

GROWTH OF BANKING IN THE UAE

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Abstract

Banks are the leaders of the financial-service industry. They are the place where one often winds up when one is seeking a loan, a safe deposit locker to protect valuables or a credit card. The banking industry affects the welfare of every other industry and the economy as a whole. When banks stop lending the rest of the economy often falls apart. The banking system in the UAE is the second largest of the six countries in the GCC. The banks in UAE are divided into two main categories - locally incorporated and foreign banks.

This study aims at finding out the growth of banking sector in the UAE during the period 2002 to 2006 using secondary data

The study reveals that the banking sector in the UAE had spectacular growth in number and in volume of business during the period 2002 to 2006. The total number of banks operating in the UAE has increased from 457 to 637 during the period. The total assets of the UAE banks have increased by 159.26 per cent from Dh. 331.55 billion in December 2002 to Dh 859.57 billion in December, 2006. All the components in the liability side of the balance sheet except government lending funds are showing a positive strong growth. The capital and reserve is growing at an average rate of 38.43 per cent per year.

Key words: Banking, National bank, Foreign bank, Credit, Deposits, Investments, Capital and reserve, Asset and liability.

Introduction

A bank is a commercial or state institution that provides financial services, including issuing money in various forms, receiving deposits of money, lending money and processing transactions and the creating of credit. A commercial bank accepts deposits from customers and in turn makes loans. Banks generate profits from the interest rate differential i.e., paying less interest on deposits and other sources of funds and charging high rate against lending activities.

Banks are the leaders of the financial-service industry. They are the place where one often winds up while seeking a loan to purchase an automobile, buy a flat, buy or renovate a villa, tuition for professional colleges, credit to begin a new business, a safe deposit locker to protect most valuable documents and gold, financial advice on how to invest savings, a checking account or a payroll account or a credit card or debit card.

The banking industry affects the welfare of every other industry and the economy as a whole. When banks stop lending and stop accepting the risk that go with it, the rest of the economy often falls apart, with plunging land and security prices, lengthening unemployment lines, failing business and bankrupt households (2005, Rose & Hudgins).

The US had by far the most banks (7,540 at end-2005) and branches (75,000) in the world. The large number of banks in the US is an indicator of its geography and regulatory structure, resulting in a large number of small to medium sized institutions in its banking system. Japan had 129 banks and 12,000 branches.(www.ifsl.org.uk)

Banks in the UAE

High economic growth over the past couple of years has boosted the UAE banking system's assets, especially on the retail side. The banking system in the UAE is the second largest of the six countries in the Gulf Cooperation Council (GCC), and also probably one of the

most competitive and fragmented in the region, with 47 commercial banks serving a population of just 4.3 million (Hassoune, 2007).

UAE banks are strong but they are small. The largest UAE bank, National Bank of Abu Dhabi (NBAD), is small in relation to the large Saudi banks or indeed National Bank of Kuwait. The largest UAE bank has a 12 per cent share of the local market. The largest banks in Qatar and Kuwait, for instance, have over 35 per cent shares (Tomalin, 2007)

The banks in UAE are divided into two main categories - Locally Incorporated and Foreign Banks. Locally Incorporated Banks are public shareholding companies licensed in accordance with provisions of Union Law No. (10) of 1980, and Foreign Banks are branches of foreign banks which have obtained Central Bank's licenses to operate in the country. The Central Bank of the UAE, the country's regulatory authority, formulates and implements the banking, credit and monetary policy in order to support the UAE's economic policy objectives, including price stability, and to guarantee the value and stability of the UAE dirham and its free convertibility into all currencies (United Arab Emirates Yearbook, 2006).

Historically, national banks and foreign banks existed prior to the establishment of the former Currency Board and, hence, before the Central Bank was created and commenced its operations. Within such historical circumstances the number of banks and their branches in the country and abroad increased very rapidly on obvious disproportion with the capacity of the local market, hence, provoking the monetary authority at that time to withhold issuance of licenses to any new bank and set about reducing the number of branches of a foreign bank to a maximum of eight branches (2007, Central Bank, UAE)

On 30th June, 2007, the number of national banks was 22 with a total of 499 branches, 54 pay offices and 11 service branches (Table 1). The number of foreign banks was 25 with a total of 133 branches, including 26 service branches and one pay office (Table II).

Table I
List of Local Banks and Distribution of their Branches in the UAE as at 30th June, 2007

| No | Name of the Bank | Head Office | AUH | DXB | SHJ | RAK | Ajman | UAQ | Fuj. | Al Ain | Total | Pay Office | Sr*. Br. | Grand Total |
|----|-------------------------------|-------------|------------|------------|-----------|-----------|-----------|----------|-----------|-----------|------------|------------|-----------|-------------|
| 1 | National Bank of Abu Dhabi | Abu Dhabi | 30 | 8 | 5 | 2 | 1 | 1 | 2 | 6 | 55 | 15 | 0 | 70 |
| 2 | Abu Dhabi Commercial Bank | Abu Dhabi | 19 | 7 | 3 | 1 | 1 | 0 | 2 | 6 | 39 | 5 | 0 | 44 |
| 3 | ARBIFT | Abu Dhabi | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 5 | 0 | 0 | 5 |
| 4 | Union National Bank | Abu Dhabi | 11 | 11 | 5 | 1 | 1 | 0 | 1 | 7 | 37 | 12 | 0 | 49 |
| 5 | National Bank of Dubai | Dubai | 1 | 32 | 2 | 1 | 1 | 1 | 2 | 1 | 41 | 6 | 1 | 48 |
| 6 | Commercial Bank of Dubai | Dubai | 4 | 13 | 1 | 1 | 1 | 0 | 0 | 1 | 21 | 5 | 0 | 26 |
| 7 | Dubai Islamic Bank PJSC | Dubai | 5 | 12 | 8 | 2 | 1 | 1 | 2 | 3 | 34 | 0 | 0 | 34 |
| 8 | Emirates Bank International | Dubai | 4 | 31 | 8 | 1 | 1 | 0 | 1 | 1 | 49 | 7 | 0 | 56 |
| 9 | Emirates Islamic Bank | Dubai | 2 | 9 | 3 | 1 | 1 | 1 | 1 | 1 | 19 | 1 | 0 | 20 |
| 10 | Mashreq Bank PSC | Dubai | 10 | 19 | 7 | 2 | 2 | 1 | 2 | 2 | 45 | 0 | 4 | 49 |
| 11 | Sharjah Islamic Bank | Sharjah | 1 | 3 | 12 | 0 | 0 | 0 | 1 | 1 | 18 | 1 | 0 | 19 |
| 12 | Bank of Sharjah PSC | Sharjah | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 4 | 0 | 0 | 4 |
| 13 | United Arab Bank PJSC | Sharjah | 1 | 3 | 2 | 1 | 1 | 0 | 0 | 1 | 9 | 0 | 0 | 9 |
| 14 | Invest Bank PLC | Sharjah | 2 | 2 | 4 | 1 | 1 | 0 | 1 | 1 | 12 | 0 | 0 | 12 |
| 15 | National Bank of R.A.K. | R.A.K. | 2 | 6 | 3 | 6 | 0 | 0 | 0 | 1 | 18 | 1 | 5 | 24 |
| 16 | Commercial Bank International | Dubai | 1 | 2 | 1 | 2 | 0 | 0 | 0 | 1 | 7 | 1 | 0 | 8 |
| 17 | National Bank of Fujairah PSC | Fujairah | 2 | 4 | 1 | 0 | 0 | 0 | 4 | 0 | 11 | 0 | 0 | 11 |
| 18 | National Bank of U.A.Q. | U.A.Q. | 2 | 4 | 1 | 1 | 2 | 2 | 1 | 1 | 14 | 0 | 0 | 14 |
| 19 | First Gulf Bank | Abu Dhabi | 4 | 2 | 2 | 0 | 2 | 0 | 0 | 1 | 11 | 0 | 1 | 12 |
| 20 | Abu Dhabi Islamic Bank | Abu Dhabi | 19 | 4 | 4 | 1 | 1 | 0 | 2 | 8 | 39 | 0 | 0 | 39 |
| 21 | Dubai Bank | Dubai | 2 | 5 | 1 | 1 | 0 | 0 | 0 | 1 | 10 | 0 | 0 | 10 |
| 22 | Noor Islamic Bank | Dubai | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| | Total | | 125 | 180 | 75 | 25 | 17 | 7 | 22 | 48 | 499 | 54 | 11 | 564 |

* Service branches
Source: Central bank of the UAE

Table II
List of Foreign Banks and Distribution of their Branches in the UAE
as at 30th June, 2007

| No | Name of the Bank | Head Office | AUH | DXB | SHJ | RAK | Ajman | UAQ | Fuj. | Al Ain | EBU* Payoff | Grand Total |
|----|---------------------------------|-------------|-----------|-----------|-----------|----------|----------|----------|----------|-----------|-------------|-------------|
| 1 | National Bank Bahrain | Abu Dhabi | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 2 | Rafidain Bank | Abu Dhabi | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 3 | Arab Bank PLC | Abu Dhabi | 1 | 2 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 8 |
| 4 | Banque Du Caire | Abu Dhabi | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 4 |
| 5 | El Nilein Bank | Abu Dhabi | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 6 | National Bank of Oman | Abu Dhabi | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 7 | Calyon Bank | Dubai | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 8 | Bank of Baroda | Dubai | 2 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 6 |
| 9 | BNP Paribas | Abu Dhabi | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 10 | Janata Bank | Abu Dhabi | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 4 |
| 11 | HSBC Bank Middle East | Dubai | 1 | 3 | 1 | 1 | 0 | 0 | 1 | 1 | 11 | 19 |
| 12 | Arab African International Bank | Dubai | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 13 | BLC Bank (France) S.A. | Dubai | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 4 |
| 14 | Al Ahli Bank of Kuwait | Dubai | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 15 | Barclays Bank PLC | Dubai. | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 4 |
| 16 | Habib Bank Limited | Dubai | 1 | 3 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 6 |
| 17 | Habib Bank AG Zurich | Dubai | 2 | 5 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 8 |
| 18 | Standard Chartered Bank | Dubai | 2 | 7 | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 12 |
| 19 | CitiBank N.A. | Dubai | 1 | 2 | 1 | 0 | 0 | 0 | 0 | 1 | 4 | 9 |
| 20 | Bank Saderat Iran | Dubai | 1 | 3 | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 7 |
| 21 | Bank Meli Iran | Dubai | 1 | 2 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 8 |
| 22 | Blom Bank France | Dubai | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 23 | Lloyd Bank TSB | Dubai | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 5 |
| 24 | ABN-Amro Bank | Dubai | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 2 | 5 |
| 25 | United Bank Limited | Dubai | 3 | 3 | 1 | 0 | 0 | 0 | 0 | 1 | 2 | 10 |
| | Total | | 27 | 44 | 15 | 5 | 2 | 0 | 3 | 10 | 27 | 133 |

* Electronic Banking Service Units

Source: Central bank of the UAE

Methodology

The objective of this study is to find out the growth of banking sector in the UAE during the period 2002 to 2006. The study is based on secondary data. Data were collected from the Central Bank of the UAE, the various commercial banks operating in the UAE, various publications of the statistical department, government and the press. The data were analyzed using appropriate statistical tools to find out the growth in volume and growth in the number of banks operating in the UAE during the last five years.

Analysis and Discussions

Growth

The banks in the UAE had been growing ever since the establishment of the UAE Currency Board on 19th of May 1993 which was changed into Central Bank of the UAE in December, 1980 by the new law –Union Law No (10) of 1980. The analysis of the growth is done on the basis of the growth in number of branches and growth in assets and liabilities.

Growth in number of banks / branches.

The total number of banks operating in the UAE has increased from 457 to 637 during the period of study. (Table III). The number of national banks has grown at an annual average of 12.39 per cent to reach 564 by the end of June 2007. The foreign banks have grown at a lower rate of 2.01 per cent and increased from 112 in 2002 to 133 as on 30th June, 2007. The growth rate of national banks is quite appreciable, whereas, the foreign banks grew at a lower growth rate. The reason for this could be that the local banks need not pay any tax on their profits, whereas the foreign banks have to pay a 20 per cent tax on their profits (2001, Country Report), and due to other restrictions imposed by the Central bank on the foreign banks.

Table III
Banking Institutions in the UAE : 2002 to 2007

| Year | 2002 Dec. 31st | 2003 Dec. 31st | 2004 Dec. 31st | 2005 Dec. 31st | 2006 Dec. 31st | 2007 Jun. 30th |
|--|----------------------|----------------------|----------------------|----------------------|-------------------|-------------------|
| Banking Institutions (total numbers): | - | - | - | - | - | - |
| National | 345 | 367 | 383 | 449 | 516 | 564 |
| Head Offices | 21 | 21 | 21 | 21 | 21 | 22 |
| Branches | 324 | 346 | 362 | 370 | 431 | 477 |
| Electronic Banking Service Units | - | - | - | 9 | 9 | 11 |
| Pay Offices | - | - | - | 49 | 55 | 54 |
| Foreign | 112 | 112 | 112 | 115 | 121 | 133 |
| Head Offices | 25 | 25 | 25 | 25 | 25 | 26 |
| Branches | 87 | 87 | 87 | 83 | 81 | 80 |
| Electronic Banking Service Units | - | - | - | 6 | 14 | 26 |
| Pay Offices | - | - | - | 1 | 1 | 1 |

Source: Compiled from Annual Reports, Central Bank of the UAE

Growth in Assets / Liabilities.

To find out the growth in assets / liabilities the consolidated balance sheet for the year 2002 to 2006 of the banks operating in the UAE are being used (Table IV & V)

Table IV :
Aggregated Balance Sheet of Banks (abridged)
(end of period, in millions of AEDs)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | |
| Cash & Deposits with Central Bank | 25,059 | 27,283 | 38,515 | 46,987 | 63,415 |
| Due from Resident Banks | 15,995 | 15,362 | 17,046 | 29,366 | 34,793 |
| Foreign Assets | 110,732 | 111,727 | 126,108 | 175,028 | 231,938 |
| Domestic Credit and Investments * | 172,063 | 203,792 | 256,999 | 372,334 | 506,278 |
| Unclassified Assets | 7,701 | 8,744 | 11,079 | 14,297 | 23,150 |
| Total Assets * | 331,550 | 366,908 | 449,747 | 638,012 | 859,574 |

* Including Provisions for Bad and Doubtful Debts as well as Interest in Suspense.

Source: Compiled from Annual Reports, Central Bank of the UAE

Table V
Aggregated Balance Sheet of Banks* (abridged)
(end of period, in millions of AEDs)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Liabilities | | | | | |
| Monetary Deposits | 35,116 | 44,477 | 65,040 | 86,927 | 98,182 |
| Quasi-monetary Deposits | 126,599 | 138,288 | 161,424 | 219,615 | 279,274 |
| Foreign Liabilities ** | 28,247 | 30,059 | 48,793 | 85,215 | 177,688 |
| Government Deposits | 36,972 | 39,418 | 51,274 | 79,179 | 93,680 |
| Government Lending Funds *** | 28 | 23 | 18 | 17 | 16 |
| Due to Central bank | 116 | 163 | 18 | 209 | 168 |
| Capital and Reserves | 41,023 | 44,455 | 52,463 | 78,132 | 104,089 |
| Due to Resident Banks | 17,427 | 17,899 | 19,607 | 29,795 | 38,397 |
| Unclassified Liabilities ** | 46,022 | 47,126 | 51,110 | 58,923 | 68,080 |
| Total Liabilities | 331,550 | 366,908 | 449,747 | 638,012 | 859,574 |

** Provision for Bad & Doubtful Debts as well as Interest in Suspense

*** Including construction re-financing by the Gov't of Abu Dhabi

Source: Compiled from Annual Reports, Central Bank of the UAE

Assets

The Table IV clearly depicts that the total assets of the UAE banks have increased by 159.26 per cent from Dh. 331,550 million in December 2002 to Dh 859,574 million in December, 2006. This annual average growth of 39.81 per cent has prompted the authors to make an analysis of the various assets individually in order to find whether the growth is centered only in few or are equally spread across all assets.

Cash and Deposits with Central Bank has jumped 153.06 per cent from Dh 25,059 million in December 2002 to Dh 63,415 million by the end of December 2006. The average annual growth rate is 38.27 per cent.

Due from Residence Banks made up of money at call and short notice, Demand deposits, Time deposits and cheques in the course of collection increased by 117.52 per cent from Dh 15,559 million in December 2002 to Dh 34,793 million in December 2006. The average annual growth being 29.38 per cent.

Foreign Assets including net due from head office and / or branches abroad, due from other banks abroad, cash in hand (foreign currency), securities, credit to non-residents and other foreign assets have increased by 109.46 per cent from Dh 110,732 million in December 2002 to Dh 231,938 million in December 2006. The annual average growth rate of 27.36 per cent, with the highest annual growth of 38.79 per cent in 2005 showing that of late banks in the UAE are venturing into more foreign operations with money due from other banks in foreign countries increasing by 97.94 per cent from Dh 45,716 million in December 2002 to Dh 90,489 million in

December 2006; and credit extended to non-residents have increase by an even higher rate of 149.93 per cent from Dh 25,313 million to Dh 63,264 million during the period of study. This is in line with policy of the UAE government to participate in globalization, grow globally and become one of the best in the world.

Domestic credit and investments composed of credit facility extended to residents, governments; loans, advances and overdraft given to official entities; commercial papers, real estate mortgage loans, loans, advances and overdrafts granted to private sector; loans, advances and overdrafts granted to other financial institutions, and domestic investments have increased by 194.24 per cent from Dh 172,063 million in December 2002 to Dh 506,278 million in December 2006. The high annual average growth of 48.56 per cent prompted the authors to make a detailed analysis into each component with an intention to find whether the growth is equally spread over all the components or not. The analysis brought to light the following:

Credit facilities extended to the UAE residents have increased by 186.31 per cent from Dh 165,611 million to Dh 474,162 million during the period of study. The annual average growth rate being 46.58 per cent.

Credit extended to Government has increased by 214.58 per cent from Dh 15,222 million to Dh 47,885 million during the period of study. The annual average growth being slightly higher at 53.64 per cent.

Claims on Official Entities

Loans, advances and overdraft given to official entities have increased by 388.27 per cent from Dh 6,454 million to Dh 31,513 million during the period of study. A very high annual average growth of 97.02 per cent; this is in tune with the growth in volume and size of official entities in the UAE.

Claims on Private Sector

Commercial papers, real estate mortgage loans, loans, advances and overdrafts given to private sector has increased by 164.85 per cent from Dh 142,032 million in 2002 to Dh376,170 million in 2006. The average growth rate of 41.21 per cent shows that the banks have been playing a great role in accelerating the growth of private sector in the UAE. Now we can see private sector participation in all spheres of the UAE development- aviation, tourism, hospitality, finance, banking, health, education, transportation, construction, retailing, entertainments and charity to mention few.

Claims on other Financial Institution

Loans, advances and overdraft facility extended to other financial institutions in the UAE had a jump of 877 per cent from Dh 1,903 million in 2002 to Dh 18,594 million in December 2006. The tremendous annual average growth rate of 219.27 per cent with a progressive growth year after year from 19.39 per cent in 2003 to 54.09 per cent in 2004, 113.51 per cent in 2005 and 148.74 per cent in 2006 shows the facilities extended and role played by banks in strengthening other financial institutions in the UAE to actively participate in the development of the UAE economy.

Domestic investments have increased by 397.77 per cent from Dh 6,452 million in 2002 to Dh 32,116 in 2006 at an average growth rate of 99.44 per cent, which shows that the banks are entering into different areas to enhance their profit.

The detailed analysis of the components of domestic credit and investments shows that the growth is from all components growing between 41.21 per cent and 53.64 per cent expect for loans, advances, and overdraft to official entities and domestic investments which

grew at 97.07 per cent and 99.44 per cent respectively; and loans, advances and overdraft to other financial institutions have grown at a tremendous rate of 219.27 per cent per year. Of course, the higher growth seen in few components are in tune with their growth in size, volume and importance to the UAE economy.

Unclassified assets including fixed assets, inter-branch transactions and other assets increased by 200.61 per cent from Dh 7,701 million to Dh 23,150 million during the period of study. The average annual growth is 50.51 per cent.

The analysis of the asset side of the balance sheet discloses that all the components had a solid growth. Though, the rate of growth is observed to differ from component to component. The highest growth rate being seen in domestic credit and investments, which again is a good sign of banks giving out more credit to different entities in the UAE which in turn invests these for developing various business activities that leads to faster development of the nation. Moreover, the credit and investment enhances the profitability of banks.

Liability

The analysis of the liabilities discloses the following (Table V):

Monetary deposits composing of demand deposits and bankers draft has increased by 179.59 per cent from Dh 35,116 million in December 2002 to Dh 98,182 million in December 2006. This shows that the banking business of accepting deposits had been increasing at an annual average of 44.90 per cent, which is a healthy sign of growth of the banking sector in tune with the growth and development of the UAE economy.

Quasi Monetary Deposits made up of time deposits, saving deposits, commercial prepayments and other deposits in foreign currency has increased by 120.60 per cent from Dh 126,599 million to Dh 279,274 million during the period of study. The average annual growth rate of 30.15 per cent highlights the growing savings potential of the UAE residents, in tune with the growth of the UAE economy. But the growth rate has declined to 27.16 per cent in 2006, which may be due to the escalating cost of living in the UAE and the double digit inflation.

Foreign liabilities consisting of net due to head office and / or branches abroad, due to other banks abroad, other deposits in local currency and foreign currency, provisions for bad and doubtful debts and other foreign liabilities have increased by 529.05 per cent from Dh 28,247 million in 2002 to 177,688 million in 2006. Thus the average annual growth rate of 132.26 per cent highlights the expanding role of UAE banks in foreign operations.

Government deposits have increased by 153.38 per cent from Dh 36,972 million in 2002 to Dh 93,680 million in 2006, the average annual growth rate being 38.35 per cent.

Government lending funds including construction re-financing by the government of Abu Dhabi has decreased by 42.86 per cent from Dh 28 million in 2002 to Dh 16 million in 2006. The only component of the balance sheet showing a negative annual average growth rate of -10.71 per cent.

Due to Central bank: Money due to the central bank has increased by 44.83 per cent during the period of study at an average annual rate of 11.21 per cent.

Capital and Reserve has increased by 153.73 per cent from Dh 41,023 million in December 2002 to Dh 104,089 million in December 2006. The average annual growth is seen to be 38.43 per cent, which is quite appreciable.

Money due to resident banks consisting of money at call and short notice, demand deposits and time deposits has increased by 120.33 per cent from Dh 17,427 million to Dh 38,397 million during the period of study. The average growth rate observed to be 30.08 per cent.

Unclassified liabilities including inter-branch transactions, provisions and other liabilities have increased by 47.93 per cent from Dh 46,022 million in December 2002 to Dh 68,080 million in December 2006. The annual growth is 11.98 per cent.

All the components in the liability side of the balance sheet except government lending funds show a positive strong growth. The highest annual average growth is observed in foreign liabilities and then in deposits; disclosing the strengthening role played by the banking system in the development of international business and in influencing the people to save more. Similarly, the capital and reserve is growing at an average rate of 38.43 per cent per year.

Conclusion

The number of banks operating in the UAE exhibits a dramatic growth of above 39 per cent increasing the number of banks from 457 in 2002 to 637 in 2006. Similarly excellent growth is observed in the quantum of business and financial position of banks. The aggregate balance sheet of the banks operating in the UAE grew at an envying 159.26 per cent during the period 2002 to 2006, with the highest growth in 2005. Each and every component of the balance sheet had spectacular growth; cash and deposit with the Central Bank increased by Dh16.43 billion (153.06%), the deposits with the

banks increased by Dh 215.74 billion. The bank's capital position improved substantially to Dh 104.09 billion, an increase of Dh 63.07 billion (153.73%) during 2002 - 2006. Thus the banking sector in the UAE is growing at a high positive rate – both in number of banks and volume of business.

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