



جمعية مصارف الإمارات
EMIRATES BANKS ASSOCIATION

Annual Report

2009

Emirates Banks Association

Annual Report 2009

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Some of General Economic Developments 2009

United Arab Emirates

The global financial crisis and its consequences:

“Despite some adverse repercussions to the UAE, the global financial crisis has demonstrated the strength of our economy and its ability to accommodate various consequences with determination and capability. We are confident that the procedures and steps we have adopted so far will contribute to restoring the initiative to our economy as well as progressing in the development and construction process with more confidence and greater resolve. We can confirm that our national economy is an integrated entity under the Union as our ultimate option to organize the various aspects of our life and encounter all potential challenges.”

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the UAE

This is how His Highness Sheik Khalifa, President of the UAE (may God protect him) addressed the Federal National Council in October 2009, a year after the surfacing of the global financial crisis. His highness emphasized confidence in the UAE capability to adapt to the consequences of the crisis and handle it in a mature manner. He confirmed that the diversified base of income resources is capable of dealing with the decline in oil prices without significantly influencing the development programs and plans. In addition, the UAE’s economy is based on strong foundations and is protected by deep-rooted and stable financial institutions; and it has a considerable experience in dealing with crises, as well as high credibility in the international arena.

“I am confident that the worst has passed and the darkest clouds of the crisis have cleared away. With the emergence of recovery indicators, Dubai is currently capable to invest its underlying and inherent powers to head towards new rounds.”

*His Highness Sheikh Mohammed bin Rashid Al-Maktoum
Vice President, Prime Minister and Ruler of Dubai*

In these words does His Highness, Vice President, Prime Minister and Ruler of Dubai, addressed one of the economic conferences held in Dubai in November 2009.

“One who doubts the ability of the seven Emirates of the UAE to collaborate is ignorant of the reality of the strong Union in the UAE; and when it comes to a need by one Emirate to another, do expect nothing but cooperation and coherence.”

*His Highness Sheikh Abdullah bin Zayed Al Nahyan
Minister of Foreign Affairs*

*(in His Highness speech on the sidelines of the GCC summit, held in Kuwait in
December 2009)*

International Monetary Fund and World Bank:

The International Monetary Fund praised in its report the UAE’s quick decisions and actions adopted to encounter the global financial crisis and its impact on the economy and the banking sector as it went in the right path being characterized by promptness and efficiency. Thus, the UAE’s financial and banking sector maintained its enjoyed confidence. Furthermore, a fund mission has praised the ongoing economic developments occurred between 2008 and 2009 by which the UAE reduced the effects of the financial crisis through the adopted monetary and financial policies.

It is worth mentioning that the UAE was classified by the World Bank and the International Finance Corporation amongst the top ten countries that have taken steps to reduce global financial crisis consequences.

The federal budget 2010:

Under His Highness Sheikh Mohammed bin Rashid Al-Maktoum, Vice President, Prime Minister and Ruler of Dubai, the cabinet has approved a federation’s general budget draft 2010 amounting AED 43, 63 billion with a growth of 3.4% exceeding the previous year; without including tax or new charges. Thus, the issued budget has achieved a balance between revenues and expenditures without having financial deficit for six consecutive years and achieving within four years a growth percentage exceeding 56%, compared with 2006 budget which amounted AED 27,88 Billion.

Gross Domestic Product

His Excellency Sultan bin Saeed al-Mansouri, Minister of Economy, expected that the UAE’s Gross Domestic Product should grow by up to 3, 2% during 2010 after it had reached to 1, 3 % during the past year. He pointed out that the diversity policy adopted by the UAE led to the development of non-oil sectors whereas its contribution to the GDP reached to 66% in 2009 .

It is worth mentioning that the announced Gross Domestic Product in 2008 is AED 934,262 billion, including the contribution of non-oil sectors by 63, 2% with AED 590,130 billion.

UAE Foreign Trade

A recent study of the Ministry of Economy showed that the UAE deals with 193 countries around the world in the fields of export, import and re-export. The Volume of the UAE trade exchange amounted to an average annual growth of 31% during 2004/2008. On the other hand, the foreign trade achieved an unprecedented growth in 2008 reached to 43% noted that the annual growth rate of the foreign trade had been grown to an average rate of 12% since 1980.

UAE Non-oil Foreign Trade

Statistical data report issued by the Federal Customs Authority in the UAE pointed out that the total value of the non-oil foreign trade of the UAE reached AED 663 billion in 2009 compared with AED 788, 7 billion in 2008 with a decline of 16% due to the global financial crisis which had erupted in late 2008. This percentage, however, is considered slight compared to its counterparts in many other countries.

The report pointed out the following:

- a. Non-oil exports of the UAE:
The value of non-oil exports increased by 9% in 2009, whereas it increased from AED 60 billion in 2008 to AED 66 billion in 2009
- b. Non-oil imports of the UAE:
The value of non-oil imports declined by 21% in 2009, whereas it decreased from AED 565, 7 billion in 2008 to AED 449, 2 billion in 2009.
- c. Re-export :
The value of the re-export declined by 9%, whereas it decreased from AED 163 billion in 2008 to AED 147, 8 billion in 2009.

The increase in the volume of exports of the UAE and the decrease in the value of its imports resulted in a remarked improvement in the trade balance of the UAE in 2009. Thus, this emphasizes the growth of Competitiveness of UAE exports in the global markets despite the consequences of the global financial crisis.

UAE's Non-Oil Trade with Arab countries:

The previous report has showed that the volume of UAE's foreign non-oil trade has reached to AED 102, 1 Billion during 2009; while Gulf Cooperation Council countries own 54% of UAE's trade volume.

The report pointed out the followings:

a. **UAE's Non-Oil Exports to Arab countries:**

The value of non-oil exports declined by 25% in 2009, whereas it decreased from AED 22.9 billion in 2008 to AED 17.2 billion in 2009 including AED 11.5 billion for the benefit of GCC countries.

b. **UAE's Imports:**

The value of UAE's imports increased by 10% in 2009, whereas it increased from AED 33.5 billion to reach AED 37.1 billion in 2009 including AED 21.9 billion of the GCC countries' imports.

c. **Re-Exportation:**

The value of re-exports increased by 7% in 2009, whereas it increased from AED 44.3 billion to AED 47.6 billion in 2009 including AED 21, 7 billion, the re-exports value to the GCC countries.

The General Secretariat of the International Renewable Energy Agency (IRENA):

Abu Dhabi, the capital of United Arab Emirates (UAE), has been chosen to host the Headquarter of the General Secretariat of the International Renewable Energy Agency (IRENA). This initiative is considered unique as it is the first time for a Middle East UAE to be chosen by an international agency as headquarter.

The headquarter will be located in Masdar City; that is considered as the world's first city being free of waste, includes low Carbon and depends completely on the renewable energy.

The Minister of Foreign Affairs, His Highness Sheikh Abdullah Bin Zayed Al Nahyan, has declared that UAE's hosting of IRENA headquarter is a clear evidence on its desire to invest in the modern, renewable and future energy. He clarified that by mentioning that the UAE has placed Masdar's initiative which allotted \$15 billion to invest and develop the renewable energies locally and abroad. His highness has also emphasized on the UAE's commitment to fund \$50 million annually for sponsoring development projects for the benefit of the Third World countries; especially Africa.

Strategic UAE's Nuclear Energy Project:

UAE President, His Highness Sheikh Khalifa Bin Zayed Al Nahyan in 2009 has issued a decree that included Federal Law no.6 concerning the peaceful use of nuclear energy according to which occurs the establishment of a general committee under the name 'The Federal Authority for Nuclear Censorship' that works on regulating UAE's nuclear sector for peaceful use, providing nuclear safeguard safety and radiation protection.

Moreover, His Highness as the ruler of Abu Dhabi has issued the law no. 21 in 2009 which stipulates on establishing 'Emirates Nuclear Energy Corporation' in Abu Dhabi within an estimated capital by AED 370 million. By doing so, His Highness has inaugurated the Peaceful Nuclear Program that aims at producing electricity, supporting economic development and providing many opportunities for citizens.

In late 2009, the UAE has signed an agreement with South Korea amounting AED 75 billion in order to implement joint operations and establishments and maintenance for four nuclear energy plants in UAE.

Abu Dhabi Center for Corporate Governance:

In January 2009, Abu Dhabi Center for Corporate Governance has initially been inaugurated by Abu Dhabi Chamber of Commerce and Industry in order to contribute effectively in the local economy, through supporting and encouraging the public and private sectors to adopt the best international regulations concerning the governance rules' implementation; besides supporting business projects in Abu Dhabi through implementing a specialized center that emphasizes and circulates an effective concept that has become one of modern economies basis.

Corporate Governance Regulations and Institutional Discipline Criteria:

The Minister of Economy and Chairman of the Administrative Board for Securities and Commodities Authority, H.E. Sultan bin Saed Al Mansuori, has issued the ministerial decree no. 518 in 2009 concerning the Corporate Governance Regulations and Institutional Discipline Criteria that includes new amendments to companies' corporate governance regulations.

This decree is considered as amendment to corporate governance that has been issued by Securities and Commodities Authority in April 2007 followed by another decree that gives companies an optional period for implementation at the end of April 2010.

H.E. has also emphasized that it is essential for the perspective of enlisted companies' towards corporate governance to proceed through its mission of regulating and guiding these companies' works to a high standard in order to achieve its goals and commit to the necessary standards of honesty, responsibility and transparency.

Wages Protection System (WPS) in the Private Sector:

Minister of Labor, H.E. Saqr Ghobash has issued the ministerial decree no.788 in 2009 concerning wages protection that obligates all the Ministry of Labor registered institutions to transfer employees' wages to banks, financial institutions and exchange companies that are authorized by the Central Bank and include service provider starting from 1st September 2009. Furthermore, the Ministry of Labor has given graded extensions, which vary between 3 to 9 months and terminate by 31st May 2010, so that companies could apply the decree according to its sponsored employees' numbers.

Moreover, the Ministry of Labor has indicated that this system has been developed by the Central Bank in order to support the ministry mission through establishing a database that includes paying the wages of private sector's employees. This system reflects the superb position that the UAE occupies as a pioneer model in providing creative solutions that help businessmen in strengthening protection, saving time and effort which could be consumed in wages payment processes and taking serious steps towards providing secure work environment and strengthening business relations stability in the UAE through protecting all parties' rights.

Moreover, the International Labor Organization (ILO) has addressed the Ministry of Labor in order to consider an international expert that could acquaint with this creative mechanism's details and procedures, and study its benefits on the international level.

UAE rank according to some indicators:

The UAE is ranked 23 in the Global Competitiveness Report 2009/2010 issued by the World Economic Forum in September 2009.

The UAE has jumped 14 degrees in the report of the ease of doing business in 2010 issued by the International Finance Corporation and the World Bank stepping up to the 33rd rank which ensures the government's serious intention to develop the business performance.

The UAE is ranked 7 globally among the most optimistic countries to recover economically according to Nielsen's Indicator for Global Consumer Confidence in the second quarter of 2009 making an increase by 4 points to 93 points compared with 89 points in the first quarter in the same year. In addition, the UAE is ranked first in the Middle East region and 23 globally in its contributions in the recovery initiatives from the global financial crisis.

The UAE is ranked 10 globally in the production of fundamental aluminium as it reached approximately 1 million ton annually according to 2009 statistics with investments reached to \$4 billion.

The UAE is ranked 20 globally within the index of the World Economic Forum in Davos of the World's best financially-developed countries 2009 and it also maintained its first place among the Arab countries.

The UAE is ranked 18 globally and first among the Middle East and North Africa in the initiative of empowering the world trade 2009 launched by the World Economic Forum that contains 121 of both advanced and developing countries.

The UAE has ascended from place 54 to 46 amongst the economic freedom indicator 2010 that is issued by Heritage Foundation Studies. It is also ranked 5 in the index itself in the Middle East and North Africa.

The report, world investment expectations 2009/2011, issued by the UN Organization on trade and development UNCTAD has ranked the UAE amongst the world's best sites for foreign direct investment as it exceeded Turkey in the first place.

The global investment report 2009 launched by the UN Organization on trade and development ensured the UAE's maintain of its attraction for foreign direct investment as projects that had been executed by foreign investments inside the State during the past year have reached 480 making an increase up to 70% compared with 2007 whereas the projects executed in the first quarter of 2009 reached 136 projects.

In the same context, according to a study made by AT Kearney institution for research, the UAE is ranked 11 globally and first among the Arab countries concerning the most 25 attracting regions for foreign direct investment.

The report issued by the global projects observatory ranked the UAE as the world's best UAE in doing new businesses making an increase by 38% compared with 24% in the United States.

The UAE is ranked first among the Arab countries and 24 globally in the performance of commercial logistic services in 2010, issued by the World Bank.

The UAE is ranked second in the Middle East region and 40 in the world's marks of the best indicator in 2009 issued by the American GFC Roper research institution after it obtained 49 grades in the general indicator which included 6 secondary criteria; namely, corporate governance, investment, export, population, culture and tourism.

Moody' Credit Rating has verified the high sovereign rating at the investment level of the UAE and Abu Dhabi's government to Aa2 grade, the world's highest rate with a stable perspective. The agency has also assured that Abu Dhabi's economy is still in best situation that enables it to pass the recession in the World's economy and makes it best capable of dealing with the global crisis. Furthermore, the agency has expected that the rank given to the government's federal releases in local and foreign currencies at the Aa2 level will not be affected by the fluctuation of oil prices.

The Arab Countries and GCC

The Arab Countries and GCC

According to the United Arab Economic report for 2009, most Arab Countries continued achieving high level growth during 2008, despite the beginning of the global financial crisis negative effects.

The GDP of the Arab Countries as a group amounted to around \$1899 Billion in 2008 achieving a growth rate of around 26.2% (in current rates) compared with 15.1% in 2007.

Arab Countries GDP (In Current Market Rates)

(In Million US\$)

2008	2007	2006	2005	
1,898,619	1,504,657	1,307,356	1,099,541	Total Arab Countries

The report also signified that in 2008 some Arab Countries witnessed an improvement in level of per-capita income from GDP at current rates, which increased from around \$4661 in 2007 to \$5858 in 2008 due to unprecedented levels of oil prices in 2008.

The crude oil total production in Arab Countries reached 23.7 Million barrels daily in 2008 an increase by 1.4 Million barrels daily with growth rate of 6.2% above the figure achieved in 2007, and achieving 27.5% of the world gross domestic of oil production.

On the other hand, crude oil prices were directly affected by the global financial crisis from its early stages by the end of 2008 and the beginning of 2009. The crisis caused a strong shock to oil markets leading to a sharp decline in the all-time-record prices in July 2008 when they mounted to \$147 per barrel. The prices rapidly collapsed down to \$35 in Feb 2009 only.

Despite the recovery of oil prices as of the second quarter of 2009 after some indications of recovery in the global Economy, especially among the emerging Asian countries; the average oil price per barrel in 2009 i.e. \$59 was still 28% lower than its average in 2008 i.e. \$83. In other words, the oil per-barrel price by the end of 2009 fluctuated from \$67 to \$80; which was considered favorable for both producing and consuming countries alike.

The economy activity in the Arab region maintained its powerful performance during 2009 despite of the global financial crisis effects; thus it was affected by the increase of the oil and basic products' prices and the improvement of the region economical polices' performance. Moreover, many economists expected that Arab countries will surpass the economic recession phase due to certain procedures taken to decrease the global financial crisis effects on Economy.

Economists expect that Arab countries will achieve a growth rate between 2.5% - 3.1% during 2009, while the remaining countries of the world suffer from a 1.5% decrease. Economists expect a decrease in inflation rates during 2009/ 2010 varies between 3% - 5% compared with 10.1% and 7.65% in 2008 and 2007 respectively due to the decrease of basic products and rents prices and economy activity.

On the economical reform, the World Bank confirmed in its report recently released that the period between 2008-2009 has witnessed many economical reforms related to business practices around the world. The report indicated that Egypt, Jordan and UAE attained advanced positions at the level of reform steps taken.

Arab Industrial Output

The total value of Gross Domestic Product of the Arab industry sector is estimated at \$ 933.3 billion in 2008 compared to \$735,3 billion in 2007, marking an increase of 35.1% due to the large increase in proceeds of oil mining industry during the first half of the year. The contribution of the industry sector to the GDP of the Arab countries increased by 52.3% in 2008 compared to 48.9% in 2007.

The industrial development in the GCC countries was based on the noticeable progress achieved by these countries in the establishment of infrastructures on which the economic and industrial construction in these countries was highly dependable. These infrastructures included the most important factors required by the industrial growth such as sources of energy, water, all types of communications and transportation networks and import and export centers. The spending on infrastructure projects in the GCC countries was estimated at \$170 billion between 2000 and 2010.

Foreign Investments in the Arab countries

During the past ten years, Arab governments exerted hard and continuous efforts through implementing important reform programs in their economies and the trend towards the free market economy rather than market oriented economy. By doing so, they realized the importance of attracting investments on the economic and social life and its impact on fighting against poverty, creating jobs opportunities and increasing growth percentages.

The outcomes over the past years confirmed the rightness of these policies. Inbound foreign investments have increased from \$9.325 billion in 2001 marking 1.13% of the total volume of global mutual investments, followed by \$84.224 billion in 2008 representing 4.96% of the total volume of global mutual investments. Moreover, unemployment rate decreased to 9.2% in 2008 compared to 13.1% in 2003.

According to 2007 data, traditional commercial banks, numbering 268 out of 470 banking institutions in total, continued to dominate the banking sector in the Arab countries as a group. These banks accounted for 80% of the sector's total assets in 2007. Islamic banks, on the other hand, came second in terms of assets with 12% of the total banking assets. They are more than 45 Islamic banks. As regards specialized and investment banks, the volume of their assets accounted for 9% of the total Arab banking assets. They are about 100 banks with 57 foreign banks operating in this sector.

Inter-GCC Trade:

Increasing cooperation among the Gulf Cooperation Council countries resulted into a continuous increase in these countries' interface trade; reaching an annual growth of 27% during 2003-2008, while 2009 witnessed an extraordinary increase in the interface trade percentage reached more than 40% including \$91 billion compared with \$65 billion in 2008; thus this increase has resulted from the facilities provided by the Gulf Cooperation Council Market and the Customs Reunion; while the Arab interface trade average had reached \$82.5 billion in 2008.

The Customs Union agreement provides for unifying customs tariff towards the external world, harmonizing customs regulations and procedures, and collecting customs duties in one post, in addition to moving products among the GCC countries free of any restrictions and treating GCC produced goods on equal foot as national goods.

The General Secretariat's Gulf Cooperation Council countries' report has shown that, the number of transferred employees between the Council countries has increased to 15 million citizens at the end of 2008 compared with 4.5 million transferred citizens in 1995; in other words, the increase percentage has reached 330% during the last 14 years.

UAE Banking Sector

UAE Banking Sector has managed to overcome and/or prevent the International financial crisis through a number of procedures and measures, most importantly including direct support from the government through the Ministry of Finance and the Central Bank by providing liquidity support facilities and deposit guarantees, and through high flexibility in dealing with developments in the international, local and regional financial markets.

In addition, banks were keen to increase their provisions, rationalize expenditure and reinforce their financial positions in order to continue assuming their role as a key pillar for the economic development process.

Furthermore, the Central Bank statistics indicate that provisions formed in the banking sector increased in total from AED 25 billion by the end of 2008 to AED 43.4 billion by the end of 2009. Besides, the gap between deposits and loans noticeably decreased from 107.7% by the end of 2008 to 103.6% by the end of 2009.

The Central Bank Governor H.E. Sultan Bin Naser Al Suweidi, confirmed that the UAE Banking Sector is not suffering from any liquidity crisis or shortage; thus there is no need then to pump any liquidity. He noted that the Central Bank was continuously examining liquidity in the Banking Sector; and in case of any liquidity shortage, the Central Bank would immediately act to provide the necessary liquidity. He reiterated the Central Bank's full support to all banks operating in the UAE.

State Minister of Financial Affairs, H.E. Obaid Bin Humaid Al Tayer, pointed out that the UAE's Banking Sector is stable and outstanding and that it is steadily advancing on the course of growth. He also confirmed that liquidity status in the banks is good, and that the competent ministerial committee comprising H.E. the Minister of Finance, H.E. Minister of Economy and H.E. Central Bank Governor was continuously monitoring the Banking Sector's liquidity indexes in order to determine whether there was any need to pump the remaining AED 20 billion of the amounts allocated by the Federal Government to support liquidity in the banking sector, which has amounted to

AED 70 billion; AED 50 billion has already been pumped in two phases.

Emirates Banks Association's Deputy Chairman, H.E. Ahmad Humaid Al Tayer, commended the Central Bank's efforts and measures to develop the banking sector's performance. He pointed out that the Central Bank adopted a good approach in matters related to banking business as it was consulting the banks before issuing its instructions for any regulation to be issued in order to solicit the banks' views and comments based on their market experience and risk awareness.

According to UAE Central Bank Statistics, all banks indicators have shown remarkable growth during the year 2009 compared with the year 2008 as follows :

(In Billion Dirhams)

	<u>2008</u>	<u>2009</u>	<u>Growth</u>
Total Bank Assets:	1456,2	1519,1	4.3%
Certificate of Deposits held by Banks:	47,1	71,9	52.7%
Bank Deposits:	922,5	982,6	6.5%
Loans & Advances:	993,7	1017,7	2.4%
Personal Loans:	206,-	209,8	1.5%
Capital Adequacy ratio (Banking System):	13.3%	19.2%	-----

- Human Resources Development Committee for Banking and Financial Sector issued statistics in regard of the number of National Employees and overall number employees in banking sector for Dec. 2009 (compared with Dec. 2008) , showing that the percentage of National Employees in banking sector has reached 34.4% on Dec. 2009, with an increment of 3.3% compared with Dec. 2008 as follows:

Percentage of National Employees	Number of National Employees	Overall Number of Employees	Date
31.1%	11808	37964	31/12/2008
34.4%	12851	37340	31/12/2009
3.3%	1043	624	Different
3.3%	8.8%	-1.6%	Percentage Change

The Number of National Employees increased by 1043 employees between 2008 – 2009, which represents 8.8% change.

“Comparison between National and Foreign Banks Between 2008 – 2009”

Emiratization Percentage	Number of National Employees	Overall Number of Employees		
30.6 %	8300	27119	Dec. 2008	National Banks
33.9 %	9068	26759	Dec. 2009	
32.35%	3508	10845	Dec. 2008	Foreign Banks
35.75%	3783	10581	Dec. 2009	

National branches Managers percentage raised by 2.8% at the end of Dec. 2009 to reach 71.3% compared with 68.5% at the end of Dec. 2008.

The Number of National branches managers raised from 468 (end of Dec. 2008) to reach 534 (end of Dec. 2009) and 13 banks achieved 100% in National branch managers position.

- Statistics of the UAE Central Bank as at the end of Dec. 2009 revealed that commercial banks operating in UAE were 52 banks (24 national banks – out of them 8 Islamic banks) and (28 foreign banks – out of them 6 banks from GCC).

The total numbers of the banks and their branches including pay offices, customer services units and automated branches were 948 as follows:

- 795 National
- 153 Foreign

Statistics also indicates the following as at the end of Dec. 2009:

	<u>Head Offices</u>	<u>Branches</u>
Number of Investment Banks	2	---
Number of Specialized banks	2	---
Number of Finance Companies	24	23
Number of Representative Offices	98	---
Number of Financial Investments Companies	20	---
Number of Financial Investment Consultancy	13	1

Number of Money Changers :		
- Buying & Selling Currencies & Travel Cheques	12	6
- All Kind of Money Changing including Transfers	99	499
Total	111	505

- The number of ATMs linked with UAE Switch at the end of 2009 was 3599 ATM compared with 2420 ATM, at the end of 2008.

- 17 UAE National Banks emerged on the list of top 1000 world banks, and 6 UAE National Banks on the list of the first 25 Banks in the Middle East according to “The Banker” magazine.

Furthermore, four national banks have occupied a leading place among the best 20 bonds issues guarantee, considering its value among the Middle East and North Africa since 2009 in the amount of AED 10.6 billion (\$2.877 billion) that has been distributed among 10 issues according to Bloomberg Association's study. The warrantor is the securities merchant who gives the governmental association and companies a helping hand into offering the bonds issues in the market bearing in mind that his primary role in buying bonds from a certain source and selling it to investors; this deal should be accomplished according to the merchant's profits' expectations regardless of any possible risks.

The Central Bank has approved 20 knowledge exchange agreements, coordinated and cooperated in the prevention of Money Laundering; through the nation's commitment to providing financial data and exchanging it with its partners in order to unify Money Laundering and related crimes' prevention efforts.

The Central Bank has signed a consulting agreement with Oliver Wyman Company to provide the Central Bank with consultation and advice on reforming its activities through its reforming program that includes reforming its main activities and tools and modifying the association financial and banking rules in the UAE; the only condition being is that, these modifications should cope with the recent international changes, developments and practices.

Adding the Quarterly Profits to Capital and Reserves Account:

Referring to the Central Bank circular No. 20/99 pursuant to which the International Accounting Standards were adopted for the annual accounts of banks, finance companies and financial consulting companies operating in the UAE as from 1999, the Central Bank announced that banks and financial institutions may add their quarterly profits to Capital and Reserves Account, provided that the relevant quarterly accounts are properly audited in accordance with International Accounting Standards and processed in accordance with the approved Regulations of the Central Bank .

Basel II Implementation:

- Central Bank of the UAE announced that it had successfully completed the trial run of Basel II, the new capital adequacy standards system, and now ready to start actual implementation of the system. The Central Bank will continue to exercise National Discretions and supervisory powers to ensure that the local environment is properly considered.

All banks operating in the UAE will be required to maintain a capital adequacy ratio at a minimum of 11% at all times, increasing to 12% by 30 June 2010.

(ICCS) Image Cheque Clearing System Operation:

The Central Bank of the UAE announced that following the successful operation of the ICCS for over one year , the ICCS will move to operating in the T+O Settlement mode (same day settlement) form Saturday 14th Nov. 2009.

Arab Banking Sector

The Arab Banking sector witnessed remarkable growth during the past years, this was accompanied with high economical growth levels of the Arab Countries.

The total assets of this sector amounted around \$2.2 Trillion in 2008 represents 150% of GDP of the Arab Countries collectively, compared to 114% in 2006.

GCC Banks total assets in 2008 amounted to around \$1.3 Trillion equal 60% of Arab Banks total assets.

UAE took the lead in 2008 for total assets \$403,4 Billion followed by Saudi Arabia \$347,2 Billion and Bahrain \$252,3 as the second and third positions respectively.

Arab Banking Sector

(In Billion

US\$)

	<u>2007</u>	<u>2008</u>	<u>Growth%</u>
Total Assets	1,690,275	2,171,766	29%
Total Credits	830,426	1,010,355	22%
Total Deposits	977,463	1,147,281	15%
Total Private Money	160,688	202,188	26%

GCC Banking Sector

(In Billion

US\$)

	<u>2007</u>	<u>2008</u>	<u>Growth%</u>
Total Assets	1,106,238	1,293,025	17%
Total Credits	546,813	697,854	28%
Total Deposits	589,514	676,475	15%
Total Private Money	119,034	142,977	20%

* Source: Union of Arab Banks

About 268 Traditional Commercial Banks “out of total 470 banking institutions” still dominate the banking sector in the Arab Countries (as per 2007 data).

As A Group they acquired 80% of the total assets in the banking sector in 2007, meanwhile more than 45 Islamic Banks ranked the second in terms of total assets reaching 12% of total banks assets.

The investment and specialized banks (accounted to 100 banks) with total volume assets reached 9% of the total Arab Banks assets, in addition there are 57 foreign banks operating in the sector.

Islamic banking sector

Islamic financial institutions became well-established in a larger number of countries with their number greater than 450 Islamic banks and institutions in 90 countries of the five continents. Furthermore, the base of assets of these banks expanded to reach \$850 billion at the end of 2008. It is expected that the Islamic banking assets will witness growth rates ranging between 15-20% annually to surpass the threshold of \$1.5 trillion in 2012.

Moreover, the available data indicates that the total assets of the Islamic banks in the Arab countries reached \$269.1 billion at the end of 2008 achieving a growth rate of 27% compared with 2007. The portion of GCC countries of the total assets of the Islamic banks in the Arab countries was 91,2% in 2008. The portion of Kingdom of Saudi Arabia of the total portion of the GCC countries was 46.8%, UAE by 18% and followed by Kuwait by 17% of these assets.

Financial Indicators for the First 100 Arab Bank

Size indicator (Total Assets)

(In Billion US\$)

	<u>2007</u>	<u>2008</u>	<u>Growth%</u>
Total Assets	1,281,9	1,506,-	17.5%
Total Credits	635,7	822,-	29 %
Total Deposits	813,5	985,-	21 %
Total Shareholders Equity	135,5	160,9	19 %
Net-Profits	25,6	25,4	----

* Source: Union of Arab Banks

- EmiratesNBD Bank topped the list of the major 100 Arab Bank according to assets criterion in 2008 the bank assets amounted US \$76,95 Billion.

Internationally 89 Arab Banks joined the last list of the top 1000 world banks (an increase of nine banks from the previous year) the list included 17 banks from UAE.

The Arab Banking Sector has proved highly immune under the harsh circumstances resulting from the global financial crisis. This was due to the prudence and follow-up by Arab monetary and regulatory authorities in one hand, and due to compliance by the Arab banking managements with sound and conservative banking practices. The Arab countries exerted considerable efforts to reform and liberate the banking sector as part of the comprehensive economic reform programs along with their tendency towards free markets. The reforms included the following:

- Freeing interest rates.
- Promoting the independence of Central Banks in selecting the appropriate tools to manage the monetary policy.
- Enhancing banking oversight and reinforcing the legal and regulatory framework by adopting new banking laws and upgrading the level of banking services.

Emirates Banks Association

Membership

E.B.A. MEMBERSHIP
(2009)

At the end of 2009, the total number of member banks in Emirates Banks Association was **Forty Seven** Banks as follows :

1. National Bank Of Abu Dhabi (P.L.C.)
2. Abu Dhabi Commercial Bank (P.L.C.)
3. Union National Bank (P.L.C.)
4. National Bank Of Dubai (P.J.S.C.) *
5. Commercial Bank of Dubai (P.S.C.)
6. Dubai Islamic Bank (P.J.S.C.)
7. Emirates Bank International (P.L.C.) *
8. Emirates Islamic Bank ((P.L.C.)
9. MashreqBank (P.L.C.)
10. Sharjah Islamic Bank (P.L.C.)
11. Bank Of Sharjah (P.L.C.)
12. United Arab Bank (P.L.C.)
13. InvestBank (P.L.C.)
14. RAK Bank (National Bank Of Ras Al-Khaimah P.S.C.)
15. Commercial Bank International (P.L.C.)
16. National Bank Of Fujairah (P.S.C.)
17. National Bank Of Umm-AlQaiwain (P.L.C.)
18. First Gulf Bank (P.L.C.)
19. Abu Dhabi Islamic Bank (P.L.C.)
20. Dubai Bank
21. Al-Hilal Bank
22. Noor Islamic Bank
23. Real Estate Bank
24. Al Masraf (Arab Bank For Investment & Foreign Trade)
25. Arab Bank (P.L.C.)
26. Banque Misr
27. Calyon - Corporate and Investment Bank
28. BNP Paribas
29. HSBC Bank Middle East
30. Arab African International Bank
31. Al Khaliji(France)S.A.
32. Al Ahli Bank Of Kuwait (K.S.C.)
33. Habib Bank Limited
34. Habib Bank AG.Zurich
35. Standard Chartered Bank
36. Citibank N.A.

37. Bank Saderat Iran
38. Bank Melli Iran
39. BLOM BANK FRANCE
40. ABN-AMRO Bank N.V.
41. Doha Bank
42. Bank-Audi SAL- Audi Saradar Group
- 43. National Bank of Bahrain**
- 44. Barclays Bank**
- 45. Bank Of Baroda**
- 46. National Bank of Oman**
- 47. United Bank Limited**

EBA welcoming the joining of the following new members during the year 2009: National Bank of Bahrain, Barclays Bank PIC, Bank of Baroda, National Bank Of Oman, United Bank Limited, in addition to Lloyds Bank who joined the Association's membership at the beginning of 2010.

Also, the Association welcome the joining of Ajman Bank who joined the membership at the first quarter of 2010, thus all national banks are members, and we hope the rest of the foreign banks to join the association.

** As per the notice issued by the Central Bank of UAE ref. 1009/2010 dated 24/2/2010, Emirates Bank International and National Bank Of Dubai merging have been completed effectively 28/1/2010, the name of the bank resulting from the merger has been changed to Emirates NBD Bank P.J.S.C.*

*Activities
Of
Emirates Banks Association
In 2009*

General Assembly :

EBA General Assembly held its annual ordinary meeting on Wednesday 21 April,2009 and the minutes of the meeting distributed to all members under Ref. No. 206/2009 dated 30/4/2009.

Board of Directors :

EBA Board of Directors held several meetings during 2009, in addition to the Annual General Meeting, and other meetings held with official concerned parties.

UAE Central Bank :

The consultative and coordinative communications between the EBA and the Central Bank continued to follow up the course of events, especially with respect to the consequences of the global financial crisis, and to monitor any developments to face them and find the necessary solutions to deal with them on timely basis.

His Excellency Sultan Bin Naser Al-Suwaidi, Governor of the Central Bank, received an EBA delegation headed by His Excellency Ahmad H. Al-Tayer, deputy chairman to discuss the economic conditions in general and the Banking Sector in particular, as well as the positive impacts of the measures taken by the State represented by the Ministry of Finance and the Central Bank in the wake of the outbreak of the financial crisis. Moreover, the banking sector indexes announced monthly by the Central Bank are good and satisfactory.

The discussions also tackled the new federal draft laws, the proposed regulation concerning loan classifications and determining loan provisions. The delegation thanked the Central Bank for its initiative in discussing the draft of this regulation with the banks and EBA and soliciting their views thereon before being put into effect.

Moreover, they discussed governance and institutional discipline standards in the banking sector; the wages protection system (WPS) introduced recently; the expected issue of the new regulations for personal loans and dormant accounts;

and the proposal to postpone the start of using new check forms in accordance with the requirements of the ICCS , as well as other issues.

On the other hand, EBA held several meetings between the Association's management and the concerned officials in the Central Bank, especially to prepare for EBA's Board of Directors meeting with the Governor of the Central Bank or subsequently to follow up the outcomes of discussions in the meeting.

Consultative Meeting with Ministry of economy:

His Excellency Ahmad Humaid AL-Tayer, deputy chairman of EBA board, held a meeting with His Excellency Eng. Sultan Bin Saeed Al-Mansouri, Minister of economy in which they discussed the economic conditions in the State, the Banking Sector performance, the measures taken by the government to stimulate the economic and trade activity, and the contributions of banks in this regard.

In addition, they exchanged views on the need to reconsider some of the relevant trade legalizations in order to be amended and updated to suit new developments and events, the results of the practical application, especially those that have direct impact on the facilitation of the banking operations. The EBA coordinated with the Central Bank to study concerned laws and legislations through specialized committees in the EBA in order to provide needed proposals to amend them and to find appropriate solution for them.

Furthermore, they reviewed the proposals which previously submitted by EBA to the Ministry regarding the amendments of some articles in the commercial transactions law relating to the provisions on checks and joint accounts as discussed and agreed on in a joint meeting between the EBA's Legal Advisory Committee and the concerned officials in the Ministry before submitting same to His Excellency the Minister. They also agreed on the need for introducing finance leasing law, especially after the increased use of this practice in the State.

The Draft of the New Regulation of Loans Provisioning:

EBA Technical Committee held a closed meeting discussed therein the draft of the new proposed regulation for classification of loans and advances and determining their provisions issued and circulated by the Central Bank of UAE, under notice ref. 13/498/2009 dated 22/10/2009 requesting all banks to submit their views and suggestions.

The Technical committee recorded their notes and recommendations and submitted to the EBA Board of Directors who raised those recommendations to the Central Bank of the UAE.

Despite, the Central Bank did not announce the final instructions towards this drafted regulation – till the issuance of this report – the Central bank circulated another notice informing the banks about reducing the percentage of general provisions for unclassified accounts to 1.25% instead of 2% of these loans.

New mechanism for Emirates inter-bank offered rate “EIBOR”:

The Central Bank announced the start of implementing the new mechanism to determine the trading interest rate between banks in the UAE ‘EIBOR’ as of the beginning of October 2009.

The Central Bank clarified that the objective of this initiative has two segments:

- a. Adopting a reference limit for the interest rate on Dirham.
- b. Facilitating the process through which the specified rates verified to fairly reflect the prevailing market conditions.

The EBA had participated in the preliminary meetings held by the Central Bank for this purpose in the beginning of this year with treasury officials in some banks operating in the State.

Commercial Transactions Law.

The Legal Advisory Committee of the EBA held a meeting with the concerned officials in the Ministry of Economy on 26 February 2009 where the proposals previously submitted by EBA to the Ministry calling for the amendment of some articles related to the provisions on checks and joint accounts in the Commercial Transactions Law.

Later, another meeting was held in the Central Bank headquarters in the presence of EBA members and the legal advisor to the Ministry to develop a report on these amendments before submitting same to His Excellency the Minister of Economy.

Discussion of the drafts of some Federal Laws :

The EBA participated in the meetings of the Financial, Economic And Industrial Affairs Committee in the Federal National Council and/or the meetings of the Technical Committee for Legalization in the Ministry of Justice to discuss the following federal draft laws:

a. Federal draft law pertaining to Credit Bureau

The Federal National Council approved this draft law in its session held on 10th March 2009.

b. Federal draft law pertaining to The Interbank Deposits Guarantee(s)

The Federal National Council approved this draft law in its session held on 19 May 2009. The Emirates Bank Association solicited the views of the banks operating in the State on the draft and sent the summary and/or combination of such views to the Ministry of Finance and the Central Bank.

c. Federal draft law pertaining to financial instruments Guarantee(s)

The Federal National Council approved this draft law in its session held on 30 June 2009.

d. A study to develop Insolvency law in UAE

AT the invitation of the Ministry of Finance, a consultative meeting held in the EBA headquarters in Abu Dhabi on 24 November 2009. The meeting attended by representatives of the Ministry of Finance, the project consultants, members of EBA's Legal Advisory Committee and Risk Management Committee to study the development of a federal law on bankruptcy in the UAE.

However, there have been no new developments on preparing the required study so far.

(6) Disclosure and Transparency Regulation / Securities and Commodities Authority (SCA)

A resolution to amend Article (36) of the Disclosure and Transparency Regulation was issued on 31 December 2008. The resolution called for providing the Authority with copies of the minutes of the Board of Directors' meeting of a given company within five working days from the date of the meeting.

EBA submitted a proposal to His Excellency the Minister of Economy and Chairman of SCA Board of Directors to exclude national banks of this amendment, taking into account the confidentiality of banking business and that the information contained in such minutes is related to third parties such as bank clients, since such information may not be disclosed or conveyed to any party in order to preserve the integrity of the banks' dealing with their customers.

His Excellency the Minister issued the resolution No. R 26 of 2009 dated 18 June 2009 abolishing the referred to amendment.

Governance and Institutional Discipline Standards

Referring to the Ministerial Decree No. 518 of 2009 on the Governance and Institutional Discipline Standards which stipulates that its provisions shall apply to all companies and institutions that have listed their securities in one of the securities markets in the State and to the members of their board of directors, the EBA submitted to the Minister of Economy and Chairman of SCA Board of Directors a proposal to exclude the national banks from the provisions of said resolution. It was, however, emphasized that it was important to comply with corporate governance regulations and standards because other financial

institutions and banks that are subject to the Central Bank's license and control must comply with the controls of the Central Bank of UAE.

H.E has kindly approved the proposal and issued the ministerial resolution No. 84 of 2010 enclosing certain modifications on the previous ministerial decree.

It is worth mentioning that, the Central Bank issued circular note No. 23/2000 concerning the required administrative structure in banks, and signed a consultancy agreement in 2005 with the International Finance Corporation (IFC); which is considered The World Bank's hand in private sector, to support corporate governance reforms in the UAE's banking sector, and published a handbook corporate governance guidelines for banks directors in the UAE.

Human Resources Development Committee in the Financial and Banking Sector:

The Human Resources Development Committee's statistics have shown that during 2009, the number of national employees in the banking sector has increased by 1043 (male and female) employees; on the other hand, at the end of the same year the national employees' number has reached 12851 which made a great difference if compared to 2008 statistics that consist of 11808 employees. In other words, the increase percentage was estimated by 3.3% while the settlement percentage in the banking sector has reached 34.3%.

It is worth mentioning that, the Human Resources Development Committee in the financial and banking sector is directed by HE. Ahmad Humaid Al-Tayer in cooperation with Emirates Bank Association represented by its member of Board of Directors HE. Khalfan Mohammad Al Roumi.

- EBA participated in a **consultative meeting** on 11 June 2009 **held in Abu Dhabi Council for Economic Development** for Assessment of Financial Services Sector in Abu Dhabi, in the presence of Representatives from the Council and the project consultants.

- EBA participated on 14th Sep. 2009 in **the Forum of Sub-Ministerial and Civil Society** in UAE, held in the Ministry of Foreign Affairs organized to discuss the events of the Sixth session of the Forum for the Future - 2009 which took place lately in Morocco. EBA participated in the 5th session of the forum last year held in Abu Dhabi and Dubai.

- EBA held a meeting **in Coordination with Arab Monetary Fund**, on 9/12/2009 attended by World Bank mission, in the presence of concerned Officers from UAE Banks discussed the pending subjects about Arab payments and Securities Settlement Initiative (API).

Cooperation with Universities and Education Institutes:

At the invitation of Sharjah University, the General Manager of the EBA delivered a lecture to the students of Accounting and Economics at the university on 13 December 2009.

The lecture included an overview on UAE Banking Sector where he pointed to the establishment of the 'Currency Board' in the UAE under the Federal Law No. 2 of 1973, the establishment of the Central Bank of UAE under the Federal Law No. 10 of 1980, and the establishment of the first national bank in 1963, and commencement of business by the first foreign bank in the UAE in 1946, as well as the establishment of the Emirates Banks Association in 1982 and the Emirates Institute For Banking and Financial Studies in 1983.

Arab Banking Conference 2009:

Under the patronage of HH.Sheikh Mohammed bin Rashid Al Maktoum, Vice President, UAE Prime Minister and Ruler of Dubai, and the presence of HH. Sheikh Maktoum bin Moahammed bin Rashid Al Maktoum ,Deputy Ruler of Dubai- God bless them -, and the cooperation of Emirates banks Association , the World Union of Arab Bankers, and Dubai International Financial Centre, the Arab Banking Conference 2009 organized by Union Of Arab Banks : “ The Crisis Vision for tomorrow “ opened .

Mr. Adnan Ahmed Yusef Chairman of Union of Arab Banks said that the selection of the conference to be in Dubai – UAE was intended due to the many achievements witnessed, which make the intellectuals pay attention to the distinguished development which Dubai succeeded to establish during the last ten years marked with distinguished achievements , attributed bigger countries in potential to achieve same in fifty years.

HE. Ahmed Humaid Al Tayer presented a welcoming speech at the opening of this conference – **copy attached.**

Publications

E.B.A. Publications Matters:

1. **The Financial Position of Banks in U.A.E.**

As in the past, Emirates Banks Association published the volume 22 of its yearly book on The Financial Position of Banks in U.A.E. for the years (2007-2008).

2. **The Group of Verdicts on Banking Cases:**

Attached some of those verdicts that EBA received during the year.

3. **S.W.I.F.T. News Letter:**

Emirates Banks Association keen to continue publishing information with importance to SWIFT users group in UAE through issuing the quarterly newsletter about SWIFT services in UAE as well as comparing it with Services render to GCC SWIFT User Groups.

SWIFT Services :

Emirates Banks Association continued submitting and providing the necessary information and assistant to SUG (UAE) regarding SWIFT Services rendered to Swift Users in UAE , with the coordination and cooperation of the SWIFT regional office for Middle East and South Africa at Dubai International Financial Centre in Dubai.

In addition, and in accordance with our invitation to Mr. Edward de Courcy-Ireland, the Regional Account Manager; he kindly made a presentation in a workshop held at EBA offices in Abu Dhabi on 5/11/2009, on the implication of the MT202 COV and MT 205. This new connectivity packs upgrade to the MT 202 and includes full details about transferee and not only the amount.

Its worth to inform that after the SWIFT approval for Exchange Houses to join SWIFT membership as recommended by EBA, the number of banks and financial institutions using SWIFT services in UAE increased to 103.

At the end of 2009 , SWIFT Country Watch , showed the UAE Country ranked 21 of the top 100 countries in Europe, Middle East & Africa in (Traffic Sent)and the 19 of the top 100 countries in (Traffic received).

In addition, the FIN messages sent and received by SWIFT User Group in UAE showed a dramatically increased comparing with GCC countries as shown in the following table:

**Comparative List for SWIFTNet FIN Traffic Messages Sent & Received
in G.C.C (2008-2009)**

<u>Sending Letter</u>	<u>2008</u>	<u>2009</u>	<u>Growth</u>
Total GCC	41,933,399	45,307,877	8,05%
Total UAE	16,033,568	16,870,556	5,22%
Percentage	38,24%	37,24%	
<u>Receiving Letter</u>	<u>2008</u>	<u>2009</u>	<u>Growth</u>
Total GCC	27,586,074	28,357,048	2,79%
Total UAE	14,435,304	14,481,124	0,32%
Percentage	52,33%	51,07%	

Finally, and as a conclusion to our 2009 report, we hope that we covered the most important activities performed by the Association during the year.

In addition, we tried to highlight the most general economic developments in the UAE and the Arab Countries focusing on the Banking Sector in UAE, specially the banking sector indicators that witnessed distinguished growth by the end of 2009 comparing with end of 2008 overcoming the global economic crisis .

Thanking you for your attention and cooperation.

Emirates Banks Association

25/4/2009