

ARAB BANK MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

Directors

Mr. Abdul Kader A. Askalan
Mr. Guy Khouri
Mr. Adel Kasaji
Mr. Qutaiba M. Hawamdeh
Mr. Samer S. Tamimi

Registered Office

P. O. Box 2397
Manama,
Kingdom of Bahrain.

Investment Manager

Al Arabi Investment Group

Administrator, Custodian and Registrar

Gulf Clearing Company B.S.C. (c)

Principal Banker

Arab Bank Plc - Bahrain

Auditor

Deloitte & Touche,
P.O. Box 421,
Manama,
Kingdom of Bahrain.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

The Directors present the annual report and financial statements for the year ended September 30, 2009.

PRINCIPAL ACTIVITY

The Fund is an open ended collective investment scheme and its primary objective is to achieve long term capital appreciation. The Fund invests mainly in listed and unlisted equities and equity related securities to attain such objectives.

REVIEW OF BUSINESS

The results of the operations of the Fund are summarised on page 5.

APPROPRIATIONS

None.

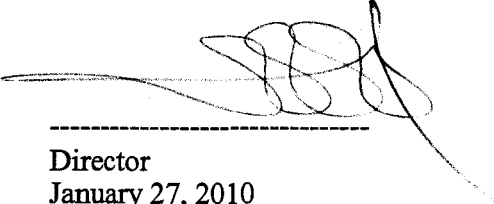
CHANGES IN DIRECTORS

Mr. Jawdat Halabi had resigned from the Fund with effect from October 1, 2008 and Mr. Guy Khouri has joined the Fund from April 27, 2009.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending September 30, 2010 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Director
January 27, 2010

BH 99-8- 12

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS

Arab Bank MENA Fund
Manama, Kingdom of Bahrain

Report on the Financial Statements

We have audited the accompanying financial statements of Arab Bank MENA Fund ("the Fund"), which comprise the statement of assets and liabilities as of September 30, 2009, statement of operations, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arab Bank MENA Fund as of September 30, 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 7 to the financial statements. The investments at fair value through profit or loss and the investments available for sale include investments in listed shares and bonds, which according to the representation of the Fund Manager provides the Fund with the opportunity to enhance the return on investment through trading gains. The fair value of these securities is based on quoted market prices. Certain markets and securities may be illiquid and published market prices may not necessarily represent realisable value.

Manama, Kingdom of Bahrain
January 27, 2010

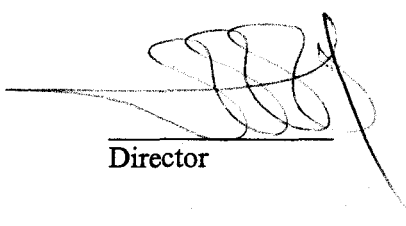
Deloitte & Touche
Deloitte & Touche

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2009

	<u>Notes</u>	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
ASSETS:			
Cash at banks	6	18,880,481	1,919,826
Securities designated at fair value through profit or loss	7	18,350,102	50,179,124
Investments – available-for-sale	7	1,057,040	-
Investments – held to maturity	7	-	884,426
Other assets	8	376,024	150,488
Total assets		<u>38,663,647</u>	<u>53,133,864</u>
LIABILITIES:			
Accrued expenses and other payables	10	176,956	668,047
Net assets		<u>38,486,691</u>	<u>52,465,817</u>
ANALYSIS OF NET ASSETS:			
Capital	11	56,119,464	56,914,271
Net cumulative realised (loss) / gain		(14,161,698)	7,063,371
Cumulative changes in fair value of investments	7.1	(3,495,683)	(11,511,825)
Fair value reserve for available-for-sale investments	7.2	24,608	-
Net assets		<u>38,486,691</u>	<u>52,465,817</u>
Net asset value per unit (5,213,595 units as at September 30, 2009) (5,312,659 units as at September 30, 2008)		<u>7.3820</u>	<u>9.8756</u>

The financial statements were approved by the Directors on January 27, 2010 and signed on their behalf by:


 Director


 Director

The attached notes form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Notes</u>	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
INVESTMENT INCOME:			
Interest income – Available for sale investments	12	54,103	41,888
Interest income – Investments held to maturity	12	-	66,721
Other interest income	12	11,635	119,196
Dividend income	12	1,322,097	1,969,230
Other operating income		2,210	37,407
Foreign exchange gain		-	474,856
		-----	-----
		1,390,045	2,709,298
		-----	-----
EXPENSES:			
Management fees	5 & 9	517,690	873,910
Custody and administration fees	5	47,175	78,455
Registrar fees	5	16,792	17,784
Professional fees		26,365	23,741
Bank charges		9,739	13,425
Other expenses		18,763	37,066
Foreign exchange loss		716,552	-
		-----	-----
Total expenses		1,353,076	1,044,381
		-----	-----
Investment gain – net		36,969	1,664,917
Realised and unrealised gain/(loss) on investments:			
Net realised (loss) / gain on investments		(21,262,038)	6,030,419
Change in fair value of investments designated at fair value through profit or loss		8,016,142	(13,384,289)
		-----	-----
Net loss on investments		(13,245,896)	(7,353,870)
		-----	-----
Net decrease in net assets resulting from operations		(13,208,927)	(5,688,953)
		=====	=====

The attached notes form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Decrease in net assets from operations:		
Investment gain – net	36,969	1,664,917
Net realised (loss) / gain on investments	(21,262,038)	6,030,419
Change in fair value of investments designated at fair value through profit or loss for the year	8,016,142	(13,384,289)
	-----	-----
Net decrease in net assets resulting from operations	(13,208,927)	(5,688,953)
Change in fair value of available-for-sale investments	24,608	-
Change in net assets from capital share transactions	(794,807)	12,041,505
	-----	-----
Change in net assets	(13,979,126)	6,352,552
Net assets – beginning of year	52,465,817	46,113,265
	-----	-----
Net assets – end of year	<u>38,486,691</u>	<u>52,465,817</u>

The attached notes form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Cash flows from operating activities		
Net decrease in net assets from operations	(13,208,927)	(5,688,953)
Adjustments for:		
Dividend income	(1,322,097)	(1,969,230)
Interest income	(65,738)	(227,805)
Net gain on investments	13,245,896	7,353,870
	-----	-----
	(1,350,866)	(532,118)
Changes in operating assets and liabilities:		
Decrease in other assets	150,488	361,195
(Decrease) / increase in accrued expenses and other payables	(490,942)	389,889
	-----	-----
	(1,691,320)	218,966
Payments for purchase of securities	(8,040,812)	(47,650,054)
Proceeds from disposal of securities	26,422,434	30,790,238
Dividend received	1,025,731	1,935,752
Interest received	39,578	228,818
	-----	-----
Net cash from / (used in) operating activities	17,755,611	(14,476,280)
	-----	-----
Cash flows from financing activities		
Proceeds from issue of units	1,508,628	18,837,574
Payments on redemption of units	(2,303,435)	(6,796,069)
	-----	-----
Net cash (used in) / from financing activities	(794,807)	12,041,505
	-----	-----
Net increase / (decrease) in cash and cash equivalents	16,960,804	(2,434,775)
Cash and cash equivalents at the beginning of the year	1,919,677	4,354,452
	-----	-----
Cash and cash equivalent at the end of the year	18,880,481	1,919,677
	=====	=====
Comprising:		
Cash at banks	18,880,481	1,919,826
Bank overdraft	-	(149)
	-----	-----
	18,880,481	1,919,677
	=====	=====

The attached notes form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

1. STATUS AND ACTIVITIES:

Arab Bank MENA Fund (“the Fund”) is an open ended investment fund registered under the Law of the Kingdom of Bahrain, established on May 23, 2005 by Arab Bank MENA Fund Company B.S.C. (c) (“the Fund Company”) pursuant to the provisions of the Central Bank of Bahrain (“the CBB”) circular number OG/356/92, of November 18, 1992 and subsequent supplementary circulars and has been approved and is regulated by the CBB.

The Fund is managed by Al Arabi Investment Group (“the Investment Manager”) who manages the Fund as a fiduciary patrimony on a discretionary basis authorise to the provisions of the Fund’s by-laws and the provisions of law that regulates fiduciary activities. Gulf Clearing Company B.S.C (c) is the custodian and administrative agent of the Fund.

The objective of the Fund is to provide income primarily from investments in equities with possible investment in bonds aiming to preserve capital during period of weak equity market performance and maximising capital growth during period of strong equity markets performance. The Fund may distribute dividends on an annual basis, upon the sole discretion of the Fund Company. Dividend, if any, will be paid out of investment income from dividends and interest earned by the Fund after deducting expenses.

The financial statements represent the assets, liabilities and operations of the Fund only. The Fund does not have any employees and utilises the services of the Investment Manager, Administrator and Custodian to operate the Fund.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS:

2.1. Standards and Interpretations affecting amounts reported in the current period: (and/or prior periods)

The following revised Standard has been adopted in the current period and has affected the presentation and disclosures in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

IAS 1- Presentation of Financial Statements (revised 2007)

The revised Standard has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosures. However, the revised Standard has had no impact on the reported results or financial position of the Fund.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS: (CONTINUED)

2.2. Standards and Interpretations adopted with no effect on financial statements:

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

	Effective for annual periods beginning on or after
<i>New Standards:</i>	
IFRS 8 Operating Segments	January 1, 2009
<i>New Interpretations:</i>	
IFRIC 13 Customer Loyalty Programmes	July 1, 2008
IFRIC 15 Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IFRIC 18 Transfers of Assets from Customers	Transfers received on or after July 1, 2009
<i>Amendments to Standards and Interpretations:</i>	
IFRS 1 First-time Adoption of International Financial Reporting Standards-Amendment relating to cost of an investment on first time adoption	January 1, 2009
IFRS 2 Share based payment-Amendment relating to vesting conditions and cancellations	January 1, 2009
IAS 1 Presentation of Financial Statements-Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 23 Borrowing Costs-Comprehensive revision to prohibit immediate expensing	January 1, 2009
IAS 27 Consolidated and Separate Financial Statements-Amendment relating to cost of an investment on first time adoption	January 1, 2009
IAS 32 Financial Instruments: Presentation - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IFRS 7 Improving Disclosures about Financial Instruments	January 1, 2009
IFRIC 9 Amendments relating to Embedded Derivatives & IAS 39	Annual periods ending on or after June 30, 2009

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS: (CONTINUED)

**2.2 Standards and Interpretations adopted with no effect on financial statements:
(Continued)**

Improvements to IFRSs (2008):

In addition to the changes affecting amounts reported in the financial statements described at 2.1 above, the Improvements have led to a number of changes in the detail of the Fund's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments are effective from January 1, 2009.

2.3. Standards and Interpretations in issue not yet adopted:

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
<i>New Interpretations:</i>	
IFRIC 17 Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
<i>New Standards:</i>	
IFRS 9 Financial Instruments	January 1, 2013
<i>Amendments to Standards and Interpretations:</i>	
IFRS 2 Share based Payment-Amendments relating to group cash-settled share-based payment transactions	January 1, 2010
IFRS 3 Business Combinations- Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 8 Operating Segments – Amendments for disclosure of segment assets	January 1, 2010
IAS 24 Related Party Transactions	January 1, 2011
IAS 27 Consolidated and Separate Financial Statements- Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28 Investments in Associates-Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31 Interests in Joint Ventures-Consequential amendments arising from amendments to IFRS 3	July 1, 2009

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

2. **ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS: (CONTINUED)**

2.3 **Standards and Interpretations in issue not yet adopted: (Continued)**

<i>Amendments to Standards and Interpretations: (Continued)</i>		Effective for annual periods beginning on or after
IAS 32	Financial Instruments: Presentation	February 1, 2010
IAS 39	Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items	July 1, 2009
Various Standards	Amendments resulting from May 2008 and April 2009 Annual Improvements to IFRS's	Various
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2011

The Directors anticipate that, where applicable, the above Standards, Interpretations and amendments will be adopted in the Fund's financial statements for the future periods and that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

Statement of Compliance

The financial statements have been prepared in conformity with the prospectus and in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation

The financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments.

These financial statements are presented in US Dollars ("USD"), this being the presentation and functional currency of the Fund's business.

The significant accounting policies are as follows:

(a) **Investments in Securities**

The values of securities listed on a securities exchange are based on the last bid price on that exchange on the day of valuation. Transactions in marketable securities are accounted for on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investments within the time frame established by the market concerned.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

3. **SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

(a) **Investments in Securities (Continued)**

Investments in Securities at Fair Value through Profit or Loss (“FVTPL”)

Investments in securities (consisting of listed shares and tradable bonds) are classified as securities designated at fair value through profit or loss which are initially recognised and subsequently measured at fair value. The change in fair value of these securities is recorded in the statement of operations. The net investment gain or loss recognised in the statement of operations incorporates any dividend or interest earned on the financial asset.

Held-to-Maturity Investments

Investments in bonds with fixed or determinable payments and fixed maturity dates that the Fund has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available for Sale Investments

Available for sale investments are initially measured at cost, being the fair value of the consideration given including acquisition charges associated with investment. After initial recognition, investments which are classified as “available for sale” are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “Fair value Reserve” within equity, is included in the statement of operations for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current statement of operations but will be recorded as an increase in the fair value reserve.

(b) **Receivables**

Receivables are non-derivative financial assets of fixed or determinable amounts that are not quoted in an active market. Receivables are recognised at fair value net of transaction costs that are directly attributable to their disposal and are carried at amortised cost.

(c) **Interest and Dividend Income Recognition**

Interest income on debt securities are accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable adjusted by the amortisation of premiums and discounts.

Dividend income on shares are recognised when the shareholder’s right to receive such dividend is established

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

3. **SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

(d) **Valuation of Units**

The prices at which units may be issued and redeemed are calculated by reference to the Net Asset Value (“NAV”) of the Fund calculated in accordance with the Fund’s prospectus.

(e) **Other Payables**

Other payables are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not. These are carried at amortised cost which is the fair value of the consideration to be settled in future.

(f) **Expenses**

All recurring expenses are accounted for on an accrual basis.

(g) **Foreign Currencies**

Foreign currency transactions are recorded in United States Dollars at the approximate rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the year end rates of exchange. Exchange differences, are reported as part of the results for the year.

(h) **Effective Interest Method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest is the rate exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

(i) **Impairment of Financial Assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

(i) **Impairment of Financial Assets (Continued)**

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets that are assessed not to be impaired individually are substantially assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Fund's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

In the application of the Fund's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY: (CONTINUED)

Critical judgements in applying the Fund's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Classification of investments

Management decides on the acquisition of an investment whether to classify it as held to maturity, available-for-sale or financial assets at fair value through profit or loss. For those deemed to be held to maturity, the Fund ensures that the requirement of IAS 39 are met and in particular the Fund has the positive intention and ability to hold these to maturity. The Fund classifies investments as financial assets at fair value through profit or loss if the investment is classified as held for trading or upon initial recognition it is designated by the Fund as at fair value through profit or loss. All other investments are classified as available-for-sale.

Impairment of available-for-sale investments

Available-for-sale investments are considered impaired when there is a significant or prolonged decline in fair value of the security below its cost. Management has to make judgements to decide what is a significant and what is a prolonged decline in fair value.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of financial assets

The Fund's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in the statement of operations. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

5. FEES:

(a) Management Fee

Under the Investment Management agreement, the Fund has to pay the Investment Manager remuneration for its on-going services a fee accruing on each Valuation Day at the annual rate of 1.5% of the NAV of the Fund, prior to the accrual of performance fees. Management fees accrue monthly and are payable quarterly in arrears by the Fund.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

5. **FEES: (CONTINUED)**

(b) **Administration and Custody Fee**

Under the Administration and Custody agreement, the Fund has agreed to pay the administrator and custodian as remuneration for its on-going services a fee accruing on each Valuation Day. The administration and custody fee is payable quarterly in arrears within seven (7) business days following the last day of each quarter and are calculated as follows:

- Investments that are made in the Gulf Cooperation Council (GCC) Countries: The Fund will be charged an annual custody and administration fee of 0.125% of the NAV that is held under custody in these countries, subject to a minimum annual fee of USD 25,000; and
- Investments that are made in Levant and North African Countries: The Fund is charged an annual fee of 0.175% of the NAV that is held under the custody in these countries, subject to a minimum annual fee of USD 30,000.

(c) **Registrar Fee**

Under the Registrar and Transfer Agent agreement, the Registrar and Transfer Agent's fee is being paid at USD 4,000 per annum up to 50 unitholders and additional charge of USD 50 per annum per annum for every additional unitholder. The registrar fee will be accrued on each Valuation Day and will be payable quarterly in arrears within seven business day following the last revaluation day of each quarter.

6. **CASH AT BANKS:**

Cash at banks represents balances in current accounts held at banks.

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Current accounts	18,880,481	1,919,826

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7. INVESTMENTS:

This caption is composed of the following:

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Investments in listed shares at fair value through profit or loss (Note 7.1)	18,350,102	50,179,124
Investment in listed bonds – available-for-sale (Note 7.2)	1,057,040	-
Investment in listed bonds – held to maturity (Note 7.3)	-	884,426
	<u>19,407,142</u>	<u>51,063,550</u>

7.1 Investments in Listed Shares – at fair value through profit or loss

	<u>September 30, 2009</u>		
	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
Palestine	102,024	92,800	(9,224)
Iraq	54,211	62,208	7,997
Egypt	1,103,769	1,046,210	(57,559)
Jordan	1,489,644	1,078,307	(411,337)
Kuwait	3,550,271	1,531,638	(2,018,633)
Kingdom of Bahrain	450,928	387,931	(62,997)
Qatar	2,892,641	2,553,825	(338,816)
United Arab Emirates	961,150	870,843	(90,307)
Kingdom of Saudi Arabia	11,002,443	10,502,054	(500,389)
Syria	238,704	224,286	(14,418)
	<u>21,845,785</u>	<u>18,350,102</u>	<u>(3,495,683)</u>

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7. **INVESTMENTS: (CONTINUED)**

7.1 Investments in Listed Shares – at fair value through profit or loss (Continued)

	<u>September 30, 2008</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Change in</u>
	<u>USD</u>	<u>USD</u>	<u>Fair value</u>
			<u>USD</u>
Palestine	148,499	119,879	(28,620)
Iraq	48,999	54,211	5,212
Egypt	10,961,112	7,169,360	(3,791,752)
Jordan	2,223,569	2,594,018	370,449
Kuwait	10,217,081	9,256,790	(960,291)
Kingdom of Bahrain	542,018	450,928	(91,090)
Oman	857,193	738,640	(118,553)
Qatar	4,959,737	4,548,019	(411,718)
United Arab Emirates	9,826,040	7,637,089	(2,188,951)
Kingdom of Saudi Arabia	21,606,577	17,330,611	(4,275,966)
Libya	50,250	40,875	(9,375)
Syria	249,874	238,704	(11,170)
	<u>61,690,949</u>	<u>50,179,124</u>	<u>(11,511,825)</u>

Investments in listed shares are classified as investments at fair value through profit or loss. These securities provide the Fund with the opportunity to enhance the return on investment through trading gains. The fair value of these securities are based on market prices, which may not necessarily represent realisable value because of market illiquidity.

7.2 Investments in Listed Bonds – available-for-sale

		<u>September 30, 2009</u>			
		<u>Coupon</u>	<u>Cost</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Maturity</u>	<u>rate</u>	<u>USD</u>	<u>Value</u>	<u>Value</u>
		<u>%</u>		<u>USD</u>	<u>USD</u>
Bank Muscat non guaranteed bonds	June 30, 2014	6.25	579,750	594,667	14,917
AHB non guaranteed bonds	May 15, 2011	5.55	156,490	159,534	3,044
ZARA Investment Holding bonds	December 12, 2009	6.25	84,626	85,773	1,147
JMRC	April 5, 2010	7.01	211,566	217,066	5,500
			<u>1,032,432</u>	<u>1,057,040</u>	<u>24,608</u>

The bonds portfolio has been reclassified from held to maturity to available-for-sale investment during the year. There were no available-for-sale investments as at September 30, 2008.

The unrealised gain on available-for-sale investments has been recognised directly in equity.

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7. **INVESTMENTS: (CONTINUED)**

7.3 Investments in Listed Bonds – Held to maturity

	<u>Maturity</u>	<u>Coupon rate</u> %	<u>Amortised cost</u> USD	<u>September 30, 2008</u>	
				<u>Fair value</u> USD	<u>Change in Fair Value</u> USD
Bank Muscat non guaranteed bonds	June 30, 2014	6.25	579,589	606,960	27,371
AHB non guaranteed bonds	May 15, 2011	5.55	156,531	159,575	3,044
ZARA Investment Holding bonds	December 12, 2009	6.25	148,306	105,219	(43,087)
			<u>884,426</u>	<u>871,754</u>	<u>(12,672)</u>

There are no held to maturity investments as at September 30, 2009.

8. **OTHER ASSETS:**

The caption is composed of the following:

	<u>2009</u> USD	<u>2008</u> USD
Receivables from sale of investments	53,498	-
Accrued interest receivable on bonds	26,160	6,162
Accrued dividend income	296,366	144,326
	<u>376,024</u>	<u>150,488</u>

9. **RELATED PARTY TRANSACTIONS:**

Transactions with entities in which the Investment Manager and its parent company, Arab Bank Plc have substantial or controlling interest are classified as transactions with related parties since Arab Bank plc is the principal shareholder. These transactions are undertaken on an arm's length basis.

- The following are the transactions and balances between the Fund and its related party:

<u>Related Party</u>	<u>Nature of Transaction</u>	<u>Amount incurred</u> <u>September 30,</u>		<u>Payable as at</u> <u>September 30,</u>	
		<u>2009</u> USD	<u>2008</u> USD	<u>2009</u> USD	<u>2008</u> USD
Al Arabi Investment Group	Management fees	517,690	873,910	141,214	220,120
Al Arabi Investment Group	Placement fees	11,101	97,323	495	10,010

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9. **RELATED PARTY TRANSACTIONS: (CONTINUED)**

- The following related parties owned units in the Fund:

<u>Related Party</u>	<u>Nature of Relationship</u>	<u>Number of units held as at</u>	
		<u>2009</u>	<u>2008</u>
- Arab Bank (Switzerland)	Subsidiary of Arab Bank Plc, Jordan	1,132,500	1,171,410
- Arab Bank Plc, Wholesale Bank, Bahrain	Branch of Arab Bank Plc, Jordan	500,000	500,000
- Oman Arab Bank S.A.O.C.	Affiliate Company of Arab Bank, Plc, Jordan	50,000	50,000

Arab Bank Plc, Jordan is the Ultimate Parent Company of the Fund Company.

- The Fund has the following bank balances and has invested in equity shares of the following:

<u>Related Party</u>	<u>Nature of Transaction</u>	<u>Nature of Relationship</u>	<u>Fair Value</u>	
			<u>2009</u>	<u>2008</u>
			<u>USD</u>	<u>USD</u>
Arab Bank Plc – Wholesale Bank, Bahrain	Current account	Branch of Arab Bank Plc, Jordan	50,670	25,981
Arab Bank Plc – Retail Bank, Bahrain	Current account	Branch of Arab Bank Plc, Jordan	150,311	363
Arab Bank Plc, Jordan	Equity shares	Ultimate Parent Company of the Fund Company	1,078,307	1,415,466
Arab Bank Plc, Jordan	Current account	Ultimate Parent Company of the Fund Company	686,025	215,540
Arab Bank Plc, Palestine	Current account	Branch of Arab Bank Plc, Jordan	24,567	6,988
Oman Arab Bank S.A.O.C.	Current account	Affiliate Company of Arab Bank Plc, Jordan	4,742,476	720,729
Arab Bank Syria	Current account	Affiliate Company of Arab Bank Plc, Jordan	22,811	383

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10. **ACCRUED EXPENSES AND OTHER PAYABLES :**

The caption is composed of the following:

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Payable for investment purchases	-	378,370
Management fees	141,214	220,120
Custody and administration fees	12,904	19,858
Registrar fees	4,192	4,446
Professional fees	14,854	32,095
Sub-custody fees	391	1,811
Out-of-pocket expenses	906	1,189
Other liabilities	2,495	10,158
	<u>176,956</u>	<u>668,047</u>

11. **CAPITAL:**

The caption is composed of the following:

	<u>2009</u>		<u>2008</u>	
	<u>No. of units</u>	<u>USD</u>	<u>No. of units</u>	<u>USD</u>
Opening balance	5,312,659	56,914,271	4,345,164	44,872,766
Subscriptions during the year	239,944	1,508,628	1,549,249	18,837,574
Redemptions during the year	(339,008)	(2,303,435)	(581,754)	(6,796,069)
Ending balance	<u>5,213,595</u>	<u>56,119,464</u>	<u>5,312,659</u>	<u>56,914,271</u>

12. **INVESTMENT INCOME:**

The caption is composed of the following:

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Interest income on available for sale investments	54,103	41,888
Interest income – held to maturity investments	-	66,721
	<u>54,103</u>	<u>108,609</u>
Interest income on bank accounts	11,635	49,889
Interest income on time deposits	-	69,307
	<u>11,635</u>	<u>119,196</u>
Dividend income	1,322,097	1,969,230
	<u>1,387,835</u>	<u>2,197,035</u>

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13. **FINANCIAL INSTRUMENTS:**

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include cash at banks, investments and other assets.

Financial liabilities of the Fund include accrued expenses, other payables.

Significant accounting policies

Significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial assets and liabilities are set out in Note 3.

Categories of financial instruments

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Financial assets		
Securities designated at fair value through profit or loss	18,350,102	50,179,124
Investments-held to maturity	-	884,426
Investments-Available-for-sale	1,057,040	-
Receivables (including cash at banks)	19,256,505	2,070,314
Financial liabilities		
Amortised cost	176,956	668,047

The risk associated with financial instruments and the Fund's approaches to managing such risks are:

13.1 **CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location.

To mitigate this risk, the Fund spreads its investments, to the extent possible, over various types of counterparties and products consisting mainly of equity securities. However, where concentration is inevitable, the Fund takes precautions to reduce this additional risk to acceptable levels.

The credit risk on liquid funds is limited because the counterparties are banks and financial institutions with high credit –ratings assigned by international rating agencies.

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13. **FINANCIAL INSTRUMENTS: (CONTINUED)**

13.1 **CREDIT RISK AND CONCENTRATION OF CREDIT RISK : (CONTINUED)**

Exposure to credit risk

The management of the Fund believes that the carrying amount of financial assets recorded in the financial statements represents the Fund's maximum exposure to credit risk. Recorded financial assets have not been provided as collateral for any facilities.

13.2 **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities, it arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected or reimburse the unit holders as a result of market illiquidity. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value.

The Fund manages liquidity risk by maintaining sufficient bank balances or by obtaining credit facilities from the banks.

The liquidity profile of financial liabilities reflects the projected cash flows over the life of these financial liabilities. The financial liabilities at September 30, 2009 and 2008 have a maturity of three months or less.

13.3 **MARKET RISK**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

The Fund's market risk is managed through diversification of the investments portfolio exposure. The Fund's overall market positions are monitored on a daily basis by the Investment Manager.

Market risk consists of interest rate risk, currency risk and equity price risk.

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13. FINANCIAL INSTRUMENTS: (CONTINUED)

13.3 MARKET RISK : (CONTINUED)

13.3.1 Interest Rate Risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Fund is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund is exposed to interest rate risk in respect of bonds.

The Investment Manager reviews the market analysis and expectations for interest rate movements as the basis on which Investment Manager monitors and manages the interest rate risk aspect and its impact on the Fund performance.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the bonds. An increase or decrease of 25 basis point is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Fund's net assets for the year would increase/decrease by USD 2,643 (2008: income would increase/decrease by USD 2,206)

The Fund's sensitivity to interest rates has increased during this year mainly due to the reduction in interest bearing bonds.

13.3.2 Currency Risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund's assets and liabilities are denominated in GCC currencies, Jordanian Dinars, Egyptian Pounds and United States Dollars. As the GCC currencies (except for the Kuwaiti Dinar) and the Jordanian Dinar are effectively pegged to the United States Dollar, balances in these currencies are not considered to represent a significant currency risk. The balances in the other currencies are exposed to currency risk.

Exchange rate exposures to these currencies are managed through continuously monitoring exchange rate fluctuations.

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13. FINANCIAL INSTRUMENTS: (CONTINUED)

13.3 MARKET RISK : (CONTINUED)

13.3.2 Currency Risk: (Continued)

The carrying amounts of the Fund's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
AED	4,407,403	7,642,873	-	-
SAR	10,531,179	17,332,135	-	-
OMR	5,522,194	2,208,343	-	-
KWD	4,427,949	9,801,620	248	128,787
BHD	397,207	451,125	-	18,430
QAR	4,007,574	4,671,644	-	-
GCC Currencies	29,293,506	42,107,740	248	147,217
EGP	6,486,755	7,304,095	-	251,107
SYP	247,097	239,087	-	-
MAD	4,025	3,915	-	-
JOD	2,076,125	2,960,773	143	286
LYD	31,354	40,726	-	-
IQD	62,208	54,211	-	-
Other currencies	8,907,564	10,602,807	143	251,393
	38,201,070	52,710,547	391	398,610

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13. **FINANCIAL INSTRUMENTS: (CONTINUED)**

13.3 **MARKET RISK : (CONTINUED)**

13.3.2 **Currency Risk: (Continued)**

Foreign currency sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than the items in GCC currencies (except the Kuwaiti Dinar) and the Jordanian Dinar and adjusts their translation at the period end for a 5% change in foreign currency rates with all other variables held constant. 5% represents management's assessment of the reasonably possible change in foreign currency rates. A positive number below indicates an increase in income where USD weakens 5% against the relevant currency, a negative number represents a decrease in income. For a 5% strengthening of USD against the relevant currency, there would be an equal and opposite impact on the income.

<u>Currency</u>	<u>2009</u>	<u>2008</u>
	<u>Effect on Statement</u>	<u>Effect on Statement</u>
	<u>of Operations</u>	<u>of Operations</u>
	<u>USD</u>	<u>USD</u>
EGP	324,338	352,649
KWD	221,385	483,642
SYP	12,355	11,954
IQD	3,110	2,711
LYD	1,568	2,036
MAD	201	196

13.3.3 **Equity Price Risk:**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Fund manages the risk through diversification of investments in terms of geographical distribution, to the extent permissible in the Prospectus, and industry concentration. As at the year ends, all the Fund's equity investments were in equities listed on the Securities Markets of United Arab Emirates, Oman, Egypt, Saudi Arabia, Bahrain, Palestine, Iraq, Jordan, Qatar, Syria and Kuwait.

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13. **FINANCIAL INSTRUMENTS: (CONTINUED)**

13.3 **MARKET RISK : (CONTINUED)**

13.3.3 **Equity Price Risk: (Continued)**

The effect on statement of operations (as a result of a change in the fair value of equity instruments held as investments at fair value through profit or loss at the year ends presented) due to a reasonably possible change in market indices, with all other variables held constant, is as follows:

<u>Market</u>	<u>Change in equity price</u>	<u>2009</u>	<u>2008</u>
		<u>Effect on Statement of Operations</u>	<u>Effect on Statement of Operations</u>
	<u>%</u>	<u>USD</u>	<u>USD</u>
Palestine	+ 5	+ 4,640	+ 5,993
Iraq	+ 5	+ 3,110	+ 2,711
Egypt	+ 5	+ 52,311	+ 358,468
Jordan	+ 5	+ 53,915	+ 129,701
Kuwait	+ 5	+ 76,582	+ 462,840
Bahrain	+ 5	+ 19,397	+ 22,546
Oman(Muscat)	+ 5	-	+ 36,932
Qatar	+ 5	+ 127,691	+ 227,401
United Arab Emirates	+ 5	+ 43,542	+ 381,854
Saudi Arabia	+ 5	+ 525,103	+ 866,531
Libya	+ 5	-	+ 2,044
Syria	+ 5	+ 11,214	+ 11,935

The effect on equity due to a 5% change in market indices for the listed bonds classified as available for sale would be USD 52,852 (2008: Nil).

There would be an equal and opposite impact on the statement of operations, had there been a decrease in equity prices by 5%.

14. **FAIR VALUE OF FINANCIAL INSTRUMENTS:**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

The Directors believe that the fair values of financial instruments, are not significantly different from the carrying values included in the financial statements.