

ARAB BANK MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO
SEPTEMBER 30, 2006

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

Directors

Mr. Omar M Masri (Resigned on July 26, 2006)
Mr. Eyad I Mashal (Resigned on July 26, 2006)
Mr. Abdul Kader A Askalan
Mr. Lo'ai B Bataineh (Resigned on November 15, 2006)
Mr. Jawdat Halabi (Appointed with effect from July 26, 2006)
Mr. Adel Kasaji (Appointed with effect from July 26, 2006)
Mr. Qutaiba M. Hawamdeh (Appointed with effect from November 15, 2006)
Mr. Samer S. Tamimi (Appointed with effect from November 15, 2006)

Registered Office

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

Investment Manager

Atlas Investment Group

Administrator, Custodian and Registrar

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

Principal Bankers

Arab Bank plc

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 period from May 23, 2005, (inception) to September 30, 2006.

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 summarized on page 3.

APPROPRIATIONS

None

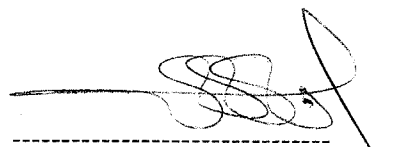
CHANGES IN DIRECTORS

Mr. Omar M Masri (Resigned on July 26, 2006)
Mr. Eyad I Mashal (Resigned on July 26, 2006)
Mr. Lo'ai B Bataineh (Resigned on November 15, 2006)
Mr. Jawdat Halabi (Appointed with effect from July 26, 2006)
Mr. Adel Kasaji (Appointed with effect from July 26, 2006)
Mr. Qutaiba M. Hawamdeh (Appointed with effect from November 15, 2006)
Mr. Samer S. Tamimi (Appointed with effect from November 15, 2006)

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending September 30, 2007 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Director
November 5, 2006

Deloitte
DT 1978-12

Deloitte & Touche
 Office 44, 4th Floor
 Al Zamil Tower
 Government Avenue
 P. O. Box 421
 Manama
 Kingdom of Bahrain

INDEPENDENT AUDITOR'S REPORT

The Shareholders
 Arab Bank Mena Fund
 Manama, Kingdom of Bahrain

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 C.R. 18670

We have audited the statement of assets and liabilities of Arab Bank MENA Fund as of September 30, 2006, and the related statements of operations and changes in net assets for the period from May 23, 2005 (inception) to September 30, 2006 then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arab Bank MENA Fund as of September 30, 2006, and the results of its operations and the changes in its net assets for the period then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to the Note 6 (a) to the financial statements. The investments at fair value through profit or loss represent investments in listed securities, 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
 November 5, 2006


 Deloitte & Touche

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2006

	<u>Note</u>	<u>September 30,</u> <u>2006</u> <u>USD</u>
ASSETS:		
Cash at banks	5	27,475,559
Investment in securities, at fair value	6	24,155,112
Other assets	7	719,547

Total Assets		52,350,218

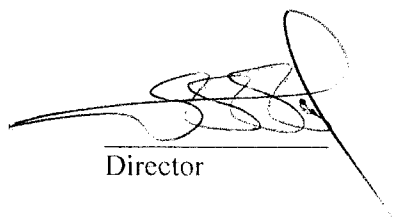
LIABILITY:		
Accrued expenses and other payables	9	1,111,381

Total liabilities		1,111,381

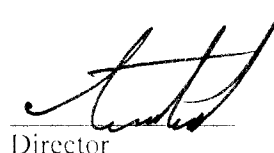
Net assets		51,238,837
		=====
ANALYSIS OF NET ASSETS:		
Capital	10	54,359,857
Decrease in net assets		(3,121,020)

Net assets		51,238,837
		=====
Net assets per share (5,310,716 units as at September 30, 2006)		9.6482
		=====

The financial statements were approved by the Directors on November 5, 2006 and signed on their behalf by:



 Director



 Director

The attached notes 1 to 14 form part of these financial statements

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

	<u>Note</u>	<u>Period from May 23, 2005 (inception) to September 30, 2006</u> <u>USD</u>
INVESTMENT INCOME:		
Interest income	11	386,926
Dividend income	11	541,525

		928,451

EXPENSES:		
Manager fees	12	866,827
Custodian & administration fees	12	79,472
Registrar fees	12	30,603
Incorporation expenses		95,143
Professional fees		13,395
Bank charges		14,322
Other expenses		43,192

Total expenses		1,142,954

Investment loss – net		(214,503)
Realised and unrealised loss on investments:		
Net realised loss on investments		(2,291,887)
Change in fair value of investments	6	(614,630)

Net loss on investments		(2,906,517)

Net decrease in net assets resulting from operations		(3,121,020)
		=====

The attached notes 1 to 14 form part of these financial statements

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

	<u>Note</u>	<u>Period from May 23, 2005 (Inception) to September 30, 2006</u> USD
Decrease in net assets from operations:		
Investment loss - net		(214,503)
Net realised loss on investments		(2,291,887)
Change in fair value of investments for the period		(614,630)

Net decrease in net assets resulting from operations		(3,121,020)
Change in net assets from capital share transactions		54,359,857

Change in net assets		51,238,837
Net assets – beginning of period		-

Net assets – end of period		51,238,837
		=====

The attached notes 1 to 14 form part of these financial statements

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

1. **FORMATION AND OBJECTIVE OF THE FUND:**

The 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 (CLOSED) ("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 Central Bank of Bahrain.

The Fund is managed by Atlas Investment Group ("the Manager") who disposes of and manages the Fund as a fiduciary patrimony on a discretionary basis pursuant 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 in equities with possible investment in bonds aiming to preserve capital during period of weak equity market performance and maximizing capital growth during period of strong equity markets performances. 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 Fund is denominated in U.S. Dollars.

These financial statements are the first published by the Fund since its inception. Financials as at September 30, 2005 were not published as the closing date was September 22, 2005 (extended from August 31, 2005 with CBB approval) and units were allotted after September 30, 2005. It was thus decided that the first financial statements would be published for the period up to September 30, 2006

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

At the date of authorization of these financial statements, the following applicable Standards and Interpretations were in issue but not yet effective which may be relevant to the Fund.

- IAS 39 - Financial Instruments: Measurement and Recognition – Amendments
- IFRS 7 - Financial Instruments – Disclosures
- IFRIC 4 - Determining whether an Arrangement contains a Lease
- IFRIC 9 - Reassessment of Embedded Derivatives

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Fund.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements are prepared in accordance with International Financial Reporting Standards.

(a) **Investments in Securities**

Investments in securities are classified as fair value through profit or loss, and are stated at fair value which is determined daily on the basis of market prices or present value of the future cash flows derived therefrom. The change in fair value of these securities is recorded in the statement of operations.

(b) **Interest And Dividend Income Recognition**

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

Dividend income on shares are recognised when the right to receive such dividend is established.

(c) **Related Party Transactions**

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

(d) **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, not considered material, are reported as part of the results for the year.

4. **FEES:**

(a) **Management Fee**

Under the Investment Management agreement, the Fund has agreed 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 Net Asset Value, ("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 PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

4. **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 day following the last day of each quarter and are calculated as follows:

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

The minimum total annual fee for providing custody and administration services will be USD 55,000.

(c) **Registrar**

The Fund shall be responsible for the fees and expenses of the Registrar. Currently, the Registrar and Transfer Agent's fee is being paid at USD 4,000 per annum up to 50 unit holders and additional charge of USD 50 per annum per annum for every additional unit holders. 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.

5. **CASH AT BANKS:**

Cash at banks represent balances in current accounts and time deposits held with the Manager and other Banks.

	<u>September 30, 2006</u>
	<u>USD</u>
Current accounts	23,053,688
Time deposits	
- Union Bank	2,148,467
- Arab Bank Plc (OBU)	2,273,404

	27,475,559
	=====

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

6. INVESTMENT IN SECURITIES:

This caption is composed of the following:

	<u>September 30,</u> <u>2006</u> <u>USD</u>
Investments in listed shares (note 6.1)	23,004,532
Investments in listed bonds (note 6.2)	1,150,580

	<u>24,155,112</u>

6.1 Investments In Listed Shares

	<u>September 30, 2006</u>		
	<u>Cost</u> <u>USD</u>	<u>Market value</u> <u>USD</u>	<u>Unrealised</u> <u>gain / (loss)</u> <u>USD</u>
Palestine – USD	69,564	68,250	(1,314)
Egypt – EGP	954,285	968,710	14,425
Jordan – JOD	3,819,890	3,775,776	(44,114)
Kuwait – KWD	9,843,681	9,680,851	(162,830)
United Kingdom – USD	564,615	558,000	(6,615)
Oman – OMR	1,582,923	1,770,704	187,781
Qatar – QAR	1,817,506	1,306,853	(510,653)
Dubai – AED	4,607,269	4,520,102	(87,167)
Kingdom of Saudi Arabia – SAR	359,429	355,286	(4,143)
	-----	-----	-----
	<u>23,619,162</u>	<u>23,004,532</u>	<u>(614,630)</u>

- (a) Investments in listed shares are classified as investments at fair value through profit or loss. These securities provides 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 realizable value because of market illiquidity.
- (b) Investments in listed shares in Kuwait include subscription rights in shares of National Bank of Kuwait. As the investment manager intended to subscribe for this issue and had taken this decision before the balance sheet date, these rights to subscribe to 32,500 shares are recognised as financial assets and reflected at fair value based on mark to market. The unrealised gain with regard to the rights amounts to USD 105,655. The corresponding liability arising is reflected under accrued expenses and other payables. The corresponding shares were subsequently received in November 2006.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

6. **INVESTMENT IN SECURITIES: (CONTINUED)**

6.2 Investments In Listed Bonds

		<u>September 30, 2006</u>			
		<u>Coupon</u>		<u>Market</u>	
		<u>rate</u>	<u>Cost</u>	<u>Value</u>	
		<u>%</u>	<u>USD</u>	<u>USD</u>	
<u>Maturity</u>			<u>Face Value</u>	<u>Value</u>	
			<u>USD</u>	<u>USD</u>	
Bank Muscat non guaranteed bond	June 30, 2014	6.25	560,264	551,977	554,002
Bank Dhofar Al Omani Al Faransi bond	March 30, 2008	7.00	299,997	289,903	291,557
AHB non guaranteed bond	May 15, 2011	5.50	159,700	156,112	156,821
ZARA bonds	December 12, 2009	6.00	70,698	70,641	71,937
MECE bonds	December 21, 2009	6.00	75,081	75,000	76,263
			-----	-----	-----
			1,165,740	1,143,633	1,150,580
			=====	=====	=====

The carrying value of these bonds closely approximate their fair values.

7. **OTHER ASSETS:**

The caption is composed of the following:

	<u>September 30, 2006</u>
	<u>USD</u>
Receivables for sale of investments	696,747
Accrued interest receivable on bonds	22,800

	719,547
	=====

8. **RELATED PARTY TRANSACTIONS:**

- The following transactions occurred between the fund and its related party:

<u>Related Party</u>	<u>Nature of</u>	<u>Amount Incurred</u>	<u>Payable as at</u>
	<u>Transaction</u>	<u>USD</u>	<u>September 30, 2006</u>
			<u>USD</u>
Atlas Investment Group	Management fees	866,827	192,736

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

8. RELATED PARTY TRANSACTIONS: (CONTINUED)

- The following related parties own units in the Fund as at September 30, 2006.

<u>Related Party</u>	<u>Nature of Relationship</u>	<u>Number of Units</u>
Arab Bank (Switzerland)	Subsidiary of Arab Bank Plc	888,969
Arab Bank Plc – OBU	Branch of Arab Bank Plc	500,000

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

- The Fund has invested in the following:

<u>Related Party</u>	<u>Nature of Transaction</u>	<u>Nature of Relationship</u>	<u>Fair Value USD</u>
Arab Bank Plc – OBU (Bahrain)	Fixed Time Deposit	Branch of Arab Bank Plc	2,273,403
Arab Bank Plc, Jordan	Equity shares	Ultimate Holding Company	758,159

9. ACCRUED EXPENSES AND OTHER PAYABLES :

The caption is composed of the following:

	<u>September 30, 2006</u>
	<u>USD</u>
Accrued expenses	259,521
Payable for investment purchases	851,859

	1,111,380
	=====

Accrued expenses consists primarily of management fees, custody fees and registrar fees for the 3rd quarter of 2006 (refer to note 12).

Payable for investment purchased as of September 30, 2006 include accrual for the right issue of shares of National Bank of Kuwait amounting to USD 229,293 and as at the period end the bank has not announced the subscription period.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

10. **CAPITAL:**

The caption is composed of the following:

	<u>Period from May 23, 2005</u> <u>(Inception) to</u> <u>September 30, 2006</u>	
	<u>No. of units</u>	<u>USD</u>
Opening balance	-	-
Subscriptions during the period	6,940,115	69,539,600
Redemptions during the period	(1,629,399)	(15,179,743)
	-----	-----
Ending balance	5,310,716	54,359,857
	=====	=====

11. **INVESTMENT INCOME:**

The caption is composed of the following:

	<u>Period from May 23,</u> <u>2005 (Inception) to</u> <u>September 30, 2006</u> <u>USD</u>
Interest income on bank accounts	289,952
Interest income on bonds	57,298
Interest income on time deposits	39,676

	386,926
Dividend income on securities	541,525

	928,451
	=====

12. **MANAGEMENT AND OTHER FEES:**

	<u>Period from May 23, 2005</u> <u>(Inception) to September 30,</u> <u>2006</u>	
	<u>%</u>	<u>USD</u>
Investment management fee	88.73	866.827
Custody and administration fee	8.14	79.472
Registrar fees	3.13	30.603
	-----	-----
	100.00	976.902
	=====	=====

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

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

14. **PORTFOLIO RISK ASSESSMENT:**

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 the various types of counterparties. However, where concentration is inevitable, the Fund takes more than adequate precautions to reduce this additional risk to acceptable levels.

Liquidity Risk:

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Fund limits its liquidity risk by ensuring adequate bank facilities are available.

Market Risk:

Market risk is the risk that the value 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.

Interest Rate Risk

The interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MAY 23, 2005 (INCEPTION) TO SEPTEMBER 30, 2006

14. **PORTFOLIO RISK ASSESSMENT: (CONTINUED)**

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 the bonds.

The Investment manager reviews the market analysis and expectations for interest rate movements as the basis on which Investment manager will manage the investments.

Currency Risk:

Currency risk is the risk that the value 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 and Jordanian Dinars is effectively pegged to the United States Dollar, balances in GCC currencies and Jordanian Dinars are not considered to represent a significant currency risk.