



صندوق النقد العربي
ARAB MONETARY FUND

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Preface

This report presents AMF's activities and financial position for the year that ends on December 31, 2016, under Article 33 of the AMF's Agreement. This includes financial and technical support provided by the Fund through lending and technical assistance, contributions to capacity building of officials of Arab ministries of finance, economy and commerce, central banks and statistical agencies through training courses, workshops and seminars organized by the AMF's Economic Policy Institute (EPI). The report reviews developments of AMF's investment activities conducted under Article 5 of the Agreement. This report also reviews activities aimed at supporting and promoting inter-Arab trade as well as events organized by the Fund in various economic areas to discuss solutions and proposals that respond to challenges facing Arab economies to shed light, and exchange views and experience, on current economic issues of interest to all Member States. This would positively support economic development efforts in Arab countries, particularly in finance and banking industry and government finance sector. It highlights initiatives adopted by the Fund in response to technical assistance needs of the Member States with a view to develop necessary infrastructure for vibrant, modern and well-developed financial and banking systems.



Abdulrahman A. Al Hamidy
Director General
Chairman of the Board of Executive Directors

About AMF

Foundation:

Arab countries established the AMF with a view to lay the foundation for inter-Arab economic integration and promoting economic development in all Arab countries. The AMF Agreement was signed in Rabat, Morocco, on April 27, 1976. The AMF Agreement is comprehensive in terms of purposes while it provides flexibility in terms of means to serve those purposes. All Arab countries members of the League of Arab Countries are members to the AMF. The AMF's headquarter is located in Abu Dhabi, UAE.

Mission:

The inception of the AMF was the outcome of a vigorous cooperation of Arab countries in monetary and financial areas dating back to 1940s. The Arab region is the only regional block that has its own monetary fund. This was a dream that came true for policy makers in Arab countries for a long time. It is a mechanism that is meant to enhance monetary integration and cooperation among Arab countries within a wider joint Arab action framework that aims at enhancing inter-Arab economic cooperation and integration as a step towards fully-fledged Arab unity.

The AMF follows a proactive methodology in providing support to its Member States. It studies economic implications of global and regional developments for Arab countries and develops appropriate alternatives for providing financial and technical support to cope with such implications and to help affected Arab economies get back to sustainable development track. The AMF also follows a systematic, strategic plan on crisis

management in case Arab economies face a crisis to help them manage its spillovers. The AMF has a respectable number of technical staff and specialists with relevant credentials from all Arab countries that can work under pressure.

The AMF lays emphasis on cooperation and experience sharing on monetary policy, the coordination among Arab countries in international meetings and fora, as well as coordination among Arab central banks and monetary Agencies in all relevant areas. This would help exchange experience and coordinate stances on regional and international developments that are relevant to banking sector. These efforts in turn would promote monetary cooperation among Arab countries with a view to harmonize the foundations of monetary policies in the region. Arab capital market development also receives special attention by the Fund. This stems from the role of capital markets in mobilizing funds for sustainable, comprehensive economic development. Ultimately, this would help create productive jobs, further diversify, scale up economic growth, and increase productivity.

The AMF provides technical assistance programs that are relevant to policy, and capacity development in Member States. It is also bent upon developing for reaching regional initiatives to further improve payment systems, capital markets, economic databases, national statistics and other related activities within its mandate.

Objectives:

Article Four of the AMF Articles of Agreement identifies eight objectives for the Fund. They are as follows:

1. Correcting disequilibria in the balances of payments of Member States.
2. Promoting the stability of exchange rates among Arab currencies, rendering them mutually convertible, and striving for the removal of restrictions on current payments between Member States.
3. Establishing such policies and modes of Arab monetary cooperation aiming to achieve the quickest pace of Arab economic integration and speed the process of economic development in Member States.
4. Rendering advice, whenever called upon, with regards to policies related to the investment of financial resources of Member States in foreign markets, to ensure the preservation of the real value of these resources and to promote their growth.
5. Promoting the development of Arab financial markets.
6. Studying ways to promote the use of the Arab Accounting Dinar (AAD) and paving the way for the creation of a unified Arab currency.
7. Coordinating the position of Member States in addressing international monetary and economic challenges with the aim of realizing their common interests while, at the same time, contributing to the resolution of world monetary challenges.
8. Settling current payments between Member States to promote trade among them.

Furthermore, Article Eight of the AMF Articles of Agreement stipulates that the Fund shall provide technical assistance and services in the financial and monetary domains to Member States pursuing economic agreements aimed at attaining monetary union between them, being a phase towards the

realization of the goal of the Fund, namely, Arab economic and monetary integration.

Means and resources:

For the realization of its goals, the Fund adopts several means that are spelt out in Article Five of the AMF Articles of Agreement. They include: providing short-term and medium-term credit facilities to Member States with a view to assisting in financing their overall balance of payments deficits with the rest of the world, resulting from the exchange of goods and services, transfers and capital flows; issuing guarantees in favor of Member States to strengthen their borrowing capabilities from other financial sources for the purpose of financing the overall deficits in their balances of payments; and acting as intermediary in the provision of loans in Arab and international financial markets for the account of Member States and under their guarantees. They also include: coordinating the monetary policies of Member States, promoting cooperation between their monetary Agencies, liberalizing and promoting trade, insuring current payments, and encouraging capital flows between Member States.

The AMF Articles of Agreement also stipulates that the Fund, in agreement with the Member State or States concerned, shall make necessary arrangements for managing funds placed at the Fund by a Member State or States for the benefit of other Arab or non-Arab parties in accordance with the goals of the Fund.

For the realization of the goals of the Fund, Article Six of the AMF Articles of Agreement calls for cooperation among Member States and with the Fund with a view to reducing restrictions on current payments among

Member States and the restrictions on the transfer of capital and the transfer of profits the reform, with a view to the total elimination of the said restrictions.

Also under Article Six of the AMF Articles of Agreement, each Member State shall endeavor to achieve the necessary degree of coordination between Arab economic policies, particularly financial and monetary, in a manner that will contribute to Arab economic integration and assist in creating the necessary conditions for the establishment of a unified Arab currency.

To reiterate flexibility granted to the Fund in the fulfillment of its mandate, Article Nine of the AMF Articles of Agreement stipulates that the Fund shall adopt, by a decision of the Council of Governors, any other measures that may assist in the realization of its goals.

Under Article Eleven of the AMF Articles of Agreement, the resources of the Fund shall consist of the following: paid-up capital; reserves; loans and credits obtained by the Fund; and any other resources decided upon by the Council of Governors.

Governance Framework

The AMF Governance Framework is based on a set of principles that are of paramount importance on its list of priorities. They can be summarized as follows:

Protection of membership rights and equal treatment: the AMF governance framework ensures that shareholder rights are protected and easy to exercise; and that members are equally treated.

The AMF system of governance is a framework that does not provide for unilateral

decisions on core matters, be it at the level of the Board of Executive Directors or that of executive management departments.

Members of the Board of Executive Directors' nominations are endorsed by the highest level of authority in the Fund, namely, the Council of Governors. They are elected from the citizens of Member Countries with experience and expertise. The Board of Executive Directors operates under procedural rules that govern decision taking.

At the level of executive management departments, work policies and procedure govern responsibilities and powers. Specialized committees consider, and recommend on core matters.

Recognition of stakeholder rights: This principle covers the protection of stakeholder rights. Stakeholders are defined as Member States, AMF staff and contractors.

Disclosure and transparency: The Council of Governors that elects and decides the remuneration of the Directors collectively ensures the disclosure of salaries and benefits of the Directors, and their neutrality.

Accountability: AMF fully adheres to this principle at all levels. The **governance structure** of the Arab Monetary Fund (AMF) reflects the attention paid by the Fund to defining roles and responsibilities across its supervisory, oversight and executive bodies, their integration, interaction, horizontal communication, opinion sharing, broadening the scope of knowledge, and insight, prior to taking a decision.

The governance structure consists of the Council of Governors and the Board of

Executive Directors under which there are the Audit and Risk Committee, the system of executive management, including executive departments and committees, the Office of Internal Audit, and the External Auditors.

The **Council of Governors** represents all Arab countries. It is the highest authority of the Fund that oversees the strategic orientation, accountability and performance evaluation.

The AMF Articles of Agreement entrusts all management powers to the Council of Governors, including that of delegation of powers to the Board of Executive Directors to exercise any non-exclusive powers.¹ It convenes annually under the by-laws that govern proceedings and voting. The Council of Governors annually elects one governor as chairman on rotation.

The **Board of Executive Directors** is composed of the Director General as Chairman and eight members elected by the Council of Governors from the citizens of Member States with experience and expertise for renewable three-year tenures on a part-time basis. The Board of Executive Directors oversees AMF operations. It is collectively entrusted with oversight of key policy making, strategic plans and action programs, performance, accountability of executive management. It reports to the Council of Governors. It holds quarterly meetings as well as special meetings, when needed. AMF's Articles of Agreement specify voting and decision-taking procedure.

¹ Exclusive powers of the Board of Governors include the appointment of the Director General and Chairman of the Board of Executive Directors, members of the Board of Executive Directors, decisions on the remuneration of its members, admission of new members, suspension of

The **Audit and Risk Committee** reports to the Board of Executive Directors. The mandate of this committee is to assist the Board in its supervisory function. It is entrusted mainly with ensuring financial statement integrity, follow-up on the implementation of risk management and internal control policies, the evaluation of the efficiency and effectiveness of the Internal Audit Office as well as the discussion of this office's reports, monitoring the independence of external auditors and the discussion of their reports and review of, and recommendation on, whistle blowing reports.

The Audit and Risk Committee is composed of three members who are independent of the executive management of the Fund and who are elected by the Board of Executive Directors at the beginning of each session. In addition, the Audit and Risk Committee follows a charter that governs its work.

The organizational framework for Executive management units consists of the Director General, Chairman of the Board of Executive Directors and six specialized executive management departments, namely, the Economic and Technical Department, the Economic Policy Institute (EPI), the Investment Department, the Finance and Computation Department, the Administration Department and the Legal Department.

Additionally, the executive management committees, namely, Loan Committee, Investment Committee, Administrative Committee and Risk Management Committee. These committees, in their respective advisory

membership, increase of capital, distribution of income, appointment of external auditors, approval of final accounts and decisions on the interpretation and amendment of AMF Agreement.

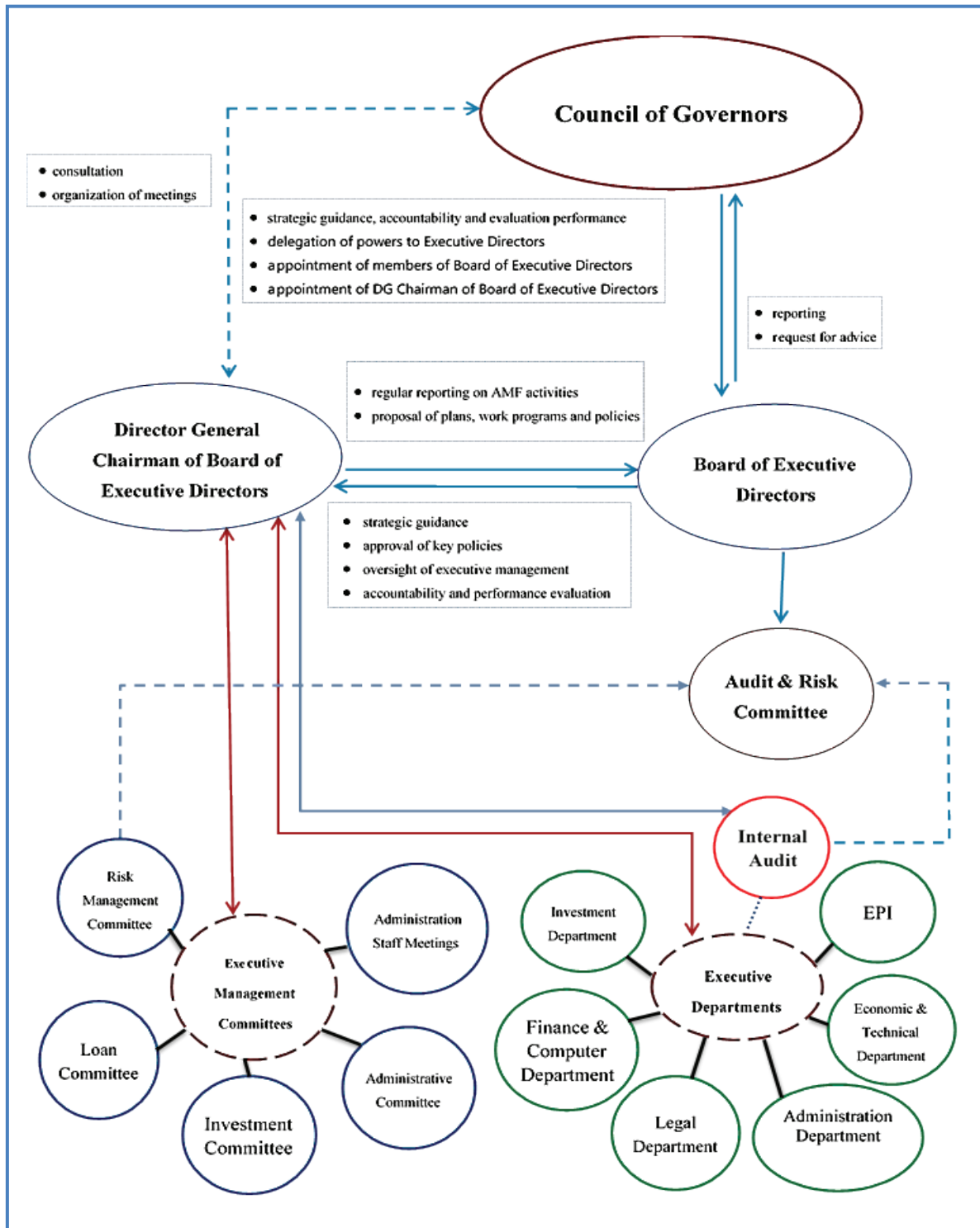
capacities, advise on core matters. Their membership consists of senior competent AMF staff.

AMF organizational units operate within a coherent, integrated **system of internal control** that consists of regulations, policies and rules on AMF activities and operations. This serves as a safeguard against unilateral decisions on core matters.

The **Office of Internal Audit (OIA)** is a major component of internal control system. AMF senior management ensures that OIA fulfills its mandate independently. Its function includes the evaluation of the effectiveness of internal control systems, risk management activities and governance under the approved methodology. It directly communicates with the Audit and Risk Committee that reports to the Board of Executive Directors.

External audit, in turn, is another important link in the AMF governance system. The Council of Governors is invested with exclusive powers to appoint external auditors. Under the AMF Articles of Agreement, these powers cannot be delegated to another body of the Fund.

Chart (1): The AMF Governance Framework⁺



⁺ The schema of AMF governance does not reflect the organizational structure of the Fund. It rather reflects work relationships and governance bodies within the institution.

AMF Strategy Framework (2015-2020)

Salient Features of the Strategy

A Strategy Framework was developed for 2015-2020, reflects the evolving vision on how to realize the aspiration of the AMF's Member States. It entails a continuous effort by the Fund to keep in tandem with regional and global developments. The Fund translates this into dynamic and responsive mechanisms and programs that follow the best practices. The Strategy Framework considers the future needs of the Member States.

The Strategy Framework lays emphasis on building on AMF strengths and comparative advantages, manifested by the organizational setup and ownership as the AMF is the single regional monetary institution owned by all Arab countries, its location in the Arab region, and its pivotal role as a platform for meetings and consultations among economic, financial, and monetary policy makers. Furthermore, the AMF has a well-established role in capacity building through specialized training offered by its Economic Policy Institute to officials in Arab countries. The financial soundness of the Fund has added confidence of Member States in the Fund's long established role of providing reserve management services and accepting deposits from Member States.

The Strategy Framework accords a high priority to tapping the potential for strengthening its capacity to enhance the Fund's responsiveness to the varying needs of its Member States. The Framework elaborated on the range of opportunities available to the AMF to strengthen its role in serving Member States. These opportunities include the ability to meet the growing financing needs of members, to provide relevant and timely

technical assistance on economic reform, and exert efforts to fulfill the pressing and varying needs for capacity building in various fields of finance and economics.

The flexible wide range of activities add another comparative advantage to AMF. This has enabled the Fund to rise to challenges faced by Arab economies in a way that keeps in tandem with regional and global developments and trends, responds to potential implications for financial and banking sectors and capital markets in the Arab region.

While developing the Strategy Framework for 2015-2020, due reference was made to the needs of the membership, the Fund has identified the needs of the membership going ahead.

In order for the Fund to effectively respond to those needs, it will be necessary to intensify communication with the Member States, strengthen its capacity and initiatives to help them, and upscale its research and statistical work to provide more credible economic data, more comprehensive, deeper analytical reports that support the work of scholars and policy makers.

AMF Vision

“Continue fulfilling its Mission, as a leading Arab financial institution, in supporting economic, financial, and monetary reforms in Arab Region”

The Fund's vision is based on its mission as identified in its Articles of Agreement, i.e., to lay monetary foundations for Arab economic

integration and help achieving economic development in the entire Arab region.

While fulfilling its mandate, the Fund has strengthened its capacity and initiatives to cope with the developments in the regional and global economic environment. This has enabled the Fund to build on its comparative advantage to serve the Member States as a leading institution in a better way.

Strategic Objectives

For the strategic vision to be materialized, the efforts of the AMF were envisaged within the context of three fundamental pillars: strengthening the chances of inclusive growth, establishing the basis for efficient and properly governed financial and economic institutions in Member States and enhancing cooperation and financial and economic integration among Arab countries in close cooperation with relevant regional and international financial, monetary and economic institutions, as well as further development of a more capable, effective AMF institutional architecture.

The core strategic objectives of the Fund are; achieving further development in AMF programs and activities to support reforms aiming at macroeconomic stability in Arab countries, expanding the banking and financial sectors initiatives and programs and improving modalities to access funding and financial services, strengthening the pivotal role of the Fund as a platform for meeting and consultation among policy makers, supporting efforts for economic, financial, and monetary integration amongst Arab Countries, and strengthening the AMF role as a center of excellence for knowledge, expertise, technical advice and capacity building.

Means and activities for achieving strategic objectives

The AMF Strategy Framework for 2015-2020 envisages a greater outcome of available resources as well as the introduction of new modalities that would enhance the outcomes of more diversified AMF activities. This would ensure that the AMF delivers on its strategic objectives in a way that responds best to the aspirations of its membership.

In this respect, modalities employed by the Fund to assist the membership include a range of **lending windows** to help cover BOP overall deficit, support structural adjustments in fiscal, financial and banking sectors. This is part of lending as provided by the AMF Articles of Agreement. It is the main modality that is available to AMF to fulfill its mandate. The Fund offers credit facilities to its membership in concessional loans with different maturities. Most of these credit facilities are provided within a package that includes consultations with borrowing country authorities to reach agreement on reform policies and measures as well as follow-up on the implementation of such policies and measures.

Within the AMF Strategy Framework for 2015-2020, **the first strategic objective** is further development of AMF programs and activities to support reforms aiming at macroeconomic stability in Arab Countries.

Emphasis here is laid on programs and activities that the AMF is undertaking to support efforts devoted by Member States to achieve macroeconomic stability, either through financial assistance to support economic reforms, or through further engagement in relevant technical assistance consultations. This objective covers some key sub-objectives on which the Fund focuses

during the life of this new Strategy Framework, namely, to further develop its lending activities by revisiting the existing lending facilities to ensure that they continue to be relevant in meeting the financial support needed by Member States, and to study the possibility of creating country programming. Also, the procedures linked to lending activities will be reexamined.

Within the context of support provided to the membership, **investment** is one of the main activities of the Fund. It includes deposit taking from Member States and Arab financial institutions, portfolio management on their behalf, and investment related technical assistance.

The AMF Strategy Framework for 2015-2020 includes a set of objectives which the Fund shall work for within the context of investment, mainly to increase deposit taking from Member States and Arab financial institutions, with ensuing widening of sectoral and geographic coverage of depositors.

This is envisaged to materialize through the attraction of the greatest possible number of governments, organizations and institutions within the Arab region, a fact that would ensure that sources of investment finance would be further increased and diversified.

During the life of this strategy, the Fund also envisages further development of portfolio management.

This would materialize through encouraging governments, organizations and institutions within the Arab region to make use of AMF capacity in managing their foreign reserves. It is noted that the Fund offers investment portfolio management through deposits, bonds and other securities.

Moreover, AMF investment activities also include the expansion of relationships with organizations that deposit part of their reserves with the Fund for management, the provision of investment-related technical assistance and cooperation in foreign reserve management, through further consultations in investment and reserve management with the Fund. This would ensure a better support by the Fund in this respect.

As part of AMF continuing efforts to strengthen financial and banking sectors in Arab countries and enhance access to finance and financial services, programs and initiatives adopted by the Fund represent another set of tools employed to provide support to the membership. These programs and initiatives feed into deeper financial and banking sectors, building on the weight attributed to these sectors by the Fund in supporting efforts for inclusive growth and economic and financial stability.

The AMF Strategy Framework for 2015-2020 includes another set of objectives, namely, to further develop programs that support financial and banking sectors and capital markets in Arab countries through a comprehensive initiative to develop bond markets in local currencies and strengthening financial inclusion in addition to extending initiatives for developing the financial sector infrastructure.

This also includes strengthening the surveillance legislation and promoting macro-prudential supervision policies, in addition to developing the information and indices for measuring the performance of the financial sector and capital markets.

Training and capacity building programs and activities undertaken by the Fund, through its Economic Policy Institute, represent another set of tools that stand evidence to its role as a center for knowledge, experience and expertise, technical advice, and capacity building within its field. This set of tools responds to the growing needs of the membership to provide technical knowledge and to further empower official cadres. Based on this premise, the AMF Strategy Framework for 2015-2020 envisages upgrade of the academic content of current training programs, expansion of the list of training programs and activities, including those offered by the Fund in Arab countries. In addition, the AMF also plans to lay down the foundation for Online Learning.

The Fund considers its activity in **research and statistics** a crucial tool that contributes to capacity building for specialists and other stakeholders in economic, fiscal and monetary fields in Arab countries. In this respect, the Fund pays special attention to studies, bulletins and reports as major tools of methodological research and investigation on various issues with a view to developing appropriate policies and taking decisions.

They also serve as channels for debate and awareness of current issues that are relevant to Arab economies. Against this backdrop, the AMF Strategy Framework for 2015-2020 envisages stepping up AMF efforts to further develop research, bulletins, economic reports and existing statistics.

In addition, it works for launching new reports that help enrich economic thought in the region. The AMF also is busy laying down the foundation and development of Arab Statistics Initiative “Arab Stat” as well as compiling and

disseminating Economic and financial data on Arab countries.

Furthermore, the Fund has a rich library that features an entire range of references, including research papers and periodical reports, with new economic books and references promptly added.

The Fund continuously works on developing its role as **Technical Secretariat to the Arab Central Banks and Monetary Authorities Governors Council, and the Council of Arab Finance Ministers**. This is a tool of enhanced AMF coordination among Arab countries in monetary and fiscal areas as well as coordination of membership stands on international monetary and economic issues in their common interest. The AMF Annual Meetings of the Arab Central Banks and Monetary Agencies Governors Council, and the Council of Arab Finance Ministers serve as important platforms for discussions on topics related to AMF objectives as well as current issues of interest to both Councils.

Strategy Support Team

The AMF has created a Strategy Support Team on which all AMF departments are represented. It has been entrusted with the following up, and support of, the implementation of the strategy in an efficient and effective way.

The team shall remain in close contact with organizational units of the Fund to discuss implementation indicators, score cards, long term plan proposals as well as developments that are relevant to the implementation of the strategy.

The team shall also discuss relevant progress reports, prepare corporate performance reports,

organize awareness seminars, workshops and presentations on progress made in the implementation of the strategy, coordinate efforts for developing the next 5-year phase of the strategy, and promote Fund-wide initiative and innovation.

Summary of AMF activities in 2016

The AMF pays special attention to monitoring global and regional economic and financial developments, as well as developments in financial and commodity markets and implications for Arab economies. In 2016, global economic performance continued to be timid, reflecting persistent economic challenges faced by several advanced, developing and emerging market economies.

Data for 2016 showed continued weak levels of investment and productivity, slow growth of global trade, as well as persisting high levels of public and private debt and unemployment in most economic groups, albeit at different rates.

In 2016, challenges facing emerging and developing economies aggravated, reflecting developments in global economic and financial environment. Higher interest rates on US dollar led to large foreign capital outflows from emerging and developing economies. This in turn created financial constraint-related challenges in these countries.

Furthermore, persisting low rates of international trade growth had a negative impact on levels of economic activity recorded in these countries as well as their domestic and foreign balances. It also caused further deterioration in their fiscal conditions and current account balances.

However, untraditional monetary policies helped avoid a slide of global economy into a

prolonged recession following the global financial crisis.

The world now is in dire need to adopt a macroeconomic policy mix that would ensure higher global economic activity, more jobs, and a redress of current imbalances in advanced and developing economies. In this respect, there is a greater role for fiscal policy to play in driving economic growth. Emphasis should be laid on fiscal policies that enhance capital spending effectiveness, reduce income inequality, and introduce structural reforms that enhance the resilience and efficiency of labor and product markets.

Arab economies have been affected by regional and global economic developments during 2016, including a continuous fall in global oil prices that lost about 60% of its value during 2014-16. As a result, several Arab oil exporters recorded budget and current account deficits on the back of lower oil export receipts and lower oil sector tax revenues.

This made it imperative to adopt policies that enhance fiscal discipline. Levels of economic activities in non-oil sectors moderated as a result. Arab oil importers faced challenges caused by lower levels of external demand on their exports and higher finance needs despite the fact that lower oil prices served their interest well as this provided a greater space for growth driven by spending.

As for **lending activities** in 2016, the Fund extended three new loans to borrowing members, included two compensatory loans to Mauritania and Egypt and an automatic loan to Jordan for a total amount of AAD 104.12 million (about USD 420 million). Loans extended by the Fund during 2016 aimed at helping redress balance of payment imbalances and support efforts for achieving sustainable,

inclusive growth. In 2016, the Fund introduced a new lending facility to provide support to members in supporting a conducive environment for SME's growth.

In the area of **reports, publications, studies and research**, the Fund in 2016 stepped up its efforts to support decision takers and economic policy makers in Arab countries through this channel. In this context, in 2016 the Fund published a new issue of the Arab Economic Outlook (AEO) that presents macroeconomic projections for Arab countries.

The Fund also compiled a publication on "Monetary Policy Frameworks in Arab Countries". That documents transfer the proceedings of the 1st Meeting of Working Group on Monetary Policy, co-organized by the AMF and BIS during November 2015. The Fund also published a study on "the Implications of Expanding Islamic Banking for Monetary Policy Management in Arab Countries".

The Fund's activity in the field of **technical assistance** during 2016 covered areas within its interest. These included financial and banking sector and government bond market infrastructure development and capacity building in the compilation of economic statistics and related fields. Technical assistance activities of the Fund in support of further development of financial and banking sector and capital markets in the Arab region was based on a number of pillars, mainly enhanced access to finance and financial services for SMEs, creating conducive conditions for providing long-term finance, further development of non-bank financial institutions, further development and expansion of domestic currency debt markets, as well as the strengthening of financial stability and banking supervision.

With respect to **training and capacity building**, in 2016 the Fund gave a high priority to the upgrade of training in general and that of the academic content of current training programs in particular, expansion of the list of training programs and activities and introduction of new courses. In 2016, the Fund increased its courses to 28 courses attended by 748 trainees, up from 23 courses attended by 605 trainees from Arab countries in the previous year.

AMF courses conducted during 2016 covered new topics in addition to usual ones, in response to growing needs and expectations of Member States. The idea is to maximize benefit for Arab cadres participating in these regularly updated courses.

As for the **investment activity**, the Fund continued its approach in following a conservative investment policy and strategy in the management of funds and of risks in investment portfolios which contributed to the protection of invested capital and helped achieve stable positive overall returns during 2016, while maintaining low levels of investment risks.

The Fund's investment activity includes in addition to the management of its own resources, the acceptance and the investment of deposits from Member States. The Fund maintained a high level of balances in this activity reflecting the continued confidence of Member States in the Fund, as it continues to apply the Basel III requirements to manage the risks in this activity. On the other hand, the Fund continued its activity in directly managing investments for a portion of the Arab Trade Financing Program's funds, in addition to the funds in the consolidated account of the Specialized Arab Organizations and the AMF Employee Pension Fund. The Fund continued

its monitoring of the portion of the portfolio managed by third parties, according to the investment policy and in line with the respective strategy.

In 2016, the Fund continues to serve as the **Technical Secretariat of the Council of Arab Central Banks and Monetary Agencies Governors** as well as its Technical Committees and taskforces. The Fund also serves as the Technical Secretariat of the **Council of Arab Finance Ministers**.

Lending

The Fund's lending activity aims at providing support to borrowing Member States to implement economic and structural reform programs in areas that are relevant to the Fund's mandate as well as necessary technical assistance for effective and efficient design of such programs. In so doing, the Fund fulfills its mandate as spelt out in its agreement. The goal of the Fund support is to help Arab countries lay the pillars of macroeconomic stability, address balance of payment imbalances, and implement reforms in several sectors to improve efficiency of the use of resources and enhance opportunities for sustainable, inclusive growth.

AMF lending activity contributes to the fulfillment of the objectives of the AMF Strategy Framework for 2015-2020 using its resources in a responsive manner to meet the changing and increasing needs of its membership.

Categories of loans and facilities

The Fund offers a range of loans and facilities that fall in two categories. The first category of facilities aims at addressing balance of payment imbalances, while the second aims at

supporting reforms in other sectors of the economy.

The loans and facilities currently offered by the AMF to help address overall balance of payment deficit of Member States include four types of loans, namely, automatic loan, ordinary loan, extended loan, and compensatory loan.

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.

The **Ordinary Loan** is extended to an eligible member country when its financing needs exceed 75 percent of its paid subscription in convertible currencies. Generally, this loan is extended up to 100 percent of the member country's paid subscription in convertible currencies and could be raised to the limit of 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 fiscal adjustment program, covering a period of not less than a year. The policies and actions included in such a program would aim at restoring fiscal equilibrium with a view to reducing balance of payments deficit. Each tranche of the loan is repaid within five years from its date of withdrawal.

The **Extended Loan** is provided to an eligible member country with a chronic deficit in its balance of payments resulting from structural imbalances in its economy.

The member country is required to agree with the Fund on an economic reform program covering a period of not less than two years. The maximum amount of this loan is equivalent to 175 percent of the 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 tranche of the loan is repaid within seven years from its date of withdrawal.

The **Compensatory Loan** is extended to assist a member country experiencing an unanticipated balance of payments deficit resulting from a shortfall in export receipts of goods and services and/or a sharp increase in the value of agricultural imports due to a poor harvest. This loan's limit is equivalent to 100 percent of the member's paid subscription in convertible currencies, and it has a maturity of three years. The borrowing country must be experiencing a transitory fall in exports or a transitory increase in agricultural imports. Each tranche of the loan is repaid within three years from its date of withdrawal.

The second category of loans and facilities that is available to support reforms in several sectors of an economy including the Structural Adjustment Facility (SAF), the Trade Reform Facility, the Oil Facility, the Short-Term Liquidity Facility, and the SME's Conducive Environment Support Facility.

The **Structural Adjustment Facility (SAF)** was introduced in 1998. Loans extended through this facility focus on supporting reforms by borrowing Member States in the financial and banking and government finance sectors. To have access to the SAF, a member

country is required to have started structural reforms and has made reasonable progress towards macroeconomic stability. Access to this facility is subject to agreement on a reform program to be monitored by the Fund. A borrowing member country may have access to this facility up to 175 percent of the member's paid subscription in convertible currencies for each sector. Each tranche is to be repaid in four years from the date of disbursement.

The **Trade Reform Facility**², which was adopted by the AMF Council of Governors in 2007, aims at assisting Member States to meet finance costs associated with the implementation of trade reforms, thus encouraging them to adopt necessary reforms to facilitate their access to finance on international markets to consolidate growth and create productive job opportunities. This facility is extended up to 175 percent of the member's paid subscription in convertible currencies, provided the borrowing member country agrees with the Fund on an appropriate structural reform program that will be monitored by the Fund. Each tranche is to be repaid in four years from the date of disbursement.

The **Oil Facility** was introduced as a temporary lending mechanism to provide support to Member States affected by a rise in the value of oil and gas imports and support for appropriate reforms that strengthens their resilience to external shocks. The oil facility is extended to eligible countries up to 200 percent of a member country's paid subscription in convertible currencies. To benefit from the full amount of the facility, an eligible borrowing member country must agree with the Fund on a reform program. A loan that is extended

² It is noted that the Fund had provided the "Arab Trade Facility" through which it extended 11 loans for a total value of AAD 64,730, 000. That facility

was replaced by the Inter-Arab Trade Program in 1991.

through the Oil Facility should be repaid within four years following disbursement.

The **Short-Term Liquidity Facility** is a lending mechanism that is meant to assist Member States that face temporary liquidity shortage due to unfavorable developments in global financial markets. The facility is extended promptly and without any prior agreement on a reform program with the eligible borrowing member country. The short-term liquidity facility is extended with a maximum limit of 100 percent of the members paid up subscription in convertible currencies. The disbursement of the facility could be carried out in one or more tranches as requested by the borrowing member. Each payment is settled after six months of disbursement, with possible extension of two terms.

SME's Conducive Environment Support Facility was introduced by the Fund in 2016 with a view to supporting reforms in SME's sector, given the significant role these enterprises play in driving economic growth and creating jobs. This facility is extended with a maximum limit of 100 percent of the members paid up subscription in convertible currencies. Each tranche is to be repaid in four years from the date of disbursement.

Loan Commitments

In 2016, the Fund extended three new loans to borrowing members. These included two compensatory loans to Mauritania and Egypt, and an automatic loan to Jordan, for a total amount of AAD 104.12 million (about USD 420 million). As of end-2016, reflecting developments in lending activities during the year, the balance of loan commitments, including unwithdrawn parts of loans already contracted, was about AAD 571 million (about

82 percent of resources available for lending), up from about AAD 529 million at the end of 2015 (about 67 percent of resources available for lending).

The compensatory loan extended to **Mauritania** amounted to AAD 12.34 million (about USD 50.0 million) to support balance of payments overall deficit resulting from deteriorating export receipts of Mauritania due to weaker global demand and lower global prices of the main exports of Mauritania.

The compensatory loan extended to **Egypt** amounted to AAD 81.82 million (about USD 330.0 million) to tackle emergencies that caused balance of payments overall deficit to increase on the back of deteriorating export receipts during the fiscal year 2015-16.

The automatic loan extended to **Jordan** amounted to AAD 9.96 million (about USD 40.0 million) to support balance of payments overall deficit and shore up foreign reserve position so that the government may have an appropriate space for adopting policies that would accelerate economic growth.

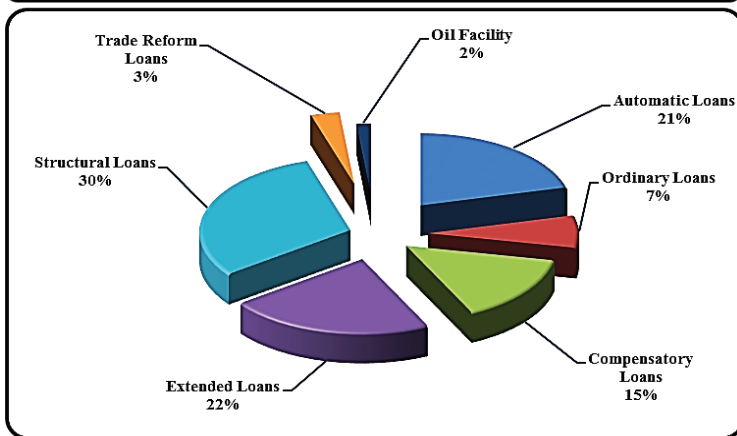
With these new loans added, the total number of loans extended by the Fund to Member States, since the start of its lending operations in 1978, as of end-2016, was 177 loans to 14 Member States for a total value of AAD 2.1 billion (about USD 8.4 billion). Table (A-1) of Annex (1) shows the details of loans by year and recipient country during 1978-2016.

Traditional loans extended by the Fund (Automatic, Ordinary, Compensatory and Extended loans) were at the top of facilities granted by the Fund since the beginning of its lending activities in 1978 through end-2016. They represent 64.8% of total loans extended throughout this period.

The structural adjustment facilities extended for both financial and banking and public finance sectors came second with 30.4 percent. Trade structural facility accounted for 3.2 percent, followed by oil facility at 1.6 percent. Annex (1), Table (A-2) presents the value and number of loans extended to each member country, by type of loan. Chart (2) shows the percentage distribution of loans during 1978-2016.

agreed upon for Member States in 2015 and 2016 as well as loan commitments for Arab countries in 2015 and 2016. Table (A-4) shows the details of such balances during 1978-2016. Table (A-5) shows the history of interest rates applied by the AMF to loans extended to borrowing Member States, regularly disseminated on the AMF website on a monthly basis as well. Chart (6) of Annex (1) shows the history of interest rates during 2003-2016.

Chart (2): Distination of Types of Loans as Share of Total Loans (1978 - 2016)



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. The financial position as of December 31, 2016 shows that there are two arrears cases that are carried over from the previous year, namely, Somalia and Syria. Total arrears on the two cases combines was about AAD 68.481

Loan Disbursements and Repayments

Total **disbursements on contracted loans** amounted to AAD 152.95 million during 2016, down from AAD 186.59 million during 2015. In line with loan repayment schedules, Member States repaid to the Fund in 2016 AAD 62.06 million representing installments on previously provided loans, down from AAD 136.66 million in 2015. As a result, the balance of outstanding loans on borrowing Member States was AAD 543 million as of end-2016, up from AAD 452 million as of end-2015.

million, including overdue loan installments of ADD 17.757 million and cumulative interest of about AAD 50.724 million.

It is noted that the **balance of undisbursed tranches** of loans agreed upon amounted to about AAD 28 million as of end-2016, down from about AAD 77 million as of end-2015. Table (A-3) shows the details of the balance of disbursed and undisbursed tranches of loans

In the case of **Somalia**, arrears were registered for the first time in 1984. The Fund has been engaged in consultations with Somalian authorities to settle arrears which amounted to AAD 65.314 million at the end of December 2016. This amount consists of overdue loan installments totaling AAD 14.877 million and accrued interest amounting to about AAD 50.437 million.

In the case of **Syria**, arrears were registered for the first time in December 31, 2011. Total overdue loan installments and accrued interest was about AAD 3.167 million on the second structural adjustment facility loan as of December 31, 2016.

Lending-related Consultations with Member States

The AMF fielded three technical missions in 2016, including Mauritania, Jordan and Egypt, for follow up on the progress of AMF-supported reform programs previously agreed upon with these countries to disburse the remaining tranches of those loans. Within this context, AMF missions conducted an overall assessment of economic and financial conditions in the countries concerned, assessed the possibility of access to additional AMF resources. It may be noted that during these missions the Fund provides technical advice on relevant issues, makes recommendations on economic and fiscal policies apart from providing financial support.

The Fund's consultation mission to **Mauritania** during January 18-22, 2016 was to follow up the implementation of the economic reform program supported by an outstanding AMF extended loan with a view to disbursing the third and last tranche of that loan. Another task of the mission was to discuss the possibility of future access to additional AMF resources to tackle any emergencies and to mitigate the impact of such emergency on Mauritania's balance of payments.

The mission concluded that Mauritanian authorities had made progress on elements of the economic reform program. Against this backdrop, the third and last tranche of the extended loan was disbursed.

Reforms implemented during 2015 by Mauritanian authorities, under the program agreed upon with the Fund, included economic and structural measures to improve the infrastructure, promote private investment and diversify sources of national income. The

economic outcome of these measures proved to be positive in many aspects. Fiscal developments largely reflected fiscal reforms introduced by the government during 2015 with a view to consolidating fiscal position through increased revenue and streamlined, more efficient expenditure, revenue, and grants increased in 2015 compared to 2014 due to improved tax collection and higher external grants.

The government made efforts to control current spending and increase public investment. This was manifested in lower fiscal deficit in 2015 as percentage of GDP. Considering the consultations engaged into by the mission as well as the information provided by Mauritanian authorities, the Fund extended a compensatory loan to **Mauritania** to help tackle spillovers of deteriorating global commodity prices as mentioned above.

The Fund fielded a consultation mission to **Jordan** during Oct. 16-20, 2016, to follow up on the implementation of the reform program in the public finance sector, agreed upon for Jordan to cover the period June 2015-June 2016. The program was supported by the structural adjustment facility loan. The second tranche of that loan would be disbursed, as a result of the progress made in implementing the program.

The mentioned program focuses on supporting the efforts of the Jordanian government in fiscal sector reforms with a view to rebalancing Jordanian economy, accelerating economic growth, creating jobs through the mobilization of own resources in order to reduce dependence on external assistance and grants, increases domestic revenue, enhances the efficiency and effectiveness of public spending. These measures would ensure fiscal

discipline and streamlining of public expenditure.

The program had three major pillars: improving tax administration and ensuring efficient tax collection, improving public procurement administration, and fully implementing Government Finance Information Management System.

The mission concluded that Jordanian authorities had made progress on elements of the economic reform program. Against this backdrop, the second and last tranche of the loan was disbursed. The Jordanian government adopted many of tax measures, under the program, with a view to increasing fiscal revenue. These measures included the enforcement of the law of collection of public revenues, direct interfaces between the Tax administration and banks and other relevant agencies, introduction of electronic invoicing, adopting of new criteria for streamlining exemptions, and improvement of tax awareness.

Furthermore, the Jordanian government adopted a package of measures to improve the management of public procurement. This included the completion of legislative setup for the unified public procurement system, rolling out of e-procurement system, introduction of an effective mechanism for public-private partnerships in a way that works for SMEs, initiating steps to create a portal for e-procurement, and improving risk management in public procurement operations.

The Jordanian government also made efforts towards a full implementation of Government Finance Information Management System. The coverage of the system was expanded to include all budget units. Also, efforts were made to pave the way for extending the system to autonomous public institutions, build human

resource capacity and upgrading the infrastructure of the system.

The Fund fielded a consultation mission to **Egypt** during November 27th - December 1st, 2016. The mission was to follow up on the progress made in the implementation of the reform program in the financial and banking sector agreed upon for Egypt under the AMF structural adjustment facility for May 2015-May 2016. The program aims at building on gains made because of reforms implemented during recent years. It has three pillars: upgrade of central depository of government securities, improvement of banking sector efficiency, and enhancement of the role of the Egyptian Credit Guarantee Company to improve SME's access to finance. The mission discussed with the authorities the possibility of access to additional AMF resources.

The mission concluded that Egyptian authorities had made progress on most elements of the program. Against this backdrop, the second tranche of the loan was disbursed.

Measures taken by the authorities included upgrade of central depository and settlement system for government securities as well as technical requirements for development of its sub-systems.

Furthermore, all necessary measures for enhancing the efficiency of the banking sector were taken. These included three structural reform projects, namely, upgrade of macro risk monitoring tools, development of standards to identify domestic systemically important banks, and adopting of latest Basel requirements.

In the case of measures to enhance the role of the Egyptian Credit Guarantee Company to improve SME's access to finance, all

necessary preparations for these measures were made. The authorities plan to implement these measures once relevant legislative amendments have been passed. The Central Bank of Egypt has created a new unit for SME's sector support. This unit has been entrusted with research on that sector, follow up on CBE initiatives on SME's sector, and analysis of challenges that banks face in course of offering credit to SMEs. The CBE has also adopted a package of initiatives to encourage banks to extend credit to SMEs. Furthermore, Regulations to Law 115/2015 on the regulation of movable collateral were issued. This is a crucial step towards enhancing the legal framework for encouraging banks to extend credit to SMEs.

Economic research, studies, reports and bulletins

The Fund pays special attention to **studies, bulletins and reports** as part of its efforts to economic policy makers and decision takers in Arab countries. This is achieved through specialized economic publications that focus on economic issues and developments in the Arab region. They serve as references for decision makers while developing policies and designing the path for economic reform as appropriate, offering information, data and economic analysis that would help professionals and those interested in the economic issues in Arab countries to engage into a meaningful debate on the same.

Furthermore, the Fund cooperates with other Arab organizations entrusted with joint regional action on the publication of the Joint Arab Economic Report, the first such publication in the region that discusses economic issues of interest to Arab countries. It contains, inter alia, a set of aggregate

economic indicators and statistics on Arab economies.

In this context, the Fund published in 2016 several reports, bulletins, studies and research papers, including:

- **Arab Economic Outlook:** This report contains projections on the macroeconomic performance of Arab economies related to economic growth, price trends, monetary and fiscal conditions and the external sector. The aim is to provide decision makers in Arab countries with a forward-looking, analytical view of Arab economies. The report contributes to enhancing research and responds to the needs of Member States to have projections on the macroeconomic performance of Arab economies as a distinct group. The Fund published two issues of that report in March and September 2016.
- A publication on “**Monetary Policy Frameworks in Arab Countries**”: This book documents the proceedings of the first meeting of Working Group on Monetary Policy, co-organized by the AMF and BIS during November 2015. Participants included senior level officials in charge of monetary policy from Arab and foreign central banks and monetary institutions.

It documents monetary policy operational frameworks in Arab countries to serve the purpose of sharing experience. It presents the experience of twelve Arab central banks in monetary policy management, including final, intermediate and operational objectives of monetary policy, monetary policy instruments, monetary transmission channels to the real sector, reforms adopted to enhance monetary policy efficiency, and implications of economic and financial

developments for monetary policy management in Arab countries.

Furthermore, the book contains the experience of both the Banque de France and the Bank of Japan in monetary policy management and inflation targeting.

- A study on the **Implications of Expanding Islamic Banking for Monetary Policy Management in Arab Countries**: This study sheds light on the size of Islamic finance market, the expanding landscape of Islamic banking, and the implications of expanding Islamic banking for monetary policy management. The study also reviews Arab and international experiences that could be built upon in developing sharia-compliant monetary instruments. It discusses certain challenges facing monetary policy management in an environment tainted by increased share of Islamic banks in banking sector in a number of Arab countries.

The Study concludes with several recommendations on further activation of the role of central banks in this respect, including strengthening existing regulatory frameworks that govern the issuance of Sharia-compliant financial instruments.

They also include; the creation of unified Sharia boards that are entrusted with the regulation of Islamic bank transactions, approval of relevant monetary policy tools, the development of an appropriate portfolio of Sharia-compliant, highly liquid government securities of different maturities and issuance calendars. This would help Arab central banks develop monetary policy instruments and enable Islamic banks to efficiently manage their accounts and legalize their operations in a

way that satisfies liquidity requirements under Basel III.

Technical Assistance to Member States

The Fund's technical assistance activities aims at enhancing and strengthening capabilities in the formulation and implementation of economic and fiscal policies, as well as economic reforms in Member States.

AMF offers direct technical assistance and support to its Member States, in the area of macroeconomic policy making and structural reform program design, by delegating lending-related missions for consultation on loans to support economic and structural reform programs. During these missions, Member States are exposed to AMF experience. Member States also receive services provided by external experts taking part in these missions.

Upon request from Member States, AMF field technical assistance missions to Member States, deploying its expertise in economic and financial areas.

This includes providing recommendations addressing certain challenges and gaps. The Fund provides technical assistance in fields related to its expertise, such as economic policy design, financial and banking infrastructure development, government bond markets, capacity building in the compilation of economic statistics, and other related areas.

The Fund provides this technical assistance in both direct and indirect forms, as appropriate. These include the provision of technical assistance as part of different initiatives adopted by AMF for further development of the financial sector in Arab countries, as well

as seminars, conferences and consultative meetings organized by AMF.

The AMF technical assistance activity during 2016 is detailed as follows:

- **Support for development of financial and banking sector and capital markets in Arab countries**

In 2016, AMF program for support for further development of financial and banking sector and capital markets in Arab countries covered several topics, including enhancement of SMEs access to finance and financial services, creation of conducive conditions for long-term finance, further development of non-bank financial institutions expansion, and activation of domestic currency debt markets, enhancement of financial stability and banking supervision. It also covered the provision of data and information on financial sector performance, and Arab capital markets.

Reflecting AMF interest to enhancement of access to finance and financial services, and financial inclusion, the Fund in 2016 made preparations for the events and activities of the Financial Inclusion Initiative that aims at providing support to Arab countries in capacity building and policy development related to financial inclusion.

In this respect, the Fund cooperates with the Global Alliance for Financial Inclusion (GAFI). The Fund co-organized the “**18th Microcredit Summit- Frontier Innovation in Financial Inclusion**”, held in Abu Dhabi, UAE, during March 2016. Furthermore, the Fund co-organized the “**Conference on Financial Inclusion for SMEs- the Role of Credit Guarantee Companies and Banks in Arab Countries**”, held in Egypt on May 17-18, 2016 in cooperation with the Central bank

of Egypt and the Credit Guarantee Company, Egypt.

Given the importance of financial education in enhancing access to financial services, the Fund organized the “**Regional Conference on Financial Education and Awareness: Strategies, Implementation and Impact**” in Morocco, October 20-21, 2016 in cooperation with the Moroccan Ministry of Economy and Finance, the GIZ, the World Bank Group, the OECD, the Sanad Fund for MSME Credit, and the Moroccan Society for Financial Literacy. The conference discussed the importance of financial education and awareness in enhancing access to financial services in Arab countries and opportunities for sustainable, inclusive economic development.

Discussions covered challenges facing the drive to strengthen financial education and awareness, an overview of emerging practices, experience, national programs and the role of supervisory authorities in this respect. Furthermore, the conference discussed the close relationship between financial education, consumer protection and inclusive economic development.

The Fund organized the “**Regional Forum on Expanding Financial Inclusion of Women in the Arab World: More Opportunities, More Capability**” held on November 22-23, 2016, in Jordan, in cooperation with the Central bank of Jordan and the GIZ. The forum reviewed the status of financial inclusion of women around the globe, shedding light on international best practices and the wider links between women’s entrepreneurship and financial inclusion. During that meeting, a regional initiative to enhance women’s participation in the financial sector was launched.

Within the context of AMF efforts to strengthening **banking legislation and supervision and supporting financial stability**, the Fund co-organized a **“Forum on Governance for Supervisory Authorities in the Arab Region: Opportunities and Challenges”**, 09-10 February 2016, in Abu Dhabi, UAE, jointly with The Union of Arab Securities Authorities, in cooperation with the IFC and the OECD.

The forum discussed latest developments related to the international governance principles developed by the OECD and adopted by G-20, challenges facing the implementation of these principles in Arab countries, the prospective role of Arab supervisory authorities in tackling these challenges, and the development of a conducive legislative, legal and regulatory environment that promotes sound governance practices, considering the progress in implementing governance.

The forum also discussed requirements for effective implementation of governance in Arab countries, including education, training and capacity building. It also discussed challenges facing implementation on certain issues, including practices of board of directors, compensations and rights of investors and shareholders. Discussion covered requirements for public enterprise governance and the role of independent members of board.

During May 2016, the Fund co-organized a **“High-Level Forum on Strengthening Islamic Bank Legislation and Supervision in Arab Countries”** in Dubai, UAE, jointly with the IMF, in cooperation with the World Bank Group, Dubai Islamic Economy Development Centre, Islamic Development Bank, and Dubai International Financial Centre.

The Forum discussed the growth of Islamic banking in the Arab region, challenges faced by Arab supervisory authorities in developing Islamic banking services and related legislation and supervisory tools. The forum also discussed requirements for shoring up the capital of Islamic banks, the issue of liquidity management and appropriate instruments in this respect, as well as the development of a robust system of prudential and macro supervision. The forum discussed latest developments related to the international governance principles applicable to Islamic banking.

In December 2016, the Fund organized **“The 12th High-level Meeting on Recent Developments in Banking Supervision and Financial Stability Issues”**, in cooperation with BIS Institute of Financial Stability, the Basel Committee on Banking Supervision and the International Finance Institute (IIF).

The meeting discussed important topics, including supervisory challenges in the medium and long terms and recent developments in corporate governance. The meeting also discussed amendments to prudential approach to credit risk measurement and operational risks facing commercial banks. The meeting reviewed the main findings of the survey conducted by the Basel Committee on emerging risks and related supervisory priorities.

Furthermore, the program of the meeting covered a discussion on challenges faced by central banks and supervisory bodies in the Arab region in the course of enhancing financial stability, as well as ways and means of improving risk management in the financial and banking sector. The meeting also discussed the implications of accelerated developments in financial technology for the

banking sector, and ways and means of controlling electronic financial crime and, finally, updated standards on Islamic finance.

In September 2016, the Fund, in cooperation with the IMF, the Financial Stability Board (FSB) and WB Group launched a **joint report on “Implications of Action by Global Correspondent Banks for Banking Sector in Arab Countries”**. The report reviewed the findings of a joint survey on the implications of suspension or reduction of correspondent banks services to the banking sector in Arab countries. The survey was conducted to evaluate the impact of such action on Arab banks during 2012-2015 and its implications for financial and banking products and services that are offered by Arab commercial banks.

The report has shown that there was a significant reduction in transactions with international correspondent banks, a fact that directly affected the ability of banks operating in the Arab region to provide several services and to conduct certain transactions in foreign currencies. The report called for scaling up efforts by Arab supervisory authorities to strengthen legislative and supervisory systems.

The AMF, in cooperation with the BIS, FSI and the International Association for Insurance Supervisors (IAIS), organized, in May 2016, **“The 14th Regional Seminar of Insurance Supervisors: Solvency and Risks”** in Abu Dhabi, UAE. The seminar discussed all ways for further development of non-bank financial sector. The main topics discussed included awareness on risks to the insurance industry, supervisory tools for assessing these risks, and ways and means to strengthen governance and internal control within insurance companies. A number of officials representing BIS, FSI and IAIS, as well as representatives of insurance

supervisory authorities in the Arab region took part in the seminar.

In 9th-10th February 2016, AMF organized Workshop on **“The Application of International Principles for Capital Market Infrastructure”**, in cooperation with the BIS Committee on Payment System and Infrastructure. The main topic of the workshop was the financial and banking sector infrastructure in the Arab region. Senior officials representing international agencies and associations, central banks, securities and exchange authorities and central securities depositories in Arab countries took part in the workshop.

On the topic of development of domestic debt markets, the Fund took part in a joint mission fielded to Algeria in November 2016 to provide technical assistance to Algerian authorities in the issues related to development of bond markets. The mission was in cooperation with IMF and the World Bank.

Also, during December 2016, the Fund took part in a Conference on Sukuk Markets: challenges and opportunities, held in Riyadh, Saudi Arabia.

During the year 2016, the Fund continued efforts to enhance the role of Arab capital markets and provide information in this respect. To that effect, the Fund continued to publish on its website daily capital markets' information on Arab stock exchanges. The information released includes the Fund's Composite Index which measures the aggregate performance of those markets. The indicator calculated by the Fund on each individual stock exchange, as well as relevant data on the volume and value of trading and the capitalization of Arab capital markets.

The Fund continued issuing quarterly bulletins highlighting the performance of Arab capital markets, now totaling 87 issues since inception. These quarterly bulletins cover relevant developments on Arab financial markets, major legislative and regulatory developments as well as an analysis of securities market performance and activity.

▪ **Development of Statistical Capacity in Arab Countries**

The Fund values the quality of statistics and economic indicators, given their role in assisting decision making related to sustainable development. Recognizing the importance of providing comprehensive and credible statistical data in economic and financial areas for Arab countries, the Fund has updated its statistical databases and upgraded economic bulletins and reports. The Fund timely uploads these bulletins and reports on its website.

As part of the **Arab Statistics Initiative "Arab Stat"** launched in 2013, for which the Fund serves as technical secretariat, the Fund offers training to build human capabilities in this field in order to produce regular economic, financial and social statistics, to high standards and in compliance with internationally accepted methodologies. That includes assisting its Member States in applying latest international statistical methodologies and manuals, enabling Arab countries to harmonize statistical manuals and methodologies used in socio-economic fields.

As part of this endeavor, the Fund fielded two joint missions to the National Statistics Centre of Mauritania to assist in the compiling and disseminating annual national accounts for 2015.

The action program under this initiative included upgrading Arab databases through

assisting Arab countries in creating the appropriate architecture for compiling and disseminating data and promoting the use of such data in policy making. It also includes the creation of partnerships with regional and international statistical institutions that would help improve the efficiency and effectiveness of statistical systems in Arab countries.

The Technical Committee on **Arab Statistics Initiative "ArabStat"** held its third meeting on November 2-3, 2016. During this meeting, Member States presented their experiences and the challenges they face. Observers, including the IMF, the Arab Institute for Statistical Training and Research, the GCC Statistical Centre, and Statistical, Economic and Social Research and Training Center for Islamic Countries.

The Committee designed a questionnaire for 2016 on the outlook for "ArabStat" initiative to identify the main needs of Arab countries in terms of statistical manuals and methodologies. It also designed a strategy that envisages improved statistical deliverables in the Arab region and the provision of technical assistance in applying the latest manuals and methodologies, training statistical cadres to the best practices of compiling and classifying statistical data.

▪ **Management of the Consolidated Account for Funding Arab Specialized Organizations**

The Fund is entrusted with the management of the Consolidated Account for Funding Arab Specialized Organizations which was created pursuant to Economic and Social Council Decision 1056, issued in July 1988, to cover expenditure under respective approved budgets for Arab specialized organizations, agencies and centers through member country

respective contributions to the budgets of those organizations.

Specialized organizations created within the League of Arab States are major pillars of inter-Arab cooperation. They serve as technical arms and centers of excellence under the League of Arab States. They offer advice and expertise on economic, social, cultural and financial issues and activities. They are pivotal in achieving Arab common aspirations within their respective mandates. The Arab organizations that are parties to this consolidated account include:

- 1- Arab Organization for Administrative Development (ARADO)
- 2- Arab Labor Organization
- 3- Arab Industrial Development and Mining Organization
- 4- Arab League Education, Culture and Science Organization (ALECSO)
- 5- Arab Organization for Agricultural Development
- 6- Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD)
- 7- Arab Atomic Energy Agency
- 8- Arab Authority for Civil Aviation (ACAC)

Within this context, the Fund prepares a quarterly report for each organization that shows expenditure and balance, the status of contributions by Member States to the budget of the organization concerned, as well as a regular aggregated quarterly report on the operations of the consolidated account.

The financial position of the consolidated account shows that the balance on the asset side as of December 31, 2016 was US\$ 20.5 million, down from US\$ 24.1 million at the end of 2015. It is noteworthy that the return on investment of assets in this account is deposited in a special reserve sub-account. The

balance of the sub-account, as of end 2016, was about US\$ 10.1 million. It now covers almost 24 percent of total appropriations of the budgets of member organizations for the last fiscal year, although percentages vary across individual organizations.

Decisions taken by the Economic and Social Council envisage that a build up of reserve under this account to be used in emergencies, as decided by the Economic and Social Council of the Arab League.

▪ Cooperation and Partnership with Arab, Regional and International Organizations

During 2016, the Fund continued its efforts to promote cooperation and coordination with Arab, regional and international organizations, financial institutions, and development agencies in areas of mutual interests, with a view to best serve its Member States and contribute to the achievement of its objectives and delegate missions of common interest.

Within this context, the Fund in 2016 continued to expand partnership with, international and regional agencies. It intensified its participation in international meetings, and it hosted a number of international meetings, within its remit. The Fund also ensured that relevant international institutions are represented in meetings of councils and committees for which it serves as secretariat, in order to share experiences with those institutions.

As part of its work to further cooperation and coordination with Arab and international organizations, the Fund continued its regular work on the preparation and publication of the Joint Arab Economic Report, which represents a major reference document that covers

economic developments in Arab countries. This report largely reflects the constructive cooperation between the Fund, the Arab Fund for Economic and Social Development, the Secretariat of the League of Arab Countries, and the Organization of Arab Petroleum Exporting countries (OAPEC).

Within this framework, the Fund took part in meetings convened by the Coordination Group for Arab Financial Institutions and Funds that comprises of a sizable number of national, regional and Arab funds.

Furthermore, in 2016 the Fund continued working within the frameworks of the MOUs concluded with regional and international institutions over the last two years. The Fund adopted joint programs, including activities and other events and cooperations, to offer technical advice, training and capacity building. Apart from ongoing programs with the IMF and WB, the Fund implemented joint programs with the Federation of Arab Securities Authorities, Islamic Financial Services Board, JICA, GTZ, and Global Alliance for Financial Inclusion, as well as a number of central banks worldwide.

Within this context, the Fund signed a 3-year memorandum of understanding with the Islamic Financial Services Board for developing a framework of cooperation that entails conducting a wide range of programs and initiatives for further developing Islamic finance sector in the Arab region.

The Fund participate in 2016 in relevant international meetings. The Fund took part in the Spring and Annual Meetings of the International Monetary Fund and the World Bank Group, in April and October 2016, at Washington DC. During these Meetings, the Fund took part in the meetings of the

Development Committee and G24. During these two events, Fund took part in a number of workshops and meetings. It also took part in the Annual Meetings of the BIS, held at the BIS HQ in Basel, Switzerland, during June 2016.

The Fund continued to invite international financial institutions to take part in the meetings of the Arab Central Banks Governors Council, and the Council of Arab Finance Ministers as well those of their committees and working groups so that they may present work papers on issues discussed during these meetings. This enhances the exposure to international experience in relevant areas. Institutions invited included International Monetary Fund, the World Bank, the IFC, the Islamic development Bank, GTZ and BIS.

To enhance cooperation with major players in the field of international standard setting, the Fund hosted a number of international committee meetings. In January 2016, the Fund hosted at its HQ in Abu Dhabi, UAE, the Regular Meeting of the Consultative Group of the Basel Committee. A number of senior officials of Supervision Departments of central banks around the world as well as representatives of banking supervisory committees of regional groups took part in the meeting. Discussions covered a number of important topics on the agenda of Basel Committee for 2016.

In March 2016, the Fund hosted a meeting of the International Committee on Credit Information. This committee is chaired by the World Bank and comprises a number of central banks as well as institutions working on credit information around the world.

The Fund positively responded to an initiative by the G-20 to strengthen cooperation and coordination between the IMF and the

Regional Financing Arrangements. Within this context, the Fund took part in the meeting between the IMF and Regional Financial Institutions engaged in providing support to help address balance of payments and fiscal imbalances. Discussions focused on mechanisms to activate coordination and exchange of information between the two sides.

Within the same context, the Fund took part in the 19th International Conference of Banking Supervisors organized by the Basel committee on Banking Supervision, in December 2016, in Santiago de Chile, in cooperation with the Supreme Authority for Banking and Financial Supervision. Meetings between regional committees on banking supervision and the chair of Basel Committee for Banking Supervision (BCBS) were arranged to discuss relevant developments and issues and priorities of interest to regional committees.

The Discussion covered a number of banking supervision topics, including the standard approach to credit risk, reconciliation of supervisory practices with the new reality in the field of supervision, supervisory reforms in advanced, emerging, developing and small economies, projected non-performing loan provisions, macroprudential policies, financial stability, and issues related to financial technology and electronic crime.

Finally, in 2016 the Fund took part in a number of conferences and workshops, including the World Government Summit, held in Dubai, UAE, during February 2016, where a presentation was made by the Fund on the development of the role of pension funds in Arab countries.

The Fund also took part in the 3rd Conference on Information Security, organized by the

Central Bank of Qatar in November 2016, in Doha, Qatar. The conference discussed Electronic Protection: The Importance of Cooperation and Preemptive Action. The Fund also took part in the Conference on Sukuk Market: Challenges and Opportunities, held in Riyadh, Saudi Arabia, during December 2016.

Training and Capacity Building

Pursuant to the AMF Strategy Framework for 2015-2020 that envisages, inter alia, the upgrade of training and capacity building in economic, fiscal, monetary, trade, and statistical areas in the Arab region, the AMF-Economic Policy Institute (EPI) in 2016 accorded a high priority to upgrading training in general and, in particular, the academic content of current training programs, expansion of the list of training programs and activities, including those offered by the Fund at its HQ and in Arab countries. In addition, the EPI in 2016 accorded a high priority to laying down the foundation for online training and the possibility of introducing a program for visiting scholars and another one for junior economists.

Training and capacity building programs and activities undertaken by the Fund, through its Economic Policy Institute, represent another set of tools that stand evidence to its role as a center for knowledge, experience and expertise, technical advice and capacity building within its field. This set of tools responds to the growing needs of the membership to provide technical knowledge and to further empower official cadres.

Based on this premise, the AMF Strategy Framework for 2015-2020 envisages upgrade of the academic content of current training programs, expansion of the list of training programs and activities, including those

offered by the Fund in Arab countries. In addition, the AMF also plans to lay down the foundation for distant learning.

The EPI plan for 2016 focused on an increase in the number of activities and that of partner organizations in which the EPI cooperates in delivering training, introduction of new training programs, improved return on spending and foreign contribution to program allocations, diversification of sources of funding, strengthening core business lines through better training processes and electronic registration, and strengthening own capacity to respond better future training needs.

With a view to further diversifying training services and extending the same to all Arab countries, the EPI strengthened partnerships with regional and international institutions during 2016 apart from AMF experts.

As a result, the number of joint courses increased in 2016. Considering the above, the outcome of EPI work in 2016 shows an increase in the number of courses to 28, up from 23 courses in 2015.

This included new topics in response to members' expectations and needs. It would

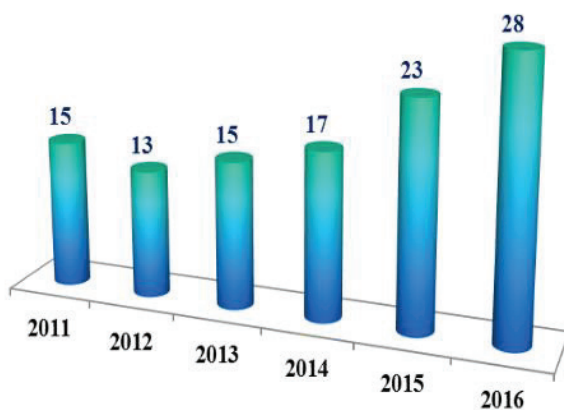
enhance the capabilities of professionals from Member States to cope with a changing work environment in the region, Chart (3).

Training courses delivered in 2016 included 9 courses in cooperation with the IMF, 2 courses with the World Trade Organization (WTO), 2 courses with the Bundesbank, one course with the Bank of England, 2 courses with the Bank for International Settlements, 2 courses with the Islamic Development Bank, 3 courses with the World Bank, one course with JICA and one course with the MENA-FATF, apart from 5 courses delivered by the AMF Economic and Investment Departments' staff.

Efforts were not confined to responding to Arab countries' needs in terms of increased and diversified training programs. They also covered the upgrade of training quality. Participant questionnaire responses received by EPI show a positive trend for the most part on effectiveness of training, adoption of information systems and skills acquired.

Participants responses also included suggestions for additional training programs to cope with the increasing needs and expectations of the membership.

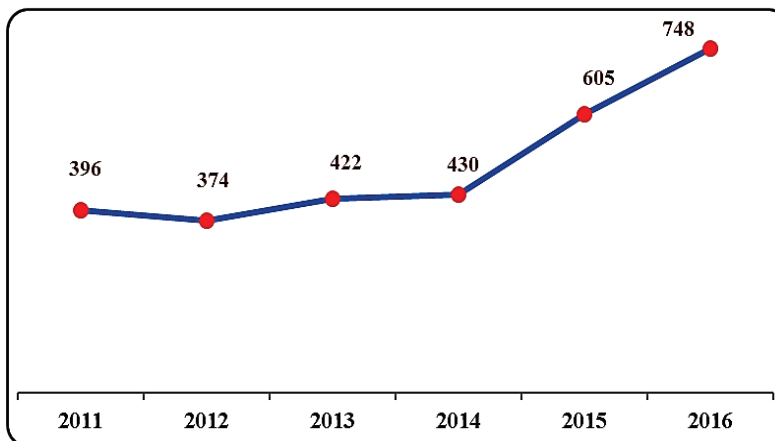
Chart (3): Activities of Economic Policy Institute (2011 – 2016)



On strengthening main distinctive business lines, EPI focused in 2016 plan on upgrading its computer facilities and work policies and processes, as well as the introduction of an electronic registration system to enable electronic selection of candidates and facilitate participation in training programs.

EPI performance figures for 2016 show that 748 trainees from Arab countries participated in its courses, up from 605 participants in the previous year, and an increase of 24% over 2015. Chart (4) and Annex (3) show the numbers of beneficiaries of courses, workshops and seminars during 1988-2016.

Chart (4): Number of Participants in Economic Policy Institute Activities (2011 – 2016)



As to maintaining development and training capacity, through strengthening qualified human resources, the Fund continues to attract qualified professionals with distinguished academic and practical background to join EPI. They are selected on stringent standards that ensure a continuous upgrade of training deliverables.

Considering the previous backdrop, the EPI deliverables on 2016 included 28 courses, of which 22 courses were delivered at AMF HQ in Abu Dhabi, UAE, while 6 courses were delivered in Member States. Here is an annotated list of courses and workshops held in Abu Dhabi during 2016, including topics, co-organizers and objectives:

1- A course on **Operational Risk Management**, jointly with the Bundesbank, January 5-7, 2016. This

course aimed at familiarizing participants on the most recent developments in operational risk management, including identification, measurement and monitoring of risks, as well as best practices in this respect.

2- A course on **“Islamic Insurance-(Takaful)”**, in cooperation with the World Bank, January 11-14, 2016. This course aimed at shedding light on the principles of **Islamic Insurance (Takaful)**, and its increasing weight in this industry within an environment of accelerated development of the financial industry.

3- A joint course with IMF Middle East Center for Economics and Finance (IMF-CEF) on **“Financial Market Analysis”**, January 31-February 11, 2016. This course aimed at familiarizing participants on the basics of financial analysis as a tool of policy making.

4- A course on **“The Performance of Foreign Trade Analysis and Competitiveness Measurement in Arab Countries”**, developed and delivered by AMF Economic and Technical Department staff, February 16-18, 2016. This course aimed at familiarizing participants on main indices used in foreign trade performance analysis, including commodity foreign trade index, export diversity and comparative advantage of commodity exports.

5- A course on **“Arab Economies: Developments and Prospects”**, developed and delivered by AMF Economic and Technical Department and EPI staff,

- February 23-25, 2016. This course aimed at enhancing exchange of experience among professional in charge of macroeconomic modeling and forecasting in Arab agencies concerned.
- 6- A course on “**Risk-based Supervision**”, in cooperation with the BIS Institute of Financial Stability, March 15-17, 2016. This course aimed at enriching participants’ knowledge of supervision that is based on risk.
 - 7- A joint workshop with MENA-FATF on “**Money laundering**”, March 20-22, 2016. This workshop aimed at helping countries of the region prepare for the second round of assessments under the Mutual Assessment Methodology (2013) and the FATF 40th Recommendations on AML/CFT (2012) through familiarizing participants on the requirements and tools of mutual assessment.
 - 8- A course in cooperation with the WB on “**Sukuk Development**”, April 10-14, 2016. This course aimed at familiarizing participants on sukuk as a major instrument of Islamic long-term finance.
 - 9- A course in cooperation with the WTO on “**Trade and Development for Arab and Middle East Countries**”, April 19-21, 2016. This course aimed at strengthening the understanding of development issues considering the outcome of the Doha Round, particularly the linkages between trade and development.
 - 10- A joint course with the Bundesbank on “**Implementation of Monetary Policy**”, April 25-27, 2016. This course aimed at strengthening the understanding of the roles and functions of different monetary policy instruments.
 - 11- A joint course with IMF-CEF on “**Government Finance Statistics**”, May 15-26, 2016. This course aimed at familiarizing participants on the conceptual framework of GFS as presented in IMF GFSM 2014 that updated the GFSM 2001 as well as practical issues related to data compilation.
 - 12- A course in cooperation with AMF Investment Department staff on “**Foreign Reserve Management Program**”, May 30-June 2, 2016. This course aimed at familiarizing participants on practical aspects of foreign reserve management, including the basics of investment management (design of investment strategy and allocation and diversification of investment assets with a view to realizing the highest rate of risk-weighted return).
 - 13- A course on the “**Role and Functions of Central Banks**”, developed and delivered by AMF various department staff, August 14-18, 2016. This course aimed at familiarizing Central bank of Yemen staff on latest developments on the role and functions of central banks based on practices of central banks around the world, including the role of central banks in ensuring financial stability and economic growth and stability through enhanced access to financial services, financial inclusion and other roles added to the core remit of a central bank, namely, the design and implementation of monetary policy and delivery on the inflation target.

- 14- A joint course with the IDB Research and Training Institute on “**Risk Management in Islamic Banks**”, September 25-29, 2016. This course aimed at familiarizing participants on sound practices in risk management in Islamic banks, including the identification, measurement monitoring and control of risks as means to ensure sound conditions of banks.
- 15- A joint workshop with WTO on “**Government Procurement**”, October 3-6, 2016. This course aimed at reviewing and discussing foundations, concepts and obligations stipulated in the WTO Agreement on Government Procurement.
- 16- A joint course with IMF-CEF on “**Monetary and Financial Statistics**”, October 9-20, 2016. This course aimed at strengthening the capacity of Arab professionals in compiling monetary & financial data following international best practices.
- 17- A course on “**Basel III Accord and Risk-Weighted Assets**”, in cooperation with the BIS Institute of Financial Stability, November 1-3, 2016. This course reviewed new methodologies in computing and risk-weighted assets by supervisory authorities.
- 18- A course on “**Macro-Economic Forecasting**”, developed and delivered by AMF Economic and Technical Department staff, November 7-9, 2016. This course aimed at enhancing the skills of participants in using existing forecasting methodologies and developing forecasts on economic variables using causal and non-causal models.
- 19- A joint course with the WB on “**Regulation and Supervision of Islamic Banks**”, November 20-23, 2016. This course aimed at familiarizing participants on the most recent developments related to capital adequacy ratio, risk management and governance in the course of supervision of Islamic banks.
- 20- A joint course with JICA on “**SMEs Development Policies**”, November 27-30, 2016. This course discussed ways and means of activating SMEs competitiveness through a series of financial initiatives, tools and procedure that would facilitate SMEs access to finance on concessional terms, as well as SMEs human and technical capacity building.
- 21- A joint course with IMF-CEF on “**Financial Soundness Indicators**”, December 5-16, 2016. This course presented the concepts, definitions, sources and techniques of constructing financial soundness indicators, a process that supports macroeconomic analysis considering IMF Financial Soundness Indicators: Compilation Guide.
- 22- A course in cooperation with the Bank of England on “**Macro and Micro Prudential Policies**”, December 18-22, 2016. This course aimed at familiarizing participants on recent developments in banking supervisory practices used globally, mainly the shift from conventional supervision to targets-based and prudential supervision that aim at ensuring financial stability.

In addition, here is an annotated list of courses and workshops organized by the AMF in Arab countries during 2016, including topics, co-organizers and objectives:

1. A joint course with the IMF-CEF on **“Macroeconomic Management and Fiscal Policy”**, in **Qatar**, February 28th-March 10th, 2016. This course discussed fiscal policy issues and their implications for macroeconomic management.
2. A joint course with the IMF-CEF on **“Economic Policies for Stability”**, in **Jordan**, May 1-12, 2016. This course discussed linkages between macroeconomic policies and micro prudential policies for enhancing financial stability.
3. A joint course with IMF-CEF on **“Macroeconomic Management and Financial Sector Issues”**, in **Algeria**, August 28th- September 8th, 2016. This course focused on interlinkages between financial sector issues and macroeconomic management.
4. A joint course with IMF-CEF on **“Public Sector Debt Statistics”**, in **Bahrain**, September 18-22, 2016. This course presented the framework of public sector debt statistics according to the IMF Public Sector Debt Statistics Guide for Compilers and Users.
5. A joint course with the IDB Research and Training Institute on **“Liquidity Management in Islamic Banks”**, in **Sudan**, October 23-27, 2016. This course aimed at familiarizing participants on key issues and challenges related to liquidity management in Islamic banks.
6. A joint course with IMF-CEF on **“Vulnerabilities Diagnostic (VUL)”**, in **Morocco**, December 5-16, 2016. This course presented an evaluation of policies on external debt, foreign reserve management, liberalization of capital account, and foreign aid management.

Investment

Investment is considered one of the main activities of the Fund, based on the objectives and the scope defined by its Articles of Agreement, in addition to the resolutions issued by the Council of Governors that define the general investment policy framework.

The Board of Executive Directors’ resolutions defined the general guidelines for investment policy in addition to the main regulations and standards for the implementation and the management of various investment risks. The Fund follows a conservative and balanced investment policy based on the principle of diversification of investment risks in line with its nature as a government-owned Arab financial institution. The Fund’s investment policy adheres to four main principles: the protection of the principal invested as a priority, liquidity, free transferability and then realizing the highest possible return on an annual basis while considering appropriate portfolio risk limits to protect the value of the investment.

The activity includes investing the Fund’s accumulated financial resources, which consist of capital and reserves that are employed in activities consistent with the Fund’s predefined goals. Such activities include investing in Arab Government bonds within set limits with the objective to grow these investments in line with approved investment strategy and policy, and achieve an income which contributes to

cover the Fund's administrative expenses and grow its reserves and resources. This activity also covers maintaining adequate liquidity to meet lending requirements, cooperation with Member States and Arab financial institutions including acceptance and investment of deposits from these parties in accordance with the Fund's approved investment guidelines.

The investment activity also includes portfolio management services. These services include management of deposits, bonds and other securities on behalf of Member States and Arab financial institutions.

In 2016, global financial markets experienced episodes of fluctuations due to uncertainty on the direction of global economy, growing concern of a possible slowdown of the Chinese economy, negative implications of Brexit and negative returns of many highly-rated government bonds.

Under these circumstances, the Fund has continued to pursue a conservative approach by prioritizing the preservation of its investments. Considering the economic and investment climate that has prevailed during the year, the Fund was keen to ensure the safety of its investments through the acquisition of highly rated investment instruments, in addition to dealing with regional and global financial and banking institutions that enjoy high credit ratings; the Fund monitors these institutions through constant surveillance.

The Fund actively manages the risks of its investment portfolio by focusing on major investment risks including concentration risks, interest rate risks, liquidity risks, currency risks and credit risks.

The investment portfolio of the Arab Monetary Fund consists of investing its own funds as

well as deposits received from Member States, where the total value of the investments amounted to the equivalent of AAD 2.86 billion, or approximately USD 11.54 billion at the end of 2016.

Moreover, the AMF consolidated investment portfolio which include balances of the Arab Trade Financing Program portfolios of AAD 100 million, or about US\$ 404 million. This brings the total consolidated investment portfolio to AAD 2.96 billion, or about US\$ 11.9 billion.

The investment portfolio consists primarily of investments in bank deposits and bonds and limited investments in multi-strategy investment and property funds.

By the end of 2016, the total investment portfolio had an allocation of 28 percent to bank deposits, and 69 percent to bonds and securities and 3 percent to multi-strategy and property investment funds.

The approved investment policy allows allocation of investments through various investment instruments, including deposits with Arab and foreign commercial banks that fall within the list of approved banks for the purposes of deposit, which currently includes approximately 114 banks and financial institutions. The list, approved annually by the Board of Executive Directors, is prepared according to established rules for bank selection and limit setting for dealing. The list is subject to continuous follow-up on the banks' financial status and credit assessment.

As for investment instruments in bonds and securities, the Fund maintains high quality instruments in terms of liquidity and credit assessment and is keen to diversify its exposures and its geographical spread.

A high proportion of bond portfolios were invested in government and semi-government issuances and money market instruments, amounting to 71 percent maintaining an average bond credit rating of AA, with 95 percent of the bond portfolio has a credit rating of A and above.

On the other hand, to allocate investments geographically to reduce country risks and in response to changes occurring in financial markets, the Fund continued to direct its investments ensuring a balanced geographical distribution & sectoral diversification in line with approved investment guidelines.

Investment in bonds, deposits and securities in Arab countries amounted to AAD 717 million, equivalent to USD 2,891 million, accounting for approximately 26 percent of the total invested funds at the end of 2016. This includes AAD 544 million in deposits with banks and financial institutions, equivalent to USD 2,195 million, in addition to AAD 173 million, equivalent to USD 697 million, invested in bonds and securities issued by Member States, banks and Arab companies.

In terms of investment in Arab currencies, the investment policy allows, under certain conditions, to invest a portion of the available funds for deposits, bonds and securities investments in convertible currencies of Member States.

The Fund's investments in Arab currencies amounted to AAD 158 million, equivalent to USD 636 million by the end of 2016. Investment in Arab bonds and money market reached AAD 173 million, equivalent to USD 697 million by the end of the year, which includes government issuances totaling AAD 113 million, equivalent to USD 456 million,

reaching approximately 65 percent of the total investment in Arab bonds.

The remaining balance of AAD 60 million, equivalent to USD 242 million, which is approximately 35 percent of the total investment, represents investments in bonds issued by banks and Arab non-government institutions.

Regarding the credit rating of the Arab government bond portfolio, 28% of the portfolio is invested in government bonds with a credit rating of A or better; the remaining 72 percent represents investments in Arab government issuances with lower credit rating ranging from BBB to B for a total size of AAD 81 million, equivalent to USD 326 million at the end of 2016.

It is worth mentioning that the Council of Governors expressed its support, during its 2012 meeting, to the creation of an Arab government bonds' portfolio.

In response, the Fund's Board of Executive Directors took several decisions to increase and regulate investments in Arab government bonds rated below A whereby the credit ratings' categories that were acceptable for investment in Arab government bonds were expanded to include the B credit rating category.

In addition, part of the Fund's own resources was allocated to invest in Arab government bond investments with a credit rating ranging from BBB to B grades, amounting to AAD 115 million (equivalent to USD 464 million), as per the Board of Executive Directors' resolution No. 4 dated 27/02/2014; as a result of this resolution, there is an increase in the number of Arab countries in which the Fund may invest in their government bonds.

The Board's decision to invest in Arab government bond markets reflects the Fund's growing interest in expanding its participation and contribution to support and develop Arab bond markets by increasing participation in bond issues of Member States with a credit rating of BBB and lower, as part of the Fund's continuous efforts to develop and grow the Arab financial markets, including Arab bond markets.

Deposit Acceptance from Arab governments and financial institutions, is conducted in line with Fund's strategic objectives set out in its Articles of Agreement and in accordance with the Board of Executive Directors' various resolutions which called for Arab countries to voluntarily deposit a portion of their funds with the Fund. The Agreement established several rules including prohibiting the Fund from using its deposited money in providing loans to its Member States, and it allocated a portion of the Fund's resources to support this activity.

The Board of Executive Directors issued several resolutions that govern the management of this activity in terms of accepting deposits and the management of its investment funds, which includes the voluntary adoption of the Basel framework as a reference for managing the risks and limits for this activity.

These decisions allocated necessary financial resources from the Fund's reserves to support this activity and to enhance the confidence of depositors. Moreover, it defined the permitted investment instruments for investment in this activity which includes bank deposits, bonds and money market in addition to laying conservative foundations in asset and liability management.

The Fund enjoys distinctive characteristics that contribute to enhancing the confidence of the

depositing countries, predominantly through its conservative investment policy that gives greater weight to the preservation of the invested capital.

The deposited funds also enjoy a high level of safety by virtue of the Fund's financial solvency, and its risk mitigation approach to its investment activities.

The Fund voluntarily adopted the Basel framework to manage the risks of the investment portfolio coming from the accepted deposits of Member States, achieving a Capital Adequacy Ratio of 37.31 percent at the end of 2016, compared to the minimum requirements of Basel III at 13 percent.

The 30-day short-term Liquidity Coverage Ratio reached 375.78 percent, compared to the minimum requirement of 80 percent which will be implemented starting from 2017, and recorded a Net Stable Funding Ratio of 594.27 percent, compared to the minimum requirement of 100 percent. The Leverage Ratio reached 8.78 percent, compared to a minimum of 3 percent.

These indicators reflect the robustness of the risk management of this activity and the attention of the Fund to the deposits from its Member States, where these characteristics have collectively contributed to the growth in the size of accepted deposits from Arab Member States, with the activity recording remarkable growth during the past several years. The size of accepted deposits at the end of 2016 reached an equivalent of AAD 2,372 million, equivalent to USD 9,565 million received from 15 Arab countries and financial institutions that placed deposits with the Fund in US dollars, Euros and Pound Sterling.

The Fund’s conservative implementation of its investments policy and proactive risk management practices effectively contributed in protecting the value of invested funds and recorded a positive stable performance from these investments, despite low interest rates on major currencies including the currency components of the SDR basket the “US Dollar, Euro, Pound Sterling and Yen”, the investment portfolio achieved a return on net invested funds that exceeded the 6 Months LIBOR, the index for government bonds for the sector 1-3 years, and the SDR-weighted inflation rate during 2016.

In addition, the Fund continued managing the investment portfolios directly for a portion of the funds of the Arab Trade Financing Program, the funds in the consolidated account of the Specialized Arab Organizations, and the funds of AMF Employee Pension Fund. In addition, the Fund oversaw the portion of the portfolios managed by third parties, according to the approved investment policy and the respective strategy of each.

2016 witnessed the International Monetary Fund’s periodic review of the SDR basket; the Arab Monetary Fund set the value of its currency, the Arab Accounting Dinar as the base currency of the Fund equivalent to 3 times SDR. The components of the new basket were determined by the IMF to include the following currencies: US Dollars – Euros - Pound Sterling-Yen, and the Chinese currency (Renminbi) as the fifth currency on 30 September 2016 with implementation of the new weights effective 1 October 2016.

The Arab Monetary Fund took the necessary steps to adjust its internal system to accommodate and comply with the new SDR basket requirements on 30 September 2016.

Table (1): The new weights accredited by AMF in 1/10/2016 compared with the previous weights in 29/09/2016

| Basket Composition | New weight as of: 1 / 10 / 2016 | Previous weight as of: 29 / 09 / 2016 |
|--------------------|---------------------------------|---------------------------------------|
| US Dollar | 41.73% | 47.20% |
| Euro | 30.93% | 33.94% |
| Renminbi-RMB | 10.92% | - |
| Japanese Yen | 8.33% | 8.53% |
| Sterling Pound | 8.09% | 10.33% |

The following table illustrates the new weights accredited by the International Monetary Fund compared to the weighted basket on 29 September 2016:

Arab Trade Finance Program

The Arab Trade Financing Program (ATFP) was established in 1989 by virtue of a Resolution adopted by the Council of Governors of the Arab Monetary Fund as joint Arabs specialized financial Institution.

The ATFP authorized capital amounts to USD one billion distributed to two hundred thousand shares of USD 5000 each. The ATFP’s shareholders are 53 national and regional Arab financial institutions and banks.

ATFP contributes to developing Arab trade, and fostering the competitiveness of Arab exporters by providing a part of the required funding for trade.

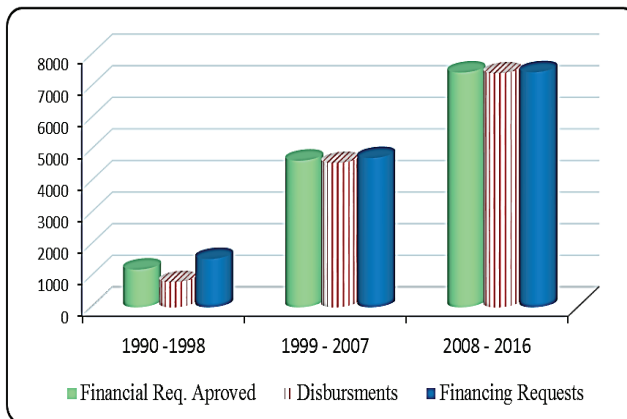
The ATFP provides the information as well related to trade activities, and promotes goods and commodities of Arab origin.

The ATFP’s operational mechanism is based on dealing with importers and exporters in the Arab countries through national agencies appointed by Arab countries for that purpose.

The wide stretch of national agencies contributes to the expansion of ATFP activities. The number of these agencies reached 217 by the end of 2016, covering 19 Arab countries and 5 foreign countries.

The value of requests received by the ATFP since its inception amounted to USD13.69 billion for financing trade transactions of US\$ 18.49 billion. The Program approved to finance USD 13.26 billion thereof. Total disbursements during that period amounted to USD 12.75 billion. Chart (5) illustrates the development of ATFP accumulative financing from 1990 to the end of 2016.

Chart (5): Cumulated ATFP Finance Activities (1991 - 2016)



Regarding ATFP's trade information services, the Program has completed the construction of its Inter-Arab Trade Information Network (IATIN) and activated it at the regional level. The network consists of 33 focal points spread over virtually all Arab countries. The Program's website (www.atfp.org.ae) provides access to information on trade for all Arab countries.

The program is keen on offering opportunities to support the promotion of trade flows between Arab importers and exporters. As part of this promotion drive, ATFP organizes and

conducts meetings between exporters and importers in specific sectors.

In cooperation with numerous entities in Arab countries, the Program organized 18 meetings of such a type in the following sectors: textiles and garments, food processing, agricultural produce and inputs, metallurgical industries, pharmaceutical and petrochemical industries, furniture and building and construction.

The Council of Arab Central Banks and Monetary Agencies Governors Secretariat

The Fund is entrusted with the Secretariat of the Council of Arab Central Banks and Monetary Agencies Governors as well as its bureau. It is also in charge of the Technical Secretariat of Council committees, namely, the Arab Committee on Banking Supervision, the Arab Committee on Payment and Settlement Systems and the Arab Committee on Credit Information.

Furthermore, the Fund is in charge of the Secretariat of the Task Force on Enhancement of Financial Inclusion and the Task Force on Financial Stability in Arab Countries. These two task forces were established by a decision of the Council of Arab Central Bank and Monetary Agencies Governors. In that context, the Fund continued in 2016 to carry out its responsibilities in terms of making necessary preparations for meetings, studies, papers and reports needed for the Council, its bureau, committees and task forces.

Within this context, during 2016 the Fund organized in Morocco the 40th Session meeting of the Council on September 22nd, 2016. The agenda of the meeting included a discussion on regional and international economic and

financial developments and the recommendations of the 26th and 27th Meetings of the Arab Committee on Banking Supervision.

The agenda also included a discussion of the Reports and Recommendations of the 12th and the 13th Meetings of the Arab Committee on Payment and Settlement Systems and the Reports and Recommendations of the 1st and the 2nd Meetings of the Arab Committee on

Credit Information. In addition, the agenda included a Report on the Work of the Regional Task Force on the Enhancement of Financial Inclusion in Arab Countries a Report on the Work of the Regional Task Force on Financial Stability.

Furthermore, the Council reviewed a follow up report prepared by the Fund on the design phase of a project for creating a regional system of clearing and settlement of inter-Arab payments.

The Council discussed several topics and working papers on “General Rules for Opening a Bank Account”, “Safety and Security of Electronic Bank Information”, “Implications of IFRS for Banking Supervision”, “Legal Framework for the Protection of Financial Service Users”, “Measuring Financial Inclusion Indicators in Arab Countries”, “Convergence of Prudential and Macroeconomic Policies” and “Early Warning Mechanism and Indicators”.

Other topics covered by Council discussions included “the Role of Credit Information in Strengthening Banking Sector Supervision in Arab Countries”, “Improving Credit Inquiry and rating for SMEs in Arab Countries”, and “Liquidity Risk Management in Real Time Payment and Settlement systems”.

As part of its responsibility as the technical secretariat to **Arab Committee on Banking Supervision**, during January 2016, the Fund hosted a meeting of the Consultative Group of Basel Committee in Abu Dhabi, UAE. 33 members of the Committee and representatives of the IMF, WB, the Institute of Financial Stability, Islamic Financial Services Board and representatives of regional and national supervisory authorities took part in that meeting. The meeting discussed many priority topics related to banking supervision and the implementation of Basel III Accord, including the revised framework of the standard approach to credit risk and the future work plan of the Consultative Committee for 2016-18.

The AMF delivered a presentation on latest developments on supervision in Arab central banks and monetary Agencies, and the status of preparedness for the implementation of Basel III in Arab Countries.

Within the same context, the Fund organized the 27th and the 28th Meetings of the Committee in Dubai and Abu Dhabi during May and December 2016, respectively. During these meetings, the Committee discussed several topics and working papers, including “the Implementation of IFRS Standard No. 9”, “Safety and Security of Bank Information and the role of Supervisory Authorities”, “Strengthening Supervision and Oversight of Islamic Banks”.

The Committee also discussed “General Framework for Opening a Bank Account”, “Banking Institutions Governance and Job Turnover in the Banking Sector”, “Supervisory Treatment of Sovereign Debt Risk”, “IFRS-Financial Information Automatic Exchange, “Virtual Currencies- Policy and Legislation – related Challenges”, “Introduction of International Legal Corporate Number in the

Banking System”, and “Issues on Outsourcing in Financial and Banking Services”.

In addition, the agenda included a discussion on a report on the Work of the Regional Task Force on the Enhancement of Financial Inclusion in Arab Countries, a report on the work of the Regional Task Force on Financial Stability as well as a discussion on recent regulatory and supervisory developments in the Arab region.

The meetings were attended by representatives of the Basel Committee, IMF and the Union of Arab Banks. This shows the attention paid by the committee to constant communication with IFIs concerned with banking supervision issues.

The Fund organized the 3rd and 4th Meetings of the Task Force on Financial Stability in Abu Dhabi during March and August 2016. The Meetings were attended by directors in charge of financial stability at Arab central banks.

The issues, discussed during the meetings included “Construction of Early Warning Indicators”, “Interaction between Prudential & Macroeconomic Policies”, and “Framework for Crisis Management”.

The Task Force also discussed modalities for introducing domestic financial stability indicators in Arab countries building on the experience of advanced economies.

In addition, the Fund in 2016 organized three meetings of the Regional Task Force on Enhancement of Financial Inclusion in Arab Countries. The meetings were held in Abu Dhabi during March, & October in Morocco, and in November in Jordan. Representatives of Global Alliance for Financial Inclusion (AFI), Islamic Development Bank (as an observer)

and WB and GIZ experts took part in these meetings.

During these meetings, the Task Force discussed several topics and issues, including enhancing of financial education and literacy and the construction of financial inclusion indicators in Arab countries.

Furthermore, the task force discussed preparation for events of the Financial Inclusion Initiative cosponsored by the Fund and the AFI. It is noted that this initiative aims at providing technical support to Arab countries in developing capacity and policies on financial inclusion. Discussions also covered statistical field surveys to identify demand on financial services in Arab countries, the ideal legal framework for protecting financial service users. The Task Force also discussed events to be organized marking April 27 every year as the Arab Day on Financial Inclusion, pursuant to a decision by the Council of Arab Central Bank and Monetary Agencies Governors as well as implications of latest financial techniques for the banking sector in the Arab region and issues on financial inclusion and women in Arab countries.

As part of its responsibility as the **Secretariat of the Arab Committee on Payment and Settlement Systems**, the Fund in 2016 organized the 12th and 12th Meetings of the Committee in Abu Dhabi, UAE, in February and September 2016. During these meetings, the Committee discussed several topics, including “Issues on Mobile Payment Systems”, “Assessment of Liquidity Risk under the Principles of Financial Market Infrastructure Principles and Related Stress Testing”, “Issues on Improvement of Oversight and Supervision of Payment and Settlement Systems”, and “Improvement of

Business Processes for Automatic Clearing Houses”.

The meetings also reviewed latest developments in payment and settlement systems and financial infrastructure in Arab countries, as well as reforms implemented by Arab central banks in this respect.

The Committee also discussed “Issues on Governance and Oversight of Payment and Settlement Systems”, “Implications of Emerging Banking Technology for Payment Systems”, “Issues on Planning for Business Continuity and recovery from Catastrophes”, issues on “Safety and Security of Bank Information from a Perspective of Payment and Settlement Systems”, supervisory frameworks for foreign currency transaction-related risk management, issues on improvement of oversight and coordination between central banks and capital market authorities and instruments and challenges related to liquidity management during a business day.

The meeting agendas also covered latest developments in payment and settlement systems and financial infrastructure in Arab countries, as well as reforms implemented by Arab central banks in this respect. It may be noted that representatives of the BIS and the WB regularly take part in the meetings of this committee as observers.

The Fund continued to help with the design of **Arab Payment Clearing and Settlement Mechanism Project**, pursuant to a decision by the Council of Arab Central Banks and Monetary Agencies Governors.

A contract was signed with a specialized consultancy firm. Also, an action plan and a schedule for steps and action needed to

complete the design phase were finalized and approved by the Council.

Accordingly, in September 2016, a task force comprising representatives of Arab central banks and monetary agencies and experts from the AMF, WB and BIS, in cooperation with the consultancy firm, started work on the design.

As part of the plan, AMF staff visited many of Arab countries during October and November 2016 to have their feedback on the design. During these visits, several meetings were held with senior management and directors of central banks, commercial banks and bureau de change. As a result, The Fund identifies needs of those banks and companies in terms of services that could be offered by the proposed system.

Furthermore, the Fund organized three meetings for the task force in charge of the project on September 6, October 23, and December 12-13, 2016 in Abu Dhabi, UAE to discuss various aspects of the design. Apart from expert team, representatives of Arab central banks and monetary Agencies took part in these meetings.

As part of its responsibility as the **Secretariat of the Arab Committee on Credit Information**, the Fund in 2016 organized the 1st and 2nd Meetings of the Committee in Abu Dhabi, UAE, in April and September 2016. During these meetings, the Committee discussed several topics, including modalities of applying the International General Principles on Credit Information in Arab countries, as well as the requirements for upgrading credit information services in support of SMEs development in Arab countries.

The committee also discussed credit information-related challenges facing Islamic banks, the proposed introduction of International Legal Corporate Number in the Banking System in Arab countries and the role of credit information systems in this respect and the need for adopting a mechanism for credit rating in credit information systems in Arab countries.

The committee reviewed country experience in treating non-performing loans and potential default in credit reports. In addition, the committee discussed issues on the exchange of credit information in Arab countries with a view to exploring possible introduction of a mechanism or mechanisms to help in the exchange of credit information among Arab central banks and monetary Agencies in view of increasing cross-border financial and bank transactions.

The Council of Arab Finance Ministers Secretariat

The Fund has been entrusted with the role of the **Technical Secretariat of the Council of Arab Finance Ministers** since the establishment of the Council and the start of its annual meetings in 2010. Within this context, in April 2016 the Fund organized the Seventh Ordinary Session of the Council of Arab Finance Ministers in Bahrain as a side event to the Annual Meetings of Arab Financial Institutions. The agenda of this session included a report of the Secretariat as well as regional and international economic developments and challenges that face Arab economies.

Discussions covered working papers on “Development of Diversification Policies in Arab Oil Exporting Countries” and “Need for

Increased Labor Market Flexibility to Reduce Unemployment in Arab Countries”. The agenda also included a discussion on issues to be included in the annual message of the Council to both IMF and WB Group as well as a brief presentation by the Secretariat on the outcome of the 1st Forum on Public Finance and Growth in Arab Countries, held in Abu Dhabi, UAE during February 2016, and another presentation on the outcome of the 1st Meeting of Finance Deputy Ministers, held in Abu Dhabi in January 2016.

Pursuant to a directive by the Council of Arab Finance Ministers, the Fund organized the **1st Meeting of Arab Finance Deputy Ministers**, held in Abu Dhabi on January 13-14, 2016. Arab Finance Deputy Ministers, apart from representatives of the IMF and the WB as observers, took part in the meeting. The agenda also included a review of work papers on “Development of Diversification Policies in Arab Oil Exporting Countries”, “Status of investment and Growth in Arab Countries”, “Need for Increased Labor Market Flexibility to Create Jobs in Arab Countries” and “policies of **Integration of Informal Sector in National Economy**”.

Under the item on exchange of experience, discussions covered the status of tax reform experience in Arab countries. In addition, the meeting discussed preparations made for the 1st High-Level Forum on Public Finance and Growth in Arab Countries, held in Abu Dhabi, UAE during February 22-23, 2016 and preparations made for the meeting of the Council of Arab Finance Ministers, held in Manama, Bahrain, on April 5, 2016.

As part of its role as the Technical Secretariat of the Council of Arab Finance Ministers, the Fund organized the **1st High-Level Forum on Public Finance and Growth in Arab**

Countries, in Abu Dhabi, UAE on February 22-23, 2016. Many of Arab finance ministers, the Managing Director of AMF and several senior officials of international and regional financial institutions and Arab ministries of finance and central banks took part in the forum.

The forum discussed fiscal and economic growth challenges facing the Arab region against the backdrop of recent international and regional economic and financial developments, mainly low oil prices and timid global growth. The Forum discussed strategies for strengthening potential revenue and related challenges, policies for tax reform and tax equity and issues on enhancing the efficiency of public expenditure and subsidy reform in Arab countries.

The Forum also discussed requirements for improving public investment management and tackling related financial risks.

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 the Arab Trade Financing Program “the Subsidiary”, are prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Council.

The consolidated financial statements present the consolidated financial position of the Fund and its Subsidiary as at 31 December 2016, and

the results of operations, changes in equity and cash flows for the year then ended. They also present notes comprising significant accounting policies and other explanatory information. 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 Council of Governors. The Council 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, on condition that such resources would not be used in lending activities.

The Council of Governors of the Fund had also approved, through the Articles of Association of the Arab Trade Financing Program, contributions by defined categories of shareholders which include Arab regional financial institutions, central banks, and public and private banking institutions, 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 Council of Governors of the Arab Monetary Fund has approved via its resolution

number (3) of 2013 to increase the authorized capital to AAD 1,200,000 thousand.

The resolution has also called for subscriptions from Member States by AAD 300,000 thousand, raising accordingly the subscribed capital to AAD 900,000 thousand. The resolution also provides for half of the subscriptions amounting to AAD 149,010 thousand to be paid by transfer from general reserves, and the other half by cash transfer from Member States in five annual installments commencing in April 2014, while maintaining the deferral to call on Palestine share in accordance with the Council's resolution number (7) of 1978.

The paid-up share capital reached AAD 825,641 thousand at the end of 2016 (2015: AAD 798,329 thousand). The unpaid share capital of AAD 74,359 thousand at the end of 2016 (2015: AAD 101,671 thousand) represents the increase in share capital to be paid by cash transfer from Member States during the period 2017-2018 in addition to the overdue installments.

Reserves

Reserves amounted to AAD 376,193 thousand at the end of 2016 compared to AAD 347,736 thousand at the end of 2015. The reserves at the end of 2016 represent approximately 46 percent of the paid-up capital compared to 44 percent at the end of year 2015.

Reserves are composed of the general reserve, contingency reserve and the reserve for revaluation at fair value for investments classified as available for sale.

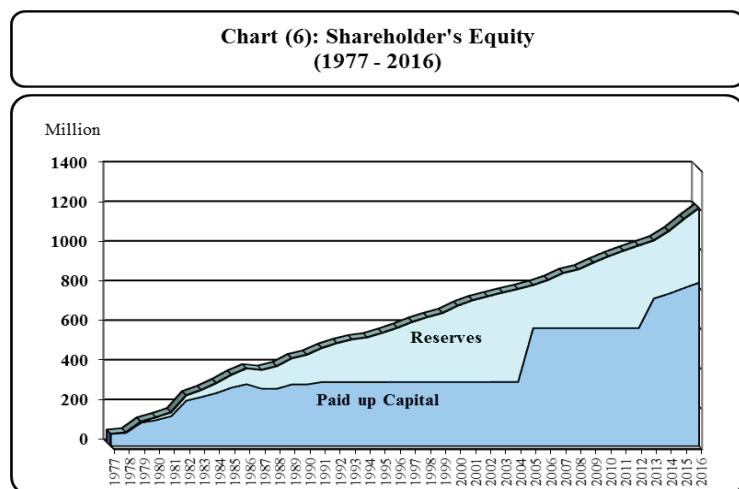
The **general reserve** balance reached AAD 214,167 thousand at the end of 2016, compared to AAD 191,854 thousand at the end of 2015.

The **contingency reserve** was established in accordance with the Council of Governors' resolutions No. (7) of 1989 and No. (4) of 2000, whereby an amount of AAD 5,000 thousand, or 10 percent of the net annual income for the year whichever is greater, is appropriated to the contingency reserve each year. This reserve is intended to mitigate unanticipated future losses. The contingency reserve balance reached AAD 165,000 thousand at the end of 2016, compared to AAD 160,000 thousand at the end of 2015.

The **revaluation reserve** of available-for-sale investments showed a debit balance of AAD (2,974) thousand at the end of 2016, compared to a debit balance of AAD (4,118) thousand at the end of 2015.

Shareholders' equity

The net equity of the Fund's shareholders, represented by the paid-up capital and reserves, increased to AAD 1,201,834 thousand at the end of 2016, compared to AAD 1,146,065 thousand at 31 December 2015. Chart No. (6) shows the growth in shareholders' equity of the Fund from inception to 31 December 2016.



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 the equivalent of AAD 121,430 thousand at the end of 2016, compared to AAD 116,731 thousand at the end of 2015. The resulting increase of AAD 4,699 thousand is attributed mainly to the differences in USD exchange rate (The base currency of the Arab Trade Financing Program) vis-à-vis the AAD as at end of 2016 and 2015.

The total equity of the shareholders of the Arab Monetary Fund and other shareholders in the Subsidiary amounted to AAD 1,323,264 thousand at the end of year 2016, compared to AAD 1,262,796 thousand at end of 2015. The resources were employed to finance loans to Member States, lines of credit to eligible national agencies, and other assets as explained below.

Loans to Member States

The balance of outstanding loans to Member States as at 31 December 2016 amounted to AAD 542,869 thousand, compared to AAD 451,977 thousand as at the end of 2015. Loan commitments however, amounted to AAD 570,911 thousand at the end of 2016, comprising the balance of outstanding loans in addition to the balance of approved and undisbursed loans of AAD 28,042 thousand at the end of 2016.

Lines of Credit

Lines of credit represent facilities provided by the Subsidiary to approved national agencies with the aim of promoting intra Arab Trade. The balance of drawings against contracted lines of credit amounted to AAD 177,312 thousand (US Dollars 715 million) as at 31

December 2016, compared to AAD 137,045 thousand (US Dollars 570 million) at the end of 2015.

Deposits at Central Banks of Member States

In accordance with Article Fourteen of the Articles of the Agreement of the Arab Monetary Fund, 2 percent of the initial capital contributions were paid in the national currencies of Member States and deposited with their central banks. These deposits are revalued by the Member States at the end of each year to maintain their value in Arab Accounting Dinar. The total of these deposits was equivalent to AAD 5,336 thousand at end of years 2016 and 2015.

Other Assets

Other assets include the Fund's contribution in the share capital of The Arab Investment and Export Credit Guarantee Corporation, equivalent of AAD 7,892 thousand at 31 December 2016, compared to AAD 7,400 thousand at 31 December 2015.

The Council of Governors originally approved by Resolution 6/2002 to subscribe in the increase of the Corporation's capital on behalf of its Member States, for an amount of KWD 8,118 thousand which was paid in full.

Subsequently the Council approved in its resolution No. (3) of 2015 an additional subscription in the increase of the Corporation capital by 25 percent of its original subscription amounting to KWD 2,030 thousand raising the Fund's contribution to KWD 10,148 thousand. The resolution also provides for the increase to be paid in five equal installments.

As at 31st December 2016, the Fund's contribution in paid-up capital of the Corporation amounts to KWD 9,742 thousand. The balance of unpaid contribution equivalent to KWD 406 thousand is to be paid in 2017.

Investments

The consolidated investment portfolio is comprised of current and call accounts with banks and the International Monetary Fund, time deposits with banks, and financial investments portfolios amounting to AAD 2,961,585 (2015: AAD 3,463,140). Deposits accepted from Arab monetary and financial institutions amounted to AAD 2,371,767 (2015: AAD 2,717,620).

The consolidated investments net of the accepted time deposits from Arab monetary and financial institutions, thus, amounted to AAD 589,818 thousand at 31 December 2016, compared to AAD 745,520 thousand at 31 December 2015.

Results of Operations

Consolidated net income for the year ended 31 December 2016, net of other shareholders' interest in the income of the Subsidiary, amounted to AAD 31,073 thousand, compared to AAD 37,604 thousand for the year ended 31 December 2015. 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 2016, net of interest paid on accepted deposits from Arab monetary and financial institutions of Member States, amounted to AAD 38,834 thousand, compared to AAD 44,395 thousand, for the year ended 31 December 2015.

Administration & General Expenditure

The total consolidated administrative and general expenditures of the Fund and the subsidiary for the year ended 31 December 2016 amounted to AAD 5,769 thousand, compared to AAD 5,388 thousand for the previous year. Expenditure includes staff expenses, Councils of Governors and Directors meetings expenses, office occupancy, entertainment, communication, bank charges and consultancy expenses.

Technical Assistance

The Fund extends to its Member States various technical assistance programs in collaboration with regional and international institutions based on partnership memorandums.

The spending on technical assistance programs extended during 2016 amounted to AAD 837 thousand, including in-kind and cash contributions by regional and international partners of AAD 285 thousand, or 34 percent of total spending. This is compared to total spending during 2015 of AAD 652 thousand, out of which AAD 222 thousand were contributed by the partners, representing 34 percent of total spending.

Contribution in Humanitarian Support of Palestinian People

The Fund contributes to the collective effort of Arab Financial institutions to provide humanitarian support to the Palestinian people, through allocating 10% of its annual net income for this purpose since 2002. The financial statements for the year ended 31 December 2016 includes an amount of AAD 3,760 thousand (about USD 15.5 million) allocated through the Council of Governors resolution number (7) of 2016.

The total allocations approved by the Council of Governors of the Fund towards the humanitarian support of the Palestinian people amounted to AAD 40,371 (about USD 179.9 million) for the period 2002-2016. Allocations approved by the AMF were employed to fund projects across the key sectors and distributed as follows:

Education Sector received a total of USD 64.8 million, or 36 percent of total allocations which was directed to the construction of new schools, renovation, maintenance and equipment to existing schools, in addition to supporting the Palestinian Student Loan Fund.

Health service sector was funded by USD 20.1 million or about 11 percent of the total allocation and directed to the construction of new medical centers, building and expanding of hospitals and acquiring of medical equipments for hospital and clinics.

Support for non-government organization received about USD 25.8 million, or 14 percent of the total allocation. The support covers activities of the Palestinian Red Crescent Society and Youth Employment and Training Programs.

Integrated rural development and economic enabling sector received about USD 63.7 million, or 36 percent of the allocation. Support provided for this sector focuses on assistance to small businesses, rehabilitation of remote areas, support to villages, improvement and maintenance of electricity grids, water systems, rural roads networks, land reclamation, building and rehabilitation of inner roads, building of sanitation networks, financing productive women projects and support to needy households and orphans.

Protection and restoration of historic building sector received USD 5.5 million or 3 percent of the total allocation and directed to the construction of Jerusalem Old Town and rehabilitation of historic buildings. In addition, the AMF offers training and capacity building to the government employees of Palestine in the fields of AMF expertise. This is delivered through courses and workshops organized by the Economic Policy Institute of the AMF, in collaboration with several regional and international institutions. The members of Palestine trainees who participated in these courses and workshops reached 379 as of December 31, 2016.

Currencies

The Fund, when employing its resources, manages currency risk by substantially maintaining its assets in currencies closely aligned to the components of the SDR basket. Loan transactions to Member States 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 resources are employed in assets concluded in convertible currencies and covered as needed by forward foreign exchange contracts to align them with the components of SDR basket.

Table (2) shows the actual weights of the currencies of the SDR basket defined by the International Monetary Fund at the end of years 2016 and 2015 and the weights effective as on 30 September 2016 along with the respective exchange rates. The Arab Accounting Dinars is equal to three SDRs.

Table (2) : The Actual Weight of the currencies included in the SDR basket

| Currency | The weights of the currencies included in SDR basket | | | SDR Exchange Rates Against each currency included in the basket | |
|----------------|--|-------------------|--------------------|---|-------------------|
| | 31 December, 2016 | 31 December, 2015 | 30 September, 2015 | 31 December, 2016 | 31 December, 2015 |
| US Dollar | % 43.33 | % 47.63 | % 41.73 | 1.344 | 1.386 |
| Euro | % 30.38 | % 33.25 | % 30.94 | 1.273 | 1.272 |
| Pound Sterling | % 7.86 | % 11.87 | % 7.98 | 1.093 | 0.935 |
| Japanese Yen | % 7.57 | % 7.25 | % 8.43 | 157.213 | 166.828 |
| Renminbi-RMB | % 10.86 | - | % 10.92 | 9.371 | - |
| | % 100 | % 100 | % 100 | | |

**Consolidated Financial Statements
and External Auditors Report**

The Arab Monetary Fund
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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Independent auditors' report

The Board of Governors
The Arab Monetary Fund

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arab Monetary Fund, and its Subsidiary (together "the Fund"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit and Risk Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the member countries either resolve to liquidate the Fund or to cease operations in accordance with the Fund's agreement, or has no other alternative.

The Review and Risk Committee of the Board of Executive Directors is responsible for overseeing the Fund's financial reporting process.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the consolidated financial statements is provided in Appendix I to the auditor's report.

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 consolidated financial statements are in agreement therewith and the total administrative expenses for the year are in accordance with the financial rules 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 the Fund Agreement 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.

KPMG lower Gulf limited

Fawzi AbuRass
Registration No.: 968
Abu Dhabi, United Arab Emirates
Date: 11 3 MAR 2017

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Appendix I

Auditor's responsibilities for the audit of the consolidated financial statements of Arab Monetary Fund for the year ended 31 December 2016

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or activities of the subsidiary within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with the Review and Risk Committee of the Board of Executive Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 December 2016

| | Notes | 2016 AAD 000 | 2015 AAD 000 |
|---|-------|------------------|------------------|
| Assets | | | |
| Loans to Member Countries | 3 | 542,869 | 451,977 |
| Lines of credit | 4 | 177,312 | 137,045 |
| Deposits with central banks of Member Countries | 5 | 5,336 | 5,336 |
| Term deposits with banks, current and call accounts | 17 | 819,141 | 671,045 |
| Financial investments | 6 | 2,142,444 | 2,792,095 |
| Accounts receivable and other assets | 7 | 56,604 | 21,785 |
| Total assets | | 3,743,706 | 4,079,283 |
| Equity and Liabilities | | | |
| Equity | | | |
| Subscribed capital 900 million AAD | | | |
| Paid-up capital | 8 | 825,641 | 798,329 |
| Reserves | 9 | 376,193 | 347,736 |
| Total equity | | 1,201,834 | 1,146,065 |
| Interest of other shareholders in the Subsidiary | 10 | 121,430 | 116,731 |
| Liabilities | | | |
| Deposits from Arab monetary and financial institutions | 11 | 2,371,767 | 2,717,620 |
| Accounts payable and other liabilities | 12 | 48,675 | 98,867 |
| Total liabilities | | 2,420,442 | 2,816,487 |
| Total equity and liabilities | | 3,743,706 | 4,079,283 |



Abdulrahman A. Al Hamidy
Director General Chairman of the Board

These consolidated financial statements were approved by the Board of Executive Directors on 13 March 2017.

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 - 3.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2016

| | <i>Notes</i> | <i>2016</i> <i>AAD 000</i> | <i>2015</i> <i>AAD 000</i> |
|---|--------------|-------------------------------|-------------------------------|
| Income | | | |
| Interest and fee income on loans to Member Countries | | 12,906 | 19,944 |
| Interest and fee income on lines of credit | | 2,693 | 1,883 |
| Investment income | 13 | 27,265 | 24,034 |
| Interest income on deposits and current and call accounts | | 8,969 | 6,140 |
| Other income | | 60 | 224 |
| | | <u>51,893</u> | <u>52,225</u> |
| | | | |
| Interest expense on accepted deposits from Arab monetary and financial institutions | | <u>(13,059)</u> | <u>(7,830)</u> |
| | | <u>38,834</u> | <u>44,395</u> |
| Expenses | | | |
| Administration and general expenses | 14 | 5,769 | 5,388 |
| Technical assistance expenses | 15 | 552 | 430 |
| | | <u>6,321</u> | <u>5,818</u> |
| Net income before the interest of other shareholders in the Subsidiary | | 32,513 | 38,577 |
| Interest of other shareholders in the Subsidiary | | <u>(1,440)</u> | <u>(973)</u> |
| Net Income | | <u>31,073</u> | <u>37,604</u> |
| | | | |
| Unrealized changes in values of investments through equity excluding amounts attributable to other shareholders in the Subsidiary | | <u>1,144</u> | <u>(2,883)</u> |
| Net Comprehensive Income | | <u>32,217</u> | <u>34,721</u> |

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 - 3.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY For the year ended 31 December 2016

| | <i>Notes</i> | Paid-up capital | General reserve | Contingency reserve <i>AAD 000</i> | Available for sale investments valuation reserve | Total |
|--|--------------|----------------------------|----------------------------|---|---|------------------|
| 2015 | | | | | | |
| Comprehensive Income | | | | | | |
| Net income for the year 2015 | | - | 37,604 | - | - | 37,604 |
| Unrealized changes in values of investments through equity excluding amounts attributable to other shareholders in the Subsidiary | 6 | - | - | - | (2,883) | (2,883) |
| Net Comprehensive Income | | - | 37,604 | - | (2,883) | 34,721 |
| Changes in equity | | | | | | |
| Balance at 1 January 2015 | | 769,457 | 161,856 | 155,000 | (1,235) | 1,085,078 |
| Contributions received in cash to increase share capital | 8 | 28,872 | - | - | - | 28,872 |
| Transfer to contingency reserve | 9 | - | (5,000) | 5,000 | - | - |
| Appropriation to support Palestinian People (13 th) | 9 | - | (2,606) | - | - | (2,606) |
| Balance at 31 December 2015 | | 798,329 | 191,854 | 160,000 | (4,118) | 1,146,065 |
| 2016 | | | | | | |
| Comprehensive Income | | | | | | |
| Net income for the year 2016 | | - | 31,073 | - | - | 31,073 |
| Unrealized changes in values of investments through equity excluding amounts attributable to other shareholders in the Subsidiary | 6 | - | - | - | 1,144 | 1,144 |
| Net Comprehensive Income | | - | 31,073 | - | 1,144 | 32,217 |
| Changes in equity | | | | | | |
| Balance at 1 January 2016 | | 798,329 | 191,854 | 160,000 | (4,118) | 1,146,065 |
| Contributions received in cash to increase share capital | 8 | 27,312 | - | - | - | 27,312 |
| Transfer to contingency reserve | 9 | - | (5,000) | 5,000 | - | - |
| Appropriation to support Palestinian People (14 th) | 9 | - | (3,760) | - | - | (3,760) |
| Balance at 31 December 2016 | | 825,641 | 214,167 | 165,000 | (2,974) | 1,201,834 |

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 - 3.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 December 2016

| | <i>Notes</i> | <i>2016</i> <i>AAD 000</i> | <i>2015</i> <i>AAD 000</i> |
|---|--------------|-------------------------------|-------------------------------|
| Operating activities | | | |
| Net income for the year | | 31,073 | 37,604 |
| Adjustments for: | | | |
| Depreciation of property and equipment | | 201 | 205 |
| Changes in interests of other shareholders in the Subsidiary | | 5,264 | 5,932 |
| | | <u>36,538</u> | <u>43,741</u> |
| Loans drawings | | (152,950) | (186,594) |
| Loans repayments | | 62,058 | 136,664 |
| Change in lines of credit | | (40,267) | 8,222 |
| Change in accounts receivable and other assets | | (34,873) | 23,079 |
| Change in accounts payable and other liabilities | | (50,344) | 32,524 |
| Change in deposits with banks maturing after six months from the date of the statement of financial position | | 20,143 | 51,206 |
| Change in deposits from Arab monetary and financial institutions | | (345,853) | (69,083) |
| Net cash (used in) / from operating activities | | <u>(505,548)</u> | <u>39,759</u> |
| Investing activities | | | |
| Purchase of property and equipment | | (147) | (366) |
| Change in investments in multi-strategies and property funds | | (27,009) | (352) |
| Change in securities available for sale through equity | | (835,560) | (338,429) |
| Change in securities held-to-maturity | | 1,513,364 | (296,927) |
| Net cash from / (used in) investing activities | | <u>650,648</u> | <u>(636,074)</u> |
| Financing activities | | | |
| Contributions received to increase share capital | | 27,312 | 28,872 |
| Dividends paid to other shareholders in the Subsidiary | | (565) | (664) |
| Appropriations paid to support Palestinian People | | (3,608) | (3,567) |
| Net cash from financing activities | | <u>23,139</u> | <u>24,641</u> |
| Net increase / (decrease) in cash and cash equivalents | | 168,239 | (571,674) |
| Cash and cash equivalents at beginning of year | | <u>650,902</u> | <u>1,222,576</u> |
| Cash and cash equivalents at end of year | 17 | <u>819,141</u> | <u>650,902</u> |

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 - 3.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 includes 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), under the historical cost convention as modified for forward foreign exchange contracts and available for sale investments 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"). Each AAD is equal to three Special Drawing Rights ("SDR") as defined by the International Monetary Fund.

The preparation of consolidated 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 current 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.

(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 56.38% of its subscribed and fully paid up capital as of 31 December 2016 (2015: 56.39%) as explained in note 10 to the consolidated financial statements. The Subsidiary was established in accordance with resolution number (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 headquarter in Abu Dhabi, United Arab Emirates. All significant inter-entity balances, transactions and profits have been eliminated on consolidation.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Applicable standards with future effective dates

The International Financial Reporting Standards with future effective dates that apply to the Fund are IFRS 9 “Financial instruments”, IFRS 15 “Revenue from contracts with customers” effective 01 January 2018, and IFRS 16 “Leases” effective 01 January 2019. The Fund is intending to consider their application at the time they become effective, depending on the evaluation of their effect on the consolidated financial statements.

(d) 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 consolidated statement of comprehensive income when the investment is de-recognised or impaired, as well as through the amortisation process

iii *Available-for-sale investments – at fair value through consolidated statement of income*

Available-for-sale investments comprise investments in multi-strategies and real estates funds measured at net assets value which represents their fair value at the consolidated statement of financial position date, with changes in the net assets value recognized in the consolidated statement of comprehensive income

iv *Available-for-sale securities – at fair value through equity*

Available-for-sale securities portfolio comprise those investments in securities other than held-to-maturity investments. It does not comprise loans, or receivables originated by the Fund or the Subsidiary. Investments which are classified as “available-for-sale” through equity are measured at fair value at the consolidated 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 consolidated statement of comprehensive income.

The fair value of available-for-sale 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 consolidated statement of comprehensive income.

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

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(e) Impairment of financial assets

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

viii *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.

ix *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 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income for the period.

(f) Foreign currencies

i *Foreign currency transactions*

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Assets (except property and equipment) and liabilities denominated in foreign currencies at the statement of financial position date are translated to Arab Accounting Dinar (AAD) which is equivalent to three Special Drawing Rights (SDR) at the exchange rates announced by the International Monetary Fund for the said date. Forward foreign exchange contracts are valued at market rates applicable to their respective maturities at the statement of consolidated financial position date, and any resulting net gains or losses are taken to the consolidated statement of comprehensive income.

Property and equipment are recorded at rates of exchange prevailing at date of purchase.

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 comprising the Special Drawing Rights unit to which the AAD is associated. The investment in the subsidiary is included in the US Dollar Component of the fund's assets aligned to the SDR currency composition. Accordingly, the exchange differences arising from the translation of the Subsidiary's financial statements are offset by the corresponding differences arising from translation of the Fund's assets denominated in other currencies.

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. Any profit or loss arising from changes of the fair value of the derivatives is recognized through profit and loss.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Depreciation of property and equipment

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

(h) 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 at least. 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.

(i) Cash and cash equivalents

For the purposes of the consolidated 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 consolidated statement of financial position date.

(j) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest and similar income and expense are recognised in profit or loss using the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of comprehensive income include:

- Interest on Investments at fair value through equity;
- Interest on Investments in multi-strategies and property funds at fair value through consolidated statement of comprehensive income;
- Interest on Held-to-maturity securities (at amortised cost).

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (suspended interest).

The Arab Monetary Fund

3 LOANS TO MEMBER COUNTRIES

| | <i>2016</i> | <i>2015</i> |
|----------------------------|----------------|----------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Balance at 1 January | 451,977 | 402,047 |
| Drawings during the year | 152,950 | 186,594 |
| Repayments during the year | (62,058) | (136,664) |
| Balance at 31 December | <u>542,869</u> | <u>451,977</u> |

Loans to Member Countries at 31 December 2016 include over one year principal amounts overdue and not received of AAD 17,757 thousand (2015: AAD 17,757 thousand). Outstanding loans to Member Countries also include unrealised capitalized interest balances which form part of restructured debt positions 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 capitalized interest is included in accounts payable and other liabilities as deferred income, and gradually amortized to the consolidated statement of comprehensive income proportionately with the debt repayments. The balance of unrealized capitalized interest as at 31 December 2016 amounted to AAD 33,440 thousand (2015: AAD 39,613 thousand).

The undisbursed balances of the contracted loans at 31 December 2016 amounted to AAD 28,042 thousand (2015: AAD 76,868 thousand).

4 LINES OF CREDIT

| | <i>2016</i> | <i>2015</i> |
|-----------------------------------|----------------|----------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Balance at 1 January | 137,045 | 145,267 |
| Drawings during the year | 274,562 | 195,306 |
| | <u>411,607</u> | <u>340,573</u> |
| Repayments during the year | (238,514) | (210,140) |
| Differences in translation to AAD | 4,219 | 6,612 |
| Balance at 31 December | <u>177,312</u> | <u>137,045</u> |

Lines of credit represent facilities provided by the Subsidiary to approved national agencies with the aim of promoting intra-Arab trade. There were no unutilised balances of contracted lines of credit as at 31 December 2016 (2015: AAD 289 thousand).

5 DEPOSITS WITH CENTRAL BANKS OF MEMBER COUNTRIES

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

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2016

6 FINANCIAL INVESTMENTS – Composition and Valuation Techniques

Financial investments are comprised of highly rated instruments of governments, governmental corporations, international institutions, financial and non-financial corporations, banks and multi strategies and property funds. Investments reported at fair value are categorised using the fair value hierarchy of inputs used to measure fair value as follows:

| | 2016 AAD 000 | 2015 AAD 000 |
|--|------------------|------------------|
| Investments at fair value through equity: | | |
| Investments in securities (level 1) | 1,522,045 | 685,341 |
| Investments at fair value through consolidated statement of comprehensive income: | | |
| Investments in multi-strategies and property funds (level 2) | 94,483 | 67,474 |
| Held-to-maturity securities (at amortised cost) | <u>525,916</u> | <u>2,039,280</u> |
| | <u>2,142,444</u> | <u>2,792,095</u> |

Level 1: Investments are valued using quoted prices in active markets for identical instruments.

Level 2: Investments are valued using inputs observable directly or indirectly.

Change in fair value of investments through equity:

| | 2016 AAD 000 | 2015 AAD 000 |
|-------------------------|-----------------|-----------------|
| Balance at 1 January | (4,118) | (1,235) |
| Changes during the year | 1,144 | (2,883) |
| Balance at 31 December | <u>(2,974)</u> | <u>(4,118)</u> |

Value of held-to-maturity financial investments

The market value of the held-to-maturity investments at 31 December 2016 was AAD 527,004 thousand (2015: AAD 2,037,181 thousand).

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

| | 2016 AAD 000 | 2015 AAD 000 |
|---|-----------------|-----------------|
| Gross interest receivable | 109,331 | 105,583 |
| Deduct: Interest in suspense on rescheduled loans | (45,593) | (45,593) |
| Overdue interest receivable on loans | <u>(50,832)</u> | <u>(49,083)</u> |
| | 12,906 | 10,907 |
| Contribution in Arab Investment & export credit Guarantee Corporation | 7,892 | 7,400 |
| Property and equipment | 599 | 653 |
| Other debit balances | 1,677 | 1,423 |
| Net value of investment transactions | <u>33,530</u> | <u>1,402</u> |
| | <u>56,604</u> | <u>21,785</u> |

The Fund's share in the Arab Investment & Export Credit Guarantee Corporation consists of 10,148 shares at a nominal value of one thousand Kuwaiti Dinar (KWD) per share, representing about 11% of the authorized and offered for subscription capital, out of which 9,742 shares were fully paid with a nominal value of KWD 9,742 thousand. The remaining 406 shares with a nominal value of KWD 406 thousand to be paid during 2017.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

8 SUBSCRIBED AND PAID-UP CAPITAL

| | <i>2016</i> | <i>2015</i> |
|---|------------------|----------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Authorized Capital (24,000 shares of AAD 50 thousand each) | 1,200,000 | 1,200,000 |
| Subscribed capital (18,000 shares) | 900,000 | 900,000 |
| Unpaid capital | (74,359) | (101,671) |
| Capital paid-up | 825,641 | 798,329 |

The Board of Governors of the Arab Monetary Fund had approved through resolution number (3) of 2013 increasing the Fund's authorized share capital by AAD 600 million, to become AAD 1,200 million. The resolution has also called for subscriptions from Member Countries amounting to AAD 300 million, half of which amounting to AAD 149,010 million to be paid by transfer from general reserve, and the remaining half by cash transfer from Member Countries in five annual instalments commencing in April 2014, and continued consideration of deferring the payment of Palestine share in accordance with the Board's resolution number (7) of 1978. The unpaid capital amount represents the increase in the share capital to be paid through cash transfers from Member Countries during the years 2017 and 2018 in addition to the overdue instalments.

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 2016 includes AAD 19,420 thousand (2015: AAD 18,126 thousand) being the Fund's share in reserves of the Subsidiary.

The Board of Governors approved through resolution number (7) of 2016, a 14th appropriation of 10% of 2015 net income amounting to AAD 3,760 thousand as contribution towards the efforts exerted to support the Palestinian people. The Board of Governors had also approved through resolution number (6) of 2015, a similar appropriation of 10% of 2014 net income amounting to AAD 2,606 thousand for the same purpose.

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.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

10 INTEREST OF OTHER SHAREHOLDERS IN THE SUBSIDIARY

Interest of other shareholder in the Subsidiary (Arab Trade Financing Program) comprises minority shareholders interest in the net assets of the Subsidiary at the consolidated statement of financial position date. Their interest is denominated in US dollars, being the base currency of the Subsidiary. Their ownership on 31 December 2016 is 43.62% of the authorized share capital (2015: 43.61%).

| | <i>2016</i> | <i>2015</i> |
|--|------------------|------------------|
| | <i>USD 000</i> | <i>USD 000</i> |
| Owners' equity in the base currency of the Subsidiary: | | |
| Paid-up capital | 986,880 | 986,605 |
| Reserves | 135,742 | 126,199 |
| Total owners' equity | <u>1,122,622</u> | <u>1,112,804</u> |
| The percentage of other shareholders interest in the Subsidiary | 43.62% | 43.61% |
| The value of other shareholders interest in the Subsidiary | <u>489,725</u> | <u>485,268</u> |
| | | |
| | <i>2016</i> | <i>2015</i> |
| | <i>AAD 000</i> | <i>AAD 000</i> |
| The value of other shareholders interest in the Subsidiary in the base currency of the Fund | <u>121,430</u> | <u>116,731</u> |

11 DEPOSITS FROM ARAB 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 and financial institutions at agreed rates of interest.

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | <i>2016</i> | <i>2015</i> |
|---------------------------------|----------------|----------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Unrealised capitalized interest | 33,440 | 39,613 |
| Repurchase agreements | - | 45,795 |
| Accrued interest payable | 2,586 | 1,147 |
| Other credit balances | 12,649 | 12,312 |
| | <u>48,675</u> | <u>98,867</u> |

13 INVESTMENT INCOME

| | <i>2016</i> | <i>2015</i> |
|---|----------------|----------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Available-for-sale securities – through equity | 13,332 | 4,979 |
| Investment in multi-strategies and property funds - through consolidated statement of income | 1,532 | 705 |
| Held-to-maturity securities | 12,401 | 18,350 |
| | <u>27,265</u> | <u>24,034</u> |

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

14 ADMINISTRATION AND GENERAL EXPENSES

Administration and general expenses for the year ended 31 December 2016 include Board of Directors remuneration and employees salaries and benefits amounting to AAD 4,541 thousand (2015: AAD 4,242 thousand). The Fund and its Subsidiary employed 186 employees as of 31 December 2016 (2015: 176 employees).

15 TECHNICAL ASSISTANCE EXPENSES

| | <i>2016</i> | <i>2015</i> |
|--|-------------------|-------------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Training courses, seminars and direct technical assistance | 837 | 652 |
| Cash and in-kind contributions from partner institutions | (285) | (222) |
| Technical assistance beared by the Fund | <u>552</u> | <u>430</u> |

16 MANAGED FUNDS

The Fund and the Subsidiary assigned parts of their investment portfolios for management by a number of specialised external fund managers for agreed fees in accordance with respective fund management agreements. Managed funds amounted to AAD 148,062 thousand as at 31 December 2016 (2015: AAD 120,038 thousand).

Funds managed by the Arab Monetary Fund for Arab Specialised Organisations amounted to AAD 5,082 thousand as at 31 December 2016 (2015: AAD 5,802 thousand).

17 CASH AND CASH EQUIVALENTS

| | <i>2016</i> | <i>2015</i> |
|---|-----------------------|-----------------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Current and call accounts with banks and International Monetary Fund | 4,324 | 20,536 |
| Deposits with banks | 814,817 | 650,509 |
| Deposits with banks, current and call accounts | 819,141 | 671,045 |
| Less: deposits maturing after six months from the consolidated statement of financial position date | - | (20,143) |
| | <u>819,141</u> | <u>650,902</u> |

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2016

18 GEOGRAPHICAL DISTRIBUTION OF INVESTMENT PORTFOLIO

The geographical classification of the investment portfolio is based on the country of institution for current, call and deposit accounts with banks and International Monetary Fund, and on the location of the issuer for securities portfolio. The geographical distribution of the investment portfolio as at 31 December was as follows:

| | <i>2016</i> | <i>2015</i> |
|------------------------------|------------------|------------------|
| | <i>AAD 000</i> | <i>AAD 000</i> |
| Arab and African Countries | 736,719 | 793,589 |
| Europe | 902,772 | 1,074,077 |
| North America | 312,809 | 257,666 |
| Far East and Pacific | 792,829 | 1,129,204 |
| Supra National Organisations | 216,456 | 208,604 |
| | <u>2,961,585</u> | <u>3,463,140</u> |

19 PENSION OBLIGATIONS

In accordance with the policies followed by the Pension Scheme of the Arab Monetary Fund, an actuarial valuation of the Pension Scheme obligations is carried out at least every three years. The valuation which was carried out as at 31 December 2015, 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 45,424 thousand (AAD 2,975 thousand) against Pension Scheme assets of UAE Dirhams 41,310 thousand (AAD 2,706 thousand). The deficit in the net funding position of the Scheme amounting to UAE dirham 4,114 thousand (AAD 269 thousand) was partially covered in 2016. The pension contribution recognised as an expense in the consolidated financial statements of the Fund is AAD 187 thousand in 2016 (2015: AAD 190 thousand).

The Board of Executive Directors decided on 22 December 2016 to cease the operations of the Pension Scheme as of 31 December 2016. An actuary is to be appointed to determine the rights pertaining to current contributing members, retired members and other beneficiaries of the Scheme as at that date. The resulting entitlements shall be paid within six months from the cessation date.

Funds managed by the Arab Monetary Fund for its Pension Scheme amounted to UAE Dirhams 44,927 thousand (AAD 3,033 thousand) as at 31 December 2016 (2015: UAE Dirhams 41,310 thousand, AAD 2,706 thousand).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2016

20 FINANCIAL INSTRUMENTS

(a) Maturities of assets and liabilities- 31 December 2016

Maturity analysis of the consolidated assets and liabilities as at 31 December 2016 were as follows:

| | Total | Less than 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Unspecified maturity |
|---|------------------|-----------------------|-------------------|-----------------|-----------------|-------------------------|
| | <i>AAD 000</i> | | | | | |
| Assets | | | | | | |
| Loans to Member Countries | 542,869 | 74,446 | 75,391 | 356,258 | 21,898 | 14,876 |
| Lines of credit | 177,312 | 139,580 | 24,344 | 13,388 | - | - |
| Deposits with central banks | 5,336 | - | - | - | - | 5,336 |
| Current and call accounts with banks & IMF | 4,324 | 4,324 | - | - | - | - |
| Term deposits with banks | 814,817 | 814,817 | - | - | - | - |
| Available- for-sale securities | 1,522,045 | 1,522,045 | - | - | - | - |
| Multi- strategies and property funds | 94,483 | 94,483 | - | - | - | - |
| Held-to-maturity securities | 525,916 | 278,720 | 111,745 | 114,616 | 20,835 | - |
| Accounts receivable and other assets | 56,604 | 36,417 | 11,525 | 171 | - | 8,491 |
| | <u>3,743,706</u> | <u>2,964,832</u> | <u>223,005</u> | <u>484,433</u> | <u>42,733</u> | <u>28,703</u> |
| Equity and liabilities | | | | | | |
| Interest of other shareholders in the Subsidiary | 121,430 | - | - | - | - | 121,430 |
| Deposits from Arab monetary and financial institutions | 2,371,767 | 2,306,059 | 65,708 | - | - | - |
| Accounts payable and other liabilities | 48,675 | 7,373 | 3,680 | 23,237 | 6,184 | 8,201 |
| | <u>2,541,872</u> | <u>2,313,432</u> | <u>69,388</u> | <u>23,237</u> | <u>6,184</u> | <u>129,631</u> |

Maturities of assets and liabilities- 31 December 2015

Maturity analysis of the consolidated assets and liabilities as at 31 December 2015 were as follows:

| | Total | Less than 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Unspecified maturity |
|---|------------------|-----------------------|-------------------|-----------------|-----------------|-------------------------|
| | <i>AAD 000</i> | | | | | |
| Assets | | | | | | |
| Loans to Member Countries | 451,977 | 41,841 | 41,086 | 323,254 | 30,920 | 14,876 |
| Lines of credit | 137,045 | 117,043 | 15,146 | 4,856 | - | - |
| Deposits with central banks | 5,336 | - | - | - | - | 5,336 |
| Current and call accounts with banks & IMF | 20,537 | 20,537 | - | - | - | - |
| Term deposits with banks | 650,508 | 630,365 | 20,143 | - | - | - |
| Available- for-sale securities | 685,341 | 685,341 | - | - | - | - |
| Multi- strategies and property funds | 67,474 | 67,474 | - | - | - | - |
| Held-to-maturity securities | 2,039,280 | 1,289,915 | 315,945 | 414,509 | 18,911 | - |
| Accounts receivable and other assets | 21,785 | 12,379 | 1,169 | 140 | - | 8,097 |
| | <u>4,079,283</u> | <u>2,864,895</u> | <u>393,489</u> | <u>742,759</u> | <u>49,831</u> | <u>28,309</u> |
| Equity and liabilities | | | | | | |
| Interest of other shareholders in the Subsidiary | 116,731 | - | - | - | - | 116,731 |
| Deposits from Arab monetary and financial institutions | 2,717,620 | 2,616,590 | 101,030 | - | - | - |
| Accounts payable and other liabilities | 98,867 | 51,109 | 4,622 | 26,676 | 7,647 | 8,813 |
| | <u>2,933,218</u> | <u>2,667,699</u> | <u>105,652</u> | <u>26,676</u> | <u>7,647</u> | <u>125,544</u> |

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

20 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 consolidated financial statements at the consolidated 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 Member Countries' subscription to capital in convertible currencies and the credit rating of the counterparties. 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 and repayment periods for available for sale investments.

The following sensitivity test table is showing the effect on equity and the consolidated statement of comprehensive 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:

| | <i>Change in basis points</i> | <i>2016 AAD 000</i> | <i>2015 AAD 000</i> |
|--|-----------------------------------|-------------------------|-------------------------|
| Effect on owners' equity | 25 | 378 | 237 |
| Effect on consolidated statement of comprehensive income | 25 | 1,057 | 1,417 |

(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 consolidated financial statements and the fair value risk is being managed by diversifying the components of the assets.

(e) Currency risk

The Fund principally manages currency risk by substantially maintaining its assets in AAD 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 Fund and Subsidiary manage currency risk by hedging financial assets and liabilities denominated in currencies other than base currency against exchange rates fluctuations by using forward foreign exchange contracts, within the limits specified in the investment policy.

Forward foreign exchange contracts entered into and outstanding at 31 December 2016 amounted to AAD 1,133,223 thousand (2015: AAD 1,447,758 thousand).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

20 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 the consolidated statement of comprehensive income and changes in equity.

Organizational Structure

Organizational Structure

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

The Council of Governors

The Council of Governors consists of one governor and one deputy governor appointed by each member country of the Fund. The Council annually elects, on rotation basis, one of the governors as Chairman. The Council of Governors is invested with all management powers. The Council meets once a year during the first half of year at or outside its headquarters.

The following table shows the current composition of the Council of Governors:

| Member States | Governors & Deputy Governors | |
|---|------------------------------|--|
| The Hashemite Kingdom of Jordan | Governor Deputy Gov. | H.E. Dr. Ziad Fariz H.E. Dr. Ezzeddin Kanakrieh |
| The United Arab Emirates | Governor Deputy Gov. | H.E. Obeid Humaid Al Tayer H.E. Mubarak Rashid Al Mansouri |
| The Kingdom of Bahrain | Governor Deputy Gov. | H.E. Sheikh Ahmed Bin Moh'd Al Khalifa H.E. Rashid Mohammed Al Mearaj |
| The Republic of Tunisia | Governor Deputy Gov. | H.E. Dr. El Chedly Ayari H.E. Ahmed Tarshi |
| The People's Democratic Republic of Algeria | Governor Deputy Gov. | H.E. Dr. Hadji Baba Ammi ³ H.E. Moahmed Loukal ⁴ |
| The Republic of Djibouti | Governor Deputy Gov. | H.E. Boudi Ahmad Roubleh H.E. Osman Ahmed Ali |
| The Kingdom of Saudi Arabia | Governor Deputy Gov. | H.E. Mohammed bin Abdullah Al-Jadaan ⁵ H.E. Dr. Ahmed bin abdulkarim Al Kholifey |
| The Republic of Sudan | Governor Deputy Gov. | H.E. Badr Eddine Mahmoud Abbas H.E. Dr. Hazim Abdegadir Ahmed Babiker |
| The Syrian Arab Republic | Governor Deputy Gov. | H.E. Dr. Mamoun Hamdan ⁶ H.E. Dr. Douraid Dergham ⁷ |
| Federal Republic of Somalia | Governor Deputy Gov. | H.E. Mohamed Aden Ibrahim H.E. Bashir Isse |

³ With effect from June 2015, replacing H.E. Abdurrahman bin Khalifa.

⁴ With effect from June 2016, replacing H.E. Dr. Mohammed Laksaci.

⁵ With effect from November 2016, replacing H.E. Dr. Ibrahim Bin Abdul Aziz AlAssaf.

⁶ With effect from July 2016, replacing H.E. Dr. Ismail Ismail.

⁷ With effect from July 2016, replacing H.E. Dr. Adib M. Mayaleh.

| Member States | Governors & Deputy Governors | |
|------------------------------------|------------------------------|---|
| The Republic of Iraq | Governor Deputy Gov. | H.E. Dr. Ali Mohsin Ismail H.E. Dr. Salahuddin Hamid Juaatta |
| The Sultanate of Oman | Governor Deputy Gov. | H.E. Darwish Bin Ismail Al Balushi H.E. Hamoud Bin Sangor Al Zidjali |
| The State of Palestine | Governor Deputy Gov. | H.E. Dr. Jawad Naji Harzalla H.E. Azzam A. Shawwa |
| The State of Qatar | Governor Deputy Gov. | H.E. Ali Sherif Al Imaadi H.E. Sheikh Abdullah Bin Saoud Al Thani |
| Union of Comoros | Governor Deputy Gov. | H.E. Mohammad Ali Saleh H.E. Mze Abdou Mohamed Chafiou |
| The State of Kuwait | Governor Deputy Gov. | H.E. Anas Khaled Al Saleh H.E. Dr. Mohammad Yousef Al Hashel |
| The Republic of Lebanon | Governor Deputy Gov. | H.E. Riad Toufik Salame` H.E. Raed Charafeddine |
| State of Libya | Governor Deputy Gov. | H.E. the Governor of CBL H.E. Dr. Ali Ramadan Shnebesh |
| The Arab Republic of Egypt | Governor Deputy Gov. | H.E. Tarek Hassan Ali Amer H.E. Dr. Amr Abdel Aziz El-Garhy ⁸ |
| The Kingdom of Morocco | Governor Deputy Gov. | H.E. Mohammad Boussaid H.E. Abdellatif Jouahri |
| The Islamic Republic of Mauritania | Governor Deputy Gov. | H.E. Abdel Aziz Ould Dahi H.E. Boumediene Ould Taya` |
| The Republic of Yemen | Governor Deputy Gov. | H.E. Ahmed Obeid Alfadhli ⁹ H.E. Monser Saleh Al-Quaiti ¹⁰ |

8. With effect from March 2016, replacing H.E. Hany Kadry Dimian.

9. With effect from October 2016, replacing H.E. Mohamed Mansour Ali Zemam.

10. With effect from October 2016, replacing H.E. Mohamed Awad Benhumam.

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 Council of Governors for a renewable term of three years. The Board of Executive Directors is entrusted with the oversight of the Fund's activities and renders advice when deemed necessary. The following table shows the composition of the Board of Executive Directors for 2016-2019 as of end-December 2016.

| Executive Directors | Country/countries represented | Voting power (%) |
|---|--|------------------|
| H.E Dr. Abdulrahman Bin Abdullah AlHamidy | Director General Chairman of the Board | |
| H.E. Mohammed Saleh Alghofaili | Kingdom of Saudi Arabia | 13.96 |
| HE Abdul Haqq Bejawy | The People's Democratic Republic of Algeria | 12.27 |
| HE Mounir Omran | Republic of Iraq | 12.27 |
| HE Abbas Ahmed al-Pasha (Yemen) | Arab Republic of Egypt Republic of Yemen Republic of Sudan Federal Republic of Somalia Republic of Djibouti The Republic of Comores | *19.65 |
| HE Younis Haji Al-Khori (UAE) | State of Kuwait United Arab Emirates | 15.13 |
| HE Mohamed Rekik (Tunisia) | Kingdom of Morocco State of Libya Republic of Tunisia Islamic Republic of Mauritania | 12.87 |
| HE Salman Bin Issa Al-Khalifa (Bahrain) | State of Qatar Kingdom of Bahrain Sultanate of Oman | 6.77 |
| HE ZiyadAsaadGhanema (Jordan) | Syrian aran Republic Hashemite Kingdom of Jordan Republic of Lebanon State of Palestine | 7.07 |

*The above voting power is affected by the temporary suspension of the voting power of Somalia.

The Council 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. The Director General of the Fund presents a report on the work of the Fund to the Ordinary Annual Meeting of the Council of Governors. The Director General of the Fund is assisted by staff members who are currently distributed across the following six departments:

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

The organizational structure of the Fund also comprises the Bureau of Internal Audit, the Office of the Director General and five committees, including two permanent committees on Loans and Investment, which are statutory. It also includes an Administrative Committee established under Personnel Regulations by a decision of the Board of Executive Directors which was endorsed by the Council of Governors, a Risk Management Committee, and an Audit and Risk Committee that reports to the Board of Executive Directors.

Annexes & Appendixes

Annex (1): Lending Appendixes

Appendix (A-1) : Loans Extended to Member States (1978 - 2016)

(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 - 2016) (cont.)

(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 |
| 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 | 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 - 2016) (cont.)

(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 | 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 | 0 | 18,814 | 28,598 |

Appendix (A-1) : Loans Extended to Member States (1978 - 2016) (cont.)

(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 |
| 2013 | 161 | Sudan | | | | | | | 9,800 | |
| | 162 | Yemen | | 21,000 | | | | | | |
| | 163 | Jordan | | | | 12,790 | | | | |
| | 164 | Jordan | | | 12,790 | | | | | |
| | 165 | Comoros | | | 787 | | | | | |
| | 166 | Tunisia | | | | | | | 12,000 | |
| | 167 | Tunisia | | | | | | | 20,000 | |
| | 168 | Morocco | | | | | | | 60,000 | |
| | | | 0 | 21,000 | 13,577 | 12,790 | 0 | 0 | 101,800 | 149,167 |
| 2014 | 169 | Mauritania | | | 20,000 | | | | | |
| | 170 | Yemen | | | 36,510 | | | | | |
| | | | 0 | 0 | 56,510 | 0 | 0 | 0 | 0 | 56,510 |
| 2015 | 171 | Jordan | | | | | | | 13,285 | |
| | 172 | Egypt | | | | | | | 78,880 | |
| | 173 | Egypt | 59,160 | | | | | | | |
| | 174 | Sudan | | | 39,900 | | | | | |
| | | | 59,160 | 0 | 39,900 | 0 | 0 | 0 | 92,165 | 191,225 |
| 2016 | 175 | Mauritania | | | | 12,340 | | | | |
| | 176 | Jordan | 9,964 | | | | | | | |
| | 177 | Egypt | | | | 81,820 | | | | |
| | | | 9,964 | 0 | 0 | 94,160 | 0 | 0 | 0 | 104,124 |
| Total | | | 431,250 | 146,751 | 450,331 | 301,835 | 64,730 | 32,489 | 624,127 | 2,051,513 |

Appendix (A-2) : Loans Extended to Member States By Type (1978 - 2016)

| Automatic Loans | No. of Loans | Value of Loans (Million AAD) | Extended Loans | No. of Loans | Value of Loans (Million AAD) |
|-----------------|--------------|------------------------------|----------------|--------------|------------------------------|
| Jordan | 5 | 23.760 | Jordan | 3 | 26.090 |
| Tunisia | 6 | 28.762 | Algeria | 2 | 60.380 |
| Algeria | 1 | 27.930 | Sudan | 5 | 70.285 |
| Sudan | 5 | 11.100 | Somalia | 1 | 12.740 |
| Syria | 4 | 9.030 | Egypt | 1 | 55.125 |
| Somalia | 3 | 4.440 | Morocco | 3 | 63.800 |
| Iraq | 4 | 87.090 | Mauritania | 8 | 61.345 |
| Lebanon | 2 | 7.350 | Yemen | 3 | 99.166 |
| Egypt | 7 | 151.099 | Djibouti | 2 | 0.613 |
| Morocco | 10 | 29.550 | Comoros | 1 | 0.787 |
| Mauritania | 7 | 10.320 | | | |
| Yemen | 9 | 40.635 | | | |
| Comoros | 1 | 0.184 | | | |
| | 64 | 431.250 | | 29 | 450.331 |

| Ordinary Loans | No. of Loans | Value of Loans (Million AAD) | Trade Facility | No. of Loans | Value of Loans (Million AAD) |
|----------------|--------------|------------------------------|----------------|--------------|------------------------------|
| Jordan | 1 | 5.320 | Jordan | 3 | 4.620 |
| Algeria | 1 | 41.640 | Tunisia | 1 | 3.450 |
| Syria | 1 | 8.200 | Algeria | 1 | 18.620 |
| Morocco | 1 | 6.250 | Syria | 1 | 3.000 |
| Mauritania | 1 | 4.500 | Iraq | 1 | 18.620 |
| Yemen | 7 | 80.290 | Morocco | 1 | 2.500 |
| Djibouti | 1 | 0.367 | Yemen | 3 | 13.920 |
| Comoros | 1 | 0.184 | | | |
| | 14 | 146.751 | | 11 | 64.730 |

| Compensatory Loans | No. of Loans | Value of Loans (Million AAD) | Structural Adjustment Facility (SAF) | No. of Loans | Value of Loans (Million AAD) |
|--------------------|--------------|------------------------------|--------------------------------------|--------------|------------------------------|
| Jordan | 4 | 27.930 | Jordan | 5 | 51.869 |
| Tunisia | 2 | 16.200 | Tunisia | 6 | 64.944 |
| Sudan | 2 | 9.800 | Algeria | 1 | 30.605 |
| Iraq | 1 | 27.000 | Sudan | 2 | 19.600 |
| Egypt | 3 | 104.195 | Lebanon | 3 | 19.526 |
| Morocco | 4 | 66.430 | Egypt | 5 | 214.828 |
| Mauritania | 3 | 17.260 | Morocco | 6 | 192.208 |
| Yemen | 3 | 33.020 | Yemen | 1 | 9.057 |
| | | | Djibouti | 2 | 0.770 |
| | | | Syria | 2 | 11.600 |
| | | | Mauritania | 1 | 9.120 |
| | | | | | |
| | 22 | 301.835 | | 34 | 624.127 |

| 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 (2015 - 2016)

(Thousands of AAD)

| Country | End of 2015 | | | End of 2016 | | |
|--------------|------------------------------|------------------------------|-------------------------|------------------------------|------------------------------|-------------------------|
| | Balance of Outstanding Loans | Balance of Undisbursed Loans | Total Loans Commitments | Balance of Outstanding Loans | Balance of Undisbursed Loans | Total Loans Commitments |
| Jordan | 27,156 | 5,314 | 32,470 | 36,039 | | 36,039 |
| Sudan | 60,234 | 15,960 | 76,194 | 62,881 | 9,000 | 71,881 |
| Syria | 2,880 | | 2,880 | 2,880 | | 2,880 |
| Somalia | 14,877 | | 14,877 | 14,877 | | 14,877 |
| Comoros | | 787 | 787 | | 787 | 787 |
| Iraq | 47,307 | | 47,307 | 38,140 | | 38,140 |
| Egypt | 129,808 | 31,552 | 161,360 | 231,520 | | 231,520 |
| Morocco | 52,000 | | 52,000 | 36,000 | | 36,000 |
| Yemen | 64,355 | 18,255 | 82,610 | 62,605 | 18,255 | 80,860 |
| Muritania | 15,000 | 5,000 | 20,000 | 32,340 | | 32,340 |
| Tunisia | 38,361 | | 38,361 | 25,587 | | 25,587 |
| Total | 451,978 | 76,868 | 528,846 | 542,869 | 28,042 | 570,911 |

Appendix (A-4): Balance of Loans Commitments (1978- 2016)

(Thousands of AAD)

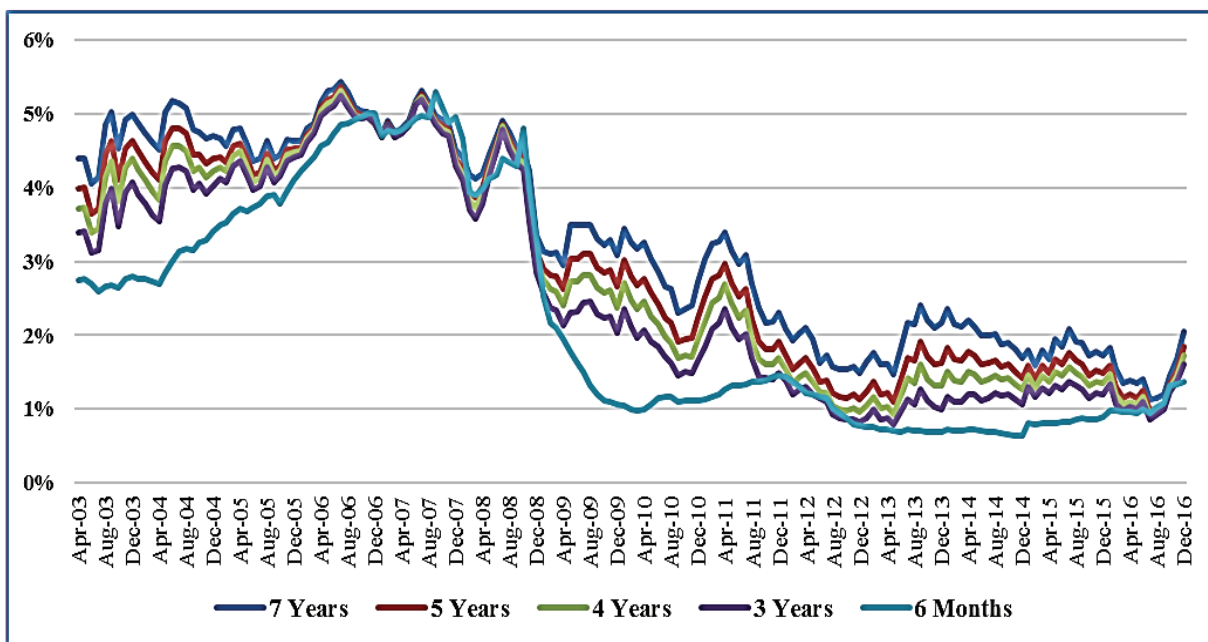
| Year | Loans Extended during the year | Balance of Outstanding Loans* | Balance of Disbursed Loans** |
|-------|--------------------------------|-------------------------------|------------------------------|
| 1978 | 6,563 | 6,563 | 6,563 |
| 1979 | 16,500 | 23,063 | 18,062 |
| 1980 | 11,750 | 48,687 | 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 |
| 2013 | 149,167 | 541,148 | 466,096 |
| 2014 | 56,510 | 474,284 | 402,047 |
| 2015 | 191,225 | 528,846 | 451,978 |
| 2016 | 104,124 | 570,911 | 542,869 |

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

** Total disbursed loans minus repayments.

| Loans Maturity | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 | Sep-16 | Oct-16 | Nov-16 | Dec-16 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 7 Years | 1.82% | 1.53% | 1.35% | 1.39% | 1.35% | 1.41% | 1.13% | 1.14% | 1.20% | 1.46% | 1.67% | 2.05% |
| 5 Years | 1.59% | 1.30% | 1.15% | 1.19% | 1.15% | 1.25% | 0.98% | 1.01% | 1.08% | 1.33% | 1.50% | 1.85% |
| 4 Years | 1.47% | 1.18% | 1.06% | 1.10% | 1.07% | 1.17% | 0.91% | 0.96% | 1.03% | 1.28% | 1.43% | 1.73% |
| 3 Years | 1.33% | 1.06% | 0.97% | 1.02% | 0.99% | 1.09% | 0.86% | 0.92% | 0.99% | 1.24% | 1.36% | 1.61% |
| 6 Months | 0.98% | 0.97% | 0.96% | 0.96% | 0.95% | 0.99% | 0.94% | 1.02% | 1.08% | 1.31% | 1.33% | 1.37% |

Chart (7) : Interest Rates on Loans According to Maturity, (2003 - 2016)



Annex (2): Capital

Appendix (B-1): Capital at 31 December 2016

(Thousands of AAD)

| | Country | Authorized and Subscribed Capital | Paid-Up Capital | | | Total |
|--------------|--------------------------|-----------------------------------|------------------|------------------------|---|----------------|
| | | | Local Currencies | Convertible Currencies | By a Transfer from General Reserve ⁽²⁾ | |
| 1 | Jordan | 14,850 | 80 | 6,805.0 | 6,975.0 | 13,860 |
| 2 | UAE | 52,950 | 300 | 24,195 | 24,925 | 49,420 |
| 3 | Bahrain | 13,800 | 80 | 6,300 | 6,500 | 12,880 |
| 4 | Tunisia | 19,275 | 100 | 8,828 | 9,063 | 17,990 |
| 5 | Algeria | 116,850 | 760 | 53,325 | 54,975 | 109,060 |
| 6 | Saudi Arabia | 133,425 | 760 | 60,983 | 62,788 | 124,530 |
| 7 | Sudan | 27,600 | 200 | 9,800 | 13,000 | 23,000 |
| 8 | Syria | 19,875 | 80 | 7,120 | 9,363 | 16,563 |
| 9 | Somalia | 11,025 | 80 | 3,920 | 5,188 | 9,188 |
| 10 | Iraq | 116,850 | 760 | 53,325 | 54,975 | 109,060 |
| 11 | Oman | 13,800 | 80 | 6,300 | 6,500 | 12,880 |
| 12 | Qatar | 27,600 | 200 | 12,560 | 13,000 | 25,760 |
| 13 | Kuwait | 88,200 | 500 | 40,320 | 41,500 | 82,320 |
| 14 | Lebanon | 13,800 | 100 | 6,280 | 6,500 | 12,880 |
| 15 | Libya | 37,035 | 186 | 16,958 | 17,423 | 34,566 |
| 16 | Egypt | 88,200 | 500 | 40,320 | 41,500 | 82,320 |
| 17 | Morocco | 41,325 | 200 | 18,933 | 19,438 | 38,570 |
| 18 | Mauritania | 13,800 | 80 | 6,300 | 6,500 | 12,880 |
| 19 | Yemen | 42,450 | 280 | 16,535 | 19,975 | 36,790 |
| 20 | Palestine ⁽¹⁾ | 5,940 | 0 | 0 | 0 | 0 |
| 21 | Djibouti | 675 | 5 | 245 | 313 | 563 |
| 22 | Comoros | 675 | 5 | 245 | 313 | 563 |
| Total | | 900,000 | 5,336 | 399,595 | 420,710 | 825,641 |

(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. In addition, Pursuant to its resolution No. (3) of 2013, the Board of Governors has approved to increase the authorized capital to AAD 1,200,000 thousand from AAD 600,000 thousand, and the subscription of the member countries in AAD 300,000 thousand and hence, the subscribed capital has increased to AAD 900,000 thousand. The Board also approved the payment of half of the subscription worth AAD 149,010 thousand by transfer from the general reserve.

Annex (3): EPI Activities & Number of participants by country

Appendix (B-2): Number of Participants Courses / Seminars / Workshops (1988-2016)

| | Before 1988 | Courses (AMF& Various Inst.) | Courses Coordinated With IMF | Courses Coordinated With WTO | Workshops | Workshops Coordinated With Imf | Workshops Coordinated With WTO/IMF | Workshops Coordinated With WTO | Seminars | Total |
|-----------------------------|-------------|------------------------------|------------------------------|------------------------------|------------|--------------------------------|------------------------------------|--------------------------------|-----------|---------------|
| Number of Activities | | 142 | 126 | 29 | 13 | 9 | 3 | 5 | 4 | 331 |
| Jordan | 14 | 263 | 254 | 59 | 26 | 19 | 6 | 3 | 4 | 648 |
| U.A.E | 32 | 309 | 204 | 72 | 14 | 16 | 4 | 7 | 10 | 668 |
| Bahrain | 9 | 224 | 157 | 26 | 9 | 13 | 5 | 7 | 4 | 454 |
| Tunisia | 11 | 209 | 191 | 46 | 19 | 10 | 5 | 3 | 3 | 497 |
| Algeria | 6 | 181 | 180 | 32 | 16 | 15 | 4 | 4 | 3 | 441 |
| Djibouti | 0 | 19 | 301 | 1 | 0 | 2 | 2 | 0 | 0 | 325 |
| Saudi Arabia | 16 | 361 | 322 | 60 | 25 | 20 | 6 | 16 | 9 | 835 |
| Sudan | 14 | 219 | 251 | 46 | 14 | 16 | 5 | 4 | 6 | 575 |
| Syria | 8 | 197 | 225 | 69 | 68 | 18 | 5 | 3 | 4 | 597 |
| Somalia | 8 | 17 | 19 | 1 | 0 | 0 | 0 | 1 | 0 | 46 |
| Iraq | 13 | 151 | 414 | 28 | 15 | 8 | 5 | 3 | 2 | 639 |
| Oman | 9 | 217 | 198 | 54 | 17 | 13 | 6 | 7 | 6 | 527 |
| Palestine | 0 | 159 | 155 | 38 | 10 | 7 | 5 | 2 | 3 | 379 |
| Qatar | 5 | 189 | 132 | 28 | 19 | 16 | 5 | 10 | 3 | 407 |
| Comoros | 0 | 4 | 14 | 11 | 1 | 1 | 0 | 0 | 2 | 33 |
| Kuwait | 10 | 212 | 170 | 23 | 12 | 9 | 5 | 5 | 2 | 448 |
| Lebanon | 2 | 155 | 152 | 45 | 24 | 14 | 3 | 2 | 9 | 406 |
| Lybia | 0 | 178 | 119 | 20 | 13 | 7 | 4 | 3 | 1 | 345 |
| Egypt | 2 | 280 | 209 | 47 | 21 | 17 | 6 | 2 | 7 | 591 |
| Morocco | 15 | 182 | 243 | 29 | 15 | 15 | 6 | 3 | 4 | 512 |
| Mauritania | 9 | 156 | 169 | 27 | 10 | 13 | 1 | 5 | 4 | 394 |
| Yemen | 21 | 206 | 216 | 33 | 17 | 19 | 5 | 4 | 5 | 526 |
| Total | 204 | 4,088 | 4,295 | 795 | 365 | 268 | 93 | 94 | 91 | 10,293 |



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