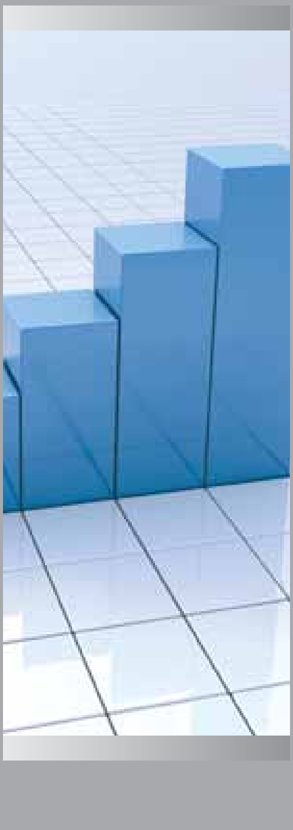
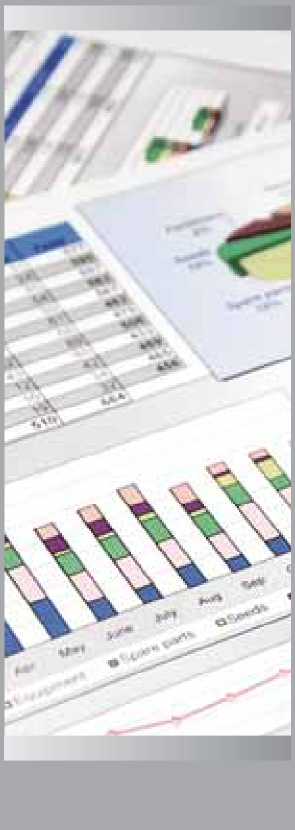
Arab Monetary Fund

Annual Report 2010



Arab Monetary Fund

Annual Report 2010




Contents

Letter of Transmittal

To the Board of Governors

On behalf of the Executive Board, I have the honor to present to your Excellencies, members of the Board of Governors, the Annual Report and the audited financial statements for the year ended 31 December 2010, in accordance with Article 33 of the Arab Monetary Fund's Articles of Agreement.

Yours Sincerely,

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

April 2011

Activities of the Fund in 2010

To achieve its objectives and to develop and expand its various activities, the Fund intensified its consultations with member countries during 2010 to support their efforts in facing the emerging short-term challenges brought about by the global financial crisis and the medium and long-term challenges associated with achieving sustainable growth, creating productive employment and alleviating poverty, by providing financial support permitted by its available resources and means.

It is worth noting that the Fund has conducted in 2009 a comprehensive review of its lending policies and procedures following the outbreak of the global financial crisis, in order to meet the emerging requirements of its member countries. To this purpose, the Fund has developed a new credit facility and provided more flexible terms on existing facilities, in addition to accelerating and simplifying procedures required for granting loans.

The Fund has also expanded its training programs during 2010 in order to strengthen human and institutional capacities in member countries. In this regard, the Fund organized seminars and workshops on the global financial crisis for senior government officials in the member countries to increase awareness about the extent and depth of the crisis and the nature of the economic and financial policies required to mitigate its negative impacts.

The Fund continued its cooperation in 2010 with international financial institutions including the IMF, World Bank, World Trade Organization, and Bank for International Settlements, through active participation in several initiatives aiming to strengthen the role of the private sector and market forces in the economies of member countries. The Fund also organized meetings and fora for finance ministers, governors of Arab central banks and monetary institutions, in order to facilitate exchanging of views and experiences, and strengthen cooperation and coordination amongst member countries. Further, and in view of the impact of the global financial crisis on trade, the Fund, through its subsidiary the Arab Trade Financing Program, expanded credit lines for exporters and importers in member countries.

With respect to the **Lending Activity**, the Fund extended four new loans during 2010 totaling about AAD 118 million, equivalent to more than half a billion U.S. dollars representing the highest level of annual lending in the last 22 years. These loans included two loans within the Structural Adjustment Facility, amounting to a total value of about AAD 65.1 million, a Compensatory Loan of a value of AAD 9.8 million, and an Extended Loan amounting to AAD 43 million.

In the context of lending activity in 2010, Fund missions visited Jordan, Morocco, Syria, Yemen, and Lebanon, to study requests for new loans aiming to support reform programs, and/or to follow up the implementation of agreed upon reform programs supported by loans previously granted. It is worth mentioning that the tasks of these missions were not limited to reaching agreements with the authorities on the elements of the reform programs, or following up on the implementation of reforms within the framework of the agreed programs, but were also to provide technical support and advice on various economic issues.

In the area of **Investment Activity**, the Fund adopted conservative investment policies that proved to be effective in maintaining the Fund's invested capital and achieving positive returns on overall level of investments during 2010, in spite of the adverse conditions witnessed by global financial markets.

The Fund investment activities during 2010 included, in addition to managing its own resources, accepting deposits from Arab Central Banks and Monetary Institutions. The deposit activity showed a growing trend in 2010, reflecting increased confidence of the member countries in Fund management and investment policies. Moreover, the Fund continued to manage the resources of the Arab Trade Financing Program, the Joint Account of the Specialized Arab Organizations, the AMF Employee Pension Fund, and fixed-income portfolios for the benefit of member countries.

With respect to **Technical Assistance**, the Fund continued in 2010 to provide, in cooperation with relevant international institutions, technical support for the Arab central banks, through a number of initiatives, including “Arab Credit Reporting Initiative” and “Arab Debt Markets Development Initiative”. In addition, and in cooperation with central banks and international financial institutions, the Fund continued to hold and organize workshops and conferences for senior government officials, geared to discuss various financial and monetary issues.

With regard to **Arab Financial Markets**, the Fund continued during 2010 its efforts to provide information about the Arab financial markets in order to raise awareness about these markets. In this context, the Fund continued to publish daily data on the Arab financial markets on its Web site. The data includes the Fund's composite index, which measures the combined performance of these markets. It is worth noting that in late 2010 Damascus Stock Exchange was included in the Fund’s data base, bringing the number of markets in the database to 16, and the number of publications to 63. Currently, work is underway to complete necessary procedures and steps to include Libya Stock Exchange into the Fund’s data base related to Arab financial markets.

With respect to **Training**, the Fund continued in 2010 its training activity, provided by the Institute of Economic Policy, in cooperation with the World Bank, IMF and WTO, among other institutions, as the number of training events in that year totaled to 17, benefiting some 532 trainees from member countries. The total number of training workshops, seminars, specialized workshops and courses since the inception of the training activity reached 220, benefiting 6,746 trainees.

The Fund continued in 2010 to carry out its activities as the **Secretariat of the Board of Governors of Arab Central Banks and Monetary Agencies,** the **Secretariat of the Arab Committee on Banking Supervision** and the **Secretariat of Arab Committee on Banking and Security Settlement Systems**. In this capacity, the Fund organized and hosted in 2010 the annual meeting of the Permanent Bureau of the Board of Governors of Arab Central Banks and Monetary Agencies, in addition to delivering technical and administrative supports in preparation for the 34^{th} Annual Meeting of the Board of Governors, held in Tripoli (Libya). The agenda meeting of the Board of Governors included the report of the Board’s Secretariat, the preliminary (in limited circulation) Joint Arab Economic Report 2010, the recommendations of the 9^{th} Meeting of the Arab Committee on Banking Supervision, and the recommendations of the 6^{th} Meeting of the Arab Committee on Banking and Security Settlement Systems.

In the area of **cooperation and coordination with Arab, regional and international organizations**, and in its efforts to develop partnership with several Arab and regional organizations in a way that serves the interests of its member countries and helps achieve shared objectives and goals, the Fund continued to prepare and publish the Joint Arab Economic Report and participate in the periodic meetings of the coordination committee of the Arab national and regional development and financial institutions.

Within the framework of cooperation with international organizations, the Fund participated in the joint annual meetings of the IMF and the World Bank, and attended as an observer the meetings of the Development Committee and G-24. The fund also attended, within the framework of the initiative launched by the World Bank regarding the Arab countries, the special meetings of the Arab group with the President of the World Bank, and the special meetings of the Arab and regional funds with the President and senior managers of the Bank.

The Fund continued in 2010 to strengthen its cooperation with the **Arab Trade Financing Program (ATFP)** in order to improve and promote intra-Arab trade, by providing the Program with specialized legal, administrative and auditing services, in addition to managing its investment portfolio.

In addition to the above mentioned activities, the Fund issued during 2010 a number of **Reports and Research Studies**, in addition to the Statistical Bulletin for Arab Countries, which covers national accounts, money and credit, balance of payments, foreign debt, foreign trade, exchange rates, and public finance.

Lending

The volume of loans granted during 2010 amounted to around AAD 118 million, the equivalent of US$ 548 million, the highest annual lending level in the last twenty-two years. Generally, the Fund's lending activity supports efforts of the member countries to address balance of payments problems and enhance macroeconomic stability, as well as efforts to implement structural reforms needed in a number of sectors relevant to the Fund activities, in order to improve efficiency of resource use and enhance economic growth. In this context, the Fund is keen to develop its lending activities to cope with emerging financing needs of its member countries, by conducting regular review of its lending policies and procedures and of its lending toolkit. During 2010, the Board of Directors approved a number of regulations related to the length of time given to the member country to draw on the newly contracted loan, and the maximum time period for drawing on contracted loans (Sunset Clause).

Types of Lending Facilities

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

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

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

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

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

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

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

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

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

Net oil importing countries having no balance of payments deficit can still avail themselves to this facility up to 200 percent, conditional upon reaching with the Fund an agreement to implement a reform program provided that the borrowing

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

country has an ongoing reform program supported by the Fund's regular loans and facilities. These facilities include the aforementioned macroeconomic adjustment loans and the structural sectoral facilities. The use of these resources will be subject to the terms and conditions applicable by the Fund on the ongoing extended loan or SAF. This reflects the Fund's interest in encouraging members affected by the rise of oil prices to implement the needed reforms in order to minimize the exposure of their economies to external shocks.

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

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

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

Interest Rates

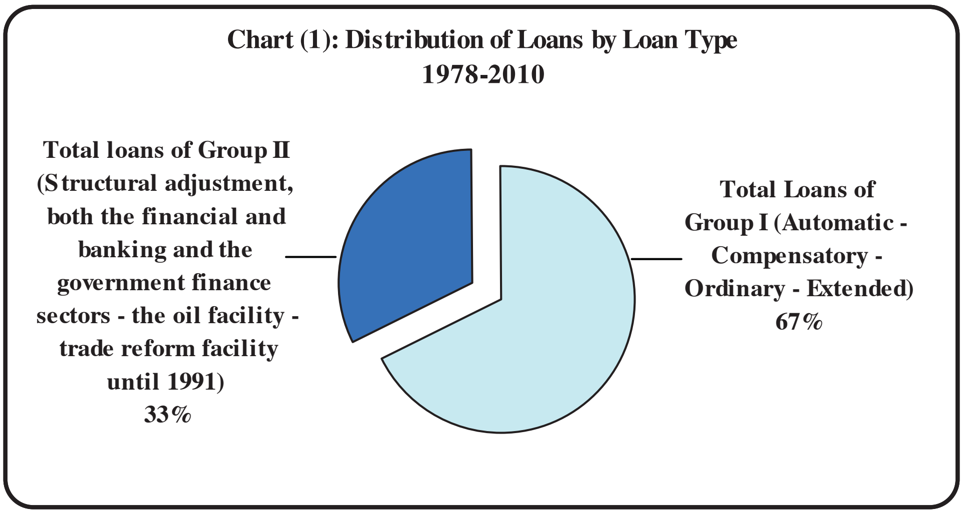
The Fund provides its loans subject to the borrowing country's choice between two types of rates. The first is a floating rate based on the six-month interest rate on the SDR as determined on the first working day of each month. The second is an active fixing rate calculated on the first working day of each month based on the swap rate of the SDR for the corresponding loan maturity. The active fixing rate is applied to the installments disbursed any day during the month and remains unchanged throughout the maturity of the loan. The interest rate is based on the SDR rate that is prevalent on the first working day of each month, and that is equivalent to the trading rate applied on the concerned loan; i.e, the prevailing rate on SDR in the currency futures market over the loan maturity, plus a fixed margin to be determined and revised periodically by the Fund.

Loan Commitments

The value of total loans extended by the Fund in 2010 increased by nearly 20 per cent to reach about AAD 118 million, equivalent to about US$ 548 million. Jordan has benefited from a compensatory loan with a value of AAD 9.8 million, in addition to a loan under the Structural Adjustment Facility of the value AAD 17.2 million. Morocco has also benefited from a Structural Adjustment loan of about AAD 47.9 million, whereas Yemen received an Extended Loan of AAD 43 million.

The rapid growth of lending activity in 2010, which registered the highest annual lending volume over the past two decades, led the total value of loans since the inception of the Fund, of about AAD 1,317 million, equivalent to US$ 6,112 as of end 2010. Fourteen member countries benefited from the 150 loans extended by the Fund, as shown in Appendix (A-1), which gives the details of these loans by year and recipient countries over the period 1978-2010.

Traditional loans for balance of payments purposes provided by the Fund (automatic, ordinary, compensatory, and extended) constituted 67 per cent of total loans, the largest share over the period 1978-2010, followed by structural adjustment loans in support of fiscal and financial reforms and loans under oil and trade reform facilities, which together represented 33 per cent of total loans (Figure 1). Appendix (A-2) shows the value and number of loans extended to each member country broken down by loan type.



The balance of loan commitments reached AAD 418.1 million, equivalent to about US$ 1,940 million as of end 2010, representing about 70.8 per cent of the Fund's paid-up capital in convertible currencies, compared to AAD 352.7 million as of end 2009, representing about 59.1 per cent of the Fund's paid-up capital in convertible currencies.

The increase in loans commitment in 2010 has been associated with an increase in disbursed loans, which grew by 12 percent as of end 2010 compared to 2009, bringing the amount of disbursed loans to AAD 356.6 million, equivalent of US$ 1,655. Moreover, the increase in un-disbursed installments from AAD 34.4 million, equivalent of US$ 162 million in 2009 to AAD 61.5 million, equivalent to about US$ 285 million in 2010 has contributed to the increase in loans commitment in 2010.

Loan Disbursements and Repayments

Total disbursements on contracted loans reached AAD 67.8 million during 2010. As for repayments of installments on previously contracted loans, the Fund received the amount of AAD 29.4 million in 2010. As a result, total outstanding loans to borrowing member countries reached AAD 356.6 million as of end 2010, nearly 60 per cent of the Fund's paid-up capital in convertible currencies(2),

(2) By virtue of Board of Governors Resolution No. (3) in April 2005, the Fund's paid-up capital was increased from AAD 326 million to AAD 600 million, as mentioned previously.

compared to about AAD 318.3 million as of end 2009, nearly 53 per cent of the Fund's paid-up capital in convertible currencies. Appendix (A-3) shows details of disbursed and undisbursed loan balances and loan commitments for individual countries in 2009 and 2010, whereas Appendix (A-4) shows details for the same items over the period 1978-2010.

Consultations with Member Countries

Within the framework of the Fund's lending activity, the Fund sent a number of missions during 2010 to consult with the authorities in the borrowing member countries on their requests for new loans. In addition, follow-up missions were also sent to borrowing members to assess the progress made in the implementation of agreed-upon reform programs supported by previously contracted loans.

With respect to consultation missions regarding new loans, the Fund sent during 2010 three consultation missions to **Jordan**, **Morocco**, and **Yemen**, after receiving requests from relevant authorities of these countries for the use of the facilities and loans provided by the Fund for its member countries in support of reform programs.

As for **Jordan**, the country received two loans from the Fund during 2010; the first is a Compensatory Loan signed in March 2010, and the second is a loan under the Structural Adjustment Facility signed in June 2010. With regard to the structural adjustment loan, the Fund sent a consultation mission to study the request of the authorities to use the Fund's resources under the Structural Adjustment Facility to support a reform program in the financial sector.

It should be noted in this context that the Central Bank of Jordan pursued significant efforts over the past few years to strengthen the safety of the banking system, protect depositors, and develop and modernize banking standards and risk management to comply with international standards and best practices. In addition, the Central Bank took essential steps to establish and develop the national payments system.

With respect to measures taken to improve credit information systems, the Central Bank of Jordan was keen to operate risk bureau system through a service provided by the banking system supervisory directorate through its credit concentration and banking risk department. Moreover, the Central Bank prepared a draft law for credit information, issued in May 2010, allowing the establishment of credit information bureau.

In the context of its efforts to comply with recent developments in international standards, the Central Bank of Jordan established a higher committee to prepare for the implementation of Basel III, with subcommittees charged with assessing the readiness of banks to apply different standards embodied in Basel III, and raising banks awareness of the importance of these standards and their expected positive impacts on the safety and soundness of the banking system.

It is worth mentioning that the central bank issued instructions to banks to conduct Stress Testing, in order to consolidate risk management and assess banks ability to cope with large financial shocks similar to those associated with the global financial crisis.

Within the framework of establishing efficient national payments system, objectives of the electronic clearing system have been set to enable members of the system to clear checks electronically and determine their financial positions quickly and effectively. Moreover, a database of inter-bank checks has been established to help prepare timely and comprehensive statistical reports and statements.

In order to enhance confidence and ensure financial soundness, the Central Bank began the second phase of banking sector reforms, which included the follow-up and guidance of banks during the application of international standards that were developed following the global financial crisis.

In this context, the Fund mission to Jordan reached with the Central Bank of Jordan an agreement on a structural adjustment reform program in the financial sector covering the period July 2010 - June 2011. The reform program is based on three pillars comprising a number of measures to be implemented by the Central Bank during the program period.

The three pillars in the reform program consist of:

1. **Development of Early Warning System and application of Stress Testing**. This pillar includes the completion of the first stage of Stress Testing required by the Central Bank to develop risk management in the banking sector. Moreover, and in addition to completing the requirements of Basel II, the central bank works to develop the bank classification system (CAMELS), complete the electronic database for the information provided by licensed banks, improve the reporting system emanating from this database, and use the information from the database to develop analytical methods under the Early Warning System.

2. **Establishment of a credit information company**. This pillar involves the activation of the credit information law through the implementation of a plan including the formation of a technical working group to design necessary rules and regulations to implement the law and to examine the options available to potential shareholders or partners for the credit information company, as a preparatory steps before examining the applications made for company licensing.

3. **Development of the National Payments System**. This pillar requires the development of the database of the existing payments system and making it available through the internet, the modification of the system to improve security, the implementation of more control measures in accordance with best international practices, as well as the development of the file and data flow methods between the Central Bank and the banking system by improving archives systems and developing technical specifications of checks.

With regard to the compensatory loan, the Fund received a request from Jordan to use the Fund’s resources to finance the emerging shortfall in export revenues due to declining exports of goods and services in 2009.

It is worth mentioning that the Jordanian economy has faced a number of external shocks over the past few years, which have affected economic growth, the balance of payments and the fiscal position. Moreover, the global financial crisis and its consequences have led to a slowdown in economic activity and foreign trade, reflected in a significant decline of 19.4 per cent in export revenues during 2009, basically due to reduced demand for Jordanian exports in light of the recession that hit Jordan major trading partners. In particular, Jordan's exports of fertilizers, potash, phosphate and clothing declined by 42.7 per cent, 41.8 per cent, 29.0 per cent, and 17.8 per cent, respectively. As a result, exports to imports ratio fell by about 1.5 percentage point, reporting only 45.2 percent in 2009, and total exports to GDP ratio fell from 37.4 per cent in 2008 to only 27.8 per cent in 2009.

In order to develop the export sector and improve export revenues, the Jordanian government embarked upon a number of programs and policies including providing technical and financial support to exporting companies and firms to increase productive capacity, organizing specialized exhibitions for Jordanian exports to enhance diversification and open new markets, and preparing specialized studies to analyze demands of potential markets and consumers. Parallel to the mentioned programs and policies, the government signed a number of trade and economic cooperation agreements with several countries to diversify foreign markets and facilitate the flow of foreign trade.

In light of the above, and based on the lending policies and procedures and rules in place regarding the compensatory loan, the Fund granted a compensatory loan to Jordan amounting to AAD 9.82 million and representing 100 per cent of its quota in the Fund’s paid-up capital in convertible currencies.

As for **Morocco**, the Fund received a request from the Moroccan authorities to benefit from the Fund’s resources in form of loan under the Structural Adjustment Facility, and accordingly a mission was delegated to Morocco to consult with the authorities on the reforms that they intend to implement.

The Fund's mission reached an agreement with the authorities on a reform program addressing the challenges in the financial sector and enhancing its role in economic development, based on the Moroccan medium-term social and economic strategy covering the period 2007-2012. The agreed-upon program, which covers the period July 2010-June 2011, is composed of four components:

1. **Expanding individuals' access to banking services** through modernization and strengthening of the financial services provided by Moroccan Post office, utilizing the wide network of its branches, and enhancing the level and volume of its financial services, in addition to developing and modernizing the microfinance sector with the possibility of considering the restructuring of Micro-credit Financing Associations in this sector.

2. **Enhancing funding opportunities available to companies** through adopting a new strategy to develop the National Guarantee System for the benefit of small and medium-sized companies, strengthening the role played by venture capital in the financing of these companies, and strengthening risk management and information related to credit operations. It should be noted that the implementation of the new strategy to develop the National Guarantee System has been assigned to the Central Guarantee Fund, which adopted a program to develop its operations and products, most important of which is the provision of a variety of financial guarantees that meet different funding requirements of companies and projects.

3. **Strengthening control and supervision of financial markets and insurance sector** through implementing reforms in the legislative and regulatory frameworks in order to give supervisory institutions and authorities in the financial markets and insurance sector more autonomy.

4. **Deepening and revitalizing the financial markets** by creating a market for future financial instruments in order to widen and diversify the range of instruments available to market participants to cover potential risks and uncertainties.

As for **Yemen**, the Fund delegated a mission to study the authorities request to benefit from the Fund's resources in the form of an Extended Loan to support the reform efforts undertaken by the Yemeni government.

In order to mitigate the negative impacts of the global financial crisis on the Yemeni economy, the government adopted a medium-term economic reform strategy covering the period 2010-2013. The strategy is based on two pillars; the first focuses on achieving fiscal sustainability, while the second concentrates on the readjustment of public expenditure with a view to achieve the following objectives:

- reducing overall fiscal deficit to a level consistent with available domestic and external financing,
- mitigating existing pressures on foreign exchange reserves, and
- adopting a monetary policy framework that ensures increasing banking credit to the private sector and maintaining at the same time a stable inflation rate, and facilitates lending to the small and medium-sized enterprises through strengthening the activities of micro-credit institutions.

It is worth noting that the government has implemented during the first three quarters of 2010 a number of reform measures embodied in the strategy. These included three successive increases in the prices of oil products since the beginning of 2010, as a step towards gradual removal of the oil product subsidy and aligning of oil domestic prices to international prices. The measures also included rationing current expenditure in order to increase capital spending and social transfers. As a result, and over the period January-September 2010, overall fiscal deficit fell to a level well below the program target set for the whole year of 2010.

Although the government has made significant progress in implementing structural reforms and related measures during the first three quarters of 2010, it still faces a number of challenges that requires accelerating the implementation of current reforms and putting in place new reforms in the fiscal sector, in order to consolidate the overall fiscal and external positions. This calls for a consolidation of macroeconomy to stop the continued depletion of foreign exchange reserves, noting the difficult circumstances that the country has been experiencing and the relatively limited implementation capacities. In addition, the government has to purse effective fiscal and economic policies not only to counter the negative impacts of the global financial crisis and security challenges, but also to mitigate the negative effects of the continued reduction in oil production and fluctuations in oil prices and revenues.

Within this framework, the government faces the challenge of ensuring sustained improvement in the fiscal position in order to consolidate macroeconomic stability through adopting a medium-term fiscal reform strategy that takes into account financing constraints. The government also faces another challenge that is related to the need for accelerating structural reforms in order to create new sources of income by expanding and diversifying productive and exporting capacities of the Yemeni economy.

In light of the efforts pursued by the Yemeni government to improve the fiscal position and its commitment to sustain the reform efforts, the Fund's mission to Yemen reached an agreement with the Yemeni government on a reform program covering the years 2011 and 2012 and supported by the Extended Loan Facility. The reform program aims to realize the following objective over 2010:

- achieving 5.6 per cent growth rate for non-oil GDP,
- containing inflation rate around 8.9 per cent, and
- containing the current account deficit around 4 per cent of GDP.

The reform program is anchored on fiscal policy to achieve the set targets, as the fiscal deficit is expected to be cut through reducing public expenditure by around 12 per cent of GDP, with the government commitment not to rely on borrowing from the central bank to finance the deficit. Moreover, the program contains structural measures designed to support the development of the non-oil sector in the medium term, and hence are expected to help increase non-oil revenues.

Besides the missions sent to study requests for new loans, the Fund also sent follow-up missions to assess the progress made in implementing reform programs supported by loans previously approved. In this context, the Fund delegated during 2010 three missions to **Morocco**, **Syria** and **Lebanon**.

As for **Morocco**, the mission was delegated to assess the progress in the implementation of the reform program supported by the loan granted under the Structural Adjustment Facility in the public finance sector, and covering the period May 2009-April 2010. The mission concluded that the Moroccan authorities had made significant progress in the implementation of the measures contained in the agreed upon program, which centered around the following pillars:

- implementation of medium-term budget framework,
- implementation of result-oriented budgeting,
- development of expenditure consolidated information systems.

With respect to the first pillar, the Moroccan authorities amended the draft budget law so that it complies with multi-year budget programming, by introducing new rules designed to control the wage bill and goods subsidies. Moreover, the 2010 draft fiscal law included the Treasury fiscal operations schedule for the years 2010-2012.

With regard to the second pillar, two studies have been prepared regarding the appropriate methods to introduce the concept of result-oriented budget in the fiscal law, and ways to improve budget classification (administrative, economic, functional and regional classifications).

As for the third pillar, the implementation of the expenditure consolidated information systems exceeded the sectors targeted in the program to include all ministerial sectors. Moreover, an assessment of the implementation of these systems has been carried out in the pilot sectors which applied these systems in

2009. In this context, meetings were held with the parties concerned to assess the difficulties encountered during implementation, and to develop proposals for the development and improvement of the systems. These assessments and proposals paved the way for generalizing the application of these systems in January 2010 to include all the expenditure functions.

In addition, technical capacities of the users of expenditure consolidated information systems were strengthened through the intensification of training programs and organization of workshops, lectures and on-the job training. Consequently, 3600 users benefited from such training in 2009, in addition to another 4550 during the first five months of 2010. With regard to the launching of the Disaster Recovery Center that would run in parallel with the main system to ensure work continuity and information safety, the Center has been introduced and running in parallel with the main system.

As for **Syria**, the Fund sent a follow-up mission to assess the progress of the implementation of the reform program supported by the loan under the Structural Adjustment Facility in the financial sector. The mission concluded that the implementation of the measures included in the agreed upon program with the Syrian authorities that did not require imported information technology, was satisfactory.

The mentioned program, which aimed to create the necessary regulatory and institutional frameworks for successful implementation of payment systems, is based on three main pillars represented in the introduction of Real Time Gross Settlement (RTGS) system, the establishment of electronic clearing system for different means of payment, and the establishment of the National Switch.

With regard to **the introduction of RTGS**, the Central Bank of Syria restructured the department concerned with the payment systems in the bank to include three divisions specialized in the RTGS system, electronic clearing, and the settlement of payments using electronic cards (National Switch). In addition, the Directorate of Payment Systems was activated within the administrative structure of the

Central Bank to include five divisions represented in policy and research, RTGS, retail payment clearing, monitoring payment systems' performance and efficiency, and National Switch and electronic transfers, in addition to the department of financial and banking communication network, which is concerned with the supervision of the Swift and affiliated to Directorate of Payment Systems.

On the other hand, the Central Bank implemented a number of reform measures related to preparation of legal and regulatory environment necessary for the development of the payments system in Syria. These measures included the issuance of the electronic signature and network services law. Moreover, the Central Bank implemented a number of reform measures, with the aim to ensure secure flow of the information administered by the Central Bank and raise the security level on all the payments instruments and systems. These measures included establishment of partial systems for advanced auditing, coding and electronic signature, and secure transfer, in addition to introducing a secure signing in procedure and a secure network to be used for communication with the participants of the payments system.

As for **the introduction of electronic clearing system for means of payment**, the Central Bank of Syria established clearing chambers in all its branches in the provinces, in preparation for the establishment of a single electronic clearing chamber in Syria, with the clearing system covering checks and other payment instruments such as transfers, bills and electronic cards. In addition, the Central Bank developed work within the main clearing chambers in Damascus through the introduction of computers in the settlement of transactions, with plans to generalize this experience to other provinces.

With respect to **the introduction of payments settlement system using electronic card (National Swift)**, the Central Bank took a number of steps to introduce a regulatory framework for payment settlements using electronic cards, in light of the substantial growth in the use of ATMs, payment points and credit cards. In this context, it is worth noting that an agreement had already been reached to establish a national company responsible for establishing and managing a network for the consolidation of these services and the settlement of transactions made through them, with the ownership of this company, known as National Switch, to be shared by the Central Bank and commercial banks, and with Central Bank supervising the company.

In light of the progress made by Syrian authorities to implement the reform measures mentioned above within the framework of the agreed upon program, and taking into consideration the difficulties the authorities have in importing the required technology for the implementation of the remaining reform measures, due to the American sanctions imposed on Syria, the Fund, after consultations with Central Bank of Syria, agreed to reduce the loan amount from AAD 9.6 million to 4.8 million, which is the amount that had already been disbursed as first installment to Syria.

As for **Lebanon**, the Fund sent a follow-up mission to assess the progress of implementation of the reform program supported by the loan under Oil Facility, granted to the country to expand the resources available to implement the reforms in the public finance sector, and to support the 2009 complementary reform program in the mentioned sector. The reform program is based on the following pillars:

- Improving public expenditure management and budget preparation,
- Development of budget execution, auditing and monitoring processes,
- Reforming and consolidating debt management.
- Reducing the burden of government transfers to Lebanon Electricity Company (EDL).

The mission concluded that the government implemented a limited number of reform measures included in the agreed upon program for 2009, while other measures are still in the preliminary stages of implementation because the government was unable during 2009 to gain legislative approvals of the loan signed on December 22, 2008. In the absence of legislative approval, disbursement on the loan could not be made.

With regard to improving public expenditure management and budget preparation, the draft budget of 2010 included overall and sectoral expenditure ceilings based on economic classification and consistent with the objectives of public policy and national priorities, and a medium-term fiscal framework covering the period 2010-2012. In addition, the Ministry of Finance revised existing systems used in expenditure classification and scheduling, in order to develop them to comply with GFS 2001.

In this context, the Ministry of Education developed a “shadow budget”, which included the basic elements in performance budgeting such as objectives, activities, projects, per unit costing and performance measures, as a preparation for reclassifying expenditures and distributing functions and tasks in the Ministry in accordance with performance budgeting. Moreover, an agreement has been reached with the Canadian Foundation for Development to provide scholarships for ministry staff in order to train them on methods of preparation of performance and result-oriented budgeting to support the ministry’ efforts to apply this type of budgeting.

With respect to the development of budget execution, auditing and monitoring processes, 7 out of 25 ministries have been linked to Ministry of Finance through information system that provides the Ministry with timely information regarding current and future expenditure commitments of linked ministries. Moreover, an independent department has been established to manage liquidity and prepare cash and expenditure forecasts, and linked to a number of ministries and government departments concerned with the budget, in preparation for linking the department to all ministries and departments concerned with the budget. This is in addition to establishing electronic information system that provides the Treasury with timely access to all the data of Debt Directorate and accounts of the Ministry of Finance held at the Central Bank, as well as to revenue and expenditure forecasts prepared by liquidity management department.

With regard to easing the fiscal burden of government transfers to EDL, the Lebanese authorities activated the agreement with Egypt regarding importation of natural gas, activated agreements of electricity connections with neighboring countries such as Turkey to meet demand during peak times, and prepared a new electricity draft strategy included plans to improve EDL performance by introducing management on commercial basis and public-private partnership, in order to increase electricity production and reduce costs.

Arrears

A borrowing country is considered in payment arrears when the delay exceeds a period of twelve months. The Federal Republic of Somalia is currently the only member country in payment arrears to the Fund. The total loan installments and interest accrued on the Republic of Somalia at the end of 2010 reached AAD 55.8 million. This amount consists of loan installments overdue totaling AAD 14.9 million, and accrued interest amounting to AAD 41 million.

Investment

The investment activity is considered one of the main activities of the Arab Monetary Fund by virtue of the objectives and means set forth in the Articles of Agreement establishing the Fund and the resolutions issued by the Board of Governors and the Board of Executive Directors which regulate this activity. The resolutions of the Board of Executive Directors defined the general foundations and policies in addition to key controls to manage the various investment portfolios. These policies are based on four key principles: safety, liquidity, freedom of transfer of invested funds and then achieving the maximum available return, while maintaining the risk of the portfolio within an acceptable level to protect the value of the overall invested capital.

The aim of this activity is to invest the Fund’s own resources until such time that they are needed to undertake other operations, for the purpose of enhancing their value and achieving income to cover the Fund’s expenses and enhance its reserves and ultimately its own resources. This activity also includes cooperation with Arab financial institutions and Arab Member States, which includes accepting deposits from there institutions and proceeding to their placement, in addition to managing investment portfolios of bonds and securities.

The Articles of Agreement of the Arab Monetary Fund defined the Arab Accounting Dinar, a unit of account, which is valued as the equivalent of three units of the basket of the Special Drawing Rights (SDR), a basket determined by the International Monetary Fund and consisting of currencies of major industrialized nations, the United States of America, the European Union, the United Kingdom and Japan. Efforts continued during the year 2010 to maintain uniformity in the distribution of the currencies portfolio of the Fund in line with the proportions of the components of the SDR basket, taking into account the Fund's share in the capital of other Arab financial institutions in accounting for the currency exposures to avoid exchange rate risk and reduce volatility of total income in terms of SDR, which is caused by changes in interest rates. The IMF decided in December 2010 within the scope of its regular review of the basket every five years, to maintain the currency components of the SDR basket and modify the currency weights in the basket from the beginning of 2011. The most important features of this amendment is to reduce the weight of the yen by about 5 per cent of the total basket value against an increase in the weights of dollar, euro and sterling, and accordingly at the end of the year 2010, the AMF changed the currency allocation of the portfolio in line with the new weights of the basket.

The most important characteristic of the overall investment climate in the year 2010 is the significant improvement in the growth indicators in the economies of the United States and Germany, and sustaining high growth rates in China despite some inflationary pressures. The continuation of low levels of inflation in the United States, Europe and Japan gave the achieved growth rates positive impetus, at the time when countries like Sweden, Canada and Australia initiated an increase in their official interest rates. In addition, China increased the percentage of reserve requirements on banks in order to reduce inflationary pressures.

In order to enhance the process of economic growth and avoid a possible double-dip recession in the United States, U.S. authorities continued their “easy” fiscal policy through increased spending and tax cuts, and its easy monetary policy, which was characterized by maintaining low official interest rates in addition to launching a programme to buy bonds (QE2), which contributed to pumping of liquidity in the markets.

In Europe, the German economy achieved good growth in Gross Domestic Product, industrial and personal consumption and emerged as the strongest economy in the continent, while signs of weakness appeared in a number of other European countries such as Greece, Ireland, Spain, Italy and Belgium. The sovereign debt crisis in Europe had a significant impact on undermining confidence in Europe, which came from the debt crisis of Greece and Ireland, and was dealt with by the EU on a joint program with the International Monetary

Fund; in addition, the concerns extended to include the indebtedness of Portugal and Spain, where the bonds issued by these countries came under pressure in capital markets which resulted in an increase in borrowing costs.

In the UK, there was some concern after the Gross Domestic Product achieved a negative growth in the fourth quarter of 2010, and came at the time of the application of strict austerity policy and the difficulty of the Central Bank's move to counter the rise in the level of inflation. In Japan, the economic situation signals a slowdown with weakness in personal consumption accompanied by a drop in confidence indicators.

It should be noted that despite signs of recovery amid good growth rates and a decline in the unemployment rate in the United States, the level of current unemployment is still considered high, and Europe is also suffering from high levels of unemployment, especially in Spain, Italy, Ireland and Greece, which relates to the limited capacity of these countries to increase spending and cut taxes because of the slowdown in economic activity.

The year 2010 was marked by maintaining the expansionary fiscal and monetary policies in both industrialized and developing countries, under a regime of low official interest rates and programs targeted at injecting accompanied by liquidity some other financial measures. Also, additional support measures were maintained to boost confidence in the banking and financial system and put in place controls on borrowing and leverage limits, which included the issuance of the Bank for International Settlements, new standards for banks (Basel III), which developed new guidelines to improve the quality of capital and added new rules to regulate liquidity and leverage at banks.

Consequent to these developments, stock markets and hedge funds achieved a positive performance during the year highlighting the return of some confidence to investors; also, prices of gold and short-term government bonds, increased during the year reflecting the continued trend towards safe assets. Short-term interest rates (LIBOR) for the main currencies remained at low levels, reflecting expansionary monetary policy to provide liquidity to the markets. Oil prices began to rise towards the end of the year and continued thereafter as crude oil (Brent) reached about US $ 100 a barrel on the back of expected increase in demand as a result of the emergence of positive indicators from the U.S. economy and the reigning of the sovereign debt crisis in Europe in addition to a continuing increase in the demand from Asia, especially from China and India. With regard to exchange rates, the U.S. dollar appreciated against the euro and sterling and fell against the yen during the year 2010.

During this climate that prevailed in the world financial markets in 2010, the Arab Monetary Fund continued in its approach by giving the utmost importance and priority to the safety of its investments, as the Fund was keen to employ its funds in safe investment vehicles, mostly in deposits and bonds with good credit rating.

It should be noted that the Fund's investment policies and conservative applications have contributed effectively to protect the value of the invested funds and achieved positive returns at the aggregate level of these investments during the year 2010, despite the difficult conditions experienced by the financial markets during the year.

The activity of the Fund consists in addition to the investment of its own resources, managing deposits from Arab central banks and financial and monetary institutions, which maintained the same level at the end of the year compared to the end of previous year, as the value of the total accepted deposits reached the equivalent of US $ 9,176 million at the end of the year 2010, compared to the equivalent of US $ 9,168 million at the end of the previous year. The accepted deposits were received in U.S. dollars, euro and pound sterling from 19 Arab central banks and monetary and financial institutions. The funds received through accepted deposits are placed in safe investment instruments in portfolios of deposits and short and medium-term bonds in accordance with conservative investment policies. The Fund also continued the management of investment portfolios for a portion of the funds of the Arab Trade Financing Program, and the money held in the Joint Account of the Specialized Arab Organizations, and the AMF Employees Pension Fund, in addition to the management of bond portfolios for the benefit of Member States, in accordance with the investment policies governing the management of each of them. The total value of funds managed on behalf of these parties was equivalent to US $ 243 million at the end of the year 2010, compared to US $ 590 million at the end of the previous year.

In the context of cooperation with Arab central banks and monetary and financial institutions, the Fund continued in 2010 to periodically prepare and send reports about the latest developments in the major financial markets in the world.

Technical Assistance

The Fund offers technical assistance to member countries in various areas related to its core activities such as monetary policy, exchange rate policy, tax policy and administration, as well as macroeconomic statistics, improving financial sector infrastructure and capital markets. Moreover, the Fund offers workshops and high level seminars to member countries' officials in central banks, monetary authority and ministry of finance and economy. The technical assistance is carried out through sending consultation missions involving the Fund's staff and external experts that the Fund contracts. In addition, the Fund also carries out technical assistance through joint initiatives with international financial institutions, aimed at providing technical advice to member countries in order to strengthen their capabilities in the formulation and implementation of economic and financial policies and economic reforms.

Thus far, the Fund has offered technical assistance to the authorities of its member countries through two joint initiatives with the relevant international financial institutions, namely, the Arab Credit Reporting Initiative (ACRI) and the Arab Debt Markets Development Initiative (ADMDI). In addition, the Fund organized a group of workshops in collaboration with international financial institutions and Central Banks for senior officials of member countries to discuss the various issues and recent developments in finance and banking.

Regarding the Arab Credit Reporting Initiative (ACRI) which the Fund carries out in cooperation with the IFC, and aims at providing technical assistance for the development of credit information systems, the year 2010 witnessed noticeable activities within this initiative. The Fund sent joint missions to Oman, Palestine and Libya to deliver policy advice and recommendations in order to develop domestic credit reporting information systems.

As to the Arab Debt Markets Development Initiative (ADMDI), which the Fund carries out in cooperation with the IMF, it aims at assisting member countries develop legislation as well as policies and systems in the area of bonds market. During 2010, a joint mission visited the Kingdom of Bahrain and prepared a report which included an action plan with the prerequisites to develop a domestic bonds market. A total of three Arab countries benefited from this initiative, so far.

Moreover, in pursuing its endeavor to disseminate public awareness about economic and financial issues and developments, the Fund organized a number of workshops and conferences for senior policymakers. The Fund, in cooperation with the Central Bank of Germany, organized in February 2010, a specialized workshop on “International Reserves and World Currency Regimes” for senior officials from the Arab Central Banks. The workshop reviewed the measures taken by the Central Bank of Germany in response to the global financial crisis as well as the important policy changes made to mitigate world currencies instability.

In the same context, the Fund organized during 2010 a specialized workshop in cooperation with the World Bank, on “Enhancing the Infrastructure of Financial Sector in the Arab Countries”. The workshop discussed the needs and the requirements to develop the infrastructure of the financial and banking system and markets in the Arab countries, and the recent international experiences and practices in this field. The workshop also discussed issues related to the development of payments and settlement systems, credit information systems, bankruptcy regimes, secured lending and other policies aiming at modernizing the financial sector infrastructure.

In the framework of the AMF cooperation with the World Bank, the Fund held a regional conference during 2010 on “Arab Financial Flows in a Post-Global Financial Crisis”. The conference which was attended by the specialists from the central banks and monetary authorities, security commissions, and stock markets in the Arab countries, discussed the trends and movement of the flows of funds in the post-crisis as well as the challenges facing economic policies in this regard. The conference also addressed other issues pertaining to the necessary tools and mechanisms to collect statistics on intra-Arab financial flows.

Also, the AMF organized in 2010, in collaboration with both the Institute of Financial Stability (FSI) a subsidiary of the BIS, and the Institute of International Financial (IIF), a high level meeting on “The New Framework to Enforce the Banking Regulations and Financial Stability”. The meeting discussed the reform of the financial system in the post financial crisis, in light of the new international proposals for strengthening prudential and supervisory regulations of the banking system, in addition to the role of the Central Banks in achieving financial stability, including issues related to liquidity management and the implementation of the Basle Committee recommendations.

Finally, an agreement was reached with the IFC, in 2010, to set a new initiative for technical assistance on Secured Lending. This initiative aims at assisting financial and banking institutions to expand their loan activities to the private sector through assisting them in increasing the use of assets as collaterals for banking loans.

Arab Capital Markets

The AMF pursued in 2010 its efforts aiming at promoting the role of the Arab Capital Markets and rising awareness through the dissemination of relevant information and data about these markets.

To this effect, the AMF continued publishing on its website, on a daily basis, data related to the Arab Capital Markets, including the Fund's composite index that calculates the performance of these markets and economic developments associated with each market, as well as data on the capitalization and trading volumes.

In this context, it's worth mentioning that Damascus Stock Exchange (DSE) has joined the Fund's database in late 2010, bringing the number of markets participating in the database to sixteen. Work is also underway to complete the necessary procedures for the Libyan stock market to join the Arab capital markets database.

In parallel, the Fund continued, during 2010, to publish its quarterly bulletins on Arab capital markets. The number of bulletins published so far reached 63 publications. An effort was also made to improve theses bulletins by including additional information and data related to the markets’ performance, regulations and institutions. These bulletins presented all related developments and recent updates in the Arab capital markets’ activities. The data showed that the Arab Markets are recovering from the financial crisis, though this recovery remains at a slower pace than that of the developed and emerging capital markets.

On the other hand, the Fund has continued its efforts aimed at strengthening the cooperation with the Union of Arab Securities Commissions and the Union of Arab Stock Exchanges. In this connection, a number of meetings took place, involving discussions about the possibilities of developing joint activities and workshops on issues of mutual interest in support of the development of the Arab

Capital Markets. In this context, the Fund participated in the annual meeting of the Union of Arab Stock Exchanges that was held in Libya. The Fund presented a working paper in the forum that was held on the sideline of this meeting.

Moreover, to support the development of securities markets in its member countries, the Fund presented a comprehensive report to the Yemeni Authorities, concerning the setting-up of a securities commission in Yemen. In addition to that, the Fund organized a training session for officials from the Libyan Securities Market. Finally, the AMF has participated in the meeting held in Doha, which aimed at setting-up the so called “MENA Capital Markets Task Force” in line with the program of the Organization of Economic Cooperation and Development (OECD). The purpose of the task force is to assist in the development of effective legislation for capital markets in the Arab region.

Training

Training activity at the Economic Policy Institute (EPI) continued to be offered in 2010 to officials working at the minister of Finance, Economy and Planning as well as at Central Banks and Statistical Centers of the member countries.

The training courses, workshops and seminars that are organized by the Institute aim at achieving one of the Fund's goals, namely, to develop and enhance skills of officials working in Central Banks and finance ministries in the member countries in order to enable them to follow up the implementation of economic policies, in general, and the financial and monetary policies, in particular.

The number of activities organized by the Economic Policy Institute, including those in the AMF-IMF Regional Training Program and the workshops organized in collaboration with the World Bank and the World Trade Organization (WTO) reached 17 in 2010, benefiting 532 participants from member countries. The cumulative number of training activities delivered by EPI since its inception reached 220, bringing the total number of participants to 6,746.

EPI started its training activity in 2010, with a course jointly organized with the IMF institute, in Abu Dhabi, in the period of 10-21 January 2010, on **"Financial Programming and Macroeconomic Policies"**. This specialized course was delivered to officials from Iraq and aimed at deepening the participants' knowledge of the design and implementation of financial and economic policies and financial programming.

EPI also organized a joint training course with the IMF Institute on the topic of **"External Vulnerabilities"**, in Abu Dhabi during 24 January - 4 February 2010. The course provided the participants with a broad understanding of the external vulnerabilities by exposing the various analytical instruments and related policies. EPI also delivered a joint course with the IMF Institute on **"Macroeconomic Management and Financial Sector Issues"**, in Damascus, the Syrian Arab

Republic, during 7-18 February 2010. The course provided an understanding of cross-cutting issues of the financial sector with macroeconomic management for stability and growth, as well as the role of the financial sector in the economy, external debt sustainability, fiscal policy, inflation targeting and the other frameworks for monetary policy, the choice of exchange rates and international capital flows.

EPI delivered another training course in collaboration with the Islamic Research and Training Institute (IRTI) on **"Regulation and Supervision of Islamic Banks"**, in Abu Dhabi, during the period of 21-25 February 2010. This seminar aimed at providing the participants with the required tools for supervision and monitoring of Islamic banks in order to ensure the soundness and strengths of these banks.

In collaboration with the Institute of Financial Stability, a subsidiary of the BIS, EPI organized a seminar on **"Enhancing Basel II and Risk Management"**, held in Abu Dhabi during 2-4 March 2010. The aim of this seminar was for the participants to be informed of the recent developments in risk management practices and supervisory review. Light was also shed on the developments witnessed in financial markets in the post-crisis implications and the responses by the authorities to achieve and maintain financial stability.

In the framework of AMF-IMF Regional Training Program, EPI Organized during the period of 7-18 March 2010, a course on **"Macroeconomic Management and Fiscal Policy"**. This course aimed at deepening the participants' understanding of fiscal policy issues and their implementation for macroeconomic management.

EPI also organized a joint training course with the IMF Institute on **"Monetary and Financial Statistics"**, in Abu Dhabi, during the period of 21 March - 8 April 2010. The course aimed at assisting officials in the compilation of monetary and financial statistics in accordance with international best practices. The course material was based on the IMF Monetary and Financial Statistics Manual as well as the collection of statistics guide for the National Accounts System.

In collaboration with the WTO, EPI organized a course on **"Dispute Settlement Procedures and Practices for Arab and Middle Eastern Countries"**, in Abu Dhabi during the period of 26-29 April 2010. This course sheds light on the WTO dispute settlements mechanism as one of the pillars of the multilateral trading system and an important function of the WTO to contribute to the stability of the global economy.

EPI also organized a joint course with the IMF Institute on **"The Balance of Payments and International Investment Position Statistics"**, in Abu Dhabi, during the period of 2-13 May 2010. The course provided training on the methodology of collecting and classifying balance of payments and international investments statistics, based on the IMF Sixth Edition of the Balance of Payments and International Investment Position Manual.

EPI also delivered a joint course with the IMF Institute on **"Macroeconomic Diagnostics"**, in Abu Dhabi, during the period of 16-27 May 2010. The focus was on strengthening the ability of participants to prepare a county's macroeconomic outlook, emphasizing the practical tools for use in the day-to-day macroeconomic analysis.

The AMF Institute together with the IMF Institute also delivered a course on **"Government Financial Statistics (GFS)"**, in Abu Dhabi, during the period of 6-24 June 2010. The course focused on reviewing the conceptual framework of Government Financial Statistics (GFS), as presented in the IMF's revised Government Statistics Manual 2001.

EPI also organized a course with the IMF Institute on **"Financial Programming and Economic Policies"**, held in Beirut, Lebanon, during the period of 7-18 June 2010. The course aimed at providing the participants with the methodology to design and implement macroeconomic policies in light of the IMF experience in monitoring economic and financial developments and designing fiscal programs.

In collaboration with the WTO, EPI organized a course on **"Accession to the WTO"**, held in Abu Dhabi, during the period of 28-30 September 2010. The course shed light on recent developments in the global economic system as reflected in stagnant multilateral trade negotiations within the Doha Round as well as the return to protectionism in major trading countries during the global financial crisis. Such developments have threatened the international efforts to liberalize international trade.

EPI, in cooperation with the Islamic Research and Training Institute (IRTI), organized a course on **"Islamic Funding with Emphasis on Sukuk"**. The course took place in Abu Dhabi, during the period of 3-7 October 2010. The course presented an introduction to Sukuk and highlighted their importance as a financing instrument as well as their issuance procedures by financial institutions, especially, the Islamic financial institutions.

EPI also organized in Abu Dhabi a joint course with the IMF-Institute for the GCC countries on **"Definition and Computation of Core Inflation"**, during the period of 10-13 October 2010. The course aimed at familiarizing the participants with accurate techniques and methodologies in calculating core inflation.

EPI organized with the IMF Institute a joint course on **"Remittances Statistics"**, in Abu Dhabi during the period of 24-28 October 2010. The course provided participants with an understanding of the concepts and compilation practices of balance of payments data on remittances. The course also explained the newly developed standards for remittances statistics in line with international best practices as well as the development of a guideline in this regard.

In collaboration with the US Federal Reserve Board, EPI organized a course on **"The Advanced Management of Evaluating Credit Risks"**, held in Abu Dhabi, during the period of 12-16 December 2010. The course discussed various approaches in evaluating credit risk management.

The Board of Governors of Arab Central Banks and Monetary Agencies

The Fund continued to carry out the functions of the Secretariat of the Board of Governors of the Arab Central Banks and Monetary Agencies and its subsidiaries, namely, the Arab Committee on Banking Supervision (ACBS) and the Arab Committee on Payment and Securities Settlement Systems (ACPSS).

In this capacity, the Fund has been responsible for preparing studies and reports as well as the necessary documents and other logistics for the meetings of the Board of Governors and its permanent Bureau.

By the same token, the Fund also acts as a technical secretariat of both the ACBC whose members are the directors of banking supervision in the Arab Central Banks, and ACPSS whose members are the directors in charge of the payments and settlements systems in the Central Banks of Arab Countries.

The Fund, in its capacity as the Secretariat of the Board of Governors of the Arab Central Banks and Monetary Agencies, assumed the preparation for the annual meeting of the Permanent Bureau of the Board of Governors held at the Fund Headquarter, on 6 June 2010. In addition, the Fund undertook the technical and administrative preparations for the 34th Annual Meeting of the Board of Governors of Arab Central Banks and Monetary Agencies that took place in Tripoli, Libya, on 16 September 2010. The agenda meeting included various topics, chiefly the report of the Board's Secretariat, the preliminary (in limited circulation) Joint Arab Economic Report 2010 (JAER) and the proceedings of the 19th meeting of the Arab Committee and Banking Supervision (ACBS), which included a working paper on "Management of Liquidity Risk and Monitoring". Also, on the Agenda of the Board's 34th Meeting were the proceedings of the Sixth Meeting of the Arab Committee on Payments and Securities Settlement Systems, which included a paper on "The Framework for Linking National Payment Switches in Arab Countries".

The Board also discussed a feasibility study to set up a regional mechanism or arrangement to clear and settle intra-Arab payments, which was prepared by the Fund in collaboration with the World Bank. The Board of Governors of Arab Central Banks and Monetary Agencies instructed the Arab Committee on Payments and Settlement Systems to further examine all the issues raised by member countries to ensure that the necessary requirements are met in order to establish a successful intra-Arab payment mechanism, at a later stage.

The agenda of the 34th meeting of the Board of Governors also included a paper presented by H.E. the Governor of the Central Bank of Libya on the “Development of Monetary and Banking Policies in the Libyan Socialist Jamahiriya”. In addition the Board discussed a draft of the Joint Arab Speech to be delivered at the IMF and World Bank Annual meetings that took place in October 2010, in Washington D.C.

In its capacity as the Secretariat of the Arab Committee on Banking Supervision, the Fund organized the 20th Annual Meeting of the Committee, held in Abu Dhabi, in December 2010. The Committee discussed two working papers, the first on “The International Rules and Practices Governing Financial Compensations”, and the other “The General Principals of Credit Risk Management”. The Committee also dedicated a session of the meeting to discuss and exchange views on the measures and arrangements taken by the Arab countries in the post-global financial crisis. The Committee also welcomed to the meeting the deputy Secretary General of the Basel Committee for Banking Supervision at the BIS, who presented the latest developments of this international committee’s work as well as the recent issues related to the global financial stability.

The Fund, in its capacity as the Secretariat of the Arab Committee on Banking and Securities Settlement Systems, also organized the sixth annual meeting of this Committee during 2010. The agenda of the meeting included the discussion of a working paper titled “Framework for Integrating National Payment Switches among the Arab Countries”. Also the committee discussed a supplementary study prepared by the Fund on the project titled "The Establishment of a Regional Mechanism for clearing and settling intra-regional payments". The Committee welcomed to the meeting both the director of the Payments Systems Group at the World Bank who presented to the committee the latest developments of the Bank's program on payments systems, and the Secretary General of the International Committee for Payment and Settlement systems at the BIS, who also presented the recent developments of the International Committee's work related to the new principals of payments and settlement systems for equities.

The Council of Arab Ministers of Finance

The Fund organized the first meeting of the Board of Arab ministers of finance, on the side of the Annual joint meetings of Arab Financial Institutions, on April 7 2010, in Khartoum. The Board for which the Fund acts as its technical secretariat, discussed a number of issues including ways of enhancing the coordination of fiscal policies among Arab countries in order to overcome recent developments of the financial and economic crisis, and also the coordination of their positions at fora and international meetings, in addition to ways for increasing inter-Arab investments.

The Board also discussed a report prepared by the Fund on "The Financial Flows after the Financial Crisis", which addresses trends and development of financial flows to Arab countries since the advent of the global financial crisis and the areas which require further coordination and attention.

Cooperation with the Arab, Regional and International Organizations

The Fund continued during 2010 to promote and expand its cooperation and coordination efforts with other Arab organizations as well as regional and international organizations for the purpose of serving the interests of its member countries.

Arab and Regional Organizations

The Fund has continuously sought to strengthen its cooperation and coordination with various Arab regional institutions involved in the areas of its activity. These areas include among others, the preparation Joint Arab Economic Report (JAER), a flagship report which has been considered as an essential reference on economic developments in the Arab countries. The JAER is a model for the joint efforts between the Fund and other Arab regional institutions, namely, The Arab Fund for Economic and Social Development (AFESD), the Secretariat of the League of Arab States and the Organization of Arab Petroleum Exporting Countries (OAPEC). Within the framework of these joint efforts, the Fund contributes with writing a number of chapters, and has been also in charge of editing and publishing both the preliminary and final JAER Report, since 1980.

The preparation of the 2010 JAER involved sending questionnaires to member countries to obtain necessary statistical data from national sources and then processing the data received as well as organizing meetings with staff representatives of the institutions contributors in the writing of the JAER Report. A first meeting was held to coordinate the report statistics, during 25-27 April 2010. A second meeting to review the preliminary draft of the JAER was held during the period of 20-24 June 2010. The Fund edited the preliminary JAER Report (for limited circulation) by end of July 2010, and sent it out to the concerned authorities in member countries for comments. The latter was inserted in the final version of the JAER Report, which was published before the end of the year.

Another area of cooperation includes the participation of AMF staff in a number of regional conferences and meetings. In this context, The Fund participated in the conference for the launching of the book titled “The Monetary Unity and the Issue of Exchange Rates: Lessons for the Countries of the GCC”. The conference was organized by the Dubai Economic Council, in December 2010. The Fund also participated in the seminar on the “The Gulf Common Markets, from Cooperation to Integration”, which was organized by the UAE Ministry of Finance in collaboration with the Secretariat of the GCC, in Dubai, in November 2010. The Fund presented a paper to the seminar, titled “A Comparison between the Gulf Common Market and the European Common Market”. The Fund participated also in the conference titled “The Global Financial Crisis and its Implications on the Oil and Natural Gas Sector in The Arab Countries” which was organized by OAPEC, and took place in Damascus, Syrian Arab Republic, in November 2010. The Fund presented a paper to the conference, titled “The Implications of the Global Financial Crisis on the Fiscal Positions of Arab Oil and Natural Gas Exporting Countries (OAPEC)”.

The Fund was also represented in the launching of the Annual Report of the UAE External Financial Assistance, and also in the 67th regular meeting of the Coordination Committee of the Arab Financial Institutions which was held in Abu Dhabi. The Fund also participated in the Second meeting of the Development and Cooperation Institutions of Countries of the Islamic Conference.

Cooperation with International Organizations

The Fund continued during 2010 strengthening cooperation with international institutions, chiefly the IMF and the World Bank. The Fund participated in the Spring Meetings of the IMF and the World Bank, in April 2010, and attended as an observer the development Committee meeting as well as the G24 meeting. Moreover, the Fund held a series of side meetings with senior officials of the respective IMF and World Bank departments to exchange views and follow up on a number of joint activities and programs. The Fund also participated in the annual joint meetings of the two institutions which took place in Washington D.C., in October 2010. On this occasion, the Fund attended the Development Committee and the Group (24) meetings as well as the side meeting of the Arab regional Funds with the President of the World Bank, within the framework of Arab World Initiative. The Fund's delegation also met on the side of the annual meetings senior officials from the IMF, the World Bank and the IFC to explore ways to strengthen joint cooperation, initiatives and activities.

The Fund participated in the international conference for supervisors of banks which took place in Singapore, in September 2010, and organized by the BIS and the Basel Committee on banking supervision. The Fund also represented The Arab group in the meetings of regional committees that took place on the side of this conference. Note that this conference is held every two years to discuss the recent developments in banking supervision.

Likewise, the Fund participated during the period of 19-22 October 2010, in "The Global Payments Week" which has been organized by the World Bank every two years to discuss the most important and latest developments in the field of global payments and securities settlements. This meeting was attended by various department directors of payment systems in Central Banks worldwide. This was an occasion to present the most important policies taken by the different regional initiatives launched by various financial institutions such as the Arab Monetary Fund in collaboration with the World Bank, in order to make available technical assistance to central banks in the area of the payment systems development.

In addition, the Fund participated in the International Conference on Technical Cooperation, organized by the Central Bank of Germany, at the end of October 2010. The Fund presented a paper to the conference on its international activities with the international financial institutions and the world Central Banks.

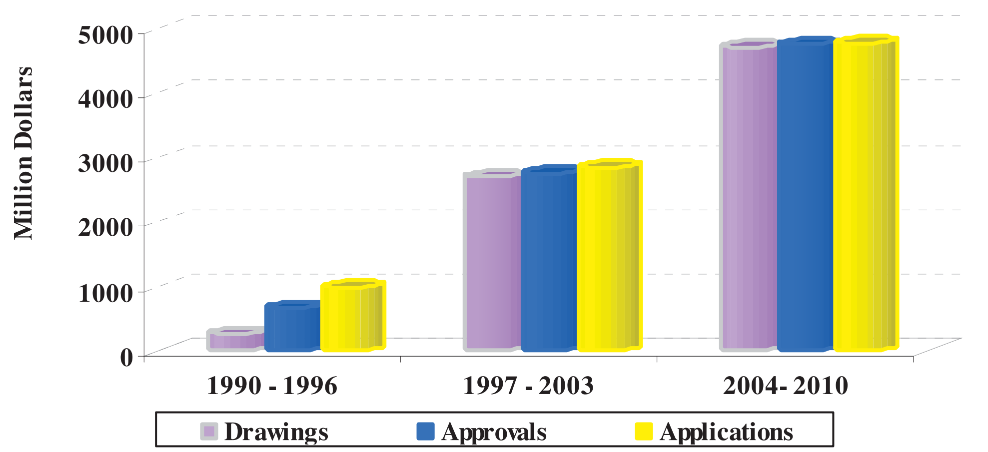
Finally, The Fund acceded as an observer to the MENA-FATF task force for the Middle East and North Africa region, and participated as such in the task force conference which was held in Qatar, at the end of November 2010.

Cooperation with the Arab Trade and Financing Program (ATFP)

The ATFP is a specialized joint Arab financial institution founded in 1989, under a decision from the Fund's Board of Governors. There are 50 national and regional financial and banking institutions participating in the ATFP capital of US$ 500 million. ATFP aims at promoting and developing inter-Arab trade and enhancing the competitive capability of Arab exporters, through extending part of the required financing for this trade and providing information about trading activities in Arab countries in order to promote goods of Arab origin. ATFP conducts its operations through lines of credit extended to the exporters and importers through national agencies appointed by the Arab countries for this purpose.

The increasing numbers of the National Agencies and their geographic spread have contributed to the expansion of ATFP scope of activities. In this respect, the number of national agencies reached 199 distributed in 19 Arab countries and five non-Arab countries, by the end of 2010. Since ATFP inception, the credit line applications reached US $8.58 billion financing transactions valued at US $10.72 billion. The ATFP also approved trade finance valued at US $8.15 billion of which US $7.65 billion were drawn, during the same period. Chart (2) shows the gradual expansion of ATFP's financing activity, in the period of 1990-2010.

Chart (2)
ATFP Evolving Trade Finance Activity (Cumulative Basis)
(1990 -2010)



Regarding the trade information services provided to traders in Arab countries, ATFP finished the construction of the Intra - Arab Information Network (IATIN), covering a total of 32 trade points that are presently linked to the network throughout the Arab countries. All trade information services provided by ATFP are now available on line, at <atfp.org.ae>.

Within its mandate to promote inter-Arab trade, the ATFP organizes also buyers and sellers meetings. Throughout the years, the ATFP organized in collaboration with other national commercial agencies in the Arab region a total of 17 meetings for the Arab exporters and importers in the following sectors: textile and ready made garments, foodstuffs, agricultural inputs, mining, pharmaceuticals, petrochemicals, furniture as well as building and construction.

Reports, Bulletins Research Studies

The Fund continued during 2010 to issue reports, bulletins, research and studies aimed to raise awareness of the current economic issues and developments witnessed in the economies of Arab countries..

The Joint Arab Economic Report

The Fund participates in chapters writing as well as edits the Joint Arab Economic Report (JAER). The Fund staff prepared the JAER Chapters on fiscal and monetary developments, foreign and inter-Arab trade, balance of payments, external public debt, and Arab exchange rate developments, in addition to the topical Chapter in the JAER 2010, titled “Impacts of the Financial Crisis on the Economies of the Arab Countries”.

Financial Markets Bulletin

The Fund publishes the Quarterly Financial Markets Bulletin which provides current and periodic information and data activities of Arab Capital Markets participating in the Fund’s Arab Capital Market Data Base (AMDB). The Bulletin currently covers the activities of the sixteen participating financial markets, namely, Jordan, Bahrain, Tunisia, Saudi Arabia, Oman, Kuwait, Lebanon, Egypt, Morocco, Doha, Abu Dhabi, Dubai, Sudan, Algeria, Palestine and Damascus.

Statistical Bulletin for the Arab Countries

The Fund published in 2010 a series of periodical statistical bulletins on various economic sectors, in accordance with the international standards and methodologies. In order to maximize the benefits from these bulletins, the series were compiled in a publication covering different economic sectors in the Arab countries, and collected mostly from national sources and from other regional and international sources. These publications are issued as statistical chapters covering national accounts of Arab countries, exchange rates, money and credit, foreign trade, balance of payments and public finance, in addition to a statistical chapter highlighting various developments in the economic sectors of the Arab countries as a group and individually.

Research and Studies

The Fund published in 2010, the following papers:

"Fiscal and Monetary Stimulus in Arab Countries during the Global Financial Crisis and their Impacts on Fiscal Reforms", this paper discusses the efforts that Arab countries undertook to mitigate the negative impact of the financial crisis, concentrating on the government spending and tax policies, in addition to the monetary policy and the liquidity provisioning. The paper also examines the fiscal implications of these efforts on the fiscal reform programs that the Arab countries have adopted in the past years.

"The Private Sector and Economic Policies in the United Arab Emirates", The paper examines the role that the private sector plays in diversification and the strengthening of economic stability in the UAE. The paper also touches upon the role of the adopted economic policies in promoting the business environment. The paper also examines the challenges faced by the UAE authorities in their efforts to create a more conducive business climate to better business environment.

"Public Finance Reform Programs in the Arab Countries – Efforts and Challenges", this paper reviews the efforts taken by Arab countries to develop budget preparation and execution processes, within the framework of public finance reforms which have been adopted by a number of Arab countries during the past years. This paper also examines the various challenges facing public finance reforms, taking into consideration the priority reforms that are necessary in the face of the global economic crisis.

"Traditional and Contemporary Concepts in Public Finance Management", this paper reviews the main principles of sound public finance management within the traditional framework. The paper also explores recent developments in public finance management that led to the emergence of new concepts in public finance management. It also provides some insights on the institutional arrangements needed to create an efficient and sound fiscal system that is capable of realizing national objectives.

"The Implications of the Global Financial Crisis on the Fiscal Positions of Arab Oil and Natural Gas Exporting Countries", this paper discusses the implications of the crisis on Arab economies by singling out the channels of impacts on both revenues and expenditure sides, in order to better understand the impacts of the financial crisis on the current and overall positions of the government budgets of the Arab countries.

"Global Financial Crisis and its Channels of Impact on the Economies of Arab Countries", this study classifies the Arab countries into three groups with economic similarities, and explores the major channels through which the crisis affected the economy of each of these groups. The study then, carries out a general evaluation of the various policy lessons drawn from the Arab countries experiences in overcoming the crisis.

"Comparison between the Gulf Common Market and the European Common Market", this paper presents an analysis of the experience of the GCC countries in its path to achieving the Gulf Common Market. Afterwards, the paper carries out a comparative analysis of the similarities and dissimilarities with the European Common Market. The paper then highlights the basic conditions for the successful experience of the European Common Market, and how it could benefit the Gulf Common Market in strengthening and deepening the integration of the GCC.

"Recent Trends in Financial Flows of Arab Countries in Light of the Global Financial Crisis", this paper discusses the financial flows to Arab countries and the changes undergone in light of the global financial crisis, and the lessons drawn in the areas of effective economic policies.

Consolidated Financial Position

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

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

The consolidated financial statements reflect the consolidated financial position of the Fund and its Subsidiary as at 31 December 2010, and the results of operations, changes in equity and cash flows for the year then ended.

The following provides an overview of key financial information:

Resources

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

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

Capital

The authorized capital of the Fund as defined in Article Twelve of the Articles of Agreement is equivalent to AAD 600,000 thousand divided into twelve thousand shares of AAD 50 thousand each. The Subscribed Capital until the Board of Governors meeting on 12th April 2005 was AAD 326,500 thousand. In the aforementioned meeting the Board approved by its resolution No. (3) additional subscriptions of AAD 273,500 thousand, raising accordingly the subscribed capital to the full extent of the authorized capital of AAD 600,000 thousand. The additional subscriptions were covered by a transfer from the general reserve, bringing the paid-up capital to AAD 596,040 thousand by the end of 2010 and 2009. The unpaid part of the Subscribed Capital amounting to AAD 3,960 thousand represents Palestine’s share, the payment of which has been deferred in accordance with the Board of Governor’s Resolution No. (7) of 1978.

Reserves

Reserves amounted to AAD 362,081 thousand at the end of 2010 compared to AAD 330,415 thousand at the end of 2009. The reserves at the end of 2010 represent approximately 61 percent of the paid up capital compared to 55 percent by the end of year 2009. These are composed of the general reserve, contingency reserve and the reserve for revaluation at fair value for available -for- sale investments.

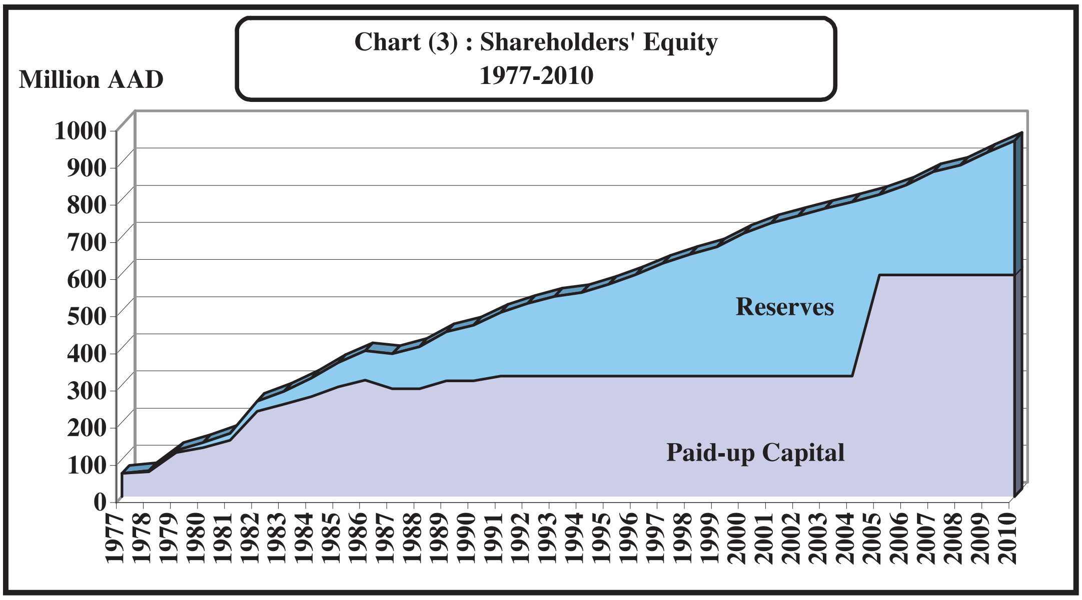
The **general reserve** balance reached AAD 229,379 thousand at the end of 2010 compared to 206,170 thousand at the end of 2009, with an increase of AAD 23,209 thousand the equivalent of 11 percent.

The **contingency reserve** was established in accordance with the Board of Governors' resolutions No. (7) of 1989 and No. (4) of 2000, whereby an annual sum being the greater of AAD 5,000 thousand or 10 percent of the net income for the year is appropriated to the contingency reserve each year. This reserve is to be used to mitigate any unforeseen losses in the future. The contingency reserve balance reached AAD 135,000 thousand at the end of 2010, compared to AAD 130,000 thousand at the end of 2009.

The **revaluation reserve** of available-for-sale investments showed a debit balance of AAD (2,298) thousand at the end of 2010 compared to a debit balance of AAD (5,755) thousand at the end of 2009.

Shareholders' Equity

The net equity of the Fund's shareholders, represented by the paid-up capital and reserves, increased to AAD 958,121 thousand at the end of 2010 compared to AAD 926,455 thousand at 31 December 2009. The increase in net equity amounting to AAD 31,666 thousand represents an annual growth rate of 3 percent. Chart No. (3) below shows the growth in shareholders' equity of the Fund from inception to 31 December 2010:



The interest of **other shareholders in the Subsidiary,** represented by their interest in the capital and reserves of the Arab Trade Financing Program, amounted to AAD 75,855 thousand at the end of 2010 compared to AAD 73,588 thousand at the end of 2009, resulting in an increase of AAD 2,267 thousand, or 3.08 percent, which is attributed mainly to the differences in US Dollar exchange rate (base currency of the Arab Trade Financing Program) vis-à-vis the AAD as at end of 2010 and 2009, in addition to the change in their percentage share.

The total equity of the shareholders of the Arab Monetary Fund and other shareholders in the Subsidiary amounted to 1,033,976 thousand at the end of year 2010 compared to AAD 1,000,043 thousand at end of 2009. The resources, which are represented by total equity, were employed to finance loans to member countries, lines of credit to national agencies, and other assets as explained below.

Loans to Member Countries

The balance of outstanding loans to member countries as at 31 December 2010 amounted to AAD 356,614 thousand compared to AAD 318,273 thousand as at the end of 2009. Loan commitments however, amounted to AAD 418,104 thousand at the end of 2010, comprising the balance of outstanding loans in addition to the balance of approved and undisbursed loans of AAD 61,490 thousand as at the end of 2010.

Lines of Credit

Financing aimed at promoting and developing Arab trade is provided in the form of lines of credit by the Subsidiary (Arab Trade Financing Program) to exporters and importers in member countries through national agencies. The balance of drawings against contracted lines of credit denominated in US Dollars amounted to AAD 114,905 thousand (US Dollars 533 million) as at 31 December 2010 compared to AAD 108,886 thousand (US Dollars 512 million) at the end of 2009.

Deposits at Central Banks of Member States

In accordance with Article Fourteen of the Articles of Agreement of the Arab Monetary Fund, a portion of the initial capital contributions amounting to 2 percent was paid in the national currencies of member countries and deposited with their central banks. These deposits are revalued by the member states at end of each year to maintain their value in Arab Accounting Dinars, which was equivalent to AAD 5,336 thousand at end of years 2010 and 2009.

Other Assets

Other assets include the Fund’s contribution in the share capital of inter-Arab Investment Guarantee Corporation in accordance with the Board of Governors resolution No. (6) of 2002, whereby the Board approved a contribution of US Dollars 27.5 million (equivalent to AAD 6.3 million) in the increase of share capital of the corporation, payable over a period of five years starting from year 2003. The total amount of contribution has been paid.

Investments

The consolidated investment portfolio is comprised of the current and call accounts with banks and the International Monetary Fund, time deposits with banks and financial investments, net of the accepted time deposits from monetary and financial institutions. The consolidated investment portfolio amounted to AAD 638,285 thousand at 31 December 2010 compared to AAD 640,077 thousand at 31 December 2009.

Results of Operations

Consolidated net income for the year ended 31 December 2010, after taking into consideration the interest of other shareholders in the Subsidiary, amounted to AAD 31,715 thousand compared to AAD 35,062 thousand at 31 December 2009. 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 2010, (net of interest paid on accepted deposits from monetary and financial institutions of member states), amounted to AAD 37,499 thousand compared to AAD 40,945 thousand, at 31 December 2009.

Expenditure

The total consolidated expenditure for the year ended 31 December 2010 amounted to AAD 4,766 thousand compared to AAD 4,720 thousand for the previous year. The total consolidated expenditure components include, in addition to administration and general expenses, technical assistance expenses, contribution to the international initiative to support Highly Indebted Poor Countries (HIPC) and grants associated with loans.

For the year ended 31 December 2010, technical assistance to member countries amounted to AAD 335 thousand compared to AAD 367 thousand in 2009. Contribution to HIPC initiative and grants associated with loans amounted to AAD 356 thousand in 2010 compared to AAD 404 in 2009.

Currencies

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

The table below shows the weights of the currencies of the SDR basket at the end of years 2010 and 2009, together with the SDR exchange rates against those currencies at the end of those years, and also their weights in effect, as of 01 January 2011.

Currency	The Weights of the Currencies of SDR Basket			SDR Exchange Rates Against the Currencies of the Basket	
	01 January 2011	31 December 2010	31 December 2009	31 December 2010	31 December 2009
US Dollar	42.70%	40.85%	40.31%	1.547	1.568
Euro	36.58%	35.47%	37.66%	1.156	1.089
Pound Sterling	11.12%	9.06%	9.33%	0.996	0.968
Japanese Yen	9.60%	14.62%	12.70%	125.850	144.886
	100.00%	100.00%	100.00%		

Consolidated Financial Statements & the Auditors' Report

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements from pages 2 to 19 of the Arab Monetary Fund ('the Fund') and the Arab Trade Financing Program ('the Subsidiary'), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of income, comprehensive income and changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund and the Subsidiary as of 31 December 2010 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

Ernst & Young
3 March 2011
Abu Dhabi

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2010

	Notes	*2010* *AAD 000*	*2009* *AAD 000*
Assets			
Deposits with banks, current and call accounts		**1,555,947**	1,706,966
Financial investments	3	**1,059,124**	882,405
Deposits with central banks of member countries	4	**5,336**	5,336
Lines of credit	5	**114,905**	108,886
Loans to member countries	6	**356,614**	318,273
Accounts receivable and other assets	7	**23,336**	21,021
Total assets		**3,115,262**	3,042,887
Equity and Liabilities			
Equity			
Authorised and subscribed capital		**600,000**	600,000
Paid-up capital	8	**596,040**	596,040
Reserves	9	**362,081**	330,415
Total equity		**958,121**	926,455
Interest of other shareholders in the Subsidiary	10	**75,855**	73,588
Liabilities			
Deposits from Arab monetary and financial institutions	11	**1,976,786**	1,949,294
Accounts payable and other liabilities	12	**104,500**	93,550
Total liabilities		**2,081,286**	2,042,844
Total equity and liabilities		**3,115,262**	3,042,887

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

These consolidated financial statements were approved by the Board of Executive Directors on 3 March 2011.

The attached notes from 1 to 22 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2010

	Notes	**2010 AAD 000**	*2009 AAD 000*
Income			
Interest and fee income on loans to member countries		**10,796**	11,168
Interest and fee income on lines of credit		**1,493**	1,902
Investment income	13	**14,535**	15,925
Interest income on deposits and current and call accounts		**19,321**	23,525
Other income		**331**	362
		46,476	52,882
Interest expense on accepted deposits from Arab monetary and financial institutions		**(8,977)**	(11,937)
		37,499	40,945
Expenses			
Administration and general	15	**4,075**	3,949
Technical assistance	16	**335**	367
Contribution to HIPC	17	**356**	404
		4,766	4,720
Net income before the interest of other shareholders in the Subsidiary		**32,733**	36,225
Interest of other shareholders in the Subsidiary		**(1,018)**	(1,163)
Net Income		**31,715**	35,062

The attached notes from 1 to 22 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY
For the year ended 31 December 2010

	Paid-up capital	*General reserve*	*Contingency reserve*	*Available for sale investments revaluation reserve*	*Total*
			AAD 000		
2009					
Comprehensive Income					
Net income for the year 2009	-	35,062	-	-	35,062
Unrealized changes in values of available-for-sale investments excluding amounts attributable to other shareholders in the Subsidiary	-	-	-	2,602	2,602
Net Comprehensive Income	**-**	**35,062**	**-**	**2,602**	**37,664**
Changes in enquity					
Balance at 1 January 2009	596,040	179,126	125,000	(8,357)	891,809
Transfer to contingency reserve	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (7th)	-	(3,018)	-	-	(3,018)
Balance at 31 December 2009	**596,040**	**206,170**	**130,000**	**(5,755)**	**926,455**
2010					
Comprehensive Income					
Net income for the year 2010	-	31,715	-	-	31,715
Unrealized changes in values of available-for-sale investments excluding amounts attributable to other shareholders in the Subsidiary	-	-	-	3,457	3,457
Net Comprehensive Income	**-**	**31,715**	**-**	**3,457**	**35,172**
Changes in enquity					
Balance at 1 January 2010	596,040	206,170	130,000	(5,755)	926,455
Transfer to contingency reserve	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (8th)	-	(3,506)	-	-	(3,506)
Balance at 31 December 2010	**596,040**	**229,379**	**135,000**	**(2,298)**	**958,121**

The attached notes from 1 to 22 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	Note	*2010* *AAD 000*	*2009* *AAD 000*
Operating activities			
Net income for the year		**31,715**	35,062
Adjustments for:			
Depreciation of fixed assets		**97**	72
Changes in interests of other shareholders in the Subsidiary		**2,758**	567
		34,570	35,701
Loans drawings		**(67,776)**	(96,687)
Loans repayments		**29,435**	29,524
Change in lines of credit		**(6,019)**	(18,932)
Change in accounts receivable and other assets		**(2,300)**	10,369
Change in accounts payable and other liabilities		**8,900**	(5,537)
Change in deposits with banks maturing after six months from the date of the statement of financial position		**6,426**	(52,795)
Change in deposits from monetary and financial institutions		**27,492**	730,172
Net cash from operating activities		**30,728**	631,815
Investing activities			
Purchase of fixed assets		**(112)**	(58)
Change in investments in alternative strategies funds		**4,257**	9,897
Change in available for sale securities		**(7,297)**	31,445
Change in held-to-maturity securities		**(170,222)**	(240,415)
Net cash used in investing activities		**(173,374)**	(199,131)
Financing activities			
Dividends paid to other shareholders in the Subsidiary		**(491)**	(703)
Appropriation paid to support Palestinian People		**(1,456)**	(1,543)
Net cash used in financing activities		**(1,947)**	(2,246)
Net (decrease) increase in cash and cash equivalents		**(144,593)**	430,438
Cash and cash equivalents at beginning of year		**1,589,004**	1,158,566
Cash and cash equivalents at end of year	19	**1,444,411**	1,589,004

The attached notes from 1 to 22 form part of these consolidated financial statements.
The independent auditors' report is set out on page 1.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

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. With the participation of the Republic of Djibouti in 1996 and the Union of Comoros in 1999, the Fund membership increased to include all the Arab countries members in the League of Arab States. The Fund is situated in Abu Dhabi, United Arab Emirates (P O Box 2818, Abu Dhabi, United Arab Emirates).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Arab Monetary Fund (the "Fund") and Arab Trade Financing Program (the "Subsidiary") in which the Fund owns more than 50% of its subscribed and fully paid up capital as of 31 December 2010 and 2009 as explained in note 10. The Subsidiary was established in accordance with resolution No (4) of 1989 by the Board of Governors of the Arab Monetary Fund with the aim of promoting and developing intra-Arab trade by providing the necessary financing in the form of lines of credit to Arab exporters and importers in member countries. The Subsidiary has its headquarters in Abu Dhabi, United Arab Emirates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES continued

(c) Financial instruments: recognition and measurement

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

i Initial recognition

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

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

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

iii Financial investments – at fair value through income statement.

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

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

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

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

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

v Loans and receivables

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

Fixed assets are recorded at historical rates of exchange.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES continued

(f) Depreciation of fixed assets

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

(g) Pension obligations and employees' terminal benefits

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

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

(h) Revenue recognition

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

(i) Cash and cash equivalents

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

3 FINANCIAL INVESTMENTS

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

	2010	*2009*
	AAD 000	*AAD 000*
Investments at fair value through reserves:		
Investment in alternative strategies funds	**40,495**	41,444
Available-for-sale securities	**53,519**	46,073
	94,014	87,517
Held-to-maturity securities (at amortised cost)	**965,110**	794,888
Total financial investments	**1,059,124**	882,405

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

3 FINANCIAL INVESTMENTS continued

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

	2010 ***AAD 000***	*2009* *AAD 000*
Investments in alternative strategies funds	**(2,213)**	(5,521)
Investment in securities	**(85)**	(234)
	(2,298)	(5,755)

Value of held-to-maturity financial investments

The market value of the held-to-maturity investments at 31 December 2010 was AAD 964,752 thousand (2009: AAD thousand 792,428).

4 DEPOSITS WITH CENTRAL BANKS

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

5 LINES OF CREDIT

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

	2010 ***AAD 000***	*2009* *AAD 000*
Balance at 1 January	**108,886**	89,954
Drawings during the year	**160,438**	164,993
	269,324	254,947
Repayments during the year	**(155,860)**	(144,487)
Differences in translation to AAD	**1,441**	(1,574)
Balance at 31 December	**114,905**	108,886

The unutilised balances of lines of credit and allocations as at 31 December 2010 amounted to AAD 625 thousand (2009: AAD 8 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

6 LOANS TO MEMBER COUNTRIES

	2010	*2009*
	AAD 000	*AAD 000*
Balance at 1 January	**318,273**	251,110
Drawings during the year	**67,776**	96,687
Repayments during the year	**(29,435)**	(29,524)
Balance at 31 December	**356,614**	318,273

Loans to member countries at 31 December 2010 include over one year principal amounts overdue and not received of AAD thousand 14,876 (*2009: AAD thousand 14,876*). In this regard, the Board of Governors' resolution number (6) of 1995 extended the suspension of the membership of the defaulting countries concerned until agreements are reached to resolve the issue of overdue amounts.

Loans to member countries include capitalisation of the balance of unrealised interest to restructure the debt position of two of the member countries. Whereas the debt position of one of them has been re-organised in accordance with the rescheduling agreement dated 24 March 2004. In addition, a re-organisation of the other member country took place in accordance with the rescheduling agreement dated 14 June 2009. The fund follows a policy of recognizing capitalized interest proportionately with the rescheduled debt repayments. Therefore, the balance of unrealised capitalised interest is included in accounts payable and other liabilities as deferred income, and gradually amortized to the consolidated income statement proportionately with the debt repayments. The balance of unrealized capitalized interest as at 31 December 2010 amounted to AAD 76,114 thousand (2009: AAD 78,341 thousand).

The undisbursed balance of the contracted loans at 31 December 2010 amounted to AAD thousand 61,490 (2009: AAD thousand 34,398).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2010	*2009*
	AAD 000	*AAD 000*
Total interest receivable	**98,084**	95,663
Deduct: Interest set-aside in accordance with rescheduling agreements	**(45,611)**	(45,611)
Overdue interest receivable on loans from member Countries	**(40,972)**	(39,392)
	11,501	10,660
Contribution in Inter-Arab Investment Guarantee Corporation	**6,232**	6,018
Fixed assets	**274**	259
Other debit balances	**5,329**	4,084
	23,336	21,021

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

8 PAID-UP CAPITAL

	2010	*2009*
	AAD 000	*AAD 000*
Capital subscribed and called (12,000 shares of AAD 50,000 each)	**600,000**	600,000
Unpaid capital	**(3,960)**	(3,960)
Capital paid-up	**596,040**	596,040

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

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.

The general reserve at 31 December 2010 includes AAD 39,511 thousand (2009: AAD 38,849 thousand) being the Fund's share of reserves of the Subsidiary.

The Board of Governors approved through resolution number (5) of 2010, the 8th appropriation of 10% of 2009 net income as a contribution towards the efforts exerted to support the Palestinian people. The appropriation amounted to AAD thousand 3,506. The Board of Governors had also approved through resolution number (6) of 2009, the 7th appropriation of 10% of 2008 net income for the same purpose. The appropriation amounted to AAD thousand 3,018.

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

10 INTEREST OF OTHER SHAREHOLDERS IN THE SUBSIDIARY

Interest of other shareholder in the Subsidiary comprises minority shareholders interest in the net assets of the Subsidiary (Arab Trade Financing Program) at the statement of financial position date. Their interest is denominated in US dollars, being the base currency of the Subsidiary, and their ownership on 31 December 2010 is 44.36% and on 31 December 2009 was 44.31%.

	2010	*2009*
	USD 000	*USD 000*
Owners' equity in the Subsidiary:		
- Paid up capital at end of year	**492,575**	492,075
- Reserves at end of year	**290,621**	276,976
- Net income for the year	**10,490**	12,078
Total owners' equity of the Subsidiary	**793,686**	781,129
The percentage of other shareholders interest in the Subsidiary	**44.36%**	44.31%
The value of other shareholders interest in the Subsidiary, in base currency of the Subsidiary	**352,096**	346,086

	2010	*2009*
	AAD 000	*AAD 000*
The value of other shareholders interest in the Subsidiary in the base currency of the Fund - AAD	**75,855**	73,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

11 DEPOSITS FROM MONETARY AND FINANCIAL INSTITUTIONS

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

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2010	*2009*
	AAD 000	*AAD 000*
Unrealised capitalised interest	**76,114**	78,341
Investments transactions payable and repurchase agreements	**14,258**	6,439
Accrued interest payable	**784**	1,062
Other credit balances	**13,344**	7,708
	104,500	93,550

13 INVESTMENT INCOME

	2010	*2009*
	AAD 000	*AAD 000*
Investment in alternative strategies funds (at fair value through equity)	**(2,016)**	(2,224)
Available-for-sale securities (at fair value through equity)	**1,426**	3,629
Held-to-maturity securities (at amortised cost)	**15,125**	14,520
	14,535	15,925

14 FINANCIAL DERIVATIVES

The Fund, in accordance with its investment guidelines and within the limits specified in its investment policy, hedges for its deposits and financial investments denominated in foreign currencies against exchange risk by using financial derivatives represented by foreign currency forward contracts.

15 ADMINISTRATION AND GENERAL EXPENSES

Administration and general expenses for the year ended 31 December 2010 include Board of Directors remuneration and employees salaries and benefits amounting to AAD 3,332 thousand (2009: AAD 3,255 thousand). The Fund and its Subsidiary employed 178 employees as of 31 December 2010 (2009: 181 employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

16 TECHNICAL ASSISTANCE EXPENSES

	2010	*2009*
	AAD 000	*AAD 000*
Training courses and seminars	**246**	262
Direct technical assistance to member Countries	**89**	105
	335	367

17 CONTRIBUTION TO HIPC

The Board of Governors approved through resolution No (1) for 2003, the Fund's participation in the Highly Indebted Poor Countries' initiative (HIPC) concerning the Islamic Republic of Mauritania. As part of the same initiative, the Fund extended to Mauritania in 2005 an extended loan with concessional terms which include relief from interest instalments when due, in addition to a portion of the final instalment of the loan. The relief from interest is charged to the income statement on the accrual basis.

	2010	*2009*
	AAD 000	*AAD 000*
Cumulative balance of debt reliefs up-to 31 December	**4,694**	4,338
Cumulative balance of debt reliefs at beginning of year	**(4,338)**	(3,934)
Debt reliefs recognised in the income statement for the year	**356**	404

18 MANAGED FUNDS

The Fund and the Subsidiary assigned a part of their investment portfolios for management to a number of specialised external fund managers for agreed fees in accordance with respective fund management agreements. Managed funds amounted to AAD 88,876 thousand as at 31 December 2010 (2009: AAD 88,919 thousand).

Funds managed by the Arab Monetary Fund for Arab countries and Arab Specialised Organisations amounted to AAD 13,409 thousand as at 31 December 2010 (2009: AAD 80,041 thousand).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

19 CASH AND CASH EQUIVALENTS

	2010	*2009*
	AAD 000	*AAD 000*
Current and call accounts with banks and International Monetary Fund	**2,740**	3,774
Deposits with banks	**1,553,207**	1,703,192
Less: deposits maturing after six months from the statement of financial position date	**(111,536)**	(117,962)
	1,444,411	1,589,004

20 GEOGRAPHICAL DISTRIBUTION OF INVESTMENT PORTFOLIO

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

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

	2010	*2009*
	AAD 000	*AAD 000*
Arab countries	**932,697**	932,894
Europe	**1,102,323**	1,218,896
North America and Canada	**121,200**	145,057
Far East and Pacific	**425,993**	278,651
Supra National Organisations	**32,858**	13,873
	2,617,071	2,589,371

21 PENSION OBLIGATIONS

An actuarial valuation of the Fund's obligations toward employees covered under the pension plan was carried out as at 31 December 2008. The actuary's report estimated the present value of promised retirement benefits (the value of the liabilities in respect of service up to the valuation date) to be UAE Dirhams thousand 64,114 (AAD thousand 3,778). Based on the assumptions made in the actuaries' report, the book value of the pension fund's assets of UAE Dirhams thousand 64,716 (AAD thousand 3,813) as at the valuation date exceeded the present value of post retirement benefits in respect of the service up to the valuation date by UAE Dirhams thousand 602 (AAD thousand 35). In accordance with the policies followed by the Fund, an actuarial valuation of the Fund's obligations is carried out every three years.

The amount of pension contribution recognised as an expense in the financial statements of the Fund for the year ended 31 December 2010 amounted to AAD 91 thousand (2009: AAD 22 thousand).

Funds managed by the Arab Monetary Fund for the Fund's pension plan amounted to UAE Dirhams thousand 65,082 (AAD thousand 3,818) as at 31 December 2010 (2009: UAE Dirhams thousand 64,248 (AAD 3,951 thousand)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

22 FINANCIAL INSTRUMENTS

(a) Maturities of assets and liabilities- 31 December 2010

Maturity analysis of the consolidated assets and liabilities for each class as at 31 December 2010 were as follows:

	Total	*Less than 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*	*Unspecified maturity*
			AAD 000			
Assets						
Current and call accounts with banks & IMF	2,740	2,740	-	-	-	-
Deposits with banks	1,553,207	1,441,671	111,536	-	-	-
Available- for-sale securities	53,519	53,519	-	-	-	-
Alternative strategies funds	40,495	-	67	8,656	-	31,772
Held-to-maturity securities	965,110	428,676	184,680	325,844	25,910	-
Deposits with central banks	5,336	-	-	-	-	5,336
Lines of credit	114,905	85,054	22,289	7,562	-	-
Loans to member countries	356,614	27,923	32,607	129,225	151,982	14,877
Accounts receivable and other assets	23,336	13,038	1,110	-	-	9,188
	3,115,262	**2,052,621**	**352,289**	**471,287**	**177,892**	**61,173**
Equity and liabilities						
Interest of other shareholders in the Subsidiary	75,855	-	-	-	-	75,855
Deposits from monetary and financial institutions	1,976,786	1,963,859	12,927	-	-	-
Accounts payable and other liabilities	104,500	28,548	31	-	-	75,921
	2,157,141	**1,992,407**	**12,958**	**-**	**-**	**151,776**

Maturities of assets and liabilities- 31 December 2009

Maturity analysis of the consolidated assets and liabilities for each class as at 31 December 2009 were as follows:

	Total	*Less than 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*	*Unspecified maturity*
			AAD 000			
Assets						
Current and call accounts with banks & IMF	3,774	3,774	-	-	-	-
Deposits with banks	1,703,192	1,585,230	117,962	-	-	-
Available- for-sale securities	46,073	46,073	-	-	-	-
Alternative strategies funds	41,444	-	-	-	-	41,444
Held-to-maturity securities	794,888	395,395	107,503	264,254	27,736	-
Deposits with central banks	5,336	-	-	-	-	5,336
Lines of credit	108,886	80,417	16,559	11,910	-	-
Loans to member countries	318,273	12,541	15,259	124,581	151,016	14,876
Accounts receivable and other assets	21,021	13,006	1,275	-	-	6,740
	3,042,887	**2,136,436**	**258,558**	**400,745**	**178,752**	**68,396**
Equity and liabilities						
Interest of other shareholders in the Subsidiary	73,588	-	-	-	-	73,588
Deposits from monetary and financial institutions	1,949,294	1,944,292	5,002	-	-	-
Accounts payable and other liabilities	93,550	7,440	7	-	78,340	7,763
	2,116,432	**1,951,732**	**5,009**	**-**	**78,340**	**81,351**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

22 FINANCIAL INSTRUMENTS continued

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

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

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

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

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

	Change in basis points	***2010 AAD 000***	*2009 AAD 000*
Effect on Owners' equity	25+	**(235)**	(219)
	25-	**235**	219
Effect on Consolidated income statement	25+	**1,350**	1,252
	25-	**(1,350)**	(1,252)

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

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

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

Forward foreign exchange contracts entered into and outstanding at 31 December 2010 amounted to AAD 568,866 thousand (2009: AAD 245,136 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

22 FINANCIAL INSTRUMENTS continued

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

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

Loans Appendices

Appendix (A-1)

Loans Extended to Member States
1978 - 2010

(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**

Appendix (A-1)

Loans Extended to Member States
1978 - 2010

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
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**
1986	54	Yemen	3,675							
	55	Morocco	1,875							
	56	Syria	2,940							
	57	Syria	2,400							
	58	Morocco		6,250						
	59	Morocco					2,500			
	60	Mauritania			3,250					
	61	Mauritania	1,500							
	62	Tunisia	3,675							
	63	Jordan	3,990							
	64	Tunisia	1,500							
			21,555	**6,250**	**3,250**	**0**	**2,500**	**0**	**0**	**33,555**
1987	65	Tunisia					3,450			
	66	Yemen		2,500						
	67	Iraq					18,620			
			0	**2,500**	**0**	**0**	**22,070**	**0**	**0**	**24,570**
1988	68	Morocco	1,875							
	69	Yemen	3,690							
	70	Jordan					1,960			
	71	Morocco	7,350							
	72	Algeria					18,620			
	73	Mauritania				2,460				
	74	Yemen		6,150						
	75	Egypt	4,687							
	76	Yemen	3,975							
	77	Mauritania	2,190							
	78	Yemen					5,100			
	79	Syria		8,200						
	80	Algeria	27,930							
	81	Iraq	27,930							
			79,627	**14,350**	**0**	**2,460**	**25,680**	**0**	**0**	**122,117**

Appendix (A-1)

Loans Extended to Member States
1978 - 2010

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
1989	82	Iraq	3,300							
	83	Jordan		5,320						
	84	Egypt	5,250							
	85	Morocco			17,150					
	86	Algeria		41,640						
			8,550	**46,960**	**17,150**	**0**	**0**	**0**	**0**	**72,660**
1990	87	Mauritania			9,050					
	88	Egypt				6,625				
			0	**0**	**9,050**	**6,625**	**0**	**0**	**0**	**15,675**
1991										
1992	89	Morocco			14,800					
	90	Tunisia	3,675							
			3,675	**0**	**14,800**	**0**	**0**	**0**	**0**	**18,475**
1993	91	Mauritania			3,250					
			0	**0**	**3,250**	**0**	**0**		**0**	**3,250**
1994	92	Yemen	11,340							
	93	Mauritania				2,460				
	94	Jordan			7,980					
	95	Algeria			29,150					
			11,340	**0**	**37,130**	**2,460**	**0**	**0**	**0**	**50,930**
1995	96	Yemen		15,120						
	97	Tunisia	5,175							
	98	Jordan			5,320					
			5,175	**15,120**	**5,320**	**0**	**0**	**0**	**0**	**25,615**
1996	99	Algeria			31,230					
	100	Mauritania			4,955					
			0	**0**	**36,185**	**0**	**0**	**0**	**0**	**36,185**
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**

Appendix (A-1)

Loans Extended to Member States
1978 - 2010

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	Total
2001	116	Jordan							5,214	
	117	Morocco							14,504	
	118	Egypt				15,750				
	119	Egypt	23,625							
	120	Tunisia				3,450				
	121	Tunisia							6,762	
			23,625	**0**	**0**	**19,200**	**0**	**0**	**26,480**	**69,305**
2002	122	Egypt							30,870	
	123	Djibouti							420	
	124	Lebanon	3,675							
			3,675	**0**	**0**	**0**	**0**	**0**	**31,290**	**34,965**
2003	125	Morocco							11,100	
	126	Djibouti			368					
	127	Egypt			55,125					
			0	**0**	**55,493**	**0**	**0**	**0**	**11,100**	**66,593**
2004	128	Comoros	184							
	129	Tunisia							5,175	
	130	Sudan			9,800					
	131	Egypt							23,625	
			184	**0**	**9,800**	**0**	**0**	**0**	**28,800**	**38,784**
2005	132	Mauritania			8,600					
	133	Sudan							9,800	
	134	Lebanon							6,825	
			0	**0**	**8,600**	**0**	**0**	**0**	**16,625**	**25,225**
2006	135	Djibouti							350	
			0	**0**	**0**	**0**	**0**	**0**	**350**	**350**
2007	136	Syria							2,000	
	137	Lebanon							9,100	
			0	**0**	**0**	**0**	**0**	**0**	**11,100**	**11,100**
2008	138	Comoros		184						
	139	Djibouti						614		
	140	Syria							9,600	
	141	Lebanon						18,200		
			0	**184**	**0**	**0**	**0**	**18,814**	**9,600**	**28,598**
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**
Total			**301,474**	**104,751**	**340,344**	**130,785**	**64,730**	**18,814**	**355,927**	**1,316,825**

Appendix (A-2)
Loans Extended to Member States By Type
1978-2010

Automatic Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	4	16.395
Tunisia	5	19.200
Algeria	1	27.930
Sudan	5	11.100
Syria	4	9.030
Somalia	3	4.440
Iraq	4	87.090
Lebanon	2	7.350
Egypt	4	38.250
Morocco	10	29.550
Mauritania	7	10.320
Yemen	9	40.635
Comoros	1	0.184
	59	**301.474**

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

Ordinary Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	1	5.320
Algeria	1	41.640
Syria	1	8.200
Morocco	1	6.250
Mauritania	1	4.500
Yemen	5	38.290
Djibouti	1	0.367
Comoros	1	0.184
	12	**104.751**

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

Compensatory Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	3	15.140
Tunisia	1	3.450
Sudan	2	9.800
Iraq	1	27.000
Egypt	2	22.375
Morocco	3	39.080
Mauritania	2	4.920
Yemen	2	9.020
	16	**130.785**

Structural Adjustment Facility (SAF)	No. of Loans	Value of Loans (Million AAD)
Jordan	4	38.584
Tunisia	3	17.009
Algeria	1	30.605
Sudan	1	9.800
Lebanon	3	19.526
Egypt	3	77.648
Morocco	5	132.208
Yemen	1	9.057
Djibouti	2	0.770
Syria	2	11.600
Mauritania	1	9.120
	26	**355.927**

Oil Facility	No. of Loans	Value of Loans (Million AAD)
Djibouti	1	0.614
Lebanon	1	18.200
	2	**18.814**

Appendix (A-3)
Balance of Outstanding Loans
2009 - 2010

(Thousands of AAD)

Country	End of 2009			End of 2010		
	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments
Jordan	19,640	-	19,640	36,211	8,593	44,804
Djibouti	997	-	997	752	-	752
Sudan	72,424	-	72,424	66,742	-	66,742
Syria	6,000	4,800	10,800	4,240	0	4,240
Somalia	14,877	-	14,877	14,877	-	14,877
Comoros	184	-	184	184	-	184
Iraq	91,403	-	91,403	90,093	-	90,093
Lebanon	14,105	18,200	32,305	10,465	0	10,465
Egypt	23,428	-	23,428	9,647	-	9,647
Morroco	62,905	6,838	69,743	90,768	26,838	117,606
Yemen	0	0	0	21,500	21,500	43,000
Muritania	12,310	4,560	16,870	11,135	4,560	15,695
Total	**318,273**	**34,398**	**352,671**	**356,614**	**61,491**	**418,105**

Appendix (A-4)
Balance of Loans Commitments
1978- 2010

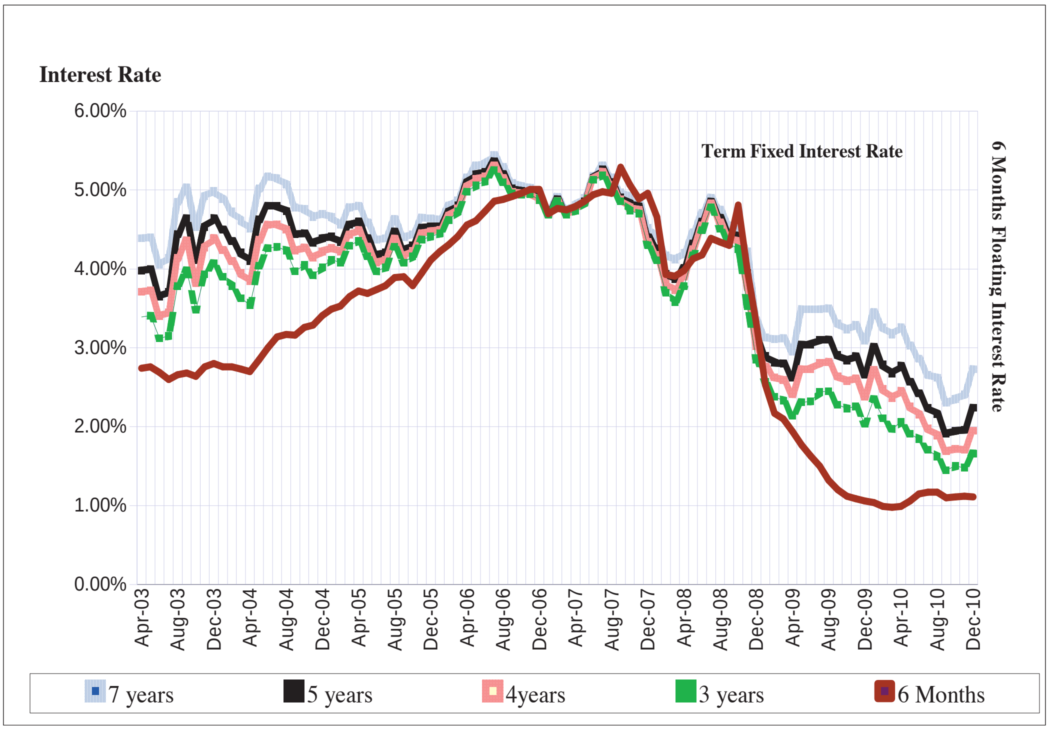
(Thousands of AAD)

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

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

** Total disbursed loans minus repayments.

Appendix (A-5)
Interest Rates on Loans
2003 - 2010



Effective 13 March 2003, the Board of Executive Directors agreed to replace the fixed interest rate policy with variable interest rates policy under which the member countries have an option to choose between two interest rate systems. The first is a floating rate based on the six-month SDR interest rate as determined on the first working day of each month, and is applied on all disbursements effected during that month, and continues until the due date of the interest installment after six months. The second is an active fixing rate calculated on the first working day of each month based on the swap rate of the SDR for the corresponding term of the loan. The relevant active fixing rate is applied to disbursements made during that month and remains un-changed throughout the term of the loan.

General Appendices

Appendix (B-1)
Capital at 31 December 2010

(Thousands of AAD)

	Country	Authorized and Subscriped Capital	Paid-Up Capital			
			In Local Currencies	In Convertible Currencies	By a Transfer from General Reserve (2)	Total
1	Jordan	9,900	80	5,320	4,500	9,900
2	UAE	35,300	300	18,900	16,100	35,300
3	Bahrain	9,200	80	4,920	4,200	9,200
4	Tunisia	12,850	100	6,900	5,850	12,850
5	Algeria	77,900	760	41,640	35,500	77,900
6	Saudi Arabia	88,950	760	47,640	40,550	88,950
7	Sudan	18,400	200	9,800	8,400	18,400
8	Syria	13,250	80	7,120	6,050	13,250
9	Somalia	7,350	80	3,920	3,350	7,350
10	Iraq	77,900	760	41,640	35,500	77,900
11	Oman	9,200	80	4,920	4,200	9,200
12	Qatar	18,400	200	9,800	8,400	18,400
13	Kuwait	58,800	500	31,500	26,800	58,800
14	Lebanon	9,200	100	4,900	4,200	9,200
15	Libya	24,690	186	13,254	11,250	24,690
16	Egypt	58,800	500	31,500	26,800	58,800
17	Morocco	27,550	200	14,800	12,550	27,550
18	Mauritania	9,200	80	4,920	4,200	9,200
19	Yemen	28,300	280	15,120	12,900	28,300
20	Palestine (1)	3,960	0	0	0	0
21	Djibouti	450	5	245	200	450
22	Comoros	450	5	245	200	450
	Total	**600,000**	**5,336**	**319,004**	**271,700**	**596,040**

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

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

Table (B-2)
Numbers of Attendances Courses / Seminars / Workshops
1/1/1988-1/1/2011

	Before 1988	Courses	Courses Coordinated With IMF	Courses Coordinated With WTO	Workshops	Workshops Coordinated With IMF	Workshops Coordinated With WTO/IMF	Workshops Coordinated With WTO	Seminars	Seminars Coordinated With IMF	Total
Numbers of Activities		84	91	7	13	9	3	4	5	4	220
Jordan	14	165	173	11	26	19	6	10	3	4	431
U.A.E.	32	197	139	10	14	16	4	8	7	10	437
Bahrain	9	138	120	5	9	13	5	7	7	4	317
Tunisia	11	131	133	9	19	10	5	6	3	3	330
Algeria	6	136	120	6	16	15	4	8	4	3	318
Djibouti	0	8	33	0	0	2	2	0	0	0	45
Saudi Arabia	16	224	225	14	25	20	6	10	16	9	565
Sudan	14	84	174	10	14	16	5	6	4	6	333
Syria	8	170	195	50	68	18	5	5	3	4	526
Somalia	8	12	11	0	0	0	0	0	1	0	32
Iraq	13	79	60	9	15	8	5	2	3	2	196
Oman	9	128	137	14	17	13	6	8	7	6	345
Palestine	0	83	109	9	10	7	5	3	2	3	231
Qatar	5	112	98	5	19	16	5	5	10	3	278
Comoros	0	2	9	3	1	1	0	2	0	2	20
Kuwait	10	128	123	7	12	9	5	2	5	2	303
Lebanon	2	122	141	8	24	14	3	6	2	9	331
Lybia	0	138	90	8	13	7	4	4	3	1	268
Egypt	2	189	147	7	21	17	6	9	2	7	407
Morocco	15	124	168	6	15	15	6	8	3	4	364
Mauritania	9	101	108	5	10	13	1	2	5	4	258
Yemen	21	158	165	10	17	19	5	7	4	5	411
Total	204	2629	2678	206	365	268	93	118	94	91	6746

Organization and Management

The Organizational Structure

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

The Board of Governors

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

Member Countries		Governors & Their Deputies
The Hashemite Kingdom of Jordan	Governor	H.E. Faris Abdul Hamid Sharaf
	Deputy Governor	H.E. Eez El Din Kanacrieh
The United Arab Emirates	Governor	H.E. Obaid Humaid Al Tayer
	Deputy Governor	H.E. Sultan Bin Nasser Al-Suwaidi
The Kingdom of Bahrain	Governor	H.E. Sheikh Ahmed Bin Mohamed Al Khalifa
	Deputy Governor	H.E. Rashid Mohamed Al Mearaj
The Republic of Tunisia	Governor	H.E. Mustapha Kamal Nabli
	Deputy Governor	H.E. Mohammed Saleh Sweilem
The People's Democratic Republic of Algeria	Governor	H.E. Karim Djoudi
	Deputy Governor	H.E. Dr. Mohammed Laksaci
The Republic of Djibouti	Governor	H.E. Ali Fareh Assoweh
	Deputy Governor	H.E. Hassan Moamn Taher
The Kingdom of Saudi Arabia	Governor	H.E. Dr. Ibrahim Bin Abdul-Aziz Al Assaf
	Deputy Governor	H.E. Dr. Mohamed Bin Sulieman Al Jaser
The Republic of Sudan	Governor	H.E. Ali Mahmoud Abdulrasul
	Deputy Governor	H.E. Dr. Sabir Mohamed Hassan
The Syrian Arab Republic	Governor	H.E. Dr. Mohammed Al Husein
	Deputy Governor	H.E. Dr. Adib Mufdi Maiyalah

The Somali Democratic Republic	Governor	H.E. Hussein Abdi Halane
	Deputy Governor	H.E. Basheer Issa Ali
The Republic of Iraq	Governor	H.E. Dr. Sinan Al Shabibi
	Deputy Governor	H.E. Taleb Mohsen Jaber
The Sultanate of Oman	Governor	H.E. Ahmed Bin Abedel Nabi Mecki
	Deputy Governor	H.E. Hamoud Bin Sangor Al Zadjali
The State of Palestine	Governor	H.E. Saeed Tawfik Khoury
	Deputy Governor	H.E. Dr. Saleh Jallad
The State of Qatar	Governor	H.E. Youssef Hussain Kamal
	Deputy Governor	H.E. Abdullah Bin Saud Al Thani
The Comoros	Governor	H.E. Dr. Ikililou Dhoinine
	Deputy Governor	H.E. Mohamed Shanfou Mzy Abdou
The State of Kuwait	Governor	H.E. Mustafa Jasim Al Shimali
	Deputy Governor	H.E. Sheikh Salem Abdul-Aziz Al-Sabah
The Republic of Lebanon	Governor	H.E. Riad Salame
	Deputy Governor	H.E. Raed Sharaf Aldin
The Great Socialist People's Libyan Arab Jamahiriya	Governor	H.E. Farhat Omar Bengdara
	Deputy Governor	H.E. Dr. Said Abdulaati
The Arab Republic of Egypt	Governor	H.E. Dr. Farouk El Okdah
	Deputy Governor	H.E. Dr. Yousif Bottros Ghali
The Kingdom of Morocco	Governor	H.E. Dr. Salahddine Mezouar
	Deputy Governor	H.E. Abdullatif Jouahri
The Islamic Republic of Mauritania	Governor	H.E. Sid' Ahmed Ould Raiss
	Deputy Governor	H.E Dr. Mohammed Elamin Would Rekani
The Republic of Yemen	Governor	H.E. Noman Taher Alsuhibi
	Deputy Governor	H.E. Mohammad Awad Ben Hammam

The Board of Executive Directors

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

Members of the Board of Executive Directors

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

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

The Director General and the Staff

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

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

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

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