



Central Bank of the UAE Enhances its Reporting of Non-performing Loans

Enhanced Methodology for Non-performing Loans Ratio

The Central Bank of the UAE is enhancing its reporting of non-performing loans (NPL) for the UAE banking system to align its methodology with international best practices, in consultation with the International Monetary Fund.

Under its previous reporting methodology the UAE banking sector's NPL ratio was overstated compared to other jurisdictions, due to the inclusion of interest in suspense.¹

Accordingly, under the new reporting standard the NPL ratio of the UAE banking system for the year-end 2018 stood at 5.6% (instead of 7.1% under the previous reporting methodology).

For comparative purposes, the Central Bank of the UAE is providing time series reflecting the enhanced NPL ratio methodology covering the last five years.

| UAE Banking System | 2014 | 2015 | 2016 | 2017 | 2018 | Q1 2019 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| NPL ratio | 5.9% | 5.0% | 5.1% | 5.3% | 5.6% | 5.7% |
| Interest in suspense | 1.5% | 1.3% | 1.4% | 1.5% | 1.6% | 1.6% |

Note: The figures are expressed as a percentage of total loans. UAE banking system combines UAE national banks and branches of foreign banks operating in the UAE.

Specific Provision Coverage of Non-performing Loans

Furthermore, to provide increased transparency and comparability with other jurisdictions, the CBUAE is also publishing a Net NPL ratio.

The Net NPL ratio excludes specific provisions held by banks against non-performing loans. For the UAE banking system this ratio stood at 1.8% at year-end 2018.

The Net NPL ratio provides a comparison with other banking sectors considering the varying provisioning and write-off policies across different jurisdictions.

| UAE Banking System | 2014 | 2015 | 2016 | 2017 | 2018 | Q1 2019 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Net NPL ratio | 2.0% | 1.5% | 1.5% | 1.8% | 1.8% | 1.8% |

Note: The figures are expressed as a percentage of total loans. UAE banking system combines UAE national banks and branches of foreign banks operating in the UAE.

Effective Date

These changes will be reflected in the upcoming publications by the Central Bank of the UAE and communication with stakeholders as of the third quarter of 2019.

¹ The Central Bank of the UAE regulation requires suspending interest on loans, which are 90 days past due or have been provisioned. Suspended interest cannot be credited to the profit and loss accounts. As such, suspended interest is not considered as a part of non-performing loans.



Annex: Spreadsheet data with the revised NPL time series