

ARAB BANK MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

Directors

Mr. Abdul Kader A Askalan
Mr. Jawdat Halabi
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 Bankers

Arab Bank plc
Oman Arab Bank S.O.A.C.

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, 2008.

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 5.

APPROPRIATIONS

None

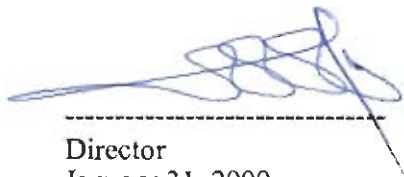
CHANGES IN DIRECTORS

Mr. Jawdat Halabi had resigned from the Fund with effect from October 1, 2008.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending September 30, 2009 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Director
January 31, 2009

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, 2008, 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.

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, 2008 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 7 to the financial statements. The investments at fair value through profit or loss 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 31, 2009

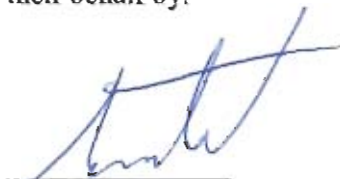
Deloitte & Touche
Deloitte & Touche

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN


STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2008

	<u>Notes</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
ASSETS:			
Cash at banks	6	1,919,826	4,420,014
Securities designated at fair value through profit or loss	7	50,179,124	40,245,052
Investments – held to maturity	7	884,426	1,312,552
Other assets	8	150,488	479,218
Total assets		53,133,864	46,456,836
LIABILITIES:			
Bank overdraft		149	65,562
Accrued expenses and other payables	10	667,898	278,009
Total liabilities		668,047	343,571
Net assets		52,465,817	46,113,265
ANALYSIS OF NET ASSETS:			
Capital	11	56,914,271	44,872,766
Net cumulative realised gain/(loss)		7,063,371	(631,965)
Changes in fair value of investments		(11,511,825)	1,872,464
Net assets		52,465,817	46,113,265
Net assets value per unit (5,312,659 units as at September 30, 2008) (4,345,164 units as at September 30, 2007)		9.8756	10.6125

The financial statements were approved by the Directors on January 31, 2009 and signed on their behalf by:



 Director



 Director

The attached notes 1 to 15 form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Notes</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
INVESTMENT INCOME:			
Interest income – Securities designated at fair value through profit or loss	12	41,888	562,977
Interest income – Investments held to maturity	12	66,721	81,076
Other interest income	12	119,196	362,448
Dividend income	12	1,969,230	744,364
Other operating income		37,407	8,425
Foreign exchange gain		474,856	-
		-----	-----
		2,709,298	1,759,290
		-----	-----
EXPENSES:			
Management fees	5 & 13	873,910	718,598
Custody and administration fees	5 & 13	78,455	65,259
Registrar fees	5 & 13	17,784	20,719
Professional fees		23,741	17,179
Bank charges		13,425	14,220
Other expenses		37,066	58,883
		-----	-----
Total expenses		1,044,381	894,858
		-----	-----
Investment gain – net		1,664,917	864,432
Realised and unrealised gain/(loss) on investments:			
Net realised gain on investments		6,030,419	1,011,175
Change in fair value of investments designated at fair value through profit or loss	6	(13,384,289)	2,485,912
		-----	-----
Net (loss)/ gain on investments		(7,353,870)	3,497,087
		-----	-----
Net (decrease)/increase in net assets resulting from operations		<u>(5,688,953)</u>	<u>4,361,519</u>

The attached notes 1 to 15 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, 2008

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Increase/(decrease) in net assets from operations:		
Investment gain – net	1,664,917	864,432
Net realised gain on investments	6,030,419	1,011,175
Change in fair value of investments designated at fair value through profit or loss for the year	(13,384,289)	2,485,912
	-----	-----
Net (decrease)/increase in net assets resulting from operations	(5,688,953)	4,361,519
Change in net assets from capital share transactions	12,041,505	(9,487,091)
	-----	-----
Change in net assets	6,352,552	(5,125,572)
Net assets – beginning of year	46,113,265	51,238,837
	-----	-----
Net assets – end of year	<u>52,465,817</u>	<u>46,113,265</u>

The attached notes 1 to 15 form part of these financial statements.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Net (decrease)/increase in net assets from operations	(5,688,953)	4,361,519
Adjustments for:		
Dividend income	(1,969,230)	(744,364)
Interest income	(227,805)	(1,006,501)
Net loss/(gain) on investments	7,353,870	(3,497,087)
	-----	-----
	(532,118)	(886,433)
Changes in operating assets and liabilities:		
Decrease in other assets	361,195	345,498
Increase /(decrease) in other liabilities	389,889	(833,372)
	-----	-----
	218,966	(1,374,307)
Payments for purchase of securities	(47,650,054)	(61,944,432)
Proceeds from disposal of securities	30,790,238	48,039,027
Dividend received	1,935,752	643,117
Interest received	228,818	1,002,579
	-----	-----
Net cash used in operating activities	(14,476,280)	(13,634,016)
	-----	-----
Cash flow from financing activities		
Proceeds from issue of units	18,837,574	423,296
Payments on redemption of units	(6,796,069)	(9,910,387)
	-----	-----
Net cash from/(used in) financing activities	12,041,505	(9,487,091)
	-----	-----
Net decrease in cash and cash equivalents	(2,434,775)	(23,121,107)
Cash and cash equivalents at the beginning of the year	4,354,452	27,475,559
	-----	-----
Cash and cash equivalent at the end of the year	1,919,677	4,354,452
	=====	=====
Comprising:		
Cash at bank	1,919,826	1,745,930
Time deposits	-	2,674,084
Bank overdraft	(149)	(65,562)
	-----	-----
	1,919,677	4,354,452
	=====	=====

The attached notes 1 to 15 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, 2008

1. **STATUS AND ACTIVITIES:**

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. (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 Central Bank of Bahrain.

The Fund is managed by Al Arabi Investment Group (formerly known as Atlas Investment Group) (“the Investment Manager”) who disposes of and manages the Fund as a fiduciary patrimony on a discretionary basis authorize 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 maximizing 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.

2. **ADOPTION OF NEW AND REVISED STANDARDS:**

2.1 **Standards and Interpretations effective in the current year**

In the current year, the Fund has adopted IFRS 7-Financial Instruments: Disclosures which is effective for annual periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1-Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Fund’s financial instruments and management of capital (see note 13).

Following two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

- IFRIC 10 Interim Financial Reporting and Impairment; and
- IFRIC 11 IFRS2: Group and Treasury Share Transactions.

The adoption of these Interpretations has not led to any changes in the Fund’s accounting policies.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

2.2 Standards and Interpretations in issue not yet adopted

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

Name of Standard / Interpretation	Effective for annual periods beginning on or after
<i>New Standards:</i>	
IFRS 8 Operating Segments	January 1, 2009
<i>Amendments to Standards:</i>	
IAS 1 Presentation of Financial Statements	January 1, 2009
IAS 23 Borrowing Costs	January 1, 2009
IFRS 3 Business Combinations	July 1, 2009
IAS 27 Consolidated and Separate Financial Statements	July 1, 2009
IAS 31 Interests in Joint Ventures	July 1, 2009
IAS 32 & IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation	January 1, 2009
IFRS 1 & IAS 27 Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate	January 1, 2009
Various Standards Amendments resulting from May 2008 Annual Improvements to IFRS's	Various
IAS 39 Eligible Hedged Items	July 1, 2009
IAS 39 & IFRS 7 Reclassification of Financial Assets	July 1, 2008
IFRS 1 First-time Adoption of Financial Reporting Standards	July 1, 2009
<i>New Interpretations:</i>	
IFRIC 12 Service Concession Arrangements	January 1, 2008
IFRIC 13 Customer Loyalty Programmes	July 1, 2008
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 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 17 Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 18 Transfers of Assets from Customers	July 1, 2009

The Management anticipates that the adoption of these 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, 2008

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, this being the presentation 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.

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.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

(a) **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 right to receive such dividend is established.

(c) **Valuation of Units**

The prices at which units may be issued and redeemed are calculated by reference to the NAV of the Fund calculated in accordance with the Fund's prospectus.

(d) **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.

(e) **Expenses**

All recurring expenses are accounted for on an accrual basis.

(f) **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.

(g) **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 on points 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.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

(h) **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 unlisted 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 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.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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.

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 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.

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.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

5. **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.

(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 (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 Africa Arab 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 unit holders 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 and time deposits held with the Investment Manager and other Banks.

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Current accounts	1,919,826	1,745,930
Time deposits	-	2,674,084
	-----	-----
	<u>1,919,826</u>	<u>4,420,014</u>

The time deposits have an original maturity of three months or less.

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

7. **INVESTMENTS:**

This caption is composed of the following:

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Investments in listed shares at fair value through profit or loss (note 7.1)	50,179,124	36,434,442
Investments in listed bonds – at fair value through profit or loss (note 7.2)	-	3,810,610
	-----	-----
	50,179,124	40,245,052
Investment in listed bonds – held to maturity (Note 7.3)	884,426	1,312,552
	-----	-----
	<u>51,063,550</u>	<u>41,557,604</u>

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

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

ARAB BANK MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

7. **INVESTMENTS: (CONTINUED)**

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

	<u>September 30, 2007</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 – USD	178,743	191,498	12,755
Egypt – EGP	3,768,337	3,808,627	40,290
Jordan – JOD	3,619,139	3,483,897	(135,242)
Kuwait – KWD	6,784,463	7,706,332	921,869
Kingdom of Bahrain – BHD	389,145	385,941	(3,204)
Oman – OMR	2,135,832	2,580,468	444,636
Qatar – QAR	2,681,059	2,707,841	26,782
United Arab Emirates – AED	6,895,992	6,966,933	70,941
Kingdom of Saudi Arabia – SAR	8,119,878	8,602,905	483,027
	<u>34,572,588</u>	<u>36,434,442</u>	<u>1,861,854</u>

7.2 Investments in Listed Bonds – at fair value through profit or loss

	<u>Maturity</u>	<u>Coupon</u>	<u>September 30, 2007</u>			<u>Change in</u>	
			<u>rate</u>	<u>Cost</u>	<u>Carrying</u>		<u>Fair</u>
			<u>%</u>	<u>USD</u>	<u>Value</u>		<u>Value</u>
			<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>Fair value</u>	
						<u>USD</u>	
Blue City Investment							
Bonds B1/B2	November 7, 2013	13.75	1,950,000	1,964,875	1,954,875	4,875	
Blue City Investment							
Bonds A3/A4	November 7, 2013	9.16	1,850,000	1,864,121	1,855,735	5,735	
			<u>3,800,000</u>	<u>3,828,996</u>	<u>3,810,610</u>	<u>10,610</u>	

Investments in listed shares and listed bonds 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. Please refer Note 15.

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7. **INVESTMENTS: (CONTINUED)**

7.3 Investments in Listed Bonds – (“HTM”)

	<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>

The Fund has sold JMRC bonds on May 28, 2008 of which the amortised cost as of that date was USD 70,621 (JOD 50,000). This sale constitutes a tainting of the HTM portfolio and the remaining investments would need to be reclassified to the AFS category. Because of this sale, the remaining bonds were reclassified as AFS in the period subsequent to the balance sheet date as the effect on the financial statements is not significant.

	<u>Maturity</u>	<u>Coupon rate</u> %	<u>September 30,</u>
			<u>2007</u> <u>Amortised cost</u> USD
Bank Muscat non guaranteed bonds	June 30, 2014	6.25	580,384
Bank Dhofar Al Omani Al Faransi bonds	March 31, 2008	7.00	290,773
AHB non guaranteed bonds	May 15, 2011	5.55	156,833
ZARA Investment Holding bonds	December 12, 2009	6.00	212,014
JMRC bonds	April 5, 2010	5.40	72,548

			<u>1,312,552</u>

The carrying value of these bonds as of September 30, 2007 closely approximated their fair value as of the same date.

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8. **OTHER ASSETS:**

The caption is composed of the following:

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Receivables for sale of investments	-	280,564
Accrued interest receivable on bonds	150,488	198,654
	<u>150,488</u>	<u>479,218</u>

9. **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.

- 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>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Al Arabi Investment Group	Management fees	873,910	718,598	220,120	177,597

- 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>September 30,</u>	
		<u>2008</u>	<u>2007</u>
- Arab Bank (Switzerland)	Subsidiary of Arab Bank Plc, Jordan	1,171,410	615,450
- 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.

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9. **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 Transaction</u>	<u>Nature of Relationship</u>	<u>Fair Value</u>	
			<u>2008</u>	<u>2007</u>
			<u>USD</u>	<u>USD</u>
Arab Bank Plc – Wholesale Bank, Bahrain	Current account	Branch of Arab Bank Plc, Jordan	25,981	51,837
Arab Bank Plc – Retail Bank, Bahrain	Current account	Branch of Arab Bank Plc, Jordan	363	923
Arab Bank Plc, Jordan	Equity shares	Ultimate Parent Company of the Fund Company	1,415,466	1,336,961
Arab Bank Plc, Jordan	Current account	Ultimate Parent Company of the Fund Company	215,540	571,855
Arab Bank Plc, Palestine	Current account	Branch of Arab Bank Plc, Jordan	6,988	46
Oman Arab Bank S.A.O.C.	Current account	Affiliate Company of Arab Bank Plc, Jordan	720,729	119,889

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

The caption is composed of the following:

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Payable for investment purchases	378,370	54,560
Management fees	220,120	177,597
Custody and administration fees	19,858	16,199
Registrar fees	4,446	4,723
Professional fees	32,095	20,552
Sub-custody fees	1,811	2,634
Out-of-pocket expenses	1,189	1,744
Other liabilities	10,009	-
	<u>667,898</u>	<u>278,009</u>

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11. CAPITAL:

The caption is composed of the following:

	<u>2008</u>		<u>2007</u>	
	<u>No. of units</u>	<u>USD</u>	<u>No. of units</u>	<u>USD</u>
Opening balance	4,345,164	44,872,766	5,310,716	53,359,857
Subscriptions during the year	1,549,249	18,837,574	42,664	1,423,296
Redemptions during the year	(581,754)	(6,796,069)	(1,008,216)	(9,910,387)
Ending balance	<u>5,312,659</u>	<u>56,914,271</u>	<u>4,345,164</u>	<u>44,872,766</u>

12. INVESTMENT INCOME:

The caption is composed of the following:

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Interest income on securities designated at fair value through profit or loss	41,888	562,977
Interest income – held to maturity investments	66,721	81,076
	<u>108,609</u>	<u>644,053</u>
Interest income on bank accounts	49,889	81,761
Interest income on time deposits	69,307	280,687
	<u>119,196</u>	<u>362,448</u>
Dividend income	1,969,230	744,364
	<u>2,197,035</u>	<u>1,750,865</u>

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13. FINANCIAL INSTRUMENTS:

Financial instruments consist of financial assets and financial liabilities.

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

Financial liabilities of the Fund include outstanding settlements for the investments purchased before the year end, accrued fees and charges, due to a related party and the bank overdraft.

Accounting policies for financial assets and liabilities are set out in Note 3.

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 credit-rating agencies. Certain banks and financial institutions are in jurisdictions where governments have guaranteed the deposits in these institutions.

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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. The maximum exposure to credit risk at the reporting date was:

	<u>Carrying amount</u>	
	<u>September 30</u>	<u>September 30</u>
	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Cash at banks	1,919,826	4,420,014
Securities designated at fair value through profit or loss	50,179,124	40,245,052
Investments- held to maturity	884,426	1,312,552
Other assets	150,488	479,218
	-----	-----
	<u>53,133,864</u>	<u>46,456,836</u>

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 and short term deposits or by obtaining credit facilities from the banks.

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13. FINANCIAL INSTRUMENTS: (CONTINUED)

13.2 LIQUIDITY RISK : (CONTINUED)

The liquidity profile of financial liabilities reflects the projected cash flows over the life of these financial liabilities. The liquidity profile of financial liabilities at September 30 was as follows:

	<u>Upto 3</u> <u>Months</u> <u>USD</u>	<u>3 to 12</u> <u>Months</u> <u>USD</u>	<u>Over 1</u> <u>Year</u> <u>USD</u>	<u>September 31,</u> <u>USD</u>
2008				
Financial Liabilities				
Bank overdraft	149	-	-	149
Accrued expenses and other payables	667,898	-	-	667,898
	-----	-----	-----	-----
	668,047	-	-	668,047
	=====	=====	=====	=====
	<u>Upto 3</u> <u>Months</u> <u>USD</u>	<u>3 to 12</u> <u>Months</u> <u>USD</u>	<u>Over 1</u> <u>Year</u> <u>USD</u>	<u>September 31,</u> <u>USD</u>
2007				
Financial Liabilities				
Bank overdraft	65,562	-	-	65,562
Accrued expenses and other payables	278,009	-	-	278,009
	-----	-----	-----	-----
	343,571	-	-	343,571
	=====	=====	=====	=====

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 income for the year would increase/decrease by USD 2,206 (2007: USD 12,793)

The Funds sensitivity to interest rates has decreased 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) 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 may be 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>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
AED	7,642,873	7,202,435	-	-
SAR	17,332,135	8,603,036	-	-
OMR	2,208,343	3,755,724	-	-
KWD	9,801,620	8,438,439	128,787	54,560
BHD	451,125	386,853	18,430	-
QAR	4,671,644	2,831,899	-	-
	-----	-----	-----	-----
GCC Currencies	42,107,740	31,218,386	147,217	54,560
	-----	-----	-----	-----
EGP	7,304,095	3,876,573	251,107	65,562
SYP	239,087	-	-	-
MAD	3,915	3,950	-	-
JOD	2,960,773	7,106,723	286	-
LYD	40,726	-	-	-
IQD	54,211	-	-	-
	-----	-----	-----	-----
Other currencies	10,602,807	10,987,246	251,393	65,562
	-----	-----	-----	-----
	<u>52,710,547</u>	<u>42,205,632</u>	<u>398,610</u>	<u>120,122</u>

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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 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>2008</u>	<u>2007</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	352,649	190,550
KWD	483,642	419,194
JOD	148,024	355,336
SYP	11,954	-
IQD	2,711	-
LYD	2,036	-
MAD	196	198

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, Jordan, Qatar, Libya, 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>2008</u> <u>Effect on Statement</u> <u>of Operations</u>	<u>2007</u> <u>Effect on Statement</u> <u>of Operations</u>
	<u>%</u>	<u>USD</u>	<u>USD</u>
Palestine	+ 5	+ 8,705	+ 9,575
Iraq	+ 5	+ 8,856	-
Egypt	+ 5	+ 358,468	+ 190,431
Jordan	+ 5	+ 129,701	+ 174,195
Kuwait	+ 5	+ 462,840	+ 385,316
Bahrain	+ 5	+ 22,546	+ 19,287
Oman(Muscat)	+ 5	+ 36,932	+ 129,023
Qatar	+ 5	+ 227,401	+ 135,392
United Arab Emirates	+ 5	+ 381,854	+ 348,346
Saudi Arabia	+ 5	+ 866,531	+ 59,321
Libya	+ 5	+ 2,044	-
Syria	+ 5	+ 11,935	-

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.

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15. **NON-ADJUSTING EVENTS AFTER THE STATEMENT OF ASSETS AND LIABILITIES DATE:**

Subsequent to September 30, 2008 and upto the date of approval of these financial statements by the Board of Directors, there has been a significant decrease in the market prices of investments designated at fair value through profit or loss and consequently the Net Asset Value of the Fund. The Net Asset Value of the Fund and the fair value of the investments designated at fair value through profit or loss as at January 31, 2009 amounts to USD 29,490,028 and USD 26,465,301 respectively with the Net Asset Value per Unit being USD 5.7092.