

Speech

By

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**AT THE
BANKERS LUNCH**

**HOSTED BY
THE BANK OF NEW YORK - ABU DHABI**

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Emirates Palace Hotel - Abu Dhabi**

Excellencies, His Excellency Sulaiman Al Mazroui

Ladies & Gentlemen,

It is a great pleasure indeed to join you today, especially at this magnificent resort, thanks to our host; "**Bank of New York**".

I would also thank Mr. Sulaiman Al Mazroui for the kind invitation and would try to be in line with the request in his letter, i e. to talk about banks' expected performance in 2006 and talk briefly about the UAE Economy.

Therefore, I will focus my short speech on the following subjects:

- 1. Expected Bank's Performance in 2006**
- 2. The UAE Economy and the Exchange Rate Policy of the UAE**
- 3. Central Bank's Issues and Projects**

1. Expected Bank's Performance in 2006

This may be seen through four consolidated variables, comparing their figures as at 31st Oct. 2006 with the figures of 31st Dec 2005, we will arrive at some important conclusions, these are:

1. Total Deposits
Total deposits went up by 16.3% so far, from AED 426.5 Bil.
2. Total Advances
Total advances went up by 29.2%, from AED 379 Bil.
3. Total Assets
Total assets went up by 25.1%, from AED 624.9 Bil. , and

4. Total Profits

Total profits went down slightly, by -0.5% compared to AED 14.8 Bil for the same period in 2005. this could mean that we will see a further decline by 31st Dec. 2006. These figures suggest that "Total Advances" having grown at 29.2%, deserve further analysis. If we consider loan categories to residents, the following categories witnessed high rate of growth, as at 30th Sept. 2006:

- Real Estate Mortgage loans - grew at 58.2% and stood at AED 27.7 Bil.
- Services - grew at 69.4% and stood at AED 53.8 Bil.
- Transport & Storage - grew at 67.7% and stood at 17.9 Bil.
- Financial Institutions (Excluding banks) - grew at 93.4% and stood at 14.4 Bil.

Loans to the more traditional categories such as, trade, personal business loans, personal consumer loans and construction went up at normal growth rates of between 9.9% to 13.6%.

I do not want to draw conclusions, but please take note of these figures and try to draw your own conclusions.

2. The UAE Economy and the Exchange Rate Policy of the UAE

The UAE Economy will continue to do well, as oil prices are expected to continue to hold above US\$ 50 per barrel. As you know, oil and gas exports' revenue even if we include free trade zones exports and reexports, this still will weigh around 70% of the value of all UAE exports' revenue.

Inflation in the UAE comes mainly from higher rental rates, which is a temporary phenomena, and expected to subside as new housing units and office space come to the market in a few months from now.

The UAE will continue to be a trade & business center and a tourist destination in the region, and certain economic sectors will continue to grow; just avoid concentration.

Ladies & Gentlemen,

I will take this opportunity to try to respond to those who voiced their opinion recently that the Dirham fixed exchange - rate peg against the US Dollar is not suitable for the UAE Economy. To analyze, lets look at the UAE imports and exports in 2005, before we make any judgment based on ones feelings or interests. The UAE imported goods worth 36% of all its imports from Asian emerging economies and 10% from USA & Canada and 4% from GCC countries; this is straight 50% of all imports, all denominated in US dollars. If we add Australia & N. Z., Africa, other Arab countries & other countries; at least 70% of these countries trade with the UAE were done using US dollars or a currency pegged to the US dollar. Japan exports (UAE imports) are 69.5% denominated in US dollar, as per Bank of Japan letter to myself. Also Imports from the UK should be at least 50% denominated in US dollar. This leaves the Euro Area which represents only 20% of UAE imports, which could be purely denominated in a non-US dollar currency.

On the other hand, about 70% of our exports are priced in US dollars, i.e. our oil and gas exports.

3. Central Bank's Issues and Projects

Under this title I will now focus on:

- a - Regulatory & Supervisory Framework
- b - Image Cheque Clearing System to Replace Automated Cheque Clearing System
- c - Mobile Phone Payment System

Under the **a) Regulatory & Supervisory Framework** I have Basel II and Corporate Governance

i) Implementation of Basel II

Two years ago, we arranged high level meetings with Bank CEOs to discuss our programme for Basel II, and carried-out many awareness raising seminars. Also, In February 2006, we held initial meetings with Basel II managers of banks to discuss the gap analysis and objectives of the exercise. In March 2006, we arranged with the Financial Stability Institute of the BIS to hold a Basel II training workshop for Central Bank BSED Team Leaders. In August and October 2006, we, in coordination with KPMG held a week long comprehensive training programme for BSED examination staff.

On 27 August 2006, we issued a notice to all banks to announce Basel II requirements.

From September to December 2006, we are reviewing aspects of a national discretion as part of an understanding reached at the GCC level, and we are also carrying-out consultation with UAE banks.

In February 2007, a comprehensive Basel II training workshop is planned for all banks, to be conducted by KPMG.

ii) Implementation of Corporate Governance Standards

During this year, we worked on Corporate Governance, as it is an essential element for the successful implementation of Basel II. We held the first ever seminar on Corporate Governance for UAE Banks' Boards of Directors and senior management on 20th March 2005.

To enhance principal based corporate governance guidelines further, Central Bank of the UAE signed an advisory service agreement with International Finance Corporation of the World Bank (IFC) on 26 December 2005, to conduct a high-level workshop for banks in the GCC and MENA countries and to issue a handbook for UAE Banks' Directors.

The objective of the Handbook on corporate governance is to:

1. Present a single source of information for bank directors regarding sound corporate governance principles and best practices, and

2. to provide a set of reference standards and guidelines that banks can use to benchmark, assess and if need be, improve their corporate governance framework.

b - Image Cheque Clearing System to Replace Automated Cheque Clearing System

We have taken many steps aiming at implementing a successful Image Cheque Clearing System, there were many technical issues that we needed to tackle and some legal issues to resolve. Our experience tells us that it is not so easy to implement systems that are processed both physically at one stage and then electronically, or vice-versa. Also, the third difficulty is getting banks to work together and to cooperate to achieve a certain objective. We have certainly faced these issues in implementing the image cheque clearing system. But we believe that implementing this system is essential for improving customer services at banks, we also believe that the problems banks talk about are mostly theoretical and imaginary.

c - Mobile Phone Payment System for Banks

Our objective with this system is to make it easier for banks to add another element to improve service to their personal customers. The system is expected to become operational in the early part of 2007.

The system will handle the following payments:

- Person-to-person
 - Bill payments
 - Payments for purchases at point of sale
 - Internet purchases
- and many more.

We have already negotiated an agreement with Etisalat, to provide this service through their mobile phone network.

Ladies & Gentlemen,

Before I conclude I must thank The Bank of New York for hosting us at this magnificent resort and Mr. Sulaiman Al Mazroui for all the excellent arrangements and for inviting me.

Thank you

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