

IIAB ISLAMIC MENA FUND
MANAMA
KINGDOM OF BAHRAIN

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

Directors

Mr. Mohamad Ghanameh
Mr. Adel Kasaji
Mr. Qutaiba Hawamdeh

Registered Office

P.O. Box 2400,
Manama,
Kingdom of Bahrain.

Fund Company

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

**Investment Manager, Operator
and Placement Agent**

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

**Administrator, Custodian and
Registrar**

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

Shari'ah Board

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

Principal Banker

Arab Bank Plc, Bahrain Branch
National Bank of Kuwait
Oman Arab Bank
Mashreqbank, Dubai
Commercial Bank of Qatar

Auditor

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

Engagement Partner: Mr. Roger Nasr

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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التقرير السنوي لصندوق البنك العربي الإسلامي الدولي (مينا) الإسلامي
للعام المنتهي في 30 سبتمبر 2012

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

فإنه وفقا 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 وفقا لأحكام ومبادئ الشريعة الإسلامية، أما مسؤوليتنا فتنحصر في
إبداء رأي مستقل 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 2012 تمت
وفقا للضوابط الشرعية والفتاوى المعتمدة من هيئة الرقابة الشرعية.
- أما بالنسبة للفوائد النقدية للشركات والتي يمتلك الصندوق أسهما فيها فقد قمنا بتطهيرها في أوجه الخير.

نسأل الله العلي القدير أن يحقق لنا الرشاد والسداد،
والسلام عليكم ورحمة الله وبركاته.

عضو

فضيلة الشيخ سعيد حجاوي



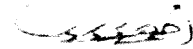
عضو

الأستاذ الدكتور أحمد عيادي



رئيس الهيئة

سماحة الأستاذ الدكتور أحمد هليل



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 net assets as at September 30, 2012, statement of operations, 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 Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, 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 issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 at September 30, 2012, and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and Sharia'h Rules and Principles as determined by the Sharia'h Supervisory Board of the Fund.

Report on Other Legal and Regulatory Requirements

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

Manama – Kingdom of Bahrain
March 13, 2013

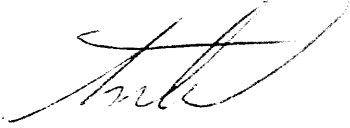
Deloitte & Touche
Deloitte & Touche

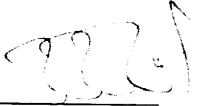
IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF NET ASSETS
AS AT SEPTEMBER 30, 2012


	<u>Notes</u>	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
ASSETS:			
Cash at banks	6	2,611,043	2,300,445
Investments held for trading	7	3,968,110	4,336,879
Due from brokers		92,123	-
Dividend receivable		11,466	28,133
Total assets		<u>6,682,742</u>	<u>6,665,457</u>
LIABILITIES:			
Due to a related party	8	25,824	25,514
Accrued fees and charges	9	44,874	44,212
Total liabilities		<u>70,698</u>	<u>69,726</u>
Net assets attributable to holders of redeemable units		<u>6,612,044</u>	<u>6,595,731</u>
ANALYSIS OF NET ASSETS:			
Capital	10	11,630,020	12,111,030
Surplus		242,271	32,104
Accumulated losses		(5,260,247)	(5,547,403)
Net assets		<u>6,612,044</u>	<u>6,595,731</u>
Number of units outstanding		<u>1,163,002</u>	<u>1,211,103</u>
Net asset value per unit		<u>5.6853</u>	<u>5.4461</u>

The financial statements were approved and authorised for issue by the Directors on 13.10.12 2012 and signed on their behalf by:


 Mr. Adel Kasaji
 Director


 Mr. Qutaiba Hawamdeh
 Director

The accompanying notes from 1 to 15 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, 2012

	<u>Notes</u>	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Income:			
Net realised gain / (loss) on investments held for trading	7	194,085	(1,559,630)
Net unrealised gain on investments held for trading	7	100,897	1,388,246
Dividend income	11	218,299	204,891
Net foreign exchange loss		(11,950)	(13,511)
Other operating income	11	-	40
Total operating income		----- 501,331	----- 20,036
Expenses:			
Management fee	5 & 12	(101,119)	(109,829)
Custody and administration fees	5	(50,000)	(60,342)
Registrar and transfer agent fees	5	(4,000)	(4,827)
Representative fee		(5,000)	(5,000)
Shari'ah board fee	5	(10,200)	(10,200)
Broker commission		(12,488)	(9,399)
Professional fee		(18,899)	(18,375)
Bank charges		(1,891)	(1,357)
Other expenses		(10,578)	(13,531)
Total operating expenses		----- (214,175)	----- (232,860)
Profit / (loss) for the year		----- 287,156	----- (212,824)
Increases / (decrease) in net assets attributable to holders of redeemable units		----- 287,156	----- (212,824)

The accompanying notes from 1 to 15 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, 2012

	<u>Number of units</u>	<u>Unit capital USD</u>	<u>Unit surplus/ (deficit) USD</u>	<u>Accumulated losses USD</u>	<u>Total USD</u>
Balance at October 1, 2010	1,330,080	13,300,800	(475,512)	(5,334,579)	7,490,709
Redemptions of redeemable units	(118,977)	(1,189,770)	507,616	-	(682,154)
Decrease in net assets attributable to holders of redeemable units	-	-	-	(212,824)	(212,824)
Balance at September 30, 2011	1,211,103	12,111,030	32,104	(5,547,403)	6,595,731
Redemptions of redeemable units	(48,101)	(481,010)	210,167	-	(270,843)
Increase in net assets attributable to holders of redeemable units	-	-	-	287,156	287,156
Balance at September 30, 2012	1,163,002	11,630,020	242,271	(5,260,247)	6,612,044

The accompanying notes from 1 to 15 form an integral part of these financial statements.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

	<u>2012</u>	<u>2011</u>
	<u>USD</u>	<u>USD</u>
Cash flows from operating activities		
Profit / (loss) for the year	287,156	(212,824)
Adjustments for:		
Dividend income	(218,299)	(204,891)
Murabaha profit	-	(40)
Net (gain) / loss on investments held for trading	(294,982)	171,384
	-----	-----
	(226,125)	(246,371)
Change in operating assets and liabilities:		
Increase in due from brokers	(92,123)	(17,264)
Increase / (decrease) in due to a related party	310	(2,498)
Increase / (decrease) in accrued fees and charges	662	(7,173)
	-----	-----
Cash used in operations	(317,276)	(273,306)
Payments for purchase of investments held for trading	(2,208,718)	(1,348,441)
Proceeds from disposal of investments held for trading	2,872,469	1,721,880
Dividend received	234,966	187,627
Murabaha profit received	-	40
	-----	-----
Net cash from operating activities	581,441	287,800
	-----	-----
Cash flows from financing activity		
Payments on redemption of redeemable units	(270,843)	(682,154)
	-----	-----
Net cash used in financing activity	(270,843)	(682,154)
	-----	-----
Net increase / (decrease) in cash and cash equivalents	310,598	(394,354)
Cash and cash equivalents at the beginning of the year	2,300,445	2,694,799
	-----	-----
Cash and cash equivalents at the end of the year	2,611,043	2,300,445
	=====	=====
Comprising:		
Cash at banks (Note 6)	2,611,043	2,300,445
	=====	=====

The accompanying notes from 1 to 15 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, 2012

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”) as contained in Volume 7 of the CBB Rulebook. The Fund Company has been registered at the Ministry of Industry & Commerce and is authorised and approved by the CBB on March 23, 2006.

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 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.

The Fund has been established for an indefinite period but the Fund Company reserves the right to terminate the Fund at any time without penalty to any party involved. Such termination requires the prior written consent of the CBB and proposal to dissolve the Fund at an Extra Ordinary General Meeting of shareholders of the Fund Company for which three months’ notice should be given to the Unitholders by the Directors of the Fund. Neither the death, bankruptcy, incapacity of a Unitholder in the Fund nor the bankruptcy or resignation of the Investment Manager will terminate the Fund or in any way affect its continuity.

The Fund must be liquidated if either:

- a- the Net Asset Value of the Fund declines for any reason to less than the Minimum Fund Size, and such decline continues for three consecutive months, or
- b- the Net Asset Value per Unit of the Fund drops below 50% of its highest recorded level, after adjustment for cash dividends if any, for a period of twenty four months without reasonable justification.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

New Standards and interpretations issued but not yet adopted

The following accounting standards and interpretations have been issued by AAOIFI during 2012 and are mandatory for the Fund's accounting for annual periods beginning on or after October 1, 2012 and are expected to be relevant to the Fund:

FAS 26 Investment in real estate

FAS 26 was issued in 2012 and replaced the applicable sections of FAS 17 *Investments* that relate to real estate investments. FAS 26 shall apply in the recognition, measurement and disclosure of the entity's direct investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. This standard shall be applied retroactively in accordance with the requirements stated in *Financial Accounting Standard No (1): General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions* and is effective for annual periods beginning on or after January 1, 2013.

The Management anticipates that the above Standard as applicable, will be adopted in the Fund's financial statements in future periods and that the adoption of this Standard 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 accordance with Accounting Standards Issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), in conformity with the prospectus and the relevant provisions of the CBB Rulebook Volume 7.

Basis of Preparation

The financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments.

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

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 investments held for trading 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.

(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 held for trading 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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

(f) **Expenses**

All recurring expenses are accounted for on the accrual basis.

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

(g) **Unit Surplus/ (Deficit)**

On the issue of units, the difference between the issue price and the nominal value is credited to unit surplus / deficit account. On redemption, the premium repayable is debited to the unit surplus account. For units redeemed at a discount, the difference between redemption value and par value is credited to unit surplus account.

(h) **Net Asset Value Per Unit**

The net asset value per unit is calculated in accordance with the prospectus of the Fund, by dividing the net assets included in the statement of net assets by the number of units outstanding at the reporting date.

(i) **Shari'a Advisory Board**

The Fund's Shari'a Advisory Board consists of Islamic scholars who review the Fund's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Fund to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

(j) **Earnings prohibited by Shari'a**

The Fund is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Fund uses these funds for charitable purposes.

(k) **Zakah**

Payment of Zakah shall be the sole responsibility of the Investors. The Fund Company or the Fund shall not calculate or pay or be responsible for calculation or payment of Zakah on the Investor's investment in the Fund or on any other capital appreciation derived therefrom.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

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 held for trading. For those deemed to be held to maturity, the Fund ensures that the requirements of FAS 17 are met and in particular the Fund has the positive intention and ability to hold these to maturity. The Fund classifies investments as held for trading if they are acquired primarily for the purpose to be held for trading or upon initial recognition they are designated by the Fund as held for trading. 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, 2012

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 Fees**

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 50,000 per annum).

(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 4,000 per annum 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.

6. **CASH AT BANKS:**

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

7. **INVESTMENTS HELD FOR TRADING:**

7.1 The movement of investments held for trading is as follows:

	<u>September 30,</u> <u>2012</u> <u>USD</u>	<u>September 30,</u> <u>2011</u> <u>USD</u>
Investment held for trading at the beginning of the year	4,336,879	4,881,702
Purchases during the year	2,208,718	1,348,441
Proceeds from sales during the year	(2,872,469)	(1,721,880)
Net realised gain / (loss) on disposal of investments held for trading	194,085	(1,559,630)
Net unrealised gain of investments held for trading	100,897	1,388,246
	-----	-----
Investments held for trading at the end of the year	<u>3,968,110</u>	<u>4,336,879</u>

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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

7. **INVESTMENTS HELD FOR TRADING: (CONTINUED)**

7.2 This caption consists of investments held for trading in the following countries:

September 30, 2012

	<u>Fair value as at</u> <u>September 30,</u> <u>2012</u> <u>USD</u>	<u>Value of</u> <u>investment as</u> <u>a percentage</u> <u>of the total</u> <u>assets</u>
Kuwait		
- Financial institution	21,730	0.33
Oman		
- Financial institution	14,515	0.22
- Telecommunications	236,676	3.54
- Others	58,449	0.87
Qatar		
- Financial institutions	553,647	8.28
- Cement	100,939	1.51
- Others	769,976	11.52
United Arab Emirates		
- Financial institutions	21,563	0.32
- Oil and gas	61,749	0.92
- Others	106,184	1.59
Saudi Arabia		
- Financial institutions	266,000	3.98
- Telecommunications	698,553	10.45
- Oil and gas	51,040	0.76
- Cement	272,109	4.07
- Others	639,724	9.57
Egypt		
- Oil and gas	13,006	0.19
- Telecommunication	35,413	0.53
Bahrain		
- Telecommunication	21,538	0.32
Jordan		
- Chemical	17,951	0.27
- Other	7,347	0.11
Grand total	<u>3,968,110</u>	

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7. INVESTMENTS HELD FOR TRADING: (CONTINUED)

September 30, 2011

	<u>Fair value as at</u> <u>September 30,</u> <u>2011</u> <u>USD</u>	<u>Value of</u> <u>investment as</u> <u>a percentage</u> <u>of the total</u> <u>assets</u>
Kuwait		
- Financial institution	48,474	0.72
- Telecommunication	118,794	1.78
- Oil and gas	110,200	1.66
Oman		
- Cement	20,820	0.31
- Telecommunications	141,384	2.12
- Others	63,488	0.95
Qatar		
- Financial institutions	228,694	3.44
- Others	457,270	6.85
United Arab Emirates		
- Oil and gas	89,845	1.35
- Others	250,613	3.76
Saudi Arabia		
- Financial institutions	468,102	7.04
- Telecommunications	658,489	9.88
- Oil and gas	80,808	1.22
- Cement	70,505	1.06
- Others	819,210	12.29
Egypt		
- Oil and gas	112,800	1.69
- Constructions	124,927	1.87
- Others	222,268	3.33
Bahrain		
- Telecommunication	42,440	0.64
Jordan		
- Chemicals	207,748	3.12
Grand total	----- 4,336,879 =====	

- (a) Investments held for trading 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.

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

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Due to:		
Al Arabi Investment Group Co.		
Management Fees	25,824	25,514
	=====	=====

9. **ACCRUED FEES AND CHARGES:**

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Custody and administration fees	12,841	12,603
Professional fee	15,252	14,854
Shari'ah board fee	10,200	10,200
Other payables	6,581	6,555
	-----	-----
	44,874	44,212
	=====	=====

10. **CAPITAL:**

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

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.

The Fund's redemption policy allows for units to be redeemed monthly on the valuation day. Unitholders are allowed to redeem for cash on the redemption date at the redemption price equal to the NAV per unit on the same day.

11. **INVESTMENT INCOME:**

An analysis of the Fund's investment income includes:

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Dividend income:		
Dividend from listed shares	218,299	204,891
	-----	-----
Other operating income:		
Murabaha profit	-	40
	-----	-----
	218,299	204,931
	=====	=====

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12. **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>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Al Arabi Investment Group Co.	Management fees	101,119	109,829

- The following related party owns units in the Fund as at September 30, 2012 & 2011:

<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, 2012 and 2011:

<u>Related party</u>	<u>Nature of Bank balance</u>	<u>Balance as at September 30,</u>	
		<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
Oman Arab Bank	Current account	926,378	771,898
Arab Bank Plc - Jordan	Current account	191,092	5,058
Arab Bank Plc – Bahrain Branch	Current account	514,933	6,909

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

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include investments held for trading, cash at banks, due from brokers and dividend receivable.

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>2012</u>	<u>2011</u>
	<u>USD</u>	<u>USD</u>
Financial assets		
Investments held for trading	3,968,110	4,336,879
	=====	=====
Receivables (including cash at banks)	2,714,632	2,328,578
	=====	=====
Financial liabilities		
Amortised cost	70,698	69,726
	=====	=====

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.

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 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.

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13. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (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.

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

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.

13.3.1 **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.

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

13.3 **MARKET RISK (CONTINUED)**

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 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.

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 equivalent to United States Dollar value at the reporting date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>
KWD	569,763	639,242	2,755	2,514
OMR	712,728	528,908	89	-
QAR	1,637,066	1,194,367	322	-
AED	435,969	917,327	75	-
SAR	2,450,716	2,565,795	115	-
EGP	91,095	437,154	311	-
JOD	248,399	212,806	13	-
BHD	35,010	47,663	12	14,854

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (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 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>2012</u> <u>Effect on the</u> <u>results for the year</u> <u>USD</u>	<u>2011</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>
Kuwaiti Dinar	(28,350)	(31,836)
Egyptian Pound	(4,539)	(21,858)

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 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 for trading 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>2012</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>	<u>2011</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>
Kuwait	+5	1,087	13,873
Oman	+5	15,482	11,285
Qatar	+5	71,228	34,298
United Arab Emirates	+5	9,475	17,023
Saudi Arabia	+5	96,371	104,856
Egypt	+5	2,421	23,000
Bahrain	+5	1,077	2,122
Jordan	+5	1,265	10,387

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

13.3 **MARKET RISK (CONTINUED)**

13.3.2 **Currency Risk (Continued)**

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

13.4 **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.

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 carried at amortised cost are not significantly different from the carrying values included in the financial statements.

14.1 **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 investments held for trading are grouped within Level 1. Further, there were no transfers between Level 1, Level 2 and Level 3 during the year. There are no investments categorised as "available-for-sale" as at the reporting dates.

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

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15. **FINANCIAL RATIOS DISCLOSURES:**

	<u>September 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
a) Weighted average net asset value	5.6421	5.6913
b) Ratio of expenses to weighted average net assets*	0.03	0.03
c) Annual rate of return**	4.34%	-3.22%

* Ratio of expenses to weighted average net assets are calculated by dividing actual expenses incurred during the year in connection to operations of the Fund by the weighted average net asset value.

** Annual rate of return is calculated by dividing actual net profit/ (loss) for the year by the net asset value as at the year end.

ANNEXURE
ADDITIONAL DISCLOSURES

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ADDITIONAL DISCLOSURES
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1. Additional disclosures as required by the CBB

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

i. Investment Portfolio as at September 30, 2012

Top ten holdings

Description	<u>Fair Value</u> <u>USD</u>	<u>Fair value</u> <u>as % of</u> <u>NAV</u>
Industries Qatar	483,065	7.31%
Ethihad Etisalat	370,367	5.60%
Saudi Arab Fertilizer Company	362,357	5.48%
Qatar Islamic Bank	338,386	5.12%
Saudi Telecom	328,187	4.96%
Al Rajhi Bank	266,000	4.02%
Yamamah Saudi Cement	168,109	2.54%
Oman Telecommunication	139,066	2.10%
Qatar National Navigation	116,704	1.77%
Al Rayan Bank	107,730	1.63%
Total	2,679,971	40.53%

ii. Performance table

a) Comparative table

	September 30, 2009 USD	September 30, 2010 USD	September 30, 2011 USD	September 30, 2012 USD
Net Asset Value	7,228,454	7,490,709	6,595,731	6,612,044
NAV Per Unit	5.5796	5.6318	5.4461	5.6853

b) Performance record

	<u>Highest</u> <u>Redemption</u> <u>Price</u>	<u>Lowest</u> <u>Redemption</u> <u>Price</u>
September 30, 2012	5.7345	5.4301
September 30, 2011	5.8796	5.6700
September 30, 2010	5.5101	5.4627
September 30, 2009	4.7924	4.7924
September 30, 2008*	7.9154	7.9154

* The first financial statements cover the period from March 26, 2008 (the date of commencement of operations) to September 30, 2008.-