



MIDDLE EAST BANKING FORUM

November 3, 2019

Distinguished Guests, Ladies and Gentlemen,

Good Morning,

It is a pleasure to be part of this Forum and its tradition of enhancing our understanding of how the banking sector is evolving through initiatives and policies that shape our economy and our communities.

Creating and maintaining a sustainable and diversified economy is an important pillar in the UAE's long-term vision. A strong and diverse economy requires a robust and resilient banking system, coupled with efficient financial intermediation and effective oversight.

Banks play a vital role in facilitating financial activities and enhancing the non-energy growth of the economy.

Thanks to the diversification of the UAE economy, the role of the private sector in supporting our economy has progressively increased, underpinned by a sound and efficient financial sector.



The latest projections from the Central Bank of the UAE indicates that the economy is continuing to recover, with overall growth projected at 2.4% in 2019, comprising 1.4% growth in the non-energy sector and 5% growth in the energy sector.

Against this backdrop, I would like to share with you a brief overview of the most recent indicators for the UAE banking sector, as well as Central Bank's initiatives and accomplishments in supporting the banking sector and the continued growth of the nation's economy.

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The banking sector in the UAE is the biggest in the Middle East and Africa, with total assets reaching 824 billion Dollars (equivalent to 3,022 billion Dirhams) as of September 2019.

The growth of our banking sector has been supported by solid financial soundness indicators. Indeed, the total capital adequacy ratio and Tier 1 Capital adequacy ratio are of 17.7% and 16.5%, respectively. These ratios are well above the regulatory requirements of 13% and 8.5%, respectively.

Furthermore, the banking system remains highly liquid, with an Eligible Liquid Assets Ratio of 17.6%, much higher than the regulatory minimum of 10%.



The UAE’s financial system ranked 31st out of 141 countries in the World Economic Forum’s Global Competitiveness Report 2019. In addition, all the UAE national banks’ credit ratings are in, or close to, the “A” levels as defined by the three major rating agencies.

Additionally, deposits increased by 4.3% year-on-year to September 2019, mainly driven by resident deposits rising by 5.9% year-on-year, while credit growth also remains strong, growing by 5% over the same period.

On aggregate, **our banking sector remains profitable, with net profits growing at 9.9% year-on-year in Q4 2018, reaching 41 billion Dirhams.** Return on Equity was 11.5% at end of December 2018 and increased to 12.8% at end of Q3 2019.

To reiterate: our financial sector performance indicators show a robust and resilient banking system in the UAE.

Having said that, given rising global uncertainty and synchronized economic slowdowns in many mature markets, **we cannot be complacent.**

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The Central Bank of the UAE has continued monitoring and strengthening its capacity and measures

to ensure the safety and soundness of our sector;

to protect the interests of depositors whilst promoting transparency and fair treatment;

and

Furthermore, to continuously enhance the status of the UAE as an international financial center.

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To achieve these objectives, we began to implement a number of initiatives, including the **application of risk-based supervision in line with Basel Core Principles for Effective Banking Supervision.**

Moreover, in line with the **UAE's vision of being an internationally recognized financial hub**, and as an observer member of the **Basel Committee on banking supervision**, the **Central Bank has implemented Basel III regulations in the UAE.**

These regulations have included Large Exposures regulations in 2013, liquidity risk regulations in 2015 and Capital regulations in 2017. The **Basel III capital framework in the UAE is near**



completion, with the publication of detailed standards and guidance in June 2019.

The total impact of the implementation of Basel III compliant capital regulations on the Common Equity Tier 1 ratios of all banks in the UAE is estimated to be less than 100 basis points.

Half of this impact was implemented in 2018, while the other half will be effective by Q2/2020. This gives the banking sector time to adopt to the new regulations.

In this connection, we are fortunate to have high levels of quality capital and liquidity, facilitating the adjustments to the Basel III standards without putting pressures on UAE banks.

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In parallel, we are forming specialist teams to supervise anti-money laundering, information security, market conduct, and Shari'ah compliance. These specialists will be joined by a team of quantitative analysts who will examine the reporting models currently being used by banks, including International Financial Reporting Standard 9.

Following extensive consultations within the banking industry, a **Corporate Governance Regulation for banks in the UAE was published in August 2019. This is a significant development**



that emphasizes the importance to foster a culture of good governance, and ensure competent workforce at banks.

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We have also been working with the banking sector to further the development of Islamic finance, in line with the UAE's vision of becoming a leading international Islamic finance center.

Islamic banks have been growing as a share of the UAE banking sector. Currently, Islamic banks represent 18.7% of the UAE banking sector's total assets, while their gross financing and deposits are at 21.4% and 22%, respectively, of the totals as of September 2019.

The Central Bank of the UAE proposed a framework for Islamic finance that includes new regulations and enhancements to support infrastructure, as well as training and education. It establishes the medium- and long-term goals of developing high standards and compliant eco-system for encouraging and facilitating Islamic finance in the UAE.

The resulting dual-tier banking regulatory framework will incorporate internationally-recognized prudential standards for Islamic banks.



Stakeholders from local industries will be engaged to help define the framework and provide the market infrastructure and enhancements needed to grow the sector.

These initiatives and our continued work underpin the national vision for the continued resilient growth of Islamic Finance in the country.

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SME financing is a top priority for the Central Bank which remains underserved by our banks in terms of securing adequate financing.

To mobilize further support to this vital sector in job creation, diversification and export promotion, **we at Central Bank of the UAE have launched our first survey small and medium-sized enterprises.** The survey covers a large sample of micro, small and medium-sized enterprises **across various sectors and activities.** The sample is diversified in terms of size, location, and ownership profile to provide adequate representation of SME's in the UAE.

The survey will provide valuable and quantitative information to be used as a **background for the Central Bank ongoing**



research on **"Enablers to Mobilize Further support to SMEs and Ease Financing Restrictions,"** which focuses on financial constraints that are currently hindering their ability to grow based on existing market forces. **The survey is also designed to highlight the main constraints that SME borrowers consider as critical barriers** to their ability to secure financing from banks as well as from development funds.

In this regard, **I would like to stress the importance of the collaboration currently under way with our main stakeholders to finalize a national strategy for small and medium enterprises development,** which includes enablers to enhance the capacity of the sector to become bankable, while ensuring a sustainable development of the UAE in line with the **leadership's strategic vision to establish a knowledge-based, diversified and export-oriented economy in preparation for the era of "After Oil."**

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Moving on, Let me turn to financial technology, or **"FinTech"**, an area we have identified as important for development. In the near future, **Central Bank of the UAE will establish a FinTech Office** to ensure that financial innovation continues in the UAE banking sector, with the support and facilitation of the national authorities.

The aim of the FinTech Office will be to position the Central Bank as the coordinating authority, as the author of



prudential and market conduct regulatory requirements, and as an enabler and facilitator of FinTech activities in the UAE.

We have developed a FinTech Strategy and Roadmap to help build the FinTech ecosystem in the UAE.

The road map has five key pillars.

The first is research, advice, and the application of FinTech solutions to address the needs of the banking sector.

The second is the regulatory interface between market participants and regulatory functions of the Central Bank.

The third pillar is the exchange of FinTech ideas and the facilitation of joint projects among key authorities and stakeholders,

The fourth pillar is meeting the growing needs of FinTech in the UAE.

The fifth and final strategic pillar is building a partnership model with key cross-border regulatory authorities and stakeholders.

With the right balance between innovation and risk,



the Central Bank is confident that the UAE banking sector and economy will benefit significantly from financial innovation and technology.

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It is important to highlight that **Emiritisation and nurturing our youth is at the core of our activities** when we endorsed the Emiritisation strategy as mandated by the Cabinet in 2015.

The latest data indicated that 26.1% of the banking workforce are Emiratees and we believe that this flourishing sector can embrace more Emiratees **and we are aiming to achieve at least 40% in the coming 3 years**. This will be achieved by applying the points system to ensure a reasonable distribution among the banks based on their size.

The points system also takes into consideration the Emiratees placement in the hierarchy of the organization. The target points to be achieved by the end of this year are 29,736 points and so far banks achieved 28,050 points.

We are closely monitoring the progress of banks and their initiatives towards emiritisation and **I stress that some entities need to accelerate hiring Emiratees and developing them.**

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Before, I conclude, **I wish to emphasize** that while the UAE's economy continues to perform well, **we must remain vigilant against the risks of rising global uncertainty and synchronized economic slowdown** by hedging against these spillovers in our activities, initiatives and policies.

Thank you all and I wish you an exciting day ahead.