

KAMCO Islamic Fund
(formerly Al-Durra Islamic Fund)
Fund Manager – KAMCO Investment Company K.S.C (Public)
Kuwait

Independent Auditor's Report and Annual Financial Statements

31 December 2023

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INDEPENDENT AUDITOR'S REPORT TO THE FUND MANAGER OF KAMCO ISLAMIC FUND (FORMERLY AL- DURRA ISLAMIC FUND), FUND MANAGER – KAMCO INVESTMENT COMPANY K.S.C (PUBLIC), KUWAIT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KAMCO Islamic Fund (formerly Al-Durra Islamic Fund) (the "Fund") (Fund Manager – KAMCO Investment Company K.S.C (Public)), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board of Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Fund Manager for the Financial Statements

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Unit Holders either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Fund Manager is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE FUND MANAGER OF KAMCO ISLAMIC FUND (FORMERLY AL- DURRA ISLAMIC FUND), FUND MANAGER – KAMCO INVESTMENT COMPANY K.S.C (PUBLIC), KUWAIT (CONTINUED)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

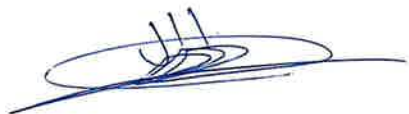
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Fund Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Fund and the financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit, and that the financial statements incorporate all information that is required by the Funds' Articles of Association, as amended, and that, to the best of our knowledge and belief, no violations of the Articles of Association, as amended, have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Fund or on its financial position.

We further report that, during the course of our audit, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2023, that might have had a material effect on the business of the Fund or on its financial position.



Talal Y. Al-Muzaini
License No. 209A
Deloitte & Touche - Al-Wazzan & Co.

Kuwait
06 February 2024

KAMCO Islamic Fund (formerly Al-Durra Islamic Fund)
Fund Manager – KAMCO Investment Company K.S.C (Public)
Kuwait

Statement of Financial Position as at 31 December 2023

		Kuwaiti Dinars	
	Note	2023	2022
Assets			
Cash at banks	3	28,815	7,320,481
Investments at fair value through profit or loss	4	41,047,042	37,715,905
Other receivables	5	368,371	5,001
Total assets		41,444,228	45,041,387
Liabilities			
Other payables	6	126,964	356,502
Total liabilities		126,964	356,502
Equity			
Share capital	7	22,107,022	22,129,986
Equalization reserve	7	32,699,676	32,715,055
Accumulated losses		(13,489,434)	(10,160,156)
Total equity		41,317,264	44,684,885
Total liabilities and equity		41,444,228	45,041,387
Net asset value per redeemable unit	8	1.869	2.019

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


Fund Manager

KAMCO Investment Company K.S.C (Public)


Fund Custodian and Investment
Controller
Gulf Custody Company K.S.C.C

Statement of Profit or Loss and Other Comprehensive Income – Year ended 31 December 2023

		Kuwaiti Dinars	
	Note	2023	2022
Income			
Investments at fair value through profit or loss			
- realized (loss)/gain		(1,364,325)	2,272,790
- unrealized loss		(2,234,729)	(776,408)
Dividend income		901,003	1,399,782
Interest income		31,975	-
Other income		26	226
		<u>(2,666,050)</u>	<u>2,896,390</u>
Expenses			
Management fees	9	(427,000)	(471,289)
Fund custodian and investment controller fees	10	(51,825)	(57,848)
Other operating expenses		(184,403)	(251,211)
		<u>(663,228)</u>	<u>(780,348)</u>
(Loss)/profit for the year		(3,329,278)	2,116,042
Other comprehensive income		-	-
Total comprehensive (expense)/income for the year		<u>(3,329,278)</u>	<u>2,116,042</u>

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

Statement of Changes in Equity - Year ended 31 December 2023

	Kuwaiti Dinars			Total
	Share capital	Equalization reserve	Accumulated losses	
As at 1 January 2023	22,129,986	32,715,055	(10,160,156)	44,684,885
Subscriptions during the year	24,006	24,536	-	48,542
Redemptions during the year	(46,970)	(39,915)	-	(86,885)
Total comprehensive expense for the year	-	-	(3,329,278)	(3,329,278)
As at 31 December 2023	<u>22,107,022</u>	<u>32,699,676</u>	<u>(13,489,434)</u>	<u>41,317,264</u>
As at 1 January 2022	22,668,067	33,355,131	(12,276,198)	43,747,000
Subscriptions during the year	36,787	45,481	-	82,268
Redemptions during the year	(574,868)	(685,557)	-	(1,260,425)
Total comprehensive income for the year	-	-	2,116,042	2,116,042
As at 31 December 2022	<u>22,129,986</u>	<u>32,715,055</u>	<u>(10,160,156)</u>	<u>44,684,885</u>

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

Statement of Cash Flows - Year ended 31 December 2023

		Kuwaiti Dinars	
		2023	2022
Cash flows from operating activities			
Net cash (paid)/received for purchase or sale of investments at fair value through profit or loss		(7,461,176)	5,759,468
Cash dividend received		901,003	1,399,782
Other income received		32,001	226
Management fees paid		(438,722)	(466,174)
Fund custodian and investment controller fees paid		(53,220)	(57,334)
Other operating expenses paid		(237,211)	(205,863)
Net cash (used)/from operating activities		(7,257,325)	6,430,105
Cash flows from financing activities			
Cash paid on redemptions of redeemable units		(82,883)	(1,260,425)
Cash received on subscriptions to redeemable units		48,542	82,268
Net cash used in financing activities		(34,341)	(1,178,157)
Net (decrease)/increase in cash and cash equivalents		(7,291,666)	5,251,948
Cash and cash equivalents at:			
beginning of the year		7,320,481	2,068,533
end of the year	3	28,815	7,320,481

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

1. Incorporation and objectives

KAMCO Islamic Fund (formerly Al-Durra Islamic Fund) (the “Fund”) is an open-ended investment fund, incorporated on 13 November 2003. The Fund is regulated by Capital Market Authority established under Law No. 7 of 2010.

The Fund Manager is KAMCO Investment Company K.S.C (Public) and the Fund Custodian and Investment Controller is Gulf Custody Company K.S.C.C.

The term of the Fund was extended for fifteen years from October 2018 till November 2033 and has been approved by CMA.

The Fund Manager’s registered office is located at Sharq, Al Shuhada street in the state of Kuwait.

The Fund has no employees.

The objective of the Fund is to achieve capital appreciation by investing in Shari’a compliant local shares which are listed on the Boursa Kuwait, Initial Public Offerings, Islamic funds and other Islamic instruments.

During the year, the name of the Fund was changed from Al-Durra Islamic Fund to KAMCO Islamic Fund. The change of name of the Fund was approved by CMA on 6 August 2023. Accordingly, the Articles of Association of the Fund was amended on 6 August 2023 to incorporate the same.

The financial statements have been approved for issue by the Fund Manager and Fund Custodian on 06 February 2024.

2. Basis of preparation and material accounting policies

2.1 Basis of preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS Accounting Standards) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), under the historical cost basis of measurement as modified for the revaluation at fair value of investments classified as “at fair value through profit or loss”.

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.11.

The financial statements have been presented in Kuwaiti Dinars (“KD”), which is the functional currency of the Fund.

Going concern

The Fund Manager and Fund Custodian have, at the time of approving the financial statements, a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.2 New and revised IFRS Accounting Standards effective from 1 January 2023

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous year except for the adoption of the following new revised IFRS Accounting Standards, which became effective for annual periods beginning on or after 1 January 2023.

Notes to the Financial Statements – 31 December 2023

- IFRS 17, 'Insurance contracts' – This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- Amendments to IAS 1 and IFRS Practice statement 2 – Disclosure of accounting policies – The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material' accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.
- Amendments to IAS 8 - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.
- Amendment to IAS 12 - International tax reform - pillar two model rules - These amendments give companies temporary exception from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. Following the amendments, an entity is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

The application of these amendments did not have any significant impact on the Fund's financial statements.

2.3 New and revised IFRS Accounting Standards in issue but not yet effective

Standard, interpretation, amendments	Description	Effective date
Amendment to IAS 1 – Current and Non-current liabilities	Classification of liabilities as current or non-current: The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.	1 January 2024
Non-current liabilities with covenants	Non-current liabilities with covenants - The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent).	
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	1 January 2024

Notes to the Financial Statements – 31 December 2023

Amendment to IFRS 16 – Leases on sale and leaseback	The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.	1 January 2024
IFRS S1 – General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	1 January 2024 subject to endorsement from the regulator
IFRS S2 – Climate-related disclosures	This standard sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.	1 January 2024 subject to endorsement from the regulator
Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.	Annual periods beginning on or after 1 January 2025 (early adoption is available)

Fund Manager anticipates that these new standards, interpretations and amendments will be adopted in the financial statements in the period of initial application and adoption of these new standards, interpretations and amendments will not have any material impact on the financial statements of the Fund in the period of initial application.

2.4 Financial instruments

Classification

The Fund classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)

To determine the Funds's classification and measurement category, all financial assets, except equity instruments, is assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Notes to the Financial Statements – 31 December 2023

Business model assessment

The Fund determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Fund's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Fund assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Recognition and de-recognition

A financial asset or a financial liability is recognised when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is derecognised when the contractual rights to receive cash flows from the financial asset has expired or the Fund has transferred substantially all risks and rewards of ownership and has not retained control. If the Fund has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in the consolidated profit or loss as the modification gain or loss within other gains and losses.

All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the statement of profit or loss and other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

All financial assets or financial liabilities are initially measured at fair value including transaction costs that are directly attributable to the acquisition or issue.

Notes to the Financial Statements – 31 December 2023

Financial assets carried at amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

Cash at banks and other receivables in the nature of financial assets is classified as financial assets carried at amortised cost.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the statement of profit or loss and other comprehensive income. Dividend income from equity investments measured at FVTPL is recognised in the statement of profit or loss and other comprehensive income when the right to the payment has been established.

Reclassification of financial assets

The Fund does not reclassify its financial assets subsequent to their initial recognition unless there is a change in business model.

Impairment of financial assets

The Fund applies 'Expected Credit Loss' (ECL) model under IFRS 9 for cash at banks and other receivable is the nature of financial assets measured at amortised cost using the general approach. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportive information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

General approach

The Fund applies three stage approach to measure ECL as follows:

Stage 1: 12-month ECL

The Fund measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Fund measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Notes to the Financial Statements – 31 December 2023

Stage 3: Lifetime ECL – credit impaired

The Fund measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

At each reporting date, the Fund assesses whether a financial asset or group of financial assets is credit impaired. The Fund considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default and write-off policy

The Fund categorize receivables as default when the amount is >90 days past due or there is evidence indicating the asset is credit-impaired. The amount is written off when there is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Fund estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.

Notes to the Financial Statements – 31 December 2023

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Fund are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are classified as measured at amortized cost. Financial liabilities at amortized cost are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

2.5 Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Financial Statements – 31 December 2023

For the purpose of fair value disclosures, the fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.6 Cash and cash equivalents

Cash in hand and demand and time deposits with banks whose original maturities do not exceed three months from the date of placement are classified as cash and cash equivalents in the statement of cash flows.

2.7 Redeemable units

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as equity in accordance with the amendment to IAS 32. The redeemable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value.

If the redeemable units' terms or conditions change such that they do not comply with the strict criteria contained in the amendment, the redeemable units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognised in equity.

The units are issued and redeemed at the holders' option at prices based on the Fund's net assets value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the total equity with the total number of outstanding redeemable units.

2.8 Revenue recognition

Gains and losses on sale of investments represent the difference between the selling price and the investment's carrying value. Realized gains or losses are recognized in the statement of profit or loss and other comprehensive income.

Dividend income is recognized when the right to receive payment is established.

Interest income is recognized using the effective yield method.

2.9 Distributions payable to unit holders

Dividend distribution to the Fund's unit holders is recognised as a liability in the Fund's financial statements in the period in which dividends are approved by the regulatory authority.

2.10 Foreign currencies

Fund's functional currency is the Kuwaiti Dinar. Foreign currency transactions are recorded in Kuwaiti Dinars at the exchange rates prevailing at the trade date of the transactions. Monetary assets and liabilities in foreign currencies at year end are converted into Kuwaiti Dinars at the exchange rates prevailing at the statement of financial position date. Resultant exchange gains or losses are taken to the statement of profit or loss and other comprehensive income.

2.11 Significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies.

Classification of financial assets

The Fund determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. Refer note 2.4 for classification of financial assets for more information.

Notes to the Financial Statements – 31 December 2023

Measurement of the expected credit loss allowance

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Fund uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Fund's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Any changes in the estimates and assumptions used as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of the above assets.

3. Cash at banks

This represent balances with local Islamic banks.

4. Investments at fair value through profit or loss

These represents investment in equities listed in the Kuwait Boursa.

The sectoral classification of investments at fair value through profit or loss is as follows:

	Kuwaiti Dinars	
	2023	2022
Banks	16,296,200	15,557,934
Industrial	10,597,240	8,423,077
Basic material	1,558,350	1,348,000
Real estate	7,139,008	5,860,995
Telecommunication	5,070,000	6,260,560
Oil and gas	386,244	265,339
	41,047,042	37,715,905

5. Other receivables

	Kuwaiti Dinars	
	2023	2022
Balance receivable from broker	364,650	-
Prepaid expenses	3,711	5,001
Others	10	-
	368,371	5,001

6. Other payables

	Kuwaiti Dinars	
	2023	2022
Accrued management fees	105,539	117,261
Accrued custodian fees and investment controller fees	12,935	14,330
Balance payable to broker	-	166,335
Redemption payable	4,002	-
Others	4,488	58,576
	126,964	356,502

7. Share capital

The Fund is an open-ended fund with fund capital varying from 2,000,000 units to 200,000,000 units (31 December 2022: 5,000,000 to 200,000,000 units) with nominal value of KD 1 per unit (31 December 2022: KD 1 per unit). These units are issued and redeemed at the unit holders' option at prices based on the value of the Fund's net assets at the time of issue/redemption which is done on a weekly basis.

As of 31 December 2023 one unitholder holds 16,500,000 units representing 74.64% (31 December 2022: one unitholder holds 16,500,000 units representing 74.56%) of the issued units of the Fund.

Notes to the Financial Statements – 31 December 2023

The movement analysis of redeemable units is as below:

	Number of units	
	2023	2022
Balance at beginning of year	22,129,986	22,668,067
Subscriptions during the year	24,006	36,787
Redemptions during the year	(46,970)	(574,868)
Balance at end of year	22,107,022	22,129,986

Equalization reserve

Shortfalls/surpluses of par value on subscriptions/redemptions are taken to the equalization reserve.

8. Net asset value per redeemable unit

	2023	2022
Net assets attributable to redeemable unit holders (Kuwaiti Dinar)	41,317,264	44,684,885
Number of units	22,107,022	22,129,986
Net asset value per redeemable unit (Kuwaiti Dinar)	1.869	2.019

Net assets attributable to redeemable unit holders represent the total equity of the Fund.

9. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Fund Manager is paid an annual fee of 1 % (2022: 1%) of the Fund's net asset value calculated weekly and paid quarterly. The Fund manager has stopped charging 2% subscription fee as a placement agent and change is acknowledged by CMA dated 6 August 2023.

Transaction with Fund Manager is disclosed in the statement of profit or loss and other comprehensive income and related accruals including subscription fees are disclosed in note 6. The Fund Manager has not subscribed for any units during the year.

The Fund Manager is required to hold a minimum of KD 250,000 of the Fund's subscribed units subject to a maximum of 75%. As at 31 December 2023, Fund Manager holds 5,292,224 redeemable units representing 23.94% of outstanding units (31 December 2022: 5,292,224 redeemable units representing 23.91% of outstanding units).

10. Fund custodian and investment controller fees

The Fund Custodian and investment controller fees is paid an annual fee of 0.125% (2022: 0.125%) of the Fund's net asset value calculated weekly and paid on quarterly basis.

11. Fair value of financial instruments

Some of the Fund's financial assets are measured at fair value at the end of each reporting period.

The following table shows an analysis of investments at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
31 December 2023	41,047,042	-	-	41,047,042
31 December 2022	37,715,905	-	-	37,715,905

There were no transfers between level 1, 2 and 3 during the year.

For financial instruments carried at amortized cost, fair values are not materially different from their carrying values and is used only for disclosure purpose. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

12. Financial risk management

The Fund's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Fund maintains positions in a variety of financial instruments based on the Fund Manager's investment management strategy, which is primarily driven by the Fund's investment objective as described in note 1. Asset allocation is determined by the Fund Manager who manages the distribution of the assets to achieve those objectives. Risk management is carried out by the Fund Manager in accordance with the policies and procedures in place.

The significant risks that the Fund is exposed to are discussed below:

Market risk

Market risk is the risk that an enterprise may incur financial losses due to adverse movements in market price of investments, profit rates and foreign currency rates. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments. According to the Fund's Articles of Association, the Fund is required to adopt a balanced investment policy through a careful selection of securities and other financial instruments within specified limits that aims to reduce market risk. The Fund's overall market positions are monitored on a regular basis by the Fund Manager.

(a) Equity price risk

Equity price risk is the risk that value of the instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Fund is exposed to equity price risk because majority of the Fund's financial assets are quoted equity investments held and classified in the statement of financial position as fair value through profit or loss and therefore all changes in market conditions will directly affect statement of profit or loss and other comprehensive income. The Fund Manager moderates this risk through a careful selection of securities with specified sectoral limits within the local market. Details of investments at fair value through profit or loss and sectoral classification of listed equity investments at the statement of financial position date are disclosed in note 4.

All of the Fund's equity investments (31 December 2022: All) are listed in the Kuwait Stock Exchange. A 5% increase/decrease in equity indices, with all other variables held constant, would have increased/decreased the net profit for the year by KD 2,509,877 (2022: KD 2,254,480).

(b) Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates. The Fund has no financial instruments with profit rate risk and therefore, the Fund is not exposed to profit rate risk.

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund does not hold assets denominated in currencies other than the Kuwaiti Dinar, the functional currency. Therefore, the Fund is not exposed to currency risk.

Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amounts of financial assets best represent the maximum credit risk exposure at the statement of financial position date. At the reporting date, the Fund's financial assets exposed to credit risk amounted to the following:

	Kuwaiti Dinars	
	2023	2022
Bank balances	28,815	7,320,481
Other receivable	364,660	-
	<u>393,475</u>	<u>7,320,481</u>

Notes to the Financial Statements – 31 December 2023

The Fund minimizes credit risk by placing funds with financial institutions of high credit rating and transacting principal business with counter parties of repute.

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions of investment grade rating.

ECL on bank balances and other receivables in the nature of financial assets are not material to the financial statements.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Fund's liabilities mature within a period less than three months. The Fund's constitution also provides for weekly redemption and is therefore exposed to liquidity risk of meeting unit holders' redemptions at any time.

The Fund Manager's policy to manage liquidity risk is as follows:

1. Investing majority of its assets in investments that are traded in an active market and can be readily disposed of.
2. To have liquid assets equal to anticipated redemptions.
3. The Fund's redemption policy only allows for redemptions on every Thursday and unit-holders must provide three days' notice.
4. The Fund may also arrange for short term finance of up to ten percent (10%) of the Funds total value to meet maturing commitments or for redemption of units.

As at the reporting date 99.9 % (2022: 99.99%) of the total assets of the Fund are liquid, comprising of bank balance, Broker receivable balance and quoted equity investments traded in an active market. All the assets and liabilities are short term in nature.

13. Capital risk management

The Fund defines capital as the total equity as shown in the statement of financial position. The amount of capital can change significantly as the Fund is subject to periodical subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

- Monitor the level of weekly subscriptions and redemptions relative to assets it expects to be able to liquidate within three months and adjust the amount of distributions the Fund pays to redeemable unit holders.
- Redeem and issue new units in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Fund Manager monitors capital on the basis of the value of net assets attributable to redeemable unit holders.

During the year, the Fund has fully complied with all its externally imposed capital requirements.

14. Segment information

The Fund is organised into one main business segment, which is to achieve capital appreciation by investing in Shari'a compliant local shares which are listed on the Boursa Kuwait, Initial Public Offerings, Islamic funds and other Islamic instruments. The Fund maintains all its assets and liabilities inside Kuwait. This segment is based on reports reviewed by the Fund Manager.

15. Taxation

The Fund is not subject to taxation in Kuwait.