Central Bank of the U.A.E.

Regulations re Capital Adequacy
<table>
<thead>
<tr>
<th>Subject</th>
<th>Page</th>
<th>الموضوع</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>2</td>
<td>مقدمة</td>
</tr>
<tr>
<td>OBJECTIVE</td>
<td>3</td>
<td>الهدف</td>
</tr>
<tr>
<td>SCOPE OF APPLICATION</td>
<td>3</td>
<td>نطاق التطبيق</td>
</tr>
<tr>
<td>Article (1) Definitions</td>
<td>3</td>
<td>المادة (1) تعريفات</td>
</tr>
<tr>
<td>Article (2) Quantitative Requirements</td>
<td>4</td>
<td>المادة (2) المتطلبات الكمية</td>
</tr>
<tr>
<td>Article (3) Capital Components</td>
<td>5</td>
<td>المادة (3) مكونات رأس المال</td>
</tr>
<tr>
<td>Article (4) Regulatory Adjustments</td>
<td>7</td>
<td>المادة (4) التعديلات الرقابية</td>
</tr>
<tr>
<td>Article (5) Capital Conservation Buffer</td>
<td>8</td>
<td>المادة (5) مصد حماية رأس المال</td>
</tr>
<tr>
<td>Article (6) Countercyclical Buffer</td>
<td>9</td>
<td>المادة (6) مصد التقلبات الدورية</td>
</tr>
<tr>
<td>Article (7) Domestic Systematically Important Banks</td>
<td>9</td>
<td>المادة (7) البنوك المحلية ذات الأهمية النظامية</td>
</tr>
<tr>
<td>Article (8) Disclosure Requirements</td>
<td>9</td>
<td>المادة (8) مطالبات الإفصاح</td>
</tr>
<tr>
<td>Article (9) Transitional Arrangements</td>
<td>10</td>
<td>المادة (9) الترتيبات الانتقالية</td>
</tr>
<tr>
<td>Article (10) Reporting</td>
<td>12</td>
<td>المادة (10) رفع التقارير</td>
</tr>
<tr>
<td>Article (11) Interpretation</td>
<td>12</td>
<td>المادة (11) التفسير</td>
</tr>
<tr>
<td>Article (12) Publication &amp; Application</td>
<td>13</td>
<td>المادة (12) النشر والتطبيق</td>
</tr>
</tbody>
</table>
Regulations re Capital Adequacy

Circular No.: 52/2017
Date: 23 February 2017
To: All Banks
Subject: Capital Adequacy

INTRODUCTION

The Central Bank seeks to promote the effective and efficient development and functioning of the banking system. To this end, banks are required to manage their capital in a prudent manner. It is important that banks’ risk exposures are backed by a strong capital base of high quality in order to contribute to the stability of the financial system of the UAE.

In introducing these Capital Adequacy Regulations, the Central Bank intends to ensure that banks’ capital adequacy is in line with revised rules outlined by the Basel Committee on Banking Supervision in ‘Basel III: A global regulatory framework for more resilient banks and banking systems’, commonly referred to as ‘Basel III’. These Regulations are supported by accompanying Standards, which elaborate on the supervisory expectations of the Central Bank with respect to capital adequacy requirements.

These Regulations and the accompanying Standards are issued pursuant to the powers vested in the Central Bank under the Central Bank Law.

Where these Regulations, or their accompanying Standards, include a requirement to provide information or to take certain measures, or to address certain items listed at a minimum, the Central Bank may impose requirements, which are additional to the listing provided in the relevant article.

---

نظام كفاءة رأس المال

تصنيف رقم: 52/2017
التاريخ: 23 فبراير 2017
إلى: كافة البنوك
الموضوع: كفاءة رأس المال

مقدمة:

يسعى المصرف المركزي إلى تعزيز التطوير والتحقق من عمل النظام المصرفي على نحو كفيف، وفعال. وتلبيت هذه الظروف من قبل البنوك، فإن البنوك وسائل إدارة رأس مالها على نحو احترافي ومتناسب. ومن الأهمية بمكان أن تحرص البنوك على توفير قاعدة رأس مال متناسبة، ومناسبة، لتلبية احتياجات المخاطر، كما تدعمها في نمو النظام المالي للدولة.

وهدف المصرف المركزي من إدخال هذا النظام الخاص بكشف رأس المال، إلى التحقق من أن كفاءة رأس مال البنوك تتشابه مع الأنظمة المختلفة المحيطة بـ "لجنة بازل المصرفية" في وظائفها بعنوان: "Basel III: A global regulatory framework for more resilient banks and banking systems" والتي يشار إليها عوسمها بـ "بازل -3". وتساعب هذا النظام مجموعات من المعايير التي تتضمن تناصيل حول التوقعات الرقابية للمصرف المركزي فيما يتعلق بمتبطلات كفاءة رأس المال.

وقد تم إصدار هذا النظام والمعايير المصاحبة له عملاً بالصلاحيات المنوطة بالمصرف المركزي بوجب أحكام قانون المصرف المركزي.

وفي الحالات التي يتضمن فيها هذا النظام، أو معاييره المصاحبة، إلزاماً توفير معلومات، أو إتخاذ إجراءات معينة، أو مطالبة بنود بعضها واردية باعتبارها أخذت من مطلوب، فإن المصرف المركزي قد يفرض متطلبات تكون إضافة لائحة المتطلبات المقصود عليها في المادة ذات الصلة.
OBJECTIVE

The objective of these Regulations is to establish minimum capital adequacy requirements for banks with a view to:

i. Ensuring the soundness of banks; and
ii. Enhancing financial stability.

SCOPE OF APPLICATION

These Regulations and the accompanying Standards apply to all banks. Banks must ensure that these Regulations and Standards are adhered to on the following two levels:

i. The solo level capital adequacy ratio requirements, which measure the capital adequacy of an individual bank based on its standalone capital strength; and

ii. The group level capital adequacy ratio requirements, which measure the capital adequacy of a bank based on its capital strength and risk profile after regulatory consolidation of assets and liabilities of its subsidiaries.

Article (1): Definitions

1. Bank: A financial institution which is authorized by the Central Bank to accept deposits as a bank.


3. Central Bank Law: Union Law No (10) of 1980 concerning the Central Bank, the Monetary System and Organization of Banking as amended or replaced from time to time.

4. Terminology used in these Regulations: As defined in the Basel III capital framework, for example ‘Basel III: A global regulatory framework for more resilient banks and banking systems’ published by the Basel Committee for Banking Supervision in December 2010 and revised in June 2011.
Article (2): Quantitative Requirements

1. Total regulatory capital comprises the sum of the following items:
   i. Tier 1 capital, composed of
      a. Common Equity Tier 1 (CET1) and
      b. Additional Tier 1 (AT1);
   ii. Tier 2 capital.

2. All regulatory capital components referred to in Article 2.1 are net of regulatory adjustments. A bank must comply with the following minimum requirements, at all times:
   i. CET1 must be at least 7.0% of risk weighted assets (RWA);
   ii. Tier 1 Capital must be at least 8.5% of RWA;
   iii. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.

3. Based on the outcome of the Supervisory Review and Evaluation Process conducted by the Central Bank, a bank may be subject to an additional capital add-on, also referred to as individual supervisory capital guidance requirement (SCG). Banks concerned must comply with the individual SCG requirement, set by the Central Bank.

Article (3): Capital Components

1. CET1 capital comprises the sum of the following items:
   i. Common shares issued by a bank which are eligible for inclusion in CET1;
ii. Share premium resulting from the issue of instruments included in CET1;

iii. Retained earnings;

iv. Legal reserves;

v. Statutory reserves;

vi. Accumulated other comprehensive income and other disclosed reserves;

vii. Common shares issued by consolidated subsidiaries of a bank and held by third parties, also referred to as minority interest, which are eligible for inclusion in CET1;

viii. Regulatory adjustments applied in the calculation of CET1.

2. AT1 capital comprises the sum of the following items:

i. Instruments issued by a bank which are eligible for inclusion in AT1 and are not included in CET1;

ii. Stock surplus, or share premium, resulting from the issue of instruments included in AT1;

iii. Instruments issued by consolidated subsidiaries of the bank and held by third parties which are eligible for inclusion in AT1 and are not included in CET1;

iv. Regulatory adjustments applied in the calculation of AT1.

3. Tier 2 capital comprises the sum of the following items:

i. Banks using the standardized approach for credit risk: general provisions/general loan loss reserves up to a maximum of 1.25% of credit RWA;
ii. Perpetual equity instruments, not included in Tier 1 capital;

iii. Share premium resulting from the issue of instruments included in Tier 2 capital;

iv. Instruments which are eligible for inclusion of Tier 2;

v. Perpetual instruments issued by consolidated subsidiaries, not included in Tier 1 capital;

vi. Regulatory adjustments applied in the calculation of Tier 2.

4. Profit-sharing investment accounts must not be classified as part of an Islamic bank’s regulatory capital as referred to in Article 2 of these Regulations.

5. Investment risk reserves and a portion of the profit equalization reserve (PER), if any, belong to the equity of investment account holders, and thus must not be used in the calculation of an Islamic bank’s regulatory capital. As the purpose of a PER is to smooth the profit payouts and not to cover losses, any portion of a PER that is part of the Islamic bank’s reserves must not be treated as regulatory capital as referred to in Article 2 of these Regulations.

Article (4): Regulatory Adjustments

1. The following regulatory adjustments must be applied to CET1 capital:

   i. Goodwill and other intangibles;

   ii. Deferred tax assets;

   iii. Cash Flow hedge reserve;

   iv. Gain on sale related to securitization transactions;

   v. Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities;

   vi. Regulatory adjustments applied in the calculation of Tier 2.

4. Profit-sharing investment accounts must not be classified as part of an Islamic bank’s regulatory capital as referred to in Article 2 of these Regulations.

5. Investment risk reserves and a portion of the profit equalization reserve (PER), if any, belong to the equity of investment account holders, and thus must not be used in the calculation of an Islamic bank’s regulatory capital. As the purpose of a PER is to smooth the profit payouts and not to cover losses, any portion of a PER that is part of the Islamic bank’s reserves must not be treated as regulatory capital as referred to in Article 2 of these Regulations.
vi. Defined benefit pension fund assets and liabilities;

vii. Investments in own shares, or treasury stock;

viii. Reciprocal cross holdings in the capital of banking, financial and insurance entities;

ix. Investments in the capital of banking, financial and insurance entities, that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity;

x. Significant investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation;

xi. Threshold deductions.

2. For the following items, which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2, or had the option of being deducted or risk weighted, banks must apply a risk weight, which is calculated as the reciprocal of the minimum requirement of the Total Capital.

i. Certain securitization exposures;

ii. Non-payment/delivery on non-Delivery-versus-Payment and non-Payment-versus-Payment transactions;

iii. Significant investments in commercial entities.

Article (5): Capital Conservation Buffer

1. In addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital.

2. Outside of periods of stress, banks are encouraged to hold buffers of capital above the capital adequacy requirements.
3. A bank that does not comply with the buffer requirement:

i. Must restrict its dividends pay out to its shareholders in accordance with table 1;

ii. Must have a definite plan to replenish the buffer as part of its internal capital adequacy assessment process;

iii. Must bring the buffer to the required level within a time limit agreed with the Central Bank; and

iv. Will be monitored closely by the Central Bank.

### Table 1

<table>
<thead>
<tr>
<th>CET 1 Ratio</th>
<th>Minimum Capital Conservation Ratios (expressed as a percentage of earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.0% - 7.625%</td>
<td>100%</td>
</tr>
<tr>
<td>&gt; 7.625% - 8.25%</td>
<td>80%</td>
</tr>
<tr>
<td>&gt; 8.25% - 8.875%</td>
<td>60%</td>
</tr>
<tr>
<td>&gt; 8.875% - 9.5%</td>
<td>40%</td>
</tr>
<tr>
<td>&gt; 9.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Article (6): Countercyclical Buffer**

To achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth and in addition to the CCB requirements, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet the CCyB requirements by using CET1 capital. The level of the CCyB requirements will vary between 0% - 2.5% of RWA and be communicated by the Central Bank with an adequate notice period.

**Article (7): Domestic Systemically Important Banks**

Banks classified as domestically systemically important banks will be required to hold additional capital buffers applied to CET1. Banks concerned will be notified by the Central Bank.
Article (8): Disclosure Requirements

1. To help improve transparency of regulatory capital and market discipline, banks will be required, at a minimum, to disclose the following items:

i. Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements;

ii. Separate disclosure of all regulatory adjustments and the items not deducted from Common Equity Tier 1 according to paragraphs 87 and 88 of Basel III;

iii. Description of all limits and minima, identifying the positive and negative elements of capital to which the limits and minima apply;

iv. Description of the main features of capital instruments issued;

v. Banks, which disclose ratios involving components of regulatory capital, for example 'Equity Tier 1', 'Core Tier 1' or 'Tangible Common Equity' ratios, must accompany such disclosures with a comprehensive explanation of how these ratios are calculated;

vi. Full terms and conditions of all instruments included in the regulatory capital. Issuances that fall under a grandfathering rule are exempted.

Article (9): Transitional Arrangements

1. For the purpose of the value calculation of the following items:

i. Regulatory adjustments referred to in Article 4.1 of these Regulations; and

ii. Capital issued from a subsidiary, also referred to as minority interest;

banks must apply the following percentages:

a) 80% for the time period from 1st January 2017 to 31st December 2017;

المادة (8): متطلبات الإفصاح

1. لمساعدة في تحسين شفافية رأس المال الرقابي وانضباط السوق، سيتم إلزام البنوك بالإفصاح عن البنود التالية، كحد أدنى:

i. التحليق الكامل للكافة عناصر رأس المال الرقابي مع الميزانية العمومية في البيانات المالية المفقودة;

ii. الإفصاح عن كافة التحديات الرقابية والبنود التي لم يتم خصمها من رأس مال حقوق الملكية العادية الشق-1 بموجب البنود 87 و88 من بازل-3;

iii. وصف للكافة الحدود القصوى والحدود الدنيا مع تحديد عناصر رأس المال الإيجابية والسلبية التي تنطبق عليها الحدود القصوى والحدود الدنيا;

iv. وصف السمات الرئيسية للأدوات الرأسمالية المصدرة.

v. يجب على البنوك التي تفصح عن نسب تتضمن عناصر رأس المال الرقابي، على سبيل المثال، نسب "حقوق الملكية العادية الشق-1" أو "رأس المال الأساسي الشق-1" أو "حقوق الملكية العادية الملموسية" أن تتفق مع هذه الإفصاحات توضيحًا شاملًا للفحص التي تم بها احتساب هذه النسب؟

vi. كامل الأحكام والشروط للكافة الأدوات المستخدمة في رأس المال الرقابي، وتستند من ذلك الإصدارات التي تمت قبل دخول هذا النظام حيث تتفق تحت قاعدة "الالتزام بالشروط السابقة".

المادة (9): الترتيبات الإنتقالية

1. لأغراض احتساب القيمة للبنود التالية:

i. التحديات الرقابية المشار إليها في المادة (4-1) من هذا النظام;

ii. رأس المال المصدر من مؤسسة تابعة، المشار إليه أيضا باعتباره مصلحة أقلية;

يتعين على البنوك تطبيق النسب المذكورة التالية:

أ) 80% للفترة من 01 يناير 2017 إلى 31 ديسمبر 2017.
b) 100% for the time period starting from 1st January 2018.

2. Capital instruments that no longer qualify as non-common equity Tier 1 capital or Tier 2 capital will be phased out over a time horizon of 10 years, starting from 1st January 2017. The detailed phasing out rules of such capital instruments will be set out in the Standards.

3. Capital instruments included in CET1 that do not meet the requirements of these Regulations will be excluded from CET1 starting from 31st December 2017.

4. Table 2: Minimum Transitional Arrangements:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Common Equity Tier I Ratio</td>
<td>-</td>
<td>7.0%</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Minimum Tier 1 Capital Ratio</td>
<td>8.0%</td>
<td>8.5%</td>
<td>8.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Minimum Capital Adequacy Ratio</td>
<td>12.0%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td>-</td>
<td>1.25%</td>
<td>1.875%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Domestic Systemically Important Banks Buffer</td>
<td>-</td>
<td>50%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Countercyclical buffer</td>
<td>-</td>
<td>-0%</td>
<td>-0%</td>
<td>2.5%±0%</td>
</tr>
</tbody>
</table>

**Table 2: Minimum Transitional Arrangements**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Common Equity Tier I Ratio</td>
<td>-</td>
<td>7.0%</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Minimum Tier 1 Capital Ratio</td>
<td>8.0%</td>
<td>8.5%</td>
<td>8.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Minimum Capital Adequacy Ratio</td>
<td>12.0%</td>
<td>10.5%</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Capital Conservation Buffer</td>
<td>-</td>
<td>1.25%</td>
<td>1.875%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Domestic Systemically Important Banks Buffer</td>
<td>-</td>
<td>50%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Countercyclical buffer</td>
<td>-</td>
<td>-0%</td>
<td>-0%</td>
<td>2.5%±0%</td>
</tr>
</tbody>
</table>
Article (10): Reporting

1. Banks must report to the Central Bank on their capital position in the format and frequency prescribed in the Standards.

2. A bank must provide upon request any specific information with respect to its capital positions.

Article (11): Interpretation

The Regulatory Development Division of the Central Bank shall be the reference for interpretation of the provisions of these Regulations.

Article (12): Publication and Application

These Regulations shall be published in the Official Gazette and become effective from 1 February 2017.

المادة (10): رفع التقارير

1. يجب على البنوك أن ترفع تقاريرهم للمصرف المركزي حول وضعها الرأسمالي، طبقًا للشكل والتواريخ الزمني المنصوص عليهما في المعايير.

2. يتعين على أي بنك أن يقدم، عند الطلب، أي معلومات محددة تتعلق بوضعه الرأسمالي.

المادة (11): التفسير

تكون إدارة تطوير الأنظمة الرقابية بالصرف المركزي المرجع لتفسير أحكام هذا النظام.

المادة (12): النشر والتطبيق

ينشر هذا النظام في الجريدة الرسمية ويعمل به اعتبارًا من 1 فبراير 2017.

خليفة محمد الكندي
رئيس مجلس الإدارة - مصرف الإمارات العربية المتحدة المركزي

Khalifa Mohammed Al Kindi
Chairman of the Board - Central Bank of the UAE

Page 11

صفحة 11