

IIAB ISLAMIC MENA FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD FROM MARCH 26, 2008
(INCEPTION) TO SEPTEMBER 30, 2008

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

Directors

Mr. Jawdat Halabi
Mr. Ghassan A. Bundakji
Mr. Adel Kasaji
Mr. Qutaiba Hawamdeh
Mr. Ramez Sawabini

Registered Office

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

Fund Company

IIAB Islamic MENA Fund Company B.S.C (C)

Investment Manager

Al Arabi Investment Group Co.

Administrator and Custodian

Gulf Clearing 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

Bankers

ABC Islamic Bank, Bahrain
Arab Bank, Jordan
Oman Arab Bank
Commercial Bank of Qatar
National Bank of Kuwait
Mashreqbank

Auditor

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

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IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

The Directors present the annual report and financial statements for the period from March 26, 2008 (inception) to September 30, 2008.

PRINCIPAL ACTIVITY

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

DIRECTORS

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

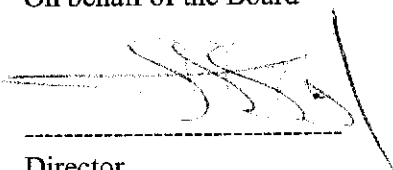
SHARI'AH BOARD

The CBB has granted its approval on the new members of Shari'ah Board as of September 17, 2008.

AUDITOR

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

On behalf of the Board



Director
December 24, 2008

Deloitte

BH 99-8-12

Deloitte & Touche
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Kingdom of Bahrain

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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS

IIAB Islamic MENA Fund,
Manama,
Kingdom of Bahrain

We have audited the accompanying financial statements of IIAB Islamic MENA Fund ("the Fund"), which comprise the statement of assets and liabilities as at September 30, 2008, the statement of operations, the statement of changes in net assets and the cash flow statement for the period from March 26, 2008 (inception) to September 30, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

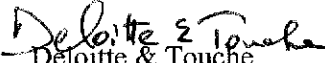
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)*Opinion*

In our opinion, the financial statements present fairly in all material respects, the financial position of IIAB Islamic MENA Fund as of September 30, 2008, and of its financial performance and its cash flows for the period from March 26, 2008 (inception) to September 30, 2008 in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 7 (a) to the financial statements. The securities designated at fair value through profit or loss represent investments in listed securities, which according to the Fund Manager provide the Fund with the opportunity to enhance the return on investment through trading gains. The fair values of these securities are based on quoted market prices. Certain markets and securities may be illiquid and published market prices may not necessarily represent realisable value.

Manama – Kingdom of Bahrain
December 24, 2008

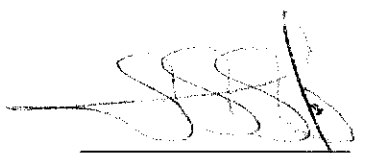

Deloitte & Touche

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

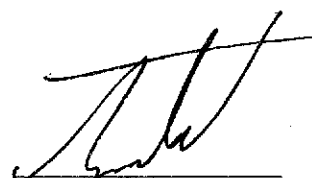
STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2008

	<u>Notes</u>	<u>2008</u> <u>USD</u>
ASSETS:		
Cash at banks	6	623,154
Securities designated at fair value through profit or Loss	7	9,116,496
Other assets	8	25,962
Total Assets		<u>9,765,612</u>
LIABILITIES:		
Due to a related party	9	39,093
Accrued fees and charges	10	162,646
Total Liabilities		<u>201,739</u>
Net Assets		<u>9,563,873</u>
ANALYSIS OF NET ASSETS:		
Capital	11	12,053,277
Net cumulative realised loss		(72,522)
Changes in fair value of securities designated at fair value through profit or loss		(2,416,882)
Net assets		<u>9,563,873</u>
Net asset value per unit	16	<u>7.9153</u>

The financial statements were approved by the Directors on December 24, 2008 and signed on their behalf by:



 Director



 Director

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

	<u>Notes</u>	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Investment income:		
Dividend income	12	119,567
Other operating income	12	21,502

		141,069

Expenses:		
Management fees	5	80,578
Custody and administration fees	5	38,730
Incorporation Expenses		57,981
Registrar and transfer agent fees	5	3,098
Representative fees		2,582
Shari'ah board fees	5	4,245
Professional fees		17,109
Bank charges		3,816
Foreign exchange loss		48,352
Other expenses		9,234

Total expenses		265,725

Investment loss– net		(124,656)

Realised and unrealised gain or loss on securities designated at fair value through profit or loss:		
Net realised gain on sale of securities designated at fair value through profit or loss		52,134
Change in fair value of securities designated at fair value through profit or loss		(2,416,882)

Net loss on securities designated at fair value through profit or loss		(2,364,748)

Net decrease in net assets resulting from operations		(2,489,404)
		=====

The accompanying notes 1 to 17 form an integral part of these financial statements.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Decrease in net assets from operations:	
Investment loss – net	(124,656)
Net realised gain on securities designated at fair value through profit or loss	52,134
Change in fair value of securities designated at fair value through profit or loss	(2,416,882)

Net decrease in net assets resulting from operations	(2,489,404)
Change in net assets from capital share transactions	12,053,277

Change in net assets	9,563,873
Net assets – beginning of the period	-

Net assets – end of the period	<u>9,563,873</u>

IAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Cash flows from operating activities	
Net decrease in net assets resulting from operations	(2,489,404)
Adjustment for:	
Dividend income	(119,567)
Murabaha profit	(21,502)
Net loss on securities designated at fair value through profit or loss	2,364,748

	(265,725)
Increase in other assets	(1,334)
Increase in due to a related party	39,093
Increase in accrued fees and charges	162,646

Net cash used in operations	(65,320)
Payments for purchase of securities designated at fair value through profit or loss	(13,873,152)
Proceeds from disposal of securities designated at fair value through profit or loss	2,391,908
Dividend received	94,939
Murabaha profit received	21,502

Net cash used in operating activities	(11,364,803)

Cash flows from financing activities	
Proceeds from issue of units	12,053,277

Net cash from financing activities	12,053,277

Net increase in cash and cash equivalents	623,154
Cash and cash equivalents at the beginning of the period	-

Cash and cash equivalents at the end of the period	623,154
	=====
Comprising:	
Cash at bank	623,154
	=====

The accompanying notes 1 to 17 form an integral part of these financial statements.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

1. STATUS AND ACTIVITIES:

IIAB Islamic MENA Fund (“the Fund”) is an open-ended investment fund established by IIAB Islamic MENA Fund Company B.S.C. (C) (“the Fund Company”). The Fund is an Expert Fund under the collective investment undertakings regulations issued by the Central Bank of Bahrain (“the CBB”) under circular number EDFIS/C/020/2007. The Fund has been registered at the Ministry of Industry & Commerce and is authorised and approved by the CBB.

The Fund was launched on March 26, 2008.

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

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

The financial statements represent the assets, liabilities and operations of the Fund only.

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

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

Standards and Interpretations in issue not yet adopted

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

		Effective for annual periods beginning on or after
<i>New Standards</i>		
IFRS 8	- Operating Segments	January 1, 2009
<i>Amendments to Standards</i>		
IFRS 2	- Share-based payment	January 1, 2009
IFRS 3	- Business Combinations	July 1, 2009
IAS 1	- Presentation of Financial Statements	January 1, 2009
IAS 23	- Borrowing Costs	January 1, 2009
IAS 27	- Consolidated and Separate Financial Statements	July 1, 2009
IAS 28	- Investments in Associates	July 1, 2009
IAS 31	- Interests in Joint Ventures	July 1, 2009
IAS 32	- Financial Instruments : Presentation	January 1, 2009
Various standards	- Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 39	- Financial Instruments: Recognition and Measurement	July 1, 2008
IFRS 7	- Financial Instruments - Disclosures	July 1, 2008
<i>Interpretations</i>		
IFRIC 13	- Customer Loyalty Programmes	July 1, 2008
IFRIC 15	- Agreements to the Construction of Real Estate	January 1, 2009
IFRIC 16	- Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IFRIC 17	- Distribution of Non-cash Assets to owners	July 1, 2009

The Directors anticipate that all of the above Standards and Interpretations as applicable, will be adopted in the Fund's financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

3. **SIGNIFICANT ACCOUNTING POLICIES:**

Statement of Compliance

The financial statements have been prepared in conformity with the Prospectus dated February 20, 2008 and in accordance with International Financial Reporting Standards (“IFRS”).

Basis of Preparation

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

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

The significant accounting policies are as follows:

(a) **Investments in Securities**

The values of securities listed on a securities exchange are based on the last sale price on that exchange on the day of valuation or, if no sale had occurred on such day, at the last bid price on such day if held long, and at the last asked price if held short. Transactions in marketable securities are accounted for on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investments within the time frame established by the market concerned.

Investments in securities are classified into securities designated at fair value through profit or loss which are initially recognised and subsequently measured at fair value. Any resultant change in the fair value is recognised in the statement of operations as unrealised gains or losses. Realised gains and losses from disposal of securities are determined on an average cost basis.

(b) **Other Receivables**

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

(c) **Other payables**

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

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

(d) **Income**

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

(e) **Foreign Currencies**

Foreign currency transactions are recorded in United States Dollars at the approximate rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currency at the valuation date are translated at the rates of exchange at that date.

Translation differences on monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the statement of operations.

(f) **Expenses**

All recurring expenses are accounted for on the accrual basis.

Expenses which are incidental to the acquisition of an investment classified as "fair value through profit or loss" are expensed when incurred.

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

In the application of the Fund's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Fund's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Classification of investments

Management decides on the acquisition of an investment whether to classify it as available for sale or financial assets at fair value through profit or loss. The Fund classifies its investments as financial assets at fair value through profit or loss if the investment is classified as held for trading and upon initial recognition it is designated by the Fund as at fair value through profit or loss. All other investments are classified as available for sale.

Key sources of estimation uncertainty

There are no significant key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

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 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 quarterly in arrears.

(d) **Custody Fee and Administration Fee**

Under the Administration and Custody agreement, the Fund pays the Administrator and Custodian as remuneration for its on-going services a fee accruing on each Valuation Day at the annual rate of 0.2% of the NAV of the Fund on such Valuation Day (subject to minimum fee of USD 75,000).

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

Under the terms of the Registrar agreement, the Fee payable by the Fund for the provision of such service will be USD 6,000 per annum for up to 100 unitholders and USD 40 per annum per additional Unit Holder. The Registrar and Transfer Agent Fee is calculated and accrued as at each Valuation Day and payable quarterly in arrears.

FIRST GULF EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

6. **CASH AT BANKS:**

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

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

	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
This caption consists of Investments in Listed Shares in the following countries			
Kuwait	1,254,514	1,065,804	(188,710)
Oman	206,837	197,521	(9,316)
Qatar	1,354,006	1,393,121	39,115
United Arab Emirates	2,562,378	1,761,523	(800,855)
Saudi Arabia	4,011,841	3,280,668	(731,173)
Egypt	1,952,136	1,273,936	(678,200)
Bahrain	191,666	143,923	(47,743)
	----- 11,533,378	----- 9,116,496	----- (2,416,882)

- (a) Investments in listed shares are classified as securities designated at fair value through profit or loss. These securities provide the Fund with the opportunity to enhance the return on investment through trading gains. The fair value of these securities is based on market prices, which may not necessarily represent realisable value because of market illiquidity.

IIAB ISLAMIC MENA FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

8. **OTHER ASSETS:**

	<u>2008</u>
	<u>USD</u>
Accrued dividends	24,628
Prepayments	1,334

	<u>25,962</u>

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

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

	<u>39,093</u>

10. **ACCRUED FEES AND CHARGES:**

	<u>2008</u>
	<u>USD</u>
Custody and administration fees	18,852
Professional fees	17,109
Shari'ah advisory fees	4,245
Unallotted subscription	101,475
Other Payables	20,965

	<u>162,646</u>

11. **CAPITAL:**

The caption is composed of the following:

	<u>2008</u>	
	<u>No. of units</u>	<u>USD</u>
Subscriptions during the period	1,208,268	12,053,277
	-----	-----
Ending balance	<u>1,208,268</u>	<u>12,053,277</u>

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

12. **INVESTMENT INCOME:**

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

	<u>Period from</u> <u>March 26, 2008</u> <u>(inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Dividend income:	
Dividend from listed shares	119,567

	119,567

Other operating income:	
Murabaha profit	21,502

	21,502

	<u>141,069</u>

13. **RELATED PARTY TRANSACTIONS:**

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

Al Arabi Investment Group Co. is a related party as it is the principal Shareholder of the Fund Company.

Arab Bank Plc is a related party as it is the ultimate parent of the Fund Company.

Oman Arab Bank is an affiliate of Arab Bank Plc.

- The following transactions occurred between the Fund and its related parties:

<u>Related party</u>	<u>Nature of</u> <u>Transactions</u>	<u>Amount</u> <u>Incurred</u> <u>Period from March 26,</u> <u>2008 (inception) to</u> <u>September 30,</u> <u>2008</u> <u>USD</u>
Al Arabi Investment Group Co.	Management fees	80,578

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

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

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

13. RELATED PARTY TRANSACTIONS: (CONTINUED)

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

<u>Related party</u>	<u>Nature of Bank balance</u>	<u>Amount outstanding (USD)</u>
Oman Arab Bank	Current account	31,366
Arab Bank Plc - Jordan	Current account	9,374

14. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include securities designated at fair value through profit or loss, cash at bank and other assets.

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

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

The risk associated with financial instruments and the Fund's approaches to managing such risks are:

15.1 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location.

The Fund is exposed to credit risk.

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.

IIAB ISLAMIC MENA FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM MARCH 26, 2008 (INCEPTION) TO SEPTEMBER 30, 2008

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

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

The credit risk on liquid funds is also mitigated by placing the excess cash with various counter parties being banks with high credit ratings assigned by international rating agencies. Some of these banks are in jurisdictions where the respective governments have guaranteed the deposits in financial institutions.

Exposure to credit risk

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

	<u>Carrying amount</u> <u>September 30</u> <u>2008</u> <u>USD</u>
Cash at banks	623,154
Securities designated at fair value through profit or loss	9,116,496
Other assets	25,962
	<u>-----</u> 9,765,612 <u>=====</u>

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

15.2 **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities, it arises because of the possibility that the entity could be required to pay its liabilities earlier than expected or reimburse the Unit holders 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 liquidity profile of financial liabilities at September 30 was as follows:

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

15.2 **LIQUIDITY RISK (CONTINUED)**

2008	<u>Upto 3</u> <u>Months</u> <u>USD</u>	<u>3 to 12</u> <u>Months</u> <u>USD</u>	<u>Over 1</u> <u>Year</u> <u>USD</u>	<u>Total</u> <u>USD</u>
Financial Liabilities				
Due to a related party	39,093	-	-	39,093
Accrued fees and charges	162,646	-	-	162,646
	-----	-----	-----	-----
	201,739	-	-	201,739
	=====	=====	=====	=====

15.3 **MARKET RISK**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

The Fund's market risk is managed through diversification of the investments portfolio exposure. The Fund's overall market positions are monitored on a daily basis by the Investment Manager.

Market risk consists of profit rate risk, currency risk and equity price risk. The Fund is not exposed to significant profit rate risk as no significant investments are held with profit bearing bonds or securities.

15.3.1 **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

Exchange rate exposures to the Kuwaiti Dinars and Egyptian Pounds are managed through continuously monitoring exchange rate fluctuations.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

15.3.1 Currency Risk (Continued)

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

	<u>Assets</u>	<u>Liabilities</u>
	<u>2008</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
KWD	1,116,094	-
OMR	228,887	-
QAR	1,511,070	-
AED	1,938,216	-
SAR	3,280,618	-
EGP	1,388,107	-
JOD	9,374	-
BHD	81,697	17,109

Foreign currency sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items in Kuwaiti Dinar and Egyptian Pound, and adjusts their translation at the period end for a 5% change in foreign currency rates with all other variables held constant. 5% represents management's assessment of the reasonable possible change in foreign currency rates. A positive number below indicates an increase in the income and a negative number indicates a decrease in income where USD strengthens 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the statement of operations.

<u>Currency</u>	<u>2008</u> <u>Effect on Statement of</u> <u>Operations</u> <u>USD</u>
KWD	+ 55,805
EGP	+ 69,405

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

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

15.3.2 **Equity Price Risk (Continued)**

The effect on the statement of operations (as a result of a change in the fair value of equity instruments held as investments at fair value through profit or loss at September 30, 2008) due to a reasonably possible change in market indices, with all other variables held constant, is as follows:

<u>Market indices</u>	<u>Change in equity Price(%)</u>	<u>2008 Effect on Statement of Operations(USD)</u>
Kuwait	+5	53,290
Oman	+5	9,876
Qatar	+5	69,656
United Arab Emirates	+5	88,076
Saudi Arabia	+5	164,033
Egypt	+5	63,697
Bahrain	+5	7,196

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

15.4 **CAPITAL RISK MANAGEMENT**

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide return for Unitholders' and to maintain an optimal capital structure to reduce the cost of capital.

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

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

	<u>Net Asset Value USD</u>	<u>Number of Units in issue</u>	<u>Net Asset Value Per Unit USD</u>
As at September 30, 2008	9,563,873	1,208,268	7.9153

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

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

Subsequent to September 30, 2008 and up to the date of approval of these financial statements by the Board of Directors, there has been a significant decrease in the market prices of securities designated at fair value through profit or loss and consequently the Net Asset Value of the Fund. The Net Asset Value of the Fund and the fair value of the securities designated at fair value through profit or loss as at November 30, 2008 (the latest available NAV) amounts to USD 6,165,690 and USD 5,570,237 respectively with the Net Asset Value per unit being USD 4.8722.