

STANDARDS FOR
THE CENTRAL BANK OF THE UAE'S
TARGETED ECONOMIC SUPPORT SCHEME (TESS)

Terms and Conditions for all Banks and Finance Companies under the
jurisdiction of the Central Bank of the UAE

Effective from 15 March 2020

Version 5.0 (amended on 5 April 2021)

OBJECTIVES

The Targeted Economic Support Scheme (TESS) to contain the repercussions of the COVID-19 pandemic is designed to:

(1) facilitate the provision of temporary relief from the payments of principal and/or interest/profit on outstanding loans for all affected private sector corporates, SMEs and individuals¹. For further clarification SMEs and private corporates in the UAE Free Zones are included in the TESS, however, entities registered in the UAE Free Zones providing financial activities and financial banking activities are not included. The TESS does not apply to outstanding loans to government, government-related entities (GREs) and non-residents;

(2) facilitate additional lending and liquidity capacity of banks, through the relief of existing capital and liquidity buffers, in order to support the UAE economy;

(3) outline expectations and the actions to be taken under the TESS by all banks and finance companies operating in the UAE.

The CBUAE mandates that banks and finance companies who avail of the TESS shall comply with these Standards in both words and spirit, which would lead to achieving the overarching policy objectives of the scheme.

PART 1: TESS ZERO COST FACILITY

1. Definitions

In these Terms and Conditions, unless otherwise specified:

1.1 "CBUAE" means the Central Bank of the UAE, i.e., the monetary authority of the UAE under Decretal Federal Law No. (14) of 2018.

1.2 "AED" means Dirham, the national currency of the UAE.

1.3 "USD" means the United States Dollar.

1.4 "MMD" means the Monetary Management Department of the CBUAE.

1.5 "Eligible Counterparty" means all banks and finance companies licensed to operate in the UAE and required to maintain reserve requirements with the CBUAE as per the Decretal Federal Law No. (14) of 2018.

¹ As defined in BRF 1 (Items 8.2 and 8.3)

- 1.6 “Eligible Collateral” means Certificates of Deposit, both conventional and Islamic (CDs/ICDs), issued by the CBUAE or collateral eligible under the CBUAE’s IMLF/CMF. The terms CDs/ICDs/IMLF/CMF are terms used in relevant CBUAE regulations, which are published on the CBUAE website.
- 1.7 “Collateral Value” means the market value of Eligible Collateral after applying any haircuts, as determined by the CBUAE or the triparty agents Euroclear and Clearstream that may be applicable. In case of CDs/ICDs will mean the nominal face value of the collateral submitted unless otherwise specified by the CBUAE through a notice to all Eligible Counterparties.
- 1.8 “Zero Cost Facility” (ZCF) is the collateralized CBUAE liquidity facility being provided to Eligible Counterparties under CBUAE’s TESS. Funds borrowed under the ZCF will be priced at zero interest/profit rate and Eligible Counterparties are expected to pass on the benefits of such a no cost liquidity facility, at the minimum, to their clients who have been identified to be eligible as per these Standards.
- 1.9 “Limit”, denominated in AED, is the ZCF credit line allocated to each bank and finance company based on its market share in total loans to private sector corporates, SMEs and individuals. Loans to government, government-related entities (GREs) and non-residents are not eligible.
- 1.10 “ZCF Window” is every Wednesday of the week during the term of this facility.
- 1.11 “Triparty Agents” for CBUAE will be either Euroclear or Clearstream, as per the choice of the Eligible Counterparties.

2. Eligibility for Usage of the ZCF

- 2.1 Drawing on ZCF funds is open to all Eligible Counterparties.

3. ZCF Conditions

- 3.1 ZCF funds will be provided against Eligible Collateral.
- 3.2 ZCF funds will be provided for maturity periods not exceeding the expiry date of this facility referred to in Clause 6.5.
- 3.3 The total amount of ZCF funds to be lent in aggregate to all Eligible Counterparties will not exceed AED 50 billion.

- 3.4 A designated limit will be determined for each Eligible Counterparty based on their respective market share for the sectors being supported by this Targeted Economic Support Scheme. The total amount of ZCF funds lent to each Eligible Counterparty shall not exceed this limit. The designated limits will be communicated to each corresponding Eligible Counterparty.
- 3.5 The limit for each Eligible Counterparty shall be proportional to the counterparty's share in the total lending of Eligible Counterparties to private sector corporates, SMEs and individuals as of 31 December 2019. Non-Performing Loans as per CBUAE loans classification (CBUAE Circular 28/2010) shall be excluded from the computation of each Eligible Counterparty's limit both from the numerator and denominator.
- 3.6 ZCF funds will be disbursed to Eligible Counterparties on a weekly basis as per Clause 5 in this document. Each Eligible Counterparty shall specify the amount and the period of the loan within the constraints specified in Clauses 3.2, 3.4 and 3.5.
- 3.7 Eligible Counterparties are mandated to provide evidence to the CBUAE that ZCF funds are being used to (1) facilitate provision of temporary relief from payments of principal and interest on outstanding loans for their corresponding customers benefitting from the TESS deferral program until 31 December 2021; and (2) facilitate provision of relief or support the recovery of their corresponding customers in the UAE to benefit from the TESS recovery program as of 1 January 2021. Eligible Counterparties shall provide such evidence no later than 30 days (one month) following the end of the quarter.
- 3.8 On or before 30 days (one month) following the end of the quarter, Eligible Counterparty shall submit to the CBUAE, the AED amount per each underlying portfolio where relief has been granted and implemented. The submission will need to be signed-off by the head of each Eligible Counterparty's Compliance / Control Function confirming that the submission is accurate and as per the requirements of the TESS program. This submission shall include the attached ZCF Funding Relief Form and shall be emailed by the Eligible Counterparty to the email address specified in Clause 7.1. Eligible Counterparties shall provide CBUAE with a hard copy of the ZCF Funding Relief Form duly stamped and signed by an authorised signatory.
- 3.9 Eligible Counterparties may also borrow funds corresponding to relief applicable between 2 January 2020 and 15 March 2020. This clause does not apply to ZCF funds disbursed after 1 January 2021.
- 3.10 Non-compliance by an Eligible Counterparty to abide by the obligations stipulated in Clause 3.7 and 12.1 within sixty days (two months) following the disbursement of the funds will result in CBUAE imposing a fee of 6.0% p.a. for the period levied against

the value of disbursed funds, utilized by Eligible Counterparty, which was determined as non-compliant.

4. Collateral Eligibility

4.1 The collateral eligibility will be defined by the below operational procedures that the Eligible Counterparty may opt for.

5. Operational Procedures

CD/ICD Collateral –

5.1 The ZCF window will open between 09:00 hours and 15:00 hours UAE time every Wednesday of the week. Should the day in question coincide with a banking holiday, then the following business day will be a good day for this facility.

5.2 Within the window period referred to in Clause 5.1, any Eligible Counterparty requesting to draw on its ZCF limit shall approach the MMD via the Thomson Reuters dealing line or an authenticated SWIFT message conveying its interest in borrowing a specified amount.

5.3 The said amount will be as per the conditions referred to in Clause 3 and the concerned Eligible Counterparty will be held responsible for maintaining compliance with these Standards at all times through the period of this borrowing.

5.4 The Eligible Counterparty can access ZCF funds for any tenor limited to the expiry date of this scheme.

5.5 ZCF funds requested under each draw down will be credited to the Eligible Counterparty's Current Account held at the CBUAE on a value date not later than the next value date.

5.6 The Eligible Counterparty will have to furnish the CBUAE with the identification details of the submitted collateral. All documentations and procedures required by the CBUAE, as published in its regulations referred to in Clause 1.6, will need to be followed by Eligible Counterparties.

5.7 It is the Eligible Counterparty's responsibility to ensure that collateral value and maturity are in line with the CBUAE requirements and the draw down requested. Any failure to meet these requirements may result in the draw down being annulled by the CBUAE.

- 5.8 The CBUAE will not issue any confirmation for the blocking of the eligible collateral posted by the borrowing bank – these actions will be automatic on every draw down and will be reversed once the ZCF borrowing matures.
- 5.9 On maturity date, the CBUAE will debit the Eligible Counterparty's Current Account held at the CBUAE with the value of the maturity amount at zero cost. Maturing ZCF deals may be rolled at any ZCF window day as long as the maturity date of the rollover is up to or less than the expiry date of this facility.
- 5.10 Eligible Counterparty, carrying on the whole or part of their businesses and activities in compliance with Islamic Shariah, are advised to back these borrowings by a commodity Murabaha through the CBUAE's CMF platform.

IMLF/CMF Collateral –

- 5.11 Eligible Counterparties looking to use IMLF/CMF collateral shall follow the prescribed procedures agreed upon with Euroclear and Clearstream, respectively, and contained in the CBUAE guidelines with regards to IMLF and CMF. All documentations and procedures required by the CBUAE, as published in its regulations referred to in Clause 1.6, will need to be followed by Eligible Counterparties.
- 5.12 The CBUAE will amend the tenor guidelines with the Triparty Agents to ensure that funds are disbursed to borrowing Eligible Counterparties as per the requirements of the ZCF.
- 5.13 The ZCF funds will be credited to the Eligible Counterparty's Current Account held at the CBUAE usually on a T+1 basis, subject to the Triparty Agent having confirmed collateral receipt.
- 5.14 Should the daily value of the posted collateral in question go below 100% of the funds borrowed under the ZCF, then Triparty Agents shall ask for further Eligible Collateral or cash (AED or USD) as and when necessary during the borrowing period. This is to ensure adequate collateralization due to the mark-to-market daily variations of submitted collateral. Inability to do so will trigger an unwind of the specific borrowing and a debit will be automatically made to their respective current account held at the CBUAE.

6. Other Terms and Conditions

- 6.1 The CBUAE will, at any time, be entitled to suspend/revoke the ZCF or amend these Terms and Conditions. This includes varying the cost of drawings for obtaining AED funds and deposit rates and restricting/denying Eligible Counterparties' access to the

ZCF, or applying any restrictions/conditions on the borrowings under this facility, as and when deemed necessary by the CBUAE.

6.2 The CBUAE reserves the right to reject supporting evidence provided by the concerned Eligible Counterparty at any time based on subsequent reviews.

6.3 The CBUAE reserves the right to retain the Eligible Collateral in case of a default or bankruptcy.

6.4 If there is conflict between the provisions of Part 1 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.

6.5 Part 1 of these Standards shall be effective from 15 March 2020 until 30 June 2022.

7. Contact Information

7.1 The official communication and dealing lines are as follows:

Telephone lines	02 - 665 2232; 02 - 666 6245 02 - 665 6118
Swift Address	CBAUAEAA
Thomson Reuters dealing code	CBEM
CBUAE Email for submission of relief documentation	TESS@cbuae.gov.ae

7.2 Any intimation over the phone has to be confirmed via Swift or over the Thomson Reuters dealing line to be construed as completion and confirmation of the requested ZCF transaction.

PART 2: TESS CAPITAL BUFFERS AND LIQUIDITY REQUIREMENTS RELIEF
(applicable only to banks)

8. Capital Buffers Relief

- 8.1 The Capital Conservation Buffer stays at 2.5%, but banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 31 December 2021.
- 8.2 The Domestic Systemically Important Banks (D-SIBs) buffer remains. D-SIBs are allowed to use 100% of their D-SIB buffer without supervisory consequences, effective from 15 March 2020 until 31 December 2021.
- 8.3 The Targeted Economic Support Scheme, including the capital buffers relief, shall be utilized for the extension of credit facilities in the UAE only.
- 8.4 Capital buffers relief is to be used as a temporary tool to provide credit consistent with prudent lending principles, to avoid negative impact of a 'credit crunch'.
- 8.5 Restrictions on maximum distributable amount (MDA) will be temporarily suspended. CBUAE only suspends the mechanical restriction of distributions as a consequence of a breach of the capital buffer requirements, including potential mechanical restrictions of Additional Tier 1 coupon payments. The decision does not suspend the requirement for banks to acquire CBUAE approval for dividend distributions.

9. Liquidity Requirements Relief

- 9.1 Banks are allowed to fall below the regulatory Liquidity Coverage Ratio (LCR) of 100%, so that their actual LCR is higher or equal 70%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy.
- 9.2 Banks are allowed to fall below the regulatory Eligible Liquid Assets Ratio (ELAR) of 10%, so that their actual ELAR is higher or equal 7%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy.
- 9.3 The CBUAE will continuously assess the adequacy of requirements stipulated in Articles 9.1 and 9.2, and may adjust the ratios in view of actual circumstances. Banks which cannot meet the requirements of Articles 9.1 and 9.2 shall be assessed by the CBUAE on a case-by-case basis.
- 9.4 The changes pertaining to the ELAR and LCR are effective from 15 March 2020 until 31 December 2021. The liquidity buffers available to banks based on the liquidity requirement relief shall be utilized in the UAE financial system and economy.

10. Stable Funding Relief

- 10.1 Banks are allowed to fall below the regulatory Net Stable Funding Ratio (NSFR) of 100%, so that their actual NSFR is higher or equal 90%, to provide banks with additional flexibility to support the UAE economy.
- 10.2 Banks are allowed to go above the regulatory Advances to Stable Resources Ratio (ASRR) of 100%, so that their actual ASRR is lower or equal 110%, to provide banks with additional flexibility to support the UAE economy.
- 10.3 For the purposes of calculating the NSFR and ASRR, the funding obtained through the CBUAE Zero Cost Funding facility under the TESS program should be treated as stable funding with a 50% factor, irrespective of its maturity.
- 10.4 The changes pertaining to the NSFR and ASRR are effective from 1 August 2020 until 31 December 2021. The relief made available through these measures shall be utilized in the UAE financial system and economy.
- 10.5 The CBUAE will continuously assess the adequacy of requirements stipulated in Articles 10.1, 10.2 and 10.3 and may adjust the ratios in view of actual circumstances.

11. Other Terms and Conditions

- 11.1 The CBUAE will be monitoring banks to ensure that the use of the capital, liquidity, and stable funding relief is in line with these Standards.
- 11.2 The full capital buffer relief (Clause 8) and full liquidity requirements relief (Clause 9) shall be applicable only to banks that participate in the TESS as directed by the Standards fully drawing down the ZCF credit lines allocated to each bank.
- 11.3 The stable funding relief (Clause 10) is applicable to all banks operating in the UAE.
- 11.4 If there is conflict between the provisions of Part 2 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.
- 11.5 Part 2 of these Standards shall be effective from 15 March 2020 until 31 December 2021, unless stipulated otherwise.

PART 3: TESS REQUIREMENTS REGARDING ACTIONS TO BE TAKEN BY BANKS AND FINANCE COMPANIES

12. Actions to be Taken by Banks and Finance Companies

12.1 In response to the above measures, the CBUAE directs banks and finance companies to take the following steps to provide relief to their customers affected by COVID-19:

- (a) Banks and finance companies are directed to offer payment deferral relief for a period up to 31 December 2021 under the TESS deferral program on instalment of loans/financing (principal and/or interest/profit) to their respective private sector corporates, SMEs and individuals affected by COVID-19 repercussions. The TESS deferrals shall be gradually phased-out until 31 December 2021. During this period, Eligible Counterparties may avail up to 50% of the designated ZCF limit for TESS deferrals as of 30 September 2021 and the designated ZCF limit for TESS deferrals shall be 0% on 31 December 2021.
- (b) Banks and finance companies may offer working capital loans, bridge loans, or any other new financing to private sector corporates, SMEs, and individuals in the UAE as of 1 January 2021 under the TESS recovery program to facilitate provision of relief and recovery of their corresponding customers negatively affected by COVID-19 repercussions. The new financing provided for these purposes may be considered as evidence for disbursement of ZCF starting from 1 January 2021 until 30 June 2022 up to 100% of the designated ZCF limit. Banks and finance companies are expected to prioritize the most negatively affected sectors and customers, contributing to a balanced recovery of the UAE economy.
- (c) The allocation of the relief or support shall be broadly in proportion to the share of these sectors (private sector corporates, SMEs, and individuals) in the credit portfolio of each bank and finance company as at 31 December 2019. Banks and finance companies may, however, allocate a greater proportion of the relief to negatively affected customers or sectors by the COVID-19 repercussions tailored to their respective credit portfolios and client-specific circumstances, with adequate justification.
- (d) The maturity of loans/financing to customers may be extended at the discretion of each bank and finance company, or repayment schedules, or restructuring shall resume following the expiration of the temporary relief period. Banks may extend relief or support beyond the duration of the ZCF facility and TESS deferral and recovery programs at their own discretion.
- (e) The CBUAE expects that the IFRS 9 staging and the classification under CBUAE Circular 28/2010 of customers receiving relief are not affected based solely on their participation in the TESS deferral program. The classification and

provisions shall reflect the creditworthiness of their customers based on adequate risk identification and mature judgement.

- (f) Banks and finance companies, in collaboration and coordination with Al Etihad Credit Bureau (AECB), shall ensure that the credit risk profiles of customers receiving the relief are not affected based solely on their participation in the TESS deferral program. The credit risk profiles shall adequately reflect the creditworthiness of those customers.
- (g) The CBUAE recommends that banks and finance companies benefiting from the TESS capital, liquidity, reserve requirements, and funding relief measures will provide additional financing during the relief and recovery period to private sector corporates, SMEs and individuals, including, but not limited to, working capital relief, granting of new credit lines, re-scheduling of loans and reducing fees and commissions.
- (h) The CBUAE directs banks and finance companies to participate actively in this temporary relief scheme in order to gain direct access to the zero cost funding to be extended by the CBUAE.
- (i) Banks and finance companies shall remain responsible for their credit decisions and for retaining sound credit standards.
- (j) Banks and finance companies shall not charge customers receiving relief under the TESS program any additional fees/penalties/interest in connection to the payment deferral relief, and shall not increase interest rates for customers benefiting from deferrals. Banks and finance companies shall not apply any late payment fees and shall ensure that any automated fees charged by their systems are reversed within 30 days.
- (k) Any new financing to facilitate provision of relief and recovery of customers in the UAE negatively affected by COVID-19 repercussions shall be in line with bank credit policy, while considering client-specific relief and recovery circumstances and the objective of the TESS to support the UAE economy.

12.2 Banks and finance companies should tag, within the core systems, customers to which relief has been implemented, as well as, the effective date of the relief implementation.

12.3 Banks and finance companies should maintain a list of all customers to whom any relief is provided, differentiating between private sector corporates, SMEs and individuals. Banks and finance companies shall obtain and document relevant evidence of the manner in which the customer is directly or indirectly affected, to qualify for the scheme as per the TESS Funding Relief Form.

- 12.4 Banks and finance companies shall provide sufficient evidence as requested by CBUAE thirty (30) days (one month) after the end of each quarter as per Clauses 3.7 and 3.8.
- 12.5 Banks and finance companies should avoid using this relief scheme to assist existing defaulted (Stage 3 and classified under CBUAE Circular 28/2010) customers, those customers that are not adversely affected, non-resident customers, government or government related entities (GREs). This will be strictly monitored by the CBUAE.
- 12.6 The CBUAE shall be notified of any relief provided to individual exposures that are more than 10% of the bank's capital as at 31 December 2019.
- 12.7 If there is conflict between the provisions of Part 3 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.
- 12.8 Part 3 of these Standards shall be effective from 15 March 2020 until 30 June 2022.

Annex: TESS Funding Relief Form

[The TESS Funding Relief Form shared with the Eligible Counterparties separately.]