

IIAB ISLAMIC MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2011

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

<u>Directors</u>	Mr. Mohamad Ghanameh Mr. Adel Kasaji Mr. Qutaiba Hawamdeh
<u>Registered Office</u>	P.O. Box 2400, Manama, Kingdom of Bahrain.
<u>Fund Company</u>	IIAB Islamic MENA Fund Company B.S.C. (c)
<u>Investment Manager</u>	Al Arabi Investment Group Co.
<u>Administrator and Custodian</u>	Gulf Custody Company B.S.C. (c) P.O. Box 2400, Manama, Kingdom of Bahrain.
<u>Shari'ah Board</u>	His Eminence Sheikh Professor Dr. Ahmad Mohammed Helayyel His Eminence Sheikh Said Abdul Haffeth Asa'ad Al Hijjawi Professor Dr. Ahmad Subhi Ahmad Al Ayyadi
<u>Principal Banker</u>	ABC Islamic Bank, Bahrain National Bank of Kuwait Oman Arab Bank Mashreqbank, Dubai Commercial Bank of Qatar
<u>Auditor</u>	Deloitte & Touche, P.O. Box 421, Manama, Kingdom of Bahrain.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

CONTENTS

	<u>Page</u>
Report of the Shari'a Supervisory Board	A
Directors' Report	1
Independent Auditor's Report to the Unitholders	2 & 3
Statement of Financial Position as at September 30, 2011	4
Statement of Comprehensive Income For the Year Ended September 30, 2011	5
Statement of Changes in Net Assets For the Year Ended September 30, 2011	6
Statement of Cash Flows For the Year Ended September 30, 2011	7
Notes to the Financial Statements For the Year Ended September 30, 2011	8 to 22
Annexure	23 to 25

التقرير السنوي لصندوق البنك العربي الإسلامي الدولي (مينا) الإسلامي
للعام المنتهي في 30 سبتمبر 2011

إلى السادة المساهمين والمشاركين في الصندوق الاستثماري المحترمين.
السلام عليكم ورحمة الله وبركاته،

وفقاً لتكليفنا بأعمال الرقابة الشرعية في صندوقكم الموقر، فقد ترتب علينا تقديم التقرير التالي:

لقد راقبنا المبادئ المستخدمة، والعقود المتعلقة بالمعاملات التي مارسها الصندوق، فقمنا بالمراقبة الواجبة لإبداء رأينا في مدى التزام الصندوق بأحكام ومبادئ الشريعة الإسلامية، وكذلك في الفتاوى والقرارات والإرشادات المحددة التي تم إصدارها من قبلنا.

تقع على الإدارة مسؤولية التأكد من أن الصندوق يعمل وفقاً لأحكام ومبادئ الشريعة الإسلامية، أما مسؤوليتنا فتتحدد في إبداء رأي مستقل بناءً على مراقبتنا لعمليات الصندوق، وفي إعداد تقرير لكم.

وبناء عليه فقد قمنا من خلال التدقيق الشرعي بمراقبتنا التي اشتملت على فحص العقود والإجراءات والقوائم المالية المتبعة من الصندوق.

كما قمنا بتخطيط وتنفيذ مراقبتنا من أجل الحصول على جميع المعلومات والتفسيرات التي اعتبرناها ضرورية لتزويدنا بأدلة تكفي لإعطاء تأكيد معقول بأن معاملات الصندوق لم تخالف أحكام الشريعة الإسلامية، وذلك في حدود ما اطلعنا عليه.

في رأينا:

- إن العقود والعمليات والمعاملات التي أبرمها الصندوق خلال السنة المالية المنتهية في 30 سبتمبر 2011 تمت وفقاً للضوابط الشرعية والفتاوى المعتمدة من هيئة الرقابة الشرعية.
- أما بالنسبة للفوائد النقدية للشركات التي يمتلك الصندوق أسهماً فيها فقد قمنا بتطهيرها في أوجه الخير.

نسأل الله العليّ القدير أن يحقق لنا الرشاد والمنداد،
والسلام عليكم ورحمة الله وبركاته.

عضو
فضيلة الشيخ سعيد حجاوي



عضو
الأستاذ الدكتور أحمد عيادي



رئيس الهيئة
سماحة الأستاذ الدكتور أحمد هليل



IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

The Directors present the annual report and financial statements of IIAB Islamic MENA Fund ("the Fund") for the year ended September 30, 2011.

PRINCIPAL ACTIVITY

The Fund is an open ended collective investment scheme and its primary objective is to achieve long term capital appreciation whilst adhering to Islamic Shari'ah principles. The Fund invests mainly in listed and unlisted equities and equity related securities in the MENA region. In addition, the Fund may trade in securities listed on other stock exchanges or traded over the counter if a significant part of the operations or assets of issuers are involved in the MENA region.

REVIEW OF BUSINESS

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

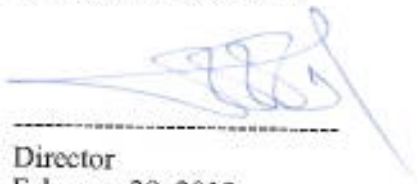
APPROPRIATIONS

None.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending September 30, 2012 and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Director
February 28, 2012

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

IIAB Islamic MENA Fund,
 Manama,
 Kingdom of Bahrain

Report on the Financial Statements

We have audited the accompanying financial statements of IIAB Islamic MENA Fund ("the Fund"), which comprise the statement of financial position as at September 30, 2011, the statement of comprehensive income, the statement of changes in net assets and 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 Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and 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 Auditing Standards for Islamic Financial Institutions and 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 IIAB Islamic MENA Fund as of September 30, 2011, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and 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 Module CIU (Collective Investment Undertakings) issued by the Central Bank of Bahrain ("the CBB"), contained in Volume 6 of the CBB Rulebook, having occurred during the year ended September 30, 2011 that might have had a material effect on the business of the Fund or on its financial position.

Manama – Kingdom of Bahrain
February 28, 2012



Deloitte & Touche

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2011

	<u>Notes</u>	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
ASSETS:			
Cash at banks	6	2,300,445	2,694,799
Financial assets at fair value through profit or loss	7	4,336,879	4,864,438
Other assets	8	28,133	10,869
Total Assets		<u>6,665,457</u>	<u>7,570,106</u>
LIABILITIES:			
Due to a related party	9	25,514	28,012
Accrued fees and charges	10	44,212	51,385
Total Liabilities		<u>69,726</u>	<u>79,397</u>
Net assets attributable to holders of redeemable units		<u>6,595,731</u>	<u>7,490,709</u>
ANALYSIS OF NET ASSETS:			
Capital	11	12,143,134	12,825,288
Net cumulative realised loss		(5,239,087)	(3,638,017)
Changes in fair value of financial assets at fair value through profit or loss	7	(308,316)	(1,696,562)
Net assets		<u>6,595,731</u>	<u>7,490,709</u>
Net asset value per unit	16	<u>5.4461</u>	<u>5.6318</u>

The financial statements were approved and authorised for issue by the Directors on February 28, 2012 and signed on their behalf by:


 Director


 Director

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



IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Notes</u>	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Investment income:			
Net realised loss on financial assets at fair value through profit or loss		(1,569,029)	(301,888)
Net unrealised gain on financial assets at fair value through profit or loss		1,388,246	430,347
Dividend income	12	204,891	198,785
Net foreign exchange loss		(13,511)	(17,437)
Other operating income	12	40	305
		<u>10,637</u>	<u>310,112</u>
Expenses:			
Management fees	5 & 13	(109,829)	(110,743)
Custody and administration fees	5	(60,342)	(75,000)
Registrar and transfer agent fees	5	(4,827)	(6,000)
Representative fees		(5,000)	(5,000)
Shari'ah board fees	5	(10,200)	(10,200)
Professional fees		(18,375)	(19,164)
Bank charges		(1,357)	(984)
Other expenses		(13,531)	(13,385)
Total operating expenses		<u>(223,461)</u>	<u>(240,476)</u>
(Loss) / profit for the year		<u>(212,824)</u>	<u>69,636</u>
(Decrease) / increases in net assets attributable to holders of redeemable units		<u>(212,824)</u>	<u>69,636</u>

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




IIAB ISLAMIC MENA FUND
MANAMA - KINGDOM OF BAHRAIN

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Net assets attributable to holders of redeemable units at the beginning of the year	7,490,709	7,228,454
Subscription of redeemable units	-	245,553
Redemption of redeemable units	(682,154)	(52,934)
(Decrease) / increase in net assets attributable to holders of redeemable units	(212,824)	69,636
Net assets attributable to holders of redeemable units at the end of the year	<u>6,595,731</u>	<u>7,490,709</u>

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


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IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Cash flows from operating activities		
(Decrease) / increase in net assets resulting from operations	(212,824)	69,636
Adjustments for:		
Dividend income	(204,891)	(198,785)
Murabaha profit	(40)	(305)
Net (gain) / loss on financial assets at fair value through profit or loss	180,783	(128,459)
	<u>(236,972)</u>	<u>(257,913)</u>
Change in operating assets and liabilities:		
(Increase) / decrease in other assets	(17,264)	47,980
(Decrease) / increase in due to a related party	(2,498)	1,453
Decrease in accrued fees and charges	(7,173)	(48,129)
	<u>(263,907)</u>	<u>(256,609)</u>
Cash used in operations	(263,907)	(256,609)
Purchase of financial assets at fair value through profit or loss	(1,348,441)	(3,211,052)
Proceeds from disposal of financial assets at fair value through profit or loss	1,712,481	2,907,788
Dividend received	187,627	235,860
Murabaha profit received	40	305
	<u>287,800</u>	<u>(323,708)</u>
Net cash from / (used in) operating activities		
Cash flows from financing activities		
Proceeds from issue of units	-	245,553
Payments on redemption of units	(682,154)	(52,934)
	<u>(682,154)</u>	<u>192,619</u>
Net cash (used in) / from financing activities		
Net decrease in cash and cash equivalents	(394,354)	(131,089)
Cash and cash equivalents at the beginning of the year	2,694,799	2,825,888
	<u>2,300,445</u>	<u>2,694,799</u>
Cash and cash equivalents at the end of the year		
Comprising:		
Cash at banks (Note 6)	<u>2,300,445</u>	<u>2,694,799</u>


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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

1. **STATUS AND ACTIVITIES:**

IIAB Islamic MENA Fund ("the Fund") is an open-ended investment fund established by IIAB Islamic 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") under circular number EDFIS/C/020/2007. The Fund has been registered at the Ministry of Industry & Commerce and is authorised and approved by the CBB.

The Fund was launched on March 26, 2008.

The Fund aims at the realisation of capital growth in the long run through the investment in companies situated in MENA region in compliance with the Islamic investment principles as detailed in the prospectus.

The Fund is managed by Al Arabi Investment Group Co. ("the Investment Manager") a company incorporated in Jordan. The Fund is administered by Gulf Custody Company B.S.C. (c) ("the Administrator" and "the Custodian") (which also acts as the Custodian of the Fund), a closed joint stock company incorporated under the laws of the Kingdom of Bahrain. The Fund Company is approved by the CBB and incorporated as closed joint stock company under the laws of the Kingdom of Bahrain and has been established to act as an umbrella vehicle for the Fund.

The financial statements represent the financial position, the results of operations and cash flows 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 affecting the disclosures and presentation in the current year**

None of the revised Standards that have been adopted in the current year, which were effective for annual periods beginning on or after October 1, 2010, have affected the disclosures and presentations in the financial statements. Details of those Standards adopted in these financial statements but that have had no effect on the amounts reported are set out in Note 2.2.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

2.2 Standards and Interpretations adopted with no effect on the financial statements

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

		Effective for annual periods beginning on or after
<i>New Interpretation:</i>		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
<i>Amendments to Standards:</i>		
IFRS 1	First-time Adoption of International Financial Reporting Standards- Limited exemption from comparative IFRS 7 disclosures for First-time adopters	July 1, 2010
IFRS 2	Share-based Payment – Amendments relating to Company cash-settled share-based payment transactions	January 1, 2010
IFRS 8	Operating Segments – Amendments for disclosure of segment assets	January 1, 2010
IAS 32	Financial Instruments: Presentation – Classification of Right Issues	February 1, 2010
Various Standards	Amendments resulting from April 2009 Annual Improvements to IFRS's	Various

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

2.3 Standards and Interpretations in issue not yet effective

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

	Effective for annual periods beginning on or after
<i>New Interpretation:</i>	
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
<i>New Standards:</i>	
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
<i>Amendments to Standards and Interpretations:</i>	
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures after transfer of final assets	July 1, 2011
IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosure about the initial application of IFRS 9.	January 1, 2015
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing the disclosure about offsetting of financial assets and financial liabilities.	January 1, 2013 and interim periods within those periods
IAS 1 Presentation of Financial Statements – Amendments to revise the way of other comprehensive income is presented	July 1, 2012
IAS 19 Employee Benefits (2011)-Amendments relating to the elimination of the corridor approach	January 1, 2013
IAS 24 Related Party Disclosures	January 1, 2011
IAS 27 Separate Financial Statements (2011)	January 1, 2013
IAS 28 Investments in Associates and Joint Ventures (2011)	January 1, 2013
IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	January 1, 2014
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2011
Various Standards Amendments resulting from May 2010 Annual Improvements to IFRS's	Various

The Directors anticipate that the adoption of IFRS 9 in the Fund's financial statements for the annual period beginning October 1, 2015 and the application 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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

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

Except for the effect as a result of adoptions 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.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

Statement of Compliance

The financial statements have been prepared in conformity with the updated Prospectus dated February 10, 2009 and in accordance with Accounting Standards Issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and 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.

The financial statements are presented in United States Dollar ("USD") being the functional currency of the Fund.

The significant accounting policies are as follows:

(a) **Investments 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 or, if no sale had occurred on such day, at the last bid price on such day if held long, and at the last asked price if held short. 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 are classified into securities designated at fair value through profit or loss which are initially recognised and subsequently measured at fair value. Any resultant change in the fair value is recognised in the results of the year as unrealised gains or losses. Realised gains and losses from disposal of securities are determined on an average cost basis.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 initially recognised at fair value net of transaction costs and are subsequently measured at amortised cost.

(c) **Payables**

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

(d) **Revenue Recognition**

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

(e) **Foreign Currencies**

Foreign currency transactions are recognised 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 valuation date are retranslated at the rates of exchange at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

Translation differences on monetary items are reported as part of the fair value gain or loss in the results of the year.

(f) **Expenses**

All recurring expenses are accounted for on the accrual basis.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 has to decide upon acquisition of an investment whether it should be classified as held to maturity, available-for-sale or investments 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 carried at fair value through profit or loss if they are acquired primarily for the purpose to be held for trading or upon initial recognition they are designated by the Fund as at fair value through profit or loss. All other investments are classified as available-for-sale.

Key sources of estimation uncertainty

There were no significant 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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

5. **FEES AND EXPENSES:**

(a) **Management Fee**

The Investment Manager is entitled to an annual Management Fee at a maximum of 1.5% of the Net Asset Value ("NAV") of the Fund prior to the accrual of the performance fee for its services as Investment Manager. The Management Fee is calculated and accrued as at each Valuation Day and payable quarterly in arrears.

(b) **Performance Fee**

The Investment Manager is also entitled to a Performance Fee equivalent to 15% of any additional return over the Hurdle Rate (as defined in the Prospectus) of 8% per annum (after the deduction of all Fees) since the closing date or the previous year end on which the Performance Fee was paid (which ever is later). The Fund will pay to the Investment Manager on the last day of that financial year.

(c) **Shari'ah Board Fee**

The Fund shall pay each of the members of the Shari'ah Board USD 3,400 per annum. The Fee is calculated and accrued as at each Valuation Day and payable annually in arrears.

(d) **Custody and Administration Fee**

Under the Administration and Custody agreement, the Fund pays the Administrator and Custodian as remuneration for its on-going services a fee accruing on each Valuation Day at the annual rate of 0.175% (this was revised to 0.2% of NAV from March 2011) of the NAV of the Fund on such Valuation Day (subject to a minimum fee of USD 75,000 per annum, this fee has been revised to USD 50,000 from March 2011).

(e) **Registrar and Transfer Agent Fee**

Under the terms of the Registrar agreement, the Fee payable by the Fund for the provision of such service will be USD 6,000 per annum (this was revised to USD 4,000 per annum from March 2011) for up to 100 Unitholders and USD 40 per annum per additional Unitholder. The Registrar and Transfer Agent Fee is calculated and accrued as at each Valuation Day and payable quarterly in arrears.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

6. **CASH AT BANKS:**

Cash at banks consists of balances in current accounts with various financial institutions.

7. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:**

This caption consists of investments in listed shares in the following countries:

September 30, 2011

	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
Kuwait	274,784	277,469	2,685
Oman	228,760	225,692	(3,068)
Qatar	586,058	685,964	99,906
United Arab Emirates	431,713	340,458	(91,255)
Saudi Arabia	2,241,125	2,097,112	(144,013)
Egypt	604,347	459,996	(144,351)
Bahrain	58,886	42,440	(16,446)
Jordan	219,522	207,748	(11,774)
	<u>4,645,195</u>	<u>4,336,879</u>	<u>(308,316)</u>

September 30, 2010

	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
Kuwait	941,796	442,862	(498,934)
Oman	271,383	233,976	(37,407)
Qatar	850,413	801,766	(48,647)
United Arab Emirates	965,687	504,030	(461,657)
Saudi Arabia	2,688,803	2,173,010	(515,793)
Egypt	555,431	486,769	(68,662)
Bahrain	90,080	58,886	(31,194)
Jordan	197,407	163,139	(34,268)
	<u>6,561,000</u>	<u>4,864,438</u>	<u>(1,696,562)</u>

- (a) The financial assets at fair value through profit or loss represent investments in listed securities, which according to the Investment Manager provide the Fund with the opportunity to enhance the return on investments through trading gains. The fair values of these securities are based on quoted market prices. 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.

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

8. **OTHER ASSETS:**

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Accrued dividends	28,133	10,869

9. **DUE TO A RELATED PARTY:**

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Due to: Al Arabi Investment Group Co. Management Fees	25,514	28,012

10. **ACCRUED FEES AND CHARGES:**

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Custody and administration fees	12,603	18,904
Professional fees	14,854	15,477
Shari'ah board fees	10,200	10,200
Other payables	6,555	6,804
	<u>44,212</u>	<u>51,385</u>

11. **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.

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 unitholder 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.

Changes in the number of redeemable units outstanding can be reconciled as follows:

	<u>2011</u>		<u>2010</u>	
	<u>No. of</u> <u>units</u>	<u>USD</u>	<u>No. of</u> <u>units</u>	<u>USD</u>
Opening balance	1,330,080	12,825,288	1,295,505	12,632,669
Subscriptions during the year	-	-	44,344	245,553
Redemptions during the year	(118,977)	(682,154)	(9,769)	(52,934)
Ending balance	<u>1,211,103</u>	<u>12,143,134</u>	<u>1,330,080</u>	<u>12,825,288</u>

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

12. **INVESTMENT INCOME:**

An analysis of the Fund's investment income includes:

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Dividend income:		
Dividend from listed shares	204,891	198,785
	-----	-----
Other operating income:		
Murabaha profit	40	305
	-----	-----
	<u>204,931</u>	<u>199,090</u>

13. **RELATED PARTY TRANSACTIONS:**

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

Al Arabi Investment Group Co. 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 transactions occurred between the Fund and its related parties:

<u>Related party</u>	<u>Nature of Transactions</u>	<u>Amount Incurred</u>	
		<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Al Arabi Investment Group Co.	Management fees	109,829	110,743
		-----	-----

- The following related party owns units in the Fund as at September 30, 2011 & 2010:

<u>Related party</u>	<u>Nature of relationship</u>	<u>Number of units</u>
Islamic International Arab Bank	Subsidiary of Arab Bank Plc	500,000

- The Fund maintains the following bank accounts with related parties as at September 30, 2011 and 2010:

<u>Related party</u>	<u>Nature of Bank balance</u>	<u>Balance as at September 30,</u>	
		<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Oman Arab Bank	Current account	771,898	696,670
		-----	-----
Arab Bank Plc - Jordan	Current account	5,058	58,881
		-----	-----
Arab Bank Plc – Bahrain Branch	Current account	5,223	8,057
		-----	-----

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include financial assets at fair value through profit or loss, cash at banks and other assets.

Financial liabilities of the Fund include accrued fees and charges and due to a related party.

Significant accounting policies

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

Categories of financial instruments

	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
Financial assets		
Financial assets at fair value through profit or loss	4,336,879	4,864,438
Receivables (including cash at banks)	2,328,578	2,705,668
Financial liabilities		
Amortised cost	69,726	79,397

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 profit rate risk, foreign currency risk and equity price risk.

14.1 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 consisting mainly of equity securities in different industries. 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 with acceptable credit-rating assigned by international credit rating agencies.

IIB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

14.1 CREDIT RISK AND CONCENTRATION OF CREDIT RISK (CONTINUED)

Exposure to credit risk

The management of the Fund believes that the carrying amount of financial assets recorded in the financial statements represents the Fund's maximum exposure to credit risk.

Recorded financial assets have not been provided as collateral for any facilities.

14.2 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 that the entity could be required to pay its liabilities earlier than expected or reimburse the Unitholders as a result of market illiquidity.

The Fund manages liquidity risk by maintaining sufficient funds in current accounts held with 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, 2011 & 2010 have a maturity of three months or less.

14.3 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.

14.3.1 Profit Rate Risk

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

The Fund is not exposed to significant profit rate risk as no investments are held with material profit bearing bonds or securities.

14.3.2 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 liabilities are denominated primarily in GCC currencies Egyptian Pound and Jordanian Dinar. The Fund is not exposed to significant currency risk with respect to GCC currencies (except the Kuwaiti Dinar) and Jordanian Dinar, as these currencies are effectively pegged to the US Dollar. 6.4% (2010: 9.1%) and 10.6% (2010: 10%) of the value of its investments are denominated in Kuwaiti Dinars and Egyptian Pounds respectively for which the Fund is exposed to currency risk.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

14.3 MARKET RISK (CONTINUED)

14.3.2 Currency Risk (Continued)

Exchange rate exposures to the Kuwaiti Dinars (“KWD”) and Egyptian Pounds (“EGP”) are managed through continuously monitoring exchange rate fluctuations.

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

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2010</u> <u>USD</u>
KWD	639,242	655,638	2,514	1,405
OMR	528,908	687,400	-	-
QAR	1,194,367	1,306,465	-	-
AED	917,327	1,226,778	-	-
SAR	2,565,795	2,416,256	-	-
EGP	437,154	820,726	-	-
JOD	212,806	222,017	-	-
BHD	47,663	66,943	14,854	15,477

Foreign currency sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items in Kuwaiti Dinar and Egyptian Pound, 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 reasonable possible change in foreign currency rates. A positive number below indicates an increase in the net assets resulting from operations and a negative number indicates a decrease in net assets resulting from operations where USD strengthens 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the results for the year.

<u>Currency</u>	<u>2011</u>	<u>2010</u>
	<u>Effect on the results</u> <u>for the year</u> <u>USD</u>	<u>Effect on the results</u> <u>for the year</u> <u>USD</u>
KWD	(31,836)	(32,712)
EGP	(21,858)	(41,036)

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

14.3 **MARKET RISK (CONTINUED)**

14.3.3 **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 end, significant portion of the Fund's equity investment were in equities listed on the securities markets of Kuwait, Oman, Qatar, United Arab Emirates, Saudi Arabia, Egypt, Jordan and Bahrain.

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 indices</u>	<u>Change in equity price(%)</u>	<u>2011</u>	<u>2010</u>
		<u>Effect on the results for the year</u>	<u>Effect on the results for the year</u>
		<u>USD</u>	<u>USD</u>
Kuwait	+5	13,873	22,143
Oman	+5	11,285	11,699
Qatar	+5	34,298	40,088
United Arab Emirates	+5	17,023	25,202
Saudi Arabia	+5	104,856	108,651
Egypt	+5	17,360	24,338
Bahrain	+5	2,122	2,944
Jordan	+5	10,387	8,157

There would be an equal and opposite impact on the results for the year, had there been a decrease in equity prices by 5%.

14.4 **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.

15. **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 values included in the financial statements.

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

15. **FAIR VALUE OF FINANCIAL INSTRUMENTS: (CONTINUED)**

15.1 **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 at FVTPL 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 assets categorised as “available-for-sale” as at the reporting date.

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

16. **NET ASSET VALUE PER UNIT:**

	<u>Net Asset Value</u> <u>USD</u>	<u>Number of Units</u> <u>in issue</u>	<u>Net Asset Value</u> <u>Per Unit</u> <u>USD</u>
As at September 30, 2011	6,595,731	1,211,103	5.4461
As at September 30, 2010	7,490,709	1,330,080	5.6318

The net asset value per unit is based on net assets and units outstanding as at the year ends.

ANNEXURE
ADDITIONAL DISCLOSURES

ILAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

ADDITIONAL DISCLOSURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Additional Disclosures

The additional disclosures as required by “Appendix E – Contents of Financial Reports” to the Rulebook on Collective Investment Undertakings (CIU) – Volume 6 on Capital Markets are as follows:

I Investment Portfolio as at September 30, 2011

Top ten holdings

Description	Number of shares	Cost USD	Fair Value USD	Fair value as % of total NAV
Qatar				
Industries Qatar	10,000	308,589	340,244	5.16%
		308,589	340,244	5.16%
Saudi Arabia				
Saudi Telecom Company	36,000	371,495	326,378	4.95%
Etihad Etisalat	23,500	330,856	332,111	5.04%
Al Rajhi Bank	16,000	331,643	295,447	4.48%
Alinma Bank	70,000	203,319	172,655	2.62%
Red Sea Housing	13,000	150,259	152,177	2.31%
Jarir Marketing	3,320	136,153	151,825	2.30%
Saudi Electricity	42,000	160,767	148,950	2.26%
		1,684,492	1,579,543	23.96%
Jordan				
Jordan Phosphates Mines	11,500	219,523	207,748	3.15%
		219,523	207,748	3.15%
Oman				
Oman Telecommunications	47,500	146,299	141,384	2.14%
		146,299	141,384	2.14%
Total		2,358,903	2,268,919	34.41%

Note: The CBB in its letter dated December 15, 2011 has granted the Fund an exemption from disclosing the entire Investment Portfolio, and to disclose the top 10 investments instead.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

ADDITIONAL DISCLOSURE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Additional Disclosures (Continued)

II Performance table

	September 30, 2009 USD	September 30, 2010 USD	September 30, 2011 USD
Net Asset Value	7,228,454	7,490,709	6,595,731
NAV Per Unit	5.5796	5.6318	5.4461
Highest Subscription Price	7.9154	5.7797	(a)
Lowest Redemption Price	4.7924	5.4627	5.6700

Note (a): There were no subscriptions during this period.