Specialized Banks with Low Risk Regulation
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Circular No.: 13/2021
Date: 14/2/2021
To: Specialized Banks with Low Risk
Subject: Specialized Banks with Low Risk

INTRODUCTION

The Central Bank is seeking to enhance the organization, development and regulation of the banking sector in the United Arab Emirates (UAE) in the context of the overall organization of the financial sector.

This Regulation introduces a licensing and supervision framework for ‘Specialized Banks with Low Risk’ (herein after referred to as Specialized Banks).

This Regulation is issued pursuant to the powers vested in the Central Bank under the Central Bank Law (Decretal Federal Law No. (14) of 2018 Regarding the Central Bank & Organization of Financial Institutions and Activities and its amendments).

OBJECTIVE

The objective of this Regulation is to provide a regulatory framework in which Specialized Banks can operate and develop within the overall UAE financial sector in a robust and prudent manner. The framework in this Regulation is aimed at:

1. Protecting the depositors of Specialized Banks;
2. Protecting Specialized Bank consumers; and

SCOPE OF APPLICATION

This Regulation applies to all Specialized Banks. All branches of a Specialized Bank operating in the UAE shall be regarded together as one Specialized Bank and as one legal entity.

Where this Regulation includes 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 that are additional to the listing provided in the relevant article.
ARTICLE 1: DEFINITIONS

The following terms and phrases shall have the meaning assigned to them below for the purposes of the Regulation:

1.1 Bank: Any juridical person licensed in accordance with the provisions of the Central Bank Law, to primarily carry on the activity of taking deposits, and any other Licensed Financial Activities.

1.2 Board: the Specialized Bank's board of directors.

1.3 Central Bank: The Central Bank of the United Arab Emirates.

1.4 Central Bank Law: Decretal Federal Law No. (14) of 2018 regarding the Central Bank & Organization of Financial Institutions and Activities as amended or replaced from time to time.

1.5 Person: natural or juridical person.

1.6 Senior Management: The executive management of the Bank responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank, generally including, but not limited to, the chief executive officer, chief financial officer, chief risk officer, and heads of the compliance and internal audit functions.

1.7 Specialized Bank: any Person licensed in accordance with the provisions of this Regulation.

1.8 UAE Residents: all Persons who are resident of the UAE according to the applicable UAE Laws.

ARTICLE 2: LICENSING

2.1 Any Person intending to operate a Specialized Bank must first obtain a license from the Central Bank.
2.2 Licenses and license applications will be subject to the Central Bank Law’s related provisions and follow the process as determined by the Central Bank.

2.3 The license shall contain the terms and conditions deemed appropriate by the Central Bank.

2.4 The license shall be granted for an initial period of three years and shall be renewable for the same period unless otherwise required by the Central Bank. A Specialized Bank must apply to the Central Bank for License renewal no later than two months before the expiry date of the existing License.

2.5 The licensee must commence licensed activities, specified in its license according to Article 3 of this Regulation, within a maximum of 6 months from the date of notification of approval of the license.

2.6 A Specialized Bank wishing to cease or suspend any of its licensed activities must apply to the Central Bank at least six months in advance providing the reasons for such a cessation or suspension.

2.7 Any changes to the Specialized Bank’s name, legal form, memorandum and articles of association, or to the activities conducted in addition to those specified in article 3, require prior approval by the Central Bank.

2.8 The commercial name of a Specialized Bank may include the term “specialized bank”, but not the term “bank” alone.

2.9 The applicants may apply for either a conventional Specialized Bank license or an Islamic Specialized Bank license. Islamic windows in conventional Specialized Banks are prohibited.

ARTICLE 3: PERMITTED ACTIVITIES

3.1 Specialized Banks may only provide the services listed in Article 3.3 to UAE Residents.
3.2 Specialized Banks may only conduct the 
activities mentioned in Article 3.3 in UAE 
Dirham.

3.3 Specialized Banks are only permitted to 
perform the following Licensed Financial 
Activities:

3.3.1 Retail finance, including personal 
loans and vehicle loans;

3.3.2 Mortgage finance, including 
residential and commercial 
mortgages;

3.3.3 Wholesale finance, including loans 
to large corporates, small and 
medium-sized enterprises, micro-
financing, finance and operating 
leasing and wage protection 
schemes;

3.3.4 Issue debit, credit and pre-paid cards, 
provided they are operated under 
schemes licensed in the UAE;

3.3.5 Providing stored value services, 
electronic retail payment and digital 
money services; and

3.3.6 Distribution of third party products 
as an agent; provided that the 
Specialized Bank received approval 
from the relevant competent 
authority for the distribution of the 
third party products concerned.

3.4 Wholesale lending must not exceed 50% of 
the Specialized Bank’s total lending.

3.5 Immovable property taken as collateral when 
lending must be located in the UAE.
3.6 Specialized Banks may only accept deposits subject to the following conditions:

3.6.1 The aggregate amount of a natural person’s accounts with the Specialized Bank is limited to the amount covered under the deposit guarantee scheme established under Article 122 of the Central Bank Law, or, in absence of such a scheme, 500,000 UAE Dirham;

3.6.2 The aggregate amount of a juridical person’s account with the Specialized Bank does not exceed 10% of the total amount of all accepted deposits and certificates of deposits of the Specialized Bank;

3.6.3 The deposit accounts are in UAE Dirham only; and

3.6.4 The deposit accounts can only be opened for UAE Residents.

3.7 Wholesale funding must not exceed 40% of the Specialized Bank’s total funding.

3.8 Specialized Banks are allowed to issue debt securities in UAE Dirham only and must obtain prior approval from the Central Bank. Foreign funding must not exceed 25% of the sum of Aggregate Funding of a Specialized Bank.

3.9 Specialized Banks are allowed to borrow from UAE Banks.

3.10 The aggregate of all participations in the share capital of other companies must not exceed 25% of the Aggregate Capital Funds of the Specialized Bank.

3.11 Any single participation in the share capital of other companies must not exceed 10% of the Aggregate Capital Funds of the Specialized Bank.

3.12 Any single participation in the share capital of any finance sector company must not exceed

6.3 Infox شروط النقابة: 6.3-3 يتم فتح حسابات الوانش ما فدرها لإفراز الآلي. 6.3-3 يتم في حدود المبلغ الإجمالي لحسابات الشخص الطبيعي لدى البنك المتخصص، في حدود المبلغ الذي يتم تغطية تحت نظام ضمان الودائع المنشأ تحت أحكام المادة (122) من قانون المصرفي المركزي أو 500,000 بيراميد، تراهم في حال عدم وجود ذلك النظام.

3.13 Any single participation in the share capital of any finance sector company must not exceed

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3.14 Any single participation in the share capital of any finance sector company must not exceed

6.3 Infox شروط النقابة: 6.3-3 يتم فتح حسابات الوانش ما فدرها لإفراز الآلي. 6.3-3 يتم في حدود المبلغ الإجمالي لحسابات الشخص الطبيعي لدى البنك المتخصص، في حدود المبلغ الذي يتم تغطية تحت نظام ضمان الودائع المنشأ تحت أحكام المادة (122) من قانون المصرفي المركزي أو 500,000 بيراميد، تراهم في حال عدم وجود ذلك النظام.
25% of the share capital of the investee. This restriction does not apply to companies supporting operational activities of the investing Specialized Bank.

3.13 A Specialized Bank may place deposits in and obtain certificates of deposit from UAE Banks only, provided that:

3.13.1 The total of deposits and certificates of deposit placed at any one Bank does not exceed 30% of the Specialized Bank’s total deposits placed; and

3.13.2 Any such deposit or certificate of deposit placed in any UAE Bank does not exceed 10% of the Aggregate Capital Funds of the Specialized Banks.

3.14 A Specialized Bank must not purchase or acquire any immovable property, except for immovable property that is used as premises for its operations.

3.15 Article 3.14 of this Regulation shall not prevent a Specialized Bank from securing a debt on any immovable property and in the event of default in payment of the debt, from entering into a settlement agreement with the relevant borrower and as a result holding that immovable property for realization by sale or auction within three years from the date such ownership was established. The said period could be extended by the Central Bank based on justification acceptable to the Central Bank.

3.16 Islamic Specialized Banks may, as an exemption to article 3.14, own property including immovable property and goods only as part of an underlying financing contract with a borrower.

3.17 Specialized Banks must operate a low credit risk model.

3.18 The total consolidated assets of a Specialized Bank cannot exceed twenty-five (25) billion Dirham.
3.19 The total off-balance sheet exposures of a Specialized Bank cannot exceed more than 15 percent of total consolidated assets.

3.20 Specialized Banks are subject to Central Bank Reserve Requirements.

**ARTICLE 4: MINIMUM CAPITAL REQUIREMENTS**

4.1 Aggregate Capital Funds consist of the following items:

4.1.1 Paid-up capital;

4.1.2 Reserves, excluding revaluation reserve; and

4.1.3 Retained earnings.

4.2 The following items must be deducted from Aggregate Capital Funds:

4.2.1 Accumulated losses; and

4.2.2 Goodwill.

4.3 The minimum required paid-up capital for a Specialized Bank is set out in the Minimum Capital for Banks Regulation.

4.4 UAE national ownership of a Specialized Bank must comprise at least 60% of total paid-up capital.

4.5 Specialized Banks must maintain Aggregate Capital Funds of at least 12.5% of its total assets at all times, and at least 17% during its first three years of operation. A Specialised Bank may, for the purposes of this calculation, reduce the total assets by the following items:

4.5.1 Cash collaterals; and

4.5.2 Sovereign guarantees.

The items listed above in this Article must be legally enforceable.
4.6 A Specialized Bank must obtain approval from the Central Bank for any proposed distribution of profits or reduction in capital, including dividend distributions, and they must do so before announcing the proposed distribution publicly in a press announcement or by other means of communication and prior to submitting a proposal for a distribution for shareholder approval.

4.7 Any changes in the paid-up capital are subject to prior approval by the Central Bank.

4.8 No single shareholding in a Specialized Bank can exceed 20% of the total shareholding. This limit may be increased by decision of the Board of Directors of Central Bank, on a case by case basis.

ARTICLE 5: LIQUIDITY REQUIREMENTS

Specialized Banks must apply the liquidity Regulation for Banks as issued by the Central Bank.

ARTICLE 6: CREDIT EXPOSURE RESTRICTIONS

6.1 A Specialized Bank’s Credit Exposure to a single borrower or group of Related Entities is considered as a Large Credit Exposure, where its value is equal to or exceeds 5% of the Specialized Bank’s Aggregate Capital Funds. For the purpose of calculating the value of a Large Credit Exposure, a Specialized Bank may consider whether to deduct any of the following items:

6.1.1 Provisions;
6.1.2 Cash collaterals;
6.1.3 Bank guarantees from UAE Banks; and
6.1.4 Sovereign guarantees.

Items 2, 3, and 4 listed above must be legally enforceable.

Wichtigkeit (5): Mitteilbarkeit

Wichtigkeit (6): Umfang der Anlageverpflichtungen

Wichtigkeit (7): Zusammenhang zwischen Kapital und Verpflichtungen

Wichtigkeit (8): Vermeidung von Konkonzentrationen

Wichtigkeit (9): Strategische Bedeutung

Wichtigkeit (10): Ausgewogenheit der Anlagen
6.2 The aggregate amount of Large Credit Exposures must not exceed 100% of the Aggregate Capital Funds of a Specialized Bank.

6.3 In addition to Article 6.2, the Central Bank has defined maximum permissible Credit Exposure limits, as shown in Table 1 below.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Aggregate percentage of Aggregate Capital Funds</th>
<th>Individual percentage of Aggregate Capital Funds</th>
<th>Capital adequacy of the regulated entity</th>
<th>Maximum Percentage of Aggregate Capital Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>A single borrower</td>
<td>Not applicable</td>
<td>10%</td>
<td>10%</td>
<td>Not applicable</td>
</tr>
<tr>
<td>A group of Related Entities</td>
<td>Not applicable</td>
<td>15%</td>
<td>15%</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Principal Shareholders and their Related Entities</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Subsidiaries and Affiliates</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Board members</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
</tr>
<tr>
<td>Employees</td>
<td>2%</td>
<td>20 times salary</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>External auditors, consultants and lawyers</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
<td>Not allowed</td>
</tr>
</tbody>
</table>

ARTICLE 7: APPLICATION OF BANK REGULATIONS TO SPECIALIZED BANKS

7.1 Specialized Banks must comply with all Regulations and Standards issued by the Central Bank that are applicable to Banks, with the exception of the Regulations and Standards related to capital requirements and those related to large exposures, the requirements of which are already contained in this Regulation.

7.2 The Central Bank places high importance on ensuring good corporate governance in licensed financial institutions. Specialized Banks must ensure full implementation of the requirements of the corporate governance Regulation and Standards issued by the Central Bank.
7.3 All Specialized Banks must comply with the existing legal obligations and regulatory requirements for AML/CFT of the Central Bank and address money laundering and terrorist financing risks through appropriate preventive measures to deter abuse of the sector as a conduit for illicit funds, and detect money laundering and terrorist financing activities and report any suspicious transactions to the Financial Intelligence Unit at the Central Bank.

7.4 Specialized Banks must be operated prudently and with competence in a manner that will not adversely affect the interests of its customers or potential customers. All Specialized Banks must also comply with the existing regulatory requirements for consumer protection of the Central Bank.

ARTICLE 8: CREDIT REPORTS

8.1 A Specialized Bank must strictly adhere to the following credit reporting requirements:

8.1.1 Provide credit information of borrowers to the Al Etihad Credit Bureau and any future credit information agencies established for this purpose in U.A.E. on at least a monthly basis unless otherwise required by the law or the Central Bank; and

8.1.2 Request credit information of borrowers from the Al Etihad Credit Bureau and any future credit information agencies established for this purpose in U.A.E. before extending credit to an individual borrower or a company.

ARTICLE 9: REGULATORY REPORTING

9.1 The financial year of the Specialized Bank must commence on the 1st of January and end on the 31st of December (except in the year of formation, which commences on the date of registration of the Specialized Bank in the commercial registry and ends on the 31st of December of the next year, provided it does not exceed eighteen months).
9.2 Specialized Banks must regularly report to the Central Bank on their Outsourcing arrangements in the format and frequency prescribed by the Central Bank.

ARTICLE 10: ISLAMIC SPECIALIZED BANKS

10.1 The Central Bank may issue Standards that form an integral part of this Regulation, including standards for Islamic Specialized Banks.

ARTICLE 11: ENFORCEMENT

11.1 Violation of any provision of this Regulation and any accompanying Standards may be subject to supervisory action and administrative & financial sanctions as deemed appropriate by the Central Bank.

11.2 Supervisory action and administrative & financial sanctions by the Central Bank may include withdrawing, replacing or restricting the powers of Senior Management or members of the Board, providing for the interim management of the Bank, imposition of fines or barring individuals from working in the UAE banking sector.

ARTICLE 12: INTERPRETATION OF REGULATION

The Regulatory Development Division of the Central Bank shall be the reference for interpretation of the provisions of this Regulation.

ARTICLE 13: PUBLICATION AND APPLICATION

This Regulation shall be published in the Official Gazette in both Arabic and English and shall come into effect one month from the date of publication.

Abdulhamid M. Saeed Alahmadi
Governor of the Central Bank of the UAE