

IIAB ISLAMIC MENA FUND
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2014

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

<u>Directors</u>	Mr. Mohamad Ghanameh Mr. Adel Kasaji Mr. Ammar Zuhair Husni Saifi
<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) P.O. Box 2400, Manama, Kingdom of Bahrain.
<u>Investment Manager, Operator and Placement Agent</u>	Al Arabi Investment Group Co. P. O. Box 143156, Amman 11814, Hashemite Kingdom of Jordan.
<u>Administrator, Custodian and Registrar</u>	Gulf Custody Company B.S.C. (c) P.O. Box 2400, Manama, Kingdom of Bahrain.
<u>Shari'a 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>	Arab Bank Plc, Bahrain Branch ABC Islamic Bank 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. Engagement Partner: Rushdi Kikhia

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 أيلول 2014

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 فتنحصر 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 أيلول 2014 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 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



٢٤ فبراير ٢٠١٥

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, 2014.

PRINCIPAL ACTIVITY

The Fund is an expert 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.

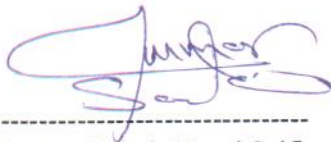
CHANGES IN DIRECTORS

During the year, Mr. Qutaiba Hawamdeh resigned as a Director of the Company and Mr. Ammar Zuhair Husni Saifi was appointed as a Director of the Company.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche – Middle East as the auditor of the Fund for the year ending September 30, 2015 and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Mr. Ammar Zuhair Husni Saifi
Director

February 24, 2014



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 net assets as at September 30, 2014, statement of income, 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 the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a rules and principles, 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 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 at September 30, 2014, 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 Shari'a Rules and Principles as determined by the Shari'a 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 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 significant 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, 2014 that might have had a material adverse effect on the business of the Fund or on its financial position.


Manama – Kingdom of Bahrain
February 24, 2015



Deloitte & Touche – Middle East
Partner Registration No. - 135

IIAB ISLAMIC MENA FUND
STATEMENT OF NET ASSETS AS AT SEPTEMBER 30, 2014

	<u>Notes</u>	<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
ASSETS:			
Cash at banks	6	3,046,521	3,463,025
Investments held for trading	7	6,735,799	4,585,341
Due from brokers		-	26,029
		-----	-----
Total assets		9,782,320	8,074,395
		-----	-----
LIABILITIES:			
Due to a related party	8	37,299	30,289
Accrued fees and other liabilities	9	147,518	45,068
		-----	-----
Total liabilities		184,817	75,357
		-----	-----
Net assets attributable to holders of redeemable units		9,597,503	7,999,038
		=====	=====
ANALYSIS OF NET ASSETS:			
Capital	10	12,880,730	12,958,610
Unite deficit		(277,437)	(301,671)
Accumulated losses		(3,005,790)	(4,657,901)
		-----	-----
Net assets		9,597,503	7,999,038
		=====	=====
Number of units outstanding		1,288,073	1,295,861
		=====	=====
Net asset value per unit		7.4511	6.1728
		=====	=====

The financial statements from pages 4 to 26 were approved and authorised for issue by the Directors on February 24, 2015 and signed on their behalf by:


 Mr. Ammar Zuhair Husni Saifi
 Director



 Mr. Mohamad Ghanameh
 Director

The accompanying notes form an integral part of these financial statements


 

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IIAB ISLAMIC MENA FUND
STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Notes</u>	<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Income:			
Net realised gain on investments held for trading	7	1,103,638	346,329
Net unrealised gain on investments held for trading	7	624,275	268,597
Dividend income	11	226,761	223,703
Net foreign exchange loss		(2,133)	(7,909)
Murabaha profit	11	407	849
Other income		559	-
		-----	-----
Total operating income		1,953,507	831,569
		-----	-----
Expenses:			
Management fee	5 & 12	(131,998)	(110,258)
Custody and administration fees	5	(50,000)	(50,000)
Registrar and transfer agent fees	5	(4,000)	(4,000)
Representative fee		(5,000)	(5,000)
Shari'a board fee	5	(10,200)	(10,200)
Annual general body meeting fees		(900)	-
Broker commission		(66,410)	(18,083)
Professional fee		(20,126)	(18,895)
Bank charges		(2,014)	(1,202)
Other expenses		(10,748)	(11,585)
		-----	-----
Total operating expenses		(301,396)	(229,223)
		-----	-----
Profit for the year		1,652,111	602,346
		-----	-----
Increases in net assets attributable to holders of redeemable units		1,652,111	602,346
		=====	=====



 Mr. Ammar Zuhair Husni Saifi
 Director



 Mr. Mohamad Ghanameh
 Director

The accompanying notes form an integral part of these financial statements



IIAB ISLAMIC MENA FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Number of</u> <u>units</u>	<u>Capital</u> <u>USD</u>	<u>Unit</u> <u>surplus/</u> <u>(deficit)</u> <u>USD</u>	<u>Accumulated</u> <u>losses</u> <u>USD</u>	<u>Total</u> <u>USD</u>
Balance at September 30, 2012	1,163,002	11,630,020	242,271	(5,260,247)	6,612,044
Redemptions of redeemable units	(37,371)	(373,710)	158,359	-	(215,351)
Subscription of redeemable units	170,230	1,702,300	(702,301)	-	999,999
Increase in net assets attributable to holders of redeemable units	-	-	-	602,346	602,346
Balance at September 30, 2013	1,295,861	12,958,610	(301,671)	(4,657,901)	7,999,038
Redemptions of redeemable units	(7,788)	(77,880)	24,234	-	(53,646)
Increase in net assets attributable to holders of redeemable units	-	-	-	1,652,111	1,652,111
Balance at September 30, 2014	1,288,073	12,880,730	(277,437)	(3,005,790)	9,597,503

The accompanying notes form an integral part of these financial statements

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IIAB ISLAMIC MENA FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Cash flows from operating activities		
Profit for the year	1,652,111	602,346
Adjustments for:		
Dividend income	(226,761)	(223,703)
Murabaha profit	(407)	(849)
Net gain on investments held for trading	(1,727,913)	(614,926)
	-----	-----
	(302,970)	(237,132)
Change in operating assets and liabilities:		
Decrease in due from brokers	26,029	66,094
Increase in due to a related party	7,010	4,465
Increase in accrued fees and other liabilities	2,494	194
	-----	-----
Cash used in operations	(267,437)	(166,379)
Payments for purchase of investments held for trading	(13,409,758)	(3,056,940)
Proceeds from disposal of investments held for trading	12,987,213	3,054,635
Dividend received	226,761	235,169
Murabaha profit received	407	849
	-----	-----
Net cash (used in) / from operating activities	(462,814)	67,334
	-----	-----
Cash flows from financing activities		
Proceeds from issue of redeemable units	-	999,999
Subscription fees received in advance	99,956	-
Payments on redemption of redeemable units	(53,646)	(215,351)
	-----	-----
Net cash (used in) / from financing activities	46,310	784,648
	-----	-----
Net (decrease) / increase in cash and cash equivalents	(416,504)	851,982
Cash and cash equivalents at the beginning of the year	3,463,025	2,611,043
	-----	-----
Cash and cash equivalents at the end of the year	3,046,521	3,463,025
	=====	=====
Comprising:		
Cash at banks (Note 6)	3,046,521	3,463,025
	=====	=====

The accompanying notes form an integral part of these financial statements

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

1. **STATUS AND ACTIVITIES**

IIAB Islamic MENA Fund (the "Fund") is an open-ended investment fund established by Al Arabi Investment Group Co. (the "Operator" and the "Investment Manager"). 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 on March 23, 2006. The Fund was launched on March 26, 2008.

The address of the registered office of the Fund is P.O. Box 2400, Manama, Kingdom of Bahrain.

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., 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.

Al-Arabi Investment Group co. owns 99% shares of the Fund Company.

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 Extraordinary 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.
- c- Islamic International Arab Bank or Al Arabi Investment Group Co. enters into bankruptcy or if regulatory changes deem it impractical for the Fund to continue.

IAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

New Standards and interpretations issued but not yet effective

No new standards and interpretations have been issued by AAOIFI for annual periods beginning on or after October 1, 2013.

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. These policies have been consistently applied to all the years presented.

Basis of Preparation

The financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments and assets and liabilities are reflected in the balance sheet in an approximate order of liquidity.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes fair value measurement is categorised into Levels 1, 2 or 3 based on the degree to which the inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

The financial statements are presented in United States Dollar (“USD”) being the functional and presentation currency of the Fund.

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies are as follows:

3.1 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, the date on which the Fund commits to purchase or sell the investment.

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.

3.2 Receivables

Receivables including amounts due from brokers 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 and are subsequently measured at amortised cost, less any impairment.

3.3 Impairment of Financial Assets

Financial assets, other than those classified for trading, are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in profit or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate.

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

3.3 **Impairment of Financial Assets (Continued)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.4 **Derecognition of Financial Assets**

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity, when applicable is recognised in profit or loss.

3.5 **Payables**

Payables including amounts due from brokers 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.

3.6 **Derecognition of Financial Liabilities**

The Fund derecognises financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.

The difference between the carrying amount of the financial liability derecognised and the sum of the consideration paid and payable is recognised in profit or loss.

3.7 **Revenue Recognition**

Dividend income from investments held for trading is recognised when the Fund's right to receive payment has been established.

IAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Foreign Currencies

Foreign currency transactions are recognised in United States Dollars using the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currency are retranslated into the functional currency at the rates of exchange prevailing at the reporting date. Exchange differences arising on the settlement of transactions and on the translation of monetary items, are included in profit or loss for the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 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.

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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 (whichever is later). The Fund will pay to the Investment Manager on the last day of that financial year.

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

The Fund shall pay each of the members of the Shari'a 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 including related parties.

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
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7. **INVESTMENTS HELD FOR TRADING**

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

	<u>September 30,</u> <u>2014</u> <u>USD</u>	<u>September 30,</u> <u>2013</u> <u>USD</u>
Investment held for trading at the beginning of the year	4,585,341	3,968,110
Purchases during the year	13,409,758	3,056,940
Proceeds from sales during the year	(12,987,213)	(3,054,635)
Net realised gain on disposal of investments held for trading	1,103,638	346,329
Net unrealised gain of investments held for trading	624,275	268,597
	-----	-----
Investments held for trading at the end of the year	<u>6,735,799</u>	<u>4,585,341</u>

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

September 30, 2014

	<u>Fair value as at</u> <u>September 30,</u> <u>2014</u> <u>USD</u>	<u>Value of</u> <u>investment as</u> <u>a percentage</u> <u>of the total</u> <u>assets</u>
Oman		
- Financial institution	176,633	1.81
- Telecommunications	432,145	4.42
- Others	105,693	1.08
Qatar		
- Others	843,430	8.62
United Arab Emirates		
- Financial institutions	591,935	6.05
- Others	1,750,756	17.90

IIAB ISLAMIC MENA FUND
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7. **INVESTMENTS HELD FOR TRADING (CONTINUED)**

7.2 This caption consists of investments held for trading in the following countries: (Continued)
September 30, 2014 (Continued)

	<u>Fair value as at September 30, 2014 USD</u>	<u>Value of investment as a percentage of the total assets</u>
Saudi Arabia		
- Others	1,366,372	13.97
Jordan		
- Other	1,163,185	11.89
Palestine		
- Telecommunications	305,650	3.125
Grand total	<u>6,735,799</u>	

September 30, 2013

	<u>Fair value as at September 30, 2013 USD</u>	<u>Value of investment as a percentage of the total assets</u>
Kuwait		
- Financial institution	21,575	0.27
- Telecommunications	81,423	1.01
Oman		
- Financial institution	84,162	1.04
- Telecommunications	255,062	3.16
- Others	131,984	1.63
Qatar		
- Financial institutions	708,312	8.77
- Cement	224,703	2.78
- Others	496,574	6.15

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

September 30, 2013 (Continued)

	<u>Fair value as at September 30, 2013 USD</u>	<u>Value of investment as a percentage of the total assets</u>
United Arab Emirates		
- Financial institutions	109,746	1.36
- Others	304,391	3.77
Saudi Arabia		
- Financial institutions	411,978	5.10
- Telecommunications	527,622	6.53
- Oil and gas	49,797	0.62
- Cement	294,651	3.65
- Others	542,370	6.72
Jordan		
- Chemical	72,808	0.90
- Other	20,163	0.25
Palestine		
- Telecommunications	248,020	3.07
Grand total	<u><u>4,585,341</u></u>	

- (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>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Al Arabi Investment Group Co.		
Management fees	36,003	30,289
Broker fees	1,296	-
	-----	-----
	<u>37,299</u>	<u>30,289</u>
	=====	=====

9. **ACCRUED FEES AND OTHER LIABILITIES**

	<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Custody and administration fees	12,603	12,603
Professional fee	15,612	15,115
Shari'ah board fee	10,200	10,200
Advance subscription fee received	99,956	-
Other payables	9,147	7,150
	-----	-----
	<u>147,518</u>	<u>45,068</u>
	=====	=====

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>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Dividend income:		
Dividend from listed shares	226,761	223,703
	-----	-----
Other operating income:		
Murabaha profit	407	849
	-----	-----
	<u>227,168</u>	<u>224,552</u>
	=====	=====

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
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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>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Al Arabi Investment Group Co.	Management fees	131,998 =====	110,258 =====

The balance with Al Arabi Investment Group Co. as at the reporting dates is disclosed in Note 8.

- The following related party owns units in the Fund as at September 30, 2014 and 2013:

<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, 2014 and 2013:

<u>Related party</u>	<u>Nature of Bank balance</u>	<u>Balance as at September 30,</u>	
		<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Oman Arab Bank	Current account	1,092,488 =====	1,279,404 =====
Arab Bank Plc – Jordan	Current account	227,018 =====	70,747 =====
Arab Bank Plc – Bahrain Branch	Current account	5,570 =====	80,128 =====
Arab Bank Plc – UAE	Current account	364 =====	472,203 =====

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

13. **FINANCIAL INSTRUMENTS**

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include investments held for trading, cash at banks and due from a broker.

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>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
Financial assets		
Investments held for trading at fair value	6,735,799	4,585,341
	=====	=====
Receivables at amortised cost (including cash at banks)	3,046,521	3,489,054
	=====	=====
Financial liabilities		
Amortised cost	84,861	75,357
	=====	=====

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 good credit-rating assigned by international credit rating agencies and determined by management.

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

13. **FINANCIAL INSTRUMENTS (CONTINUED)**

13.1 **CREDIT RISK AND CONCENTRATION OF CREDIT RISK (CONTINUED)**

Maximum 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. Also, the Fund manages liquidity risk by diversifying holding across many markets and sectors.

The liquidity profile of financial liabilities reflects the projected cash flows over the life of these financial liabilities. The financial liabilities at September 30, 2014 and 2013 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.

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

13. **FINANCIAL INSTRUMENTS (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>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>	<u>2014</u> <u>USD</u>	<u>2013</u> <u>USD</u>
KWD	861	360,940	581	291
OMR	918,915	791,346	499	196
QAR	1,276,688	1,751,154	870	689
AED	3,545,115	895,880	1,260	315
SAR	2,254,417	2,785,515	157	157
EGP	77,996	81,015	327	339
JOD	1,694,557	411,737	2,614	2,319
BHD	1,505	26,498	13	13

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

13. **FINANCIAL INSTRUMENTS (CONTINUED)**

13.3 **MARKET RISK (CONTINUED)**

13.3.2 **Currency Risk (Continued)**

Foreign currency sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items 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>2014</u> <u>Effect on the</u> <u>results for the year</u> <u>USD</u>	<u>2013</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>
Kuwaiti Dinar	(14)	(18,032)
Egyptian Pound	(3,883)	(4,034)

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 end) 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>2014</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>	<u>2013</u> <u>Effect on the results</u> <u>for the year</u> <u>USD</u>
Kuwait	+5	-	5,150
Oman	+5	35,724	23,560
Qatar	+5	42,171	71,479
United Arab Emirates	+5	117,135	20,707
Saudi Arabia	+5	68,319	91,321
Jordan	+5	73,442	17,050

IIAB ISLAMIC MENA FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

13. **FINANCIAL INSTRUMENTS (CONTINUED)**

13.3 **MARKET RISK (CONTINUED)**

13.3.3 **Equity Price 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 Fund manager monitors capital structure on monthly basis.

The capital structure of the Fund consists of Unitholders' capital. The Fund does not have borrowings.

14. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial assets held for trading are measured based on quoted bid prices in an active market. These are categorised within Level 1 of the fair value hierarchy. The carrying values of financial assets and liabilities at amortised cost appropriate their fair value due to their short term nature.

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

15. **FINANCIAL RATIOS DISCLOSURES**

	<u>2014</u>	<u>2013</u>
a) Weighted average net asset value per unite	6.7924	5.9593
b) Ratio of expenses to weighted average net assets*	0.03	0.03
c) Annual rate of return**	17.21%	7.53%

* 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 for the year by the net asset value as at the year end.

ANNEXURE
ADDITIONAL DISCLOSURES

IIAB ISLAMIC MENA FUND
ADDITIONAL DISCLOSURES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014

Top ten holdings

Description	Fair Value USD	Fair value as % of NAV
Air Arabia	885,929	9.23
Siniora Food Industries	881,886	9.19
Emaar Properties	864,827	9.01
Gulf International Services	843,430	8.79
Saudi Pharmaceutical Industries	470,343	4.90
Oman Telecommunication Co.	432,145	4.50
Jarir Marketing	402,811	4.20
Dubai Financial Market	365,943	3.81
Palestine Telecommunication	305,650	3.18
U-International Transport Co.	265,315	2.76
Total	5,718,279	59.57%

ii. Performance table

a) Comparative table

	<u>September 30,</u> <u>2011</u> <u>USD</u>	<u>September 30,</u> <u>2012</u> <u>USD</u>	<u>September 30,</u> <u>2013</u> <u>USD</u>	<u>September 30,</u> <u>2014</u> <u>USD</u>
Net Asset Value	6,595,731	6,612,044	7,999,038	9,597,503
NAV Per Unit	5.4461	5.6853	6.1728	7.4511

b) Performance record

	<u>Highest Redemption Price</u>	<u>Lowest Redemption Price</u>
September 30, 2014	7.2351	6.4071
September 30, 2013	6.1714	5.6840
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.