

IIAB ISLAMIC MENA FUND
MANAMA
KINGDOM OF BAHRAIN

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

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 Clearing 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>Bankers</u>	ABC Islamic Bank, Bahrain Arab Bank, Jordan Oman Arab Bank Commercial Bank of Qatar National Bank of Kuwait Mashreqbank, Dubai
<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>
Directors' Report	1
Independent Auditor's Report	2 & 3
Statement of Assets and Liabilities as at September 30, 2009	4
Statement of Operations For the Year Ended September 30, 2009	5
Statement of Changes in Net Assets For the Year Ended September 30, 2009	6
Cash flow Statement For the Year Ended September 30, 2009	7
Notes to the Financial Statements For the Year Ended September 30, 2009	8 to 23

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The Fund is an open ended collective investment scheme and its primary objective is to achieve long term capital appreciation 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.

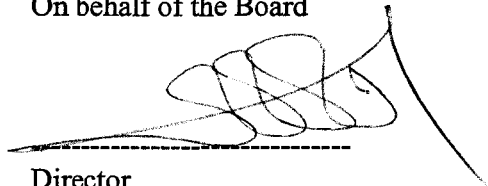
APPROPRIATIONS

None.

AUDITOR

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

On behalf of the Board

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned above a dashed horizontal line.

Director
January 27, 2010

BH 99-8-12

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS

IIAB Islamic MENA Fund,
Manama,
Kingdom of Bahrain

We have audited the accompanying financial statements of IIAB Islamic MENA Fund ("the Fund"), which comprise the statement of assets and liabilities as at September 30, 2009, the statement of operations, the statement of changes in net assets and the cash flow statement for the year ended September 30, 2009, 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 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, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 7 (a) to the financial statements. The securities designated at fair value through profit or loss represent investments in listed securities, which according to the Fund Manager provide the Fund with the opportunity to enhance the return on investment 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.

Manama – Kingdom of Bahrain
January 27, 2010

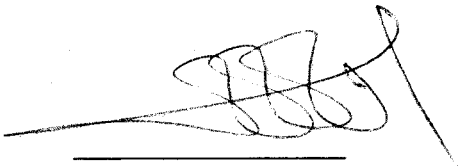
Deloitte & Touche
Deloitte & Touche

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

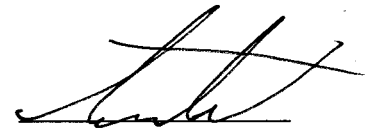
STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2009

	<u>Notes</u>	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
ASSETS:			
Cash at banks	6	2,825,888	623,154
Securities designated at fair value through profit or loss	7	4,432,715	9,116,496
Other assets	8	95,924	25,962
Total Assets		<u>7,354,527</u>	<u>9,765,612</u>
LIABILITIES:			
Due to a related party	9	26,559	39,093
Accrued fees and charges	10	99,514	162,646
Total Liabilities		<u>126,073</u>	<u>201,739</u>
Net Assets		<u>7,228,454</u>	<u>9,563,873</u>
ANALYSIS OF NET ASSETS:			
Capital	11	12,632,669	12,053,277
Net cumulative realised loss		(3,277,306)	(72,522)
Changes in fair value of securities designated at fair value through profit or loss		(2,126,909)	(2,416,882)
Net assets		<u>7,228,454</u>	<u>9,563,873</u>
Net asset value per unit	16	<u>5.5796</u>	<u>7.9154</u>

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



Director



Director

The accompanying notes 1 to 16 form an integral part of these financial statements.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

		<u>Year ended</u> <u>September 30,</u> <u>2009</u> <u>USD</u>	<u>Period from</u> <u>March 26,2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
	<u>Notes</u>		
Investment income:			
Dividend income	12	223,054	119,567
Other operating income	12	1,199	21,502
		-----	-----
		224,253	141,069
		-----	-----
Expenses:			
Management fees	5 & 13	96,045	80,578
Custody and administration fees	5	74,948	38,730
Incorporation Expenses		-	57,981
Registrar and transfer agent fees	5	5,996	3,098
Representative fees		4,997	2,582
Shari'ah board fees	5	10,200	4,245
Professional fees		15,451	17,109
Bank charges		2,446	3,816
Foreign exchange loss		93,408	48,352
Other expenses		16,578	9,234
		-----	-----
Total expenses		320,069	265,725
		-----	-----
Investment loss– net		(95,816)	(124,656)
		-----	-----
Realised and unrealised gain or loss on securities designated at fair value through profit or loss:			
Net realised (loss) / gain on sale of securities designated at fair value through profit or loss			
		(3,108,968)	52,134
Change in fair value of securities designated at fair value through profit or loss			
		289,973	(2,416,882)
		-----	-----
Net loss on securities designated at fair value through profit or loss			
		(2,818,995)	(2,364,748)
		-----	-----
Net decrease in net assets resulting from operations			
		(2,914,811)	(2,489,404)
		=====	=====

The accompanying notes 1 to 16 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, 2009

	<u>Year ended</u> <u>September 30,</u> <u>2009</u> <u>USD</u>	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Decrease in net assets from operations:		
Investment loss – net	(95,816)	(124,656)
Net realised (loss) / gain on securities designated at fair value through profit or loss	(3,108,968)	52,134
Change in fair value of securities designated at fair value through profit or loss	289,973	(2,416,882)
	-----	-----
Net decrease in net assets resulting from operations	(2,914,811)	(2,489,404)
Change in net assets from capital share transactions	579,392	12,053,277
	-----	-----
Change in net assets	(2,335,419)	9,563,873
Net assets – beginning of the year / period	9,563,873	-
	-----	-----
Net assets – end of the year / period	<u>7,228,454</u>	<u>9,563,873</u>

The accompanying notes 1 to 16 form an integral part of these financial statements.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Year ended</u> <u>September 30,</u> <u>2009</u> <u>USD</u>	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	(2,914,811)	(2,489,404)
Adjustments for:		
Dividend income	(223,054)	(119,567)
Murabaha profit	(1,199)	(21,502)
Net loss on securities designated at fair value through profit or loss	2,818,995	2,364,748
	<u>(320,069)</u>	<u>(265,725)</u>
Change in operating assets and liabilities:		
Increase in other assets	(56,646)	(1,334)
(Decrease) / increase in due to a related party	(12,534)	39,093
(Decrease) / increase in accrued fees and charges	(63,132)	162,646
	<u>(452,381)</u>	<u>(65,320)</u>
Purchase of securities designated at fair value through profit or loss	(2,701,766)	(13,873,152)
Proceeds from disposal of securities designated at fair value through profit or loss	4,566,552	2,391,908
Dividend received	209,738	94,939
Murabaha profit received	1,199	21,502
	<u>1,623,342</u>	<u>(11,430,123)</u>
Cash flows from financing activities		
Proceeds from issue of units	759,968	12,053,277
Payments on redemption of units	(180,576)	-
	<u>579,392</u>	<u>12,053,277</u>
Net cash from / (used in) operating activities	<u>1,623,342</u>	<u>(11,430,123)</u>
Net increase in cash and cash equivalents	<u>2,202,734</u>	<u>623,154</u>
Cash and cash equivalents at the beginning of the year/ period	623,154	-
Cash and cash equivalents at the end of the year / period	<u><u>2,825,888</u></u>	<u><u>623,154</u></u>
Comprising:		
Cash at bank	<u><u>2,825,888</u></u>	<u><u>623,154</u></u>

The accompanying notes 1 to 16 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, 2009

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 assets, liabilities and operations of the Fund only.

The Fund does not have any employees and utilises the services of the Investment Manager, Administrator and Custodian to operate the Fund.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

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

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

IAS 1- Presentation of Financial Statements (revised 2007)

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

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

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

New Standards:

IFRS 8 Operating Segments

New Interpretations:

IFRIC 13 Customer Loyalty Programmes

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 18 Transfers of Assets from Customers

Effective for annual periods beginning on or after

January 1, 2009

July 1, 2008

January 1, 2009

October 1, 2008

Transfers received on or after July 1, 2009

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

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

		Effective for annual periods beginning on or after
<i>Amendments to Standards and Interpretations:</i>		
IFRS 1	First-time Adoption of International Financial Reporting Standards-Amendment relating to cost of an investment on first time adoption	January 1, 2009
IFRS 2	Share based payment-Amendment relating to vesting conditions and cancellations	January 1, 2009
IAS 1	Presentation of Financial Statements-Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 23	Borrowing Costs-Comprehensive revision to prohibit immediate expensing	January 1, 2009
IAS 27	Consolidated and Separate Financial Statements-Amendment relating to cost of an investment on first time adoption	January 1, 2009
IAS 32	Financial Instruments: Presentation - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IFRS 7	Improving Disclosures about Financial Instruments	January 1, 2009
IFRIC 9 & IAS 39	Amendments relating to Embedded Derivatives	Annual periods ending on or after June 30, 2009

Improvements to IFRSs (2008):

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

2.3. *Standards and Interpretations in issue not yet adopted:*

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

		Effective for annual periods beginning on or after
<i>New Interpretations:</i>		
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

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

<i>New Standards:</i>		Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	January 1, 2013
<i>Amendments to Standards and Interpretations:</i>		
IFRS 2	Share based Payment-Amendments relating to group cash-settled share-based payment transactions	January 1, 2010
IFRS 3	Business Combinations- Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 8	Operating Segments – Amendments for disclosure of segment assets	January 1, 2010
IAS 24	Related Party Transactions	January 1, 2011
IAS 27	Consolidated and Separate Financial Statements- Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28	Investments in Associates-Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31	Interests in Joint Ventures-Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 32	Financial Instruments: Presentation	February 1, 2010
IAS 39	Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items	July 1, 2009
Various Standards	Amendments resulting from May 2008 and April 2009 Annual Improvements to IFRS's	Various
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2011

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

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

3. SIGNIFICANT ACCOUNTING POLICIES:

Statement of Compliance

The financial statements have been prepared in conformity with the Prospectus dated February 10, 2009 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.

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 statement of operations as unrealised gains or losses. Realised gains and losses from disposal of securities are determined on an average cost basis.

(b) Receivables

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

(c) Payables

Payables are recognised for amounts to be paid in the 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 the future.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

(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 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.

(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, 2009

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 available-for-sale or financial assets at fair value through profit or loss. The Fund classifies its investments as financial assets at fair value through profit or loss if the investment is classified as held for trading or upon initial recognition it is designated by the Fund as at fair value through profit or loss. All other investments are classified as available-for-sale.

Key sources of estimation uncertainty

There are no significant 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 years.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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 0.2% of the NAV of the Fund on such Valuation Day (subject to a minimum fee of USD 75,000).

(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 for up to 100 Unitholders and USD 40 per annum per additional Unitholders. 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, 2009

6. **CASH AT BANKS:**

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

7. **SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:**

This caption consists of Investments in Listed Shares in the following countries

September 30, 2009

	<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	869,319	382,110	(487,209)
Oman	148,891	127,436	(21,455)
Qatar	701,385	621,121	(80,264)
United Arab Emirates	1,360,349	576,714	(783,635)
Saudi Arabia	2,762,715	2,161,568	(601,147)
Egypt	626,885	501,697	(125,188)
Bahrain	90,080	62,069	(28,011)
	----- 6,559,624 -----	----- 4,432,715 -----	----- (2,126,909) -----

September 30, 2008

	<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	1,254,514	1,065,804	(188,710)
Oman	206,837	197,521	(9,316)
Qatar	1,354,006	1,393,121	39,115
United Arab Emirates	2,562,378	1,761,523	(800,855)
Saudi Arabia	4,011,841	3,280,668	(731,173)
Egypt	1,952,136	1,273,936	(678,200)
Bahrain	191,666	143,923	(47,743)
	----- 11,533,378 -----	----- 9,116,496 -----	----- (2,416,882) -----

- (a) The securities designated at fair value through profit or loss represent investments in listed securities, which according to the Fund Manager provide the Fund with the opportunity to enhance the return on investment 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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

8. **OTHER ASSETS:**

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Accrued dividends	47,944	24,628
Prepayments	-	1,334
Due from brokers	47,980	-
	<u>95,924</u>	<u>25,962</u>

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

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Due to:		
Al Arabi Investment Group Co.		
Management Fees	26,559	39,093
	<u>26,559</u>	<u>39,093</u>

10. **ACCRUED FEES AND CHARGES:**

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Custody and administration fees	18,904	18,852
Professional fees	14,854	17,109
Shari'ah board fees	2,571	4,245
Unallotted subscriptions for units	-	101,475
Due to brokers	57,530	-
Other Payables	5,655	20,965
	<u>99,514</u>	<u>162,646</u>

11. **CAPITAL:**

	<u>2009</u>		<u>2008</u>	
	<u>No. of</u> <u>units</u>	<u>USD</u>	<u>No. of</u> <u>units</u>	<u>USD</u>
Opening balance	1,208,268	12,053,277	-	-
Subscriptions during the year / period	123,560	759,968	1,208,268	12,053,277
Redemptions during the year / period	(36,323)	(180,576)	-	-
	<u>1,295,505</u>	<u>12,632,669</u>	<u>1,208,268</u>	<u>12,053,277</u>

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

12. **INVESTMENT INCOME:**

An analysis of the Fund's investment income is as follows:

	<u>Year ended</u> <u>September 30,</u> <u>2009</u> <u>USD</u>	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Dividend income:		
Dividend from listed shares	223,054	119,567
	-----	-----
Other operating income:		
Murabaha profit	1,199	21,502
	-----	-----
	<u>224,253</u>	<u>141,069</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.

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</u> <u>Transactions</u>	<u>Amount Incurred</u>	
		<u>Year ended</u> <u>September 30,</u> <u>2009</u> <u>USD</u>	<u>Period from March 26,</u> <u>2008 (inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Al Arabi Investment Group Co.	Management fees	96,045	80,578

- The following related parties own units in the Fund as at September 30, 2009 & 2008:

<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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

13. RELATED PARTY TRANSACTIONS: (CONTINUED)

- The Fund maintains the following bank accounts with related parties as at September 30, 2009 and 2008:

<u>Related party</u>	<u>Nature of Bank balance</u>	<u>Balance as at September 30,</u>	
		<u>2009</u>	<u>2008</u>
		<u>USD</u>	<u>USD</u>
Oman Arab Bank	Current account	649,475	31,366
Arab Bank Plc - Jordan	Current account	9,360	9,374

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 amounts and the fair value estimates.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include securities designated 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>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Financial assets		
Securities designated at fair value through profit or loss	4,432,715	9,116,496
Receivables (including cash at banks)	2,921,812	647,782
Financial liabilities		
Amortised cost	126,073	201,739

Financial risk management objectives

The Fund 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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

15.1 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 counterparty is a bank with a high credit-rating assigned by international credit rating agencies.

Exposure to credit risk

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

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

15.2 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, 2009 & 2008 have a maturity of three months or less.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

15.3 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.

15.3.1 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 profit rate risk as no investments are held with profit bearing bonds or securities.

15.3.2 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 primarily in GCC currencies rather than United States Dollars, the presentation currency. The Fund is not exposed to significant currency risk with respect to GCC currencies, except the Kuwaiti Dinar, as these currencies are effectively pegged to the US Dollar. 8.6% (2008: 11.7%) and 11.3% (2008: 14%) of the value of its investments are denominated in Kuwaiti Dinars and Egyptian Pounds respectively for which the Fund is exposed to currency risk.

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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
KWD	597,220	1,116,094	40,181	-
OMR	783,508	228,887	-	-
QAR	1,108,559	1,511,070	17,349	-
AED	1,158,681	1,938,216	-	-
SAR	2,167,570	3,280,618	-	-
EGP	1,210,521	1,388,107	-	-
JOD	9,360	9,374	-	-
BHD	76,248	81,697	14,854	17,109

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

15.3 MARKET RISK (CONTINUED)

15.3.2 Currency Risk (Continued)

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 income and a negative number indicates a decrease in income 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 statement of operations.

<u>Currency</u>	<u>2009</u> <u>Effect on Statement</u> <u>of Operations</u> <u>USD</u>	<u>2008</u> <u>Effect on Statement of</u> <u>Operations</u> <u>USD</u>
KWD	- 27,852	- 55,805
EGP	- 60,526	- 69,405

15.3.3 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 and Bahrain.

The effect on the 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 indices</u>	<u>Change in equity</u> <u>Price(%)</u>	<u>2009</u> <u>Effect on Statement of</u> <u>Operations</u> <u>USD</u>	<u>2008</u> <u>Effect on Statement of</u> <u>Operations</u> <u>USD</u>
Kuwait	+5	19,106	53,290
Oman	+5	6,372	9,876
Qatar	+5	31,056	69,656
United Arab Emirates	+5	28,836	88,076
Saudi Arabia	+5	108,078	164,033
Egypt	+5	25,085	63,697
Bahrain	+5	3,103	7,196

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

15.4 **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.

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, 2009	7,228,454	1,295,505	5.5796
As at September 30, 2008	9,563,873	1,208,268	7.9154

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