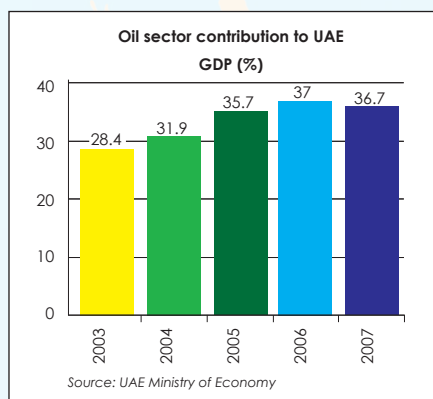


Doing business in the United Arab Emirates (UAE)

An epicentre of growth, fuelling business in the Middle East

One of the top 40 world economies, with GDP per capita estimated at \$37,300, the UAE is a constitutional federation consisting of seven sovereign states, formerly sheikhdoms: Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah, and Umm al-Quwain. The country was formed from the Trucial states, also known as Trucial Oman, when the British withdrew from the Gulf region in 1971.

In founding the UAE, the rulers of the seven emirates agreed a Provisional Constitution which established a legal framework for the federation. The constitution gave rise to the Supreme Council, which is the federation's highest authority and consists of the rulers of each emirate.



Fifty years ago, the individual emirates were reliant on fishing and pearls to boost their economies. Oil was discovered during the 1950s and the UAE began exporting in 1962. Today, the federation is best known for its oil production and record high oil prices over recent years have allowed the country to increase its official foreign assets. However, the rising oil price, combined with the emirati dirham being pegged at a fixed level to the US dollar, have contributed to the country's double digit inflation, currently around 12%. The government has aimed to reduce the country's dependence on oil over the last

25 years and the UAE has become not only increasingly service orientated but also a top tourist destination.

The UAE joined the World Trade Organisation (WTO) in 1995 and adopted a pro-liberalisation approach in an effort to boost the country's industries and exports and to become a regional trade hub that would span the time zones between New York, London and Hong Kong.

In order to increase the level of foreign direct investment into the UAE, several of the emirates have established free trade zones (FTZs). The FTZs are designed to facilitate cost effective business practices, with special laws in operation providing benefits such as corporate tax and customs duty exemption on imported raw materials and no levy on exports. Trade in the UAE has increased significantly since the introduction of these FTZs and the country's current account trade balance for 2007 was \$64,294m, consisting of \$180,873m of exports and \$116,579m of imports.

Dubai International Financial Centre (DIFC), which was established in 2004, is one of the most famous FTZs. With its own laws, based on the English legal system, and its own stock exchange (DIFX), it is the world's most rapidly growing financial centre. Transparency and regulation are two of the key aims of the DIFC, together with offering a world-class, stable environment in which to do business.



Key facts

Geography and society

- Population: 4.38 million
- Population growth rate: 2.7%
- Official language: Arabic
- Capital city: Abu Dhabi
- Time zone: CET+3
- Land boundaries: Oman (410km) and Saudi Arabia (457km)
- Coastline: 1,318km

Economy

- Currency: emirati dirham (AED)
- GDP per capita: \$37,300
- CPI: due for release in May 2009
- Member of : WTO, OPEC, IMF, GCC
- Fiscal year: calendar year
- Financial capital: Dubai
- Average days to start a business: 62

History and politics

- Independence: 2 December 1971
- Government type: federation
- Chief of state: Khalifa bin Zayed al-Nahyan
- Prime Minister: Mohammed bin Rashid al-Maktoum
- Legal system: Shari'a and civil courts

Country credit rating

- AA+

Trading partners

- Top import sources: China, India, US, Japan, Germany
- Top export destinations: Japan, South Korea, Thailand, India
- Direct trade with Israel is forbidden

Country Profile

Legal and regulatory requirements

Due to its membership of many international bodies, but predominantly the WTO (World Trade Organisation) and the IMF (International Monetary Fund), the UAE's legal and regulatory requirements broadly resemble those of Western Europe, upon which they were based:

- The banking sector is supervised and regulated by the Central Bank of the United Arab Emirates according to the legal framework described in the country's banking law of 1980. The central bank is divided into seven departments, one of which is the Banking Supervision and Examination Department.
- The central bank aims to promote leadership and excellence in financial and economic stability. Through effective governance, the central bank's mission is to adopt effective monetary policy which will ensure lower inflation and unemployment together with stable economic growth.
- The UAE is working with the Institute of International Finance (IIF) to improve existing corporate governance guidelines and monitoring. However, the central bank of UAE has some of the most respected anti-money laundering systems and policies in the world, which specifically focus on combating terrorism. All banks and financial institutions operating in the UAE are required to report suspicious activities directly to the central bank.
- The central bank began promoting awareness of Basel II in 2004 and all banks will be expected to be compliant, in terms of credit risk, by 1 January 2011.
- Generally accepted accounting standards – IFRS – were introduced for banks and other financial institutions operating in the UAE in 1999 but at present there is no legislation mandating other companies to comply with these standards.
- The Commercial Companies Law in the UAE regulates the activities and the registration of foreign companies looking to establish a presence in the UAE. This law applies not only to foreign companies carrying out their main business activities in the UAE or those that have their headquarters in the country but also to foreign companies looking to set up a branch office. Local legislation in each emirate may also apply.
- The UAE has no restrictions or regulations on foreign exchange. The emirati dirham is directly pegged to the US dollar, which is also widely accepted in the UAE, but a task force has been established to review the pegging, historically set at \$1: AED 3.6724, given the weakening dollar. There has also been talk of establishing a single currency for the six countries of the Gulf Co-operation Council: the UAE, Saudi Arabia, Bahrain, Kuwait, Oman and Qatar.
- Non resident investors may only hold a 49% stake in any UAE based business, unless that business is in an FTZ, in which case 100% ownership is permitted.

Taxation framework

There is no single federal tax regime in the UAE as some of the emirates have chosen to issue their own decrees on income tax. However, five of the seven emirates (Abu Dhabi, Ajman, Dubai, Fujairah and Sharjah) do have similar regimes. Professional tax advice should be sought in the region, but the main taxation points which apply to the UAE are:

- There is no corporate income tax, except for oil and gas companies and branches of foreign banks.
- The UAE levies no withholding tax.
- Stamp duty does not exist as such in the UAE but there is a 2% registration fee payable (75% of which is paid by the purchaser, 25% by the seller) when property is legally exchanged – this is known as real property tax.
- UAE law imposes no transfer pricing or thin capitalisation rules.
- Although the UAE currently has no sales tax legislation in place, the government is considering introducing VAT in the first quarter of 2009. The rate is expected to be low, at around 5%.
- The UAE currently has more than 30 double taxation treaties in place for income and/or capital together with a growing number of shipping and air transport treaties.
- It is customary to impose a tax of 5-10% on hotel and entertainment revenues.

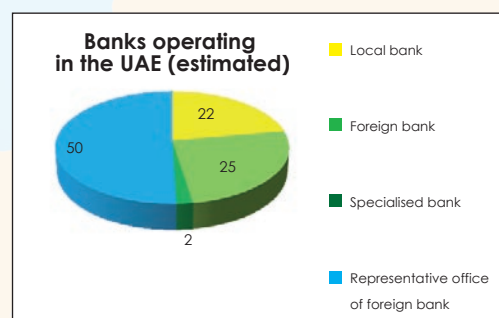
Treasury activities

Local banking sector

The banking sector in the UAE has benefitted significantly from the country's strong economic growth in recent years. The UAE has the second highest number of banks, currently estimated at 99, among the Gulf countries. Historically, the UAE's banking sector has been dominated by the government, with all 22 of the so-called local banks in fact being national banks. The World Trade Organisation has encouraged the UAE to open up its banking sector to foreign banks. Although the central bank has started to issue more licences to foreign banks, they are still restricted in the number of branches that they can open.

Banks in the UAE have received support from the government during the current financial crisis through guarantees for deposits and savings held with local banks and for inter-bank lending between all banks operating in the country. The government has also injected funds totalling \$32.7 billion into the banking system in order to increase liquidity.

Islamic banking continues to evolve in the Gulf region and the majority of banks operating in the UAE either have an Islamic subsidiary or offer Shari'a-compliant products.



Multinationals operating in the UAE – a case study

Samir Shah, Treasurer
Audi Volkswagen Middle East

Audi/VW Middle East Free Zone Entity (AVME) was set up in the UAE in 2005 to sell Audi and VW passenger vehicles and spares in the region. Citi provides AVME's distribution company with a range of trade finance and cash management services.

Audi and Volkswagen sell their products to various distributors in the Middle East on an open account basis, with the invoices issued by the regional office backed by a standby letter of credit (SBLC) issued in favour of the head office in Germany by the distributors.

However, the SBLC structure was not cost-effective for AVME's distributor in Saudi so it asked AVME to review the requirement. "When we opened the office in Dubai, we began looking at cost cutting avenues so that we could better compete in the local market. The group had an existing relationship with Citibank worldwide so we approached their credit division to give us an optimum solution to this problem, where all the parties involved would have their interests covered," comments Shah.

Citi worked with AVME and the distributor to structure an alternative solution of sight letters of credit (LC) with minimum requirements and simplified clauses. "We wanted to replicate the same open account model with the sight letter of credit and we insisted that it should be as uncomplicated as possible," remarks Shah. "Keeping both parties happy was the challenge but Citi's regional expertise certainly helped with relations and getting the solution implemented." The solution not only ensured security of payment for AVME but also provided cost benefits for the Saudi distributor.

On the back of this success, Citi worked with AVME and its distributors in Qatar, Kuwait and Lebanon to direct all their SBLCs and LCs in favour of AVME's UAE's regional office through Citi.

AVME has integrated its SAP ERP platform with CitiDirect® Online Banking to manage its local payments more effectively as well as repatriate sales receipts to the parent companies in Germany. This has enabled AVME to move from a paper-intensive process to an electronic scalable solution. It has also linked its accounts with Citi Dubai to its parent accounts in Europe to optimise its liquidity structure. "I believe Citibank has a real appeal to us as far as the Middle East is concerned as they are almost everywhere, either in their own right or through a very competent subsidiary," concludes Shah.

Payments

The main payment methods in use in the UAE are as follows:

- **Cash.** The preferred choice for retail payments as it is estimated that only just over half of UAE residents have a bank account.
- **Credit transfers.** Used for high value payments and salary payments. Retail transactions can be processed through e-banking systems whereas inter-bank transfers are arranged using SWIFT messages.
- **Direct debits.** Usage is limited but growing for low-value frequent payments, such as utility bills. Direct debits are not carried out across the central bank and as such, parties to a direct debit must have a bilateral agreement in place and generally use the same bank. Most systems were introduced within the last five years.
- **Cheques.** Cheques remain one of the major cashless payment methods and the value of cheques in the UAE is typically high.
- **Card payments.** Usage has increased significantly but there have been high instances of card fraud and the central bank is considering a move across to the chip and pin system. According to MasterCard figures, only 8.5m credit cards have been issued in the Middle East region, 2.4m of which are held by residents of the UAE.
- **Prepaid and contactless cards.** Eg the e-Dirham card, a widely available payment tool developed by the Ministry of Finance, initially used by local government to collect revenue and designed to eliminate cash handling. The system is now also used in the private sector.
- **Mobile e-payments.** A relatively new but growing technology that enables customers to pay for items and transfer money via their mobile phone handsets.

Clearing and settlement

The UAE clearing and settlement structure includes the following systems:

- **ICCS (Image Cheque Clearing System).** The central bank introduced a new image cheque clearing system in July 2008, which enables electronic clearing of cheques. The system is designed to be less labour intensive and quicker than the existing paper based process, meaning that value dates should be earlier, with clearing taking a maximum of 36 hours as opposed to the five days taken previously.

Country Profile

- **Electronic transfers.** The UAE operates a pseudo real time gross settlement (RTGS) system whereby inter-bank payments are effected via SWIFT messages and are cleared across accounts held with the central bank.

Cash management

Domestic and cross-border cash pooling is permissible in the UAE but the concept of cash management is relatively new in the area. As such, some of the cash management products on offer are either not yet as sophisticated as in western countries or not widely available.

Interest is paid on call accounts but the majority of current accounts in the UAE are subject to local restrictions on interest. Accounts can however be held in both emirati dirham (AED) and foreign currency, domestically and abroad:

Type of bank account	Location	Permitted	Notes
AED	UAE	Yes	
AED	Abroad	Yes	Convertible to foreign currency
Foreign currency	UAE	Yes	
Foreign currency	Abroad	Yes	
Non resident foreign currency	UAE	Yes	
Non resident AED	UAE	Yes	Convertible to foreign currency

Other short-term investment options available in the UAE include time deposits in AED or foreign currency with tenors of one, two, three, six, nine or 12 months, certificates of deposit, repos and government issued bills, notes and bonds. Overdraft facilities are available for UAE companies and the central bank also provides overdraft facilities for commercial banks.

Key websites

Government website: www.government.ae

Central Bank of the UAE: www.centralbank.ae

Emirates Banks Association: www.eba-ae.com

Ministry of Economy: www.economy.ae

Ministry of Finance and Industry: www.mofi.gov.ae

Abu Dhabi Securities Exchange: www.adsm.co.ae

Dubai International Financial Centre: www.difc.ae

UAE economic development report:
www.uaeinteract.com/uaeint_misc/pdf_2007/English_2007/eyb5.pdf

Citi's capabilities in the UAE

Citi has been present in the United Arab Emirates since 1964 when the bank opened its first branch in Dubai. The bank is directly represented in several markets in the Middle East including the UAE, Egypt, Jordan, Lebanon, Qatar, Bahrain and Kuwait.

Citi's Markets and Banking (CMB) division successfully combines a top-tier investment bank with world-class corporate banking services. Citi's investment banking group provides tailored and unique solutions to top corporations, financial institutions and governments worldwide, offering strategic and financial advisory services including acquisitions, mergers, divestitures, financial restructuring, equity and fixed income products, loans, foreign exchange and cash management.

In line with its strategy of customising its products to local market requirements, Citi recently unveiled a suite of Shari'a-compliant banking solutions under the Treasury & Trade Solutions business designed to meet the working capital needs of its corporate clients. Citi has a repertoire of award-winning, leading edge technology platforms like CitiDirect®, CitiConnect®, Intralinks, and TreasuryVision® which are offered to a host of multinational, local corporate, financial institutions and public sector organisations. These platforms give clients in the UAE access to globally accepted tools to optimise liquidity and cash management, improve operational efficiency and risk management processes across their requirements spanning their entire working capital cycle.

Citi's Treasury Services offer retail and corporate clients unique investment opportunities including Gulf currencies FX execution capabilities, access to Levant and North African markets, FX options capabilities on Saudi Riyal and Kuwaiti Dinar and FX swap capabilities in UAE Dirham up to five years. These are backed by structured, value-added solutions to meet customer hedging and investment requirements and an access to in-depth analysis and world-class research on regional and international markets.

Citi consistently ranks as the premier choice for cash management and trade services, foreign exchange products, portfolio products, corporate finance, investment management and custodial services in more markets, including the UAE, than any other bank according to industry surveys. Citi has won several prestigious accolades in 2008 alone including the Best Treasury and Cash Management Bank and Provider for the Middle East from Global Finance and the Best Cash Management House in the Middle East from Euromoney.

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