

UAE BANKS FEDERATION



ANNUAL REPORT 2013



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H.E. Abdul Aziz Abdulla Al Ghurair

MASHREQ BANK

Chairman



H.E. Khalfan Mohamed Al Roumi

INVESTBANK

Vice Chairman



H.E. Abdul Aziz Abdullah Al Zaabi

NATIONAL BANK OF RAS AL KHAIMAH

Member



H.E. Issa Abdulrahman Al Ateeq

NATIONAL BANK OF UMM AL QAIWAIN

Member



Mr Abdulla Abdul Raheem

NATIONAL BANK OF ABU DHABI

Member



Mr Abdulla Khalil Al Mutawa

ABU DHABI COMMERCIAL BANK

Member



Mr Yacoub Yusef Hassan

COMMERCIAL BANK OF DUBAI

Member



Mr Abdulshakoor Hussain Tahlak

EMIRATES NBD BANK

Member



Mr Abdullah Zeid Al Shehi

ABU DHABI ISLAMIC BANK

Member

Innovation and creativity

As we move into 2014, I take pride in the ambitious developments that are taking place in the UAE's banking sector. We see this year as a time to harvest all the seeds of effort that we have so steadily nurtured. In a country that is a melting pot of different nationalities and cultures, it is a challenging task to keep the business of money and finance on track. We at the UBF build the bridges that not only connect customers to a common and essential part of their lives, but we also provide the network for the UAE's banks to work together for the common good.



Based on our core values of professionalism, integrity, transparency, innovation and creativity, we have taken it upon ourselves to be the voice of the banking industry in the UAE. Our aim is to make finance as smooth, reliable and effective as it can be. By setting down certain rules and regulations within our organisation, we are better able to function with confidence and ambition not only for ourselves, but also for the community and society we serve.

Having made our mark regionally, UBF is now creating ties with international banking bodies. But development is futile if it does not start from the basics. We stand by the Debt Settlement Fund, the government's initiative to reduce the serious debt that some UAE nationals have. We encourage member banks to co-operate in this scheme. Furthermore, we are working towards raising financial literacy among the population and to promote financial inclusion across the country.

With the Smart Government Initiative we will see the UAE in the vanguard of the world's modern economies. Being the voice of a dynamic industry we strive to make visions come true. Our journey has really only just begun, and there is still a lot more we can do for the people of the UAE. We have always dreamt big, and this is particularly so now that the economy is beginning to gather momentum.

With a special focus on the needs and growth of SMEs we are setting new parameters. Work is underway to establish a Sharia-compliant governance unit making Islamic banking even more attractive for regional industry. We aim to encourage and nurture the local workforce. Our youth are the seeds of our future growth. The dreams that we have for our nation and industry will only bear fruit when Emiratization takes root and develops quickly. To be productive, we must think and be focused and progressive.

I take this opportunity to thank the UAE Central Bank, member banks and all the committee members for unwavering trust and support.

Abdul Aziz Abdulla Al Ghurair
Chairman, UAE Banks Federation



Giving UAE banks a voice

■ The federation seeks to be the professional representative and voice of the banking industry in the UAE

The UAE Banks Federation aims to promote and enhance the country's banking sector

The UAE Banks Federation (UBF) aims to promote and enhance the country's banking sector, and was established in 1982 as the professional body representing banks operating in the country. It advocates banks' interests and works to improve cooperation and coordination among them. Its prime objective is to promote and enhance the banking industry for the benefit of the sector, its customers and the national economy.

It was originally founded as the Association of National Banks, and was then renamed as the Emirates Banking Association before becoming the UAE Banks Federation in 2013. It brings together member banks on a common platform to exchange ideas, opinions and information. It



helps raise awareness about the beneficial role and the financial, economic and social contribution of banks to the UAE economy, as well as their collective views on matters of mutual concern.

The UBF is managed by a nine-member Board of Directors, which is responsible for planning, policymaking and the supervision of all activities. The Board is elected every three years. The Federation also has an advisory council of bank CEOs, which oversees the implementation of policies, follows up on the Federation's activities and makes the necessary decisions on all issues of concern to the banking sector. The Federation also has ten specialised technical committees, covering all relevant banking domains.

The UBF has clear objectives in place and aims to

promote cooperation and harmony among member banks, to develop and represent their interests, and organise their obligations and defend their rights. The Federation also seeks the exchange of opinions and knowledge in order to better serve member banks, and it coordinates this exchange of information and opinion on all matters that concern banks and those in the banking profession.

The UBF also aims to facilitate the exchange of banking and financial information regionally and internationally, to extend assistance and provide services to members and those in the banking profession, as well as to coordinate cooperation in banking procedures and in legal, technical and administrative affairs, in addition to solving problems encountered by banks and those working in the banking profession.

■ H.E. Abdul Aziz Abdul Ghurair delivers a speech during the SIBOS Conference 2013 in Dubai

CEOs Advisory Council



1. Chief Executive Officer	Mashreq Bank (P.L.C.)
2. Group Chief Executive Officer	National Bank Of Abu Dhabi (P.L.C.)
3. Chief Executive Officer	Emirates NBD (P.J.S.C.)
4. Chief Executive Officer	First Gulf Bank (P.L.C.)
5. Chief Executive Officer	Union National Bank (P.L.C.)
6. Chief Executive Officer	Commercial Bank of Dubai (P.S.C.)
7. Chief Executive Officer	Dubai Islamic Bank (P.J.S.C.)
8. Chief Executive Officer / Board Member	Abu Dhabi Commercial Bank (P.L.C.)
9. Chief Executive Officer	Emirates Islamic Bank (P.L.C.)
10. Chief Executive Officer	Sharjah Islamic Bank (P.L.C.)
11. Chief Executive Officer	Bank Of Sharjah (P.L.C.)
12. Chief Executive Officer	United Arab Bank (P.L.C.)
13. General Manager	InvestBank (P.L.C.)
14. General Manager	National Bank Of Ras Al Khaimah (P.S.C.)
15. Chief Executive Officer	Commercial Bank International (P.L.C.)
16. Chief Executive Officer	National Bank Of Fujairah (P.S.C.)
17. Chief Executive Officer	National Bank Of Umm Al Qaiwain (P.L.C.)
18. Chief Executive Officer	Arab Bank For Investment & Foreign Trade (Al Masraf)
19. Chief Executive Officer	Abu Dhabi Islamic Bank (P.L.C.)
20. Chief Executive Officer	Noor Bank
21. Group Chief Executive Officer	Al Hilal Bank
22. Chief Executive Officer	Ajman Bank
23. Chief Executive Officer	Emirates Investment Bank
24. Chief Executive Officer	HSBC Bank Middle East
25. Chief Executive Officer	Citibank N.A
26. Chief Executive Officer	Standard Chartered Bank

Specialised Committees



Accounts & Basel Implementation Committee

Chaired by Mr Bassem Itani
EVP, Head Group Credit, ADCB

Legal Committee

Chaired by Mr Abdul Hakim Bin Herz
GM & Legal Affairs, Fraud Preventions
& Investigation, Emirates NBD

Consumer Banking Committee

Chaired by Mr Christopher Dommett
DBD Credit & Risk, NBAD

Wholesale & Corporate Committee

Chaired by Mr Mahdi Kazim
General Manager — Corporate
Banking, Emirates NBD

SMEs Committee

Chaired by Mr Mahdi Mamdoh Kilani
EVP, Head of Business Banking
Division, ADIB

Islamic Banking

Chaired by Mr Moinuddin Maalim
CEO, Mashreq Al Islami

Financial Markets Committee

Chaired by Mr Kevin Taylor
Group Treasurer, ADCB

Risk Management Committee

Chaired by Mr Rohit Kumar
Senior Vice-President and Head of
Credit Risk and Market Risk, NBAD

Compliance Committee

Chaired by Mr Waheed Rathore
Executive Vice-President, Group Chief
Compliance Officer and MLRO, Risk
Management Group, ADCB

HR Practice Committee

Chaired by Mr Ehab A. Hassan
Group Chief Human Resources Officer,
EVP, Human Resources Group, NBAD



Members

- | | |
|--------------------------------------------------------------------|----------------------------------------------------------|
| 1. National Bank of Abu Dhabi (P.L.C.) | 25. BNP Paribas |
| 2. Abu Dhabi Commercial Bank (P.L.C.) | 26. Bank of Baroda |
| 3. Emirates NBD Bank (P.J.S.C.) | 27. Credit Agricole Corporate and Investment Bank |
| 4. First Gulf Bank (P.L.C.) | 28. Banque Misr |
| 5. Commercial Bank of Dubai (P.S.C.) | 29. HSBC Bank Middle East |
| 6. Dubai Islamic Bank (P.J.S.C.) | 30. Arab African International Bank |
| 7. Arab Bank For Investment and Foreign Trade (Al Masraf) | 31. AL Khaliji - France S.A |
| 8. Emirates Islamic Bank (P.L.C.) | 32. Al Ahli Bank of Kuwait (K.S.C.) |
| 9. Mashreq Bank (P.L.C.) | 33. Barclays Bank |
| 10. Sharjah Islamic Bank (P.L.C.) | 34. Habib Bank Limited |
| 11. Bank of Sharjah (P.L.C.) | 35. Habib Bank AG. Zurich |
| 12. United Arab Bank (P.L.C.) | 36. Standard Chartered Bank |
| 13. InvestBank (P.L.C.) | 37. Citibank N.A. |
| 14. The National Bank of Ras Al Khaimah (RAK Bank) (P.S.C.) | 38. Bank Saderat Iran |
| 15. National Bank of Fujairah (P.S.C.) | 39. Bank Melli Iran |
| 16. Emirates Investment Bank | 40. BLOM Bank France |
| 17. Ajman Bank | 41. Royal Bank Of Scotland N.V. |
| 18. Al Hilal Bank | 42. United Bank Limited |
| 19. Noor Bank | 43. Doha Bank |
| 20. Arab Bank (P.L.C.) | 44. Samba Financial Group |
| 21. Abu Dhabi Islamic Bank (P.L.C.) | 45. Deutsche Bank |
| 22. Union National Bank (P.L.C.) | 46. Industrial and Commercial Bank of China |
| 23. National Bank of Umm Al Qaiwain (P.L.C.) | 47. The Bank of Tokyo - Mitsubishi UFG, Ltd. |
| 24. Commercial Bank International | 48. National Bank of Kuwait |
| | 49. National Bank of Oman |

ACTIVITIES & ACHIEVEMENTS

Whether it is the introduction of the Code of Conduct, the Mobile Wallet or its support for the Debt Settlement Fund, the UAE Banks Federation places customers at the centre of its activities.

Code of Conduct

The UAE Banks Federation's Code of Conduct aims to streamline the banking business and promote cooperation between banks. It also wants to achieve the highest standards of quality and excellence, and build a professional and transparent environment to serve customers' interests and rights.

Through the Code, the UBF seeks to promote Emiratisation and boost efforts to raise public awareness about financial literacy, build a favourable banking environment to enhance customers' confidence in banks, and enhance transparency and free market policies. It is not a legal document, nor is it intended to replace banks' own policies. While the responsibility to comply with the Code rests with each individual bank, every member of the UBF is expected to adhere to the Code at all times.

Supportive role of Central Bank

The UAE Central Bank's backing of the banking industry has been particularly evident over the past year, in its regular dialogue with the industry to ensure the long-term health of the banking system. Banks have been called upon to share their views and opinions on pressing issues, such as mortgage lending, management of large exposures and so on. The Central Bank has invited banks' opinions on key areas of concern and two important regulations were issued, the Consumer Mortgage Loans Regulation and the Large Exposures Regulation, both of which reflect the Federation's input to a large extent.

The UBF's Wholesale Banking Committee also put forward a proposal to redefine commercial real estate assets, which has been submitted to the Central Bank for consideration, while the Financial Markets Committee has submitted recommendations on Liquidity Regulation. The Legal and Consumer Banking committees have held discussions about the direct debit system and submitted relevant recommendations to



the Central Bank. Al Etihad Credit Bureau is another project that the Federation is associated with, through its working group intensive participation in seminars and workshops. Recommendations by the Legal and Consumer Banking committees were submitted to the Ministry of Finance for consideration.

Taking the initiative

The Federation has worked towards initiating awareness about the discount window through seminars conducted by the Central Bank. Alternatives for the creation and implementation of the discount window were discussed and, accordingly, proposals by the relevant working group from the UBF Financial Markets Committee were submitted to the Central Bank for consideration. A proposal has also been submitted for discussion on the netting of derivatives contracts by the Risk Management Committee. The legal committee has drafted and proposed



regulations to appoint banking experts. The Islamic Banking committee finalised the proposal of guidelines for a Sharia governance unit, which was sent to the Central Bank.

Mobile Wallet project

The UBF is actively involved on the Smart Government initiative that was announced by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, in 2013. The Mobile Wallet project is a key component of the initiative that supports payments and remittances.

In effect, the project will provide users of mobile devices with an electronic equivalent of the traditional wallet, which is able to store, transfer money and pay for goods and services conveniently from a common platform.

Mitigating risk

UBF committees are working closely with the

Central Bank on various areas of concern. The Risk Management Committee is pushing for the standardisation of industry classification and the creation of a national pooling database, while the Legal Committee has made a proposal with regard to real estate foreclosure.

Strict regulations have been developed by the legal committee for the appointment of banking experts in legal cases.

Greater visibility

The UBF held its first conference titled "The Middle East Banking Forum" on November 26 in collaboration with *The Banker* and *Financial Times*. The conference hosted a group of senior local, regional and international bankers and speakers. The Federation is also developing international ties, and MoUs were signed with the Korea Federation of banks and the Italian Banking Association.

Federation hosts its first annual forum

The UAE Banks Federation (UBF) hosted its first annual conference at Jumeirah Beach Hotel in Dubai. The Middle East Banking Forum, was organised by *Financial Times Live* and *The Banker* magazine and was attended by leaders from the Federation's member institutions and the top-tier representatives of regional and international banks and financial organisations.

Key Speakers included the Governor of the UAE Central Bank, His Excellency Sultan Bin Nasser Al Suwaidi, H.E. Abdul Aziz Abdulla Al Ghurair, Chairman of UBF. John Bruton, former Irish Prime Minister and Chairman of International Financial Services Centre Ireland was the guest keynote speaker. Presentations and panel discussions focused on current industry trends, including prospects for banks in the Middle East, prospects for the UAE as a regional financial hub, and the growth of Islamic finance regionally and internationally. The discussions also focused on Middle East merger and acquisition activities, trends in cross-border banking activity and issues centred on the drivers and pitfalls of expansion.



Federation proposals on Mortgage Cap and Large Exposure

In line with the continuous consultation and cooperation between UBF and the Central Bank, the Federation submitted a unified proposal representing the banks' views on Mortgage Loans Cap to the Central Bank, after consultations and discussions on UAE market indicators and the effective role of the banking sector, as well as a proposal on percentage limits that constitute Large Exposure.

UAE banks adopt code of conduct



The Federation's members have agreed to a code of conduct

Member banks agreed on a Code of Conduct to help raise professional standards and to promote greater trust in the UAE banking industry. The code sets out requirements expected from all members and provides a set of benchmarks that all member banks

have committed to abide by. The largest section covers conduct with customers and sets out a commitment to treat them fairly and openly, and to manage complaints promptly and efficiently. The code also highlights the importance of developing and training UAE nationals.

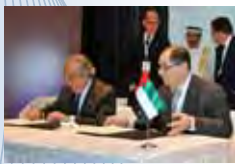
Regulations are set out for banking experts



The UBF has laid down regulations for the appointment of banking experts and has moved forward with their implementation in collaboration with the Central Bank, Ministry of Justice and other judicial authorities. The Federation's efforts have led to the signing of three memoranda of understanding.

The UAE Central Bank and the UBF have signed MoUs with Dubai and RAK courts on regulations for the appointment of banking experts, following the signing of a MoU with the Ministry of Justice in 2012. The agreement will ensure the implementation of the federal government strategy of modernising laws and federal economic legislation to support UAE economic growth, in line with federal law 7/2012 regulating banking experts' involvement with the UAE judicial authorities.

International bodies and UBF sign MoUs



MoUs will enable exchange of information and expertise

The UBF has signed memoranda of understanding (MoUs) with the Italian Banking Association and Korean Federation of Banks for cooperation on mutual banking industry activities, including the exchange of information and expertise, the conducting of workshops, as well as training programmes. The organisations have discussed the establishment of channels of communication to support the business development of member banks in each other's countries, in addition to cooperating in other banking industry activities.

Federation honours Abdullah Bin Mohammad Ghobash



H.E. Abdullah Bin Mohammad Ghobash and H.E. Abdul Aziz Abdulla Al Ghurair

The UBF has honoured H.E. Abdullah Bin Mohammad Ghobash, Minister of State, for his energetic leadership and valuable contribution to the banking sector. He has been a Board member of the Federation since 2006.

Three CEOs honoured



The UBF honoured three outgoing CEOs of member banks. Mr Michael H. Tomalin, former Group CEO of NBAD, Mr Rick Pudner, Group CEO of Emirates NBD and Mr Graham Honeybill, CEO of RAK Bank, were honoured for their invaluable and dedicated contributions to the UAE banking industry and years of dedication to their respective banks.

New Federation website reflects growing activity

The UBF launched a new website to reflect its growing level of activity and coordination with member banks. The website aims to provide the public access to information about the Federation's role and work, as well as to documents and announcements it issues on a regular basis. The website aims to provide customers of banks operating in the UAE with a greater understanding of the work being done to ensure that service standards and levels of behaviour they can expect meet international benchmarks. It also brings into one place information and updates about the sector and the activities of banks in supporting the UAE economy and its community.



■ The UBF will encourage UAE citizens to seek employment in the banking sector

Action plan takes top priority

The UAE Banks Federation aims to encourage support for Emiratisation, Smart Government Initiatives and Debt Settlement Fund for nationals among member banks. It also seeks to enhance the position and reputation of the banking sector both domestically and internationally through link-ups with select global banking associations and federations

The UAE Banks Federation (UBF) has a detailed plan of action in place. UBF will be working to promote cooperation and consultation with the Central Bank on all issues of concern to the banking sector, as well as with ministries and local government departments. Moreover, the UBF intends to expand its scope of cooperation to select international banking associations and federations, and enhance the position and reputation of the country's banking sector locally and internationally.



The Federation will also continue to identify ways to encourage UAE citizens to seek employment in banking. Closer cooperation and coordination between banks will help to develop an environment that enables them to effectively perform their role to stimulate economic development, as well as contribute to corporate social responsibility and customer protection.

Areas of focus

UBF will continue to consult with the Central Bank to address areas of concern such as a discount window, liquidity regulation, decriminalisation of bounced cheques, derivatives netting, the requirements of the Basel II and III, and the creation of a Sharia-compliant governance unit. Steps are also being taken towards the standardisation of industry definitions and classifications, as well as definition of commercial real estate assets.

All possible steps will be taken to address areas of concern for small and medium enterprises (SMEs), and real estate foreclosures. The implementation of the Federation's Mobile Wallet Project together with the initiation of corporate data pooling will be a step towards ensuring that all goals are deliverable and well aligned.

Ministries and public departments are being encouraged to adopt UBF-proposed regulations when appointing banking experts. Specialised commercial courts, support for Al Etihad Credit Bureau, registration of SMEs assets, a clear definition of SMEs are seen by Federation members

as pivotal for maintaining progress and momentum in the banking sector.

International reach

The Federation will continue to open channels of communication with a number of banking associations in countries with significant economic and trade relations with the UAE. This will help member banks where issues arise in financing international trade, as well as in corporate finance and in gaining best practice experience and advice.

Work is underway on the implementation of two memoranda of understanding, signed with the Korea Federation of banks and the Italian Banking Association, through meetings to discuss banking issues of mutual concern, as well as to exchange expertise.

Raising awareness

The UBF is working to raise its visibility by further developing and upgrading its website on a regular basis. Press conferences, roundtable discussions and spotlight sessions will be held to raise awareness about the Federation and banking issues. All the activities and achievements of the UBF will be publicised through regular news announcements and briefings.

The UBF is looking forward to organising its second annual conference under the title Middle East Banking Forum 2014. It is expected to bring together many important industry figures from the UAE and the region, and to address current key banking and finance topics.

2013:

A year of optimism

An increase in total bank assets, a decline in non-performing loans and improving domestic liquidity allowed the UAE banking sector to stand in good stead. Winning the Expo 2020 bid, and strong performances from sectors such as tourism, retail and trade added to a positive outlook



Bank lending in the UAE grew at 7.1 per cent year-on-year in 2013, according to the latest data from the UAE Central Bank. Bank loans grew at their fastest pace since the fourth quarter of 2009. The acceleration in credit growth (an average of 5.5 per cent compared with an average of 2.7 per cent in 2012) provides further evidence of broader economic expansion in the UAE in 2013, experts say. Key monetary indicators show overall domestic liquidity continued to improve, with broad money supply (M2) up 22.5 per cent for the full year. M1 (coins and notes in circulation and other liquid money equivalents) growth slowed to 26.9 per cent in December 2013.

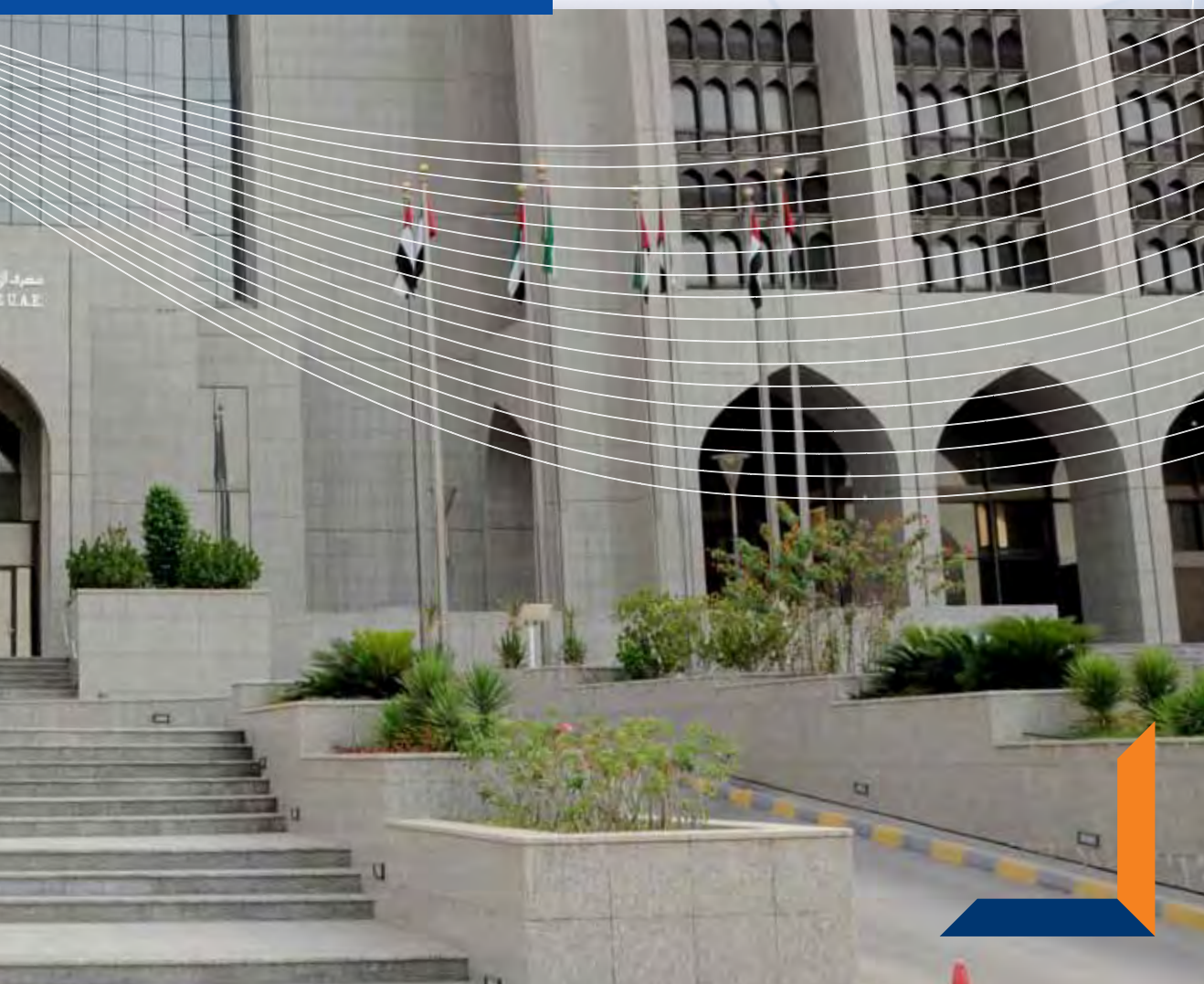
Assets

Total bank assets increased by 8.53 per cent to reach Dh1945 billion at the end of December 2013, according to the Central Bank report. The combined

assets of UAE banks stood at Dh1945 million at the end of 2013 to maintain the country's position as having the largest banking sector in the region. The rise means the combined assets of the UAE's 23 national banks and 28 foreign bank branches remained the highest in the Arab world after they overtook Saudi banks' assets some years ago.

Deposits

Total bank deposits increased by 9.33 per cent during 2013 reaching Dh1,277 billion, as a result of the increase in resident deposits and an increase in non-resident deposits, while total bank loans and advances (net of provisions and interest in suspense) increased by 7.1 per cent to reach Dh1,177 billion. The UAE's aggregate bank deposits grew by 9.33 per cent at around Dh109 billion year-on-year in December. According to Central Bank figures, residents' deposits were up 13 per cent in 2013, making it a key driver of overall deposit growth. Deposits swelled by nearly Dh109 billion to



Dh1,277 billion at the end of 2013, from Dh1,168 billion at the end of December 2012. Total deposits at the end of 2011 stood at Dh1,069.7 billion.

Government deposits continued to decline month-on-month through the fourth quarter, which is reflected in the slower M3 (M2 plus longer-term time deposits and money market funds with more than 24-hour maturity) growth over the same period. M3 was up 12.6 per cent in 2013 compared to 10.9 per cent in 2012. Government deposits reached Dh161 billion by the end of 2013, compared to Dh220 billion at the end of 2012.

Loans, advances and overdrafts

Total loans stood at Dh1,177 billion by the end of 2013, compared to Dh1,099 billion at the end of 2012. The increase was reflected in all basic components. Loans to the real estate sector amounted to Dh180 billion, personal loans to residents stood at Dh279 billion, and loans to companies showed a marked growth at Dh455 billion when compared

to Dh395 billion in 2012, reflecting confidence in the economy. Loans to government amounted to Dh145 billion compared to Dh123 billion in 2012. Loans to the services sector declined from Dh137.6 billion in 2012 to Dh118 billion in 2013. The slight overall increase in total loans suggests banks in the UAE are content to proceed with prudence. The lending policy continues to remain balanced, even as lending by sectors shows economic growth in the country. The total profit for local banks in 2013 rose to Dh31.6 billion, as against Dh26.5 billion in 2012.

According to Standard and Poor's, the asset quality of UAE banks is set to improve during 2014, with a decline in non-performing loan (NPL) ratios and improving coverage ratios supported by asset and profit growth. Most UAE banks' NPL ratios have been stabilising over the past 12 months, after a deterioration in asset quality over the past few years. The banks continue to generate strong pre-provision earnings and

increase their coverage of reported NPLs. The incidence of new NPLs has slowed substantially.

The money multiplier

The Central Bank has announced that the money supply aggregate M0 (currency in circulation + currency at banks) increased by 0.8 per cent, from Dh63.4 billion at the end of November 2013 to Dh63.9 billion at the end of December 2013. The money multiplier indicates by how much the money supply will grow following an increase of a billion dirhams in the monetary base (currency in circulation + commercial banks' reserves at the Central Bank + certificates of deposit). The money supply aggregate M1 increased by 1.7 per cent from Dh373.3 billion at the end of November 2013 to Dh379.6 billion at the end of December 2013. The money supply aggregate M2, which comprises M1 and quasi-monetary deposits (resident time and savings deposits in dirhams, commercial prepayments in dirhams and resident deposits in foreign currencies), increased by 1.9 per cent from Dh1,036.8 billion at the end of November to Dh1,056.8 billion at the end of December in 2013.

Capital, reserves and capital adequacy

The Central Bank report shows banks' combined shareholder equity, covering capital and reserves, decreased to Dh268 billion from Dh276 billion in 2012. Capital adequacy stood as high as 19.3 per cent at the end of 2013. Total banks capital and reserves amounted to Dh276.4 billion by the end of 2012, leading to a high capital adequacy of 21 per cent by the end of December the same year.

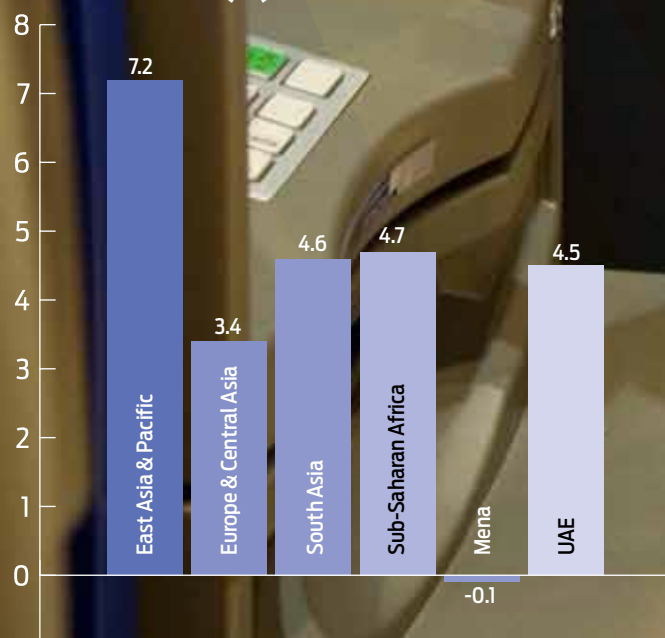
Development of the banking system

According to Central Bank statistics, the number of national banks remained at 23 at the end of 2013. However, their branches grew from 805 in 2012 to 841 in 2013. At the same time, the branches of the 28 foreign banks operating in the local market increased from 85 in 2012 to 87 at the end of 2013. The number of ATMs linked to UAESWITCH in the state amounted to 4,664 at the end of December 2013, compared to 4,492 ATMs at the end of December 2012.

Outlook

The World Bank's latest Global Economic Prospects report forecasts growth in developing countries to pick up from 4.8 per cent in 2013 to a slower-than-previously-expected 5.3 per cent in 2014, and by 5.5 per cent in 2015 and 5.7 per cent in 2016. While the pace is about 2.2

GDP in 2013 (%)



Banking system in numbers

	2012	2013
National banks	805 branches	841 branches
Foreign banks	85 branches	87 branches
ATMs linked to UAESwitch	4,492	4,664

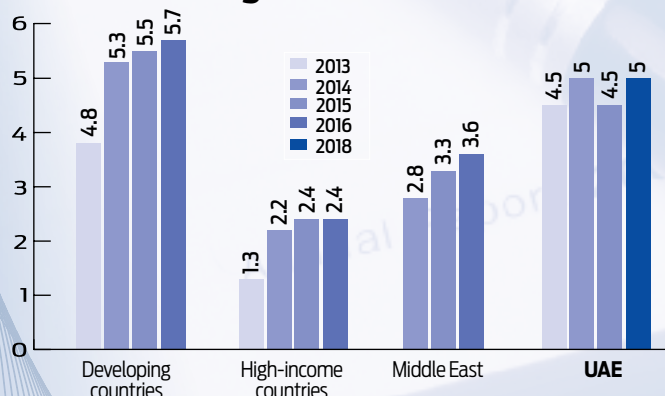
Money multiplier

	Change in December	Change during the year 2013					
	Dec 2012	Nov 2013	Dec 2013	In billions of Dh	%	In billions of Dh	%
Money Supply M0	57.8	63.4	63.9	0.5	0.8	6.1	10.6
Currency in Circulation	45.6	51.1	50.4	-0.7	-1.4	4.8	10.5
Monetary Deposits	253.6	322.2	329.1	6.9	2.1	75.5	29.8
Money Supply M1	299.2	373.3	379.6	6.3	1.7	80.4	26.9
Quasi Monetary Deposits	563.2	663.5	677.2	13.7	2.1	114.0	20.2
Money Supply M2	862.4	1,036.8	1,056.8	20.0	1.9	194.4	22.5
Government Deposits	220.7	180.4	163.1	-17.3	-9.6	-57.6	-26.1
Money Supply M3	1,083.1	1,217.2	1,219.9	2.7	0.2	136.8	12.6

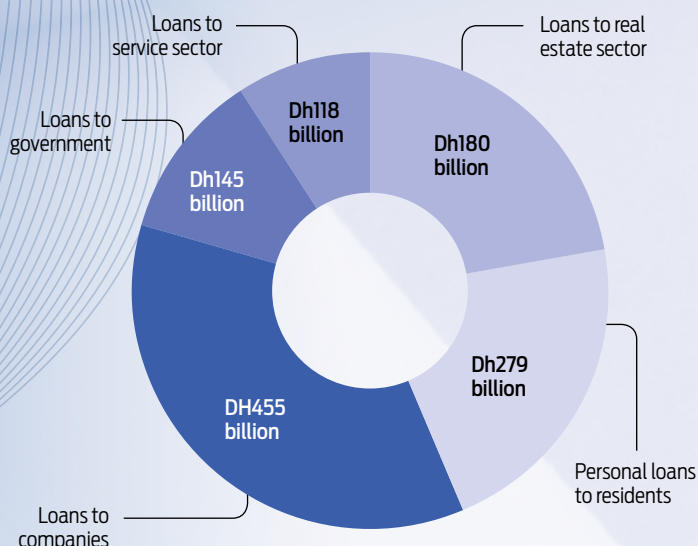
Key Indicators

Highlights	Change during the year in %	31/12/2012	31/12/2013
Deposits (in billion Dh)	9.33	1168	1277
Certificates of Deposit held by Banks	13.5	95	108
Loans and Advances	7.1	1099	1177
Total Assets	8.53	1792	1945
Capital and Reserves	-2.9	276	268
Ratios		31/12/2012	31/12/2013
EIBOR/one year (%)		1.625	1.8286
Capital Adequacy Ratio (%)		21	19.3
Loans and Advances/Deposit Ratio (%)		94	92

World Bank's growth forecast



Total loans at the end of 2013



percentage points lower than during the boom period of 2003-2007, the slower growth is not a cause for concern. Almost all of the difference reflects a cooling off of the unsustainable turbo-charged pre-crisis growth, with very little due to an easing of growth potential in developing countries. Moreover, even this slower growth represents a substantial (60 per cent) improvement compared with growth in the 1980s and early 1990s.

For high-income countries, the drag on growth from fiscal consolidation and policy uncertainty will continue to ease, accelerating economic growth from 1.3 per cent in 2013 to 2.2 per cent during 2014, stabilising at 2.4 per cent for each of 2015 and 2016. Amongst high-income economies, recovery is most advanced in the US, with GDP expanding for ten quarters now. The US economy is projected to grow by 2.8 per cent in 2014 (from 1.8 per cent in 2013), firming up at 2.9 and 3 per cent in 2015 and 2016 respectively. Growth in the Euro area, after two years of contraction, is projected to be 1.1 per cent in 2014, and 1.4 and 1.5 per cent in 2015 and 2016 respectively.

Aggregate growth for the Middle East region is projected at 2.8 per cent in 2014, firming up at 3.3 per cent in 2015 and 3.6 per cent in 2016 — well below the region's potential. For the GCC as a whole, experts say the financial position of the oil-exporting countries continues to gain strength with total net foreign assets rising to \$2.5 trillion in 2013 (about Dh9.1 trillion), equivalent to 95 per cent of their aggregate GDP.

The UAE's prospects are looking good and the country is expecting 5 per cent growth in 2014. The Abu Dhabi Department of Economic Development revealed projections for the production of 2.8 million barrels of oil per day in the UAE during 2014. With the non-oil sector also expanding, the UAE is on safe ground. It is set to become the world's largest producer of aluminium in the next five years. The tourism and aviation sectors are also expected to excel, especially since Dubai has won the bid to host Expo 2020. The UAE expects to achieve a general surplus of 9 per cent of GDP, which is twice the figure achieved in 2012. Growth rates of 4.5 to 5 per cent are expected to continue to the period between 2015 and 2018. The GDP is expected to reach approximately Dh1.7 trillion in 2018.

Liquidity, confidence drive 2014 prospects



■ The UAE economy grew by about 4.5 per cent in 2013, supported by tourism, hospitality and real estate

The UAE banking sector can count on a cash-rich federal government, an economy on the rise and progressive regulations in a year that will be favourable for the industry.

Winning the Expo 2020 bid has provided the UAE economy with the boost it needed to tackle the future. Financial experts estimated that the event will add about Dh84 billion- approximately 24.4 per cent of the GDP - to the local economy between 2015 and 2021.

According to the International Monetary Fund (IMF), economic growth in the UAE is expected to remain strong. The economy is estimated to have grown by 4½ per cent in 2013, supported by tourism, hospitality, and real estate.



■ Moody's believes the UAE banking system will maintain its strong funding and liquidity profile in 2014

The IMF expects real GDP growth to remain firm at 4½ percent in 2014, driven by the ongoing momentum in the non-oil economy. It also reported that newly implemented regulations on loan concentration and real estate exposure for banks would help protect the soundness of the banking system, which has remained amply capitalised. The new loan concentration limits will help contain risks to banks' balance sheets in the context of the newly planned mega projects.

Credit-rating agency Moody's Investors Service too has upgraded the UAE's banking system from negative to stable. Its November 2013 report also indicates a decline in difficult loan levels and a continual recovery of the local real estate market.

The report suggests that the improvement in asset quality will drive lower loan-loss provi-

sions, which when coupled with modest asset growth will support an increase in UAE banks' net income to around 2.5 per cent of risk-weighted assets (RWAs) over the outlook period, from around 2 per cent as of year-end 2012.

Strong liquidity

The UAE banking sector is seen as highly liquid and, according to the report, in addition to the shock-absorption capacity provided by robust capital metrics, Moody's anticipates that the banking system will maintain its strong funding and liquidity profile.

It believes the increase in net income will provide UAE banks with the internal capital generation capacity necessary to support asset growth over the outlook period, while maintaining their strong tier 1 capital levels, which stood at around 16 per cent during 2013.

Deposit growth is expected to remain strong and that banks will continue to focus on liquidity management ahead of the implementation of Basel III liquidity ratios.

The report additionally suggests that stable economic growth, coupled with increasing confidence and the ongoing real estate market recovery, are primed to assist in credit growth of 7 to 10 per cent annually for the banking industry.

Improving confidence

Confidence in the industry is certainly improving and deposits in the UAE grew to Dh1.27 trillion in 2013. Combined UAE bank assets reached the Dh1,945-billion mark in December 2013, according to the Central Bank's monthly statistics report. The Central Bank report suggests that deposits increased by 9.33 per cent in 2013, making it a pivotal aspect of the overall growth that was witnessed.

It certainly seems that 2014 is primed to be favourable for both the banking industry in general and the UAE Banks Federation in particular. With a positive outlook ahead and a multitude of encouraging signs, the industry in the UAE looks set to grow at a steady and measured pace.

Banking trends

The UAE banking sector has seen a number of trends in the past 12 months, including an increased interest in Islamic products. Islamic trade finance could provide new opportunities and become the preferred choice for emerging rapid growth markets (RGMs).

Technology has been identified as a key sector for investment by the UAE government as part of its diversification and development strategy, and it is driving much change in the banking sector. YouGov states that 76 per cent of bank customers in the UAE registered for online banking between December 2012 and May 2013. The online market research company also says that in the period lead-



■ Expo 2020 is expected to add about Dh84 billion to the UAE economy between 2015 and 2021



■ Analysts are predicting credit growth will see a double-digit expansion in 2014

ing up to September 2013, on average, consumers had opened two bank accounts to manage their finances and transactions, while 72 per cent used credit cards and 32 per cent used Islamic banking.

Money set aside to cover bad debts dwindled at the UAE's biggest lenders as the global financial crisis faded from view and top bankers felt more optimistic about the strength of the local economy.

Another area of growth is retail loans. It is thought that lending could see a six per cent increase this year.

Analysts are also predicting credit growth will see a double-digit expansion in the current year. The nominal growth of credit is expected to remain at about 10 to 12 per cent in 2014 and 2015.

Challenges for the banking industry

According to Standard & Poor's recent report – titled "The UAE Banking Sector Outlook 2014: An Uptick in Lending and Economic Activity Signal Continued Profitable Growth" banks in the UAE have good prospects in 2014 due to healthy eco-

nomie growth and an upbeat corporate sector. Economic growth is certainly set to remain buoyant. Banks are expected to have another year of strong financial performance. In the meantime, inflation levels are expected to stay in the 2 to 2.5 per cent range, according to S&P.

UAE banks will continue to work on customer service upgrade, transparency, loans and deposits concentrations .

The key risk factor to watch over the next 24 months will be developments relating to certain large restructured transactions. There is a warning that potential nonpayment of these debts could increase some banks' provisioning requirements, thereby reducing their profitability.

Still the credit-rating agency feels that asset quality will continue to improve, although the cost of risk is unlikely to reduce further. They suggest that banks' robust funding levels and good-quality capital should help them withstand adverse market developments, such as tighter liquidity and higher funding costs.