

**ILIRIKA DZU ASSET MANAGEMENT  
COMPANY Ltd. Sarajevo**

**P R O S P E C T U S   A N D   S T A T U T E**  
**MUTUAL FUND WITH PUBLIC OFFER**  
**ILIRIKA EMERGING EUROPE ISLAMIC FUND**

**Sarajevo, June 2010.**

„ILIRIKA DZU“ Asset management company Ltd. Sarajevo  
Štrosmajerova 1, 71000 Sarajevo, BiH.  
Tel: 00 387 33 953 480, Fax 00 387 33 953 489, [www.ilirika.ba](http://www.ilirika.ba), [info@ilirika.ba](mailto:info@ilirika.ba)

**ILIRIKA DZU ASSET MANAGEMENT  
COMPANY Ltd. Sarajevo**

**P R O S P E C T U S**

**MUTUAL FUND WITH PUBLIC OFFER**

**ILIRIKA EMERGING EUROPE ISLAMIC FUND**

This brochure is a public offer and an invitation to purchase shares in the open investment fund with a public offer **ILIRIKA EMERGING EUROPE ISLAMIC FUND**. In the Prospectus we have stated information and data relevant to the creation of the opinion based on the Fund and therefore deciding about investing in the Fund. Before deciding to invest interested investors are asked to read this Prospectus and Statute of the Fund carefully, in order to acquire knowledge about the characteristics and risks of investments associated with the nature of the Fund and its portfolio. Investments in the Fund are consistent with principles of Islamic finance.

## CONTENT

1. INTRODUCTION
  - 1.1. Global development and the market position of investment funds
  - 1.2. Open-end investment funds with public offer
  - 1.3. Types of open-end investment funds with public offer and the investment objectives
  - 1.4. Legal framework and supervision of operations of investment funds
  - 1.5. The Islamic Financial system
  - 1.6. Sharia Compliance – Mutual Funds
    - 1.6.1. Structure of a Sharia compliant investment funds
    - 1.6.2. The Sharia Board
    - 1.6.3. FATWA - the Sharia Board pronouncement
    - 1.6.4. Investment Selection
    - 1.6.5. Sharia purification process
    - 1.6.6. Consequences of non-compliance
2. ILIRIKA SHARIA COMPLIANT FUND open-end fund with public offer
  - 2.1. Basic information about the Fund
  - 2.2. Place where you can get a semi-annual and annual reports, a copy of the prospectus and the statute of the Fund or additional information about the Fund
  - 2.3. Historical yield of the Fund
  - 2.4. Investors, motives and types of investments Funds
  - 2.5. Sharia board
    - 2.5.1. Biographies of the members of the Sharia Board
3. Management of the fund
  - 3.1. Sharia compliant equity funds
  - 3.2. Conditions for investments in shares
  - 3.3. Investment's strategies, aims and restrictions
  - 3.4. The value of assets of the Fund; price of shares in the Fund
    - 3.4.1. Value calculation of the assets
    - 3.4.2. Calculation of shares' price in the Fund
    - 3.4.3. Authority and responsibility for the calculation of assets and price of shares of the Fund
  - 3.5. Purchase of shares in the Fund
  - 3.6. Redemption and sale of the shares in the Fund
  - 3.7. Rights incorporated in the units of the Fund.
  - 3.8. Reporting to the public and shareholders of the Fund
  - 3.9. Profit availability of the Fund
  - 3.10. Business year
  - 3.11. Suspension of purchase and issuance of shares in the Fund
  - 3.12. Cancellation and liquidation of the Fund
  - 3.13. Purification in open –ended fund
4. FEES AND EXPENSES
  - 4.1. Management fee
  - 4.2. Entrance fee
  - 4.3. Redemption fee
  - 4.4. Other expenses
    - 4.4.1. Expences of Sharia board
  - 4.5. Reservations
    - 4.5.1. Potential expences due to purification process
    - 4.5.2. Potential expences due to performance fee
  - 4.6. Tax treatment of the Fund
5. RISKS OF INVESTMENT IN FUND
  - 5.1. Market risk
  - 5.2. Political risk
  - 5.3. Currency risk
  - 5.4. Credit risk
  - 5.5. Taxation risk
  - 5.6. The risk inherent in nature of the Fund, changes in NAV and liquidity of the Fund
  - 5.7. Islamic Investment Guidelines
  - 5.8. Absence of Operating History

6. "ILIRIKA DZU" Asset management company Ltd. Sarajevo
  - 6.1. The company, legal form and registered office of the Company
  - 6.2. Founder, initial capital and business of the Company
  - 6.3. Date of establishment and registration in the court register
  - 6.4. Boards of the Company
    - 6.4.1. Assembly
    - 6.4.2. Board
      - 6.4.2.1. Biographies of the members of the Board
    - 6.4.3. Management Board
      - 6.4.3.1. Biographies of the members of the Management Board
  - 6.5. Responsibility of the Company
  - 6.6. Investment Advisor
7. Depository Bank
  - 7.1. Basic information about the Fund's depository bank
  - 7.2. Rights and obligations of the depository bank
8. AUDITOR

SIGNATURE PAGE

SHARIA CERTIFICATE FOR ILIRIKA EMERGING EUROPE ISLAMIC FUND

STATUTE

**Overview of concepts:**

<b>Company:</b>	<b>ILIRIKA DZU Asset management company Ltd Sarajevo</b>
<b>Fund:</b>	<b>Open-end fund with a public offering ILIRIKA EMERGING EUROPE ISLAMIC FUND</b>
<b>The Commission:</b>	<b>The Securities Commission of the Federation of BiH</b>
<b>Depository:</b>	<b>The Depository bank</b>
<b>Law:</b>	<b>Law on Investment Funds ( "Official Gazette of FBiH", no. 85/08)</b>
<b>Prospectus:</b>	<b>The prospect of open-end investment fund with a public offer ILIRIKA EMERGING EUROPE ISLAMIC FUND</b>
<b>Statute:</b>	<b>The Statute of the open-end investment fund with a public offer ILIRIKA EMERGING EUROPE ISLAMIC FUND</b>
<b>Permanent Sharia Board for the Fund:</b>	Supervision Committee of the fund is composed of: <b>HE Sheikh Walid bin Hadi (Chairman)</b> <b>HE Sheikh Dr. Abdul Sattar Abu Ghuddah</b> <b>HE Sheikh Nizam Yaquby</b> Sharia supervision is performed in accordance with Sharia rules that regulate Islamic investment.
<b>Islamic Almsgiving (Zakat) of the Fund's Zakat Assets:</b>	The Fund's certificate holders are responsible for the Islamic Zakat on their investment in the Fund. Neither the ILIRIKA DZU nor the fund will pay on behalf of investors.

Respecting the Sharia principles and principles of safety, profitability, liquidity and risk dispersion in the investment fund, the basic long-term goal of ILIRIKA DZU is professional investment of funds assets and ensuring the liquidity of the Fund so that investors have a permanent and safe option to cash their stake, with the higher profitability of investments in accordance with the assumed risk.

The objective of the Fund is medium to long term appreciation of the capital of its investment Unis Holders through investing in accordance with Sharia principles.

Fund's assets are invested in the following instruments amongst each of them has to be Sharia compliant:

- no less than 50% of the Fund's assets in shares traded on the stock exchanges or other organized markets issuers in Southeastern Europe including SEE, CIS, Turkey, CEFTA and countries which would like to join EU and are considered as emerging Europe Markets.
- up to 20% of the assets of the Fund in shares traded on stock exchanges or other organized markets in capital markets including OECD, AAOIFI, MENA and GCC countries.
- up to 10% in any other market where principles of Islamic finance can be applied.
- up to 20% Fund's assets in sukuk (Islamic bonds).
- up to 20% Fund's assets in deposits in Islamic banks.
- 10% of assets in the Fund's shares or shares of investment funds with the condition that in the prospectus and / or statute of the fund whose shares or stakes invested anticipated that up to 10% of fund assets may be invested in shares of other funds and that the level of investor protection and the obligation of reporting at least equal to the regulations in FBiH. Funds have to be Shariacompliant. This may include GDR and ETF investments based on Islamic principles. The maximum management fee that can be charged to property funds in which the Fund intends to invest is 3.5%.

## 1. INTRODUCTION

Investment strategy of the Fund shall be determined by the basic objectives and principles of investment in order to preserve the value of the Fund at the same time achieving an attractive rate of return.

Respecting the Sharia principles and principles of safety, profitability, liquidity and risk dispersion in the investment fund, the basic long-term goal of ILIRIKA DZU is professional investment of funds assets and ensuring the liquidity of the Fund so that investors have a permanent and safe option to cash their stake, with the higher profitability of investments in accordance with the assumed risk.

ILIRIKA EMERGING EUROPE ISLAMIC FUND will invest its assets in accordance with this Prospectus mainly in the Europe emerging markets, in industries and firms with high potential returns. The Fund may invest in any other market in accordance with this Prospectus in order to preserve major goals and provide higher returns.

### 1.1. Global development and the market position of investment funds

Investment funds, from their appearance in the world recorded to express the growth and development, especially after the seventies when their popularity is constantly growing. In countries with developed capital markets and financial markets activities of investment funds attract more investors, both institutional and individual, who in a wide range of investment funds may find their interests and meet the requirements for personal investment of free money, expecting the market competitive offerings from investment and taking the usual risks for such investment.

Investment funds provide both institutional and individual investors, among other things, access to many global markets and companies, securities portfolio diversification, lower costs, professional asset management and liquidity. In the period of crisis has been proven that the value of the investment funds fall more slowly than is the case with individual securities.

## 1.2. Open-end investment funds with a public offer

Open-end investment funds with a public offer is a special property, without legal personality, that with the permission of the Securities Commission of FBiH, founded the management company, with the aim of raising funds with public offering of shares in the fund, whose assets invest in accordance with the provisions of the Act and its share owners have the right to get a proportionate share of the fund at any time to require the payment of shares, and so withdraw from the fund. Open-end investment funds with a public offer of shares allow the owners of their shares to invest in the way that each of them individually would not be possible, using expertise and technology companies managing investment funds.

Equity of open-end investment fund with a public offer is raised by issuing a public sale of shares in the fund and assets acquired through the investment of funds paid, including income and property rights arising from the fund, are open-end fund with a public offering, or separate property in joint ownership of all shareholders in the fund. Fund management company seeks to achieve an adequate rate of return on investment while also taking into account the investment restrictions and requirements for safety and liquidity of investments, which are specifically defined and published depending on the characteristics of each investment fund.

Owners of shares is guaranteed, under the conditions provided by law and applicable regulations, and the Prospectus and the Statute of the Fund, that they may at any time request redemption of their shares and thereby withdraw money from the Fund.

## 1.3. Types of open-end investment funds with a public offering and investment objectives

Before any investment is done it is necessary to determine investment objectives. Some basic goals of the investment can be: increase in assets, a stable income or preservation of assets. An investment can not meet all above objectives simultaneously. So when deciding to choose the fund it is necessary to be familiar with investment strategies who are to meet objectives of investors. Open end mutual funds vary according to types of securities in which they invest. Type of securities that prevails in their portfolio we distinguishes them between money, bond, mixed (balanced) and active equity investment funds.

It is necessary to know that investing in money funds is generally considered least risky. Somewhat risky are bond funds, followed by mixed funds, while equity funds belong to the group most risky funds. However, the potential return on investment in funds is lowest in cash funds, and highest in equity funds. In accordance with the delivery of the additional risk of investment, expected yields with bond, mixed (balanced) and equity funds are more attractive in comparison to those with cash funds.

**Therefore, carefully read this Prospectus be informed investor who can make an appropriate decision and decide to invest if Fund matches your set goals.**

## 1.4. Legal framework and supervision of investment funds in the Federation of Bosnia and Herzegovina

Investment funds and fund management companies are regulated by the Law on Investment Funds ("Official Gazette of FBiH", no. 85/08, hereinafter "Act"), and other secondary legislation enacted with the law, and their establishment and operations under the supervision of the Securities Commission of FBiH (hereinafter the "Commission").

## 1.5. The Islamic Financial system – (abstract for this prospectus only)

The Islamic Financial system stresses the importance of values in the field of economics, emphasizing the application of Islamic values in economics and finance. Therefore, Islamic finance should be from a dogmatic point of view within the framework of Islamic teaching.

The Islamic finance has its own structure of bases which can be divided into four:

1. **Dogmatic bases:** The source of the Islamic finance is *the Qur'an* and *the Sunna*;
2. **Ethical bases:** Islamic finance activity is governed by ethical bases which control behavior, preventing damage to others or to oneself;

3. **Legislative basis:** These include the teachings of the Qur'an and the Sunna. It is these bases which organize work, resources and finance;
4. **General bases:** These can be understood from the Qur'an and the Sunna in general;

Islamic finance gives individuals the freedom of to possessing and dispose of money but under Islamic conditions. The attitude of Islamic economics is distinguished from other systems by giving individuals freedom, but limiting it with *halal* and *haram* (unprohibited/prohibited actions). It aims to achieve optimum use of resources. Revenues and expenditures in Islamic finance do not only aim at achieving economic and social achievements, but at achieving religious ones as well.

The basic Islamic principle of the Islamic banking is the Sharia. Sharia is the set of rules and laws which govern economic, social, political, and cultural aspects of Islamic societies. Sharia originates from the rules dictated by the Qur'an and the Sunna. These rules are studied by scholars in the field of Islamic jurisprudence (fiqh).

The principles of the Islamic banking can be summarized as follows:

Dependence on Sharia Islamic banking is governed by Sharia laws. This implies that only Sharia approved activities, activities which do not violate the rules of Sharia

Prohibition of Interest. The prohibition includes all kinds and means of interest, regardless of name, shape or ratio. Islamic finance has permitted trade as a method to deal. Since Islam does not view money as a commodity, earning money from money is prohibited. Thus, interest generally is prohibited and the prohibition applies both to the payer and the payee. The source of increase of money is effort and labor. Work and effort must play a role in the productive process. Sharia is an asset-based system which does not view money as a commodity with inherent value. Rather, money is viewed as a measure of value and a vehicle for acquiring tangible assets. From an Islamic perspective, treating money as a commodity alters it from this basic purpose.

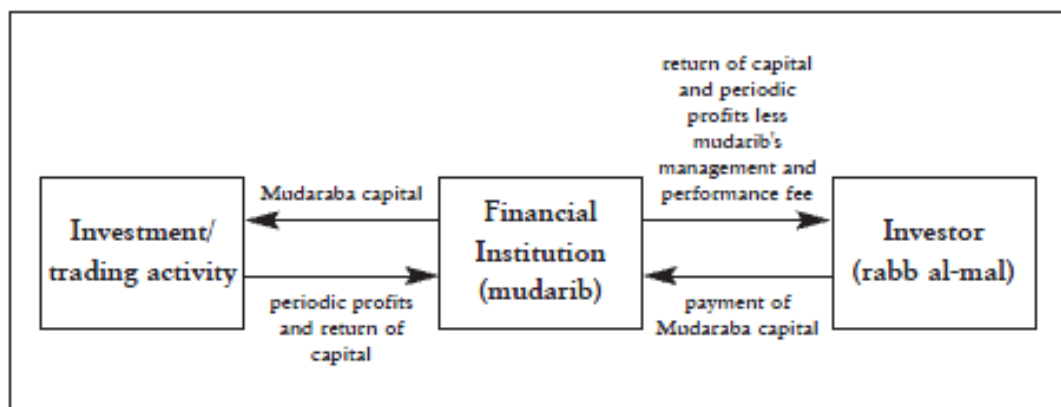
Risk Sharing. The Islamic financial system is primarily based on partnership and risk sharing. The outcome, whether positive or negative, is evenly distributed among the members of the Islamic community and will not be concentrated among certain people in society.

## 1.6. Sharia Compliance – Mutual Funds

### 1.6.1. Structure of a Sharia compliant investment funds

A Sharia fund structures are similar to conventional fund, however the fund and its individual investments must remain compliant with Sharia. The funds are managed based on the *mudaraba* and *wakalah* contract. *Mudaraba* is defined as profit sharing vehicles under which investors contributes his capital to a fund manager, who provides investment management services in return for the profit share between the parties as agreed in advance.

Table 1. Mudaraba investment contract



Wakalah is an agency contract, which usually includes in its terms a fee for the expertise of the an agent/fund manager. In some cases a combination of these two methods is employed, such that

manager receives a basic annual fee, plus a performance fee after exceeding certain performance hurdles. Combination of these two methods is applied in ILIRIKA EMERGING EUROPE ISLAMIC FUND.

Every Sharia compliant investment funds has to include two basic conditions:

Firstly, instead of a fixed return tied up, they must carry a *pro-rata* profit actually earned by the fund. Therefore, neither the principle nor a rate of profit can be guaranteed! The subscriber must enter into the fund with a clear understanding that the return on their subscription is tied up with the actual profit earned or loss suffered by the fund.

Secondly, the amounts pooled together must be invested in a business acceptable to Sharia. In an Islamic fund it is essential that all the shareholders be treated equally in accordance to Sharia, so there will be only be one class of shares issued to investors.

### **1.6.2. The Sharia Board**

In order to monitor Sharia compliance, the fund may appoint a Sharia advisory board which is typically made up of well-known Islamic scholars who are experts in Sharia law. The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), the industry level body for Sharia funds, has stated that a Sharia board must consist of at least three Sharia scholars. The board performs a variety of functions and is typically involved in the process of structuring the fund and reviewing its constitutive documents and material contracts to ensure their compliance with Sharia law and to provide protection for the investors in the Fund.

### **1.6.3. FATWA - the Sharia Board pronouncement**

Once the Sharia board satisfies itself that the fund's rules are in compliance with Sharia principles, it issues a Fatwa (legal pronouncement) in verification of this. The fund will generally only be marketed when the Fatwa has issued. Upon the launch of the fund, the Sharia board provides ongoing guidance to the directors of the fund and to the investment manager on matters of Sharia law and in particular whether the proposed investments of the fund are Sharia compliant. As recommended by the AAOIFI, the rulings of the Sharia board may be binding on the management of the fund.

### **1.6.4. Investment Selection**

When determining Sharia compliant investment by screening and selecting from an overall universe of investments that would meet the funds' management objectives, the manager has to consider two basic criteria. The first is qualitative criteria deciding whether or not the selected company is involved in haram (prohibited) activities, and secondly certain quantitative measures consider certain financial ratio derived from the target company's accounts.

#### **1. Qualitative criteria**

Companies involved in any of the following activities will be filtered out as non Sharia compliant:

- Alcohol
- Pork related products
- Entertainment (Casinos, Gambling, Cinema, Music, Pornography and Hotels)
- Tobacco
- Weapons, arms and defense manufacturing
- Conventional Finance (non-Islamic Banking, Finance and Insurance, etc.)

The test which a company must typically satisfy is generally that at least 95 per cent of its gross revenues are generated by activities other than those mentioned above.

#### **2. Quantitative criteria**

The following financial ratios must generally be met for companies to be considered as Sharia compliant:

- Debt is less than 33, 33 % of total assets
- Cash and Interest bearing securities should not exceed 33, 33 % of total assets
- Sum of company's accounts receivables and cash must not exceed 33,33 of total assets;
- Total interest income is less than 5 per cent of total revenue

### 1.6.5. Sharia purification process

Another distinguishing feature of Sharia funds is "income purification". Despite applying rigorous screening criteria, it is often inevitable that a fund will receive income that has been tainted by unacceptable (*haram*) activities or impermissible sources (such as a high level of bank interest being received). In such cases it is necessary to purify the earnings by deducting from the returns on the investment those earnings coming from unacceptable source. It is not possible to obtain all the detailed information necessary to be accurate in determining the amount of unacceptable (*haram*) earnings, and in many cases the effort in performing the analysis will totally outweigh the benefit in having the exact figures. Managers and the Sharia board will agree on a particular percentage of all income from dividends being deducted from the total income by the manager and distributed to suitable charities under supervision of the Shari's board.

The Sharia board will usually provide a purification ratio to ensure that impure income is calculated by the fund, and that a corresponding percentage is deducted from the earnings passed on to investors through the dividends, thereby ensuring that these are free of impurities and completely *halal*. The methodologies for calculation may differ from one Sharia board to another and in some cases the fund may simply publish its own purification ratio thereby allowing investors to make the appropriate donations to charity. All impure income is generally separated at the earliest possible opportunity and donated to an eligible charity. The remaining *halal* segment is then considered to have been purified.

In this case Sharia board is obligated, at the time of decision making, to define principle, amount of assets for charity, institution (receiver) of charity receiver.

### 1.6.6. Consequences of non-compliance

The Sharia board and the investment manager must adopt a framework to deal with any violations of Sharia screening process. The investment manager is usually responsible for capital losses if it has invested in a company that did not meet the Sharia screening test. If a situation occurs where a company inadvertently invests in a company that did not meet the Sharia screening criteria, the investment manager should dispose of the shares of the non-compliant company immediately upon becoming aware of the error, and should report any such incident to the Sharia board. All income from the stock in that period will need to be purified for the period that the non-compliance occurred.

## 2. ILIRIKA SHARIA COMPLIANT FUND - Open-end fund with public offer

### 2.1. Basic information about the Fund

Name Fund: **Open-end fund with public offer "ILIRIKA EMERGING EUROPE ISLAMIC FUND", hereinafter the Fund.**  
Abbreviated name of the Fund: **OIF "ILIRIKA EMERGING EUROPE ISLAMIC FUND"**  
Address of the Fund: **Sarajevo, Štrosmajerova 1.**

Fund has established and managed by "ILIRIKA DZU" Asset management company Ltd Sarajevo, with its headquarters in Sarajevo, Štrosmajerova 1. (hereinafter "ILIRIKA DZU"), specifically for the purpose of collecting assets by public offering and sale of shares of the Fund to all interested investors and their investments in different assets in accordance with Sharia principles.

Founder and sole owner of the Company is "ILIRIKA DZU" Ltd Ljubljana headquartered in the Republic of Slovenia. ILIRIKA DZU belongs to the regional ILIRIKA group which is present in segments of the brokerage business and investment funds. ILIRIKA Group provides financial services to the Bosnian, Croatian, Slovenian, Macedonian, Serbian and Romanian capital market. It is the first brokerage house, which in this part of Europe, joined the most important European stock exchanges - Deutsche Börse AG, which enabled her the direct access to trade system Xetra.

The Fund is established for an indefinite period and may be terminated only in cases and in the manner determined by the Law on Enterprises and the Law on investment funds. Starting value of one share (unit) of the Fund is 10.00 KM.

Initial public offer begins 01.07.2010. and lasts until 01.10.2010. In the case if the minimum capital is gathered before ILIRIKA DZU will register the Fund even before 01.10.2010.

## **2.2. Place where you can get a semi-annual and annual reports, a copy of the prospectus and the statute of the Fund or additional information about the Fund**

Insight in the annual and semi annual financial statement and a copy of the prospectus and the statute of the Fund or additional information about the Fund can be made at ILIRIKA DZU doo Sarajevo, street Štrosmajerova 1, every working day from 08a.m. to 4 p.m. ILIRIKA DZU will according to law provisions make semi-annual and annual reports regarding the Fund. In addition to annual and semiannual financial statements, free copies of the Prospectus, as well as other information about the operations of the Fund are also available to potential investors at the headquarters of ILIRIKA DZU. The above documents are available to the general public on the internet address of ILIRIKA DZU and the Fund, [www.ilirika.ba](http://www.ilirika.ba)

## **2.3. Historical yield of the Fund**

At the moment of inauguration of the Prospectus and Statute the Fund does not have historical yield data.

## **2.4. Investors, motives and types of investments**

Investors in the Fund may be all natural and legal persons who have been allowed by the Law and other relevant regulations. The Fund is designed for both individual and institutional investors, which like to expose their investments on the global equities which meet Sharia compliance. Fund is on markets and equities where principles of islamic finance and Sharia compliance can be applied. The fund belongs to the category of equity funds.

Regard to equity investments which are among the most riskier investments the fund would optimize the risk on the basis of diversification throughout the markets and different sectors.

The Fund is intended for those investors who wish to use this kind of investment in the fund as a form of savings or other long-term goal, with a possibility of share withdrawal at any time. The only restriction for investment is the minimum value of the initial stake.

Planned, the optimal investment in the Fund is five years or more, as it is the case with other equity funds.

ILIRIKA DZU will allocate the Fund's assets in accordance with Sharia principles and their assessments of business, economic and market conditions. Target ratio of allocation of assets of the Fund will be 80% in stocks (equity) and 20% in islamic deposits and sukuk.

ILIRIKA DZU will invest the Fund's assets in order to achieve growth in share value and the appropriate type of investment risks specific to strategy of the Fund. ILIRIKA DZU will operate with separate assets of the Fund owned by shareholders with conscientious attention of businessmen and good professionals, regardless of the depositary bank and in the sole interest of shareholders in the fund

## **2.5. The Sharia board**

- HE Sheikh Walid bin Hadi (Chairman)
- HE Sheikh Dr. Abdul Sattar Abu Ghuddah
- HE Sheikh Nizam Yaquby

Function of Sharia board is to provide ongoing supervision and adjudication in all Sharia matters for the Fund, including, but not limited:

- provision of Sharia advice and assistance with respect to the development of the legal and operational structure of the Fund, including its investment objectives, criteria and strategy, such that they comply with the principles of Sharia.
- issuing and approving Sharia principles.

- issuing an Annual fatwa and an initial certificate on the launch of the Fund declaring the Fund to be in compliance with the Sharia guidelines.
- providing ongoing support, assistance and advice to the Fund managers regarding Sharia principles
- undertaking annual and quarterly audits to determine whether the activities, criteria, objectives and strategy were made in accordance with the Sharia principles.

### 2.5.1. Biographies of the members of the Sharia Board

#### HE Sheikh Walid bin Hadi - Chairman

Sheikh Walid bin Hadi is the Chairman of QInvest's Sharia board. He is also a Sharia board member for several other Islamic Financial institutions, including QIB, Masraf Al Rayan, Qatar International Islamic Bank, International Bank of Qatar, European Finance House, Asian Finance House, Qatar International Syrian Bank and Arab Finance House.

Sheikh Walid holds a PhD and Masters in Islamic Law and has written many publications on Islamic Financial transactions.

#### HE Sheikh Dr. Abdul Sattar Abu Ghuddah

Dr. Abu Ghuddah holds a PhD in Islamic Law and has published many books on Islamic Financial transactions. He was also an advisor for Islamic Law Encyclopedia (Kuwait Awqaf Ministry).

Dr. Abu Ghuddah is the chairman and member of several other Sharia Boards, including QIB, AAOIFI, IFSB and is an active member of the Islamic Fiqh Academy.

#### HE Sheikh Nizam Yaquby

Sheikh Nizam Yaquby is a member of the Sharia boards for several Islamic institutions. He is a graduate in Economics and Comparative Religion from McGill University and is an internationally acclaimed scholar in the Islamic banking industry.

Sheikh Nizam Yaquby has been a teacher of various Islamic subjects since 1976 and advises a number of banks and financial institutions, including the Central Bank of Bahrain, Dow Jones Islamic Index, IIFM, AAOIFI, Islamic Bank of Britain, HSBC Amanah, Lloyds TSB, European Islamic Investment Bank and Gatehouse.

## 3. FUND MANAGEMENT

### 3.1. Sharia compliant equity funds

Equity funds are the most common type of Shari'a fund. In an equity fund, the profits are mainly derived through **capital gains** made by purchasing shares and also by the **dividends** distributed by the relevant companies. It is obvious that if the main business of a company is not lawful in terms of Shari'a, it is not allowed for an Islamic Fund to purchase, hold or sell its shares. The modern Shari'a experts are almost agreed on the point that if all the transactions/activities of a company are Sharia compliant (*halal*), which includes that the company neither borrows the money on interest nor keeps its surplus in an interest bearing account, its shares can be purchased, held and sold. But evidently, such companies are very rare in the present stock market. The more traditional school of thought is that every share-holder of a company is a partner (*sharik*) of the company and thus is responsible for any non-Shari'ah compliant transaction in which the company is involved. However, a large number of modern-day scholars do not share this view and believe that investors are not partners in the company but are merely investors. Therefore, if a company is engaged in a halal business and keeps its surplus money in an interest-bearing account, wherefrom a small incidental income of interest is received, it does not make all the business of the company unlawful.

### 3.2. Conditions for investments in shares

1. The main business of the company is not violative of Sharia.
2. If the main business of the companies is halal but they deposit their surplus amounts in an interest-bearing account or borrow money on interest, the shareholder must express his disapproval against such dealings, preferably by raising his voice against such activities in the annual general meeting of the company.

3. is some income from interest-bearing account is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given to charity, and must not be retained. For example, if 5% of the whole income of the company has come out of interest-bearing deposits 5% of the dividend must be given to charity.
4. The shares of a company are acceptable only if the company owns some illiquid assets. If all the assets are in liquid form i.e. in the form of money they cannot be purchased or sold except at par value (book value) because in this case the share represents money and the money cannot be traded in except at par. Some scholars are of the view that the exact proportion of illiquid assets must be at least 51% of total assets..

### **3.3. Strategy, objectives and restrictions on investment**

Investment strategy of the Fund shall be determined by the basic objectives and principles of investment in order to preserve the value of the Fund at the same time achieving an attractive rate of return.

**Respecting the Sharia principles and principles of safety, profitability, liquidity and risk dispersion in the investment fund, the basic long-term goal of ILIRIKA DZU is professional investment of funds assets and ensuring the liquidity of the Fund so that investors have a permanent and safe option to cash their stake, with the higher profitability of investments in accordance with the assumed risk.**

Fund's assets are invested in the following instruments amongst each of them has to be Sharia compliant:

- no less than 50% of the Fund's assets in shares traded on the stock exchanges or other organized markets issuers in Southeastern Europe including SEE, CIS, Turkey, CEFTA and countries which would like to join EU and are considered as emerging Europe Markets.
- up to 20% of the assets of the Fund in shares traded on stock exchanges or other organized markets in capital markets including OECD, AAOIFI, MENA and GCC countries.
- up to 10% in any other market where principles of Islamic finance can be applied.
- up to 20% Fund's assets in sukuk (Islamic bonds).
- up to 20% Fund's assets in deposits in Islamic banks.
- 10% of assets in the Fund's shares or shares of investment funds with the condition that in the prospectus and / or statute of the fund whose shares or stakes invested anticipated that up to 10% of fund assets may be invested in shares of other funds and that the level of investor protection and the obligation of reporting at least equal to the regulations in FBiH. Funds have to be Sharia compliant. This may include GDR and ETF investments based on Islamic principles. The maximum management fee that can be charged to property funds in which the Fund intends to invest is 3.5%.

ILIRIKA DZU will seek to achieve higher yields by investing the Fund's assets in those securities and markets in which it will, according to the assessment of ILIRIKA DZU, achieve the best yield, holding that when detailed investment restrictions established by law. ILIRIKA DZU will seek to structure the portfolio of the Fund within 6 months from the inauguration of this Prospectus.

### **3.4. The value of the assets of the Fund; Price of shares in the Fund**

#### **3.4.1. Calculation of the Fund's net asset value**

Calculation of the assets of the Fund is determined to be in accordance with the Law, Sharia principles and other applicable regulations. The value of liabilities is taken off the assets of the Fund and, subsequently, the cost to be deducted under this Prospectus of the Fund's assets. The value of the assets of the Fund Company is calculated each day for the previous day, no later than 16.00.

The value of the assets of the Fund is published daily on the website of the Company [www.ilirika.ba](http://www.ilirika.ba).

The value of the assets of the Fund during the three consecutive calendar months shall not fall below 1.000.000,00 (one million) KM. In the case that the assets of the Fund during the three consecutive calendar month falls below the pre-specified amount of the Fund must be liquidated or annexed to another fund

### **3.4.2. Price of shares in the Fund**

Net value per share in the Fund is the Fund's net asset value divided by the number of shares of the Fund at the time of the calculation of net asset value. Price of shares in the Fund is calculated by dividing the net assets of the Fund by the number of issued shares. Number of issued shares is equal to the number of shares at the time of calculating rates, taking into account the sale and purchase made since the last price calculation to calculate a new price point.

ILIRIKA DZU is authorized and shall determine the value of the price of shares in the Fund. Before determining the net asset value per share or price of shares of the Fund, ILIRIKA DZU shall determine the value of the assets of the Fund, and all obligations and benefits of the Fund. Company declares that price of shares in the fund is to be publically announced at its disposal for each calculation in accordance with the law.

Share price will be published on the website of the Company ([www.ilirika.ba](http://www.ilirika.ba) and [www.moj-fond.ba](http://www.moj-fond.ba)) and will be available to any investor who requests it in person, by phone, by mail or e-mail address of the Company.

### **3.4.3. Authority and responsibility for the calculation of assets and share price value**

Methods of assessing and determining the value must be in accordance with the applicable laws of FBiH, Bosnia-Herzegovina and the International Financial Reporting Standards.

Calculation of the assets of the Fund and the prices of shares in the Fund is monitored and confirmed by the depositary bank, which is in this case responsible for the accuracy of the calculations within its legal jurisdiction.

The assets of the Fund and the price of shares in the fund calculates ILIRIKA DZU. Calculation is signed by the depositary bank and it retains one copy of the document set for the value of the assets of the Fund for her records, which is being given to the SEC for an insight.

The auditor of the Fund is required during its annual audit to perform random checks to make sure that the principles of valuation contained in the rules are respected, and that they are based on the accurate principles, as well as that the management fees, other fees and expenses provided for Prospectus and the Statute of the Fund do not exceed the legally stipulated amounts.

### **3.5. Purchase of shares in the Fund**

Value of one share of the Fund at the time of inauguration was 10,00 (ten) KM.

The lowest payment amount in the Fund each investor is 100,00 (onehundred) KM or for payments from abroad KM value for specified amount calculated using the mid exchange rate of Central Bank for the EURO on the day of payment.

Purchase of shares of the Fund shall be performed only by money payment on the account of the Fund at Vakufska banka d.d. Sarajevo 1600150000136643, by which the investor enters into a contractual relationship with ILIRIKA DZU which is required to be paid to manage the funds as part of the common property in accordance with the conditions specified in the Prospectus and the Statute of the Fund.

Non-residents - foreign individuals and legal entities who buy the shares and do payments on foreign currency, the bank account number for that payments are available on the website [www.ilirika.ba](http://www.ilirika.ba). Any interested investor may buy shares in the fund by paying money to the account of the Fund, having previously submitted a request to purchase shares at basis of which the acquired shares in the Fund. Request to purchase shares in the Fund company or an investor submits by the authorized sales representative (a list of authorized retail selling points available on the website of the Company, [www.ilirika.ba](http://www.ilirika.ba)). The request is received in a non-working days shall be deemed to have received the first working day following day of receipt of the request.

Purchase price of shares in the Fund shall be the share price that is valid on the day of payment. The day of payment is considered the day in which cash for payment flows, for accrued inflows till 16:00 pm. For inflows accrued after 16:00 pm, the day the payment is considered to be the next working day.

Before one buys shares in the Fund he will be given the Statute, Prospectus, and in case of their presence, the last annual and semi-annual business and financial Report of the Fund.

### **3.6. Sale and purchase of shares**

Each shareholder in the Fund may withdraw at any time all or a certain number of shares by selling them to the Fund under the conditions specified in the Prospectus and the Statute of the Fund. Each shareholder in the Fund may at any time at the headquarters of ILIRIKA DZU apply for full or partial sell of shares of the Fund and thus withdraw from the Fund.

Application for submission is valid and done by the register of shares of the Fund led ILIRIKA DZU.

Sale and purchase of Fund shares shall be at the price of shares that is valid on the day of submission of a written request for sale. Requests received after 4:00 pm will be considered received the next working day. No later than seven working days from receipt of written request to sell shares, the investors will be paid the total sale price of shares determined on the day of receipt of the request, minus the amount of output charge calculated in accordance with the provisions of the Prospectus and the Statute of the Fund.

Payment could be done only at the applicant bank account.

Number of shares purchased or sold is calculated to four decimal places.

In the case of partial redemption and if the remaining value of the shares of investors in the fund was below the prescribed minimum payment in the fund, it will be considered that the investor made a request to sell all shares in the Fund. All requests for payment or partial payment received in the same business day, on the calculation and payment of compensation, are considered to be one payment.

Confirmation of transactions are issued to investors in their own request no later than seven working days from receipt of a valid requirements for the sale or purchase and made payment to the Fund.

### **3.7. Rights of shares in the Fund**

By gaining share in the Fund and registration in the Register of shareholders, investors earn specified rights arising from ownership of shares of the Fund:

1. right to be informed (semi-annual and annual reports),
2. right to share in the profit of the Fund,
3. right to sell shares the Fund or the obligations of the share repurchase,
4. right of the entitled to payment of the liquidation mass of the Fund.

Previously identified rights from the share owners of the Fund are in accordance with the Law, the Prospectus and the Statute of the Fund.

### **3.8. Reporting to the public and shareholders of the Fund**

ILIRIKA DZU is, in accordance with the provisions of the Act and other relevant regulations, to create a semi-annual and audited annual reports on the operations of the Fund. ILIRIKA DZU will provide the Commission audited annual financial reports on operations of the Fund within four months from the end of the financial year, a semi-annual financial statements within two months from the end of the six-month accounting period, and all of these reports or further information about the Fund, as well as Prospectus and the Statute of the Fund, will be available to owners of shares in the ILIRIKA DZU headquarters. In addition, the Company will provide the Commission and periodic reports in accordance with statutory and legal regulations.

ILIRIKA DZU will submit to the owners of shares in the fund, only on their written request, semi-annual reports and audited annual reports of the Fund, as well as additional information about the Fund. Once a year ILIRIKA DZU will submit to the shareholders an annual statement about the state and trades with shares in the fund in their possession. At the request of shareholders, and at their own expense, ILIRIKA DZU shall immediately submit the statement balance and transactions of shares in the fund in their possession. The company will put the public at its disposal price shares in the fund for each calculated period in accordance with the law. ILIRIKA DZU will inform owners of shares in the Fund, at their request about the price of shares in the Fund.

### **3.9. Profit of the Fund**

Fund's Profit is determined by the financial statements and in its entirety belongs to the owners of shares in the Fund.

The entire profit is reinvested in the Fund.

Profit of the Fund is contained in the price of one share and the share owners are realizing profits in a way that partially or completely can sell their shares in the Fund in accordance with the provisions of this Prospectus

### **3.10. Business year**

Business year of the Fund is considered a calendar year which starts on 1 January ending 31 December.

### **3.11. Suspension of purchase and issuance of shares in the Fund**

Purchase of shares in the Fund may be suspended if ILIRIKA DZU and the Depositary Bank consider that, because of the exceptional circumstances that it is not possible to determine the exact value of assets of the Fund and that it has sufficient reasons for the suspension of redemption in the interests of owners or potential owners of shares in the Fund. In the case of these circumstances, ILIRIKA DZU will cease and the issuance of shares in the Fund. Suspension of purchase and issuance of shares in the Fund Company shall without delay report to the Commission.

Additionally, temporary suspension of the purchase and issuance of shares in the fund, may come under orders of the Commission submitted to ILIRIKA DZU and the depositary bank in the case that the Commission obtains indisputable knowledge or basis for a reasonable suspicion to be harmful to investors because of the incorrect calculation of the price of shares in the Fund. During the suspension of purchase and issuance of shares, ILIRIKA DZU may continue to receive requests for the purchase or sale of shares that will be made at the time when he calculated the following purchase and sale price, with a orders warning that their orders will be executed within the timeframe specified by the Prospectus and the Statute of the Fund.

The suspension of issuance and redemption of shares in the Fund will terminate when the Company and the depositary bank are able to determine the exact price of the assets of the Fund's portfolio, and no statutory deadlines.

The Company will publish in a daily newspaper issued on the territory of FBiH the circumstance of ceasing repurchase shares in the Fund. As well as information about the subsequent continuation of the business,

### **3.12. Cancellation and liquidation of the Fund**

Decision to liquidate the Fund ILIRIKA DZU performs in the cases determined by the law, and especially in cases of:

1. Voluntary termination of conducting business and investment fund management, unless management of the Fund can not be transferred to another authorized company management,
2. Change of the depositary bank, if the contract with another bank was not signed by the law determined deadlines ,
- 3 If assets of the Fund falls below the minimum value set forth in this Prospectus.

Liquidation of the Fund is carried out by ILIRIKA DZU, except in cases in which ILIRIKA DZU bankrupt or if commission temporarily or permanently revoked approval for the work. In cases where the implementation of the liquidation of the Fund by ILIRIKA DZU is not possible, the depositary bank conducts the liquidation of the Fund.

If the Fund's depositary bank in bankruptcy, or is temporarily or permanently lost the permit for the operation, liquidation of the Fund is done by authorized liquidator appointed by the Commission, without delay. The Commission shall deal with the increased attention and care about the rights and interests of the shareholders in the fund. Liquidator is obliged to inform the Commission and all investors in the Fund within seven days of the decision on the liquidation or the appointment of the liquidator of the Fund,

within seven days of the decision on the liquidation or the appointment of the liquidator of the Fund, After the decision on liquidation, any further sale or purchase of shares in the Fund is prohibited, unless requests received after the last price determination and before the decision on liquidation, in which transactions with the Fund's assets may be carried out only for the purposes of its liquidation. From the day the decision on liquidation, the Fund can not be charged any fees other than fees to the depositary bank, the costs associated with the process of liquidation and its audit, and the costs of making and filing semi-annual and audited annual reports to investors in the fund, created during the process of liquidation of the Fund.

During liquidation all assets of the Fund are sold, and liabilities of the Fund due to the decision on liquidation is settled. The remaining net assets of the Fund are distributed to share holders in proportion to their share in the Fund

### **3.13. Purification in open –ended fund**

The Shari'a scholars have different views about whether the *purification* is necessary where the profits are made through capital gains. Some scholars are of the view that capital gains need to go under the purification process because the market price of the share may reflect an element of interest included in the assets of the company. The other view is that no purification is required if the share is sold, even if the results in a capital gain. The reason is that no specific amount of the price can be allocated to the interest received by the company.

The first view is more precautionary and far from uncertainties, although the second view is not just optional. In an open-ended equity fund it is more reasonable if the purification process is not carried out on the appreciation of the holdings/capital gains and a person redeems his unit of the fund at the time when the dividend is not received, any amount of purification **will not** be deducted from its price, even though the price of the unit may have increased due to the appreciation in the prices of the shares held by the fund.

On the other side, when a person redeems his units after the dividends have been received, the amount of purification has to be deducted from the fund. The purification would reduce the net asset value per unit and he will get less price than the first person. If purification is carried out both on dividends and on capital gains, all the unit-holders will be treated at par value with regard to the deduction. Therefore, it is only free from doubts but also more fair for all the unit-holders to carry out purification in the capital gains also. The purification may be carried out on the basis of an average percentage of the interest earned by the companies included in the portfolio.

If a company derives part of its total income from interest income and/or from the above mentioned prohibited activities, such income will be deducted from the dividend paid out to shareholders and given to charity. ILIRIKA DZU Asset management will apply "dividend adjustment factor" to all reinvested dividends, which is defined as:

$$\frac{\text{total earnings} - \text{income from prohibited activities} + \text{interest income}}{\text{total earnings}}$$

It is responsibility of the Fund manager to review the portfolio on a quarterly basis.

Due to the equal treatment of unit holders ILIRIKADZU shall on daily basis calculate potential reservations for such costs.

## **4. MANAGEMENT FEES AND EXPENSES**

Fund may only be charged for the fees and expenses provided fund prospectus. Fund management expenses are an important factor when choosing a fund, because the investors bear the costs of managing the Fund in a way that they are charged to the Fund's assets, and therefore investors property and, consequently, may influence the amount of yield of the Fund. Assets of the Fund can charge the following fees and management costs:

### **4.1. Management fee**

Management fee will be charged in an amount of 2.00% of net assets of the Fund annually, which entirely belongs to ILIRIKA DZU. The fee increases to the tax obligation, if such an obligation exists (as is currently applicable regulations, the same does not exist). The amount of compensation for the management fee is calculated on a daily basis, using simple interest account on the basis of daily net assets of the Fund. Thus calculated cumulative fee will be paid to ILIRIKA DZU on a monthly basis. Management of ILIRIKA DZU may decide to change the fee, in accordance with the Act, and notify the owners of shares.

## **4.2. Entrance fee**

In the moment of share purchase in the Fund shall be calculated and charged entrance fee that depends on the amount of each payment amount.

Highest Entrance fee is 2.00% and is calculated as follows:

- for amounts up to KM 100,000.00 entrance fee is 2.00%,
- for amounts of KM 100,000.01 to KM 200,000.00 entrance fee is 1.00 %,
- for amounts of KM 200,000.01 to KM 500,000.00 entrance fee is 0.50%,
- for the amounts of over KM 500,000.00 the entrance fee is 0,25%.

The calculated entry fee increases to the tax if there is tax liability. The company may decide to change the amount of entrance fee, in accordance with the law, which shall inform the Commission and that information has to be published at least in one daily newspaper and make the appropriate changes in the Prospectus.

## **4.3. Redemption fee**

Redemption fee is charged when investors withdraw shares from the Fund and is calculated as a percentage of the amount of the redemption value of shares in the Fund. The height of the output charge depends on the period of investment which is being immobilized.

The highest output charge is 3,00%. To withdraw funds from the Fund after a period of five years redemption fee is not charged.

- For investments up to a year redemption fee is 3.00%
- For investments up to two years redemption fee is 2.50 %;
- For investments up to three years redemption fee is 2.00%;
- For investments up to four years redemption fee is 1.00%;
- For the investment after five years redemption fee is not charged.

ILIRIKA DZU may decide to change the output level compensation, and shall inform the Commission. That information has to be published in at least one daily newspaper and make the appropriate changes in the fund prospectus.

Input and output charge is not charged in cases if:

- lowest statutory amount of funds after the initial offer period is not gathered;
- liquidation of the Fund regardless of the reason for the liquidation;
- acquisition or merger of the Fund with another fund, when the division of the Fund or the crossing of investors from the Fund to another fund that is established or already managed by ILIRIKA DZU.

## **4.4. Other costs**

Costs that can be charged directly at the expense of investors, or open-end investment fund with a public offer and which are charged to the fund in the entire amount are:

- a) fees and expenses paid by the bank depository,
- b) the costs and commissions related to the acquisition or sale of assets
- c) the costs of keeping the register of shares, including the cost of issuing certificates of purchase / purchase of state shares or, if necessary, and the cost of bonus payments,
- d) the costs of annual audits,
- e) the costs of making, print and postage related to the semi-annual and annual reports to the owners of shares,
- f) all prescribed fees are paid by the Commission,
- g) taxes, which fund is obligated to pay on your property or income,
- h) the costs of publication of the prospectus changes and other prescribed information,
- i) other costs of the special laws, statutes and fund prospectus.

#### **4.4.1. Expences of Sharia board**

Each member of Sharia board has annual fee determined by the Contract. Each member has right for coverage of all costs regarding the presence on the sharia board meetings. Total costs ( may increase due to the tax obligation) of sharia board are costs of the Fund.

#### **4.5. Reservations**

##### **4.5.1. Potential expences due to purification process**

During a bussiness year, and according to the principles of ismalic finance the Fund may have purification process costs. These costs are charged directly to the Fund in accordance with decisions of Sharia board. During the bussines year these potential costs are carged daily to the fund as the reservations for future expeces. Reservations are to be calculated each day as the remaining vaule (after all other costs) of 3,5 % TER

##### **4.5.2 Potential expences due to performance fee**

In the cases where tha Fund's annual performance is more than 15% capital gain (benchmark), and if TER at the end of bussiness year is less than 3,5% ILIRIKA DZU has a right to charge the Fond with additional bonus fee. The amount of bonus fee is calculated as difference between TER at the end of the bussiness year and 3,5% of maximum costs that the Fund may be charged.

Due to the equal treatment of unit holders ILIRIKADZU shall on daily basis calculate potential reservations for such costs.

#### **4.6. Tax treatment of the Fund and investors**

Tax treatment of the Fund and investors will be charged for all tax liabilities relating to the business of open-end investment funds with a public offering under applicable tax laws of FBiH and BiH, including tax obligations that the Fund is obligated to pay on their property or income, as well as costs of regulating the tax liabilities and claims for refund of these taxes. According to the existing tax laws in the FBiH, the Fund's assets are not charged any tax burden. Investors are encouraged individual knowledge of the potential tax consequences that may arise for them from ownership or disposal of shares in the Fund, and to be familliar with relevant domestic and foreign tax laws or international agreements with the tax consequences or other characteristics.

### **5. INVESTMENT RISKS**

Investing in the Fund assumes certain risks taken. In general, the risk of investment in the capital market is the likelihood or possibility that the yield from investments is unsatisfactory or negative. In the case of the Fund, unsatisfactory or negative output may occur as a result of the following risks:

1. Price risk of securities (market risk),
2. Political risk of countries in which Fund assets are invested,
3. The risk of exchange rates (currency risk),
4. Credit risk,
5. The risk of tax laws,
6. The risk inherent by nature of the Fund, changes in fund NAV and liquidity of fund.
7. Islamic Investment Guidelines
8. Absence of Operating History

Investing in the Fund is not a bank deposit and as such is not provided by the State Agency for Deposit Insurance, or from some other financial institutions. Investors should nonetheless be able to bear the economic risks of their investment in the Fund.

#### **5.1. Price risk of securities (market risk)**

Assets of the Fund shall be, in accordance with the strategy and investment restrictions set out in this Prospectus and Statute, invested in securities traded on financial markets and is subject to daily price changes influenced by a number of factors. Decline of market prices, or the value of each security in which the invested assets of the Fund may lead to a drop in share prices and reducing the Fund's return on investment.

## **5.2. Political risk of countries in which assets of the Fund are invested**

Assets of the Fund shall be invested in securities on foreign financial markets in accordance with specified investment strategy. Given the principle that any possibility of a political crisis in the countries that belong to these financial markets may affect the value of the assets of the Fund, as well as due to the fact that for part of the targeted markets one can say that they are yet developing (as in terms of trading volume, as well in the aspect of institutions development), ILIRIKA DZU will manage the assets of the Fund so that the Fund's exposure to this type of risk reduced to a minimum.

## **5.3. The risk of exchange rates (currency risk)**

Assets of the Fund may be invested in securities denominated in different currencies, which also exposes invested assets to risk of changing exchange rates, in which ILIRIKA DZU is to measure return on investment in the Fund.

## **5.4. Credit risk**

Credit risk is the likelihood to arise in case that the issuer of a security by the debtor or the financial instruments which is included in the Fund's assets, or individuals with whom in their own name and on behalf of the Fund ILIRIKA DZU enters into jobs in the financial markets, will not be able to fully or partially meet its liabilities, which would adversely affect the liquidity and value of the assets of the Fund. ILIRIKA DZU will manage the credit risk by investing funds in the manner described in the strategy of investment, strictly respecting the default restrictions on investment in certain instruments.

## **5.5. The risk of tax laws**

The risk of tax laws is likely to arise if the legislative power in FBiH / BiH or abroad, are to change the tax laws in a manner that can negatively affect the yield of the Fund and profitability of investing in the Fund. Risk of changes in tax laws is entirely outside the domain of influence of the ILIRIKA DZU.

## **5.6. The risk inherent by nature of the Fund, changes in fund NAV and liquidity of the Fund**

Equity funds are in the category of funds with higher financial risk. On ILIRIKA DZU is to, in accordance to its assessment and analysis, allocate the Fund's assets in favor of certain types of securities. ILIRIKA DZU is to determine and adopt investment trading strategies, and to allocate the assets in the sharia compliant securities.

The capital market on which the Fund would invest, while fulfilling to the prescribed investment strategy, which are mostly new stock market and capital markets in development (Emerging Markets), are not yet marked by legal and institutional infrastructure as is the case in developed capital markets. Since the Fund by its investment strategy may invest to a greater extent in the shares, assets of the Fund may in certain periods have significant volatility.

Regarding to the types of assets in which the Fund invests, as well as with respect to the composition of the portfolio of the Fund or the Fund's asset management techniques, NAV property is subject to change. Liquidity risk is the likelihood of failure of fast financial assets of the Fund at a price that is approximately equal to the fair value of assets

## **5.7. Islamic Investment Guidelines**

The restrictions placed on the Fund by the adherence to Sharia principles may result in the Fund performing less than other investment funds with comparable investment objectives that are not subject to Islamic investment criteria. Further, the restrictions may require the Fund to dispose of non-complying investments in the less than optimal circumstances. In addition, although the Fund will

endeavor to ensure that its investments are acceptable in the context of its Sharia principles, no assurance can be given that all of the Funds investments will at all times conform to such criteria.

## **5.8. Absence of Operating History**

Investors should note that the Fund was incorporated during June of 2010. And there fore does not have an operating history. The Funds results will depend upon the availability of suitable investment opportunities for the Fund and the performance of the Funds investments.

## **6. "ILIRIKA DZU" Asset management Ltd Sarajevo**

### **6.1. The company, legal form and registered office**

The Fund is managed by "ILIRIKA DZU" Society Asset management Ltd, with its headquarters in Sarajevo, Štrosmajerova 1 street (in this Prospectus " ILIRIKA DZU ").

Company Name: ILIRIKA DZU, Društvo za upravljanje investicijskim fondovima d.o.o. Sarajevo  
Short name: ILIRIKA DZU Ltd Sarajevo  
Foreign company name: ILIRIKA DZU Asset Management Ltd. Sarajevo

### **6.2. Founder, initial capital and activity**

Founder and sole member of asset managemet "ILIRIKA DZU" Ltd., from Republic of Slovenia, Ljubljana.

Capital of ILIRIKA DZU in the amount of 1.150.000,00 KM was paid in full.

Registered activity of ILIRIKA DZU is securities business.

### **6.3. Date of establishment and registration**

ILIRIKA DZU is enrolled in the register of SEC of FBiH since 24.04.2008. by no. 03/2-19-213/08, in the SEC registry of issuers under number 04-15-3429, and by the decision of the Cantonal Court under number 065-0-Reg-08-001355 from 23.04.2008. in the Court Register 65-01-0233-08.

### **6.4. Bodies of ILIRIKA DZU**

Bodies are the Assembly, board and Board of directors.

#### **6.4.1. General Assembly**

General assembly consists of founder and only member of the Company, "ILIRIKA DZU" Ltd., based in the Republic of Slovenia, Ljubljana.

#### **6.4.2. The supervisory board**

Board consists of:

1. Mr. Gregor Žvipelj,
2. Aleš Čačovič
3. Mr. Jovan Lukovac

##### **6.4.2.1. Biographies of members of the Board**

1. Mr Gregor Žvipelj started his business carier in »Treasury" (foundations) in ABANKA Vipa, where he covered the debt securities trading in shares of a bank account and for clients. Later, as head of Treasury Department he was trading with the bank and was responsible for all activities of Treasury to client. In year 2006 in the First Group took over the duties of the executive director of asset management and liquidity of the 7 pension funds. Later that year in London, he worked 4 months in the investment house Schrodgers. In late 2007 he became director of fund management "ILIRIKA DZU"

in Belgrade, and in 2009 became a member of the board in ILIRIKA DZU Ljubljana, responsible for asset management.

2. Aleš Čačovič graduated 2003. year at the University of Maribor »Economic - Trade School" program - "finance and banking." Since 2003. to 2005. year employed in Publikum dd Ljubljana on position of analysts. Since 2005. employed in ILIRIKA DZU in Ljubljana at the position of fund manager.

3. Mr. Jovan Lukovac from 1985 until 1994 was employed at the Slovene Ministry of finance. From 1992 he was President of the Slovene Securities and Exchange Commission (within the Ministry of finance). In 1994 the Slovene Government appointed him acting director of the newly established regulatory body, the Securities Market Agency (SMA). After finishing his Master's degree at the Ljubljana University Faculty of Economics he became Deputy managing director and member of the SMA Council. From Jan 2003 he worked for Medvešek Pušnik Asset management Inc. (MP AM) as President of the Managing Board. In July 2004 he became the member of the Managing Board of the Slovene Asset Management Association.

In 2008 he stepped down as president of Management Board in Ljubljana and became a consultant to the company (through his company Bartimaeus) for the strategic expansion of the company. From September 2009 he joined Ilirika Asset Management Co. where he is as consultant responsible for research and development including managing portfolio management and other keys issues within the Ilirika Group.

### **6.4.3. Management Board**

Management board is responsible for daily management of the assets of the Fund and consists of two members:

- 1 Mr. Nedim Šaćiragić, CEO;
- 2 Edhem Delic. dipl.ecc., Board

#### **6.4.3.1. Biographies of the members of Management Board**

1. Mr. Nedim Šaćiragić born in 1978.. He graduated in 2002. on the Faculty of Economics in Sarajevo. Licensed investment adviser since 2003.. Master's degree in the 2008. on the Faculty of Economics in Sarajevo. After graduation, he started his career in business in ABDS Asset management. Since 2001. – he works as an investment consultant. From 2004 to the end of 2007 on the position of Director Closed-end investment fund IF "BIG-Investment Group" dd Sarajevo. CEO of "ILIRIKA DZU" Asset management Ltd Sarajevo since May 2008.

2. Edhem Delic was born in 1963.. He graduated in 1988. on the Faculty of Economics in Sarajevo. Certified accountant and investment advisor. After graduation, he began a business career in the Battery Factory Srebrenica. He operates as an inspector in the Financial Police FBiH from 1995 to 2001. After that he was a Director of Closed-end investment fund PIF "MI-GROUP" dd Sarajevo. Since 2003. until 2008. working on different tasks of analytics, accounting and investment consultancy in the DUF "PROF-IN" Ltd Sarajevo. From 2008. he works as a head of Financial and Accounting sector in ILIRIKA DZU Asset management Ltd Sarajevo.

### **6.5. Responsibility of ILIRIKA DZU**

ILIRIKA DZU is responsible for carrying out activities of establishment and management of the Fund in accordance with the provisions of the Act and other relevant regulations and the Statute and the Prospectus of the Fund. In the future relations and the mandatory exercise of rights and obligations in these relationships, ILIRIKA DZU is obligated to act by the principles of diligence and honesty, and in managing the fund ILIRIKA DZU is to handle the increased attention to the rules of the profession, good business practices and applicable laws of the Federation and FBiH i BiH . In addition to the above, ILIRIKA DZU assumes no additional responsibility for operations of the Fund.

Within the authority established by law, and other relevant regulations and of the Fund's Prospectus, ILIRIKA DZU will make its own business decisions. ILIRIKA DZU is not responsible for the results of operations of the Fund which are the result of decisions of ILIRIKA DZU issued in accordance with the previously mentioned regulations and Statute of the Fund.

## **6.6. Investment Advisor**

The Fund nor ILIRIKA DZU do not have external investment adviser.

## **7. DEPOSITARY BANK**

### **9.1. Basic information about the Fund's depositary bank**

Depositary bank of the Fund is Vakufska Bank Inc., based in Sarajevo, Tito's Street 13 (in this Prospectus entitled "Depositary Bank").

Vakufska Bank Sarajevo was founded in September 1992. as a private commercial bank, which operates on the basic principles of modern banking. Headquarters of the Bank is the Canton of Sarajevo, Sarajevo-Centar, M.Tita13. During its work in Bosnia and Herzegovina, Vakufska Bank has acquired the reputation of a successful and professional commercial bank, majority domestic, The wide network of branches and network of correspondent banks in the world makes her a reliable partner of all economic entities and individuals.

Vakufska Bank Sarajevo is registered by SEC of FBiH on 25.08.2005. The Commission granted permission for conducting the Depositary no. 05/2-19-498/05.

### **7.2. Rights and obligations of the depositary bank**

Beside keeping a special attention to the assets of the fund, keeping separate accounts for each individual fund assets and separation of assets of each fund from the assets of other funds. The bank depositary shall perform the following duties:

- ensures that the sale and purchase of shares on behalf of the fund are performed in accordance with Law and rules of the Fund, if proposed by Prospectus and the Statute of the Fund,
- performs redemption and payoffs of shares,
- takes care that the calculation of NAV of individual stocks or shares in the fund was conducted in accordance with the Act, applicable regulations and Statute and Prospectus of the Fund,
- executes the orders of management company in connection with transactions with securities and other property that makes the portfolio of the Fund, provided that they are not in contrary to this Act, the regulations of the Commission, Prospects and / or Statute of the Fund, and ensuring that securities transactions are settled or that the outstanding financial claims are charged to legal or contractual deadlines,
- charges incomes and other benefits due to use of the fund, which derive from its property
- provides that the revenues of the fund used in accordance with the Act and the Prospectus and / or Statute of the Fund, and that the costs paid by the fund in accordance with the terms of the Prospectus and / or Statute of the Fund, the provisions of the Act and other regulations
- performs other duties provided for the contract concluded with ILIRIKA DZU,
- keeping records regarding operations, which performs as a depositary bank of each individual fund and coordinate regularly with records of ILIRIKA DZU,
- reports the Commission about violation of this Act and agreements by the ILIRIKA DZU if the management company refuses to accept her request for the cessation of such violation,
- auditors and other persons authorized to perform the inspection, including and the Commission, allows access to data and accounts related to the fund and its assets.

## **10.AUDITOR**

Certified auditor of the Fund is audit firm ZUKO Ltd Sarajevo, with its headquarters in Sarajevo, Ahmeta Ljubunčića 22.

Prospectus " **ILIRIKA EMERGING EUROPE ISLAMIC FUND** " open-end investment fund with a public offer is considered to be issued on the day prescribed by the Law and the Securities Commission of FBiH to prior approval of the same.

Approval of the Prospectus and all its amendments by the Securities Commission of FBiH is a prerequisite for the validity and application of the Prospectus of the Fund.

In Sarajevo, 18.06.2010..

"ILIRIKA DZU" Ltd Sarajevo

Mr. Nedim Šaćiragić,  
CEO

Edhem Delic, dipl.ecc.,  
Member of the Board

June, 2010.

## **SHARIA CERTIFICATE FOR ILIRIKA EMERGING EUROPE ISLAMIC FUND**

We the Sharia Board of ILIRIKA EMERGING EUROPE ISLAMIC FUND (the Fund) have reviewed the Prospectus and Articles of the Fund and have found them to be in accordance with the principles of Sharia.

We have also agreed of the following two screens for stock selection:

### **1. Financial Screen**

- Total debt over total assets.
- Sum of a company's cash and interest bearing securities over total assets.
- Sum of a company's accounts receivables and cash over total assets.

**None of the above mentioned financial ratios should exceed 33,33%**

### **2. Sector Screen**

The Fund will not invest in companies which are directly active in, or derive more than 5% of their revenue (cumulatively) from, the following activities:

**alcohol, gambling/casinos, tobacco, music, pork related products, hotels, conventional financial services, cinema, defense/weapons, adult entertainment.**

### **Dividend Purification**

If a company derives part of its total income from interest income and/or from the above mentioned prohibited activities, such income will be deducted from the dividend paid out to shareholders and given to charity. ILIRIKA DZU Asset management will apply "dividend adjustment factor" to all reinvested dividends, which is defined as:

$(\text{total earnings} - \text{income from prohibited activities} + \text{interest income}) / \text{total earnings}$

It is responsibility of the Fund manager to review the portfolio on a quarterly basis.

In light of our review of the documentation and the various methodologies adopted to address Sharia issues, in our view, Muslims can invest in the Fund. None of the investments can not be done without prior approval of the Sharia Board. ILIRIKA DZU is obliged to quarterly submit the report on portfolio Sharia Board approval.

**Sheikh Waleed Bin Hadi**  
Head of Sharia Board

**Sheikh Nizam Yaquby**  
Sharia Board Member

**Sheikh Abdul Sattar Abu Ghuddah**  
Sharia Board Member

**ILIRIKA DZU ASSET MANAGEMENT  
COMPANY Ltd. Sarajevo**

**S T A T U T E O F  
MUTUAL FUND WITH PUBLIC OFFER  
ILIRIKA EMERGING EUROPE ISLAMIC FUND**

## 1. Introduction

### Article 1.

This Statute defines the conditions and rules of business for open-end investment fund with a public offer **ILIRIKA EMERGING EUROPE ISLAMIC FUND** (the "Fund"), and legal relationship between ILIRIKA DZU and shareholders in the Fund. This statute does not contain a full and complete data and information specified in the Prospectus of the Fund, and interested investors and owners of shares in the Fund are recommended that you fully read the contents of the Prospectus of the Fund.

### Article 2.

The statute attached to the Prospectus forms an integral part. Exceptionally, the Statute must not be attached to Prospectus of the Fund in case the Prospectus provides the shareholder to be delivered the Statute at his request, or where the Statute of the Fund will be available for inspection.

## 2. Basic information about the Fund

### Article 3.

Fund name: Open-end fund with public offer **ILIRIKA EMERGING EUROPE ISLAMIC FUND**, hereinafter the Fund.  
Abbreviated name of the fund: OIF " **ILIRIKA EMERGING EUROPE ISLAMIC FUND.**"  
In the foreign business operates under the name: **ILIRIKA EMERGING EUROPE ISLAMIC FUND** open-end mutual fund with public offer.  
Fund Headquarters: Sarajevo, Štrosmajerova 1.

### Article 4

The Fund is established and managed by ILIRIKA DZU Asset management Ltd Sarajevo, with its headquarters in Sarajevo, Štrosmajerova 1.  
Fund is approved by Decision of the Securities Commission of F BiH no: since. after the public offer in which Fund gathered capital for the inauguration.  
Starting value of one share of the Fund was 10.00 KM.  
The Fund is established for an indefinite period and may be terminated only in cases and in the manner determined by the Company Law and the Law on investment funds.  
Insight into the annual and semiannual financial reports and copy of the prospectus and the statute of the Fund or additional information about the Fund can be made at ILIRIKA DZU Ltd Sarajevo, street Štrosmajerova 1, every working day from 08h to 16h

## 3. Fund raising and the investment policy

### Article 5

Assets of the fund are collected through issuance of shares by public offering and sale of shares to all interested investors in accordance with the provisions of the Law on Investment Funds ( "Official Gazette of FBiH", no. 85/08 hereinafter " Act "), and the Fund Prospectus.

### Article 6

Assets of the Fund will be invested in money and capital markets, in accordance with the provisions of the Prospectus of the Fund. Investments will abide restrictions set by the Law.

## 4. Assets and shares of the Fund

### Article 7

The net assets of the Fund is determined to be in accordance with the Act and other applicable regulations. Once determined value of financial instruments in which assets are invested are deducted for the value of liabilities of the Fund and, subsequently, the cost to be deducted under this Prospectus of the Fund's assets.

The price of shares in the Fund is calculated by dividing the net assets of the Fund by the number of issued shares. Number of issued shares equal to the number of shares at the time of calculating rates, taking into account the sale and purchase made since the last price calculation.

The value of the assets of the Fund during the three consecutive calendar months shall not fall below 1.000.000,00 (one million ) KM. In case that the assets of the Fund during the three consecutive calendar month falls below the pre-specified amount the Fund must be liquidated or annexed to another fund.

The value of the assets of the Fund Company is calculated each day for the previous day, no later than 16.00. The value of the assets of the Fund is published daily on the website of the ILIRIKA DZU [www.ilirika.ba](http://www.ilirika.ba).

#### **Article 8**

Determination of NAV and the conditions of the calculation and publication of the share prices are determined by the fund Prospectus (including exact time).

### **5.Strategies, goals and limitations**

#### **Article 9**

Investment strategy of the Fund shall be determined by the basic objectives and principles of investment in order to preserve the value of the Fund at the same time achieving an attractive rate of return.

**Respecting the Sharia principles and principles of safety, profitability, liquidity and risk dispersion in the investment fund, the basic long-term goal of ILIRIKA DZU is professional investment of funds assets and ensuring the liquidity of the Fund so that investors have a permanent and safe option to cash their stake, with the higher profitability of investments in accordance with the assumed risk.**

Fund's assets are invested in the following instruments amongst each of them has to be Sharia compliant:

- no less than 50% of the Fund's assets in shares traded on the stock exchanges or other organized markets issuers in Southeastern Europe which includes neighboring countries from bouth side of EU including SEE, CIS, Turkey, Bosnia and Herzegovina, Croatia, Slovenia and countries which would like to join EU, and are considered as emerging Europe Markets.
- up to 20% of the assets of the Fund in shares traded on stock exchanges or other organized markets in capital markets including OECD, AAOIFI, MENA and GCC countries.
- up to 10% in any other amrket where principles of islamic finance can be applied.
- up to 20% Fund's assets in sukuk (islamic bonds).
- up to 20% Fund's assets in deposits in islamic banks.
- 10% of assets in the Fund's shares or shares of investment funds with the condition that in the prospectus and / or statute of the fund whose shares or stakes invested anticipated that up to 10% of fund assets may be invested in shares of other funds and that the level of investor protection and the obligation of reporting at least equal to the regulations in FBiH. Funds have to be Sharia compliant. This may include GDR and ETF investments based on Islamic principles. The maximum management fee that can be charged to property funds in which the Fund intends to invest is 3.5%.

ILIRIKA DZU will seek to achieve higher yields by investing the Fund's assets in those securities and markets in which it will, according to the assessment of ILIRIKA DZU, achieve the best yield , holding that when detailed investment restrictions established by law. ILIRIKA DZU will seek to structure the portfolio of the Fund within 6 months from the inauguration of this Prospectus.

1. The main business of the company is not violative of Sharia.
2. If the main business of the companies is halal but they deposit their surplus amounts in an interest-bearing account or borrow money on interest, the shareholder must express his disapproval against such dealings, preferably by raising his voice against such activities in the annual general meeting. of the company.
3. is some income from interest-bearing account is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given to charity,

and must not be retained. For example, if 5% of the whole income of the company has come out of interest-bearing deposits 5% of the dividend must be given to charity.

4. The shares of a company are acceptable only if the company owns some illiquid assets. If all the assets are in liquid form i.e. in the form of money they cannot be purchased or sold except at par value (book value) because in this case the share represents money and the money cannot be traded in except at par. Some scholars are of the view that the exact proportion of illiquid assets must be at least 51% of total assets..

## **6. Risks of investment**

### **Article 10**

Investing in the Fund assumes certain risks taken. In general, the risk of investment in the capital market is the likelihood or possibility that the yield from investments is unsatisfactory or negative. In the case of the Fund, unsatisfactory or negative output may occur as a result of the following risks:

1. Price risk of securities (market risk),
2. Political risk of countries in which Fund assets are invested,
3. The risk of exchange rates (currency risk),
4. Credit risk,
5. The risk of tax laws,
6. The risk inherent by nature of the Fund, changes in fund NAV and liquidity of fund.
7. Islamic Investment Guidelines
8. Absence of Operating History

Investing in the Fund is not a bank deposit and as such is not provided by the State Agency for Deposit Insurance, or from some other financial institutions. Investors should nonetheless be able to bear the economic risks of their investment in the Fund.

## **7. Rights of shares in the Fund**

### **Article 11**

By gaining share in the Fund and registration in the Register of shareholders, investors earn specified rights arising from ownership of shares of the Fund:

1. right to be informed (semi-annual and annual reports),
2. right to share in the profit of the Fund,
3. right to sell shares to the Fund or the obligations of the share repurchase
4. right to the payment of the part of the liquidation Fund.

Previously identified rights from the share owners of the Fund are in accordance with the Law, the Prospectus and the Statute of the Fund.

## **8. Purchase and withdrawal of the shares**

### **Article 12**

Any interested investor may buy shares in the fund by paying money to the account of the Fund, having previously submitted a request to purchase shares on the basis of which he acquired shares in the Fund. The method and conditions of purchase of shares in the Fund are listed in Prospectus. The lowest payment amount in the Fund for each investor is 100,00 (hundred) KM or other currency value specified using the mid exchange rate of the Central Bank for the Euro on the day of payment, from abroad.

### **Article 13**

Each shareowner in the Fund may at any time cash all shares or a certain number of shares by selling shares to the Fund under the conditions specified in the Prospectus and the Statute of the Fund. Each shareholder in the Fund may at any time apply at the headquarters of ILIRIKA DZU for full or partial Sale of shares to the Fund and thus withdraw from the Fund. When submitting an application for redumption of shares register of shares of the Fund led by ILIRIKA DZU is valid.

### **Article 14**

The methods and conditions for share purchase or withdrawal are determined by the fund Prospectus. Sale and purchase of Fund shares shall be priced for each working day. Requests received after 16:00 pm will be considered received the next working day. No later than seven working days from receipt of written request for selling the shares, investors will be paid the total sale price of shares

determined on the day of receipt of the request, minus the amount of redemption fee calculated in accordance with the provisions of the Prospectus and the Statute of the Fund.

## **9. Fees and expenses**

### **Article 15**

Fund may only be charged for the fees and expenses provided fund prospectus. Fund management expenses are an important factor when choosing a fund, because the investors bear the costs of managing the Fund in a way that they are charged to the Fund's assets, and therefore investors property and, consequently, may influence the amount of yield of the Fund. Assets of the Fund can charge the following fees and management costs:

#### **Management fee**

Management fee will be charged in an amount of 2.00% of net assets of the Fund annually, which entirely belongs to ILIRIKA DZU. The fee increases to the tax obligation, if such an obligation exists (as is currently applicable regulations, the same does not exist). The amount of compensation for the management fee is calculated on a daily basis, using simple interest account on the basis of daily net assets of the Fund. Thus calculated cumulate fee will be paid to ILIRIKA DZU on a monthly basis. Management of ILIRIKA DZU may decide to change the fee , in accordance with the Act, and notify the owners of shares.

#### **Entrance fee**

In the moment of share purchase in the Fund shall be calculated and charged entrance fee that depends on the amount of each payment amount.

Highest Entrance fee is 2.00% and is calculated as follows:

- for amounts up to KM 100,000.00 entrance fee is 2.00%,
- for amounts of KM 100,000.01 to KM 200,000.00 entrance fee is 1.00 %,
- for amounts of KM 200,000.01 to KM 500,000.00 entrance fee is 0.50%,
- for the amounts of over KM 500,000.00 the entrance fee is 0,25%.

The calculated entry fee increases to the tax if there is tax liability. The company may decide to change the amount of entrance fee, in accordance with the law, which shall inform the Commission and that information has to be published at least in one daily newspaper and make the appropriate changes in the Prospectus.

#### **Redemption fee**

Redemption fee is charged when investors withdraw shares from the Fund and is calculated as a percentage of the amount of the redemption value of shares in the Fund. The height of the output charge depends on the period of investment which is being immobilized.

The highest output charge is 3,00%. To withdraw funds from the Fund after a period of five years redemption fee is not charged.

- For investments up to a year redemption fee is 3.00%
- For investments up to two years redemption fee is 2.50 %;
- For investments up to three years redemption fee is 2.00%;
- For investments up to four years redemption fee is 1.00%;
- For the investment after five years redemption fee is not charged.

ILIRIKA DZU may decide to change the output level compensation, and shall inform the Commission. That information has to be published in at least one daily newspaper and make the appropriate changes in the fund prospectus.

Input and output charge is not charged in cases if:

- lowest statutory amount of funds after the initial offer period is not gathered;
- liquidation of the Fund regardless of the reason for the liquidation;

- acquisition or merger of the Fund with another fund, when the division of the Fund or the crossing of investors from the Fund to another fund that is established or already managed by ILIRIKA DZU.

### **Other costs**

Costs that can be charged directly at the expense of investors, or open-end investment fund with a public offer and which are charged to the fund in the entire amount are:

- a) fees and expenses paid by the bank depository,
- b) the costs and commissions related to the acquisition or sale of assets
- c) the costs of keeping the register of shares, including the cost of issuing certificates of purchase / purchase of state shares or, if necessary, and the cost of bonus payments,
- d) the costs of annual audits,
- e) the costs of making, print and postage related to the semi-annual and annual reports to the owners of shares,
- f) all prescribed fees are paid by the Commission,
- g) taxes, which fund is obligated to pay on your property or income,
- h) the costs of publication of the prospectus changes and other prescribed information,
- i) other costs of the special laws, statutes and fund prospectus.

### **Expences of Sharia board**

Each member of Sharia board has annual fee determined by the Contract. Each member has right for coverage of all costs regarding the presence on the Sharia board meetings. Total costs ( may increase due to the tax obligation) of Sharia board are costs of the Fund.

### **Reservations**

#### **Potential expences due to purification process**

During a bussiness year, and according to the principles of ismalic finance the Fund may have purification process costs. These costs are charged directly to the Fund in accordance with decisions of Sharia board. During the bussiness year these potential costs are carged daily to the fund as the reservations for future expeces. Reservations are to be calculated each day as the remaining vaule (after all other costs) of 3,5 % TER

#### **Potential expences due to performance fee**

In the cases where tha Fund's annual performance is more than 15% capital gain (benchmark), and if TER at the end of bussiness year is less than 3,5% ILIRIKA DZU has a right to charge the Fond with additional bonus fee. The amount of bonuss fee is calculated as difference between TER at the end of the bussiness year and 3,5% of maximum costs that the Fund may be charged.

Due to the equal treatment of unit holders ILIRIKADZU shall on daily basis calculate potential reservations for such costs.

### **10. Tax treatment of the Fund and shareowners**

#### **Article 16**

Tax treatment of the Fund and investors will be charged for all tax liabilities relating to the business of open-end investment funds with a public offering under applicable tax laws of FBiH and BiH, including tax obligations that the Fund is obligated to pay on their property or income, as well as costs of regulating the tax liabilities and claims for refund of these taxes. According to the existing tax laws in the FBiH, the Fund's assets are not charged any tax burden. Investors are encouraged individual knowledge of the potential tax consequences that may arise for them from ownership or disposal of shares in the Fund, and to be familliar with relevant domestic and foreign tax laws or international agreements with the tax consequences or other characteristics.

### **11. Suspension of purchase and issuance of shares**

#### **Article 17**

Purchase of shares in the Fund may be suspended if ILIRIKA DZU and the Depositary Bank considered that, because of exceptional circumstances, is not possible to determine the exact value of assets of the Fund and that it has sufficient reasons for the suspension of redemption in the interests of owners or potential owners of shares in the Fund. In the case of these circumstances, ILIRIKA DZU will cease the issuance of shares in the Fund. The Fund Company shall without delay report the Commission about the suspension of purchase and issuance of shares in the Fund.

#### **Article 18**

The suspension of issuance and redemption of shares in the Fund will terminate when the Company and the depositary bank are able to determine the exact price of the assets of the Fund's portfolio, and no later than statutory deadlines. The Company will publish in a daily newspaper issued on the territory of FBiH the circumstance under which the purchasing shares in the Fund are ceased, as well as information about the subsequent continuation of the business.

### **12. Financial Statements and notice the owners of shares in the Fund**

#### **Article 19**

ILIRIKA DZU is, in accordance with the provisions of the Act and other relevant regulations, to create a semi-annual and audited annual reports on the operations of the Fund. ILIRIKA DZU will provide the Commission audited annual financial reports on operations of the Fund within four months from the end of the financial year, a semi-annual financial statements within two months from the end of the six-month accounting period, and all of these reports or further information about the Fund, as well as Prospectus and the Statute of the Fund, will be available to owners of shares in the ILIRIKA DZU headquarters. In addition, the Company will provide the Commission and periodic reports in accordance with statutory and legal regulations.

ILIRIKA DZU will submit to the owners of shares in the fund, solely at their written request, semi-annual reports and audited annual reports of the Fund, as well as additional information about the Fund. Once a year ILIRIKA DZU will submit to the shareholders an annual statement about the state and trades with shares in the fund in their possession. At the request of shareholders, and at their own expense, ILIRIKA DZU shall immediately submit the statement balance and transactions of shares in the fund in their possession. The company will put the public at its disposal price shares in the fund for each calculated period in accordance with the law. ILIRIKA DZU will inform owners of shares in the Fund, at their request about the price of shares in the Fund.

#### **Article 20**

ILIRIKA DZU will notify the shareholders of the Fund about:

- balance and transactions in Fund shares in their property,
- the cost of shares in the fund,
- audited annual financial statements of the Fund,
- semi-annual financial statements of the Fund,
- transfer to a new management company,
- changes of the Prospectus and / or the Statute of the Fund, and the suspension of purchase and issuance of shares of the Fund.

It shall be deemed that ILIRIKA DZU informed shareholders about the data from the previous paragraph of this Article, if the data are published and / or made available in accordance with the provisions of the Act, if the law provides that the same information can not be personally delivered to investors

### **13. Profit of the Fund**

#### **Article 21**

Fund's Profit is determined by the financial statements and in its entirety belongs to the owners of shares in the Fund.

The entire profit is reinvested in the Fund.

Profit of the Fund is contained in the price of one share and the share owners are realizing profits in a way that partially or completely can sell their shares in the Fund in accordance with the provisions of this Prospectus

#### **Article 22**

Business year of the Fund is considered a calendar year which starts on 1 January and ending 31 December

#### **14. Cancellation and liquidation of the Fund**

##### **Article 23**

Decision to liquidate the Fund ILIRIKA DZU performs in the cases determined by the law. Liquidation of the Fund is carried out by ILIRIKA DZU, except in cases in which ILIRIKA DZU bankrupt or if commission temporarily or permanently revoked approval for the work. In cases where the implementation of the liquidation of the Fund by ILIRIKA DZU is not possible, the depositary bank conducts the liquidation of the Fund.

Liquidator is obliged to inform the Commission and all investors in the Fund, within seven days of the decision about the liquidation or the appointment of the liquidator.

Shareowners have no right to demand the dissolution or liquidation of the Fund.

##### **Article 24**

During liquidation all assets of the Fund are sold, and liabilities of the Fund due to the decision on liquidation is settled. The remaining net assets of the Fund are distributed in proportion to their share holders share in the Fund

#### **15. "ILIRIKA DZU" Asset management Ltd Sarajevo**

##### **Article 25**

LIRIKA DZU is enrolled in the register of SEC of FBiH since 24.04.2008. by no. 03/2-19-213/08, in the SEC registry of issuers under number 04-15-3429, and by the decision of the Cantonal Court under number 065-0-Reg-08-001355 from 23.04.2008. in the Court Register.

Društvo upravlja sa mješovitim otvorenim investicijskim fondom ILIRIKA MOJ FOND, dioničkim otvorenim investicijskim fondom ILIRIKA JUGOISTOČNA EVROPA i dioničkim otvorenim investicijskim fondom ILIRIKA GLOBAL. U skladu sa Zakonom i definisanim aktima Društva moguća je zamjena udjela između fondova kojima upravlja Društvo ILIRIKA DZU bez naplate ulazne i izlazne naknade.

##### **Article 26**

Founder and sole member of asset management "ILIRIKA DZU" Ltd., from Republic of Slovenia, Ljubljana.

Capital of ILIRIKA DZU in the amount of 1.150.000,00 KM was paid in full.

Registered activity of ILIRIKA DZU is securities business.

#### **16. Biographies of members of the and Management Board**

##### **Article 27**

The Board consists of:

1. Mr Gregor Žvipelj has started business carrier in »Treasury" (foundations) in ABANKA Vipava, where he covered the debt securities trading in shares of a bank account and for clients. Later, as head of Treasury Department was trading with the bank and was responsible for all activities of Treasury to client. In year 2006 in the First Group took over the duties of the executive director of asset management and liquidity of the 7 pension funds. Later that year in London, he worked 4 months in the investment house Schrodgers. In late 2007 he became director of fund management "ILIRIKA DZU" in Belgrade, and in 2009 became a member of the board in ILIRIKA DZU Ljubljana, responsible for asset management.

2. Aleš Čačovič graduated year 2003. at the University of Maribor »Economic - Trade School" program - "finance and banking." From year 2003. til year 2005. he was employed in Publikum dd Ljubljana on position of analysts. Since 2005. employed in ILIRIKA DZU in Ljubljana at the position of fund manager.

3.Mr.Jovan Lukovac from 1985 until 1994 was employed at the Slovene Ministry of finance. From 1992 he was President of the Slovene Securities and Exchange Commission (within the Ministry of finance). In 1994 the Slovene Government appointed him acting director of the newly established regulatory body, the Securities Market Agency (SMA). After finishing his Master's degree at the Ljubljana University Faculty of Economics he became Deputy managing director and member of the SMA Council From Jan 2003 he worked for Medvešek Pušnik Asset management Inc. (MP AM) as President of the Managing Board. In July 2004 he became the member of the Managing Board of the Slovene Asset Management Association.

In 2008 he stepped down as president of Management Board in Ljubljana and became a consultant to the company (through his company Bartimaeus) for the strategic expansion of the company. From September 2009 he joined Ilirika Asset Management Co. where he is as consultant responsible for research and development including managing portfolio management and other keys issues whitin the Ilirika Group.

#### **Article 28**

The Management of ILIRIKA DZU consists of:

1.Mr. Nedim Šaćiragić born in 1978.. He graduated in 2002. on the Faculty of Economics in Sarajevo. Licensed investment adviser since 2003.. Master's degree in the 2008. on the Faculty of Economics in Sarajevo. After graduation, he started his career in business in ABDS Asset management. Since 2001. – he works as an investment counsultant. From 2004 to the end of 2007 on the position of Director Closed-end investment fund IF "BIG-Investment Group" dd Sarajevo. CEO of "ILIRIKA DZU" Asset management Ltd Sarajevo since May 2008.

2.Edhem Delic was born in 1963.. He graduated in 1988. on the Faculty of Economics in Sarajevo. Certified accountant and investment advisor. After graduation, he began a business career in the Battery Factory Srebrenica. He operates as an inspector in the Financial Police FBiH from 1995 to 2001. After that he was a Director of Closed-end investment fund PIF "MI-GROUP" dd Sarajevo. Since 2003. untill 2008. working on different tasks of analytics, accounting and investment consultancy in the DUF "PROF-IN" Ltd Sarajevo. From 2008. he works as a head of Financial and Accounting sector in ILIRIKA DZU Asset management Ltd Sarajevo.

#### **Article 29**

The Fund nor ILIRIKA DZU do not have external investment adviser.

### **17. DEPOSITARY BANK**

#### **Article 30**

Depository bank of the Fund is Vakufska Bank Inc., based in Sarajevo, Tito's Street 13 (in this Prospectus entitled "Depository Bank"). Vakufska Bank Sarajevo is registered by SEC of FBiH on 25.08.2005. The Commission granted permission for conducting the Depository no. 05/2-19-498/05.

### **18. TRADE SECRET**

#### **Article 31**

information about the owners of shares, state of shares, payments and redumptions regarding the Fund represent a business secret.

#### **Article 32**

Owner of ILIRIKA DZU, members of management and board, as well as all other persons who are employees of ILIRIKA DZU or perform a permanent or temporary jobs for ILIRIKA DZU under a special contract, are required to maintain data that represent a business secret. Otherwise ILIRIKA DZU are responsible for any damage due to disclosure of business secrets. The obligation to protect trade secrets does not stop even after the person in the preceding paragraph of this Article lose the status that obliges them to the care of the business secrets.

#### **Article 33**

Exceptions from the obligation to keep trade secrets or other regulations is defined by obligation of disclosing information for, the reports for SEC on court order, or depository bank.

### **19 Responsibility of ILIRIKA DZU**

#### **Article 34**

ILIRIKA DZU is solely responsible for the proper and conscious carry out of the activities and management of the Fund in accordance with the provisions of the Act, regulations and other relevant Prospectus and the Statute of the Fund. In establishing the mandatory relationship and gaining of the rights and obligations in these relationships, ILIRIKA DZU shall hold-up to the principles of diligence and honesty, and commitment in executing ILIRIKA DZU for investment fund management company to handle the increased attention to the rules of the profession, good business practices and applicable laws of FBiH / BiH, all in the interest of the owners of the holder in the Fund.

#### **Article 35**

Within the authority established by the Law, regulations and other relevant Prospectus and the Statute of the Fund, ILIRIKA DZU brings its own business decisions about assets of the Fund and invests in financial instruments based solely on their evaluation of market trends. In case of change of legislation or a reduction of liquidity in the financial markets, ILIRIKA DZU will in order to protect the interests of owners shares in the fund adjust the program of investment opportunities in emerging markets, and accordingly make changes to the provisions of the Prospectus and / or the Statute of the Fund.

#### **Article 36**

The Company is not responsible for the conduct of business nor business results of economic companies in whose securities the Funds' assets are investments, the realization of assumptions Success or the achievement of the Funds' gain, nor the results of operations of the Fund which are the result of decisions of ILIRIKA DZU issued in accordance with the previously mentioned regulations, the Prospectus and the Statute of the Fund.

## **20. STATUTE OF THE FUND**

#### **Article 37**

Statute of the Fund is considered to be issued on the day in accordance with the procedure prescribed by law the Securities Commission of FBiH to prior approval of the same, and shall enter into force on 01.07.2010. year.

Approval of the Statute and all its amendments by the Securities Commission of FBiH is a prerequisite for the validity and application of the Statute of the Fund.

In Sarajevo, 18.06.2010.

"ILIRIKA DZU" Ltd Sarajevo

Mr. Nedim Šaćiragić,  
CEO

Edhem Delic, dipl.ecc.,  
Member of the Board