

ARAB BANK MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2012

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 2400,
Manama,
Kingdom of Bahrain.

Fund Company

Arab Bank MENA Fund Company B.S.C. (c)
P. O. Box 2400,
Manama, Kingdom of Bahrain

Investment Manager, Operator and
Placement Agent

Al Arabi Investment Group
P. O. Box 143156,
Amman 11814,
Hashemite, Kingdom of Jordan.

Administrator, Custodian and Registrar

Gulf Custody Company B.S.C. (c)
P. O. Box 2400,
Manama,
Kingdom of Bahrain.

Principal Banker

Arab Bank Plc – Bahrain Branch

Auditor

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

Engagement Partner: Mr. Roger Nasr

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 of Arab Bank MENA Fund (“the Fund”) for the year ended September 30, 2012.

PRINCIPAL ACTIVITY

The Fund is an open ended collective investment scheme and its primary objective is to invest primarily in equities with possible investment in bonds aiming to preserve capital during periods of weak equity markets performance and maximising capital growth during periods of strong equity market performance in the MENA region.

REVIEW OF BUSINESS

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

APPROPRIATIONS

None.

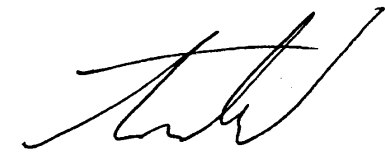
CHANGES IN DIRECTORS

None.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending September 30, 2013 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Mr. Adel Kasaji
Director
17.03, 2013

BH 99-8- 12

Deloitte & Touche - Middle East
Al-Zamil Tower
Government Avenue
P.O. Box 421, Manama
Kingdom of Bahrain

Tel: +973 1721 4490
Fax: +973 1721 4550
www.deloitte.com
C.R. 18670

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 financial position as at September 30, 2012, the statement of comprehensive income, statement of changes in net assets and the statement of 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS (CONTINUED)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arab Bank MENA Fund as at September 30, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, the Fund has maintained proper accounting records and the financial statements, have been prepared in accordance with those records. We further report that, to the best of our knowledge and belief, the financial information provided in the Board of Directors' Report is in agreement with the financial statements and based on the information and explanations provided by the management which were required for the purpose of our audit, we are not aware of any violation of the regulations issued by the Central Bank of Bahrain ("the CBB") as contained in Volume 7 of the CBB Rulebook, having occurred during the year ended September 30, 2012 that might have had a material adverse effect on the business of the Fund or on its financial position.

Manama, Kingdom of Bahrain
March 17, 2013

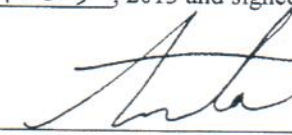
Deloitte & Touche
Deloitte & Touche


ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2012



	Notes	September 30, 2012 USD	September 30, 2011 USD (Restated)	October 1, 2010 USD (Restated)
ASSETS				
Current assets				
Cash at banks	6 & 8	10,820,497	11,891,449	16,733,221
Dividend receivable		-	1,950	-
Interest receivable		49,228	-15,999	29,722
Investments at fair value through profit or loss	7.1 & 8	19,986,752	20,806,246	20,491,946
Available-for-sale investments	7.2	1,820,087	850,144	755,415
Other assets		99,978	-	135
Total assets		32,776,542	33,565,788	38,010,439
LIABILITIES				
Current liabilities				
Due to related party	8	126,599	129,333	141,022
Other payables	9	44,543	46,786	40,423
Total liabilities		171,142	176,119	181,445
Net assets attributable to holders of redeemable units		32,605,400	33,389,669	37,828,994
ANALYSIS OF NET ASSETS				
Capital	10	42,169,260	46,989,450	50,464,820
Surplus		6,537,920	5,299,885	4,407,796
Accumulated losses		(16,151,618)	(18,919,561)	(17,059,902)
Fair value reserve for available-for-sale investments	7.2	49,838	19,895	16,280
Net assets		32,605,400	33,389,669	37,828,994
Number of units outstanding	10	4,216,926	4,698,945	5,046,482
Net asset value per unit		7.732	7.1058	7.4961

The financial statements were approved and authorised for issue by the Directors on 7.03, 2013 and signed on their behalf by:


 Mr. Adel Kasaji
 Director


 Mr. Qutaiba M. Hawamdeh
 Director

The accompanying notes form an integral part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Notes</u>	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u> <u>(Restated)</u>
Revenue			
Dividend income	11	1,014,997	938,167
Interest income – available - for - sale investments	11	86,064	100,947
Interest income – bank accounts	11	46,549	68,003
Net realised gain / (loss) on investments at fair value through profit or loss	7.1	1,108,859	(210,854)
Net unrealised gain / (loss) on investments at fair value through profit or loss	7.1	1,203,444	(1,922,337)
Net foreign exchange loss		(41,666)	(115,691)
Total operating income / (loss)		3,418,247	(1,141,765)
Expenses			
Management fees	5 & 8	(496,489)	(537,384)
Custody and administration fee	5	(55,000)	(58,137)
Registrar fee	5	(13,654)	(14,935)
Professional fees		(20,889)	(20,411)
Broker commission		(41,366)	(60,867)
Bank charges		(3,182)	(3,056)
Other expenses		(19,724)	(23,104)
Total operating expenses		(650,304)	(717,894)
Profit / (loss) for the year		2,767,943	(1,859,659)
Other comprehensive income			
Net gain arising on revaluation of available-for-sale Investments		29,943	3,615
Total comprehensive income / (loss) for the year		2,797,886	(1,856,044)
Increase / (decrease) in net assets attributable to holders of redeemable units		2,797,886	(1,856,044)

The accompanying notes form an integral 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, 2012

	<u>Number of units</u>	<u>Unit capital USD</u>	<u>Unit surplus/ (deficit) USD</u>	<u>Accumulated losses USD</u>	<u>Fair value reserve USD</u>	<u>Total USD</u>
Balance at September 30, 2010 (As originally stated)	5,046,482	50,464,820	4,407,796	(17,044,778)	1,156	37,828,994
Correction of prior period error (Note 14)	-	-	-	(15,124)	15,124	-
Balance at October 1, 2010 (Restated)	5,046,482	50,464,820	4,407,796	(17,059,902)	16,280	37,828,994
Subscriptions of units	42,339	423,390	(103,450)	-	-	319,940
Redemptions of redeemable units	(389,876)	(3,898,760)	995,539	-	-	(2,903,221)
Decrease in net assets attributable to holders of redeemable units	-	-	-	(1,859,659)	-	(1,859,659)
Net gain on revaluation (Restated)	-	-	-	-	3,615	3,615
Balance at September 30, 2011 (Restated)	4,698,945	46,989,450	5,299,885	(18,919,561)	19,895	33,389,669
Subscriptions of units	25,562	255,620	(55,680)	-	-	199,940
Redemptions of redeemable units	(507,581)	(5,075,810)	1,293,715	-	-	(3,782,095)
Increase in net assets attributable to holders of redeemable units	-	-	-	2,767,943	-	2,767,943
Net gain on revaluation	-	-	-	-	29,943	29,943
Balance at September 30, 2012	4,216,926	42,169,260	6,537,920	(16,151,618)	49,838	32,605,400

The accompanying notes form an integral part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Cash flows from operating activities		
Profit / (loss) for the year	2,767,943	(1,859,659)
Adjustments for:		
Dividend income	(1,014,997)	(938,167)
Interest income	(132,613)	(168,950)
Net (gain) / loss on investment securities at fair value through profit or loss	(2,312,303)	2,133,191
	-----	-----
	(691,970)	(833,585)
Changes in operating assets and liabilities:		
(Increase) / decrease in other assets	(99,978)	11,908
(Decrease) / increase in due to related party	(2,734)	(11,689)
(Decrease) / increase in other payables	(2,243)	6,363
	-----	-----
Cash used in operations	(796,925)	(827,003)
Payments for purchase of investment securities	(6,157,226)	(11,902,606)
Proceeds from disposal of investment securities	8,349,023	9,352,228
Dividend received	1,016,947	936,217
Interest received	99,384	182,673
	-----	-----
Net cash flow from / (used in) operating activities	2,511,203	(2,258,491)
	-----	-----
Cash flows from financing activities		
Proceeds from subscription of redeemable units	199,940	319,940
Payments on redemption of redeemable units	(3,782,095)	(2,903,221)
	-----	-----
Net cash used in financing activities	(3,582,155)	(2,583,281)
	-----	-----
Net decrease in cash and cash equivalents	(1,070,952)	(4,841,772)
Cash and cash equivalents at the beginning of the year	11,891,449	16,733,221
	-----	-----
Cash and cash equivalent at the end of the year	10,820,497	11,891,449
	=====	=====
Comprising:		
Cash at banks (Note 6)	10,820,497	11,891,449
	=====	=====

The accompanying notes form an integral part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

1. **STATUS AND ACTIVITIES:**

Arab Bank MENA Fund (“the Fund”) is an open-ended investment fund established by Arab Bank MENA Fund Company B.S.C. (c) (“the Fund Company”). The Fund is an Expert Fund under the collective investment undertakings regulations issued by the Central Bank of Bahrain (“the CBB”) as contained in Volume 7 of the CBB Rulebook. The Fund Company has been registered at the Ministry of Industry & Commerce and is authorised and approved by the CBB on March 22, 2005. The Fund was launched on May 23, 2005.

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 Custody Company B.S.C. (c) is the custodian and administrator (referred to as “the Custodian” or “the Administrator”) 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 market performance. The Fund may distribute dividends on an annual basis, upon the sole discretion of the Investment Manager.

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 STANDARDS:**

2.1 **Standards and Interpretations effective for the current period**

The following new and revised standards and interpretations have been adopted in the current period with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

2.1 Standards and Interpretations effective for the current period (Continued)

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognised in profit or loss.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS 34; IFRIC 13.

2.2 Standards and Interpretations in issue but not yet effective

The Division has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

- | | Effective for
annual periods
beginning on or after |
|--|---|
| <ul style="list-style-type: none"> • IFRS 9 <i>Financial Instruments</i>. The requirements of IFRS 9 represent a significant change from the classification and measurement requirements in IAS 39 <i>Financial Instruments: Classification and Measurement</i> in respect of financial assets. The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of the issuer. | January 1, 2015 |
| <ul style="list-style-type: none"> • IFRS 10 Consolidated Financial Statements uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been amended for the issuance of IFRS 10. | January 1, 2013 |

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

2.2 **Standards and Interpretations in issue but not yet effective (Continued)**

- | | Effective for
annual periods
beginning on or after |
|---|---|
| <ul style="list-style-type: none"> • IFRS 11 <i>Joint Arrangements</i> establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11. | January 1, 2013 |
| <ul style="list-style-type: none"> • IFRS 12 <i>Disclosure of Interests in Other Entities</i> combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard. | January 1, 2013 |
| <ul style="list-style-type: none"> • IFRS 13 <i>Fair Value Measurement</i> issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. | January 1, 2013 |
| <ul style="list-style-type: none"> • Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. | July 1, 2012 |
| <ul style="list-style-type: none"> • Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale | January 1, 2012 |

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

2.2 **Standards and Interpretations in issue but not yet effective (Continued)**

	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to IAS 19 Employee Benefits eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur. 	January 1, 2013
<ul style="list-style-type: none"> • IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i> 	January 1, 2013
<ul style="list-style-type: none"> • Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities 	January 1, 2013
<ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities 	January 1, 2014
<ul style="list-style-type: none"> • Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9 	1 January 2015 (or otherwise when IFRS 9 is first applied)
<ul style="list-style-type: none"> • Amendments to IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 12 <i>Disclosures of Interests in Other Entities</i> and IAS 27 <i>Separate Financial Statements</i> relating to exception from the requirement to consolidate subsidiaries for eligible Investment Entities 	January 1, 2014

The Directors anticipate that IFRS 9, that will be adopted in the Fund’s financial statements for the annual period beginning October 1, 2015, and that the application of the new standard may have a significant impact on amounts reported in respect of the Fund’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Except for the effect as a result of adopting IFRS 9, the Directors anticipate that all of the above Standards and Interpretations as applicable, will be adopted in the Fund’s financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. **SIGNIFICANT ACCOUNTING POLICIES:**

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in conformity with the prospectus and the relevant provisions of the CBB Rulebook Volume 7.

Basis of Preparation

The financial statements are prepared under the historical cost convention, except for the measurement of certain financial assets at fair value.

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) **Investment in Securities**

The values of securities listed on a securities exchange are based on the official closing 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.

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

Investments in listed securities are classified as securities 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 profit or loss. The net investment gain or loss recognised in the profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-Sale (“AFS”) 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 measured 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 other comprehensive income 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 profit or loss 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 profit or loss but will be recorded as an increase in the fair value reserve.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

(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 measured at amortised cost using the effective interest method less any impairment.

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 that 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, to the net carrying amount on initial recognition.

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

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

Interest income is 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.

(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 measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

The effective interest method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, the Fund's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the sum of the consideration paid and payable is recognised in profit or loss.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

(f) **Expenses**

All recurring expenses are accounted for on an accrual basis.

(g) **Foreign Currencies**

Foreign currency transactions are recognised in United States Dollars at the approximate rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated into United States Dollars at the year end rates of exchange. Exchange differences, are reported as part of the results for the year.

(h) **Impairment of Financial Assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be 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 financial asset have been affected.

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.

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 trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

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

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 financial asset 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 in other comprehensive income.

(i) **Derecognition of Financial Assets**

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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.

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4. **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 requirements 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 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 equity investments

Available-for-sale equity 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 reporting 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 receivables

The Fund's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in profit or loss. 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.

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5. **FEES:**

(a) **Management Fee**

Under the Investment Management agreement, the Fund has to pay the Investment Manager 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 fee accrue monthly and are payable quarterly in arrears by the Fund.

(b) **Administration and Custody Fees**

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 fees 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 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 and time deposits held at banks.

	<u>2012</u>	<u>2011</u>
	<u>USD</u>	<u>USD</u>
Current accounts	10,786,429	8,877,217
Time deposits	34,068	3,014,232
	-----	-----
	<u>10,820,497</u>	<u>11,891,449</u>
	=====	=====

Time deposits carry interest rates between 1% and 9% per annum (2011: 1% and 4% per annum) and have original maturities of less than three months.

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7. INVESTMENT SECURITIES:

This caption is composed of the following:

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Investments at fair value through profit or loss (Note 7.1)	19,986,752	20,806,246
Available-for-sale investments (Note 7.2)	1,820,087	850,144
	<u>21,806,839</u>	<u>21,656,390</u>

7.1 Investments at fair value through profit or loss:

Investments at fair value through profit or loss represent investments in securities quoted on various GCC and MENA stock exchanges.

	<u>September 30,</u> <u>2012</u> <u>USD</u>	<u>September 30,</u> <u>2011</u> <u>USD</u>
Financial assets at fair value through profit or loss at beginning of the year	20,806,246	20,491,946
Purchases during the year	5,217,226	11,651,946
Proceeds from sales during the year	(8,349,023)	(9,204,455)
Net realised gain / (loss) on disposal of investments at fair value through profit or loss	1,108,859	(210,854)
Increase / (decrease) in fair value of investments at fair value through profit or loss	1,203,444	(1,922,337)
	<u>19,986,752</u>	<u>20,806,246</u>

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7. **INVESTMENT SECURITIES: (CONTINUED)**

7.2 **Available-for-sale investments:**

The analysis of listed bonds is as follows:

		<u>September 30, 2012</u>			
	<u>Maturity</u>	<u>Coupon rate %</u>	<u>Cost USD</u>	<u>Fair Value USD</u>	<u>Fair Value Reserve USD</u>
Bank Muscat non - guaranteed bonds	June 30, 2014	6.25%	579,589	577,997	(1,592)
Lebanese Republic - non – guaranteed bonds	December 17, 2017	7.90%	250,660	260,060	9,400
HKJ Euro bonds	November 12 , 2015	3.875%	940,000	982,030	42,030
			1,770,249	1,820,087	49,838
			1,770,249	1,820,087	49,838
		<u>September 30, 2011 (Restated)</u>			
	<u>Maturity</u>	<u>Coupon rate %</u>	<u>Cost USD</u>	<u>Fair Value USD</u>	<u>Fair Value Reserve USD</u>
Bank Muscat non - guaranteed bonds	June 30, 2014	6.25%	579,589	589,458	9,869
Lebanese Republic - non - guaranteed bonds	December 17, 2017	7.90%	250,660	260,686	10,026
			830,249	850,144	19,895
			830,249	850,144	19,895
		<u>October 1, 2010 (Restated)</u>			
	<u>Maturity</u>	<u>Coupon rate %</u>	<u>Cost USD</u>	<u>Fair Value USD</u>	<u>Fair Value Reserve USD</u>
Bank Muscat non - guaranteed bonds	June 30, 2014	6.25%	579,589	595,869	16,280
AHB non-guaranteed Bonds	May 15, 2011	5.55%	159,546	159,546	-
			739,135	755,415	16,280
			739,135	755,415	16,280

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7. **INVESTMENT SECURITIES: (CONTINUED)**

- (a) Investments in listed shares are classified as investments at fair value through profit or loss and investments in listed bonds are classified as available-for-sale. 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 quoted market prices of the relevant stock exchanges. Certain markets and securities may be illiquid and published market prices may not necessarily represent realisable value. The Investment Manager manages market illiquidity by diversifying holdings across many markets and sectors and by maintaining healthy cash balances.

8. **RELATED PARTY TRANSACTIONS:**

Arab Bank MENA Fund Company B.S.C. (c) is a related party as it was incorporated to create the Fund.

Arab Bank Mena Fund is a related party as it is the principal shareholder of the Fund Company.

Arab Bank Plc is a related party as it is the ultimate parent of the Fund Company, correspondingly all branches of Arab Bank Plc are also considered as related parties. Oman Arab Bank is an affiliate of Arab Bank Plc.

- 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>(Payable) / receivable</u>	
		<u>earned September 30,</u>		<u>as at September 30,</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
		<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Al Arabi					
Investment Group	Management fees	(496,489)	(537,384)	(126,599)	(129,333)
Arab Bank Plc,					
Jordan	Dividend income	-	16,000	-	-
		=====	=====	=====	=====

- 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>2012</u>	<u>2011</u>
- Arab Bank (Switzerland)	Subsidiary of Arab Bank Plc, Jordan	748,443	968,160
- 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

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

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

<u>Related Party</u>	<u>Nature of Balance</u>	<u>Nature of Relationship</u>	<u>September 30,</u>	
			<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Arab Bank Plc – Wholesale Bank, Bahrain	Current account	Branch of Arab Bank Plc, Jordan	40,798	1,418,244
Arab Bank Plc – Retail Bank, Bahrain	Current accounts	Branch of Arab Bank Plc, Jordan	33,704	20,434
Arab Bank Plc, Jordan	Equity shares (2012: 55,200 shares) (2011: 55,200 shares)	Ultimate Parent Company of the Fund Company	560,972	623,249
Arab Bank Plc, Jordan	Current account	Ultimate Parent Company of the Fund Company	172,875	9,591
Arab Bank Plc, Palestine	Current account	Branch of Arab Bank Plc, Jordan	30,645	24,544
Arab Bank Plc, Cairo	Current account	Branch of Arab Bank Plc, Jordan	45,610	425,587
Oman Arab Bank S.A.O.C.	Current accounts	Affiliate Company of Arab Bank Plc, Jordan	4,349,726	2,485,215
Arab Bank Syria	Current account	Affiliate Company of Arab Bank Plc, Jordan	37,543	25,248
	Time deposit		34,068	43,431

9. **OTHER PAYABLES :**

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Custody and administration fees	22,692	18,754
Registrar fee	3,382	3,658
Professional fee	16,711	16,446
Other liabilities	1,758	7,928
	-----	-----
	<u>44,543</u>	<u>46,786</u>

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10. **CAPITAL:**

The capital of the Fund consists of redeemable units with a par value of USD 10 per unit, which do not carry voting rights. They are entitled to dividends and to a proportionate share of the Fund's net assets attributable to holders of redeemable units.

All issued redeemable units are fully paid. The Fund's capital is represented by these redeemable units. Quantitative information about the Fund's capital is provided in the statement of changes in net assets attributable to holders of redeemable units.

Each unit issued confers upon the unitholders an equal interest in the Fund, and is of equal value. A unit does not confer any interests in any particular asset or investment of the Fund.

11. **INVESTMENT INCOME:**

The caption is composed of the following:

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Dividend income	1,014,997	938,167
Interest income - available-for-sale investments	86,064	100,947
Interest income - bank accounts	46,549	68,003
	-----	-----
	<u>1,147,610</u>	<u>1,107,117</u>
	=====	=====

12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:**

Financial instruments consist of financial assets and financial liabilities.

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

Financial liabilities of the Fund include due to related party and 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.

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

Categories of financial instruments

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Financial assets		
Investment securities at fair value through profit or loss	19,986,752	20,806,246
Available-for-sale investments	1,820,087	850,144
Receivables at amortised cost (including cash at banks)	10,969,703	11,909,398
Financial liabilities		
Amortised cost	171,142	176,119

Financial risk management objectives

The Investment Manager provides services to the Fund, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Fund through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include credit risk, liquidity risk, market risk comprising interest rate risk, foreign currency risk and equity price risk.

12.1 **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 counterparties 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 good credit - ratings assigned by international rating agencies.

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.

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

12.2 **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 unitholders 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, 2012 and 2011 have a maturity of three months or less.

12.3 **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.

12.3.1 **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 and a time deposits.

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.

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

12.3 **MARKET RISK (CONTINUED)**

12.3.1 **Interest Rate Risk: (Continued)**

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the bonds and a time deposit. An increase or decrease of 25 basis points 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 increase/decrease and profit for the year would increase/decrease by USD 4,656 (2011: net assets increase/decrease and loss for the year would decrease/increase by USD 9,606)

The Fund's sensitivity to interest rates has increased slightly during this year mainly due to the slight increase in interest bearing instruments.

12.3.2 **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 financial assets and financial liabilities are denominated in GCC currencies, Jordanian Dinars ("JOD"), Egyptian Pounds ("EGP"), Syrian Pounds ("SYP") Moroccan Dirham ("MAD"), Libyan Dinar ("LYD), Lebanese Pound ("LBP") and United States Dollars. As the GCC currencies (except for the Kuwaiti Dinar), the Jordanian Dinar and the Lebanese Pound 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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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

12.3 **MARKET RISK (CONTINUED)**

12.3.2 **Currency Risk: (Continued)**

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

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
AED	5,871,126	5,579,161	-	-
SAR	12,541,293	10,898,291	500	250
OMR	1,248,435	2,436,021	-	-
KWD	871,572	1,324,305	21	6,328
BHD	276,012	285,603	17,499	17,334
QAR	7,823,475	7,710,409	-	-
	-----	-----	-----	-----
GCC Currencies	28,631,913	28,233,790	18,020	23,912
	-----	-----	-----	-----
EGP	706,012	1,302,998	-	-
SYP	194,588	267,332	10	1
MAD	3,630	3,757	-	-
JOD	1,623,680	1,685,696	153	175
LYD	30,684	30,963	-	-
LBP	284,626	266,407	286	286
	-----	-----	-----	-----
Non-GCC Currencies	2,843,220	3,557,153	449	462
	-----	-----	-----	-----
	<u>31,475,133</u>	<u>31,790,943</u>	<u>18,469</u>	<u>23,450</u>

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.

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

12.3 **MARKET RISK: (CONTINUED)**

12.3.2 **Currency Risk: (Continued)**

Foreign currency sensitivity analysis (Continued)

<u>Currency</u>	<u>2012</u> <u>Effect on Profit or</u> <u>Loss</u> <u>USD</u>	<u>2011</u> <u>Effect on Profit or</u> <u>Loss</u> <u>USD</u>
KWD	43,578	65,899
EGP	35,301	65,150
SYP	9,724	13,367
MAD	182	188
LYD	1,534	1,549

12.3.3 **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, Saudi Arabia, Bahrain, Palestine, Iraq, Oman, Jordan, Qatar, Syria, Kuwait, Egypt and Libya.

The effect on the results for the year (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</u> <u>price</u> <u>%</u>	<u>2012</u> <u>Effect on Profit or</u> <u>Loss</u> <u>USD</u>	<u>2011</u> <u>Effect on Profit or</u> <u>Loss</u> <u>USD</u>
Palestine and Iraq	+ 5	+ 7,487	+ 8,782
Egypt	+ 5	+ 36,143	+ 51,612
Jordan	+ 5	+ 73,510	+ 83,805
Kuwait	+ 5	+ 6,589	+ 6,632
Bahrain	+ 5	+ 12,115	+ 13,263
Qatar	+ 5	+ 271,586	+ 225,673
United Arab Emirates	+ 5	+ 144,178	+ 128,243
Saudi Arabia	+ 5	+ 434,808	+ 507,907
Syria	+ 5	+ 6,143	+ 9,933
Oman	+ 5	+ 6,778	+ 4,465

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12. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

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

The effect on other comprehensive income due to a 5% change in market prices for the listed bonds classified as available-for-sale would be USD 91,004 (2011: USD 42,508).

There would be an equal and opposite impact on the results for the year and other comprehensive income (as appropriate), had there been a decrease in market prices by 5%.

12.4 **CAPITAL RISK MANAGEMENT**

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide return for Unitholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Fund consists of Unitholders' capital. The Fund does not have borrowings.

13. **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 carried at amortised cost are not significantly different from the carrying amounts included in the financial statements as at the reporting dates.

13.1 **Fair value measurements recognised in the statement of financial position**

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets categorised as FVTPL and available-for-sale are grouped within Level 1. Further, there were no transfers between Level 1, Level 2 and Level 3 during the year.

There are no financial liabilities at FVTPL at the reporting dates.

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14. **PRIOR PERIOD ERROR:**

An error was discovered in 2012 relating to the cost of available-for-sale investments recorded in the Fund's books. The management decided to adjust this error by amending the cost of these investments and accordingly revising the fair value reserve pertaining to these available-for-sale investments. As part of the rectifying procedure the amounts recorded in the earlier years were adjusted and an amount of USD 16,226 was transferred from the net cumulative realised loss to the fair value reserve for available-for-sale investments under equity representing the revaluation gain. These adjustments did not result in a change to the net assets or the net asset value per unit. In accordance with the requirements of IAS 8: Change in Accounting Estimates and Errors, this has been rectified by restating prior periods' investments classified as available-for-sale and the related fair value reserve as at September 30, 2011 and October 1, 2010.

	<u>September 30</u> <u>2011</u> <u>USD</u> <u>As previously</u> <u>stated</u>	<u>September 30</u> <u>2011</u> <u>USD</u> <u>As</u> <u>restated</u>
Fair value reserve for available-for-sale investments	3,669	19,895
Net gain arising on revaluation of available-for-sale Investments	2,513	3,615
Accumulated losses	(18,903,335)	(18,919,561)
Net assets	33,389,669	33,389,669
	<u>September 30,</u> <u>2010</u> <u>USD</u> <u>As previously</u> <u>stated</u>	<u>October 1,</u> <u>2010</u> <u>USD</u> <u>As</u> <u>restated</u>
Fair value reserve for available-for-sale investments	1,156	16,280
Net loss arising on revaluation of available-for-sale Investments	(23,452)	(8,328)
Accumulated losses	(17,044,778)	(17,059,902)
Net assets	37,828,994	37,828,994

ANNEXURE
ADDITIONAL DISCLOSURES

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Additional Disclosures

The additional disclosures as required by “Appendix CRR - (i) – Contents of Financial Reports” to the Rulebook on Collective Investment Undertakings (CIU) – Volume 7 are as follows:

I Investment Portfolio as at September 30, 2012

Top ten holdings

<u>Description</u>	<u>Fair Value</u> <u>USD</u>	<u>Fair Value</u> <u>as</u> <u>% of total</u> <u>NAV</u>
Industries Qatar	3,091,628	9.48
Etihad Etisalat	2,710,000	8.31
Saudi Telecom	2,223,200	6.82
Commercial Bank of Qatar	1,585,846	4.86
Drake and Scull International	1,347,709	4.13
Al Rajhi Bank	1,330,000	4.08
Air Arabia	988,320	3.03
HKJ Euro bonds	982,030	3.01
Financial Institution Fund	855,579	2.62
Qatar Gas	584,006	1.79
Total	15,698,318	48.13

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II **Performance table**

a) **Comparative table**

	September 30, 2009 USD	September 30, 2010 USD	September 30, 2011 USD	September 30, 2012 USD
Net Asset Value	38,486,691	37,828,994	33,389,669	32,605,400
NAV Per Unit	7.3820	7.4961	7.1058	7.7320

b) **Performance record**

	<u>Highest</u> <u>Redemption</u> <u>Price</u> <u>USD</u>	<u>Lowest</u> <u>Redemption</u> <u>Price</u> <u>USD</u>
September 30, 2012	7.9491	7.0625
September 30, 2011	7.5676	7.1947
September 30, 2010	7.6954	7.1978
September 30, 2009	7.5549	5.3685
September 30, 2008	12.4425	9.8756
September 30, 2007	10.6125	9.3277
September 30, 2006	10.1472	9.0445
September 30, 2005*	10.0000	10.0000

* The first financial statements cover the period from 23 May 2005 (the date of commencement of operations) to September 30, 2005.