ARAB MONETARY FUND

Arab Monetary Fund

Annual Report 2012

Contents

Letter of Transmittal

To the Board of Governors

On behalf of the Executive Board, I have the honor to present to your Excellencies, members of the Board of Governors, the Annual Report and the audited financial statements for the year ended 31 December 2012, in accordance with Article 33 of the Arab Monetary Fund's Articles of Agreement.

Yours Sincerely,

Dr. Jassim Al-Mannai
Director General Chairman of the Board
of Executive Directors

April 2013

Activities of the Fund in 2012

During 2012 the Fund pursued its endeavor to develop and expand its activities within the areas defined by its Articles of Agreement and in light of events which took place at the regional and international levels. The economic performance of the Arab countries continued to be affected in 2012 by the unstable political and economic conditions arising from the political transition experienced by some countries in the region. The instability led to a slowdown of production, a decrease in tourists receipts and a decline of foreign direct investment inflows. In addition, the exports of some Arab countries were adversely affected by the economic stagnation in the countries of the euro zone with a consequent negative impact on their internal and external balances. The rates of growth of the Arab countries were, in general, affected by the unfavorable developments generated by these events, though performance varied among individual countries.

At the international level, the world economy continued to be affected by the fallout of the sovereign debt crisis in the euro zone as the fragile economic growth in the zone's member countries turned into a recession.

In light of these developments and the increased external financing needs of many Arab countries, the Fund responded in 2012 to the requests submitted by its member countries in this difficult phase, by providing quick disbursing financial assistance through its various lending facilities to the extent permitted by its available resources on the one hand, and via the support extended by the Arab Trade Financing Program, an AMF's subsidiary, to exporters and importers in Arab countries.

Moreover, the Fund continued in 2012 to deliver its training programs aimed at strengthening human and institutional capacities in member countries. In the area of technical assistance, the Fund continued in 2012 to provide its member countries with the appropriate technical support in various pertinent fields in order to help them overcome the economic problems they face. It also continued during the year to extend the appropriate technical support to Arab central banks through joint initiatives carried out in collaboration with relevant international organizations.

Also during the year, the Fund continued to carry out its functions as secretariat of the Board of Governors of Arab Central Banks and Monetary Institutions and as technical secretariat of the Board of Arab finance ministers. Within this framework, the Fund organized during the year meetings and forums for finance ministers and governors of Central Banks and Monetary Institutions of its member countries thus providing platforms for exchange of views and experiences with the aim of strengthening cooperation and coordination.

Regarding its lending activity in 2012, the Fund extended seven new loans totaling 118 million Arab Accounting Dinars (AAD), equivalent to US$ 545 million. These included an Automatic loan worth AAD 7.4 million, equivalent to US$ 34 million extended to the Kingdom of Jordan, a Compensatory loan and an Ordinary loan with a combined value of AAD 45 million equivalent to US$ 208 million, approved for the Republic of Yemen, as well as three Loans to the Republic of Tunisia; with a combined amount of AAD 38 million, equivalent to US$ 177 million, that included an Automatic loan, a Compensatory loan and a loan under the structural Adjustment Facility in the public finance sector. During the year, the Fund also approved for the Kingdom of Morocco a Compensatory loan amounting to about AAD 27.4 million, equivalent to US$ 127 million. Thus, by end 2012 the fund's cumulative lending to its member countries totaled about AAD 1.6 billion, equivalent to US$ 7.2 billion, covering a total of 160 loans extended to 14 member countries.

Within the Fund's mandate to lay down the foundations of cooperation among its member countries and to conduct consultations regarding the assistance to be provided to assist them in addressing regional and international developments impacting their national economies, the AMF sent out in 2012 several consultation missions which included visits to Republic of Yemen, the Republic of Tunisia and the Republic of Sudan. The purpose of those missions was to discuss with the concerned authorities their respective requests to benefit from the Fund's resources. In addition to reaching an agreement on the elements of a reform and adjustment program, the mandate of these missions also covered the provision of policy advice and technical support, as noted earlier.

With respect to the **investment activity** in 2012, the Fund continued to pursue a conservative investment policy that contributed to the safeguard of the invested capital and provided overall positive returns during the year while maintaining low levels of investment risks.

In addition to the management of its own investible resources, the Fund's investment activity includes the acceptance of deposits from Arab central banks, Monetary and Financial Institutions and their investment. The high level of these assets under the Fund's custody reflects the trust and confidence placed by member countries in the Fund. Furthermore, the Fund continued to manage the investment of resources of the Arab Trade Financing Program, the assets of the Joint Account of the specialized Arab Organizations, those of the AMF staff Pension Scheme as well as bond portfolios for the benefit of member countries.

In the area of **technical assistance** during 2012, the Fund sent a technical mission to the Republic of Yemen as part of its efforts to help the concerned country to overcome its economic problems. Another mission was sent to the Republic of Sudan in order to assess the country's economic and financial conditions resulting from the secession of the South and to provide advice regarding appropriate policies and measures needed. Another Fund mission visited the state of Qatar to deliver technical assistance in the area of government finance statistics. Also during the year, the Fund continued to provide technical support to Arab central banks through joint initiatives in collaboration with relevant international financial institutions. Such support was extended in 2012 to the Kingdom of Jordan, the state of Qatar and the Kingdom of Morocco and was carried out in the context of the Credit Reporting and Risk Management Initiative, while technical support to the United Arab Emirates and the Kingdom of Morocco dealt with the Development of Secured lending. Moreover, the Fund started to provide technical advice in the context of an initiative launched in 2012 and aimed at developing housing finance in Arab countries. Such assistance was extended to the Kingdom of Jordan. Moreover, in the context of the initiative related to the Development of Debt markets in Arab countries, the Fund delivered technical advice to the state of Kuwait, the Republic of Tunisia and the Kingdom of Jordan.

Regarding **Arab financial markets**, the Fund continued in 2012 to publish data and statistics related to the performance of those markets. Beside its regular quarterly bulletins, the Fund issued in 2012 its first annual report on the performance of these markets.

With respect to **Training**, the Fund's Economic Policy Institute (EPI) organized in 2012 courses, seminars and workshops in cooperation with a number of international institutions. These included the International Monetary Fund, the World Bank, the Bank for International Settlements, the U S Federal Reserve Bank, the Bank of England, the World Trade Organization and the Islamic Development Bank. In 2012, EPI's training activities included 13 courses attended by 369 trainees. Hence, the overall number of training activities conducted by the Fund since the inception totaled 248 events which were attended by a total of 7514 trainees.

Acting as the secretariat of the **Board of Governors of Arab central banks and Monetary Agencies**, the Fund carried out in 2012 the preparation for the 36th session of the Board which convened in the state of Kuwait. It also organized arrangements for the annual meeting of the Arab Committee on Banking Supervision and the Arab Committee on Payments and Settlement Systems. Moreover, within the framework of its functions as Technical Secretariat of the Council of Arab Ministers of Finance, the Fund organized the Council's third ordinary session which was held in the Kingdom of Morocco in the sideline of the annual meetings of the Arab financial institutions. During this session, and as part of its follow-up on issues discussed by the council, the Fund submitted a number of reports and working papers.

In the area of **cooperation and coordination with Arab regional and international organizations**, the Fund continued to collaborate on the preparation and publication of the Joint Arab Economic Report. It participated to the periodical ministerial meetings of the Arab Economic and Social Council which are held in Egypt.

Regarding international cooperation, the Fund carried on in 2012 with its collaboration with international institutions and organizations and central banks in the context of various financial sector development initiatives as mentioned earlier. The Fund and the European Bank for Reconstruction and Development signed in 2012 a memorandum of understanding aimed at fostering cooperation between the two institutions particularly in the areas of financial markets infrastructure and trade financing.

The Fund also attended in 2012 the regular spring and fall meetings of the International Monetary Fund and the World Bank. This included participation in; (a) the meetings of the Development Committee and the G24, (b) the meeting between the Arab ministerial group and the president of the World Bank and the Managing Director of the International Monetary Fund; and (c) the ministerial meeting on the Deauville Partnership initiative.

In addition, the Fund pursued its cooperation with the Board for International Settlements, the Basle Committee and the International Committee on Payment Systems, and it participated in their respective international meetings.

On the other hand, and as part of its steadfast interest in promoting and developing trade exchanges between Arab countries, the Fund continued in 2012 to maintain and reinforce its close cooperation with the Arab Trade Financing Program. This was evidenced by the continued delivery by the Fund to the Program of specialized services in the Legal, Administrative and Internal Auditing fields as well as in the monitoring and management if its investment portfolios.

With respect to publications, the Fund issued during the year a number of reports, bulletins, research and studies. In this context, it published the first issue of the bulletin “Statistics on the Competitiveness of Arab Countries External Trade”. This bulletin reviews the positions of Arab countries using various indices of competitiveness. Concomitantly, the Fund released a member of studies and working papers which dealt with a variety of important economic issues of interest to its member countries, covering economic stability, the promotion of inclusive growth, access to finance, financing of Arab Trade, the competitiveness of commodity exports and financial reforms.

Lending

The Fund's lending activity is considered the leading activity to fulfill its objectives. This includes assisting Arab countries in correcting balance of payment disequilibria, lay the foundations for macro-economic stability, and supporting members' efforts aiming at implementing necessary structural adjustments in a number of sectors falling within the Fund's areas of interests. The ultimate goal sought is the improvement of allocation efficiency with a view to strengthen opportunities for the achievement of sustainable economic growth. In that respect, during 2012 the Fund extended to its member countries seven new loans with a combined value totaling about AAD 118 million, equivalent to half a billion US$.

Types of Lending Facilities

The Fund facilities are of two types. The first covers facilities associated with the Fund's core function that is assisting eligible members in financing their overall balance of payments deficits and implementing economic reforms. As noted earlier, the provision of such facilities involves consultations and agreements on necessary economic adjustment programs related to a large extent to the macroeconomic framework of the concerned country. The Fund initiated this type of facilities since the inception of its lending activity in 1978. The second type was introduced in 1998, and includes the Structural Adjustment Facility, (SAF), provided in support of reforms that are sectoral in nature, in particular sectors that are within the area of Fund's competence (namely the financial and banking sector as well as government finance sector). Loans under this category were initially provided to support reforms of the financial and banking sector. In accordance with the Fund's Board of Governors decision, the scope of the SAF was expanded to include a second component namely the support of the reforms of government finance sector of the member countries. In addition to these facilities and in view of the increasing oil prices, the Fund established another facility to assist net oil importers members.

The four types of loans under the first category vary in size, term, and maturity according to the nature and causes of the balance of payments disequilibria. The **Automatic Loan** is extended to assist in financing the overall deficit in the balance of payments in an amount not exceeding 75 percent of the member country's subscription in the Fund's capital paid in convertible currencies. The loan has a maturity of three years and is not conditional on the implementation of an economic reform program provided that the member has no outstanding conditional loan i.e ordinary and / or extended loan. If, however, the country has conditional loans outstanding, then the Automatic Loan would be subjected to terms applied to the outstanding loans, and its amount would be considered an extension to the limit of the conditional loans outstanding.

The **Ordinary Loan** is extended to an eligible member country when its financing needs exceed 75 percent of its paid subscription in convertible currencies, provided it has already exhausted its reserve tranche from similar regional and international financial organizations. Generally, this loan is extended up to 100 percent of the member country's paid subscription in convertible currencies and could be supplemented with the Automatic Loan to reach a maximum of 175 percent. To benefit from this loan, the borrowing member country must agree with the Fund on a stabilization program, covering a period of not less than a year, to reduce balance of payments deficits. The Fund follows up on the performance of the borrowing member country under the agreed upon program. The satisfactory implementation of the policies and measures agreed upon is a condition to the disbursement of the loan's installments. Each disbursement is repaid within five years.

The **Extended Loan** is provided to an eligible member country with a sizeable and chronic deficit in its balance of payments resulting from structural imbalances in the economy. In addition to withdrawing its reserve tranche from similar regional and international financial organizations, a member country is required to agree with the Fund on a structural adjustment program covering a period of not less than two years. The maximum size of this loan is normally equivalent to 175 percent of a member country's paid subscription in convertible currencies. It can, however, be supplemented by an Automatic Loan, thereby reaching up to 250 percent of the member country's paid subscription. Each disbursement is repaid within seven years from date of withdrawal.

The fourth type of loan is the **Compensatory Loan**, extended to assist a member country experiencing an unanticipated balance of payments deficit resulting from a shortfall in export earnings of goods and services and/or an increase in the value of agricultural imports due to a poor harvest. This loan's limit is equivalent to 100 percent of a member's paid subscription in convertible currencies, and it has a maturity of three years.

As to the facilities extended in support of sectoral reforms, namely the **Structural Adjustment Facility (SAF),** it was introduced in 1998, in response to the changing needs, demands and priorities of the member countries. This facility, which has become the cornerstone of the Fund's lending activity, aims to support structural reforms at the sectoral level, in particular the financial and banking sector, in order to further improve the utilization of resources and consolidate the positive results achieved by some member countries in terms of macroeconomic stabilization and growth. This facility has received broad acceptance by member countries as evidenced by the number of loans extended under this facility.

To benefit from the SAF, a member country is required to have achieved some progress in macroeconomic stabilization and to agree on the implementation of a reform program monitored by the Fund. The Fund has initially determined the ceiling for the SAF to be 75 percent of the member country's paid subscription in convertible currencies, but later in April 2001 and in light of member countries interest in the facility, the Fund's Board of Governors increased the limit up to 175 percent. In the new arrangements, each disbursement is considered as a loan to be repaid in four years. Moreover, the Board of Governor agreed in 2009 to split the SAF into 2 facilities, one for the financial and banking sector and the other for public finance, each with a maximum limit of 175 percent of the borrowing member country's Quota in the AMF capital.

As to the **Trade Reform Facility**, it aims at assisting member countries to meet the finance costs associated with the implementation of trade reforms, thus encouraging them to adopt the necessary reforms to facilitate their access to international markets so as to consolidate growth and create productive job opportunities[1]. The facility is extended up to 175 percent of the member's paid subscription in convertible currencies. To benefit from this facility, the borrowing member country must agree with the Fund on a structural reform program. The Fund follows up on the member's performance under the program. Maturity, repayments and disbursements applicable to this facility are the same as those of the SAF.

With respect to the **Oil Facility,** the Board of Governors approved in 2007 a new facility specific to **net oil importing** member countries affected by the rise in world oil and gas prices. The oil facility is extended up to 200 percent of a member country's paid subscription in convertible currencies. Within this ceiling, the Fund extends to members with a balance of payments deficit, a financing of up to 100 percent of the paid up subscription. This financing does not require the agreement on a reform program, but only requires consulting with the authorities on the policies adopted to mitigate the impact of rising oil prices. The amount can be disbursed in one installment or over several installments. To benefit from the remaining part of the overall ceiling of the oil facility, the borrowing country with a balance of payment deficit must agree with the Fund on a reform program.

Net oil importing countries having no balance of payments deficit can still avail themselves to this facility up to 200 percent, conditional upon reaching with the Fund an agreement to implement a reform program provided that the borrowing country has an ongoing reform program supported by the Fund's regular loans and facilities. These facilities include the aforementioned macroeconomic adjustment loans and the structural sectoral facilities. The use of these resources will be subject to the terms and conditions applied by the Fund on the ongoing extended

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(1) Since the inception of (ATFP) in 1991 the Fund ceased the Trade Reform Facility within which 11 loans totaling AAD 64,730 thousand were granted.

loan or SAF. This reflects the Fund's interest in encouraging members affected by the rise of oil prices to implement the required reforms in order to reduce the exposure of their economies to external shocks.

The **Short Term Liquidity Facility** which has been approved by the Fund's Board of Governors in 2009 aims at assisting member countries with a good track record of structural and economic reforms that face temporary liquidity shortage due to the unfavorable developments in the Capital Markets.

The facility is extended promptly and without any prior agreement on reform program with the eligible borrowing member country. The short term liquidity facility is extended with a maximum limit of 100 percent of the member's subscribed quota in convertible currencies. The disbursement of the facility is carried out in one installment or in several installments as requested by the borrowing members. Each payment is settled after six months of disbursement with possible extension of two terms i.e., eighteen months.

On the other hand, it is worth noting, that the Board of Governors has approved in April 2005 additional subscriptions of the Fund's capital from AAD 326 million to AAD 600 million. The additional subscriptions were covered by a transfer from the general reserves. As a result, the amount of resources that can be obtained by eligible borrowing countries under the various facilities has increased, since loans are proportional to the member's quota.

Interest Rates

The Fund applies a scheme of interest rates which strives to achieve a high degree of compatibility in alignment with practices followed by other similar regional and international institutions. At the same time, it seeks to reconcile to the extent feasible the concessionality of its loan conditions with the safety of its own financial position. Under its current flexible approach the Fund enables eligible borrowing members using its resources to choose one of the two interest rate schemes. The first is a floating rate based on the six-month interest rate on the SDR as determined on the first business day of each month. The second system consists of an active fixing rate calculated on the first business day of each month based on the swap rate of the SDR for the corresponding loan maturity. The reference here is to the SDR interest rate prevailing in the currency futures market over the loan maturity plus a fixed margin to be determined and revised periodically by the Fund (Appendix 5-A).

Loan Commitments

The total value of loans extended in 2012 by the Fund to its member countries amounted to about AAD 118 million, equivalent to US$ 545 million representing a total of seven loans that included an Automatic loan to Jordan, an Ordinary loan to Yemen, a Compensatory loan to Morocco, and a SAF loan, a compensatory loan and an Automatic loan to Tunisia.

The value of the Automatic loan to Jordan amounted to AAD 7.4 million, equivalent to about US$ 34 million. The combined value of the two loans received by Yemen amounted to AAD 45 million, equivalent to approximately US$ 208 million. The Ordinary loan amounting to AAD 21 million, equivalent to US$ 98 million was extended to assist Yemen in overcoming its economic and financial difficulties, reflected in a decline of gross domestic product, increased inflationary pressures, higher levels of unemployment and deteriorating domestic and external financial positions. The Compensatory loan, worth AAD 24 million, equivalent to US$ 110 million, was intended to help the country in coping with unfavorable developments beyond the control of the authorities and which were attributed to an increase in world prices of agricultural commodities and a fall in domestic output as a result of the events experienced by the country during 2011. These factors have adversely affected the overall balance of payments position.

The combined value of the three loans received by Tunisia amounted to AAD 38 million, equivalent to US$ 177 million. The Automatic loan, with AAD 9.6

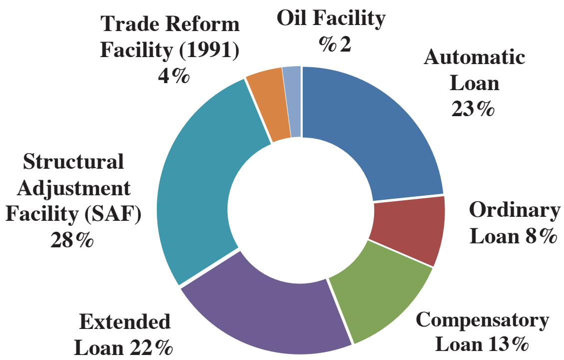
million, was intended to assist the country in financing the overall balance of payments deficit, while the compensatory loan, in the amount of AAD 12.8 million, aimed at facing the impact of declining tourist revenues. The structural adjustment facility to the financial and banking sector of AAD 16 million, was to support Tunisia's reforms in the aforesaid sectors in conformity with the program previously agreed upon between the Fund and the Tunisian authorities.

The Compensatory loan to the Kingdom of Morocco amounted to AAD 27.4 million, equivalent to US$ 127 million. It was extended to assist the Moroccan government in facing the increases in the value of agricultural imports as a result of higher international food prices which coincided with a slowdown of domestic agricultural output growth.

Taking into consideration the value of the loans extended during 2012, the cumulative value of loans provided by the Fund since the inception of its lending activity in 1978 reached by the closing date of the 2012 report, about AAD 1.6 billion, equivalent by US$ 7.2 billion. This represented a total of 160 loans to the benefit of 14 member countries. Appendix A/1 displays the details of these loans classified by the year and recipient countries over the period 1978-2012.

Conventional Fund loans (Automatic, Ordinary, Compensatory and Extended) have ranked at the top of the range of facilities offered by the Fund since the beginning of its lending activity in 1978 till the end 2012. These types of loans accounted about 66 percent of total loans extended during the said period. They were followed by loans approved under the structural adjustment facility, covering both the financial and banking and public finance sectors, which represented about 28 percent of the total, while the shares of those related to the Trade Reform and Oil facilities represented about 4 percent and 2 percent respectively. Appendix A/2 depicts the value and the types of loans obtained by each beneficiary member country. Chart 1 shows the relative importance of loans provided by the Fund during the period 1978-2012.

Chart (1): Distribution of Types of Loans as Share of Total Loans 1978-2012



It is worth mentioning that the developments in lending activity led to an increase in the value of contracted loan which reached AAD 510 million, equivalent to approximately US$ 2155 million as of end 2012. This represented about 86 percent of the Fund's paid up capital, compared to the balance of AAD 467 million as of end 2011, corresponding to about 78 percent of paid-up capital.

Loan Disbursements and Repayments

Total disbursements on contracted loans amounted to AAD 99.5 million during 2012, compared to AAD 126.5 million during 2011. In line with loan repayment schedules, member countries repaid to the Fund in 2012, AAD 75 million representing installments on previously provided loans. As a result, the balance of outstanding loans to borrowing member countries amounted to about AAD 441, equivalent to approximately US$ 2028 million, representing almost 74 percent of the Fund's paid-up capital(2) as of end 2012. This compares with about AAD 416 million representing the equivalent of 70 percent of the Fund's paid capital at end 2011.

It is to be noted that the undisbursed balance of loans increased from about AAD 51 million, equivalent to almost US$ 235 million in 2011 to about AAD 69

(2) In accordance with resolutions N-3 adopted by the Board of Governor in its meeting in April 2005, a portion of the general reserves was capitalized.

million, equivalent to roughly US$ 317 million during 2012. Appendix A/3 shows the details of disbursed and undisbursed loan balances and commitments for each member country in 2011 and 2012, while Appendix A/4 provides corresponding details for the period 1978-2012.

Consultations with Member Countries

Within the framework of its lending activity during 2012 the Fund conducted consultations with the Kingdom of Jordan, the Republic of Yemen, the Kingdom of Morocco, the Republic of Tunisia and the Republic of Sudan.

The Kingdom of Jordan requested to use Fund resources in the form of an Automatic loan in order to finance an overall deficit in its balance of payments during 2011. Data submitted by the kingdom of Jordan indicated that the overall balance of payments deficit recorded in that year had resulted from the negative impact of unfavorable external factors. These included an increase in the costs of imported oil products due to the interruption of Egyptian natural gas supplies over prolonged periods. Another factor was an increase in the import bill of a number of imported food commodities due to increases of world market prices. In accordance with the Fund's lending policies, Jordan was granted an automatic Loan amounted AAD 7.4 million representing 75 percent of the country's paid contribution in paid-up capital in convertible currencies. The loan agreement was signed on April 17, 2012.

Consultations with the Republic of Yemen were conducted in conjunction with the country's request of a compensatory loan and an ordinary loan. To that effect, a Fund mission visited Yemen during May 12-17, 2012, to assess the extent of the difficulties facing the Republic of Yemen in the aftermath of the political and security developments during 2011. These have resulted in a deterioration of economic performance and the decline of a large part of financial resources due to a fall in oil revenues as a result of the damage witnessed by the major oil pipelines (the ma'arib line). This was reflected in the balance of payments position which recorded an overall deficit amounting to about US$ 1.4 billion during 2011. The mission also identified the implications of the aforesaid events on the foreign exchange market which witnessed strong pressures that led to a fall in the riyal's value prompting the Central Bank intervention in that market in order to mitigate the deterioration of the value of domestic currency. This intervention led to a decrease of 21.8 percent in foreign reserves. The balance of payments deficit was expected to further deteriorate in 2012 due to unfavorable factors, that included a higher bill for imports of agricultural commodities due to both higher world prices and a fall in domestic output. In the light of these developments included in the report submitted by the AMF mission concerning Yemen's fulfillment of eligibility criteria governing access to the compensatory loan, the Fund granted Yemen the requested loan in the amount of AAD 24 million. The related loan agreement was signed on June 19, 2012.

In connection with consultations regarding the request of an ordinary loan, the Fund mission to Yemen reached an agreement with the authorities over an economic adjustment program covering the period June 2012 – December 2013. The program seeks to address the financial and economic difficulties, to improve the standards of living to achieve social security and stability by ensuring the delivery of essential services and restructuring economic institutions. In that context, the program focused at achieving macroeconomic stability; strengthening tax and customs policies in order to increase fiscal receipts and enhancing control over public spending and earmarking a larger share of it towards the social services sector. Based on the foregoing and in accordance with lending policies, procedures and eligibility criteria applicable to the ordinary loan, the Fund approved Yemen's request for such a loan in the amount of AAD 21 million in support of the program agreed upon with the Fund mission. The associated loan agreement was signed on June 19, 2012.

On the other hand, the Fund received from the Kingdom of Morocco a request for a compensatory loan to assist the country in coping with the unanticipated balance of payments deficit which emerged in 2011. The imbalance resulted from an increase in the value of the Kingdom's imports of agricultural products due to higher world market prices as well as lower growth of domestic agricultural output. The Fund staff reviewed the said request in light of information provided by the authorities to that effect. The data highlighted the extent of the impact of the unanticipated factors on the balance of payments as the latter recorded an overall deficit amounting to about US$ 2.95 billion in 2011. This was in sharp contrast with the US$ 1.21 billion surplus achieved in 2010. The overall deficit reflected mainly an increase in the deficit of trade balance due to the significant rise in the value of agricultural imports in 2011. During that year the value of wheat imports, which account for 30 percent of the total value of agricultural imports, increased by 62 percent. The value of other essential imports had also increased substantially during the same period. Moreover, a fall in the capital and financial account surplus contributed to the widening of the overall balance of payments deficit. Consequently and in accordance with the lending policies, Morocco was accorded a compensatory loan worth about AAD 27.4 million. The associated loan agreement was signed on September 24, 2012.

As for Tunisia, the authorities requested an Automatic loan, a Compensatory Loan and a Structural Adjustment Facility in support of reforms in the financial and banking sector. In response, a fund mission was sent to Tunisia during April 1-7, 2012 to hold consultations with the authorities and discuss the request to benefit from the Fund's resources.

In connection with consultations dealing with the request for the Automatic loan, the balance of payments data provided by the Tunisian authorities revealed the existence of an overall deficit amounting to US$ 1.7 billion in 2011. This outcome resulted from a fall in foreign financial inflows due to the exceptional circumstances facing the country and lower Tunisian exports attributable to the persistence of the sovereign debt crisis in the countries of European Union which constitutes Tunisia's main trading partner. Moreover, the Tunisian economy was also exposed to external shocks which impacted both the country's external and domestic financial positions due to higher world oil and food prices as Tunisia is a net importer of these two commodities. These developments had an adverse impact on the performance of the Tunisian economy reflected in a contraction of gross domestic product in 2011. This highlighted the pressing need to support the efforts of the authorities to cover the balance of payments deficit. Accordingly, and in conformity with fund lending policies and procedures, Tunisia was accorded an Automatic loan in the amount of AAD 9.6 million, corresponding to 75 percent of its quota in paid-up capital in convertible currencies. The agreement governing this loan was signed on September 25, 2012.

Regarding the Compensatory loan, Tunisia's request was prompted by the need to cope with an unanticipated balance of payments situation in 2011 arising from a substantial decline in tourist receipts due to the country's political conditions. This led to the emergence of a significant balance of payments deficit which resulted in a 25 percent loss of official foreign reserves. The latter fell to a level covering only five months of imports. The balance of payments deficit represented unexpected circumstances beyond the control of the authorities thus enabling the country to qualify for an compensatory loan with an amount of AAD 12.8 million, equivalent to 100 percent of its quota in capital in convertible currencies. The loan agreement was signed on September 25, 2012.

With respect to consultations regarding the loan under the Structural Adjustment Facility related to reform of the financial and banking sector, the Fund's mission reached an agreement with the Tunisian authorities on the elements of a reform program covering the period May 2012- May 2013. The program which is supported with the requested SAF loan aims at; (1), deepening the exchange market, (2), enhancing the capabilities in providing adequate liquidity to operators through an active Central Bank intervention policy, and (3), liberalization of the instruments for covering exchange and interest rate risks.

The program is centered around the following four axes:

1) Developing the central bank intervention policy in the foreign exchange market;
2) Activating the inter-bank exchange market;

3) Boosting the market for instruments of exchange and interest rate risks coverage; and
4) Strengthening the transparency of exchange rate policy and upgrading forecasting methods of demand for foreign exchange.

Considering the Fund's endorsement of the above reform program and in light of applicable procedures, the Fund approved a SAF loan to Tunisia amounting to AAD 16 million, representing 125 percent of Tunisian's quota in paid-up capital in convertible currencies. The related loan agreement was signed on September 25, 2012.

In the case of the Republic of Sudan, a fund mission visited the country during November 24 – December 3, 2012 to discuss the request of the authorities for a loan under the Structural Adjustment Facility dedicated to reform of the public finance sector. The mission reached an agreement with the Sudanese officials on the components of the reform program supported by the said loan and articulated around the following pillars;

1) Improving the general framework of budget planning and preparation;
2) Reinvigorating and enlarging the scope of the Treasury's single account and controlling government spending;
3) Upgrading accounting frameworks and methods of preparing financial reports; and
4) Developing information system for purposes of planning government revenues.

Based on the mission's agreement with the authorities on the implementation of the above mentioned program and its associated procedures and in line with the Fund's approach of supporting and strengthening reform efforts of member countries, the Board of Executive Directors approved on December 20, 2012 a SAF loan to Sudan in the amount of AAD 9.8 million. The associated loan agreement was signed on January 9, 2013.

Arrears

A borrowing country is considered to have payment arrears when the delay in the settlement of its due loan obligations exceeds a period of twelve months. Both the Federal Republic of Somalia and the Syrian Arab Republic presently, fell under this definition. In this context, total loan installments and cumulative interest accrued on The Republic of Somalia amounted to about US$ 59 million at the end of 2012. This amount consists of overdue loan installments totaling AAD 14.9 million and accrued interest amounting to about AAD 44.1 million. As regard the Syrian Arab Republic, the arrears consist of three unsettled installments, on the loan under the second SAF loan. By the end of December 2012 those arrears totaled AAD 2.95 million including principal and accrued interest.

Investment

The investment activity is considered one of the main activities of the Arab Monetary Fund by virtue of the objectives and responsibilities that were set in its Articles of Agreement and the Resolutions that were issued by the Board of Governors and the Board of Executive Directors setting the overall Investment Policy.

The Board of Executive Directors' Resolutions have set the general principles for the Investment Policy and the guidelines and constraints for executing these policies and managing the various investments. The Arab Monetary Fund adopts a conservative and balanced investment policy based on the diversification rule of investment risks consistent with its nature as a regional public financial institution. The Investment Policy is based on four premises which include safety, liquidity, transferability and then the achievement of the highest return possible within acceptable levels of risk for the purpose of preservation of capital for the overall investment portfolio.

The Investment activity aims to invest the Arab Monetary Fund's own financial resources including capital and reserves until they are allocated to finance other activities of the Fund with the objective to grow these resources in accordance with the established investment policies and strategies and achieve a return that contributes to covering the administrative expenses and strengthen the AMF reserves and resources. Investment activity also includes cooperation with Arab Member States through the activity of Accepted Deposits and investment, in addition to managing bond portfolios.

In an environment of low interest rates on the major currencies and easy monetary policies during the year 2012, the Arab Monetary Fund continued to pursue its conservative approach giving the utmost importance to the safety of its investments. It also aimed to achieve the highest possible levels of safety given the economic and investment environment prevailing during the year by investing in assets carrying a high credit rating, in addition to dealing with international and regional financial institutions with a high credit rating while subjecting these institutions to continuous and close monitoring. The Arab Monetary Fund actively manages investment risks with particular focus on risks emanating from concentration risk, interest rate risk, liquidity risk, foreign exchange and credit risks.

The Arab Monetary Fund's investments portfolios comprise portfolios of its own funds and a portfolio of the Arab Member States' Accepted Deposits, with the total value of these investments reaching the equivalent of SDR 8.36 billion or the equivalent of approximately USD 13 billion at the end of the year 2012.

As for the portfolio's investments, they are comprised essentially of investments in bank deposits and investments in securities and limited investments in alternative strategy funds. By the end of year 2012, the composition of the investment portfolios was as follows: 50.18% in bank deposits, 49.16% in securities and 0.66% in alternative strategies funds.

The Investment Policy regulates the investment approach to investing in different investment products including deposits with commercial Arab and foreign banks which are on the banks approved list for the purpose of deposits, which includes about 120 banks. This approved list of banks is prepared annually according to the rules approved by the Board of Executive Directors for selecting banks and setting the limits for dealing with them. These bank limits are continuously monitored and reviewed and set according to the institutions' specific situation and credit rating. As to investments in bonds and marketable securities, the Arab Monetary Fund ensures high levels of asset quality and wide issuer and geographical diversification, with a high proportion of the portfolio varying between 65% and 70% at least being invested in government and government related bond issues with an overall average credit rating of AA for these portfolios, and with approximately 96% of the portfolio with a credit rating of A and higher.

On the other hand, geographic diversification of investments has been used to limit country risk and to respond to the changes in the financial markets. The Arab

Monetary Fund has reduced the level of its investments in Europe in favor of the Far East and in international and regional financial institutions. The size of investments has increased in the Far East during the last five years from 6% to 23% of the portfolio value while the size allocated to international and regional institutions increased from 2% to 8% during the same period.

Investments in deposits, bonds and marketable securities in Arab countries have reached the equivalent of SDR 3,183 million representing approximately 38% of the total invested funds at the end of 2012. This includes the equivalent of SDR 2,183 million invested in deposits with Arab financial institutions, and approximately SDR 1 billion invested in securities issued by Arab Member States, Arab banks and Arab companies. As for investments in Arab currencies, the Investment Policy allows, according to specific rules, the investment of a portion of the available funds in deposits, bonds and marketable securities in convertible and transferable currencies of Arab countries. Consequently, the Fund's investments in Arab currencies reached the equivalent of SDR 1,680 million at the end of 2012.

As for investment in Arab bonds and marketable securities which reached SDR 1 billion at the end of the year recording its highest level ever, it includes government issues for a total of SDR 864 million or the equivalent 86% of the total investment in Arab bonds; the remaining balance amounts to SDR 136 million or the equivalent of 14% represents investments in bonds issued by banks and non-governmental Arab institutions. On credit rating of Arab government bonds in the portfolio, the equivalent of 87% of their value is invested in government bonds rated A or higher, as for the remaining portion of 13%, it represents investments in Arab government issues with lower credit ratings ranging between B and BBB, with a total equivalent of SDR 113.2 million at the end of the year 2012.

It is worth mentioning that in response to the observations made by the Board of Governors in their last meeting in April 2012, the Arab Monetary Fund Board of

Executive Directors provided in resolution number (22) in the month of December 2012 to strengthen regulation and increase investments in Arab government bonds carrying a credit rating below A; eligible categories for investments were expanded to include Arab government bonds with a credit rating of B.

Furthermore, a portion of the Arab Monetary Fund's funds were allocated for investments in government bonds carrying a credit rating between B and BBB with a value of SDR 200 million (or the equivalent of USD 300 million); also, the Resolution set maximum limits on the size of investments in bonds of any one country of Member States rated within the categories of this group with a maximum exposure equivalent to 25% of the total allocated funds. This Resolution has contributed to increasing the number of countries whose government bonds are eligible for investment and now includes Egypt, Morocco, Tunisia, Jordan, Lebanon and Bahrain.

The Board's Resolution to invest in Arab government bond markets reflects the Arab Monetary Fund's interest in expanding its participation and contribution to supporting and developing Arab bond markets through an increased participation in investments in the issues of Member States with a credit rating of BBB or lower as this comes part of the Arab Monetary Fund's objective of developing and growing these markets.

In the area of Accepted Deposits from Member States and Arab financial institutions which fall under section (g) of Article Five of the Arab Monetary Fund's Articles of Agreement and the resolutions of the Arab Monetary Fund Board of Governors including Resolution number (1) for the year 1984 and Resolution number (5) for the year 1989 which invited Arab countries to deposit a portion of their funds with the AMF at their discretion and set several rules including forbidding the Arab Monetary Fund from using the deposited funds to provide loans to its members, and also allocated a portion of the Arab Monetary Fund's own funds as reserve to support this activity. The Board of Executive Directors issued a number of resolutions which govern the management of these activities from accepting deposits to the management of investments of the deposited funds including Resolution number (7) for the year 2010 which includes the voluntary adoption of the Basel standards as a guide for managing risks and setting limits for this activity. Furthermore, it allocated the necessary financial funding for supporting the reserve of this activity and boosting depositors' confidence. The Board of Executive Directors' resolution also specified and limited the permissible investment tools to investing in bank deposits, bonds and marketable securities and set conservative rules for managing assets and liabilities.

It is worth mentioning that the Arab Monetary Fund enjoys special virtues that contribute to enhance the confidence of depositor countries. At the forefront is the conservative Investment Policy that the Arab Monetary Fund adopts which gives greater weight to the safety of investments. Deposited funds also enjoy considerable support given the Arab Monetary Fund's financial profile in addition to its commitment to managing investment activities with a view to minimize risks.

The above mentioned qualities have contributed to attract deposits from Arab countries and organizations. This activity has recorded continuous annual growth with Accepted Deposits increasing from USD 2,732 million to USD 10,202 million during the last five years and registered their highest level during the year 2011 at USD 11,690 million, with these deposits being received in US dollars, Euro and British Pounds. Furthermore, the number of depositors reached 16 countries at the end of the year 2012 and peaked at 19 during the year 2010.

The Arab Monetary Fund's conservative investment policy and its applications have effectively contributed to protect the value of the invested funds and have recorded a positive overall performance for these investments, despite the continued low interest rates prevailing on the main currencies. During the year 2012, the investment portfolio achieved a net return on invested funds which exceeded the six-month LIBOR indices and 1-3 year government bond indices as well as inflation rates adjusted for the SDR weights.

In addition, the Arab Monetary Fund continued to manage investment portfolios for a number of parties including a portion of the funds of the Arab Trade Financing Program, the funds held in the joint account of the Specialized Arab Organizations, the Employee Pension Funds, as well as managing bond portfolios for the benefit of Member States according to the rules and investment policies set for each of these portfolios. The total funds managed on behalf of all these parties reached the equivalent of USD 168 million at the end of the year 2012 compared to USD 281 million at the end of the previous year.

Technical Assistance

The objective of the Fund’s technical assistance is to build capacities of member countries to design and implement economic and financial policies and structural reforms. The Fund offers its technical assistance in areas of relevance to its activities such as monetary policy, exchange rate policies, tax policy and administration, the compilations of macroeconomic statistics, development of financial and banking infrastructure and capital markets. Moreover, it provides training to officials of Arab central banks and monetary agencies and ministries of finance and economy. The Fund extends its technical assistance and support to its members through consultations missions comprising its own staff along with external experts.

Within this framework, during 2012 two technical assistance missions visited the Republic of Yemen and the Republic of Sudan. During March 25-29, 2012, a mission visited the Republic of Yemen and carried out a comprehensive review of the consequences of the political events which took place in 2011 for Yemen’s economic and financial developments, the mission submitted to the authorities a set of recommendations aiming at the recovery of Yemen’s economy. The recommendations covered, inter alia, public finance policies which could be pursued in the areas of tax and customs which could contribute to addressing the fallout resulting from the halt of economic activity during the period under consideration.

In the case of the Republic of Sudan, the main purpose of the mission which visited the country during September 24-27, 2012 was to conduct a comprehensive assessment of the economic situation in the aftermath of the secession of the south. The mission provided recommendations with respect to actions and polices which could be adopted in that regard with a view to enabling Sudan to overcome the effects of such a prolonged crisis which impacted the various sectors of the economy.

A third Fund mission visited the State of Qatar during September 24-27, 2012. Its assignment was to focus on delivering technical assistance in the area of government finance statistics. It involved an evaluation of the current status of public finance statistics and the submission of a proposed work plan for the implementation of the system related to government finance statistics GFS 2001 and the General Data Dissemination System (GDDS).

In addition to the above, the Fund's technical assistance provided to its member countries during 2012 included, as noted earlier, the participation and elaboration with international financial organizations in a set of regional initiatives aimed at developing the financial and banking sectors.

In this context, the Fund continued to provide technical support in conjunction with the Arab Credit Reporting Initiative (ACRI) which is carried out in cooperation with the International Finance Corporation (IFC). During 2012, two missions were sent out, one to the State of Qatar and the other to the Kingdom of Morocco. These missions submitted proposals regarding recommendations, for the development of credit reporting systems in the two countries. The recommendations included measures that need to be taken in order to benefit from the participation of commercial businesses alongside financial institutions. The recommendations emphasized the necessity of drafting an appropriate legal framework which guarantees the protection of consumers' rights with respect to exchanged credit information.

Furthermore, during 2012 the Fund continued to provide technical support to the Jordanian authorities in their efforts to complete the preparatory steps for the establishment of the first private credit reporting bureau, as a follow up on the agreement reached on the occasion of the previous Fund technical mission which visited Jordan in 2011.

At another level, during 2012 the Fund continued its cooperation with IFC in connection with the Arab Secured Transaction Initiative (ASTI). In this respect, a joint Fund / IFC mission visited the Kingdom of Morocco and the United Arab Emirates to offer technical support in this area. The missions submitted to the relevant authorities of these two countries appropriate recommendations regarding the legal and institutional requirements needed for the development of the system and operations of secured lending. The proposed work plan included a review of the existing legal and regulatory framework with a view to highlight the issue concerning the movable assets guarantees and the rights and obligations of operators, including particularly financial institutions which still do not accept these assets as collaterals for lending to small and medium size enterprises. The work plan also included measures which must be taken to establish a centralized movable assets registry to accompany the process of dealing with movable assets guarantees. On the other hand, the Fund pursued its efforts, to develop bond markets in the context of the initiative related to the "Arab Debt Market Development". This initiative was launched in cooperation with the International Monetary Fund to provide technical support to member countries seeking to develop legislations, policies and regulatory frameworks governing bond markets. A joint IMF/AMF mission visited the State of Kuwait in February 2012 and submitted a comprehensive report to the Kuwaiti authorities containing recommendations regarding the measures required for the development of such markets.

A similar technical support was extended to the Republic of Tunisia and the Kingdom of Jordan. In the first case, the Fund headed an expanded joint mission that included the IMF, the World Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the African Development Bank. The mission visited Tunisia in July 2012. In the second case, the mission visited Jordan during September 2012, included the AMF with the Participation of the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank. The two missions drafted action plans and recommendations for the development of capital markets and particularly local bond markets. It is worth noting that these two missions were part of the initiative related to the "Arab Debt Market Development" on the one hand, and the initiative for the "Development of Domestic Capital Market" under the Deauville Partnership initiated to support Arab countries witnessing political transition.

As for “Arab Housing Finance Initiative” which was launched in 2012 in cooperation with the World Bank, the Fund led a joint mission to the Kingdom of Jordan during December 2012. The mission provided technical support to Jordan that included recommendations regarding the restructuring of the Jordan Mortgage Refinance Company and an evaluation of the organizational and legal framework of Housing Finance in the kingdom.

Keeping up with its constant endeavor to heighten awareness about economic and financial issues and developments, the Fund organized during 2012 a number of workshops and specialized conferences for senior officials to enable policy makers to exchange views and experiences. In this connection, the Fund organized in cooperation with Germany’s Central Bank “The Bundesbank” a workshop on “Monetary Policy and Financial Stability”. It was held in February 2012 and participants were directors and technical staff in charge of monetary policy at Arab central banks. The workshop discussed the role of monetary policy in achieving financial stability in light of the implications of the international financial crisis.

During April 2012, the Fund in cooperation with the World Bank Group organized a regional conference for senior officials on “Developing Housing Finance in Arab Countries”. This conference was attended by high level officials from Arab ministries of finance, central banks, housing finance authorities, capital market bodies and housing banks. Participants reviewed and discussed the experiences of Arab countries in developing the housing finance, the challenges associated therewith and the technical support requirements.

Moreover, during May 2012 the Fund organized another regional conference on “Developing Arab Debt Markets”. It was held in partnership with the IMF, the World Bank, the European Bank for Reconstruction and Development, and with the cooperation of OECD and the Gulf Bonds and Sukuk Association. The conference was attended by relevant senior officials of Arab ministries of finance, central banks, capital markets and stock exchanges. It discussed endeavors to develop Arab bond markets and the related challenges.

In another context, the Fund in cooperation with the World Bank Group organized in June 2012 a workshop on “Enhancing Competition in the Financial and Banking Sector”. It was attended by senior officials of Arab ministries of finance, central banks, and experts from International Finance Corporation, the Financial Stability Board, the European Bank for Reconstruction and Development and the Federal Deposit Insurance Corporation (FDIC). The workshop discussed the ways to encourage competition among banks and financial institutions while strengthening their soundness and effectiveness.

During November 2012, the Fund organized the 8th High Level Annual Meeting on “Legislative and Supervisory Developments and Their Role in Strengthening the Soundness of the Financial and Banking Sectors in Arab countries”. The partners who cooperated in this event were the Financial Stability Institute of Bank for International Settlements (BIS), the Basel Committee on Banking Supervision and the Institute of International Finance. The meeting was attended by a number of senior officials of supervisory departments of Arab central banks, the BIS, the Basel Committee on Banking Supervision, the European Banking Authority (EBA), Banque de France and the Swiss Financial Market Supervisory Authority (FINMA). Discussions at this high level meetings highlighted the importance of the new amendments of supervisory legislation and their role in strengthening robust and sound financial and banking sectors and the requirements needed for that purpose.

Finally, the Fund participated in a high level seminar on “Financial Stability and Growth” organized by the central bank of Algeria. On that occasion, the Fund presented a paper on “The Requirements for the Development of the Financial Sector in the Arab Maghreb countries to Promote Stability and inclusive Growth”. This seminar which convened in December 2012 addressed the link between financial and economic stability and growth.

Arab Capital Markets

During 2012 the Fund pursued its activity to enhance the role of Arab capital markets and provide the follow up reports in this respect. To that effect, the Fund continued to publish on its website daily capital markets information on 16 stock exchanges. Information thus released includes the Fund's composite index which measures the combined performance of those markets grouped together, as well as the Fund indicators for individual stock exchange, data on the volume and value of trading and the size of Arab capital markets.

Concurrently, the Fund continued the publication of its quarterly bulletin covering the above mentioned Arab capital markets. Seventy one issues of this bulletin have thus far been released. These quarterly bulletins address major economic developments of relevance to Arab capital markets, their legal and organizational developments along with an analysis of the performance and activities of those markets. In this respect, these bulletins continued in 2012 to cover the economic and financial developments that influence the performance of these markets. The information covers initial public offering markets, foreign investment flows and markets for bonds and sukuk. The four bulletins released by the Fund during 2012 have highlighted the relative recovery of Arab stock exchanges from the effects of the instability which prevailed in 2011 in several Arab countries and the setback experienced by international capital markets in the aftermath of the sovereign debt crisis in the euro zone. The bulletins have also indicated that Arab stock exchanges have recouped half the losses incurred during 2011 and which are estimated at about US$ 115 billion. The market value of listed shares in these markets has increased by US$ 59.5 billion by the end of 2012.

On the other hand, the Fund issued a brief annual report on the performance of Arab capital markets. This document shed light on major events and developments which took place in those markets during the year. In that respect, it presented an analysis of the performance of Arab stock exchanges, initial public offering, markets for bonds and sukuk, foreign investment flows, the activities of investment funds and developments pertaining to mergers and acquisitions and review of major legal and organizational developments.

To enhance awareness about the requirements for developing Arab bond markets, the Fund organized a high-level conference on the “Developing Arab Local Debt Markets” in Abu Dhabi during May 2012, in cooperation with the IMF, the World Bank, the European Bank for Reconstruction and Development. Arab central banks, capital market authorities, stock exchanges and investment banks in the region, have participated largely in this event.

Furthermore, the Fund continued its cooperation with the Arab capital markets authorities. In this context it participated in the fourth annual conference organized by securities and commodities authority in UAE. The conference convened in Abu Dhabi in April 2012 and its theme was “The Priorities of Arab Capital Markets in light of the Recent Economic Developments”.

Finally the Fund participated in the meeting of OECD working group on Capital Markets of the Middle East and North Africa region. The main objective of this working group is to assist in the elaboration and modernization of supervisory and regulatory legislations in Arab countries.

Training

The Fund's Economic Policy Institute (EPI) continued its efforts in 2012 to train and enhance the capabilities of the staff of ministries of finance, economy and planning, central banks and statistical centers of its member countries. EPI’s training courses, workshops and seminars are devised to be mutually reinforcing for the purpose of accomplishing one of the Fund’s main objectives, namely to contribute to the development of skills which enable those officials to follow up the implementation of economic policies in general and financial and monetary policies in particular.

EPI’s program during 2012 contained courses, seminars and workshops which were organized in cooperation with several international institutions. Among these were the IMF, the World Bank, the Bank for International Settlements, the US Federal Reserve Bank, the Bank of England, the World Trade Organization and the Islamic Development Bank. EPI’s 2012 program consisted of 13 training activities to the benefit of 369 trainees. These figures brought the cumulative numbers of such activities, since inception, to 248 events in which 7514 beneficiaries have participated.

EPI started its 2012 program with a course on “**Inclusive Growth Policies in the Middle East Region”,** organized jointly with the World Bank and conducted in Abu Dhabi during January 22-26, 2012. The course sought to present an overview of policies, and strategies which influence economic growth, combat poverty and address unemployment. It provided a general review on the main economic developments in the region and the world at large, as well as the major challenges facing the region particularly those pertaining to the ability to attain sustainable long term economic growth.

In cooperation with BIS’s Financial Stability Institute, the Fund organized a course on **“Supervision Through the Use of Global Financial Soundness Indicators”.** This course was conducted in Abu Dhabi during February 21-23, 2012, and focused on supervision through the use of financial soundness indicators pertaining to the surveillance of risks of the financial system as a whole.

EPI conducted in cooperation with the UAE Ministry of Finance a course on "**Government Finance Statistics".** It was held in Dubai during March 11-22, 2012. The course generally relied on the IMF's Government Finance Statistics Manual 2001, which offers a new methodology for the compilation of government finance statistics which is in line with the 1993 edition of the System of National Accounts.

In cooperation with the Islamic Research and Training Institute, of the Islamic Development Bank, EPI organized a course on "**Islamic Insurance and Takaful".** It was conducted in Abu Dhabi during May 6-10, 2012. The course aimed at shedding light on the principles underlying Islamic insurance (Takaful) and the importance which this sector has gained in view of the rapid growth of Islamic finance. In this context, the instruments, legal and accounting frameworks governing the operations of Islamic insurance (Takaful) were discussed.

In cooperation with the US Federal Reserve Bank, EPI organized a course on "**Market Risks Analysis".** The course was conducted in Abu Dhabi during May 13-17, 2012. It sought to address the management of market risks by banks. The course consists of lectures and case studies aimed at enabling participants to enhance their understanding of methods and tools which are used in measuring, managing and controlling market risks.

EPI organized in cooperation with World Trade Organization (WTO) a course on the "**Agreement on Government Procurement".** It was held in Abu Dhabi during June 5-7, 2012. It aimed at briefing participants on the principles, concepts and commitments stipulated in the said Agreement as well as informing them about the outcome of the latest negotiations concerning it. Participants were also offered a presentation on the approach to joining the membership of that agreement and its benefits including the flexibility in favor of developing countries.

EPI, jointly with the IMF-Middle East Center for Economics and Finance (CEF), organized a course on **"Economic Policies for Financial Stability"**. It was held in Abu Dhabi during June 10-21, 2013. The course aimed at reviewing the macroeconomic policies and financial soundness policies needed for safeguarding financial stability. It also reviewed the factors behind disturbances in financial markets and their effects at the macroeconomic level and the polices which need to be adopted to address these disturbances. Moreover, it dealt with the methods of early warning systems in assessing financial stability and managing financial risks.

In cooperation with the bank of England, EPI organized a course in **"Financial Stability and Market Operations"**. This course was held in Abu Dhabi during September 9-13, 2012. It aimed at providing participants with an opportunity to enhance their knowledge about theoretical and practical aspects of policies and instruments conducive to promoting and consolidating financial stability.

EPI further cooperated with WTO in the organization of a course on the **"Settlement of Disputes"**. The course was conducted in Abu Dhabi during September 17-20, 2012. It aimed at broadening the participants' understanding of WTO's work through a better grasp of the means and procedures followed by the organization in settling and solving disputes.

EPI organized a second course jointly with IMF's CEF on **"Balance of Payments"**. The course was held in Abu Dhabi during September 23- October 4, 2012. It aimed at presenting to participants the methodology of compilation and processing of balance of payments statistics and international investment position in accordance with the latest edition of the IMF Balance of Payments and International Investment Positions Manual. The course included a series of lectures, interactive discussions, practical exercises and case studies.

EPI organized a third course jointly with WTO on **"Trade in Services"**. The course was conducted in Abu Dhabi during November 12-15, 2012. It aimed at reviewing the main clauses of the General Agreement on Trade in Services (GATS) and the mechanisms necessary for scheduling commitments. Light was also shed on the applicability of the GATT agreement to specific sectors such as financial services, communications, energy and tourism and on the aspects and effects related to preferential trade agreements which cover services.

A second course was organized jointly by EPI and BIS's Financial Stability Institute on **"Basel III"**. This course was held in Abu Dhabi during December 4-6, 2012. It sought to update participants on the latest developments related to reforms introduced to capital and liquidity ratios. Prominent among these reforms was the stipulation requiring a greater precision and transparency in the definition of capital and its capability of absorbing losses immediately upon their occurrence. Another stipulation concerns the necessity for banks to set additional capital to be used in facing economic fluctuations. On the liquidity side the new regulations require that banks keep at hand a liquidity sufficient to last a period of one month under stressful circumstances.

Finally, a third course was organized jointly by EPI and IMF's CEF on **"Monetary Policy and Exchange Rate Policy"**. This course was conducted in Abu Dhabi during December 9-20, 2012. It aimed at presenting to participants the various strategies for each monetary policy and the exchange rate arrangements chosen by countries, and the importance of consistency and compatibility between these two policies. The course also addressed the factors related to the selection of an exchange rate regime and the required strategy of monetary policy and the consequences implied by the various regimes.

The Board of Arab Ministers of Finance and Governors of Arab Central Banks

The Fund is entrusted with the secretariat of the Board of Governors of Arab Central Banks and monetary agencies. It is also in charge of the technical secretariat of both the Arab Committee on Banking Supervision – which comprises directors of banking supervision in Arab countries – and the Arab Committee on Payments and Settlement systems – which consists of directors managing those systems at Arab central banks and monetary agencies. These two committees are both offshoots of the Board of Governors of Arab central banks and monetary agencies. In that context, the Fund continued in 2012 to carry out its responsibilities in terms of arranging for meetings, preparing studies, papers and reports required by the Board and its permanent bureau and technical committees.

The Fund handled the preparations of the Board's 36th session which convened in Kuwait on October 1, 2012. The session's agenda contained the following items: The report of the secretariat; The preliminary draft of the 2012 Joint Arab Economic Reports; The recommendations of the 21st meeting of the Arab Committee on Banking supervision, including the committee's working paper on "Stress Testing in Banking Institutions"; and The report and recommendations of the 8th meeting of the Arab Committee on Payments and Settlement Systems, including a working paper on "Payment Systems Via Mobile phones – Implications and Required Rules", along with the committee's follow up report on the project "Establishment of Regional Arrangements for Clearing and Settlement of Inter-Arab Payments".

During the above mentioned meeting, the Board considered a paper presented by the Governors of the Bank of Morocco on the "Experience of the Kingdom of Morocco in Strengthening Financial Inclusion". It also discussed a detailed paper prepared by the Fund on Increasing Access to Finance and Financial Services in Arab Countries and the Role of Central Banks". Moreover, the Board reviewed the draft of the joint Arab statement which was delivered at the Annual meeting of the IMF and World Bank in Tokyo in October 2012.

It is worth noting that during the same meeting the Board approved the terms of reference for the preparation of a comprehensive feasibility study of the project on the “Establishment of Regional Arrangements for Clearing and Settlement of Intra-Arab Payments” and outsourcing contractually the study to a specialized consultant. The Board further approved the formation of a regional working group within the Arab Committee on Banking Supervision in order to boast interest in issues related to financial inclusion and access to finance in Arab countries.

At another level, and within its role as the technical secretariat of the Arab Committee on Banking supervision, the Fund organized the 22nd annual meeting of the committee which convened in Abu Dhabi in November 2012. This meeting discussed three papers on the following topics: 1) Governance of Banking Institutions; 2) Consumer Protections in Financial Services; and 3) Rules on limits Banks’ Foreign Assets. The meeting also considered a report prepared by the secretariat on the Role of Banking Supervision in Strengthening Financial Inclusion. During this meeting, a presentation was delivered by the deputy secretary general of the Bank Committee on Banking Supervision on the latest developments pertaining to the committee’s work. The Arab committee also reviewed recent developments in legislations and banking supervision in Arab countries.

On the other hand and within its mandate as the secretariat of the Arab Committee on Payments and Settlement Systems, the Fund organized the committee’s 8th annual meeting which was held in the UAE in June 2012. During this meeting the committee discussed a report submitted by its working group regarding the implementation of the Board’s recommendation concerning the project “Establishment of Regional Arrangements for Clearing and Settlement” of Intra-Arab Payments. In addition”, it discussed a working paper on “Payment Systems via Mobile telephones – Implications and Required Rules”.

Moreover the committee was briefed during this meeting by specialists from the World Bank’s Consultative Group to Assist the poor (CGAP) on international experiences in the area of use of mobile phones to enhance access to financial services in favors of lower income classes of the population.

Finally, the Board's secretariat released in 2012 a set of booklets and publications containing the papers and studies discussed by the board in its previous meeting. These included papers on the following: "Monetary and Banking Policies of the Central Bank of Qatar in Facing the implications of the international crisis"; "The Experience of the Central Bank of Tunisia in Coping with the Economic Repercussions in the Post Revolution Period"; "The Legal Framework for Payments and Settlement Systems", and "Sound Management in Dealing with Liquidity Risks".

As part of its function as technical secretariat of the board of Arab Ministers of Finance, the Fund organized the board's third ordinary session. The meeting was convened in April 2012, in conjunction with the annual meetings of the Joint Arab Financial Institutions which were held in Morocco. On this occasion, the council reviewed international economic developments and a report presented by the director of the IMF Middle East and central Asia Department. It was also briefed by a representative of the Mexican chairmanship of the G20 on the group's work program for that year. The Council also discussed a set of working papers on topics proposed by the UAE. The Fund prepared three papers in this context titled "Strengthening Economic Stability and the Role of Developing the Financial Sector in Arab Countries"; "Arab Trade Finance and Export Guarantees"; and "Establishment of a Regional Intra-Arab Payments clearing and Settlement Mechanism". Two other papers were also discussed. One was prepared by the Arab Investment and Export Credit Guarantee Corporation and the other by the Arab Authority for Agricultural Investment and Development. The First was on "Improving the Business Environment" and the second addressed "Price Stability of Food Products".

During the same meeting the council reviewed areas of interest which could be covered in letters addressed to the president of the world bank and IMF managing director concerning the requirements of Arab countries from these two institutions.

Finally, the councils secretariat issued a number of publications containing issues addressed in the meetings of the council in previous years. The aim is to heighten awareness about those topics.

Cooperation with Arab, Regional and International Organizations

During 2012 the Fund carried on with its efforts to promote cooperation and coordination with other Arab organizations and regional and international organizations which share mutual interests with a view to best serve its member countries and contribute to the attainment of its objectives.

Arab and Regional Organizations

The Fund continued its regular work on the preparation and publication of the Joint Arab Economic Report. This report represents a major reference document which covers economic developments in Arab countries as a group. It stands as a model of constructive cooperation in its production between the Fund and the other joint Arab organizations. These include the Arab Fund for Economic and Social Development, The Secretariat of the League of Arab States and The Organization of Arab Petroleum Exporting countries (OAPEC).

Within this collaborative approach, each of the four institutions contributes by writing chapters on topics falling within the domain of its competence. In addition to the above mentioned contribution the Fund has been also assuming since 1980 the responsibility of editing and publishing this report.

Regarding the preparations of the 2012 edition, the Fund sent out questionnaire to the member countries to be filled in by relevant national agencies. In addition the Fund hosted two preparatory meetings attended by the representatives of the four institutions. The purpose of the first meeting held during April 24-26, 2012 was to coordinate the report’s statistics. The second meeting, held during June 18-21, 2012, was dedicated to reviews and discussions of preliminary version of the report.

In the next stage the Fund issued by the end of July 2012 the first draft of the report, sent to the relevant authorities in member countries. In light of received comments on this draft, the Fund proceeded to edit and produce the final version and issued the report before the end of the year.

At another level, the Fund participated in the periodical ministerial meeting of the Economic and Social Council for Arab Countries which was held in Egypt in December to prepare the agenda of the Arab Economic Summit which held in January 2013. It also attended the high level regional conference on Macroeconomic and Financial Statistics Based on International Standards for Public Policies Makers. This conference held in May, 2012 and was organized by the Moroccan Ministry of Finance and the Economy in cooperation with the IMF.

Moreover, the Fund participated as an observer in the annual meetings of the regional financial working group for Combatting Money Laundering and Funding of Terrorism. These convened in Saudi Arabia in May and in Morocco in November 2012.

Cooperation with International Organizations

The Fund has continued its cooperation with relevant international institutions particularly the IMF and the World Bank. During April 2012 the fund participated in the spring meetings of the IMF and the World Bank which convened in Washington D.C and attended both the meetings of the Development Committee and the G24. It also participated in side meetings held on that occasion. The latter included the meetings between the Governors for Arab Countries and the IMF managing director and that with the president of the World Bank group. It also participated in the ministerial meeting related to the initiative of “the Deauville Partnership for Growth”.

In the same context, the Fund attended in October 2012 the annual meetings of IMF and the World Bank which took place in Tokyo. This attendance also covered the meetings of the Development Committee and G24 and those between the Arab ministerial group with the IMF managing director and President of the World Bank as well as the ministerial meeting of the “Deauville Partnership for growth initiative”. On the other hand, the Fund attended the joint meeting of Arab Financial Institutions and funds in the context of a group for coordination with

Japan International Cooperation Agency JICA in order to promote areas of cooperation between the two sides. The Fund delegation held different meetings with various IMF and World Bank departments as well as with IFC and the management of the European Bank for Reconstruction and Development. These meetings served to follow up and review joint activities and initiatives pursued with those institutions.

At another level, the Fund participated in the International Conference of “Banking Supervisors” which was organized by the Basel Committee on Banking Supervision. It was held in Turkey in September 2012. In the same context, it also attended the joint meeting between the Regional Committee and the Basel Committee as such.

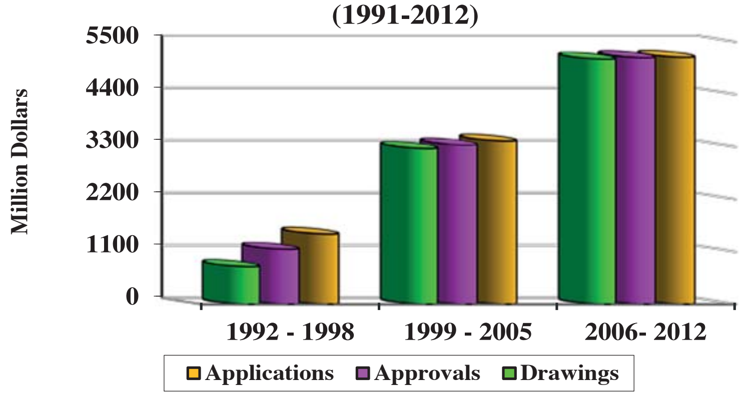
On the other hand, the fund attended in October 2012 the Global Payments Week. This event was held in Portugal and was organized by the World Bank, the Bank for International Settlements, the International Organization of Securities Exchange Commissions (IOCSCO) in cooperation with the Payment Committees from the various continents, including the Arab Committee on Payments and Settlement Systems. On the side of this event and in its conjunction the Fund organized a meeting for the Arab group which was attended by central banks and financial markets authorities represented thirteen Arab countries.

Cooperation with the Arab Trade Financing Program (ATFP)

The Arab Trade Financing Program (ATFP) is a specialized joint Arab financial Institution. It was established by virtue of a resolution adopted by the Board of Governors of the Arab Monetary Fund. The authorized capital is US$ 500 million. Its fifty shareholders include national and regional Arab financial and banking Institutions. The most prominent among these is the Fund. The Program aims at contributing to the development of Arab trade and to enhance the competitiveness of Arab exporters. It seeks to achieve those objectives through: (1) the provision of a part of the finance required by such transactions dealers therein, (2) the supply of information on trade activities and (3) the promotion of Arab goods and commodities. The program's operational mechanism is based on dealing with exporters and importers in Arab countries through national agencies designated by those countries to carry out intermediation to that effect.

Due to their widespread deployment, national agencies contribute to the expansion of ATFP activities. By end 2012, the program network covered 200 agencies operating from 19 Arab states and five non-Arab countries.

Chart (2)
ATFP Evolving Trade Finance Activity (Cumulative Basis) (1991-2012)



Since the start of its operations and until the closing of 2012, the program cumulatively received from those agencies applications amounting to US$ 10.1

billion for eligible trade transactions totaling approximately US$ 12.7 billion. off these requests, transactions amounting to US$ 9.7 billion were approved by the program. Disbursements throughout the period totaled US$ 9.2 billion. Chart (2) depicts the historical evolution of ATFP's cumulative financing activity during the period 1992-end 2012.

Regarding ATFP's trade information services, the program has completed the construction of its Intra Arab Trade Information Network (IATIN) and carried out its implementation at the regional level of Arab countries. The network is connected with 30 focal points spread over virtually all Arab countries. The program's website (atfp.org.ae) provides access to information on trade in all Arab countries.

The program is keen on offering opportunities to support the promotion of trade exchanges between Arab importers and exporters. In line with this, ATFP organizes and conducts meetings between exporters and importers in specific sectors. In cooperation with numerous parties in Arab countries, the program organized 17 meetings of such type in the following sectors: textiles and ready-made garments, food industries, agricultural products and inputs, metallurgical industries, pharmaceutical and petrochemical industries, furniture and building and construction.

Reports, Bulletins, Research and Studies

During 2012, the Fund continued to publish reports, bulletins, research papers and studies. By publishing these releases, the Fund seeks to heighten awareness of economic issues and developments in the areas of interest for Arab countries.

The Joint Arab Economic Report

The Fund participate in drafting certain chapters in the Joint Arab Economic Report and is additionally, in charge of its editing, and publishing. Its drafting contribution to the Report's 2012 issue covered the preparation of the chapters on financial, monetary and banking developments as well as those related to Arab capital markets, foreign trade, balance of payments and external public debt and exchange rates. Moreover, the fund prepared the Report's pivotal chapter which shed light on the importance of increasing access to finance in addition to the comprehensive overview of the report.

The Economic Statistical Bulletin for Arab Countries

In 2012, the Fund issued this bulletin with a remodeled look. This series covers various economic sectors in the Arab countries. Its preparation relies on data derived essentially from national sources in addition to some few other regional and international sources. The Bulletin contains chapters on national accounts, exchange rates, money and credit, foreign trade, balance of payments and public finance. It also carries a chapter on consolidated statistics which revises various sectoral developments in individual countries and the Arab countries as a group.

The Bulletin of Statistics on the Competitiveness of Arab Foreign Trade

The Fund published in 2012 the first issue from the bulletin of "Statistics of Inter-Arab international and Intra Arab Trade Competitiveness", which presents indices on trade, and intra-Arab trade competitiveness in order to measure the relative importance of Arab commodities in the world markets.

Research and Studies

The research and studies published by the Fund in 2012 comprised the following papers:

"Strengthening Economic Stability and role of Developing the Financial Sector in Arab Countries": this paper reviews the importance of economic stability in the attainment of inclusive growth . In this regard, this study offers an overview of economic stability in Arab countries. It discusses the challenges facing the formulation of appropriate economic policies which are conducive to strengthening the resilience of Arab economies to various exogenous shocks, while permitting to safeguard the said economic stability. In this connection, the paper points out to the large contribution which could be made by the financial sector to the promotion and fostering of sustainable economic stability in Arab countries, this paper was presented at the meeting of the council of Arab Ministers of Finance held in April 2012, in Morocco.

"Arab Trade Finance and Export Guarantees": this study addresses the Arab trade financing and guarantees. It review recent developments in the market for world trade finance and export credit guarantees and the influence of the world trade environment. The paper highlighted international and regional coordination efforts deployed in supporting foreign trade finance and export guarantees during times of crises and turbulence. It also touched on ongoing initiatives to address the paucity of information and statistics on trade finance. It also reviewed recent developments in total and intra-Arab trade, its financing sources, available guarantees and the supportive role of national and regional institutions involved in Arab trade finance and trade guarantees. As noted earlier, this paper was presented at the meeting of the Council of Arab Ministers of Finance held in April 2012, in Morocco.

"Competitiveness of Arab Commodity Exports": this study seeks to analyze the current status of the competitiveness of Arab countries by measuring a number of indicators of export competitiveness. Such measurements help in assessing the effects of policies and measures introduced by Arab countries in their efforts to develop their competitiveness capabilities in foreign trade arena. The study reviews the concept of competitiveness in the economic literature. It goes over developments in the commodity composition of Arab exports and reviews the methodology used in measuring the indicators of competitiveness of commodity exports. The study contains a comparison between competitiveness indicators of Arab countries and their counterparts in Malaysia, Singapore and Spain.

"Increasing access to Finance and Financial Services in Arab Countries: Challenges and Opportunities": in taking up the topic of access to finance and banking services, this study sheds light on the developmental implications of access to financing. It addresses the opportunities of access to banking services for private individuals and access to finance by small and medium enterprises as well as access to housing finance. It points out that these services entail important economic and social ramifications in Arab countries as they contribute to the improvement in living standards, creating job opportunities and the reduction of income.

"Economic stability of Arab countries in the last two decades (1990-2010)": This study analyses the economic stability of Arab countries in order to identify to what extent Arab countries had succeeded in ensuring macro-economic stability in terms of Stability Policies": this study analyzes the economic stability of Arab countries economic growth, public finance and monetary policies and the external sector. The study uses comparative analysis in evaluating stability in the past two decades. It provide a practical framework for assessing economic stability in Arab countries and determining the capability of their economics to avoid sharp growth fluctuation. It addresses the challenges facing the Arab economics and offered some recommendations for bolstering economic stability.

"Increasing opportunities of Access to finance and financial services in Arab countries, and the role of the Central banks": this paper seeks to raise awareness of the importance of economic policies. It discusses the current status and indicators of financial inclusion in the Arab countries in order to identify the main requirements needed and challenges associated with financial inclusion. In that regard, the paper highlights the pivotal role which Central banks can play to let this agenda move forwards.

"The prerequisites for the Development of the Financial Sector in the Arab Maghreb countries to promote Stability and enhance inclusive Growth": this study contains an overview of the status of the financial and banking sector in the countries of the Arab Maghreb. It took up the issues related to the development of the financial and banking sector as a tool to support of stability and growth and the role of the Arab Monetary fund in that respect. The study touches on the role of regional integration and financial complementarity in countries of the Arab Maghreb in supporting financial reforms.

Consolidated Financial Position

In accordance with Article Forty Nine of the Articles of Agreement of the Arab Monetary Fund "the Fund", assets, liabilities and transactions are expressed in Arab Accounting Dinars (AAD). Each AAD is equal to three Special Drawing Rights (SDR) as defined by the International Monetary Fund.

The consolidated financial statements, which incorporate the financial statements of the Arab Monetary Fund and Arab Trade Financing Program "the Subsidiary", are prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

The consolidated financial statements reflect the consolidated financial position of the Fund and its Subsidiary as at 31 December 2012, and the results of operations, changes in equity and cash flows for the year then ended.

The following provides an overview of key financial information:

Resources

The resources of the Fund, as defined in Article Eleven of the Articles of Agreement, consist of paid-up capital, reserves, loans and credits obtained by the Fund, and any other resources approved by the Board of Governors. The Board of Governors had accordingly approved in 1989 the acceptance of deposits from monetary and financial institutions of member states, aiming at supporting Arab states in managing their foreign reserves and strengthening the resources and financial position of the Fund, but such resources would not be used in providing loans.

The Board of Governors of the Fund had also approved, through the Articles of Association of the Arab Trade Financing Program, contributions by various financial institutions to the Program's Capital aiming at bolstering the resources directed to support Arab trade financing.

Capital

The authorized capital of the Fund as defined in Article Twelve of the Articles of Agreement is equivalent to AAD 600,000 thousand divided into twelve thousand shares of AAD 50 thousand each. The Subscribed Capital until the Board of Governors meeting on 12th April 2005 was AAD 326,500 thousand. In the aforementioned meeting the Board approved by its resolution No. (3) additional subscriptions of AAD 273,500 thousand, raising accordingly the subscribed capital to the full extent of the authorized capital of AAD 600,000 thousand. The additional subscriptions were covered by a transfer from the general reserve, bringing the paid-up capital to AAD 596,040 thousand by the end of 2012 and 2011. The unpaid part of the Subscribed Capital amounting to AAD 3,960 thousand represents Palestine’s share, the payment of which has been deferred in accordance with the Board of Governor’s Resolution No. (7) of 1978.

Reserves

Reserves amounted to AAD 416,549 thousand at the end of 2012 compared to AAD 390,058 thousand at the end of 2011. The reserves at the end of 2012 represent approximately 70 percent of the paid up capital compared to 65 percent by the end of year 2011. These are composed of the general reserve, contingency reserve and the reserve for revaluation at fair value for available -for- sale investments.

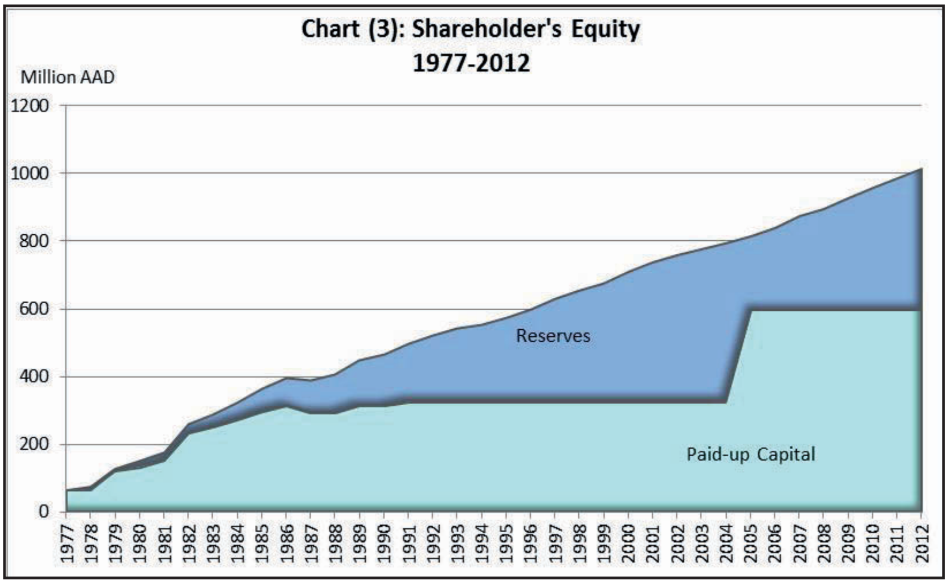
The **general reserve** balance reached AAD 272,110 thousand at the end of 2012 compared to 252,351 thousand at the end of 2011, with an increase of AAD 19,759 thousand the equivalent of 8 percent.

The **contingency reserve** was established in accordance with the Board of Governors' resolutions No. (7) of 1989 and No. (4) of 2000, whereby an annual sum being the greater of AAD 5,000 thousand or 10 percent of the net income for the year is appropriated to the contingency reserve each year. This reserve is to be used to mitigate any unforeseen losses in the future. The contingency reserve balance reached AAD 145,000 thousand at the end of 2012, compared to AAD 140,000 thousand at the end of 2011.

The **revaluation reserve** of available-for-sale investments showed a debit balance of AAD (561) thousand at the end of 2012 compared to a debit balance of AAD (2,293) thousand at the end of 2011.

Shareholders' Equity

The net equity of the Fund's shareholders, represented by the paid-up capital and reserves, increased to AAD 1,012,589 thousand at the end of 2012 compared to AAD 986,098 thousand at 31 December 2011. The increase in net equity amounting to AAD 26,491 thousand represents an annual growth rate of 2.7 percent. Chart No. (3) below shows the growth in shareholders' equity of the Fund from inception to 31 December 2012:



The interest of **other shareholders in the Subsidiary,** represented by their interest in the capital and reserves of the Arab Trade Financing Program, amounted to AAD 77,431 thousand at the end of 2012 compared to AAD 76,444 thousand at the end of 2011, resulting in an increase of AAD 987 thousand, or 1.29 percent, which is attributed mainly to the differences in US Dollar exchange rate (base currency of the Arab Trade Financing Program) vis-à-vis the AAD as at end of 2012 and 2011.

The total equity of the shareholders of the Arab Monetary Fund and other shareholders in the Subsidiary amounted to 1,090,020 thousand at the end of year 2012 compared to AAD 1,062,542 thousand at end of 2011. The resources, which are represented by total equity, were employed to finance loans to member countries, lines of credit to national agencies, and other assets as explained below.

Loans to Member Countries

The balance of outstanding loans to member countries as at 31 December 2012 amounted to AAD 440,605 thousand compared to AAD 416,119 thousand as at the end of 2011. Loan commitments however, amounted to AAD 509,723 thousand at the end of 2012, comprising the balance of outstanding loans in addition to the balance of approved and undisbursed loans of AAD 69,118 thousand as at the end of 2012.

Lines of Credit

Financing aimed at promoting and developing Arab trade is provided in the form of lines of credit by the Subsidiary (Arab Trade Financing Program) to exporters and importers in member countries through national agencies. The balance of drawings against contracted lines of credit denominated in US Dollars amounted to AAD 126,947 thousand (US Dollars 586 million) as at 31 December 2012 compared to AAD 102,800 thousand (US Dollars 473 million) at the end of 2011.

Deposits at Central Banks of Member States

In accordance with Article Fourteen of the Articles of Agreement of the Arab Monetary Fund, a portion of the initial capital contributions amounting to 2 percent was paid in the national currencies of member countries and deposited with their central banks. These deposits are revalued by the member states at end of each year to maintain their value in Arab Accounting Dinars, which was equivalent to AAD 5,336 thousand at end of years 2012 and 2011.

Other Assets

Other assets include the Fund's contribution in the share capital of inter-Arab Investment Guarantee Corporation in accordance with the Board of Governors resolution No. (6) of 2002, whereby the Board approved a contribution of US Dollars 27.5 million (equivalent to AAD 6.3 million) in the increase of share capital of the corporation.

Investments

The consolidated investment portfolio is comprised of the current and call accounts with banks and the International Monetary Fund, time deposits with banks and financial investments, net of the accepted time deposits from monetary and financial institutions. The consolidated investment portfolio amounted to AAD 623,775 thousand at 31 December 2012 compared to AAD 608,995 thousand at 31 December 2011.

Results of Operations

Consolidated net income for the year ended 31 December 2012, after taking into consideration the interest of other shareholders in the Subsidiary, amounted to AAD 27,873 thousand compared to AAD 31,144 thousand at 31 December 2011. The components of net income are as follows:

Income

The total consolidated income of the Fund and the Subsidiary for the year ended 31 December 2012, (net of interest paid on accepted deposits from monetary and financial institutions of member states), amounted to AAD 33,621 thousand compared to AAD 36,362 thousand, at 31 December 2011.

Expenditure

The total consolidated expenditure for the year ended 31 December 2012 amounted to AAD 4,976 thousand compared to AAD 4,619 thousand for the previous year. The total consolidated expenditure components include, in addition to administration and general expenses, technical assistance expenses, contribution to the international initiative to support Highly Indebted Poor Countries (HIPC) and grants associated with loans.

For the year ended 31 December 2012, technical assistance to member countries amounted to AAD 276 thousand compared to AAD 221 thousand in 2011. Contribution to HIPC initiative and grants associated with loans amounted to AAD 235 thousand in 2012 compared to AAD 344 in 2011.

Currencies

The Fund, when employing its resources, manages the currency risk by substantially maintaining its assets in currencies closely aligned to the components of the SDR basket. Loan transactions to member countries are contracted in Arab Accounting Dinars. The investment of the Fund in the Subsidiary is included in the US Dollar component of the Fund's assets, which are aligned to the SDR currency composition. Other assets transactions are concluded in convertible currencies and covered as needed by forward foreign exchange contracts to align them with the components of SDR basket.

The table below shows the weights of the currencies of the SDR basket at the end of years 2012 and 2011, together with the SDR exchange rates against those currencies at the end of those years, and also their weights in effect as on 01 January 2012.

Currency	The Weights of the Currencies of SDR Basket			SDR Exchange Rates Against the Currencies of the Basket	
	01 January 2012	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
US Dollar	42.78%	42.93%	42.99%	1.538	1.535
Euro	35.77%	36.27%	35.65%	1.166	1.187
Pound Sterling	11.23%	11.67%	11.18%	0.951	0.993
Japanese Yen	10.23%	9.13%	10.18%	132.506	118.799
	100.00%	**100.00%**	**100.00%**		

Consolidated Financial Statements & the Auditors' Report

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

Contents

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF THE ARAB MONETARY FUND

Report on the Financial Statements

We have audited the accompanying consolidated financial statements from pages 2 to 19 of the Arab Monetary Fund ('the Fund') and the Arab Trade Financing Program ('the Subsidiary'), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of income, comprehensive income and changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund and the Subsidiary as of 31 December 2012 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, proper books of account have been kept by the Fund and the financial statements are in agreement therewith and the total administrative expenses for the year are in accordance with the financial regulations of the Fund and within limits specified in the administrative budget. We have obtained all the information and explanations we required for the purpose of our audit and to the best of our knowledge and belief, no violations of the Articles of Agreement of the Fund have occurred during the year which would have had a material effect on the business of the Fund or on its financial position, and that the Fund complies with the relevant articles of establishment.

Ernst & Young

Ernst & Young
28 February 2013
Abu Dhabi

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Notes	2012 AAD 000	2011 AAD 000
Assets			
Loans to member countries	3	**440,605**	416,119
Lines of credit	4	**126,947**	102,800
Deposits with central banks of member countries	5	**5,336**	5,336
Deposits with banks, current and call accounts		**1,421,224**	1,461,450
Financial investments	6	**1,414,411**	1,333,416
Accounts receivable and other assets	7	**42,199**	21,378
Total assets		**3,450,722**	3,340,499
Equity and Liabilities			
Equity			
Authorised and subscribed capital		**600,000**	600,000
Paid-up capital	8	**596,040**	596,040
Reserves	9	**416,549**	390,058
Total equity		**1,012,589**	986,098
Interest of other shareholders in the Subsidiary	10	**77,431**	76,444
Liabilities			
Deposits from Arab monetary and financial institutions	11	**2,211,860**	2,185,871
Accounts payable and other liabilities	12	**148,842**	92,086
Total liabilities		**2,360,702**	2,277,957
Total equity and liabilities		**3,450,722**	3,340,499

جاسم المناعي

Dr. Jassim Al-Mannai
Director General Chairman of the Board

These consolidated financial statements were approved by the Board of Executive Directors on 28 February 2013.

The attached notes from 1 to 21 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2012

	Notes	*2012 AAD 000*	*2011 AAD 000*
Income			
Interest and fee income on loans to member countries		**13,842**	12,539
Interest and fee income on lines of credit		**1,915**	1,353
Investment income	13	**14,575**	13,925
Interest income on deposits and current and call accounts		**14,366**	17,447
Other income		**312**	282
		45,010	45,546
Interest expense on accepted deposits from Arab monetary and financial institutions		**(11,389)**	(9,184)
		33,621	36,362
Expenses			
Administration and general	14	**4,465**	4,054
Technical assistance	15	**276**	221
Contribution to HIPC	16	**235**	344
		4,976	4,619
Net income before the interest of other shareholders in the Subsidiary		**28,645**	31,743
Interest of other shareholders in the Subsidiary		**(772)**	(599)
Net Income		**27,873**	31,144

The attached notes from 1 to 21 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY
For the year ended 31 December 2012

	Paid-up capital	*General reserve*	*Contingency reserve*	*Available for sale investments valuation reserve*	*Total*
			AAD 000		
2011					
Comprehensive Income					
Net income for the year 2011	-	31,144	-	-	31,144
Unrealized changes in values of available-for-sale investments excluding amounts attributable to other shareholders in the Subsidiary	-	-	-	5	5
Net Comprehensive Income	**-**	**31,144**	**-**	**5**	**31,149**
Changes in Equity					
Balance at 1 January 2011	596,040	229,379	135,000	(2,298)	958,121
Transfer to contingency reserve	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (9th)	-	(3,172)	-	-	(3,172)
Balance at 31 December 2011	**596,040**	**252,351**	**140,000**	**(2,293)**	**986,098**
2012					
Comprehensive Income					
Net income for the year 2012	-	27,873	-	-	27,873
Unrealized changes in values of available-for-sale investments excluding amounts attributable to other shareholders in the Subsidiary	-	-	-	1,732	1,732
Net Comprehensive Income	**-**	**27,873**	**-**	**1,732**	**29,605**
Changes in enquity					
Balance at 1 January 2012	596,040	252,351	140,000	(2,293)	986,098
Transfer to contingency reserve	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (10th)	-	(3,114)	-	-	(3,114)
Balance at 31 December 2012	**596,040**	**272,110**	**145,000**	**(561)**	**1,012,589**

The attached notes from 1 to 21 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Note	*2012* *AAD 000*	*2011* *AAD 000*
Operating activities			
Net income for the year		**27,873**	31,144
Adjustments for:			
Depreciation of fixed assets		**87**	96
Changes in interests of other shareholders in the Subsidiary		**987**	1,047
		28,947	32,287
Loans drawings		**(99,495)**	(126,541)
Loans repayments		**75,009**	67,036
Change in lines of credit		**(24,147)**	12,105
Change in accounts receivable and other assets		**(20,791)**	1,956
Change in accounts payable and other liabilities		**55,806**	(13,437)
Change in deposits with banks maturing after six months from the date of the statement of financial position		**26,468**	59,657
Change in deposits from monetary and financial institutions		**25,989**	209,085
Net cash from operating activities		**67,786**	242,148
Investing activities			
Purchase of fixed assets		**(117)**	(94)
Change in investments in alternative strategies funds		**11,375**	4,446
Change in available for sale securities		**(72,782)**	(1,845)
Change in held-to-maturity securities		**(17,856)**	(276,888)
Net cash used in investing activities		**(79,380)**	(274,381)
Financing activities			
Dividends paid to other shareholders in the Subsidiary		**-**	(458)
Appropriation paid to support Palestinian People		**(2,164)**	(2,149)
Net cash used in financing activities		**(2,164)**	(2,607)
Net (decrease) in cash and cash equivalents		**(13,758)**	(34,840)
Cash and cash equivalents at beginning of year		**1,409,571**	1,444,411
Cash and cash equivalents at end of year	18	**1,395,813**	1,409,571

The attached notes from 1 to 21 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

1 ACTIVITIES

The Arab Monetary Fund is a regional Arab financial institution formed in 1976 and started its operations in April 1977, being desirous of laying the monetary foundations of Arab economic integration and accelerating the process of economic development in all Arab countries. The Fund include all the Arab countries members in the League of Arab States. The Fund is situated in Abu Dhabi, United Arab Emirates (P O Box 2818, Abu Dhabi, United Arab Emirates).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention as modified for forward foreign exchange contracts, available for sale investment securities and investments in the alternative strategies funds which are measured at fair value.

In accordance with the Articles of Agreement of the Fund, the consolidated financial statements are expressed in Arab Accounting Dinars ("AAD") rounded to the nearest thousand. Each AAD is equal to three Special Drawing Rights ("SDR") as defined by the International Monetary Fund.

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis to ensure appropriate valuations of assets and liabilities and recognition of results in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been consistently applied in dealing with items that are considered material in relation to the consolidated financial statements together with adopting the newly issued IFRSs applicable as of 1 December 2009 which require adding the statement of comprehensive income and additional disclosures on financial instruments based on their classification. Application of these standards has no material effect on the consolidated financial position of the Fund

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Arab Monetary Fund (the "Fund") and Arab Trade Financing Program (the "Subsidiary") in which the Fund owns more than 50% of its subscribed and fully paid up capital as of 31 December 2011 and 2012 as explained in note 10. The Subsidiary was established in accordance with resolution No (4) of 1989 by the Board of Governors of the Arab Monetary Fund with the aim of promoting and developing intra-Arab trade by providing the necessary financing in the form of lines of credit to Arab exporters and importers in member countries. The Subsidiary has its headquarters in Abu Dhabi, United Arab Emirates.

All significant inter-company balances, transactions and profits have been eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES continued

(c) Financial instruments: recognition and measurement

The policies adopted with regard to the definition, recognition and measurement of financial instruments are as follows:

i Initial recognition

All financial instruments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with those financial instruments.

ii Held-to-maturity investment securities - at amortised cost

Held-to-maturity investments comprise investment securities which are purchased with the intention of holding them to maturity and are measured at amortised cost. For investments carried at amortised cost, any gain or loss is recognised in the income statement when the investment is de-recognised or impaired, as well as through the amortisation process.

iii Financial investments – at fair value through income statement.

Until 31 July 2008, they comprised of investments in funds specialised in alternative strategies. These investments were valued at net assets value as at the statement of financial position date, which represents fair value. Changes in the net asset value were recognised in the income statement.

iv Available-for-sale investment securities – at fair value through reserves.

Available-for-sale investment securities comprise those investments in bonds and financial papers other than held-to-maturity investments, and investments in alternative strategies funds starting 1 August 2008. It does not comprise loans, or receivables originated by the Fund or the Subsidiary.

Investments which are classified as "available-for-sale" are measured at fair value at the statement of financial position date, with unrealised gain or loss reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of available-for-sale investment securities is based on quoted market prices where available, or dealer price quotations or pricing models provided by established price information services.

v Loans and receivables

Loans to member Countries, originated by the Fund, and lines of credit, originated by the Subsidiary, are measured at cost.

vi Financial assets and liabilities not included in (ii) to (v) above are stated at their fair value through the income statement.

vii Purchases and sales of investment securities are accounted for on the trade date.

2 SIGNIFICANT ACCOUNTING POLICIES continued

(d) Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is an objective evidence that a financial asset or a group of financial assets is impaired as follows:

i *Loans to Member Countries*

The Fund adopts the policy of making provisions against interest on loans to member Countries who have defaulted in settlement of any instalment due for more than a year, as well as against interest calculated on delayed loan principal and interest instalments. The Fund then endeavours to reach agreements with those Countries for the settlement of their arrears.

ii *Financial Investments*

The Fund assesses, periodically, the exposure of its investments to a prolonged or significant decline in market value against cost. The assessment process requires the exercise of estimates and assumptions based primarily on the presence of evidence to support a decline in the credit or financial rating of the issuer.

In case an objective evidence exists that a financial asset is impaired, the estimated recoverable amount of that financial asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets carried at cost, the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the income statement for the period.

- For available for sale financial assets, if a loss has been recognised directly in equity (i.e. recoverable amount is below original acquisition cost), and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in the income statement for the period.

(e) Foreign currencies

i *Foreign currency transactions*

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Assets (except fixed assets) and liabilities in foreign currencies at the statement of financial position date are translated at SDR rates of exchange at that date as issued by the International Monetary Fund. Forward foreign exchange contracts are valued at market rates applicable to their respective maturities at the statement of financial position date, and any resulting net gains or losses are taken to the income statement.

Fixed assets are recorded at historical rates of exchange.

ii *Financial statements of the Subsidiary*

The currency mix of the Fund's assets is closely aligned to the components of the SDR basket of currencies. In May 2000, the fund included the investment in the Subsidiary in the US Dollar component of the Fund's assets aligned to the SDR currency composition. Accordingly, exchange differences arising from the translation of the Subsidiary's financial statements are offset by exchange differences on the remaining part of the Fund's assets.

iii *Derivative financial instruments*

The Fund and its Subsidiary use derivative financial instruments, currency swaps and forward foreign exchange contracts, to manage exposure to foreign exchange risks. The Fund and its Subsidiary do not hold or issue derivative financial instruments for trading purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

2 SIGNIFICANT ACCOUNTING POLICIES continued

(f) Depreciation of fixed assets

The cost of fixed assets is expensed by equal annual instalments over the expected useful lives of the assets concerned.

(g) Pension obligations and employees' terminal benefits

The Fund's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value of the obligations compared to the fair value of plan assets. The calculation is performed by a qualified actuary every three years. Pension scheme assets, the net income arising thereon and corresponding liabilities are accounted for separately.

Terminal benefits relating to employees who are not covered under the pension fund scheme are accounted for in accordance with the relevant regulations.

(h) Revenue recognition

Interest receivable and payable are recognised on a time proportion basis, taking account of the principal outstanding and the applicable interest rate.

(i) Cash and cash equivalents

For the purposes of the cash flow statement presentation, cash and cash equivalents are defined as current and call accounts with banks and International Monetary Fund and deposits with banks maturing within six months from the statement of financial position date.

3 LOANS TO MEMBER COUNTRIES

	2012	*2011*
	AAD 000	*AAD 000*
Balance at 1 January	**416,119**	356,614
Drawings during the year	**99,495**	126,541
Repayments during the year	**(75,009)**	(67,036)
Balance at 31 December	**440,605**	416,119

Loans to member countries at 31 December 2012 include over one year principal amounts overdue and not received of AAD thousand 17,757 (*2011: AAD thousand 14,968*). In this regard, the Board of Governors' resolution number (6) of 1995 extended the suspension of the membership of the defaulting countries concerned until agreements are reached to resolve the issue of overdue amounts.

Loans to member countries also include capitalisation of unrealised interest forming part of restructuring the debt position of two of the member countries. The fund follows a policy of recognizing capitalized interest proportionately with the rescheduled debt repayments. Therefore, the balance of unrealised capitalised interest is included in accounts payable and other liabilities as deferred income, and gradually amortized to the consolidated income statement proportionately with the debt repayments. The balance of unrealized capitalized interest as at 31 December 2012 amounted to AAD thousand 63,800 (2011: AAD thousand 70,579).

The undisbursed balance of the contracted loans at 31 December 2012 amounted to AAD thousand 69,118 (2011: AAD thousand 50,650).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

4 LINES OF CREDIT

These represent lines of credit granted by the Subsidiary with the aim of promoting and developing intra-Arab trade.

	2012	*2011*
	AAD 000	*AAD 000*
Balance at 1 January	**102,800**	114,940
Drawings during the year	**172,466**	163,117
	275,266	278,057
Repayments during the year	**(148,166)**	(176,117)
Differences in translation to AAD	**(153)**	860
Balance at 31 December	**126,947**	102,800

There are no unutilised balances of lines of credit and allocations as at 31 December 2012 (2011: AAD thousand 413).

5 DEPOSITS WITH CENTRAL BANKS

These deposits represent the portion of capital contributions paid in the national currencies of member countries and deposited with their central banks in accordance with Article Fourteen of the Articles of Agreement of the Arab Monetary Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

6 FINANCIAL INVESTMENTS

Financial investments comprise of highly rated instruments of governments, international institutions, corporations, banks and investments in alternative strategies funds as follows:

	2012	*2011*
	AAD 000	*AAD 000*
Investments at fair value through reserves:		
Investment in alternative strategies funds: Available-for-sale	**26,602**	36,065
Available-for-sale securities	**127,955**	55,353
	154,557	91,418
Held-to-maturity securities (at amortised cost)	**1,259,854**	1,241,998
	1,414,411	1,333,416

Cumulative change in fair value of available-for-sale investments

	2012	*2011*
	AAD 000	*AAD 000*
Change in value of investments in alternative strategies funds	**(285)**	(2,197)
Change in value of investment in securities	**(276)**	(96)
	(561)	(2,293)

Value of held-to-maturity financial investments

The market value of the held-to-maturity investments at 31 December 2012 was AAD thousand 1,262,209 (2011: AAD thousand 1,232,588).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2012 *AAD 000*	*2011* *AAD 000*
Total interest receivable	**100,066**	97,697
Deduct: Interest set-aside in accordance with rescheduling agreements	**(45,593)**	(45,611)
Overdue interest receivable on loans from member Countries	**(44,179)**	(42,564)
	10,294	9,522
Contribution in Inter-Arab Investment Guarantee Corporation	**6,259**	6,331
Fixed assets	**302**	272
Other debit balances	**25,344**	5,253
	42,199	21,378

The Fund's share in the Arab Investment & Export Credit Guarantee Corporation consists of 8,118 share at a nominal value of one thousand KWD per share, having an acquisition value of USD 27.5 million. The Fund's Board of Governors has agreed on 16 April 2002 and based on its resolution no. (6) to contribute in increasing the Institution's capital by the above amount, which was fully paid.

8 PAID-UP CAPITAL

	2012 *AAD 000*	*2011* *AAD 000*
Capital subscribed and called (12,000 shares of AAD 50,000 each)	**600,000**	600,000
Unpaid capital	**(3,960)**	(3,960)
Capital paid-up	**596,040**	596,040

The balance of unpaid capital represents Palestine's share of called up capital. The payment of Palestine's share of called up capital was deferred in accordance with the Board of Governors' resolution number (7) of 1978.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

9 RESERVES

The transfer to the contingency reserve is made in accordance with the Board of Governors' resolutions number (7) of 1989 and number (4) of 2000, under which an annual sum being the greater of AAD 5 million or 10% of the net income for the year is to be appropriated to the contingency reserve each year. This reserve is to be used to mitigate any unforeseen future losses and the remaining amount is transferred to the general reserve.

The general reserve at 31 December 2012 includes AAD thousand 40,656 (2011: AAD thousand 39,688) being the Fund's share of reserves of the Subsidiary.

The Board of Governors approved through resolution number (5) of 2012, a 10th appropriation of 10% of 2011 net income as a contribution towards the efforts exerted to support the Palestinian people. The appropriation amounted to AAD thousand 3,114. The Board of Governors had also approved through resolution number (5) of 2011, a 9th appropriation of 10% of 2010 net income for the same purpose. The appropriation amounted to AAD thousand 3,172.

In respect of the rights of member Countries in reserves, and because the payments of capital shares were made by member Countries on different dates, the resolution of the Board of Governors number (3) of 2005 accorded the application of the principal of weighted average capital (based on amounts and dates of Capital payments by each member Country) in determining the share of each member Country in the income and reserves.

10 INTEREST OF OTHER SHAREHOLDERS IN THE SUBSIDIARY

Interest of other shareholder in the Subsidiary comprises minority shareholders interest in the net assets of the Subsidiary (Arab Trade Financing Program) at the statement of financial position date. Their interest is denominated in US dollars, being the base currency of the Subsidiary, and their ownership on 31 December 2012 is 44.36% and on 31 December 2011 was 44.36%.

	2012 USD 000	*2011 USD 000*
Owners' equity in the base currency of the Subsidiary:		
- Paid up capital at end of year	**492,575**	492,575
- Reserves at end of year	**304,538**	294,662
- Net income for the year	**8,006**	6,400
Total owners' equity	**805,119**	793,637
The percentage of other shareholders interest in the Subsidiary	**44.36%**	44.36%
The value of other shareholders interest in the Subsidiary	**357,168**	352,086

	2012 AAD 000	*2011 AAD 000*
The value of other shareholders interest in the Subsidiary in the base currency of the Fund	**77,431**	76,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

11 DEPOSITS FROM MONETARY AND FINANCIAL INSTITUTIONS

In fulfilling its objectives, and in accordance with article 5 of its articles of agreement, the fund accepts deposits from Arab Monetary Agencies and Central Banks at agreed rates of interest.

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2012 *AAD 000*	*2011* *AAD 000*
Unrealised capitalised interest	**63,800**	70,579
Investments transactions payable and repurchase agreements	**56,259**	9,676
Accrued interest payable	**984**	953
Other credit balances	**27,799**	10,878
	148,842	92,086

13 INVESTMENT INCOME

	2012 *AAD 000*	*2011* *AAD 000*
Investment in alternative strategies funds – Available-for-sale	**(340)**	(944)
Available-for-sale securities	**1,718**	933
Held-to-maturity securities	**13,197**	13,936
	14,575	13,925

14 ADMINISTRATION AND GENERAL EXPENSES

Administration and general expenses for the year ended 31 December 2012 include Board of Directors remuneration and employees salaries and benefits amounting to AAD thousand 3,686 (2011: AAD thousand 3,252). The Fund and its Subsidiary employed 175 employees as of 31 December 2012 (2011: 178 employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

15 TECHNICAL ASSISTANCE EXPENSES

	2012 *AAD 000*	*2011* *AAD 000*
Training courses and seminars	**195**	168
Direct technical assistance to member Countries	**81**	53
	276	221

16 CONTRIBUTION TO HIPC

The Board of Governors approved through resolution No (1) for 2003, to provide loans exemptions through the Fund's participation in the Highly Indebted Poor Countries' initiative (HIPC) concerning the Islamic Republic of Mauritania. As part of the same initiative, the Board of Governors approved through resolution No. (4) for 2011 additional exemptions to the Union of the Comoros. The relief from interest is charged to the income statement on the accrual basis.

	2012 *AAD 000*	*2011* *AAD 000*
Cumulative balance of debt reliefs up-to 31 December	**5,273**	5,038
Cumulative balance of debt reliefs at beginning of year	**(5,038)**	(4,694)
Debt reliefs recognised in the income statement for the year	**235**	344

17 MANAGED FUNDS

The Fund and the Subsidiary assigned a part of their investment portfolios for management to a number of specialised external fund managers for agreed fees in accordance with respective fund management agreements. Managed funds amounted to AAD thousand 76,578 as at 31 December 2012 (2011: AAD thousand 85,371).

Funds managed by the Arab Monetary Fund for Arab countries and Arab Specialised Organisations amounted to AAD thousand 6,320 as at 31 December 2012 (2011: AAD thousand 8,034).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

18 CASH AND CASH EQUIVALENTS

	2012 *AAD 000*	*2011* *AAD 000*
Current and call accounts with banks and International Monetary Fund	**6,612**	17,007
Deposits with banks	**1,414,612**	1,444,443
Less: deposits maturing after six months from the statement of financial position date	**(25,411)**	(51,879)
	1,395,813	1,409,571

19 GEOGRAPHICAL DISTRIBUTION OF INVESTMENT PORTFOLIO

The geographical classification of the investment portfolio is based on the country of institution in the case of current and call accounts with banks and International Monetary Fund and time deposits with banks and on the location of the issuer in the case of the securities portfolio.

The geographical distribution of the investment portfolio as at 31 December was as follows:

	2012 *AAD 000*	*2011* *AAD 000*
Arab countries	**1,042,965**	936,181
Europe	**807,190**	695,463
North America	**113,875**	162,301
Far East and Pacific	**639,348**	854,490
Supra National Organisations	**232,257**	113,435
Africa	**-**	32,995
	2,835,635	2,794,865

20 PENSION OBLIGATIONS

In accordance with the policies followed by the fund an actuarial valuation of the Fund's obligations toward employees covered under the pension plan is carried out every three years. The valuation which was carried out as at 31 December 2011, estimated the present value of retirement benefits (the value of the liabilities in respect of service up to the valuation date) to be UAE Dirhams thousand 60,320 (AAD thousand 3,561). Based on the assumptions made in the actuaries' report, the book value of the pension fund's assets of UAE Dirhams thousand 60,418 (AAD thousand 3,567) as at the valuation date exceeded the present value of retirement benefits in respect of the service up to the valuation date by UAE Dirhams thousand 98 (AAD thousand 6).

The amount of pension contribution recognised as an expense in the financial statements of the Fund for the year ended 31 December 2012 amounted to AAD thousand 186 (2011: AAD thousand 78).

Funds managed by the Arab Monetary Fund for its Pension Plan amounted to UAE Dirhams thousand 58,959 (AAD thousand 3,480) as at 31 December 2012 (2011: UAE Dirhams thousand 60,418, AAD thousand 3,572).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

21 FINANCIAL INSTRUMENTS

(a) Maturities of assets and liabilities- 31 December 2012

Maturity analysis of the consolidated assets and liabilities for each class as at 31 December 2012 were as follows:

	Total	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
	AAD 000					
Assets						
Current and call accounts with banks & IMF	6,612	6,612	-	-	-	-
Deposits with banks	1,414,612	1,389,201	25,411	-	-	-
Available- for-sale securities	127,955	127,955	-	-	-	-
Alternative strategies funds	26,602	-	486	641	25,475	-
Held-to-maturity securities	1,259,854	384,179	291,229	548,063	36,383	-
Deposits with central banks	5,336	-	-	-	-	5,336
Lines of credit	126,947	90,603	22,192	14,152	-	-
Loans to member countries	440,605	43,951	48,110	277,536	53,251	17,757
Accounts receivable and other assets	42,199	34,674	520	427	-	6,578
	3,450,722	**2,077,175**	**387,948**	**840,819**	**115,109**	**29,671**
Equity and liabilities						
Interest of other shareholders in the Subsidiary	77,431	-	-	-	-	77,431
Deposits from monetary and financial institutions	2,211,860	2,209,852	2,008	-	-	-
Accounts payable and other liabilities	148,842	77,564	2,940	29,622	30,311	8,405
	2,438,133	**2,287,416**	**4,948**	**29,622**	**30,311**	**85,836**

Maturities of assets and liabilities- 31 December 2011

Maturity analysis of the consolidated assets and liabilities for each class as at 31 December 2011 were as follows:

	Total	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
	AAD 000					
Assets						
Current and call accounts with banks & IMF	17,007	17,007	-	-	-	-
Deposits with banks	1,444,443	1,392,564	51,879	-	-	-
Available- for-sale securities	55,353	55,353	-	-	-	-
Alternative strategies funds	36,065	6,931	3,860	1,114	24,160	-
Held-to-maturity securities	1,241,998	670,060	203,949	345,060	22,929	-
Deposits with central banks	5,336	-	-	-	-	5,336
Lines of credit	102,800	67,236	23,498	12,066	-	-
Loans to member countries	416,119	36,756	37,536	254,579	72,280	14,968
Accounts receivable and other assets	21,378	11,985	574	478	-	8,341
	3,340,499	**2,257,892**	**321,296**	**613,297**	**119,369**	**28,645**
Equity and liabilities						
Interest of other shareholders in the Subsidiary	76,444	-	-	-	-	76,444
Deposits from monetary and financial institutions	2,185,871	2,185,871	-	-	-	-
Accounts payable and other liabilities	92,086	14,889	2,646	27,573	37,715	9,263
	2,354,401	**2,200,760**	**2,646**	**27,573**	**37,715**	**85,707**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

21 FINANCIAL INSTRUMENTS continued

(b) Credit risk management and concentration of credit risk
For all classes of financial instruments, the maximum credit risk exposure is the carrying value as disclosed in the financial statements at the statement of financial position date.

A significant concentration of the available for sale and held to maturity investment portfolios is invested in highly rated debt securities with lower risks. Loans are extended by the Fund to member Countries in order to correct disequilibria in their balance of payments and to finance structural adjustment programs in those countries. Lines of credit are extended by the Subsidiary to provide financing to Arab exporters and importers in the member countries with a view to promoting and developing intra-Arab trade in line with the Subsidiary's mandate.

The Fund and the Subsidiary seek to contain their exposure to credit risk relating to their financing activities through the implementation of policies and procedures that are designed to maintain the exposures within pre-defined limits. These limits have been set on the basis of the type of loans and the members' subscription to capital in convertible currencies and the credit rating of the counterparty, and hence the possibility of a credit loss is considered remote.

(c) Interest rate risk management
The risk of interest rate volatility for the Fund and its Subsidiary is very limited, as its being managed through revising the interest on lines of credit and loans to member Countries and through maturity date management techniques for held to maturity financial investments.

The following sensitivity test table is showing the effect on equity and the Consolidated income statement, resulting from a change of 25 basis points in interest rates on financial assets and liabilities tied to floating interest rates, with other variables remaining unchanged:

	Change in basis points	***2012 AAD 000***	*2011 AAD 000*
Effect on Owners' equity	25	**386**	229
Effect on Consolidated income statement	25	**1,390**	1,377

(d) Fair value risk management
The fair value of the financial assets and liabilities is almost equal to their book values as shown in the financial statements; the fair value risk is being managed by diversifying the components of the said assets and liabilities.

(e) Currency risk
The Fund principally manages currency risk by substantially maintaining its investment portfolio in currencies that are closely aligned to the components of the SDR basket of currencies; matching deposits received with deposits placed in terms of currency and maturity; and also through the use of forward foreign exchange contracts.

The Subsidiary principally manages its currency risk by lending in its base currency, US Dollar, and through the use of forward foreign exchange contracts for deposits and investments denominated in foreign currencies.

Forward foreign exchange contracts entered into and outstanding at 31 December 2012 amounted to AAD thousand 825,432 (2011: AAD thousand 624,210).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

21 FINANCIAL INSTRUMENTS continued

(f) Liquidity risk management
The liquidity risk is being managed by diversification in the components of assets, taking in consideration due dates of liabilities, liquidity requirements and by retaining enough balances of cash, cash equivalents and tradable financial instruments.

(g) Capital risk management
Capital is being managed in a way to achieve the main objectives of the Fund and its Subsidiary as stated in the Fund's Articles of Agreement and the Subsidiary's Articles of Association. This is being fulfilled by diversifying and managing the components of the assets taking into consideration due dates and costs of liabilities, in order to generate a return that supports the financial position through what gets allocated to their reserves to expand operations, in addition to Subsidiary's obligation to distribute cash dividends to its shareholders. The Capital base is composed of capital and reserves as detailed in page (4) as part of the Consolidated statement of changes in equity.

Loans Appendices

Appendix (A-1)

Loans Extended to Member States
1978 - 2012

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
1978	1	Egypt	4,688							
	2	Sudan	1,875							
			6,563	**0**	**0**	**0**	**0**	**0**	**0**	**6,563**
1979	3	Mauritania	750							
	4	Morocco	1,875							
	5	Syria	750							
	6	Sudan	1,875							
	7	Sudan			11,250					
			5,250	**0**	**11,250**	**0**	**0**	**0**	**0**	**16,500**
1980	8	Mauritania	750							
	9	Mauritania		4,500						
	10	Somalia	1,500							
	11	Sudan				5,000				
			2,250	**4,500**	**0**	**5,000**	**0**	**0**	**0**	**11,750**
1981	12	Yemen	2,940							
	13	Morocco	1,875							
	14	Morocco			31,850					
	15	Morocco	3,600							
	16	Yemen		8,820						
	17	Morocco				9,800				
	18	Somalia	1,440							
	19	Somalia			12,740					
	20	Sudan	1,875							
	21	Yemen	3,675							
			15,405	**8,820**	**44,590**	**9,800**	**0**	**0**	**0**	**78,615**
1982	22	Sudan			5,000					
	23	Sudan	3,600							
	24	Mauritania	2,190							
	25	Morocco	1,875							
	26	Syria	2,940							
	27	Mauritania			8,240					
	28	Yemen	3,675							
	29	Yemen				3,920				
			14,280	**0**	**13,240**	**3,920**	**0**	**0**	**0**	**31,440**
1983	30	Iraq	27,930							
	31	Sudan				4,800				
	32	Sudan	1,875							
	33	Yemen					3,920			
	34	Mauritania	750							
	35	Iraq				27,000				
	36	Syria					3,000			
	37	Jordan	3,990							
	38	Jordan					1,960			
	39	Yemen		5,700						
			34,545	**5,700**	**0**	**31,800**	**8,880**	**0**	**0**	**80,925**
1984	40	Somalia	1,500							
	41	Yemen					4,900			
	42	Sudan			4,335					
	43	Morocco	1,875							
	44	Yemen	3,690							
			7,065	**0**	**4,335**	**0**	**4,900**	**0**	**0**	**16,300**
1985	45	Yemen	3,975							
	46	Morocco	3,600							
	47	Morocco	3,750							
	48	Yemen				5,100				
	49	Jordan	1,050							
	50	Jordan				2,660				
	51	Jordan					700			
	52	Mauritania	2,190							
	53	Iraq	27,930							
			42,495	**0**	**0**	**7,760**	**700**	**0**	**0**	**50,955**

Appendix (A-1)

Loans Extended to Member States
1978 - 2012

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
1986	54	Yemen	3,675							
	55	Morocco	1,875							
	56	Syria	2,940							
	57	Syria	2,400							
	58	Morocco		6,250						
	59	Morocco					2,500			
	60	Mauritania			3,250					
	61	Mauritania	1,500							
	62	Tunisia	3,675							
	63	Jordan	3,990							
	64	Tunisia	1,500							
			21,555	**6,250**	**3,250**	**0**	**2,500**	**0**	**0**	**33,555**
1987	65	Tunisia					3,450			
	66	Yemen		2,500						
	67	Iraq					18,620			
			0	**2,500**	**0**	**0**	**22,070**	**0**	**0**	**24,570**
1988	68	Morocco	1,875							
	69	Yemen	3,690							
	70	Jordan					1,960			
	71	Morocco	7,350							
	72	Algeria					18,620			
	73	Mauritania				2,460				
	74	Yemen		6,150						
	75	Egypt	4,687							
	76	Yemen	3,975							
	77	Mauritania	2,190							
	78	Yemen					5,100			
	79	Syria		8,200						
	80	Algeria	27,930							
	81	Iraq	27,930							
			79,627	**14,350**	**0**	**2,460**	**25,680**	**0**	**0**	**122,117**
1989	82	Iraq	3,300							
	83	Jordan		5,320						
	84	Egypt	5,250							
	85	Morocco			17,150					
	86	Algeria		41,640						
			8,550	**46,960**	**17,150**	**0**	**0**	**0**	**0**	**72,660**
1990	87	Mauritania			9,050					
	88	Egypt				6,625				
			0	**0**	**9,050**	**6,625**	**0**	**0**	**0**	**15,675**
1991										
1992	89	Morocco			14,800					
	90	Tunisia	3,675							
			3,675	**0**	**14,800**	**0**	**0**	**0**	**0**	**18,475**
1993	91	Mauritania			3,250					
			0	**0**	**3,250**	**0**	**0**		**0**	**3,250**
1994	92	Yemen	11,340							
	93	Mauritania				2,460				
	94	Jordan			7,980					
	95	Algeria			29,150					
			11,340	**0**	**37,130**	**2,460**	**0**	**0**	**0**	**50,930**
1995	96	Yemen		15,120						
	97	Tunisia	5,175							
	98	Jordan			5,320					
			5,175	**15,120**	**5,320**	**0**	**0**	**0**	**0**	**25,615**
1996	99	Algeria			31,230					
	100	Mauritania			4,955					
			0	**0**	**36,185**	**0**	**0**	**0**	**0**	**36,185**

Appendix (A-1)

Loans Extended to Member States
1978 - 2012

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
1997	101	Jordan				2,660				
	102	Djibouti		367						
	103	Yemen			19,656					
			0	**367**	**19,656**	**2,660**	**0**	**0**	**0**	**22,683**
1998	104	Jordan							3,910	
	105	Yemen							9,057	
			0	**0**	**0**	**0**	**0**	**0**	**12,967**	**12,967**
1999	106	Algeria							30,605	
	107	Tunisia	5,175							
	108	Morocco							10,878	
	109	Tunisia							5,072	
	110	Lebanon	3,675							
			8,850	**0**	**0**	**0**	**0**	**0**	**46,555**	**55,405**
2000	111	Djibouti			245					
	112	Lebanon							3,601	
	113	Mauritania			4,000					
	114	Morocco				7,400				
	115	Egypt							23,153	
			0	**0**	**4,245**	**7,400**	**0**	**0**	**26,754**	**38,399**
2001	116	Jordan							5,214	
	117	Morocco							14,504	
	118	Egypt				15,750				
	119	Egypt	23,625							
	120	Tunisia				3,450				
	121	Tunisia							6,762	
			23,625	**0**	**0**	**19,200**	**0**	**0**	**26,480**	**69,305**
2002	122	Egypt							30,870	
	123	Djibouti							420	
	124	Lebanon	3,675							
			3,675	**0**	**0**	**0**	**0**	**0**	**31,290**	**34,965**
2003	125	Morocco							11,100	
	126	Djibouti			368					
	127	Egypt			55,125					
			0	**0**	**55,493**	**0**	**0**	**0**	**11,100**	**66,593**
2004	128	Comoros	184							
	129	Tunisia							5,175	
	130	Sudan			9,800					
	131	Egypt							23,625	
			184	**0**	**9,800**	**0**	**0**	**0**	**28,800**	**38,784**
2005	132	Mauritania			8,600					
	133	Sudan							9,800	
	134	Lebanon							6,825	
			0	**0**	**8,600**	**0**	**0**	**0**	**16,625**	**25,225**
2006	135	Djibouti							350	
			0	**0**	**0**	**0**	**0**	**0**	**350**	**350**
2007	136	Syria							2,000	
	137	Lebanon							9,100	
			0	**0**	**0**	**0**	**0**	**0**	**11,100**	**11,100**
2008	138	Comoros		184						
	139	Djibouti						614		
	140	Syria							9,600	
	141	Lebanon						18,200		
			0	**184**	**0**	**0**	**0**	**18,814**	**9,600**	**28,598**

Appendix (A-1)

Loans Extended to Member States
1978 - 2012

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
2009	142	Jordan	7,365							
	143	Jordan							12,275	
	144	Morocco							47,863	
	145	Mauritania							9,120	
	146	Morocco				21,880				
			7,365	**0**	**0**	**21,880**	**0**	**0**	**69,258**	**98,503**
2010	147	Jordan				9,820				
	148	Jordan							17,185	
	149	Morocco							47,863	
	150	Yemen			43,000					
			0	**0**	**43,000**	**9,820**	**0**	**0**	**65,048**	**117,868**
2011	151	Morocco						**13,675**		
	152	Egypt	**43,725**							
	153	Egypt							**58,300**	
			43,725	**0**	**0**	**0**	**0**	**13,675**	**58,300**	**115,700**
2012	154	Jordan	**7,365**							
	155	Yemen		**21,000**						
	156	Yemen				**24,000**				
	157	Tunisia							**15,935**	
	158	Tunisia				**12,750**				
	159	Tunisia	**9,562**							
	160	Morocco				**27,350**				
			16,927	**21,000**	**0**	**64,100**	**0**	**0**	**15,935**	**117,962**
المجموع			**362,126**	**125,751**	**340,344**	**194,885**	**64,730**	**32,489**	**430,162**	**1,550,487**

Appendix (A-2)
Loans Extended to Member States By Type
1978 - 2012

Automatic Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	5	23.760
Tunisia	6	28.762
Algeria	1	27.930
Sudan	5	11.100
Syria	4	9.030
Somalia	3	4.440
Iraq	4	87.090
Lebanon	2	7.350
Egypt	5	81.975
Morocco	10	29.550
Mauritania	7	10.320
Yemen	9	40.635
Comoros	1	0.184
	62	**362.126**

Extended Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	2	13.300
Algeria	2	60.380
Sudan	4	30.385
Somalia	1	12.740
Egypt	1	55.125
Morocco	3	63.800
Mauritania	7	41.345
Yemen	2	62.656
Djibouti	2	0.613
	24	**340.344**

Ordinary Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	1	5.320
Algeria	1	41.640
Syria	1	8.200
Morocco	1	6.250
Mauritania	1	4.500
Yemen	6	59.290
Djibouti	1	0.367
Comoros	1	0.184
	13	**125.751**

Trade Facility	No. of Loans	Value of Loans (Million AAD)
Jordan	3	4.620
Tunisia	1	3.450
Algeria	1	18.620
Syria	1	3.000
Iraq	1	18.620
Morocco	1	2.500
Yemen	3	13.920
	11	**64.730**

Compensatory Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	3	15.140
Tunisia	2	16.200
Sudan	2	9.800
Iraq	1	27.000
Egypt	2	22.375
Morocco	4	66.430
Mauritania	2	4.920
Yemen	3	33.020
	19	**194.885**

Structural Adjustment Facility (SAF)	No. of Loans	Value of Loans (Million AAD)
Jordan	4	38.584
Tunisia	4	32.944
Algeria	1	30.605
Sudan	1	9.800
Lebanon	3	19.526
Egypt	4	135.948
Morocco	5	132.208
Yemen	1	9.057
Djibouti	2	0.770
Syria	2	11.600
Mauritania	1	9.120
	28	**430.162**

Oil Facility	No. of Loans	Value of Loans (Million AAD)
Djibouti	1	0.614
Lebanon	1	18.200
Morocco	1	13.675
	3	**32.489**

Appendix (A-3)
Balance of Outstanding Loans
2011 - 2012

(Thousands of AAD)

Country	End of 2011			End of 2012		
	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments
Jordan	34,985	-	34,985	27,251		27,251
Djibouti	335	-	335	61		61
Sudan	60,921	-	60,921	51,887		51,887
Syria	2,880	-	2,880	2,880		2,880
Somalia	14,877	-	14,877	14,877		14,877
Comoros	184	-	184	37		37
Iraq	80,866	-	80,866	73,118		73,118
Lebanon	4,095	-	4,095	1,365		1,365
Egypt	75,631	29,150	104,781	72,875	29,150	102,025
Morroco	106,563	-	106,563	100,991		100,991
Yemen	21,500	21,500	43,000	56,000	32,000	88,000
Muritania	13,283	-	13,283	8,984		8,984
Tunisia				30,280	7,967	38,247
Total	**416,120**	**50,650**	**466,770**	**440,606**	**69,117**	**509,723**

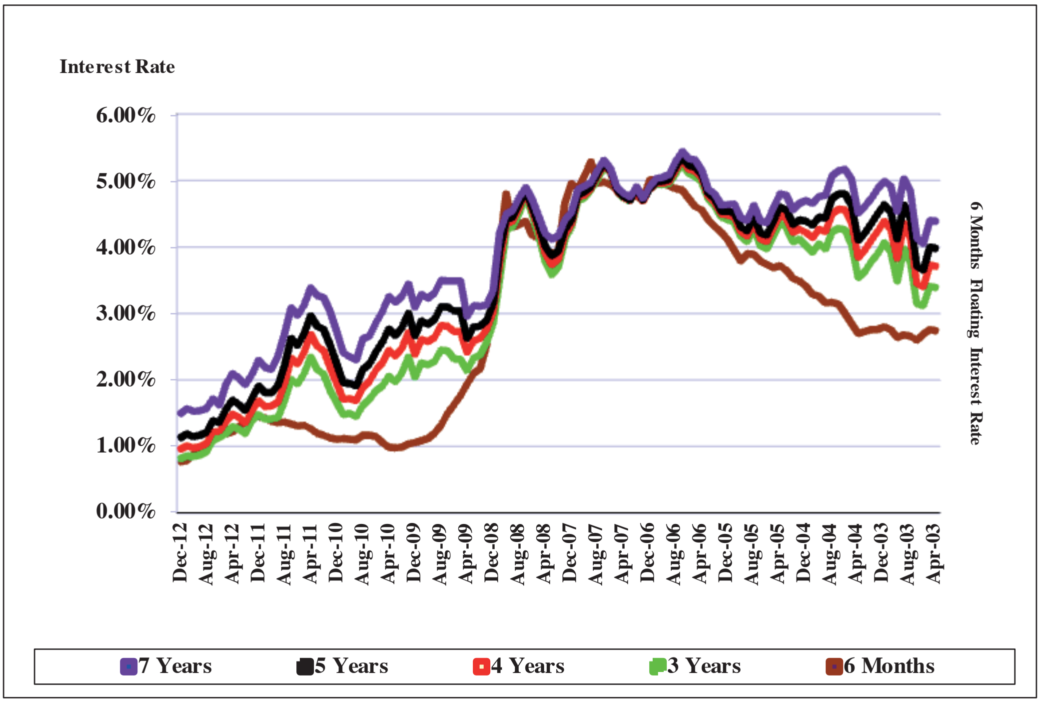
Appendix (A-4)
Balance of Loans Commitments
1978- 2012

(Thousands of AAD)

Country	Loans Extended during the year	Balance of Outstanding Loans*	Balance of Disbursed Loans**
1978	6,563	6,563	6,563
1979	16,500	23,063	18,062
1980	11,750	48,687	42,187
1981	78,615	102,834	68,674
1982	31,440	129,733	111,700
1983	80,925	198,587	193,037
1984	16,300	189,388	183,423
1985	50,955	187,724	181,759
1986	33,555	195,558	183,843
1987	24,570	167,666	157,451
1988	122,117	226,484	213,717
1989	72,660	283,740	242,041
1990	15,675	244,329	233,379
1991	-	213,441	198,641
1992	18,475	189,467	179,467
1993	3,250	162,451	151,131
1994	50,930	203,450	167,985
1995	25,615	211,728	177,562
1996	36,185	218,253	186,905
1997	22,683	231,295	206,697
1998	15,023	227,413	199,314
1999	55,405	263,858	229,129
2000	38,399	276,416	250,459
2001	69,305	300,630	278,997
2002	34,965	278,180	275,970
2003	66,593	316,658	281,121
2004	38,784	280,182	252,695
2005	25,225	275,201	253,376
2006	350	262,611	231,511
2007	11,100	247,693	226,218
2008	28,598	283,693	251,111
2009	98,503	352,671	318,273
2010	117,868	418,105	356,614
2011	115,700	466,769	416,119
2012	117,962	509,722	440,605

* Total approved loans including disbursed and undisbursed balances minus repayments.
** Total disbursed loans minus repayments.

Appendix (A-5)
Interest Rates on Loans
2003 - 2012



General Appendices

Appendix (B-1)
Capital at 31 December 2012

(Thousands of AAD)

	Country	Authorized and Subscriped Capital	Paid-Up Capital			
			In Local Currencies	In Convertible Currencies	By a Transfer from General Reserve [(2)]	Total
1	Jordan	9,900	80	5,320	4,500	9,900
2	UAE	35,300	300	18,900	16,100	35,300
3	Bahrain	9,200	80	4,920	4,200	9,200
4	Tunisia	12,850	100	6,900	5,850	12,850
5	Algeria	77,900	760	41,640	35,500	77,900
6	Saudi Arabia	88,950	760	47,640	40,550	88,950
7	Sudan	18,400	200	9,800	8,400	18,400
8	Syria	13,250	80	7,120	6,050	13,250
9	Somalia	7,350	80	3,920	3,350	7,350
10	Iraq	77,900	760	41,640	35,500	77,900
11	Oman	9,200	80	4,920	4,200	9,200
12	Qatar	18,400	200	9,800	8,400	18,400
13	Kuwait	58,800	500	31,500	26,800	58,800
14	Lebanon	9,200	100	4,900	4,200	9,200
15	Libya	24,690	186	13,254	11,250	24,690
16	Egypt	58,800	500	31,500	26,800	58,800
17	Morocco	27,550	200	14,800	12,550	27,550
18	Mauritania	9,200	80	4,920	4,200	9,200
19	Yemen	28,300	280	15,120	12,900	28,300
20	Palestine [(1)]	3,960	-	-	-	-
21	Djibouti	450	5	245	200	450
22	Comoros	450	5	245	200	450
	Total	**600,000**	**5,336**	**319,004**	**271,700**	**596,040**

(1) Payment of Palestine's share was deferred by the Board of Governors' Resolution No. (7) of 1978.

(2) In accordance with the Board of Governors' Resolution No. (3) of 2005, a transfer from general reserve was made to cover additional subscriptions.

Table (B-2)
Numbers of Attendances Courses / Seminars / Workshops
1/1/1988-31/12/2012

	Before 1988	Courses	Courses Coordinated With IMF	Courses Coordinated With WTO	Workshops	Workshops Coordinated With IMF	Workshops Coordinated With WTO/IMF	Workshops Coordinated With WTO	Seminars	Seminars Coordinated With IMF	Total
Numbers of Activities		**97**	**99**	**14**	**13**	**9**	**3**	**4**	**5**	**4**	**248**
Jordan	14	185	189	22	26	19	6	10	3	4	**478**
U.A.E.	32	237	156	25	14	16	4	8	7	10	**509**
Bahrain	9	159	129	11	9	13	5	7	7	4	**353**
Tunisia	11	146	144	21	19	10	5	6	3	3	**368**
Algeria	6	149	129	13	16	15	4	8	4	3	**347**
Djibouti	0	11	39	1	0	2	2	0	0	0	**55**
Saudi Arabia	16	249	247	27	25	20	6	10	16	9	**625**
Sudan	14	106	188	17	14	16	5	6	4	6	**376**
Syria	8	183	206	62	68	18	5	5	3	4	**562**
Somalia	8	12	11	0	0	0	0	0	1	0	**32**
Iraq	13	90	72	18	15	8	5	2	3	2	**228**
Oman	9	147	153	24	17	13	6	8	7	6	**390**
Palestine	0	103	122	22	10	7	5	3	2	3	**277**
Qatar	5	135	108	11	19	16	5	5	10	3	**317**
Comoros	0	2	10	5	1	1	0	2	0	2	**23**
Kuwait	10	146	139	9	12	9	5	2	5	2	**339**
Lebanon	2	137	148	19	24	14	3	6	2	9	**364**
Lybia	0	144	97	13	13	7	4	4	3	1	**286**
Egypt	2	211	161	17	21	17	6	9	2	7	**453**
Morocco	15	135	181	12	15	15	6	8	3	4	**394**
Mauritania	9	109	118	17	10	13	1	2	5	4	**288**
Yemen	21	173	182	17	17	19	5	7	4	5	**450**
Total	204	**2969**	**2929**	**383**	**365**	**268**	**93**	**118**	**94**	**91**	**7514**

Organization and Management

The Organizational Structure

The structure of the Fund consists of the Board of Governors, the Board of Executive Directors, the Director General and the Staff.

The Board of Governors

The Board of Governors consists of one governor and one deputy governor appointed by each member country of the Fund. The Board elects on rotation basis annually one of the governors as its Chairman. The Board of Governors is regarded as the General Assembly of the Fund and holds all management powers. The Board convenes once a year.

Member Countries		Governors & Their Deputies
The Hashemite Kingdom of Jordan	Governor	H.E. Dr. Ziad Fariz
	Deputy Governor	H.E. Dr. Omar Mohammad Mansour Al Zoubi
The United Arab Emirates	Governor	H.E. Obaid Humaid Al Tayer
	Deputy Governor	H.E. Sultan Bin Nasser Al-Suwaidi
The Kingdom of Bahrain	Governor	H.E. Sheikh Ahmed Bin Mohamed Al Khalifa
	Deputy Governor	H.E. Rashid Mohamed Al Mearaj
The Republic of Tunisia	Governor	H.E. Dr. El Chedly Ayari [1)]
	Deputy Governor	H.E. Mounya Al Saadawi
The People's Democratic Republic of Algeria	Governor	H.E. Karim Djoudi
	Deputy Governor	H.E. Dr. Mohammed Laksaci
The Republic of Djibouti	Governor	H.E. Elias Mousa Dawwalah
	Deputy Governor	H.E. Hassan Moamn Taher
The Kingdom of Saudi Arabia	Governor	H.E. Dr. Ibrahim Bin Abdul-Aziz Al Assaf
	Deputy Governor	H.E. Dr. Fahd Bin Abdullah Al Mubarak
The Republic of Sudan	Governor	H.E. Ali Mahmoud Abdulrasul
	Deputy Governor	H.E. Dr. Mohamed Kheir El Zubair
The Syrian Arab Republic	Governor	H.E. Dr. Mohammed Al Jleilati

(1) From 30 August 2012 replacing H.E. Mustafa Kemal Nabeli.

	Deputy Governor	H.E. Dr. Adib Mufdi Maiyalah
The Somali Democratic Republic	Governor	H.E. Abdel Naser Mohammed Abdulla
	Deputy Governor	H.E. Abdillahi Hag Jama Ali
The Republic of Iraq	Governor	H.E. Dr. Sinan Al Shabibi
	Deputy Governor	H.E. Dr. Salahuddin Hamid Juaatta Alhudeethi
The Sultanate of Oman	Governor	H.E. Darwish Bin Ismail Al Balushi
	Deputy Governor	H.E. Hamoud Bin Sangor Al Zadjali
The State of Palestine	Governor	H.E. Saeed Tawfik Khoury
	Deputy Governor	H.E. Dr. Saleh Jallad
The State of Qatar	Governor	H.E. Youssef Hussain Kamal
	Deputy Governor	H.E. Abdullah Bin Saud Al Thani
The Comoros	Governor	H.E. Mohammad Ali Saleh
	Deputy Governor	H.E. Mohamed Shanfou Mzy Abdou
The State of Kuwait	Governor	H.E. Dr. Naef Al Hajraf
	Deputy Governor	H.E. Dr. Mohammad Yousef Al Hashel
The Republic of Lebanon	Governor	H.E. Riad Salame
	Deputy Governor	H.E. Raed Sharaf Aldin
The Great Socialist People's Libyan Arab Jamahiriya	Governor	H.E. AlSiddiq Omar Alkabeer
	Deputy Governor	H.E. Dr. Ali Ramadan Ashnebsh
The Arab Republic of Egypt	Governor	H.E. Dr. Farouk El Okdah
	Deputy Governor	H.E. Dr. Mumtaz Saeed Abu Alnoor
The Kingdom of Morocco	Governor	H.E. Nizar Baraka
	Deputy Governor	H.E. Abdullatif Jouahri
The Islamic Republic of Mauritania	Governor	H.E. Sid' Ahmed Ould Raiss
	Deputy Governor	H.E Dr. Mohammed Elamin Would Rekani
The Republic of Yemen	Governor	H.E. Sakhar Ahmad Abbas Alwageh
	Deputy Governor	H.E. Mohammad Awad Ben Hammam

The Board of Executive Directors

The Board of Executive Directors is composed of the Director General of the Fund as Chairman and eight non-resident members elected by the Board of Governors for a renewable term of three years. The Board is entrusted with the supervision of the Fund's activities and renders advice when deemed necessary.

Members of the Board of Executive Directors

Executive Directors	Countries Represented	Voting Power (%)
H.E. Dr. Jassim Al-Mannai	Director General & Chairman of the Board of Executive Directors	
H.E. Dr. Abdul Rahman Bin Abdullah Al Hamidy	The Kingdom of Saudi Arabia	13.58
H.E. Abedlhak Bedjaoui	The People's Democratic Republic of Algeria	11.96
H.E. Hassan Hashem Al Haidary	The Republic of Iraq	11.96
H.E. Jamal Mohamad Nejm (Egypt)[1)]	The Arab Republic of Egypt	19.96*
	The Republic of Yemen	
	The Republic of Sudan	
	The Somali Federal Republic	
	The Republic of Djibouti	
	The Comoros	
H.E. Sami Hussain Mansour Al-Anboee (Kuwait)	The State of Kuwait	14.88
	The United Arab Emirates	
H.E. Faouzia Zaaboul (Morocco)	The Kingdom of Morocco	13.09
	The Great Socialist People's Libyan Arab Jamahiriya	
	The Republic of Tunisia	
	The Islamic Republic of Mauritania	
H.E. Hussein Mohamed Al Sada (Qatar)	The State of Qatar	
	The Kingdom of Bahrain	7.05
	The Sultanate of Oman	
H.E. Sam Mohamad (Syria)	The Syrian Arab Republic	7.52
	The Hashemite Kingdom of Jordan	
	The Republic of Lebanon	
	The State of Palestine	

* The above voting power is affected by the temporary suspension of the voting power of Somalia.
(1) From 1 August 2012 replacing H.E. Hisham Ramez Abdelhafez.

The Director General and the Staff

The Board of Governors appoints a Director General of the Fund for a renewable term of five years. He serves ex-officio as Chairman of the Board of Executive Directors. The Director General of the Fund is the head of the staff and is responsible for all the work of the Fund. Staff members are currently distributed among the following six departments:

1- Administration
2- Economic and Technical
3- Legal
4- Economic Policy Institute
5- Finance and Computer
6- Investment

The organizational structure of the Fund also comprises the Bureau of the Internal Audit, the Office of the Director General and various other committees including those on Loans and Investment which are statutory. It also includes an Administrative Committee established within the framework of the Personnel Regulations by a decision of the Board of Executive Directors which was endorsed by the Board of Governors.