

**CENTRAL BANK
OF
THE UNITED ARAB EMIRATES**

ANNUAL REPORT



2010

CENTRAL BANK OF THE UNITED ARAB EMIRATES

BOARD OF DIRECTORS

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Deputy Chairman

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Note:

Data is as at end of period unless otherwise indicated.

Abbreviations & Notations

UAE Dirham (1 US Dollar = 3.6725 Dirhams)	AED
Local Currency	LCY
Foreign Currency	FCY

CHAPTER ONE

INTERNATIONAL ECONOMIC TRENDS

After a difficult year of negative growth of -0.5% in 2009, the world economy rebounded in 2010 with 5.0% growth. Within the group of major industrial countries, the rate of growth reached 2.8% in the USA, 3.9% in Japan, 1.3% in the United Kingdom, 1.5% in France and 3.5% in Germany.

At the regional level, the rate of economic growth in 2010 reached 1.7% in the euro area and 9.5% in the group of developing Asia.

The inflation rate increased within the group of advanced economies from 0.1% in 2009 to 1.6% in 2010 while in emerging and developing economies, it increased from 5.2% to 6.2%.

World trade in goods and services increased by 12.4% in 2010. Meanwhile, in advanced economies, exports increased by 12.0% and imports by 11.2%, and in developing and emerging economies, the increase was 14.5% and 13.5%, respectively.

CHAPTER TWO

MONETARY & FINANCIAL MARKETS DEVELOPMENTS IN THE UAE

1- Monetary Developments

Monetary growth continued to slow down in 2010, consistent with low economic growth and low inflation. Money Supply M0, which consists of currency in circulation plus currency at banks increased by 4.8%, from AED 45.6 billion at the end of 2009 to AED 47.8 billion at the end of 2010.

Money Supply M1, which consists of currency in circulation plus monetary deposits (current accounts and call accounts at banks operating in the UAE), increased by 4.2%, from AED 223.5 billion at the end of 2009 to AED 232.9 billion at the end of 2010.

Money Supply M2, which comprises of M1 plus quasi-monetary deposits (defined as the sum total of resident time and savings deposits in Dirham, commercial prepayments in Dirham and resident deposits in foreign currencies) increased by 6.2%, from AED 740.6 billion at the end of 2009 to AED 786.4 billion at the end of 2010.

Meanwhile, Money Supply M3, which comprises of M2 plus government deposits with the banking sector increased by 3.9%, from AED 947.8 billion at the end of 2009 to AED 985.2 billion at the end of 2010.

Table 1: Monetary Developments in the UAE

(End of period, billions of AEDs)

	2009		2010							
	December		March		June		September		December	
	Amount	1 st Quarter Change (%)	Amount	2 nd Quarter Change (%)	Amount	3 rd Quarter Change (%)	Amount	4 th Quarter Change (%)	Amount	Annual Change (%)
Money Supply M0	45.6	-0.9	45.2	-0.7	44.9	1.1	45.4	5.3	47.8	4.8%
Money Supply M1	223.5	2.8	229.7	0.9	231.8	-2.8	225.4	3.3	232.9	4.2%
Money Supply M2	740.6	1.0	748.0	1.2	757.2	1.2	766.5	2.6	786.4	6.2%
Money Supply M3	947.8	-1.4	934.8	1.1	945.3	1.7	961.8	2.4	985.2	3.9%

2- UAE Financial Markets

There was a correction that took place in the UAE's financial markets during 2010. The general share price index decreased by 4.2%, and market capitalization by 4.8%, from AED 404.7 billion at the end of 2009 to AED 385.4 billion at the end of 2010.

The price earnings ratio (price per share divided by annual earnings per share) was 12.4 times annual earnings per share at the Abu Dhabi Securities Market and 46.1 times at the Dubai Financial Market by the end of 2010.

**Table 2: UAE Financial Markets Indicators
(End of period)**

	2009	2010			
	December	March	June	September	December
Number of listed companies	133	133	132	132	128
General Share Price Index	2,771.6	2,892.8	2,435.8	2,659.2	2,655.3
Variation during the period		4.4%	-15.8%	9.2%	-0.1%
Market Capitalization (billions of AEDs)	404.7	422.5	359.1	384.4	385.4
Price Earnings Ratio					
- Abu Dhabi Securities Exchange	12.4	10.9	10.8	12.2	12.4
- Dubai Financial Market	875.7	355.2	29.2	49.0	46.1

Source: UAE Securities & Commodities Authority & Bloomberg for P/E Ratios.

CHAPTER THREE

THE BALANCE OF PAYMENTS

1- An Outlook of the UAE Balance of Payments

Preliminary estimates of the balance of payments in the UAE indicate an increase in the trade surplus as well as the current account surplus from 2009 to 2010, which was mainly due to the increase in oil prices. The surplus in the trade balance (FOB) increased from AED 154.6 billion in 2009 to AED 186.8 billion in 2010, with an increase in exports of the hydrocarbon sector by AED 26.4 billion; from AED 249.3 billion in 2009 to AED 275.7 billion in 2010.

Re-exports also increased by AED 23.0 billion from 2009 to 2010 while non-hydrocarbon exports increased by AED 25.9 billion. As a result, total exports and re-exports (FOB) increased by AED 75.2 billion during this period, while total imports (FOB) increased by only AED 43.0 billion.

The balance of services remained negative in 2010 with a deficit in the amount of AED 109.9 billion compared to a deficit of AED 100.2 billion.

The services outflow, which includes freight and insurance, transport, travel and government services, increased from AED 137.5 billion in 2009 to AED 153.0 billion in 2010, while the services inflow increased from AED 37.3 billion in 2009 to AED 43.1 billion in 2010. During the same period, net investment income transferred from abroad decreased from AED 11.8 billion to AED 5.8 billion, while Employees' transfers abroad increased from AED 35.0 billion in 2009 to AED 38.8 billion in 2010.

As a result, the surplus in the current account balance increased from AED 28.8 billion in 2009 to AED 41.3 billion in 2010.

The structure of imports in 2010 shows that the shares of consumer and capital goods in total imports rose to 54.9% and 35.5%, respectively, against 54.4% and 35.3%, in 2009, whereas the share of intermediate goods decreased from 10.3% in 2009 to 9.6% in 2010.

The geographical distribution of total imports shows that the share of Asian countries increased from 47.2% in 2009 to 48.0% in 2010 and that of the Americas from 9.4% to 11.0%, while the share of the of Arab countries remained at 5.4%, and the share of Europe decreased from 26.5% in 2009 to 25.3% in 2010.

The net balance of the capital and financial account turned positive in 2010, reaching AED 7.5 billion, which indicates a net entry of capital to the UAE during this year, in contrast to a deficit in the amount of AED 35.6 billion in 2009. The surplus of 2010 is due to a net inflow of private capital in the amount of AED 23.0 billion and a decrease in the outflow of capital by public sector enterprises from AED 20.0 billion in 2009 to AED 15.5 billion in 2010.

As a result of these developments, the overall position of the balance of payments turned from a deficit of AED 22.5 billion in 2009 to a surplus of AED 26.9 billion in 2010.

**Table 3:
The UAE Balance of Payments
(2009-2010)**

(End of period, millions of AEDs)

	2009	2010*
Current Account Balance	28,824	41,265
Trade Balance (FOB)	154,596	186,849
Trade Balance (CIF)	79,623	106,014
Total Exports of Hydrocarbon	249,273	275,700
Crude Oil Exports	198,773	220,700
Petroleum Products Exports	20,000	22,500
Gas Exports	30,500	32,500
Total Exports of Non-Hydrocarbon	161,479	187,335
Free Zone Exports	96,200	98,320
Other Exports ¹	65,279	89,015
Re Exports ²	293,642	316,604
Total Exports & Re Exports (FOB)	704,394	779,639
Total Imports (FOB)	-549,798	-592,790
Total Imports (CIF)	-624,771	-673,625
Other Imports ³	-447,394	-475,375
Free Zone Imports	-177,377	-198,250
Services (NET)	-100,172	-109,935
Credits	37,300	43,100
Travel	27,000	31,500
Transport	7,900	9,000
Government Services	2,400	2,600
Debits	-137,472	-153,035
Travel	-38,000	-43,400
Transport	-22,000	-26,000
Government Services	-2,500	-2,800
Freight & Insurance	-74,972	-80,835
Investment Income (NET)	11,800	5,750
Banking System ⁴	2,100	-3,550
Private Non-banks	-1,900	-4,500
Enterprises of Public Sector	18,400	22,200
Foreign Hydrocarbon Companies in UAE	-6,800	-8,400

Table 3: (cont'd)

Transfers (NET)	-37,400	-41,400
Employees Transfers	-35,000	-38,800
Public Transfers	-2,400	-2,600
Capital and Financial Account	-35,584	7,457
Capital Account	-	-
Financial Account	-35,584	7,457
a. Private Capital	-15,584	22,957
a-1 Direct Investment	4,700	7,100
a-1-1 Outward	-10,000	-7,400
a-1-2 Inward	14,700	14,500
a-2 Portfolio Investment	9,000	3,600
a-3 Banks	-36,284	-4,743
a-3-1 Securities	4,602	251
a-3-1 Other Investment (Loans, Deposits)	-40,886	-4,994
a-4 Private Non-Banks	7,000	17,000
b. Enterprises of Public Sector	-20,000	-15,500
Errors and Omissions	-15,760	-21,790
Overall Balance	-22,520	26,932
Change in Reserve	22,520	-26,932
Net Foreign Assets with Central Bank	22,764	-26,873
Reserve Position with IMF	-244	-59

* Preliminary Estimates Subject to Revision.

- 1) Including Estimates of other Exports from all Emirates.
- 2) Including Re-exports of Non-Monetary Gold.
- 3) Including Estimates of Imports from all Emirates and Imports of Non-Monetary Gold.
- 4) Central Bank and all Banks.

CHAPTER FOUR

CENTRAL BANK

FINANCIAL POSITION

I- Central Bank Balance Sheet

The Balance Sheet of the UAE Central Bank continued to expand in 2010 in line with general economic activity. The total assets increased from AED 203.9 billion at the end of 2009 to AED 228.9 billion at the end of 2010 i.e., by AED 25.0 billion. This is mainly attributed to an increase in Held-To Maturity Foreign Bonds, from AED 37 million to AED 68.4 billion and a corresponding decrease in Central Bank deposits at foreign banks by AED 41.1 billion.

On the liabilities side, commercial banks' current accounts and deposits at the Central Bank decreased from AED 70.3 billion at the end of 2009 to AED 68.6 billion at the end of 2010, and their balance of Certificates of Deposit issued by the Central Bank increased from AED 71.5 billion to AED 94.0 billion.

Table 4: Central Bank Balance Sheet

(End of period, millions of AEDs)

	2009	2010
Assets		
Cash & Bank Balances	4,537.1	6,870.9
Deposits	85,634.6	44,505.2
Loans to Banks Against Certificates of Deposit	2,265.9	0.0
Certificates of Deposit Under REPO	2,100.0	0.0
Liquidity Support Facility	2,359.5	1,420.5
Held-To-Maturity Foreign Bonds	36.7	68,417.9
Held-To-Maturity Bonds Issued by Ministry of Finance & Dubai Government	106,725.0	106,725.0
Other Assets	194.5	913.8
Fixed Assets	84.0	83.6
Total Assets	203,937.3	228,936.9
Off Balance Sheet Commitments	11,244.3	69,876.9
Liabilities		
Current Accounts & Deposits	70,285.7	68,610.6
Certificates of Deposit	71,452.5	94,002.0
Currency Issued	45,580.2	47,775.5
Other Liabilities	583.4	1,396.9
Total Liabilities	187,901.8	211,785.0
Capital & Reserves		
Authorized Issued & Fully Paid Capital	300.0	300.0
General Reserve	1,200.0	1,200.0
Permanent Deposit From Federal Government	14,535.5	14,690.0
Retained Earnings	0	961.9
Total Liabilities & Capital	203,937.3	228,936.9
Off Balance Sheet Commitments	11,244.3	69,876.9

2- Earnings for the Year

Following a difficult financial environment in 2009, 2010 saw earnings reaching AED 3.7 billion. The Central Bank's profit and loss account shows a decrease in interest income from AED 471 million at the end of 2009 to AED 368 million at the end of 2010, and an increase in investment income from AED 3.8 billion to AED 4.3 billion. Meanwhile, interest expenses dropped from AED 701 million to AED 657 million.

As a result, the net interest and investment income increased from AED 3.6 billion at the end of 2009 to AED 4.0 billion at the end of 2010, and the earnings for the year reached AED 3.7 billion in 2010 compared to AED 3.2 billion in 2009.

Table 5: Statement of Earnings for the Year

	(End of period, millions of AEDs)	
	2009	2010
Interest Income	470.6	368.5
Investment Income	3,843.8	4,286.9
Interest Expense	-700.7	-656.9
Murabahah Profit Expenses	0.0	-2.0
Net Interest & Investment Income	3,613.7	3,996.5
Other Income	41.4	63.5
Staff & Administration Expenses	-470.8	-338.1
Earnings For The Year	3,184.3	3,721.9

3- Central Bank Financial Results

The Central Bank's balance of foreign currency assets increased by 19.0% during 2010, reaching AED 153.4 billion at the end of the year.

Central Bank's Investments Abroad In Highly Rated Securities, Government Bonds And Treasury Bills stood at AED 68.4 billion at the end of 2010. The Deposit Account, Cash with Banks Abroad and Loans to Banks against Certificates of Deposit decreased from AED 92.1 billion at the end of 2009 to AED 47.8 billion at the end of 2010. The Central Bank's foreign currency assets during this period also included Dubai government bonds which were worth AED 36.7 billion.

Table 6: Investment of the Central Bank's Foreign Currency Assets

	(End of period, billions of AEDs)	
	2009	2010
Total Foreign Currency Assets	128.9	153.4
Central Bank's Investments Abroad In Highly Rated Securities, Government Bonds And Treasury Bills	0.0	68.4
Deposit Account, Cash With Banks Abroad And Loans To Banks Against Certificates of Deposit	92.1	47.8
Central Bank's Investment In Local Government Bonds	36.7	36.7
Other Foreign Assets	0.1	0.5
Earnings For The Year From Treasury Operations	1.1	1.2

CHAPTER FIVE

CURRENCY ISSUE

The issue of currency is solely and exclusively exercised by the Central Bank of UAE. The dirham is the official currency unit of the United Arab Emirates and is divided into 100 equal units each called “Fils”.

1. Currency Notes

The total value of issued currency notes of various denominations increased from AED 45.0 billion at the end of 2009 to AED 47.1 billion at the end of 2010.

2. Currency Coins

The total value of issued non-gold currency coins of various denominations increased from AED 619.5 million at the end of 2009 to AED 665.7 million at the end of 2010.

3. New Issues During 2010

3-1 *Currency Issues*

No new currency notes were issued during 2010.

3-2 *Commemorative Coins*

In contribution to the commemoration of important occasions at distinguished institutions, the Central Bank issued several commemorative coins during 2010.

Table 7: Issues of Commemorative Coins During 2010

Occasion	Type	Diameter	Weight	Issue Date
10th Anniversary of Emirates Securities & Commodities Authority	Silver	40mm	40gms	07/02/2010
I Love UAE	1 Dirham	24mm	6.4gms	07/03/2010
5th Anniversary of Dubai International Financial Centre (DIFC)	Silver	40mm	40gms	15/06/2010
5th Anniversary of Dubai International Financial Centre (DIFC)	1 Dirham	24mm	6.4gms	15/06/2010
40th Anniversary of Establishment of National Centre for Documentation and Research (NCDR)	Silver	40mm	40gms	29/08/2010
10th Anniversary of Establishment of the Dubai Financial Market	Silver	40mm	40gms	01/12/2010

CHAPTER SIX

**ORGANIZATION OF THE
BANKING &
FINANCIAL SECTOR**

I- Organization of Banking

Pursuant to provisions of Union Law No-10 of 1980, regarding the Central Bank, the Monetary System and Organization of Banking, and within the context of continuing efforts to organize banking activities, the Central Bank took several measures and issued a number of important directives and notices during 2010. The most important of these were as follows:

Notice No. 1003/2010 Dated 9 /2/ 2010	Allowing exchange houses the facility of uploading salary files into the Wages Protection System at the Central Bank.
Notice No. 1605/2010 Dated 25 /3/ 2010	Establishment of the Disaster Recovery Centre of the Central Bank.
Notice No. 3001/2010 Dated 27 /5/ 2010	Requesting moneychangers to send the required data to the Central Bank every three months.
Notice No. 3601/2010 Dated 24 /6/ 2010	Requiring all banks, moneychangers, investment and finance companies and other financial institutions operating in the UAE to freeze any accounts and deposits, and stop any remittances in the names of the natural/juridical persons mentioned in resolution No- 1929 (2010) dated 9 June 2010, adopted by the Security Council of the United Nations.
Notice No. 28/2010 Dated 11/11/2010	Central Bank revision of the Regulations for Classification of Loans and Determining their Provisions.
Notice No. 6101/2010 Dated 28/11/2010	Requiring banks to take appropriate specific provisions on their exposures to Dubai World, in consultation with the auditors.
Notice No. 6201/2010 Dated 29/11/2010	Requesting banks to communicate with the Central Bank through the electronic system in regards to the services listed in Notice No. 3502/2009 dated 14/7/2009.
Notice No. 6602/2010 Dated 25/12/2010	Requiring banks to increase their specific provisions against their exposures to Al Gosaibi Group & Saad Group.

2- Finance & Investment Companies

A. Finance Companies

The number of finance companies licensed to operate in the UAE decreased from 24 in 2009 to 23 in 2010. No new company has been given a license to operate in the UAE during 2010.

B. Investment Companies

One new investment company was issued a license in 2010, ADC Securities L.L.C- Abu Dhabi, thereby increasing the number of licensed investment companies from 20 in 2009 to 21 in 2010.

3- Banking System Developments

The number of locally incorporated commercial banks stood at 23 during 2010, while the number of their branches increased from 674 at the end of December 2009 to 732 at the end of December 2010 although the number of their electronic/customer service units remained at 26.

In 2010, two licenses were granted to wholesale banks, Deutsche Bank AG and Industrial & Commercial Bank of China. In addition, two investment banks operate in the country, Arab Emirates Invest Bank and HSBC Financial Services (Middle East) Limited.

The number of GCC banks in 2010 remained at 6, in addition to one branch while, the number of other foreign banks remained unchanged at 22, while the number of branches increased from 81 at the end of 2009 to 82 at the end of 2010 and the number of their electronic/customer service units increased from 43 to 50.

The number of Automated Teller Machines (ATMs) in the UAE reached 3,758 at the end of December 2010.

Table 8: Commercial Banks Operating in the UAE

	2009	2010			
	December	March	June	September	December
<u>National Banks</u>					
Head Offices	24	23	23	23	23
Branches	674	687	698	707	731
Electronic/Customer Service Units	26	25	26	25	26
Cash Offices	71	73	77	84	86
<u>GCC Banks</u>					
Main Branches	6	6	6	6	6
Additional Branches	1	1	1	1	1
<u>Other Foreign Banks</u>					
Main Branches	22	22	22	22	22
Additional Branches	81	81	81	82	82
Electronic/Customer Service Units	43	45	47	49	50
Cash offices	1	1	1	1	1
Number of ATMs	3,599	3,354	3,450	3,549	3,758

The total assets of banks operating in the UAE (net of provisions for bad and doubtful loans and interest in suspense) increased by 5.7% from AED of 1,519.0 billion at the end of 2009 to AED 1,605.6 billion at the end of 2010.

Bank deposits increased from AED 982.6 billion at the end of 2009 to AED 1,049.6 billion at the end of 2010; recording an increase of 6.8% during 2010.

Bank loans to the real estate sector stood at AED 237.6 billion at the end of 2010, whereas bank loans to companies stood at AED 380.7 billion, and bank loans to the government stood at AED 100.2 billion.

Total personal loans increased from AED 237.9 billion at the end of 2009 to AED 247.1 billion at the end of 2010 (3.9%).

Table 9: Banking Indicators

(End of period, billions of AEDs)

	2009	2010							
	December	1 st Quarter Change %	March	2 nd Quarter Change %	June	3 rd Quarter Change %	September	4 th Quarter Change %	December
Total Assets ⁽¹⁾	1,519.0	0.9%	1,533.1	0.4%	1,538.8	3.0%	1,584.3	1.3%	1,605.6
Total Deposits ⁽²⁾	982.6	-1.6%	967.0	1.9%	985.4	2.8%	1,013.3	3.6%	1,049.6
Loans, Advances & Overdrafts ⁽¹⁾	1,017.7	0.4%	1,022.0	0.4%	1,025.6	1.3%	1,038.4	-0.7%	1,031.3
of which:									
Real Estate Loans							233.9	1.6%	237.6
Bank Loans to Companies	418.5	-6.2%	392.5	-1.4%	387.2	0.3%	388.2	-1.9%	380.7
Bank Loans to the Government	92.2	0.8%	92.9	-0.5%	92.4	8.1%	99.9	0.3%	100.2
Total Personal Loans ⁽¹⁾	237.9	1.3%	241.1	1.9%	245.6	0.5%	246.9	0.1%	247.1
Capital & Reserves	231.4	9.2%	252.8	0.9%	255.1	0.0%	255.1	0.4%	256.0

1) Net of Provisions for Bad and Doubtful Debts, interest in suspense as well as general provisions

2) Exclusive of inter-bank deposits

Capital & Reserves of banks operating in the UAE increased by AED 24.6 billion, from AED 231.4 billion at the end of December 2009 to AED 256.0 AED billion at the end of December 2010. This explains the high total capital adequacy ratio, which increased from 19.2% at the end of December 2009 to 20.8% at the end of December 2010. The ratio of Tier I capital is also high compared to 7% Basel III requirement, reaching 16.1% at the end of 2010.

Table 10: Capital Adequacy Ratios

	2009	2010			
	December	March	June	September	December
Tier I Capital Ratio	15.4%	15.5%	15.7%	15.7%	16.1%
Capital Adequacy Ratio	19.2%	20.3%	20.4%	20.4%	20.8%

Foreign assets of banks operating in the UAE increased by 12.2% from AED 208.2 billion at the end of 2009 to AED 233.5 billion at the end of 2010.

Table 11: Foreign Assets of Banks

(End of period, billions of AEDs)

2009	2010			
December	March	June	September	December
208.2	220.2	216.8	226.2	233.5

4- Representative Offices of Foreign Banks

The number of licensed foreign banks' representative offices operating in the UAE reached 102 at the end of 2010. The table below lists the new representative offices licensed during 2010.

Table 12: New Representative Offices Licensed During 2010

Serial	Representative Office Name	Location
1.	Credit Agricole (Suisse) SA	Abu Dhabi
2.	Perella Weinberg Partners Croup LB	Abu Dhabi
3.	Clariden Leu Limited	Abu Dhabi
4.	Bank Sarasin Alpen (ME) Limited	Abu Dhabi
5.	Mega International Commercial Bank	Abu Dhabi
6.	JP Morgan Chase Bank N.A	Abu Dhabi
7.	Kotak Mahindra International Limited	Abu Dhabi
8.	Orix Corporation	Dubai
9.	Credit Agricole (Suisse) S.A	Dubai
10.	Bank Al Habib Lt.d	Dubai
11.	Eco Bank Transnational Incorporated	Dubai
12.	Caja De Ahorros Y Pensiones De Barcelona "La Caixa"	Dubai
13.	Bankque Cantonale De Geneve	Dubai
14.	Allied Bank Ltd.	Dubai
15.	Canara Bank	Sharjah

5- Moneychangers

At the end of 2010, the number of moneychangers (main offices) operating in the UAE climbed to 114 with 562 branches in comparison to 111 main offices and 505 branches at the end of 2009.

Table 13: Distribution of Licensed Moneychangers (End 2010)

Emirate/City	Head Offices	Branches
Abu Dhabi	24	119
Dubai	73	270
Sharjah	9	87
Ajman	2	21
Umm-Al Qaiwain	0	5
Ras Al Khaimah	0	14
Fujairah	1	12
Al Ain	5	34
Grand Total	114	562