 2014-2016





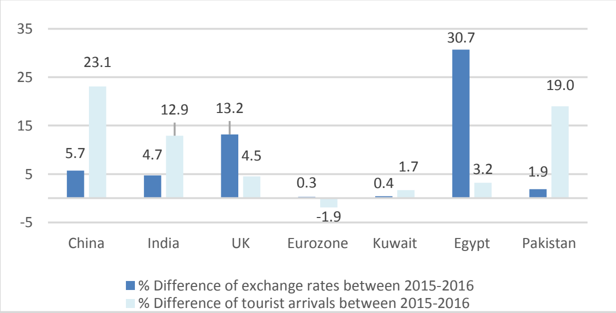
Note: International Guests and occupied room nights in million, average daily rate and revenue per available room in AED

Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority [1]

The effect of the bilateral exchange rate movements on tourism for 2016, compared to 2015 is depicted in figure 3. The evolution of AED is depicted with respect to the currencies of major countries for tourists, combined with the respective numbers of tourists' arrivals. For all countries below, there has been a surge in the number of tourists, despite the appreciation of the dirham, except for Germany in the Eurozone.

[1] Data are for based on the official tourism authorities publications. Dubai Tourism Authority publishes *International Guests* whereas Abu Dhabi Tourism Authority publishes *Actual Guest Arrivals.* Also, for the variable *Room Nights* Dubai Tourism Authority publishes *Occupied Room Nights* whereas Abu Dhabi Tourism Authority publishes *Room Nights* that include the number of nights a guestroom is occupied regardless of the number of persons occupying the room.

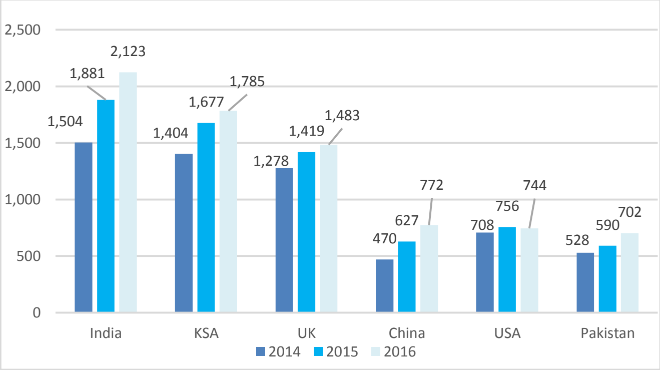
Figure 3. Percentage change in guest arrivals and bilateral exchange rates with selected countries 2016-15



Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority, Bloomberg

All major countries that are the markets of inbound tourism to the Dubai and Abu Dhabi emirates show increase in the arrivals of tourists, apart from the US and Germany. The largest increase in guest arrivals is evident from China, Jordan, and Philippines. Nonetheless, the vast majority of tourists originate from GCC countries and the MENA region, followed by Western Europe, South Asia and North America.

Figure 4. Major markets of inbound tourism combined for Dubai and Abu Dhabi, 2014-2016



In thousands

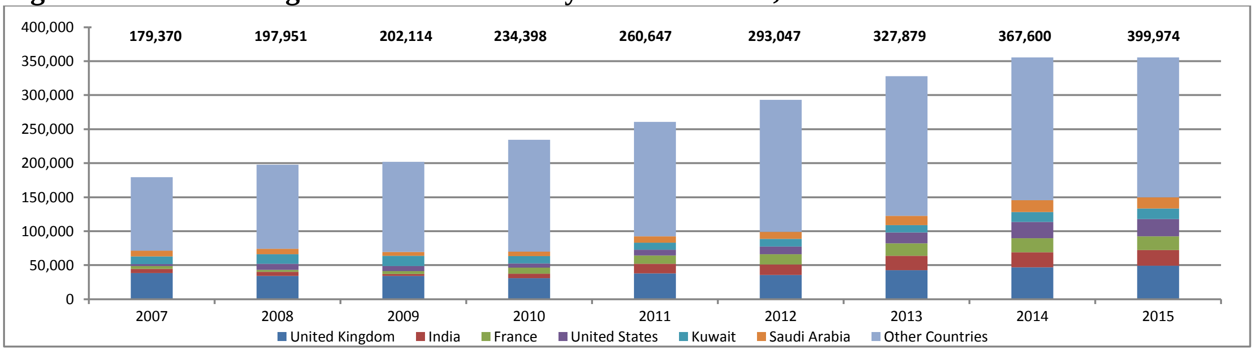
Source: Dubai Corporation of Tourism and Commerce Marketing, Abu Dhabi Tourism & Culture Authority

Box: Foreign Direct Investment (FDI) - Inward

The inflows of foreign direct investment in 2016 are estimated to record inflow of AED 33 billion registering 2.2% increase compared to the previous year (AED 32.3 billion). The analysis below tracks available information for inward direct investment by country and economic activity, using latest available published data.

The foreign direct investment data by country and economic activity are available only regarding the inward direct investment stock data within the framework of the annual survey on Foreign Investment of the Federal Competitiveness and Statistics Authority along with the regional statistical centers. The latest available foreign direct investment data at a federal level with sectoral and geographical breakdown are for 2015. The stock of inward foreign direct investment in 2015 was AED 400 billion and the growth rate of the stock of inward foreign direct investment in 2015 is 8.8%.

Figure 1: Inward foreign direct investment by main countries, 2007-2015

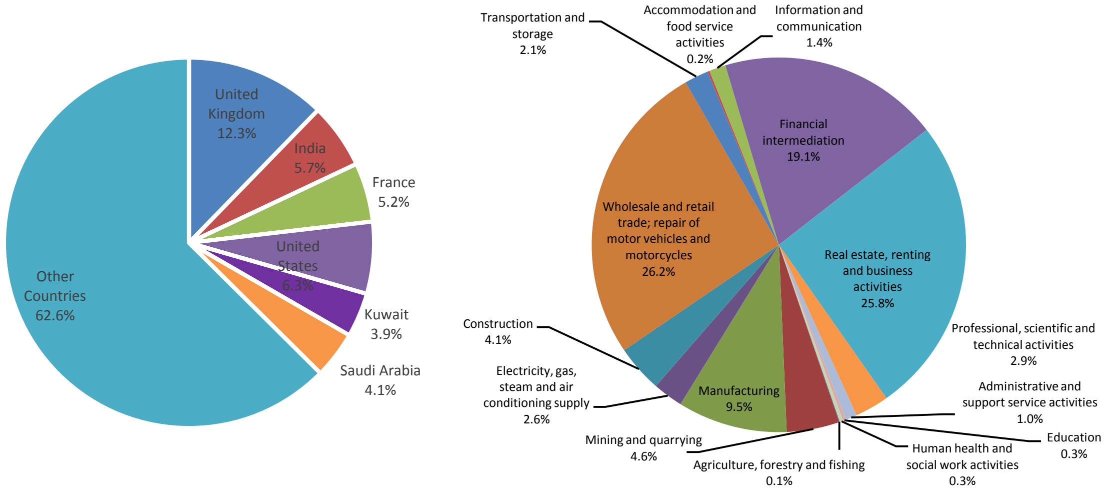


In million AED

Source: Federal Competitiveness and Statistics Authority

The main countries of origin of inward foreign direct investment include United Kingdom (12.3%), the United States (6.3%), India (5.7%) and France (5.2%). Regarding the GCC region, the countries with the largest contribution to foreign direct investment include Kuwait and Saudi Arabia that accounted together for 8% of total FDI in 2015.

Figure 2: Inward foreign direct investment (2015), a. main countries, b. economic activity

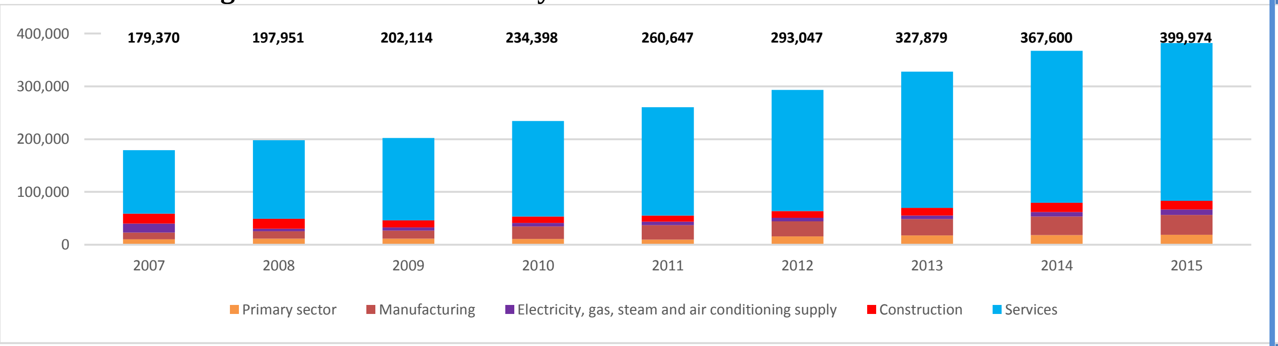


Source: Federal Competitiveness and Statistics Authority

For 2015 data, the primary sector that consists of agriculture, forestry, fishing, mining and quarrying attracted 4.6% of total inward direct investment. Manufacturing represented 9.5% of inward direct investment. Wholesale and retail trade accounted for 26.2% of total inward direct investment whereas real estate represented 25.8%.

Figure 3: Inward foreign direct investment by economic activity, 2007-2015

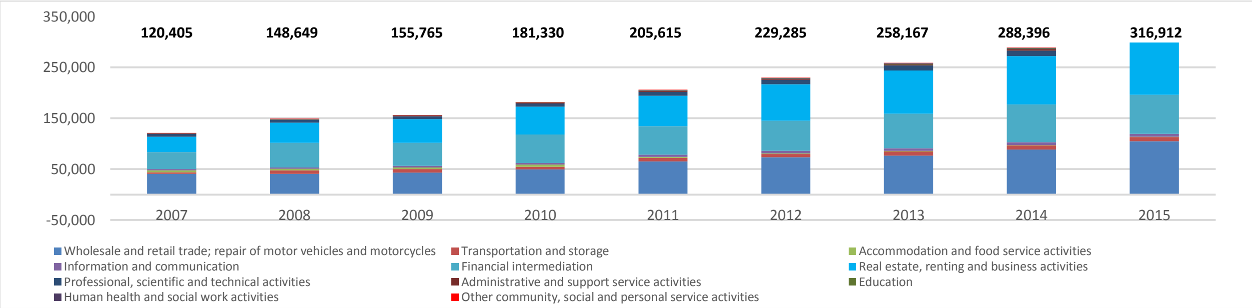
a. Main categories of economic activity



In million AED

Source: Federal Competitiveness and Statistics Authority

b. Services



In million AED

Source: Federal Competitiveness and Statistics Authority

Chapter 3. Monetary & Banking Developments

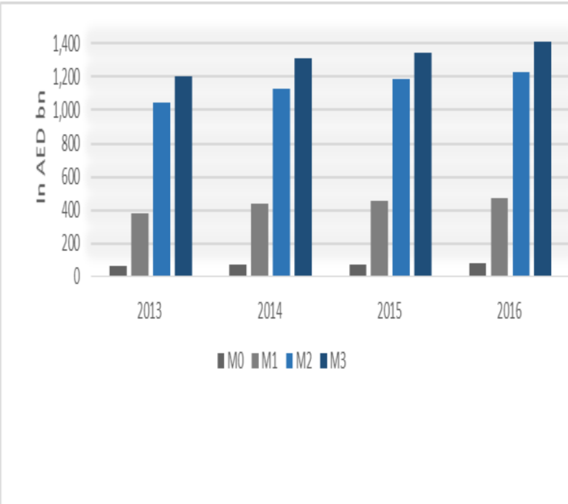
Government deposits increased in 2016 with recovering oil prices and fiscal consolidation in place, which increased the growth of the money supply. Banks, capitalizing on improved quality of loan portfolio were able to increase credit albeit at a moderate pace. Banks therefore provided the non-energy sectors of the economy with the needed financing. Overall, the banking sector in the UAE remains well capitalized, highly liquid and enjoys Financial Stability.

3.1 Monetary Aggregates

In 2016, all the Money Supply Aggregates and their respective components grew. For M1 the increase was of 3.7%, while M2 and M3 grew by 3.3% and 5.1%, respectively. The Compound Annual Growth Rate (CAGR[1]) for the period 2013-2016 was[2] 7.7%, 5.5% and 5.4% for M1, M2 and M3 respectively. Hence, in 2016, the aggregates were growing below the average increase for the last three years.

M1 growth is mainly due to the growth in the monetary aggregate M0 (including cash at banks and currency in circulation outside banks, rising by 1.3% and 6.7% Y-o-Y respectively) and monetary deposits grew by 3.3% in 2016. On the other hand, M2 grew by 3% in 2016. Moreover, the growth in M3 in 2016 remains close to the CAGR, 5.1% vs. 5.4%, mainly due to the 19.2% growth in Government deposits in commercial banks and at the central bank in 2016.

Figure 3.1.UAE monetary aggregates: 2013 – 2016



Source: Central Bank of the UAE

3.2 Banking Activity

The number of locally-incorporated banks remains unchanged for the last four years at 23. During the period of high oil price and booming oil and non-oil sectors of the economy, the number of branches has been rising reaching its peak in 2015 of 874, as banks were expanding their business and looking to increase their market share. However, more recently the number of branches decreased to 846. The number of foreign banks has remained constant for the last three years with the branches declining only by one to 85 at the end of 2016.

Table 3.1.Banks in the UAE and their branches

		Dec-13	Dec-14	Dec-15	Dec-16
Local	# Banks	23	23	23	23
	Branches	841	869	874	846
Foreign	# Banks	28	26	26	26
	Branches	87	86	86	85

Source: Central Bank of the UAE

3.2.1 Banks' Deposits

Total Customer Deposits at banks increased in 2016 by 6.2%, due to the increase in Resident Deposits by 4.9% and Non-Resident Deposits by 16%. The figures of the three indicators for growth in 2016, remain close to the CAGRs for the last three years, but slightly below them. This level of growth in deposits provides a healthy environment for the liquidity in the banking system, which improved relative to 2015 (Table 3.2.a and Table 3.2.b).

[1] The CAGR is the mean annual growth rate (geometric mean) over a specified period of time longer than one year. It is a more precise measure for average growth than the arithmetic mean.

[2] In this chapter, the period under consideration to calculate CAGR will always be 2013-2016 and the geometric mean growth rate is of three observation, for 2014 over 2013, 2015 over 2014 and 2016 over 2015, i.e. **the three years geometric mean growth rate**.

Table 3.2.a.Deposits at UAE Banks

	2014 Dec	2015 Dec	2016 Dec
Bank Deposits	**1,421.3**	**1,471.6**	**1,562.9**
(Y-o-Y change %)	11.1	3.5	6.2
Resident Deposits	**1,267.3**	**1,300.1**	**1,363.9**
(Y-o-Y change %)	8.9	2.6	4.9
Government Sector	**188.8**	**157.4**	**186.8**
(Y-o-Y change %)	17.0	-16.6	18.7
GREs	**173.3**	**190.8**	**168.2**
(Y-o-Y change %)	-0.2	10.1	-11.8
Private Sector	**868.8**	**923.8**	**980.7**
(Y-o-Y change %)	10.0	6.3	6.2
NBFIs	**36.4**	**28.1**	**28.2**
(Y-o-Y change %)	-6.4	-22.8	0.4
Non-Resident Deposits	**154.0**	**171.5**	**199.0**
(Y-o-Y change %)	33.9	11.4	16.0

Source: Central Bank of the UAE

Note: All data indicate the end of period values in billions of AED.

Table 3.2.b.CAGR of Deposits at UAE Banks

Deposits CAGR 2013-16						
Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
6.9%	5.4%	5.0%	-1.0%	7.5%	-10.2%	20.1%

Source: Central Bank of the UAE

The increase in Resident Deposits in 2016 is essentially due to the substantial growth in the Government sector deposits in commercial banks by 18.7%, mainly explained by the progressive fiscal consolidation supported by the recovery in oil price. The increase in Private Sector deposits by 6.2%, could be justified by the good level of growth in some of the non-oil sectors of the economy. At the same time, GREs' deposits declined by 11.8%. The Non-resident deposits marked a growth of AED 27.5bn in 2016, as geopolitical instability remains in some MENA countries and the UAE remains a safe haven for the region.

Looking at the split between Conventional and Islamic banks, Conventional banks over-performed the Islamic banks deposits growth in 2016. Islamic banks in 2016 grew below the past three years CAGR (5% vs. 12.4%), while the Conventional banks grew at a rate higher than the CAGR (6.6% vs. 5.5%) (Table 3.2.d).

S

All the subsectors of the Resident Deposits for Conventional banks grew in 2016 at a higher rate than those of the Islamic banks, except for the Private sector, where Islamic banks dominated in terms of deposit growth (Table 3.2.c).

The Private sector deposits' growth continues to be dominated by the Islamic banks in 2016, similar to 2015, as the demand for Shari 'a compliant products for companies and individuals is growing in line with the vision of Dubai to become the capital of Islamic finance. Similarly, non-resident deposits in Islamic banks increased in 2016 by 40.3% compared to 15% for the Conventional ones due to established Islamic banking system in the country and increased confidence in the financial and political stability in the UAE compared to lingering geopolitical uncertainty in some of neighboring countries.

Table 3.2.c.Deposits at Conventional/Islamic Banks

	Conventional		Islamic	
	2015 Dec	2016 Dec	2015 Dec	2016 Dec
Bank Deposits	**1,139**	**1,214**	**332**	**349**
(Y-o-Y change %)	0.2	6.6	16.7	5.0
Share of Total, %	77.4	77.7	22.6	22.3
Resident Deposits	**975**	**1,024**	**326**	**339**
(Y-o-Y change %)	-1.5	5.1	17.2	4.2
Share of Total, %	75.0	75.1	25.0	24.9
Government Sector	**107**	**143**	**51**	**44**
(Y-o-Y change %)	-28.3	33.9	26.9	-13.5
Share of Total, %	67.9	76.6	32.1	23.4
GREs	**136**	**120**	**55**	**48**
(Y-o-Y change %)	0.7	-11.7	42.7	-12.2
Share of Total, %	71.1	71.2	28.9	28.8
Private Sector	**709**	**738**	**215**	**243**
(Y-o-Y change %)	4.9	4.0	11.2	13.2
Share of Total, %	76.8	75.2	23.2	24.8
NBFIs	**23**	**24**	**5**	**4**
(Y-o-Y change %)	-24.1	5.3	-16.9	-20.4
Share of Total, %	80.8	84.8	19.2	15.2
Non-Resident Deposits	**165**	**190**	**7**	**10**
(Y-o-Y change %)	12.0	15.0	-2.9	40.3
Share of Total, %	96.1	95.3	3.9	4.7

Source: Central Bank of the UAE

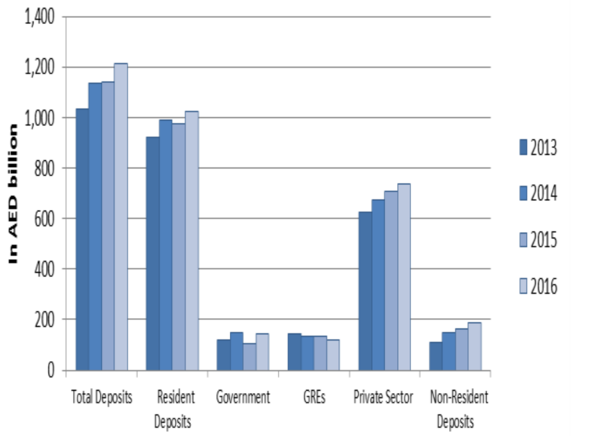
Note: All data indicate the end of period values in billions of AED.

Table 3.2.d.CAGR of Deposits at Conventional/Islamic Banks

	Deposits CAGR 2013-16						
	Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
Conventional	5.5%	3.5%	6.4%	-6.4%	5.6%	-9.8%	19.9%
Islamic	12.4%	12.2%	1.0%	20.4%	14.0%	-12.0%	22.6%

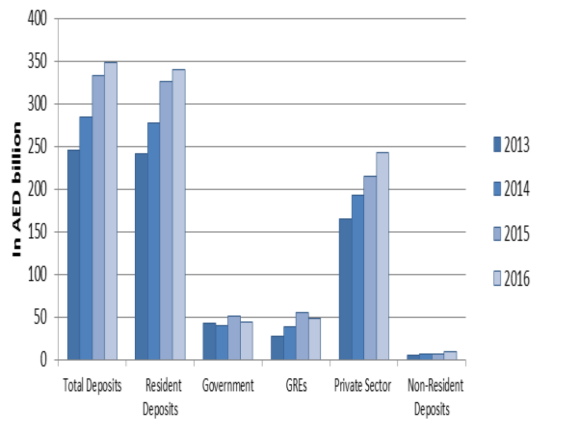
Source: Central Bank of the UAE

Figure 3.2.a.Banking System Deposits for Conventional Banks



Source: Central Bank of the UAE

Figure 3.2.b.Banking System Deposits for Islamic Banks



Source: Central Bank of the UAE

The breakdown of Local and Foreign banks in Figures 3.3.a and 3.3.b provides a clear trend that deposits in Local banks grew in the last three years up to 2016, while the Foreign banks exhibited a decline since 2014. Local banks' deposits grew at a higher rate on both Y-o-Y and CAGR, at the end of 2016, by 5.4% and 8.5% respectively, compared to Foreign banks which declined by 4.6% on Y-o-Y and their CAGR was -1.5% (Tables 3.2.e and 3.2.f).

The sector growing the most for the Local banks in 2016 was the Government deposits, growing by 19.2%, while for the CAGR Non-resident deposits grew the fastest by 25.8%.

For Foreign banks, all sectors were declining in 2016, except for the NBFIs. On a CAGR basis, all sectors had a negative value, except for GREs, which grew by 0.9% on average for the last three years.

	Local		Foreign	
	2015 Dec	2016 Dec	2015 Dec	2016 Dec
Bank Deposits	**1,250**	**1,352**	**221**	**211**
(Y-o-Y change %)	5.4	8.1	-5.9	-4.6
Share of Total, %	85.0	86.5	15.0	13.5
Resident Deposits	**1,122**	**1,192**	**178**	**172**
(Y-o-Y change %)	4.1	6.2	-5.9	-3.4
Share of Total, %	86.3	87.4	13.7	12.6
Government ector	**156**	**186**	**2**	**1**
(Y-o-Y change %)	-16.8	19.2	0.0	-27.8
Share of Total, %	98.9	99.3	1.1	0.7
GREs	**182**	**161**	**9**	**7**
(Y-o-Y change %)	11.9	-11.4	-15.5	-20.4
Share of Total, %	95.1	95.6	4.9	4.4
Private Sector	**761**	**823**	**163**	**156**
(Y-o-Y change %)	9.0	8.2	-4.5	-3.2
Share of Total, %	82.4	83.9	17.6	16.1
NBFIs	**24**	**22**	**4**	**6**
(Y-o-Y change %)	-21.3	-5.9	-30.2	34.1
Share of Total, %	84.3	79.1	15.7	20.9
Non-Resident eposits	**129**	**160**	**43**	**39**
(Y-o-Y change %)	18.5	24.5	-5.7	-9.3
Share of Total, %	75.0	80.5	25.0	19.5

Table 3.2.e.Deposits at UAE Local/Foreign Banks

Source: Central Bank of the UAE

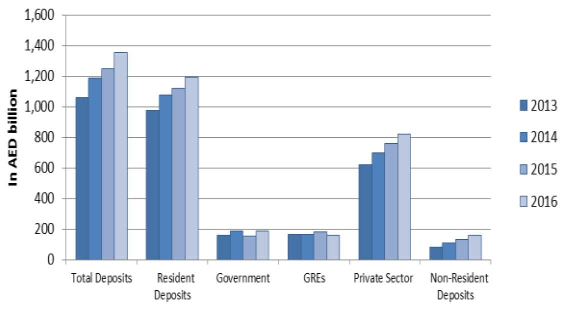
Note: All data indicate the end of period values in billions of AED.

Table 3.2.f.CAGR of Deposits at Local/Foreign Banks

	Deposits CAGR 2013-16						
	Total	Resident	Government	GREs	Private Sector	NBFIs	Non-Resident
Local	8.5%	6.8%	5.3%	-1.1%	9.9%	-11.9%	25.8%
Foreign	-1.5%	-2.6%	-19.6%	0.9%	-2.6%	-2.2%	4.0%

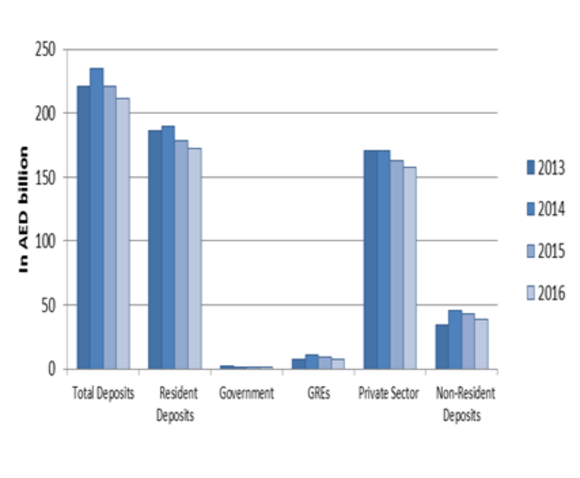
Source: Central Bank of the UAE

Figure 3.3.a.Banking System Deposits for Local Banks



Source: Central Bank of the UAE

Figure 3.3.b.Banking System Deposits for Foreign Banks



Source: Central Bank of the UAE

3.2.2 Banks' Credit

Domestic Credit increased in 2016 by AED 72.4bn or a growth of 5.2% (CAGR 6.5%), benefiting mainly by the increase in credit to the Private Sector, GREs and Foreign credit, both, during the year and on a CAGR basis (Tables 3.3.a and 3.3.b). Meanwhile credit to Government grew in 2016 less than the three year average (3.5% vs. 5.9%) mainly due to the deleveraging in some of the quarters of the years, thanks to the successful implementation of fiscal consolidation. Credit to non-residents also grew substantially by 15.9% Y-o-Y and by a CAGR of 18.6%.

Table 3.3.a.Assets and Credit at UAE Banks

	2014 Dec	2015 Dec	2016 Dec
Total Assets	**2,305**	**2,478**	**2,611**
(Y-o-Y change %)	**8.5**	**7.5**	**5.4**
Gross Credit	**1,378**	**1,485**	**1,574**
(Y-o-Y change %)	8.0	7.8	6.0
Domestic Credit	1,278	1,381	1,454
(Y-o-Y change %)	6.2	8.1	5.2
Government	153	167	173
(Y-o-Y change %)	5.2	8.8	3.5
Public Sector (GREs)	166	169.8	187
(Y-o-Y change %)	12.5	2.8	9.2
Private Sector	939	1,020	1,076
(Y-o-Y change %)	11.7	8.5	5.6
Business & Industrial Sector Credit	639	689	728
(Y-o-Y change %)	14.1	7.7	5.8
Individual	300	331	348
(Y-o-Y change %)	7.0	10.3	5.3
NBFIs	19	25	18
(Y-o-Y change %)	-72.2	27.4	-27.1
Foreign Credit	100	104	120
(Y-o-Y change %)	39.1	3.5	15.9

Source: Central Bank of the UAE
Note: All data indicate the end of period values in billions of AED

Table 3.3.b. CAGR of Assets and Credit at UAE Banks

Assets and Loans CAGR 2013-16							
Assets	Gross Credit	mestic :dit	Government	GREs	Private Sector	NBFIs	Foreign Credit
7.1%	7.3%	6.5%	5.9%	8.2%	8.6%	-36.3%	18.6%

Source: Central Bank of the UAE

The split between Conventional and Islamic banks in Figures 3.4.a and 3.4.b and data in Tables 3.3.c and 3.3.d indicate that the growth in Islamic financing is much steeper than that for the Conventional banks' loans. On a Y-o-Y basis in 2016 and on a CAGR basis Gross credit is growing by 9.4% and 15.4% respectively for Islamic banks vs. 5.1% and 5.4% for Conventional banks respectively.

The main drivers for Conventional banks' loan growth are credit to GREs and Foreign credit, which grew by 7.4% and 12.8% Y-o-Y and had a CAGR of 7.5% and 16.3% respectively. Similarly, growth of the Islamic banks in the same sectors (17.8% and 39.3% Y-o-Y respectively vs. 11.8% and 37.8% for the CAGR respectively). Clearly, Dubai's drive to become a worldwide financial Islamic center and the trend in the UAE and in the region to use more Shari' a compliant financial services have solidified the growth of credit in Islamic banks. In addition, the share of Islamic banks in the overall Assets and the different loan categories increased compared to 2015 in 2016, with exception of the Government category.

Table 3.3.c.Assets and Credit at UAE Conventional/Islamic Banks

	Conventional		**Islamic**	
	2015 Dec	**2016 Dec**	**2015 Dec**	**2016 Dec**
Total Assets	**2,014**	**2,105**	**464**	**506**
(Y-o-Y change %)	**5.9**	**4.5**	**14.9**	**8.9**
Share of Total, %	**81.3**	**80.6**	**18.7**	**19.4**
Gross Credit	**1,179**	**1,239**	**306**	**335**
(Y-o-Y change %)	5.9	5.1	15.8	9.4
Share of Total, %	79.4	78.7	20.6	21.3
Domestic Credit	1,087	1,135	294	318
(Y-o-Y change %)	6.1	4.5	16.2	8.2
Share of Total, %	78.7	78.1	21.3	21.9
Government	157	163	10	10
(Y-o-Y change %)	9.4	3.9	0.0	-2.1
Share of Total, %	94.2	94.5	5.8	5.5
Public Sector (GREs)	143	153	29	34
(Y-o-Y change %)	1.3	7.4	13.0	17.8
Share of Total, %	83.3	81.9	16.7	18.1
Private Sector	767	804	252	272
(Y-o-Y change %)	5.4	4.9	19.0	8.0
Share of Total, %	75.3	74.7	24.7	25.3
Business & Industrial Sector Credit	549	580	139	148
(Y-o-Y change %)	4.4	5.7	22.6	6.3
Share of Total, %	79.8	79.7	20.2	20.3
Individual	218	224	113	124
(Y-o-Y change %)	8.1	2.7	14.8	10.2
Share of Total, %	66.0	64.4	34.0	35.6
NBFIs	21	15	4	3
(Y-o-Y change %)	58.9	-27.3	-35.4	-26.2
Share of Total, %	83.0	82.8	17.0	17.2
Foreign Credit	92	103	12	17
(Y-o-Y change %)	3.1	12.8	6.1	39.3
Share of Total, %	88.3	85.9	11.7	14.1

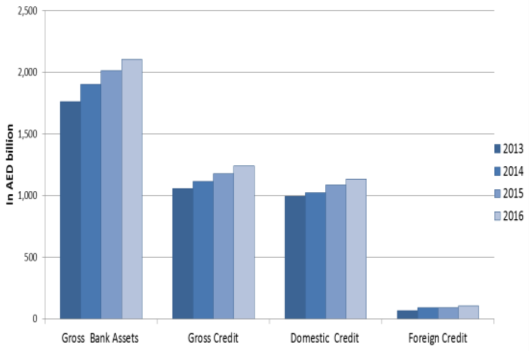
Source: Central Bank of the UAE
Note: All data indicate the end of period values in billions of AED.

Table 3.3.d.CAGR of Assets and Credit at UAE Conventional/Islamic Banks

	Assets and Loans CAGR 2013-16							
	Assets	Gross Credit	Domestic Credit	GOVT	GREs	Private Sector	NBFIs	Foreign Credit
Conven-tional	6.2%	5.4%	4.6%	6.8%	7.5%	6.2%	-38.0%	16.3%
Islamic	11.6%	15.4%	14.5%	-6.2%	11.8%	17.2%	-24.8%	37.8%

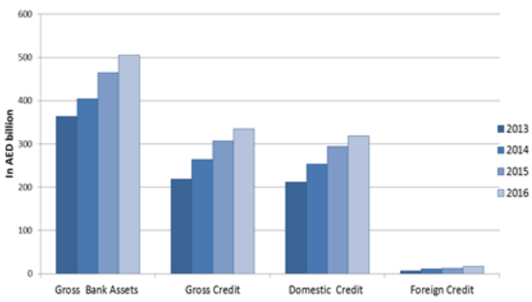
Source: Central Bank of the UAE

Figure 3.4.a.Banking System Assets and Credit for Conventional Banks



Source: Central Bank of the UAE

Figure 3.4.b.Banking System Assets and Financing for Islamic Banks



Source: Central Bank of the UAE

The breakdown of the assets and credit by local and foreign banks in Figures 3.5.a and 3.5.b, and Tables 3.3.e and 3.3.f show that national banks were growing, while for the foreign banks the levels were declining or remained almost unchanged, for both assets and gross credit in 2016, as well for the last three years.

For the whole 2016, National banks marked an increase by 7% and 8.1% for banks' assets and gross credit respectively, while for Foreign banks they were both declining. The same trend is evident for CAGR (8.9% and 8.7% respectively vs. -1.7% and -1.1% respectively for the Foreign banks)

Table 3.3.e.Assets and Credit at UAE Local/Foreign Banks

	Local		Foreign	
	2015 Dec	**2016 Dec**	**2015 Dec**	**2016 Dec**
Total Assets	**2,089**	**2,236**	**389**	**375**
(Y-o-Y change %)	**10.4**	**7.0**	**-5.7**	**-3.6**
Share of Total, %	**84.3**	**85.6**	**15.7**	**14.4**
Gross Credit	**1,276**	**1,379**	**209**	**195**
(Y-o-Y change %)	9.8	8.1	-3.0	-6.8
Share of Total, %	85.9	87.6	14.1	12.4
Domestic Credit	1,193	1,281	189	172
(Y-o-Y change %)	9.7	7.4	-0.9	-8.6
Share of Total, %	86.4	88.2	13.6	11.8
Government	159	167	8	6
(Y-o-Y change %)	9.1	4.8	4.1	-22.1
Share of Total, %	95.4	96.5	4.6	3.5
Public Sector (GREs)	140	159	32	28
(Y-o-Y change %)	6.0	14.1	-7.8	-12.6
Share of Total, %	81.4	85.1	18.6	14.9
Private Sector	870	939	148	138
(Y-o-Y change %)	9.9	7.8	0.9	-7.2
Share of Total, %	85.4	87.2	14.6	12.8
Business & Industrial Sector Credit	575	624	113	104
(Y-o-Y change %)	8.7	8.5	2.3	-7.9
Share of Total, %	83.6	85.8	16.4	14.2
Individual	295	314	36	34
(Y-o-Y change %)	12.2	6.5	-3.3	-5.1
Share of Total, %	89.2	90.3	10.8	9.7
NBFIs	24	17	1	1
(Y-o-Y change %)	33.5	-28.5	-46.7	12.5
Share of Total, %	96.8	95.0	3.2	5.0
Foreign Credit	83	98	21	23
(Y-o-Y change %)	10.8	17.5	-18.0	9.6
Share of Total, %	79.9	81.0	20.1	19.0

Source: Central Bank of the UAE
Note: All data indicate the end of period values in billions of AED.

Table 3.3.f.CAGR of Assets and Credit at UAE Local/Foreign Banks

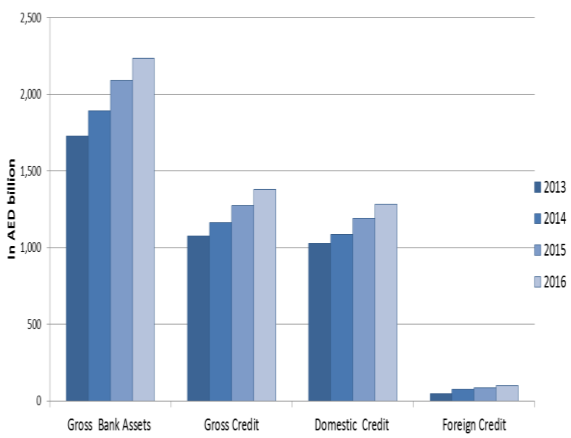
	Assets and Loans CAGR 2013-16							
	Assets	Gross Credit	Domestic Credit	Government	GREs	Private Sector	NBFIs	Foreign Credit
Local	8.9%	8.7%	7.7%	6.2%	10.1%	10.2%	-36.6%	27.3%
Foreign	-1.7%	-1.1%	-0.9%	-1.6%	-0.7%	-0.5%	-29.8%	-2.8%

Source: Central Bank of the UAE

The share of Local banks' credit has been also growing in 2016 compared to 2015, with exception of the NBFIs category, where the total exposure of the banking sector is around AED 18bn.

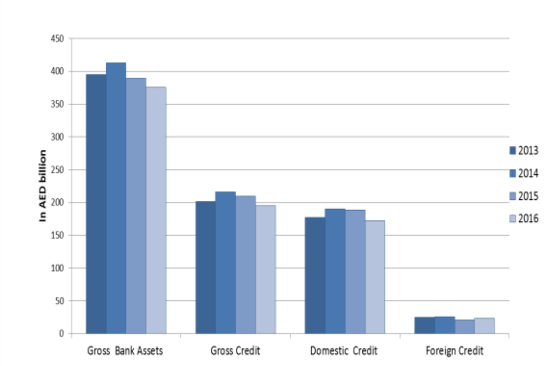
The main drivers of growth for the Local banks in 2016 were GREs (14.1%), Private sector (7.8%) and Foreign credit (17.5%), while the highest growth observed for the Foreign banks was in the NBFIs and Foreign credit sector, which grew by 12.5% and 9.6% in 2016 respectively.

Figure 3.5.a.Banking System Assets and Financing for Local Banks



Source: Central Bank of the UAE

Figure 3.5.b.Banking System Assets and Financing for Foreign Banks



Source: Central Bank of the UAE

Banks' lending by economic activity (Tables 3.3.g and 3.3.h) shows an increase in 2016 Y-o-Y by 13.6%, 0.5%, 12.6%, 7.3% and 6.4% in the Mining and Quarrying, Manufacturing, Construction and Real Estate, Transport, Storage and Communication and Financial Institutions (Excluding banks) respectively. For All Others category there was also an improvement by 12.4% in 2016. Agriculture, Electricity, Gas and Water, and Trade show a decline in their exposure by 11.9%, 10% and 3.8% respectively.

On a CAGR basis, Transport, Storage and Communication, and Construction and Real Estate show the fastest growth of 20.3% and 9% respectively. The growth in 2016 and on a CAGR basis, shows a revival of the Real estate developers businesses, driven by a higher demand, as prices of real estate have declined. At the same time, the preparation for the Dubai Expo 2020, the lift of sanctions against Iran and the setup of infrastructure and stadiums for the FIFA 2022 World Cup in Qatar, increased the credit disbursed to companies operating in the Transport, Storage and Communication sector.

On the other hand, the progressive waiver of subsidies on water and electricity have pushed the sector to deleverage in 2016 and posted a CAGR of credit growth of -5.5% for the last three years.

Table 3.3.g.Banks' credit to residents by economic activity

(End of Period , In Billions of AED)

Economic Activity	2014 Dec	2015 Dec	2016 Dec
Agriculture	2.7	1.6	1.4
(Y-o-Y change %)	-12.7	-42.2	-11.9
Mining and Quarrying	9.2	11.9	13.5
(Y-o-Y change %)	-41.3	29.9	13.6
Manufacturing	65.1	69.1	69.5
(Y-o-Y change %)	12.2	6.1	0.5
Electricity, Gas and Water	18.9	20.5	18.4
(Y-o-Y change %)	-13.4	8.2	-10.0
Construction and Real Estate	212.6	235.0	264.7
(Y-o-Y change %)	4.0	10.6	12.6
Trade	155.8	161.7	155.5
(Y-o-Y change %)	6.1	3.8	-3.8
Transport, Storage and Communication	56.5	59.2	63.5
(Y-o-Y change %)	55.1	4.7	7.3
Financial Institutions (Excluding Banks)	131.8	135.6	144.3
(Y-o-Y change %)	16.1	2.9	6.4
All Others	96.2	112.7	126.6
(Y-o-Y change %)	-2.7	17.1	12.4

Source: Central Bank of the UAE
Note: All data indicate the end-of-quarter values

Table 3.3.h.CAGR of Banks credit to residents by economic activity

Credit by Economic Activity CAGR 2013-16							
Mining & Quarrying	Manufacturing	Electricity, Gas & Water	Construction & Real Estate	Trade	Transport, Storage & Communic.	Fin. Institut. (Non-banks)	All Others
-4.7%	6.2%	-5.5%	9.0%	1.9%	20.3%	8.3%	8.6%

Source: Central Bank of the UAE

3.3 Financial Soundness Indicators

The overall outlook regarding the soundness of the banking sector remains positive during 2016.

Banks' specific provisions for NPLs increased from AED 72.4bn at the end of 2015 to AED 78.5bn at end of 2016, thereby ensuring that NPLs are fully provisioned. The reported NPLs as a share of total loans percentage remains at the 2015 level of 6.3%.

Banks operating in the UAE remain highly capitalized, with the capital adequacy ratio (CAR) and Tier 1 capital of banks reaching a peak for the last three years of 19% for CAR (17.3% for Tier1 capital) at the end of 2016, which is well above the regulatory requirements set by the Central Bank (12% and 8%, respectively). Conventional banks are better capitalized compared to the Islamic ones (CAR of 19.4% vs. 17.1% and Tier 1 capital 17.5% vs. 16.5% respectively). Foreign banks remain better capitalized than the Local banks (21.5% vs. 18.6% for CAR with Tier 1 capital at 18.6% vs. 17.1% respectively).

To capture the composite effects of changes in loans and deposits, two key ratios related to the funding of banks are considered: the Loan-to-Deposit (L/D) ratio and the Lending to the Stable Resources Ratio (LSRR[1]).

L/D ratio for the overall banking system has moved from 100.9% at the end of 2015 to 100.7% at the end of 2016, which is mainly due to the stronger growth in Deposits compared to Loans, with Government contributing to the decline in loan to deposits ratio by deleveraging and increasing deposits in parallel. Looking at the breakdown between Conventional and Islamic banks, the L/D ratio is respectively 102% and 96.1% at the end of 2016, marking a decrease from December 2015 for the Conventional banks, while it increased for the Islamic banks, as their overall credit grew substantially during the year compared to their deposits (levels of 103.4% and 92.2% in December 2015 respectively). Local banks had L/D ratio of 102% at the end of 2016 (same level as a year ago), while the ratio for foreign banks was 92.4%.

It is clear that in 2016 funding became more stable, using more deposits and less market finance and reflecting more conservative banks' policies in lending. LSRR also improved from 87.1% in December 2015 to 86.6% a year later, reflecting higher increase in stable resources compared to the slower credit growth at banks. In the segmentation, Islamic, Conventional, Local and Foreign banks, only the Islamic banks LSRR has increased in the last final quarter of 2016, compared to other types of banks a year earlier. The increase of the indicator for Islamic banks might be due as well to the relatively higher pace of credit growth and increased dependency on market financing than on customer deposits.

Meanwhile, liquid assets, which include reserve requirements mandated by the Central Bank, certificates of deposits held by banks at the Central Bank, excess reserves at the CB, in addition to zero-risk weighted government bonds and public sector debt and cash at banks, as a ratio of total assets moved from 17.4% at the end of 2015 to 16.2% at the end of 2016. The level of total liquid assets at banks at the end of 2016 remains at AED 340.8bn, AED 10.4bn lower, registering a decline of 3% than in December 2015, which is one of the reasons for the lower Liquid Assets

[1] Net Lending + Net Financial Guarantees+ Stand-by Letters of Credit+ Interbank Placements (3 months and more)/ (Net Free Capital Funds+ Other Stable Resources).

Ratio (LAR), albeit significantly above the regulatory threshold of 10%.

Table 3.4.a.Financial Soundness Indicators in the UAE (in %, unless otherwise indicated)

	2013 Dec	2014 Dec	2015 Dec	2016 Dec
Lending to Stable Resources Ratio	84.7	85.2	87.1	86.6
The Liquid Assets Ratio (LAR)	14.7	15.7	17.4	16.2
Capital Adequacy Ratio (CAR)	19.3	18.2	18.3	19.0
Tier 1 Capital	16.9	16.2	16.6	17.3
NPL	7.8	7.0	6.3	6.3

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values

Table 3.4.b.Financial Soundness Indicators in the UAE for Conventional Banks (in %, unless otherwise indicated)

	2013 Dec	2014 Dec	2015 Dec	2016 Dec
Lending to Stable Resources Ratio	85.5	85.1	87.3	86.6
The Liquid Assets Ratio (LAR)	13.4	15.4	17.5	16.0
Capital Adequacy Ratio (CAR)	19.6	18.6	18.9	19.4
Tier 1 Capital	17.0	16.5	16.9	17.5

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values

Table 3.4.c.Financial Soundness Indicators in the UAE for Islamic Banks (in %, unless otherwise indicated)

	2013 Dec	2014 Dec	2015 Dec	2016 Dec
Lending to Stable Resources Ratio	81.2	85.8	86.1	86.8
The Liquid Assets Ratio (LAR)	20.6	17.0	17.0	16.8
Capital Adequacy Ratio (CAR)	17.6	15.8	15.6	17.1
Tier 1 Capital	16.7	15.0	14.9	16.5

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Table 3.4.d.Financial Soundness Indicators in the UAE for Local Banks (in %, unless otherwise indicated)

	2013 Dec	2014 Dec	2015 Dec	2016 Dec
Lending to Stable Resources Ratio	86.1	86.5	88.6	88.6
The Liquid Assets Ratio (LAR)	13.1	14.3	16.5	14.8
Capital Adequacy Ratio (CAR)	19.3	18.1	18.0	18.6
Tier 1 Capital	17.1	16.4	16.5	17.1

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

Table 3.4.e. Financial Soundness Indicators (FSIs) in the UAE for Foreign banks (in %, unless otherwise indicated)

	2013 Dec	2014 Dec	2015 Dec	2016 Dec
Lending to Stable Resources Ratio	78.2	78.8	78.6	74.8
The Liquid Assets Ratio (LAR)	20.6	21.6	22.2	24.2
Capital Adequacy Ratio (CAR)	19.3	18.0	20.2	21.5
Tier 1 Capital	16.1	15.1	17.1	18.6

Source: Central Bank of the UAE.
Note: All data indicate the end-of-quarter values.

The banking sector, as a whole, has improved in 2016 compared to a year earlier on the FSIs, with exception of the LAR which was inflated in December 2015 by one bank trying to meet the regulatory requirement. Deposits' and Banks' assets growth accelerated in 2016 compared to the previous year. However credit growth marginally declined, compared to 2015, mainly due to deleveraging of the Government sector, although it remains robust in support of non-energy growth.

Overall, as of the end of 2016, banks' assets, credit and deposits grew by 5.4%, 6% and 6.2% respectively Y-o-Y with an average monthly growth for 2016 of 0.4%, 0.5% and 0.5% respectively. Robust credit growth helped sustain the momentum of growth of non-oil GDP growth. In parallel, banks continued to adhere to prudent indicators of financial soundness in support of the continued stability of the UAE's banking system.

Chapter 4. Central Bank Financial Position & Reserves Management

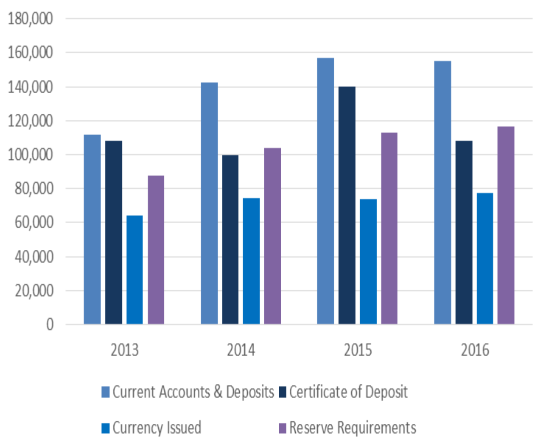
Following a period of expanding Central Bank balance sheet in 2014-15 due to resilient growth in non-oil activities, the decline on the liabilities' side in 2016 led to a decline in total assets of the Central Bank resulting in a decrease in Central Banks' Deposits at banks abroad and a decrease in Held-To-Maturity Foreign Securities. Meanwhile, the Central Bank continued to provide the banking sector with the needed liquidity, as interest rates - interbank as well as long –term Swap rates - were mostly on the rise in line with the Federal Reserve's decision in this regard

4.1 Central Bank Balance Sheet

Changes in the Central Bank balance sheet are triggered by changes on the liabilities' side. Total liabilities of the Central Bank continued to increase in 2014 and 2015, despite the fallback from the slump in oil prices and some tightening in liquidity. This was due to the resilience of economic activity, as non-oil GDP growth remained solid at 4.1% in 2014 and 3.2% in 2015. However, persistent low oil prices and planned fiscal consolidation since 2015 slowed down non-oil growth with some impact on liquidity at the CB. Certificates of Deposits held by banks decreased by AED 32 billion, from end of 2015 to end of 2016, while "Derivative Liabilities" decreased by AED 1 billion, owing to the impact on Open Swap Contracts due to changes in the exchange rate of the Japanese Yen, the currency in which some liabilities are denominated. As a result, Liabilities of the Central Bank decreased by AED 30 billion, Y-o-Y up to December 2016.

Figure 4.1. Central Bank Liabilities

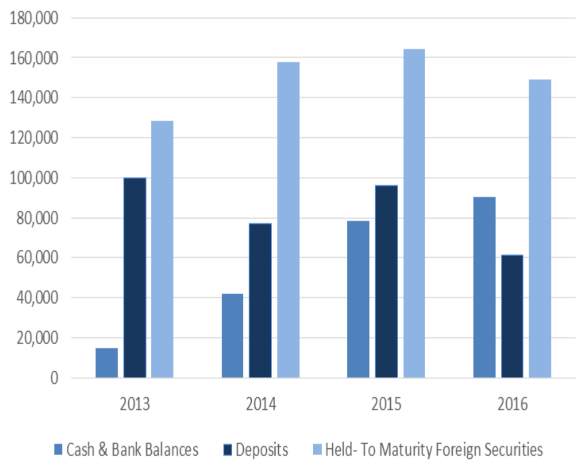
In millions of Dirhams



Source: Central Bank of the UAE

Figure 4.2. Central Bank Assets

In millions of Dirhams



Source: Central Bank of the UAE

Total assets of the Central Bank exhibited similar changes in line with developments on the liabilities side of the balance sheet. The increase in 2014 and 2015 was driven mainly by the increase in "Cash & Bank Balances" and the increase in "Held-To-Maturity Foreign Securities" (HTMFS). In 2016, however, HTMFS fell by AED 15.2 billion, due to the fact that the proceeds from securities that reached maturity were not re-invested in the same instruments at banks, while Central Bank deposits at banks abroad decreased by AED 35.2 billion.

Table 4.1. Central Bank Balance Sheet

In Millions of Dirhams

	2013	2014	2015	2016
Assets				
Gold Bullion	-	-	940	1,015
Cash & Bank Balances	14,592	42,001	78,611	90,149
Deposits	99,927	76,917	96,362	61,147
Liquidity Support Facility	513	321	228	200
Held-To-Maturity Foreign Securities	128,263	157,753	164,495	149,337
Held-To-Maturity Bonds Issued by MOF & Dubai Government:	55,361	49,443	49,231	49,165
Available-for-sale foreign Investments	385	378	355	359
Advances to Government	-	2,500	2,500	3,000
Available-for-sale foreign securities	-	-	74	74
Derivative Assets	-	7,530	334	8,746
Other Assets	6,624	467	446	611
Property and Equipment's	97	79	79	99
Total Assets	**305,762**	**337,389**	**393,655**	**364,453**
Off Balance Sheet Commitments	**129,367**	**134,105**	**199,681**	**188,892**
Liabilities				
Current Accounts & Deposits	111,973	142,168	157,031	154,775
- Of which:				
Reserve Requirements	87,800	103,900	112,900	116,600
Banks' Current account	21,100	29,600	36,400	33.800
Certificates of Deposit	107,896	99,534	139,773	108,193
Currency Issued	63,927	74,472	73,522	77,551
Derivative Liabilities	-	46	1,310	312
Other Liabilities	697	1,341	180	2,651
Total Liabilities	**284,493**	**317,561**	**373,437**	**343,483**
Authorized Issued & Fully Paid Capital	2,500	2,500	2,500	2,500
Fair Value Reserve	-5	-11	-94	-31
Gold Revaluation Reserve	-	-	-	15
General Reserve	16,080	17,339	17,812	18,486
Total Liabilities & Capital	**305,762**	**337,389**	**393,655**	**364,453**
Off Balance Sheet Commitments related to foreign exchange fluctuations	**129,367**	**134,105**	**199,681**	**188,892**

Source: Financial Control Division, Central Bank of the UAE

4.2 Central Bank Foreign Assets

Driven by the above-indicated economic and banking developments, the Central Bank's foreign assets continued to increase in 2014 and 2015, before decreasing in 2016 as reflected by the fall in Held– To- Maturity Foreign Securities " as well as in "Current Account Balances & Deposits with Banks Abroad" by AED 23.9 billion.

Table 4.2. Central Bank's Foreign Assets

In billions of Dirhams

	2013	2014	2015	2016
Total Foreign Assets	**245.9**	**283.9**	**341.1**	**310.9**
Held-To-Maturity Foreign Securities	**128.3**	**157.8**	**164.5**	**149.3**
Current Account Balances & Deposit with Banks Abroad	**108.1**	**115.48**	**171.8**	**147.9**
Other Foreign Assets	**9.8**	**10.7**	**3.8**	**13.7**

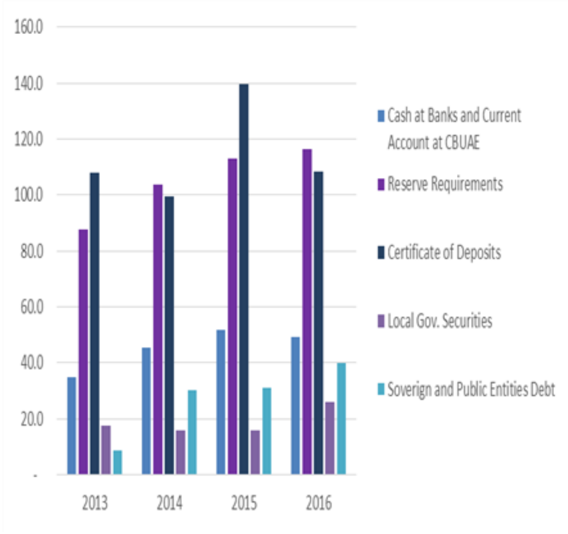
Source: Central Bank of the UAE

4.3 Dirham Liquidity of the UAE Banking system

Banks' liquid assets are composed of cash, reserves at the Central Bank as well as government and highly-rated public sector's debt securities. Total liquid assets held by banks operating in the UAE continued an upward trend, from AED 257 billion at the end of 2013 to AED 295 billion at the end of 2014 and to AED 351 billion at the end of 2015. However, at the end of 2016, total liquid assets decreased to AED 340.8 billion, owing mostly to the above – indicated fall in CDs held by banks, which were exceptionally high in December 2015 as a few banks had to comply with the Central Bank's liquidity requirements at that time, which was in the order of AED 31 billion.

Figure 4.3. Liquid Assets at Banks

In billions of Dirhams



Source: CBUAE Data

Consistent with the fixed exchange rate peg, USD/AED FX spot and swap, the daily operations were conducted at banks' discretion in line with the Central Bank's commitment to provide the needed Dirham and US dollars liquidity.

It is also worth mentioning, despite some short episodes of liquidity tightening, the UAE's banking system has had sufficient liquidity and did not need to tap the Central Bank's Interim Marginal Lending Facility, the Collateralized Murabaha Facility or the CDs Repo Facility during most of the year under review.

4.4 Interest Rates

The fixed peg of the exchange rate of the Dirham to the US dollar means that the CBUAE has to peg its policy rate to the direction of the interest policy in the U.S. Therefore, the CBUAE policy rate was maintained during all the period under review, until December 2015. Following the rate hike by the Federal Reserve Board in the United States, the Central Bank of the UAE announced the increase in the floor for interest rates applied to its Certificates of Deposits by 25 basis points, in line with the FOMC decision in this regard, and the same decision took place on 15 December 2016.

It is also worth noting that the CBUAE uses monetary tools at its disposal to manage liquidity in the banking system, with a goal to strike a balance between supporting credit growth and stemming the risks to financial stability, while maintaining its continued commitment to the fixed peg regime.

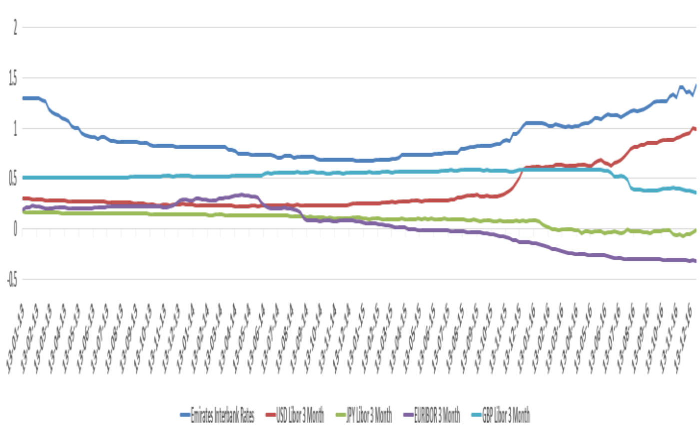
4.4.1 Short-term interest rates

The Emirates Interbank Offer Rate (Eibor), which comprises the daily quotes of the largest banks operating in the country, and published by the Central Bank of the UAE. Eibor was reformulated in 2016 Q2 to include the cost of attracting deposits from larger clients, in order to better reflect the true cost of funds for banks.

As shown in figure 4.4, the 3-month Eibor started to increase since early 2015 as the impact of the oil price slump started to impact banks' liquidity, in addition to renewed commitment by the Federal Reserve for further rate hikes, which materialized in December 2015 and again in December 2016. Moreover, unsecured borrowing costs and Libor increased in 2016 in the US, due to reduced participation of institutional prime money funds, with investments shifting to government - related securities, instead.

However, the 3-month Libor rate in the Euro Area and in Japan, remained in negative territory during 2016, reflecting the action adopted by the European Central Bank (ECB) and the Bank of Japan (BOJ). This increased the prospect of further divergence with interest rates prevalent in the U.S, especially given the fact that the FOMC minutes of the December 2016 meeting indicated a quicker pace of interest rate increases in the coming period, while job market conditions and growth prospects continued to improve.

Figure 4.4. Libor Rates 3-month



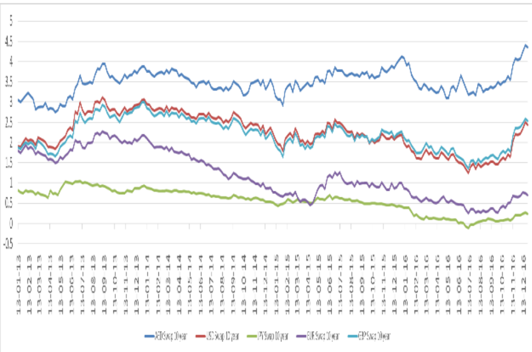
Source: Bloomberg

4.4.2 Long-term swap rates

Given the absence of a deep and liquid government bond market in the UAE, the swap market is the only way to get an idea about yields at longer maturities. Interest rate swaps correspond to an exchange of a fixed payment for a floating payment that is linked to an interest rate, most often the Libor. As shown in Figure 4.5, the AED 10-year swap rate fluctuated during the 2014-15 roughly in line with fluctuations in Libor. An upward trend, however, started in early 2016, which may indicate continued higher risk premium as investors in the UAE became averse to the potential adverse effect of persistent – albeit increasing - low oil prices and expected higher interest rates, in line with the interest rate liftoff in the US.

Similarly, the upward trend in swap rates of the US dollar, the Euro and the yen are testament to the heightened global uncertainties. Indeed, the shot-up of the swap rate for the British Pound is linked to the negative fallout of the Brexit vote and rising concerns about the economic outlook in the UK and more recently in Europe, awaiting the results of pending crucial elections.

Figure 4.5. 10-year swap rates



Source: Bloomberg

4.5 Monetary Tools

The primary tool for the Central Bank of the UAE is the dollar/dirham spot window which offers banks two-way liquidity, i.e., to exchange dollars against dirhams and vice-versa. This provides confidence to the market in the Central Bank's commitment to defend the exchange rate peg and enables banks a bigger scope to better manage their liquidity in both currencies.

4.6 Certificates of Deposits

Certificates of Deposits (CDs) were first issued by the Central Bank in 1988, in tenors varying from 1 month to 6 months. This program offers banks an alternative tool of investing their excess liquidity in dirhams instead of investing in dollars abroad. The initial program was revamped in 1994 when it was made available for daily issuance, with tenors extended up to 18 months. Banks have also the possibility of redeeming their CDs before maturity, allowing them to get immediate liquidity when needed at a rate set by the Central Bank. The system was revamped in 2007 with the move to a new auction system, where the CBUAE determines issuance by setting a cut-off interest rate for bids posted by banks, while Islamic CDs were introduced in 2010 to allow Islamic banks to better manage their excess liquidity, putting them on equal footing with conventional banks in this regard.

4.7 Reserve Management

Foreign currency reserves are managed by the Reserves Management Division within the Monetary Operations and Reserves Management Department. CBUAE's reserves with a goal to strike a balance between guaranteeing a reasonable return on investments, while ensuring adequate liquidity buffers. Following the global financial crisis and subsequent adverse effects on the UAE economy, the CBUAE has adopted a more vigilant strategy towards risk management. As a result, the benchmarks for the investment strategy of the Central Bank reserves aim to ensure adequate liquidity, capital preservation and appropriate return, with liquidity being the most important driver to ensure banking stability. Investments are based on the Reserves Management Policy approved by the Board of Directors and in consistency with Union Law 10 of 1980, concerning the Central Bank, The Monetary System and Organization of Banking.

Part Two: Central Bank Activity

Chapter 5. Strategy of the Central Bank

The year 2016 was of significant importance because it witnessed the culmination of 2014-2016 Strategic Plan outcomes and outputs. Moreover, this year witnessed the completion of the Strategic Plan development for the Fourth Strategic Cycle 2017-2021, which is very critical because it is the last Cycle to support the achievement of UAE Vision 2021.

CBUAE Achievements in light of Strategic Plan 2014-2016:

Major achievements related to CBUAE strategic objective of Strengthen monetary policy and contribute to the financial stability:

• Set up an automated system for discounting securities and settlement/clearing between transacting parties, and develop a manual that regulates the terms & conditions for discounting bonds and sukuk at the Central Bank.

• Develop treasury systems (Set up a Straight-Through-Processing (STP) system to settle treasury operations, and draft a guidance manual for processing treasury operations via STP system).

• Implement the recommendations of Financial Stability Board concerning the definition of Domestic Systematically Important Institutes (D-SIB), facing periodic fluctuations, and development of comprehensive annual reports about monetary situations, inflation factors, and future prospective in this regard.

• Prepare quarterly reports about credit sentiment in the UAE.

• Develop a guide for local market monetary operations framework.

• Conduct stress testing on the banking sector and prepare relevant reports.

• Reinforce international cooperation on the latest international best practices and developments in relation to monetary policy and financial stability (hold annual symposia and participate in meetings and symposia held inside and outside UAE).

• Develop general framework and procedures for financial risk management.

Major achievements related to CBUAE strategic objective of Development of laws & Regulations Related to Activities of Banks and Other Financial Institutions, and Supervision Over Implementation of Requirements Thereof:

• Issue a new set of regulatory rules for organizing activities of banks and other financial institutions (such as: risk management systems, internal & external auditors system, liquidity requirement systems, banks major credit concentration limits systems, real estate mortgage loan system, etc.). On the other hand, a mechanism was developed to supervise banks and financial institutions through the (development of an innovative, effective evaluation mechanism to ensure the use of standard evaluation methodology; develop the Fast Track examination mechanism; design a passport for every bank operating in the UAE consisting of one page that shows its history, ownership, main financial indicators, abidance by laws and regulations, main prudential rates, in addition to the latest remarks by examination teams) .

• Prepare a study about the current and future situation of SME's in the UAE, conduct benchmarking with other countries, and make a recommendation to encourage funding of SME's. Develop a draft framework for Crowd Funding in the UAE to ensure transparency and alignment with law with respect to general funding of creative projects.

• Prepare a study to define gaps between governance standards required for banks and financial institutions and international standards, conduct best practices benchmarking, and develop a draft general framework.

• Develop a strategy for developing NBFIs, based on market needs and in accordance with best practices.

• Increase the number of examination visits to banks and financial institutions.

• Hold activities to increase community financial awareness (awareness exhibitions, awareness publications, field visits to schools and universities).

Concerning the objective related to Enhance UAE's reputation abroad and reduce reputational risks:

• Execute CBUAE tasks in cooperation with the stakeholders and in accordance with the "NAMLCFTC" plan and relevant decisions issued in this regard.

• Study the areas of enhancement in the legal, regulatory, and institutional AML/CFT framework, in light of FATF recommendations.

• Develop and implement a comprehensive action plan for reinforcing international cooperation and effective representation of UAE in AML/CFT, in coordination with strategic partners.

- Sign MOU's regarding cooperation and information exchange, increase analytic effectiveness of STR's, link securities sector with the STR electronic system.
- Develop a manual for improving the CBUAE ranking in internationally accredited indicators, supported by the preparation and publication of relevant economic developments indicators. Develop a protocol for providing and disseminating data and updating the same on regular basis. The protocol shall include rules of communication between RSD and other CBUAE departments and external stakeholders as well.

With regard to CBUAE achievements related to ensure safety and efficiency in payment systems, and develop the same in line with international standards:

- Develop the bank notes by enhancing security features to prevent counterfeiting.
- Add tactile feature to bank notes for Visually Impaired People.
- Develop proper regulatory framework for digital payment system in the UAE. We are working currently on licensing entities who desire to provide such services.
- Link UAE SWITCH with Chain Co "Union Pay" Switch.
- Define the requirements for linking POS with UAE SWITCH.
- Launch the GCC-RTGS project and chose a company to work on the project.
- Provide necessary support for the execution of design phase for the Arab Regional Payment System "ARPS".
- Choose Settlement Bank and set a framework for the process of settlement of Chinese currency in UAE.
- Expand the activities of national UAE SWITCH that links UAE ATMs by linking the network with "Union Pay" network. This will enable holders of ATM cards issued in China to use them easily through UAE ATMs.
- Develop a high-level plan for enhancing current clearing & settlement systems in terms of efficiency and reducing settlement risks.
- Evaluate current payment systems as per relevant PFMI standards.
- Complete the majority of phases related to electronic linking between CBUAE and courts.

CBUAE efforts in implementing its Strategic Plan were culminated by CBUAE being short-listed as one of best three federal agencies nominated to win Muhammed Bin Rashid Award for Government Excellence (Category: Federal entities with more than 500 employees).

This nomination has been made in light of the assessment carried out by specialized experts during October 2016, under the supervision of the Prime Minister's Office, in the presence of specialized staff members of concerned business units.

Develop 2017-2021 Strategic Plan:

With regard to CBUAE next five-year strategic plan, the majority of CBUAE technical cadres have participated in the development of strategic and operational plan through a number of strategic retreats, meetings, surveys, and benchmarking processes. Work started by analyzing internal and external work environment and exploring the expectations of licensed financial institutions regarding CBUAE future strategy, studying the most important competitiveness indicators, evaluating the outcomes/outputs of strategic plan 2014-2016, coordination with strategic partners in financial and banking sector, and also coordinating with the Prime Minister`s Office with regard to the UAE National Agenda.

The CBUAE Strategy 2017-2021 was formulated with all it`s details, indicators and targets.The Board of Directors has approved the Strategic Direction for 2017-2021 beginning of 2016. The details of the upcoming strategic and operational plan were discussed and approved during a strategic retreat chaired by H.E. Mubarak Rashed Al Mansoori, Governor of the Central Bank and Central Bank's senior management, on August 30th and 31st, at Jebel Ali Hotel and Resort.

The strategy for the upcoming five years which was formulated during 2016, was based on Central Bank's role in achieving the "UAE Vision 2021". The strategy was alligned with the outcomes of the Ministerial Retreat held at the end of January 2016 in the presence of H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and H.H. Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces.

A new vision was announced during 2016 for the Central Bank which is "Promoting monetary and financial stability towards sustainable economic growth". This will be achieved through Enhancing monetary and financial stability through effective supervision, prudent reserve management, and robust financial infrastructure in line with international best practices and standards.

The new strategy for the Central Bank for 2017-2021 includes Major Strategic Objectives that focus on Central Bank's role in Enhancing Financial Stability in the UAE, Strengthen the Monetary & Reserve Management, Enhancing the regulatory and supervisory framework for banks and other Financial Institutions, Central Bank's role in the national economy and UAE's competitiveness, Improve banking operations services & ensure safe, sound and efficient clearing and settlement systems within UAE. Also, the promotion of a culture of innovation has been added as one of the strategic objectives in the new strategy and this is in line with the National Innovation Strategy.

Regarding the major initiatives and projects that the Central Bank will focus on according to the new strategy; upgrading the legislative and regulatory system for banks and financial institutions, improving financial institutions licensing procedures and processes. Focus will also be on supporting and encouraging the banking sector to finance small and medium enterprises, in addition to reinforcing the legislative, regulatory, and supervisory environment for Islamic Finance. Emiratization of the banking sector is also a priority for the next period, in addition to enhance anti-money-laundering plans inline with the international criteria, UAE competitiveness in these areas. The issue of reinforcing the consumer protection system is a special significance for the Central Bank.

Central Bank Strategy also focused on enhancing the work environment in line with the government plans for happiness, and based on the Central Bank's leadership's belief in the importance of employees in achieving its objectives. Also, the Central Bank's 2017-2021 strategy attaches great importance to attracting and retaining qualified, talented employees, continuous training and development. Performance will be the basis for incentives on the one hand and accountability on the other.

All planning phases for the next Strategic Cycle have been done within the context of CBUAE focus on shaping the future, with a continuous cooperation with all strategic partners. It is worth mentioning here that the CBUAE "Strategy & Corporate Performance Division" was re-named to become "Strategy & Future Division" in line with the directives issued by UAE Government to all ministries and agencies.

Chapter 6. Regulatory Development and Banking Supervision

Banking Supervision's objective is to maintain the safety and soundness of banks and other financial institutions that the Central Bank licenses. The Central Bank's Banking Supervision Department has four main functions:

1. Regulatory Development: The Bank's policy arm as regards the oversight of the institutions that it licenses.
2. Supervision: The application of those policies and the implementation of standards such as Basel capital and liquidity requirements
3. Licensing: Ensures that those institutions that undertake activities prescribed by the law are suitable and subject to Central Bank oversight.
4. Consumer Protection: Ensures that those institutions licensed by the Central Bank treat their customers fairly (covered separately).

A. Regulatory Development

The Broad mandate for the Regulatory Development Division in the Central Bank is to develop the regulatory framework for the financial institutions licensed by the Central Bank, in line with best international practice.

The objective is to establish a regulatory framework for financial institutions in the UAE that is appropriately designed and enhanced to:

a) foster sound and robust financial institutions;
b) protect consumers; and
c) enable the financial sector to develop prudently.

Regulatory development continues to be a key strategic focus for the Central Bank. The Central Bank's 2017 to 2021 Strategic Plan contains several priority regulatory development initiatives which will continue to support this objective.

The work of the Regulatory Development Division to enhance the regulatory environment in the UAE will continue to be a high priority for the Central Bank over the next few years. The Central Bank is fully committed to the adoption of internationally agreed regulatory standards. The work on adopting and implementing the wide ranging reforms under Basel III is well developed and new upgraded regulations covering risk, controls and compliance are being introduced.

In developing this new regulatory framework, the Central Bank continues to work closely with all the relevant stakeholders to ensure transparency and consistency in shaping this new regulatory environment for financial institutions licensed by the Central Bank.

The Central Bank places great importance on the consultation process in developing new regulations for the financial sector. Consultation is firmly embedded in the regulatory development process and all new regulations are being consulted on with the industry. The Central Bank is also focusing on working with the institutions to ensure proper preparation for the forthcoming changes to the regulatory system to enable smooth transition towards the new requirements.

The Central Bank is also mindful of new developments in the financial services industry, e.g. Fintech. The Central Bank will continue to research and review such developments as part of its regulatory development oversight. We will bring forward regulations as appropriate, to support and facilitate these industry developments, whilst at the same time ensuring the relevant risks are well understood and controlled.

In 2016, the major regulatory developments from the Central Bank were as follows:

Digital Payments

The Central Bank has long recognized that Fintech development will play an important role in shaping the future of the financial services industry in the UAE.

The Government of the UAE's vision is to position the country as a global leader in digital services via a knowledge-based and innovation-driven economy. In support of this vision, the Central Bank finalized the regulatory framework to assist in shaping the digital payments industry in the UAE.

The core objective of this framework is to facilitate and drive the adoption of digital payments in the UAE, whilst providing protection to consumers and ensuring the stability of the overall UAE payment system. The design of the framework allows for innovation while not compromising the safety of the digital payment ecosystem. In developing the regulatory framework, the Central Bank engaged extensively with stakeholders across multiple sectors to ensure that the best interest of the UAE is taken into account.

The Central Bank issued regulations relating to 'Stored-value and Electronic Payments in the UAE', on 1 January 2017. The regulations aim to facilitate the adoption of safe, secure, consumer-centric and innovative digital payments services in the UAE.

Risk Management

In 2016, the Central Bank finalized a set of new risk management regulations aimed at bringing the Central Bank's regulatory framework up to date in this important area.

There are five regulations in the set, which cover; Risk Management; Market Risk; Interest Rate Risk in the Banking Book; Operational Risk; and Country and Transfer Risk. These new regulations are designed to amalgamate, replace and bring up to date existing regulatory requirements for risk management.

The regulations place particular focus on the institutional governance of the risk management function in banks and set out the board and senior management accountabilities and responsibilities. The regulations create specific requirements for separation of duties between risk management and risk taking functions in banks. The regulations also address the specific requirements for banks to mitigate the various risks arising in these areas. The Central Bank intends to issue these regulations in Q1 2017.

Capital

The Central Bank has finalized new Basel III capital requirements for banks operating in the UAE. A new framework for identifying Domestic Systemically Important Banks (D-SIBs) has also been developed. The Central Bank intends to issue these important new regulations in Q1 2017. As per the Basel timetable, the timeframe for full implementation of the new capital regime is end 2018. The Central Bank will continue to engage closely with banks to manage the implementation process for the new Basel III capital regulatory framework, in line with this timeframe.

Non-Bank Financial Institutions

The new regulatory framework for non-bank financial institutions (NBFIs) licensed by the Central Bank is being finalized. The objective of the new regulations is to enhance the organization and development of the NBFI sector and upgrade supervisory oversight of these institutions. The Central Bank engaged and consulted with the NBFI sector on these new regulations in 2016. The intention is to issue these new regulations in Q2 2017.

Regulations for SME Lending and Crowdfunding

The Central Bank is seeking to promote the further development of the micro, small and medium-sized (SME) business in the UAE to support the UAE economy. In this regard, the Central Bank developed SME regulations in 2016, with the objective that financial institutions in the UAE play their roles in this development. The Central Bank consulted with the industry on this initiative in 2016 and intends to bring forward final regulations in 2017.

In 2016, the Central Bank also developed regulations covering crowdfunding in the UAE . The objective of these new regulations is to safeguard the financial system and consumers in respect of loan-based crowdfunding activities. The Central Bank intends to finalise these regulations in 2017.

B. Supervision

Supervision, in its present form, was empowered by Chapter 2 of Union Law No. (10) of 1980, which made mandatory the supervision of the financial sector under the Central Bank's jurisdiction and strengthened Central Bank functions in this regard. After licensing by the Central Bank an institution is subject to ongoing supervision to ensure the institution is managing its risks prudently and that it is meeting the Central Bank's prudential requirements, this includes both banks and non-bank financial institutions which also includes Exchange Houses.

The division has two key responsibilities; firstly, it assesses banks and other licensed institutions' compliance with the regulatory framework but, perhaps even more significantly, it monitors risks and the build-up of risk at individual institutions and looks to intervene to mitigate those risks before they become systemic. It uses a variety of onsite and offsite tools to achieve this and allocates resources according to the assessment of those risks. Teams are located both in Dubai as well as in Head Office, Abu Dhabi.

The Supervisory Structure

The Supervision Division within Banking Supervision Department is broadly delineated along the lines of the requirement to physically verify and report on institutions under the Central Bank's jurisdiction. On-site examination undertakes field inspections, while off-site work focuses on analysis and review of the reports received from bank examiners and follow-up of relevant issues with the concerned institutions. In reality though, both teams are closely linked and there is always significant interaction between the two functions before, during and after the examination itself.

The increase in complexity of banking and non-banking activities, emergence of new risk factors and continuous change in the financial landscape resulted in the need to undertake risk assessments both at individual institution level as well as on a system-wide basis. For this reason,

Supervision works closely with Monetary Policy and Financial Stability Department to enhance its risk-based supervision processes to ensure that the department continues to support the strategic objectives and the desired outcomes of the Central Bank.

An important element of the enhancement of the risk-based examination process was introduced during 2014 of an all-encompassing dashboard for banks designed to quickly assess the strengths and weaknesses of an individual institution, not only in terms of regulatory compliance, but also in terms of the institution's governance, control and risk management capabilities benchmarked both against global best practice as well as domestic peer groups. In this assessment, balance and proportionality are important considerations in assessing the capacity of institutions. This important tool continues to be developed and has become an integral part of our risk based supervision system.

Perhaps even more important, the dashboard drives the regulatory concerns to both the senior management of the Central Bank and the concerned bank, in a concise and easily understandable way. The benchmarking and scoring process, as well as the ability of the system to be proportional allows the senior management of the Central Bank to allocate examination resources effectively, on the basis of risk. It is the key tool used to review and highlight key concerns as well as potential enforcement responses.

This important micro-prudential tool has been complimented by a static information sheet designated as the 'passport' which provides supervisors with a snapshot of the institution, its ownership, its management, its important financial highlights, critical exposures and key depositors.

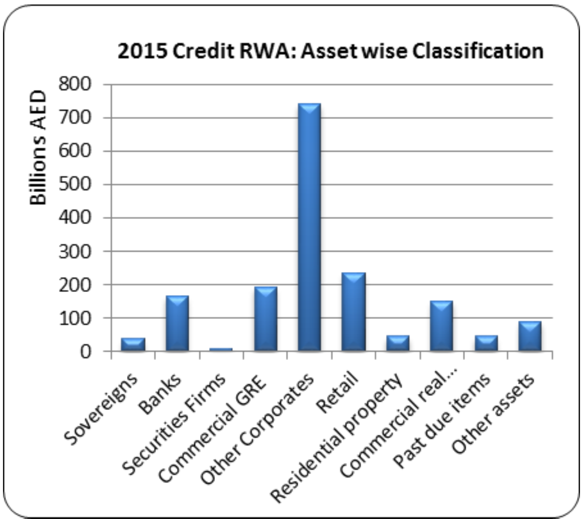
Ensuring Capital Adequacy of Banks

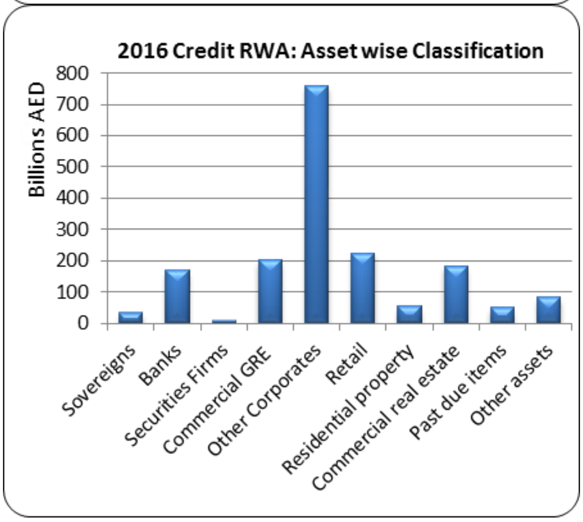
Capital Adequacy is a key pillar for ensuring the safety and soundness of banks. The Central Bank currently requires all banks operating in the UAE to comply with the Basel II Standardized approach in assessing their regulatory capital adequacy. This includes a thorough review of the Central Bank's pillar II responsibilities as regards the ICAAP (Internal Capital Adequacy Assessment Process). Basel III capital requirements will be introduced in early 2017 and this will further improve banks' quality of capital as well as concentrating supervisory resources on those institutions designated as systemically important.

Methodologies: The Calculation of Capital Adequacy (Pillar1) for Credit Risk

In the UAE regulatory framework, banks use the standardized approach for regulatory reporting. From a Credit Risk Weighted Asset (RWA) perspective, the most dominant assets class is Claims on Corporates which accounts for approximately 40% of the total credit RWA. The second highest is Retail followed by Claims on GREs (about 15%) and then Claims on Commercial Real Estate (CRE) with about 10% of total credit RWA.

As of 2016, there has been no significant change in the collective distribution of RWA among banks in the UAE. During 2016, claims on corporates still remain the highest followed by claims on retail and claims on commercial GREs.





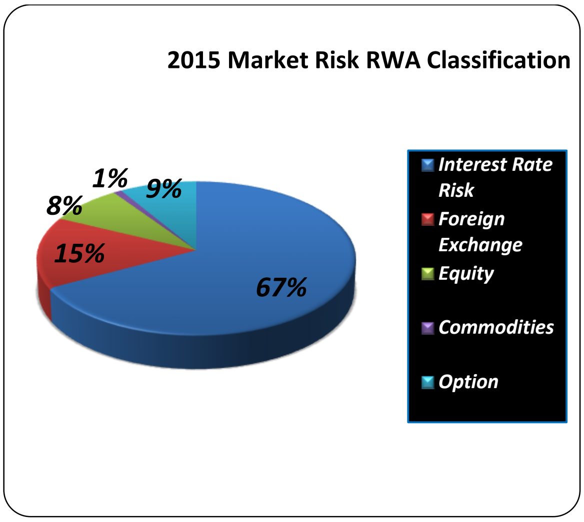
The Calculation of Capital Adequacy (Pillar 1) for Market Risk

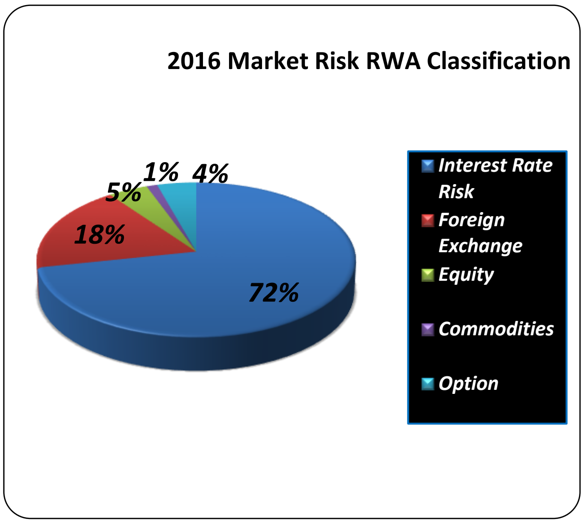
Banks in the UAE have traditionally had limited exposure to Market Risk due to the lack of large proprietary books as well as a policy of customer driven matched deals or fully hedged positions, however, this is changing. Under the regulatory framework employed in the UAE, banks use the standardized approach in assessing market risk under Pillar I and their individual internal models are assessed under the ICAAP review.

Market risks are categorized as follows and are subject to a capital charge based on a RWA equivalent:

- Interest Rate Risk,
- Foreign Exchange Risk,
- Equity Exposure Risk,
- Commodity Risk, and
- Options Risk

The largest market risk type is interest rate risk which is 67% of the total market risk equivalent weighted assets followed by foreign exchange risk which is 15%.





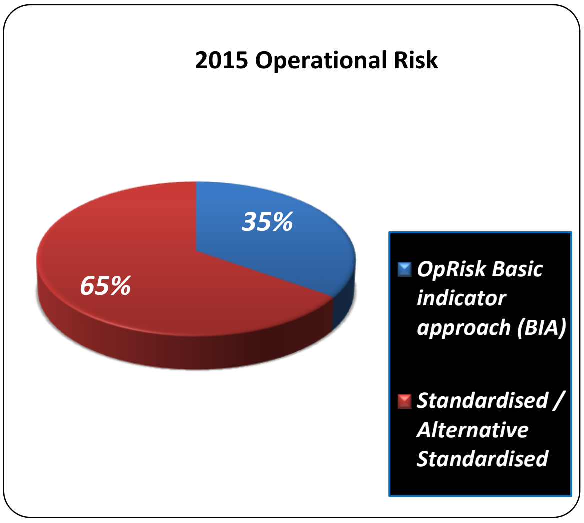
The Calculation of Capital Adequacy (Pillar 1) for Operational Risk

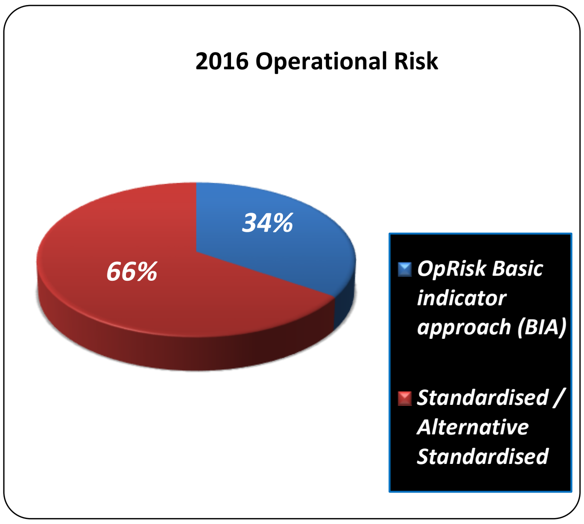
Any event that disrupts business activity is an operational risk. Operational risk from fines, mis-selling, penalties, employee errors, systems failures and cyber threats could disrupt the efficient operation of banks. Although losses attributable to most of those risks have decreased over recent years through the application of technologies, those technologies themselves have created the potential for even more complex types of operational risk.

Based on the regulatory framework employed in the UAE, banks implement the following approaches to calculate the equivalent risk weighted assets relating to operational risk:

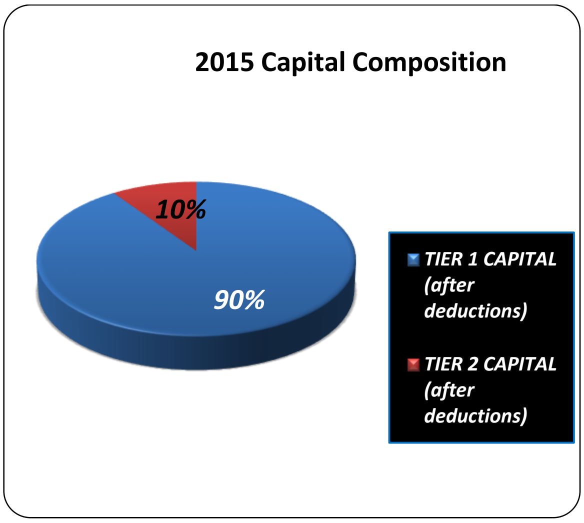
1. Basic Indicator Approach (BIA)
2. The standardized approach

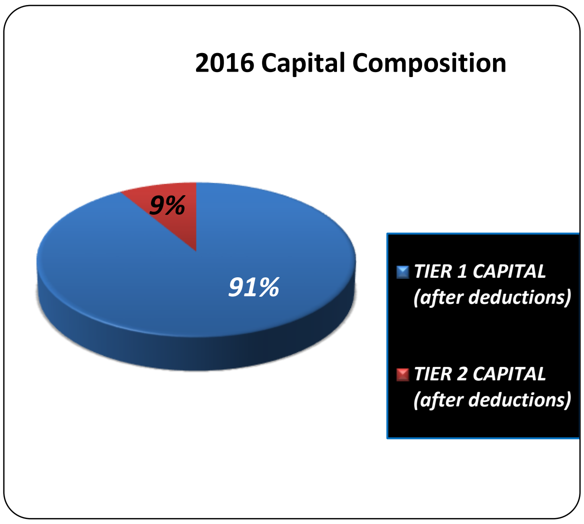
The number of banks using these approaches is shown in the figure below:





Overall, during 2015, the capital composition in the UAE banking system was comprised of 90% Tier 1 capital with Tier 2 capital only accounting for 10% of total capital. Moreover, during 2016 banks have issued further Tier 1 capital all of which will be eligible when Basel III requirements are published in 2017. As for 2016, the composition of capital is almost the same as 2015 with only a slight change that reflects an increase in the proportion of Tier 1 capital by 1%.





C. Licensing

The Central Bank's duties include licensing Banks and other non-bank financial institutions, subject to meeting all the requirements and conditions of the license. It also classifies these institutions, according to the license type be it Bank, Representative Office, Finance Company, Investment Company, Monetary Intermediary or Exchange House.

The licensing application process in the Central Bank is centered within the Licensing Division at the Banking Supervision Department. The license will have validity for a specified period subject to renewal by the Central Bank, which is in accordance with the issued regulations.

The Licensing Division processes the following requests received by the Central Bank from prospective applicants/current licensees:

- New licenses
- License modification
- License renewal (not applicable for banks)
- ATM installation
- Electronic Banking Units approvals
- Opening/ relocation/ closure of branches
- Capital/ shareholding structure amendments
- Processing resolutions issued by the UAE judicial system and forward them to banks and other financial institutions for their action.

As of year-end 2016 a total of 38 licensed foreign banks from 22 countries operated in the UAE as well as 114 foreign bank Representative Offices. In addition, 24 local banks operated in the UAE with a total of 1,071 branches, Electronic Banking Units and Pay Offices.

This represented an increase of 4 new licenses in total as of 31st December 2016 compared to 31st December 2015 as shown below:

	Total as of 2016	**Total as of 2015**
Bank	62	59
Representative Office	114	115
Finance Company	27	26
Investment Company	25	25
Monetary Intermediaries	11	12
Exchange House	140	138
Total	379	375

Requests for the renewal of licenses are subject to a review of an institution's compliance with Central Bank regulations as well as their ongoing commitments under the license.

Maintaining Close Relationships with Other Related Institutions

Banking Supervision Department continues to maintain a close relationship with the financial sector, including the UAE Banks Federation, rating agencies, audit and consultancy firms, in addition to the Arab Monetary Fund, the IMF and the World Bank. Regular meetings with these institutions and the Central Bank were held throughout the year. It takes an active role in interacting with UAE regulators both onshore and in the Financial Free Zones as well as overseas regulators where it maintains an active dialogue and co-operation.

The Department also continues to be an active participant in the international regulatory development of Islamic

finance at the Islamic Financial Services Board and the International Islamic Liquidity Management. This has been instrumental in developing an extensive understanding of current issues and developments and contributes to the improvement of its supervisory oversight of Sharia compliant finance.

D. Consumer Protection

The Consumer Protection Unit aims to ensure that consumers are treated with of a high level of transparency and fairness when dealing with Banks / Financial institutions that are regulated by the Central Bank and ensure their access to high quality services at affordable prices and within the Central Bank Regulations. It contributes to the development of laws and regulations relating to the tasks entrusted/ assigned to it by analyzing the type of the complaints received and highlight the main issues/ problems raised by the consumers to address them.

Consumer Protection Division in the Central Bank also seeks to raise the level of financial awareness among individual consumers and Small & Medium Enterprises to ensure their rights and knowledge about the obligations resulting from their financial transactions and potential risks arising from them. The strategic plan for 2014-2016 focused on enhancing the consumer protection system for consumers of financial services through the following:

- Participation in awareness campaigns in Abu Dhabi Exhibitions, which are organized annually by the government organizations.
- Issuing awareness leaflets/ brochures:
  - ➢ 2014 Awareness leaflet titled (Registering a complaint against Banks/ Financial Institutions – General Guideline)
  - ➢ 2015 Awareness leaflet titled (Credit Cards- General Guidelines)
  - ➢ 2016 Awareness leaflet titled (Car Loan)
- Promote financial culture and awareness by arranging for mutual visits with some educational institutions (schools / Universities)
- The registered complaints have decreased by 10% the number of complaints registered were 5232 complaints in 2015 and 4699 complaints in 2016
- 80% of total complaints received in 2016 have been closed.

As part of contribution to achieve the Central Bank's vision, mission and strategic objectives, thus innovative activities have been listed in the operational plan of 2017-2021, which would enhance the role of the consumer protection unit in minimizing complaints and promote financial awareness in the community.

In 2017 the priority given to the following activities which are listed under the consumer protection operational plan 2017-2021:

- ➢ Finalize Consumer Protection Unit Mandate and Regulation
- ➢ Continuously promoting of financial awareness in the society and provide financial education in collaboration with the relevant entities.

Complaints statistics for 2015-2016

Type of complaints	2015	%	2016	%
Request for documents	1798	34	1824	39
Credit cards	853	16	779	17
Personal loans	764	15	482	10
Credit ratings	490	9	366	8
Remittance	172	3	221	5
Housing loan	159	3	157	3
ATM	148	3	129	3
Car loans	123	2	114	3
Investments	102	2	77	2
SME's	86	2	76	2
Returned cheques	85	2	75	1
Sub total	**4780**	**91**	4300	92
Others	452	9	399	8
Total	**5232**	**100**	**4699**	**100**

Chapter 7. Financial Market infrastructures and payments

Financial Market infrastructures are the backbone of financial markets as they enable the safe flow of funds and financial assets in the economy. Their smooth operation is crucial to maintaining confidence in the currency and supporting monetary policy operations and the stability of the financial system as a whole.

The Central Bank of the UAE plays a central role in the field. It provides payment and settlement services, oversees financial market infrastructures and payment instruments, and works with market stakeholders to achieve financial market integration. Cooperation and dialogue with other financial institutions and regulatory authorities on policy aspects relating to regional and global developments in the field of market infrastructure and payments are also of a highest importance for the Central Bank.

The public policy objectives of the CBUAE in the area of market infrastructure are targeting the limitation of systemic risk and fostering transparency and financial stability. These objectives are promoted by monitoring existing and planned systems, assessing them against the objectives and, where necessary, inducing change.

Current Status

The UAE payment services ecosystem pursued its development and diversification during the year 2016, confirming hence the progressive trend witnessed during the past ten years with the major reforms undergone under the leadership of the Central Bank of the UAE to bring payment systems into line with best practices in other developed economies, with particular focus on managing the overall risk effectively, promoting the use of electronic payment means (cashless), and increasing efficiency of the settlement arrangements for all type of payment transactions.

At the national level, the CBUAE has actively initiated its plan to support the UAE Smart Government Initiative, particularly with regard to e-Government and m-Government strategies, by developing and issuing a new regulation on digital payments field with the objective of enhancing the regulatory framework for stored values and electronic payment systems, as well as establishing the enabling infrastructure to support the interoperability of e-payments between all financial institutions in the UAE. The core objective of this regulatory framework is to facilitate a robust adoption of digital payments across the UAE in a secure manner and enabling Fintech development whilst promoting the highest levels of consumer protection and financial stability.

Furthermore, CBUAE's priority in the past year was as well to facilitate the implementation of new international payment schemes in the UAE by enabling the link between the UAE national switch for ATM transactions (UAESWITCH) and UnionPay International Network. This allowed the transactions performed by cards issued by the majority of banks in China to use the ATMs network of the UAE in a very streamlined way. The link is now operational and the volume of transactions performed by UnionPay branded cards is in continuous progression.

Moreover, CBUAE provided its full support towards enabling the active participation of federal ministries and other government agencies in the UAE Funds Transfer System (UAEFTS) to directly process their payment orders through the system; the objective being the electronic transformation of services proposed by these institutions and improving the efficiency in the processing. This year, nearly the entire payments flow from Ministry of Finance has been directed to the UAEFTS, while the other Ministries are in the process to finalize this step.

Similarly, a large discussion was engaged during 2016 with the various courts in the UAE to examine the possibility of establishing a link between the courts and the CBUAE in order to allow a better transmission, processing and monitoring of court orders and decisions that are currently time-consuming and require an extensive manual processing. These efforts were concluded with the signing of Memorandum of Understanding with Ras Al Khaimah Courts and Dubai Courts. The detailed specifications of the link are in the process of being finalized with the objective of ensuring the link is ready and effective during 2017.

From a regional perspective, the CBUAE continued in 2016 its involvement in the GCC-RTGS project aiming at enabling real-time processing of cross-border payments among GCC countries by using their domestic currencies. The utmost objective of this project is to increase the integration of domestic payment systems across GCC countries and enhance the efficiency of the existing settlement mechanisms. The project is now at the implementation phase with the solution provider selected and all the major requirements identified.

On the same front, the CBUAE pursued playing a key role towards supporting the UAE's integration in the Arab regional payment ecosystem. To this effect, the CBUAE participated actively in the Arab Regional Payment System project that envisages integrating the clearing and settlement of cross-border payments in the Arab region by enabling the establishment of a system for clearing and settlement of intra-regional cross-border payments. After completing all the feasibility studies, the project is now at the design phase and is expected to move to the implementation phase, subject to the approval of the Arab Central Banks Governors Council.

Main achievements in 2016

During 2016, many actions and initiatives have been undertaken toward enhancing the various payment and settlement systems operated by the CBUAE, increasing efficiency of the Non-cash Government payments, and providing the infrastructure to support innovation and diversity in the different payment channels. The most important realizations accomplished in 2016 are as follows:

- **The CBUAE has successfully issued the Regulatory Framework for Stored Values and Electronic Payment Systems** to facilitate robust adoption of digital payments across the UAE in a secure manner. The regulation would allow to keep pace and accommodate digital payments whilst ensuring the highest levels of consumer protection and financial stability. This will also create a level-playing field for banks and non-banks, and foster competition in the payment systems industry.

- **The CBUAE supported the acceptance of UnionPay cards at the UAE ATM's network**, thereby enabling tourists from China to easily withdraw funds using their cards. The acceptance of the cards is now a reality in almost all banks in the country.

- **The CBUAE succeeded to launch the phase 1 of the UAE Payment Gateway System** to allow the processing of E-commerce transactions at Merchants level by using current and saving accounts held in any bank in the UAE without a need for bilateral agreements between the two sides. The onboarding of merchants and banks in this system is progressing and the work towards finalizing the requirements for phase 2 of the project has been engaged with the target for 2017 to enable using cards in the payment of E-commerce transactions.

- **The CBUAE supported the implementation phase of the GCC-RTGS system that will link the payment systems in GCC countries**. The CBUAE worked towards achieving the milestones set in the regional project. The solution provider has been selected and the project kicked-off.

- **The CBUAE has signed a MOU with Emirates Identity Authority** to develop, improve and simplify the procedures for authenticating and validating customers' identity by relying only on the ID card issued by EIA, as a major source of identification in the field of financial services provided by banking institutions in the UAE, with the objective of enhancing and diversifying these services.

- The CBUAE, in cooperation of the financial community undertook many improvements in certain payment processing procedures in the UAEDDS (Direct Debit System), UAEFTS, ICCS (Image Cheque Clearing System), and WPS (Wages Protection System) towards increasing the efficiency of these systems and the benefit of the end-users.

Priorities for the coming year 2017:

The CBUAE's priorities in payment systems field for the year ahead build on work undertaken in previous years, and comply with the UAE smart government strategies. Among these priorities, the following remain the major ones:

- **Finalize the important work done during the year 2016 towards having a contingency planning to encompass the management of operational risk more broadly, including, importantly, cyber risk.** The emphasis on operational risk and the appropriate framework through which it can be evaluated will continue to be a priority for CBUAE during 2017 with the completion of the implementation of the Disaster Recovery site (DR) and the finalization of the Business Continuity Plan (BCP) for all the payment systems operated by CBUAE.

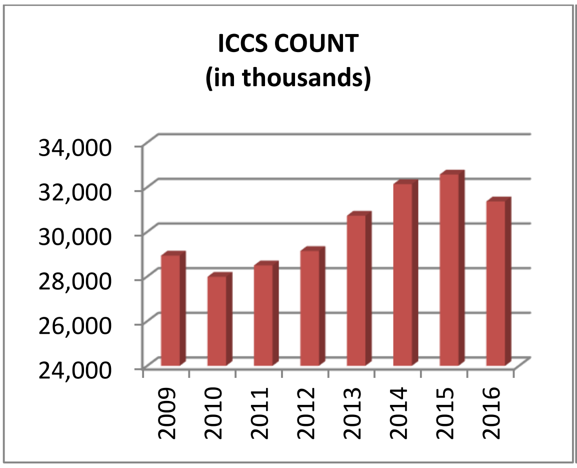
- **Initiate the implementation of the new regulatory framework for stored values and electronic payment systems effective since 1 January 2017** Pursuant to the issuance of this regulation, the CBUAE will engage with the market players according to an established agenda towards licensing them based on the nature of their solutions and the type of services offered to the public. This process will be done progressively with the objective to ensure the digital payments market comes under a well-established regulatory framework.

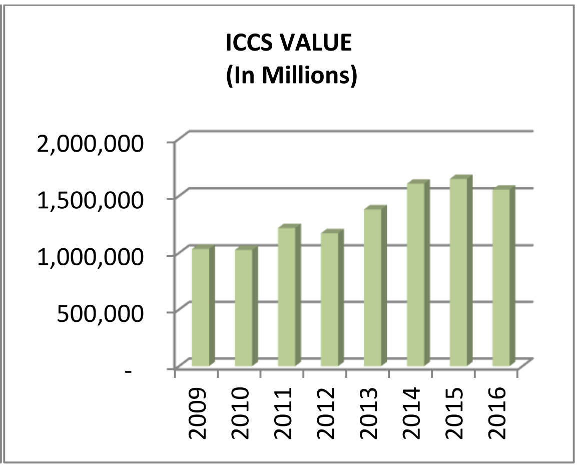
- **Pursue the effort towards strengthening the position of the UAE in the regional payment ecosystem.** The CBUAE will work during 2017 towards achieving the milestones set in the two regional projects at the GCC level and at the Arab regional level.

- **Enhance the integration of the various payment processes in the UAE.** The focus during 2017 will be on the integration of the cash leg of the securities settlement in the UAEFTS being the RTGS system of the country.

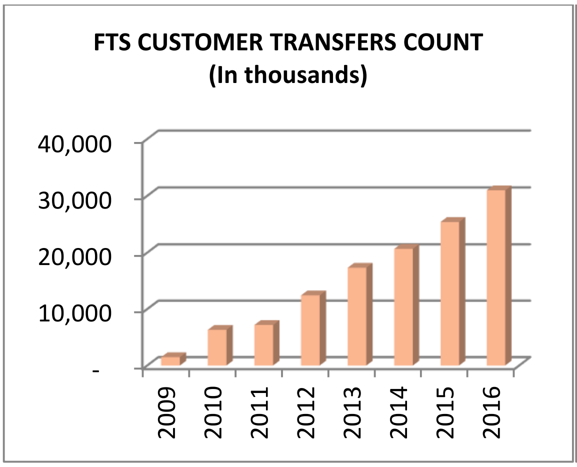
<u>Information on the systems operated by the CBUAE</u>

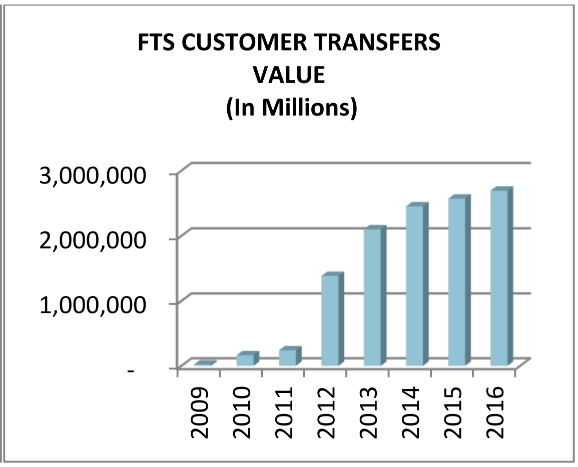
ICCS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	28,939	1,035,517
2010	27,990	1,026,957
2011	28,500	1,219,004
2012	29,148	1,173,429
2013	30,724	1,382,302
2014	32,140	1,608,412
2015	32,570	1,649,654
2016	31,365	1,555,464



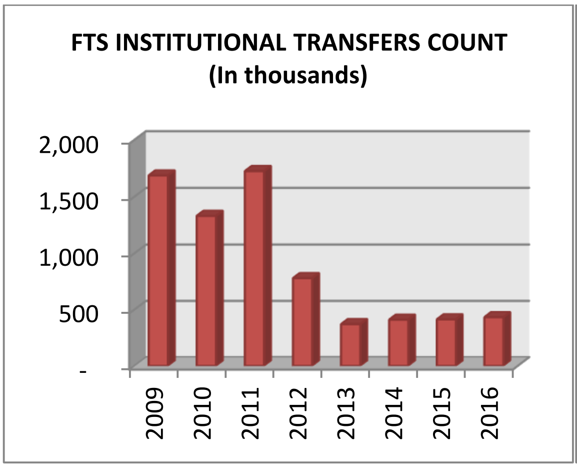


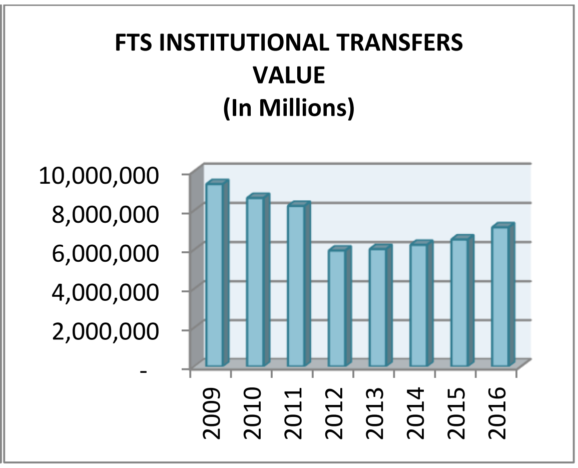
UAEFTS CUSTOMER TRANSFERS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	1,481	22,466
2010	6,324	163,634
2011	7,187	240,050
2012	12,435	1,386,489
2013	17,336	2,100,953
2014	20,688	2,453,013
2015	25,407	2,570,712
2016	30,970	2,693,086



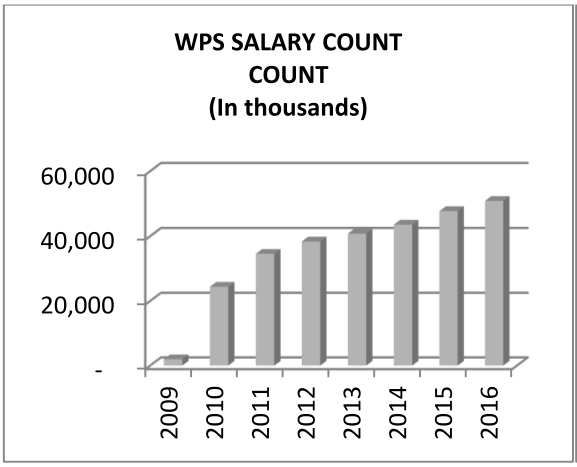


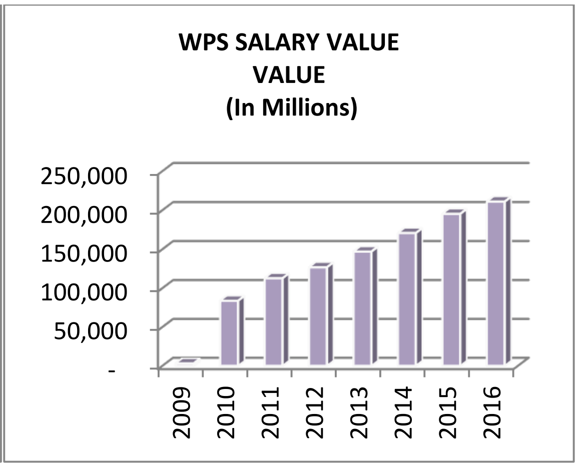
UAEFTS INSTITUTIONAL TRANSFERS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	1,687	9,337,134
2010	1,330	8,631,116
2011	1,725	8,226,410
2012	780	5,953,779
2013	371	6,024,287
2014	411	6,242,099
2015	413	6,518,087
2016	433	7,137,118



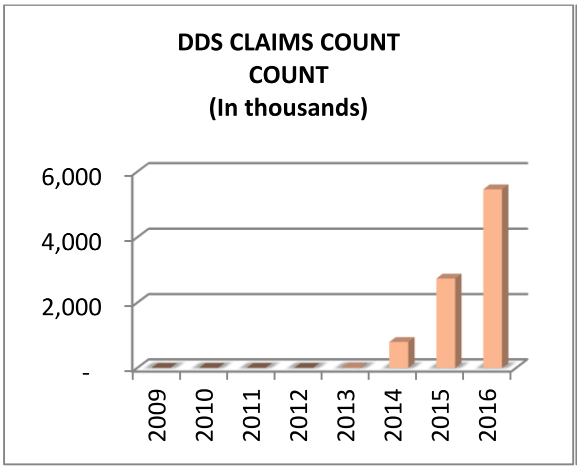


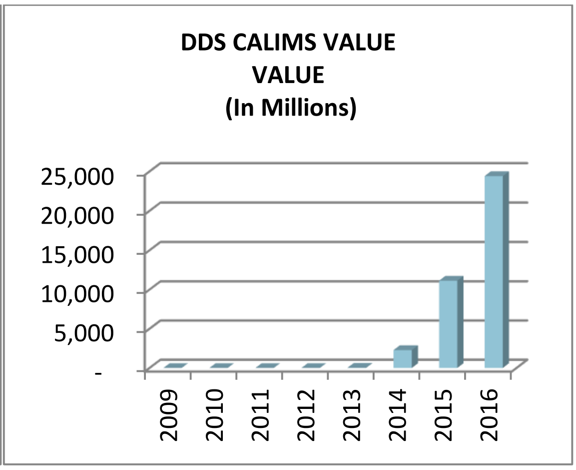
WPS SALARIES		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	1,974	3,039
2010	24,423	83,664
2011	34,597	112,677
2012	38,402	126,791
2013	40,806	146,905
2014	43,572	170,671
2015	47,754	195,254
2016	50,898	210,895



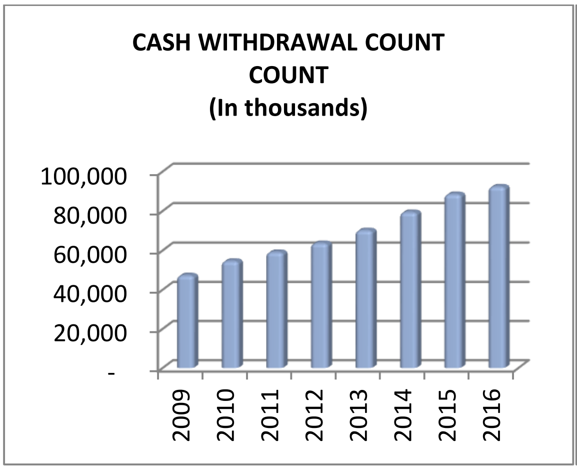


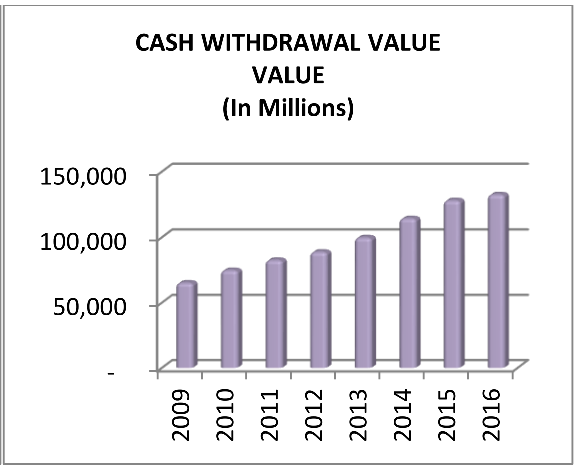
UAE DDS CLAIMS		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	9	26
2014	795	2,286
2015	2,740	11,137
2016	5,462	24,411





UAE SWITCH CASH WITHDRAWAL DOMESTIC		
YEAR	**COUNT(in Thousands)**	**VALUE(in Millions)**
2009	47,361	65,335
2010	54,676	74,993
2011	59,168	82,708
2012	63,698	88,930
2013	70,227	99,867
2014	79,430	114,460
2015	88,532	128,150
2016	92,402	132,629





Chapter 8. Risk Management and Information Security

The chapter presents the work of the Risk Management Unit followed by Information Security achieved at the Central Bank in 2016.

Risk Management

The management of risks in the Central Bank is coordinated by the Risks Identification and Monitoring Committee, chaired by His Excellency the Governor of the Central Bank and having as members Senior Managers from all relevant business areas. The Committee is assisted in its work by the Risk Management Unit, reporting directly to His Excellency the Governor and, in parallel, to the Risks Identification and Monitoring Committee. The Unit includes specialists in Financial Risk, Operational Risk and Business Continuity

The use of monetary tools and the management of its reserves expose the Central Bank to financial risks and in particular market, credit and liquidity risks. These risks are, however, limited as a result of the existing restrictions imposed by the Central Bank's policies and the use of appropriate hedging and risk control tools.

Thus, currency risks incurred by holding fixed-income instruments denominated in currencies other than the US dollar are systematically hedged out. Counterparties in all money market instruments are selected among highly creditworthy financial institutions and the exposures towards these counterparties are controlled against established limits. Money market exposures are distributed among a large number of counterparties according to their creditworthiness so that the Gini coefficient[15] of concentration of the exposures was equal to G=0.4003 at the end of 2016 compared to 0.4956 at the end of 2015 indicating an even greater distribution of counterparty exposures than last year. Finally, the overall liquidity of the reserves is guaranteed by investing a large part of the reserve management portfolio in very liquid instruments. Liquidity providing operations expose the Central bank to counterparty risk. This risk is, however, limited by the fact that, as a rule, such operations are adequately collateralized. The eligibility criteria and the risk control measures applied to the assets accepted by the Central Bank as collateral are frequently reviewed to guarantee both the protection of the Central Bank from financial loss as well as the availability of enough eligible collateral on the balance sheet of domestic banks.

The Central Bank is also exposed to operational risk, defined by the Basel Committee for Banking Supervision as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks identified by the Risk Management Unit, in close cooperation with Risk Coordinators in the relevant business areas, are evaluated by the Risks Identification and Monitoring Committee. Depending on the likelihood and potential impact of such risks, appropriate controls are introduced and the level of the residual risk, after the implementation of the controls, is monitored over time.

Since 2015 the Central Bank has put in place a Business Continuity and Disaster Recovery (BCDR) Program supervised by a Steering Committee at Senior Management level. In 2016 the Business Continuity function was integrated in the Risk Management function. Work has focused in setting up a Disaster Recovery Site and achieving Disaster Recovery readiness for key applications and infrastructure which have been assessed as critical according to the conducted Business Impact Analysis (BIA). The ultimate goal of the BCDR Program is to prepare the Central Bank to handle a range of events that could cause major disruption in the CBUAE services.

[15] The Gini coefficient is a measure of concentration/dispersion of a variable among a number of entities that ranges from 0 (equal distribution among all entities) to 1 (concentration on one entity).

Information Security

The financial services industry is under a barrage of sophisticated cyber security attacks and the Central Bank is committed to the provision of appropriate levels of security measures to tackle this risk. The Central Bank believes that conducting regular risk assessment based on proven methodologies and complying with regulation, privacy rules and strong security principles enhances the banking sector readiness to combat cyber security risks and reduces the risk of cyber security attacks on the sector and its partners.

After careful analysis of the status of cyber security in the financial sector in UAE, the Central Bank is working with banks to , improve information and intelligence sharing, and to enhance existing technical and administrative controls.

To achieve this, the Central Bank has worked with the banking sector and different government entities in 2016 to tackle cyber security incidents. A Special Information Security Committee was formed together with the UAE Banking Federation and additional work was done with other Federal entities on tackling cyber security risks in the banking sector. The core tasks of this Committee are to promote the implementation of best practices in information security, provide advice and unify our efforts to combat cyber security attacks by sharing latest security advisories with relevant entities in the sector.

The Central Bank has also worked to enhance its internal processes and capabilities to tackle cyber security risk by acquiring top talent and adopting industry security best practices to enhance its defenses and minimize the risk of cyber attacks on its main functions and in particular the payment systems.

Chapter 9. Anti-Money Laundering & Suspicious Cases Unit

Introduction:

AMLSCU at the Central Bank of the UAE is the Financial Intelligence Unit (FIU) of the UAE and the sole national center for receiving, analyzing and disseminating suspicious transaction reports filed by banks, other financial institutions and designated non-financial businesses and professions (DNFBPs) to the Law Enforcement Authorities as per the AML/CFT Law, Federal Law No. (9) of 2014 regarding countering money laundering crimes and combating terrorist financing and its Executive By-Law No. (38) of 2014. It has access to all relevant authorities in the UAE under the aegis of the National Anti-Money Laundering & Combating Financing of Terrorism Committee (NAMLCFTC) and appropriate mechanisms are in place to ensure adequate cooperation and information sharing among different government agencies involved in combating ML/TF and related crimes. It links the private and the public sectors in combating money laundering, terrorist financing and proliferation

AMLSCU is empowered to exchange information on suspicious transactions with its counterpart FIUs and provides training, technical assistance and guidance on evolving standards and best practices to all stakeholders for strengthening the AML/CFT framework in the country.

AMLSCU has developed an in-house on-line STR Reporting System and instructed banks and all other financial institutions to submit STRs through the said on-line system. AMLSCU has upgraded and enhanced the on-line Suspicious Transaction Reports System and in the process of acquiring a new global AML Solution for better exploitation of data and efficient analysis at par with FIU Information System Maturity Model (FISMM) and global standards. In addition, security has been strengthened to ensure confidentiality of information/documents at AMLSCU**.** At present over 98% of STRs are received on-line and law enforcement authorities are increasingly using STR data in a wide spectrum of criminal investigations leading to arrests of suspected criminals, legal proceedings and subsequent convictions. This demonstrates the effectiveness of UAE's AML/CFT regime.

I. Developments in 2016 impacting the AML/CFT Framework in the UAE:

1) Issuance of Ministerial Decision No. (165) of 2016:

The UAE Ministry of Finance, as per Federal Law No. (9) of 2014 sub-Article (10), issued the Executive Regulation of NAMLCFTC through Ministerial Decision No. (165) of 2016, specifying the functions and other related tasks of the Committee.

2) Self-Assessment Questionnaire on AML/CFT Legal, Regulatory & Institutional Framework:

AMLSCU circulated a Self-Assessment Questionnaire on AML/CFT legal, regulatory and institutional framework to NAMLCFTC members, regulatory/ supervisory authorities, banks and all other financial institutions as part of the preparation for the next round of Mutual Evaluation of UAE. The response from all concerned parties would assist AMLSCU and other authorities to identify the gaps in the AML/CFT framework and to take the necessary measures accordingly.

3) **Domestic Cooperation:**
The Anti-Money Laundering and Suspicious Cases Unit (AMLSCU) at the Central Bank of the UAE and the Financial Services Regulatory Authority (FSRA) of Abu Dhabi Global Market (ADGM) have signed a Memorandum of Understanding (MOU) to cooperate on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and related matters, in May 2016. With signing of this MOU, the total number of MOUs signed with domestic authorities stands at 10.

4) **Strengthening the Moneychangers sector:**

A Joint Working Group comprising of representatives from Banking Supervision & AMLSCU at the Central Bank was formed to review the Moneychangers in terms of their compliance with laws and regulations and AML/CFT requirements. The Working Group has conducted a gap analysis, prepared a report highlighting the deficiencies and remedial actions required and presented to the Central Bank Senior Management for appropriate action.

Letters have been sent to the concerned Moneychangers to address the deficiencies identified within a stipulated time period. In case of non-compliance, the said moneychangers will be subject to sanctions in line with applicable laws.

II. Preparation for the next round of Mutual Evaluation:

1- The National Anti-Money Laundering & Combating Financing of Terrorism Committee (NAMLCFTC) established the following sub-committees as part of the preparation for the next round of Mutual Evaluation of UAE:
   I. Sub-committee for UAE National Risk Assessment on money-laundering and Terrorist Financing, as per FATF Recommendations and methodology.
   II. Sub-committee for reviewing AML/CFT laws and regulations.
   III. Sub-committee to evaluate UAE AML/CFT framework in the financial and commercial free zones.

2- The members of the above sub-committees visited Saudi Arabia, Australia and United Kingdom during November & December 2016 to exchange information and technical knowhow on National Risk Assessment and other issues related to the next round of mutual evaluation.

3- AMLSCU conducted a workshop for members of the NAMLCFTC and other stakeholders at the Central Bank in Abu Dhabi in October 2016 to create awareness on the evolving international standards in order to further strengthen the AML/CFT framework and be prepared for the forthcoming Mutual Evaluation of UAE. It was attended by 103 Officials comprising of members of NAMLCFTC and other UAE Federal and Local Government Entities and concerned stakeholders.

III. Capacity Building at AMLSCU:

1. **IT Infrastructure:**
AMLSCU requirements in terms of technical architecture are being carried out to automate all the processes including linking the remaining reporting entities to the STR on-line reporting system. This will further streamline the process of STR reporting and strengthen the AML/CFT framework of the UAE. The Central Bank has engaged external IT Consultant to implement IT modernization project which includes IT infrastructure developments for AMLSCU.

2. **AML/CFT Training:**
AMLSCU staff participated in various events/training programs to build capacity.

IV. AMLSCU Outreach Efforts:

AMLSCU has an on-going outreach program to create more awareness on AML/CFT among all stakeholders and also participates and presents in seminars and workshops organized by stakeholders. The major events AMLSCU participated in/organized, were:

1) Workshop organized by the Insurance Authority on 26th and 27th July 2016 for the technical development insurance companies' compliance officers where AMLSCU presented a paper on the AML/CFT requirements of the insurance sector in line with Federal Law No. (4) of 2002 and its amendments thereto.

2) Workshop for Exchange Houses organized by Banking Supervision Department at the Central Bank of the UAE from 13th to 16th July 2016. AMLSCU participated in the workshop and clarified points related to AML/CFT laws and regulations.

3) UAE-UK Joint Conference on Financial Crime and Recovery of the Proceeds of Crime organised by AMLSCU in cooperation with the Home Office, the Crown Prosecution Service, Her Majesty's Revenue and Customs and the National Crime Agency of the United Kingdom from 20th to 21st September 2016 at the Central Bank in Abu Dhabi. It was attended by 200 people comprising of NAMLCFTC members and Officials from other UAE Federal and Local Government Entities, representatives from the UAE Banks Federation and banks operating in the UAE besides delegates from the United Kingdom.

V. International Cooperation:

i. Providing Technical Assistance:

AMLSCU presented a paper on UAE AML/CFT framework and other related topics to the visiting delegations from Central Bank of Yemen in August 2016.

ii. Signing MOUs with Counterpart FIUs:

The AMLSCU signed MoUs with National Criminal Intelligence Service Financial Unit, Sweden and MOKAS (Unit for Combating Money Laundering), Cyprus to facilitate exchange of information, enhancing co-operation on AML/CFT, training and sharing of best practices, at the margins of the Egmont Working Group Meetings in Monaco in February 2016.

AMLSCU also signed MoUs with Kuwait Financial Intelligence Unit in May 2016 and with Federal Financial Monitoring Service (FFMS) of the Russian Federation in November 2016 in Abu Dhabi. With the signing of these 4 MoUs, the total number of MoUs signed with counterpart FIUs stands at 44.

VI. Achievements of AMLSCU during 2016:

- 7887 STRs received from banks and other financial, commercial & economic entities including 906 STRs on fraudulent activities, an increase of 30% from last year.
- Of which, 3,487 STRs (44%) were reviewed and analyzed during the year.
- 73% of STRs were filed by banks, compared to 75% in 2015.
- 234 STRs were referred to law enforcement authorities in the UAE, for further investigation.
- 391 search and/or freeze requests received from law enforcement, public prosecution and other domestic authorities.
- Instructed financial institutions to repatriate unauthorised transfers amounting to AED 101.69 Mln related to 182 cases.
- Initiated a total of 905 Enhanced Customer Due Diligence (ECDD) and Fraud Alerts to Financial Institutions based on STRs.
- Initiated 181 instructions for heightened monitoring of accounts in financial institutions based on Payment Platforms.

- Conducted 217 Due Diligence procedures for pre-licencing/renewal of licence for moneychangers.
- Conducted 28 Database checks based on request from Domestic Stakeholders.
- Attended 8 sessions as expert witness for the Public Prosecution in relation to financial crimes.
- AMLSCU staff attended 10 meetings of 5 Bilateral Committees established by Dubai Public Prosecution's decision for investigating money laundering and other financial crimes related to 10 STRs received by AMLSCU from different reporting entities.
- 4 Final Reports have been submitted to Dubai Public Prosecution based on the investigations by the Bilateral Committees.
- Reviewed details of 93 non-resident customers renting Safe Deposit Lockers from Banks.
- Initiated 11 special examinations of banks & moneychangers on AML/CFT compliance issues and related matters, in collaboration with Banking Supervision.
- Conducted 61 fit and proper reviews of nominations to the Board of Directors of national banks.
- Due Diligence for 460 Nostro Account applications of moneychangers conducted.
- Processed 480 requests for senior management positions in banks.
- Received 630 requests for information from 94 counterpart FIUs and responded accordingly.
- Initiated 160 requests for information and spontaneous disclosure to 45 foreign FIUs.
- Hosted delegates from counterpart FIU~~s~~ and various other foreign stakeholders.
- Conducted meetings and other AML/CFT outreach programs which benefited representatives of public and private sector entities in the UAE, as well as foreign stakeholders.
- IT infrastructure developments are on-going in terms of automating the AMLSCU processes and linking all the reporting entities to the STR on-line reporting system.
- Participated in various international, regional and domestic training programs and other events to develop knowledge and technical skills.
- Review of AMLSCU organizational structure and staffing requirements undertaken to enhance operational effectiveness of AMLSCU.

Conclusion:

AMLSCU will continue to focus on capacity building, systems development, domestic coordination, regional and international cooperation to ensure and maintain financial integrity and counter reputational risks as well as prepare for the next round of mutual evaluation of UAE's AML/CFT Framework.

Appendix

Selected Macroeconomic Indicators 2011-2018

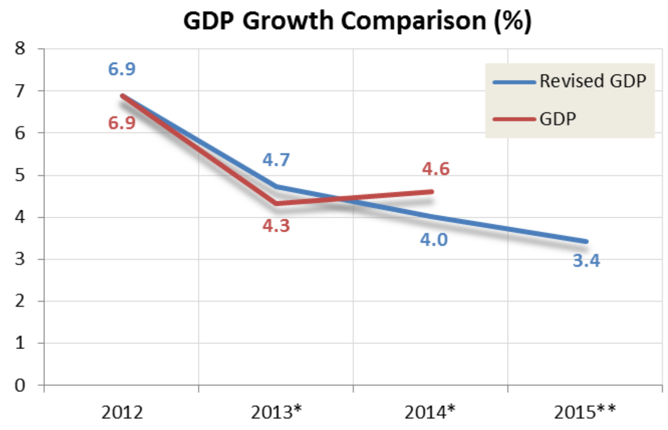
- January 2017 Edition -

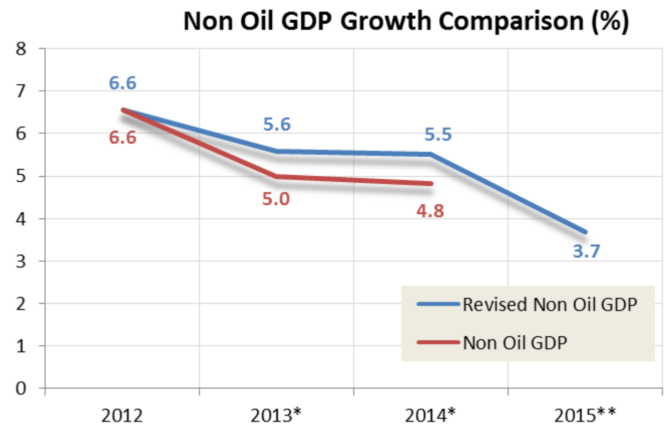
	2011	2012	2013	2014	2015	2016 (P)	2017 (P)	2018 (P)
WORLD GDP (%)	4.2	3.5	3.3	3.4	3.1	3.1	3.4	3.5
US GDP (%)	1.6	2.2	1.5	2.4	2.6	1.6	2.2	2.1
Oil Price ($/Bl)	110.9	112.0	108.9	98.9	52.4	44.0	58.2	63.2
Oil production ADNOC (Million Barrels/day)	2.5	2.6	2.8	2.8	2.9	3.0	2.9	2.9
In Billions of AED								
Real GDP	990.4	1057.6	1107.6	1141.8	1184.7	1215.8	1242.0	1280.8
Real Non Oil GDP	674.9	718.3	758.6	790.0	815.3	837.5	860.5	894.2
Real Oil GDP	315.4	339.3	349.1	351.8	369.4	378.3	381.5	386.6
Nominal GDP	1280.0	1371.4	1427.1	1476.2	1359.9	1343.7	1485.5	1589.4
Nominal Non Oil GDP	776.7	832.3	896.2	968.8	1040.7	1069.0	1119.2	1186.3
Nominal Oil GDP	503.2	539.2	530.9	507.4	319.3	274.7	366.2	403.1
Annual percent change (%)								
Real GDP	5.2	6.8	4.7	3.1	3.8	2.6	2.2	3.1
Real Non Oil GDP	4.5	6.4	5.6	4.1	3.2	2.7	2.7	3.9
Real Oil GDP	6.6	7.6	2.9	0.8	5.0	2.4	0.8	1.4
Nominal GDP	21.8	7.1	4.1	3.4	-7.9	-1.2	10.6	7.0
Nominal Non Oil GDP	8.0	7.1	7.7	8.1	7.4	2.7	4.7	6.0
Nominal Oil GDP	51.8	7.1	-1.5	-4.4	-37.1	-14.0	33.3	10.1
CPI	96	97	98	100	104	106	108	-
CPI Inflation (%)	0.9	0.7	1.1	2.3	4.1	1.8	2.1	-

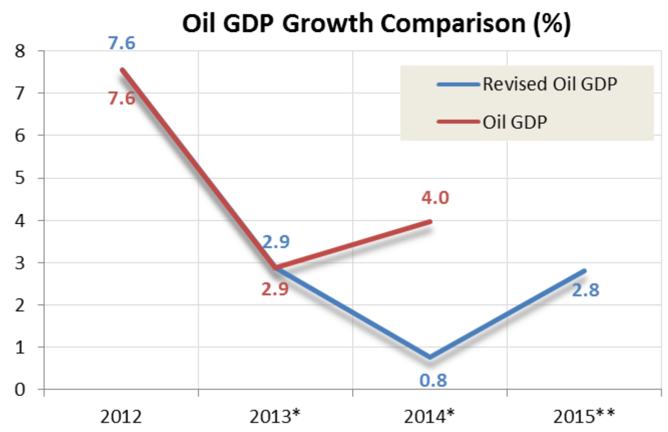
Source: FCSA, Ministry of Finance, IMF & Central Bank of UAE

Appendix B: Revised Official Figures of GDP

The Federal Competitiveness and Statistics Authority (FCSA) has released new GDP figures for 2015 and revised the historical data 2013-2014. The main modification concerned the real Oil GDP for 2014 (from 4% to 0.8%).







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